Farmer Producer Companies

Report II: Inclusion, Capitalisation and Incubation

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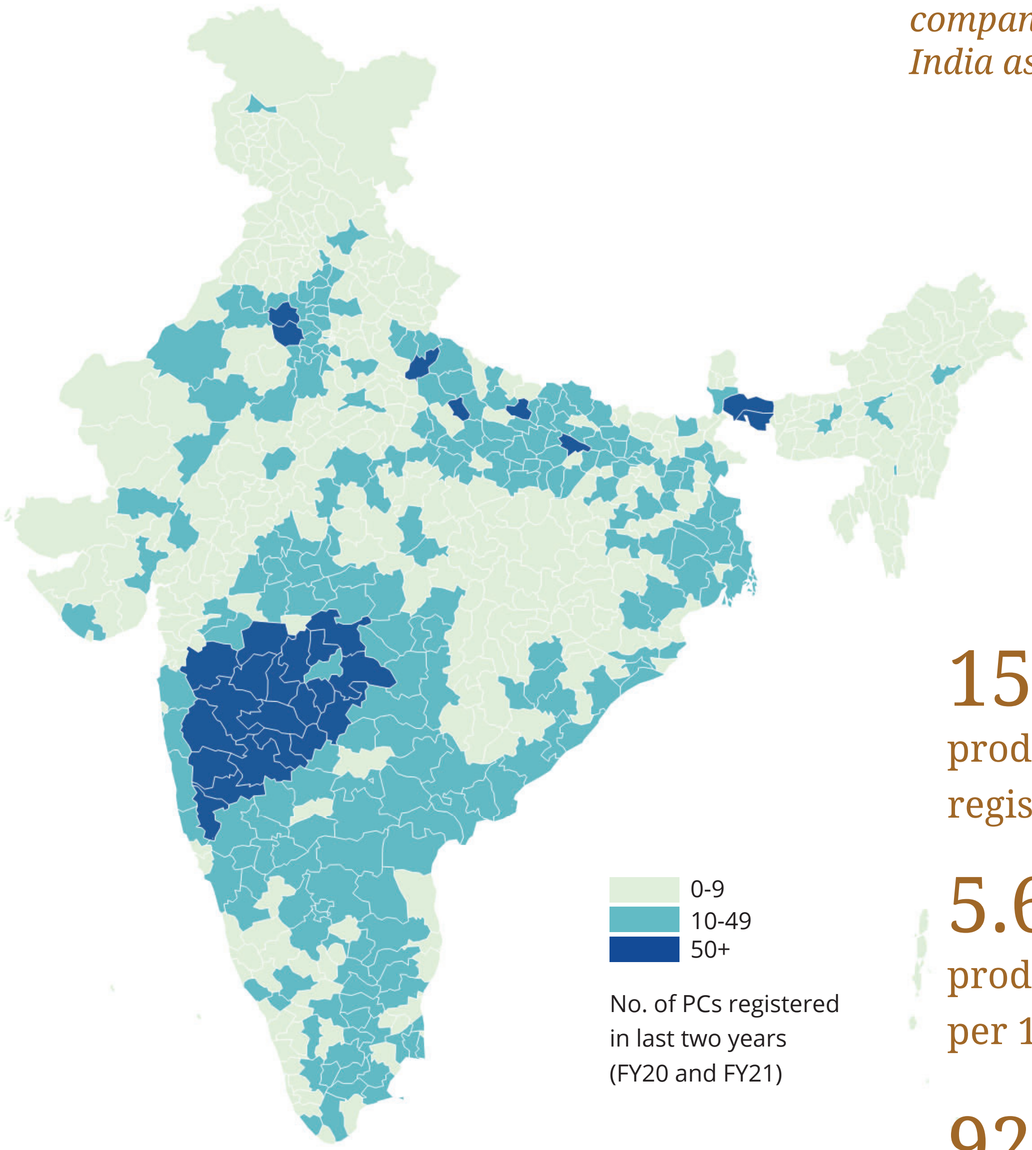
Executive Summary

Distribution of producer companies registered in India as of March 31, 2021



Map data: Datameet Created with Datawrapper

15,948
producer companies registered

5.6
producer companies per 1 lakh farmers

92%
farm-based

2.4%
with only women members

- ~45% of PCs are in just 2 states: MH and UP
- Ahmednagar, Nashik and Pune have more than 400 PCs each
- Geographical concentration has increased over last two years

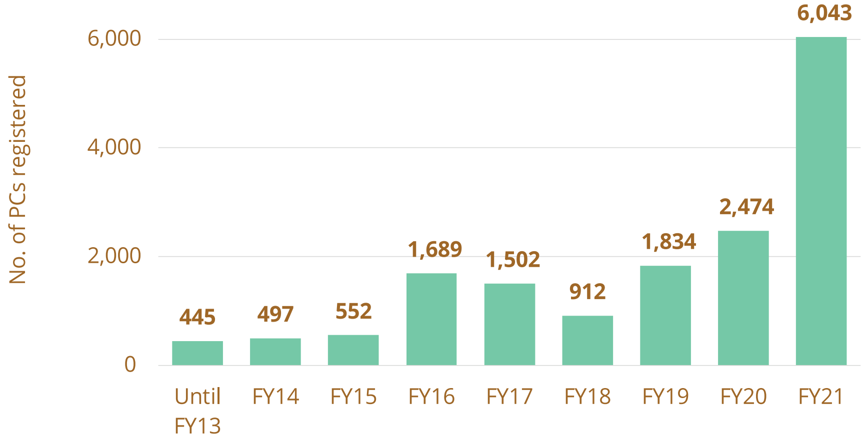
All data as of March 31, 2021; PC = producer company; PUC = paid-up capital

Recent policies appear conducive but have not significantly improved the operating environment for PCs

Scheme for Promotion of 10,000 Farmer Producer Organisations (FPOs)	● Out of budgetary outlay of Rs. 6866 crore, direct funding for FPOs is 3.5% ○ 41% is for CBBOs and NPMAs ○ 33% is for Equity Grant and Credit Guarantee Schemes, for which <4% of PCs qualify to apply ○ 19% is for CEO / accountant salaries which often go to CBBO resource persons temporarily deputed to FPOs ● Scheme envisions a federated operating model ○ But most FPOs being promoted in stand-alone model, requiring them to fend for themselves and create their own business ecosystem ○ Scheme does not allow for other models such as two-tier models (federated model not suitable for all crops/ contexts) ● Scheme does not require CBBOs to have ability to incubate new business, incl. business acumen, business strategy and strong internal governance (beyond compliance) ○ Skills required only in business planning and in 3 out of the following: crop husbandry, agri-marketing / value addition and processing, social mobilisation, law & accounts and IT/MIS ● No provisions for protection of small shareholders against losses due to fraud or mismanagement
Agriculture Infrastructure Fund and Priority Sector Lending	● Loans up to Rs. 2 crore to FPOs have an interest subvention of 3% p.a. ● Remaining benefits are covered through the 10,000 FPO Scheme ● Priority Sector Lending target for small and marginal farmers/FPOs is being increased in a phased manner from 8% to 10% (from FY21 to FY24) ● While both these schemes appear promising, past experience shows that most FPOs find it difficult to qualify for such loans
Social Stock Exchange (SSE)	● SSE allows social enterprises to raise equity or debt through multiple funding instruments and structures ● In addition to funding, listing on SSE would help the sector adopt standardized reporting of impact and lead to greater credibility ● PCs meet all listing criteria, but are not explicitly mentioned as being eligible for listing

** CBBO = Cluster Based Business Organisations; NPMA = National Project Management Agency*

More PCs were registered in last two years than previous 16 years combined; but inclusion, coverage and paid-up capital distribution has worsened



As of March 2021, India had 15,948 producer companies, about 1/3rd of which were registered in the last year alone

- Top 2 states (MH and UP): From 36% to 45%
- Women-only PCs: From 2.7% to 2.4%
- Coverage of aspirational districts continues to be low

Distribution of paid-up capital of PCs which were 0-2 years old

	Paid-up capital (PUC) distribution	
Category	Producer companies registered in FY18 and FY19*	Producer companies registered in FY20 and FY21**
≥ Rs. 50 lakh	0.5%	0.2%
≥ Rs. 25 lakh and < Rs. 50 lakh	0.1%	0.2%
≥ Rs. 10 lakh and < Rs. 25 lakh	7.6%	3.5%
≥ Rs. 5 lakh and < Rs. 10 lakh	14%	14%
> Rs. 1 lakh and < Rs. 5 lakh	9%	9%
Rs. 1 lakh	49%	52%
< Rs. 1 lakh	18%	22%

Excludes companies which had been struck-off or were in the process of being struck-off or for which PUC in 2019 is unavailable
* PUC as of May 2019
** PUC as of May 2021

Only ~18% of PCs registered in last two years reached PUC ≥ Rs. 5 lakh (threshold needed to start operations) compared to 23% two years ago

All data as of March 31, 2021; PC = producer company; PUC = paid-up capital

70% of companies showed no growth in paid-up capital (PUC) in 2 years. Higher growth among PCs with higher initial capital and among PCs in southern states

Growth in PUC	% of PCs
Growth of Rs. 1 lakh or more	24%
Growth of less than Rs. 1 lakh	5%
No change in PUC	70%
Negative change	1%

Excludes PCs which were struck-off or were in process of being struck-off by FY21, and PCs for which PUC in 2019 is unknown

Less than 25% of companies were able to grow paid-up capital substantially

Greater PUC growth among PCs in southern states: Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Kerala

		Growth in PUC in subsequent two years			
Paid-up capital in May 2019	No. of PCs	≥ 1 lakh	< 1 lakh	No change	Negative
≥ Rs. 50 lakh	89	37%	4%	55%	3%
≥ Rs. 25 lakh and < Rs. 50 lakh	84	26%	1%	67%	6%
≥ Rs. 10 lakh and < Rs. 25 lakh	739	24%	2%	70%	4%
≥ Rs. 5 lakh and < Rs. 10 lakh	1368	21%	5%	74%	1%
> Rs. 1 lakh and < Rs. 5 lakh	1075	28%	8%	63%	1%
Rs. 1 lakh	2502	19%	4%	77%	0%
< Rs. 1 lakh	685	35%	7%	57%	1%
Total	**6542**	**24%**	**5%**	**70%**	**1%**

1. Excludes PCs which were struck-off or were in process of being struck-off by FY21, and PCs for which PUC in 2019 is unknown
2. Negative growth primarily reflects corrections of typos by MCA

29% of companies grew their PUC in two years.

Greater growth among those with higher initial PUC

All data as of March 31, 2021; PC = producer company; PUC = paid-up capital

Summary

Signs of a 'bubble'

- Rapid growth in quantity, with low quality
- Worsening inclusion: increasing geographic concentration, reduction in % of women-only PCs
- Worsening capitalization metrics
- Policies unable to shift focus from promotion to incubation
- 45% of PCs > 7 years old have been struck-off

Way Forward

1 Inclusion and coverage

- Promote more women-only PCs
- Promote more PCs in rainfed and adivasi regions
- Promote more PCs in aspirational districts
- De-emphasise promotion in districts with high FPC density

2 Selection of suitable operating models

- Promote PCs in groups
- Different models are suitable for different contexts and commodities
- Adopt models such as federated, two-tier and others depending on context/commodities

3 Incubation support to reach financial and operational stability

- Build business acumen, capacities in operations, financial mgmt., internal governance & compliance
- Re-imagine CBBOs as business incubators of groups of PCs
- Measure effectiveness of CBBOs through % of PCs which secure govt. or non-govt. funding

4 Allow alternative funding channels

- Enable PCs to raise external capital by adopting two-tier model, with the market facing company registered as a private company
- Consider policy modifications:
  - Modify eligibility requirement for Equity Grant & Credit Guarantee Schemes
  - Modify Companies Act to allow PCs to raise external capital (with restrictions)
  - Allow PCs to list on the proposed Social Stock Exchange

5 Stronger shareholder protection

- Protect against fraud or malpractice, through modification of 10,000 FPO Scheme and / or Companies Act
  - Meagre savings and limited understanding of rights and risks as shareholders

1. Introduction

By the end of March 2019, there were approximately 7500 producer companies (PCs) registered in India (Neti, Govil and Rao 2019). The subsequent two years witnessed the registration of a large number of new PCs. Around the same time, the central government announced a scheme to promote 10,000 more producer organisations. This was followed by additional policy changes with the potential to favourably impact farmer producer organisations (FPOs)[1]. These rapid developments in both policy and practice warranted a re-examination of the current FPC landscape and the changes during the last two years.

Our previous report, published two years ago, titled 'Farmer Producer Companies: Past, Present and Future', was based on a two-year study on the status of producer companies in India as of March 2019 (Govil, Neti and Rao 2020). The objective of the study was to a) compile a database of all producer companies in India and analyse the characteristics, b) investigate their strategic challenges, capitalisation, internal governance, regulation, and long-term potential and c) recommend possible strategies for improving their viability.

The report highlighted the geographic disparity in promotion of PCs where certain districts (such as Pune) had large numbers of PCs and over 32 districts had none (despite having large numbers of agricultural workers). It also pointed out that a majority of producer companies (65%) were severely undercapitalised hampering their ability to start operations. Those which managed to start their operations found it difficult to sustain and grow due to lack of business acumen and expertise and an underdeveloped business ecosystem. Further, most PCs failed to establish strong internal governance mechanisms and comply with regulatory requirements.

The study also highlighted the lack of individual and collective sense of ownership among producer-shareholders. It also underscored the incongruity in normative imagination of the purpose of PCs, among different stakeholders (such as small producers, NGOs acting as promoting institutions, government bodies, etc.). The above shortcomings threatened the long-term viability of individual producer companies and weakened the promise of the sector as a whole in improving the livelihoods of small producers.

Since then, new policies and schemes have been introduced with the potential to impact FPCs: Scheme for Promotion of 10,000 FPOs, Agriculture Infrastructure Fund and the announcement regarding establishment of a Social Stock Exchange in India. At the same time, large numbers of producer companies continued to be promoted in the subsequent two years (FY20 and FY21).

[1] Farmer Producer Companies (FPCs) are farmer collectives which are registered under the Companies Act. Farmer Producer Organisations (FPOs) is a broader term which includes FPCs, Cooperatives and farmer collectives registered as Societies and other organisational forms. The term Producer Companies (PCs) includes producer companies of farmers and other primary producers such as weavers and artisans.

In order to understand the changes in the FPC landscape in the last two years, we have examined the key relevant policies mentioned above. Aggregated data on producer companies in India, continues to be unavailable. Therefore, as for the previous study (and following the same methodology, including correction for errors, omissions, etc.), we have compiled a database of all producer companies registered in the country from April 1, 2019 to March 31, 2021.

Based on the analysis of policies and the database, this brief report examines the changes in the FPC landscape in the last two years. We start with a review of the new policies and their potential impact on FPCs operating environment. Then we proceed to examine changes in geographical spread and capitalization of producer companies in the last two years, in order to determine the extent to which the gaps in the previous promotion efforts have been addressed. The report identifies five focus areas to enable the sector to reach its full potential in enhancing the incomes and reducing the vulnerabilities of small producers.

2. Changes in Policy Landscape[1]

In the past two years, several new policies and schemes have been introduced with the potential to impact FPCs. In addition, several other schemes related to agriculture now explicitly specify benefits that are available to FPOs. This section examines three key policies and schemes, namely, Scheme for Promotion of 10,000 FPOs, Agriculture Infrastructure Fund and the announcement regarding establishment of a Social Stock Exchange in India.

Scheme for Promotion of 10,000 Farmer Producer Organisations (FPOs)

As part of the February 2019 Union Budget, the Government of India announced a central scheme for promoting 10,000 FPOs over a period of five years. Subsequently, in December 2019, Small Farmers' Agri-business Consortium (SFAC) released a “Strategy Paper for Promotion of 10,000 Farmer Producer Organizations (FPOs)”, which was followed in July 2020 by the release of Operational Guidelines by the Department of Agriculture, Co-operation & Farmers’ Welfare (SFAC 2019, DACFW 2020). The scheme aims to “provide holistic and broad based supportive ecosystem to form new 10,000 FPOs to facilitate development of vibrant and sustainable income oriented farming and for overall socio-economic development and wellbeing of agrarian communities” (DACFW 2020). This is an important initiative to collectivise farmers whose small landholdings have limited economic viability.

The 10,000 FPO Scheme envisions formation of thousands of new producer organisations, with the majority of them registered as producer companies. It aims to promote two FPOs each in 5000 blocks out of the 7000 blocks in the country, with at least 1500 FPOs located in aspirational districts.

Although over 8500+ PCs have been registered in the last two years, it is unclear which of these have been promoted under the Scheme, as only 1250 FPOs are budgeted for during the first two years under the Scheme (Table 2.1). Therefore, it is difficult to assess whether the policy implementation is on track to promote PCs in 5000 blocks, with at least 1500 of them in aspirational districts as stated.

It is important for a policy on FPOs to set specific targets for promoting women-owned FPOs, because women constitute more than 37% of agricultural workers in the country and currently only 2.4% of PCs are women-only (see Chapter 4). However, there is no mention of women in SFAC strategy paper. The Operational Guidelines specify a focus on including women farmers/ SHGs as members. And, the eligibility criteria for Equity Grant Scheme require at least one woman to be on the board and state a “preference” for women as shareholders. Requiring only a single female board member essentially guarantees little or no participation of female producers in the company.

Furthermore, mixed-gender membership in organisations may not be effective given the social norms in India. For example, multiple studies on SHGs have shown that the performance of all-women SHGs is better compared to the

[1] This chapter is based on Govil and Neti 2021a

performance of mixed-gender SHGs comprising both men and women, in terms of their financial management practices, savings activities and repayment rates, and overall sustainability of the groups. It was also found that the drop-out rates of members in mixed groups was higher than in all-women groups (Parida and Sinha 2010). Women farmers typically have lesser access to information and control over money, time and mobility. Therefore, they require greater capacity building for accessing equity and other financial and non-financial support. As more and more government schemes include FPOs as vehicles for implementation of agricultural interventions, unless there is specific focus on inclusion of women farmers and building their capacity, they are likely to be left out of income and livelihood enhancement opportunities and other benefits (Vasavada 2021).

Women-only collectives usually perform better than mixed-gender ones

Another important aspect of the scheme is the "One District One Product" approach to enable product specialization in agricultural clusters. At first glance, this approach may appear to be highly restrictive, since the majority of farmers in India grow more than one crop (Prasad, Dutta and Ravichandran 2020). However, this provision warrants a closer analysis.

Clustering enables greater scale in trading volumes and processing, resulting in lower per unit costs, higher capacity utilization of assets and improves negotiating power in input and output markets. It also promotes the development of much needed product-specific expertise. Our interviews with stakeholders also highlight the need to focus on a few main crops (but not just one) for the same reason (Govil, Neti and Rao 2020). Focusing on multiple key crops enables producer companies to increase frequency of engagement with members and develop loyalty and feeling of ownership.

It is important to note that NABARD seems to be implementing this provision in a context specific manner: In most cases, NABARD has chosen the specific crop by block, rather than by district, and in many cases, more than one crop has been listed as the focus crop (NABARD 2020). However, it may be desirable to add a second crop for other blocks too, where farmers grow more than one crop in a year.

The 10,000 FPO Scheme expects that multiple FPOs can be federated at district, state or national level for processing and marketing purposes. Such federations have already been shown to be quite valuable in practice: to wit, the many state level federations which have been operating for the last several years, are able to trade at higher volumes and negotiate better with business partners.

However, since small producer companies have limited resources, this model does not enable greater investment in processing facilities or capacity building of member companies at significant scale. Furthermore, since most companies of small producers have limited capabilities, it is important for the federations to be able to offer capacity building support and business services to its member companies.

For this reason, we suggest a two-tier model of producer company promotion. In such a model, PCs are promoted in groups, with multiple 'supplier' PCs together with one market-facing company registered as a PC or a private limited company. The market-facing company, besides processing and marketing of their produce, provides them technical assistance (agriculture extension, accounting, business planning) as well as capacity building and operational support. The multiple producer companies should have significant shareholding in the market-facing company, and should not merely be members (Govil, Neti and Rao 2020). Significant shareholding ensures a broader commitment to long-term sustainability of the group of enterprises, in contrast to a federated model, where the commitment of individual companies is largely transactional in nature. Despite this, a federated model works well for certain commodities and contexts such as dairies. Therefore, it is important to select operating models which are well-suited for each particular context and commodities.

For the 10,000 FPO Scheme, the Union government has allocated Rs. 6866 crore, with Rs. 4496 crore to be disbursed until FY24 and Rs. 2370 crore in another four years until FY28 (Table 2.1). All 10,000 producer organisations are expected to be registered by the end of year 5 (FY24).

In the budget, 'FPO formation and incubation' cost refers to the cost of community mobilization incurred by resource institutions. FPO management cost of Rs. 18 lakh per FPO (over 3 years) includes Rs. 13.24 lakh for salaries of COE and accountant (combined, including 5% annual increment), one-time registration charges of up to Rs. 40,000, Rs. 2 lakh for office rent, utilities and furniture, and Rs. 90,000 for travel, stationary, etc. (DACFW 2020).

Table 2.1 Budgetary allocations under Scheme for Promotion of 10,000 FPOs

Budgetary Allocation for Promotion of 10000 FPOs (Rs in crore)													
Components	Unit Cost	Budget for 1 to 5 years (2019-20 to 2023-24)						Budget for committed liabilities for 6th to 9 years (2024-25 to 2027-28)					Grand Total Budget for 10000 FPOs
		Year					Total (1 to 5 year)	Year				(6 to 9 year)	
		1	2	3	4	5		6	7	8	9		
Number of FPOs	**Nos.**	**250**	**1000**	**2500**	**4500**	**1750**	**10000**	**NA**	**NA**	**NA**	**NA**	**NA**	
FPO Formation & Incubation Cost (10000 FPOs) including CBBOs cost	0.25/ FPO for 5 years	1.25	62.5	187.5	412.5	500	1175	487.5	437.5	312.5	87.5	1325	2500
FPO Management Cost (10000 FPOs)	0.18/ FPO for 3 years	15	75	225	480	525	1320	375	105	0	0	480	1800
Equity Grant (10000 FPOs)	0.15	0	38	150	375	675	1238	263	NA	NA	NA	263	1500
Credit Guarantee Fund	L.S.	0	0	150	150	250	550	200	NA	NA	NA	200	750
Monitoring & data management/MIS portal including cost of NPMA	L.S.	5	8	10	10	8	41	3	3	1.5	1.5	9	50
Capacity building through specialised training institutes	L.S.	.	3	3	3	3	12	3	3	3	3	12	24
Sub Total		**32.5**	**186.5**	**725.5**	**1430.5**	**1961.0**	**4336.3**	**1331.5**	**548.5**	**317.0**	**92.0**	**2289.0**	**6625.0**
Supervision charges, other administrative expenses, cost for NCDC and SFAC (@5%)		1.0	6.0	24.0	48.0	66.0	145.0	45.0	18.0	11.0	3.0	77.0	222.0
Education and 3rd party evaluation by DACFW		0.0	1.0	2.0	5.0	7.0	15.0	1.5	1.0	1.0	0.5	4.0	19.0
Grand Total		**34**	**19.5**	**751.5**	**1483.5**	**2033.5**	**4496.0**	**1378**	**567.5**	**329.0**	**95.5**	**2374.0**	**6866.0**

Source: SFAC 2019

Curiously, the budgetary allocation assumes that all FPOs will be able to avail of full equity grant of Rs. 15 lakh within two years of registration. As these are matching grants, an FPO becomes eligible to receive equity grant only after it has raised an equal amount through its own members. However, it is unrealistic to expect small and marginal farmers to be able to contribute Rs. 15 lakh in paid-up capital within 2 years to become eligible for the full matching equity grant; experience shows that even partial amounts for eligibility for each tranche of payment is difficult to achieve in a two-year timeframe. This is borne out by our analysis too: Less than 3% of companies cross Rs. 15 lakh paid-up capital within two years of registration.

Furthermore, over a 5-year timeframe (the maximum time limit under the equity grant scheme), about 33% were able to cross Rs. 5 lakh in paid-up capital, about 12% crossed Rs. 10 lakh, and slightly less than 4% of companies crossed Rs. 15 lakh. Therefore it is not surprising that only 735 producer companies have received Equity Grants from SFAC, cumulatively during the seven years from April 1 2014 to March 31, 2021 (SFAC n.d.). Eligibility for credit guarantees shows similar patterns: very few companies meet minimum eligibility criteria even after many years of operation.

Another way of analysing the budgetary support for FPOs is by examining the proportion which can be categorized as direct versus indirect support. For example, in most cases, resource institutions depute a member of their team as the CEO for FPOs and provide accounting services. Thus Rs. 13.2 lakh of the management costs are likely to go to the resource institutions, rather than directly to the PCs. Thus, as shown in Table 2.2 a total of Rs. 2490 crore is provided as direct financial support to PCs, and an additional Rs. 1324 crore as indirect financial support towards management costs. Rs. 2810 crore is designated for CBBOs (Cluster Based Business Organisations, similar to erstwhile RIs and POPIs) responsible for formation, registration and support of producer companies in initial years. And finally, Rs. 241 crore is allocated for implementing agencies SFAC, NABARD and NCDC and Dept. of Agriculture, Cooperation and Farmers' Welfare.

In general, programs which fund only promoting institutions without simultaneously providing direct funding to the producer companies themselves offer limited value to producers. Therefore, it would be important to extend the direct and indirect funding of FPOs to five years rather than three years (funding for CBBOs is provisioned for five years already).

Table 2.2 Budgetary allocations by institutional category

Component	**Direct to FPO**	**Indirect to FPO**	**For CBBOs, NPMAs**	**For DAC&FW, NABARD, SFAC, NCDC**	**Total budget allocated**
FPO formation and incubation			₹ 2,500		₹ 2,500
FPO management					
CEO/ accountant salaries		₹ 1,324			₹ 1,324
Registration charges	₹ 40				₹ 40
Office rent, utilities, furniture	₹ 200				₹ 200
Other			₹ 236		₹ 236
Equity grant	₹ 1,500				₹ 1,500
Credit guarantee fund	₹ 750				₹ 750
Monitoring, capacity building			₹ 74		₹ 74
Implementing agencies				₹ 241	₹ 241
Total	**₹ 2,490**	**₹ 1,324**	**₹ 2,810**	**₹ 241**	**₹ 6,866**
% of total budget	36%	19%	41%	4%	100%

Numbers may not add to 100% due to rounding
Source: Authors calculations based on DACFW 2020 (Operational Guidelines)

The 10,000 FPO Scheme envisions a multilayer and multi-institution structure for management and execution of the scheme. Overall, at the national level, NABARD, SFAC, NCDC and others[2] have been designated as the primary implementation agencies, with a national committee[3] constituted in the DAC&FW designated for identifying and allocating programmatic and policy targets.

To provide program management, monitoring and evaluation, and support the 'implementing agencies', the scheme aims to empanel a National Project Management Agency (NPMA). The NPMA is also expected to play a strategic role in planning the project level details (identifying target value chains, defining clusters, drafting detailed standard operating procedures for the stakeholders, etc.), and also provide hand-holding and mentoring support to field level organizations.

The field level organisations are called Cluster Based Business Organizations (CBBOs) and are responsible for forming and promoting FPOs, which includes community mobilisation, registration of FPOs and training of board of directors of the FPOs, among other responsibilities. They are similar to Resource Institutions (RIs) and Producer Organization Promoting Institutions (POPIs) of previous schemes in many ways.

Past experience with PC promotion shows that many producer companies struggle with initiating business operations, running and scaling-up the business and generating income for producer-members. One of the main reasons for this shortcoming is lack of adequate business expertise and acumen, in the FPCs as well as the promoting institution. So it is worthwhile to examine whether/ how this gap has been filled in the current scheme.

The Scheme's guidelines as well as the RFPs issued by NABARD and SFAC require CBBOs to have technical experts in 3 of the 5 following domains: Crop husbandry, agri-marketing / value addition and processing, social mobilisation, law & accounts and IT/MIS (NABARD 2020b, SFAC 2020, DACFW 2020). These are important foundational competencies necessary for any producer institution. The Scheme and relevant RFPs also require CBBOs to have expertise in business plan creation, and the ability to deliver on the business plan. The annual payments to CBBOs require achieving business plan milestones, as well as other project targets, which is prudent.

However, nurturing a business requires more than technical and business planning skills. It also requires business acumen to identify opportunities, develop strategy and improve it over time, to convert the strategy into plans and operationalize them effectively. While development of an initial business plan is essential, it is not sufficient for business success. These capacities need to be built in the FPC among board members and the management team. As promoters of producer companies, this responsibility should fall on CBBOs. Thus, it is

[2] Others include National Agricultural Cooperative Marketing Federation of India (NAFED), North Eastern Regional Agricultural Marketing Corporation Limited (NERAMAC), Tamil Nadu-Small Farmers Agri-Business Consortium (TN-SFAC), Small Farmers Agri-Business Consortium Haryana (SFACH), Watershed Development Department (WDD)- Karnataka & Foundation for Development of Rural Value Chains (FDRVC)- Ministry of Rural Development (MoRD). (MoFWA 2021)

[3] National level Project Management Advisory and Fund Sanctioning Committee

essential for CBBOs to have team members with not only technical and planning skills but also business acumen and experience. These skills must be transferred to the FPOs by the time the CBBO engagement ends.

Summary

The scheme for promotion and support of 10,000 FPOs is timely in that it encourages formation of a large number of producer organisations to enhance incomes and livelihoods of small producers. Its cluster-based approach is context specific and caters to major crops grown in identified blocks though there is some room for improvement.

Despite the mention of a focus on women, the Scheme does not set targets for promoting women-only companies, which is essential for the purposes of inclusion, as mixed-gender collectives have a poorer track-record than women-only ones.

Although the scheme intends FPOs to be promoted in federated models for achieving economies of scale, in practice, most PCs continue to be promoted in a stand-alone model, requiring them to fend for themselves and develop their own ecosystem. Furthermore, the scheme's emphasis on the federated model may inhibit experimentation with other operating models (such as a two-tier model) suitable for different kinds of commodities and local contexts.

Despite a budgetary outlay of Rs. 6866 crore, the direct funding for FPOs is 3.5% of total, plus funding available under Equity Grant and Credit Guarantee Schemes for which < 4% of PCs become fully eligible. Most of the remaining funding is for CBBO teams and for salaries of CEO and accountant which often go to a CBBO resource person temporarily deputed to the FPO.

Moreover, the Scheme envisions that CBBOs would provide technical and management support but does not include business strategy and acumen (which is essential for business success) as a requirement. In practice, CBBOs themselves do not have expertise in identifying business opportunities, responding to changing external market scenario, managing the financial health of the organization and protecting shareholder interests in the long run.

Furthermore, small producers are not aware of the implications (including risks) of holding shares in a company. In case of mismanagement or deliberate fraud, they stand to lose their meagre savings. Therefore, it is important to strengthen mechanisms for small shareholder protection.

While the policy appears conducive for PCs, it is primarily focused on starting large number of PCs

Thus, there are several areas where the Scheme falls short, such as, lack of focus on women producers, establishment of PCs in marginalised regions, limited imagination of operating models, etc. These shortcomings reveal that the policy pays limited attention to ground realities and learnings from the previous 16 years of FPC promotion.

Agriculture Infrastructure Fund and Priority Sector Lending

In May 2020, the Finance Minister announced a Rs. 1 lakh crore Agriculture Infrastructure Fund for supporting the development of farm-gate infrastructure for farmers. It was subsequently established as National Agriculture Infra Financing Facility in July 2020, and is operational until FY33 (MoAFW 2020).

The purpose of the fund is to mobilise medium-term and long-term funding from banks and financial institutions for agricultural infrastructure projects (at farmgate and aggregation points) and post-harvest infrastructure. The funding is available to individual farmers, FPOs and their federations, PACS, marketing cooperative societies and others. This scheme also facilitates seamless convergence of multiple capital subsidy schemes of central and state governments such as the Sub-Mission on Agricultural Mechanisation, PM-KUSUM scheme for solar pumping systems, and Gobar Dhan Scheme. For FPOs, loans up to Rs 2 crore have an interest subvention of 3% per annum. The Fund's credit guarantee coverage does not extend to FPOs, as this is covered under existing provisions of the 10,000 FPO Scheme (DACFW n.d.).

The guidelines do not specify minimum eligibility criteria for FPOs and data on fund disbursals to FPOs is not available. If funds under this scheme are made available to large numbers of producer companies of small farmers, it has the potential to benefit thousands of producer companies and member-farmers by enabling higher profits through primary value-addition activities.

The Priority Sector Lending includes loans of up to Rs. 2 crore for FPOs pre and post-harvest activities, agricultural implements and machinery and loans up to Rs 5 crore for undertaking farming with assured marketing of their produce at a pre-determined price (RBI 2021). The target for small and marginal farmers (including FPOs) is being increased in a phased manner from 8% to 10% (from FY21 to FY24) of adjusted net bank credit.

Overall, while both these schemes appear promising, past experience with Equity Grant and Credit Guarantee Schemes shows that most FPOs are unlikely to qualify for such loans. It would be valuable if eligibility requirements for these schemes are adjusted to enable a greater percentage of FPOs to qualify for them.

Social Stock Exchange

Producer companies are for-profit enterprises with a social purpose, driven by both social and commercial imperatives. However, most PCs face capital and credit shortages, which prevent them from starting or growing their business operations. While several government schemes (such as the 10,000 FPO Scheme, priority sector lending and others) have provisions for addressing the equity and credit needs of PCs, very few PCs become eligible for these schemes, as discussed earlier. Thus, the announcement of a Social Stock Exchange (SSE) which proposes to enable access to multiple sources of funding for social enterprises is a welcome step. The idea of Social Stock Exchange was proposed by the Finance Minister in the FY 2019-20 budget speech. Subsequently, SEBI has released reports by a Working Group in June 2020 and a Technical Group in May 2021.

The Working Group Report on Social Stock Exchange defines social enterprises as either non-profit organisations or For-Profit Enterprises (FPEs) with a declared intent to create social impact and a commitment to measuring and reporting such impact (SEBI 2020).

The SSE envisions multiple funding instruments and structures relevant for for-profit enterprises, such as individual or pooled equity and debt (social venture funds and mutual funds), and pay-for-success structured products (such as Development Impact Bonds), among others. It aims to attract multiple categories of investors such as impact investors (including international development finance institutions and local investors) seeking both commercial and social returns, philanthropies and foundations, CSR funds, retail and commercial investors. The SSE also offers a mechanism for institutionalising and mainstreaming procedures for establishing credibility by selecting only those entities that are creating and reporting measurable social impact.

This kind of a stock exchange would be ideal for producer companies for raising equity and debt from investors seeking a mix of social and commercial returns. The social impact reporting requirement of a social stock exchange would also help distinguish between companies formed by small farmers from those formed by large farmers.

The SEBI Technical Group Report on Social Stock Exchange specifies eligibility requirements for listing on the SSE in Section 2.1. Producer companies would qualify under clause 2.1.(a).ii for "promoting education, employability and livelihoods" and under clause 2.1.(a).ix for "promoting livelihoods for rural and urban poor, including enhancing income of small and marginal farmers and workers in the non-farm sector". They also meet the criteria listed under clause 2.1.(c), namely, having more than 67% of their revenues, expenditures and beneficiaries aligning to the specific social purpose and measurable impact. Therefore, producer companies already qualify under the various definitions listed in the Technical Group Report (SEBI 2021). However, since they are not mentioned specifically as examples of social enterprises, it is likely to create ambiguity and confusion, resulting in their exclusion.

Therefore, we recommend that producer companies be mentioned explicitly in SSE documents as a category of enterprises which are allowed to list on the Social Stock Exchange. The Technical Group could also review eligibility criteria for listing and consider modifications for small producer companies (e.g. reduction of minimum turnover from Rs. 50 lakh to Rs. 20 lakh if all other criteria are met). Allowing producer companies to raise equity through SSE would also require a modification in The Companies Act.

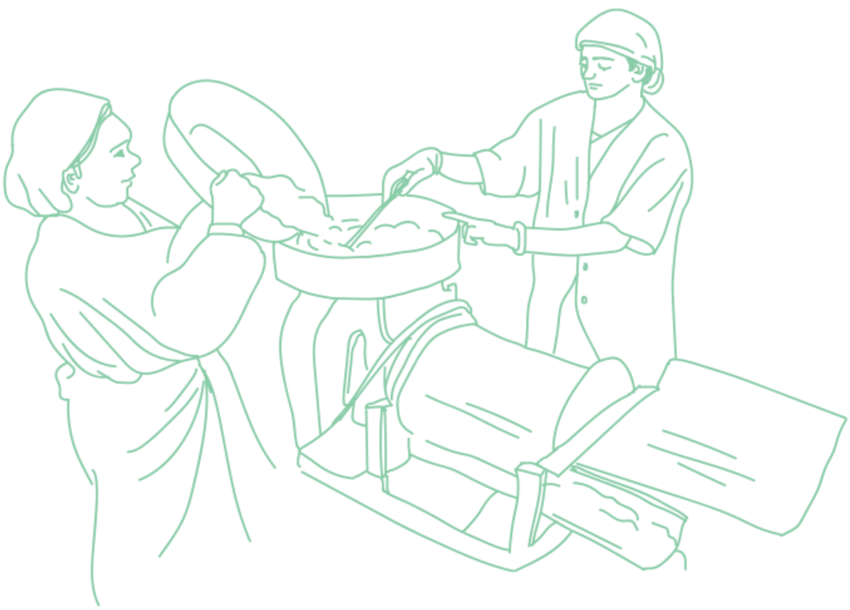
Allowing PCs to list on SSE would enable them to gain credibility and raise funds from socially minded investors

Enabling PCs to list on the social stock exchange would allow them to raise funds from socially-minded investors and overcome one of the biggest factors limiting their growth today, namely a lack of funding. A secondary impact of listing on SSE would be the adoption of standardized reporting of impact on small producers, which may lend greater credibility to the sector. Listing of producer companies on a social stock exchange would also help foster a shared imagination and understanding among various stakeholders and emphasize dual (social and economic) objectives of producer companies.

Policy landscape summary

In principle, recent changes in the policy environment appear to be conducive for PCs. However, the focus continues to be on promotion rather than strengthening PCs and their ecosystem (financial and operational), which is necessary for their success. The policies should also focus on building capacity of producer companies through training and hiring of people with business acumen, establishing strong internal governance, enabling infusion of capital and debt and linking companies with relevant government schemes (such as those for setting up processing facilities).

In fact, one measure of effectiveness of CBBOs could be the percentage of PCs promoted by them which become eligible for Equity Matching, Credit Guarantee and other schemes.



3. Number of Producer Companies

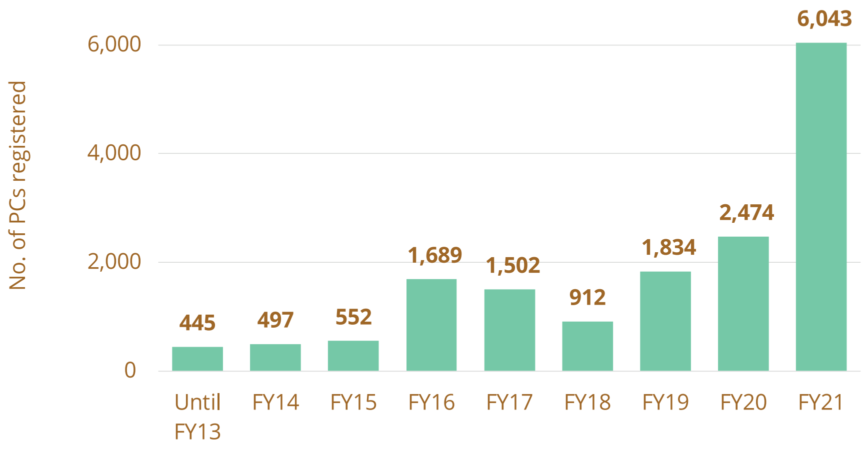
For our earlier report two years ago, we compiled a database of all producer companies registered in the country as of March 31, 2019. For this report we updated that database to include companies registered until March 31, 2021. As done for the previous report, we corrected the entire database for errors and omissions, and updated the paid-up capital data for all companies. The quantitative data presented in this report is based on this database[1]. This has enabled us to compare the current PC registrations, coverage and paid-up capital with the previous data.

Registration data shows that there has been a dramatic increase in producer companies in the last two financial years. As shown in Figure 3.1, 2474 and 6043 companies were registered in FY20 and FY21 respectively, compared to 7431 producer companies in the preceding 16 years (as of March 31, 2019)[2]. This brings the total number of producer companies registered in the country as of March 31, 2021 to 15,948 (Govil and Neti 2021b).

In the last two years, the total number of PCs has more than doubled

In fact, more companies have been registered in the past 2 years than the previous 16 years combined nationally and in several states such as Maharashtra, Uttar Pradesh, Haryana, Bihar, West Bengal, and others. This is remarkable since most of the registrations took place during the Covid-19 pandemic period (March 2020 – March 2021).

Figure 3.1 Year-wise registration of producer companies



Out of the PCs registered in the last two years, a maximum of 1250 could have been promoted under the 10,000 FPO Scheme (going by the budgetary allocation of the Scheme). The rest are being promoted under state programs, CSR, philanthropic grants and self-funded efforts.

[1] For further details on methodology, please see Govil, Neti and Rao 2020.

[2] This number is slightly different than previously reported in Govil, Neti and Rao 2020 due to some companies missing in files downloaded earlier from the Ministry of Corporate Affairs website.

Out of all the PCs registered, 830 PCs had been 'struck-off' or were in the process of being struck-off by the Ministry of Corporate Affairs (MCA). The MCA strikes-off companies for four reasons[3]: a) failure to commence business operations within one year of incorporation, b) failure of original subscribers (shareholders) to fully pay committed subscription (share capital) within 180 days of registration, c) not carrying on any business or operation for a period of two immediately preceding financial years without submitting any application for obtaining the status of a dormant company, and, d) failure to maintain any of the mutual assistance principles. The Ministry classifies the status of remaining companies as 'active'.

Table 3.1 Percentage of companies struck-off, by year of registration

	Registered	Struck-off	% of total
Until FY13	445	202	45%
FY14	497	225	45%
FY15	552	181	33%
FY16	1,689	192	11%
FY17-FY21 (5yrs or younger)	12,765	30	0.2%

By March 2021, among companies which were seven years or older, 45% had been struck-off by MCA (Table 3.1). It is important to note that it usually takes a few years for companies to be struck-off. Therefore, the low percentage of struck-off companies in recent years should not be interpreted as a sign of improvement in quality of companies. While it is encouraging to see efforts to promote large numbers of PCs, this analysis highlights the need for greater support to help PCs start operations and become sustainable over time.

[3] Under Companies Act 2013 Section 248 or Section 581ZP

4. Coverage and Inclusion

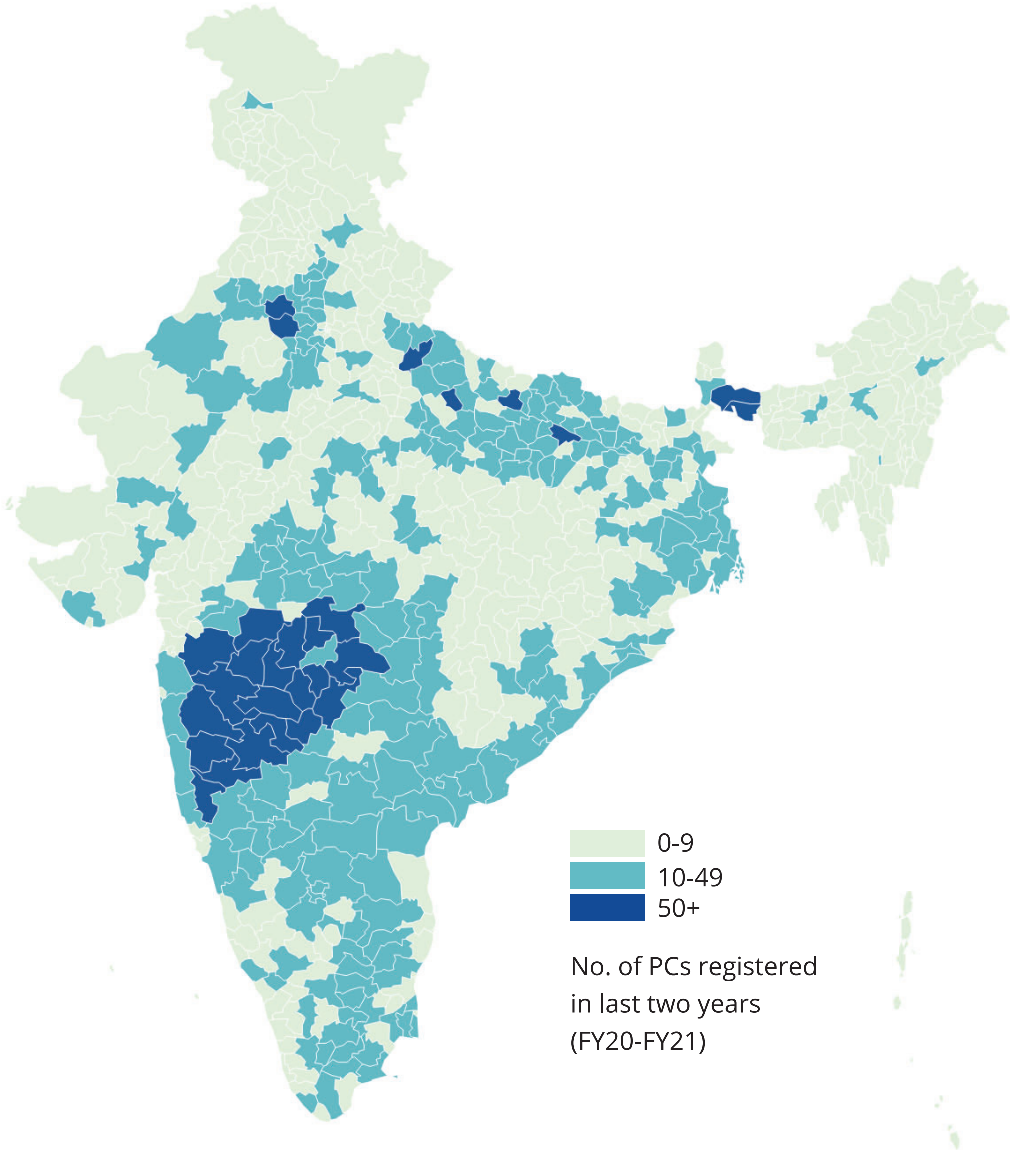
As of March 2021, about half the producer companies were in just three states: Maharashtra, Uttar Pradesh and Tamil Nadu (Table 4.1). This is because half of the PCs promoted in the last two years were in just two states (38% in Maharashtra and 13% in Uttar Pradesh).

Table 4.1 State-wise distribution of producer companies for top 20 states

	FY04 - FY19		FY20 and FY21		Total as of FY21	
State	Number	% of total	Number	% of total	Number	% of total
Maharashtra	1972	27%	3244	38%	5216	33%
Uttar Pradesh	751	10%	1107	13%	1858	12%
Tamil Nadu	541	7%	376	4%	917	6%
Madhya Pradesh	459	6%	417	5%	876	5%
Haryana	305	4%	464	5%	769	5%
Bihar	303	4%	407	5%	710	4%
Karnataka	364	5%	337	4%	701	4%
West Bengal	274	4%	394	5%	668	4%
Odisha	363	5%	271	3%	634	4%
Telangana	421	6%	191	2%	612	4%
Rajasthan	374	5%	197	2%	571	4%
Andhra Pradesh	242	3%	324	4%	566	4%
Gujarat	183	2%	170	2%	353	2%
Kerala	215	3%	88	1%	303	2%
Assam	114	2%	155	2%	269	2%
Jharkhand	133	2%	121	1%	254	2%
Chhattisgarh	114	2%	51	1%	165	1%
Punjab	56	1%	24	0%	80	1%
Delhi	54	1%	9	0%	63	0%
Himachal Pradesh	22	0%	40	0%	62	0%
Other States	171	2%	130	2%	301	2%
Total	**7431**	**100%**	**8517**	**100%**	**15948**	**100%**

Such geographical disparity in promotion of PCs worsened in the last two years as compared to the previous 16 years. Figure 4.1 shows the district-wise distribution of PCs registered in the last two years. Distribution of PCs registered in all years to-date is available in the Executive Summary section.

Figure 4.1 Geographic distribution of PCs registered in FY20 and FY21



There were 117 districts classified as 'aspirational districts' by the Niti Ayog in 2020. The total number of PCs in these aspirational districts was about 1900 as of March 2021. Even among these aspirational districts, there was an uneven distribution, with districts located in states like Maharashtra or in well-connected regions having a significantly larger number of PCs than those in more "remote" areas.

Promotion of PCs is concentrated in certain regions

92% of all PCs are focused on farming and allied agricultural activities. Therefore, another way of examining geographical disparity is to compare the density of 'farmer producer companies' (FPCs) across districts, which is the number of FPCs registered in a district to the number of agricultural producers in that district. For the purpose of this comparison, only farm-based PCs have been considered, excluding those focusing on weaving, handicrafts, and other non-farm activities.

We find that the national FPC density is 5.6, that is, there are 5.6 farmer producer companies for every one lakh agricultural workers in the country. Among large states, Maharashtra has the highest FPC density of 19.3, followed by Haryana at 16.9 and Kerala at 14.3 (Table 4.2).

Moreover, there is disparity even across districts within a state and across states. For example, Maharashtra districts of Ahmednagar and Nasik have more than 400 FPCs each and have an FPC density of 28.3 and 24.4 respectively. In contrast, Gadchiroli district has 25 FPCs and an FPC density of 5.3. Uttar Pradesh has a much lower average FPC density of 4.2, which varies from 0.4 to 23.7 across districts.

Table 4.2 FPC density (number of FPCs per 1 lakh agricultural workers) in major states

State	Agricultural Workers (Census 2011)	FPC Density FY04 - FY19	FY20 and FY21	Total
Uttar Pradesh	3,89,97,111	1.6	2.6	4.2
Maharashtra	2,60,55,513	7.3	12.0	19.3
Bihar	2,55,41,875	1.0	1.5	2.5
Andhra Pradesh (incl. Telangana)	2,34,59,276	2.7	1.9	4.7
Madhya Pradesh	2,20,36,706	2.0	1.7	3.7
Rajasthan	1,85,58,534	1.8	0.9	2.7
West Bengal	1,53,05,530	1.5	2.4	3.9
Tamil Nadu	1,38,55,004	3.7	2.6	6.3
Karnataka	1,37,36,612	2.6	2.4	4.9
Gujarat	1,22,86,915	1.4	1.3	2.7
Odisha	1,08,43,982	3.0	2.2	5.2
Chhattisgarh	90,96,678	1.1	0.5	1.7
Jharkhand	82,50,884	1.3	1.1	2.4
Assam	59,06,973	1.7	2.2	3.9
Haryana	40,08,934	6.2	10.8	16.9
Punjab	35,22,966	1.3	0.6	2.0
Himachal Pradesh	22,37,100	0.7	1.7	2.3
Kerala	19,93,103	10.1	4.2	14.3
Uttarakhand	19,83,724	1.4	0.8	2.2
Jammu & Kashmir	17,93,021	0.9	0.7	1.7
All India	**26,31,42,470**	**2.6**	**3.0**	**5.6**

The FPC density analysis highlights the need to promote greater numbers of farmer producer companies in states like Uttar Pradesh, Bihar, Andhra Pradesh, Telangana, and Madhya Pradesh where there are very large numbers of agricultural workers.

Proportion of women-only PCs has reduced over the last two years

Women farmers constitute 37% of agricultural workers in the country, per Census 2011. However, producer companies with women-only members make up only 2.1% of companies registered in the last two financial years[1]. This is slightly lower than the previous 16 years, where this percentage was 2.7%.

The above analysis shows that even though the total number of PCs has doubled, coverage and inclusion issues have worsened: concentration of companies in certain regions has increased, coverage of aspirational districts continues to be weak and percentage of women-only PCs has come down. This is concerning because such disparity excludes large numbers of small producers and runs counter to the aim of promoting FPOs.

[1] Women only PCs were identified based on annual reports and other publicly available documents, and the use of terms like 'mahila' in names of PCs.

5. Capitalization and Debt

The combined total paid-up capital of all 15,948 producer companies was Rs. 1240 crore as of May 2021. The company with the largest PUC was Sri Vijaya Visakha Milk Producer Company Ltd, Andhra Pradesh with PUC of Rs. 213 crore as of May 2021. This is an established dairy which was converted from a cooperative to a producer company. Table 5.1 shows the PUC of top 20 companies, majority of which are dairies. All except two companies are more than 5 years old.

Table 5.1 Top 20 producer companies by paid-up capital

Company name	Sector	Registration year	State	Paid-up capital (Rs.)
Sri Vijaya Visakha Milk PC	Dairy	FY06	Andhra Pradesh	2,12,94,03,500
Sangam Milk PC	Dairy	FY14	Andhra Pradesh	65,40,22,000
Sahyadri Farmers PC	Fruits & Veg	FY11	Maharashtra	55,66,65,000
Paayas Milk PC	Dairy	FY13	Rajasthan	42,95,32,500
Maahi Milk PC	Dairy	FY13	Gujarat	32,42,60,300
Saahaj Milk PC	Dairy	FY15	Uttar Pradesh	29,20,92,900
Karimnagar Milk PC	Dairy	FY13	Telangana	24,83,46,300
Shreeja Mahila Milk PC	Dairy	FY15	Andhra Pradesh	21,12,78,400
Baani Milk PC	Dairy	FY15	Punjab	13,77,08,900
Shree Chhatraprati Shahu Milk & Agro PC	Dairy	FY09	Maharashtra	9,95,01,000
Madhya Pradesh Women Poultry PC	Poultry	FY07	Madhya Pradesh	6,11,06,680
Karimnagar Milk Farmers Development PC	Dairy	FY17	Telangana	5,37,75,700
Kisan Suvidha Farmers PC	Cultivation	FY17	Andhra Pradesh	4,95,26,480
Sakshi Mahila Milk PC	Dairy	FY16	Rajasthan	4,53,16,300
Vadakara Coconut Farmers PC	Coconut	FY16	Kerala	4,43,55,000
Begoti Tea PC	Tea	FY14	Assam	3,87,00,000
Bapudham Milk PC	Dairy	FY18	Bihar	3,84,28,100
Palakkad Coconut PC	Coconut	FY14	Kerala	3,61,85,032
Prerambra Coconut PC	Coconut	FY15	Kerala	3,47,38,000
Gaukaran Farmers PC	Unknown	FY18	Himachal Pradesh	3,38,38,000

Many PCs have been 'struck-off' by Ministry of Corporate Affairs. Therefore, it is better to examine capitalization indicators only for the producer companies which still have 'active' status.

The average paid-up capital (PUC) of all 'active' producer companies was Rs. 8.0 lakh and the median was Rs. 1.0 lakh, as of May 2021. 57% of PCs had paid-up capital of Rs. 1 lakh or less, while 11% of companies have PUC of Rs. 10 lakh or more (Table 5.2, data column 2).

This distribution is slightly different from two years ago, when about 50% of companies had PUC of Rs. 1 lakh or less and about 13% had PUC of Rs. 10 lakh or more. This downward shift in distribution of PUC may appear to be troubling at first glance. However, it should be noted that much of this change can be attributed to a greater percentage of companies being less than two years old (39% of active status companies at the end of FY19 were less than two years old, compared to 56% at the end of FY21). If we compare only those PCs which were 2 years or older, the distinction in PUC distribution almost disappears (Table 5.2, data columns 3 and 4).

Table 5.2 Distribution of paid-up capital of producer companies

	All PCs		PCs ≥ 2 years old	
Category	At end of FY19*	At end of FY21	At end of FY19*	At end of FY21
≥ 50 lakh	1.3%	0.9%	2%	2%
≥ 25 lakh and < 50 lakh	1.3%	1.3%	2%	3%
≥ 10 lakh and < 25 lakh	11%	9%	13%	15%
≥ 5 lakh and < 10 lakh	21%	19%	25%	24%
> 1 lakh and < 5 lakh	17%	13%	21%	19%
1 lakh	39%	42%	32%	30%
< 1 lakh	10%	15%	5%	7%

* Excludes companies which had been struck-off or were in the process of being struck-off or for which PUC in 2019 is unavailable

Very few PCs are able to raise enough capital to start operations or qualify for Equity Grant Scheme

It is valuable to compare PUC of young companies separately. For companies registered during the last two years (FY20 and FY21), the average PUC was Rs. 2.1 lakh as of May 2021, while the median was Rs. 1 lakh. NABARD estimates that producer companies need Rs. 3-5 lakh in equity to start trading and value-addition operations. By that measure, there are only about 18% of companies registered in the last two years with PUC ≥ Rs. 5 lakh, which are in position to start operations. This is slightly lower than the comparable proportion (23%) among companies registered during FY18 and FY19 (Table 5.3). As mentioned in Chapter 2, slightly less than 4% of companies have been able to raise Rs. 15 lakh in PUC and become eligible for full benefits under Equity Grant Scheme.

Table 5.3 Paid-up capital of PCs which were 0-2 years old

	Paid-up capital (PUC) distribution	
Category	Producer companies registered in FY18 and FY19*	Producer companies registered in FY20 and FY21**
≥ 50 lakh	0.5%	0.2%
≥ 25 lakh and < 50 lakh	0.1%	0.2%
≥ 10 lakh and < 25 lakh	7.6%	3.5%
≥ 5 lakh and < 10 lakh	14%	14%
> 1 lakh and < 5 lakh	9%	9%
1 lakh	49%	52%
< 1 lakh	18%	22%

Excludes companies which had been struck-off or were in the process of being struck-off or for which PUC in 2019 is unavailable
* PUC as of May 2019
** PUC as of May 2021

There are multiple reasons that could have contributed to lower PUC achieved among recently registered companies. One reason could be the elimination of minimum paid-up capital requirement for registration of producer companies since 2015 leading to more companies being registered with token PUC amounts. Secondly, some of this reduction can be attributed to the pandemic related mobility restrictions and the worsened financial situation of producer households. And finally, another likely reason could be registration of PCs without adequate evaluation of capacity of members to invest in the company, especially in light of the 10,000 FPO Scheme.

Growth in paid-up capital

Another way of examining the financial health of companies is to examine the growth of their PUC over time. While there is no direct relationship between paid-up capital and operations or profits, higher PUC enables enterprises to raise long-term debt and working capital. It is also an indicator of level of commitment of producer-members to the enterprise. Therefore, it is instructive to examine growth in share capital of PCs.

In this section, we examine the changes in paid-up capital between May 2019 and May 2021 of producer companies registered as of March 2019. We excluded companies which had been struck-off or were in the process of being struck-off. In addition, we excluded 62 companies for which PUC data was not available for both time frames. After these exclusions, we had a dataset of 6542 companies (out of a total of 7431 companies).

The total PUC of all companies was Rs. 831 crore as of May 2019, which increased by 23% to Rs. 1026 crore over the subsequent two years (as of May 2021). However, the growth in PUC was not uniform. The increase in total PUC came from only 29% of producer companies. The majority of companies (70%) showed no change in paid-up capital between May 2019 and May 2021. The remaining 1% showed a decline in PUC[1].

Even among the 29% of PCs which were able to increase their paid-up capital, about 1/6th grew their PUC only nominally (by amounts less than Rs. 1 lakh). In other words, only 24% of PCs increased their PUC by Rs. 1 lakh or more over the two years, 5% increased their PUC by less than Rs. 1 lakh, and 70% showed no growth in PUC (Table 5.4). The challenge in growing PUC was evident among both young and older companies. Among the top 10 companies which showed the largest absolute growth in PUC, most were milk producer companies promoted by NDDB Dairy Services.

Only 29% of PCs were able to increase their PUC over two years. 70% showed no change.

[1] Reductions in paid-up capital appear to be due to correction of previous data-entry errors. For example, the PUC of one company was changed from Rs. 42,50,000 to Rs. 4,25,000 and another was changed from Rs. 10,50,000 to Rs. 1,05,000.

Table 5.4 Distribution of PCs by growth in paid-up capital

Growth in PUC	% of PCs
Growth of Rs. 1 lakh or more	24%
Growth of less than Rs. 1 lakh	5%
No change in PUC	70%
Negative change	1%

Excludes PCs which were struck-off or were in process of being struck-off by FY21, and PCs for which PUC in 2019 is unknown

This challenge in PUC growth is important to note because many advocates of producer companies assume that they would be able to grow their capital and operations over a period of time. For example, the Equity Grant Scheme assumes that PCs would be able to increase paid-up capital and become eligible for the matching grant over time[2]. However, as discussed above, the actual growth rates in PUC do not corroborate this assumption for most companies.

Moreover, our analysis shows that companies with higher PUC were more likely to grow than those with lower PUC (Table 5.5). For example, 42% of companies with PUC of Rs. 50 lakh or more were able to increase PUC, compared to about 26% of companies with PUC between Rs. 5 lakh and 50 lakh. This is pertinent because Rs. 3-5 lakh in paid-up capital is considered the minimum amount required to start meaningful business operations. The category of companies which grew the least were those with exactly Rs. 1 lakh in PUC, which comprised 38% of producer companies in the dataset[3]. Companies with less than Rs. 1 lakh in PUC grew in large numbers (42%), as they were probably still in the initial phases of raising share capital from members.

Table 5.5 Growth of Paid-up capital (PUC) in two years between FY19 and FY21

		Growth in PUC in two years			
Paid-up capital in May 2019	No. of PCs	≥ 1 lakh	< 1 lakh	No change	Negative
≥ Rs. 50 lakh	89	37%	4%	55%	3%
≥ Rs. 25 lakh and < Rs. 50 lakh	84	26%	1%	67%	6%
≥ Rs. 10 lakh and < Rs. 25 lakh	739	24%	2%	70%	4%
≥ Rs. 5 lakh and < Rs. 10 lakh	1368	21%	5%	74%	1%
> Rs. 1 lakh and < Rs. 5 lakh	1075	28%	8%	63%	1%
Rs. 1 lakh	2502	19%	4%	77%	0%
< Rs. 1 lakh	685	35%	7%	57%	1%
Total	**6542**	**24%**	**5%**	**70%**	**1%**

1. Excludes PCs which were struck-off or were in process of being struck-off by FY21, and PCs for which PUC in 2019 is unknown
2. Negative growth reflects corrections of typos by MCA

[2] The budgetary outlay under the 10,000 FPO Scheme assumes that most PCs will become eligible for equity grants within 5 years.

[3] There are a large number of PCs with exactly Rs. 1 lakh paid-up capital because prior to 2015, Rs. 1 lakh was the minimum PUC required to register a company.

The growth in PUC was uneven across states also. In Maharashtra and Uttar Pradesh, the states with highest numbers of registered PCs, a smaller percentage of companies were able to increase their share capital compared to the national average. On the other hand, a greater proportion of companies in southern states (Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Kerala) were able to grow paid-up capital (Table 5.6).

Table 5.6 Percent of PCs which increased their paid-up capital, by state

State	No. of PCs at end of FY19	% of PCs which grew paid-up capital
Maharashtra	1759	24%
Uttar Pradesh	620	24%
Tamil Nadu	471	40%
Telangana	394	41%
Madhya Pradesh	370	31%
Karnataka	351	41%
Odisha	329	33%
Rajasthan	326	22%
Haryana	291	24%
Bihar	271	27%
West Bengal	246	28%
Andhra Pradesh	204	34%
Kerala	201	37%
Gujarat	169	24%
Jharkhand	108	29%
Assam	103	17%
Chhattisgarh	102	19%
Other	227	19%
Total	**6542**	**29%**

Excludes PCs which were struck-off or were in process of being struck-off by FY21, and PCs for which PUC in 2019 is unknown

To summarize, the above analysis highlights the continued difficulty faced by PCs in growing their share capital. Their low share capital and weak balance sheets have resulted in difficulties in raising working capital and long-term debt from government and non-government sources.

6. Summary

Producer collectives have the potential to bring together thousands of small producers to improve their incomes and reduce their exposure to risk. Therefore, it is not surprising that policy makers and practitioners have focused on promoting large numbers of producer organisations such as producer companies. In the last two years alone approximately 8000 producer companies have been registered, bringing the total to about 16,000, covering ~6-8 million producer households (as of March 2021).

While, in principle, the current policy environment appears to be conducive for producer companies, in practice there has been no significant change in the operational environment for PCs. In fact, 45% of PCs which are 7 years or older have been struck-off by the Ministry of Corporate Affairs.

There are several areas of concern about the excessive focus on promotion of FPOs at the expense of expense of establishing structures and mechanisms for business sustainability such as capacity building, capitalization, linking with governments schemes and programs, developing business acumen, sound management, and strong internal governance. Thus, the overall situation of producer companies has not improved in the past two years: challenges identified previously continue to persist, and in some respects, the situation has worsened.

Firstly, geographical concentration of PCs in certain regions continues -- leaving out the most disadvantaged groups and regions, such as women producers and aspirational districts. In fact, both these measures of inclusion have worsened in the last two years. This runs counter to the objectives of the FPO promotion.

Secondly, while many older companies (registered as of March 2019) have been able to raise capital from members, the capitalization of young companies is worse in comparison to young companies two years ago. Specifically, there has been a reduction in the percentage of companies which achieved paid-up capital (PUC) ≥ Rs. 5 lakh within the first two years of registration: from 23% as of March 2019, to 18% as of March 2021. However, greater proportion of companies which had higher PUC to begin with, have been able to raise capital have been able to significant capital from members. Very few producer companies have been able to avail of the Equity Grant and Credit Guarantee Schemes in the last seven years. Producer companies continue to find it difficult to raise working capital and long-term debt due to weak balance sheets and have a limited track record of achieving stability and success.

Thirdly, despite the 10K FPO Scheme recommending a federated model of promotion, the majority of FPOs continue to be promoted in a stand-alone model, thus requiring each company to fend for itself and develop its own ecosystem. There is a need to develop multi-commodity and multi-layer operating models, such as a two-tier model comprising multiple 'supplier' FPOs responsible for aggregation and a 'market-facing' company responsible for value addition, marketing and providing capacity building to the 'supplier' FPOs (Govil, Neti and Rao 2020). It is imperative for the producer companies to have substantial ownership of the market-facing company, to ensure that the producers' interests are protected. Different models may be suitable for different groups of companies (federated, tiered or stand-alone), depending on the local context.

Fourthly, past experience with promotion of FPOs clearly demonstrates the need for strengthening the business acumen and expertise of FPOs. FPOs' value proposition to customers should lie in effective aggregation, processing and quality of their products. However, undercapitalized PCs cannot invest in quality management and value addition. Such limited value proposition to customers will also result in limited market competitiveness and value creation for producer-shareholders. Only those companies which are either started by larger, well-educated and well-connected farmers or those with strong incubation support from institutions with business expertise appear to be able to overcome this hurdle. However, poor business skills continue to be a lacuna for the vast majority of companies of small producers.

Fifthly, there appears to be limited policy emphasis on building competitiveness of PCs. Policy expectations from Community Based Business Organisations (CBBOs)[1] continues to be limited to mobilization, pre and post-harvest infrastructure facilities. Expectations from CBBOs do not extend to building strong internal governance and market competitiveness.

Sixthly, long-term sustainability of PCs continues to be doubtful because of uncertain financial viability, weak internal governance and lack of supportive business system. Achieving financial viability is contingent on their ability to run operations (which in turn depends on funding and management capacity), being competitive and their business acumen. Internal governance mechanisms are unable to go beyond regulatory compliance and fail to bring in operational efficiency and controls.

PCs are unable to protect shareholders who, unlike in corporates, play multiple roles (as producers, suppliers, consumers, shareholders, board members and in some cases employees) and do not understand their role as shareholders. Most PCs are struggling to operate in the absence of a supportive business ecosystem such as financial service providers, start-up incubation services, linkage with government programs and relevant talent.

Put together, the current scenario can be summarized as below:

a) Despite the introduction of schemes and policies for supporting FPCs, most producer companies continue to struggle with starting and growing their operations.

b) In many ways, the aggregate coverage and inclusion metrics of producer companies have become worse in the past two years, making the broader policy aims of inclusion of marginalized groups elusive.

c) Majority of the companies appear to be stagnating as measured by their share capital growth. Although about 30% of PCs have been able to grow, it is the larger companies that have grown the most.

[1] Previously referred to as Producer Organisation Promoting Institutions (POPIs) or Resource Institutions (RIs)

d) The focus on rapid expansion of the number of producer companies is coming at the expense of business viability. Sufficient attention is not being given to capacity building, capitalization, linking with governments schemes and programs, developing business acumen, sound management, strong internal governance and shareholder protection.

e) In fact, the recent frenetic activity for promotion of thousands of PCs with rapid expansion and low quality has several characteristics of an industry 'bubble'. This increases the likelihood of deliberate fraud or poor governance, which may taint the entire sector.

While promotion continues at a rapid pace, many indicators of PC health appear to be worsening.

Such rapid expansion with low quality may be indicative of a sectoral bubble.

7. Way Forward[1]

Producer companies are one of the best ways to significantly improve small producers' incomes and reduce their vulnerability. To enable them reach their true potential, we should focus on:

a) inclusion and coverage of marginalised regions and women
b) selection of suitable operating models
c) incubation support to reach financial and operational stability
d) alternative funding channels (for both equity and debt)
e) stronger shareholder protection

From a policy perspective, the main objective of promoting PCs should be coverage and inclusion of small and marginal farmers. Inclusion of women producers and other producers from rainfed areas, predominantly *adivasi* areas and aspirational districts, ensures that they can benefit from collectivisation and government mechanisms for supporting producer companies.

PCs should be promoted in groups. They should be structured in operating models (e.g. federated, two-tiered, etc.) which are suitable for their context and commodities. For example, while a stand-alone model may be suitable for some peri-urban PCs focusing on sales of fresh organic vegetables, this model would be inappropriate for most PCs in remote areas. Thus, choice of an operating model appropriate for the local context and commodity is key for enabling business success. Where possible, such groups of producer companies should be supported by social enterprise incubators interested in exploring alternative models.

CBBOs should be reimagined as incubators which enable PCs to reach adequate financial and operational stability such that they are able to attract external funding and drive their own growth. In fact, one of the measures of CBBO effectiveness should be the percentage of PCs promoted by them which become eligible for funding through Equity Matching, Credit Guarantee and other schemes, or non-government sources.

Developing business acumen and expertise, building capacities in operations, financial management, internal governance and compliance is much more cost effective if producer companies are promoted in groups (in federated or tiered models). The expense of hiring and retaining managers with strong expertise can also be spread over a group of companies rather than a single one.

Currently PCs can raise equity only from members, most of whom are small producers. This limits the amount of equity they can raise amongst themselves. Promoting PCs in a two-tier model allows the possibility of raising external capital, if the market-facing company is registered as a private limited company. In such a model, it would be important for the producer companies to have substantial ownership of the private company to ensure that their interests are protected. Alternatively, the Companies Act can be modified to allow restricted external investments in PCs through different class of shares or others means. Access to

[1] This section is partly based on Govil and Neti 2021b

funds can also be improved by modifying the eligibility requirements for Equity Grant and Credit Guarantee Schemes, and / or enabling the listing of FPCs on the proposed Social Stock Exchange.

Finally, greater attention is required to protect shareholders against fraud, malpractice or losses, since small and marginal producers have limited understanding of their rights and very few ways of protecting themselves.

Developing a stronger sense of ownership of producer companies among producer-shareholders and building capacity of board members (especially regarding their fiscal and legal responsibilities) is also essential.

Producer companies already cover millions of small producers and have the potential to benefit millions more. They have tremendous potential for improving incomes of small producers and enhancing social equity, not withstanding their strategic and operational challenges. Therefore, it is important for policy-makers and practitioners to shift focus from merely promoting large numbers of PCs, to improving inclusion of marginalized groups, increasing capitalisation and providing strong incubation support.

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