RETRACTED ARTICLE: Emergence of Producer Companies as Innovative Institutions for Agriculture Development in India: Issues and Challenges

S K Shilpa

Indian Institute of Plantation Management, Jnana Bharathi Campus, Bengaluru, Karnataka, India, kshilpa7@gmail.com

ABSTRACT

Small and marginal farmers encounter several challenges in managing their farms, the major being limited investment capacity, access to inputs, water, power, and credit. In India, the Ministry of Agriculture recognized the collectivization of these farmers into producer organizations (POs) as the most appropriate institutional form to leverage farmers' production and marketing capacities. The study aims to understand the characteristics of producer companies (PCs) and identify the issues and challenges in the emergence of PCs through a quantitative study of all PCs registered in the country using secondary data and a qualitative study based on interviews with 192 PC directors, members, and 11 promoting institutions. The formation and development of PCs are being actively undertaken by government and their agencies with major financial support from the Small Farmers Agri-Business Consortium (SFAC) and the National Bank for Agriculture and Rural Development (NABARD), with technical support from resource support agencies. A total of 7,381 PCs were registered by March 2019, across 33 states and union territories, and 2,749 PCs were active as of March 2018. PCs face numerous challenges, the major being shortage of investment and working capital, compliance-related problems, lack of vision and direction from the board and poor professional management. From the perspective of the producer organization promoting institutions or POPIs, the major issues were attitude of farmers, limited number of members, poor equity base, subsidy driven process, and non-result-oriented approach of the PCs.

Keywords: producer organization, producer companies, India

JEL Classification: Q01, Q13, Q18

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INTRODUCTION

Agriculture and allied sector activities support livelihoods of 54.6 percent of India's rural population and accounts for 17.1 percent of the Gross Value Added for the year 2017–2018 (DAC&FW 2018). A macro level examination of the agriculture sector shows that small and marginal farmers below 2-ha land per household account for the majority of farms in India, comprising 86 percent of all farmers and contributing 47 percent of the crop area. Most of these farmers still work for subsistence farming (DAC&FW 2019).

Small and marginal farmers face several challenges in managing their farms, the major ones being lack of information, lower scale of operation, poor communication linkages with the wider markets, and consequent exploitation by intermediaries in procuring inputs and marketing (Dev 2005). Shortage of capital, adequate information, and lack of education (Gulati et al. 2007) lead to the use of obsolete harvesting practices, impacting productivity and, consequentially, 25–30 percent of the produce gets wasted (Desai and Joshi 2014). Singh (2012) adds that in the present economic scenario, Indian farmers have less bargaining power in input and output marketing because of the risks associated with weather uncertainties, uneven access to technologies and natural resources, unreliable input supplies, stressed infrastructure in power and irrigation, and uncertain marketing arrangements. Even though smallholder farmers have better understanding of local agriculture and employ family labor, they often face the issue of high costs for non-labor transactions (Poulton, Dorward, and Kydd 2010).

Difficulty in accessing insurance and credit services and susceptibility to weather eccentricities further obscure the condition of smallholder farmers in general (World Bank 2007; with import competition adding to the problems (Desai and Joshi 2014). In India, about 80 percent of the farmers are small farmers whose income is less than their consumption expenditure. This condition is due to drought, failure of crops and other constraints, such as poor market information, high transaction costs, no access to credits, and high indebtedness, leading to low production (Gill 2004; Mondal 2010; Bhattacharjee 2010).

Community institutions in agriculture offer small farmers an opportunity to increase their productivity, income, and resource efficiencies. A study by FAO (2014) reveals that various institutional arrangements have empowered small-scale producers socially, economically, and politically as they overcome market constraints, build their skills, and improve access to information and technologies. Primary producer organizations (POs) or collectives are being considered to protect small farmers from the impact of globalization, and help them take part productively in the competitive markets (Trebbin and Hassler 2012). Therefore, government and practitioners are promoting producer collectives for improving the socioeconomic condition of small farmers. The collectives are expected to decrease transaction costs, offer scale advantages from bulk purchase of inputs, exchange of information and knowledge among members, cost efficiencies in marketing and value-addition, better price realization, and reduction of risk (Kanitkar 2016; NABARD 2019; Singh 2008).

Kirsten and Sartorius (2002) observed that in the absence of a collective approach, the small-scale operations of the farmers will significantly reduce their bargaining power in procuring inputs as well as in marketing of output. Against this backdrop, the government of India has been promoting a new form of collective called "farmers producer organization" (FPO) to enable the access of small farmers, notably, to technology, inputs, finance, and markets (Hellin, Lundy, and Meijer 2009; Department of Agriculture and Cooperation 2013).

The FPO aims to create a connection between farmers and market, present access to capital for farmers, set standards in the market, manage risk for farmers, offer more competitive market conditions, and promote social equality at the grassroots level (Singh and Singh 2013). According to Stockbridge, Dorward, and Kydd (2003), farmer organizations shape up trust in

relationships during market access linkages, thus, defending farmer interest and improving their market participation. Farmer organizations have the prospective to contribute to the espousal of sustainable and prolific management practices (Meinzen-Dick et al. 2004) and augment the incomes of the members (Aku et al. 2018).

Traditionally, POs functioned as cooperatives. Recently however, the cooperatives have been criticized in terms of their financial performance as they have not developed into self-sustainable organizations (Shah 2016). This has led to poor commitment of the members (Trebbin and Hassler 2012) and overdependence on government funds, political intrusion, and corruption (GOI 2000). Shah (2016) cited political interference in cooperative elections to be the prime reason for failures of cooperatives in India. These factors have encouraged the emergence of producer companies (PCs) as innovative institutions for agriculture development. PCs are considered as hybrid model of private companies and cooperative businesses.

PCs as a new institutional framework will improve the quality of life of small farmers in India through enhanced bargaining power and net incomes. Venkattakumar and Sontakki (2012) observed that the cooperative system in India is beset with numerous deficiencies, whereas the producer company (PC) model is scaling up and changing the life of farmers. Of the various legal forms of FPO, the option of a PC stands out because of the advantage it offers in terms of maintaining the member-ownership nature of a cooperative and the structural advantages of being a company. It offers a way forward for poor producers to establish themselves as market entities, operating on social principles without compromising on business credibility. Trebbin and Hassler (2012) put forward that PCs can help improve the competitiveness of farmers and augment their income in this emerging market scenario, while integrating small producers into modern supply networks. This is through reducing expenses while gaining from economies of scale (Lanting 2005).

Research studies have been undertaken to analyze the performance of a few PCs in selected areas. However, there lies a gap in understanding the characteristics of PCs across India in terms of their number, geographical spread, number of members, capital structure, and active companies. Understanding the characteristics of PCs is necessary for policy decision-making. Data on all PCs is not available even after 17 years of the Producer Companies Act 2002. Moreover, there are concerns related to the promotion and operations of PCs, as many PCs are struggling to be profitable business ventures without the support of government. The above concerns led to this study of PCs in India with two objectives, to understand the characteristics of PCs in India, and to know the issues and challenges in the emergence of PCs.

METHODOLOGY

The study consist of two parts: a brief quantitative analysis of data on all PCs registered in the country, based on the Ministry of Corporate Affairs Corporate Data Management (MCA CDM) database and secondary data available; and a qualitative analysis based on interviews conducted with PC directors, farmer members, and promoting institutions to get insights related to the issues and challenges in the emergence of PCs.

The PC amendment to the Companies Act was ratified on 1 January 2003. Aside from the data on all registered PCs between 2003 and 2019 collected from the MCA CDM database, the list published by the Small Farmers Agri-Business Consortium (SFAC) and the National Bank for Agriculture and Rural Development (NABARD), and other government agencies, were also considered. A comprehensive list of 7,381 PCs registered between 1 January 2003 and 31 March 2019 was prepared. This dataset is used to present the status of PCs. Using the dataset of the PCs, the list of active PCs who filled annual returns as of financial year 2017–2018 was prepared from the MCA database.

Chief executive officers (CEOs), directors, and members of 192 PCs involved in various business activities across India were approached

face-to-face and through phone calls for discussion. Also, in-depth interviews were undertaken with 11 promoting institutions to know the challenges they faced in the formation of PCs. For the interviews, PCs were selected based on geographic area (state-wise), years of operation, type of promoter, number of members, type of ownership, and business activity they are carrying (processing, input sales, marketing, or value addition) (Table 1). A few of the interviews were for individuals, while some others were for small groups. Respondents from a few POs promoting institutions (POPIs) were also interviewed (Table 2). The purpose of the interviews was to know the perspectives of farmer members and directors in terms of challenges they faced in the formation and operation of PCs.

RESULTS AND DISCUSSION

A PO is an entity set up by primary producers, i.e., farmers, fishermen, milk producers, weavers, craftsmen, and rural artisans. It can be a cooperative society, a producer company, or any other legal entity offering sharing of profits among the members. In some forms of PO such as producer companies, primary producer institutions can also become members. The primary objective

Table 1. Number of producer companies interviewed in each state

State	No. of PCs	State	No. of PCs
Andaman and Nicobar	1	Punjab	5
Andhra Pradesh	10	Orissa	2
Bihar	11	Rajasthan	11
Delhi	1	Telangana	21
Goa	1	Uttar Pradesh	11
Haryana	4	Uttarakhand	2
Jammu and Kashmir	3	Kerala	7
Jharkhand	2	Tamil Nadu	14
Madhya Pradesh	25	Karnataka	26
Maharashtra	33	West Bengal	2
Total	**192**		

Table 2. Producer organizations promoting institutions engaged in the interview

Name of POPI	Type of Organization	State
Watershed Organisation Trust	Public Trust	Maharashtra
ICAR- Krishi Vigyan Kendra	Government under ICAR	Karnataka
Pragathi Sewa	Non-profit organization	Karnataka
MYRADA	Non-profit organization	Karnataka
ORDER	Trust	Karnataka
Janashakti Bikash Mancha	Social	Assam
Krushi Mitra Grameen Abhivrudhi Sansthe Harugeri	Non-profit organization	Karnataka
RIDA	Non-profit organization	Karnataka
CIKS (Centre for Indian Knowledge System)	Non-profit organization	Tamil Nadu
Mega Agri Business Consortium PCL	Non-profit organization	Tamil Nadu
ACCESS Development Services	Non-profit organization	West Bengal

Table 3. Legal forms of producer organizations

Legal form of PO	Registered Under the Act
Cooperative Societies	Cooperative Societies Act of the respective State and Multi-State Cooperative Society Act 2002.
Producer Company	Under Section 581(C) of Indian Companies Act, 1956, As Amended In 2013 and Section 25 Company of Indian Companies Act, 1956, as Amended as Section 8 in 2013.
Societies	Society Registration Act, 1860
Public Trusts	Indian Trusts Act, 1882

Source: NABARD (2015)

of a PO is to assure improved returns for the producers. POs in India can organize themselves into various legal forms (Table 3).

Institutional Interventions Toward Promoting Producer Companies

Central and state government and their agencies actively undertake the formation and development of PCs. Global multilateral entities such as the United Nations Development Programme, World Bank, and bilateral donor agencies also provide support. Major financial support flow from SFAC and NABARD with technical support from resource support agencies.

The National Bank for Agriculture and Rural Development

NABARD offers financial support to the PCs through its financial products. Through the Producers Organisation Development Fund (PODF), NABARD lends to the PCs for contribution towards the share capital on a 1:1 ratio. This non-collateral loan has a ceiling of Indian Rupee (INR)[1] 25 lakhs per PC with a limit of INR 25,000 per member. NABARD also offers credit support against collateral security for business operations. By March 2019, NABARD had promoted more than 4,000 FPOs under two schemes, namely, the PODF and the Producers Organization Development and Upliftment Corpus' Fund (PRODUCE).

For promotion of FPOs, NABARD has enrolled 795 POPIs. NGOs, cooperative societies, banks, government departments, and federations can operate as POPIs (NABARD 2019). NABARD regional office identifies resource support agencies at the state level possessing adequate experience in FPO promotion. The function of the resource support agencies is to organize capacity building workshops and provide required training and support to the POPI for the promotion of POs. These agencies also guide the FPOs in the execution of the scheme and assist in storage, value addition, and marketing.

NABARD also provides credit support in the form of loan or grant for capacity building and market interventions. Capacity building activities should be related to functioning of FPO such as business planning, technological extension, skill development, exposure visits, and other activities directly benefiting FPOs. This facility is offered to the FPOs as a component of the overall project. A subsidiary of NABARD, NABKISAN Finance Ltd., offers three forms of financial support to FPOs--collateral-based loans, collateral-free term loans, as well as working capital loans suitable for diverse life cycle needs of the FPOs. This is covered by the Credit Guarantee Scheme of NABARD (NABKISAN 2019). NABKISAN also grants bulk loans to POPIs for on-lending to POs. NABKISAN has supported 275 PCs directly and another 225 PCs using the on-lending model as of April 2019. For FPOs with tribal members, NABKISAN provides financial support at concessional rates.

1 USD 1.00 = INR 73.96 (September 2020)
1 lakh = INR 100,000.00

The Small Farmers' Agri-Business Consortium

SFAC was nominated by the Government of India in 2011 as the nodal agency for supporting the promotion of FPOs under two sub-schemes of Rashtriya Krishi Vikas Yojana namely, the integrated development of 60,000 pulse villages in rainfed areas, and the national vegetable initiative for urban clusters. The objective of these schemes is to link farmers to market and enhance the productivity of pulses and vegetables. SFAC also promotes FPOs under other programs such as the Mission for Integrated Development of Horticulture, the National Food Security Mission, and the Coconut Development Board.

The Equity Grant Fund and the Credit Guarantee Fund are the two major schemes offered by SFAC for granting financial assistance for the formation of PCs. The main aim of the Equity Grant Fund is to enhance capability and sustainability of PCs by increasing their credit worthiness and enhancing the members' shareholding. The equity grant support is provided to eligible PCs with a maximum of INR 15 lakhs per PC, possessing minimum of 50 shareholders, and less than 30 lakhs paid-up capital. As of April 2019, SFAC has assisted 440 PCs under this scheme.

The Credit Guarantee Fund scheme provides credit guarantee to eligible lending institutions for providing collateral free credit to PCs. Only PCs with a minimum of 500 shareholders are eligible under this scheme up to INR 100 lakhs with a credit guarantee cover of 85 percent of loan sanctioned. As of April 2019, 51 FPCs have been supported under this scheme (Table 4).

SFAC also provides support initiatives such as designating FPOs as procurement agents for procurement at minimum support prices under the Price Stabilisation Fund and offering soft loans to FPOs under its venture capital assistance scheme. SFAC has impaneled 90 resource institutions to promote and support PCs and offered them financial support for the promotion of PCs. Additionally, SFAC will act as the nodal agency to promote 10,000 FPOs over the next five years as announced in the Union Budget 2019–2020.

Producer Organizations Promoting Institutions

POPIs play a significant role in the formation of PCs through the various steps they facilitate, such as identifying clusters, undertaking feasibility studies, business planning, mobilizing farmers/producers, facilitating the incorporation of PCs, mobilizing of resources, and developing management systems as well as assessment and audit. POPIs spend a minimum of two to six months with average cost of INR 40,000 in registering a PC. Figure 1 shows the steps that POPIs follow in forming PCs.

Status of Producer Companies in India as of 2019

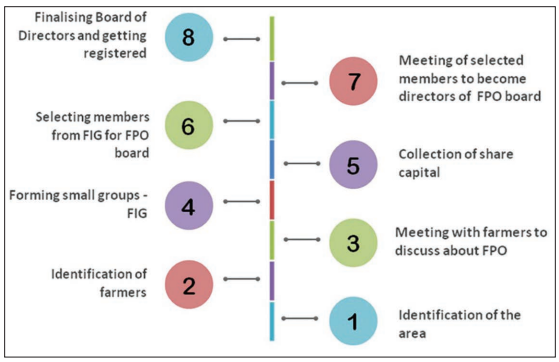
Incorporating farmer organizations in the form of PCs dates back to 2003 with the approval of the PC amendment to the Companies Act of

Table 4. Support provided by the Small Farmers Agri-Business Consortium

Year	Equity Grant Scheme		Credit Guarantee Scheme	
	No. of cases	Amount sanctioned (INR lakhs)	No. of cases	Amount sanctioned (INR lakhs)
2014–2015	22	114.83	4	182.90
2015–2016	27	153.02	8	353.11
2016–2017	52	290.69	9	395.25
2017–2018	153	951.07	9	507.45
2018–2019	201	13.80	21	628.04
Total	455	1,523.42	51	2,066.74

Source: sfacindia.com

Figure 1. Steps followed by producer organizations promoting institutions in forming producer companies



1956. The number of PCs reached 171 by 2010, from 12 in 2004, and fairly improved during the period 2010 and 2013. From 2014 onward, the number of PCs grew consistently every financial year, reaching 7,381 registered across 33 states and union territories by 2019 (Table 5). Further analysis reflects that an average of four companies were registered per day from 2017 to 2019. This substantial growth in the number of PCs in recent years corresponds with various government schemes for the promotion and support of FPOs, in general, and PCs, in particular.

Of the total 7,381 PCs registered, only 2,749 had filed annual returns as of March 2018. This implies that 62 percent of the registered PCs had not fulfilled the statutory compliance due to various reasons (Table 5).

The 7,381 PCs have an estimated membership of 4.3 million small producers with 582 shareholders per PC, on the average. All 7,381 registered PCs have an estimated authorized capital of INR 15.7 billion and total paid-up capital of about INR 8.6 billion. Ninety-two percent of the 7,381 registered PCs are farmer PCs (Table 5).

Distribution of Producer Companies Across India

Of the registered 7,381 PCs, almost half operate in four states, namely, Maharashtra (1,940), Uttar Pradesh (750), Tamil Nadu (528) and Madhya Pradesh (458) (Table 6). The top 10 states with most PCs comprise 78 percent of the total number of PCs in India.

Table 5. Number of producer companies in India as of 2019

Financial Year	No. of Registered PCs	Cumulative Registration	PCs that Filed Annual Returns (Cumulative)*
2004	12	12	NA
2005	16	28	NA
2006	24	52	12
2007	32	84	20
2008	18	102	35
2009	41	143	38
2010	28	171	49
2011	52	223	69
2012	78	301	102
2013	151	452	141
2014	497	949	210
2015	551	1,500	425
2016	1,691	3,191	745
2017	1,477	4,668	1567
2018	909	5,577	2749
2019	1,804	7,381	NA
Total	**7,381**	**7,381**	**2749**
Average number of shareholders per company			582
Total number of shareholders			4.3 million
Total paid-up capital			INR 8.6 billion
Average paid-up capital per PC			INR 1.17 million
Average paid-up capital per share-holder			INR 2,003
Proportion of farmer PCs			92%

Source: MCA CDM (2019); SFAC (2019); NABARD (2019)
Note: *As of Mar 2018

From a total of 2,749 PCs that filed annual returns as of March 2018, the largest number of active PCs are from Maharashtra (680), while the second and third largest numbers are recorded in Uttar Pradesh (328) and Tamilnadu (245), respectively. The top five states namely Maharashtra, Uttar Pradesh, Tamilnadu, Madhya Pradesh, and Rajasthan account for 63 percent of the active PCs. Further analysis was done to understand the distribution of PCs across the districts.The analysis illustrates significant disparity in the distribution of PCs within the state and greater concentration of PCs in certain districts. Table 7 represents top 20 districts with more PCs. Pune from Maharashtra is the district with the largest number of PCs (118), followed by Bhopal from Madhya Pradesh (104).

Table 6. Distribution of the registered producer companies per state

State	No. of Registered PCs	Proportion of PCs (%)	PCs that Filed Annual Returns (Cumulative)*
Maharashtra	1,940	26	680
Uttar Pradesh	750	10	328
Tamil Nadu	530	7	245
Madhya Pradesh	458	6	237
Telangana	420	6	62
Rajasthan	373	5	230
Karnataka	367	5	132
Orissa	363	5	121
Bihar	303	4	119
Haryana	300	4	65
West Bengal	274	4	81
Andhra Pradesh	238	3	88
Kerala	218	3	123
Gujarat	183	2	78
Jharkhand	133	2	51
Chhattisgarh	114	2	17
Assam	112	2	16
Delhi	58	1	18
Punjab	57	1	21
Uttarakhand	37	1	13
Manipur	30	<1	7
Himachal Pradesh	22	<1	7
Others	101	1	10
Total	**7,381**	**100**	**2,749**

Source: MCA CDM (2019); SFAC (2019); NABARD (2019)
Note: *As of Mar 2018

Table 7. Distribution of producer companies in districts

Districts	State	No. of PCs
Pune	Maharashtra	118
Bhopal	Madhya Pradesh	104
Jaipur	Rajasthan	99
Nagpur	Maharashtra	95
Patna	Bihar	84
Bhubaneswar	Orissa	77
Madurai	Tamilnadu	73
Kanpur	Uttar Pradesh	71
Kolkata	West Bengal	71
Nashik	Maharashtra	63
Chennai	Tamilnadu	46
Lucknow	Uttar Pradesh	44
Hyderabad	Telangana	42
Aurangabad	Gujarat	42
Anantapur	Andhra Pradesh	39
Varanasi	Uttar Pradesh	36
Ranchi	Jharkhand	35
Latur	Maharashtra	32
Udaipur	Rajasthan	32
Bengaluru	Karnataka	30
Total		**1233**

Source: MCA CDM (2019)

Age of producer companies in the top 10 states

The age of PCs varied across the states irrespective of the year of registration.The analysis of age of PCs for the top 10 states shows that Kerala, which is ranked as 7th largest in number of active PCs, has eight PCs that are 10 years or

Table 8. Age of producer companies in the top 10 states

State	<2 Years	≥2 and <5 Years	≥5 and <10 Years	≥10 Years
Maharashtra	198	463	17	2
Uttar Pradesh	100	226	2	0
Tamil Nadu	112	124	6	3
Madhya Pradesh	73	148	16	0
Rajasthan	149	74	7	0
Karnataka	100	28	3	1
Kerala	49	64	2	8
Orissa	73	42	5	1
Bihar	60	56	3	0
Andhra Pradesh	71	17	0	0
Total	**985**	**1242**	**61**	**15**

Source: MCA CDM (2019)

older (Table 8). Of these PCs, 53 percent are two to five years followed by 43 percent of PCs of less than two years.

Profile of Producer Company Respondents

A total of 192 PCs were approached for the purpose of the study. The age of PCs of the respondents interviewed ranged from one to 10 years with majority having 10–200 members and 10 directors. Twenty-five percent of the PCs had authorized capital of 9–10 lakhs, followed by 20 percent with 4 to 5 lakhs. The average paid up capital of the PCs was in the range of 2–5 lakhs. Selling of agricultural inputs was the primary business activity of 40 percent of the PCs followed by marketing and trading.

Issues and Challenges of Producer Companies

Few studies undertaken by NABARD and others have demonstrated the role of PCs in increasing net income of farmers by planned decisions, better access to inputs and agro-services, institutional credit, and market linkage. The key challenges and issues in building and developing PCs, are discussed from the viewpoint of members and POPIs.

PC Director's and Members' Perspective. From comprehensive analysis of the earlier studies and pilot study with five directors and four members of PC, it was implicit that problems faced by the PCs were numerous and qualitative in nature. These included problems during registration, financial problems, operational issues, and general issues. It was noted that the issues faced by the directors and CEOs were broadly covered under two categories, namely, financial and operational, while those faced by the producer members were related to management. Hence, the directors and CEOs were asked to rank the most critical issues and challenges they faced in the operation of PCs in terms of financial problems and operational issues. Similarly, the producer members were asked to rank the most critical issues and challenges they faced in the management of the company. Eight challenges were ranked for each of the three categories (financial,

Table 9. Summary of Challenges

Rank	Financial Issues	Operational Problems	Management Issues
1	Investment capital	Registration process and compliance related problems	Lack of vision and direction from the board of directors (BOD)
2	Working capital	Formalities like making Permanent Account Number (PAN)	Governance and management capabilities
3	Smaller capital base	Intricacy in managing accounts and paperwork	Poor professional management
4	Poor member equity mobilization	Difficulty in obtaining various licenses	No business plans
5	Accessing capital from outside and inadequate access to credit	Resistance from local traders	Promoter interference

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Table 9 continued

Rank	Financial Issues	Operational Problems	Management Issues
6	Difficulty in accessing grants as they are commercial entities	Farmers are not united	High turnover of professionals
7	Banks refuse to lend due to lack of collateral or state/government guarantees	Lack of risk mitigation mechanism	Local politics
8	Tax on income	Lack of technology and poor infrastructure for marketing and value addition	Lack of legal and technical knowledge

Sources: Interviewed CEOs, directors, and members

operational, and management) based on the maximum rank score given by the respondents for a particular issue (Table 9).

Numerous studies have been undertaken to discuss the performance of PCs, highlighting the challenges of PCs on inadequate finance, governance issues, low base of capital, talent gap, operational problems, inadequate processing, and storage facilities (Singh and Singh 2013; Kanitkar 2016; Christie and Shambu Prasad 2017; Shah 2016; Neti, Govil, and Rao 2019; NABARD 2018; Mahajan 2014; Sastry 2017). The summary of challenges faced in establishment of PCs is presented in Table 10.

POPIs' Perspective. POPIs play a vital role in the formation and incorporation of the PCs. Two directors said that POPIs faced several challenges at the preformation, formation, and establishment stages of the PC. POPI directors were asked to rank the most critical issue/problems they faced in promoting the PCs. The top-ranked challenges for each stage are presented based on the maximum rank score given by the respondents for a particular issue (Table 11).

A study by Singh and Singh (2013) identified the problems in the operation of PCs. The major issues for PCs in Madhya Pradesh were shortage of working capital, inability to afford professionals leading to poor professional management, high turnover of professionals, and additional

Table 10. Challenges faced in the establishment of producer companies

Authors and Year	Title	Salient Findings
NABCONS (2011)	Integration of Small Producers into Producer Companies: Status and Scope	• Lack of vision and direction from the BOD • Operational problems like low equity base due to low share value (share capital ranged from INR 1–5 lakhs across PCs) • Poor marketing and value addition expertise • No or poor business plans, which were needed for obtaining finance • Poor professional skills of s
Trebbin and Hassler (2012)	Farmer Producer Companies in India: New Concept for Collective Action	• Poor or no market linkage and no knowledge about market information among farmers
Venkattakumar and Sontakki (2012)	Producer Companies in India: Experience and Implications	• Poor credit facility for working capital investment • The PCs also face difficulties in acquiring license for processing and trading from the Agriculture Produce Marketing Committee

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Table 10 continued

Authors and Year	Title	Salient Findings
Singh and Singh (2013)	Producer companies in India: A Study of Organization and Performance	A comparison of cooperatives and PCs in policy treatment in India shows that income tax exemptions, non-taxables welfare income exemptions, land lease at normal rates or free, fertilizer allocation, foundation seed supply and marketing support to seed cooperatives, state agency grants to cooperatives, export incentive and provision of distribution outlets for selling products, which is available to cooperatives, is not available to PCs.
Desai and Joshi (2014)	Can Producer Association Improve Rural Livelihood? Evidence from Farmer Centers in India	• Impact of organizing female farmers into producer associations in Gujarat18-months program on training, information, access to inputs, risk mitigation, and market linkages got stronger impacts on member's awareness and utilization of financial services. • Producer association can lower transaction costs for smallholders but poverty alleviation may be a longer-term prospect
Bikkina, Turaga, and Bhamoriya (2018)	Farmer Producer Organizations as Collective: A Case Study from India	• The model adopted by the case discussed has not been successful in extending credit to its members due to unavailability of collateral-free loans.
Kaaria et. al (2016)	Rural Women's Participation in Producer Organizations: An Analysis of Barriers That Women Face and Strategies to Foster Equitable and Effective Participation	• Socio-cultural norms, gender perceptions, status and age are the constraints to women's access to producer organizations. • More gender-inclusive POs can bring in rural communities and families. Multiple barriers still hinder the possibility for women to become members in their own right and receive services and benefits that these organizations can provide.

Table 11. Challenges faced by producer organizations promoting institutions

Rank	Preformation Stage	Formation Stage	Establishment stage
1	Attitude of farmers	No. of members and equity base, share capital issue	Target oriented not result oriented
2	Building trust among farmers	Unavailability of the required documents and development of a business plan	Subsidies driven process
3	Problem of group dynamics among members in cluster formation	Legal and technical knowledge about acts and regulations	Lack of professional approach by the BOD
4	Mobilization of individual farmers into a formal structured organization	Filing of various documents with the registrar of companies	Poor support for bank loan

Source: Primary data

paperwork. In Gujarat, the issues were related to the registration process and problems associated with compliance, while in Rajasthan, problems related to lack of access to loans and shortage of working capital were mentioned. Singh (2008) listed the general hurdles PCs face, such as getting digital signatures of the BOD, completing the registration process, inability to access capital from outside, and inability to access grants, being commercial entities. The PCs also need to pay tax on income, unlike in the case of cooperatives where income can be tax-exempt.

CONCLUSION

As PCs are considered to enhance farmer income, the stakeholders involved in promotion of PCs may focus on four broad areas of support and intervention, namely, building mass awareness, development of sustainable institutions, linkage with the business ecosystem, and digital monitoring. Furthermore, the fact that the concept of PCs captured so little attention, except for financing and capacity building, the challenges need to be addressed. If the registered PCs become sustainable, almost 10 percent of the agricultural households in the country will be covered by those PCs and will have positive impact on livelihoods and well-being of small and marginal farmers.

PCs will be successful only when the members and the BOD develop a business mindset. Furthermore, the number of active PCs can be increased only through diversified and value-added produce from farm activities. Moreover, the heart of any market linkage for small producers is not access to market but effective participation in the market. This can be achieved through information and communication technologies, partnerships, financing across the value chain, and workable contracts for inclusiveness of small farmers (Mendoza and Thelen 2008). The business model of stable PCs needs to be replicated in different parts of the country to ensure sustainable growth of marginal farmers. The benchmark practices of the successful PCs should be communicated for adoption by other PCs.

The success of PCs depends on similar factors as those for cooperatives. The integrity and quality of the leadership, its acceptance within the community, as well as the market competence are the most crucial factors for a successful PC. A PC has to be economically viable for their members by providing them appropriate knowledge on production technology so that they can maintain strong forward and backward market linkages.

The concept of PC, if implemented appropriately, offers great promise of being a win-win proposition for farmers and small producers, besides the consumers. However, its future growth and development will depend much on how the promoting organizations and other stakeholders tackle the issues identified in this study. Financial viability and institutional sustainability are the two main points that determine the success of a PC, along with the skill and commitment of the POPIs. Nonetheless, the greatest challenge in the emergence of PCs is in connecting the individuals to the dynamic ecosystem.

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