# Farmer Producer Companies; An Emerging Trend revolutionizing Agriculture Supply Chains

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***Abstract:*** *The preamble of the national policy for promotion of farmer-producer organizations said: "Department of agriculture and cooperation, ministry of agriculture, Govt. of India has identified farmer producer organization registered under the special provisions of the Companies Act 1956 as the most appropriate institutional form around which to mobilize farmers and build their capacity to collectively leverage their production and marketing strength." Despite efforts by the government over the past 15 years or so, including major financial help, the country has just about 3,000 FPCs so far, set up by Nabard, Small Farmers' Agri-business Consortium or individual initiatives. Some have been formed by landless women, laborers or marginal farmers.*

*Most of these FPCs are concentrated in a few states such as Madhya Pradesh, Rajasthan, Maharashtra and Bihar. A significant proportion of FPCs has been engaged in sale of agricultural inputs such as seeds and pesticides to farmers while some of them are involved in commercial seed production. However, only a handful of FPCs have been able to become financially viable.*

*Looking at the successive failures of Cooperative farming experiments, focusing on Farmer Producer Company as a relevant strategy is the need of the hour. Only FPCs can offer sustainable solution to farmers challenges in keeping the farm productivity at a desirable level.*

***Key words:*** *Farmer Producer Company, Sustainability, Farm holding, Business*

## 1. Introduction:

National Bank for Agriculture and Rural Development (NABARD) defines a Farmer Producer Company as a hybrid entity formed between a private limited company and a cooperative society. Therefore, it enjoys the benefits of professional management of a private limited company as well as mutual benefits derived from a cooperative society. A provision for setting up FPCs was made in the Companies Act, 1956 in the year 2003 by making an amendment to the Act.

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Table 1: **Top 10 States with FPOs UNDER Produce Fund**

| **Sr. No.** | **State** | **FPOs** | **Total Members** | **Share Capital((Rs. in Lakh)** |
|---|---|---|---|---|
| **1** | Karnataka | 186 | 65000 | 1207 |
| **2** | Tamil Nadu | 170 | 122643 | 1280.74 |
| **3** | Madhya Pradesh | 160 | 69313 | 331.66 |
| **4** | West Bengal | 151 | 73605 | 606.43 |
| **5** | Rajasthan | 145 | 47314 | 450 |
| **6** | Maharashtra | 130 | 29007 | 235 |
| **7** | Uttar Pradesh | 130 | 37780 | 302.99 |
| **8** | Bihar | 123 | 38989 | 317.71 |
| **9** | Gujarat | 89.09 | 89.09 | 89.09 |
| **10** | Andhra Pradesh | 106 | 41809 | 463.74 |

**Source: www.nabard.org; compiled by the author**

Table 2: **Top 10 States with FPOs UNDER NABARD Fund**

| **Sr. No.** | **State** | **FPOs** | **Total Members** | **Share Capital((Rs. in Lakh)** |
|---|---|---|---|---|
| **1** | Uttar Pradesh | 232 | 6720 | 77.46 |
| **2** | Odisha | 225 | * | * |
| **3** | Telangana | 225 | 11790 | 43.78 |
| **4** | Madhya Pradesh | 201 | * | * |
| **5** | Andhra Pradesh | 176 | 38807 | 53.86 |
| **6** | West Bengal | 152 | 35508 | 204.38 |

 

| | | | | |
|---|---|---|---|---|
| 7 | Rajasthan | 151 | * | * |
| 8 | Bihar | 150 | * | * |
| 9 | Jharkhand | 125 | * | * |
| 10 | Maharashtra | 109 | 4510 | 0.06 |

**Source: www.nabard.org; compiled by the author** * **Under mobilization**

## 2. Objectives

a. To analyze present scenario of Indian farming

b. To establish FPCs as an effective alternative to mitigate farmers' ordeal.

## 3. Methodology

The present paper is based on desk research and one to one (telephoni) discussion with academicians, veterans in Agriculture extension services, economists and farmers.

## 4. Discussion:

Most of these FPCs are concentrated in few states such as Karnataka, U.P., Madhya Pradesh, Rajasthan, Maharashtra and Bihar. A significant proportion of FPCs has been engaged in sale of agricultural inputs such as seeds and pesticides to farmers while some of them are involved in commercial seed production. However, only a handful of FPCs have been able to become financially viable.

The National Commodity and Derivatives Exchange (NCDEX) has taken initiatives to take FPCs along for hedging and other benefits. Yet, FPCs face a number of problems such as the lengthy process of registering a company, non-availability of collateral-free loan at low rate of interest and lack of leadership and business acumen.

Three decades after India having launched its first big liberalizing reforms in 1991, setting off vibrant growth in manufacturing a well as service sector, one area of the country's economy still remains to be seriously explored: farming. Subsequent governments have brought about marked changes in electronic media reach, digitalization of local governance, micro lending, penetration of Banking services, etc., but has only been giving lip-service on how to improve India's dreadfully backward agriculture. This is a grave concern because, about 600m Indians, or roughly half the population, depend upon growing crops or rearing animals to survive. Many farming practices, along with India's agricultural markets, infrastructure, insurance and rules on leasing land, have barely changed in decades. Radical Agriculture Reforms in India are long overdue since the Green and White Revolutions.

If one travels through the countryside of India, things may not look too bad: Rural poverty has fallen sharply in the past 15 years; Literacy rates have remarkably improved; Social Justice Scenario has also bettered. Yet this is not translated in to enhanced farm-productivity. Indian farm sector has been contributing just 13.7% to Indian GDP; agriculture has grown by around 3% a year in recent years, far slower than the rest of the economy.

Table 3: **Quarter wise growth of real Gross Value Added (GVA) and GDP (per cent)**

| **Particulars** | **2018-19** | | | | **2019-20** | |
|---|---|---|---|---|---|---|
| | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** |
| **GVA at basic prices** | 7.7 | 6.9 | 6.3 | 5.7 | 4.9 | 4.3 |
| **Agriculture, forestry & fishing** | 5.1 | 4.9 | 2.8 | -0.1 | 2.0 | 2.1 |
| **Industry** | 9.8 | 6.7 | 7.0 | 4.2 | 2.7 | 0.5 |
| **Services** | 7.1 | 7.3 | 7.2 | 8.4 | 6.9 | 6.8 |
| **GDP at market prices** | 8.0 | 7.0 | 6.6 | 5.8 | 5.0 | 4.5 |

Data Source: National Statistical Office

The salience of Indian farm sector is dominance of small farm holders. As Ramesh Chand , member, Niti Aayog had once said, "The prediction of western economists that small farms will eventually cease to exist as big farmers will buy their land, did not come true in Asia. We will have to live with the fact of small and marginal farming and try to make it more viable." Small farmers, he said, do not get the advantage of scale, however much they increase the productivity of their farm holdings. The pattern of agricultural holdings in India reflects the predominance (85 per cent) of small and marginal farmers, "The development strategy for agriculture should prioritize smallholder agriculture in order to promote sustainable livelihoods, and for reduction of poverty in India."

The productivity of a farm depends on the use of inputs like fertilizer, water resources, mechanization/use of technology, crop intensity and choice of crops (crop pattern). One of the key aspects which can increase productivity of small farm holdings is improving resource use efficiency. Other equally important aspect is the marketing support. If these two aspects are addressed, doubling farmers' income may be realized sooner than later. Farmer Producer Companies mobilizing these small and marginal farmers can offer a panacea for the deep rooted maladies therein.

It is estimated that India, spread into six lakh villages. Therefore, we may need at least one lakh FPCs to transform the agriculture supply Chain. If we contemplate the agriculture scenario of other Asian countries, each has used a growth strategy suitable to the problem of small farms. Japan has the concept of part-time farmers while Thailand has used the contract farming model and China has adopted collective farming.

In India, the model of cooperatives has succeeded well in the cases of milk and sugarcane. But, the model has not produced any solace for the farmers' ordeal. Serious academic research is needed to assess the necessity of FPC and other alternatives to deal with the problem of small farmers. In the new growth areas of agriculture, the importance of post-harvest activities such as storage, transportation, processing and marketing of non-cereal products increases which leads to greater links between agricultural diversification and rural industrialization. The success of this strategy would, however, depend crucially on developing adequate infrastructural and other support systems. Heavy investments need to be made in establishing cold chains across the country such as cold storage, transport facilities and the like. The kind of storage and transportation facilities required will differ from product to product and from region to region. It would be best accomplished in a decentralised private sector framework with appropriate policies and supportive financing facilities. The banking system in India is, at present, geared more to financing the traditional crops like cereals. However, it needs to reorient itself to meet the changing requirements of commercializing agriculture. Credit requirements would go up due to purchased-input intensive and heterogeneous production cycles of the new areas of agriculture. This would also call for designing innovative schemes and products which recognize the differing nature of agri-business and supply chains for different products.

There are some silver-linings in the form of some very enterprising farmers on the arena. Agricultural engineer Vilas Shinde has reaped a rich harvest. Sahyadri Farms, the farmer producer company (FPC) set up by him in 2011, has grown to become the largest FPC in the country, with a membership of 8,000 farmers and a turnover of Rs 300 crore. It has overtaken

Mahindra Agribusiness to become India's largest grape exporting company, and many say it may well be on course to revolutionize the fruits and vegetables business in favor of growers just as AMUL did for milk producers of Gujarat. Kishore Biyani's Future Group has signed a big ticket MoU with Sahyadri Farms for direct sourcing of fruits and vegetables for its supermarket chain Big Bazaar.

Likewise, Chetan Jachak followed a different course on his way to setting up an FPC in Nagpur. He often visited the tehsil office (block-level revenue office) for paperwork related to his father's farm while pursuing his BSc course. There he came to know about FPCs and, with detailed guidance of the Maharashtra Agriculture Competitiveness Project, set up the Shri Krishna Farmers Producer Company about a year ago. With the help of government grant, Shri Krishna FPC does cleaning and grading of pulses to sell it to dal mills. Although Jachak found it difficult to get together 10 people who would pay initial share capital and had to arrange for paying on behalf of three of his directors a sum of Rs 10,000 for each, many of friends and acquaintances who were socially aware and active and organized farmers' groups and helped him set up the company. Subsequently, it has been regularly signing contracts with farmers to buy their sweet corn offering attractive price to farmers and selling the same to exporters based in Nagpur keeping a decent margin.

Maha FPC, the federation of FPCs from Maharashtra, is engaged in minimum support price (MSP) procurement operations on behalf of the government. Yogesh Thorat, managing director of Maha FPC, is upbeat about the procurement model.

Farmers in Maharashtra have been informally organising themselves into groups based on common interests such as crop-based groups, area-based groups and groups of progressive farmers for more than a decade. That probably explains why Maharashtra ranks among the leading states in setting up FPCs and number of successful FPCs.

A new found enthusiasm has spread among policymakers about the FPC model in helping India overcome the agrarian case and doubling farmers' incomes.

**5. Observations, Findings and Suggestions:**

The researcher observed a very amount of fanfare for AMUL among the upcoming FPC community. Amul, is an illustrated Indian dairy cooperative society, based at Anand in the state of Gujarat, it came into existence on 14 December 1946, it is a cooperative brand managed by a cooperative body, Founded under the great vision of Verghese Kurien, Tribhuvandas Kishibhai Patel, the Gujarat Co-operative Milk Marketing Federation Ltd., which today is jointly owned by 3.6 million milk producers in Gujarat.

Most of the leading FPCs unhesitatingly point to one model, i.e., AMUL model. Arguably, the FPCs may survive only by following follow the AMULmodel. AMUL was run by professional people who were experts in their own fields. They had a clear business understanding, had a clear business model. They were aware about the importance of creation of a brand in the 1960s. The same experiment must be redesigned to suit the horticulture crops.

The cooperative model which worked so well in case of AMUL, did not ensure success in crops. In Maharashtra, MahaGrape, a cooperative of farmers was involved in export of grapes. Though it laid the foundations to make the state the largest onion exporter in the country, accounting for more than 90% of the total exports, MahaGrape became defunct. Politics keeps professionalism away from cooperatives, leading to their failure as business entities.

## 6. Conclusion

The young and enterprising youth dominating the present FPCs insist that the farmers and governments should start treating agriculture as an industrty. They demand for FPC policy similar to the startup policy. Since there is a lack of policy, at present, many FPCs are taking loans at rates of interest as high as 22% from NBFCs (non-banking financial companies). It won’t be sustainable. FPCs have to create strength. Further, according to the leaders of the FPC movement, it is imperative to treat each commodity as an industry, just like the sugarcane industry. Sugarcane is the only crop to have a separate a commissioner for sugarcane. This can happen in other crops too, they said. As of now, the success of FPCs depends to a large extent on the leadership they get, It is equally important to create an environment to attract people with leadership skills, What these enterprising farmers feel is that It is not the job of the government or Nabard to set up an FPC. They should make enabling policies.

FPCs like Sahyadri lead by Vilas Shinde are actively involving in skills development and training of rural youth for agriculture. A day will soon come when the farmer producer companies will transform agriculture in the country to achieve increased farm productivity, integration of native farming knowhow with latest technology, better Post-harvest techniques, local processing, and marketing the produce with value addition.

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