Executive Summary

To address new and emerging developmental challenges, the planners and policy makers of developing nations are now resorting to a changed and customized socio-economic development paradigm. Farmer Producer Organisation (FPOs), hybrid model of cooperatives and corporate has been viewed as a "best-fit" model of 21st century to make "*AatmaNirbhar Bharat*". The Small Farmers Agribusiness Consortium (SFAC), National Agricultural Bank for Agriculture and Rural Development (NABARD), National Cooperative Development Corporation (NCDC), and State governments have been supporting the FPOs movement under both (respective state) Cooperative Societies Act and Farmer Producers Company (FPC) Act (the Indian Companies Act 1956 as amended in 2002 & 2013) in India. In addition, private and public organizations and foundations are also promoting the FPOs movement in their respective area of operations. Many initiatives have also been encouraged by international institutes such as the World Bank and Asian Development Bank (ADB) in support of common objectives to develop new ways of agricultural businesses to the cause of increasing farmers' income in the country.

The fundamental idea is to encourage groups of small-scale farmers and smallholders to connect with the market and corporate buyers and thereby boost agriculture and rural development in general and agribusiness in particular. It is expected and intended that FPOs/ FPCs should work across value chain and venture into not only production & harvesting, but also procurement, value addition, grading, packaging, processing, marketing, and export of the primary produce.

As on December 2020, more than 8700 FPOs have been registered under the Producers' Company & Cooperative Act, section 8 company act, society act, and trust act. Furthermore, this FPOs movement also got an impetus with the launch of the Central Sector Scheme on the Promotion and Formation of New 10,000 FPOs across the country – both under the cooperative and Producers' Company Act. Despite almost two decades, the FPOs movement is still in the nascent stage and the focus is on creating social capital rather than on making them competitive and sustainable. The data shows that from 2014 to 2020, hardly 735 FPCs could get matching equity grant and 183 FPCs got credit guarantee cover, which implies that many FPCs failed to meet the basic requirement for getting benefits of these schemes and/or most of them may be dysfunctional. This also shows that the target-driven approach may help to achieve numbers

but it requires people-centric approach and reverse-accountability for their long-term sustainability.

Against this backdrop, the present study was undertaken to (a) assess the business performance of farmer producer companies (b) analyse the critical dimensions of governance and management of the selected FPCs, (c) analyse the process adopted by supporting as well as promoting institutions in formation and handholding, (d) ascertain challenges and suggest suitable strategies for making them competitive and sustainable.

The present study followed a multi method approach to assess the above stated objectives. The "d*escriptive-cum-exploratory research design*" has been adopted for understanding FPCs performance and to describe the governance, management, structure, and functioning the selected FPCs and challenges therein. The financial performance of the farmer producer company was examined using four financial parameters i.e. liquidity ratio, solvency ratio, efficiency ratio, and profit ratio. As per data received from MCA, a total of 5,616 producer companies were analysed for the purpose of study. To address the FPCs and performance relationship the independent t-test and ANOVA have been applied for categories like age, turnover, and geographical zone representation of producer companies.

The primary data has been evaluated based on descriptive statistics, and Confirmatory Factor Analysis (CFA). The CFA used to evaluate the dimensionality and adequacy of the measurement items that simultaneously connect to corresponding latent variables. A total of 17 FPCs including 11 low-age (3 – 5 years) PCs and 6 high age (more than 5 years) PCs were studied for the study purposes. These FPCs are methodologically identified and selected from six states and six zones of the county. The highest number of FPOs across zone was the strata and thus six states viz. Maharashtra, Tamil Nadu, Rajasthan, Uttar Pradesh, Odisha, and Assam were selected purposively. In addition, Focus Group Discussions (FGDs) were undertaken with members of the selected FPCs to understand the members & FPO relationship as well as challenges faced by FPCs. A detailed discussion was also made with some FPOs promoting institutions.

As per the MCA data, the state of Maharashtra, Uttar Pradesh, and Tamil Nadu come under the top five states of registered FPCs in the country. The Odisha and Rajasthan State ranked at ninth and tenth number in the country's registered producer company's profile.

The financial performance of the FPCs based on low age (between 3 – 5 years) & high age (more than five years) with low (5 – 10 Lakhs) & high (more than 50 Lakhs) turnover FPCs, found that there is a statistically significant difference in the mean between low age and high age categories of liquidity in the Indian PCs. Similarly, in the case of turnover classification of high and low, indicate differences in the performance of PCs. It is observed that low age category PCs hold a better position with an average of 35.45 in comparison to less than low age (less than three years) and high age category PCs of 33.70 in respect to the liquidity ratio. In comparison to high age and less than low age PCs, PCs registered under the age of 3-5 years used more liquid assets to perform better in enterprises in the short run. However, high-age PCs also have some liquid assets, and because of their stronghold or old PC status in the PCs firms, it is easier for them to stay in the business, during difficult economic times than low-age PCs. It also concludes that low age category and high age category PCs constitute healthier positing as compared to less than low age category (less than three years) PCs. Overall, it suggests that the high age category of PCs holds a better position with an average of 39.68, in comparison with less than low age and low age category of solvency in the Indian PCs.

The study also concludes that low age category and high age category PCs constitute healthier positing as compared to less than low age (3>PC) category PCs of 38.20. This signifies that the difference in holding period conditions of liquidity is much more and statistically different in PCs of India, than in non-holding period solvency conditions of PCs. It is also true that the PCs that have been in the country for less than five years but more than three years are more solvent than PCs that have been in the country for more than three years. There is only a 5% statistically significant difference in the means of the low age-low turnover and low age-high turnover efficiency categories in Indian PCs. Overall, with a low and high turnover of PCs, the mean difference is significantly bigger between the low and high age categories, implying that low turnover enterprises have better liquid positioning than high age turnover PCs. Because their operational modes are different, there is a significant difference between low turnover and high turnover PCs for respected low age and high age.

Thus, it is more evident to say that because of less efficiency score the PCs registered for less than three years are not sustainable in the business in this efficiency parameter for financial performance. Therefore, we can easily see the efficiency in the holding period as compared to the non-holding period of PCs in the country. Overall, the analysis suggests that less than 3 years registered PCs categories PCs hold a better position with profit ratio with an average of 51.26 followed by low age (3>PC) category of PCs with an average of 48.00 in comparison

with high age (5<PCs) category, with an average of 43.80 for-profit parameters. There is a substantial difference between less than low age and high age category of profit ratio in total age categories.

In the zone wise financial performance of FPC, it was found that there is variation in the four performance metrics i.e. liquidity, solvency, efficiency, and profit. Analysis suggests that the western zone and the southern zone are better at maintaining liquidity in all types of turnover categories. The central zone ranked third in positioning high liquidity PCs in the turnover category like more than 50 Lakhs and 25-50 Lakhs category and the eastern zone ranked third in positioning high liquidity PCs only in the 10-25 Lakhs, 5-10 Lakhs, 1-5 Lakhs, and less than one lakh category of turnover, for liquidity parameter.

Overall, it also shows that the early year of registered companies emphasizes more to have liquidity in terms of cash in hand and cash at a bank that deals with sudden shocks of the farming businesses. It appears that the North-Eastern (NE) zone has failed to maintain a higher liquidity parameter score than the "average" category score in all categories of turnover except 'F' category, which has a mixed result. In the same way, the NE zone needs to improve its solvency, efficiency, and profit parameters. Thus, a large number of this NE zone PCs do not hold these parameters effectively and thereby lacks competitiveness. On the other hand, those whose score of efficiency touch to upper bound suggests such PCs are holding better asset and liability management in the business organizations and they are more effectively competing with the competitors. Overall, analysis suggests the handholding period makes changes in the structural performance of the PCs in total. Similarly, efficiency is the least concern as compared to solvency, which makes them more competitive and sustainable in the business.

There is a substantial difference in the north and central zone profit margin and they are in the basket of least profit zones for PCs, which is, in fact, true, as we have observed during the primary field and in the literature as well.

Surprisingly, the western zone and southern zone suggest that they have a marginal difference in the profit conditions; it might be because of the business diversification and farmer member's engagement in the PCs diversified activities.

Producer Companies in association with Age, Turnover, and Zonal Categories found that the statistical dynamics suggest that age group B1 holds much more liquidity as compared to age groups A1 and C1. It suggests that the holding period makes PCs endorse more leverage to hold an optimum level of liquidity during the short-run period in the farm business. On the

other hand, C1 is a high age group that holds lesser liquidity in terms of B1 age groups because they are coming under the log-run period PCs and their structure is different than B1. However, the A1 age group is the beginning type of PCs, so for them, holding liquidity is not as possible as holding by the B1 age group; however, compared to the total number of PCs under A1 is much higher, yet their average mean of liquidity is merely smaller than B1,which suggest the liquidity positing dynamics amongst PCs. Furthermore, it also indicates that once the PCs come under a holding period, their solvency parameter will be smoother than at the earlier ages of the registration in total. Hence, the C1 age group emphasizes retaining in the business, the PCs to be more solvent in nature, and then it is easy for them to compete in the business and become sustainable.

In terms of FPCs Governance and Management, it was observed that most of the FPCs were serving in an average of 25 to 50 villages in their respective area of operation. Further, it was found that not all member farmers are active in the FPCs businesses; around 70-75% members in the selected FPCs are inactive in total. The active members participation varies in all FPCs. Interesting in the case of women's participation, in the FPCs businesses are recorded to be 51% with selected studied PCs irrespective of the types of activities of the producer companies. Overall, women’s participation in the FPCs business activities as compared to male members is very less except the selected milk producers companies. This phenomenon has again witnessed the effectiveness of dairy cooperative model, wherein women members have highest participation. The majority of them responded that most of the governance activities are performed by all boards of directors followed by the chairman and CEO.

In the case of members’ centricity, the self-reliant farmer is a more important factor for the FPCs. In addition, the loyalty of member farmers, a kind of business model adoption fits with the local community, and cultural ethos and values are the second most important factor that is equally helpful for the growth and development of FPCs. Also, it was found that promoting institutions are committed more to solving FPCs' problems during the hand-holding period than during the non-holding period in total. Surprisingly to underline that, organizational responsibilities are equally shared among BODs and member farmers by FPCs in total. Mobilization of farmers at the time of formation and subsequently during increasing membership base is a key challenge faced by promoting institutions. Many promoting institutions have had followed the village level meetings and interactions with *gram-panchayat* representatives and selected farmers as an entry point to initiate the process of promotion and formation of FPOs/ FPCs in their respective area of operation.

As far as formation and promotion of FPCs are concerned, the target-driven approach has helped in achieving numbers but it has a huge implication on members' awareness of different aspects, particularly governance and compliance. It was found that the kind of process-driven approach followed by NDDB dairy services in promoting Milk producers companies (for example Paayas in Jaipur and SakhiMahila, Alwar, RJ; Saahaj in Agra, Uttar Pradesh) has established a very strong foundation and all members followed defined SOPs. It also observed that the factors like members' participation in terms of a daily transaction with their respective companies (for example of milk and other input services) led to members' loyalty, adherence to rules of governance leading to cohesiveness among board members and accountability to members, and professional management leading to operating effectiveness of the company were driving the growth of PCs.

Most of the promoters were not locally based and had promoted the FPCs as projects for a limited period. Therefore, a constant supervision and hand-holding from local promoters were missing in most of the PCs. An establishment of backward and forward linkages was varied with the kind and nature of promoting institutions along with their availability of resources, networks & liasioning with concerned stakeholders. Moreover, many promoting institutions were struggling in connecting FPOs with the technical institutions to provide the technical expertise on (commodity-specific) value-addition and processing.

Most of the FPCs suffered from shortage of qualified and skilled human resources to manage the FPCs functioning and business affairs. More interestingly, shortage of adequate finance and working capital, leads to a dropout in the number of FPCs. In many cases, FPCs lacks in financial management and they were heavily dependent on the CAs and CSs for statutory and legal compliance, respectively. On the other side, substantial high-interest rates on the loans taken by FPCs from the market bring a concern in the organizing and sustaining FPCs across the county. There was lack of awareness about new initiatives taken by government and its enabling agencies at local, state, and national levels such as accreditation of warehouses by WDRA, e-warehouse receipt, derivative & future market, trading on e-NAM and other digital platforms and e-commerce websites, etc.

The adherence to rules and regulations defined by the company is a must for ensuring the '*internality of locus of control'* and '*patronage cohesiveness'*. The board of directors needs to create a '*selective insularity'* around the PC to avoid political interference in any of the PCs affairs. The FPCs need to be promoted and educated for direct marketing and use of the digital

platform of marketing. The FPCs should be treated at par with MSMEs and may be given priority in government procurement of food and other products & services. A comprehensive performance matrix may be designed for FPCs to assess their functionality and creditworthiness. Although such a matrix has been developed by some agencies (like NABKISAN), it needs to be shared in the public domain so that the FPCs are aware of the parameters used by such funding agencies for financing.

The key recommendations from the study are

1. External linkages may be developed with Research & Development Organisations, ICAR (commodity specific) research institutions, State Agricultural Universities (SAUs), etc. in order to provide technical know-how and improving the efficacy of PCs business operations.
2. There is need to have a sensitive support structure for continuous handholding and support of the FPOs; may be a sector-specific board may be established. There is need for synergizing FPCs with MSMEs and Start-ups.
3. Developing and strengthening FPOs-Bank linkages is need of the hour. Working capital provision under Priority Sector Lending (PSL) needs to be re-visited to give loans without collateral to FPOs/ FPCs.
4. The key of success of FPCs largely depends upon the members' participation in the business activities of the PCs. The study also reveals the strongest factor leading to sustainable competitiveness in FPC is "*Active Members Participation*".
5. The present understanding of equity participation is not linked to members' participation in the business activities. Therefore, the equity base may be linked to member participation in the company's business and/or members land size as in case of faming based FPOs.
6. Regarding existing schemes & programmes as well as the PCs provisions, there is a need for easing out the process of Matching Equity Grant, Credit Guarantee Fund scheme to enable more FPOs to avail the fund. Access to external capital with in-built elements to retain the ownership with PCs/ Board needs to be deliberated and provisions needs to be made in the PCs Act. As per Company Act 2013: Exclude appointment of company secretary when paid-up capital crosses 10 crore in FPOs. There is need to relook at IT U/S 80(P) to give exemptions for IT on net income whether it is from transactions out of members or by others; it was an income for shareholders as well as exemption may be given on dividend tax U/S 115(O) to economically empower FPOs.