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FARMER
PRODUCER ORGANISATIONS
AN IDEA WHOSE TIME HAS COME

MAHILA CHETNA MANCH AND MILK PRODUCERS

EDITORIAL

Promoting and strengthening Farmer Producer Organisations (FPOs) is an idea whose time has come.

As Indian agriculture copes with a rapidly overflowing basket of crises, ranging from plateauing productivity in Green Revolution areas, stagnation in rainfed regions, ecological degradation of the production base, to farmer suicides, globalization and climate change, the search for answers to meet current and future challenges grows ever more desperate. While the overall economy has performed creditably in the last decade, sluggish agricultural growth continues to keep millions in poverty and hunger.

Even as the impact of technology driven solutions to the agriculture crises seems to reach its limits, institutional answers acquire renewed and urgent significance. There appears to be a growing awareness among policy makers that supply side solutions to agriculture (in the form of additional units of credit, seed, fertilizers, price incentives, technology supply etc.) must be balanced with investment on the demand side i.e., in the capacity of farmers to build and manage institutions of their own, which can then develop locally relevant strategies to address problems and challenges. FPOs have emerged as one class of institutions that holds tremendous promise in fulfilling this role.

The papers and articles in this special issue provide both the theoretical foundations of supporting FPOs as part of a massive national campaign, as well as excellent case studies and lessons in how FPOs can be built and sustained. There is something for several stakeholders here: government, civil society and private sector as well as farm leaders. Above all, what emerges from a careful reading of the various contributions to this issue is the realization that only a genuinely collaborative effort by all major participants can help to unleash the immense potential that lies locked within the farming community in India, creating institutions that take the process of democratic deepening further.

It is now time to act.

Pravesh Sharma
Guest Editor

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Transformative Business Models

Organising Producers and Their Integration into The Mainstream Economy

By **Jack Croucher, Ph.D.**

It is becoming increasingly recognized that the progressively globalized nature of economies around the world is affecting the economic security of all nations and all sections of society. This phenomenon has generated considerable debate as to whether globalization is a positive evolution of economic activities or is detrimental to the interests of certain countries or specific groups (Kaplinsky, 2004, Nadvi 2004). Among the groups whose economic security is thought to be of greater risk through globalization are the small-scale producers in the developing world, including India. " The entry of the giant corporate retail in India's food market will have direct impact on India's 650 million farmers and 40 million employed in retail". [1]In the absence of effective organization, small-scale producers are likely to face either a life of continued poverty, exploitation at the hands of those controlling value chains, or progressive isolation from active involvement in economically viable agricultural activities.

Small-scale producers are defined as women and men who are participating in economic activities but frequently generate insufficient returns to escape from poverty on a sustainable basis. Hence, they are not the destitute, which would call into play a different set of policies and solutions, but can be thought of as disadvantaged yet economically active producers or collectors, as is the case in certain sub-sectors. The major difficulty facing small-scale producers is their lack of organization and the unwillingness of responsible development associations to facilitate such organization. Small-scale producers and their organizations should not be perceived as a problem but should be considered an opportunity.

This brief article addresses three strategic issues that have a direct impact on the continued relevance of small-scale producers/collectors as viable economic actors in a rapidly changing world and concludes with an argument for devoting greater attention and resources to organizing groups (social networks) of primary producers/collectors in order to facilitate their effective participation in value chains.

It is based on the premise that primary producers can be integrated into local, national and globalized value chains in such a way that increases their economic security, allowing them to escape from a life of poverty on a sustainable basis while at the same time strengthening the competitiveness of the entire value chain in which they operate.

Organizations both formal and informal among persons of similar economic interests are nothing new. In Europe they are referred to as Social Networks and in the US as Business Clubs such as The Rotary Club, Lions Club and Kiwanis. Of late they are generating more interest among students of enterprise development who are coming to recognize the important and diverse roles such networks play in competitive industries.[2] The questions that are presented for generating further discussion and deeper understanding both theoretically and empirically relate to characteristics of the producers that lend themselves to successful group cooperation; to the fundamental conditions of the economic sectors in which small-scale producers operate profitably and finally to the issue of how to scale up grassroots organizations in order to ensure their sustained contribution to the overall competitiveness of the industry to which they belong.

Producers and Characteristics of Successful Organization

As noted above, producers/collectors are those who are economically active members of society, but who generally are not able to lift themselves out of poverty in a sustained manner. Not all producers are alike, however, and it would be erroneous to think that each and every producer has the interest or willingness to join in cooperative efforts that will lead toward their individual as well as collective benefit[3]. Every society and every section of society have free riders who sit back and enjoy the externalities of others efforts. Thus, one of the main lessons of the SHG experience is that in organizing networks of rural people, self-selection is a key characteristic of successful group organization. Imposing membership by an outside entity, be it a government department, an NGO, or a private sector concern, usually does not lead to sustainable group action. On the other hand it should be acknowledged that self-selection of group members while organizationally critical may not address issues of social objectives. There will often be a trade off. A case in point is the attempt of the Government of South Africa to organize groups of "emerging farmers" (those black Africans who were disenfranchised during the apartheid regime era). These are rural people who were used as daily labor without training or skill development and were given large tracks of land to cultivate after independence. By and large the effort is failing mainly due to its organization imposed from outside, its grouping together people with no history of interaction, often from different tribes, and its overemphasis on social objectives to the detriment of economic objectives resulting in neither being achieved.[4]

A necessary characteristic of collective action and another important lesson of the SHG experience is that size at the primary group level is important. Group participants benefit from knowing one another. This is complimentary to self-selection and is important in a number of ways, including excluding outsiders, limiting free-riding, setting and enforcing the norms of participation, and punishing those who deviate from these norms. A small group of individuals, who are known to one another, will interact with one another on a regular basis thus reinforcing the norms of the group. The entire membership of the relevant group does not have to commit itself to active participation as long as it subscribes to the shared values or shared paradigm of the group that facilitates a common understanding of the collective goals of the group and of proper way of acting within the social network. At the primary group level, manageable size is critical to group success, but does not preclude generating greater scale economies at higher levels through federating primary groups.

A good example of successful collective action of this nature is the Van Panchayats found in Uttarakhand. The older well-established Van Panchayats that were formed by the villagers themselves have successfully and sustainably managed their forests for generations, while the newer ones organized by the State have failed to exist beyond paper documents. In well functioning Van Panchayats a small group of elected villagers manage the forests on behalf of all the villagers, while all the villagers subscribe to the norms of the Panchayat. This is an excellent example of small group size and self-selection working to the effectiveness and sustainability of the organization.

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Cases in which group members acted outside the interest of the group, such as farmers engaged in a contract with a specific buyer selling their product to outside and possibly competing interests are examples in which group norms were not well established.[5] Very often previous experience collaborating in collective efforts is a good indicator that organizing a group with economic objective has a better chance of success. This is why SHGs who have developed a track record of cooperative action are frequently used as a platform for organizing Producer Groups.

So while self-selection and manageable size are rather intuitive, the more fundamental question that remains is why would certain small-scale producers want to join with their likeminded neighbors in an economic activities. The obvious answer is greater economic security, which can come in the form of income effects that are both direct and indirect. The importance of income effects while obvious is not a trivial issue.

Often with many products, such as agricultural commodities or natural products, simply supplying raw material may not be economically remunerative enough to maintain people's interest in investing greater time and effort that would be required for participating in an organized group. Producers or collectors may engage in economic activities out of desperation or lack of alternatives, but once something more lucrative comes along they may quickly abandon their role as simple suppliers of raw material. The notable shift of Garhwali women away from labor intensive, low output, subsistence farming to cash crops is indicative of the strength of this argument of the importance of developing value adding activities that will increase the economic stake of the participants. This issue is taken up in greater detail below in the discussion of selecting growth value chains.

While it is generally believed that poor households have high discount rates, i.e. that present concerns with survival greatly out weigh consideration of future benefits, determining the discount rate for various groups in society is more complex than the above simple assertion. In situations involving economic decisions the discount rate depends on a number of factors, including: i) assurance that present participants and their heirs will be able to reap the benefits of

investments in productive activities and their management both in the short and long terms; ii) discount rates may vary by type of participants: provider/users may have very low discount rates; users alone, somewhat higher; cooperating individuals who neither provide nor use, even higher; and non-cooperative free riders, very high; iii) discount rates are affected by the general level of physical and economic security of the participants; and iv) societies have general norms over the relative importance of the future to the present.

An important way to promote cooperation is to assure frequent interactions among the same individuals, which allows for cooperation based on reciprocity to become stable. Repetitive interaction will have a beneficial influence of the discount rate of small-scale producers. Frequent interactions help promote stable cooperation. This is largely due to lowering transaction costs in making joint decisions and to greater social stigma for violating the common good. Thus, membership in a stable group may translate into a lower discount rate as its members grow more secure in the groups functioning. This is certainly another condition for the success of the Self Help Group Movement.

Indirect economic benefits that can accrue from creating economies of scale in organized groups are likewise important in initiating and sustaining the participation of small-producers in economic groups. Scale economies can reduce costs of production for the small-producer through lesser input costs, easier transfer of technology and improved production methods, joint marketing, and facilitate communication and information flows throughout the chain.

This section has focused on the small-producer as a commercially active member of society who is motivated to progress. Not all small-producers are the same; not all are interested in becoming more economically viable and not all are willing to participate in organized efforts that would facilitate their greater economic security. Equally important as identifying the motivated small-producer is identifying the right fit between producer and opportunity. The next section will examine the conditions that promote selection of opportunities for small-producers to participate profitably in the wider economy.

Value Chain Selection and Linking Producers to the Mainstream Economy

Value chains can be described as the full range of value added activities and firms (e.g. producers, processors, input suppliers, wholesalers, and retailers)

involved in taking a product or service from its inception, through intermediary phases of production (involving a combination of physical transformation as well as the inputs of various producer services), to delivery to final consumers, and the final disposal after use

Value Chain Analysis is a useful tool when considering the development of producer organizations in that it looks at the entire industry, including primary producers, and identifies constraints and opportunities that are relevant to the overall competitiveness of the industry taken as a whole.

Three important components of value chains that transform them from a heuristic device into an analytical tool:

- Value chains are repositories for rent, and these rents are dynamic;
- effectively functioning value chains involve some degree of "governance";
- Effective value chains arise from systemic-, as opposed to point-efficiency.[6]

The first component refers to revenues and incomes that various actors in the chain accrue as a result of their participation in it. As noted above in the section on economically active producer characteristics, policies and interventions that affect incomes either directly or indirectly through reducing costs of production are a major concern of the value chain analysis.

Four Types of Value Chain Governance

- Arm's length market relations or **Markets Based Chains:** Buyer and supplier do not need to develop close relationships because the product is standard or easily customized. A range of firms can meet the buyer's requirements and the switching costs between firms are low. Relevant examples are: common agricultural commodities that have little chance for differentiation that could make them more competitive and remunerative for primary producers. (Exception might be Basmati rice[7]). Another example could be tomatoes. There is little motivation for small-producers to organize collectively in chains that are governed as such since the distance between primary producer and end markets is usually short. Furthermore, these chains are characterized by traditional economic activities such as subsistence or sharecropping that have kept their participants in poverty for generations. Simply doing more of the same is unlikely to make much difference. Not all market based chains are inimical to small-producers.

- **Networks:** Enterprises develop information-intensive relationships, frequently dividing essential competences between them. The interaction is coordinated and the relationship is characterized by reciprocal dependence. The buyers may specify certain product performance standards or process standards to be attained, but would be confident that the suppliers can meet them. This type of chain governance holds the greatest promise for organized groups of small-producers to gain greater bargaining power and influence in the industry. Agricultural products of the non-commodity type, such as spices, off-season vegetables, dairy products, aquaculture, organic honey, organic coffee and the like have good potential as examples of Network governed chains.

- **Quasi hierarchy:** One firm exercises a high degree of control over other firms in the chain, frequently specifying the characteristics of the product to be produced, and sometimes specifying the processes to be followed and the control mechanisms to be enforced. This level of control can arise not only from the lead firm's role in defining the product, but also from the buyer's perceived risk of losses from the suppliers' performance failures. In other words, there are some doubts about the competence of the supply chain. Organizing small-producers can help to relieve some of these doubts as well as create opportunities for more balanced power relationships between the groups and the lead buyer firm(s). Many contract farming arrangements fall in this category as do export crafts.

- **Hierarchy:** The lead firm takes direct ownership of some operations in the chain. The case of the intra-firm trade between a transnational company and its subsidiaries falls into this category, i.e. the cut flower industry in Eastern Africa that is largely controlled by European interests.

With these distinctions one can then determine whether some types of chains offer primary producers better upgrading prospects than others. Such questioning can be further refined if one distinguishes between different types of upgrading. Since the concern at the moment is to understand how primary producers can collectively improve their economic well being through integration into select value chains, it should not come as a surprise that the first type of chain – Market Based – and perhaps the last type – Hierarchy- have very little to offer primary producers who want to evolve beyond simply supplying raw materials. Market Based chains are characterized by a large number of suppliers who have little to do with actors higher up the chain. Buyers can easily switch to other

suppliers if it suits their interests. With Hierarchy type chains, there may be some possibility for organized primary producers to upgrade their products, but this is by nature of the chain entirely at the discretion of the lead firm, which may or may not appreciate the importance to the chain of a well-organized base of primary producers. Public investment in chains where primary producers are unlikely to be competitive will not generate sustainable growth or economic security.[8]

A primary challenge facing primary producer/collector groups, and one that needs to be addressed if their process of integration into value chains is to be sustained, is that of moving to a scale of operations that can actively engage greater numbers of stakeholders

Thus, the greatest potential for organized producer groups to integrate into value chains and improve their economic security is found within Network and Quasi-Hierarchical type chains. To maintain competitiveness over time, interventions need to be framed and monitored within the context of achieving win-win relationships, on-going learning and innovation, and increased breadth and depth of benefits to assure industries can compete in markets that are dynamic and increasingly more open to global competition (Downing 2003). These characteristics are more likely to be found in Network and Quasi-Hierarchical Chains.

Structural Factors affecting Value Chains:

End Markets

Successful end-market knowledge is the foundation of a simple and actionable competitiveness strategy that creates equitable growth through collaboration among all value chain stakeholders. What to sell (what level of processed products); where to sell: local, regional, national, international markets. How to compete in End Markets:

Efficiency: competition based on price

Differentiation: competition based on differentiation

Market Focus: niche markets, fair trade, organic

Competitiveness Strategy:

A competitiveness strategy consists of three main elements all of which rely on inputs from the value chain in order to produce a focused approach to strengthen industry competitiveness in a sustainable way. These are:

- End-market competitiveness: as discussed above;
- Upgrading requirements: how to take advantage of opportunities and address key constraints to enhance competitiveness, and
- A Plan for sustaining competitiveness: the first two elements are relatively static in that in that they address a point in time. Effective competitiveness requires constant adaption to changing scenarios – buyer preferences, supporting markets, competitors, etc. In this sense a competitiveness strategy must be dynamic and adaptive, ready to identify, prioritize and act on opportunities and constraints both external as well as internal to the industry [9]

Scaling Up

It is clear that organizing producer/collectors into cooperating economic entities is not only desirable but also possible. The Self Help Group Movement and its offspring having already set the groundwork, the next steps in the process of creating demand-driven producer groups are clear. A primary challenge facing primary producer/collector groups, and one that needs to be addressed if their process of integration into value chains is to be sustained, is that of moving to a scale of operations that can actively engage greater numbers of stakeholders. The groundwork has begun with the process described above. This article will conclude with some ideas on what will be required to achieve scale.

Much of what is required in developing a strategy for scaling up enterprises is contained in the analyses referenced in this paper, particularly value chain analysis, social networking and theories of cooperation and collective action. The criteria and characteristics applied to organizing groups at the primary level can also be applied to bringing these groups together into a higher-level representative organization. Such an organization can take a variety of forms that best suit the needs of the member groups and can promote the common interests of all smaller primary level group members. Though achieving significant levels of scale will not be easy, the fact that the groundwork has been laid will make the task less difficult. As noted earlier, the characteristic that primary groups of small producers are small in size does not preclude scaling up to achieve greater economies of scale and a stronger position vis-à-vis other actors in the value chain.

There are several options currently available that allow primary producer groups to achieve effective scale – among the most effective are: Producer Companies(which are becoming more and more popular as a formal economic organization, Mutually Aided Cooperative Societies (MACS), Federations (often found among microfinance groups), as well as less formal associations, such as the Nepal Handmade Papermakers Association, an informal group representing the interests of handmade paper product fabricators.

Four areas need to coalesce into a coherent vision if sufficient scale is to be achieved: [10]

- Facilitation: as was the case in organizing primary groups, the organization of collections of primary groups can not be taken for granted; someone needs to facilitate the process;
- Technology: Including current information technology and a deployment plan that promotes communication throughout the value chain is necessary while at the same time understanding physical and capacity-related constraints;
- Investment: who will provide the needed capital and what are its costs; and finally
- Policy: An enabling environment that will offer the most effective incentives to those providing technology and capital to implement low-cost solutions.

A scaling up strategy should have the following characteristics:[11]

- It takes a system-driven approach (such as value chain analysis) recognizing the relationships and connections of social networks around the business goal;
- Keeps the focus on the business goal and analyses all components of the industry to understand what is needed to achieve that goal; again this fits well with value chain analysis;
- Identifies key leverage points to prioritize investments and interventions, again based on the results of the value chain analysis.
- Promotes early participation of a diverse group of stakeholders among the value chain including those involved in support markets; the suppliers of information technologies; and early participation by financial institutions will be helpful at later stages when groups require credit and capital;
- Assists stakeholder groups at all levels to find common interests, build coalitions, and engage in sustainable collective actions that promote the overall competitiveness of the industry;
- Identifies and pursues common objectives that are achievable and compatible with local abilities, resources, and cultural practices;
- Ensures that stakeholders drive implementation of any scaling up strategy; it should be demand-driven;
- Empowers local capacity to design, implement, manage, and monitor new organizations, enterprises and activities that emerge from the process.

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[1] *India FDI Watch Campaign as quoted in Harper 2009 p.17).*

[2] *See Patel 2010; Robinson & Stubberud 2009*

[3] *See substantial research on this issue from MIT's Poverty Lab*

[4] *Based on the author's personal experience in South Africa*

[5] *Harper 2009, pp 92-109*

[6] *R. Kaplinsky, 2004*

[7] *Harper (2009) pp110-127*

[8] *Downing, 2003*

[9] *See Correa and Campbell (2009)*

[10] *see World Resources Institute (2008)*

[11] *See SCALE (2004)*

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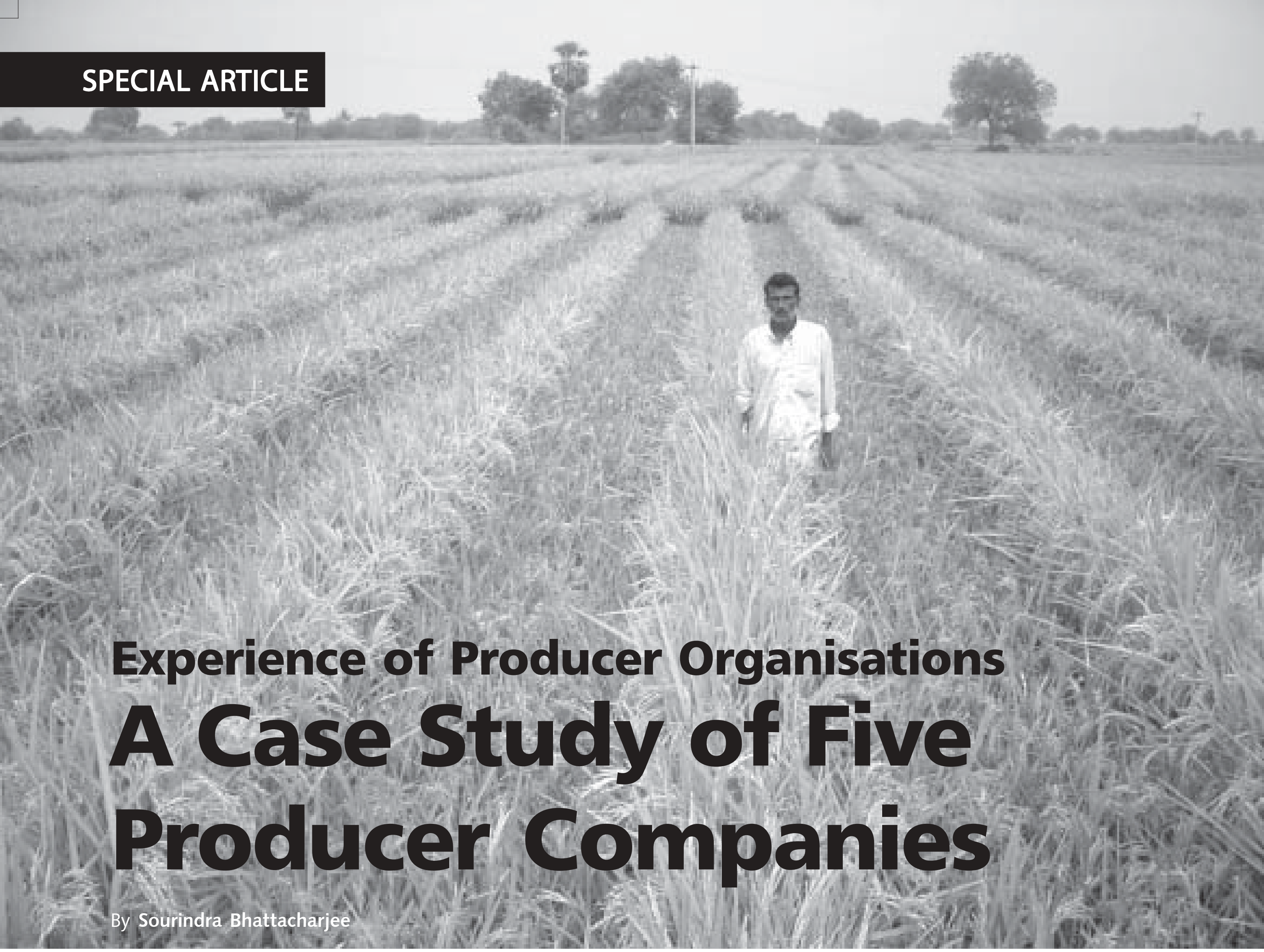
SPECIAL ARTICLE



Experience of Producer Organisations

A Case Study of Five Producer Companies

By **Sourindra Bhattacharjee**

Introduction

There has been rapid change and uncertainty in agricultural commodity markets in the recent past due to several reasons. Prominent among them are changes in the world trade scenario with the implementation of WTO guidelines, greater integration of the domestic market with the global market, changes in consumer taste and preferences, etc. Under these circumstances, it is primarily small and marginal producers that are exposed to the high risk of farming, arising from uncertainties around production, poor infrastructure and lack of access to support services and alternate markets. On the other hand, globalization has offered a plethora of new opportunities for companies which are investing in both retail of primary produce and processed food segment. These companies, in turn, have to depend on the supply of high quality produce on time to meet their production targets and commitments. The benefits of the same largely flow to medium or large farmers who have the resources to make new investments and undertake farming along commercial lines.

The approach of integrating small and marginal producers to distant and global markets and thereby helping in transformation of subsistence agriculture to a more commercial form of production has been often attempted through building appropriate institutions of these producers. Through these institutions, the members get access to input and output markets, technology and infrastructure, etc. Such experiments have so far been successful in the dairy sector, as evidenced by the success of the Amul brand of milk cooperatives, but have worked only to a limited extent in the agriculture sector. Several forms of institutions have been tried in India, such

The Government of India (GoI), in 2002, amended the Companies Act to provide for a new class of institutions called 'producer companies,' which enables incorporation of producers into companies controlled by them, conversion of existing cooperatives as companies and helps these institutions to operate along the lines of corporate entities

as agriculture cooperatives, producer organizations, federations, etc., all of which have their strengths and weaknesses.

The Government of India (GoI), in 2002, amended the Companies Act to provide for a new class of institutions called 'producer companies,' which enables incorporation of producers into companies controlled by them, conversion of existing cooperatives as companies and helps these institutions to operate along the lines of corporate entities. Based on this institutional innovation, some organizations came forward and helped primary producers in different parts of the country to float their own company. Since this is a new organizational form, there is need to understand its efficacy in meeting the needs of primary producers. It will also help us to understand the context in which such companies could be floated and the constraints faced by these institutions.

Research Methodology

The paper is based on the study done for Asian Development Bank. It involved secondary research on the current papers and debates on producer companies, study on the alternative form of producer institutions by different organizations, deliberations of workshops and proceedings as well as any available case studies/reports of existing producer companies. But focus was given more on the primary case studies, in which, five different forms of producer companies, promoted by Development Support Centre (Gujarat), Madhya Pradesh-District Poverty Initiative Project (Madhya Pradesh), PRADAN (Jharkhand) and Himalayan Action Research Centre (Uttaranchal). The detailed case studies are enumerated below:

1. Dhari Krushak Vikas Producer Company Limited (DKVPCL), Amreli, Gujarat Promoting Agency: Development Support Centre (DSC), Ahmedabad

Introduction

Development Support Centre (DSC) as a support organization has implemented different programmes on Natural Resource Management (NRM) with the main objective of creating learning laboratories to obtain hands-on experience on the same DSC has directly implemented three programmes on Participatory Irrigation Management (PIM), Watershed's Development (WSD) in about hundred fifty plus villages in north, central and western Gujarat. Through building community organisations at grassroots levels, DSC has created village level community institutions through WSD/PIM programme.

Looking at some of the problems, especially the role of Government and political functionaries in running of the Cooperatives, DSC felt that it may be good to try out an alternative model of Producer Company, which would give greater freedom to the farmers in managing their own affairs. Initially farmers of 10 Watershed Users Associations (WUA) around Dhari (Amreli district, Gujarat) that had implemented a watershed program earlier came together and formed a Federation. This federation was finally registered as a Producer Company under the Companies Act -1956, on 23rd June 2005. Each WUA contributed Rs.10, 000 towards the share capital of Rs.0.1 million. The name of the company was given as ***Dhari Krushak Vikas Producer Company Limited (DKVPCL).***

The Producers Company started an outlet at Dhari in 2006 to sell agriculture inputs like seeds, pesticides, along with improved agriculture equipments etc. A loan of Rs 0.2 million, taken from Indian Grameen Services, a Group company of BASIX, was taken to carry out the business of seed and pesticides

Process of formation

One of the key processes was sensitization and capacity building of the WUAs on the concept of the producer companies by dedicated officials of DSC. Given the confidence of the WUAs on DSC, the WUAs agreed on the same and were ready to invest and float the company. The registration process was tedious. It required a voluntary service from one of the lawyers, based in Ahmedabad, to draft the Memorandum of Articles (MoA) for the company. This was because it was a new concept and other lawyers and even Registrar of Companies (RoC) were not abreast of the new act. The process of registration took more than a year, mainly due to lack of knowledge in RoC and other stakeholders. The company got registered under the law on 23rd June, 2005.

Operations

The focus of DSC in these ten watershed villages was on productivity enhancement, cost reduction, risk migration, value addition, market and capacity building. The company was working with more than 200 farmers in the area. The company has initiated two core activities as of now and these are:

Agri Business: The Producers Company started an outlet at Dhari in 2006 to sell agriculture inputs like seeds, pesticides, along with improved agriculture equipments etc. A loan of Rs.0.2 million, taken from Indian Grameen Services, a Group company of BASIX, was taken to carry out the business of seed and pesticides. The turnover of agri-input business in the last financial years (2007-2008) was about Rs.0.094 million.

Technical Support Services to Farmers: DKVPCL with support from DSC is providing technical services at the farmer's doorstep. The activities carried out were soil testing (150 farmers) which is to be scaled up to 500, trying out Trichoderma and castor cake for wilt management of groundnut crop, integrated pest management, and trial of high yielding varieties of groundnut and wheat.

Apart from these initiatives, linkages/ collaborations have been established with agriculture universities and research stations to train the farmers, and spreading out successful experiments and demonstrations in various villages. Farmers are getting services related to all agri-input (except fertilizers) at their village level. Looking at the un-seasonal and erratic rainfall, Producer Company has piloted rainfall insurance on 28 acres in collaboration with Agriculture Insurance Company.

Loan Based Land Levelling: The Producer Company decided to motivate WUA members and village farmers to continue development work in their villages after completion of intensive work on watershed development. It was found by the farmers themselves that land levelling could be another possible approach to enhance their own income. DSC has taken a loan of Rs.1 million from NABARD and on-lending to farmers through the company. At an every stage, 1 percent interest has been taken as a service charge (DSC to company, company to WUA and WUAs to farmers). From the initial calculations, the cost benefit of land levelling in the area seems to be more than 5 with a pay back period of 3-4 years.

Governance and Management

The Board consists of ten members, one from each WUA. The chairman is elected from these ten members. The Board member from each WUA is selected from one of the three members nominated as General Members by each WUA. The WUA is represented by the participating farmers. The Board meets every month to discuss the operations of the company. However, the meetings are facilitated by nominated DSC officials working for DKVCL. From the discussions with the Board members, it was evident that for business growth and any strategic direction, they were primarily dependent on the DSC for the required guidance and support.

The management of the operations has been supported by DSC through deployment of Human Resources, including the manning of the sales outlet. Three employees in the project office and one agriculture post-graduate in the sales outlet was being supported by DSC. It is expected that the costs will be borne by the company in the forthcoming year with increase in business operations.

Business Plan

As there was no business plan in place, the idea about the future activities of the company came through discussions with the present Board Members. The following are the new activities to be taken up by the Producer Company:

- Selling of graded and packaged wheat and groundnut seed, which are the most prominent crops. The company is exploring tie-ups with retail chains;
- Production of Trichoderma for captive distribution;
- Establishment of an 'Information Centre' which would serve farmers on issues of pest and disease management, productivity enhancement, field based innovations and new technique development on farming etc.;
- Provide credit based financial supports along with insurance; and,
- Tie up with NCDEX for better market linkages.

Issues Faced in Implementation

From the discussion with CEO and DSC Field Personnel and Board members about the challenges in managing a Producer Company, the following were highlighted:

Registration Process and Compliance: Since cooperatives as legal entities have been in practice in Gujarat for a long time, the producer company is seen as a competitive entity rather than a complementing one by the bureaucracy. Registration or setting up procedures are cumbersome, arduous and time consuming. All the legal requirements of registering a Producer Company, filing a return etc. are in English and therefore not very producer friendly.

Capital: Initial share capital is Rs.1 lakh, which was contributed by the WUAs. Collection of share capital from individual participating farmers was not taken as it could have been a tougher and time consuming task.

Capacity Building Related Issues: The issues highlighted during the discussion were as follow:

- Need for orientation of the bureaucracy and other stakeholders on the salient features of Producer's Company;
- There is need for continuous and regular handholding support of at least at least 3-4 years to promote a Producer's Company. Funding for continuous support is an issue for any development agency;
- The Chartered Accountants should be notified with special notification on provisions of Companies Act as they are mostly unaware of the new act;
- There is a need to document and disseminate the best practices on capacity building, awareness creation and enabling environment for promotion of Producer's Company across the country

Policy Issues

- Among all agricultural inputs, distribution of fertilizer is the most controlled and regulated one. As per the present licensing policy in Gujarat, the 'Principal certificate' can only be given to the Cooperatives. This needs to be changed wherein the Producer Company should be treated on equal terms as Cooperatives.
- There should be tax exemption for such producer companies which will help in building the reserves as well as facilitate its growth.
- State Government or any other nodal agencies like NABARD should come up with support to the Producer Company may be in the form of Start up Capital. This will help the company in meeting costs related to organizing small and marginal farmers and hiring cost of professionals.

2. Sagar Shree Mahila Producer's Company Limited (SSMPCL), Sagar – Madhya Pradesh; Promoting Agency: SRIJAN

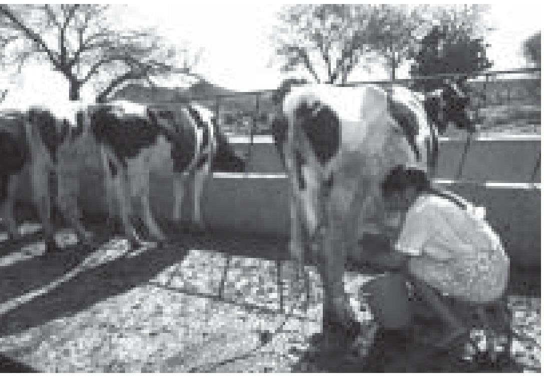
Introduction

SRIJAN has been working in 50 villages of Jaisinagar block in Sagar district (Madhya Pradesh) since 2001 under the Madhya Pradesh District Poverty Initiative Project (MP-DPIP). One of the activities promoted in the block by SRIJAN was dairy and was done through promotion of federation of Livelihoods Linked Self Help Groups (LHGs). These are activity groups where both microfinance and production around an activity is carried out. A typical LHG has 12 women members, mostly coming from socially backward communities such as Ahirwar, Patel, Lodhi, Thakur and Sain Harijans or Yadav. In order to support the marketing of milk of these dairy producers, SRIJAN floated the idea of the forming a producer company and with support of MP-DPIP.

The Sagar Shree Mahila Producers Company Limited (SSMPCL) is a women-run business institution incorporated in the year 2006. As of now there are 259 LHGs with a total membership of 2,600 women. They have come together to form SSMPCL. These LHGs have a total saving of Rs.1.5 million and have inter-lending over Rs.1 million among their members.

Process of Formation

SSMPCL has evolved from the need to carry forward the work that the women had started through the MP-DPIP. They had formed groups to build family assets (buffaloes) but they did not have the necessary capacity, as individuals, to establish market linkages, to upgrade technology of animal husbandry, and ensure availability of quality inputs such as feed and fodder. In order to build a common vision among LHGs across the villages, SRIJAN organized inter-village exposure for LHG members, *Sammelan*



(gatherings) of LHGs from two to three neighbouring villages and conducted ownership training of group leaders. From these interventions, *Sankul* (Clusters) as an institution of 6-12 LHGs covering 3 to 5 villages were formed. It provided them enough numbers (scale) to take on a small viable business activity. One of the activities taken up successfully in three clusters was feed supply for dairy. This gave confidence to the women to undertake marketing on their own. Since marketing of milk was one of the major concerns of these producers, with active support and guidance from SRIJAN, the clusters were merged into one federation as a producer company, which they named as SSMPCL.

Operations

The operations were supported using financial and non-financial resources from various agencies and programs. MP-DPIP, a World Bank aided project, provided subsidized family assets to kick off dairy through which SSMPCL members have procured 882 buffaloes of improved breed at an investment of Rs.16 million. The SSMPCL investment in value chain in the form of bulk coolers, working capital, and training in improved animal husbandry practices has come in from private trusts and donations, mostly organised by SRIJAN. The infrastructure for installation of the bulk cooling unit was given by the Animal Husbandry Department, Panchayat and Rural Development Department, Government of Madhya Pradesh gave support to SSMPCL of Rs.0.5 million for administration cost and Rs.2.5 million for working capital through MP –DPIP in financial year 2007-08.

The milk collected along a milk route with the help of hired vehicle was brought to the bulk cooling unit. A sample of each farmer was also brought to determine the quality of the milk supplied. The chilling was done at a bulk cooling unit, from where it was taken to the public and private milk processing companies. The office adjoining to the bulk cooling unit maintained all the individual records.

In SSMPCL, women leaders have taken different roles on various fronts – opening a milk collection centre and acting as secretary, monitoring timely arrival of milk van on the routes, running the feed shop, etc. In micro-finance function, they test groups' eligibility for finance, ensure timely repayment by them and also have been forming new SHGs.

SSMPCL dairy has sold 267,326 litres of milk in one year and in eleven months earned revenue of Rs.4.22 million. It has transferred Rs.3.40 million (about 80%) to its members, after meeting expenses.

Such operations have given the women the confidence to borrow from banks in order to add more buffaloes or to build an animal shed. In some of the new groups, women have come forward to start dairying with their loans. One fourth of LHGs (34) have begun borrowing from banks or international social venture capital funds. The total credit mobilized is Rs.1.5 million. SSMPCL has signed an MOU with an international venture capitalist to borrow Rs.2.5 million in order to finance its expansion (100 buffaloes, and 1 bulk cooler)

Governance and Management

Till date the company is fully managed by the professional form SRIJAN and all costs are borne by the NGO. The company has a board of 11 members and one chairman is elected by the board. Apart from the chairman, all board members are women. The strategic decisions are taken by the board along with professionals from SRIJAN. Some of the decisions taken are putting up a bulk cooling unit and making impending decisions like scaling up to new locations and building network with Jabalpur diary is to be taken in the near future. These decisions are mainly related to facilitation of growth of the company.

The operations have been managed by professionals of SRIJAN consisting of one Team Leader and five professionals. A software-based computerized system has been operational from its inception and is completely managed by SRIJAN

Business Plan

Catalysed by their initial success, SSMPCL now plans, by the end of 2010, to promote at least 1000 more LHGs, and bring some 12,500 more poor women into micro-financed dairy. This will be done in four clusters of 259 LHGs each. Two clusters will be promoted adjacent to the current cluster in Jaisinagar**.** Plans include:

Investment in Promotion of Cluster for increased Business: Formation and strengthening 1,000 LHGs and setting up SSMPCL clones in four more clusters, led by current SSMPCL leaders (training them for new role, higher leadership capacity);

Increase in Family Assets: Plan for two buffaloes per family (one on grant, one on loan);

Investment in Value Chain: To set up new routes and link up with bigger markets so as to reduce fluctuation in milk price, installation of bulk coolers of higher capacity and tankers (2 bulk coolers of 2000 litre capacity);

Technology Aided Payment through Banks: To slowly bring in reduction of cash payment to women milk women;

Technical Support: It would be done through establishment of centres for veterinary care support;

Breed Improvement Programme: In order to reduce cost of buffaloes (currently it is 15 to 20 thousand rupees) by selective breeding by bulls of high producing buffalo mothers locally, and/ or importing bulls from Gujarat and Haryana for cross breeding purposes;

Dairy Field School and Training Centre: To set up a learning place for all the SSMPCL women to participate in training activities that will lead to improvement in their animal husbandry practices; and build a cadre for workers for four new clusters in new blocks/districts;

Invest in Market Research cum Action Fund: To find out new markets within Madhya Pradesh for improving per capita milk consumption which is low in towns and villages.

Issues in Implementation

From the discussions with Board Members and officials of SRIJAN and MP-DPIP, the following issues were highlighted:

Dependence on SRIJAN: There is high dependence on SRIJAN for operational and visionary support for running the company. There has been some delegation of tasks but critical work is being handled by the officials of SRIJAN;

Access to Market: When SSMPCL started milk marketing, there was dependence on MP dairy cooperative. SSMPCL is now supplying milk to local dairies. There is demand for milk in Jabalpur, which can be made through investment in refrigerated milk van, for which high investment is required.

Financing Value Chain Infrastructure: Financing of the investment in new technology such as bulk cooling units, quality control laboratory and MIS, etc. is a prerequisite to scale up operations and selling directly to bigger players. Access to finance is a major challenge for the company.

High Risk in Cash Transactions: Access to bank accounts by milk producers' cooperatives can solve high risk in transactions only through cash. This will also reduce the incidence of fake currencies, often received for bulk payment.

Low provision of Veterinary Care: SRIJAN has trained Para-veterinarians to attend to normal ailments of animals and has been training women members on the reproductive cycle. Given the business plan, there is an urgent need for a high quality veterinary care or else there could be loss through calf mortality, morbidity (such as mastitis), and long gaps in reproductive cycle.

The Team Leader of PRADAN along with other functionaries came out with the idea of establishing a Producers' Company. It was also duly supported by the Government and Project Coordinator, MP-DPIP

Spin-off Effect

Given the success and learning from SSMPCL, the District Project Team of DPIP in Sagar has promoted a commodity based producers' company. It was incorporated in November 2006 under the Producer's Companies Act as Sagar Samridhi Crop Producer's Company Limited (SSCPCL). The company was established by the MPDPIP team in response to a new government policy of the State Government of Madhya Pradesh, which systematically funds new producer's companies in the form of administration grant of five years and a working capital fund through fixed deposit (Short term loan from the banks is made available against deposits). The broad objectives behind the establishment of SSCPCL as follow:

- To minimize the role of the middlemen;
- Organize the farmers' production as per market demands and availability; and,
- Procurement of bulk procurement of quality agriculture inputs an distribute to its members at reasonable prices.

The company achieved a business volume of Rs.2.67 million in the first year of its operation, with a net profit of Rs.54,000. Some of the future plans of the company are as follow:

- Take up seed production program of soybean crops with a buy back system;
- Take up wheat and gram crop seed production in Rabi season;
- Marketing of quality seeds, fertilizers and other agri-input business (Total turnover is expected to be triple in the next year); and,
- Marketing agreement with many national and state level companies for agri-input businesses and act as distributor.

3. Sironj Crop Producers Private Company Limited, Sironj; Promoting Agency: PRADAN

Introduction

PRADAN was mainly working in the projects funded by MPRLP and MP-DPIP in the state of Madhya Pradesh. It had a very productive and fruitful partnership with MP-DPIP in Sironj. Through the DPIP, PRADAN assisted the farmers in building irrigation assets through the formation of Common Interest Groups (CIG), providing financial support for motors, pumps, pipes, digging wells etc., and worked in five villages on a seed program. Recognizing that provision of technical expertise and quality inputs in agriculture are key contributors to livelihood promotion, PRADAN wanted to build a suitable producer institution. The Team Leader of PRADAN along with other functionaries came out with the idea of establishing a Producers' Company. It was also duly supported by the Government and Project Coordinator, MP-DPIP. Thus it was registered under Producers Company Act in 2005 as Sironj Crop Producers Company Limited (SCPCL).

Process of Formation

This was the first producers' company registered in the state of Madhya Pradesh. Initially Soybean Grower's Associations (SGAs) were formed in some 40 villages as common interest groups to get the subsidy money for adoption of better crop techniques and promotion of soybean cultivation. These SGAs were federated to raise a minimum working capital and formed a producer's company. The main objectives of the company are as follow:

- To raise the production of mainly soybean crops in the area and increase the income of small holders; and,
- Act as an aggregator to strengthen the backward and forward linkages to induce market driven agriculture with primary producers

Current Operations

SCPCL with support from PRADAN has been supporting various initiatives for the benefit of its shareholders. The various activities are as follow:

Access to Quality Seeds: SCPCL started its own seed production program to help the farmers in getting quality seeds. It has registered itself under MPSSCA as an agency for seed production. Farmers are identified with landholdings of around 10-15 bighas and then these farmers are encouraged to sow around 2-3 bighas with these seeds. The activities undertaken by SCPCL in the seed program are procurement of breeder seeds (BS) of soybean from various institutions; engage in pilot projects for production of foundation seeds, buy-back of seeds and distribution to farmers, etc.

Supply of Fertilizer and Pesticides: SCPCL through its tie-up with various governmental organizations like MARFED, MP-AGRO, Cizenta, Bayer and BSF has been providing quality fertilizer and pesticides to farmers at a lower price on time.

Facilitating Access to Market Channels:

SCPCL has ventured into aggregation of soyabean and gram, and has undertaken trading in these commodities. For the same, the company has hired a godown near the office premises. SCPCL has also initiated linkage with National Commodity Derivative Exchange (NCDEX) for future trading of the agricultural commodities so that small farmers can deal with the market directly. The activities taken up by the promoted Producer Company are as follow:

- The company has taken initiatives for seed production of soybean and wheat in the first year and made a business turn over of Rs 0.2 million in the first year
- The company has engaged 20 service providers to support seed production, adoption of best techniques and introducing better post harvest technologies
- In the second year (2007-2008), the company has traded soybean, sold seed soybean and gram and had a business turn over of more than Rs.1.4 million

Governance and Management

The company has 10 board members and one chairman is elected from among them. The company got some administrative grants from the government of Madhya Pradesh and recruited professionals from the open market. The day-to-day activities of the company is managed by the staff. Only the manager was being supported by PRADAN but he also would be taken on the rolls of the company.

The company has its office space within the DPSU office. In fact, the board of directors has hardly any role to play except mandatory board meetings. Book keeping and accounts is being done through computerised systems.

Business Plan

From the discussions, it was evident that no proper business was in place. However, the Board of Directors have given an indication of turnover of about Rs.7 million in the current financial year.

Issues in Implementation

Top down Approach: There is a high dependency on the PRADAN to run the company operations. Till date, three personnel of PRADAN are engaged full time and there is need to generate enough business volume to cover the costs of these personnel as well as new incumbents.

Ownership of the Shareholders: The community views SCPCL as an agency to distribute subsidized fertilizer and seeds, provide funds through various programs (DPIP, DFID) for building irrigation assets and provide credit facilities by becoming a shareholder. There is lack of understanding of the role of a shareholder in the community. This empowerment process still has to be continued to ensure greater participation of the farmers.

Raising of Capital: Both increasing the participation of individual farmers and also gaining access to working capital to support operations are major items affecting growth. This is to be addressed in the near future to ensure growth and resultant profitability. No clear cut plans were in place.

4. MASUTA, Jharkhand, Promoting Agency: PRADAN

Introduction

PRADAN has been working with backward communities like scheduled tribes, scheduled castes and other

PRADAN has been working with backward communities like scheduled tribes, scheduled castes and other backward castes, especially women from interior villages of Bihar and Jharkhand. Seasonal wage earning in agriculture, brick kiln, stone crushing units, construction, and sometimes earthworks in Government schemes are some opportunities available to these women for daily wages

backward castes, especially women from interior villages of Bihar and Jharkhand. Seasonal wage earning in agriculture, brick kiln, stone crushing units, construction, and sometimes earthworks in Government schemes are some opportunities available to these women for daily wages. Collection of firewood and forest products like mahua flower, tendu leaves, sal leaves from forest, are the other livelihood opportunities. Thus income of these unorganized women is seasonal and fluctuating.

PRADAN introduced TASAR yarn production in the region and through MASUTA helped these women to have control over their own earnings, created space for their leadership and growth, made them capable to take business decisions, and thereby enhanced the overall income of these families.

MASUTA Producers Company Limited was registered on 26th December 2005 as a Producers' Company. Presently, MASUTA is the only women tasar yarn producers' collective in the country.

Legally and operationally PRADAN and MASUTA are two separate entities of different purpose and nature. PRADAN does not want and the law does not permit it to hold shares of MASUTA. But the members of MASUTA are also the beneficiaries of PRADAN, thus PRADAN continues to have interest in the development of these women. It continues to play an important role in transfer of technology, capacity building, membership development etc. Besides, PRADAN is also helping in accessing grant and mainstream finance in order to invest in technological up-gradation and promotion of new yarn producers for MASUTA.

Process of Formation

The tasar yarn producers have been organized into two-tiered structures for faster growth and sustainability. The primary group at the village level, comprising of 20-30 women of the same hamlet or nearby hamlets drawn from one or more SHGs, are registered as Mutual Benefit Trust or MBTs. Each of these MBTs holds a share of the MASUTA. Each of the MBTs elects their representative to represent respective MBTs in their collective, MASUTA. Thus a MASUTA is ultimately an association of the small producers, which tries to meet the challenges of the larger input and output markets.

PRADAN has played a significant role in establishing the company through support in the design, support for professionals, facilitating registration process, building systems and processes, and also finding out innovative ways to raise capital for ensuring growth.

Current Operations

MASUTA's operation ranges from procurement of cocoons from Jharkhand and Madhya Pradesh, conversion of cocoons into yarns, sale of yarns directly and further processing through conversion into fabrics (value addition). Given the primary objective of supporting the yarn producers through MASUTA, the core operations continue to be procurement of cocoons and supply of the same to producers. MASUTA will concentrate on serving existing and new members by pooling, aggregation, segregation and distribution of material and services, development of new tasar yarn types, making the producers aware of the market and membership development.

But consciously MASUTA is looking for a suitable partner to separate the cocoon and fabric business operations. This is an operational strategy to grow fast. A joint venture company has been registered (named Eco-Tasar Silk Private Limited) for fabric operations. In the case of cocoon business, MASUTA is looking for a suitable partner for it. Jharcraft, a Government of Jharkhand Corporation has exhibited interest for formation of a joint venture Company. The investments and partnerships developed for sustaining operations are as follow:

- ***Eco-Tasar Silk Private Limited***: It is a Joint Venture Company between MASUTA (76% stake) and a private entrepreneur (maximum 24% stake) and is registered as Private Limited Company. It started functioning in October, 2007 with an authorized share capital of Rs.2.0 million. The company brings in new designs, promotes MASUTA's products in the market, converts various fabrics and markets the same in the domestic as well as in international market. It will act as a profit centre for MASUTA.
- ***Micro-Finance Partners***: MASUTA growth requires capital. In the very beginning of its operation MASUTA got micro-finance partnership offer from ICICI bank for 15 million at an interest rate of 11.5 percent. This was followed by other Private Sector banks like AXIS bank (Rs.20 million) and recently Development Credit Bank (Rs.20 million). Recently Diwan foundation has given s soft loan of

Rs.3.4 million at 6.5 percent. MASUTA recently has been able to draw a loan of Rs.2 million from a regional rural bank. All of these loan are used for working capital purposes and for purchase of cocoons to be supplied to yarn weavers.

The initiatives of PRADAN and MASUTA in development and promotion of Tasar yarn production based enterprise is a unique innovation in promotion of rural livelihoods in India. MASUTA has been trying continuously to fine-tune it by improving the technology of yarn making. Some of the initiatives are as follow:

- Designed and developed a new spinning machine which is just launched with the member producers in Hazaribagh district of Jharkhand.
- Development of a completely new reeling machine with the help of a technical university of the Netherlands.
- In the process of developing mechanical devices like – tasar cocoon sorter, yarn sorter and yarn thickness detector – with the help of C-DAC, Kolkata.
- All these initiatives are geared towards efficient production systems leading to higher income.

Within two years of its operation, MASUTA's membership (ownership) base has touched about 2500 rural women organized into 90 MBTs. The collective production of tasar yarns in this year is nearly 12 tonnes (Indian production fluctuates from 100 ton to 320 ton which are totally unorganized). Last year MASUTA sold 10 tonnes of machine reeled yarns through its direct marketing effort.

The operations of MASUTA helped the producer to earn about Rs.600 (net) per Kg of yarn produced. MASUTA could maintain this figure, in spite of sharp increase in cost of capital. In addition to profit in-flow to the producers' families, the producers and three of her family members are insured with a cashless health insurance through ICICI-Lombard. This helped to check the cash-outflow from the producers' families significantly.

Governance and Management

The **General Body** of MASUTA that meets once in a year consists of one representative from each of 90 MBTs spread over eight geographical clusters. Each such cluster is called a Unit. The representatives of the respective MBTs of a unit constitute **Unit Committee**. The Unit Committee meets once in a month. A Unit also acts as a constituency for the Directors. Eight elected Directors from eight units, four co-opted Directors and the Managing Director constitutes the **Board of Director**. The Board of Directors meets four times in a year.

The Managing Director is the head of the operations and is assisted by Managers, Executives, Officers and Assistants. Presently, the Managing Director, Manager (Marketing) and Executive (Finance) constitute the **Management Committee**. The management Committee meets once in two months and collectively takes all operational decisions.

MASUTA has at present has a workforce of 30 staff with varied qualifications and experiences. Each of the important functions like production, finance and marketing are headed by a professional from relevant fields. They are assisted by a pool of supervisory and field staff. Each unit is manned by an Officer (Production), an Officer (Accounts) and support staff.

The Business Plan

Given the huge scope of growth of MASUTA's business both vertically as well as laterally, there are invitations for expansion from other tasar growing states (particularly from West Bengal and Orissa) and scaling up in existing states. In addition to this, there is substantial scope for increasing the installed capacity of production with the existing producers.

Based on such assumptions, it has been planned to promote an additional 1500 producers in coming three years. It is projected that at the end of 2011-12 the sales turnover of MASUTA alone will be Rs.170 million, mainly cocoon business (Rs.120 million) and Eco-tasar (Rs.40 million).

At present, MASUTA only has three big cocoon godowns, attached with stifling chamber and drying floor in each such godown. With the projected growth, MASUTA requires to increase its cocoon storage capacity from 25 million pieces of cocoons to 90 million pieces by construction of 13 new godowns each with a capacity of 5 million cocoons. The investment on such construction will be Rs.65 lakh, which is being harnessed from Ministry of Rural Development and Central Silk Board.

Finance: It is projected that at the end of third year the producers will earn Rs.40 million and MASUTA will have a reserve and surpluses of Rs.10 million in its balance sheet. The requirement of funding will be Rs.40 million for MASUTA and Rs.74 million for the cocoon business (provided Jharcraft contributes Rs.17.5 million).

To achieve the projected growth, MASUTA requires infusing capital in the company through the existing producer members and new members. The projected requirement of equity infusion is Rs.34 million. Given the poor income stream of the producers, innovative ways of use of grant financing to augment equity has to be done. For yarn business, the credit requirement for MASUTA in the year 20011-12 is projected at Rs.115 million, which is an almost eight-fold increase from current loan portfolio (Rs.15 million). MASUTA is looking for a long-term working capital loan with a softer interest rate. For building member organization and capacity building of existing and new staff, it is projected that fund requirement will be around Rs.1 million and Rs.0.2 million respectively.

Issues in Implementation

High Working Capital Requirement: For year round production of yarn, MASUTA needs to procure and store cocoons for the whole year. Since the production cycle of cocoons is limited to one season, the business cycle becomes longer with consequent higher working capital requirement.

Problem of Raising of Equity: To maintain a manageable debt-equity ratio, MASUTA needs to raise its equity. The present equity (own fund) is not enough to leverage the required funds from external sources. But the problem of raising equity from existing shareholders remains. Thus new ways of raising equity have to be found.

High Cost of Capital: The current sources of loans are short term in nature and it is difficult to manage the debt servicing due to nature of operations. Moreover, the cost of capital is very high. Considering the processing fees and interest loss in FLDG, the actual cost comes to about 15 percent per annum, which is high for MASUTA.

Sense of Ownership: This aspect has to be developed among the shareholders so as to become a more responsible members of a commercial entity. The dependence on officials of MASUTA is high. The members through their representatives and Board Members have to be more proactive in managing the business of the company.

High Dependence on PRADAN: PRADAN has been supporting the venture through strategic and operational guidance, pro-bono services through deployment of staff and also instrumental in mobilization of both grants and other funds. This dependence has reduced over time but it still exists.

5. Devarnaghati Agro-Producers' Company Private Limited, Kalogi, Uttarakhand Promoting Agency: Himalayan Action Research Centre, Dehradun

Introduction

Himalayan Action Research Centre (HARC), Dehradun has been recognized as a leading agency for promoting agri-businesses through a collective approach in the state of Uttarakhand. HARC has been working in this sector for about a decade now and helped Government and other rural development programmes by organizing farming communities including women groups around agriculture commodities. One of the key areas of support is to provide market linkages to producers, especially targeting distant markets in Delhi and other emerging towns.

Process of Formation

HARC has been working on the fruits and vegetable sub-sector for a decade and promoted 6 producers' collectives around each of the sectors. Initially they promoted a federation comprising 500-1000 members in each association. Each of the collectives have been registered as different legal entities like Associations, cooperatives, etc. HARC shared the idea of Producers Company with the Federation of the Farmers at Devernaghati and registered their Federation as Devarnaghati Agro-Producers' Company Private Limited in 2007. However, the share capital of Rs.0.1 million was raised through equal contribution of 10 farmers.

This conversion of the federation into a company was not funded by any agency. It was self-initiated as most of the groups in the federation are purely business minded. The income generation activities run by the company for the target groups has been successful and helped in ensuring economic security of the members.

The company has also two collection centres sponsored by Government of Uttarakhand. One third of its members are women and to increase the participation of women in fruits and vegetable trade on an experimental basis, one third of the seats are reserved for women.

Current Operations

The present strategy of the company is helping the producers in marketing of off-season vegetables in Delhi. As a result of alternate marketing destinations such as NDDB in Delhi, the growers are getting better prices for their produce. For example, pomegranate seeds were previously being sold at Rs.20-30 per kilogram to the local traders but now it has gone up to Rs.90-100 after the marketing has been taken up by the company. This has not only benefited the members but also the company.

Strengthening the supply chain has also reduced transportation charges. Due to collective transportation and marketing arrangements, there has been a reduction in average transportation charges to Delhi from Rs.2.5 per kilogram to Rs.1.50. HARC has facilitated expansion of the agri-business operations through introduction of more than 20 new fruits and vegetables, and productivity enhancement of the crops, etc. over the last 6-7 years. In the first year (2007-08), the company had a turnover of Rs.4.5 million, through the sale of fresh fruits and vegetables in nodal and Delhi markets.

Governance and Management

The governance of the company is managed by the 10 entrepreneurs, who constitute the Board of Directors. They have invested in the company. HARC only facilitates the process of governance and activities of the company. The company is fully managed by the company directors and its operations are manned by temporary as well as seasonally recruited staff members. The present business of the company is spread over 6 months.

Business Plan

The company has drawn up a plan in which they not only trade fresh vegetables and fruits but also process part of it. Negotiations are going on with the NABARD and DRDA for assistance.

To encourage women participation in agri-business, the company, with the help of HARC, is making special efforts to enhance their capacity with separate training programme on best practices in production; post harvest technologies etc. This will be done along the lines of Rawain Mahila Swayat Sahakari Samity, a cooperative. The latter has a turnover of about Rs.6 million.

Issues in Implementation

Partial Ownership of Members: The Company is owned by 10 farmer entrepreneurs and the federation has a tie-up with the company for aggregation and marketing of the produce. If the company suffers losses, there is a possibility of closure and the primary producers will again be dependent on the local traders.

Low Surplus Generation among the Producers: The low surplus is one of the key reasons of non-investment of the producers in the company.

Low Investment in Capacity Building: Although the federation was formed through continuous support from the promoting agency, it was clear that the process of conversion was done faster and hence adequate knowledge about the same was not disseminated among members. The members only were apprised of the benefits of marketing and not on the issues of ownership and consequent benefits.

Analysis and Discussion

The cross analysis of the aforementioned cases addresses various parameters like inception, raising of capital, governance, management and MIS, financial systems, market strategies towards competition, value proposition, infrastructure, business growth and policy issues. From the same the key lessons are enumerated hereunder:

Inception and Formation of the Producers Companies: In all the cases, it was tried out as a new institutional form, apparently, having some advantages over existing forms in the respective states. The important phenomenon emerging is that promotion of producer companies has to be supported by a promoting agency, as a primary producer on their own initiative would not be inclined voluntarily. Moreover funding support from any source is imperative to support the formation and stabilization of the producer company.

In most cases, the governance and management of the companies was facilitated by promoting institutions. Given the profile of the producers, such support was necessary and important

Legal and Policy Issues: Organizations such as DSC and projects like MP-DPIP have played the capacity building and lobbying role in their respective states as the concept was experimental for the first time. It is necessary that the promoting agency has to make huge investments to build a supportive environment in the state.

Governance and Management Issues: In most cases, the governance and management of the companies was facilitated by promoting institutions. Given the profile of the producers, such support was necessary and important. But the ownership of the producers in the company has to be cultivated during the support period and also needs to be supplemented by induction of professional management. As a strategy, both things are to be nurtured as a process. This will help in achieving viability in the medium term as has been exhibited in two of the cases.

Integration with Markets: Integration of operations with input and output markets through JVs or collaborations has also been attempted in most of the cases. This was made possible through organization of these small and marginal producers. Both promoting agency and the company have to look for such opportunities in any of the businesses as it will help to increase returns to primary producers and also help in sustainability of the institution.

Growth and Sustainability of Business: The viability of operations is contingent on both scaling up and diversification, especially for the companies dealing in agricultural commodities, because of the high risk involved in such operations due to low margins and competition in the market. In all the cases, there has been attempt for further value addition or diversification in related areas. This is one of the most important aspects of sustainability of the institution which has to be thought out strategically.

Constraint of Capital: Capital is a limiting factor for growth and sustainability because of the limited ability of primary producers to raise capital. This was seen all the cases and indirect support from the state and/or innovative means of raising capital has been seen. This is a phenomenon that will always be encountered when the producer company is floated with shareholders being small and marginal producers.

Conclusion

The results have been encouraging in terms of cases studied. However, it is not being generalized as a success story because the sample size is small. But indications show that companies can be made viable in the long run through provision of adequate support by the donor agency and supportive environment and relaxing of the capital constraints.

As far as commodity based producer companies are concerned, there are possibilities of both diversification of business, value addition possibilities and integration with both input and output markets. But such companies overarching vision would be more service- than profit-oriented, mainly because such businesses are carried out with low margins and involve high risk. This fact has to be recognised.

The overall conclusion is that irrespective of the form of organization being floated as a producer collective, especially of small and marginal producers, huge investment is to be made for developing and sustaining the institution. Such investments should be earmarked in program costs.

This Study was conducted by BASIX and supported by Asian Development Bank

The writer is presently working as Associate Vice-President, BASIX

Promoting Farmer Producer Organisations To Mitigate Risk and Improve Market Access Lessons and Challenges

By **Pravesh Sharma**

What is the need to support farmer producer organizations (FPOs)

Globalization is changing the way agriculture marketing is organized, even within relatively sheltered produce markets such as India. National, regional and local marketing systems are increasingly adopting global best practices in procurement, storage, transport, packing and processing of food products. Food supermarkets are a reality and even if their present market share is tiny, they are likely to become major players in the coming decades to cater to the growing demand for quality farm produce delivered in modern formats. This in turn will create pressure for higher food quality standards and usher in new procurement systems. Efforts to loosen the tight hold of the APMC inspired *mandi* system over agriculture marketing will intensify in the near future, leading to the entry of new players bringing cutting edge technology and unfamiliar processes. Indian companies are also increasingly likely to attempt to capture larger market shares of the expanding international trade in primary commodities and processed foods and hence seek quality produce in large volumes from domestic producers.

At the same time we have a production base characterized by millions of small producers who are finding it increasingly difficult to manage the high risk of farming, evidenced by growing weather uncertainties, unreliable input supplies, stressed infrastructure in the power and irrigation sectors and iniquitous marketing arrangements. The trends outlined in the preceding paragraph will further weaken the bargaining power of the vast majority of these producers and it is unlikely, given present conditions, that they will benefit from opportunities at the national or international level in any meaningful way. If anything, their situation is likely to worsen without the urgent adoption of new and innovative institutional solutions.

The largely supply-driven official agricultural growth strategies are unable to target vast sections of the peasantry, and rainfed regions in particular continue to witness both the volatility and distress associated with the vagaries of nature, as well as imperfections in factor and commodity markets. Producers in these regions already suffer from a serious technological and productivity gap compared to better endowed areas. Their condition is likely to deteriorate further and their isolation from the new emerging markets is almost a foregone conclusion.

FPOs offer a possible new pathway to successfully deal with a range of these challenges, especially that of accessing wider markets. Overcoming the constraints imposed by the small size of their individual farms, FPO members are able to leverage collective strength to access credit and technology, reduce transaction costs, tap high value markets and enter into partnerships with private entities on more equitable terms. International and limited national experience in the performance of FPOs gives rise to fresh hope and makes a strong case for supporting member based farmer bodies to significantly reduce risks and improve access to markets.

FPOs can provide essential goods and

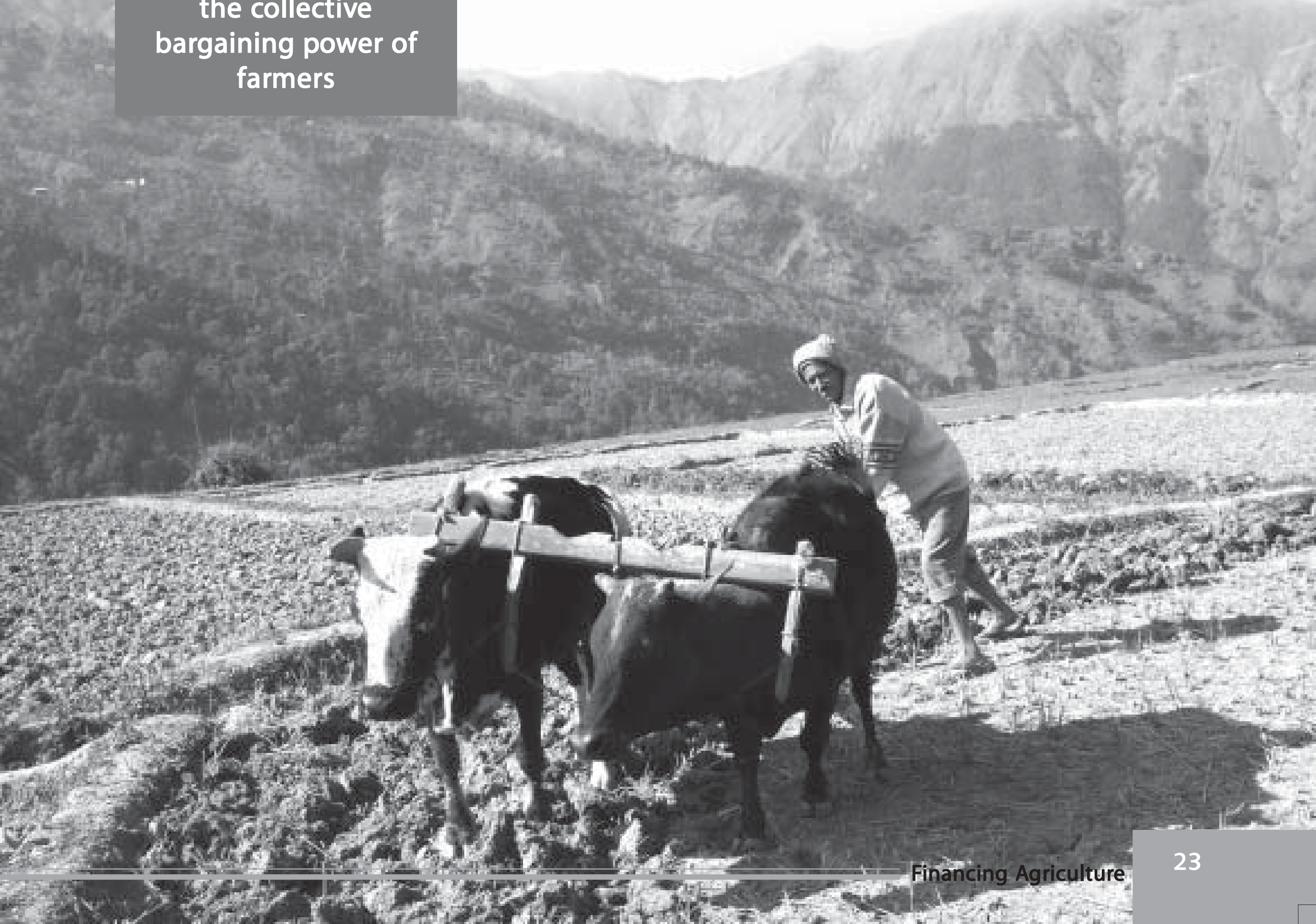
services to the rural poor, besides their own members, and contribute significantly to the process of rural poverty alleviation. They are seen as an important risk mitigation device to overcome the constraints faced by farmers, especially small producers seeking to benefit from growing market opportunities in developing nations. One FAO (2007) estimate placed the value of agriculture produce generated by existing FPOs (largely cooperatives) in India and China in 1994 at US $ 9 billion each. They have been found to positively impact research priorities through participation and closer feedback to scientists, besides providing valuable inputs to policy formulation by channeling the opinions of the farming community. The role of FPOs in reducing costs of financial intermediation for formal financial institutions and more effective targeting of small producers for financial services has also been favourably commented upon.

After all, the primary agricultural cooperatives (PACS) can be called prototype farmer organizations, and in fact were initially designed to leverage the collective bargaining power of farmers

Farmer organizations: what helps in promotion and sustainability

International experience in the promotion and management of FPOs has revealed some key enabling factors which impact these institutions. Foremost among these is a conducive environment which provides space for grassroots, member-based organizations to emerge and prosper. A logical conclusion would be that the political, legal and regulatory regime must not just tolerate but in fact actively encourage member based bodies to be established. India's democratic experience and the steady deepening of participatory institutions (be it cooperatives, natural resource management associations and more recently the self help group movement) augurs well for the emergence of this new class of member owned bodies.

However, this begs the question: why promote a new set of institutions focused on farmers when older models that can serve at least some of the same ends already exist? After all, the primary agricultural cooperatives (PACS) can be called prototype farmer organizations, and in fact were initially designed to leverage the collective bargaining power of farmers. The history of the cooperative movement, unfortunately, is disappointing from the viewpoint of empowering the vast majority of farmers. These bodies have slipped into the control of local elites in virtually all parts of the country and have tended to operate as political rather than economic agents. Small and marginal farmers in particular are highly under-represented in these institutions and the majority of smallholder farm enterprises are not even receiving credit from the PACS.



International experience also suggests that FPOs are more successful in promoting member interests since they represent a homogenous group and can evade elite capture. FPOs are more likely to explore horizontal, local alignments and alliances, rather than join vertical, extra-regional, patronage based networks that older bodies like PACS tend to favour. However, these older bodies are not about to look favourably upon the new emerging order, since sooner or later the local power balance will shift, more likely than not in favour of FPOs and away from legacy bodies like PACS. How can FPOs then hope to survive in a hostile context?

Here the learning from successful models is that they sidestepped outright conflict, posing as complementary and not competitive actors to the older institutions. Many FPOs began as informal, small groupings of farmers, initially collaborating on issues of technology and extension, and over time made the transition to bigger federated bodies without incurring the opposition of existing competitors. Another lesson is not to link FPOs to subsidies (in the form of subsidized inputs or grants) too early in their life cycle, so as not to pit them in direct conflict with existing channels of subsidy flows. Extension activity seems to be the best peg around which FPO activity can begin, scaling up rapidly to embrace income generation, marketing etc.

Smaller groups of between 20-40 members, with a common socio-economic background have proved to be more successful and stable compared to large, unwieldy bodies. However, it has also been noted that mixed groups (with a more diverse mix of members from small to large farmers) often tend to throw up robust leadership. In almost all cases, groups try to federate into sub-regional organizations over a period of 2-5 years, as they slowly test their strength and bargaining power. The ones with simple rules and regulations, easily understood by all members, find easier acceptance and demonstrate strong compliance profiles. Equally important are accountability and enforcement procedures, as equity and fairness within the group are strong bonding factors and key determinants of the sustainability of the group.

Many FPOs began as informal, small groupings of farmers, initially collaborating on issues of technology and extension, and over time made the transition to bigger federated bodies without incurring the opposition of existing competitors

Two notes of caution are also derived from the various studies of FPOs. Firstly, marginal farmers are not best served by these organizations owing to their lack of surplus. Often even the small membership contribution is a barrier to entry to FPOs for this category of producers. It has also been found that membership of FPOs may actually increase their risk profile, pressurizing them into adopting market oriented production, when in fact their first need is to secure the household's food supply. Hence great caution is advised when including marginal holders as members of FPOs. This category may be better served by linking to government rural wage programmes and skill upgradation in off-farm activities.

Secondly, current experience suggests that women dominated or exclusively female FPOs have not been a success. This can partly be due to social reasons, as women in traditional societies are unlikely to own farm assets and are dependent on the consent of male relatives to apply group decisions on the family farm. It is also possible that since women have generally been kept away from marketing roles by men, they lack the necessary skills to deal with market agents. However, this is not to rule out mobilizing women in FPOs wherever possible, but it does suggest the need for greater efforts at capacity building and targeted training.

A consensus that seems to emerge from available literature on this subject is that successful FPOs take between 3 to 5 years to become sustainable. One key determinant of long term viability is the efficacy with which the FPO is able to take up and sustain income generating activities. This is also closely linked to the decision of primary groups to federate into a bigger entity, enabling collective leveraging of productive capacity and marketable surplus. Other spin-off benefits noted are a greater tendency of FPO members to participate in local democratic bodies and increased absorption of government funded schemes aimed at the rural poor. While on the one hand this has sometimes had the effect of improving the delivery of government programmes, in other cases FPOs also acted to pick up the slack in the performance of official schemes, particularly in the area of agriculture extension.

The additional demand for government services appears to be complemented by an ability to attract additional private funds for investment, as the productive capacity created by FPOs is slowly manifested. Some studies have also observed the role of FPOs in reducing social unrest and tensions between competing economic groups.

Enabling Policy Environment

What contributes to the emergence and sustainability of FPOs? In particular, how does the policy context impact these bodies? Evidence suggests FPOs thrive best in democratic, open societies with a history of successful mass mobilization. The space created for civil society in a democratic framework allows for engagement between groups and associations and formal power structures. This phenomenon is often seen as part of democratic deepening, with representative institutions like legislatures at various levels being balanced by voluntary, participatory associations of citizens around themes that intersect and overlap with political action.

However, merely hoping that a democratic polity will engender FPOs is futile. Several legal barriers at the local level often inhibit the promotion and working of these organizations. These must be identified and removed, so that FPO promotion is recognized as a stated public policy goal. If necessary, enabling legislation may have to be enacted to recognize, protect and nurture these bodies. One lesson which emerges from international experience is the need to shield FPOs from capture by political and corporate agents. Equity infusion was a preferred route to gain control of farmer organizations by big companies and great care needs to be exercised in addressing this issue. The experience of PACS and other cooperative bodies in India is too unhappy to be visited again on FPOs.

Countries which actively invested in building up managerial and technical capacity saw the gradual emergence of strong FPOs. At the same time, formal mechanisms that actively incorporate feedback from FPOs in policy formation also helped to build the latter's credibility and impact. It is entirely conceivable that the larger rural development strategy of a country is progressively informed by the experience of FPOs, thereby increasing the efficacy and targeting of government expenditures in this sector.

Should the government directly get involved in mobilizing FPOs? Opinion on this question is deeply divided, with some favouring only a facilitating role for the State in creating an enabling policy framework but staying clear of direct involvement in institution building. Other views look upon the challenge of building FPOs as too big to be handled by civil society or the private sector alone and suggest an all-out effort by public, private and civil society players to mobilize member based FPOs. An IFPRI (2009) paper calls for identifying "chain champions" (which can be official, private or NGO bodies) that act as facilitators to help farmers mobilize, but slowly hand over all decision making functions to FPO representatives themselves after investing in managerial and technical capacity.

The writer is an IAS officer who worked as Principal Secretary, Agriculture in Madhya Pradesh between 2006-2009. Views expressed here are personal.

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SPECIAL ARTICLE

Development of Value Chains for Sustainable Agriculture

By **Dr. Narayan G. Hegde**

Problems of Small Farmers

Value addition and efficient marketing determine the success of most of the production-oriented development programmes. Therefore, in most of the rural development projects, particularly in the farming sector where farmers are dependent on many external agencies and marketing of the produce is not well planned, the profit margins are under severe pressure, often resulting in failures. It is indeed efficient backward and forward linkages, which play a significant role in lowering the cost of production and higher price realisation, resulting in higher returns.

The problems of small farmers are lower scale of operation, outdated technologies, lack of financial support, poor information and communication linkages with the market and exploitation by the middlemen. Small farmers are heavily exploited by series of intermediate traders, while procuring agricultural inputs as well as while marketing their fresh produce. The agricultural inputs required by small farmers being small in quantity, they tend to procure from local traders, which is about 20-30% higher than the price paid by large farmers, who procure larger quantities. They further suffer due to inferior quality of the inputs and delay in procurement. High cost of borrowing may further increase the cost of these inputs.

Lack of appropriate technologies is another major problem of small farmers. Firstly, it takes a longer time for small farmers to collect information on new technologies and inputs which have the potential to increase production. Secondly, small farmers being poor and semi-literate, they are very hesitant to invest in new technologies, which are expensive and uncertain. There are many examples of new varieties which promise very high yield but fail to meet the expectation either due to uncertain weather conditions or newly emergent pests and diseases. Often, small farmers are not able to procure critical inputs well in time, resulting in significant drop in the yield.

Lack of post-harvest management facilities is another serious problem, which affects the profitability of small farmers to a great extent. Small farmers in general, produce a small quantity of agricultural produce and it is not practical to transport this produce to the urban market. Thus, they end up selling the produce to local traders at a substantially lower price. Many of them would even have entered into informal agreements to sell to local money lenders to settle their loans. By and large, in the absence of storage facilities and capacity to hold the produce, small farmers are compelled to sell their produce immediately after the harvest, when the prices fall due to glut of produce in the market. It is particularly true for perishable commodities like fruits, vegetable and dairy products, where about 25-30% of the produce is wasted due to poor post-harvest management. As small farmers are compelled to sell their produce in distress, their net income is far low as compared to large holders. Therefore, to improve the profitability of small holders, it is necessary to strengthen their value chain, which can reduce the cost of production and realise better value for the produce.

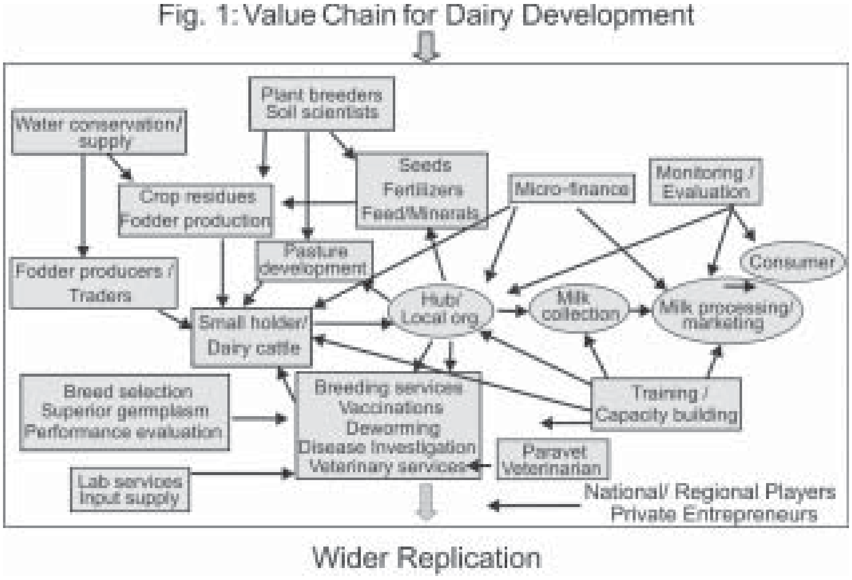
Mobilisation of Small Farmers to Strengthen the Value Chain

An ideal value chain should bring all the stakeholders engaged in the production system on a common platform to contribute their best, while ensuring fair deal and transparency. The value chain will include all the input suppliers, technology delivering agencies, scientists indirectly engaged in developing appropriate technologies and extension officers who are involved in capacity building and providing various services to farmers. The stakeholders involved in post-production activities are the agencies organising collection, grading, storage, transportation, processing and marketing of the produce. Agencies like financial institutions and market information centres are also part of the value chain. Efficient linkage of various stakeholders improves production, price realisation and profitability.

Value Chain for Dairy Husbandry: Dairy husbandry is one of the most potential tools for employment generation and for ensuring sustainable livelihood to small farmers in rural India. BAIF Development Research Foundation, a Civil Society Organisation, started promoting dairy husbandry way back in 1970s through efficient delivery of breeding and minor health care services at the doorsteps of farmers. Efficient technical services followed by good extension work, helped the farmers to rear high yielding cows and buffaloes and to come out of poverty. BAIF demonstrated that each cow can generate a net income of Rs.7000-8000 per annum through sale of milk and with 2-3 cows, a BPL family could come out of poverty. This was possible only because of a systematic effort to develop and operationalise the value chain.

It can be seen from Figure 1 that for the success of dairy husbandry, critical components of the value chain are the Organisation of livestock owners, milk collection centres, milk processing units and milk distribution network to reach the consumers. These organizations need various services for performing their best. Important services required for the farmers are breeding, health care, production and supply of good quality fodder and feeds, finance and timely technical guidance. BAIF provided these services at the doorsteps of the farmers, which could also motivate and mentor them to manage their enterprises efficiently. Many similar programmes implemented by various other agencies could not make similar progress due to missing links in the value chain. For instance, in some regions such as Vidarbha in Maharashtra, diary husbandry has not prospered mainly due to lack of efficient breeding and extension services. In several districts of Uttar Pradesh, cattle development was promoted by BAIF successfully, where farmers maintain cows yielding 3000-4000 kg milk per lactation. However, as the dairy co-operatives started incurring losses, the milk procurement activity come to a standstill and farmers were compelled to sell milk to local traders and sweet makers at substantially lower price. This being uneconomical, farmers started selling cows and started looking for alternate ways of income generation. In fact, an initiative to procure milk by a local NGO on instant pricing of milk based on the quality assessed by automatic bulk coolers and marketing tie-up with a private dairy, could increase the milk collection by 30%, while the farmers received 20-25% higher price for the milk.

Fig. 1: Value Chain for Dairy Development



The advantage of the value chain is transparency, coordination and networking of various stakeholders, which has been the secret of success of dairy husbandry in selected pockets in India.

Value Chain Development for Fruits and Vegetables: With regard to marketing of fruits and vegetables, small farmers are heavily exploited by local traders. For instance, many traders offer a lumpsum money for standing crop at the stage of flowering and fruitlet of crops like mango, cashew, orange, sapota, etc. In the absence of local demand and facilities for transportation and storage, it is extremely difficult for small farmers to sell their produce in nearby urban markets. Therefore, farmers are happy with smaller profits rather than taking many risks. Such a marketing system proved to be a negative incentive, when BAIF promoted agri-horti-forestry for rehabilitation of tribals in Gujarat and Maharashtra.

On the other hand, in the absence of good demand in local markets and poor connectivity with urban markets, farmers have to literally struggle to dispose off their perishable commodities when the market is in glut. In such a situation, the exploitation has been more serious. Therefore, BAIF decided to enter into procurement of raw mangoes through the Growers' Cooperatives. Initially, it was decided to provide atleast 5-10% higher price over the prevailing price in the marketyard of the nearby town. This provided excellent support for the farmers as they did not have to sell in distress. Once the price was declared by BAIF, which served as a bench mark, it was difficult for other local traders to buy raw mangoes at lower price. Hence, they also had to fix more or less the same price. This proved to be very effective. However, it was necessary to increase the

volume of procurement to ensure fair price for all the growers and market at a remunerative price. It was essential to manage this business without incurring any loss to ensure its sustainability. Thus, various innovative approaches were tried, including packing superior quality mangoes in cardboard boxes for supplying to employees of various industrial houses in Mumbai and Pune. As, it was not possible to increase sale beyond a certain level, processing unit was set-up in the project area for processing raw as well as ripe mangoes. The sales agreement with selected super markets before the processing helped the cooperative to produce products of certain specifications, which ensured better price realisation. This not only boosted confidence of growers, but also created additional jobs, particularly for the landless.

With regard to cashew processing, BAIF was the pioneer in introducing commercial cashew plantations in Gujarat. Hence, the tribal farmers had no clue about the processing and use of cashew nuts as well as cashew apple. Nevertheless, it was decided to set up decentralised processing units and centralised grading and marketing unit. A similar strategy was adopted for processing and marketing of Indian Gooseberry and other minor fruits grown locally. Subsequently, BAIF also established linkage with retail marketing agencies to supply fresh unripe mangoes in large bulk, while ensuring 10-15% higher price. Last year, more than 1200 tons of mangoes were supplied to one of the leading agencies. Looking to various options and risks involved, coordinating the producers to collect, grade and pack fresh fruits at the village level and supplying to retailers for direct marketing seems to be the best option, which is low capital intensive and remunerative.

Even with regard to marketing of vegetable grown as intercrops in fruit orchards, BAIF's role in organising the small growers to come together, grade and supply to retail marketers in bulk quantity proved to be the best option. In the absence of such an arrangement, it is extremely difficult for small farmers and even large farmers to depend on unpredictable fluctuating market. There are instances where farmers have spent more on transportation and handling, than realised by them for the produce in the urban market. With effective market linkages, such failures can be avoided to a great extent.

Marketing of Other Products: Most of the small farmers are involved in producing a wide range of foodgrains and various non-farm products. Marketing of these commodities is also difficult, as experienced in selling perishable commodities. In such a situation, Farmers' Organisations and local NGOs need to play a critical role in organising effective marketing. The success of developing effective value chain depends on the strength of the local organisations to coordinate the stakeholders and explore opportunities for all the players to perform their best.

While organising marketing of various products, it is helpful to know the traditional local uses of these commodities and identify niche markets where these products are in greater demand. Local organisations can also play a critical role in assessing local demand for various products and focus on the production of such commodities which can be sold locally. While organising sales in local market, it is beneficial to network with local SHGs and Farmers' Cooperatives and use them as distributors to sell to their members. This way, these agencies take special interest in marketing produce while generating good business for themselves. For instance, a Self Help Group producing soap powder can sell to all the local families through various SHGs and Cooperatives. As the marketing cost is significantly low, the consumers can purchase products at 25-30% lower price, while their organisations can earn 8-12% commission. Such an arrangement can sustain the business in the long run. However, care should also be taken to ensure high quality and present the products in an attractive package, so that the local consumers are happy to buy the produce, not only to support fellow families but to take advantage of low price and superior quality.

While organising local processing and marketing of agricultural products, it is also necessary to keep a close watch on the competitors who often indulge in spurious activities of adulteration and avoiding taxes to sell their product cheaper. This can be undertaken through field survey and regular consumer awareness. Finally, as the customers expect new varieties and superior quality products. Therefore, exploring wider and new opportunities to produce new products of superior quality should be an integral part of the value chain development.

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Farmers' Producer Company (FPC) Concept, Practices and Learning

A Case from Action for Social Advancement

By **Ashis Mondal**

The growth rate of agriculture in India over the last decade has been stagnating and has gone down to 1.8 percent in 2006. On the other hand industrial growth has been buoyant at more than 9 percent. Such skewed growth rates are a matter of serious concern for planners and policy makers of the country at the highest level.

While growth in green revolution areas are stagnating, hardly any progress has been made in about 60 percent of the cultivable land, which is still under rainfed farming. The country finds itself in a difficult situation in meeting the food and nutrient security of its one billion plus population. Clearly Indian Agriculture is at the crossroads and only radical and innovative policies will help to pull the country out of an impending crisis of enormous proportions.

A much discussed topic in Indian agriculture is how to integrate the farmers, especially the small farmers, with the value chain so that the net return at the farmers end is remunerative enough for the farmers to remain interested in agriculture.

India has over 92 million small holdings or nearly 21 percent of the world's small holdings of 450 million, the second largest after China (Oksana Nagayets, IFPRI, 2005). The challenge is therefore enormous for India to ensure that small holdings are truly productive and are the main source of livelihoods for millions of her people dependent on it.

Several institutional models are being tried in India to integrate farmers with the value chain. The most common model is the producers cooperatives, which enable farmers to organise themselves as collectives. The cooperatives are registered with the Registrar of Cooperative Societies. India has a large number of cooperative institutions in a vast range of enterprise sectors. The cooperative experience in India has not been a very pleasant one, as cooperatives have largely been state

promoted, with a focus on welfare rather than to do business on commercial lines[2]. In 2002 through an amendment in the Indian Companies Act.

1956, the Government of India (GoI) enacted the Producer companies Act. by incorporating a new part IXA in the Indian Companies Act.1956 based on the recommendations of the Y.K. Alagh Committee set up for this purpose. The producer companies are incorporated with the Registrar of Company (RoC). The objective was to formulate a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring that the unique elements of cooperative business with a regulatory framework similar to that of private companies.

The PC is formed with the equity contribution by the members and limited to them. The day to day operation is expected to be managed by the professionals, hired from outside, under the direction of the Board of Directors elected/selected by the General body of the PC for a specific tenure.

Since farmers or the producers are the equity holders of the company, a PC as an organisation provides an appropriate framework for owning the company by the producers themselves. The need to organise farmers, especially the small holders, is a well established fact. The basic purpose of the PC is to collectivise small farmers or producers for (a) backward linkage for inputs like seeds, fertilisers, credit, insurance, knowledge and extension services, and (b) forward linkages such as collective marketing, processing, market led agriculture production, etc. At the heart of this effort is to gain collective bargaining power for small farmers/producers.

The collectives of farmers in the form of producer companies is gaining popularity among the farmers/producers and among the promoting agencies primarily due to several advantages it carries in comparison to the conventional model of producers cooperatives. Producer Companies Act. enshrines the ethos and basic tenets of cooperatives and infuses a professional attitude into management. Table-1 provides a comparative analysis of producer companies and producers cooperatives to understand the differences in the basic premises of these two Acts which enable incorporation of producers collectives.

Apparently the producer companies has inherent advantages over the cooperatives in many areas. Specifically of the PC there is less government control whereas the cooperative institutions are state controlled. The overriding powers of the Registrar of Cooperative Societies to direct and regulate cooperatives, whenever the government deems necessary, has throttled the growth of the cooperative institutions[1]. Majority of the cooperative institutions currently facing severe financial crisis and heavily dependent on the state's subsidy for existence. The Mutually Aided Cooperative Societies Act (MACS) was introduced to overcome some of these limitation of the cooperatives, however, not many states have adopted the MACS and also not many commodity cooperatives have migrated to the MACS format.

Experience of ASA in Establishing PCs:

Since late 2004, ASA has been promoting farmers producer companies (being a small holders company this is known as FPC) in M.P and Bihar. It started off with ASA's association with the M.P. District Poverty Initiatives Project, a bilateral funded project to promote livelihoods in several districts of M.P, as the technical

Table-1 : Key differences between Producer Companies and Cooperatives

Parameters	Cooperative	Producer Company
Registration	Cooperative Societies Act.	Indian Companies Act.
Objectives	Single object	Multi-object
Area of Operation	Restricted, discretionary	Entire Union of India
Membership	Individuals and cooperatives	Any individual, group, association, producer of the goods or services
Share	Non tradable	Not tradable but transferable limited to members on par value
Profit sharing	Limited dividends on shares	Commensurate with volume of business
Voting rights	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One member, one vote. Members not having transactions with the company can not vote
Government control	Highly patronized to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in "real world scenario"	Fully autonomous, self ruled within the provisions of Act
Reserves	Created if here are profits	Mandatory to create every year
Borrowing power	Restricted	More freedom and alternatives
Relationship with other corporates / business houses / NGOs	Transaction based	Producers and corporate entity can together float a producer company

consultant for agriculture sector. The assignment for ASA was to establish and run thirteen producer companies with the support of the project staff of DPIP. The project had already organised thousands of Common Interest Groups[2] which were federated into the FPC without diluting the structure and functions of the CIG.

Due to the existence of primary groups and established rapport of the project the initial mobilisation and incorporation of the FPC was relatively easier. About 25000 small holders were organised into thirteen FPC with an average membership of about 2000 small holders per FPC.

The technical support to DPIP continued until March 2008 when ASA formally handed over the responsibility of facilitation of these FPCs to the MPDPIP. Since the project was going to close in June 2008 (and the 2nd. Phase was under consideration), the DPIP management wanted ASA to continue with the technical support but with its own resources as the DPIP could not make any further contracting arrangement with ASA as the project was coming to an end and the second phase was not decided yet. ASA, anyway, also wanted to continue with the experiment in somewhat smaller scale and therefore agreed to provide technical support to six FPC (not all 13 as we did not have the resources). A tripartite agreement was executed between the ASA-DPIP-FPC stating the roles and mode of support for each of the stakeholders. Later ASA got some funding support from the SDTT[3] to continue its work for three years with six FPCs, which is still continuing.

Around 2008 ASA started four more such initiatives, three in Bihar and one in M.P. Except one FPC the other three were related to agribusiness while one in Bihar was specifically meant for Mentha (a medicinal plant) procurement and processing.

In each of these FPC a professional management team was provided to help the Board of Directors in day to day operation. An important responsibility of the Management Team is also to make efforts in building the capacity of the BoD by providing handholding support.

These PCs are mainly into agribusiness and that too focused largely on the crop seed production, processing and marketing of agriculture produces, the activities which give higher return on investment and also ensure availability of quality seeds to its members. The average annual turnover of each of these PCs is about Rs. 10 million. However, there are exceptions with a few which have reached a business turnover of around Rs. 25-35 million annually within 3-4 years of their operation after incorporation. The reasons for high growth can be attributed to:

- energetic management team and the BoD,
- cooperation from banking institutions which provided hassle free loans to the PC for working capital, and
- a clearly identified business opportunity that gives a high RoI.

A tentative assessment suggests that the benefits to a member are multifarious and in the form of:

- timely and easily availability of fertilizers, seeds and other agriculture inputs at a reasonable rate;
- bulk selling of agriculture produce for better price,
- extension services received by the farmers which the PC had arranged with the agriculture department or from other service providers,
- receiving of cash dividends from the FPC.

No detailed study has been conducted yet, to ascertain the benefits in monetary terms. However, the members are happy with the services of the FPC and there is a tendency of increased participation in the affairs of the PC by the members.

Key Learning and Observations

As far as businesses are concerned the market size for agribusiness is quite large and there is plenty of scope for an FPC to position itself in the market without affecting anybody's interest immediately. It is not a threat for the middlemen, in fact there are places where the FPCs have used them as commission agent in the process of aggregation or distribution of inputs.

Normally it is expected that a PC eventually should be able to – (a) meet all agri. inputs requirement of the members, (b) able to handle all marketable surplus to a preferred market, (c) provide/facilitate technical services (e.g. good quality seeds, improved agronomic practices, information, etc.) through extension/service delivery mode, and (d) connect the producers with the company's governance system. From our experience we know that all these make the task special and challenging. The challenge here is that the company's management team has to pursue both the social and economic objectives simultaneously. It is a long drawn agenda

Many PCs took the advantage of GoI's scheme which provide loan against the pledging of Warehouse Receipts (WHR). As per the scheme the bankers extend loan upto 80% of the value of the produce against the pledging of the WHR

and depends largely on the quality of the MT. Our experience has been mixed because some FPCs could balance the economic and social agenda both where some could only achieve the economic objectives and ensured their sustenance while few of them could do nothing significant mainly due to poor quality of the management team. So the lesson is that one should not compromise on the quality of the MT. At least two of them per FPC should be of good quality and experienced with firm commitment. This is perhaps the first and foremost condition for success of any FPC.

The external support, mainly for the overheads of the PC, should be for a longer period of time, minimum five years. It can be made performance based but there should be assurance of it's coming uninterruptedly. A short term support makes an FPC (read management team) emphasize more on economic agenda compromising the social agenda. For instance, some of our FPCs got into the seed production business which they were doing under the buy- back arrangement with the Private Seed production companies. It gave them good margin to maintain their overheads cost. However, the benefit was limited to the insignificant number of members (only to the seed growers), while on the other hand the MT's critical energy gone into organizing this activity. This is just an example of how MT can get into profiteering venture from the beginning while it should be spending more time on institution building.

Due to lack of professional service providers the PC faces problem to comply with the statutory requirements. For the service providers like Company Secretary or Chartered Accountant firms the PC is a new concept and there is a lack of sufficient knowledge and technical skill at their end to guide PCs on these matter satisfactorily. In fact, ASA has conducted orientation programme for the CA firms on the producer companies to fill this gap.

The real challenge for the PC is to mobilize initial starting capital due to the following reasons:

- From the point of view of the financial institutions PC is a commercial entity and therefore all their proposal for financing need a margin money contribution by the PC which they can not provide due to unavailability of reserves,
- PCs are also required to provide collateral for the loan which is again a constraint for a new business entity like PC
- Initially PCs do not have any credentials for doing successful business which also makes the financial institutions uncomfortable for financing.

However, to overcome these initial problems the FPCs in ASA have followed a different business model in the initial couple of years before they have generated reserves and credentials. They were:

- The PCs had taken up those business mix which required less or no working capital. Four such examples are given here.

1. Supply of agriculture inputs like seeds and fertilizers to its members and also non-members. FPCs in this case had taken dealership of seeds and fertilizers from the public and private companies and worked as commission agents on behalf of those companies in supplying materials to the members and also non-members on cash. Because of the significant quantity the PCs could make a good margin and not the least a business relationship with those companies which resulted in getting credit limit from those companies in the subsequent years.
2. The same experience was repeated in the case of procurement of agriculture produce when the FPCs identified the prospective buyers and arranged buy back guarantee from them. Sell was organized at the farm gate level and therefore no transportation and storage cost were involved at the FPC level. FPC ensured a transparent transaction between the buyers and sellers (members and non-members both) and by doing so they earned some margin from the buyers as well as from the sellers.
3. Many PCs took the advantage of GoI's scheme which provide loan against the pledging of Warehouse Receipts (WHR). As per the scheme the bankers extend loan upto 80 percent of the value of the produce against the pledging of the WHR. This does not require any collateral. This was mainly used for the seed production activity when the PCs had to store the raw seeds for over six months before sell. The seed was produced through the members and

procured against 80 percent of the payment of the value of the produce and rest after the receiving of sell proceeds. Since this activity gives about 25-30 percent profit margin the FPCs could declare in advance a good premium to the seed producers for which the producers agreed to receive late payment of balance 20 percent.

4. PCs took the dealership from various companies for agriculture implements like water pump sets, mechanized plough, tractor, etc, which they sold to the members at a reasonable price and earned a good margin of profit/commission. There was no need to stock those materials. Implements were supplied on demand.

The role of government in the promotion of producer companies is negligible. In M.P. the efforts of ASA and DPIP have brought in several policy changes in favour of producers organisations. GoMP has agreed to provide management cost support to a PC for a period of three years and a one time working capital support of Rs.25 Lacs to the PC. Also there is a provision of grant support to the promoting agency. All these policy decisions are notified in the Government gazette in 2007. Based on this decisions the GoMP has extended support to some 15 or 17 producers organisations. However, the GoMP is yet to develop a procedural guidelines. As a result no fresh application is being considered. Compared to what the Government has done in case of popularising Cooperatives it has done very little or nothing so far in promoting the concept of PC despite the law is passed almost eight years now.

Among the NGO community the concept of PC is yet to take root, largely due to lack of awareness about the existence of such law. Also for the NGOs the concepts sometime flow from the donors side. In this case the donors also do not have much awareness about this new Act. and provisions.

The concept of PC is yet to become a fashion largely due to apathy from the government for its promotion. At the central level there is no agency at the moment entrusted with the responsibility of promotion. Besides a central agency to coordinate the efforts for PC, there are several other stimulus required for the uptake of PC in a fast track mode. These are :

- Arrangement of initial working capital. Some relaxation is needed so the financial institutions can provide collateral free loan to the PC.
- Relaxation on VAT, Sells & Income Tax
- Simplification of registration process, especially the Director's Identification Number which requires documents like PAN card, etc. which normally a small producer does not possess.
- Preference in Govt. purchasing / Tenders
- Small producers/ farmers products Export Promotion Policy is needed
- Allotment of places in Railways and Port
- Financial support for establishment of State support systems or State Resource Centre
- Support for training and capacity building of Service Providers / Paraprofessional associated with the PCs
- Establishment of Semi academic institutions in pattern of ITI for creating professionals
- Overall a National Common Guidelines on how to establish small producers company.

Action for Social Advancement (ASA), an NGO working for livelihood development of rural poor through sustainable management of natural resources. ASA is headquartered in Bhopal, M.P. It works in about 1000 villages in MP and Bihar (www.asaindia,org)

[2] EV Murray, Producer Company model: Opportunities for bank finances, CAB Calling, April – June, 2008

[3] a five member group of poor families who were organised for entrepreneurial development for generation of livelihoods

[4] Sir Dorabji Tata Trust, an Indian humanitarian foundation based in Mumbai

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The writer is the founder trustees of Action for Social Advancement (ASA). The author also thanks Shri Yogesh Kumar Dwivedi, ASA for sharing his wealth of experiences in the Farmers producers companies

SPECIAL ARTICLE

Mahila Chetna Manch and Milk Producers

By **Nirmala Buch**

Mahila Chetna Manch (MCM) is a not-for-profit society which is actively focused on gender issues. It was set up in 1984 in Bhopal, and includes research, education, training, support services as well as livelihood promotion in its activities. It runs hostels for working women and girl students, schools, and organizes training for ICDS project workers. The services address lower income families and are run on no profit, no loss, fee paying basis (except the ICDS training centres). The emphasis is on felt needs and market orientation in the quality and scope of services. MCM tries to run these activities without any recurring grant support. MCM has taken up mobilisation of women's groups and collectives, skill development, livelihood promotion, focused on women in disadvantaged, marginalised sections.

MCM also believes that the approach to this work focused on gender has to be oriented to view women and their groups as producers and entrepreneurs. MCM's support is promotional, organisational and technical, and facilitates women producers and their groups to move up the value chain and link to markets. Here the strategy has been to work for long term sustainability and profitability, generating surpluses to expand the number of producers and their production and create a market information system to get the best returns for producers. This case study describes MCM's engagement with rural women and milk production and marketing. Drawing upon the lessons learnt, MCM is mulling future strategic options to replicate the model on a wider scale.

MCM had mobilised rural women's groups some years ago under the (GOI-World Bank-IFAD assisted) 'Swashakti' programme for women's empowerment in selected villages in four districts of Madhya Pradesh. These were Chhatarpur and Tikamgarh in Bundelkhand region and Betul and Hoshangabad in relatively better endowed southern Madhya Pradesh. While facilitating strong women's groups, MCM felt that identifying livelihood options suitable for these locations and supporting them was an essential component for future sustainability. The choice of options had to be such that the groups could ensure participation on an equal footing and also achieve a reasonable scale of operations.

MCM's exploration led to the identification of milk production as the most suitable activity. In 1999 MCM obtained financial support from the Ministry of Women and Child Development for a small project under its scheme of STEP (Support for Training and Employment Project) for mobilisation of 25 women's dairy cooperatives. This involved training, creation of essential infrastructure for collection, testing and chilling of milk, as well as transport for marketing. This project included some financial contribution by MCM too and was implemented in the Badi-Barelli area of Raisen district in the state.

The project interventions included identifying potential areas for milk production, assessing the current state of milk production, consumption and surplus, net sales, price realisation and projected economic returns. Milk routes were planned keeping in view the potential of milk production and scope for induction of additional heads of cattle. Subsequently, MCM began social mobilization in the target villages and women's dairy cooperatives were registered. A chilling centre was set up locally and bulk milk marketing was tied up with the Bhopal Cooperative Milk Union headquartered at Bhopal, 200 km away.

The project has been highly successful so far, with a sustained partnership between the women's dairy cooperatives and MCM. Starting with 25 dairy cooperatives in 25 villages, the number increased to 54 in 54 villages, some in the adjoining block of Obeidullaganj in the same district.

To raise revenues MCM receives a small fee of 60 paise per litre of milk for these services from the Milk Union. Milk of 2051 members of 34 milk societies is being collected and supplied at present. From the beginning of the project, the producers have received milk price totaling Rs 7.86 crores in this area

Two significant factors contributed to this success. The Bhopal Milk Union had earlier tried to form dairy cooperatives but gave up in the face of producer disinterest. In MCM's case there was continued participation of women, particularly from the poorer households. One reason that played a critical role was that in the first year of operations, heavy floods damaged the standing soybean crop in the region. The regular earnings from the dairy activity, with payment every ten days established the value of this initiative and its role in diversifying risk and income among small producers.

The second factor is the quality of handholding support provided by MCM in the critical formative period. MCM continues to supervise and guide the coops, as well as collect and supply milk to the Cooperative Union. We also organize collection of dues from the Milk Union on behalf of the cooperatives. MCM has negotiated the same terms for its coops that the Union extends to its own member bodies, including any additional facilities and benefits announced from time to time. MCM provides housekeeping services such as periodical reports, returns and auditing etc. All this support to the coops is free of charge. To raise revenues MCM receives a small fee of 60 paise per litre of milk for these services from the Milk

Union. Milk of 2051 members of 34 milk societies is being collected and supplied at present. From the beginning of the project, the producers have received milk price totaling Rs.7.86 crores in this area.

MCM then set up another chilling plant in Berkheda Pathani for the collection and chilling of milk and its marketing from cooperative societies formed in Obeidullaganj block in this district and linked its marketing with an ice-cream factory as it was not feasible to link it with the chilling plant at Badi-Barelli and got a better price realisation from here for the producer groups. After five years, the Cooperative Union approached that they would like these producer groups too to be linked with their plant and that with the location of these groups, we could supply the milk directly without chilling against the procedure of distant groups where the process was collection – transport to chilling centre for chilling – transport to dairy plant. Secondly, the arrangement is for MCM to complete all operations. The producers of 12 villages here have received Rs 2 crores for thei milk supplied so far..

MCM has then moved to setting up milk collection, chilling, transport and marketing facilities at Bhaura location in Shahpur block of Betul district with infrastructure support from the Zila Panchayat for providing this service to their SGSY groups. The milk production in this area is much less and there is also supply from some areas by individual producers to Sarni Coal mines Colonies. However, here too MCM has provided all the services so far, collected milk and supplied to the Bhopal Cooperative Union for which the producers have received Rs.2.40 crore.

MCM has expanded the dairy promotion for women's groups in Chhattarpur and Tikamgarh districts where women's groups earlier formed have been linked for marketing of their produce after making feasible milk routes. The collectives of women in all these places are SHGs and not cooperatives. Here in Chhatarpur a chilling plant has been set with capacity of Rs.7000 litres. This centre with additional storage has been able to supply a tanker of upto 16000 litres milk per day in the peak season. The plant here has own insulated tankers to transport milk to Gwalior and Jabalpur (about 200 KM distance) and transport

MCM has provided all the services so far, collected milk and supplied to the Bhopal Cooperative Union for which the producers have received Rs.2.40 crore

vehicles for collecting milk from the villages. The milk is supplied from here to Jabalpur Cooperative Milk Union and a private milk plant in Gwalior (Malanpur industrial area) after negotiation of the best price for the producers from time to time and also ensuring that it is same of better than the rate and terms fixed by the Cooperative Union. The 5015 producers of 65 villages here have so far, from April 2006 to March 2010, Rs.8 crores as price of their milk collected and supplied through MCM support operations. Bundelkhand area has no Milk Cooperative Union for a long time as it faced serious problems and is under liquidation.

As our over view shows, MCM has been able to provide marketing support to 8500 milk producers in 145 villages and they have cumulatively received Rs.20 crores as price of the milk marketed through this support and price realization has been appreciated. They have guaranteed marketing, collection in the village, fair remunerative prices and a sustained business with opportunities for expanding production and returns.

With the experience of 10 years, MCM has learnt lessons, developed capacity and infrastructure and has bargaining capacity to supply and receive remunerative price for the producers in villages of four districts. Enquires are received for supply from Mathura, Agra, Delhi, Kanpur etc. More producers in the villages are keen to join. MCM is now negotiating with the banks for finance to upscale the infrastructure in Bundelkhand districts particularly Panna and Tikamgarh and in new villages of Chhattarpur district. It is planning to extend this support to women's groups facilitated in the IFAD supported Tejaswini project for Rural Women's Empowerment in these districts. MCM now has the confidence for further expansion with bank finance. However, some support in governments programme can make the process faster and more economically viable.

MCM experience gives one model for producer groups facilitation, support and enhanced returns for their produce, by a non-profit society with professional approach, capacity, resources and commitment. MCM works to expand our producers' business, income and profit and for MCM growth only to contribute to this goal. It is business with professionalism but with care and concern. We expect that our future expansion will further validate this understanding. Government's programmes quite often place limitations and conditionalties while providing resources. Private sector players will have their own strengths, resources and growth objectives.

The writer is President, Mahila Chetna Manch

Livelihood Collectives

By **Anish Kumar and Madhabananda Ray**

PRADAN's livelihood initiatives are built around the Family-Sector-Area *context-triad* of opportunities and constraints. Usually this requires a four stage engagement process. The *first stage* is mobilizing and supporting families marginalized in the existing production systems. The key focus of PRADAN's engagement in this phase is the family's transition from a subsistence producer / non-producer to an economically active producer. The *second stage* is configuring the family level production system with its idiosyncratic characteristics for creation of marketable surplus, linkages with input-output markets and detailing of social-technical-management model. PRADAN's focus in this stage is on business development. The aim is help insulate the participant families from price fluctuations and supply uncertainties of the market, while strengthening the production system through improved market access, better capital management, and high quality production services and technical handholding. The *third stage* is one of developing institutional mechanisms for facilitating growth and sustenance, including promotion of producer collectives, market exchanges and service entrepreneurs. PRADAN's focus is essentially on institution building in this stage centering around membership and governance of these institutions. In the *fourth stage* producer collectives focus on the sector imperatives associating with other collectives for opening space for small-holders and developing backward and forward integration to exercise increased control on the sub-sector linkages in favour of poor. In this phase producer groups have graduated to a stage where they are able to drive the development process themselves by identifying and mobilizing existing assets, and thereby responding to and creating local economic opportunities. In this stage PRADAN's involvement becomes minimal in the existing areas.

As of March 2009, over 23,000 producers were organized into formal and informal collectives usually organized around a specific commodity or sub-sector like tasar silk, dairy, agriculture & horticulture, poultry, lac and sal/siali leaf-plate. These collectives focus on enhancement of production & productivity, aggregating fragmented production and help member-producers in better price realisation. The focus remains facilitating members to take charge of these organizations.

Table: Status of producer collectives in PRADAN as on March 31, 2009

Sectors	Informal Groups	Incorporated Organizations	Member	Revenue *(in m Rs.)*
Poultry	-	21	5300	0.30
Dairy	2	2	840	7.93
Agro-horticulture	4	4	10294	22.05
Tasar Processing	-	66	2500	45.1
Tasar Rearing	2	1	3614	2.16
Leaf Plate Making	-	1	832	2.82
TOTAL	6	96	23380	140.36

The table provides a brief summary of the producer collectives across the sub-sectors. The legal forms of incorporation include Cooperatives (under the Mutually Aided or Self-Supporting Acts), Producer Companies, Trusts and Societies.

The collectives are in different stages of growth depending on their inception and PRADAN's engagement in the sector. The Tasar Silk Processing and Poultry collectives are now in the third to fourth stage - the production system and the primary collectivization model having been worked out. In both these sectors the collectives are industry leaders in their operating domain and have started generating significant revenues for their members. In both tasar silk and poultry apex federate structures are evolving allowing them to venture into up-stream and down-stream activities. For example the hatchery in Jharkhand and feed unit in Madhya Pradesh for poultry and fabric/merchandise retailing in tasar silk have resulted in further stabilization of the production system and increased income to the producers. The institutional prototype in dairy, agriculture, leaf-plate is in the nascent stage. The producer collectives have been effective in addressing identified gaps in the production system which require economies of scale like quality and timely procurement of inputs in agriculture and sale of milk in dairying. The revenue model is being examined to make it robust and available for replication in other locations.

The collectives facilitated by PRADAN are distinctive from other similar efforts– membership is exclusive to poor women, collectives operate in new *(hitherto non-existent)* production systems, the leadership is group based rather than individual inspired. These characteristics create uniquely different set of challenges for the constituent systems - membership, governance and operations in the collective. In the last one year PRADAN's engagement with community livelihood collectives intensified with specific focus on building membership, governance and business systems. Training events to strengthen member control were conducted in tasar, poultry and agro-horticulture cooperatives. Experience of these events is being consolidated to create standardized modules and build internal capacities in the producer organisations to train all the members. The other important focus has been to standardize the operating procedures across the collectives. In poultry a detailed Poultry Management System based on Quality Assurance Systems approach which includes systems and procedures for business decisions and compliance and monitoring has been created. A major highlight of last year has been increased recognition of the stakeholders of PRADAN's effort to promote successful producer organizations – MASUTA, the tasar silk processors' company was able to raise significant credit for its operations, was also able to independently raise resources for training of its members.

As the *community livelihood collectives* emerge as instruments for enhancing livelihoods of marginalised rural and tribal communities, it offers possibilities for in-situ scaling up and making impact in the local economy. In the next year we are planning to capture our learning to build an institution development framework for member controlled poor exclusive livelihood organizations and a guide for basic institutional processes for membership organizations.

Two major success stories of PRADAN in the realm of promoting successful producer collectives have been in tasar yarn processing and small-holder poultry. Brief case studies of both these experiences have been detailed below.

MASUTA Producers' Company Limited – the Tasar Silk Processors' Collective

Overview

MASUTA Producers' Company Limited was registered on 26th December 2005 as a Producers' Company (*S 581c (5) of Part IX A of the Companies Act 1956).* MASUTA is a women tasar yarn producers' collective promoted by PRADAN

MASUTA PCL emerged out of the tasar yarn production based enterprise that PRADAN promoted among the women SHG members in its operational area. The producers are organized into a two-tiered structure. The primary group, that is village based, comprising of 20-30 women of the same hamlet or nearby hamlets drawn from one or more SHGs are registered as Mutual Benefiting Trust or MBTs. Each of the MBTs elects their representative to represent them in the Producer Company MASUTA.

With the inclusion of 500 new members in Hazaribagh, Jharkhand, the number of member-producers touched almost 2500 by the end of last year. The members are now spread over 120 villages, from 5 districts in Jharkhand and one district each from Chhattisgarh and Bihar. MASUTA focuses on serving existing and new members by pooling, aggregation, segregation and distribution of materials and services, development of new yarn types, making the producers aware of the market, and membership development.

Bulk of the business of MASUTA is yarn production and sale. The yarn produced by the members are pooled, sorted, graded and packed by MASUTA for its marketing. There two different marketing channels for MASUTA – selling yarn directly in the market and converting part of it as fabric through Eco-Tasar Pvt Ltd (a Joint venture Company between MASUTA - 76% stake and a private entrepreneur -24% stake and registered as Private Limited Company).

MASUTA opened retail counters both at Bhagalpur as well as Raigarh to cater to the requirements of weavers of these clusters. Besides this, yarn is sold to and institutional buyers. Two buyer seller meets were organised last year to bring together weavers, traders and some government officials.

Operations

MASUTA's debt comes from the private sector banks like ICICI bank, Development Credit Bank, HDFC bank and AXIS Bank, Manaveeya and IFMR Trust to the tune of RS 84 million through microfinance as well as direct lending route. Moreover, NABARD under its UPNRM (Umbrella Programme on Natural Resources Management) scheme lent MASUTA Rs 1 crore last year at a low rate of interest for the producers of Bihar. In addition to it MASUTA secured Rs 10 million as cash credit from Indian Bank. These inflows helped purchase about 50 million pieces of cocoons and ensured timely lifting and payment to the producers. MASUTA, in its short spell of operation could establish good relationship with its lenders. As a result in addition to the existing banks, many Public Sector banks like PNB are showing keen interests in lending in large volume.

In spite of some low cost loans such as from NABARD, last year the overall cost of capital remained at about 16%, i.e. Rs 7.5 million, which meant that each producer of MASUTA paid about Rs 3000 as interest.

MASUTA purchases cocoons and sells them at cost price to its member MBTs, purchases yarn from them for marketing. In all such transactions, only yarn sale brings in any revenue to MASUTA. Thus in case of MASUTA the transactional turnover and sales are actually much higher compared to the revenue.

In the FY 2008-09, the transactional turnover was Rs 179.5 million. The gross sales turnover was Rs 87.8 million out of which yarn sales turnover was Rs 45.1 million that generated revenue of Rs 14.9 million. About 50% of the revenue was spent on interest payment and the Profit before Tax was Rs 2.1million. MASUTA's own fund has increased to a little over Rs 10 million and the loan outstanding was Rs 76.5 million at the end of the year.

Benefit to The Members

In spite of high cost of capital, MASUTA producers have already received Rs 450 per Kg of yarn net of cocoon cost. In addition to it another Rs 100 150 per Kg is expected to go the producers as Withheld Price, Patronage Bonus, and Dividend.

Each producer, her spouse and two children are covered by a cashless health insurance policy. The premium for such insurance has been paid by MASUTA out of its surplus.

Last year producers such as Joba Das of Gandharakpur village in Jharkhand, Usha Devi of Rajdah and Lukri Devi of Teliadih in Bihar supplied more than 35 Kg of yarn and earned more than Rs 20,000 each. Such inflow of income has increased their family income by 30% over the existing annual family income

Development of New Machines

MASUTA invested considerable amount of time last year in developing more efficient designs of a reeling machine and a spinning machine. The new reeling machine which is at its final stage of launching is capable of producing three times more yarn than that of the existing machine, with better yarns quality and thus the income per unit time invested by the producers. It is run by a low 20 watt motor. The new spinning machine, which is run by a 10-watt motor, has doubled the production and thus the income.

Small-holder Poultry

Overview

The activity of stallholder poultry touched new highs in the last year. It continued to register impressive growth. The activity spreads in 4 states namely, Jharkhand, Madhya Pradesh, Orissa and Chhatisgarh over 14 districts. There were 5,320 producers, all of them women, with nearly 95% of them from Schedule Tribe, Dalit and OBC categories. The members were organized in 16 primary co-operative societies. Two state level federations in Jharkhand and Madhya Pradesh are functional with the primary co-operative societies as their members.

Status:

In Jharkhand, 8 primary societies (7 co-operative societies and 1 Producer Company) with collective membership of 3,235 are functional. In M.P. 6 such primary co-operatives are in operations with collective membership of 1,866. The following table shows status in the financial year 2008-09:

	Co-operatives	Producers	Sales (metric tonnes)	Sales (million Rs.)
Jharkhand	8	3235	4905.55	269.00
Madhya Pradesh	6	1866	5003.96	322.60
Other States	2	219	223.30	11.52
Total	16	5320	10132.00	603.12

Operation Highlights:

During the financial year 2008-09, the members have been able to maintain the industry production efficiency and in spite of recurrent bird flu scare in the states of West Bengal and Assam, **10,132 metric ton** of live birds have been sold worth **603.12 million rupees**. In the states of Jharkhand and Madhya Pradesh, the co-operatives together are the biggest broiler producing units. The operations in Orissa and Chhatisgarh are gradually taking up. The year over year (YoY) growth for two years can be seen from the following table:

	FY 2007-08	FY 2008-09	% growth
Cooperatives	16	16	-
Members	4389	5320	21%
Revenue (in million Rs.)	296	603	104%
Poultry Sales (tonnes of live birds)	6094	10133	66%
Producer Margin (in million Rs.)	22	55	153%
Cooperative Margin (in million Rs.)	1.17	18	1428%

Human Resource:

All the 16 co-operatives are equipped with qualified veterinary doctors who take care of the overall production and management. Most of them have recently gone through a 7 days Management Development Program (MDP) at IRMA. They are being supported by local village level supervisors who have been trained to take care of the activity under their domain. All the societies have qualified accountants. From time to time the staff of the societies are provided with training as per the need.

MIS & system Design:

A standard system for production management procedure has been designed which is to be implemented in all the co-operatives in this financial year. Customized software for accounting as well as MIS is all ready in place which gets updated from time to time.

Benefit to the members:

During the financial year 2008-09, an amount of Rupees 55 million has been distributed to the members against Rupees 21.71 million distributed during the financial year 2007-08 as their grower margin. On an average, the members have been able to earn @ Rs 5/kg which is much more than what the integrators offers @ Rs 2.5-3 per kg. The co-operative societies have also generated surplus at their level. All the members have shown their interest in increasing the capacity of the sheds and many of them have done by investing the money earned from the activity. Apart from this, almost all the co-operatives have generated sufficient surplus to meet any unforeseen situation like bird flu scare.

Engagement of local youths:

As many as 300 local educated youths have been engaged as supervisors, feed mill workers, warehouse in charge, and hatchery workers. They also earn an average of Rs 40,000 per annum.

Sustainability of the societies:

The administrative, overheads and operational costs including the cost of Chief executive officers and veterinary doctors are totally born by the concern co-operatives. On an average each member in the financial year 2008-09 has contributed around Rs 1500 towards the production support cost, administrative overheads and management of the society.

The federation at the state level has ensured the quality and timely supply of raw materials, ensured marketing of birds, co-ordination and integration among the member co-operatives as well as timely statutory compliance.

Focus on backward integration was made for making the activity more vibrant. Feed pre-mix unit in Bhopal managed by Madhya Pradesh. Federation, supplies to all the co-operative societies of Madhya Pradesh. which had a sales turn-over of more than Rs 80 million. Apart from supplying quality feed pre-mix to its member co-operatives, it has also generated surplus worth Rs 4.6 million. One more unit has been planned in Jharkhand.

Hatchery in Lohardaga managed by Jharkhand federation supplies quality chicks at cheaper price to its member co-operatives. It had a sells turnover of Rs 15.7 million. Two more such units, one in Jharkhand and one in M.P. will be coming up this year.

Collaboration with other agencies:

During the year, new collaborations were initiated. Rabo India Finance released Rupees 42 million as grant for increasing the shed capacity of the members, margin money to leverage mainstream credit, training and MIS and for construction of hatchery.

National Co-operative Development Corporation (NCDC) along with the Department of co-operation, Government of Jharkhand has recognised Jharkhand Poultry Federation for expansion and strengthening of the activity in the state. An amount of Rs 86.4 million has been sanctioned for the same. In Jhakhand another national level agency, National Schedule Tribe Finance & Development Corporation has released an amount of Rs 9.2 million to Jharkhand State Tribal Co-operative Development Corporation (JSTCDC) its chanalizing agency for supporting two co-operative societies for their working capital need.

In M.P. a strong collaboration has been established with DPIP for expansion and strengthening of the activity.

The authors work with PRADAN

Commodity specific farmer groups can trigger a genuine agriculture revolution Says Sharad Joshi

Shri Sharad Joshi, founder and leader of Shetkari Sangathana, gave up a cozy United Nations job and returned to India in the late 1970s, determined to understand and articulate farmers' issues. Over the course of the last three decades he has carved a special place for himself as a farm leader, economist and prolific writer on rural issues. Currently a Rajya Sabha MP, he spoke to Pravesh Sharma recently. Excerpts from this conversation are summarized below.

On the possibility of forming a pan-India body representing farmer organizations, a counterpart of CII/ FICCI for agriculture

It seems completely unrealistic to expect such an organization to emerge in this generation. The farmers' movement in India has reached a point of exhaustion, following the usurpation of the agenda of the economic/secular stream of the movement (represented by Shetkari Sangathana) that emerged after the failure of economic agenda of the Green Revolution. Some of the basic injustices being thrust upon the agriculture sector, such as negative subsidy and the issue of chronic farm indebtedness, have been recognized as such and reversed to a certain extent. Inflation in commodity prices and the "Aam Admi Economics" is now being blamed on farmers and negative subsidy policies are being reinforced. The Debt Relief Loan Waiver (DRLW) scheme has turned out to be a non-starter and farmer suicides have recommenced.

At the same time Indian agriculture is threatened with fluctuations in temperature and skewed precipitation as an expression of climate change. The lurking failure of the Doha round of WTO talks might negate the gains in scuttling policies of imposing negative subsidies. Also, nobody would dare to question the argument that farmers should receive a remunerative price for their produce, even if there are still mechanisms in place, like the CACP, APMC, Food Corporation of India and the public distribution system. They all tend to deny this in practice.

We were the first to highlight the reality of perennial farm indebtedness over two decades ago and called for an across-the-board loan waiver. Many of these demands have been grudgingly and haltingly conceded. Society as a whole, city based economists and government bodies are today somewhat on the defensive about the farm sector and, even though fundamental reforms are still not in place, there is less hostility and negativity about the sector than before.

At the same time we note that except for the secular, non-caste based, non-political stream of farmer's movement which Shetkari Sangathana represented and which mobilized producers on purely economic issues, the economics and the philosophy of the other streams seem to be the exact opposite. Again, unlike the first stream that supports freedom for the farmer in the choice of technology and markets, all others seek diverse subsidies, favour an insular approach and oppose multilateral trade, biotechnology etc. and are basically anti-competition. Thus there is little in common between the two main streams of the farmers' movement. So why talk of an artificially forged united front?

However, I am hopeful that this is only an interregnum between two phases and a new generation of farm leaders will certainly emerge to embrace a forward looking agenda if and when climate change challenges are successfully addressed and the futures commodity market replaces the APMC as the default form of agricultural marketing. Perhaps then farm leaders across the country may arrive at a consensus on basic issues, based on economic facts and realities, and present a united front of commodity based farm organizations.

On the policy environment for farmer producer organizations

The only type of farmer organization favoured by the government is the cooperative, which in my view has ruthlessly exploited farmers and helped politicians gain power and money. I don't see any hope for farmers coming out of these bodies in the future mainly because of the lure of the lakhs of crores of rupees being poured into coops through all kinds of fancy packages. Every government of every political party basically fears and distrusts genuine farmer bodies. In the past governments have used everything from brutal force to bribery and inducements to suppress, divide and otherwise render farmer organizations toothless. 35 members of Shetkari Sangathana have lost their lives in police firings on totally non-violent protests. So the policy environment is certainly not welcoming of any genuine farmer movement, particularly if it is a genuinely democratic, non-violent movement that in my view deepens democracy through mass participation and is essentially a civil society function.

Producer organizations mobilizes around production and marketing issues are pointless in the current scenario because they weaken the solidarity of the farm movement which has identified negative subsidy policies as the unifying force impacting all farmers, overriding the variations in the crops they produce. The commodity based farmer organizations would be further discouraged by the heavy restrictions placed on commodity futures trading by the government. I have consistently called for the complete abolition of the APMC Acts which are totally anti-farmer and trap producers in a cartel-driven, non-transparent price regime. Instead there should be a properly regulated and independently supervised futures market mechanism covering all agricultural commodities, which is the only efficient and transparent price discovery method that can benefit farmers. Further, all restrictions on internal and external trade in farm produce should be removed so that there is an incentive for farmers to invest in technology, land improvement, mechanization and storage. The way the government is presently running the futures market in an ad hoc, heavy handed manner will not bring any benefits to farmers.

If the futures market is genuinely liberalized, then I see the potential of commodity based farmer producer organizations emerging spontaneously to leverage collective production and bargaining power. There will be many categories and levels of aggregators of farm produce and there is space for member based producer organizations among them. Commodity specific farmer groups, getting price signals from a transparent, unfettered futures trading mechanism can trigger a genuine agriculture revolution without subsidies.

But the government and its economic advisers instead impose further restrictions on commodity futures trading under the false premise that such trading fuels inflation, even though there is not an iota of evidence to support this claim. The way things are going I am afraid that the farm commodity futures market will be driven underground, by which I mean that while there will no formal trading on these products, an unofficial, below the line trading mechanism will emerge to give price signals to producers and buyers, a version of the 'dabba' trading in shares.

On his most treasured achievement as a farm leader

I certainly have the satisfaction of seeing several issues which Shetkari Sangathana raised becoming mainstream official policy, such as addressing farm indebtedness and giving remunerative prices for farm produce. However, the achievement which I value the most and one which is closest to my heart is that of women's empowerment. Ours was the first mass based rural organization that recognized the central role of women as toilers in the field and propagated equal rights for them from the very beginning. Due to this approach lakhs of women participated in our movement. Our women's front, Shetkari Mahila Aghadi, pioneered the Lakshmi Mukti programme, as part of which more than 2 lakh farmers voluntary registered property in favour of their wives. It is a known fact that the women's policy of Maharashtra was a response to the social movement unleashed by the large scale participation of women in our organization.

I am in favour of 100 percent reservation for women at the panchayat level and also support the Women's Reservation Bill in its current form. The functioning of all our legislatures would be transformed for the better with a higher representation of women.

Roundtable Discussion

on Role of Farmer Producer Organisations in improving farmers' access to markets – Main Conclusions

1. A Roundtable Discussion (RTD) on the above subject was hosted by Agriculture Finance Corporation (AFC) at New Delhi on 16 April 2010, the first of a series of events on this theme. Dr. Abhijit Sen, Member, Planning Commission of India delivered the Keynote Address. Mr. G.C. Pati, Additional Secretary, Ministry of Agriculture, Govt. of India, made brief Opening Remarks.

2. The main conclusions, representing a broad consensus of views of the participants on the subject, are summarized below.

i) Learning from the self help group (SHG) experience in the country, farmer producer organizations (FPOs) should be self selecting and not mobilized against any target or predetermined objectives. Felt need and voluntary association are critical ingredients to successful FPOs.

ii) The basic unit of any form of FPO (be it a cooperative, informal association, producer company etc.) should be not be more than 20 members to ensure close coordination, ownership and participatory governance. When federating into larger structures, a membership base of between 1000-1500 members appears to be the optimum strength of viable FPOs.

iii) FPOs should not take up collective production and marketing efforts immediately. A period of trust building is vital for long term success. Agriculture extension is the most favoured entry-level activity around which a strong FPO can be built. Collective efforts to access inputs in bulk form are also good confidence building moves.

iv) Intensive capacity building and training inputs are key to the success of FPOs. These must begin as quickly as possible after the group has formed and must keep pace with growing needs (e.g. marketing, accounts, quality and inventory management etc.). Over a period of time the asymmetry in the governance capacity of various members of the FPO must be leveled to ensure democratic and transparent functioning.

v) FPOs should not rush to acquire formal legal status and they can function as informal groups till such time as the need to federate into larger bodies for marketing or input supply arises.

vi) A small cash contribution as membership charge is desirable to promote a sense of ownership and bonding among FPO members. This can be adjusted against share capital contribution if and when the FPO acquires a legal status as a cooperative or producer company.

vii) There is a strong felt need for a tier two financial institution that can offer capital and technical support to FPOs. The lesson from India's successful microfinance experiment is that such a second tier institution (which sources its funds in bulk from banks, donors, government sources and international bodies, and on-lends them in turn to a specified category of borrowers) is required to incubate and nurture FPOs on a large scale. Existing financial institutions, especially banks, are unsuited to address the need for capital and other support of FPOs. Legacy institutions such as cooperative financial bodies and regional rural banks lack adequate understanding and human and technical resources to undertake this task. The role of a "champion" for FPOs can be acquired by this institution, mediating not just capital and technology transfer, but addressing the larger policy context as well.

viii) Professional managerial support is a challenge for FPOs. Current institutional responses (in the form of MBA programmes) are not suited to the needs of these nascent organizations and a local cadre of educated youth may have to be developed to serve as field managers in FPOs. This will call for shorter, diploma level courses to sensitise the potential managers to the special needs of FPOs.

ix) Mitigating risk is one of the major reasons for mobilizing FPOs, as the limitations of individual resource endowment, entrepreneurial ability and market leverage are overcome through the strength of the collective. Appropriate risk mitigation measures in the form of diversification of resource use (primarily reducing the dependence on crop husbandry and increasing the share of livestock, dairy, poultry, fisheries and horticulture in the product mix) as well as linking up with emerging innovations in risk insurance will be required to increase the attraction of FPOs for cultivators.

x) Another important risk reduction strategy is entering into partnerships/ joint ventures/PPP mode projects with private sector players increasingly looking to source produce for the fast growing urban retail format. This will require both understanding and expertise, again underscoring the need for a "sector champion", an institution or body that builds awareness among all players in the sector and helps to develop norms for institutional behaviour.

xi) A period of handholding may be necessary to bring emerging FPOs to a point where the internal leadership is able to take over critical functions and supervise management. Suitable institutions in civil society and the private sector are best suited for this role. The period and nature of support will vary in the case of each FPO but the danger of dependency should be clearly avoided. In normal circumstances a period of two to three years should suffice to enable a FPO to achieve internal capacity for management, with a gradual shift in responsibilities taking place within the first year itself.

xii) The role of government agencies is critical to the success of FPOs. In particular, the government can support capacity building and training, basic infrastructure and knowledge dissemination. The role of government is vital in removing any legal bottlenecks that may exist to enable FPOs to function in an unfettered manner (e.g. mandi laws in several States prohibit direct marketing by farmers to consumers). Venture capital financing and viability gap funding are new areas that require government attention to incubate successful FPOs on a large scale.

xiii) A national effort to support FPOs is only possible with a strong leadership role played by the government. This would require a platform or mechanism to be created for civil society and the private sector to be able to join government efforts at FPO promotion. The success of the SHG based microfinance movement suggests that such a coalition is both possible and desirable in the current context.

3. The RTD concluded with a resolution to share the main conclusions agreed upon with a wider audience.

Keynote Address by Dr. Abhijit Sen, Member, Planning Commission of India at Roundtable Discussion on Farmer Producer Organizations 16 April 2010

1. Uneven growth in agriculture GDP has been a source of concern for Govt. for at least the last decade. Hence XI Plan strategy of 'inclusive growth' is at its core an attempt to boost investment and growth in agriculture, thereby boosting employment and incomes in the sector.

2. Significant increases in Plan allocations for agriculture at the Central and State level have been achieved during the past three years. However, commensurate results in the form of sustained growth in agri GDP are yet to materialize, as the impact of weather and volatile markets continues to affect the overall performance of the sector.

3. While the focus of government interventions to date has largely been on increasing farmers' access to capital, technology and markets, building institutions has perhaps not received adequate attention. The current roundtable discussion on this subject and similar efforts in the recent past by several official and civil society bodies is therefore most timely and welcome.

4. Producer organizations in any form, be they cooperatives, producer associations, informal farmer networks, producer companies etc. ultimately serve to address a core set of objectives: they mitigate risk in agriculture through collective production and marketing decisions; they reduce transaction costs, especially for small producers; they help to access capital and technology and, perhaps most importantly, they allow producers to deal with markets on more balanced and equitable terms.

5. While all this is fairly clear and uncontested, unclear are answers the following set of questions: what is the most appropriate form of producer organization in agriculture? Is it cooperatives, producer companies, federations or some other institutional structure that needs to be imagined specifically to address the unique challenges of our agriculture situation? Who should promote such organizations? Should the government take a lead role or leave it to civil society to act as promoters? What should be the role of private sector players in this initiative? Should they concentrate only on the front end of retail trade or should we also expect them to invest in backend facilities from the farmgate onwards? How do we ensure that small producers benefit from such interventions? Will women have a role to play in these institutions?

6. These and several other related questions will have to be debated upon and a menu of solutions offered if there is to be any forward movement on this idea. I am happy to see that AFC has invited a rich cross sections of potential stakeholders, including civil society and private sector players, to the discussion today. It is perhaps stating the obvious that no one player can achieve success in addressing the challenge of building member based farmer producer institutions on their own. Government will have to create an enabling environment to attract both civil society and private sector agents, besides of course the farming community itself, to lay the foundations of a successful strategy of institutional development.

7. At the same time there will also be a need to identify the roadblocks that prevent the growth of producer organizations and move rapidly towards removing them. Agriculture marketing laws come readily to mind as one such potential hurdle and I expect that at some point State Governments will have to be engaged seriously to enlist their support to an institution building approach. The fact that they are not represented here today in sizable numbers is not, I hope, a sign of their disinterest but only a scheduling mismatch.

8. Finally, as I wish this discussion all success, I look forward to receiving a gist of the major conclusions and suggestions made during the course of the day and in particular hope to see an actionable strategy to seed, nurture and strengthen farmer owned producer institutions in the near term. I have gone through the documentation prepared for this meeting and found it highly focused on the theme. I expect to see similar quality of documentation summarizing the day's deliberations. Thank you.

Opening Remarks by Mr. G.C. Pati, Additional Secretary, Ministry of Agriculture at Roundtable Discussion on Farmer Producer Organizations New Delhi 16 April, 2010

1. Ministry of Agriculture has been focused on implementing the XI Plan strategy of boosting investments and incomes in the agriculture sector through a large number of Centrally sponsored schemes, which provide the tactical intervention to realize the overall growth strategy articulated by Planning Commission.

2. Besides earlier CSS carried forward from the X Plan, two major, 100% central grant based schemes launched during the XI Plan aim to address the core challenges of enhancing productivity in lagging regions as well as stimulate investments in core agricultural infrastructure and support systems. These two schemes, the National Food Security Mission and the Rashtriya Krishi Vikas Yojana, between them have significantly enhanced both central and state outlays in agriculture.

3. Since the X Plan, the Ministry has recognized the role of leveraging the collective power of the farming community in grounding its schemes effectively. One example of this is found in the ATMA scheme, which seeks to promote technology extension efforts using the agency of farmers themselves.

4. The concept of the 'farm school' under ATMA has been received enthusiastically by the farming community and several states have mobilized thousands of farm schools, either in collaboration with NGOs and other non-official bodies or through departmental efforts.

5. This has resulted in the penetration and anchoring of frontline agricultural technologies in the farming community itself, reducing their dependence on visiting field extension workers. Farm schools are also being promoted under NFSM in several states.

6. The experience convinces us that a broader effort to mobilize farmers beyond extension objectives is both necessary and timely. We are open to ideas to develop a strategy to support member based farmer producer organizations and feel that there is enough flexibility and space within existing schemes, especially RKVY, NFSM and ATMA, to achieve this objective without the need to earmark separate funds for the same.

7. In addition, I may also state that we welcome the involvement of civil society and the private sector, besides the government and other institutions associated with agriculture, in promoting these institutions. I hope that today's discussions will lead to some sort of a roadmap to help us reach this goal. The issues that I think are important in this regard include the agreed form of institutions to be supported, the level of assistance, its duration and scope, and most importantly, how the intervention will be sustained after the initial funding support is withdrawn.

8. I congratulate AFC and the team which has made this meeting possible today. A wealth of experience and talent is present in this room today and I am sure that the rich discussions to follow will shed more light on this critical subject to enable a concrete set of recommendations to emerge. I wish the conference all success.

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