Unlocking the Potential of Farmer Producer Companies in Bihar: Insights from a Diagnostic Study

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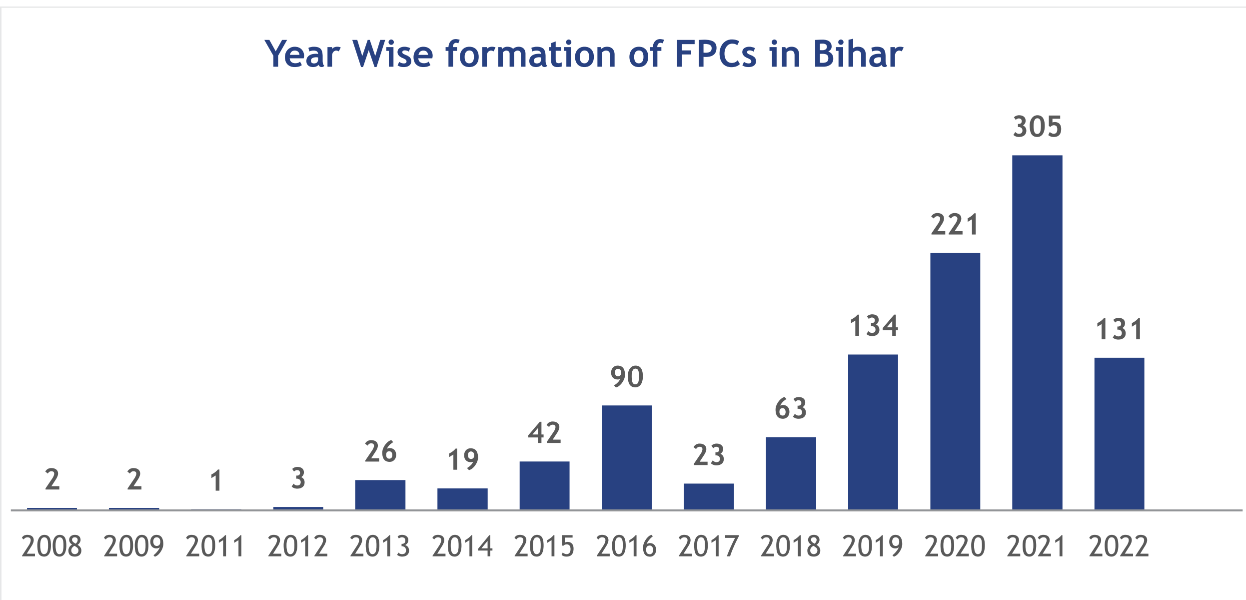
1. Introduction

Small and marginal farmers (SMFs) operate at huge disadvantages in terms of scale, crop diversification, cultivation costs and price realization. This is particularly pronounced in the state of Bihar where they account for 97% of total landholdings and 76% of Bihar's cultivated area. SMFs face challenges related to small volumes of marketable surpluses and limited access to critical agricultural inputs and services. To address these challenges, the collectivization of smallholders through farmer producer companies (FPCs) has gained substantial momentum over the last few years.

Although farmer cooperatives have existed for many years, the emergence of FPCs came about in 2003 with the addition of a new chapter called "Producer Companies" (Part IXA) into the Government of India's Companies Act of 1956. FPCs bring together the cooperative values of mutual benefits to its members along with a corporate governance structure, and have become the preferred legal form for farmer collectives.

The FPC ecosystem in Bihar has grown rapidly during the period 2019-2022 with formation of 791 FPCs *(~75% of total number of FPCs in the state)*. However, despite this rapid growth, there is limited understanding of the capacity and functioning of FPCs in the state.



1062 FPCs registered till October 2022

Figure 1 As per Ministry of Corporate Affairs, New Delhi

To unearth more granular insights, MicroSave Consulting (MSC) conducted a study in 2022, looking at 35 FPCs across 10 districts in Bihar to better understand how they function and the challenges they face. In this blog, we will share key findings from the study and to further the discourse and contribute to their long-term sustainability.

2. Key insights from the study

a. Farmer Mobilization:

One reason for the burgeoning growth of FPCs is the awareness that SMF collectivization helps reduce input and marketing costs by achieving economies of scale thereby significantly improving SMF bargaining power. Moreover, members of FPCs play a crucial role attracting capital and patronage, both of which are essential components for the success of any FPC. By pooling their financial resources and committing to buying inputs and selling produce through the FPC, members provide the necessary resources and market access for the FPC improving the income of SMFs. With a large membership base, FPCs can build their paid-in capital which, in turn, enhance their capacity to leverage credit to increase business transactions.

The minimum number of shareholders required to register a producer company is 10 with no restrictions on the upper limit; however the membership base of FPCs in India ranges from 10 to over 100,000 with a national average of 582. In our study, we found that the median FPC membership base in Bihar is 275, while 55% of the FPCs had a membership of less than 300, which is even lower than the minimum required under the national scheme (formation and promotion of 10,000 FPOs).These smaller numbers may be due, in part, to the fact that the majority of FPC formation and promotion programs are at first, most concerned about getting the FPC registered, after which the focus turns to mobilizing farmers.

A relatively low number of members upon FPC formation usually means a limited amount of capital was initially mobilized making it challenging for the FPC to create a viable value proposition for its members. As a result, many FPCs remain dormant after incorporation. Our study findings corroborated this information where over 90% of the dormant FPCs had fewer than 100 members and only 47% of the FPCs commenced business activities within three years of formation. Our findings also showed that operational FPCs had a larger membership base (averaging 485 members).

FPC formation programs and promoting agencies should prioritize member mobilization at the time of registration as an essential component of their strategy. Few members upon FPC formation will result in lower amount of capital mobilized, making it difficult for FPCs to start and sustain its business operations.

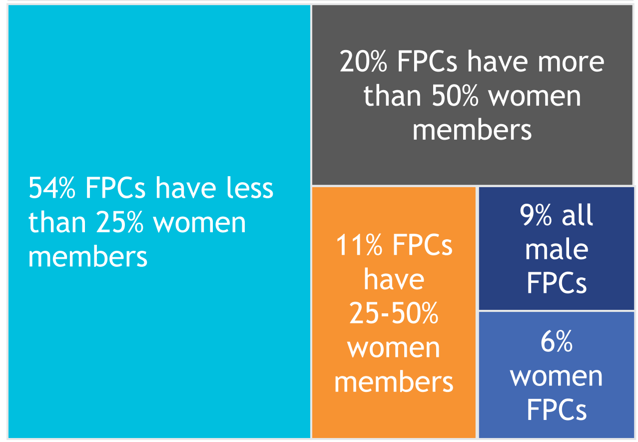
b. Inclusion of women and landless farmers

Women constitute a significant proportion of the agricultural workforce in India. However, they often face social, economic, and cultural barriers that limit their participation in decision-making and asset ownership. Inclusion of women in FPCs serves to promote gender equity by giving them a voice in decision-making and access to resources. Although no formal gender disaggregated analysis has taken place, some studies estimate that only 2.4% of the FPOs in the country are solely women FPOs.

Further, the Government of India's national program on the formation and promotion of 10,000 FPOs has received criticism for not advocating enough for the inclusion of women.

In our study, we found that women accounted for only 40% of the total membership base of the studied FPCs, which is significantly lower than the 73.2% of the rural female workforce in agriculture. In almost 54% of the FPCs studied, women members constituted less than 25% of the total membership base. The participation of women in leadership and governance roles was also limited. There was no female representation on the Board of Directors (BoDs) of almost 20% of the FPCs, and only 50% of the FPCs in the study had one woman included as a representative on the BoDs.

Representation of women members in the FPCs



We found that the inclusion of one woman representative on the BoDs is primarily driven by a mandatory requirement, which when fulfilled, permits the FPC to access benefits under various state/central government schemes and equity grant/credit assistance programs of Small Farmers Agribusiness Consortium (SFAC), National Bank for Agricultural and Rural Development (NABARD), etc.

These findings emphasize the need for concerted efforts to promote women's participation in FPCs considering the important role they play in agriculture, and their leadership and governance roles in Self-Help Groups (SHGs). State and central governments in India should develop and implement policies that explicitly advocate and incentivize for the inclusion of women in FPCs by linking benefits under various state/central government schemes.

c. The importance of a business planning

Business planning is crucial for FPCs as it provides a roadmap for the FPC vision along with strategies required to maximize profits and minimize risks. Planning also enables FPCs to monitor their progress regularly, and take corrective action to ensure that they are on track to achieve their targets. A well-crafted business plan can also facilitate funding and investments from formal financial institutions and promotes transparency, accountability, and informed decision-making among FPCs.

Only 40% of the FPCs in our study prepared a business plan. FPCs with a well laid out business plan were able to achieve a higher turnover than those without, and were also able to diversify their business activities. The median turnover of FPCs with a business plan in FY 2020-21 was USD 18,380 vis-à-vis USD 2,670 in the FPCs without any business plan.

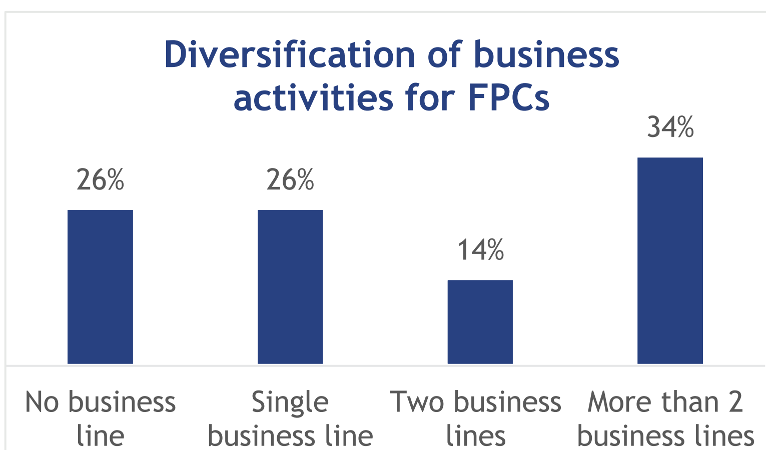
% of FPCs with a business plan	Median turnover of FPC having a business plan
40%	**$18,380**

According to our study, the majority of FPCs exhibited a lack of awareness on the importance of business planning, while only 22% reported receiving training on the topic. Business plan capacity building efforts of FPC promoting agencies (PAs) are constrained due to a lack of expertise as it pertains to identifying business opportunities and crafting suitable plans. Moreover, the quality of the business plans developed is lacking as they are often prepared without the involvement of member farmers and BoDs. Consequently, FPCs lack direction and understanding of maintaining financial sustainability. Prioritizing investments by FPC Pas in training and capacity building of FPCs on business planning will augment their competencies for identifying business opportunities and devising viable business plans.

d. The state of FPC business activities

The average turnover of mature FPCs (more than 5 years since formation) in FY 2020-21 was USD 22,100 while those between 3-5 years of age was USD 17,620 and FPCs formed during the last 3 years had an average turnover of USD 7,120 in the same period. Turnover is a factor of business activity, of which the two most common activities for FPCs are output aggregation (60%) and input sales (34%). Of those engaged in the input business, 34% are in the seed business and 20% are in the pesticide business. Less than 26% of FPCs are engaged in either primary or secondary processing.

Almost 48% of the FPCs in the study diversified their business activities with at least two business lines. Diversification appears beneficial for FPCs leading to a higher business volume. The average turnover for FPCs with more than two business lines is USD 22,520, compared to USD 8,910 for FPCs with a single business line.



Our study findings show, many FPCs struggle to remain profitable despite multiple business lines due to lack of proper business planning and a balanced mix of business activities. While 80% of FPCs generated less than 5% of their turnover as profit, almost one-third of FPCs older than 3 years incurred losses, with a median loss of USD 1,370.

One of the key factors contributing to the success of FPCs is the active participation and commitment of its members. The business volume generated by the members is a critical indicator of their level of involvement and interest in the FPC. In FY 2020-21, the average per-member business volume in operationally mature FPCs (older than 5 years) was just USD 55 while the average per-member business volume in FPCs between 3-5 years and less than 3 years was USD 20 and USD 4, respectively.

FPCs should prioritize a balanced mix of business activities for FPCs when diversifying their business lines. While diversification can lead to higher business volume, FPCs should ensure that their multiple business lines are profitable and sustainable. This can be achieved by supporting FPCs in conducting a thorough analysis of the market demand, supply chain, and cost structures of each business line.

e. Insufficient access to capital

FPCs require capital to fund institution-building activities, operational expenses, infrastructure investments such as processing, storage, transport, and marketing facilities and growth-oriented activities. However, access to credit remains a challenge. Our study illustrated that most FPCs rely heavily on their paid-in capital, as well as short-term borrowing from informal sources to meet their capitalization needs; 47% of the FPCs reported using short-term borrowings from its members or other informal sources.

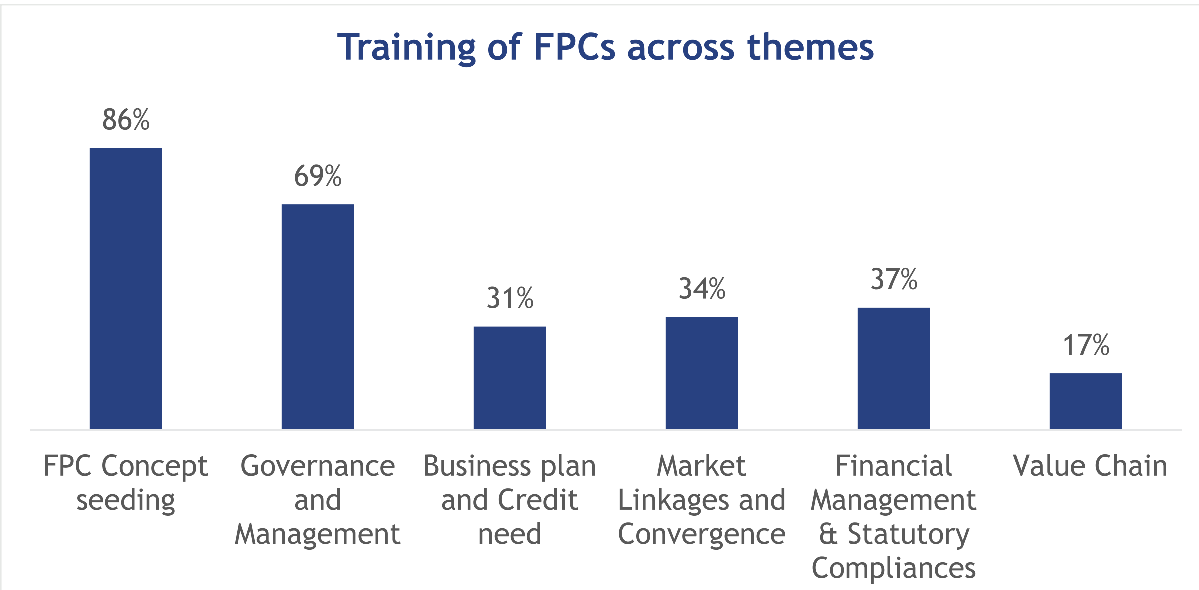
Despite the availability of several equity grant and credit guarantee schemes by public sector institutions, too few FPCs were aware of these schemes or simply found them to cumbersome to access. Our study indicated that 46% of the FPC were eligible to avail benefits under the equity grant scheme of SFAC. However, less than one third of those eligible had applied as they find the process too cumbersome in the absence of assistance from a chartered accountant or dedicated expert personnel. Most FPCs do not have the requisite staff to pursue such opportunities. In fact, 51% of FPCs were functioning without a full-time CEO, and the support of an accountant or additional staff member was available in less than 20% of FPCs.

Credit requirements of FPCs in Bihar are largely unmet and have not kept pace with the FPC growth. Only 11% of FPCs applied for institutional credit from banks or NBFCs and only 9% received approval on their loan applications. To access formal credit, FPCs must maintain proper financial records such as audited balance sheets, a business plan, have a full time CEO, and positive net worth, etc. Most FPCs in the study lack the necessary expertise or resources to address such requirements. Further, many financial institutions insist on a personal guarantee or collaterals from the BoDs to provide credit, which is not only discouraging, but a challenge for SMFs who may lack the necessary assets to pledge as collateral.

f. Gaps in Training and Capacity Building for FPCs

Running an FPC requires a distinct skillset to manage its business functions, membership mobilization, and compliance with statutory regulations. FPC PAs serve as the primary capacity building resource during the promotion and mobilization process. Despite the numerous capacity building programs offered by various institutions, FPCs and PAs face numerous constraints.

The current capacity building efforts are limited to FPC concept seeding, governance and management while neglecting other important areas such as business planning, credit assessment, value chain specific trainings, market linkages, statutory compliance and convergence on which less than one third of the FPCs received trainings. Further, finding qualified trainers with a robust understanding of rural dynamics, FPC management and operations, changing agricultural scenarios, and the dynamics of agriculture value chains is not easy. Our study also highlights that most FPC PAs focus on conducting one-time training programs for FPC members without ongoing support or follow-up.

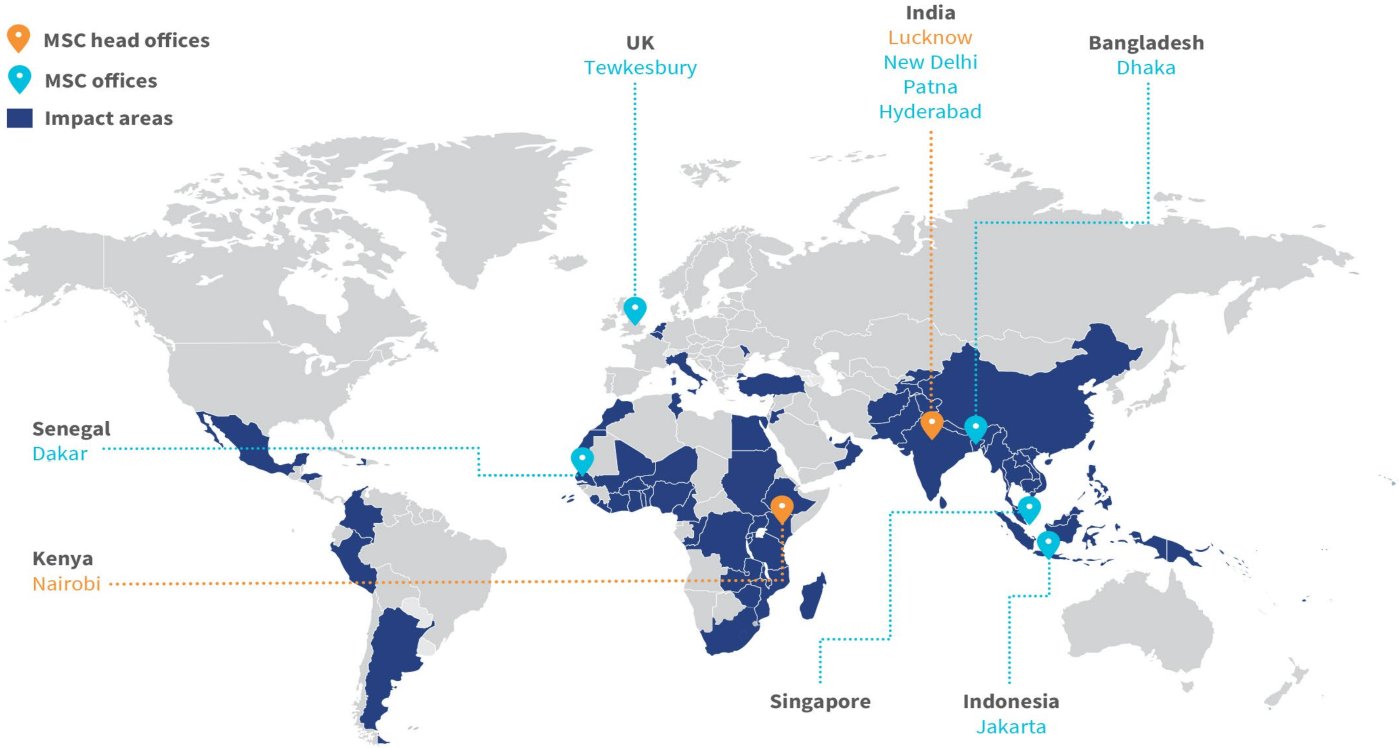


To ensure the long-term success of FPCs, capacity building of FPCs should be approached systematically including periodic refreshers and follow-up trainings which would help FPC members keep abreast of new developments, technologies, market trends, and equip them with the necessary skills to adapt to changing circumstances and succeed in globalized and highly competitive markets.

3. Conclusion

FPCs have the potential to be a powerful tool to improve the livelihoods of SMFs. However, it is important to note that the promotion of FPCs alone is not enough to ensure their long-term success and sustainability. They must be nurtured and supported with strong structures and mechanisms to help them grow and mature over time.

This study has identified several critical levers that could help unlock the potential of FPCs in Bihar. These include targeted and sustained efforts to increase the membership base through awareness building, policy interventions that promote the inclusion of women and landless farmers in FPCs, a systematic approach to capacity building that includes periodic refresher and follow-up trainings on key topics that affect FPC sustainability, and improved access to adequate financial resources to commence and sustain businesses operations and develop the business acumen of FPCs.



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