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Farmer Producer Companies: Preliminary Studies on Efficiency and Equity from Maharashtra

Girija Shankar

THE HINDU CENTRE

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Politics and Public Policy

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ABSTRACT

In recent years, the concept of Farmer Producer Company (FPC) has gained the attention of researchers. Though relatively new in India and still in an emerging phase in Maharashtra, these FPCs are being viewed as a possible replacement for the old cooperative model and taken the form of new movement. The formation of FPCs in the districts of Maharashtra began in 2015 under the Maharashtra Agricultural Competitiveness Project (MACP). In Osmanabad and Solapur districts of Maharashtra, FPCs have been in operation for the past three years. As FPCs gained the attention and participation of the farmers it becomes pertinent to study their formation and performance.

This Policy Report attempts to look at the FPCs in Solapur and Osmanabad districts of Maharashtra to ascertain the level of inclusiveness and participation of the various categories of farmers in the running of the company. The study points out that caste and family hierarchies continue to hold a grip on ownership patterns, albeit in the early days of the FPCs. However, it can be said that the FPCs have the potential to overcome the difficulties faced by the farmers in selling their produce directly in the conventional market arising out of rigid vertical coordination of the middlemen based on the experiences of the farmers with the producer company model.

The Report also includes an analysis of the new policy on the FPCs and attempts to assess the differences between the old cooperative Act and new Farmer Producer Companies Act.

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I. INTRODUCTION

Agriculture has played an important role in the development of human civilisation, which is shaped by collective experiences, traditional knowledge, and culture. It is the backbone of India's economy and the source of livelihood for 54.6 per cent of the population (GoI, Ministry of Agriculture, 2017). However, the share of the agriculture sector to the GDP has kept declining from 50 per cent in 1950 to 15.4 per cent in 2015-16 (ibid). The reason behind the declining GDP is the numerous problems faced by the farmers: from low production/productivity to storage, lack of farm-mechanisation, and problems with irrigation, credit linkage, market support, bargaining capacity, and uncertain weather conditions. As a business proposition, agriculture provides no assured return on investments, as it is subject to several external factors including natural phenomena that are beyond the control of the farmer. [1]. A Situation Assessment Survey conducted by NSSO in 2013 revels that 40 per cent of the income earned by agricultural house hold is from the non-farm sector[2](Sayantan, 2018) and another found that 40 per cent of the farmers wish to leave agriculture (Murray, 2015).

India's economic liberalisation policies that commenced in 1991 changed the agricultural market completely introducing, for the first time, competition from bigger global players. Farmers opted for commercial agriculture to feed the growing population and to sustain themselves in the competitive market. But the market remained dominated by middlemen and became difficult for small and marginal farmers to overcome the monopoly of the middleman existing in the conventional agriculture market, in which farmers were forced to sell their produce at throwaway prices. On the other side, the commercialisation of agriculture increased the input cost and compelled the farmers to depend on informal sources of credit, which turned out to be one of the primary reasons for innumerable suicides across the country by the debt-ridden farmers. The National Crime Records Bureau (NCRB) report in 2015 showed that 38.7 per cent of farmers committed suicide due to bankruptcy or indebtedness. It was also found that sharecroppers and farmers owning less than one hectare of land are more dependent on the informal sources of credit (Deshpande, 2017).

1. Statement made by a majority of farmers during interviews conducted as part of the study in Solapur and Osmanabad districts of Maharashtra asking them what were the basic problems faced by them in agriculture sector.
2. **Bera, S. 2018**. "Rural youth prefer not to be farmers: Survey", *Livemint*, January 24. [https://www.livemint.com/Politics/dJmimxJWI9QlV86AdUMu7N/Rural-youth-prefer-not-to-be-farmers-Survey.html].

As per the census 2011, over three decades beginning from 1971, the population of marginal and small farmers[3]increased 2.58 times (Census, 2011). Their issues, protests, and demandshave gained the attention of governments throughout India[4]. Therefore, it is the responsibility of the state to ensure their basic needs as well as their sustainability Several initiatives towards the same, has been taken by previous as well as present government from the cooperative movement to the latest moves to bring in FPCs.

The cooperative movement began in India during the pre-independence era, and the cornerstone of the movement was the collectivisation of farmers for empowerment. The importance of collectivisation can be traced to the ancient scripture, the Rig Veda (1700-1100 BCE), where it was premised that collectivisation increases the work efficiency:

समानीवआकूतिःसमानाहर्दयानिवः|
समानमस्तुवोमनोयथावःसुसहासति||

"*May you all have a common purpose, May your heart be in unison, May you all be the same so that you can do your work efficiently".*

Mandala 10, Hymn 191, Rig Veda.

From a different perspective, Vladimir Ilyich Ulyanov, who is known by his alias Lenin, concurred that *"co-operative societies can help the transformation from capitalism to socialism and finally to communism".* The International Cooperative Alliance (ICA) defines a cooperative as an *"autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise[5]".* Despite initial successes, the cooperative movement in Maharashtra came under the influence of the caste politics of the Marathas and a majority of the cooperative bodies in the State were hijacked by the dominant Caste. This created a power structure in the cooperative system and, later with the involvement of the state, the cooperatives went into a downward spiral. They became platforms for dishing out welfare schemes and came to be controlled by the government and the dominant Caste (Dahiwale, 1995).

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3. Marginal, small and medium farmer has been defined as per the Reserve Bank of India (RBI) definition ie Marginal farmer cultivating on 1 hac or less, small farmer cultivating on 1-2 hac and other farmers more than 2 hac.
4. **Waydande, P. 2018**. "Farmers' rally in Maharashtra: Maximum march", *The Hindu*, March 18. [https://www.thehindu.com/news/national/other-states/farmers-rally-in-maharashtra-maximum-march/article23280967.ece/photo/1/].
   ***Newsclick.* 2018**. "Maharashtra Farmers' Movement: Four Leaders You Need to Know About", March 12. [https://www.newsclick.in/maharashtra-farmers-movement-four-leaders-you-need-know-about].
5. ***International Cooperative Alliance.* nd**. "Cooperative identity, values & principles". [https://www.ica.coop/en/cooperatives/cooperative-identity].

The Agriculture Scenario in the Districts of Maharashtra

Maharashtra is the third largest State in India with the second highest population. It comprises six divisions (Pune, Nagpur, Nashik, Aurangabad, Amravati, and Konkan) and 32 districts. The economy is fuelled by a good mix of industries and agriculture, with the State ranking in the top among States in horticulture production and export. While on one side, it boasts of this remarkable contribution in agriculture, the other side is rather gloomy— some of its regions have often faced drought leading to crop failure; they are also known as the 'famine belt' (Catanach, 1970). Out of the total geographical drought-prone area in the country, 24 per cent lies in Maharashtra (GoI, Ministry of Agriculture 2012). There are 72 identified drought-prone districts in India, and Solapur and Osmanabad districts of Maharashtra appear prominently in the list. The NCRB report in 2015, too, reveals that Maharashtra recorded the highest number of farmers' suicides in India.

Solapur and Osmanabad districts are agriculture-dependent economies. Out of the total geographical area in Solapur, 65.5 per cent of the land is under cultivation and 63 per cent of its population depends on agriculture as the major source of livelihood (Todkari et. al., 2010; Census, 2011). In Osmanabad district, 98.2 per cent of the geographical area comes under the rural belt and 77.1 per cent of the district's population is engaged in agriculture (Census, 2011). While dependence on agriculture among the population was high, the district also faced climate uncertainty and frequent droughts. In the year 2013-14, the Marathwada region (which, by and large, coincides with the Aurangabad division) faced severe drought which hugely affected agriculture and the rural economy and made the farmers more vulnerable.

H. M. Desarda, former member of the Maharashtra Planning Commission, pointed out that apart from drought, faulty policy, wrong cropping pattern, over-extraction of groundwater, regional imbalance, and political apathy were among the main reasons that affected the socio-economic conditions of the villages (Jamwal, 2016). These prevailing conditions and the problems with agriculture in the region made the small and marginal farmers more vulnerable. There was a need to make the farmers self-dependent. As a result, the concept of the FPC was introduced. Though cooperatives societies existed in the districts of Maharashtra, the experience was not positive; it was observed that the cooperatives were dominated by the Marathas (upper caste) largely relegating marginal farmers to the fringes.

The Paradigm Shift: Social Welfare to Welfare Capitalism

India is experiencing a paradigm shift from a social welfare to welfare capitalism. Therefore, it is the need of the hour to frame a policy that focuses on "collectivisation for capitalisation". The journey has led from the "Cooperative Movement" to the "New Producer Company Movement" where the structure of the cooperative societies and the efficiency of a company is amalgamated (Trebbin & Hassler, 2012). The concept of the FPC was introduced by a Committee headed by economist Y.K. Alagh in the year 2000, and in 2003, the Producer Company Act was passed by incorporating Part IX-A into the Company Act, 1956. The National Policy for the promotion of Farmer Producer Organisations, in its preamble, focused on the collectivisation of small and marginal farmers (GoI, Ministry of Agriculture., 2013).

In recent years, the concept has gained major attention across States. Both Union and State governments are providing special support for the promotion and formation of producer companies. But the question to be asked is how much does the new policy on Farmer Producer Organisations focus on the involvement and participation of farmers. Though the policy in India has always been formed by experts, they lack basic components such as people's participation and need-identification which lead to the exclusions. For example, the green revolution in the mid-1960s intensively used chemical fertilizers and high yielding variety seed but the unpropitious consequences of such a policy which led to economic disparities and deleterious effect on the environment, were noticed only later. Therefore, from a research point of view, it becomes important to study the sustainability and participation of farmers in the new producer company movement.

II. METHODOLOGY

This Policy Report on the performance of FPCs is the result of fieldwork that spanned over four months in Solapur and Osmanabad districts of Maharashtra. The Report is primarily based on the analysis of primary and secondary data, which have been used whenever required in support of the argument. Secondary data sources include government reports, press releases, census records, annual agriculture reports, periodic journals, newspaper articles, and documents and data collected from the Agricultural Technology Management Agency (ATMA) Offices in Solapur and Osmanabad. Primary data was been collected from the chairpersons of FPCs and shareholders through a semi-structured interview schedule. Government officials, retired District Agriculture Officers, and assistant professors were also interviewed.

Two separate semi-structured interview schedules were prepared to collect data from the chairpersons and shareholders. While the Chairperson-specific interview schedule focused on the relation between the FPC and the State, the shareholder-specific questionnaire focused on the relation between the shareholders and the directors. The interviews with government officials were conducted to gain a contextual understanding of the government support provided for the promotion of the FPCs in the districts. Wherever possible, in-depth interviews and focussed group discussions were conducted with the chairpersons and shareholders with focus on the performance, potential, and challenges faced by them. The researcher was also a participant-observer in such meetings and discussions held at different places in the districts.

Sample, sample size, and general characteristics of chairpersons and shareholders

There are 30 FPCs in Solapur and Osmanabad districts formed under the Maharashtra Agriculture Competitiveness Project (MACP) project by ATMA. For this Report, data was collected from a Producer Company that was formed by MACP in the year 2015 and had received the subsidy amount for its business plan. Ten such producer companies—five each from Solapur and Osmanabad—were selected randomly. Then, five active shareholders were selected randomly for personal interview. The average age of a chairperson interviewed is 36.6 years with an average of 13.2 years of education and 12.6 year of agricultural experience[6] . On the other hand, the average

6. n = 10 (Chairpersons). Their average age, average years of schooling and average years of agricultural experience have been calculated.

age of the shareholder interviewed is 46.68 years with 10 years of schooling and 24.48 years of agriculture experience[7].

7. n = 50 (Shareholders). Their average age, the average years of schooling and the average years of agriculture experiences have been calculated.

III. FROM COOPERATIVES TO FPCS AND SOME INITIAL CHALLENGES

The world economy is dominated by three economic models—the Joint Stock Act passed by the British government in 1844 that gave birth to modern capitalism which developed the basis for the modern stock cooperation; the ideology of communist thinking by Karl Marx that led to the theory of modern communism and sowed the seeds activism among the working class throughout the country and, gradually, the world; and the Rochdale Equitable Pioneers Society founded by twenty-eight working men in the year 1844 that gave birth to the modern cooperative movement in a historical small town Rochdale, Lancashire, UK, where they opened a small shop on their mutual effort which became the core concept of the cooperative at the worldwide level. (Chompson, 1994).

The earliest experiments with the cooperative structure in Europe can be traced to the early 1700s with the Fire Insurance Cooperative in the UK. In 1750, a group of cheese-makers together formed a cooperative in France. In 1752, the Philadelphia Contributorship, an insurance company run by Benjamin Franklin in the US, and the Mondragón Cooperatives in the Basque Country of Northern Spain.

From prior experiences with the cooperative movement, it has been observed that the formation of the cooperatives depends mainly on three factors: economic condition, farmers' organisations, and economic policies of the countries as in the 19th century. At the end of the industrial revolution when unemployment was at its peak and was forcing skilled workers into poverty, a few trade men decided to provide services on a cooperation basis. This gave birth to the Rochdale Society of Equitable Pioneers Ltd (1844) in Rochdale, England, and brought about a revolution in the concept of the modern cooperative, i.e. mutual understanding and patronage dividend, which became the foundation of the cooperative structure throughout the country. This was a consumer cooperative formed with the objective of addressing the need for housing, food, education, employment, and other basic requirements. Then in 1864, the Savings and Credit Cooperative, a first of its kind, was started by Friedrich Wilhelm Raiffeisen in Germany with the objective of providing loans in urban and rural areas and also established the rural credit union (Ortmann & King, 2007, p. 22). In 1945, the then President of Indonesia, Sukarno, strongly recommended the cooperative model for rebuilding the economy and, as a result, by 2003, the number of cooperatives in that country increased to 123,181 as a result of the government funding. Interest in the cooperatives movement accelerated in the late 1980s, 1990s and in the beginning of the 21st century (Williams, 2007). In 1983, Grameen Bank in Bangladesh stitched up a successful story of micro-financing where Nobel Laureate Muhammad Yunus, the then head of the Bank, explored the rural credit option among the rural folk and observed that small loans provided to the poor in groups were repaid immediately. (Yunus & Jolis, 2003). In the year 1996 in India, Ankuram Sangamam Poram (ASP), a Dalit women's self-help movement in erstwhile undivided Andhra Pradesh (now coming under Telangana) promised to bring accessibility to market, literacy, and freedom from poverty for the deprived section of society (Williams, 2007).

Considering the importance of the cooperatives, the International Labour Organisation (ILO), in 2002, adopted "Recommendation 193" which emphasises on the encouragement of cooperatives around the world and provides framework for cooperatives in the 21st century (Smith S. , 2004). The recommendation influenced a number of regional organisations worldwide. For example, the European Union adopted a legislative framework for cross-border cooperatives, the Organisation for the Harmonisation of Business Law in Africa (OHADA) proposed a uniform Act for cooperatives, and the ACI Americas (which later became *Cooperativas de las Americas* or Cooperatives of the Americas) came out with *Ley macro para las cooperativas de América Latina* or a Framework Law for Latin American Cooperatives (Smith, 2014).

Cooperatives: The Indian Context

The origins of the cooperative movement in India can be traced to the period of rural distress and turmoil at the end of 19th century when the industrial revolution killed village-based industries and the fragmentation of land holdings made agriculture unviable. Added to that was the extreme oppression of the poor peasant by local money lenders. Frederick Augustus Nicholson, often known as the father of cooperation in India, presented his report on the 'Possibility of Introducing Land and Agricultural Banks into the Madras Presidency' and helped the government draft the first Cooperative Society Act, 1904 (Robert, 1979).

The Cooperative Society Act, 1904, enabled the formation of the agricultural credit cooperative in the rural area; later the Cooperative Society Act, 1912, promoted the formation of the cooperative other than the credit and then the Administrative Reform Act, 1942, gave the responsibility to the provincial for the maintenance of cooperative. Under British rule, the Multi-Unit Cooperative Societies Act, 1942, was formed to cover societies whose operations are extended to more than one State, then again after independence, the Multi-Unit Cooperative Society Act, 1942, was re-enacted in 1984 (Das, et al, 2006).

Since the amendment of the Cooperative Act in 1904 in India, cooperative bodies have gained a major attention from the state as well as from the centre that led to the formation of various different types of cooperatives. The village cooperative provided agricultural inputs to the farmers; consumer cooperatives were to meet the need of the consumers of the society at concessional rates; and credit cooperatives provided financial support and became one of the largest networks to provide the financial support to the farmers, larger than even commercial banks (ibid).

Fundamentally, the formation of cooperatives depended on the need of that society. Among examples of successful cooperatives in India is the Indian Farmers' Fertiliser Cooperative (IFFCO), a well know fertilizer producing cooperative that dominated 35 per cent of the fertilizer market. Dairy cooperatives in Maharashtra, Karnataka, and Andhra Pradesh have experimented with AMUL and have achieved great success and have set example for the other States (Anandaram & Dubhashi, 1999, Verma, 2004) However, there were several pitfalls to the cooperative system as well. The cooperatives in Gujarat faced the problem of transparency as details of non-performing assets (NPA) that were not disclosed to the depositors or shareholders. In rural areas of Delhi, it was also observed that some cooperatives have excluded the lower strata from participation, which was against the fundamental basis of social equality (Yadav, 2010, Iyer, 2005). In Maharashtra, a symbiotic relationship between the cooperatives and politicians helped the local Marathas take control of the cooperatives through the Congress party (Morkhandikar, 1983). Sugarcane cooperatives in Maharashtra faced problems due to the political environment which led to dominance by the Marathas but there were also some successful cooperatives that involved small and marginal sugarcane growers (Baviskar & Attwood, 1987). Cooperatives gradually became vehicles of government programmes (GoI, 2000; Iyer, 2005; Gaikar, 2015).

> "Though the co-operative movement began in the name of farmers and the co-operative institutions did help farmers in the irrigated areas, the movement was essentially dominated by the class of rich farmers, who established a close relationship with traders and businessmen in the urban areas. This class forged close links with the Bombay-based capitalists, but the slogan of "power to villages" is mouthed to legitimise their authority."
>
> (Chousalkar, 1995; 35, quoted in V G Jadav nd).

To conclude, it can be said the concept of cooperatives in India to a large extent has been misunderstood from capitalism to welfarism, where the economic philosophy of the cooperative was lost despite the potential of cooperatives to organise the small and marginal farmers (Chompson, 1994, Hoyt, 1989). It was against this backdrop that the Companies Act (Amendment) Act, 2002, which enabled the creation of Producer Companies by farmers. (See Annexure I for the Companies (Amendment) Act, 2002[8].

Policy Landscape: FPCs in India

The concept of FPCs was introduced by the Y.K. Alagh Committee, a task force constituted by the Planning Commission in 1979 for the purpose of poverty estimation. The new economic challenges increased the necessity for formal institutions to stop the exploitation of the rural producers (Alagh, 2000). It was for the first time in India when the efficiency of the private company and the structure of the cooperative society were merged to create the private-owned producer company by the farmers and for the farmers. The formation of the company depended on economic policy, government support, mutual understanding and trust, and cooperation among the directors and shareholders. After FPCs got a positive feedback in 2013 from their experience in Sagar District of Madhya Pradesh as a successful model for reducing poverty and strengthening small and marginal farmers, other States in the country followed suit.

The policy on Farmer Producer Organisations focuses on strengthening small and marginal farmers through collectivisation. The preamble of the national policy for the promotion of Farmer Producer Organisations states: "Collectivisation of producers, especially small and marginal farmers, into producer organisations has emerged as one of the most effective pathways to address the many challenges of agriculture."

With the vision of building a prosperous and sustainable agriculture by making farmers self-dependent, the mission of the policy sought to create an economically viable, democratic, and self-governing formal institution. Various roles and responsibilities were assigned to the different departments at the central as well as the State levels. At the central level, the Department of Agriculture and Cooperation (DAC) will act as the single window for extending various support to the FPOs, like providing training, technical support, and research & knowledge management. The Small Farmer Agri-Business Consortium (SFAC) is to support State governments with the formation of the FPOs and will act as a facilitator. The DAC, the Food Corporation of India (FCI), and State governments are to encourage FPOs to act as procurement agencies. The National

8. **Rural Producers Company Act**. "The Companies (Amendment) Act, 2002 No 1 of 2003 [31st December 2002]". [http://www.cdf-sahavikasa.net/Rural%20Producers%20Company%20Act%202002.pdf].

Bank for Agriculture Rural and Development (NABARD) will support the FPOs while the DAC will work with the Ministry of Corporate Affairs and other stakeholders to strengthen provision in the law for registration. The DAC has suggested several steps to the State governments, including lenience in trade, appointing the FPOs as procurement agencies, linking the FPOs with financial institutions, using FPOs as the implementing agencies for the Rashtriya Krishi Vikas Yojana (RKVY), the National Demonstration Project under the National Food Security Mission (NFSM), and ATMA. These Farmer Producer Organisations are founded on seven fundamental principles: a) voluntary and open membership, b) democratic farmer member control, c) farmer-member economic participation, d) autonomy and independence, e) education, training and information, f) co-operation among FPOs, and h) concern for the community (Ministry of Agriculture, Government of India, 2013).

The various stages of project development and timelines have also been defined in the policy. During the first three months, the analysis of the market, project implementation plan, procurement, and feasibility analysis are done. During the next six months, enhancing the capacity and implementation are taken up. This stage is also known as the mobilisation phase. The 12th month is the pre-formation stage where the business plan is prepared through Farmers' Interest Group-level (FIG) exercise. In the 18th month, the process of formation of the company begins, and in the 24th month, the FPO is established. In the 30th and the 36th months, the business plan is implemented (ibid).

In 2014, the producer companies got a major boost from the Union government. Various seminars and meetings were conducted at the national level for their promotion, and the year was marked as the Year of FPOs (Khanna & Ghatak, 2014). The present government has also changed the agriculture policy from being focussed on only increasing the agriculture production for food security to extending price support to farmers, pushing in public investment, and facilitating institution building with the aim of doubling the income of farmers by 2022 (Chand, 2017).

After conducting a review meeting with members of the World Bank, the MACP laid out its future plan of developing a market chain through a Public-Private Partnership (PPP) model for which buyers will be selected by the project directors of ATMA and an MoU will be signed between the shareholders and the buyers for integrated agriculture and alternative marketing management. The FPCs should perform procurement, cleaning, grading, and processing of the commodity. However, for the above-mentioned activity, the project implementation Department (Agriculture), Pune, has provided guidelines under which the producer company has to follow certain rules and regulations. On the other side, the companies should demonstrate capacity building to increase production and productivity to ATMA, which would be evaluated by the ICRR[9].

Differentiating the old cooperatives and the New Producer Company:

The Companies Act, 1956, recognised only three different types of companies first the companies limited by shares (sub-divided into public limited and private limited companies), second companies limited by guarantees and third unlimited companies. With the amendment of the on February 6, 2002, a fourth category was introduced where only certain categories of persons i.e. "primary producer[10]" can have the ownership and participation and such company is known as the Producer Company[11]. Somehow in many aspect the new producer company is similar to the old cooperative but based on the pervious experiences some major chances have been included in the policy of the new producer company. The table below shows the difference between the producer company and the cooperatives.

Table 1: Differences between cooperatives and producer companies

Feature	Cooperative	PC
Registration under	Co-op societies Act	Companies Act
Membership	Open to any individual or cooperative	Only to producer members and their agencies
Professionals on Board	Not provided	Can be co-opted
Area of operation	Restricted	Throughout India
Relation with other entities	Only transaction based	Can form joint ventures and alliances
Shares	Not tradable	Tradable within membership only
Member stakes	No linkage with no. of shares held	Articles of association can provide for linking shares and delivery rights.
Voting rights	One person one vote but RoC and government have veto power	Only one member one vote and non-producer can't vote
Reserves	Can be created if made profit	Mandatory to create reserves

9. The document collected from the ATMA, Osmanabad.
10. Producer company Act, 2013 Section 581 A "primary produce" means - (i) produce of farmers, arising from agriculture (including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products), or from any other primary activity or service which promotes the interest of the farmers or consumers ; or (ii) produce of persons engaged in handloom, handicraft and other cottage industries;(iii) any product resulting from any of the above activities, including by-products of such products.
11. **Balakrishnan, S. 2003**. "The new concept of producer companies", *The Hindu*. [https://www.thehindu.com/biz/2003/06/30/stories/2003063000010300.htm].

Profit sharing	Limited dividend on capital	Based on patronage but reserves must and limit on dividend
Role of government	Significant	Minimal
Disclosure and audit requirement	Annual report to regulator	Very strict as per the Companies Act
Administrative control	Excessive	None
External equity	No provision	No provision
Borrowing power	Restricted	Many options
Dispute settlement	Through co-op system	Through arbitration

Source: (Mondal 2009; NABCONS, 2011 and Singh & Singh, 2013).

From the above table it is evident that producer companies have some advantages compared with cooperatives.

The producer companies are mainly formed to turn the primary activity into a business model where the primary producers, the farmers, are assumed to be an entrepreneurs. This is one of the positive aspects of the new policy on Producer Company, but can be a challenging idea to translate into reality given as a farmers have low literacy and there is high uncertainty in agriculture.

In its relationship with governments, producer companies have more freedom compared with cooperatives, but it is important to recognise that FPCs would find it difficult to sustain themselves without government support. Though the positive aspect of the producer company is that it have many borrowing option, it is also fact that financial institutions will not readily fund any such organisation until or unless they see profit in it. This, therefore, makes the FPCs depend on support from the government institution like National Bank for Agricultural Development (NABARD) in the initial stages. In term of disclosure and audit requirement a highly skilled person is required to prepare and maintain all the necessary documents. In the study area it was also observed that this is one of the most challenging task for the farmers and few producer company pay a heavy amount to the professional to get the document ready on time.

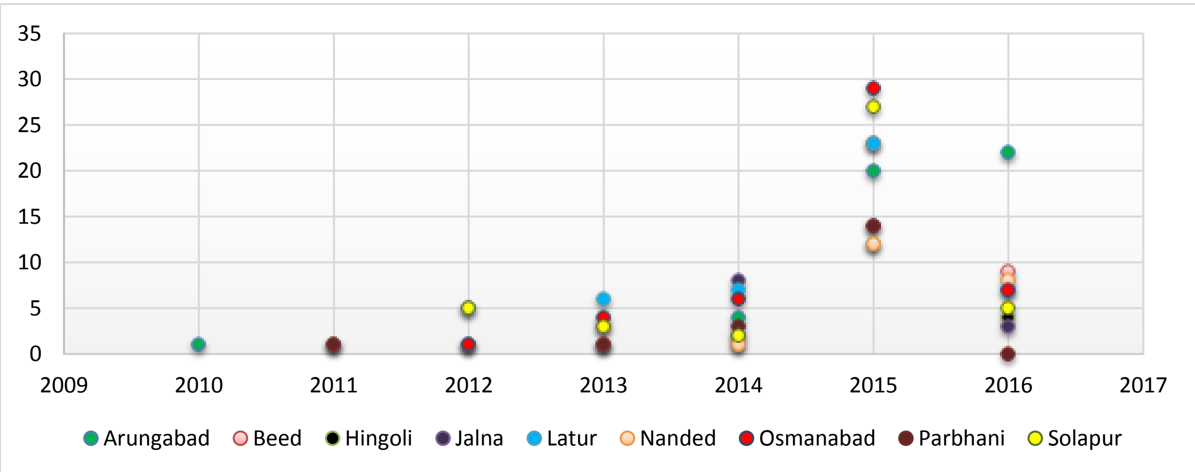
IV. FORMATION AND MANAGEMENT OF PRODUCER COMPANIES

Genesis of Producer Companies in the Districts of Maharashtra

In Maharashtra, the first FPC was formed in 2004 in Pune. In 2015, the State received support from the Union government and the World Bank (WB) to implement the Maharashtra Agricultural Competitiveness Project (MACP), a government project, executed by the Department of Cooperation and Marketing, with implementation support from the Maharashtra State Agriculture Marketing Board (MSAMB), Agricultural Technology Management Agency (ATMA), Departments of Agriculture, Animal Husbandry, and private service providers.

The aim of the project was to increase production, productivity, profitability, and market accessibility of the farming community by providing necessary support to the farmers. According to records available with the Registrar of Companies (RoC), there are 893 registered FPCs in the State. Of these, 410 were formed in 2015 and as many as 147 companies came up in the eight districts of the Marathwada region. In Osmanabad and Solapur, the two districts where this study was conducted, the number of FPCs established by the agriculture department, ATMA, and NABARD are 47 and 42, respectively. Chart 1 shows the increase in the number of FPCs in the Marathwada region.

Chart 1: Increase in the number of FPCs (2009-2016)



Source: Agriculture Department, Government of Maharashtra[12]

12. **maharashtra.gov.in**. "District Wise List of Farmer Producer Companies Registered in Maharashtra State up to December,2017". [http://krishi.maharashtra.gov.in/Site/Upload/Pdf/FPC%20Data%20Updated%20upto%2031-12-2017.pdf].

The year 2015 saw the maximum number of registered FPCs set up in which Osmanabad and Solapur districts had the highest. These districts received maximum attention as there was a need to make farmers self-dependent in the neo-liberalisation era; these institutions would also help the farmers tackle the ill effects of drought.

Funding Support and Capacity Building

After the registration of the Farmer Producer Companies in the districts, funding support and capacity building of the directors are two essential components that require immediate attention. In 2014, two centrally sponsored schemes, the Equity Grant Scheme and the Credit Guarantee Fund Scheme, were launched to strengthen the capital base of FPCs. The Union government mandated that agencies like NABARD, district agriculture department, and ATMA should support the formation of the company at the State level. These agencies should provide technical as well as financial support during the intervening period from incubation to maturity of the Farmer Producer Companies (Khanna & Ghatak, 2014).

This Report finds that the directors of the Farmer Producer Companies were indeed provided with the required technical support by ATMA, NABARD, and district agriculture departments. These agencies as well as the non-governmental organisation helped the directors with the registration process at the Registrar of Cooperatives. They also organised trainings, workshops, and exposure visits for capacity building with the help of agriculture colleges, agricultural research institutions, and agriculture extension department.

After registration, the companies began business but could not carry on successfully as none of the producer companies in the districts got credit linkage support from financial institutions for working capital except for one. Soon after the registration, the companies got financial support for infrastructure development as per their business plan the following year. However, as per the policy for FPCs, the funds were to be provided on a sharing ratio of 75:25 for infrastructure development and asset creation, where 75 per cent of the cost of business plan was provided by MACP and the rest was to be self-invested by the FPCs. There was also a maximum limit on a business plan, i.e. Rs. 13.5 lakh. These funds were to be mainly provided for the installation of cleaning, grading, and processing units and for the construction of a warehouse, as per the proposal of the FPCs in the districts. All the producer companies in the district utilised the funds meant for infrastructure development but they were facing problems in running the machinery since they required high voltage electricity and very few FPCs have been able to use their machines. The funds were released to the FPC without the prior identification of the need and demand of such infrastructure and later when the infrastructure was built then it was realised there is requirement of other resources like electricity to run the machines.

Structure of the Producer Company and its Management

Internal factors like trust, cooperation, and mutual understanding among the directors and shareholders, influence the functioning of the FPCs, which, to a large extent, depends on their age, agriculture experience, educational qualification, and the social relation of directors with the shareholders. In a majority of the FPCs surveyed, it was observed that there is mutual understanding and trust among the directors and shareholders. This is because there are only a few shareholders in the companies and most of them happen to have personal relations with the directors who are from the same village. When the shareholders were asked if they trusted the directors of the companies, a majority of them gave positive response. However, when further asked if the shareholders got any information about the managerial work of the producer company, most of them replied in the negative as they neither bothered about it and it was none of their business.

The managerial work at the FPCs, like documentation of activity, maintaining accounts, and annual filings with the RoC is done by the directors, whereas a few companies have hired professionals to carry out the managerial work. It was observed that the young directors were well educated and they effectively managed the company work. Here, their age and educational qualification play an important role. The table below represents, age-wise, the number of directors, their schooling year, and experience in agriculture.

Table 2: Number of directors, year of schooling, and agriculture experience

(numbers in brackets)

Age group of the directors	Percentage of directors	Average years of schooling	Average years of Agriculture Experience
20-40	44.44 (48)	11.60	9.29
40-60	52.77 (57)	10.61	18.56
60-80	2.77 (3)	11	36.67
Grand Total	n = 108	11.06	14.94

*Value in the parenthesis represent the number of directors.

Table 2 shows that a majority of the directors belong to the age category of 40-60 years and have an average schooling of 10.61 years; very few of the directors in FPCs that were studied belong to the age category 60-80 years. Moreover, FPCs where the directors belong to the age category of 20-40 years have been handling their managerial responsibilities rather efficiently, compared with FPCs where the directors are above that age category which faced difficulties in executing managerial work; and had to hire professionals when needed.

A majority of the FPCs studied depended on a Chartered Accountant for their annual filings with the Registrar of Companies and for auditing company accounts, paying heavy professional fees.

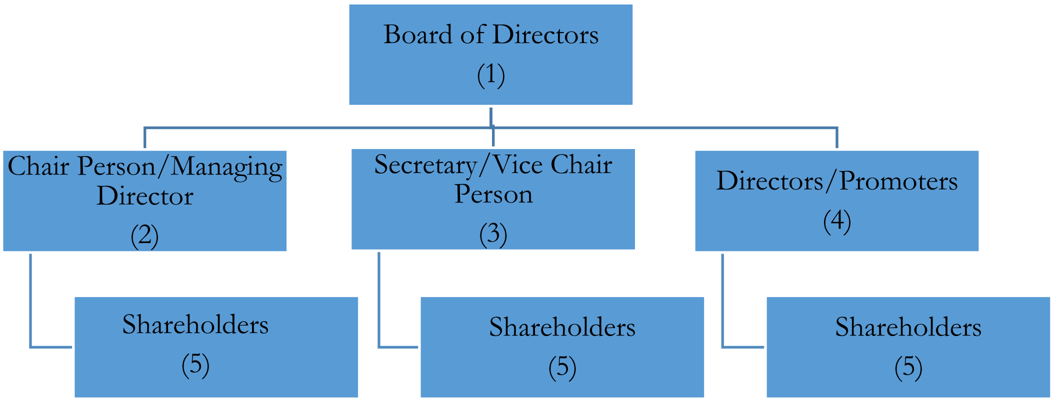
Voting in the Producer Companies

The FPCs in the districts follow a democratic structure similar to cooperatives. The selection of the directors in the producer companies has to be done through election, where a director can hold the office for a period of five years[13]. Voting rules in the FPCs are as per the Producer Company Act, 2013: Section 581Z which provides one member (shareholder) with one vote irrespective of the share or patronage. The study revealed that none of the FPCs surveyed had held elections as they were formed recently. For now, some of these FPCs selected their members on the basis of their qualification and capabilities while some others did it on the basis of representation. A majority of the companies, nonetheless, said they would conduct elections in the coming years.

Section 581G of the Producer Company Act, also called the Article of Association, mandates that the producer companies should be administered by members elected or appointed as directors as a result the major decision is taken by the directors where shareholders do not have role to play this further creates a hierarchy of power as shown in the figure below. During the study same hierarchal of power was found in the producer companies in the district of Maharashtra.

13. Section 581 P (3) Management of Producer Company.

Chart 2: Power Structure in the Producer Companies



Producer Company and the Shareholders: Shareholder's Perception

It is important to understand the shareholders' perception towards the FPC to ascertain their responsibilities and participation in the company. The policy also aims to develop the feeling of ownership among the shareholders. The table below portrays answers to question as to how they joined the company and why they join it. Their responses have been categorised in four sections.

Table 3: Reason for joining the producer company
(numbers in brackets)

Reasons for engaging with FPC	**Percentage**
After seeing the Performance of the company	2 (1)
Through their family members as they are the part of the company	18 (9)
Directors/ ATMA officials suggested to join the company	67 (32)
Shareholders were part of the SHG before the registration	13 (6)
Grand Total	**100 (48)**

* Value in the parenthesis is the number of respondents.

The Table 3 categorises the responses of the shareholder in five major sections. As many as 66.6 per cent of the farmers joined the company on the recommendation of directors or ATMA officials, while 18.75 per cent of farmers joined the company on a family member's suggestion. Interestingly, the survey revealed that in some of the FPCs, the director belonged to the same family. At least 12.5 per cent of farmers were part of the company even when the company was not registered. They were part of the Self Help Group (SHG), which were later merged to form the FPCs. Only two per cent of the farmers joined the company after studying its performance. Now, it would be pertinent to understand why they joined the company. The responses from farmers have been categorised into four categories based on the services needed from the FPC shown in the table below:

Table 4: Services needed by the farmers

(numbers in brackets)

Purpose for joining the FPC	Percentage
Agro Services	50.00 (22)
For Marketing	45.45 (20)
For Processing	2.27 (1)
Group Farming	2.27 (1)
Grand Total	**n = 44**

Half of the farmers who were contacted as part of the study said they joined the company to derive benefits from its agro services, such as getting access to good quality seeds and fertilizer. A little over 45 per cent of the respondents said that they joined the company so that their produce could be marketed well, which was a major problem they were facing. Only 2.2 percent of the farmers surveyed joined the company for processing their produce and group farming. This indicates that the shareholders have perceived the FPCs as service centres and a sense of ownership is lacking among a majority of the shareholders. For instance, the shareholders blamed the companies when they incurred losses but claimed their full share when the company made profit.

Producer Companies for Farmers

The objectives of the producer company is production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce, and import of goods and services for economic benefit[14] . In the present market, it has become important to create a formal institution to protect the farmers from the ill effects of the competitive market and provide sustainability to them. The FPCs in the districts have been formed with the same objective listed in the annexure. Therefore, in order to understand the company from the shareholders' perspective, it is important to identify their problems and how the company is helping them. The able below shows the relation between the FPCs and shareholders based on responses given by the active shareholders.

14. Section, 581B. Objectives of producer Company: Part IX-A of Companies Act 1956: Producer Companies.

Table5: Problems of farmers and support provided by the Farmer Producer Company

(Numbers in brackets)

List of Problems/Activity	**Percentage of Problems faced by the farmers**		**Percentage of Support provided by the company**	
	Yes	No	Yes	No
Information on selection of crop	70 (39)	22 (11)	74 (37)	26 (13)
Good quality of seed and fertilizer	72 (36)	28 (14)	76 (38)	24 (12)
Farm Mechanisation	60 (34)	32 (16)	64 (32)	36 (18)
Training and demonstration	86 (43)	14 (7)	98 (49)	2 (1)
Post-harvest facility	74 (37)	26 (13)	38 (19)	62 (31)
Access to the market	84 (42)	16 (8)	86 (43)	14 (7)

Almost three-quarters of the farmers surveyed responded that the company has helped them in taking decisions pertaining to selection of crops, which is one of the major problems faced by them. Due to lack of information on market and environment, farmers generally end up selecting the wrong crop, often leading to crop failure or distress selling. Information on the selection of seeds or other related activities is shared in meetings or through WhatsApp. As many as 72 per cent of the shareholders, who said they faced problems in getting good quality seeds and fertilizer from the market, responded positively stating that after the formation of the FPC in the village, they purchased good quality seeds and fertilizer from the company at a rate lower than the market price. The FPCs purchase seeds and fertilizer in bulk from the dealer, and sometimes get subsidised seed and fertilizer from the agriculture department. Sixty per cent of the shareholders stated during the survey that due to lack of farm mechanisation they faced problems like delay in sowing and high investments. But after the formation of the FPC in the villages, they hired machinery from the company at a rent lower than the market rate. This reduced the cost of cultivation and increased productivity. As many as 86 per cent of the farmers said they never participated in any kind of training or demonstration before. However, after the formation of the FPC, 98 per cent of the respondents said they participated in training and demonstration programmes facilitated through the FPC.

Cleaning, grading, and processing of the produce post-harvest have a positive effect on pricing. At least three-fourths of the farmers responded that they due to lack of processing, they do not get proper price for their produce. Even after the formation of FPCs, very few shareholders have received post-harvest facilities provided by the company. This is because the company did not receive electricity connection to run the machines. One of the main problems faced by the farmers was access to the market. Generally, they used to sell their produce through middlemen. After the formation of the FPCs, an overwhelming 86 per cent of the shareholders responded that they sold their produce through the FPC and received good price for their produce. From the above discussion, it can be concluded that there is a positive relation between the farmer and the producer company except in post-harvest facilities.

Inclusion of different categories of farmers

Maharashtra has a long history of caste politics that raises questions over equity and equality in society (Yadav, 2010). The policy for the farmer producer organisation, in its guidelines, focuses on the inclusion of small and marginal farmers. The Ministry of Agriculture has also identified that FPO/FPCs are capable of increasing the capacity of farmers to leverage their production and marketing strength (GoI, Ministry of Agriculture, 2013, p. 13). Similarly, the core objective of the FPCs is to tackle farming-related issues and challenges faced by small and marginal farmers. Tanvi Deshpande, in her report *The State of Agriculture in India* released in March 2017, came up with the findings that the number of marginal farmers has increased from 36 million in 1971 to 93 million in 2011. The table below depicts how, over the years, the number of small and marginal farmers has increased.

Table 6: All India agriculture landholding

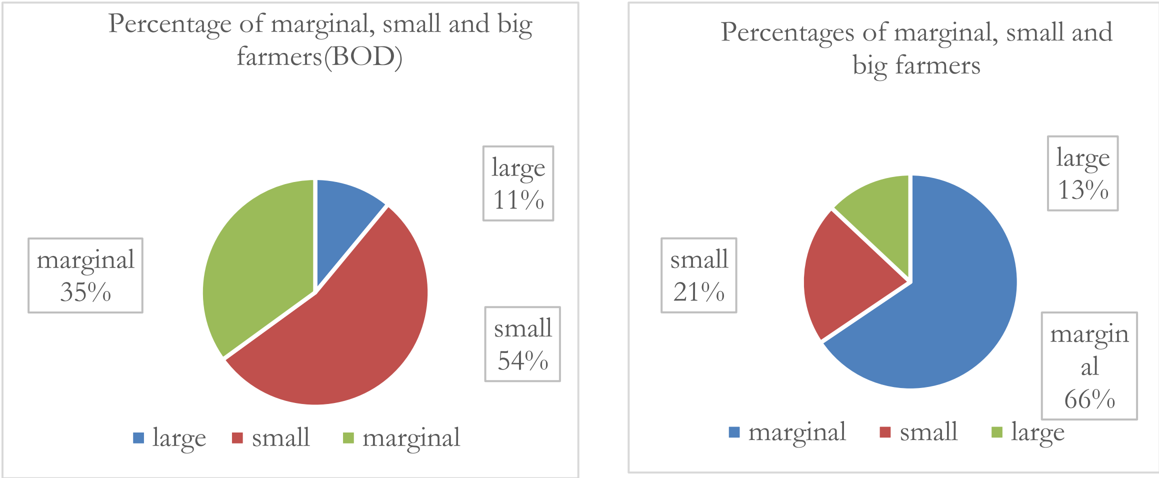
Land Holding	1970-71	1980-81	1990-91	2000-01	2010-11
Marginal	36	50	63	75	93
Small	13	16	20	23	25
Medium	19	21	22	21	20
Large	3	2	2	1	1
All Size	71	89	107	120	138

Source: Agriculture census 2011: PRS Legislative Research, 2017[15]. (* figures in million)

It was, hence, important to frame a new policy for strengthening the small and marginal farmers. Therefore, on the recommendations of a High Power Committee led by Y.K. Alagh, more emphasis was given to the empowerment to small and marginal farmers. So, it becomes important to study if there is participation of the small and marginal farmers and the socially deprived castes in the Farmer Producer Companies. The next section discusses their participation in the FPCs.

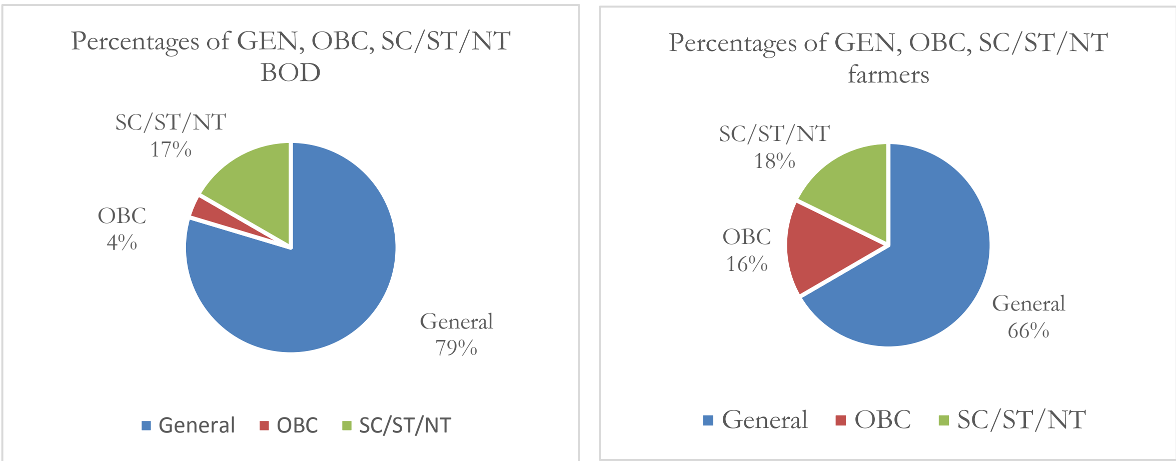
15. Note Marginal farmer: 1 or less than 1 hectare, Small farmer: 1-2 hectares, Medium farmer: 2-10 hectare, Large farmer: Over 10 hectares.

Chart 4: comparing the landholding of the directors and shareholder



The figure clearly represents that a majority of the directors belong to the small farmer category and a majority of the shareholders belong to the marginal farmers' category. From the experience of successful sugarcane cooperatives in Maharashtra, it was found that there was participation of small and marginal farmers (Baviskar & Attwood, 1987). Here, we observed that the FPCs have involved the small and marginal farmers, but it is important to consider their active participation in the activities of the farmer producer companies[16]. As per the findings, an FPC on an average has 396 shareholders, where only 111 members actively participated in the business activities, which amounts to only 28 per cent.

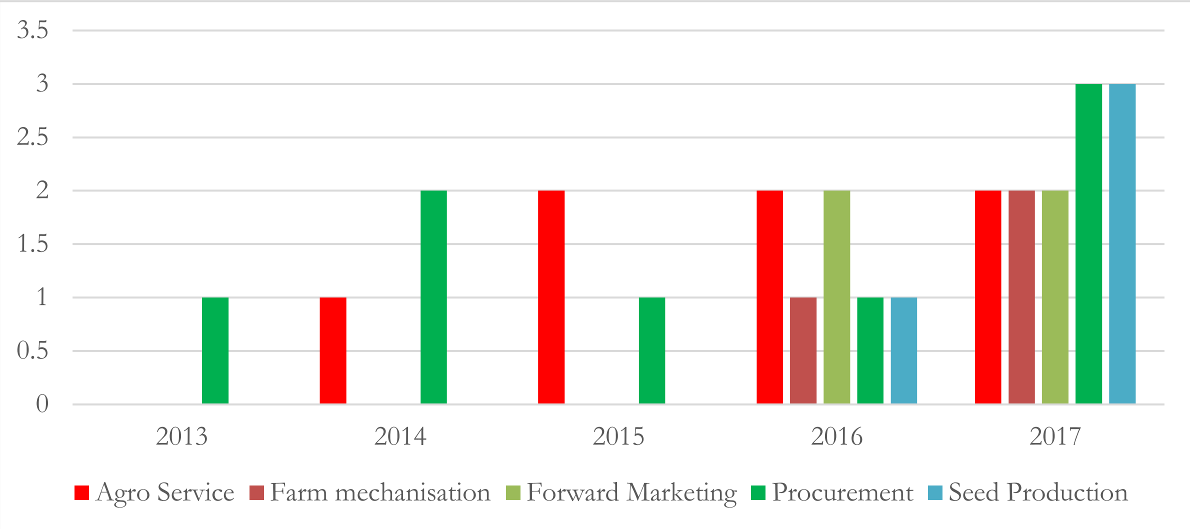
Chart 5: Comparison of caste categories of Directors and Shareholders



16. Active members are those who have participated in the business activity of the FPCs of 2017.

A majority of the farmers who own lands belong to the upper castes (Marathas). So, a majority of the directors and shareholders belong to the upper caste. It also important to note that the FPCs have only included the farmer who has land or leases land in his name as per the rules laid down by the Farmer Producer Company Act. A very small portion of backward classes, scheduled castes, scheduled tribes, and nomadic tribes have been included in the companies as presented in the table above.

Chart 6: Market Linkages and Farmers Participation:



Initially, the FPCs in the districts began by investing in farm mechanisation and agro-service centres. Over a period, as the company got financial support, they started other activities like forward linkages, procurements, and seed production. In the year 2016-2017, the number of activities carried out by the FPCs increased. The table below gives the number of FPCs (in percentage) involved in different activities and the average number of farmers who participated in those activates (cumulative from 2013 to 2017).

Table 7: Business Activities and Farmers Participation, 2017

(Numbers in brackets)

Business Activity	Percentage of FPCs	Average Number of Farmers who Participated
Agro Service	26.9 (7)	160.86
Farm mechanisation	11.5 (3)	91.67
Forward Marketing	15.38 (4)	14.5
Procurement	30.76 (8)	269.75
Seed Production	15.38 (4)	100.5
Grand Total	n= 26	154.58

In the districts, FPCs are majorly into five different activities as listed in the table above. Most of the FPCs are engaged in procurement, i.e. 30.76 per cent of the total, where, on an average, 269.75 farmers participated from each company. Procurements in the districts were carried out through the FPCs where it was observed that many farmers became the members of the FPC as they received good price for their produce. Some FPCs made it mandatory for farmers to become members if they had to sell their produce through the companies.

Around 27 per cent of the FPCs are into Agro-Services for the backward linkages with the objective to reduce the agriculture input cost[17]. This attracted the farmers to become members of the FPC as it provided good quality seeds and fertilizer at a lower rate than that available in the market. In the year 2017, on an average 160.86 farmers purchased seeds and fertilizer from the FPCs in the districts. It was also observed that these companies became the platform for government agencies to implement various programmes and distribute subsidies. For example, some companies distributed subsidies through the agricultural kit which was provided by ATMA.

Only 15.38 per cent of the FPCs are involved in forward linkages, some of them are selling their produce in bulk to the private agencies or in the retail market. Data collected from the ATMA offices in Solapur and Osmanabad reveals that in the year 2016-17, 27 FPCs have sold their produce in bulk to private agencies where the farmers as well as the company were benefited. The table below depicts that the price offered by the FPCs is more than the APMC rates; the purchasing rate per quintal is 40 per cent more than the APMC rates making it a good option for the farmers[18].

Table 8: Price of commodity in APMC market and Price Offered by FPCs (2016-17)

S. No.	Name of FPC	Average Rate by APMC (Rs. per quintal)	Average Rate by (Rs. per quintal)
1	Bhairavnath Agro Producer	2400	3500
2	Shri Khandoba Agro	1400	3000
3	Shetkari Raja Agro Producer	1400	2900
7	Mrudgandha Agro Producer	2800	6000
5	Yashaswini Agro Producer	1400	3000

17. From the interview and FGD conducted with the chairperson and shareholder the cost of cultivation can be reduced by 20-25percent through the bulk purchasing of seed and fertilizer.
18. Average rate calculated from a sample of 27 MACP funded Producer Company. Data collected from the ATMA office of Osmanabad and Solapur.

6	Kalman Agro Producer	1400	3000
7	Solapur Agro Producer	1500	3000
8	Clean O Pack Producer	2850	3420
9	Terna agro producer company	2850	3420
10	Khamaswadi Farmer Producer	1100	1200

Source: ATMA Osmanabad and Solapur.

Around 15.38 per cent of the PCs were involved in seed production under the "Village Seed Production Scheme" which started in the year 2013. As funding was easily available, the Farmer Producer Companies in the districts opted for seed production. But when the government support was removed after three years, they started facing problems and were exposed to market competition from the government-run subsidised seed manufacturing company[19]. There are very few FPCs that have taken to mechanised farming: only about 11.5 per cent of them in the districts where, on an average, 91.67 farmers participated in the activities of each FPC[20]. The reason behind the low involvement of the FPCs in farm mechanisation is found to be quite legitimate: there is recurring cost involved with the maintenance of the machinery and a professional is required to operate the machines.

From the above discussion, it is clear that the business activities carried out by the FPCs depend on government policy and subsidy. In Osmanabad district, the maximum number of FPCs have utilised the subsidy amount for construction of cleaning, grading, and processing units for cereals, whereas in Solapur, FPCs are into a different activity, like rose water production, vegetable dehydration etc.

Credit Linkages and Source of Revenue for FPCs in Districts

Financial support in the form of working capital is required to maintain the sustainability of business at the FPCs. Lack of working capital, it was reported, is the common problem of the FPCs in the districts. A majority of the chairpersons have replied that due to lack of working capital they were not able to compete and sustain in the market: “We don’t need government support but the bank should provide term loans. We will repay the amount after selling our produce.” A few

19. Interview and the case of VRD Agro PCs In Osmanabad is involved in the seed production and was performing very well for three year but the end of provisional period company was exposed to the competition with the other seed manufacturing company (Maha Beej PCs).
20. Farm mechanisation for the land tilling, cleaning grading and processing units.

FPCs had applied for loans but their requests were rejected. However, while carrying out the survey, the Shiv Guru Producer Company in Osmanabad district came across as a good case study that stood out. The study revealed that the company has constructed a warehouse to store the produce of its members and sell them when they get a good market price. Normally, the farmers do not like to store their produce and are often forced to sell them at a throwaway price. This happens because they are dependent on informal source of credit and, in a hurry to repay the loan to prevent attracting higher interest, they sell their produce to the local dealers or to the agents from whom they have taken the loan. Table 9 shows the dependency of the farmers on the different sources for credit.

Table 9: Dependency on the various source of credit

(Numbers in brackets)

Source of Credit	Percentage of the farmers
Formal Source	48 (24)
Informal Source	16 (8)
No Loan Taken	36 (18)
Grand Total	**n=50**

The table above shows that 16 per cent of the surveyed shareholders still depend on informal source of credit. The informal source includes local money lenders and agents who often charge a higher rate of interest.

The main source of revenue for the FPCs is the service charge received from business transactions done with the shareholders and the farmers. During the procurement, the companies charge one per cent of the total produce sold by the farmers. This not only benefits the FPC but also the farmers. In 2017, some FPCs have done good business where, on an average, an FPC in the district had an annual turnover of Rs. 84 lakh and the total service charge received by the company was Rs. 25,000. This shows the potential of the farmer producer companies to be a successful enterprise in the future.

Training and Information Sharing

Information technology has reduced regional monopoly as markets are linked around the globe providing an opportunity for farmers to sell their produce at the best price. So, the need to strengthen the information base infrastructure for farmers and farmer producer companies serve the same objectives[21]. Farmer Producer Companies in the districts provide information related to government schemes and market price through their meetings, SMSes and WhatsApp messages and have helped the farmers in marketing their produce. Apart from the sharing of information, FPCs also facilitate training, exposure visits, and demonstrations to its members for capacity building with the support of government as well as non-governmental organisations. Till now, farmers had taken part in trainings conducted by Krishi Vigyan Kendra (KVK), SAU, TATA (Public-Private Partnership model) and visited the National Horticulture Mission, and other successful farmer producer companies in the State. However, since the formation of the farmer producer companies in the district, it was found that only 108 out of a total of 4,353 members participated in training and exposure visits for capacity building, which boils down to a mere 2.48 per cent.

Case Study I

Sudhir Shivaji, 31, is a young, motivated, and enthusiastic person by nature. After completing his graduation in Agricultural Sciences, he attended a workshop on Farmer Producer Companies in 2014 which was organised by ATMA. With the new knowledge that he gained during the workshop, he returned to his village and decided to start a farmer producer company of his own with the aim of providing better income to farmers of the village and improving their economic status. He discussed his plans with the farmers and urged them to join his company and support him in his endeavours. But he did not receive much active participation from them. Somehow he managed to gather 10 like-minded young farmers to who were ready to support him. They supported him morally and financially as well, especially in the initial stages of the company. Together, they tried to propagate the non-profit motives of their company and motivate other farmers to join them. Yet, they could not gather much attention of the farmers. The reason why others did not join his company was that they failed to see how they would be benefitted in the process. They also wondered what a young man can do without much experience in agriculture. The company was launched anyway. Initially, for registration, the ten members invested Rs. 1 lakh each towards the shared capital of the company; the daily expenses incurred during the registration process was shared by the members. Their business strategy gradually gained the trust of the farmers in the village. The company was registered in 2015 and in three years, the number of shareholders have grown to 150 shareholders with the shared capital of the company swelling to Rs. 16 lakh. The company made investments to procure farm machinery and began to rent them out to the farmers at a price that was 10 per cent less than the other sources available to them. For

21. Section 581 B (f) Objectives of Producer Company.

example, the farmers could now rent a tractor at Rs. 900/acre, instead of Rs. 1,000/acre. This way, the FPC was able to improve the income of the farmers and also generate employment for the rural youth. Most of the families in the village had about 2-3 cows and would have a lot of surplus milk. The company began collecting their surplus milk and selling it directly in the market. Now, the farmers preferred to sell their milk to the FPC at Rs. 35/litre instead to the middle man who would only give them Rs. 28/litre. Additionally, based on suggestions received from Prashant Narnaware, the then District Collector of Osmanabad, the companies started packaging milk and selling them in the nearby market in Tuljapur in retail for which ATMA, Osmanabad, provided Rs. 50,000 as working capital. Apart from this, the company also had financial support under the Anna Surakshana Yojna for warehouse construction. Recently, they purchaa piece of land in the name of the company and has procured a milk preserving unit. However, main challenge the company currently faces is the lack of working capital due to which sometimes there is a delay in payments of the farmers.

(Note: The village, Barul, is in Osmanabad district of Maharashtra near Tuljapur. In the village, a majority of the people depend on the dairy business for a living. Farmers in the villages used to sell milk at Rs. 28/litre to the middle man while the middle man used to sell the same milk in the market at Rs. 40/litre. This became an opportunity for the Farmer Producer Company.)

Case Study II

VRD Agro, a farmer producer company, is located in Sorala village in Osmanabad district of Maharashtra. The company was registered in the year 2013 under the RoC, Mumbai with the help of ATMA, Osmanabad. The company has 500 shareholders and the price of one share is Rs. 1,000. The business activity of the company is soybean and gram seed production which started under the government subsidy scheme. The company is also into farm mechanisation. The company has hired two professionals for the documentation and the managerial work of the company. As per the company policy, it provides the farm machinery to its shareholders for seed production and, after the production, also procure their produce. For the initial three years, the company did good business which motivated more and more farmers to join. However, when the government support stopped, the company was exposed to the market and found itself in competition with MAHA Bee, a farmer producer company that enjoyed government subsidies. The situation in 2018 turned bad for the company; and they were finding it difficult to sell even 50 per cent of their produce. The table below shows the performance of the company till 2017 when more and more land was brought under seed production and farmers were paid well.

Table10: Performance of the VRD Agro producer company, Osmanabad, Maharashtra.

Year	Crop	Area in He	Production good seed	VRD rate for per QTL	All Total
2014-15	Soybean	119.6	1450.2	3850	7033470
2015-16	Soybean	131.6	303.6	3750	1524900
2015-16	Gram	214.8	1212.6	5600	10040520
2016-17	Soybean	202	2890.5	5600	10264350
2016-17	GRAM	376	4330.6	3750	25983600

V. CONCLUSION AND RECOMMENDATIONS

When the World Bank and the IMF failed in their attempts to improve the conditions of the poor in developing countries, the formation of cooperatives functioning through ownership and participation captured their attention (Williams, 2007). When the cooperatives failed, the FPCs took over. The MACP is a World Bank-assisted project where cleaning, grading, and processing of the commodity has been given importance. Therefore, as a result, the most number of FPCs in the districts carry out cleaning, grading, and processing for "value addition". Support for backward linkages have not been given much importance. The FPCs were often formed to tackle the issues related to the market and act as a platform for the forward linkages.

The formation of the FPCs can be classified into three main stages: the incubation period, the emerging period, and the maturity period (Khanna & Ghatak, 2014). The formation of the FPC in the districts seemed to be target oriented as the ATMA distributed available funds soon after registration. This led to an increase in the number of the producer companies but the managerial skills required for running the company was not developed among the directors. Another issue with the FPC policy is that the farmers are assumed to be entrepreneurs but the government seemed to have forgotten the reality that a big proportion of the rural population is still illiterate.

Various Actors and Organisation for the formation of the Producer companies:

Chapter two discussed the various actors and organisations, national and international developments, and the roles played by government and non-government agencies and private sector companies. External bodies like NGOs and government agencies that are often from outside of the village or community are involved with the FPCs at the registration stage. They support the formation of the FPCs irrespective of knowing the "power structure" in these villages and the need of the farmers. In the two districts of Maharashtra that were studied for this Report, this has led the maximum participation of the upper caste Marathas in the FPCs. Huppi & Feder said that the financial support from the government is provided to the more influential and wealthier farmers (Huppi & Feder, 1990). A similar observation was also made in the districts. For managerial work, the young directors are more active than the elder ones but they also depend on professionals for some specific tasks like filing with RoC.

The shareholders perceived the FPCs merely as service providers as a majority of the farmers joined the company on someone's suggestion. A lack of feeling of ownership was apparent. At the same time, a majority of the shareholders in the FPCs are family members intertwining the interests of the company with the interests of the family. It was also observed that some people called these companies as "Family Producer Companies" while the Table 5 shows the positive response of farmers towards FPCs. A majority of them replied that the FPCs have supported them for various activities except for post-harvest management.

A study by Rimjhim M. Aggarwal on cooperatives in Southern India found that activity is inversely proportional to risk: wherever responsibility like investment, commitments, and risk are involved, there is minimum participation of the farmers[22] (Aggarwal, 2000). The same risk-aversion problem existed with the FPCs, as per replies filed by a majority of chairpersons during the current survey. Farmers were not willing to invest or take share of the company as it involved a risk and they did not see profit in it. Some farmers did not trust their directors and as a result some FPCs could not even be formed as there was no trust among the members and conflict arose over position and power[23]. Hence, it became imperative that before the registration of FPCs, there should be mutual understanding and trust and cooperation among directors and shareholders.

The FPCs have become a platform for the government to implement its schemes and distribute subsidies, which, to some extent, influence the cropping pattern at the villages. The Ministry of

22. This author conducted a study on group-owned wells in 1994 in the villages of Aurepalle and Dokur in Andhra Pradesh.
23. From an interview with the Project Directors of ATMA, Solapur.

Agriculture and Farmers' Welfare, represented through SFAC as a nodal department of the Government of India for the formation and promotion of FPOs/FPCs, should have effective linkages with Ministry of Commerce for ingraining it with Supply Chain Management. As a matter of fact, the FPOs/FPCs should be seen as a continuum of domestic supply/global export chain. FPOs/FPCs cannot be conceived as isolated business entity. It has been observed that the FPCs have the potential of overcoming the rigid vertical coordination.

The ultimate goal of the producer company is the poverty reduction, empowerment and self-reliance, and pro poor economic growth (Buckley, 2007), The social impact through the FPCs in the districts can be seen in terms of bargaining power, leadership, institution viability, and purchasing power this to some extent have helped in reducing the poverty and have also empowered the farmers. For instance, producer companies, Yashwani Agro Producer Company Ltd in Solapur, to name one, have set an example of women empowerment where women are the directors of the producer company.

Recommendations

1. As information is a critical ingredient for success, support to FPCs for forward and backward linkages should be provided through a single window platform where the information is made available for FPCs and buyers.
2. During the formation of the FPCs, it is very important to keep them under watch and guide them for at least 2-3 years during the incubation period.
3. A government consultancy service should be provided at the district level where the services can be availed after paying the nominal fee.
4. The social and political condition of the villages should be identified for homogeneous grouping of farmers based on resource ownership.
5. During the emerging period, which starts after the registration of the FPCs, the company should be linked with financial institutions for working capital.
6. At the same time, provisions should be made for shareholders to avail themselves of financial support in the form of loans from the FPCs this can be achieved through linking the producer company with the various government convergence schemes.
7. When funds to the FPCs are provided, it should be ensured that there is coordination with the other government departments.

8. It should be mandated that before funding SWOT Analysis (Strengths, Weaknesses Opportunities, Threats) should be done by the farmers as well as by the government agencies in the General Body Meeting.
9. In order to involve and encourage participation of youth in the agriculture sector, preference should be given to them for managerial work in the FPCs. At the same time, the directors should be carefully chosen so that their experience can be used for solving the problems of the farmers.
10. Some directors of the FPCs who were interviewed for the Report also suggested that there should be a government official for filing RoC at the district level.
11. Infrastructure like warehouse and processing units should be constructed closer to the main road for easy transportation.
12. It is important to frame the policy in such a way that FPCs with similar business plans should not be formed close to each other to avoid competition.
13. There should be provision for incentives and punishment in the company and for the shareholders.

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