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Farmers' Producer Companies in Telangana State

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POLICY BRIEF

Context

India is an agriculture country with more than 85 percent farmers belonging to small and marginal category. With decreased area under operation, these farmers face high cost of cultivation and too less income to survive. The challenges for small and marginal farmers are rising input costs and wages; access to formal credit, access to markets, high transaction costs, no option for value addition, and so on. There have been efforts to collectivise farmers to reduce costs since evolution of cooperatives in 1904. There are success stories of cooperatives in the sectors of milk, and fertilizers, like Indian Farmers Fertiliser Cooperative Limited and Gujarat Cooperative Milk Marketing Federation Limited. Many cooperatives have failed due to political interference, lack of transparency, heavy dependence on government and inability to sustain financially among others. To overcome the shortfalls of the cooperative model, the then state of Andhra Pradesh initiated the Mutually Aided Cooperative Societies (MACS) Act, eliminating interference by the government in the functioning of the cooperatives and incorporating internationally accepted principles of cooperatives. The MACS model was an improvement over cooperatives but this model could not scale up and not many cooperatives have converted to MACS under the Act. Alternatively a direct link between producer and consumer through organised marketing would make producers modern and professional. A new institutional model of Producers Organizations came into practice by amending the Companies Act, 1956, on the recommendation of the Y K Alagh Committee. The Committee suggested formation of Farmers Producer Companies in line with private companies where farmers as primary producers are the shareholders. Normally 800-1000 members form a good number for the establishment of agriculturally based Producer Company All members should be aware of the business proposal, its viability, and market opportunity, size of business and possible benefits.

A Farmer Producer Company is one of the five types of Farmers' Producer Organizations (FPOs), the others being a cooperative society; a trust; a non-profit society; and a company under section 8.

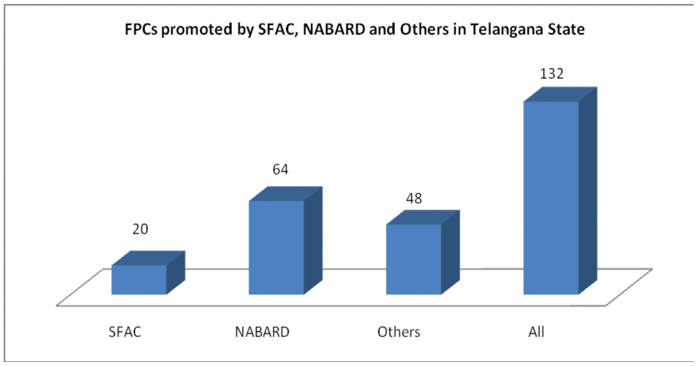
Need for FPCs in Telangana State

As per the 70th NSSO report, Telangana state has highest cost of agriculture production vis-a-vis major agriculture states and stands second in incidence of indebtedness after Andhra Pradesh. The suicide rate was also high in Telangana after Maharashtra. The new FPC model serves to be a solution, as it is proved as one of the best institutional models that can reduce transaction costs and raise the incomes of the farmers by collectivising them (Policy and Process Guidelines, Ministry of Agriculture, GOI, 2013). The FPC model has been successfully functioning in states like Kerala, West Bengal, Madhya Pradesh, Karnataka, and Tamil Nadu.

Emergence of FPCs in Telangana State

FPCs started emerging since 12th Five Year Plan to collectivise the small and marginal farmers by extending the various schemes of Rashtriya Krishi VikasYojana (RKVY), National Food Security Mission (NFSM) and Agriculture Technology Management Agency (ATMA). It is mandatory for any FPC to be registered. Three types of FPCs have emerged those with individual members set up by farmers or primary producers; those with institutional members such as cooperatives and self-help groups; and the third type with both individual and institutional members. Telangana state has all three types of FPCs. These FPCs are promoted by SFAC (Small Farmers Agribusiness Consortium) and NABARD (National Bank for Agriculture and Rural development). NGOs also play an important role as promoting institutions. SFAC helps FPCs in their establishment for a maximum period of three years and also in procuring pulses in coordination with pulses India Programme. There are 21 FPCs in the state under SFAC support. NABARD besides assisting FPOs in their establishment also organizes training and capacity building programmes for the chief executive officers and also capacitates them to identify and train such human resources. There are 74 FPOs functional with NABARD support. Most of the NABARD supported FPOs started since 2015. There were 51 FPCs in Telangana promoted by 'Others' like cooperatives, SHGs and individuals. The FPCs in Telangana have been promoted by NGOs like Access Livelihood India Limited; Vrutti Livelihood Services; Indian Society of Agri-business professionals; Reliance Foundation, BASIX and others. These promoters are helped financially by SFAC, NABARD and other financial institutions. There were about 24,514 members in NABARD promoted FPCs. Figure 1 shows the three year and more than three years standing FPCs promoted in Telangana as on 31st December, 2016.

Figure 1 Three and more years standing FPCs in Telangana State as on 31.12.2016



Source: SFAC, NABARD and ROC Records

Box 1

Karimnagar Milk Producer Company dealing with milk and its products has more than 70,000 members in its 353 Milk Producers Associations and is the most successful FPC in Telangana. The company uses sophisticated technology to preserve milk and its various products. The average milk procurement is nearly 2 lakh litres per day. The company after transformation from MACS to Producer Company has progressed in terms of assets, members, profit and also in terms of providing various benefits to its members. The company's turnover shows an increasing trend and there has been an increase in procurement price and sales price and the company has taken various measures to enhance milk producers' well-being. As the company deals with a commodity like milk, it has collection round the year and due to its repeated regular transactions, the company has progressed well in all dimensions. The company has a decentralised management structure with various committees that take care of all activities. The attendance of board members and other members is good and the meetings are conducted regularly. The financial performance of the company is also good. Transparency, accountability, regularity, involvement of professionals and decentralisation are the key factors leading to success of Karimnagar Milk Producer Company Limited.

Box 2

The Chetna Organic Agriculture Producer Company Limited has shown a positive impact on the farmers' well-being. There has been an increase in the number of members, turnover and profits and the members are able to get a premium price on organic cotton. The FPC structure with self-help groups and cooperatives is successful in collectivising the farmers and also in providing remunerative price to the members. There was an increase in farmers' income by 48 percent when compared to non-members. Due to the efforts put by the company cotton production increased by 153 percent. The collective bargaining with markets ensured higher price to the farmers. Chetna Company was able to export cotton to China, Pakistan and other countries through their marketing linkages with premier institutions like Winsome yarns, Dibella India and Arshit mills that has increased the company's profit.

Performance of FPCs

FPC model is one of the successful models in the state in collectivising farmers, in reducing the transaction costs, in providing farmers' well-being and in increasing profitability of individual farmers. The growth and performance of FPCs across various districts in Telangana shows a rise in membership, capital base, assets, improvement in leadership qualities, capacity building, democratic way of conducting elections, decentralisation in case of some of the FPCs, and an increase in the income of the farmers. The FPCs promoted by SFAC had an average of 1000 members and most of them deal with crops like pulses, paddy, cotton, groundnut, turmeric, and soybean. The 74 FPCs promoted by NABARD mostly deal with cash crops, pulses, fruits, cotton, paddy, maize, vegetables, food grains, and goat rearing. They also deal with seeds and input supply. The most successful FPCs in Telangana are Karimnagar Milk Producer Company Limited promoted by milk producers (Box1) and Chetna Organic Agriculture Producer Company (Box 2)

The case studies of 15 FPCs in the state indicated that the Farmer Producer Companies have benefitted its farmers in increasing their income and well-being. There is no trade-off between the incomes of the producers with that of the company and farmers' incomes have increased even in cases where the company is in loss. The size of the company, their networking and collective action have given strength to the company. Trust among the members played a crucial role in building such strength. Participation in elections and active involvement of members has provided efficient administration. The FPCs have purchased inputs in bulk and are able to provide them to members at lower price and on time. The various market linkages resulted in farmers getting a remunerative price which was not possible for an individual farmer. The position of producer companies that have been established from the existing cooperatives and self-help groups has improved to a large extent after transforming into producer companies. The financial performance of three such FPCs (Karimnagar Milk Producer Company, Chetna Organic Agriculture Producer Company and Pragathi Farmer Producer Company) was good vis-à-vis other FPCs. Some FPCs had shortage of working capital. It was observed that some of the FPCs have not completed the mandatory procedures like filing of returns, auditing accounts even after three years of standing. Thus, collective action, savings from transaction costs and building social capital and good financial position have helped the companies to succeed. The following are steps for success of FPCs.

Four steps to success of FPC

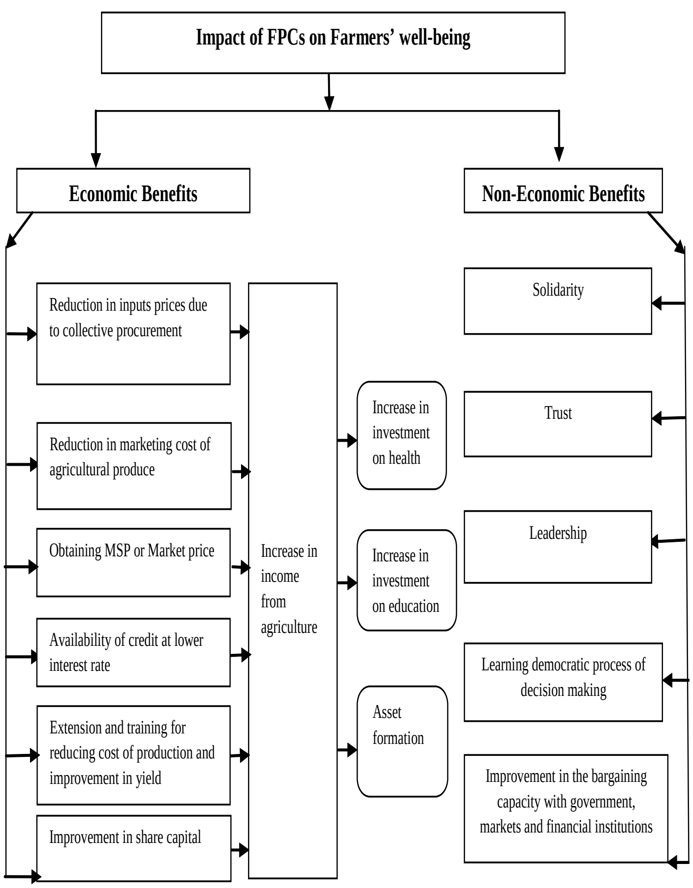
Stage 1	Stage 2	Stage 3	Stage 4
* Vision & Business Plan * Formation of Common Interest Groups with sufficient members * Registration	* Governing body – Directors Elections * Decentralisation and formation of committees * Credit support * Input distribution unit	* Establishment of * Procurement Centres * Training and Capacity building * Linkages with financial Institutions * Linkages with Markets * Sales and Audit	* Upgraded technology * Storage units * Processing Units * Branding * Sales Outlets * Export

Constraints and their impact on the performance of FPCs

FPCs, with low initial capital invested by the members depended upon external funding at high rates of interest, FPCs, where training and capacity building programmes were not extended to all the members, the individual production was low, leading to a negative impact on the companies' turnover. FPCs, which could not supply inputs to all the members, resulted in an increase in the cost of production for the members. The progress of the FPCs without professional managers and chief executive officers was slow when compared to FPCs having professional managers. Lower levels of participation of the members in the meetings led to lower awareness about the company and led to reduction in their incomes. Trust deficit in market transactions especially in long distance markets blocked rotation of cash for a longer period of time. Some of the members of the FPCs incurred heavy loss on crops which failed due to climate risks such as untimely rain and they could not recover this loss as the FPCs could not provide insurance cover. Low levels of literacy among the members constrain them to take up responsible position such as director and make them to depend extensively on promoters. The FPCs without internal committees and sub-committees took a longer time for planning and decision-making when compared to those with decentralised structure. Thus, constraints faced by the FPCs at various levels have impacted their performance in multiple ways.

Farmers' well-being

A study of three FPCs Kodangal FPCL, Angadiraichur FPCL, and Hasnabad FPCL located in Mahbubnagar district revealed that the farmers who have joined the FPCs were in a better position than farmers not in FPC. The farmers not in FPCs bought the inputs at market rate whereas the members of FPC got it at a lower rate due to bulk purchase. FPC members obtained credit at less than market rate as some of the NGOs like 'Rang De' provided loan to the FPCs at a lower interest rate. The FPC members also got extension and training which increased their productivity. The members of FPCs have more marketing advantages over farmers not in FPCs in terms of lower transportation cost; no charges on labour, packing and grading; linkage with various markets that ensure remunerative prices. Transaction costs were lower as farmers' produce was procured through the procurement centres of the FPCs. All these led to enhancement of household income of the farmers. Enhancement in leadership qualities, representation of women from marginalised groups were also seen in these FPCs. The following figure depicts the impact of FPCs on Farmers' well-being.



Some of the best practices observed from selected FPCs are as follows:

Box 3 Best Practices followed by Farmer Producer Companies of Telangana State

S.No	Farmer Producer Company	Best Practices
1	Kodangal	• Switch between MSP or Market price whichever is higher
2	Angadi Raichur	• Financial and other details of FPCs was printed and circulated among members.
3	Hasnabad Farmer Services	
4	Zaheerabad Navachaitanya	• Assets like agriculture machinery and other tools were purchased for the use of member farmers.
5	Regode Navajeevanjyothi	
6	Karimnagar Milk Producer Company	• Decentralised governance and member participation in decision making (committees to take care of procurement, sales, technical, economic, financial, transport and also for women safety)
7	Chetna Organic Agriculture Producer Company	• Premium price ensured, premium on shares • Nutritional gardens and safe drinking water.
8	Kamareddy Progressive Farmer Producer Company	• Nutritional security and safe drinking water for households. • Increased irrigation facilities.
9	PragatiFarmer Producer Company	• Door to door collection of produce and disbursement of credit.

Source:Arifa Sultana, unpublished PhD thesis,CESS, 2019

Policy Recommendations

- The spread of FPCs is very slow in the state even after one and a half decade due to low awareness and cumbersome registration process. There is a need to conduct awareness programmes among farmers and make the registration process simple with less documentation.

- Most of the farmers are not literate and need help of promoters during initial years of establishment. As there is no prescribed time limit for the promoters to exit the FPC, members are unable to rise to managerial positions. The chief executive officers and managers are appointed by promoters. They generally work in the interest of promoters. There is no mechanism to monitor and regulate the powers of promoters. Therefore, there is a need for a 'regulatory body' to check the practices of the promoters.

- Training and capacity building programmes and the exposure visits are extended only to group leaders and directors of the company in most of the FPCs. There is a need to extend such programmes to all the members of FPCs in groups.

- FPCs are obtaining finance from banks and various financial institutions at high rates of interest between 12 and 16 percent. There is a need for the government to extend bank credit-linkage scheme similar to the schemes offered to SHGs with interest subvention at 3 percent interest.

- Most of the FPCs are unable to meet the time line for compliances. The ROC records show that many FPCs have not filed their financial returns and have not submitted the copy to the registrar. Such non-compliance will have legal consequences and will have heavy penalty. There is a need to link all FPCs with mobile messages on such time lines to be met and the documents to be made.

- State governments have helped in formation of new FPCs by way of financial support, infrastructure support for storage and processing, and custom hiring centres in the states like West Bengal, Karnataka, Madhya Pradesh, and Tamil Nadu. Similar support in establishment of FPCs can be extended by the state of Telangana

- It was observed in some of the FPCs that the employees/promoters were playing the role of owners and the directors as subordinates to them. There is a need to empower the members and train them in leadership and governance.

- There is a need to link all FPCs to E-NAM (electronic marketing). It was found that only 13 FPCs were linked to E-NAM but the operations have not yet begun. Further, there is a need to analyse the benefits of E-NAM to the FPCs.

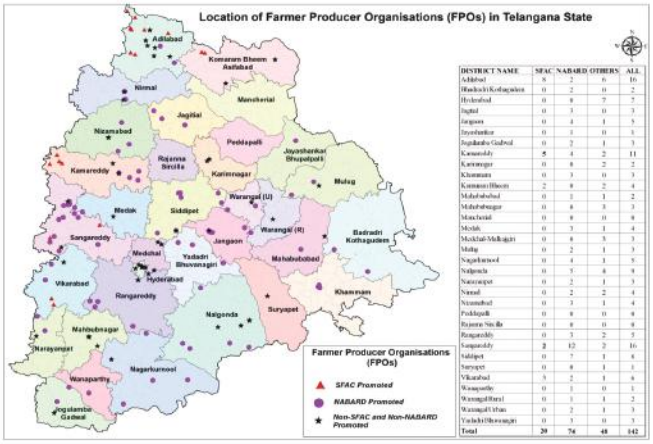
- As FPC portfolio varies, the rate of interest at which they lend to member farmers also varies. If member farmers can mobilise themselves into SHG and link with banks, they can obtain micro credit at lower rate of interest.

- It was observed that some of the FPCs have faced problems with private traders in recovering their money. Therefore, there is a need to train the directors in risk management and negotiations with traders.

- None of the FPCs in the state whether big or small were able to distribute dividend to their shareholders. But tax exemption is given for a period of only five years for a turnover of above 100 crore. Levying taxes above 100 crore of turnover after five years may have impact on the dividend given to their shareholders. Therefore, there need to be a tweaking of the policy to exempt the FPCs from taxation permanently as most of the FPCs deal with agriculture and with small and marginal farmers.

Conclusions

The collective bargaining of the members has led to reduction in the cost of production and transaction cost in marketing. The FPCs have purchased inputs in bulk and are able to provide them to members at lower prices and on time. The various marketing linkages have brought remunerative prices to the farmers which was not possible for an individual farmer. Where they could not get any loans as small and marginal farmers, collectively they could get various bank loans which are collateral free. They also got financial assistance from private institutions. The successful farmer producer companies in Telangana state have shown a positive impact on the farmers' incomes and well-being. Proactive policy of state government can promote these FPCs like in the case of Karnataka, MP, Tamil Nadu and West Bengal. A higher number of FPCs in the state can progress, new FPCs can be formed and the incomes of the farmers can be increased.



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