

EMPOWERING MARGINAL FARMERS: A CRITICAL ANALYSIS OF FARMER PRODUCER COMPANIES IN INDIA

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ABSTRACT

In India, the Farmer Producer Company (FPCs) or Farmer Producer Organisations (FPOs) are the pillars for rural development. Farmer-Producer Companies are a hybrid legal entity, formed to empower the small and marginal farmers in India through collective action. Initially, FPCs are conceptualised under the Companies Act, 1956; later, it was emerged in the Companies Act, 2013. Government institutions like the National Bank for Agricultural and Rural Development (NABARD) and the Small Farmers Agricultural Consortium (SFAC) also provide certain initiatives for FPC development.

However, with strong institutional backing, the FPCs are facing crucial operational challenges, including poor financing, lack of awareness among farmers, inadequate infrastructure and marketing facilities, and governance issues. This article examines the FPC model, analyses the supporting legal and policy framework, details some of the specific challenges faced by FPC members, and concludes with targeted, suggestive measures for enhancing their empowerment and sustainability.

Key Words: Farmer-Producer Companies, Empowering Marginal Farmers, Challenges faced by Members

INTRODUCTION

Farmer Producer Company/ Organisations are farmer-led collectives that aim to enhance the collective bargaining power of farmers in the agricultural market. FPCs can take various forms, including producer companies, cooperatives or self-help groups, but the key objective remains the same, i.e., to enable farmers to engage in collective activities that enhance their economic and social well-being. Chapter XXI of the Companies Act, 2013, deals with the Farmer-Producer Companies in India. The primary goal is to enhance the livelihood of small farmers who are struggling alone. According to NAFPO, there are over 40,000 FPOs in the country now, demonstrating significant success in their formation.¹¹⁵⁰

However, the success rate in its formation has not enhanced its sustainability. Despite initial socio-economic impact and continued support from major institutions like the National Bank for Agricultural and Rural Development (NABARD) and the Small Farmers Agricultural Consortium (SFAC), FPCs still face crucial challenges in their effective, sustainable development. This article will first discuss the conceptual structure and legal and policy framework of FPCs, then review key government initiatives, analyse the crucial challenges they face, and conclude with suggested measures for their sustainability.

FARMER PRODUCER COMPANY OR ORGANIZATION

The idea of collective action in Indian agriculture is not new, tracing back to the early cooperative movements of the pre-Independence era, such as the Cooperative

¹¹⁵⁰ State of the Sector Report 2025, p.1, (2025)

Societies Act of 1904, but came into existence during the 1990s and 2000s as market-focused alternatives, with emphasis on value addition, joint marketing, and better access to resources.¹¹⁵¹ The idea of Farmer-Producer Organisations was introduced on the recommendations of the Y. K. Alagh Committee in 2001.¹¹⁵² Currently the Chapter XXI (Section 378A to Section 378ZU) of the Companies Act, 2013, deals with the Farmer-Producer companies in India.

Farmer Producer Companies (FPCs) are hybrid institutional models, synthesising the features of private limited companies and cooperative societies with the core mandate of enhancing farmer capabilities. An FPC is defined as a collective formed by farmers (the primary creators of agricultural products), where membership is restricted to growers of primary produce from agriculture and allied activities.¹¹⁵³ Primary producers mean the produce of farmers, arising from agriculture, including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products, or from any other primary activity or service which promotes the interest of the farmers or consumers to increase their income, profitability, and overall quality of life.¹¹⁵⁴

Farmer Producer Companies (FPCs) are categorized by their business activities, which include Production (cultivating/processing members' produce), Marketing (selling outputs locally and internationally), Technical service (offering consultation, research, and training), Financing (providing credit/loans and earning interest), and Infrastructure (operating resources like water, storage, and post-harvest facilities).¹¹⁵⁵

LEGAL FRAMEWORK

Chapter XXI (Section 378 A to Section 378ZU) of the Companies Act, 2013, deals with the legal framework of FPCs. A Producer Company (PC) can be formed by a minimum of ten or more individuals who are producers, or by two or more Producer Institutions, or by a combination of both, provided the total number of individuals and institutions meets the minimum threshold of ten.¹¹⁵⁶

According to the provisions in the Articles, each Member will initially receive only the value for the produce or products they supply, as decided by the Board of the Producer Company and the remaining amount may be paid later, either in cash, in kind, or through the allotment of equity shares based on the quantity of produce supplied during the financial year and as per the conditions set by the Board.¹¹⁵⁷ **Each Member will receive only a limited return on the share capital they contribute.**¹¹⁵⁸ **However, Members may also be given bonus shares** if the Board recommends it and a resolution is passed in the general meeting. These bonus shares can be issued by converting amounts from the general reserves, in proportion to the shares held by each Member on the date of issue.

Any dispute related to the formation, management, or business of a Producer Company must be settled through conciliation or arbitration under the Arbitration and Conciliation Act, 1996, and this applies as though all parties have given written consent for such resolution. These disputes may occur among Members, former Members, or individuals claiming membership, including nominees of deceased Members; between any such Member and the Producer Company, its Board, office-bearers, or present or past liquidators; or between the Company or its Board and any director, former director, office-bearer, or the nominee or legal heir of a

¹¹⁵¹ G Anand et al., Evolution and growth of Farmer Producer Organizations (FPOs) in agriculture, 8 Int'l J. Agric. Extension & Soc. Dev. 442, 442 (2025).

¹¹⁵² Preeti Tejas Boraste & SD Khairnar, Farmer Producer Organizations (FPOs): Challenges & strategies to overcome them, 8 Int'l J. Rsch. & Analytical Revs. 362, 362 (2021).

¹¹⁵³ Dilip Rasiklal Vahoniya, et al., Farmer Producer Organisation (FPO): A Conceptual Study about Farmer Producer Company (FPC), 40 Asian J. Agric. Extension, Econ. & Sociology 1185, 1185–97 (2022).

¹¹⁵⁴ Section 378(A)(i)(i), Companies Act, 2013

¹¹⁵⁵ Ibid n.4

¹¹⁵⁶ Section 387(C)(1), Companies Act, 2013

¹¹⁵⁷ Section 378(E)(1), Companies Act, 2013

¹¹⁵⁸ Section 378(E)(2), Companies Act, 2013

deceased director. The term “dispute” covers claims for any debt or amount due, claims by a surety against a principal debtor when the Company has recovered money due to the debtor’s default, claims by the Company against a Member for failing to supply the required produce, and claims by a Member against the Company for not accepting the goods supplied. If any question arises about whether a matter relates to the formation, management, or business of the Company, it must be referred to the arbitrator, whose decision will be final.

SUPPORT MECHANISM AND INSTITUTIONAL FRAMEWORK

The Small Farmers Agribusiness Consortium (SFAC) and NABARD are central to the development, financial viability, and market integration of Farmer-Producer Organisations (FPOs) through their joint efforts in financial support, capacity development, and linking FPOs with Agri-value chains.

NABARD initiatives established at National Advisory Committee to oversee promotion efforts and created a Producer Organisation Development Fund (PODF). NABARD’s PODF offers direct funding and organisational development support. The PRODUCE program roadmap highlights converting existing collectives, e.g., Farmers Clubs, Self-Help Groups (SHGs), and Joint Liability Groups (JLGs) into viable FPOs.¹¹⁵⁹

The Small Farmers Agribusiness Consortium (SFAC) has been instrumental in promoting Farmer-Producer Organisations (FPOs) by providing financial support, capacity building, and market linkages. Digital intermediaries such as the electronic National Agriculture Market (eNAM) facilitate FPOs to reach buyers directly, enhancing transparency and ensuring improved price realisation for farmers.¹¹⁶⁰

The Credit Guarantee Fund Scheme provides credit guarantee cover to eligible lending institutions for collateral-free loans up to Rs. 100 Lakhs to the FPCs with at least 500 individual shareholders.¹¹⁶¹ In 2019, the government established the FPO Promotion Fund to offer financial assistance to both new and existing Farmer-Producer Organisations (FPOs), allowing them to scale up operations and strengthen their market position.¹¹⁶² FPCs are exempted from tax under section 10 (1) of the Income Tax Act, 1961. FPCs with Rs. 100 crores in Indian market revenue are eligible for 100% tax exemption.¹¹⁶³

CHALLENGES FACED BY FPCs

1. Lack of Awareness

In India, the majority of farmers are illiterate, and they do not have enough knowledge regarding FPCs. Approximately 91.2% of farmers are unaware of the Farmers Producer Company.¹¹⁶⁴ Farmers often lack the understanding required to successfully access the schemes and benefits provided by government institutions. In essence, the gap in legal and professional knowledge creates a vulnerability that allows a few unscrupulous individuals to dominate the affairs of the FPCs, thereby disenfranchising the majority of farmer members.

2. Operational challenges

Farmer-Producer Organisations are formed and run by farmers only. So, they democratically decide their Board of Directors and the CEO is appointed by the BODs. BODs and CEO have very less managerial skills and limited exposure to entrepreneurship and modern business development. The three most significant constraints identified by members using Garrett’s Ranking Technique are the lack

¹¹⁵⁹ Venkatesh Tagat & Anirudh Tagat, The Potential of Farmer Producer Organizations in India, SSRN Electronic J. 1, 1–13 (2016).

¹¹⁶⁰Id, n.2.

¹¹⁶¹Amit Kumar Kashyap & Milan Prajapati, Law and Policy Reforms of Farmer Producer Companies Business India, 14 Lex Humana 257, 257 (2022).

¹¹⁶²Id, n.2

¹¹⁶³Ibid n.12

¹¹⁶⁴Shubhangi Salokhe, Exploring Challenges Faced by Farmers in Participating in Farmer’s Producer Organizations: Understanding the Key Issues Impacting FPO Success: A Review, 59 Indian J. Agric. Rsch. 843, 843 (2025).

of available processing facilities (Mean Score: 59.40), the absence of a procurement system for all crops (58.54), and a deficit in knowledge regarding FPO services (46.94).¹¹⁶⁵ Most FPOs also have limited access to warehouses, transport facilities, and online platforms, confining their reach through marketing.¹¹⁶⁶

3. Financial Challenges

One of the most serious problems confronting Farmer-Producer Organisations (FPOs) is undercapitalization. The average active Farmer Producer Company (FPC) has a paid-up capital of only ₹110,000, which falls short of the estimated ₹300,000 needed for viable operation; consequently, a simple one-to-one equity grant is insufficient, necessitating a 3:1 grant match to effectively close this equity gap.¹¹⁶⁷ As Farmer Producer Organisations (FPOs) have no collateral other than farmer members' equity to secure borrowings, the banking system faces difficulty providing large amounts of capital and must therefore analyse how these FPOs can raise the necessary margin money to mobilise loans.¹¹⁶⁸

4. Policy and Regulatory Challenges

Facing policy-related hurdles such as delayed government approvals, difficulty meeting quality standards, high taxes and duties, lack of legal support, bureaucratic obstacles, and unfavourable agricultural policies prevents Farmer Producer Organisations (FPOs) from utilising their full potential, ultimately hindering farmers from achieving their goals.¹¹⁶⁹

5. Challenges with dispute resolution

The internal disputes of FPCs, which are registered under the Companies Act of 2013, are mandated to be settled through the expensive and often unaffordable Arbitration and

Conciliation procedure under Section 378(ZO), with limited transport access exacerbating these procedural drawbacks for small and marginal farmers.¹¹⁷⁰

CONCLUSION

As the growth of FPCs was essential in this new era to address the difficulties faced by it, some improvements like creating awareness campaigns related to the available governmental schemes, technical support, and making collaborations with some NGOs to offer the training sessions and establishing some Professional Development Programmes (PDP) that encourage the participation of knowledge in the field of entrepreneurship. Also aids in the financial management programmes for the members of such an entity, and also provides access to digital platforms to share the infrastructure development for the purpose of enhancing their procurement and marketing methods, and also encourages the members in attaining equity mobilisation and provides low-cost loans/subsidies. The main thing is to enhance the legal aid services, particularly focusing on the hurdles faced by the agricultural co-operatives and set up single-window clearance systems to minimise the bureaucratic delays, such as ombudsman services, Lok Adalat, and community-based mediation centres to promote transparency and avoid disputes.

¹¹⁶⁵Anandi Radadiya & Yogeshkumar A Lad, Assessing the impact of farmer producer companies on farmers and addressing constraints faced by member farmers, 12 Pharma Innovation J. 2092, 2092–97 (2023).

¹¹⁶⁶Ibid

¹¹⁶⁷Annapurna Neti, Richa Govil, & Madhushree R. Rao, Farmer Producer Companies in India: Demystifying the Numbers, 9 Rev. Agrarian Stud. 92, 92–113 (2019).

¹¹⁶⁸Id, n.3

¹¹⁶⁹P V Munde et al., Challenges faced by Farmer Producer Organizations (FPOs): A comprehensive analysis, 8 Int'l J. Agric. Extension & Soc. Dev. 426, 426 (2025).

¹¹⁷⁰Anhita Tiwari, Understanding the Relevance of Farmer Producer Companies in Backdrop of the New Farm Bills: A Solution, 4 Int'l J. L. Mgmt. & Human. 1817, 1817 (2021).