

Policy pointers

Organisations promoting farmer producer companies (FPCs) should raise members' awareness of their ownership of FPCs, encourage members to engage actively in FPC governance and have a clear withdrawal strategy.

The Indian government and other actors should consider revising the qualifying parameters for FPC-promoting organisations to enable local civil society organisations (CSOs) to help establish FPCs.

Government support is needed to boost FPCs' functioning and market linkages, such as through infrastructure support, public procurement and incentivising private sector engagement.

Innovations to increase women's participation in FPCs include joint spousal membership, incentivising quotas, support for women-only FPCs and more flexibility on membership asset requirements.

How can India's farmer producer companies better serve small-scale farmers?

Smallholder farmers in India face considerable challenges in terms of market access. The Indian government supports farmer producer companies (FPCs) as a legal-institutional innovation to achieve market benefits for small-scale farmers. FPCs have key agency-enhancing features that distinguish them from India's traditional cooperative legal structure, but they also demonstrate weaknesses that need to be addressed to ensure future success. With the government aiming to promote thousands more farmer producer organisations — most of which are expected to be FPCs — by 2024, it is critical to learn from FPCs' promotion and performance to date to inform the government's strategy. Targeted actions can help FPCs become more inclusive, sustainable and robust in promoting small producers' agency, and can strengthen FPCs' capacity to succeed in contemporary markets.

India's smallholder farmers face many challenges when engaging in markets. These include poor price information, lack of bargaining power and insufficient access to financial services, alongside limitations in public market regulation. While existing market channels — which include public ones such as Agricultural Produce Marketing Committee (APMC) *mandis* (regulated wholesale markets) and public procurement, and private ones like direct buying by supermarkets and contract farming — may be accessible to some, many small-scale producers are excluded from these opportunities.¹

To improve small farmers' market access, the Indian government changed its Companies Act in 2002 to enable individual farmers and farmer groups to form farmer producer companies (FPCs). FPC business structures are intended to be more professionalised and market-oriented

than traditional producer cooperatives, and to assist smaller producers' connection to farm input and output markets as collective buyers and sellers of products and services.

There were 13,800 FPCs in India registered in India by March 2021. Approximately one third of these were registered during the period April 2020–March 2021.² The government promotes FPCs through financial support and policy incentives. Some are well established, while others are still in their infancy. Many have not survived beyond the initial project period of government or donor support.^{3,4} The government's target is to establish 10,000 additional Farmer Producer Organisations, most of them FPCs, in the period 2019–2024. Now is therefore a critical time to learn from experience to date to guide the government's future FPC strategy.

State-level FPC federations are a response to a perceived need and embody a clear sense of common purpose

IIED's Empowering Producers in Commercial Agriculture (EPIC) project is interested in socio-legal empowerment and farmer agency.⁵ FPCs have the potential to promote agency

through design features that help ensure balances of power in internal governance, a level playing field with buyers, and social inclusion through opportunities for women and the smallest or otherwise marginalised farmers to share in market

benefits. However, changes are needed to enable FPCs' members to be in control and improve their livelihoods through better and fairer trading.⁴

This briefing describes the distinguishing features of India's FPCs compared to traditional cooperatives, including how they promote farmer agency and the conditions under which they do so. It considers challenges involved in ensuring FPCs succeed in enhancing farmer agency and provides recommendations for the Indian government, state governments, donors, FPC promoters and other supporting organisations.

FPCs and farmer agency

FPCs are a form of 'new generation cooperative' that seek to professionalise their internal operations and operate in a contemporary market environment. They are limited liability companies by share, operating in the same regulatory environment as companies but with the characteristics of a cooperative. They offer opportunities for India's smallholder farmers to obtain improved prices and more secure livelihoods through bulking and collective marketing opportunities and access to better inputs and services, and are designed to overcome weaknesses of the traditional farmer cooperative structure. Registered under India's Companies Act and monitored by the Registrar of Companies rather than the Registrar of Cooperative Societies, FPCs use the services of professionals to run them, while farmer members retain governance control.

FPCs are free from bureaucratic or government control and interference. Among the innovations permitted under the Act to promote strong internal governance and ensure business freedom are:

- Strong regulation on transparency and reporting, enabling members to demand operational and fiscal discipline from the board of directors.⁶
- A one-member-one-vote system regardless of how many company shares each producer

holds (as with cooperatives). Larger or wealthier farmers cannot exert undue influence.

- Inclusion on the board of up to two 'expert' non-producer directors, while only primary producers can vote on key decisions including on board membership. (With cooperatives, the Registrar of Cooperative Societies and government representatives can veto key decisions).
- Compulsory retirement of a proportion of the board after two or three years, and prohibition of board members' holding political office, to insulate the company from abuses of power and politicisation (see Box 1).

An inclusive and innovative feature of FPCs is that not only individuals but also self-help and user groups can become equity holders. This allows informal entities and pre-existing cooperatives to convert or converge into an FPC, leverages social capital and improves FPCs' chances of sustaining over time.⁶

FPCs can federate at state level by registering state-level FPCs comprised of individual FPCs. This helps strengthen their collective voice and improves market access. State-level FPC federations can conduct advocacy on government policy and regulations for FPCs and undertake collective negotiations with corporates. Currently there are 10 state-level federated FPCs. Some, such as Gujpro in Gujarat, have worked with state government, processors and exporters to access new markets such as for mango retail sales on behalf of member FPCs. Unlike with cooperatives, whose tiered structure was by design, state-level FPC federations are a response to a perceived need and embody a clearer sense of common purpose.

Buyers are more likely to engage with FPCs than with traditional cooperatives because of their business-like structure and insulation from politics (Box 2). This has been true in the case of some high-value-crop FPCs that undertake contract farming for large processors.⁴

Challenges to realising FPCs' potential

Several challenges and weaknesses constrain FPCs' capacity to enhance smallholder farmer agency and may relate to how FPCs are established from the outset.

The creation of FPCs has not been sufficiently producer driven or 'bottom-up'. Many promoters of FPCs with a mandate and financial support from the government are professional consultancies rather than local

Box 1. Innovative governance in milk FPCs

India's National Dairy Development Board has promoted an innovative governance structure among milk FPCs to strengthen member ownership and cohesiveness. Under this approach, members establish what is most in their interests — including to source milk only from members, that new members can join only during specific periods each year, and that only members supplying a minimum quantity of milk can vote. Each FPCs' board is chosen from three categories of members based on the quantity of milk supplied. Members eligible to vote must maintain a ratio of 3:1 flush-to-lean (summer-to-winter) milk supply and increase their shareholding after one year. Elected board members are prohibited from holding political office and have staggered terms, with one third retiring every year or two years.⁴ These features have built a sense of proprietorship and commitment among milk FPC members and have reduced the possibilities for free riding.

community-based civil society organisations (CSOs). This poses challenges for FPCs from an agency and sustainability perspective, particularly as such consultancies may withdraw once project funding comes to an end. Many new FPCs have not been sustained once promoting organisations have withdrawn active support.

Related to this, some professional organisations (in some cases NGOs) have avoided the long process of ensuring adequate member awareness and engagement so that the FPC will be truly farmer led. Members do not always know the name of their FPC or that they own the FPC. There is low member awareness of how FPCs are governed and of farmers' central governance role. Many farmers attend FPC meetings only irregularly, although when asked they generally want to remain members.⁴

FPC members tend to be larger landholders than non-FPC-member farmers. The reasons for this are unclear. Small-scale farmers nevertheless make up the majority of members. This is consistent with the profile of farmers in India: in 2018–2019 the majority of farming households owned or operated farms of two hectares or less (80% and 89% respectively).⁷ To ensure greater inclusion and equity, some public supporting organisations require 33% of an FPC's membership to comprise small and marginal farmers for the company to be eligible for matching equity grants.⁶ In such cases, as larger farmers cannot capture or control FPC decision making, there can be advantages to having some large farmer members. Larger farmer membership can help mobilise more

equity, increase business output and input sales, and increase overall turnover.

FPCs have been unable to overcome the gender inequality widespread in Indian rural society, especially in agriculture. There are very few women-only FPCs (7%), and mixed-membership FPCs have very few women members.⁴ Membership is typically based on landownership, generally in the name of male household members. There are also sociocultural restrictions on women in many states in India that prevent their membership of FPCs.

FPC market linkages are often insufficient to improve farmer incomes. FPCs do not guarantee market linkages. But they enable farmer groups to connect to markets more effectively and to increase their control of some stages of the value chain, such as aggregation, storage, processing, value addition, and even wholesaling or retailing. However, very few members sell all their produce through their FPC, and more than half do not sell through their FPC at all. This results from FPCs' having insufficient marketing options available, which disincentivises members from using their buying and selling services. Stronger market linkages, such as directly engaging with large buyers, contract farming, and selling through retail networks, farmers' markets or home delivery, would position FPCs better to offtake members' produce and generate the incentives needed.

Cooperation between FPCs is weak. There is little cooperation between FPCs, except where some promoters of several FPCs link

Box 2. Agency perspective on FPCs

Agency is defined as the ability to choose, act and effect change, whether individually or collectively. Promoting small-scale producer agency in commercial agriculture is about expanding available options and ensuring smallholder farmers can make informed decisions and influence the context and structural constraints in which they operate.

Applying an agency perspective to FPCs provides helpful pointers to address weaknesses and seize opportunities to strengthen how FPCs are established and governed for their members' benefit. FPCs have the potential to promote farmer agency through more internal accountability, political autonomy, an equal voice for all members (one person one vote), more inclusivity (innovations to enable women, other marginalised actors, and self-help and user groups to become members), and increased market linkages and political advocacy opportunities.

them together. Only three or four of the 10 state-level federated FPC entities have managed to foster such cooperation. Produce exchange between FPCs can help open up new markets, and cooperation could strengthen small producers' voice at regional and national levels. Cooperation can be driven by promoters and by state-level FPCs.

Opportunities and ways forward

FPCs can be more effective in advancing benefits for lower-income smallholder farmers and successfully replicated at scale. The Indian government, donors and promoting organisations should consider the following points when creating or adapting FPCs.

Organisations that promote the establishment of FPCs need to emphasise member ownership and control by encouraging and incentivising equity contributions, governance awareness and active participation. Adequate time is required for this to bear fruit, and stronger government guidelines for FPCs' capacity development, building on best practice and innovation in participatory methods, are needed.³ Promoting and supporting organisations also need a withdrawal strategy with clear sustainability metrics to ensure the FPC can thrive beyond initial establishment.

CSOs may be well placed to act as FPC-promoting organisations. FPC promoters play a key role in fostering agency-enhancing features and delivery of benefits to members. Recent preference for delegating this task to large and

financially robust non-local 'cluster based business organisations' (CBBOs) has a clear rationale but risks excluding smaller CSOs that can build on pre-existing relations of trust and social capital with local regions and farmer groups.³ In building member awareness of FPC governance structures and potential benefits, more locally rooted organisations may be better able than large external CBBOs to provide longer-term support.

Government support can boost FPCs considerably — for example, through direct financial incentives such as collateral-free loans, and facilitating linkages to output markets such as via public provisioning and leasing out or franchising to FPCs of warehouses, processing centres or retail supermarkets. Public procurement through FPCs and incentives for the private sector to engage with them will also assist success.

Greater attention to gender dynamics is needed. This could involve joint spousal membership, matching-equity-supported women's membership quotas, incentives for women-only FPCs and more flexibility on membership asset requirements.

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Notes

¹ Singh, S (2012) New Markets for Smallholders in India: Exclusion, Policy and Mechanisms. *Economic and Political Weekly* 47(52) 95–105. / ² Neti, A and Govil, R (2022) Farmer Producer Companies, Report II: Inclusion, Capitalisation and Incubation. Azim Premji University, Bangalore. / ³ Prasad, CS (2021) Consultation or consultants? *Seminar* 748, 46–50. / ⁴ Singh, S (2021) Understanding Performance and Impact of Producer Companies: Case Studies across States and Promoters in India. Centre for Management in Agriculture, Indian Institute of Management, Ahmedabad. / ⁵ IIED, Empowering Producers in Commercial Agriculture (EPIC). www.iied.org/empowering-producers-commercial-agriculture-epic / ⁶ Singh, S and Singh, T (2014) Producer Companies in India: Organisation and Performance. Allied, New Delhi. / ⁷ National Statistical Office, Ministry of Statistics & Programme Implementation, Government of India (2021) Situation assessment of agricultural households and land and holdings of households in rural India, 2018–19.

