



## Why should farmers form Farmers Producers Companies?

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<https://doi.org/10.5281/zenodo.7989735>

### *Abstract*

A producer company is basically a corporate body registered as a Producer Company with main activities like production, harvesting, processing, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the members or import of goods or services for their benefit. It also includes, promoting mutual assistance, welfare measures, financial services, insurance of producers or their primary produce. This project report illustrates various objectives, nature of FPCs, capacity building of FPCs, status of FPCs in our nation. The role of FPCs, its increasing importance, benefits availed by its members are documented in this report. A brief review of literature is also being attempted elaborating various issues and challenges faced by FPOs. The critical analysis on role and impact of FPCs in augmenting farmer's income have been studied using success stories and case studies.

**Keywords:** Producer Company, Objectives, Capacity Building, Case Study, Success Story

### **Introduction**

The Indian market environment changes has inevitably affected livelihood of small farmers. Along with changing consumer demands, new corporate actors are entering Indian Agrofood networks, such as corporate retailers, processors, or exporters of quality produce. These firms are often aiming to execute vertical coordination in their supply chains, which ensures them greater control over the production processes and thus to source produce which meets their strict requirements and standards (Barghouti *et al.*, 2004). However, the Indian government not only aims to initiate new organizational forms in agricultural production and marketing to integrate large firms, but also aims to encourage groups of small-scale primary producers to connect with corporate buyers. With the amendment of the Companies Act 1956 in 2002, the Indian government Farmers' producer companies in India: a new concept for collective action Producer companies can help smallholder farmers participate in emerging high-value markets, such as the export market and the unfolding modern retail sector in India.



In this environment of greater instability and competition, organization and collective action can help to enhance farmers' competitiveness and increase their advantage in emerging market opportunities. The concept of 'producer companies', which constitute an attempt to establish basic business principles within farming communities, to bring industry and agriculture closer together, and to boost rural development (*Kumar Sharma, 2008*). Farmers' producer companies can be seen as hybrids between private companies and cooperative societies. The producer-company concept is aimed to combine the efficiency of a company with the 'spirit' of traditional cooperatives. Producer companies aim to integrate smallholders into modern supply network so minimizing transaction and coordination costs, while benefiting from economies of scale (*Lanting, 2005*). They are run and owned by farmers, financially facilitated by the government or donor agencies, and managed by professionals. Hence for the detailed analysis of the topic, following objectives have been framed.

### **Objectives**

The specific objectives of study include

- Conceptual understanding of farmer producer organizations
- Case Study of a successful running FPO

### **Concept of FPO**

FPO stands for Farmer Producer Organizations. FPO is an organization, where the members are farmers itself. The main aim of the Farmer Producer Organization is to ensure a better income for the producers through an organization of their own. Small producers do not have the volume individually to get the benefit of economies of scale. Eg: It could be a farmer association around a commodity (Maharashtra State Grapes Grower Association) or around an activity like water management (Pani Panchayats) or a producer cooperative (milk cooperatives promoted by NDDDB) or a producer company (VANILCO) or farmers' club assisted by NABARD. It can be in form of Farmers Association and Societies like Organic farmers Association of India, Turmeric Farmers Association of India, Indian Farmer's Association and so on.

The FPOs are grounded on the principle of collective action among potential beneficiaries. Collective action occurs when individuals voluntarily cooperate as a group and coordinate their behavior in solving a common problem. These can assume a variety of forms, from small, grassroots associations to unions, federations and chambers of agriculture. They range from formal groups covered by national legislation, such as cooperatives and national farmers unions, to looser self-help groupings and associations (*FAO, 2007*).



### Concept of FPC

A producer company is basically a corporate body registered as a Producer Company under Companies Act, 1956 (As amended in 2002). Its main activities consist of production, harvesting, processing, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the members or import of goods or services for their benefit. Research has found that 800-1000 farmers is a good size for agriculture-based PC in initial years (Chauhan, 2015) although, as the company grows to make it economically viable the membership has been increasing up to 2000. The unique feature of FPC is there is no government or private equity stake in the producer companies, It also includes, promoting mutual assistance, welfare measures, financial services, insurance of producers or their primary produce. Eg: Indian Organic Farmers Producer Company Limited, Rangasutra Craft Duniya Producer Company Ltd., Masuta Producer Company Ltd., ESAF Swasraya Producer Company Ltd., Vanilla Indian Producer Company Ltd., Jagannath Crop Producers Company Ltd., Odisha, Chetna Organic Agriculture Produce Company (COAPCL), Chetna Organic Farmers Association (COFA), Telangana, Pashusamvardhan Producers Company Ltd., Maharashtra and Dhari Krushak Vikash Producer Company Limited, Gujarat.

### The Farmer Cooperatives

The cooperatives especially in the dairy sector have organized an effective extension delivery system in India. Extension activities are undertaken at the level of the Dairy Cooperative Societies and the milk unions to create awareness about improved animal husbandry practices. Eg. Anand Milk Cooperative Union (AMUL) in Gujarat.

### The Farmer Interest Groups (FIGs)

A Farmer Interest Group (FIG) is a self-managed, independent group of farmers with a shared goal and interest. Commodity oriented Farmer Interest Groups (FIGs) are promoted by the Agriculture Technology Management Agency (ATMA) at block/village level to make the technology generation farmer-driven and farmer-accountable. These Village level FIGs are ultimately federated at block/district level and they are represented in Farmer Advisory Committee and ATMA General Body (GB).

### Rationale for Formation of FPOs/FPCs

Producer organisations (POs) are widely heralded as leading contributors to poverty reduction and achievement of food security (FAO, 2010). There is a need for aggregation of farmers in order to benefit from economies of scale. Pradhan (2007) in a work shop on “linking small farmers to markets” concluded that the producer companies actually had a distinct advantage since it allowed professionals



to take part in governance as Directors which helped bridge the information asymmetry between the producer Directors and professional managers. Producers' organizations help in reducing the transaction costs and provide a forum for members to share information, coordinate activities and make collective decisions. FPOs (cooperatives/ SHGs/FIGs/Producer Companies), no doubt, have the potential to bring about vertical integration in the traditional fragmented supply chains with need-based long term business plans. But they also create opportunities for producers to get involved in value all supply chain activities such as input supply, credit, processing, marketing and distribution. Ampaire *et al.*, (2013) reported that marketing producer organizations, democratic governance structures and size of organizations were important in enabling effectiveness. On the other hand, factors that are known to enhance effectiveness in primary/smaller groups may have a disabling effect on effectiveness in second-tier level organizations unless deliberate efforts were made to address likely constraints. Darshan, *et al.* (2017) on analysis of six FPOs stated that FPOs have been helping farmers in enhancing the income of farmers, enable savings by reducing the input, transportation and labour costs. It has also helped them enhancing their marketing intelligence.

Individual smallholders would be unable to deliver directly to and interact with large-scale customers. The producer company organization replaces intermediaries between market participants. Through this, profits which otherwise would be paid to intermediary organizations such as wholesalers are captured by the farmers themselves because they are shareholders in the producer company. In addition, through the collective market appearance, smallholders are able to access market information in terms of required standards and prices and to integrate this information into their production planning and methods. Producer companies are also implementing programs to upgrade farmers' production methods. In particular, production organization, production planning, and knowledge and technology transfers are critical aspects increasing the chances for farmers to work profitably and, therefore, to enhance their livelihoods. This also involves the timely supply of production inputs, such as seeds and fertilizer. These inputs are procured centrally in bulk, and can therefore be supplied to farmers at lower cost. This procurement and supply of inputs also includes the organization and facilitation of finance credits to farmers to allow such procurement. As such, producer companies prove that organizations beneficial to the public need not necessarily be non-profit organizations.

**Case Study: Green Terraces-Roof Top Vegetable Cultivation in Kerala****Name of Farmer Producer Organisation (FPO): Swasrya Krashka Amithy Kovilnada and others****Supporting Resource Institution (RI): State Horticulture Mission, Government of Kerala**

In the lives of the rural and urban people of Kerala, terrace farming has become an integrated part of their lives. We all know Kerala is one of the most beautiful coastal areas in India but this serves as a disadvantage to the people too. As it remains waterlogged for most of the year, the operational holding size for a farm is very small. Kerala faces a problem of expensive vegetables as the production of these farms is very low and we all know how difficult it is to survive when the vegetables are of high prices so the farmers and residents are finding it very difficult to fulfill their own needs.

The State Department of Horticulture has taken the initiative of promoting roof top cultivation in rural as well as urban areas. This initiative has resulted in over 30,000 households in Thiruvananthapuram and Ernakulum happily carrying out roof top cultivation of vegetables like cauliflower, tomato, bottle guard, bitter gourd, amaranthus and other vegetables in plastic bags. This initiative has not only helped the families in achieving self-sufficiency with respect to vegetables, but the terrace farms also act as a cooling mechanism for the house and maintains a healthy and happy atmosphere. The village Kalliyoor in the district of Thiruvananthapuram has two Farmer Interest Groups (FIGs) namely Swasrya Krashka Amithy Kovilnada and Vallamcude having 25 members, respectively. Both the Farmer's Interest Group in this cluster is registered under the Companies Act as well as with the Vegetable and Fruits Promotion Council of Kerala (VFPCCK).

In the village of Kalliyoor, both the FIG's members go to a common collection centre that has been constructed and the members collect their produce at 5% commission. Their functioning is uninterrupted. 2% of the commission is set aside for the expenses incurred while running the FPO and the rest is given to the farmers. The farmers here are very happy and don't face any marketing problems. The FPO has also extended a hand to the local dealers who pick up their produce from the collection centre. More than 20 farmers in this cluster are having an average holding size of 0.70 acres. Among the wonderful crops grown, cowpea and cucumber are the major ones. The farmers are very happy with this scheme. According to the farmers, before the VIUC (Vegetable Initiative for Urban Clusters) scheme was implemented, they were habituated to grow these vegetables only on the ground. After becoming the proud members of FIG, and the resulting training and inputs provided by the department, they found out that they could grow these vegetables on sticks and poles as well. This scheme has resulted in a manifold increase in production, with least crop loss. Presently, the FIG members are also selling their produce for lucrative prices in the VFPCCK market. The farmers seem to have been highly benefited by the scheme and they are happy and at peace.

**Source: Krishi Sutra- 2 Success Stories of Farmer Producer Organizations**

emanating from small farm sizes. Further, this may also result in additional employment generation due to the increased intensity of farming.

- **Negotiating With Corporates:** FPO can help farmers compete with large corporate enterprises bargaining, as it allows members to negotiate as a group and can help small farmers in both input and output markets.
- **Economics of Aggregation:** The FPO can provide low-cost and quality inputs to member farmers. For example, loans for crops, purchase of machinery, input agri-inputs (fertilizers, pesticides, etc.) and direct



marketing after procurement of agricultural produce. This will enable members to save in terms of time, transaction costs, distress sales, price fluctuations, transportation, quality maintenance, etc.

- **Social Impact:** Social capital will develop in the form of FPOs, as it may lead to improved gender relations and decision-making of women farmers in FPOs. This may reduce social conflicts and improved food and nutritional values in the community.

### Conclusion

The FPOs represent the interest of their members and have the potential to articulate their need for agricultural services. Extension organizations should therefore collaborate with them in their activities. Partnering with POs would improve knowledge promotion, adaptation and its eventual use. It also helps extension to assess better the priorities of farmers. In the era of globalization and climate change, producer organizations are regarded as the only institutional option to safeguard the best interest of the farmers and facilitate them to reach a higher level of profits through novel agro-food networks (Trebbin and Hassler, 2012). Many FPOs need support to develop their capacities to serve farmers better especially in promoting adoption of new technologies, stimulate learning and develop entrepreneurial skills. Extension should also help in promoting producer organizations. FPOs need to be built on a strong foundation of producer initiative and ownership and they need long term efforts and provision of hand holding support. The public extension system traditionally has very limited skills in this area and therefore it should partner with others (mainly NGOs who are often skilled in social mobilization and market development) in supporting their development and improving their links to markets.

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