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The Paradigm Shift - India's Journey of Corporative Act to Producer Company Act; How Sustainable the Farmers' Producer Organization Model Has Been So Far?

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Abstract
Over the years, in India, plethora of approaches has been taken to organize farmers, especially smallholder farmers, in order to enhance their farm profitability. The concept of 'Cooperative' was one of the options available for the producers to get organized themselves as an active player in the supply-chain by value addition and business ownership. However, the cooperative system in the country had several shortcomings. Hence, a new legal entity, "Producer Companies" was introduced by the amendment of Companies Act 1956 during 2002. This Farmer Producer Organization (FPO) model under the new company act 2002 is a hybrid between a private limited company and a corporative society. Most of the producer companies are start-ups and promoted by NGOs. The robust governance and management of this model in India and promotion of this concept may bring prosperity among smallholder farmers. However, the best practices followed by the successful producer companies across the country in awareness creation, capacity building, promotional efforts and operational management etc. are not well documented and disseminated. This paper examines the experience of five unique set of FPOs running legally and successfully for three years from Tamil Nadu of India. The selected FPOs were NABARD and SFAC promoted. Based on the findings on the challenges faced in formulation of FPOs; the intervention for further up scaling was identified to make this a sustainable model in future.

Keywords: Indian Experience, Implicative Strategies, Producer Companies, Smallholder Farmers

Introduction

In the 19th century, Agricultural cooperative was the most common farmers' Producer Organization (PO) which emerged in Europe and other developed countries. Cooperatives are an association or corporation established for the purpose of providing services on a nonprofit basis to its shareholders or members who own and control it and voluntarily stand for common economic, social and cultural needs. Cooperatives are required to register under particular legislations. In Uk, many cooperatives are registered under the industrial and provident societies acts but many also have registered under company acts. In the US most cooperatives are registered as limited liability companies. The European Cooperative Statute provides the legal framework for cooperatives in Europe. Generally, in developed countries cooperatives were independent, farmer-controlled and financed self- help organizations whereas in developing countries cooperatives were largely government funded. In the aim of mobilizing and improvement of rural livelihood, colonial governments developed cooperatives (Davis, 1990; FAO 2001). Following a similar top-down approach, the developing countries enact the cooperative law which tied the cooperatives with central and state governmental distribution and output marketing system and especially in case of African countries like Tanzania, Ghana and Zambia integrated cooperatives into political administration structures Bardhan & Pranab 2005 and Hardesty et al., 2004)

Many small-scale farmers get economic benefits in working together at cooperative level; however, the state run cooperative system has largely spilled in many developing countries. It is found in research that If members of the cooperatives are provided necessary resources such as training, quality inputs (seed, fertilizers, pesticides) etc., then cooperatives flourish in the market and able to adopt sustainable pro-poor development strategies. On top of that, cooperatives help building rural empowerment among their producers by improving their bargaining power, exploiting the impact of the middlemen in the supply chain and ultimately leverage decision making skill at local, national, sub-regional and international environment (Venkatesan P. et al., 2017; Mercoiret, 2006; Gideon et al., 2007).

Transformation of the corporative to Company Act

In India, it is found by the survey of National Sample Survey Organization (NSSO) that 40% of the farmers want to leave agriculture because of the low product price (Murray, 2009). There is a very limited scope of value addition in the produce due to low productivity resulting for lack of knowledge on production technology, access to credit, input, market and most importantly the reluctant attitude of the farmers towards any new innovation. Middlemen exploitation in the supply chain limits the product price in the market realized by the primary producers. Naturally, Farmers expect prosperity in pace with the economic growth of the nation. The concept of cooperatives is a potential way for the farmers to organize themselves to get a strong position in the value chain and business ownership. Producer cooperatives are the aggregations of producers which provide service in terms of knowledge, agro-advisory, supply of credit, input, procurement, processing, marketing and distribution etc. These organizations uphold the political voice of shareholders, reduce the input, transaction and transport costs, provide platform for sharing information, coordination of common activities and involve in decision making with collective action. They are registered under the State Cooperatives Societies Act and expected to work on giving access to risk-bearing capital, product diversification, fixing market standards and economic resilience at grass-root level.

Many researches revealed that cooperative system in India have been influenced by political interference, corruption, apathy, poor marketing strategy, capital shortage, bureaucratic lethargy and stagnation. Pitfalls in the cooperative act have been criticized for their failure (Singh, 2008; Venkattakumar R. et al., 2012 and Tusshar et al., 2016). Unfortunately, the concept of NGOs too could not overcome certain factors like preferred share premium, limited rights of members on internal control mechanism, privilege for the large holders, functioning like closely-held companies, risk of becoming investor-oriented company, off-market purchases to meet contract terms, leasing of delivery rights by members and dependence on non-producer member equity and non-member business (Singh, 2008). Amidst such deficiencies and inadequacies in cooperative system, there was an attempt during 2002 to strengthen the cooperative movement with the amendment (in Section 581) of Companies Act 1956 as a response to the Report of the Committee under the Chairmanship of Professor Dr. Yoginder K Alagh.

Ministry of Consumer Affairs, Government of India introduced the Bill for amendment by introducing part IX A and thereby paved the way for incorporation of Producer Companies (Alagh, 2007; Gupta, 2007; Singh, 2008; Shubhangi 2016, Mahajon 2015; and NRRA, 2009).

This provision liberated the cooperative from the formidable process of working under the Registrar of Cooperatives, but the ICA cooperative principles remained the foundation of the design of the producer company with the same five organizing principles—(i) voluntary and open membership; (ii) equal voting right independent of shareholding; (iii) elected board from amongst members; (iv) limited return on share capital; and (v) distribution of surplus on patronage basis. This new legal facility was widely expected to unleash a new wave of farmers' cooperative enterprises, but this time under the more business-friendly amended Companies Act of 1956. Since then, more than 2000 producer companies have been established at various parts of the country covering a wider range of commodities which appear like old wine in a new bottle (NRRA, 2009 and Tushar et al., 2016). To avoid the same problems occurring in the cooperative sector, the producer-company legislation contains some major changes such as limited government control, prohibition for the state representative to be part of the organization and its managerial body. Producer companies are formed only among primary producers who are small and marginal farmers of any region. The minimum members shall be ten, or two institutional members such as self-help groups (SHGs), cooperatives, or any other formal farmer organization. The members must buy one share value which ranging from 50 to 200 Indian rupees. The company act allows the suspension of minimum capital stock of 100000 Indian rupees since it is difficult for the small farmers to raise such high levels of capital stock. Instead, the liability of the members is limited to the amount they have spent on shares. Hence, farmers do not risk losing their land or any other assets should the company go bankrupt. Shares cannot be publicly listed and traded; they are only transferable among members. This ensures that successful producer companies do not risk takeover by other companies or TNCs (interview with the Agricultural Finance Corporation, (AOFC, in 2010 and Anika et al., 2012).

The producer company concept is aimed to combine the efficiency of a legacy with the spirit' of traditional cooperatives. Producer companies aim to integrate the farmers into modern supply networks by minimizing transaction and coordination costs, while benefiting from economies of scale. They are run and owned by farmers, financially facilitated by the government and overseen by professionals. The aim of this paper, therefore, is to examine the potency of the farmer producer organization and their company model as a bottom-up approach for smallholder farmers' participation in emerging markets and its sustainability.

Literature review of different producer companies

The Indian Organic Farmers Producer Company Ltd (IOFPCL), the first farmers' producer company in India is in Aluva (Kerala), producing organic products. Vanilla India Producer Company Ltd (VANILCO) has been promoted by Indian Farmers Movement (INFARM) of Kerala, a charitable society with over one lakh farmer members to cater to the long-term needs and interests of the vanilla farmers. Vanilla India Producer Company Ltd (VANILCO) has been promoted by Indian Farmers Movement (INFARM) of Kerala, a charitable society with over one lakh farmer members to cater to the long-term needs and interests of the vanilla farmers. ESAF Swasraya Producer Company Limited (ESPCL) for handicrafts, herbal and agriculture products and food, dairy and meat. Ten watershed development groups of Amreli District formed a producer company "Dhari Krushak Vikas Producer Company Ltd" at Dhari, Amreli, Gujarat under the guidance of Development Support Centre (DSC), Ahmedabad for the food grains and oilseeds. Government of India, through Spices Board under the Ministry of Commerce has promoted two producer companies, the Coinonya Farm Producers Company Ltd for turmeric and Karbi Farm Producers Company Ltd for Ginger and Chilly in Karbi Anlong district of Assam for promoting organic cultivation, processing and export. Agricons Agro Producers Company Ltd, Raipur, Chhattisgarh was incorporated in 2005. Rangusta a producer company that promotes the products of artisans, weavers and craftsmen, was registered in 2004 and has been extending services in Rajasthan, Assam and

Uttarakhand to bridge the gap between the artisans and the customer and to provide such artisans the sustainable rural livelihood options (Anonymous, 2007 and Murray, 2009). Masuta Producer Company Ltd is promoted by PRADHAN, an NGO as an independent rural enterprise suitable for women and landless and marginal farmers who had limited dignified job opportunities, low wage rates (Venkattakumar R. et al., 2012 and Kumar, 2007). The Junnar Taluka Farmers' Producer Organization and Producer Company To put an end to the exploitation of middlemen, Mr.Shriram Gadhve, the leader of the Farmer Producer Organization (FPO) movement in Narayangaon, took up the onus on himself to save his fellow men from this crisis. Gadhve spread word about the FPO movement, initiated by the Vegetable Growers Association of India (VGAI) and the Small Farmers Agribusiness Consortium (SFAC) and convinced all the tomato growers in Narayangaon to join the movement. Today, Narayangaon is the largest open tomato auction market in the country. This market attracts traders from all over the country who carry back the produce to different parts of the country such as Ahmedabad, Surat, Baroda, Kota, Indore, Jabalpur, Jhansi, Lucknow, Agra, Delhi, Bangalore, Hyderabad, Chennai, Pune and Mumbai and so on (Preeti et al., 2015). Several POs have been funded (and continued to be funded) through NABARD under the Umbrella Program for Natural Resources Management (UPNRM) – bilaterally funded by KfW (Kreditanstalt für Wiederaufbau)/GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) and NABARD and also Nabard Financial Services (Nabfins), a subsidiary of NABARD. For example, under PODF,6 The Nachalur Farmers' Producer Company was formed by a group of 100 farmers from 30 villages in Tamil Nadu in June 2012. Within six months' time, they were able to sell 300 tonnes of fertiliser at prices higher than before. Similarly, Devbhumi Natural Products Producer Company (DNPPCL), with support from Appropriate Technology India (ATI) became one of the first few all-women POs to scale up their operations in sericulture, organic honey and spices, and eco-tourism. Some of the POs supported under UPNRM are more farm-based, and involve agricultural produce that has a variety of uses. For example, Sambandh (Odisha) supports tribals collecting medicinal plants, Women's Mutually Aided Co-operative Thrift and Credit Society (MASUTA, Andhra Pradesh) received loan support to build capacities for improving their tasar silk yarn production business. There are several other organisations in Tamil Nadu, Jharkhand, and Karnataka that have been supported under the aegis of UPNRM (Venkatesh Tagat et al., 2016).

Production

The major goal of producer companies is to link smallholders to market channel. Therefore, they predominantly work on the downstream end of the production system. The benefits of the entire concept, however, can be seen both on the supply and demand side of the market. Generally, smallholder farmers are unable to directly interact with large-scale customers. The Producer companies have been able to reduce the influence of the middlemen in the market. Therefore, farmers are getting the profit as because the money which had been paid to the middlemen before now this has been shared with the farmers directly. Moreover, farmers are now have the access to the market standards and price information which later on helping them in their production planning and methods. Producer companies are undertaking different strategies and programs to uplift farmers' production methods. Among plethora of initiatives take by the producer company some are like timely inputs (seeds, fertilizer, pesticides) supply, training on new production technology, finance credit facilitation (Anika et al., 2012).

Governance

We found different governance structures in different FPOs while collecting the research data and also in the literature review. In particular, in the dairy companies which are under the promotional program of National Dairy Development Board (NDDB) incorporated some design features to enhance patronage cohesiveness, governance effectiveness, and operating effectiveness of these new businesses. Take for example their by-laws governing the relationship between members and the MPC (Milk producer companies):

(i) The MPC does business only with registered members; members without business with the cooperative have to surrender their membership. (ii) New members can join, but only during specific windows in each year, by paying admission fee of Rs 100 and buying five shares with a book value of Rs. 100 each. Only those members can vote who have supplied at least 500 kg of milk and supplied milk for at least 200 days during the year. (iii) Members have to maintain a 3:1 flush-to-lean ratio of milk supply, that is, to be able to supply 300 liters to the MPC during flush months, a member should have supplied 100 liters during lean months. (iv) After their first year of membership, members have to ramp up their equity capital in proportion to (at present Re 1/kg of milk supplied) their business with the MPC during the previous year. Returns to members too are similarly tied to patronage and equity shares. (v) Voting members are divided into patronage classes A, B and C; each class sends to the board elected members in proportion to its share in the FPCs business.(vi) The face value of the equity share is to be revalued periodically; new members can join by buying shares at a re-valued price (net worth/no of shares). (vii) Old members can exit the MPC and retire their equity capital at today's valuation. (viii) Up to 1/5th of the directors on board can be co-opted experts. Together, these provisions tweak three ICA principles. First, membership is open and voluntary but "conditions apply." Second, board is elected by one member-one-vote rule, but vote comes only with threshold-level of patronage. Moreover, A-class vote is weightier than a C-class vote. The more business you do with the cooperative, the greater your say in its decision-making. Finally, buying a share is not just a token admission fee, it is buying or selling a piece in the cooperative's accumulated net-worth in a manner that protects the senior rights of early members who are now incentivized to supply capital (Anika et al., 2012 and Tushar et al., 2016).

On the other hand, one of the FPO among our field research, Illupur Producer Company limited, maintain several parameters for the eligibility being a board of directors, as a part of their governance management such as,12 meetings, considering one meeting in each month and the year round so; should be conducted and interested participant shall attend at least 11 meetings of their own group and 3 other meetings from other groups and participate in the knowledge exchange, conflict management and credit transaction related works; Credit line should be very clear by themselves and also their individual groups and At least 1 lakh business transaction yearly.

The contestant themselves shall declare themselves as interested nominee for the selection process of the board of directors and then FPO will cross all these parameters and declare either these participants are eligible or not. If there is more than one participant for each vacant post then FPO will consider the person who successfully and substantially contributes than other competitors. FPO motivates their active members though offering premium prices at least 10-20% known as patronage bonus. However, they discourage dividend system as these have to done from the share capital of the members.

Managerial skill is one of the key capacities need for the farmer organizations and is generally difficult to find such capabilities among the smallholder farmers (Barham & Chitemi, 2009; Bie¨nabe & Sautier, 2005). Therefore, according to the producer company legislation, a professional manager, designated as chief executive officer, is being appointed by the board of directors. Every producer company must have a minimum of five but not more than fifteen directors. The members of this board of directors are appointed from within the participating farming communities. The directors are a group of members of the village community and are, in consequence, deeply embedded within local social structures. This kind of recruitment practice and representation ensures leadership acceptance from within the community and is a crucial point in successful farmer organizations (Wilson, 2009). According to the legislation, the board of directors' post is completely voluntary, but the chief executive officer is entitled for the salary. However, fieldwork evidence suggests that the recruitment of qualified managers to run this kind of management set up and maintenance of their salaries due to financial limitations remain as a major problem for most Indian producer companies. In most cases, when a professional in the company just started to adapted in such kind of managerial environment they either aspire for more remuneration or switch the company for better opportunities.

Marketing and employment opportunity

Average market price each year has a strong influence into the producer company and prices fluctuate within the company for this. However, the marketing strategy taken by FPO, which is selling their products in bulk amount with pre-agreed prices, performs a significant positive impact for actors on both sides of the market, especially farmers. Very often, at the peak harvest time, supplies of the perishable goods become available on the market; this affects the price mechanism and often results in extremely low prices levels and negative incomes for farmers. For this reason, sustaining the livelihood of the farming household and making investments for the new season become difficult. To avoid this market situation, a FPO named Vasundhara Agri-Horti Producer Company (VAPCOL)'s efforts to generate pre-agreed contracts for large quantities of perishable produce help farmers to plan their economic situation for longer periods. And thus, producer companies like VAPCOL can have positive effects not only among the farming community, but also on the demand side of the market. Transaction costs for procurement become less while buyers deal with a single representative of producer. In addition, buyers will get an agreed volume of produce at prearranged prices and times. This makes this form of business transaction relatively calculable for buyers; otherwise, they would have to search market places to secure and satisfy their demand. Therefore, the long-term goal of VAPCOL is to intensify and create more links between participating families and corporate buyers. The producer-company concept brings a new platform for the farmers to obtain their liberty and to improve their position of power within the production and marketing system. Producer companies can successfully collaborate with larger organizations of retailing and processing industries by giving them the increasing flexibility requirements. In the medium to long term, this form of producer organization might allow farmers to move into a higher level of value-chain relationship with corporate large-scale buyer organizations (Anika et al., 2012).

Methodology

The Secondary data were collected from the literature review of the Farmer Producer Organizations and the primary data were collected from the intensive field survey at Tamil Nadu, India from April to December 2019 at five different FPOs. In a short period of three years, all these five Farmers Producers' Organizations (FPOs) have achieved scale in terms of membership, business turnover, market position, and have built up internally generated equity capital (Table 1).

Results and discussion

Table 1: Growth of Farmer Producer Companies in the Year of 2018-2019

Parameter	FPO 1	FPO 2	FPO 3	FPO 4	FPO 5
No of farmers	1028	47	1092	1005	1000
Women members	695	24	922	460	390
Smallholders as % of total members	98.83	95	96	98	98
Paid-up share Capital (Rs. million)	2	.47	1	1	1
Business turnover 2018-2020 (Rs million)	5.65	No turn over	1.38	10.04	23

FPO 1. Kottampatti Farmers' Producer Company limited, Facilitating Organisation: DHAN Foundation and NABARD funded

FPO 2. Klaiyarkovil Farmers' Producer Company limited, Facilitating Organisation: DHAN Foundation and NABARD funded
FPO 3. T. Kallaupatti Farmers' Producer Company limited, Facilitating Organisation: DHAN Foundation and NABARD funded
FPO 4. Illupur Farmers' Producer Company limited Facilitating Organisation: DHAN Foundation and SFAC funded
FPO 5. Pudukkottai Farmers' Producer Company limited Facilitating Organisation: DHAN Foundation and SFAC funded

Challenges Faced by FPO

Finance is the major challenge for FPO because of dependency on the government and other supporting organizations in terms of funds and services. To run their smooth operations producer company, need a huge amount of working capital for procurement, value addition, and marketing as well as extending credit, loan and advances. Banks refuse to lend the companies due to lack of guarantees since these companies only have their equity share of the primary producer, neither any physical nor the tangible assets. The main concern from the banks end is what manner the company will be able to raise the margin money required to mobilize the loan (Murray, 2009; NRAA 2009 and ITIGI et al. 2012). Moreover, it also suffers from tax on income (30.2%) unlike corporative, which can show income under tax free heads. Unavailability of skilled professionals has been the core bottleneck due to gap in entrepreneurial and technical aspect. Therefore, capacity building of all stakeholders including grass root level coordinator of the producer company is extremely needed. Registration process is very cumbersome, arduous and time taking. Hence, simplifying the registration procedure of the producer companies shall be given the utmost priority (DSC, 2007). The Producer Companies encounter into troubles in getting agricultural produce marketing committee (APMC) licenses for processing and trading as because of the existing licensees of the traditional cooperatives in many places. According to DSC (2007), the present fertilizer licensing policy, the "Principal Certificate" can only be given to the cooperatives and no provisions have been made so far by-laws to provide such licenses to producer companies. Producer company provisions are not in tune with the general framework for companies with limited liability in terms of restrictions of transfer of shares and thus the denial of exit opportunity, absence of competitive market for cooperative control and the very existing platform for infeasibility of imposing corporate Government regime. A weak position in terms of competing with the existing market, negotiating prices was found due to dependency for marketing on a few select buyers, rather than alternative parallel channel to market and attitude of offering low prices by the retailers.

Critical Analysis

According to Singh (2015), a core issue is the logic of founding a Farmer Producer Company (FPC) which should ideally arise from a new way of doing business by the smallholder farmers integrating new technology, product development, and innovative promotional and marketing strategy. Yet, a majority of registered FPCs among more than 2,000, have struggled to grow and become viable. Size may not be the only or even a major indicator of success, however, survival as a viable, self-sustained, member-controlled producer organization is. A study of recent reviews and evaluations of producer companies has identified all manner of problems facing those (Tushar et al., 2016).

India's small farmers are resource poor and risk averse; but the idea of farmers Producer Organizations (FPO) is not only for pooling of produce but is also for pooling members' capital. If FPOs promise attractive returns to investment and enjoy trust of their members, there is no reason why farmers would not provide them capital. Is the experience with promoting producer companies any different from earlier experience with promoting traditional cooperatives? In my view, as of till now, it is not. Like the old-world conventional cooperatives, most

FPOs too are sheep in wolf's clothing. Their promotional process provides little evidence of design thinking for "transforming existing conditions into preferred ones." The discourse on the future of FPOs is not about how they can mobilize energy for growth from within but about how to garner resources and concessions from governments and external agencies. Had this not been the case, we would not hear promoting NGOs bemoaning lack of capital, capability, and facilitation as key constraints facing FPOs. Had they thought about the growth trajectory of FPOs at the time of formation, it would have been hard to ignore these as future challenges that needed preparation from the beginning. The flaw lies not in FPCs, but in the thinking and process of promoting them (Tushar et al., 2016 and ITIGI et al., 2012).

Financial institutions may offer some anomalistic approaches to the producer companies to grow and being capable themselves to create a strong and resilient market position. Hence, financial organizations like bank can arrange loan facilities, where they can consider the yearly business turn over and reputation of the companies and the principles, services with which such companies operate, as the tangible assets not merely the physical assets. Guarantees and undertakings from the promoter institutions and purchase orders and the agreements pertaining to business may have to be relied upon by the financial organizations to extend credit facilities (Murray, 2009 and Venkattakumar R. et al., 2012).

Suggestions

Farmers Producer Organizations (FPO) can overcome their financial challenges by undertaking some measures such as dealership with public and private companies and work as commission agents on behalf of those companies to purchase bulk amount of inputs (seeds, fertilizers, pesticides) for their members; direct contract for procurement of the members' produce with private and public companies; backward linkage dealership and taking advantage of government schemes which provide loan against pledging warehouse receipts (ITIGI Prabhakar et al., 2012).

To make FPOs resilience and fittest for the competitive market system some unconventional approaches could be taken like strong linkages and knowledge sharing among FPOs, academician, researchers, policymakers, market players; conducting policy dialogue by the farming lobby embed lessons learnt by FPOs, especially on the establishment of the small farming as a viable business (Gideon et al.2007).

More importantly, Selection process of the governing body and transparency in financial management and not but the least good feasibility study shall be maintained carefully to get the most benefit from the Farmers' Producer Organizations.

Conclusion

The success of Farmers Producer organizations depends on more or less the same factor as such of the cooperatives which is the liability of the farmers towards company. The integrity and quality of the leadership, its acceptance within the community, as well as the market competence are the most crucial factors for a successful producer company. FPO has to be economically viable for their members by providing them appropriate knowledge on production technology so that ultimately, they can maintain strong forward and backward market linkages. One thing for sure is need to keep in mind is to set a benchmark of support whether it could be financial or capacity building that is handled by the NGOs or government subsidies; as because the end goal of the Producer company is to be empowered by their smallholder farmers to lead a viable business within their community. Ironically, this cannot be achieved only by the smallholders' individual initiatives alone. Furthermore, the fact that, to date, the concept of producer companies has captured so little attention except financing in capacity building, even in India needs to be addressed. This suggests that there is little belief on the government's side in this concept as an alternative to the privatization of agriculture as designed by the WTO.

However, producer companies' aim shall be building up a potential partnership with cooperate buyers since farming has always been considered as a risky enterprise for the natural processes underlying it. Producer companies integrate the legacy of farmers' knowledge, are locally embedded, they empower smallholder farmers while giving them the opportunity to deal with contemporary market actors and to enter high-value markets within the community. Henceforth, they can involve the farmer members', governing body and promoting NGOs, extensively in the supply chain which can make this model sustainable in terms of environmental, socio economic resilience in future.

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