Entrepreneurship Promoting Schemes and Organizations

W5 L3 – Farmer Producer Organization
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Hello friends, in today's session, we are going to discuss about Farmer Producer Organization. And also farmer Producer company. As you all know, Indian agriculture is dominated by small and marginal farmer. More than 86% of the farmers are small and marginal in nature, who control around 50% of the the land mass, and also the number of the small and marginal farmer are increasing due to the continuous land fragmentation.

So, at individual level, this small and marginal farmer faces severe problem in resource and input use. So, they generally have very low asset level and very limited ability to invest into their farm and they generally incurred high cost for the inputs and their farming have less technologically improved and generally result in the low yield but whether it result in low yield or not, it always result in low income for the farmers. So, as a solution, the farmers are generally advised to form collectives. So, in forming collectives, farmers generally are assured of a number of benefits like It assured the higher investment, it ensured the lower cost for the input due to collective purchasing, also better chance for the improved technology, better chance for the higher yield, less cost for the transport storage facilities and also the opportunity for the processing and value addition is there if they act collectively and thus it generally ensure the higher income.

So, several institutional models of the farmers have been tried in India to integrate the farmers with the value chain. So, the producer cooperative as I already told are one of the most tried model which enable the farmers to organize themselves into collectives. So, the cooperatives are registered with the register of cooperative society And India has a large number of cooperative institution in a vast range of enterprise sector but varying from few cooperative, the cooperative experiences in India has not been very pleasant. So, co operatives in India, why it is so? Because the co operatives in India have largely been state promoted with more focus on welfare rather than to do business on the commercial line. So, by looking into the inability of the co operatives or the by looking into the limited success of the co operatives in India.

In 2002 through an amendment in Indian Company Act 1956, the government of India enacted a producer company act by incorporating a new section nine A based on the recommended syn of Yk all committee. So what was the objective of this and this new incorporation? The objective of of this was to enable the incorporation of co-operatives as a company and comparison of the existing co-operatives into companies. While ensuring that the unique elements of the cooperative business remain intact. So, thus the producer company act enshrines the ethos and basic tenets of the cooperatives and infuse at the same time infuses a professional attitude into its management. So, the basic purpose of the producer company is to collectivize the small farmers or producer for backward linkage for input like seed, fertilizer, credit, insurance, knowledge and extension services at the heart of this effort is to the gain the collective bargaining power for small farmers or small businesses producer. So what is FPO? So farmer producer organization are autonomous enterprises in which only the farmer producer region area can be member. Thus a FPO owned and controlled by the farmer members only who came voluntarily ag members of the FPO. Now, when this a FPO was registered under the company is that it become a farmer producer company.

So what are the characteristics of a farmer producer company? So, they are corporate body registered under the Indian Companies Act 2013. Ownership and membership of such companies is held only by the primary producer or producer institution. The initiator or promoter of these collectivities cannot be the member of the farmer producer company. Members are generally provided with equity share which cannot be traded, but can be transferred to only on approval of the board of director of the producer company among the members. So, liability of the producer company is limited to the value of share capital it has issued. liability is limited to the value of share capital held by them.

So, minimum authorized capital for the producer company at time of the incorporation must be rupees 5 lakh and there should be, there must be at least 10 producer to form a producer company. There is no maximum limit and producer company cannot become a public or private entity. Public limited company and the producer company can operate any part of the country. So thus, this farmer producer company generally provide for the pre production, production and post production services. So farmers, these are autonomous and independent, where the farmers own the enterprise and private, these are private in nature, ok. This is also formal as it get registered and thus a legal entity with staff and system The former producer company are the member owned, they owned and you controlled by the members and also provide the required services as decided by the member to the members.

It also distribute equity to the to the members, ok, members are contributed and this equity is generally made by the contribution of the capital by the members. It is self government governed by a board of directors who are elected. And, democratic control that is also in the cooperative principle was there under the cooperative also, one member, one vote to ensure the democratic control of this particular farmer, co producer companies by members. So these farmer producer companies are generally different from the producer, co-operatives. So what are the main difference point? So co-operatives are registered under the Co-Operative Society Act are the companies are registered under Indian Company Act. So generally restricted for the co-operatives for the entire country is the area of operation for the producer company. The concept of shared is not they are in case of cooperatives or if they are it is not tradable. In case of producer company, the share are also not tradable, but transferable to the members at per value.

So, also in case of the profit sharing, generally limited scope of the profit sharing in case of cooperative and the defender is paid to the members at holding of the sales. So their main scope of their operation is generally in case of the producer or co-producer scope of property in generally restricted in case of co parties. So, there are more freedom of the, or alternatives available under the producer company. And also there it, there in case of producer cooperatives, there is always some intervention by the government, ok. So, government and the register of the cooperatives hold the veto power. So, but in case of the producer company, one member, one vote principle operate like an cooperative also, but there is the, if the, all the decision are totally the, the members of the company has total autonomy. Which is defined from the producer cooperatives.

So what is the structure of the cooperatives or the farmer producer company? So, farmer producer company can be promoted or who, whom we call the initiator by any NGO Cooperative Society, government Organization, SAG comment organization itself. But initiator cannot become the member of the producer company until, and unless they're the primary producer. So that means the agriculture, this farmer, producer company can even be initiated by the farmer themselves. So, when the 10 or more member came together or 10 member or 1 producer company came together or 2 or more producer company come together, they can form into an this private limited producer companies.

So, generally each and every producer company governed by a board of directors, the minimum 5 board of directors should be there, maximum number is 15. And the CEO generally act as an ex officio director of the board. Ok, but unlike the registered companies, the, the position of the CEO is not retirable. So, day to day function of the farmer producer company generally carried out by the The CEO of that particular company. And he also kept maintain the proper book. The fund is the member with all periodic information advised the board of director in respect to the legal and regulatory means, and operate the bank account, et cetera.

So what I already told that 10 member. So, minimum 10 member is required for the forming a farmer producer company or producer or a particular producer organization become an company once it is registered. So, what should be the optimal size of the, this producer organization or producer company for the sustainability purpose? So, it is desirable to have a producer organization for farmers having their land in a contagious micro watershed to address the issue related to the sustainability. Secondly, the produce productive land under the FPO may be around 400, 4000 hectare. The producer organization may cover generally 1 or 2 contagious gum franchise for ease of the management.

The number of the farmer producer that need to be covered may be around 700 to 1000 for having a viable business. The cost of the managing a producer organization of the above nature may be around 2 lakh per month. So, 24 lakh is required for per annum. The total value of the produce in the farmers or non farmers handled by the producer organization must be around 2.5 crore assuming that the approximately 10 percent of the total turnover of the PO may be reasonably spent towards the cost of management. Further, the market selected for the producer organization for selling their produce maybe must be. So, these are not some mandatory guideline, but this is based on the experience of promotion of the different producer organization by a number of initiator organization.

So, now, as I already told, once we register our FPO, it become an farmer producer company or FPO gains a legal right. So, it means like an individual FPO has its name. So, what are the ah, benefit of registering the FPO as a FPC? Firstly, it can have an agreement with the external organization or agency. It can own asset and be involved in the transactions such as purchase, sale, mortgage of asset in the name of the organization. It can take legal action on any individual or institution or it can take suit by the others. Members can join and withdraw FPO on its name, shall continue to provide service to the future generation. So, these are the benefit if we register the particular FPO as a FPC.

So now for incorporation of the producer organization as a producer company. So there are a number of steps out there. Okay. It generally start with the, the obtaining the digital signature certificate from the at least one director. So according to the IT act 2000 for the authenticity of the document and security of the document, at least one of the board of the director should obtain the digital signature certificate. After the getting the digital signature certificate, they should get that the, obtain the director identification number or DNI of the, for the proposed director. So, this DNI for the obtaining DNI, the acceptable document of the identity is banned. And for the for the ID for the document of their residence.

Okay. It may be other card and voter ID diving license may be used. Then after getting the DNI number, the application generally the farmer producer companies should apply to the Ministry of Corporate Affairs for this registration of the name. of the this farmer producer company. Then they have to complete the draft memorandum two memorandum. One is memorandum of association and then the article of association that should be prepared and duly stamped and along with this particular draft of memorandum of association and the article of association all other required documents and the of the members and their signature, they required to be submitted.

The various document with this document should be submitted to the register of the companies on the MCA portal electronically only and after the payment of the incorporation fees and the stamp duty, again mode Okay. So, within the 30 days they will receive if the document are all okay, they will receive a certificate of incorporation from the, this register of the company and the, this FPO become an FPC.

So, according to an estimate provided by the NABARD, it required around 39, 600 rupees For the as a cost of the registration of a particular FPO as a FPC. So, now, running a after the ah, registration of a company for running that particular FPC. So, there is a need for a number of there is a need for capital for carrying out a number of different function. It required subs salary for the staff, it required capital for the rent, travel, electricity, telephone and other administrative expenses.

It required furniture fixer and other equipments like computer, printer for daily functioning. Okay. It required infrastructure like warehouse machineries depending on the scale of operation. Okay. It required current money for the, or liquid money for procurement of the agricultural produce, input, raw material, extracture, etcetera also required capital for the storage, processing, transportation insurance activities okay. Also, it required fund for the capacity building cost of the board of directors of the FPC who are not traditionally trained for performing this particular role.

So, now for fulfill the capital requirement of the FPC, so there are a number of institutional support available for financing these FPC. So, the evolution of the FPC can be categorized into three broader stage. One is the early or incubation stage, second is the emerging or growing stage, and the last the matured stage or the business expansion stage. So, it incubation or early stages, so there is a need for support in terms of financing for FPC. Cost of mobilizing farmer, registration cost, cost of operation, management training, exposure visit, etcetera. So, generally the registration cost is the member generally bear the registration cost for a company which may be reimbursed in the future stages based on the decision of the board of directors.

So, this incubation or early stage cost are generally provided by the initiator agencies or promoting agency who are engaged in the promotion of the FPOs across the board. So, but this initial incubation stage funding also have a number of limitation from the FPO's point of view or sustainability point of view of the FPO's. So, most project fund or most FPO promotion project funded by the donors are limited to the 24 to 36 month of the life cycle. But stabilizing an FPO at least it required to be the 5 year of the handholding support to stabilize their business operation. So, that is one of the lacuna in the present system.

Also the currently the startup risks are not covered in FPO promotion program. So, unlike the traditional livelihood project, the FPO are business entity and so are vulnerable to the market a factor or risk. Fluctuation, but that risk is not covered. FTO cannot access the international fund as they are not registered under the FCR Act. Okay. So, thereby the promotion institution must play a critical role for the fund support. So, now, when an FTO came to emerging or growing stage, okay, so it require mostly equity capital and working capital. So, as mostly FTO are formed by the collectivities of the small and marginal farmer mainly. So, the, this farmer have the limited contribution or limited ability as a individual farmer to raise the FTO's equity.

So, for supporting in this stage, the SFSE provide the equity matching grant equivalent to the amount of equity contribution of the shareholder subject to the maximum 10 lakh limit. Working capital. So working capital is generally currently available for the a PO from the public sector bank, and a number of NBFC also provide working capital to the FPOs or FPCC and lastly, they in the MA stage or business expansion stage, so they required capital loan. So for quality capital loan are required for the quality improvement along with the balu chain of the produce. Or to build the infrastructure that the FPO want to develop or to set up processing unit, grading unit, storing yard, storage go down, cold storage and such facilities but availability of the capital loans from the banks at currently is very low. And mostly in India, the NBFC have taken the lead for fulfilling the finances need of the FPO. By looking into this condition, FBI has already, RBI has already included and new rules. That is the financing up to two cores to the a p under the priority sector lending and loan up to the five core to a p under the indirect agriculture to promote the, the lending the capital loans or providing capital loans to the pos by the public sector banks. So to promote the APOs or to help the PO financial financially help the pos in the different stage of the their permission and functioning. So there are a number of institutions support available from the government agency, like, under the Small Pharma Business Con Consortium, there are equity grant.

So, this equity grant from fund is provided to the FPO to enable the eligible FPC to receive a grant equivalent in the amount to the equity contribution to by their stakeholder members. I already told that. So, this scheme will address the nascent and emerging FPCs and which have the paid up capital not exceeding the 30 lakh as in the date of the application. So, one approved this generally this EGF is directly transferred to the bank account of the FPC. So, also thus the same organization small farmer agribusiness consortium provide the credit guarantee fund CGF ok. So, this fund has been set up with the main objective to provide the credit guarantee cover to ELI.

So, lending institution like bank, NVMC promoted by the government like Navkishan, Is there Okay. To enable them to provide collateral free credit to the FPC by minimizing the lending risk in respect to the loan, not exceeding under luck. So another programmer there under a small pharma agreement is consortium that is the venture capital assistant or VCA. So, SFSE will provide the venture capital to the qualifying project on recommendation of the notified financial institution financing the project. This venture capital will be repayable back to the SFSE after the repayment of the term loan of lending notified financial institution as per the original e-payment schedule.

So, there are also scheme under NAVAD. So, NAVAD provides support in the form of the grant, loan and combination of these three is available for the capacity building and the market intervention of the producer organization. So, the eligible producer organization are the direct lending to the producer organization for term loan or composite loan comprising of the both working capital and the terms loan requirement. Working capital as a composite loan, subordinated debt as a tier 2 capital based on the requirement of the PO and provide the memorandum articles of association bylaws permit them to accept the loan. So, these are the eligibility of this loan.

Now, coming to the last, okay, looking into the success story of this farmer producer organization. So, farmer producer organization has the huge potential to increase the entrepreneurial ability of the, our small and marginal farmer or improve the, the viability of the farming business or to convert the, the farming operation from the subsistence nature twin and viable farming business. Okay. So, the success story of this coming to the success story of this FPO. Okay. So one research was carried out, by the this BHU itself. Okay. Where the five FPO or a FPCs was compared which are operating in the different district of the Eastern UP. So, this analysis or this particular study, okay. So, they compared these five and they find out that if you look into the net profit of this after tax of these companies, ok. So, actually, it is a huge success for four of this particular FPC was compared, ok. So, like a company like, the first company prepared here, they made a 218 crore profit or 218 percent increase in the profit, in fact, ok.

So, second company, ok, so, that is, that made the 227 percent. So, the third one, okay, so apart another two also, they also made the similar type of increase in the profit, okay. So, the lowest improvement was in the this last one this FPC, that Rameshwar Pharma producer companies, okay but here also, the loss was not there. So, after the year of operation, okay, they also increased their profit 2. 52 percent. Okay. So, this is a field based and research based presentation or representation of the how the different FPCs in the eastern UP are operating.

So, is the success story of the, in the many parts of the country of the FPCs. So, thus as I already told, the government is actively promoting the formation of the FPC as a solution to the, the problem faced by the, or the income problem faced by the, mostly the small and marginal farmer in India and it will have to go a long distance to become a successful initiative and the farmers need to pay more important or more serious role to convert their farming operation from their subsistence nature to the business operation or entrepreneurial oriented business operation and a FPC or the FPO is an right input to help the farmer to achieve their entrepreneurial goal.

So with this, I will conclude here.

Thank you.