

**Impact Evaluation Study of Farmers
Producer Companies in Telangana State
promoted by NABARD**



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Executive Summary

In October 2020 Centre for Economic and Social Studies initiated a Project on the Impact Evaluation Study of Farmer Producer Companies (FPCs) in Telangana State promoted by NABARD. About 30 companies with more than three year standing initiated during 2015-16 were selected for the study. The objective of the study was i) to assess the performance and sustainability of Farmers' Producer Companies, ii) to study the economic impact of FPCs on farmers and their well-being, and iii) to identify issues and challenges faced by FPCs and to make suggestions for their sustainability.

Background of the Study

Historically cooperatives have addressed the issues faced by farmers in farming, like providing inputs and sale of produce through credit-cooperative societies and marketing. Cooperatives like Amul in Gujarat and Mulkanoor in Telangana are some of the successful models in India, but in general, cooperatives have failed in many respects. Member participation, the flow of communication between members and cooperatives, efficient leadership, retaining professionals, adequate capital, are some of the success factors. Other important dimensions which have failed the cooperatives were political interference and excessive government control. Globally there is a transition from traditional cooperatives structure to new generation cooperatives or modern cooperatives due to multi-dimensional challenges faced by them. In the case of India, the transition to farmer-producer companies (FPC) was facilitated by the amendment in the Companies Act of 1956, in 2003.

The government of India entrusted NABARD to promote FPCs with the help of Promoting Organization Promoting Institutions (POPI) through funding and hand-holding support for an initial period of three years. NABARD initiated about 300 FPOs, out of which 74 were promoted under its *PRODUCE Producers' organization development fund for Producer's Development and Upliftment* funding program. The impact evaluation study was taken up by selecting 30 Farmer's Producer Companies (FPCs) in consultation with NABARD in the Telangana State, covering 17 new districts of the state.

Purpose of the Study

The present study assessed the performance of the selected (30) FPCs located across the State. Various issues related to emergence and growth, performance, governance, and impact of the FPCs are analyzed. Besides assessing the performance of the company in terms of financial variables, sustainability dimensions also are assessed. The constraints faced by the FPCs in organizing or expanding their activity also are analyzed. The economic and social dimensions of the well-being of farmers are assessed. Lastly, suggestions collated from various stakeholders are presented. Policy recommendations emanating from the field survey and analysis are presented for the benefit of setting up of new FPCs, and their expansion and sustainability. Besides, there are a few studies on the impact of FPCs on farmers' income and well-being. Therefore, the present impact study focusing on the performance and sustainability of FPCs and the well-being of farmers in Telangana will be of significance.

Methodology of the study

The study is based on the 'Transaction cost' and 'Social capital' approach from the New Institutional Economics framework using both primary data and secondary data. All terms of reference and scope provided by NABARD have been considered for the study. Indicators such as genesis and growth of FPC, management and governance, technology adopted, marketing linkages, financial linkages and financial performance are assessed. The impact of Farmer's Producers Companies is assessed by taking the indicators of economic, social, and environmental sustainability. The secondary data has been collected from the records of Registrar of Companies, Farmer Producer Companies, and NABARD records. The other records, such as Minutes of the Meetings, Procurement Registers, and bank details, have been collected from the Farmer Producer Companies to assess their functioning. Discussions have been held with the management and Directors of the Companies. Thirty companies selected by NABARD were assessed. The FPC members, members of management, officials, and Directors of the FPCs were interviewed to assess the impact of FPCs on farmers' income and well-being. The participant observation method was used to capture the management practices of FPCs. Focused group

discussions were held with members and non-members to capture the management-related constraints, finance-related and marketing-related constraints encountered by the companies and the farmers. Thus, both quantitative and qualitative methods, including participatory observation methods, were used to collect the required data. Business models of selected FPCs were made based on the supply chain of each FPC. Financial sustainability has been assessed using indicators such as gross profit ratio, net profit ratio, current ratio, debt-equity ratio, break-even sales, inventory turnover ratio, financial self-sufficiency ratio, operational self-sufficiency ratio, and debt-service coverage ratio as suggested by policy and process guidelines, Ministry of Agriculture, GOI. The study has adopted the 'Case Study' method that enables to conduct in-depth analysis to capture the dynamics relating to the impact and functioning of FPCs and the policy recommendations made for further improvement and development of FPCs.

Key Findings Membership

- There are about 13,270 members in the 30 selected FPCs.
- On an average, there were 461 members in the 30 companies. About 86 percent of the farmers in the selected FPCs belonged to small and marginal category.
- Overall 86 percent of the members fall into the socially backward communities, and 76 percent of the leaders belonged to these communities. About 75 percent of the members fall in the BPL category.
- The FPCs were located in the places that were most appropriate to begin an FPC, and the location of procurement centers and input shops were near the villages where the farmers were approachable.
- The average number of women members in all FPCs was 29 percent

Governance and Leadership

- The average number of directors in the selected FPCs was 10 directors
- Most of the FPCs have conducted elections only once, as the term of the BOD members was kept at five years. The annual general body meetings are conducted every year as per norms.
- The quorum in all companies for conducting annual general meetings was between 40 and 60 percent.

- The attendance on average in all companies was 82 percent.
- The FPCs with decentralized structures have proved to be doing better than other FPCs.
- Most of the FPCs have an organizational model comprising 3 levels beginning with BOD, then the CEO, and then farmers.
- All 30 FPCs had CEOs and were qualified graduates and postgraduates with some experience in farming. Most of them were appointed by the board of directors through POPI. The average salary of a CEO is around Rs. 12,000.
- Training and capacity-building programs were organized by the FPCs. Most of the training programs were on FPC awareness, business planning, development, share capital mobilization, bookkeeping, and also on marketing. NABARD was institutional in providing training programs to many FPCs.

Technology

- The FPCs dealing with paddy have adopted machinery like harvesters for crop harvest.
- Agriculture implements such as tractors, plows, rotavators, weeders, sprayers, cultivators, grass cutters, and drum seeders were kept in their custom hiring centers and were given to the farmers on rent at a price less than the market rate.
- Indervelly FPC has purchased huge machinery for its ginning factory
- Kollapur FPC has set up its own mango ripening chambers, and they are doing it through organic methods without using carbide.
- Other FPCs have used basic technology of grading, cleaning, and packing for direct sale

Input Business

- The FPCs have obtained licenses for input businesses such as seeds, fertilizers, and pesticides.
- The inputs were sold to the members at cost plus profit that was less than market cost.
- The inputs were purchased from IFFCO and other traders.
- On average, the FPCs have received a benefit of Rs. 50 to Rs. 100 per bag on the sale of inputs to their members, and the members have also benefitted by purchasing from the FPCs at Rs. 30 to Rs. 100 per bag on various inputs

Output Business

- Companies such as Indervelly FPC in Adilabad are procuring cotton and processing it into cotton bales, and selling it to CCI.
- Suraksha FPC in Siddipet is dealing with organic vegetables and is selling at a premium price of 15 percent over the cost price.
- Eruvaka FPC, Warangal, has started cultivating its own premium rice that is beneficial for diabetic patients. The company is converting paddy to premium rice and has also been branded with its company name, and it is being sold in the local market and also through its own outlet.
- Processing of paddy seed was also undertaken by PalamuruRaithula FPC, located in Wanaparthi.
- Zaheerabad FPC in Sangareddy district, dealing with potato seed, is able to do good business in seed production, where its turnover doubled to 7.04 lakhs between 2016 and 2018.
- The companies such as Husnabad Maathota in Siddipet district, SammakkaSarakka, Utnoor and Kollapur FPCs have procured mango from the members.
- Four FPCs out of nine with cotton-producing farmers are procuring cotton from their members. These FPCs are Indervelly in Adilabad, Eruvaka in Warangal, Haritha in Khammam, and Palleru FPC in Khammam.

Storage and Custom Hiring Centers

- 15 FPCs have storage facilities for keeping inputs and agricultural produce.
- 9 out of 30 FPCs have started their custom hiring centers. FPCs with custom hiring centers mostly have tractors and agriculture implements such as cultivators, rotavators, and weeders.
- The FPCs with custom hiring centers are giving agriculture equipment and machines for rent at a cost less than the market rate, which benefits the farmers.
- The Indervelly FPC benefited from the grants given by TRICOR for buying assets, construction of silos, storage, and setting up custom hiring centers.

Marketing

- The FPCs were able to get market linkages in input and output markets that have mitigated market risks and reduced the costs of transactions and reduced the cost of production and ensured remunerative prices to them, and enhanced the incomes of the farmers.
- The FPCs made associations with Telangana State Seed Development Corporation for purchasing seeds, Grow More Company for purchasing urea, and DAP and IFFCO for purchasing fertilizers.
- The FPCs were able to get market linkages and obtain loans and grants from NABARD, NABKISAN and other banks.
- Eruvaka FPC in Warangal and Zaheerabad FPC in Sangareddy district were able to get a dealership with MARKFED.
- Most of the output was transacted through IKP (paddy), PACS (paddy), CCI (cotton), and APMC markets (paddy, red gram) and other traders in that order.

Financial Performance

- The share capital contributed by the shareholders in the FPCs was between one lakh and twenty-five lakhs.
- The average share capital amount invested in the FPCs was 4.15 lakhs.
- The average increase in share capital growth in all FPCs was 26 percent
- The financial performance of the FPCs shows that the FPCs which imitated input business in the very first year of establishment could progress faster than other companies.
- There has been an increase in fixed assets in most of the companies.
- There is a shortage of working capital in most of the FPCs, and they are in need of short-term loans for input and procurement business. The companies are in need of long-term loans to purchase agricultural machinery and implements for their custom hiring centers.

Issues and Challenges

- General body meetings are not conducted annually in some of the FPCs
- It was found in 5 FPCs that the Board of Directors is not active, and the entire business is in the hands of the CEO.
- It was observed in the case of some FPCs that members were not aware of their FPCs, and they just paid the capital amount, after which they were neither called for any meeting nor did they get any inputs from the company.
- It was found from FPCs such as Maharaja FPC in Rangareddy district, Kollapur FPC in Nagarkurnool district, and ChilkurBalaji FPC, MallikarjunnaSwamy FPC and Veera Hanuman FPCs in Kamareddy that the members are not ready to take the responsibility of a Director
- Almost half of the surveyed FPCs have not changed the members of the BOD since inception.
- Three CEOs from Utnoor FPC in Adilabad, Maharaja FPC in Rangareddy district, and Veeramrajupally FPC in Kamareddy have not been receiving any salary.
- FPCs are having a shortage of working capital and are in need of loans for input business and also for procuring inputs for onward disbursal among the members.
- It was observed that farmers are not able to get loans on time from formal sources like the Banks, and taking this advantage, the money lenders are giving them loans at their doorsteps and are also supplying them with inputs and buying the entire produce from them. Interlinkage of credit, input, and output markets is found to prevail still in the areas of the FPCs of Kamareddy district.
- Cold storage is required by FPCs like Suraksha FPC Siddipet, who are dealing with perishable items such as fruits and vegetables.
- Many FPCs are in need of MARKFED licenses, and also its association, but the FPCs have reported that MARKFED is not providing them licenses, and also, they are not cooperating with the FPCs.
- Most of the FPCs are not having direct dealerships with IFFCO and other suppliers.
- Some FPCs like Nagilgidda FPC at Siddipet want to take up procurement as the cost of transporting produce to APMC markets is very high

- APMC license fees for the FPCs should be reduced. As it is difficult to know the genuineness of the dealers, many CEOs felt that it would be good if the Marketing department could certify genuine input dealers

Some characteristics of member farmers

- Around 50 percent of farmers were not literate, and others were educated mostly up to primary or secondary levels
- Around 58 percent of member farmers depend on bore well as a source of irrigation; another 16 percent depend on dug wells, and 21 percent do not have any assured sources of irrigation and depend on rains.
- In the case of purchase of inputs, most of the farmers purchased seeds from outside markets in the case of paddy, cotton, maize, and soya, but in the case of red gram, most of the farmers used home-produced seeds.
- Among these respondents, it was found that about 59 percent have obtained loans from commercial banks, followed by cooperative banks at 40 percent and one percent from others.
- The respondents reported that about 76 percent of the farmers have high awareness about the company.
- Nearly 70 percent reported that they participate in the company elections in electing the board of directors.
- The respondents holding farming assets were about 17 percent.

Impact and Farmers' Wellbeing Economic Impact

- It was found that the FPC member farmers' income has increased by 24 percent on average.
- The tribal farmers in Indervelly FPC benefited by getting good prices as the FPC could store the produce and sell it at a higher price in the market.
- Farmers could benefit an average of about Rs. 50 to Rs. 100 per bag of inputs (seed, fertilizer)
- FPCs got a saving in transaction costs in transportation charges to the market as inputs were supplied by the company.

- Nearly half of the respondents had an impact of FPCs on their food basket. They were able to add more food to their food basket after joining FPCs.
- Farmer members have reported that their FPCs have provided custom hiring services that were beneficial to them in getting machinery on hire charges that is less than market hire charges. Most of the members had taken harvesters, plows, and tractors from the FPCs.
- About 16.5 percent of respondents reported that their incomes have increased after joining the Farmer Producer Company.
- The average income spent by respondents on various expenditure shows that about 24 percent of the income was spent on education and 23 percent on food. The average income spent on health was 10 percent, and about 14 percent of income was spent on infrastructure development. Another 14 percent of their income goes into vehicle maintenance, and three percent on mobile phones. For the rest of clothing, the average spending is 6 percent, and for others, it is 6 percent.
- Most of the farmers have made kitchen gardens in their homes that have increased the nutritional levels among their family. Some of the farmers also had backyard poultry, which they used for home consumption and also sold in the market. The farmers who are having cows and buffalos are using milk for home consumption and also sell it in the market. Being members of FPC, women are encouraged to take forward these home-based activities, which contribute to their nutrition as well as financially.
- FPCs initiated activities and followed some good practices that led to the farmers' well-being.

Social Impact

- The FPCs made groups such as SHGs, Farmers Clubs, FIGs, and village development committees, and their networking, regular meetings, governance, and management brought them success.
- The farmers received training and capacity-building programs that improved their leadership skills and business development and planning skills.

Policy Recommendations

- **Agriculture mechanization** is the need of the hour as there is a shortage of labor, and also mechanization saves time and money when compared to employment of labor. The state government needs to help FPCs in the establishment of their custom hiring centers. Tamil Nadu state has a scheme of agriculture mechanization where the state government and the central government gives a subsidy to purchase agriculture machinery for the establishment of custom hiring centers (CHCs).
- **Working capital loans** should be provided by banks to FPCs for a short period as these amounts can be utilized for input purchases and procurement and can be easily paid back by the FPCs as soon as they receive back money from farmers on the distribution of inputs and from government or traders on procurement of their produce. Most of the FPCs are facing a shortage of working capital.
- **Training on ‘how to write minutes’** is very much needed as the minutes maintained by the FPCs are not up to the mark, and the minutes should tell the entire story of the FPCs and the timeline of how the development took place, who was involved, how the meetings were held and what important decisions were taken by the FPCs. So far, in training, programs on how to write minutes were not included by any FPC. This document is very important for any FPC, and therefore, training is required on this.
- **Business plans show a very rosy picture**, but in actuality, the FPCs are not able to fulfill the targets as per plans. It seems that most of the FPCs are making these in order to get loans from the banks. The training programs on business development and planning should include the actual targets to be met. The steps of success should be defined, and every six months, the management of FPCs should meet and check if they are going according to the plan they made. If the plans are not going accordingly, then timely amendments are necessary.
- **The decentralized model of the organizational structure of FPCs should be followed** by all FPCs, as it has been observed that the successful FPCs have followed the decentralized model. This model makes all the members active as there are committees or groups made at the village level, and the leaders at each village will discuss the

activities of FPCs regularly, and this makes most of the members active. Having committees at various levels, i.e., purchases, marketing, and finance, will improve business in a short span of time.

- **FPCs should work on adding new programs for a secondary source of income.** Most of the FPCs are dealing with input business, and this has enhanced the incomes of the farmers, but the income is not sufficient at this level. The FPCs should help the farmers to start additional businesses like goat rearing, backyard poultry, milk business, vegetables and fruits cultivation, and other business that can provide supplementary income to the farmers.
- **Monitoring and regular assessment** is needed to improve the functioning of the FPCs.
- **The self-help group model should be adopted by FPCs.** It was observed that FPCs with SHGs are able to save money, and dependency on external funding is less. The SHGs help the farmers to purchase inputs with savings, and they need not depend upon money lenders; hence the inter-linkage of markets can be broken, and farmers be relieved of debt burden due to high-interest rates from informal sources.

Conclusions

The NABARD-promoted FPCs have achieved success and are in a growing stage, Some have achieved sustainability, and others are in the process of achieving sustainability. Among all the 30 FPCs, Indervelly FPC in Adilabad is ranked first in terms of volume of business and post-production processing activities.

Most of the FPCs had a positive impact on membership growth, improvement in leadership skills, and governance, and also adopted modern technology. The important factors that contributed to better performance on all fronts of the FPCs were regularity in attending the meetings, transparency, accountability, trust between the members and management, exposure visits and various training programs, and market awareness about the demand and supply of the produce. Some of these factors contributed to raising the incomes of the members. FPCs are able to improve the economic as well as social well-being of the member farmers.

However, the FPCs are facing some challenges that are constraining them to achieve good performance. Some FPCs still need handholding in promoting them in all aspects, and

NABARD can consider interventions that would tag them to other government agencies like the IFFICO, Growmore for fertilizers; Markfed, Nafed for marketing; TRICOR in case of tribal FPCs; formal credit sources, i.e., banks for short run and long run credit; reliable seed companies to obtain quality inputs at a lower cost. In the case of some agencies, handholding is required to obtain licenses, and in other cases, the FPCs need to be connected to institutions to get credit, extension, and marketing services. FPCs are all smallholder collectives and such platforms need to be strengthened in all dimensions so as to raise farmers' incomes and achieve inclusiveness in agriculture development. Besides, a state federation can be instituted with members from all NABARD-promoted FPCs, which can serve as a platform to find solutions to the challenges faced by the FPCs in the state.

List of FPCs with location, date of establishment, social composition and women participation

Name of the Producer Company and location	Date of establishment	Membership	SC	ST	BC	OC	Percentage of Women
Husnabad Maathota Food Producer Company Limited, Siddipet.	14.07.2016	319		319			13
Susthira Farmers Producer Company Limited, Kataram, Jayshanker Bhupalpally	12.02.2016	279	58	28	174	19	23
Govindapally Farmers Producer Company Limited, Govindapally, Nizamabad	26.05.2016	243	21	183	38	1	21
Tadwai Sabarimata Farmers Producer Company Limited, Kamareddy	25.05.2016	225	40		45	140	16
Sri Mallikarjuna Swami Farmers Producer Company Limited, Kamareddy	27.06.2016	139	7		123	9	10

Veera Hanuman Farmers Producer Company Limited, Kamareddy	27.06.2016	189	6	19	134	30	9
Chilkur Balaji Farmers Producer Company Limited, Kamareddy	28.06.2016	149	4		120	25	17
Shanti Farmers Producer Company Limited, Warangal Urban	24.03.2016	279	20	40	166	53	0
Eruvaka Farmers Producer Company Limited, Wardhannapet, Warangal	23.04.2016	506	1	88	294	123	12
Crops Farmer Producer Company Limited, Jangaon	02.12.2016	400	10	220	170		52
Navashakti Farmers Producer Company Limited, Ghanpur, Warangal	01.02.2016	123		14	103	6	24
Sneha Farmers Producer Company Limited, Ramchandrapuram, Warangal	04.03.2016	640		370	120	150	34
SammakkaSarukka Farmers Producer Company Limited, Pasara, Warangal	12.01.2016	501		501			25
Utnoor Farmers Producer Company Limited, Adilabad	22.01.2016	506		506			33
Indervelly Farmers Producer Company Limited, Adilabad	03.03.2016	837		837			42
Kollapur Farmers Producer Company Limited, Nagarkarnool.	29.01.2016	639	2	512	78	47	18
Maharaja Farmers Producer Company Limited, Tallakondapally, Rangareddy district	24.05.2016	834	55	54	393	332	13

Jagdevpur Farmers Producer Company Limited, Jagdevpur, Medak	04.07.2016	501	50		417	34	98
Nalgidda Farmers Producer Company Limited, Sangareddy	30.01.2016	333	2	300	31		80
Zaheerabad Farmers Producer Company Limited, Sangareddy	25.02.2016	1300	48	980	272		10
Veeramrajupally Farmers Produce Company Limited, Nagarkarnool	11.08.2016	578	23	205	331	19	20
Mythri Farmers Producer Company Limited, Nalgonda	14.07.2016	354		335	19		18
Yaadadri Laxmi Narsimha Swamy Producer Company Limited, Yaadadiri	08.03.2016	266	57	1	202	6	23
Prasanna Farmers Producer Company Limited, Mothkur, Yaadadiri	03.02.2016	500	63	1	287	149	26
PallamuruRaithula Farmers Producer Company Limited, Wanaparthy	05.02.2016	680	76	6	504	94	21
Haritha Agri Producer Company Limited, Khammam	9.12.2015	327		304		23	17
Vigneshwara Farmers Producer Company Limited, BhadadiriKothagudem	01.1.2016	530	2	423	59	46	29
Palleru Producer Company Limited, Chandrugonda, BhadadiriKothagudem	17.02.2016	547		492	55		7
Suraksha Farmers Producer Company Limited, Siddipet	30.05.2016	546-	145		358	43	86
Nava Vikas Farmers Producer Company Limited, Janagoan	01.02.2016	567	30	117	420		50