Promoting Producer Organization among Farmers

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Indian agriculture is essentially small farm agriculture with 85 per cent of farmers owning less than 2 ha of land (Agricultural Census, 2010-11). Small holdings agriculture, which accounts for 44.6 per cent of total operated area is vital for increasing agricultural growth and enhancing food security in India. FAO (1990) have described small farmers as (i) seasonal producers; (ii) fragmented buyers and suppliers unable to exploit economies of scale; and (iii) dominated by household economics where functions such as consumption, investment, work and social activities are undifferentiated and unspecialized. Farmers with small holdings usually have limited resources and they focus mostly on the production side. They also have limited access to market and market information and sell their produce as soon as possible without any processing or value addition many a time's leading to distress sale. This poor marketing involves more and more intermediaries which leads to long marketing channel. This is to the extent that farmers' share in consumer's rupee varies between 56 to 89 per cent for paddy, 77 to 88 per cent for wheat, 72 to 86 per cent for coarse grains, and 79 to 86 per cent for pulses, 40 to 85 per cent in oil seeds and 32 to 68 per cent in case of horticultural crops (DAC, 2013).

The individual volume of production of the small farmers is low which averts them from reaping benefit of economics of scale. Small farmers can benefit from the economics of scale only through aggregation. Producer organizations are useful for mobilizing individual farmers' effort into collective action which will be helpful in improving the socio-economic condition of all the members of the group. Organizing farmers will aid in access to resources, information, specialization in commodities, processing and value addition, large-scale operations, market orientation and better bargaining power.

Producer Organization

Producer Organisation (PO) is a legal entity formed by primary producers with the aim to ensure better income for the members of the group. Producer organization can be Farmer's Interest Group (FIG), Commodity Interest Group (CIG), co-operatives, producer companies, federations, SHGs, farmers association or any other legal form which shares profits/benefits among the members. This is an organisation of the producers, by the producers and for the producers. FAO (2007) refers producer organizations as "independent, non-governmental, membership-based rural organizations of part or fulltime self-employed smallholders and family farmers, pastoralists, artisanal fishers, landless people, women, small entrepreneurs and indigenous peoples."

Features of a Producer Organization

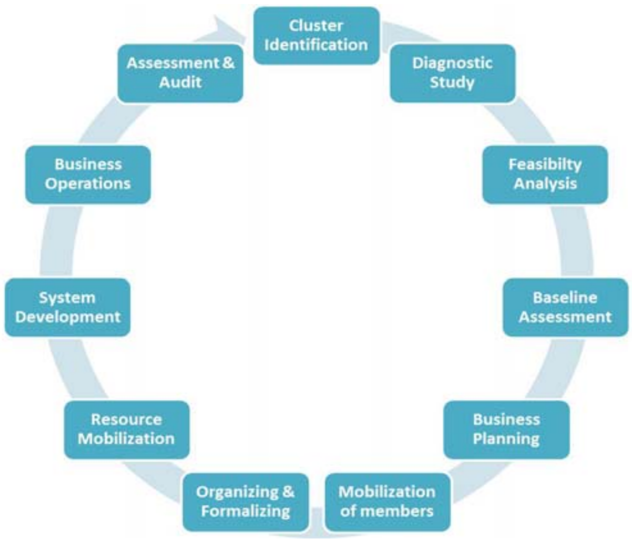
1. Registered body and a legal entity
2. Members will be primary producers for either farm or non-farm activities
3. Producers are shareholders in the organization
4. Works for the benefit of the members
5. Deals with business activities related to primary produce/product
6. A part of profit is shared among the members
7. Rest of the profit is added to PO's funds for business expansion

When the members of the producer organization are farmers, it is known as farmer producer organisation (FPO). FPO works on the values of self-help, self-responsibility, democracy, equity, equality and solidarity. FPO's are developed and promoted by resource institutions (RI)/ Producer Organization Promoting Institution (POPI) which are funded by Small Farmers' Agribusiness Consortium (SFAC) and NABARD.

Promotion and Development of FPO

The promotion and development process of FPO that has to be followed by RI/ POPI as directed by the Department of Agriculture and Cooperation in the Policy and Process Guidelines for Farmer Producer Organization is given below:

1. **Cluster identification:** Area where the FPO has to promoted should be identified. It should be ensured that identified cluster covers 8,000-10,000 farmers within one or two block
2. **Diagnostic study:** This is done to evaluate the preliminary situation of farmers, level of agriculture in the selected area based on which the potential interventions that is required in the area can be identified.
3. **Feasibility analysis:** This includes technical, social, financial, environmental, legal and political viability of the FPO in the selected area. This is done by RI/POPI which is later appraised by hired external experts.
4. **Baseline assessment:** This consists of collecting basic data from the farmers at the household level, based on which the outcome and impact of FPO can be measured in future. This will help in identifying the potential intervention and planning and developing business plan for the FPO in the selected area.
5. **Business planning:** Business plan gives a systematic collective visualization of the FPO with proper projections on several areas that need to be developed.
6. **Mobilizing farmers:** This can be done through awareness programmes, training, distribution of materials related to FPO, regular village meetings etc. The farmers who decide to join the FPO voluntarily after releasing the benefits of forming will become the promoter farmer member of the FPO.
7. **Organizing and formalizing:** The farmers of each village of the selected cluster will form FIG which will be later aggregated together to form FPOs. Usually, around 50-70 FIGs can be organized to form FPO. FPOs can be later registered under the Cooperative Societies Act or Producer Company provision under the Companies Act depending upon the interest of the members of FIG's. Sufficient time must be provided to the FIGs (18-24 month) to settle down before getting registered as the FPO.
8. **Resource mobilization:** All the resources (technical, financial, human, and physical) required by the FPO based on the business plan should be mobilized during this stage.
9. **Management systems development:** Guidelines should be developed for the proper functioning of the FPO's. It should address all the areas related to standard operating procedure, management of human resources, finance, procurement and quality management, stock and inventory, marketing, internal audit, conflict resolution and other important aspects. Resource institutions should facilitate the development of guidelines of the FPO.
10. **Business operations:** The commencement of operation includes procurement, production, processing, marketing of the commodities or products with which the FPO is dealing with. This also includes the financial management of the FPO. The governing and operational body of the FPO should be trained by RIs for the smooth functioning of the FPO.
11. **Assessment and audit:** The performance of the FPO should be evaluated constantly and RIs should facilitate this. Transparency and accountability can be maintained by auditing the accounts of FPO regularly.



(Source: DAC, 2013)

Registration of Producer Organization

Producer Organization can be registered under any of the following acts:

1. **Cooperative Societies Act/ Autonomous or Mutually Aided Cooperative Societies Act of the respective State:** Co-operative societies are mainly government promoted and usually established for the purpose of credit, production or distribution.
2. **Multi-State Cooperative Society Act, 2002:** Under this act the co-operative society can operate in more than one state. Co-operative societies registered under this act can be registered as Producer Company under section 581J of the Companies Act.
3. **Producer Company under Section 581 of Indian Companies Act, 1956, as amended in 2013:** This act combines the cooperative business with a governing structure similar to that of a private limited company. This organization is best suitable for agricultural commodities.
4. **Section 25 Company of Indian Companies Act, 1956, as amended as Section 8 in 2013:** For registration of PO's with limited liability for promoting commerce, art, science, religion, charity or any other useful object.
5. **Societies registered under Society Registration Act, 1860:** PO's focussed on charity or socially benefits can register under this section.
6. **Public Trusts registered under Indian Trusts Act, 1882:** PO's focussed on charity or socially benefits can register under this section.

Difference between Co-operative and Producer Company (NABARD, 2015)

Parameter	Cooperative Society	Producer Company
Registration	Cooperative Societies Act	Indian Companies Act
Objectives	Single object	Multi-object
Area of Operation	Restricted, discretionary	Entire country
Membership	Individuals and cooperatives	Any individual, group, association, producer of goods or services
Share	Non tradable	Not tradable but transferable; limited to members at par value
Profit sharing	Limited dividends on shares	Proportionate with volume of business
Voting rights	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One member, one vote. Members not having transactions with the company cannot vote
Government control	Highly patronized to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in "real world scenario"	Fully autonomous, self-ruled within the provisions of Act
Reserves	Created if there are profits	Mandatory to create every year
Borrowing power	Restricted as per bye-law. Any amendment to bye-law needs to be approved by the Registrar and time consuming	Borrowing limit fixed by Special Resolution in general meeting. Companies have more freedom to raise borrowing power
Relationship with other corporate / business houses / NGOs	Transaction based	Producers and corporate entity can together float a producer company

FPO as Producer Company

Producer company is a hybrid which combines the goodness of a co-operative society and vitality and competency of a company. The clauses of Private Limited Company shall be applicable to the producer companies except the clauses specified in Producer Company Act from 581-A to 581-ZT, which make it different from a normal private or limited company. A producer company can carry out the following activities as mentioned in section 581 B of Companies Act 1956:

- Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the members or import goods for their benefit
- Processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its members
- Manufacture, sale or supply of machinery, equipment or consumables mainly to its members
- Providing education on the mutual assistance principles to its members and others
- Rendering technical services, consultancy services, training, research and development and all other activities for the promotion of interest of its members
- Generation, transmission and distribution of power, revitalisation of land and water resources, their use, conservation and communications relatable to primary produce
- Insurance of producers or their primary produce
- Promoting techniques of mutuality and mutual assistance
- Welfare measures or facilities for the benefit of Members as may be decided by the Board
- Any other activity, ancillary or incidental to any of the activities referred to in above clauses which may promote the principles of mutuality and mutual assistance amongst the members in any other manner
- Financing of procurement, processing, marketing or other activities specified in above clauses which include extending credit facilities or any other financial services to its members

Features of a Producer Company

- Only primary producer or producer organization can become members
- Limited liability : liability is limited to the share capital held by the members
- Members' equity cannot be traded, however can be transferred but with the approval of Board of Directors
- Minimum authorized capital at the time of incorporation of PC should be Rs.5 lakh

Structure of Producer Company

Producer company is governed by its members, Board of Directors and Office bearers

1. Members

Only primary producers or producer organization can become members of a producer company. There should be at least 10 members or 2 or more registered producer institution (FIG/CIG/SHG) or a combination of these can form producer company. There is no maximum limit for the number of shareholders. Primary producer can become members by the purchase of the shares in the company. Members form the company and performance of the company depends on its members.

Members exert their authority mainly through general meetings. The rights of members include transfer one's shares, vote on resolutions at meetings of the company, can demand an extraordinary general meeting of the company, can attend and speak in a general meeting, can move amendments to resolutions proposed at meetings, in case the member is a corporate body, to appoint a representative to attend and vote at general meetings on its behalf and to require the company to circulate its resolutions.

2. Board of Directors

Board of Directors are elected by members. Usually the first Board of Directors will be selected from the promoter farmers. Every producer company is to have at least five and not more than 15 directors. The Directors will be selected on annual general meeting and their tenure varies between minimum 1 year and maximum 5 years. If any director resigns then election to his post shall be conducted within 90 days from the date of resignation. Every director is eligible for reappointment. The Board may co-opt one or more expert directors or additional directors not exceeding one fifth of the total number of directors. Expert director is any person who has expertise in running a producer company, but will not have right to vote in the election of chairman. The duties that the Board of Directors have to execute include:

- Formulation of the organisational policies and objectives including long term and annual objectives
- Formulation of corporate strategies and financial plans
- Determination of the dividend payable
- Determination of the quantum of withheld price and recommendation of patronage bonus
- Admission of new members
- Appointment of officers including Chief Executive, Company Secretary and exercise of superintendence
- Direction and control over Chief Executive and other officers appointed
- Ensure the maintenance of books of accounts
- Preparation of annual accounts to be placed before the annual general meeting with the auditor's report and the replies on qualifications, if any, made by the auditors
- Acquisition or disposal of property in the ordinary course of business of Producer Company
- Investment of the funds in the ordinary course of business
- Sanction any loan or advance to any Member not being a director or his relative
- Such other measures as may be required in the discharge of functions or exercise of powers

3. Chief Executive Officer (CEO)

CEO is the ex-officio director of the producer company and is accountable to both the Board of Directors and members. CEO is a full time employee of the company and shall not retire by rotation. The qualifications, experience and terms and conditions of the service of CEO is determined by the Board according the requirement given in Article of Association (AoA).The functions of CEO include:

- Do administrative acts of routine nature including managing the day-to-day affairs of the company
- Operate bank accounts or authorize any person, subject to the general or special approval of the Board
- Make arrangements for safe custody of cash and other assets of the company
- Sign business related documents as may be 'authorized by the Board' for and on behalf of the Producer Company
- Maintain proper books of account, prepare annual accounts, place the audited accounts before the Board and in the Annual General Meeting of the Members
- Furnish the members with periodic information to appraise them of the operation and functions of the company
- Make appointments to posts in accordance with the powers delegated to him by the Board
- Assist the Board in the formation of goals, objectives, strategies, plans and policies
- Advise the Board with respect to legal and regulatory matters concerning the proposed and ongoing activities and take necessary action in respect thereof
- Exercise the powers as may be necessary in the ordinary course of business
- Discharge such other functions, and exercise such other powers, as may be delegated by the Board
- Provide timely information to the Members and Board of Directors for scheduled company meetings or emergency or short notice meetings.

4. Company Secretary

Producer company having an average annual turnover of more than five crore rupees in each of three consecutive financial year should have a company secretary.

Transforming FPO into a Producer Company

When the primary producers are ready to form a Producer company and prepared to contribute to the share capital then

1. Identify Promoter Directors
2. Prepare a draft Articles of Association (AoA)
3. Prepare a draft Memorandum of Association (MoA)
4. Call first informal meeting of the shareholders to approve AoA, MoA, selection of promoter and authorized capital and cost of each share
5. Collect the capital and savings also if possible.

Registration of FPO as Producer Company

The procedure to be followed for registering an FPO into a producer company is given below:

1. Digital Signature Certificate (DSC)

Digital Signature of at least one Director or Chairman is mandatory prior to enter the formal registration process in order to make the document submitted online secure and authentic. All filings done by the companies are to be filed using of digital signatures. Therefore, the company has to authorize a person's signature who will sign the documents. The prescribed application form for DSC is available in the website of Ministry of Corporate Affairs in which the required information can be filled and submitted online to the 'Certification Agencies'. DSCs are valid for one to two years which can be renewed for fee of Rs.1800. Certification Agencies (NIC, TCS, Safescript, MTNL etc.) also charge a service fee which vary from agency to agency.

2. Director Identification Number (DIN)

DIN number can be obtained online only from the company affairs cell at Noida, UP without any fees by providing identification proof number (Only PAN Card, Voter Identity card, passport or driving license number is accepted). The prescribed form is available in the website of Ministry of Corporate Affairs and the application can be submitted online.

3. Naming of a Producer Company

Producer Company should be named using the suffix "…..Producer Company Limited". Select, in order of preference, at least one suitable name up to a maximum of five names, related to the main product of the company. Check the availability of the name on the portal *http://www.mca.gov.in* and make certain that it does not resemble the name of any other already registered company. The application for the name can be filled in Form INC-1 with DIN/PAN number of the directors and submitted to Registrar of Companies (RoC). Once the name is applied the entire procedure should be completed within 60 days.

4. Memorandum & Articles of Association

After registering the name of the producer company, a MoA and AoA has to be prepared. An Article of Association (AoA) is a document that specifies the rules for company's operations. Memorandum of Association (MoA) is a document that indicates what activities the company can undertake. Both the documents should be printed, duly stamped, signed by the promoters in his/her own hand, his/her father's name, occupation, address and the number of shares subscribed for. Make sure that the Memorandum and Article is dated on a date after the date of stamping.

5. Documents to be submitted to the Registrar of Companies for the Incorporation of Producer Company

The following documents along with fees payable with the Registrar of Companies of the state has to be submitted where the Registered Office of the company is to be situated. The documents include copy of the letter of RoC confirming the availability of name of the company; MoA and AoA duly stamped and signed; Form INC-22 regarding of Registered Office of company (full address); Form DIR-22 (in duplicate) regarding particulars of directors; Form 1NC-7 (on a stamp paper) declaring compliance of all and incidental matters regarding formation of companies; Form DIR – 12 regarding consent of each director; An affidavit has to be submitted by subscribers that MoA is fully understood; if the MoA is submitted in Hindi by subscribers claiming the understanding of same; and Power of Attorney to the agent dealing with RoC to make necessary corrections in MoA and AoA if required. All the forms can be filled online in website of Ministry of Corporate Affairs (*http://www.mca.gov.in)*.

6. Certificate of Incorporation

The RoC, on being satisfied with all the documents submitted will issue a 'certificate of incorporation' within thirty days, which is a proof of the formation of producer company. On incorporation, a company becomes a person in the eyes of law.

7. Tasks to be completed immediately after incorporation of company

Open a bank account with minimum two officially nominated signatories in the name of the company¸ procure PAN number from the Income Tax and TIN number from the Commercial Tax Department to carry out business.

Cost Estimated for the Incorporation of a Producer Company

Particular	Heads	Amount (Rs)
Application for name of PC	Fees	500.00
Digital Signature	Fees	2600.00
Stamp duty	Memorandum of Association and Articles of Association	1500.00
Registration/Filing fees	MoA, AoA, Form-1, Form-18, Form-32	17200.00
Fees of Chartered Accountant or Company Secretary	Consultancy charges	10000.00
Stamps cancellation		300.00
Affidavit expenses	Fees of Notary	500.00
Share transfer fees and processing		5000.00
Miscellaneous expenses		2000.00
Total		**39600.00**

Case Study of Producer Company

1. SUBICSHA

Subicsha, is an innovative Coconut based Farmer Producer Organisation in Kerala which played an instrumental role in helping coconut farmers to get remunerative price for their produce. This organisation is a federation of self-help groups (SHGs) registered under the Producer Companies Act which makes it a Farmer Producer Company. They started with the production of coconut oil and now they are producing about 24 value added products including virgin coconut oil, coir, soap, pickle etc. They also followed different marketing strategies by opening outlet at the project area (Calicut), marketing through dealers at other districts, door to door sale by SHG members, participating in fairs and sales festivals. The marketing strategies adopted and quality of the produce led to the success of Subicsha.

2. Indian Organic Farmers Producer Company Limited (IOFPCL)

The Indian Organic Farmers Producer Company Limited (IOFPCL) founded in 2004 in Aluva, Kerala is one of the largest organic producer company in India. The company is owned and managed by the farmers themselves. The company was formed overcome to the challenges faced by the farmers in the production, marketing and certification of organic produce. Now the company is marketing certified organic produce like spices, coffee, coconut oil, virgin coconut oil, desiccated coconut powder, cashew nut etc. and is exporting their produce to Europe and Canada.

Conclusion

Farmer producer organisation is the organisation of the farmers, by the farmers and for the farmers, financially facilitated by the government. Producer company is one of the best forms of farmer producer organization in which farmers can focus on farming and on-farm activities while the marketing and other management activities of the organisation will be done by the professional staffs of the organisation. Even if the registration of a producer company is time consuming and difficult, the association can ensure better price for the produce of its members. This organisation can also establish better forward and backward market linkages.

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