expert speak

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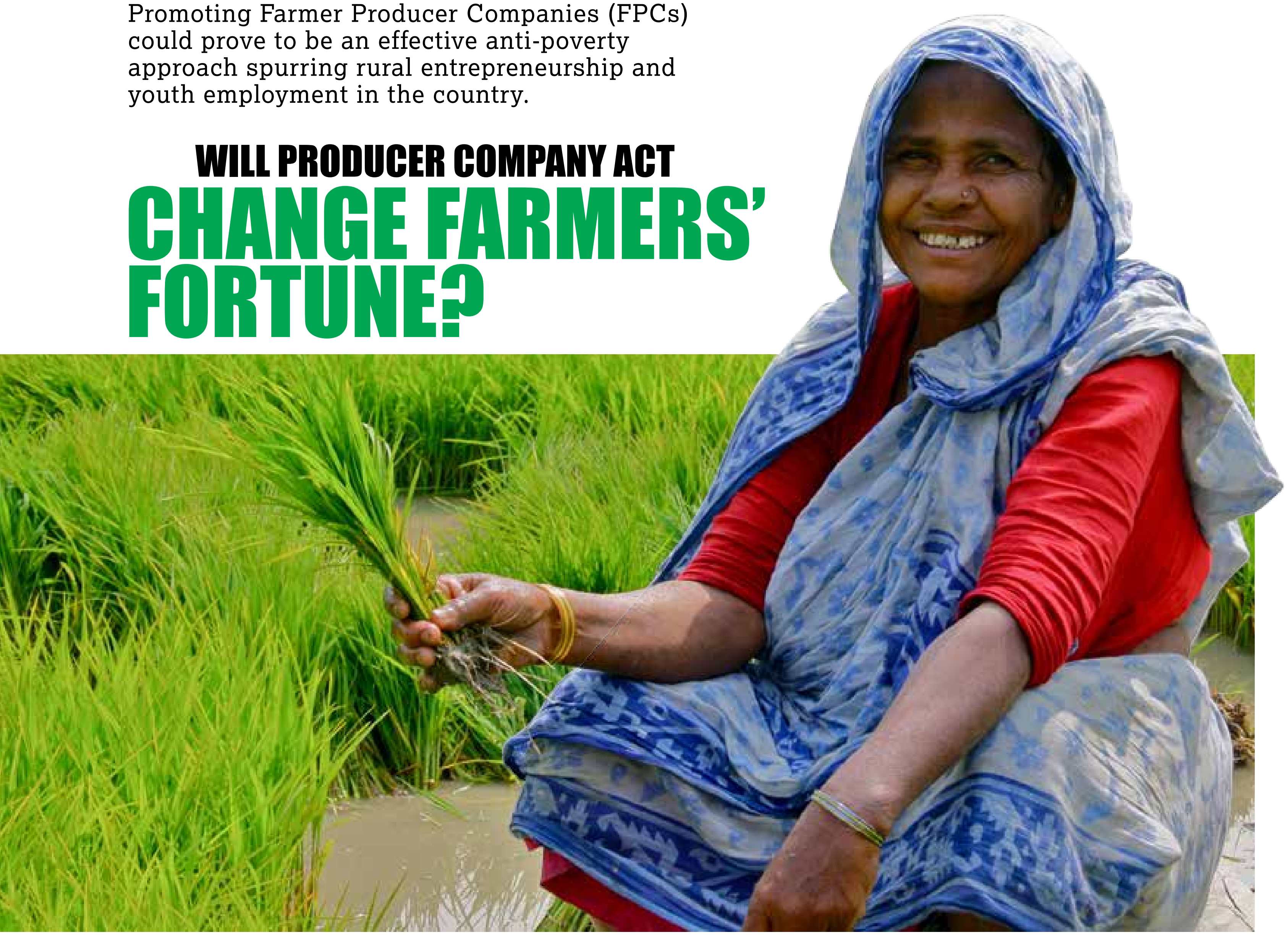
Promoting Farmer Producer Companies (FPCs) could prove to be an effective anti-poverty approach spurring rural entrepreneurship and youth employment in the country.

WILL PRODUCER COMPANY ACT CHANGE FARMERS' FORTUNE?



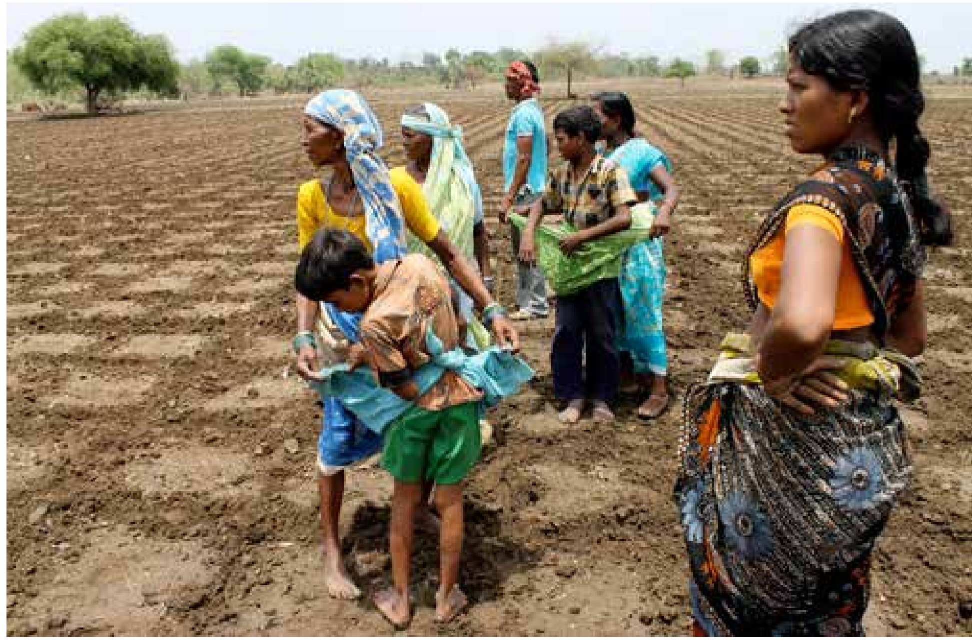
The Producer Company Act 2002 was born by incorporating a new Part IX A in the Companies Act, 1956 through an amendment bill introduced by Ministry of Company Affairs based on the report submitted by High Powered Committee under the Chairmanship of Dr YK Alagh.

The Producer Company Act has spirits of cooperative principles and yet it allows freedom to act independently like any other private business without government's interference. The Act has resulted into formation of Farmer Producer Companies (FPCs) across India.

Potential of Producer Company Act

Unlike other enterprises, agriculture is highly dependent on external factors like nature for its success; be it unseasonal rain, hailstorm, delayed monsoon, less rain, no rain, or excess rain, all of which makes agriculture a high risk and vulnerable proposition. This perpetual environment of high risk and vulnerability has significantly lowered farmers' confidence and suppressed their entrepreneurial instincts. The Act has potential to unleash their suppressed energies to promote rural entrepreneurship.

Before, farmers benefitted mainly from government's inputs driven schemes but market access interventions created more barriers than benefits and resulted into market inefficiencies that eventually exploited farmers. Despite being at the receiving end of market barriers and inefficiencies for generations, individually, small farmers could never muster enough strength to overcome market challenges. The Act encourages farmers to collectively delve into market operations to compete and design specific market solutions.



In agriculture value chains, despite increasing input costs, all active players such as suppliers, transporters, processors, traders and corporate except producer farmers have benefitted and gained prosperity. For the farmer, increase in input costs, without corresponding increase in output prices, has rendered agriculture unviable. And, in absence of any other locally available alternate livelihood options farmers can't even move out of agriculture. The Act encourages integration of farmers to join hands for a collective cause, help and even push them move up the agriculture value chains to actively participate in market functions, an unexplored lucrative territory for them so far. This would spur vertical business integration and diversify portfolios to reduce their vulnerabilities.

Value chain actors decide sale prices of their products and compete effectively in the markets whereas farmers depend on Minimum Support Price (MSP) fixed by government agencies to sell grains. Trader's cartelisation ensures that MSP becomes Maximum Gain Price (MGP) fetched by farmers, further squeezing their revenues. The end result has been declining contribution of agriculture to the national economy. It's also true, given farmers inability to deal effectively with market forces, in absence of MSP, farmers would have been in even much worse situation. The Act provides much needed opportunity to farmers to change their destiny. As FPCs spread gradually across the country, government could even think of doing away with MSP to allow farmers to decide and fix prices based on market dynamics as is done by

other businesses.

Status of Farmer Producer Companies

As per Small Farmers' Agribusiness Consortium, a society promoted by Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India, as on February 2015, there were 243 registered FPCs across India and another 457 were under the process of registration. Even primary cooperative societies are tempted to get transformed into producer companies. NGOs working in the livelihood sector promote and manage FPCs. There are hardly any notable examples of self-organised FPCs by farmers. NGO appoints qualified person as FPC CEO. Local youths get employed as project and extension staff to manage FPC operations and also become interface with farmers in villages. FPC Board of Directors is also local farmers.

FPCs are engaged in various agri-business activities such as trading of agriculture and related inputs, seed production and marketing, processed and value-added products, milk and milk products and production of bio pesticides. These companies require a number of government licenses such as seed license, seed production license, fertiliser license and pesticide license to sell agri-inputs. FPCs are also procuring mandi license to participate in local government mandis. Procuring these licenses take anywhere from six months to a year causing hardly any business activity in the first year.

In the last couple of years, farmer producer companies have taken off and backed with government's institutional support it has opened new vistas for rural entrepreneurship and youth employment. To give FPCs further boost Government of India observed the year 2014 as "Year of Farmer Producer Organisations (FPO)". However, number of registered FPCs is insignificant compared to the huge farmer population in the country.

So far, FPC promotion has been a top-down approach getting major impetus from the government. It would have to come up with effective communication strategies to popularise FPC concept across the length and breadth of the country. A potential target for government agencies is to ensure that majority of farmers become part of FPCs. For this they need to think and design innovative scaling up strategies. Once farmers realise its true potential FPCs would gain popularity, spread like a wild fire, current approach will turn upside down to become a bottom up approach.

Current Challenges of FPCs

Major challenges faced by FPCs include:

Inactive Board of Directors (BoDs) and Shareholders:
Selection of BoDs in the first place was constrained by availability of the PAN card, a mandatory requirement for company registration and a key constraint as majorities of rural population doesn't own it. Shareholders paid up capital is low that limits the capacity of FPC to raise capital for business expansion. Replacing inactive BoDs with new members with leadership qualities and commitment to farmers' growth and prosperity would be required to bring dynamism and strategic direction to FPCs.

Lack of Organisation Management Capabilities
FPC staff doesn't have prior experience and knowledge of successfully managing profit making organisations. As the scale of operations increase, management issues related to interpersonal skills, conflict management, shareholders engagement, team management, staff turnover and goal setting would become even more complex. Therefore, right selection of staff with leadership qualities, long- term commitment to agriculture development, create an environment that fosters inclusiveness.

Inadequate Business and Marketing Skills
FPCs start operations without proper written business plans, follow imprudent pricing strategies, start multiple businesses without doing cost-benefit analysis, lack business knowledge and face challenges of scaling up business operations. FPCs supporting agencies need to ensure that professional backup support and platform is available to new as well old FPCs to access need based business and marketing support.

The Future ahead

Fusion of compassionate and commercial approaches
FPC is a fusion of compassionate approach of social sector and commercial approach of private sector. FPCs would increasingly be serving the twin purpose of profit making and welfare of its shareholders and local communities. Self organised FPCs by farmers could become a norm in the future. Once that happens FPCs would get momentum leading to exponential increase in their numbers and scale of operations.

Sustainability of NGOs
India's projection as emerging economic power, global economic recession and regulatory environment could further squeeze funding opportunities for NGOs. Therefore, NGOs working in the livelihood sector may find promoting FPCs as a viable option for their sustainability and help improve their image as professionally managed entities. This may also benefit them to access CSR funds of corporate.

Expansion in Rural Entrepreneurship and Youth Employment
Promoting FPCs could prove an effective anti poverty approach spurring rural entrepreneurship and youth employment in the country. It could attract educated youths who are no more interested in agriculture and prefer to migrate to cities for better employment opportunities. As FPCs gain momentum it would set off cascading of new business opportunities in the form of agribusiness, value additions, processing, marketing, trading and spin off services that would attract the rural mass.