



# Formalization of PGs & FPCs for better governance

Empowering Sustainable Business Institutions



**idh**  
transforming markets

# DAY-NRLM's Current Universe



**~1,70,000 PG**

Informal Group of Women Farmer

**~1183 FPC/PE**

Formal Group of Women Farmers



## Producer Groups

- Informal group of 20-25 Producers
- No specific law or act
- Objective is to reduce transaction cost
- Focus on Aggregation, primary processing and collective local marketing
- Informal Governance Structure
- No Legal Compliance





# Producer Companies

- **Legal structure** (Registered under section 465(1) of Companies act 2013)
- fostering collaboration, resource pooling, and market access
- Holistic Value Chain Approach
- Target Regional, National and International market
- Formal Governance
- Rigid Compliance Mechanism defined by law





# Similarities between both institutions



**Market at the  
doorstep**



**Aggregation of  
Produce**



**Increase the bargaining  
power of farmers by  
collectivization**



**Protecting the farmers from  
exploitation of market players**



**Reduction in cost of cultivation  
by pooling the resources**



# Challenges Faced By PG & PC

## Producer Groups

1. Small and Informal Groups
2. Difficulty in access to institutional market
3. Difficulty in access to finance
4. Lack of skilled human resource
5. Lack of partnership & convergence

## Producer Company

1. Mobilization of Members
2. Communication with Communities
3. Higher transaction cost
4. Inadequate capacity utilization of processing Units
5. Challenges to promote responsible sourcing



## How PG-PC linkage will resolve issues?

- More formalized structure
- Faster Mobilization
- Resource Sharing
- Economies of scale
- Streamlined Operations
- Collective resilience
- Better procurement structure for Sustainable sourcing



# How this Linkage is possible?



## Available Alternatives



**Conversion of Producer Groups  
into Producer Companies or  
Cooperative Societies**

**Creation of Middle Layer  
Federation, for Producer Groups  
which then Sells the Produce to  
Producer Companies/Off Takers  
Directly**



**PG as a Member joins FPC as a  
direct Shareholder**



# Evaluation of Alternatives





## Alternative-1

### **Conversion of Producer Groups into Producer Companies or Cooperative Societies**

#### **Pros**

1. Formal legal entity
2. Stronger Compliance and Governance mechanism
3. Access to Institutional Market
4. Access to Finance

#### **Cons**

1. Unmanageable Number
2. Small member-base
3. Challenge in sustainability with thin margins
4. Higher Management Costs/Compliance Cost



## Alternative-2

**Creation of Middle Layer Federation for Producer Groups, which then sells the Produce to Producer Companies/Off-Takers Directly**

### Pros

1. Not-for-profit company to Support the PGs
2. Vehicle for Promotion of PGs
3. Strong Compliance Mechanism

### Cons

1. Operational Challenges and Financial Feasibility of the model
2. Challenges in designing the model
3. Duplicity of the operations
4. Federation can work on a few commodities effectively
5. Poor Governance structure

### **Alternative-3**

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## **PG as a Member joins FPC as a direct Shareholder**

### **Pros**

1. PG directly become shareholder to FPC
2. PG act as a Communication channel b/w community and FPC and act as a collection center
3. PC will act as an Aggregation & Marketing support institution for its members (PG)
4. PC can finance these PG for advance payment during procurement
5. Very strong Governance & Compliance mechanism

### **Cons**

1. Chances of duplicity of Membership in FPC
2. Certain Operational challenges





But can PG  
become legally  
shareholder  
member of FPC?

**YES**

## Let's dive deep into "The Companies Act"

"Member" means a person or **Producer Institution (whether incorporated or not)** admitted as a Member of a Producer Company and who retains the qualifications necessary for continuance as such;

**Section: 581A**

## Definitions of Producer Institution as per “The Companies Act”

“**Producer Institution**” means a Producer Company or any other institution having only producer or producers or Producer Company or Producer Companies as its member **whether incorporated or not**; having any of the objects referred to in section 581B and which agrees to make use of the services of the Producer Company or Producer Companies as provided in its articles;

**Section: 581A**



## So, what's the final outcome?

A Producer Group being an Unincorporated Entity can qualify under Producer Institution and become a member of the Producer Company provided it consists of Producer as defined in the act involved in primary produce and conducting activities as defined in Sec 581B.



# What are the Pitfalls?





# Let's pour our thoughts on...

**Governance Mechanism**

**Voting rights**

**Risk & Rewards  
distributions**

**Operation Management  
( Individual Member &  
PG)**

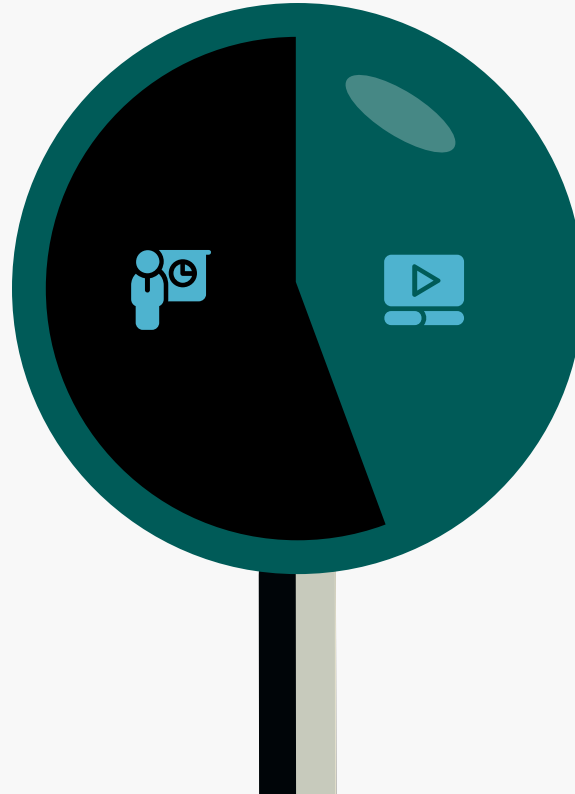




# Governance Mechanism

## Membership Eligibility Criteria

Individual member v/s  
PG as a member



## Representation In Board

PG as Board Member v/s  
Individual Member as a  
board member

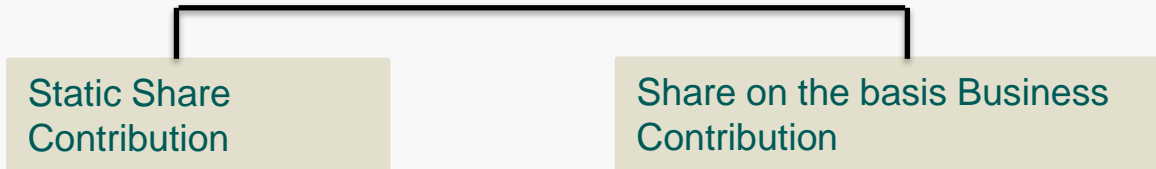


# Governance Mechanism

## Membership Eligibility Criteria\*

Membership is decided on the basis of following two criteria:

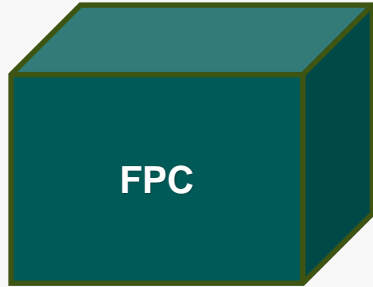
- **Objective**
- **Share Capital**



**\*should be defined in Articles of Association (AoA) as per Section 581G (2) (a)**

# Membership Eligibility Criteria (on the basis of Objective)

## Let's Assume a Case



**Objective:**  
Collection and  
Processing/Marketing  
in bulk or retail pack  
of **Coriander  
and Garlic**



**Objective:**  
Collection and  
Processing/Marketing  
in bulk or retail pack  
of **Soyabean and  
Onion**



**Objective:**  
Collection and  
Processing/Marketing  
in bulk or retail pack  
of **Coriander and  
Onion**



**Objective:**  
Collection and  
Processing/Marketing  
in bulk or retail pack  
of **Coriander and  
Garlic**



Objective of PG and FPC should Match



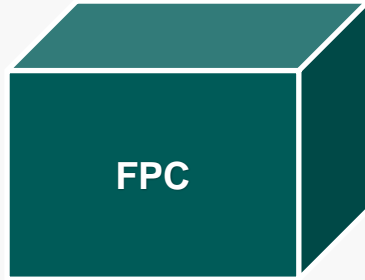
# Governance Mechanism

## Membership Eligibility Criteria

Static Share Contribution

# Membership Eligibility Criteria (on the basis of Static Share contribution)

## Let's Assume a Case



**Individual Member**

**20 Members**

**30 Members**

Case-1

100 Rs for 1 Share

100 Rs Share x 20

100 Rs per Share x 30

Case-2

100 Rs for 1 Share

100 Rs for 1 Share

100 Rs for 1 Share

Count One PG as one Member

Face Value of 1 Share = Rs. 100

**Minimum Share Capital to become the member should be decided by Board of FPC**



# Membership Eligibility Criteria (on the basis of Static Share Capital)

**PG-1**  
20 Members in PG

## Case-1

100 Rs Share x 20 = Rs. 2000

### Pros

- FPC can raise more capital from members for its operation

### Cons

- Accounting will be a big challenge
- Reporting on Dynamic share will be critical

## Case-2

100 Rs for 1 Share

### Pros

- Accounting will be much easier
- Reporting share capital will be easier

### Cons

- Collecting Share Capital for operations is a challenge
- Promotion of Free ridership

**But static share capital concept is against the basic premises of Cooperation and equity  
(Section-581ZB (2) of Companies Act, 2013)**



# Governance Mechanism

## Membership Eligibility Criteria & Risk and Reward Distribution

Share on the basis Business Contribution

Based on the concept of patronage Section-581ZB (2) of Companies Act



# Before moving Forward, Let's Understand!

Concept of **Share & Dividend**

Concept of **Business Contribution and Patronage**

## And how these four intersect

Share=Rs. 100



Commodity  
Contribution=Rs. 50,000

Share=Rs. 1000



Commodity  
Contribution=Rs. 10,000

Share=Rs. 10,000

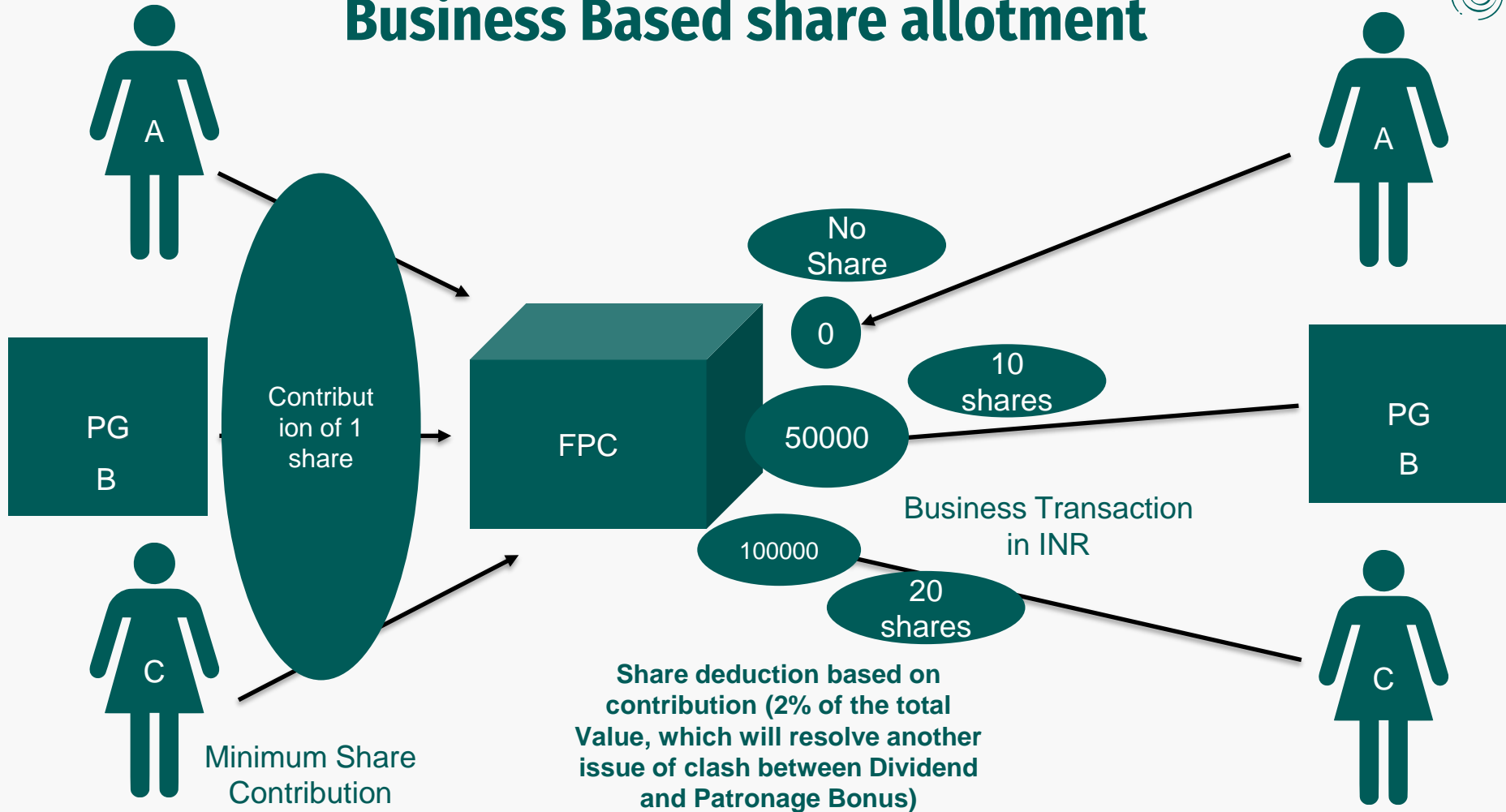


Commodity  
Contribution=Rs. 0

In case of Profit, how Dividend and Patronage Bonus will be distributed?



# Business Based share allotment





# **Governance Mechanism**

## **Representation in the Board**



# Type of Individual Members



Member having 0.5 Acre land

A

Member having 5 acre land

B

Member having 10 acre land

C



# Type of PG Members





# Board Composition : Concept of Class Representation

## Part of Articles of Association (AoA) u/s 581G



2 seats

PG  
E

2 Seats



2 Seats

PG  
F

2 Seats



1 Seats

PG  
G

2 Seats

Indicative Distribution of 11 Elected Members (Section-581O)





# Voting Rights



# Voting Rights

**Producer Group  
(Member)**









**Individual  
Member**

Sub Clause (c) of Sec 378D states- In a case where the membership consists of **Individuals** and **Producer Institutions**, the voting rights shall be computed on the basis of a single vote for every Member.



# Case (Who can Vote?)

	Board Positions	Number of Members in each class		Board Positions	Number of Members in each class
<b>Class</b> 	2* <small>*One position vacant</small>	100	PG 	2	20
<b>Class</b> 	2	200	PG 	2	30
<b>Class</b> 	1	100	PG 	2	10

\*Vacation of director under section:581Q



# Decision Making in Board



# What is Quorum?

**The smallest number of people that must be at a meeting before it can make official Decision**

**In FPC 1/3rd board members are required to complete the quorum as per Section-581V (4) of Companies Act**



**However....**



**FPC can define Quorum in its AoA as per its requirement (Section 581G & Section 581G (3) (c))**



**But Why it is Mandatory to have a quorum?**



# Board Agenda: Granting loan to PGs for Business

Class  

Class  

Class  

PG  

PG  

PG  



# Board Meeting



**Board Agenda: Granting loan to PGs ~~X~~ for Business**

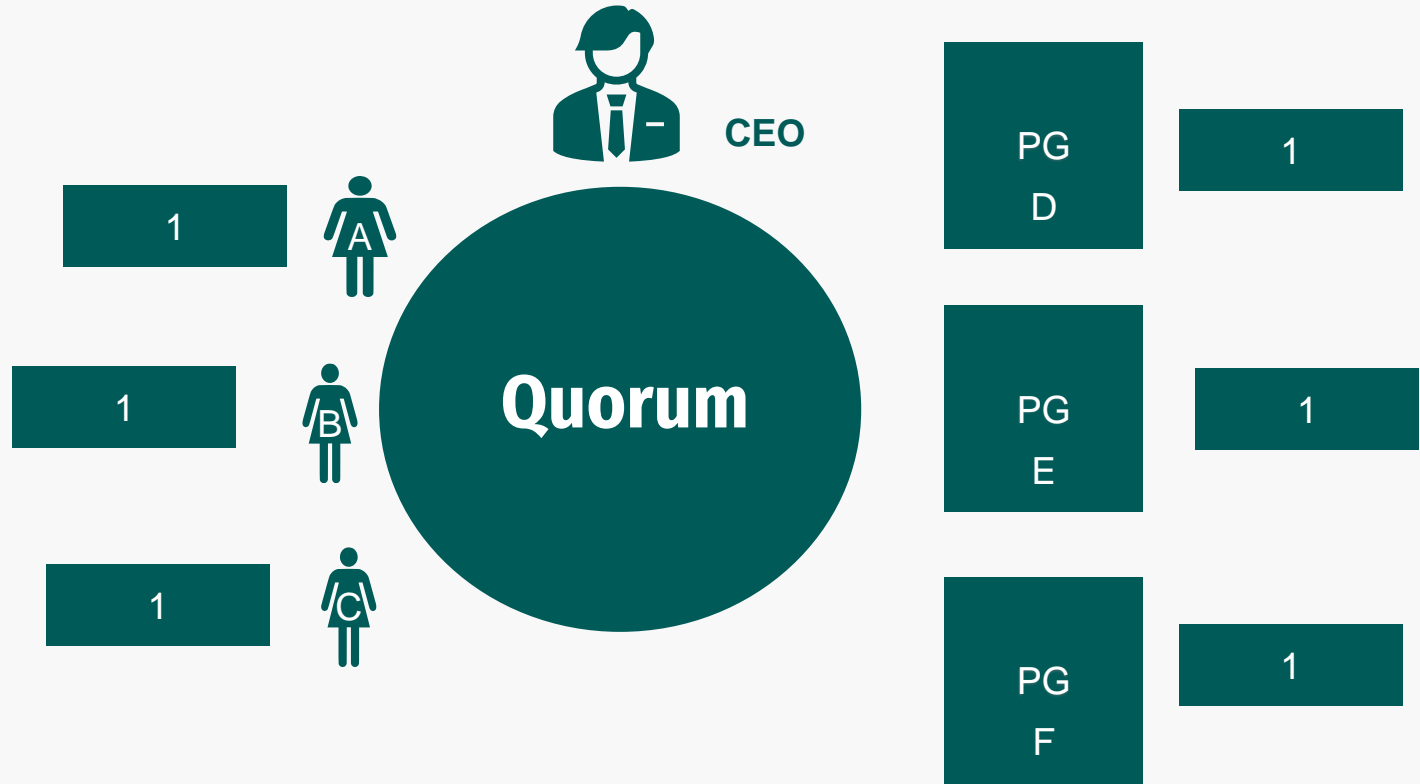


**So, what can be the solution?**





# Define your own Quorum in AoA





# Thanks

