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Producer Companies in India:
*A study of organization and
performance*

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We hope that the report will be helpful for developing policy and research perspectives on producer companies in particular and producer collectivities in general from the perspective of smallholders.

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List of Abbreviations

ABG	Activity Based Group
ADS	Access Development Services
AGM	Annual General Meeting
AKF	Agha Khan Foundation
AKP	Association of Kuyichi Producers
APEDA	Agricultural and Processed Foods Products Export Development Authority
APMC	Agricultural Produce Market Committee
ASA	Action for Social Advancement
BAIF	Bharatia Agro-Industries Foundation
BARC	Bhaba Atomic Research Centre
BCI	Better Cotton Initiative
BCP	Better Cotton Program
BCU	Bulk Cooling Unit
BKS	Bhartiya Kissan Sangh
BMP	Better Management Program
BoD	Board of Directors
BPL	Below Poverty Line
CA	Chartered Accountant
CBO	Community Based Organization
CC	Cooperative Company
CEO	Chief Executive Officer
CIG	Common Interest Group
CS	Company Secretary
DCCB	District Central Cooperative Bank
DFV	Desai Fruits and Vegetables
DFID	Department For International Development
DIC	District Industries Centre
DILC	Dairy Industry Loan Council
DIN	Director Identification Number
DKVPCL	Dhari Krishak Vikas Producer Company
DOC	Day Old Chick
DPIP	District Poverty Initiative Project
DSC	Development Support Centre
ECB	External and Commercial Borrowing
FBG	Farmer Business Group
FCRA	Foreign Currency Regulation Act
FEMA	Foreign Exchange Management Act
FCR	Feed Conversion Ratio
FD	Fixed Deposit
FGL	Farmapine Ghana Limited
FPO	Farmer Producer Organization
GAIC	Gujarat Agro Industries Corporation
IIFM	Indian Institute of Forest Management
ITC	Indian Tobacco Company

IWMI	International Water Management Institute
JKAPCL	Jhambukhand Kissan Agro Producer Company
JNKVV	Jawaharlal Nehru Krishi Vishav Vidyalaya
KCC	Kissan Credit Card
KCPC	Khajuraho Crop Producer Company
KKFC	Kuapa Kokoo Farmers' Union
KPL	Kuapa Kokoo Limited
KPS	Kelsa Poultry Cooperative Society
LAMPS	Local Adavasi Multi-Purpose Society
LHG	Livelihood Help Group
MACS	Mutually Aided Co-operative Societies
MARKFED	State Agricultural Co-operative Marketing Federation
MBA	Master of Business Administration
MCA	Ministry of Corporate Affairs
MBT	Mutual Benefit Trust
MGACPC	Maha Gujarat Agri Cotton Producer Company
MMUC	Mahila Murgi Utpadak Cooperative
MPDPIP	Madhya Pradesh District Poverty Initiative Project
MPUAT	Maharana Pratap University of Agriculture and Technology, Udaipur
MPWPCL	Madhya Pradesh Women Poultry Producers Company Private Limited
MKSY	Mahila Kissan Sashaktikaran Yojana
NABARD	National Bank for Agriculture and Rural Development
NABCONS	NABARD Consultancy Services
NAIP	National Agricultural Innovation Project
NBFC	Non-Banking Financial Company
NCDC	National Cooperative Development Corporation
NDC	National Development Council
NDDDB	National Dairy Development Board
NFPC	Nimad Farmer Producer Company
NGC	New Generation Co-operative
NGO	Non Government Organization
NGAPC	North Gujarat Agro Producer Company
NSC	National Seeds Corporation
NREGS	National Rural Employment Guarantee Scheme
NRLM	National Rural Livelihoods Mission
NRM	Natural Resources Management
OBC	Other Backward Classes
OGCF	Onion Growers' Cooperative Federation
PACS	Primary Agriculture Cooperative Society
PAN	Permanent Account Number
PC	Producer Company
PFT	Project Facilitating Team
PGS	Participatory Guarantee System
PIM	Participatory Irrigation Management
PoP	Package of Practices
PODF	Producer Organisation Development Fund
PRADAN	Professional Assistance for Development Action
RBI	Reserve Bank of India
RKVY	Rashtriya Krishi Vikas Yojana
RS	Responsible Soyabean

RoC	Registrar of Companies
SAU	State Agricultural University
SAPC	Sahyadri Agriculture Producer Company
SBI	State Bank of India
SC	Schedule Caste
SHG	Self Help Group
SDTT	Sir Dorabji Tata Trust
SFAC	Small Farmers Agri-Business Consortium
SFPCL	Sahyadri Farmers Producer Company
SIDBI	Small Industries Development Bank of India
SGSY	Swarnjayanti Gramin Swarozgar Yojana
SME	Small and Medium Enterprise
SOGA	Soyabean Oil Grower Association
SOPA	Soyabean Oil Processors Association
SOYPSI	Soy Producer Support Initiative
SRTT	Sir Ratan Tata Trust
SSC	State Seeds Corporation
SSCPC	Sagar Samridhi Crop Producer Company
SSMDUPCL	Sagar Shree Mahila Dugdh Utpadak Producer Company Limited
ST	Schedule Tribe
TST	Technical Support Team
UAPC	Udaipur Agro Producer Company
UNDP	United Nations Development Programme
VAPCOL	Vasundra Agri-horti Producer Company limited
VAT	Value Added Tax
VDC	Village Development Committee
WUA	Water Users' Association

Chapter 1

Introduction

Primary producers' organisations or collectivities are being argued to be the only institutions which can protect small farmers from ill-effects of globalization or make them participate successfully in modern competitive markets (Trebbin and Hassler, 2012). Producers' organizations not only help farmers buy or sell better due to scale benefits but also lower transaction costs for sellers and buyers, besides providing technical help in production and creating social capital. In Mozambique, where 80% farmers are small holders and only 7.3% were members of any farmer organization in 2005, the membership in a farmers' organisation led to 50% increase in profits for small farmers from the crops handled by the organization (Bachke, n.d.). It is also argued that co-operatives or such collectivities are needed for small farmers as they help realize better output prices and credit terms and, thus, can help eliminate interlocking of factor and product markets into which small farmers are generally trapped (Patibandla and Sastry, 2004).

In India, there are many legal forms of organisations into primary producer can organise themselves. A Producer Company (PC) is one such and relatively new legal entity of the producers of any kind, viz., agricultural produce, forest produce, artisanal products, or any other local produce, where the members are primary producers. PC as a legal entity was enacted in 2003 as per section IXA of the Indian Companies Act 1956. Since the above enactment, the PC has been hailed as the organizational form that will empower and improve the bargaining power, net incomes, and quality of life of small and marginal farmers/producers in India.

While each member in a PC can have only one vote, he/she can contribute different amounts of share capital to the PC. The shares of the PC members cannot be transferred outside the membership. A PC should have a minimum of 10 members or two producer entities or a combination thereof can form a PC. By virtue of assigning equal voting rights to each member, the issues of management control by small and marginal producers has been resolved in the design of PC. In spirit, the current PC design also takes into account the

efficiency of the community of producers rather than the efficiency of shareholders/financiers of a profit seeking company.

Producer Companies (hereafter PCs) were tried in Sri Lanka during the 1990s under the Companies Act in non-plantation sector (92 in 2003) where they were called farmer companies. These PCs, by and large, failed as they were promoted by the state (or its agencies like Department of Agriculture, Ministry of Irrigation, and Economic Development Board) and had large membership ranging from 215 to 2234. They were involved in input supply, credit supply, crop/produce purchase, contract farming, and manufacture of tea. Most of them suffered from poor capital base, lack of farmer participation, restriction on shareholding, and poor perception of these entities by the farmers as service providers (Esham and Usami, 2007).

As of mid- 2011, there were over 156 PCs in India. Of these registered PCs, the PCs of District Poverty Initiative Project-Madhya Pradesh (DPIP-MP) are the most cited (Singh, 2008). The above PCs sell their produce to any large national and international buyers/processors or to their promoters. In its attempt to aggregate the produce from the marginal producers, the above PC model focuses on the common interest groups (CIGs) or self-help groups (SHGs) as the basic units for aggregation with no limit on the size of membership and size of cluster/operational area.

The major research questions regarding role of PCs include: how far PCs are an improvement over the existing co-operative or other models of producer organization? How relevant and appropriate are the PCs in the context of globalised markets? What is the competitive edge of PCs over other modes of farmer or primary producer organization? What kind of policy treatment do the PCs need to grow as vibrant producer entities and to make an impact on the livelihoods of small producers?

While there are some unresolved questions in the current design and context, the PC as an enterprise of small and marginal farmers/producers nevertheless appears to be a powerful vehicle to empower small farmers/producers and improve their quality of life leading to better rural development in India. It is an appropriate time to assess the functioning of the PCs and

their impact on the small and marginal farmers/producers in India as they have been in existence for almost a decade now.

Objectives:

Within the above context, the study examines:

- a. current status of the PCs in India in terms of the ownership and the management structure;
- b. business performance of the existing PCs on various parameters;
- c. differences, if any, among PCs organised/facilitated by different external stakeholders like private sector, NGOs, government, and reasons thereof;
- d. problems faced by these PCs and mechanisms to address such constraints.

The study attempts to understand the current mode of operation and effectiveness of the PCs with reference to the small and marginal farmers/producers in India. This, in turn, helps review the design of the PC and the amendments and policy mechanisms that may be necessary to make the PC an effective institutional arrangement of the small and marginal farmers/producers leading to development of small producers in rural India.

Methodology

The study includes both the survey and the case study methodologies. The data on ownership and management structure of the PCs was collected through a sample study of PCs across major locations, commodities, and types of promoters of such entities like NGOs, government, private sector entities, and farmers and their organizations themselves. Multiple case studies of PCs (3-4 in each category and major states) have been undertaken to understand the operational modalities and the challenges in the functioning of the PCs (table 1). For both survey and case study, sampling of PCs was based on geographic area, length of operation, type of promoter, number of members, type of ownership, etc. but all of them belong to farm produce as the dynamics of other sectors are quite different in terms of

markets and production systems and risks involved. Therefore, we deliberately excluded non-farm PCs from this study.

This study covers only farm business related and allied PCs to maintain the uniformity in comparisons and understand the dynamics of such entities. Further, we have covered only those PCs which were completely new as PCs and were not converted into PCs from other entities like co-operatives and societies (e.g. Vasundhara Agri-horti PC (VAPCOL) in Maharashtra and Umang Mahila PC in Uttarakhand respectively) as it would be difficult to assess the performance in such cases due to the earlier business being under another entity and present performance also being result of earlier set up to a large extent. On VAPCOL, see a study by Trebbin and Hassler (2012). The following table gives the state-wise distribution of existence of PCs and PCs studied.

Table 1: Sampling of PCs across States

State	Reported	contacted	visited	Status	Studied	% of studied PCs in total
Punjab	6	6	6	All defunct	0	0
Rajasthan	6	5	4	All working	4	80
MP	27(including 2 closed/defunct)	12	11	All working	11	40
Gujarat	8	7	4	3 working; one dormant	4	50
Maharashtra	20	10	9	5 working, but one not genuine; one not operational; three closed	5	25
All	67	40	34		24	34
Total PCs in India (including 23 non-farm PCs)	133 (156)					

Source: NABCONS, 2011; ASA; and primary survey

Further, as the table 2 below shows, it was planned to cover a variety of PCs in terms of the nature of promoting agencies to capture the differences in formation and functioning of PCs.

Table 2: Distribution of PCs by type of promoter

State	NGO promoted	State promoted	Farmer group promoted	Corporate promoted
Punjab	-	-	-	6 (all defunct)
Rajasthan	4	-	-	-
MP	5	6	-	-
Gujarat	2	-	2	-
Maharashtra	2	-	1	2
All	13	6	3	8

Source: Primary survey

Also, it was attempted to cover mostly those PCs which were atleast three year old so as to get a good data base to assess the performance (table 3) but many of those contacted were not that old or had been only registered but not operationalised (table 4). Thus we have 48% which are at least three years old, another 48% which are more than one or two years old and one (4%) which is only one year old in its legal existence. It is also important to note that some of them did exist before they were formally legally registered. But, those which were not legally registered did not maintain proper legal records of their business.

The PCs in Punjab could not be studied in detail as they were defunct from the beginning. They did not conduct any business after formation as there were issues with PC charges (1% of sales was to go to PC account) and bank service charges which member farmers did not want to pay. The foundation for membership itself was problematic as it was decided by the promoters to keep a condition of 10 acres minimum land for membership of the PC and there was no maximum limit. So, it is clear that these were not targeted to be smallholder PCs but more of large entities required by the promoter (Tata Khet Se- a joint venture wholesaler of fruits and vegetables to supermarkets and others floated by Tata Chemicals and Total Produce of Ireland). The membership also did not go beyond 11 members. They were not given any financial support by the promoter except bearing registration charges, and supply of farm inputs by its franchisee at a lower rate (5-10%). But, no credit or insurance was brought to the farmers. Further, since wholesaler could not buy a large part of the members' produce, farmers were not excited by the PCs. The member farmers were not aware of the concept of the PC and in 3 cases, farmers were not genuine vegetable growers. Only 2 pre-existing groups (Innovative and Nai Chetna) were genuine vegetable growers' groups. The promoters used NABARD grant of Rs. 10,000 for PC promotion but no other funding was received.

Table 3: State-wise distribution of PCs by date of registration

State	Total Agri PCs	Regd. before/ in 2008	Regd. in 2009 or 2010
Delhi	3	1	2
Punjab	6	2	4
Rajasthan	6	1	5
UP	1	1	0
Uttarakhand	3	2	1
And. & Nicobar	1	0	1
Andhra Pradesh	6	0	6
Karnataka	3	1	2
Kerala	3	0	3
Tamilnadu	11	3	8
Assam	4	2	2
Bihar	4	2	2
Jharkhand	3	2	1
Meghalaya	2	2	0
Mizoram	8	8	0
Orissa	6	1	5
Chattisgarh	1	0	1
Goa	1	1	0
Gujarat	8	3	5
MP	27	19	8
Maharashtra	20	5	15
Total	127	56	71

Source: MCA list from MABARD; ASA, Bhopal.

Table 4: State –wise distribution of PCs by date of registration (study states)

State	Total Agri PCs	PCs studied	Regd. before/ in 2008	Regd. in 2009 or 2010	Regd. after 2010
Punjab	6	0	0	0	0
Rajasthan	6	4	0	4	0
Gujarat	8	4	3	1	0
MP	27	11	8	2	0
Maharashtra	20	5	0	4	1
Total	67	24	11	11	1

Source: primary survey

As per NABCONS (2011), there were only 25 PCs in India which were registered before March 2008. Further, 34% of all PCs were in western India, 24% each in south and east India and 17% in north India but this data set seems to be different from the earlier one mentioned above for registered age. More of the PCs during the last three years (2008-11) have been registered in western, southern and eastern India. As per NABCONS (2011), 74% of all the PCs (139) were in agriculture or allied sectors which included animal husbandry and fisheries and 64% in agriculture alone which included crop agriculture, horticulture, organic and herbal and medicinal plants. Another 10% were into non-farm business, 4% in power and 12% in various other businesses. Thus, we have effectively 133 PCs including 17 from DPIP in MP (not part of the NABARD supplied list) from which we ended up choosing our sample of PCs and that too, given the existence of older and functional PCs, from central and western Indian states of MP, Gujarat, Maharashtra and Rajasthan.

Incidentally, the states of MP, Maharashtra, Rajasthan and Gujarat each have more than 2/3rd of their operated holdings as marginal or small, the highest being in Gujarat (75%) and around 67% in other three states each (NCEUS, 2008).

The next chapter reviews the status of producer or farmer companies globally and located the relevance of PCs in India. Chapters 3-6 analyse the case study based findings from the four states followed by summary, major policy issues and recommendations in chapter 7.

Chapter 2

Global Experience of Co-operative/PCs and Rationale for PCs in India

This chapter reviews the experience of new generation co-operatives (NGCs) and co-operative companies (CCs) in various developed and developing countries as they come close to the PC structure in terms of organization and policy. It also discusses the rationale for moving over to PC structure in India.

2.1 NGCs in Developed countries

An NGC is one, which has restricted or limited membership, links product delivery rights to producer member equity, raises capital through tradable equity shares among membership, enforces contractual delivery of produce by members, distributes returns based on patronage, goes for value addition through processing or marketing, and makes use of information efficiently throughout the vertical system. However, it retains one member – one vote principle for major policy decisions (Harris et al 1996; Nilsson 1997). The advantages of delivery rights shares for members are: assured procurement prices and market share of profits due to value addition (residue claims), and appreciation of share prices due to better performance of the cooperative (Harris et al 1996). This kind of restructuring, especially equity linked delivery shares and contractual delivery of produce helps cooperatives to tackle problems of free riding by membership horizon, which is at the root of financial constraint; and opportunism, both of members as well as of the cooperative. This arrangement by cooperatives has helped them become economically efficient, financially viable, and obtain member loyalty wherever it has been tried (Harris et al 1996; Nilsson 1997). The problems with the NGC concept and its practice as pointed out by various critics are: (i) preferred shares provision compromises the principle of user ownership, though it protects the user control principle; (ii) in practice, member control may operate by the control of delivery rights rather than by the one member-one vote principle; (iii) it is more suited for large growers who can afford large upfront investment in processing/marketing; (iv) they are more like closely held companies; and (v) have the potential danger to turn into investor oriented company (IOC) instead of a user-oriented cooperative (UOC). In practice, though the NGCs have been able to raise 30-50% of their total capital through delivery rights issues, the problems include:

(i) off market purchases to meet contract terms by the growers; (ii) leasing of delivery rights by members; and (iii) dependence on non-producer member equity and business.

Denmark

Denmark has a large number of organizations known as ‘cooperative companies’ or simply ‘dairy companies’ which work on cooperative basis. There is no separate cooperative law but organizations and associations providing cooperative service to their members are given concessions under tax laws and the Companies Act. For granting this facility, by-laws of organizations and their practices are particularly important e.g. it should provide that the company’s aim is to benefit producer members and that financial surpluses are distributed according to patronage/turnover. National apex cooperative institutions keep suggesting broader outline of Articles of Association for Cooperative Companies e.g. (1) Danish Dairy Federation (DDF), (2) Dairy Cooperatives Companies, (3) Expert Board etc. CCs collect 87% of total milk delivered in Denmark.

There is a model Articles of Association proposed by DDF. However, it is recommendatory and CCs are allowed to make variations to suit their needs. Membership is open within the area of operation. There are no shares but it is not mandatory. Initially, cooperatives had unlimited liability and any pre-mature resignation from membership meant that the member gets to bear his share in net liabilities of the company. Loans to the CCs are subject to approval of general body. Members are liable to CC in proportion to milk delivered over specified number of years, e.g. 10 years.

In CCs, the general body is supreme like in a public company. Directors are elected by ballots. CEO is appointed by the directors but on dismissal, he has right to appeal to the general body. It is not the shares, but benefit and liabilities linked to patronage which is the key feature of CCs. There are only 1-2% non-member users. Reserves can be accumulated without attracting tax and it is the main source of internal finance. The surplus is around 5% of total milk payments. In turn, CCs are not taxed on purchase of their members’ milk. The resulting tax liabilities which cooperatives bear are very small (Dubey, 1994).

New Zealand

New Zealand dairy Cooperative Companies (CCs) are well organized and manufacture entire range of dairy products and have 100% share of milk products market. Similarly, in liquid milk business, they have 70% market share. An elaborate and favorable licensing system ensures cooperative monopoly in milk products. There is no competition between CCs for enrolling new members. They attract new members on the basis of better price and service but a member is supposed to patronize the CC for the entire season. The apex organization, New Zealand Dairy Board, though statutory body, is controlled by elected members of producer CCs. It acts as a coordinating center for CCs. However, it is essentially an export federation of cooperatives having single-seller role.

Under the Dairy Cooperative Company Act, only a supplier can become a member in a CC. Shares are owned by him/her in proportion to the milk supplied e.g. one share for 250 kg of milk fat. Only active producer can have control in a CC. The Act provides for model articles of association. The CCs are controlled by BoDs to which larger cooperatives send representatives on ward basis. Suppliers are entitled to get all sale proceeds after providing for manufacturing cost and transfer to capital reserves.

Members do not get dividend on their share capital and share remains at the face value. Withdrawing members are returned with fixed share value and new members may acquire their shares from them. However, shares are not the main source of cooperative finance. The CCs mainly raise capital through retention of surplus fund, depreciation provisions, bank overdrafts, and term loans from the trading banks, especially through Dairy Industry Loan Council, formed under the Dairy Board Act. It raises funds from the market by way of bond issues and syndicated loans within New Zealand. The government exempts profits distributed to suppliers or transferred to reserves from taxation. However, profits from other sources like trading, storage etc. are taxed. CCs are by definition a non-profit mutual organization and, therefore, incidence of taxation is at the level of individual producers. As a result of this taxation policy, reserves are the most important source of cooperative finance (Dubey, 1994).

Australia

Unlike other manufacturing industries, dairy in Australia is dominated by CCs. They receive around 70% of farm milk collection and have 60% share in liquid milk market. Legally, dairy cooperatives are public companies with member obligations limited to face value of share. In the case of a CC, shares are not listed on the stock exchange. The pattern of share ownership decides the cooperative status of a company. Income tax laws confer very tangible financial advantage upon cooperatives. If the company structure does not conform with the definition of cooperative status of income tax and assessment legislation, it is subjected to taxation levied on public companies which is 46% of profit before tax, whereas in case of CCs, the corporate tax is levied on the profit after dividend i.e. the retained profits or capitalized profits.

For getting CC status, a company must have (1) its primary objects as defined in Article 117 of Australian Income Tax Act. Broadly it must serve primarily in the interest of user members in handling their produce or services for their benefit, and (2) 90% of company must be with its members e.g. dairy farmer shareholders.

Besides, a CC having 90% of its paid up capital held by active user members gets a tax deduction of the entire principal repayment of any money loaned to it by government to enable the company to acquire the assets which are required for the purpose of carrying on business of the CC. This is a substantial tax favour because otherwise only the interest on such loans is tax deductible. Faced with the challenge of low cost capital requirement for making cooperatives internationally competitive, most CCs in dairying devised schemes to achieve a 90% supplier shareholder structure. However in the process, cooperatives have to go for the option of raising capital funds through share issue to non-suppliers which is easily available for non-CCs (Dubey, 1994).

Article 117: CCs

1. In this division, 'Cooperative' means a company the rules of which limit the number of shares which may be held by, and on behalf of, any one shareholder, and prohibit the quotation of shares for sale or purchase at any stock exchange or in any other public manner whatever, and includes a company which has no share capital, and

which in either case is established for the purpose of carrying on any business having as its primary object or objects as one or more of the following:

- a. the acquisition of commodities or animals for disposal or distribution among its shareholders;
 - b. the acquisition of commodities or animals from its shareholders for disposal or distribution;
 - c. the storage, marketing, packing or processing of commodities of its shareholders;
 - d. the rendering of services to its shareholders;
 - e. obtaining funds from its shareholders for the purpose of making loan to its shareholders to enable them to acquire land or building to be used for the purpose of residence or of residence and business.
2. A company is not a CC within the meaning of this division in relation to a year of income if the company is, for the purposes of section 23G, an approved credit union in relation to that year of income.

Article 118: Company not cooperative if less than 90% of business with members

If, in the ordinary course of business of a company in the year of income, the value of commodities and animals disposed of or acquired from its shareholders by the company, or the amount of its receipts from the storage, marketing, packing and processing of commodities of its shareholders, or from the rendering of services to them, or the amount lent by it to them, is less respectively than 90% of the total value of commodities and animals disposed of or acquired by the company, or its receipt from the storage, marketing, packing and processing of commodities, or from the rendering of services, or of the total amount lent by it, that company shall in respect of that year be deemed not to be a CC.

Article 120: deduction allowable to CCs

1. So much of the assessable income of a CC as;
 - a. is distributed among its shareholders as rebates or business based on business done by shareholders with the company;
 - b. is distributed among its shareholders as interest or dividend on shares; or

- c. in the case of a company having as its primary object that specified in par. (b) of section 117 is applied by the company for or towards the repayment of any moneys loaned to the company by a government of the Commonwealth or a State to enable the company to acquire assets which are required for the purpose of carrying on the business of the company or to pay that government from assets so required which the company has taken over from that government, shall be an allowable deduction:
provided that the deduction under par. (c) of this submission shall not be allowed unless shares representing not less than 90% of the paid up capital of the company are held by persons who supply the company with the commodities or animals which the company requires for the purpose of business.
2. No such rebate or bonus based on purchase made by a shareholder from the company shall be included in his assessable income except where the price of such purchases is allowable as a deduction in ascertaining his taxable income of any year (Dubey, 1994).

In Denmark transfer of surplus to the reserves is not taxed and this forms the main source of internal finance. In New Zealand, shares have been linked to milk supplied. Yet, share does not form main source of finance. Besides retention from surplus which is tax free and constitutes substantial portion of its financial requirement, a CC has also access to Dairy Industry Loan Council (DILC). It raises fund from public through bond and syndicated loan. The DILC is constituted to meet financial requirement of the CC. Similarly, in Australia, it is tax laws that distinguish between CC and public company. If the organization conforms to provision of CCs as given, then in the tax laws, its surplus is taxed after dividend or passing on the price differential; if it does not confirm to it, then it is taxed at the rate of 46% before the dividend (Dubey, 1994).

The taxation policy has strongly influenced the shape and tendencies of CCs. Its three most important noticeable impacts are:

1. As the price differentiation or profit distribution to members is tax deductible, most of the profit is distributed among members. This hinders the growth of reserve and internal capital formation as is the case in New Zealand.

2. A limitation on non-user shareholder capital contribution, because for tax benefit cooperatives confine to 90% of share capital provided only by supplier members and
3. They borrow sum for capital goods investment, the repayment of which is tax deductible. This has led to very significant increase (30-50%) in collective asset size of these companies; though in many cases, asset increases were mainly by revaluation of land and building (Dubey, 1994).

2.2 Farmer Companies in Sri Lanka

In the Asian region, there are not many documented cases of CCs or NGCs. But, more recently, there has been a spurt in their numbers. A PC (NorminCrop) of the northern Mindanao vegetable producers' association (NorminVeggies) in Philippines has been successful to interface with large buyers for its small farmers of vegetables by working on co-operative lines. It plans production at cluster level with the help of cluster leaders and provides all the marketing facilitation for a fee. The farmer and the buyer are responsible for quality and delivery, and purchase conditions agreed respectively (Vorley et al, 2009). But, the unique experience of organizing small farmers under a more business like entity called farmer companies in Sri Lanka since the 1990s is quite relevant for India.

In Sri Lanka, farmer companies are investor-owned companies established under the Companies Act as people's companies registered with the Registrar of Companies and follow rules and regulations of a private company. They are registered with minimum 50 members to safeguard against possible private ownership by imposing restrictions on membership and share trading. Only farmers and other stakeholders involved in agriculture living within a particular geographical region can become shareholders and shares cannot be traded except among farmers eligible for membership. In addition, the maximum number of shares a farmer can own is limited to 10% of shares issued at a given time according to the relevant provision of the Act. These companies were organized by different government agencies and membership ranged from 200-2200 each and they were involved in different stages of the agricultural value chains like input supply, procurement, selling, packaging etc (Hussain and Perera, 2004).

In Sri Lanka, most of the small farmer companies established to accelerate commercialization in non-plantation agriculture as recommended by the National Development Council (NDC) of Sri Lanka in 1995, failed to achieve expected objectives, due to various reasons like: (1) politicization of farmer companies; (2) lack of managerial and entrepreneurial skills due to poor recruitment of management staff; (3) lack of sound plans and poor management by incompetent board of directors without professional advice; (4) lack of proper mechanisms to monitor and evaluate; (5) mistrust between farmer company management and farmers, (6) farmer perception of the farmer company as a service provider; (7) awareness gap between the shareholders and the farmer company; and (8) restriction on share capital ownership (Esham and Usami, 2007).

In case of relatively successful farmer company -Redi Bendi Ela Farmer Company -in Sri Lanka, the nominal value of a share was Rs 10 and to become a shareholder, minimum of 10 shares were needed and 25-40 shares were needed to involve in the activities of the farmer company. Shareholders increased from 430 in 1998 to 2,234 in 2004, which was 80% of the total 2,796 farming families living in the irrigation scheme. Accordingly, the share capital of the farmer company steadily increased from Rs. 183, 450 in 1999 to Rs. 839,303 in 2004. Farmers living in the irrigation scheme were literate and, on an average, a farm household head had 8.3 years of schooling and owned 1.37 ha of land, of which 0.78 ha was irrigated. The company had membership from 11 farmer organisations. It was into group loans, seed supply, other agricultural input sales and contract farming of broilers, basmati rice, vegetable seeds and milk for supply to food processors and supermarket retail chains (10% of all farmer members).

The company either directly involved or facilitated farmers-agribusiness linkages. In broiler and maize production, the company acted as a facilitator between farmers and agribusiness firms (table 5). The company selected suitable farmers from its shareholders and entered into a contract with the agribusiness firm on behalf of the farmers. In general, the company distributed inputs, provided extension service with the assistance of the firm's extension officers, monitored, and assisted the agribusiness firm to collect the produce. In the basmati rice production, seed paddy production and vegetable seed production programs, the company had a market specification contract with a supermarket chain to market basmati rice and with

the agrarian service centers to market seed paddy and vegetable seeds under the company's own brand name respectively. In these operations, the company provided all inputs on credit and free extension services to the farmers as shareholders. The company was able to fulfill input requirements for about 1,000 ha and extension needs for one third of the irrigation scheme. Agricultural inputs were provided by the main sales center owned by the company and the other nine sub-sales centers financed by the company and managed by private entrepreneurs. The farmers were able to buy agricultural inputs at a lower price compared to the open market, as the company only retained a low profit margin to cover up its operational costs.

Table 5: Major commercial activities of the farmer company in 2003-4

Activity	No. of Farmers	Amount/qty. distributed/procured	Revenue (Rs. 000)	Linkage partner
Group loan	1,035	Rs 8.6 million	1,364	-
Broiler production	83	115,000 birds/month	947	Ceylon Agro-Industries
Seed paddy	83	Rs 0.7 million (144 MT/season)	5,068	Agrarian service centers
Basmati paddy	35	39 MT/season	1,284	Cargills supermarket chain
Vegetable seeds	25	-	514	-
Maize	30	-	-	Ceylon Agro-Industries
Dairy /livestock	20	20 cows	-	-
Agricultural inputs sales	-	-	14,783	Many input suppliers

Source: Esham and Usami, 2007.

The group loan program was the core business of the Company. The group members (minimum 3) were jointly liable for the default on repayment. Farmers could buy inputs equivalent to the loan amount, which was Rs 12,350 per hectare of paddy cultivation (2003/2004 Maha season) from the main sales center or any of the nine sub-sales centers. Despite the group's joint liability to repay the loan, the low loan recovery (80%) could be attributed to the farmers' perception of the farmer company as a service provider (Esham and Usami, 2007).

The government provided seed money of Rs. 10 million and met the operational costs for the first three years which was Rs. 7 million, besides provision of government buildings and storage space. The BoDs was entirely chosen from among farmer members, including tenant farmers. The company undertook more than 25 activities ranging from seed production to

crop and dairy and poultry production to supply of inputs, group loans, to domestic and export market linkages, almost half of which failed by 2004. Most of the irrigation problems experienced by farmers in the Yala season were minimized after the company took over the operation and maintenance responsibility from a participatory irrigation management (PIM) scheme (Hussain and Perera, 2004). The company reported operating losses for the first three financial years which were covered by government grants made available until 2001/2002 when the company became financially viable. All of the farmers were aware of the group loan program and inputs sales, while the awareness of the other activities such as seed paddy production and broiler production was limited. It was especially interesting that such a low level of awareness was common among both active and passive shareholders. There was a contrasting level of satisfaction with irrigation management (74%) and commercialization of agriculture (29%). Participation in the annual general meetings was significantly different between the two groups, being relatively high (59%) for the active shareholders and low (21%) for the passive shareholders. Since the company started making profits in the last three financial years, it has been able to reward the farmer shareholders by issuing bonus shares. For instance, in 2002/2003, one bonus share was issued for every five shares owned and in 2003/2004, 2.28 shares were issued for every 10 shares owned. 55% were active shareholders involved in at least one commercial activity organized by the Company. Many farmers just owned the minimum number of shares to have access to the services provided by the company. For instance, to obtain a group loan, it was necessary to own a minimum of 25 shares. About 81% of the shareholders owned up to 30 shares while only 3% of shareholders owned 100 or more shares. Furthermore, majority of farmers believed that the company should neither charge a fee for coordinating farmers-agribusiness linkages nor charge a market-based interest rate for farmer credit. This situation could have far reaching implications on the capital base as well as the business orientation of the company. The farmer company was overly dependent on the group loan program to generate profits as more than 33% of the total profit came from this program (Esham and Usami, 2007).

Only 55% of the members were active (involved in some commercial activity with the company) and 42% participated in annual meeting. Awareness of services provided like loans and inputs was 100% but lower on other businesses and most (94%) considered it a service provider and did not expect dividends (87%). The understanding of the role of the company

was poor (35%) as was satisfaction with commercial activities (29%) though satisfaction with irrigation management was high (74%) (Esham and Usami, 2007).

2.3 Rationale for producer/farmer companies in India

Co-operatives in India

The co-operative form of organisation has been perceived and seen as a means to achieving reduction in poverty and increase in wellbeing of local people (Birchall, 2003) in the presence of other structural constraints like small holdings, lack of bargaining power of small sellers of produce or services and competition from other forms of organizations. But, co-operatives across the developing world have been more of a failure than success and are alleged to have led to exclusion of really poor, elite capture of such bodies, promoting differentiation instead of equity in rural communities like in case of sugar co-operatives in Gujarat (Ebrahim, 2000). In India, the only exceptions to the failure have been sugar and milk co-operatives in some states especially in Maharashtra and Gujarat (Baviskar and Attwood, 1991). But, even in Gujarat, there are as many cases of failure as are of success of co-operation which include chicory, tobacco, cotton, vegetables, grains and canal irrigation co-operatives though Gujarat is also known for very vibrant sugar co-operatives in south Gujarat which work like companies and trade in shares informally and the tubewell companies in north Gujarat which have solved the irrigation problem to a large extent (Shah, 1996). In this context, there has been a constant search for alternative forms of collectivization or co-operation to achieve the objectives of development of poor people though some researchers also differentiate between collectivization and co-operation in the sense that whereas former refers to organizing to avoid exploitation in markets and the latter as organising in situations of missing markets (Shah, 1996).

Though in India, there were attempts to promote co-operatives in farming or farm production in the form of better farming societies, tenant farming societies, joint farming societies, and collective farming societies since the 1950s, but mostly joint farming societies were formed and they were non-starters and more of co-operation happened in higher stages of the value chains of farm commodities i.e. in procurement, processing and marketing, besides credit (Ebrahim, 2000). The only exceptions with limited success are the ground water irrigation co-operatives/groups and participatory irrigation management (PIM) societies in states like

Gujarat and Andhra Pradesh. Whereas in Gujarat high cost ground water based tubewell irrigation has been attempted through informal groups known as 'tubewell companies' (Shah, 1996), in Andhra Pradesh, informal group action worked in low investment activities but not in high risk and high investment activities where farmers preferred individual investments due to high transaction costs (Aggarwal, 2000). Also, there are a few successful women's farming groups in Andhra Pradesh and a farming co-operative (Gambhira) in Gujarat and in other countries of south Asia (Kumar, 1990; Agarwal, 2010) and it is argued that they (groups/co-operatives) are the appropriate institutions to manage small holder agriculture in India for poverty reduction (Agarwal, 2010). But, there is also a view that co-operatives or producer collectivities are needed more in post-production stages like processing and marketing (Motiram and Vakulabharanam, 2007).

Linking small producers to markets is an important and popular policy and practice issue (Ton, 2008 for an excellent review). There is a need for aggregation in order to benefit from economies of scale. Organised systems are also needed for sharing services such as knowledge input, production supervision, storage, transportation, etc, and to absorb price risks to which primary produce is always subjected. Producers' organizations amplify the political voice of smallholder producers, reduce the costs of marketing of inputs and outputs, and provide a forum for members to share information, coordinate activities and make collective decisions. They also create opportunities for producers to get more involved in value adding activities such as input supply, credit, processing, marketing and distribution. On the other hand, they lower transaction costs for processing/marketing agencies working with growers under contracts. Collective action through cooperatives or associations is important not only to be able to buy and sell at a better price but also to help small farmers adapt to new patterns and much greater levels of competition (Farina 2002).

Cooperatives are different from other forms of organisations not in terms of business functions they perform but in terms of the manner and philosophy with which these functions are performed. The role of a cooperative is to create an interface between the farmer and global market, provide access to permanent risk bearing capital for farmers, manage risk for farmers through diversification, set standards in the market, provide more competitive market

conditions and market access to farmers, and to promote economic democracy at the grass root level (Singh, 2008).

But, important question is to find an appropriate design of a producer institution which can make it more likely to succeed given other factors. In this context, Shah (1995) identifies member centrality and member control as crucial which also come from patronage system and governance structure, besides being facilitated by the operating system. In the above context, we locate the Indian law on PCs in terms of its relevance and practice.

In India, the alternative ways of registering farmer producer organisations (FPOs) include societies and trusts, cooperatives, Mutually Aided Co-operative Societies (MACS) (or self reliant co-ops), private limited companies, public limited companies, and PCs. There could also be Mutual Benefit Trust (MBT) under the Trust Act. Farmer organizations registered under the societies Act can't legally involve in any trading of inputs or outputs as they are not trading entities. But, until recently, in India and many other developing countries, traditional cooperatives were mostly organised under the co-operative structure, like State Cooperative Societies Acts in India. However, due to political interference, corruption, elite capture, and similar issues, the cooperatives soon lost their vibrancy and became known for their poor efficiency and loss-making ways. The government support to these cooperatives has declined, though gradually and selectively. At the same time, they face higher competition due to privatisation and liberalisation policies. The new environment, however, provides new opportunities for cooperatives due to state withdrawal and deregulation. And, there is increased need and relevance of cooperatives due to the structural adjustment programme, and globalization policies, which are marginalizing the resource-poor producers. The major problems of traditional cooperatives have been capital constraint due to the withdrawal of financial support by the government, high competition from other players in the market, and access to credit (capital) and technology, besides free riding by members. The new and potential role of cooperatives in the new economic regime includes provision of inputs, economies of scale, fine-tuning of produce to the market, facilitating more competition in primary markets, and capturing surplus in adjoining stages of the value chain (Singh, 2008).

The traditional cooperative form of organization has suffered from various constraints, which have had a negative effect on the day-to-day operations and performance of cooperatives. These constraints, which originate in the very nature and principles of the cooperative form of organisation, include the commitment to buy the entire produce from all members, lack of financial and managerial resources, lack of market-orientation, and small size of operations. As a solution to this problem of cooperatives, a new variant called NGCs has evolved over time in various parts of the world, especially in US and Canada. The rationale for NGCs comes from market thrust and orientation, which are required due to competition, vertical integration and coordination (backward and forward) by other forms of enterprises, and capital mobilisation constraints due to free rider and horizon problems.

In the light of the previous experience of the poor performance of traditional cooperatives in India, it was felt that there was a need to give more freedom to cooperatives to operate as business entities in a competitive market. This led to the amendment to the Companies Act, 1956 in 2003, which provided for PCs through a separate chapter. PCs came into existence with the amendment of Section 581 of the Companies Act, 1956, in 2003. A PC operates under the regulatory framework that applies to companies, which is distinctly different from that of the cooperatives, which was seen as arbitrary and corrupt. A PC can be registered under the provisions of part IX-A, chapter one of the Companies Act, 1956. The objective of the said company can be production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the members or import of goods or services for their benefit. Its membership can be 10 or more individual producers, or two or more producer institutions or a combination of both. It is deemed to be a private limited company but there is no limit on membership, which is voluntary and open. It is a limited liability company by share and not a public limited company under the Companies Act. It is deemed to be a private company within the meaning of Section 581C(5) of the Companies Act, 1956. It retains the one member-one vote principle irrespective of shares or patronage, except during the first year when it can be based on shares. Like traditional cooperatives, it provides a limited return on capital but can give bonus or bonus shares based on patronage. It is named “producer company private limited”. It can issue only equity shares, that too, based on

patronage. These are not transferable but are tradable within the membership. Even land can be treated as share capital. It is free to buy other PCs' shares and to form subsidiary/joint venture/collaboration/new organisations. It can have five to 15 directors, a chairperson, and an ex officio chief executive but multi-state cooperative societies can have more than 15 directors for one year. It can co-opt expert or additional directors without voting rights. It lays emphasis on member education, and cooperation among PCs. If it fails to start business within a year, registration can be cancelled. The audit has to be conducted by a chartered accountant. Thus, a PC is a NGC. It is a cooperative form of business enterprise democratically owned and controlled by active user members. It enjoys the same liberalised regulatory environment as available to other business enterprises but it has unique characteristics of cooperatives.

Some of the salient features that provide the PC a competitive edge are: First, the PC format provides more legitimacy and credibility in the immediate business environment. It breaks the producer organisation free of the welfare-oriented, inefficient, and corruption-ridden image of cooperatives. Second, it allows registered and non-registered groups, such as self-help groups or user groups to become equity holders in a PC. This enabling provision is a distinct improvement over the existing legislation on cooperatives, which allows only individual producers to be members. Third, the Act permits only certain categories of persons to participate in the ownership of PCs, i.e., the members necessarily have to be "primary producers" – persons engaged in an activity connected with or related to primary produce. This ensures that outsiders do not capture control of the company and allows for raising investments from other players in the supply chain who have stated producer interest (table 6). The PC Act tries to mitigate professional capability asymmetry between private and cooperative organisations by allowing the cooption of professionals in the governance structure. Thus, small and marginal producers can avail of professional management inputs while retaining qualitative governance control. Finally, unlike the cooperatives, companies have stronger regulation making statutory demands on the organisation for better disclosure and reporting. This empowers the members to demand operational and fiscal discipline (PRADAN, 2007).

Table 6: Differences between a co-operative and a PC in India

Feature	Co-operative	PC
Registration under	Co-op societies Act	Companies Act
Membership	Open to any individual or co-operative	Only to producer members and their agencies
Professionals on Board	Not provided	Can be co-opted
Area of operation	Restricted	Throughout India
Relation with other entities	Only transaction based	Can form joint ventures and alliances
Shares	Not tradable	Tradable within membership only
Member stakes	No linkage with no. of shares held	Articles of association can provide for linking shares and delivery rights
Voting rights	One person one vote but RoC and government have veto power	Only one member one vote and non-producer can't vote
Reserves	Can be created if made profit	Mandatory to create reserves
Profit sharing	Limited dividend on capital	Based on patronage but reserves must and limit on dividend
Role of government	Significant	Minimal
Disclosure and audit requirements	Annual report to regulator	Very strict as per the Companies Act
Administrative control	Excessive	None
External equity	No provision	No provision
Borrowing power	Restricted	Many options
Dispute settlement	Through co-op system	Through arbitration

Source: Kumar, et al, 2007; Mondal 2009; and NABCONS, 2011.

Status of PCs in India

There are 156 PCs in India across states, promoting agencies, crops and products and types of primary producers as of January 2011. 60% were more than two year old by the end of 2011. In India too, like in Sri Lanka, first set of PCs were promoted and supported by a state government (Madhya Pradesh) under a World Bank (WB) poverty reduction project since 2005. In the case of PCs in MP, the state government which was also the promoting body provided a one-time grant of Rs. 25 lakh to each PC as fixed deposit revolving fund for obtaining bank loan against it, and also another annual grant of maximum Rs. 7 lakh per year for 5 years for administrative and other expenses in the manner of 100% in first year, 85% in second year (Rs. 5,90,000), 70% in third year (Rs. 4,90,000), 55% in fourth year (Rs. 3,85,000) and 40% in 5th year (Rs. 2,80,000). Further, interest subsidy upto a limit of Rs. two lakh was provided on any term loan taken by the PC and a grant of upto 75% of the cost up to a maximum of Rs. 2 lakh was given for any certification expenses like Food Products Order (FPO), Global Good Agricultural Practices (Globalgap) etc. (NABCONS, 2011). The membership/shareholding of PCs in India ranges from individual producers to informal self

help groups and individual producers, registered SHGs and individual members, and only institutional members.

There are also NGOs like Association of Farmer Companies (AFC) which has chosen the private limited company route to organise producers under the Companies Act (table 7) and there are about a dozen such companies already registered which include four in Kerala. These are formed by 10 cluster level farmer associations each of which has 1000 small and marginal farmers as members who are into 50 groups of 20 members each (AFC website). There are some other forms of producer organizations which have been attempted. These include a public limited company as partnership between salt producers and promoters (NGO) in Gujarat with 74:26 equity partnership, Fab India's community companies in which the promoter and other venture funds co-invest with the artisans to create producer institutions, and Zameen Organic where donors, a private social venture fund, and farmers own equity shares in different proportions. In Zameen Organic which deals in organic cotton, an NGO (Agricultural and Organic Farming Group) holds 43% shares on behalf of farmers, Aavishkar-a venture fund 33% and farmers organizations 7%, which were bought with earning from cotton sales in 2007. The remaining 17% shares remained unissued and were reserved for future bonus to the personnel of Zameen (10%) and Sweat Equity (7%) for the founders (Koning and Pipers, 2009; Sharma, 2010). These are known as cases of co-creating value chains through joint stake companies. But, there are only a few cases and the PC still remains the most common modern legal structure being adopted by producer bodies.

Table 7: A comparison of various options for registration under the companies Act

Type of company> Parameter	Private limited Company	Limited Company	PC
Minimum No. of Directors required	2	3	5
Number of Members	Minimum 2; Maximum 50	Minimum 7	Minimum 10 primary producer members or two producer institutional members
Membership eligibility	Any one	Any one	Only primary producer or producer institutions can be member.
Type of shares	Equity and Preference	Equity and Preference	Only Equity
Voting rights	based on number of equity shares held	based on number of equity shares held	Only one vote irrespective of number of shares held.
Share transferability	can be transferred to any other person on price consideration	can be transferred to any other person on price consideration	can be transferred only to primary producer on price consideration
Share allocation	open to investors and FIs	open to investors and FIs	not open to investors and FIs
Conversion clause	Conversion of Private Limited to Limited is possible, but conversion to PC is not possible	Conversion of Limited to Private Limited is possible, but conversion to PC is not possible.	No conversion is possible, but registered multi state cooperatives/cooperatives can be converted to FPCs and vice versa.
Internal audit	conditional subject to financial limit	conditional subject financial limit	Compulsory
Donations	no bar on donations made	no bar on donations made	can be made only up to 3% of the net profit.
Investor friendliness	Investor friendly	Investor friendly but more procedural than private limited.	Not investor friendly and more procedural than private limited and limited companies.

Source: <http://www.aofcindia.org>. downloaded on January 27, 2012.

Chapter 3

Producer Companies in Madhya Pradesh

Madhya Pradesh is one of the states with diverse agro climatic conditions but it is still one of the most laggard states in agricultural performance. It is also one of the states with wide spread agrarian distress indicated by the number of farmers suicides (13000 during 2001-2010) which was next only to Andhra Pradesh, Maharashtra, and Karnataka. The average size of land holding in the state is 2.28 hacs (Shankar, 2005). It has large tribal area and population and co-operative are not functioning very well unlike Gujarat or Maharashtra. But, the state was the first one to make use of the PC Act to organise such companies in 2005-06. In this context, this chapter examines the origins and performance of PCs in the state.

PCs by DPIIP

The MP District Poverty Initiative Project (DPIIP) started organising Common Interest Groups (CIG) of the poor families in the villages and gave support of Rs. 20000 to every member for establishing their business. Each group had at least 5 members. They also made groups for purchase of agricultural inputs. For any project, these CIGs got 95% subsidy and contributed 5% on their own. After the evaluation of CIGs, it was found that 75% of the groups were of agricultural background and thus organizing them into a larger entity was thought of to facilitate better market access, and the PC format was chosen for this purpose. Thus, all DPIIP PCs are based on CIGs. DPIIP gave each PC a grant of Rs. 25 lakh for working capital and Rs. 24.5 lakh as administration cost over 5 years. CIGs are informal groups and still exist but not as members of PCs. Action for Social Advancement (ASA) Bhopal was chosen to facilitate the work of forming, and activating the PCs. 14 PCs were formed in 14 districts covering 32000 small farmers under DPIIP. All the PCs started with seed production and input supply as their main activity and still continue to do that.

Some PCs like Khujner also obtained a SGSY grant of Rs. 13 lakh for a warehouse, and others like Khajuraho obtained office building from SGSY and soil testing bus from APMC. All the DPIIP PCs have various input trading licenses and only two have APMC licenses (Khujraho and Khujner), but none of them have any import or export license.

There are a total of 17 PCs promoted under the MPDPIP project of which 14 were promoted directly by the DPIIP, two by PRADAN and one by Srijan. Most of the MPDPIP PCs were registered in 2006 and for first three years, ASA managed them. The second phase of six of DPIIP PCs (2008-11) was supported by Sir Dorabji Tata Trust (SDTT), Mumbai. The major businesses of the MPDPIP PCs are: seed production (soyabean and wheat), input supply, dealership in inputs and bulk buying of inputs and their sales to members, and in some cases, sale of soyabean output of the growers collectively. The seed production is supported by 11 schemes of the union and the state governments and they produce seeds for public and private seed agencies like National Seeds Corporation (NSC), State Seeds Corporation (SSC), and Haryali Kissan Bazaar (HKB) of the DCM Shriram group. Though PCs in MP have not taken up any new crops, but all of them are into multiple businesses. MPDPIP PCs had 1500-2000 members each with shares of Rs. 500-1000 each. The average land holding of members is one hectare each.

The MPDPIP PCs have a uniform structure which includes besides BoD, chairperson, and CEO, one manger each for market, finance and production, and service providers which work with farmer members (fig.1).

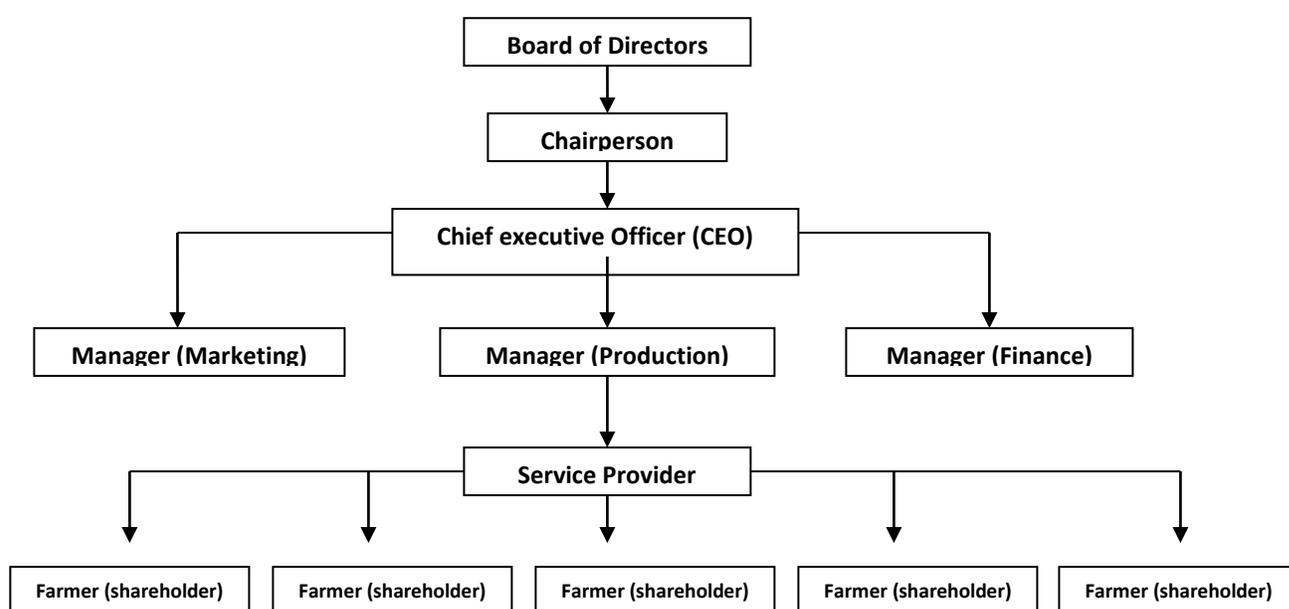
Case studies of DPIIP PCs

All the DPIIP PCs were registered in 2006 and were based on CIGs of farmers. The authorized equity capital ranged from Rs. 3-25 lakh with majority in the range of only Rs. 3-5 lakh and the mobilised share capital was between Rs. 1-3 lakh each with the exception of just one PC. Some of them have had originally not opened shareholding to larger membership but by 2012, all of them had membership ranging from 1000-6500 each. For example, presently, Khujner Agri PC works in 45 villages, 1860 member farmers and 200 SHGs (table 8).

All of the DPIIP PCs had large membership and equally large non-member users. Membership ranged from 1200-6500 and on-users from 600-4000, though non-member business was not very high (15-30% across PCs) except one (50%). The member farmers were marginal or small with average size of operated farm varying from 0.8-1.5 hectares in each case (table 9). Though all of them were in business since many years by now, still half of them were into losses and others made small profit only in 2010-11 (table 10).

Only one PC (Khujner) had its own ware house, grading machine, was into responsible production and used warehouse receipts Act with the exception of only one more PC (Samrath Kisan) being into responsible production only and only two having only a seed processing facility (Samrath Kissan and Sagar Samridhi). The non-DPIP PCs had soil testing mobile lab in one case which also had used warehouse receipts Act and was into responsible production. Of the three, one more was into responsible production only. The Dairy PC had a bulk chilling unit and the poultry PC had two feed plants.

Fig: 1 Organizational structure of a typical DPIP PC



Source: DPIP, MP.

Business Profile of PCs

The main business of the Khujner PC is production of wheat, soybean, gram, moong and arhar seeds and input supply. PC has its retail outlet in Khujner called ‘Sathi’, since early 2010 from where it sells inputs, farm equipments, cattle feed and non-food items like soap, oil etc. and provides a discount of 5-20% to members on any purchase. Non-food items were purchased from Reliance Ranger Farms last year, which is closed now and PC has started limiting the sale of non-food items.

Khujner PC started seed production in 2008 and started motivating member farmers for seed instead of grain production. PC makes agreement with 50 member farmers each in Kharif and Rabi season for the production of seed every year and the farmers who qualify for seed certification go for seed production. They get subsidy on certification cost and on seed. PC purchased the seeds from the farmers at higher than the market price (Rs. 50-100 per quintal) and thus in 2010-11, PC channeled a profit of Rs. 8,89,000 to the member farmers. PC has service providers at the village level, which help PC in buying and selling of the seeds from the farmers and get commission @Rs 10/qtl for the seed purchase and Rs15/qtl for the seed supply to member growers. PC has its own warehouse with capacity of 3000 qtl and grading machine which was made available by Panchayat and Gramin Vikas Vibhag (Rural Development Department), of the state government under Swarnajyanti Gram Swarozgar Yojana (SGSY), which cost about Rs. 13 lakh. PC availed commodity loan of Rs. 20 lakh in May 2011 on soybean against the warehouse receipt at 11% interest. The PC has been able to provide Rs. 50-100 per quintal higher price of seed than the government price for the same.

Khujner PC also runs Responsible Soybean (RS) production programme from 2009 which was started by India Soya Forum, in which they give Package of Practices (PoP) and training to farmers regarding the production of non-genetically modified (GM) crop. Under RS, PC produced 3,00,00 qtl soybeans in 2011 on 1268 farms, 30,597 qtl on 1166 farms in 2010 and got sale premium of Rs. 710000 and it produced 12409 qtl in 2009 from 476 farms (from 11 villages) and got sale premium of Rs. 3,72,270 which was distributed among the farmers. It also provided free of cost masks for pesticide spray under RS programme to 1300 farmers. It is the only DPIP PC which has been able to make profits continuously for the last two years.

Samarth Kissan PC

It is the most capitalised PC among DPIP PCs. The PC is into production of wheat and soybean seeds and input supply. In 2008, PC also started better soybean programme with the help of Solidaridad's Soy Producer Support Initiative (SOYPSI). Within the SOYPSI, Solidaridad works on the improvement of living conditions of farmers and labourers. It provides a premium and technical support, leading to increased income and reduction of environmental problems. They provide support and training on environmental and social issues to farmers and farmers' groups and for building farmers' institutions. The project target

is that within 3 years, more than 6000 soy family farmers should increase production by at least 12% while using less input. In the first year, more than 3000 farmers were trained. The estimated yield increase amounts to as much as 20–30%, with less input used. Better soybean in Samarth is directly through the Solidaridad and in case of rest of the PCs in MP, it is through ASA. During 2010-11, PC produced 6000 qtls of soybean seed. They also got Rs. 500/qtl seed subsidy on soybean (www.solidaridadnetwork.org).

Sagar Samridhi Crop PC

The main business of the PC is production of soybean and wheat seed and also input supply. For the seed production, PC contracts with 20 member farmers only every season and purchases seed at higher than the market price. PC has its own seed processing equipment which they purchased in 2007 for Rs.2.7 lakh from their own money and also have rented a warehouse, for which they pay Rs. 9900/month and an office on a rent of Rs. 3550/month.

PC has formal contract with the state Markfed and Devidayal seeds for the supply of inputs, but they sell the inputs only through the Project Facilitating Teams (PFTs) of the DPIIP and other Cooperatives Societies. DPIIP has 7 PFTs in Sagar and they give the demand for inputs in their villages to the PC and the PC send the demanded quantity of the inputs to the PFTs who distribute it among the farmers and collect the money from the farmers.

Khajurao Crop PC

It is the only PC with 23% shares held by CIGs (140) and covers 99 villages. The main business of the PC is seed production and agricultural input supply. PC also has 0.7 ha of land allotted by state government in 2007, on which they are planning to make vegetable nursery. PC procures seed from 100 farmers only in every season. PC gives training and demonstration to the members about the usage of new technology, equipments, and new package of practices for growing better crops. PC bought group insurance from a private insurance agency for 500 members in 2008 @ Rs. 50/member with premium paid from dividend money on behalf of the member farmers. PC also runs Responsible Soybean (RS) programme (SOYPSI) along with ASA in this area from 2009 with about 2000 PC members. PC gives training and equipment like seed mixture drum, bullock drawn seed cum fertilizer drills and pesticide safety kit to the members under SOYPSI.

Nowgaon Crop PC

The main business of the PC is seed production and input supply. PC got 0.4 ha of land from HRITIKA through Agha Khan Foundation (AKF), which cost Rs. 1 lakh in 2007, on which they made nursery to grow vegetable seedlings. PC selects 30 members in every season to produce seeds and procures the seed from them.

Ramraja Crop PC

The main business of the PC is production of wheat, soybean, gram and urd seed and input supply. PC selects 32 farmers in the Rabi season for wheat and gram seed production and in kharif season, 22 farmers for soybean seed production. The criterion of selecting the farmer for seed production is farmer credibility, proximity and at least 1 ha of land. The inputs are provided to the farmers with subsidy. For example, the PC provided spray pumps and seed drills under a subsidy scheme. After every 15 days, the PC officials visit the fields for inspection. They give training to farmers regarding the use of new and advanced package of practices for different crops. Seed inspectors from the seed certification agency also visit twice during the crop period, one at the time flowering stage and other 15 day after that.

After harvesting of the seed crop, farmers do threshing and put the seed in the bag already given by PC. PC goes to their fields and weighs and takes the produce. The loading unloading, packing, and transportation charges are borne by the PC. The labour charge for the above operation comes to about Rs. 15/qtl. PC gives Rs.100 higher than the market price for the breeder seed production and Rs 50 higher price for certified seed production. Presently they are selling to their own members, agricultural colleges, local traders, cooperative societies, two NGOs and also to one ASA PC in Chattarpur.

PC also runs Responsible Soybean programme (SOYPSI) with ASA from 2009 and by itself from 2011. Presently, they work with 737 members of 9 villages under SOYPSI. They give training to the members, a safety kits, provide rhizobium and trichoderma for seed treatment and also demonstration at the village level. All inputs used in the demonstration are provided by the PC.

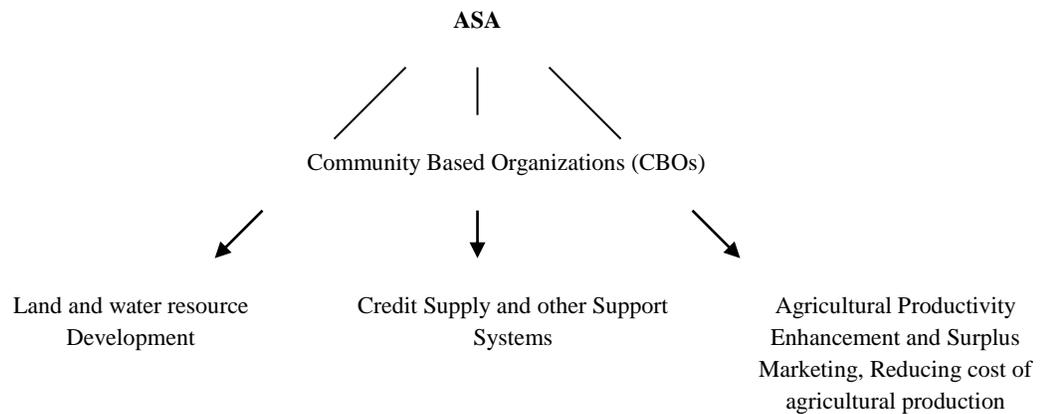
Table 8: Basic profile of MP PCs

Producer Co. Parameters	MPDPIP						ASA		SRIJAN	PRADAN	
	Khajurao (Chattarpur)	Nowgaon Agri (Tikamgarh)	Sagar Samridhi Crop (Sagar)	Khujner Agiculture (Rajgarh)	Samrath Kissan (Shajjapur)	Ramraja Crop (Tikamgarh)	Nimad farmers (Barwani)	Khargaon (Khargaon)	Sagar Shri Mahila Dugh Utpadak (Sagar)	Sironj Crop (Vidisha)	MP Women's Poultry PC (Bhopal)
Date of registration	22-2-2006	2-5-2006	28-6-2006	3-5-2006	March 2006	2-5-2006	26-2-2009	6-1-2009	2006	1-5-2005	2006
Authorised capital (Rs Lakh)	5	3	5	5	15	25	5	5	25	5	25
Share capital (Rs. Lakh)	4.6	1	1	1.8	9.5	1.67	2.14	1	5	3.42	25
Shareholding Pattern											
Types of holder											
Initial											
-Individual	12	10	200	450	3000	650	367	5	10	10	5 (Coop.)
-Group	-	-	-	-	-	-					
Now											
-Individual	4625	1000	1203	1860	6500	1647	514	100	10	1910	6 (Coop.)
-Groups	140 (23% of all)								142		
Share Range	10	10	10	10	12-22	100	20	50	10	10-100	1-10
Education profile of main farmer promoter	Post-Graduation	HSS	Illiterate	Graduate	Tenth	Illiterate	Post-Graduation	Post graduate	HS	Primary	
FBG/SHG/Coop. Associated	140	No	No	200	No	No	No	1000	142	No	6
No. of directors	12	5	11	5	14	7	15	5	8	10	6
No. of Prof. Manager s(who pays them)	3 (DPIP and PC)	1(DPIP)	1 (DPIP and PC)	3 (PC and DPIP)	2(DPIP and PC)	2 (DPIP and PC)	1 (ASA)	1(ASA)	3 (DPIP and SRIJAN)	1 (DPIP)	1 (PC)
No. of employees											
- Professional/ managerial	3	1	1	4	2	2	1	1	3	1	
- Other/technical	7	2	3	5	3	2	3	1	8	4	
- Non-paid staff											
- Total	10	3	4	9	5	4	4	2	11	5	

PCs by ASA

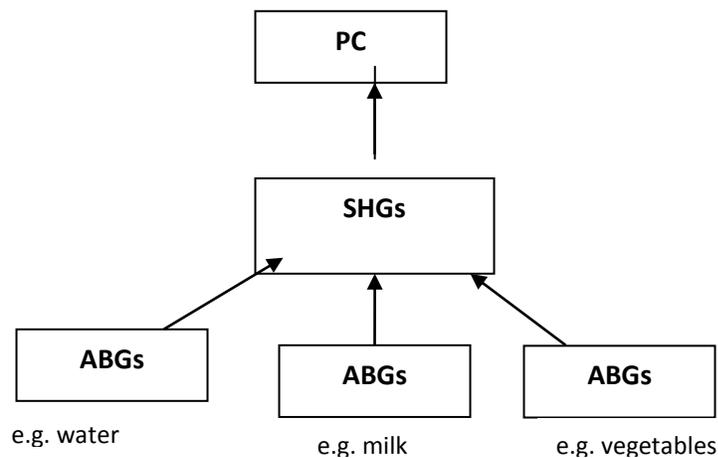
Action for Social Advancement (ASA) Bhopal has been in existence since 1996 and involved in land, water and credit programs besides livelihood promotion in agriculture. ASA livelihoods model involves Community Based Organisations (CBOs) for land and water development, institutional credit, and activity based groups (ABGs) program (fig. 2). The PCs are based on commodity specific activity based groups (ABGs) drawn from SHG members at the local level (fig.3).

Fig.2: ASA Livelihood Program



Source: ASA, Bhopal.

Fig. 3: ASA Institutional Model



Source: ASA, Bhopal.

ASA has also promoted three more PCs on its own which are also registered now and it provided management support for three years. ASA has PC support cell now which looks after market linkage, finance and extension support to PCs. The other support to PCs is available from National Rural Livelihood Mission (NRLM) under Mahila Kissan Sashaktikaran Yojana (MKSY) with which 15 PCs are being promoted by ASA. NABARD also provides support for PC promotion. ASA promoted PCs-Nimad and Khargone – are into cotton trading and are part of the better cotton initiative (BCI) of the global buyers. These companies work with 1/3 of the 9000 growers under BCI. The BCI price is modal price based on local APMC price for ordinary cotton. The soyabean price given to PC members is also determined on the same pattern as cotton. The soyabean is being brought under responsible soya initiative (RSI) with coverage of 10000 farmers including some thru PCs.

The ASA promoted PCs exist since 2009 legally with authorised capital of Rs. 5 lakh each and share capital of Rs. 1-2 lakh each. The members range from 100-500 with each member holding 20 and 50 shares each in case of Nimad and Khargone (table 8). All the professionals in both PCs are provided by ASA. One PC has as many member users as non-members (Khargone) with 50% business from non-members (table 9) though member profile is marginal and small farmers with average holding of one hectare in both the PCs. One of the PCs made a profit throughout during the two years and the other a small loss (table 10). Member awareness and member patronage was high both in input purchase and output sale (table 11)

Nimad Farmers PC

NFPC situated in the Ojhar block of Barwani district was started by ASA while it worked as a Project Facilitating Team (PFT) for MP DPIIP in MP. ASA educated the farmers about the benefit of the working together and registered the PC on 26th February, 2009 with 367 members and 10 promoters. The main business of the PC has been Better Cotton production through BCI. PC has contract with 4 ginners namely, Rajshree Cott fiber, Harman Cottex, Vikas Cott Fiber, and KK Fiber, who further get the demand from the textiles industries. Ginners send their expert to monitor the quality of crop and also fix the price according to the quality. The ginners sent demand to the PC and then PC worked as mediator to provide the required quantity of better cotton to the ginners. Ginners bore the transportation cost and

purchased at the prevailing market price, which the farmers did not get earlier when they sold to local traders. Also, it saves time and transportation cost of the farmers. PC gets Rs. 15/qtl as commission from the ginners. PC also supplies inputs like crop seed, fertilizers including bio fertilizer and pesticides to the member as well as non-member farmers. PC obtained APMC license in November 2011, before which it acted only as a mediator between farmers and ginners. It also has seed, fertilizer and pesticide retailing licenses.

ASA is supporting it for initial three years by bearing its administration cost. All support like human resource, technical, office building rent etc. is provided by ASA. PC runs input retail shop near the office building and has to pay its rent. PC sells seed at lower price than the local traders. The lower retail prices by PC also affect the prices charged by local input markets players who also cut down the prices to sell competitively. BCI and PC have their offices in the same building and jointly work in the area.

The farmers of the area are very satisfied with the working of PC as they get the inputs at lower price than the market rate and also at right time. The farmers also get the higher price for the cotton from the local market through PC.

Khargone PC

In 2003 Participatory Irrigation Management (PIM) Project was started by ASA in Khargone to construct irrigation canals. The project got 60% grant money from the Canadian government, 20% from the MP government and rest from the participating farmers. This project ran till 2007. From December 2008, ASA started motivating the individual farmers to work together to form PC and also started collecting money from them. They did not form any SHG or Farmer Business Groups (FBGs). They worked with the individual farmers. This PC did not get the DPIP grant unlike other PCs in MP. The main business of the PC is the production of Better Cotton with the help of BCI and input supply. In 2010-11, PC obtained wheat seed worth Rs. 40000 from ASA as a grant. Other than this, there was no business in 2011-12. But in 2011-12, till now, PC did business of Rs. 20 lakh from the sale of the Better Cotton, out of which 30% is from the non-members. PC has contract with the same ginners with whom the Nimad PC has (Rajshree Cott fiber, Harman Cottex, Vikas Cott Fiber, and KK Fiber). PC gets Rs. 15 per quintal commission from the ginners. Member farmers are not

bound to sell through the PC. PC did not have the license to sell seed, fertilizer and pesticide. They only have an APMC license.

Member awareness ranged from 20-90% in DPIP PCs, 80-100% in case of ASA PCs and 10% in Srijan promoted dairy PC with PRADAN PCs faring at 80% (crop PC) and 100% (poultry PC). Satisfaction with PC was at same level as awareness except in case of PRDAN PCs where it was 100% in one case (poultry). There was no overlap of membership across PCs though in most cases, many farmers were members of PACS, in some cases upto 80% of the members are the members of the other local cooperatives like Zilla Sehkari Samiti, District Central Cooperative Bank (DCCB) etc.

Major problems of PCs

There were many similar problems across the PCs though some had their own specific problems. The main problems faced by the Khujner PC are: shortage of working capital, legal formalities like making Permanent Account Number (PAN) card of the member farmers who don't have proper date of birth proof, no proper awareness about the PCs among the government departments who treat them as private firms. On the other hand, farmers feel that the PC only purchases seed from selected member farmers in every season. Farmers want to sell their grain through the PC but due to shortage of capital, PC can't buy. Farmers want that PC should provide sufficient quantity of cattle feed. Farmers also complained about the non-availability of required quantity of inputs at right time.

Samrath Kissan PC has very large number of members (6500) and is not able to do business with most of them due to working capital shortage. In 2009-10, PC faced huge losses from soyabean seed production, as one of the contracting local seed company refused to purchase soyabean seed. Thus, its overdependence on seed seems to be a problem both in terms of capital requirements as well as member coverage.

In case of Sagar Samridhi, working capital shortage and no proper marketing channel is the main reason for poor performance of the PC. Interestingly, no CEO or any other administrator of the PC has stayed with the PC for more than one year. Farmer satisfaction with input supply was also found to be low.

Table 9: Profile of membership of MP PCs

Producer Co.> Parameters	DPIP						ASA		Srijan	Pradan	
	Khajurao (Chattarpur)	Nowgaon Agri (Tikamgarh)	Sagar Samridhi Crop (Sagar)	Khujner Agiculture (Rajgarh)	Samrath Kissan (Shajjapur)	Ramraja Crop (Tikamgarh)	Nimad farmers (Barwani)	Khargaoon (Khargaoon)	Sagar Shri Mahila Dugh Utpadak (Sagar)	Sironj Crop (Vidisha)	MP Women's Poultry PC (Bhopal)
Total users	6600	5000	3000	2460	8000	3000	767	148	2200	3000	4000
- Member	4600	1000	1200	1860	6500	1647	517	73	1500	1000	4000
- Non-member	2000	4000	1800(inputs only)	600	1500	1353	250	75	(SHG) 700	2000	0
% of total business from non-members	15	30	20	20	20	50	5	50	40	40	0
Avg. Size of holding of member (Range) in Ha	1 (0.2-3.4)	0.8 (1-10)	0.8 (0.4-4)	1 (0.25-10)	1.5 (0.3-7)	1(0.4-1.6)	1 (0.25-2.5)	2 (0.5-5)	2 (1-4) Buffaloes	1.5 (0.5-3)	400 (300-600) (birds)

Table 10: Business performance of MP PCs

Producer Co.> Parameters	DPIP						ASA		Srijan	Pradan	
	Khajurao PC (Chattarpur)	Nowgaon Agri PC (Tikamgarh)	Sagar Samridhi Crop PC (Sagar)	Khujner Agriculture PC (Rajgarh)	Samrath Kissan PC (Shajapur)	Ramraja Crop PC (Tikamgarh)	Nimad Farmers (Barwani)	Khargaon (Khargaon)	Sagar Shri Mahila Dugh Utpadak (Sagar)	Sironj Crop (Vidisha)	MP Women's Poultry PC (Bhopal)
Main business	Seed contract farming (CF) and responsible soya production (RSP) facilitation and input supply (IS)	Seed CF facilitation and input supply	Seed CF facilitation and input supply besides seed processing	Seed CF and RSP facilitation with IS and group sale, and selling necessities	Seed CF and Better soya (BS) production facilitation and input supply	Seed CF and RS production facilitation and input supply	Better Cotton (BC) production facilitation and input supply	BC production facilitation and input supply	Milk procurement and sale and cattlefeed manufacture and sale	Seed CF facilitation and input supply	Poultry production facilitation and sale of poultry inputs and birds meat)
Year (2006-07) Turnover (Rs. Lakh) Profit (loss) in Rs.	3.63 30362	2 25	44.60 -	4.68 (99000)	4 (4000)	18.42 (240000)			2006-07 4.46 (4000)	2005-06 91 27000	2007-08 389.65 5.02 Lak
Year (2009-10) Turnover (Rs. Lakh) Profit (loss) in Rs.	29.95 (34198)	30 (1.74 lakh)	28.10 (10000)	40.22 59000	158 (5.2 lakh)	15.38 (4.5 lakh)	4.19 9068	66000 (7000)	45.29 (1300000)	150 80000	958.25 8.48 Lakh
Year (2010-11) Turnover (Rs. Lakh) Profit (loss) in Rs.	22.57 (14600)	54.70 15000	62 (2.3 lakh)	100.58 26536	189 50000	15.47 (1.5 lakh)	5.27 62000	No business in 2010-11	49.57 (458000)	127 (12 Lakh)	518.47 16.13 Lakh
Corporate and govt. linkage Name -Vol. of business done (Rs. Lakh) -Service fee charged -Formal/informal	Markfed, BSF, Agri Dept	Markfed, pvt co., Agri De+pt	Markfed and Devidayal	Rama Phosphate. Lubi,NSC, Markfed MP Agro, 127	JKNVV, Agri Dept, Vardan seeds	NSC, Agri College, ASA, Markfed, BASF	Rathode dealer, haryali, for seed. Ginners for cotton sale	Indo-German seed co.	Sanchi coop . for feed supply, Narmada dairy for milk supply	Marked, Dayal fertilizer, Ruchi Soya, ITC	Member cooperative s. Local traders for sale of birds NA
	330	20	60	127	NA	80	NA	NA	31	305	
	0	0	10000	0	0	0	-	Rs.50000	Both informal linkage	40000 Formal with Markfed/ Dayal fertilizer	
	Formal with markfed, BSF	Formal with markfed	formal with markfed	Formal	formal with all	-	Formal with all				

Table 11: Farmer awareness and perception of MP PCs

Producer Co.>	DPIP						ASA		Srijan	PRADAN	
	Khajurao (Chattarpur)	Nowgaon Agri (Tikamgarh)	Sagar Samridhi Crop(Sagar)	Khujner Agriculture (Rajgarh)	Samrath Kissan (Shajjapur)	Ramraja Crop (Tikamgarh)	Nimad Farmers (Barwani)	Khargaon (Khargaon)	Sagar Shri Mahila Dugh Utpadak, (Sagar)	Sironj Crop (Vidisha)	MP Women's Poultry PC (Bhopal)*
-Total no. of farmers	4625	1000	1203	1860	6500	1647	514	73	950(SHG member)	3200	6 (Coop)
-Aware of company business (%)	50	70	20	60	90	60	80	100	100	60	100
-Rate it satisfactory (%)	50	70	20	60	70	60	70	80	70	60	100
-Avg. farmer sale of seed (%)	100	100	100	90	100	100	50 (cotton)	90 (cotton)	100	100 (seed)	0
-Input purchase from co.(%of total used)											
- Seed	60	100	50	30	70	100	70	-	-	40	-
- Fertilizer/feed	70	100	50	100	40	-	30	85	100	100	100
- Pesticide/medicine	60	-	50	100	40	-	-	-	100	20	100
- Others									100(fodder seed)		
-Satisfaction with various services (%)											
- Input	100	100	30	100	100	100	100	100	70	100	100
- Output	-	100	30	100	100	100	100	100	80	100	100
- Others	-	-	-	-	-	-	-	-	-	-	-
- Mgmt. of PC	80	100	30	100	80	80	90	100	100	100	100
-% of members who are member of other PC	No	No	No	No	No	No	No	No	No	No	No
- % of members who are member of coop. in area	No	10	No	60	No	80	80	80	No	70	80

Note: * the information in this table relates only to one of the co-operative members of this PC.

In case of Khajurao PC, shortage of working capital is also a problem, as capital with the PC is mostly used in procuring of seed only, and there is not enough money to buy grains from the farmers, whom they have to pay immediately. Manpower shortage, mostly the professionals who quit often is another problem. Agricultural inputs like fertilizer are not supplied timely by the supplying agencies.

Nowgaon Crop PC is into seed production only. Though it wants to get into grain business, but it is not able to do so because of shortage of working capital. There is no CEO in the PC and the Seed production manager works as acting CEO.

In Ramrajya Crop PC, there is working capital shortage with the PC; skilled manpower shortage is an issue as they are not able to recruit skilled person due to shortage of capital with PC.

Both the ASA promoted PCs did not get any grant or working capital support from DPIIP or any other agencies unlike the other PCs in MP. In Khargone PC, there was no CEO till October 2011 and the CEO of the Nimad PC worked as incharge CEO. Working capital shortage is the main problem of the PC.

SRIJAN PC

Sagar Shri Mahila Dugd Utpadak PC

SRIJAN worked in the Jaisinagar block in Sagar district (Madhya Pradesh) since 2001 under the MP-DPIIP project. They formed CIGs of the farmers called 'Linked self-help groups'. DPIIP in the first phase distributed about 700 buffaloes in this area. The poor families in this area even did not have land to do crop cultivation. Therefore, SRIJAN thought of making CIGs of dairy farmers. Another reason for choosing dairy was the caste system which was very high in this area. All the other ventures like poultry, and others are done only by the people of particular castes, dairy is the only venture which is done by every caste. As SRIJAN always focused on the development of the women, so they started the PC with the women members only. In order to support the marketing of milk of these dairy producers, SRIJAN floated the idea of forming a PC with support of MP-DPIIP. The Sagar Shree Mahila Dugd

Utpadak Producer Company Limited (SSMDUPCL) is a women run business institution incorporated in 2006.

Business

The main business of the PC is milk production and supply of feed, fodder and veterinary care for animals. At present, PC is working with 142 LHG from 77 villages, in which each SHG has 10 members. The PC has one CEO, who is Master's in computer science from NIT, Allahabad, one production manager, and a marketing officer, 3 Para vets, one Bulk Cooling Unit (BCU) in-charge and marketing in-charge. PC has its own BCU since 2006 which cost Rs.19 lakh and was organized by SRIJAN from various grants and donations and in the building provided by the Animal husbandry department (DPIP). PC also has 60-70 hand driven milk fat testing Garber machines which are installed in milk collection points in different villages and 6 milk testers (machines). PC has trained 10 women farmers from the different villages known as "Pashu Sakhi", who collect the milk, sell the drugs for the animals on behalf of the PC.

Presently PC has 18 clusters from 85 SHGs covering around 300 members. There is fortnightly meeting of every SHG and also every member deposits Rs. 50 every month in the group saving account. The saving money is under the control SHG. PC works with 1573 SHG members of whom only 450 are in milk production. PC is working with 2200 users, of which 700 are not members of SHGs and also gets 40% of the business from the non-members. Average number of buffaloes with a member is 2 ranging from 1-4.

The total number of milk producer is 750, of 450 is from the SHG and rest 300 are non-SHG members. PC has share capital of Rs. 5 lakh, which is distributed among the 8 board of director and 2 members. PC has 8 BoDs. Except the chairman, all other BoDs, and members are women. Directors collect the share money from the members of their SHG on the mutual understanding basis. The BoDs are continuing since the beginning of the PC as elections for new BoDs are not conducted.

PC has milk collection plant in every village which starts collecting milk from 6 am in the morning and after collecting they transport milk to the BCU in non-refrigerated rented vehicles which cost Rs. 2000/day. Per day milk collection is different for different season.

The average per day collection is 1100 litre. From the BCU milk is supplies to the Narmada dairy and also 8 other dairies, with which PC did not have any formal agreement. The milk is tested for fat content at the every milk collection center by the milk collector at installed centrifugal Gerber. The average collection of milk on one center is 20 liter/day. The producer gets their payment on weekly basis. Also they give their demand of cattle feed or other medicines to milk collector, who forward this demand to PC and got the supply of demanded goods at their center and then She further supply to the members and collect payment from them and give back to PC. The para vet service from the PC is also available on call basis.

PC received Rs. 25 lakh for working capital and Rs. 24.5 lakh as administration cost for 5 years from the DPIP. The PC has been making losses from beginning i.e. 2006-07 and losses have only increased over time reaching Rs. 13.53 lakh in 2009-10 and Rs. 4.58 lakh in 2010-11. This is despite the fact that the turnover of the PC has grown from Rs. 4.46 lakh in 2006-07 to Rs. 45.29 lakh in 2009-10 and further to Rs. 49.07 lakh in 2010-11. It seems the PC has been paying high prices to supplying member on weekly basis and was not able to meet its costs from the gross profits retained. It also gets support from the American India foundation to bear losses from 2006, which is around Rs. 2 lakh. They also got support from SRIJAN to install BCU and also some portion of the staff salary is paid by the SRIJAN.

The PC also wants to scale up but faces the problem of shortage of working capital. Marketing is costly due to transport cost.

PRADAN PCs

80% of the population of Sironj block of Vidisha district in Madhya Pradesh is dependent on agriculture. 70% of the land is un-irrigated and crop yields are far below the state and national average. PRADAN- an NGO- implemented the Madhya Pradesh Poverty Initiative Programme Phase 1 (MPDPIP). Under this project besides creation of irrigation infrastructure, productivity enhancement of soybean wheat and gram crops for socio-economically disadvantaged community was covered.

PRADAN assisted the farmers in building irrigation assets through the formation of Common Interest Groups (CIG), providing financial support for motors, pumps pipes wells, and worked in five villages on a seed program. Recognising that provision of technical expertise and

quality inputs in agriculture are key contributors for livelihood enhancement, PRADAN intended to build a suitable producer institution. The team leader of PRADAN along with other functionaries came up with the idea of establishing a PC which was supported by the Government of Madhya Pradesh and the MPDPIP project (NABCONS, 2011).

Both of Pradan promoted PCs are two of the oldest ones in MP with significant capital base now. In one case shares collectively held by co-operatives and in another by individual farmer members who number 1910 now (table 8). Shareholding is small (1-10) per member and membership base large ranging from 3000-4000 and only in one case (Sironj), there were non-member users, that too, double the number of member users who contributed 40% of business of the PC. Members were small land holders in Sironj (1.5 hac average) and poultry bird rearers in second PC (400 birds on an average) (table 9). Sironj made huge losses while the poultry PC made large profits throughout (table 10)..

Sironj Crop PC

It is the first PC registered in MP. Before the formation of PC, PRADAN first formed Common Interest Groups (CIG) of the soyabean farmers with 5-8 members in each group from 2001. They were federated into Soybean Oil Growers' Association (SOGA) to grow better quality soybean in some 40 villages as common interest groups to get the subsidy money for adoption of better crop techniques and promotion of soybean cultivation. They purchased seed from SOPA (Soyabean oil Processors' Association) and distributed 5 kg seed each to 100 farmers and motivated the other farmers who usually grew traditional seeds. After seeing the benefit of working collectively, they thought of forming one organization and thus registered the PC.

PC has 3233 user members, out of which 1910 are shareholders and belong to 84 villages of two blocks (Sironj and Lateri in Vidisha district). The minimum and maximum number of shares a member can buy is 10 and 100 respectively. Each share costs Rs.10. Initially at the time of formation of PC, they collected the money from all the members, but after the grant from the DPIP, it is mandatory for every PC to make 70% shareholder from the Below Poverty Line (BPL) category. So, till now the PC only distributed the share to 1910 members just to maintain that 70:30 ratio of BPL and APL.

PC got Rs. 25 lakh as working capital support money from the Panchayat and Gramin Vikas Vibhag under MPDPIP like other DPIP PCs, which they kept as a Fixed Deposit (FD) in bank and got loan of 90% of the value of FD. Now, the value of FD is Rs. 27 lakh as the PC uses some interest money. Similarly, the PC also got administration cost support of Rs. 7 lakh from DPIP for first year in the decreasing order of 15% every year and this year is last year and they got only Rs. 2.80 lakh. The total grant money for meeting administrative expenses for 5 years from MPDPIDP project to PC is to extent of Rs. 24.5 lakh. PC also availed the Rs. 1 lakh grant from PRADAN under PACS in 2006 and the registration fee of PC was also paid by PRADAN at the time of registration.

PC has 10 BoD members-7 men and 3 women. The SC/ST/OBC/General caste ratio is 1:2:6:1 respectively, selected from shareholders. The 25-30 shareholders of a villages are mobilized into shareholder group and representative from each village is selected these shareholders groups to represent in block forum. Thus there are 60 shareholders groups and 2 block level forum to govern the PC. The directors are elected from the block level forum.

Business

The main business of PC is production of wheat, gram and soybean seed, input supply and also some grain trading. They sold soybean grain to Indian Tobacco Company (ITC), Ruchi Soya, KAS oil, Bhaskar, Lakshmi and oil extracting plants depending on the price benefit. There is no formal agreement with anyone. Out of total quantity of grain sold, only 20% is from the member farmers, rest PC purchases from the market and sold it to the companies. The transportation cost is borne by the PC. PC has the APMC license. They also have seed, fertilizer and pesticide licenses. PC has two retail outlets, one in each block.

In every season, PC selects 70 farmers (35 from each block) to do seed production. The members who grow seeds for the PC sold whole of produce to PC. PC has the service provider at the village level, Service provider selects the farmers for seed production, which is further checked by the production manager and CEO of the PC. PC purchase the seed from these farmers with the help of village level service provider who works on commission basis and transports it to own warehouse and grade it and keep it in warehouse till the next sowing season. PC sold its seed mostly to member farmers, if left then to the other farmers and also to

agriculture department and other societies. PC has linkages with Markfed and Dayal Fertilizer for the supply of fertilizers and pesticides.

Now the PC has its own warehouse given by DPIIP in 2011 which cost Rs. 35 lakh and has capacity of 15 mt, on one ha of its own land granted by the state government. PC purchased its own grading machine by its own money in February 2011, which cost Rs. 2.47 lakh. Now they grade not only its own seed but also the seeds of other companies and charge Rs 45 per qtl of seeds. They have also given another godown on rent @ Rs. 15000 per month to state warehouse authority.

Problems

For the initial 3 years, the manpower of the PC was provided by PRADAN, after that by DPIIP. From June 2011, PRADAN withdraw its support to the PC. Now the PC even does not have a CEO, Production manager is from DPIIP, who is agricultural graduate and works as Acting CEO of the PC. He does not meet qualification of CEO of PC, which is Post graduation. Further, other members also want to sell their produce to PC, but PC did not have sufficient capital to purchase grains from the farmers, it only purchases seed from their members.

Madhya Pradesh Women's Poultry Producers Company Pvt. Ltd. (MPWPCL)

MPWPCL is one such initiative that PRADAN and MPDPIIP have promoted in order to make a much needed and sustainable economic intervention in the rural areas. MPWPCL has been set up to capitalize on the lucrative opportunities in the poultry industry. MPWPCL is today one of the largest people's organization in Central India which has created an impact on over two thousand poor families (tables 12). MPWPCL incorporated as a PC under the Companies Act has 6 cooperatives operating under it and holding a stake in the PC. Each of these cooperatives is an independent entity involved in providing services like input supply, production support as well as marketing broiler poultry to its members (table 13). The vision of the MPWPCL is to empower the rural people through livelihood creation in the area of small holder poultry (decentralized poultry farms).

The formation of the MPWPCL was necessitated by the following:

- The scale of production was small. An individual cooperative's scale of production was no match for that by competitive commercial farms
- At the cooperative level, integration was not possible.
- Cost of inputs as well as output was very volatile and, hence, cooperatives were at the mercy of market forces they could not influence.
- The size of production did not give the producers the bargaining power to maintain their profit margins.
- As most inputs had to be sourced from outside, the profit margins were eroded (Garg and Kumar, 2011).

Table 12: TimeLine of the growth of MPWPCL

Year	Activity
1994	Poultry activity started in Kesla block
2001	First cooperative at Kesla
2003	Brand "Sukhtawa Chicken" launched
2004	Second cooperative at Churahat
2005	First Feed Processing unit at Kesla
2006	Third Cooperative established at Rajnagar
	Fourth Cooperative at Orcha
	Fifth cooperative at Jatara
	Formation of MPWPCL
2007	Second Feed Processing unit at Churahat
2008	Sixth Cooperative at Dindori
2009	Manufacturing of medicine by contract
2011	Hatchery and parent farm at Itarsi

Source: Garg and Kumar, 2011

MPWPCL model leverages the strengths of both centralized and decentralized structures. While the production and marketing systems are decentralized, the procurement function is

held at central level. Decentralized production and marketing system help member cooperatives to provide localized and need based support to their members by dedicating much wider bandwidth to them. Additionally, members of each of the six cooperatives can take decisions suitable to their local context. Decentralized marketing by the cooperatives in local market also help the cooperatives to save cost and time involved in logistics. Conversely, a centralized governance structure helps the member cooperatives to achieve competitiveness and sustainability through economies of scale, while providing them a monitoring mechanism, which helps to minimize internal conflicts between member cooperatives.

Business

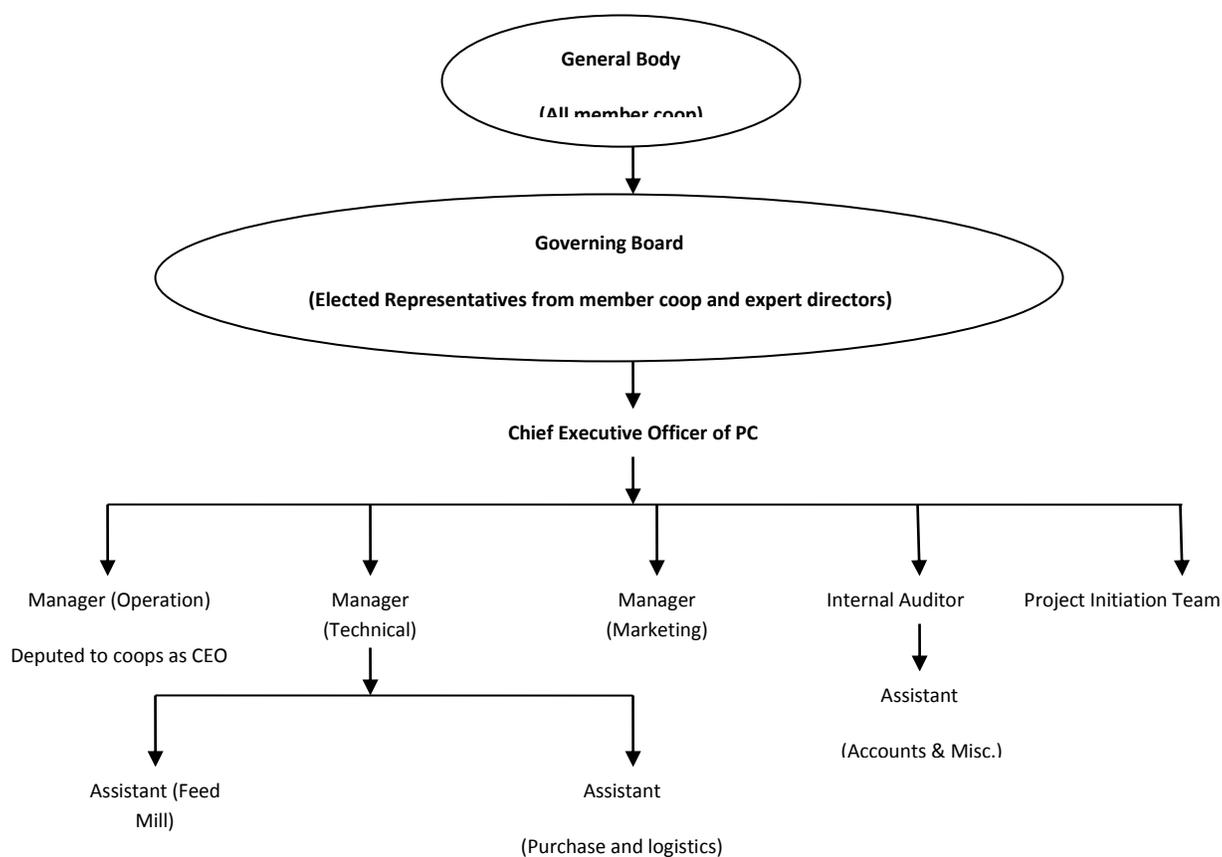
The PC procures feed ingredients and additives, day old chicks (DOC), medicines and vaccines collectively, then distributes to the cooperatives. The company earns its revenue through commissions on the input purchase price. Production of feed premixes takes place centrally in Govindpura feed plant at Bhopal and in feed plant in Jatara, Tikamgarh. MPWPCL and its member cooperatives, as a policy, are led by the CEO who is qualified veterinary doctor (fig. 4). All managerial level recruitment happens through MPWPCL, which recruits trainee veterinary doctors from the leading institutions. These trainees go through technical as well as business training on site, to enable them to eventually take over the management of the cooperatives. The co-operatives and their members are assessed for their performance (table 14). MPWPCL received Rs. 25 lakh as working capital support and Rs. 24.5 lakh as administration cost for 5 years from the DPIP like many other DPIP PCs in MP (MPWPCL Annual report, 2008-09).

Table 13: Current status of MPWPCL cooperatives

Cooperative	Year of Formation	Members	Output (Mt. of live Birds)	Turnover (Million Rs.)	Member's Income (Million Rs.)	Per member income (Rs.'000)
Kesla, Hoshangabad	2001	750	2059.27	165.3	13.22	18
Churhat, Sidhi	2001	561	1224.12	73.81	5.65	10
Rajnagar, Chatarpur	2006	360	1014.43	64.34	5.15	14
Orchha, Tikamgar	2006	224	536.54	35.94	2.88	13
Jatara, Tikamgarh	2006	221	6774.79	43.52	3.48	16
Amarpur, Dindori	2008	289	447.74	26.82	2.2	8
Total		2405	6956.89	409.75	32.58	14

Source: Garg and Kumar, 2011.

Fig 4: Organogram of MPWPCL



Source: Annual Report, MPWPCL, 2008-09

Given below is an account of two of the constituent co-operatives of the PC:

A) Mahila Murgi Utpadak Cooperative (MMUC)

MMUC is a member of the MPWPCL from 2007. It was started by PRADAN with the help of DPIP, initially they formed CIG and by clubbing 12 CIGs with 51 members, they formed the cooperative in 2006 in Jatara and later MMUC joined the PC in 2007, which has another 5 women poultry cooperative as members. By 2012, Jatara Cooperative has 315 members and every member has at least one share of Rs. 100 (fig.5).

MMUC has 321 poultry sheds in 10 villages, out of which 221 sheds are made by DPIP, 3 by members themselves, 14 with support from RABO Bank and 94 with SGSY grant. A shed cost Rs. 30000 at that time. The shed has the capacity to produce 550 birds. MMUC purchases chicks from Jabalpur with the help of the PC. It pays all the money. They issue chicks to their members and after 25-45 day start taking back the birds depending upon the weight of birds and market demand. MMUC provides feed to the members after buying it from PC. They record the chick and feed issued to the members and after the sale of the particular member's birds, payment is made according to the weight of the birds after deducting the cost of feed and chicks (table 18).

Traders come to the MMUC with the demand of the bird and deposit money with it and get the challan and take it to the poultry unit. There is a supervisor in the every village and they show challan to the supervisor and supervisor loads the vehicle according to the paid challan from the unit which has birds ready for sale.

MMUC has its own veterinary team, marketing team and administration officers. All the expenses of these teams are met by the co-operative and they also have the checking team for every village. Initially, MMUC had feed factory on rent where they made poultry feed but now they have their own feed production unit from 2008 costing Rs. 44 lakh. The feed production unit has storage capacity of 8000 tonne. The co-operative got the land on lease from the District Industries Centre (DIC) for 30 years, on which they made poultry feed unit. MMUC paid development fee for the allotment of land which was Rs. 3.34 lakh and was included in Rs. 44 lakh (Unit construction cost). It has also to pay rental of Rs. 685 annually for leased land. The cooperative has its own feed making machine which cost Rs.10 lakh, one generator set worth Rs. 4 lakh. The office building is

also under construction near the feed production unit. Presently they have the office in rented shop and pay rent of Rs. 3300/month. All the money spent on the construction of feed unit, office building and machinery was from its own sources. They gave feed production unit to the MPWPCL on rent of Rs. 40000/month till March 2012. Factory produces about 18 tonnes of poultry feed every day. They purchase maize for poultry feed from Chindwara, Bihar and also motivate the nearby farmers to grow maize. MPWPCL makes the feed only for their member cooperatives and charges only Rs. 5 extra per bag. In 2009-10, MMUC had turnover of Rs. 3 crore and profit before distribution was Rs. 38 lakh. Profit was distributed among the members according to their shareholding. The cooperative got support of Rs. 17 lakh from the DPIP, of which Rs.10 lakh was fixed as FD, and remaining Rs. 7 lakh is used to purchase the assets (Rs. 4 lakh on Poultry Vehicle and remaining on purchase of Computer, office stationary and other poultry equipments). Presently the coop. has Rs. 20 lakh as fixed deposit. They are growing at the rate of 15-20% per year.

Most of the members of the cooperative are landless and their only source of earning (Rs. 5-6 thousand) is from the production of poultry birds. About 40% members are fully aware of the coop. business and 67% are satisfied with working of the coop. There is meeting of the coop. every month. Every member has only one poultry unit. They get 400- 500 chicks from the coop. and produce 5-6 lots annually. The 40 tribal members from very far off villages can produce only 1 or 2 lots annually. There is problem of water scarcity and due to this problem they don't produce more lots of birds. Members get Rs. 2000 to Rs. 6000 per month depending upon the lot produced.

Table 14: Indicators for performance assessment of poultry co-operatives

Indicator	Parameters
Input Procurement efficiency	Average DOC price; Average feed price
Output Competitiveness	Price realized; Average sale weight
	Bird transportation + sales person costs
Productivity Efficiency	Mortality; Feed Conversion Ratio (FCR)
	Efficiency Index (EI)
Member profitability	Grower margin (Rs/kg); Grower margin (Rs/annum)
Integration and collectivization	Personnel and administration; Meetings and directors' costs; Supervisor costs and travel
Financial health	Gross profit; Net profit; Buyers' outstanding
	Working capital; Stock in hand

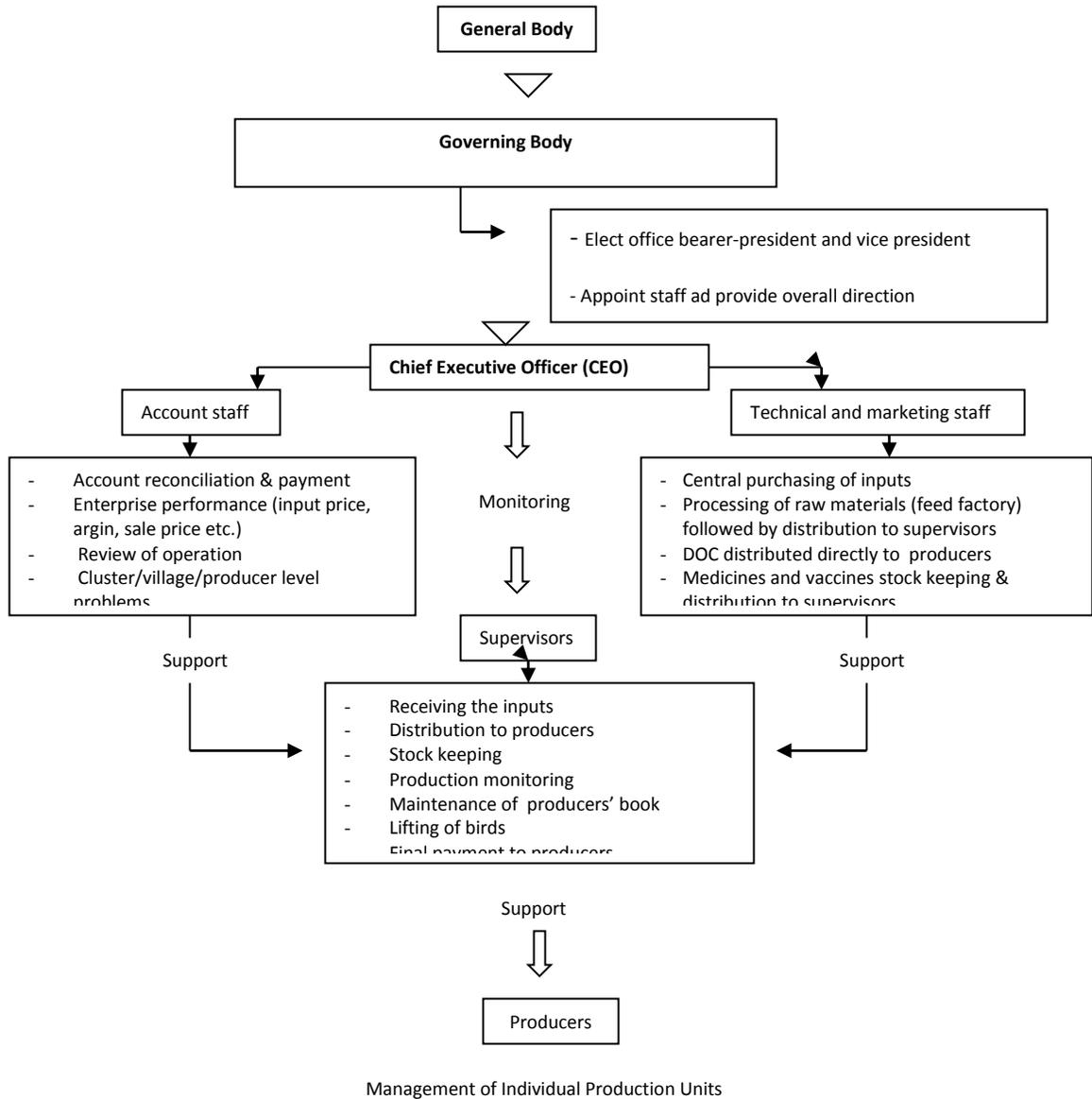
Source: Kumar et al, 2007.

B) Kesla Poultry Cooperative Society (KPS)

Kesla is tribal block in the otherwise prosperous district of Hoshangabad in Madhya Pradesh. About 44% of the population of the Kesla is tribal and 13% scheduled caste. The poultry project is concentrated in the southern part of the block, where nearly 80% of the population is tribal. Typically, a tribal family in the area earns about Rs. 15000-Rs. 18000 per year, one third of which comes from rain fed agriculture with low productivity, another third from the collection of minor forest produce and the rest from the wage earning (Pastakia and Oza, 2011). The households and SHGs that wish to take up poultry have to first make application to Narmada Mahila Sangh, which is a federation of SHGs in the Kesla block. This community structure is also promoted and facilitated by PRADAN. The Sangh checks whether the village is connected with all-weather roads, and whether the applicant is less than 45 years old and has been disciplined in her/his transaction with the SHGs. Once the Sangh is convinced, it arranges funds from the donor agencies or government departments for shed construction, training and security deposits. The federation then forwards the application to KPS for consideration (a member of the PC) which carries out its own investigation before granting membership. Once selected by KPS, the new member has to undergo a 45 day residential training on poultry rearing. SBI provides a cash credit of Rs. 25 lakh to KPS. At present, KPS has 10 staff on its payroll and 27 supervisors from local areas, who are paid incentives on the production efficiency achieved by members (Harshvardhan, 2010).

All the women producers are members of the cooperative which is a member of the PC. Producers organize themselves into clusters, and select a representative for the board of directors (BoD). The BoDs meets once a month. In this meeting, all important issue such as input and output prices, performance of different clusters, new appointments, remuneration and performance of staff are discussed, and decisions are taken. The BoD reports on the business performance of the cooperative. The CEO is supported by community based supervisors for the provision of farm services and production management. The supervisors are paid according to their output (Pastakia and Oza, 2011). The supervisor also checks whether production sheds

Fig 5: Organizational structure of a poultry cooperative



Source: Kumar et al, 2007.

are properly disinfected, chicks vaccinated and the market ready birds are picked up for sale. The supervisor weighs the birds and records mortality every week. The CEO, who is a veterinary doctor, assisted by village level supervisors, manages the day-to-day operation of the cooperative. It meets the costs of its staff and other establishment expenses. The market interface is handled by the cooperative. It procures all the inputs and ensures the sale of birds. This provides the producers with the means to even out the market fluctuations and to delink

production and marketing risk (Kumar et al, 2007). AGM is convened to discuss issues such as distribution of surplus (Harshvardan, 2010).

A women poultry farmer requires only one cent of land (435 sq ft) for her trade; she may own it or take it on a lease. She earns between Rs. 13000- 18000 a year, which works out to Rs. 65-90 a day for approximately 200 days of engagement in the activity per year. Table 15 gives economics of a local level poultry unit. In 1992, 2500 table birds were traded per month which by 2005, rose to 2,00,000 table birds/ month (Pastakia and Oza, 2011). KPS has been making consistent profit since 2004-05 (table 16). The producers receive deferred payment at the end of the year as surplus bonus. KPS has also been strengthening its equity base by seeking contribution from its members and enrolling new members. From 2008 onwards, its equity capital has grown to more than Rs. one crore (Harshvardan, 2010). The MPWPCL model conveys much higher proportion of the final chicken price back to the producers unlike private commercial models (table 17).

Table 15: Economics of individual broiler unit

Particulars	Amount
Birds per batch (No.)	400
Batches/year (No.)	6
Days engagement/year (No.)	210
Capital Investment (Rs.)	36000
Working Capital (Rs.)	17000
Margin/batch (Rs.)	3100
Annual margin (Rs.)	18600
Break-even point (Years)	2

Source: Pastakia and Oza, 2011

Table 16: Financial performance of Kesla cooperative

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of members	276	354	376	459	611
Margin distributed (Rs.)	1931271	2680242	4053373	6722219	18650673
Total Sale (Rs.)	27061784	33917392	38195184	58441173	98993628
Gross profit (Rs.)	2510402	1152429	2071622	1527175	-
Profit before non-cash charge (Rs.)	271411	253632	314291	373950	-
Net profit (Rs.)	45623	60078	110000	247850	-

Source: Pastakia and Oza, 2011, Harshvardan, 2010

Table 17: A comparison of industrial and (Kesla cooperative) poultry value chain

Transaction point	Cost of Prodn. (Rs.)	Selling Price (Rs.)	Gross margin (Rs.)	Transaction costs (Rs.)	Net margin (Rs.)	% return on investment	% of terminal market price	% Net margin of total margin	Actors
Production end	35.35 (34)	38	2.5 (4)	0(0)	2.5 (4)	7 (12)	76	33 (44)	Entrepreneur (Individual household)
Wholesaling	38(38)	40	2 (2)	1.5(1)	0.5 (1)	1 (3)	80	7 (11)	Traders (coop)
Distribution	40 (40)	43	3 (3)	1.5(2)	1.5 (1)	4 (3)	86	20 (11)	Traders
Terminal	43 (43)	50	7 (70)	4(4)	3 (3)	7(7)	100	40 (33)	Traders

Source: Pastakia and Oza, 2011

Performance of PCs in MP

In MP, the performance of PCs differed across promoters. Both the PRADAN PCs were in profit most of the time, except SPC being in loss last year due to failure to sell seeds without subsidy, while those promoted by another NGO (Srijan) and by ASA and MPDPIP directly made losses for most of the years, except one PC of the ASA which was in profits continuously for two years of its existence. Most of the MPDPIP PCs were perpetually into losses or had no stable performance. Though most of the DPIP PCs were in similar business (production and sale of certified seeds), their performance was largely dependent on this business, but some of them are able to manage to make profit due to scale, other businesses and better and professional business and market management.

Another recent study (Purushotham, 2012) of 5 PCs in MP, which also included two of the ones studied here, besides three others found that of the 17 promoted by DPIP, mostly in 2006, eight were financially successful, 7 at breakeven point and two were into losses. They all had received financial assistance of the order of Rs. 49.5 lakh each over five years. These 17 had membership of 415621 shareholders and turnover of Rs. 38.21 crore. Of the five studied, two were successful, two at breakeven point and one was into losses. The membership of the studied ones ranged from 1059 to 3260 and median size of holdings of the

members was 1.1 hac. 94% were with the PCs for the last five years. 46.5% were SCs, 25.7% OBCs, 19.9% STs and 7.7% others. 42% were from the Below Poverty Line (BPL) category. The member awareness index was low at 34% varying from 28 to 41% and knowledge level index 30% with a range of 21-33%. The loss making PC had the lowest awareness and knowledge levels (28% and 21% respectively). 63% of the member farmers were not satisfied with the prices offered by PCs. Only 41% had ever transacted with the PCs ranging from 61%-34% across PCs. 41% respondents (ranging from 22-67%) reported increase in price realisation across PCs though it was only between Rs. 1101 and Rs. 3198 with an average of Rs. 2751 over three years. On the other hand, savings on input purchase through the PCs were very modest at Rs. 453 in case of 31% members who reported that and it ranged from 17-52% across PCs. The additional sale proceeds realization due to PC was 7.6% of their household income and varied from 4-12% across PCs. Thus, compared with members who did not transact with the PC, the member were better off to the extent of Rs. 4193 in their total income. In terms of patronage, only 5% members had sold 100% of their produce through the PC, another 32% only less than 25% of their total produce and 56% did not transact with the PC for the sale of their produce. Only 5% were aware that PC is owned by them (Purushotham, 2012).

Most of the MPDPIP PCs are into seed production business which is not very good business as it involved a small number of members and is a high cost business. Therefore, it does not create member centrality and large patronage needed for the PC to scale up. The PCs need to identify other businesses which can rope in larger number of members to get to scale and cater to diverse interests of members.

Chapter 4

Producer Companies in Gujarat

Gujarat unlike Madhya Pradesh or Rajasthan is known for its farmer enterprise though it is one of the dry land states of India so far as farming is concerned. But, it grows most of the crops and many cash crops and one of the few states with more area under non-food crops than food crops. It is also known for farmer co-operatives, especially in milk and sugar. It has three clear cropping divisions- south Gujarat for horticulture, north for spices and other high value crops and Saurashtra for cotton and high value crops like mango and groundnut. Therefore, it is not surprising that farmers and NGOs in Gujarat took to the concept of PCs sooner than many other states without any state support unlike MP. But, surprisingly, not many PCs have come up in the state. At the time of going for this study, there were only less than a dozen PCs in the state. This chapter reports the findings of case studies of PCs in Gujarat- from north Gujarat and Saurashtra.

A profile of PCs in Gujarat

Most of the PCs in Gujarat emerged from some form of farmer collectivity as its promoter whether it was WUAs or BKS or OGCF. The authorized and mobilized share capital, except in one case, was modest. Except one, all had individual farmer members as shareholders which ranged from 11-800 originally and 30-6000 after three years. Only one PC had hundreds of shares held by each member with the rest only a few each even one in some cases. The promoters were fairly educated in all cases but only one PC had professional staff in good numbers (table 18).

Membership ranged from a few (30) to as many as 6000 in another case and there were very few non-member users in only two cases with non-member business forming 10-25% of their business turnover. The average member farmer was medium or large in most cases ranging from 2.7 to 19 hectares each (table 19). Except one which is being restructured all made profits throughout their existence with turnover ranging from Rs. 10 lakh to as much as Rs. 25 crore in 2010-11(table 20). The farmer organization PCs did not get any grants unlike NGO promoted ones but all had tried market linkages with some success. The member patronage

and satisfaction was higher in farmer organisation PCs unlike their NGO promoted counterparts though there were other co-operatives in the area as well (table 21).

NGO Promoted PCs

Dhari Krishak Vikas PC (DKVPCL)

The DSC is a resource organisation which was established in 1994 to provide knowledge based support to NGO's government agencies and other stakeholders in the field of natural resources management (NRM). The DSC has been the key organization of Sajjata Sangh, a network of NGOs implementing participatory NRM programmes in Gujarat, aimed at creating a platform for the NGOs for mutual learning, strengthening capacity building efforts and enhancing access in external sources of knowledge and making effort to create a favourable environment for the promotion of participatory NRM policies. The primary goal of the Sangh is to raise productivity of natural resources which would lead to increase incomes, especially of small and marginal farmers through adoption of cost reduction methods.

Dhari PC (Amreli district, Gujarat) was the first of its kind to get registered in Gujarat on 23rd June, 2005 by the farmers of the Water Users Association (WUA) established by DSC. The official of DSC sensitised the WUAs on the concept of the PC, to which the WUAs agreed given their confidence in DSC. The process of registration took more than a year, mainly due to the cumbersome and arduous procedure and the lack of knowledge at the Registrar of Companies (NABCONS, 2011). Initially farmers of 10 villages in and around Dhari that had implemented watershed program with Development Support Centre supporting as Project Implementing Agency (PIA), collected a share capital of rupees one lakh (table 22) Each of the ten WUAs contributed Rs.10000/- as share capital.

One of the WUA representatives is elected as chairman. DSC has supported DPCL through deployment of human resources in DPCL comprising of a chief executive officer, an agricultural postgraduate in the Agricultural Service Centre and two employees at the project office. The staff costs are shared between DSC and DPCL in the ratio of 60:40.

Business

The major business of the DPCL has been the supply of agricultural inputs to its members and on lending of NABARD loan to members of WUAs for land development. Although inputs supply is available from DPCL to farmer members of the WUAs, at present only 800 to 900 of them (out of 4000) purchase from DPCL, the main reason being that DPCL sells on cash and carry basis and does not provide credit.

The other activities carried out are soil testing, utilising Trichoderma and caster cake for wilt management in groundnut crop, integrated pest management and trial of high yielding varieties of groundnut and wheat. DPCL has also introduced rose cultivation in the area. Linkages have also been established with agriculture universities and research stations to train the farmers and facilitate extension of successful technologies and demonstrations in the village. The DPCL has also initiated wheat grading, as a first step to value addition as a decentralized activity (NABCONS, 2011). The PC also implemented rainfall insurance for members as well as non-members on commission basis only once in Kharif 2010 for cotton in collaboration with Agriculture Insurance Company of India.

Its turnover also increased significantly to Rs. 10.4 lakh in 2008-09 and Rs. 15.59 lakh in 2009-10 and during these 2 years it make net profit of Rs.54000 and Rs. 29000 respectively. By 2011, its turnover came down to Rs. 10.04 lakh with loss of Rs. 2.06 lakh. Besides inputs procurement it also procures groundnut and papaya in 2009-10, which was of the order of Rs. 1.46 lakh and Rs. 1.84 lakh respectively. Its business also became restricted to pesticides and seeds in 2010-11.

The DSC has taken loan of Rs. 10 lakh from NABARD at 6% interest per annum, which is being on-lent to farmers through DPCL and WUA for undertaking land levelling. DSC, DPCL and the WUA each charge 1% service charge to the farmers. The repayment period is three to four years. The cost benefit ratio of land levelling in the area has been estimated at more than five (NABCONS, 2011). PC is also involved in groundnut and wheat seed production, grading and sales for the last 2 years.

The better cotton program (BCP) for IKEA, a Swedish firm is also implemented through the PC. The cotton project focus on better management practices (BMP) in cotton and the PC

provides market tie ups. In 20 villages in Dhari, 4500 farmers and 5000 farmers across in 40 villages in Visnagar are under the BMP. The PC coordinates Para workers for BMP and negotiates prices in another condition with ginners, who buy on door step at market based price. The BMP is different from BCI as it is directly implemented for IKEA. This programme has been running from the last 2 year and is extended for another 2 years. The ginners are selected by IKEA based on willingness to work with the farmers and their integrity. The project reduces the cost of production by reducing use of costly inputs like seeds and chemical inputs. The project claims to have saved 50% seed cost (Rs. 1800/ha). The project gives BMP identity cards to growers and inputs through federation. There is one Para worker for 3 villages for extension who covers 300 ha including cotton. The BMP did not work in Visnagar as some farmers have presence in APMC as traders and many farmers are tied to them. There are other players in Gujarat also implementing BMP in cotton. In Visnagar Better cotton is being produced but better market tie is not working at all, as it is very competitive market in cotton.

The PC procured 165 tonnes of cotton from farmers especially from distant villages. The total procurement in terms of amount was around Rs.51.15 lakh which directly benefited 130 farmers and resulted in a saving of around Rs.1.0 lakh (in terms of transportation, time and labour). The most significant outcome of this initiative was that the farmers were able to get good prices for their produce at their doorstep.

In 2007, PC received loans from 8 gram vikas mandals (village development societies), which are registered trusts under the public trust acts, of Rs 10000 each and of Rs. 51000 from DSC. Its grant from the DSC increased to Rs. 62400 in 2008-09 and Rs. 75000 in 2009-10. By the end of 2008, its business of pesticides and seed purchase has gone up to Rs. 8.60 lakh from Rs. 1.23 lakh in 2007. The unsecured loans had increased to Rs. 7.03 lakh including Rs. 90000 from directors in 2008-09 and Rs. 9.4 lakh in 2009-10. It paid audit fee of the order of Rs. 10000-15000/year. But, its performance has not been stable and most of the time it has made losses (table 21) and therefore is being now restructured to achieve economies of scale and scope.

The members of WUAs have benefited from the services of the DPCL through the availability of quality inputs at reasonable prices, at their village. The DPCL plans to increase coverage to

70-80% of WUA farmer members by obtaining working capital. For strategic direction and business growth, DPCL depends on the DSC for guidance and support, as was evident during discussion. Through the establishment of DPCL, DSC has been able to sustain the initiatives taken under the WUA programme. It has created an institutional structure for delivery of inputs and technical services to the farmers. If DPCL is able to offer credit facilities, there is scope to increase its volume of business and cover more farmers (NABCONS, 2011).

Table 18: Basic profile of PCs in Gujarat

Producer Co.> Parameter	Dhari Krishik Vikas (Amreli)	Mahagujrat Agricotton (Amreli)	Farmer Crop Care (Bhavnagar)	North Gujarat Agro (Palanpur)
Established from	WUAs	By BKS	By OGCF	
Date of registration	24-06-2005	Dec 2008	23-01-2009	22-06-2007
Authorised capital (Rs Lakh)	1	100	11	5
Share capital (Rs. Lakh)	1	88	10.42	3.205
Main promoter/facilitator	DSC	BKS leader	BOGCF/SFWA	Farmers Union and 4 NGOs SOFIWLM- Cohesion , MG Patel Trust and Lok Vikas Sanstha
Shareholding Pattern				
Types of holder				
<i>Initial</i>				
-Individual		800	11	200
-Group	10			
<i>Now</i>				
-Individual		6000	30	641
-Groups	10			
Share Range	1000	1-25	500-5500	5
Education profile of main farmer promoter	Under graduate	Graduate	Graduate	-
No. of director (Expert director)	10 (1)	13 (1)	6	13
No. of Prof. Manager (who pays them)	1 (DSC)	6 (PC)	No	No
No. of employees				
- Professional/ managerial	1	6	-	-
- Other/technical	1	4	3	-
- Non-paid staff				
- Total	2	10	3	-

Table 19: Profile of membership of PCs in Gujarat

Producer Co.> Parameter	Dhari Krishik Vikas (Amreli)	Mahagujrat Agricotton (Amreli)	Farmer Crop Care (Bhavnagar)	North Gujarat agro (Palanpur)
<i>Total user</i>	1500	6000	Sell to everyone	700
- Member	1150	6000	but prefer	640
- Non-member	350	0	members	60
% of total business from non-member	25	0	90	10
Avg. Size of holding of member (Range) in Ha	2.74 (0.45-4.57)	10 (0.4- 16)	4 (0.8-6)	18.88 (2.2- 34.28)

Table 20: Business profile of PCs in Gujarat

Producer Co.> Parameter	Dhari Krishik Vikas (Dhari, Amreli)	Mahagujrat Agricotton (Amreli)	Farmer Crop Care (Bhavnagar)	North Gujarat Agro (Palanpur)
Main business	Seed, pesticides and fertilizer trading	Cotton pooling, Mango export, input retailing	Seeds and fertilizer trading	Input supply and papaya and pomegranate trading
Year (2005-06) Turnover (Rs. Lakh)	0.002114	-	-	-
Profit (loss) in Rs. Lakh	(0.13286)	-	-	-
Year (2009-10) Turnover (Rs. Lakh)	15.59	1000	230.61	-
Profit (loss) in Rs. Lakh	0.29533	-	0.61320	-
Year (2010-11) Turnover (Rs. Lakh)	10.04	2500	289.34	21
Profit (loss) in Rs. Lakh	(2.06)	26.98	2.78485	2.0
Source of working capital	Grant by DSC and loan and own funds	Own funds	No	SRTT provided Rs. 5 lakh in 2009
Corporate and govt. linkage	Better Cotton Management , project for IKEA	Gujcomasol for fertilizers, Gujarat seeds coop and number of Pesticides Company	Ajeet seed, Pioneer, Mahyco, Gujarat seed corporation	Desai fruits and vegetables

Table 21: Farmer awareness and perception of PCs in Gujarat

Producer Co. Parameter	Dhari Krishik Vikas (Amreli)	Mahagujrat Agricotton (Amreli)	Farmer Crop Care (Bhavnagar)	North Gujarat Agro (Palanpur)
Total no. of farmers	1500	6000	30	641
-Aware of PC business (%)	30	75	100	70
-Rate its satisfactory (%)	30	75	100	70
-Avg. farmer sale (%)		only 10%		100% papaya
-Input purchase from co.(%of total used)				20% pomegranate
- Seed		100	100	50
- Fertilizer/feed		100	100	50
- Pesticide/medicine		100	-	-
- Others		-	-	-
-Satisfaction with various services (%)				
- Input		100	-	-
- Output		100	-	-
- Others				
- Mgmt. of PC		100	-	-
-% of members who are member of other PC	No	Some in Mango	No	No
- % of member s who are members of coops. in area	-	90	Some in PACS	80% of PACS, 100% of milk coop.

Problems and restructuring of the PC

The input selling outlet of the PC has been closed since the last 3 months (October 2011) as it could not compete with the local competitors. The member perception of the PC is very poor and only 30% were aware of PC and its business (table 25). The PC will be registered as state level entity covering the farmers supported by DSC in Mehsana, Sabarkanta and Ahmedabad districts. Its membership and governance will also include farmers from north Gujarat areas which are better organised. This is being done to achieve scale as well as better member control and management of the PC besides avoiding local level bureaucratic hassles. Six federations of farmers including a women's federation will be the members of the new entity and authorised capital will also be increased.

North Gujarat Agro PC

NGAPC was organised under the North Gujarat initiative of International Water Management Institute (IWMI) which was in existence from 2002 to 2008 and was later converted into separate entity called Society for Integrated Water and Land Management (Sofiwalm)

supported by SRTT since 2008. The PC was promoted by a supervisor working in the IWMI project to help farmers with marketing solutions. Originally it was registered as Banaskantha Agro Producers Production Company which was held mainly by 10 pomegranate growers with a share capital of Rs. 10 thousand only. It was formed in 2005 and closed in 2006. The supervisor from IWMI was the expert director the company. 50 growers paid Rs. 2 per plant as service charges to this PC and Rs. 80000 was collected but never conducted any business for farmers. The second initiative to organise farmers under the banner of North Gujarat PC came in 2007 due to farmer pressure and three other NGO (besides SOFIWLM), Cohesion, MG Patel Trust and Lok Vikas Sanstha were involved in initiating this PC, which started with 300 members. The PC was not based on any organisation or group in the area, in fact it was the first collective efforts of farmers with whom IWMI was working. None of four supporting NGO have any farmers groups or organisations in the area. Though some of them like Lok Vikas work with women self-help group. SOFIWLM first organised NABARD farmers clubs with 15-50 members each in 2010, which now number 80 across 80 villages and receive Rs. 10000 annual grant from NABARD for 3 years.

Now there are 641 farmers across 200 villages and 3 districts of Banskantha, Patan, and Mehsana (table 18) who are members of this PC starting with only 200 in 2007. The BoD consists of 13 farmers representing each taluka, in which the North Gujarat initiating project was implemented. In fact there are quite a few farmers in the area who have diversified into input sales and output handling in the Palanpur and Deesa areas of Banaskantha District. They are also members of the PC. In fact the earlier PC did not work as they felt threatened as PC sold inputs at lower than market rate. Total share capital of the PC is Rs. 3.205 lakh and it did a business of Rs. 27 lakh in input sales and Rs. 18,66,000 in output marketing which is mainly from papaya sale. It has Rs. 2.14 lakh dues from farmers. It has a net profit of 2.07 lakh.

Business

It started with papaya marketing on behalf of the farmers and input supply in 2009 in the leadership of a professional chief executive. The papaya was sold to the Rajasthan traders with a turnover of Rs. 17 lakh in one season in 2009-10. The crop belonged to 35 farmers who had agreed to pay Rs. 0.25 for 25 kg as commission but did not pay despite the fact that the PC was able to get much higher rate for the member farmers. The papaya acreage ranged from

2 acres to 20 acres. In the second season of papaya, only 15 farmers sold through the PC and paid Rs. 2 per plant to the PC and received Rs. 116 for 20 kg under a written agreement between the farmers and a buyer, which was a seasonal agreement for 8 months. In Papaya Rs. 20 per plant were taken from the buyer as deposit to the PC as part of the agreement. There were some defaults from the buyer and sellers despite the written agreement in the first year and only by traders in the second year. The traders picked up the produce from the farm.

The papaya sales agreement specified that if harvesting is arranged by the traders, then the farmers will be charged Rs.150 per tonne for labour. The farmer is also bound to provide refreshment to the workers and in case this (refreshment) is arranged by traders, then farmers will be charged Rs. 25/tonne. The agreement also specifies the rate for the produce and the service chargers of the PC, which is over and above the price paid of the farmers. Defaulting farmers are to be removed from the group and not to be entertained of the future. The farmer is also to provide for the passage for the truck to reach the farm and in case not possible, the farmers are supposed to take the material up to the truck. If the produce quality is poor and trader does not find it acceptable, then 5 farmer members will decide on the resolution of the problem. Traders will not buy fruit less than weighing 500 gram. Defective fruits will not be bought by the traders. Trader will pay Rs. 20000 per acre as deposit and if for any reason traders stopped buying the produce, its deposit will be forfeited. The price for the small fruits will be decided separately in advance. The harvesting, packing, weighing, loading responsibility is that of the traders and ensuring removal of the material from the farm is that of the farmer. If there is damage to the crop while harvesting, trader will have to pay but if the crop is damaged by animals or wind that is the responsibility of the farmers. If due to the late arrival of the traders pick up, there is damage to the produce on the farmer, trader will have to pay for the damaged produce. The trader will not have to pay for the material loss up to 40 kg but if the produce damaged is more than 40 kg, than trader have to pay to the farmer. The crop of May-June will be picked up to Diwali and that that of July-August up to December. The agreement is tripartite between PC, farmer and trader.

In 2007-08 PC also tried pomegranate sales to Desai Fruits and Vegetables (DFV) but due to the poor quality of produce, the arrangement did not last long, though the price agreed was quite good. This involves 25 farmers. One of the PC member farmers with 7 acre land has

grown pomegranate on 3 acres for the last 5 years and presently harvesting its third crop. He has a shared tube well with other 9 farmers. He is aware of his shareholding in the PC (5 shares) and sold his Produce through PC at a fair in a neighbouring town but last 3 year he has not used the PC route to sell his produce. His village has 10 members of whom 4 grow pomegranate. The village also had a NABARD Farmers Club with 11 members of whom only two are PC members. The PC member is of the view that BoD of the PC needs to be changed to make it member centric and committed to the PC. The other three members of the PC in the village have 6-7 acres of land each and grow pomegranate on 2-3 acres each. This farmer member has drip irrigation on his farm, including for castor. Each farmer has 5 shares valued of Rs. 500.

The input supply through PC included fertilizer, seed, bio inputs and equipments and it had a turnover of Rs. 21 lakh (table 20), the inputs were directly delivered to the farmers. The PC has license for sale of various inputs and charges 5% commission on seeds and 5-10% commission on pesticides. The PC has been in profit. As part of its input supply, PC also arranged potato seed for 15 farmers, who had deposited advance for the same one month before. The PC charged Rs.1 per kg on this. The PC also had shop in the APMC yard, besides a license to deal in output. SOFIWLM has farmers base of 15000 including partners across 200 villages. Input supply is easier to do as there is a channel credit available in this business. Though advance booking of inputs has to be done, except bioinputs. But, now even the input supply by the PC has been stopped as mobilizing working capital to pay advance for input booking was not easy.

The non-member business in input is only less than 10% of total (table 19). The PC has not been able to establish a strong market linkage and presence due to shortage of working capital as farmers need immediate need of cash on sale of the produce. Since the PC did not focus on small and marginal farmer to begin with the members, many of whom are large farmers and are not dependent on PC are not involved in PC. The SRTT provided Rs. 5 lakh to the PC in 2009 under its small grant programme for one year to meet the salary and other expenses of the PC. The CEO left in the middle of 2010. Now, the PC has no professional staff, since the share value per farmers is low, the members are not serious in running the PC.

Problems

The major hurdle in running the PC effectively is lack of farmer member involvement and loyalty. 70% of the members are aware of PC business but farmer patronage is missing. Of the total membership papaya is grown by 60-70% and pomegranate only by 10%. 50% has no business with PC. Though 100% farmers sold papaya to the PC, in pomegranate, it was only 20% in one season. Less than 50% farmers purchase inputs from the PC and 80% are members of the PACS and 100% of milk cooperative society (table 25). Due to cash sales of inputs, the members do not buy from the PC and go to the market which gives inputs on credit. The scale of business is not an issue for the PC but the spread of membership over a large area is an issue.

Farmer Organised PCs

Maha Gujarat Agri Cotton PC

MGACPC is established by Bhartiya Kissan Sangha (BKS). Its founder Mr. Prafulbhai Sangaliya, owner of 50 bigha of land has been a farmer leader for 27 year and was the president of the Gujarat state unit of the BKS. The founder of the PC is affiliated to Gayatri Parivar Sect. He is also an organic farmer. The BKS union in Gujarat has 22 lakh members and 2 other PCs in Saurashtra (Jagat and Kissan) are also promoted by BKS farmer leaders.

The PC is registered at Bhavnagar C/o Onion Growers Cooperative federation but has no links with the federation and has its corporate office in Amreli. Its chief executive sits at the Bhavnagar but most of the other staff operates from the Amreli. It was registered in December in 2008 and became operational in June 2009. Originally there were 10 BoD, which is now increased to 13. It is named as Mahagujrat Agri Cotton as it was originally meant to help cotton growers only. The other promoters include former Gujarat Finance Minister Sanat Mehta and retired agricultural university professor Dr. Suthariya. It has received no support from any agency in cash and kind. It has authorised capital of Rs. one crore and paid up capital of Rs. 88 lakh.

Originally, there were 800 shareholders with share valued at Rs. 1000 each which is now grown to 6000 (table 18). Of the total of 6000 shares, Junagarh farmers have 3200 and Amreli

farmers 1800 shares making a total of 5000 shares. The entire BoD has 25 shares each and only about 15-20 farmers have 25 and more shares. 90% of the shareholders have one share each. Shares are given based on land holding and relevant crop area. The General Manager is a MBA and belongs to a farming family with 10 acres land in the same area. Another manager who is B.Com also belongs to family owning 14 acre land. The GM family also has a ginning mill. The total staffs of the PC are 10 of which 8 sits at Amreli office and of these 4 are professionals, besides the chief executive at Bhavnagar. It also has one branch manager each in three another location of its operation that is in Junagarh, Jamnagar and Kachch. Another district Rajkot is covered from Amreli itself.

These two district farmers have an average size of land holding of 0.8 hectares. In Amreli 1.7 bigha make one acre under Gayakwadi System, whereas in Junagarh's Nawabi system, 2.5 bigha makes one acre. Interestingly Amreli district is half under one system and half in another system. The promoter is a graduate and besides the 13 directors, Sanat Mehta, a former Minister in Gujarat and a farmer union leader and institution builder is the expert director. The PC does not do any business with nonmembers and member land holding range from 0.4 to 16 hectares, with 75% having less than 10 hectares each (table 23). Only in Kutch district, there are about 50 farmers with land holding of more than 40 hectares each.

Business

The main business of the PC includes cotton pooling, mango export, and retailing of agricultural inputs through Apna Kissan Mall outlet at the Village and town level. It has 212 such outlets across 6 districts of which 86 are in Amreli alone. Only 20 are in towns and cities and besides Agri inputs they also sell equipment to member farmers and are run by PC member groups under a MoU with PC. A group is must to start a Mall in an area and minimum 5 members are needed. There is a MoU signed between the PC and operator of Apna kissan mall which specify conditions and rules and regulations of the business including branding of the outlet. A village needs to have 100 and more members to start Apna Kissan Mall outlet. These members pay Rs. 1500 each to start the business. 125 malls are run by such groups and some of them run from members houses. PC charges 1% commission, 1% for district office and 4% handling charges at the mall level totalling 6%. It has distribution rights from Gujcomasol for fertilizers, Gujarat seeds coop and number of Pesticides Company. 95%

of the turnover is from inputs sale. In mango and cotton pooling gives 0.25% commission to PC. The PC also supplies cattle feed to the member farmers and also sells grains and pulses at reasonable price after buying in bulk.

The ginning of pooled cotton is done on job work basis and farmers are paid for cotton seed on the spot and a small as advance payment. It rents government godown for storages and purchases cotton from farmers some times. It has an organic input outlet in Amreli since last year and bio inputs accounts for less than 10% total income sale. Most of the cotton is sold in local and national markets where as 40% mango goes for export and 30% for national market. Mango is directly handled from Junagarh under Kesar gold brand. It exported 432 tonnes of mangoes.

Its turnover increased from Rs.10 crore last year to Rs. 25 crore this year (table 21). Its input and output business profit has grown over the last three years. In 2010-11, Rs. 26.98 lakh was the gross profit of the PC. It has fixed deposit of Rs. 21 lakh with the bank, land worth Rs. 29.83 lakhs and shop worth Rs. 10.81 lakh. All the sales and purchases are done on cash basis. All the six professional managers are paid by the PC. More of the profits come from output due to large quantity of high value crops but still profit is less than 5% of turnover. PC owns the office which was bought from the local Municipal Corporation at Rs. 6 lakh with members share holding money.

PC has seed, fertilizer, pesticides, bio input retailing and export licenses. It does not face any problems and does not believe in taking any subsidy and grant. It has also exported mango through Gujarat Agri Industries Corporation (GAIC) and had done contract farming of groundnut, moong and black gram for the State Seed Corporation. It has stopped facilitating contract farming of seed due to complicated paper work and now its member farmers contract directly with the seed corporation.

75% of its members are aware of company business and 100% of them buy inputs from PC outlet as it sell cheaper due to lower margin, only 10% farmers do output business with PC, selling 50% of mango and 100% participating in pooling (table 21). On fertilizer, PC gets Rs. 8/bag, farmers are charged only Rs. 2 and it passed on Rs. 6. Some of the producing members are members of another PC in their area as well. 90% members are also members of

cooperative sale purchase union run by the district panchayat. Interestingly, even Agricultural Produce Market Committee (APMC) Amreli has an agricultural inputs shop.

Reasons for Success

Major reasons for the success of the PC include adequate mobilization of share capital, employees with farming background, good leadership and farmer focused plans and projects. In fact the PC has asked for raising the authorised share capital to Rs. 3 crore as 4000 more farmers want to buy PC shares. The PC is planning to set up a mango canning plant at the cost of Rs. 7.5 crore at Talala in Junagarh and a cold storage at Jamnagar for vegetables. It is also planning cotton ginning and spinning at farmer level adopting Gandhian model with units at the farmer level planned to be set up for Rs. 1 lakh investment to make thread. This Wardha model is being adopted to add as much value as possible.

Farmer Crop Care PC

The PC was registered in 2009 with authorised capital of Rs. 11 lakh. Its shareholders have increased from 11 to 30. Initially it had paid up capital of Rs. 3 lakh from 11 members, which now stand at 10.424 lakh with 30 members (table 18). The chairman of the PC is into agri input and cement sales since 1990. He is also the chairperson of Bundel onion grower cooperative federation and Saurashtra Farmers Welfare Association which has 100 members. The BOGCF exists since 1952 with 30 members. The main promoter is commerce graduate and has 6 hectares of land. There are 6 directors of the PC and members' average land is 4 hectares ranging from 0.8 to 6 hectares (table 19) and 90% business is from non-members.

Business

Besides input sales to OGCF members at lower than market rate on credit, it does not carry out any other activity. It has only three salaried non-professional employees who belong to the BoD families. 50% of the sales are from the main outlet and rest from 10 Depots in villages which are run on commission basis. It has only license for seed trading. All the members are aware of company business and some them are also members in PACS and district level cooperative union besides OGCF. 4 of the five first directors belong to the same sub caste

including a women member. The initial 10 promoters have bought 51000 shares ranging from Rs. 500 to Rs. 13500.

The company showed sales of Rs. 2.3 crore in 2009-10 and Rs. 2.89 crore in 2010-11 with a net profit of Rs. 0.61 lakh and Rs. 2.78 lakh respectively (table 20). It has unsecured loans of Rs. 29.3 lakh in 2009-10 and Rs. 24.5 lakh in 2010-11. Its working capital was Rs. 19.55 lakh and Rs. 16.31 lakh respectively over these 2 years. It had extended loans to the producer suppliers and to the seed suppliers. It paid Rs. 1.8 lakh each to two of the directors and Rs. 2 lakh to other directors as remuneration besides the salary of Rs. 1.3 lakh to one of the relative of a director. It mostly sold fertilizer. It faces working capital shortage as it can't provide mortgage or guarantees to bank and the promoter has put his own money by purchasing 55000 shares.

Performance of PCs in Gujarat

Two of the PCs in Gujarat seems to be doing well and both these are promoted by farmers own organizations. Whereas one is really genuinely organised and has achieved scale due to its BKS linkage and is making profits and is very upbeat about its future plans, the other is only into farm input sales and seems to be one man show and run from a private farm input shop of the promoter who is also involved in the onion growers' federation which is behind this PC. The high value nature of business and scale seem to be factors behind viable performance of the BKS promoted PC unlike other which were largely into agricultural input selling.

Chapter 5

Producer Companies in Rajasthan

Rajasthan is one of the agriculturally lagging states due to agro climatic conditions, especially southern Rajasthan which borders Gujarat and Madhya Pradesh. This region of the state has significant tribal population and land holdings are small with little irrigation. Though this region has presence of many NGOs, but the region had not seen much farmer organization though due to its border with Gujarat, some private companies undertake contract seed production of hybrid and now Bt cotton in this area. There was no PC in the region until Access Development Services (ADS) started operating in the area. Infact, the entire state has only about half a dozen PCs so far. This chapter examines the four PCs promoted by ADS in southern Rajasthan.

Profile of Promoter

Access Development Services (ADS) is a not-for-profit, section 25 company under the companies Act set up in 2006 with the overall aim to build and consolidate the successful experiences of a large microfinance programme funded by Department for International Development (DFID) and implemented by CARE India to contribute to the future growth and evolution of the microfinance sector in India and to incubate new institutions to enable their self-sufficiency and self-sustainability. To this end, it offers specialized technical assistance under two verticals: microfinance and livelihoods as it was soon realised that improving the condition of the poor required a more comprehensive approach. Under the Livelihoods Program, ADS impacts the lives of the poor by developing sustainable solutions for upscaling their income generation activities. To optimize its resources and maximize the results of its interventions, ADS believes in partnering with key stakeholders in the sector in order to develop mutually reinforcing strategies, bring convergence of competencies and build consensus on key issues. For example, ADS is a part of the consortium implementing the National Agricultural Innovation Project (NAIP) in Southern Rajasthan. It focuses on the strategy of impacting livelihoods of the poor through organizing the producers, aggregating their demand and produce and integrating them into the value chains which provides them negotiating power, economies of scale and access to resources. Increasing their knowledge of market dynamics, market trends, information on pricing, information on suppliers,

distributors, on competition; on new production technologies, awareness of policies and the ability to negotiate with markets is a crucial intervention for ADS.

ADS started in 2006 in Rajasthan and is present in 27 districts of 12 different states. ADS operated with different projects, cooperatives, PCs started by ADS itself or with the collaboration of some other Self-Help Groups (SHGs) or cooperatives. They have organised 4 PCs in Rajasthan, one in Andhra Pradesh, which has largest number of members, and deals in maize and rice cultivation by providing inputs to the member farmers and one in Madhya Pradesh, which has been registered very recently. It has 4 cooperatives in Orissa, of which presently only one is functional and also one in Uttarakhand. It works for small and marginal farmers and facilitates their organisation into farmer business groups (FBGs). PCs are mostly crop specific like ginger in Udaipur, vegetables in Dungarpur, and tomato, potato, beans, peach and ginger in Uttarakhand where SAFAL (NDDDB) collect vegetables from the PC. It has relationship with various input companies like Monsanto, Pioneer, Morarka, etc. It got support from different agencies for different products like for ginger from Sir Ratan Tata Trust (SRTT) and also from Rashtriya Krishi Vikas Yojana (RKVY), for chilli from RKVY and also from Hillary Clinton Foundation for women empowerment, from NAIP in Dunagarpur, Banswara in Rajasthan and also in West Bengal.

It has also launched in 2010 a market development programme for rural producers called Ode to Earth, under which product from 65 groups are being marketed and sold. It has been able to garner support from funding agencies like SRTT, Rabo Bank and government programmes like RKVY, RSBY and SFAC. It tried linking with retail chains like Reliance Fresh and NDDDB's SAFAL for vegetable crops. Whereas first one did not work out, second one is still on. It also works with many seed and other input agencies to access modern inputs for member farmers. It makes a business plan for each company and accordingly organizes production and value addition.

In Rajasthan where ADS has promoted PCs, initially, there was a micro finance project supported by DFID and implemented by CARE India during 2001-2006. ADS took this project forward and adopted a three prong strategy to improve livelihoods which involved organization of producers, aggregation of demand and supply, and linkages with value chains. For first two years (2006 to 2008), it continued with micro finance activity and then involved

in ginger value chain in Udaipur under a three year (2008-11) SRTT funded project and a NAIP project (2007-12). Now this project is being supported by the state government with RKVY funds from 2011-14. The MPUAT has also provided support for Package of Practices for ginger and the yield has increased 2.5 times. The producers are organized into informal groups of 10-15 each across four clusters with each cluster having 25 groups. The FBGs cluster into a Sangh at cluster level (4) and they are federated into a registered PC. Initially, both individual and group members had shareholding in PC but now only groups are shareholders.

Process of PC formation

Firstly, a farmer business group (FBG) was organized in each village which is run by farmers themselves and mobilizes monthly deposits, which is given as loan to the needy members. These groups jointly make one cluster, 5 villages were included in one cluster. Monthly meeting was organized at the pre decided place and at least one leader from the each group should be present in the meeting, otherwise, they have to pay penalty of Rs. 100. In the meeting the demands for inputs were given for each group. Every group of the company has to maintain three account registers: Monthly transaction register; Monthly planning and working register and Individual Account register. Every month, each group has to give the carbon copy of monthly transaction register and monthly planning register to the PC.

A profile of PCs in Rajasthan

All of the four case study PCs were based on farmer groups and were set up in 2010 with authorize capital being Rs. One lakh in two cases and Rs. 10 lakh in another two cases. But, none of them could mobilise beyond Rs. 3 lakh and one only as much as Rs. 10, 000 and another Rs. 58000. Two had substantial promoter support (Rs, 2 and 3 lakh each) and others only registration fee. Membership ranged from 300-1200 but shareholders ranged 92-475 with each member owning 1-100 shares across PCs and only one had groups also as shareholders. The local promoters were only primary literate professionals numbering 1-3 each paid by the promoter (ADS) (table 22). The membership ranged from 300-1200 and non-member users from 38-1800 in one case non-member users being larger than users (Udaipur Agro) and

contributing 60% of PC business. The member farmers or users were marginal landholders with average ranging from 0.48 to 0.8 hac across PCs. (table 23).

The business profile varied from input supply and output purchase to supply to grains and organisation of contract farming of cotton seed with members and non-members. Some of them also undertook some government subsidy distribution schemes and some extension programs of ADS. The turnover was modest being in the range of Rs. 10-30 lakh and profits almost negligible for the first year (Rs. 4000-60,000) (table 24). Though not many farmers had been reached as yet, farmers appreciated the working of the PCs and in most cases sold 5-50% of their output to PC and bought 20-100% of their inputs from the PCs across types of inputs. There were not many other formal institutions locally which farmers used other than PCs (table 25).

Case studies of PCs

Udaipur Agro Producer Company Private Limited (UAPCL)

UAPCL was established in the Jhadol block of Udaipur District of Rajasthan. 46% of the population of the district is tribal. Jhadol was known as ginger production hub in the 1990s, but due to rot disease problem, which destroyed the whole crop, farmers of this area stopped cultivating the ginger. But, now Udaipur Agro with the help of some NGO's and MPUAT had motivated the farmers to restart growing the ginger crop with improved technology and package of practices. Firstly, the groups of the farmers were set up and they were motivated to grow ginger which has cost benefit (CB) ratio of 1:3, if grown traditionally, but with the new and improved package of practiced made by ADS with the help of MPUAST, the CB ratio increased upto 1:6 and now even 1:10. The groups jointly formed the clusters or sanghs. The yields have improved by 53% and the disease incidence has come down from 60% of the crop affected to 30% (Kujur and Saha, n.d.). Udaipur Agro originated from merging four farmers groups/ clusters known as sanghs of Jhadol Block (table 22) which were organized by the ADS under the project 'Sakh Se Vikas' Programme, with support from Sir Rattan Tata Trust (SRTT) in 2009.

The PC was registered on 22 August 2010 and started working in September 2010. It has share capital of Rs. 3 lakh, whereas authorized capital is Rs. 10 lakh. There were 1200

members and 99 FBGs at the time of registration. Each member can purchase maximum 5 shares and also every group only one share but it is compulsory for every BOD to purchase 100 shares. At the time of voting, members and groups give their vote individually. Some members of groups did not purchase any share but as they are in member groups, so they are also considered as PC member. They were allowed to purchase input from the PC but did not share the profit of PC. They joined the PC in the groups but not individually. The average land holding of the member farmers is 0.8 hectare. They also rear livestock like goats, buffalo. Except maize which is sold to the local trader in Jhadol, all other crops were sold in the Udaipur *mandi*. Farmers give Rs. 50/month for the micro saving in FBG. Farmers grow arbi, haldi, maize, chickpea, ginger, musli, til in the kharif season and wheat, mustard and chickpea in the rabi season.

Business

The main business of the PC is input supply and motivating the farmers to restart growing ginger crop (table 28), as the ginger of Jhadol block has very high market demand due to its very good aroma and rich fiber content. It sells various farm inputs and seeds and claimed to have sold them 9-30% cheaper than the market (Kujur and Saha, n.d.).

PC works with 4 NGOs in the Jhadol block namely Janchetna Sansthan, Mohan Sewa Sansthan, Rajasthan Bal Kalyan Samiti and Vanvasi Vikas Sansthan (table 22). Presently, PC has no professional manager, so ADS provides technical support and also 3 expert directors are from ADS for better management of the PC, as the PC is not in a position to hire or pay for professional managers. PC has the license and retail outlet to sell the inputs like seeds, fertilizers, pesticides, bio inputs but did not have any presence in local APMC and no import and export license. ADS purchase ginger from the member farmers and make a seed from it and give proper treatment to make it free from the rot disease and sell it back to the farmers in the next growing season. ADS provided Rs. 3 lakh as loan for establishment of the PC for one year without any interest charges. Beside this, they also borrow some amount of unsecured loan from the four sanghs associated with it and is also creditors to two local transport companies and two individuals.

It is the largest PC in terms of membership among the four studied PCs in Rajasthan (table 29). At the time of voting, members and groups give their vote individually. Some members of groups did not purchase any share but as they are in groups, so they are also considered as PC member. PC has very high business percentage from non-members (60%) (table 23).

PC is going to establish a ginger processing unit in the Jhadol block with the help of RABO bank foundation and RKVY and also starting marketing of different ginger products like paste, powder etc. They are also starting their sale and purchase of input and output with the other PCs. PC also asks its members to give their demand for inputs in advance and also to pay 50% of amount of input in advance, which is used as working capital for PC. PC wants that initial capital for the salary of the village level worker should be provided through some funding agency by government. PC wants to move their total turnover upto Rs. one crore by the fourth year. It had also implemented the micro irrigation project of the government under RKVY for five farmers.

Problems

The main problem faced by the PC is shortage of working capital and also of motivating the farmers for ginger cultivation. Lack of centralized storage facility is also a main problem, due to which they have to sell the produce at the prevailing price and can't wait for better price. Also, for input supply, PC did not have its own storage facility and they had to rent a godown. Also the village level workers of PC are paid from the SRTT funded project, and from RKVY or by ADS. Banks are not ready give loans to PC and they demand 3 year balance sheet. Also the PC gives the input on credit to the member farmers and the recovery is very slow. There is no crop insurance of the member farmers' crops. Insurance of ginger crop helps in motivating the farmers for cultivating the crop as they are free from the risk of full crop loss. The farmers of the area are very satisfied with the working of PC as they get the inputs at lower price and at right time.

Jhambukhand Kissan Agro Producer Company Limited

Jhambukhand Kissan Agro Producer Company Limited (JKAPCL) was developed under NAIP and Access worked as lead agency. 11 villages are covered under JKAPCL. Two clusters in which 52 FBGs were included formed Jhambukhand Kisan Sangh in 2009 which

was later converted into JKAPCL in June 2010. The company has 9 directors and 2 expert directors. At the time of formation of the PC, there was a dispute over the name of PC among the groups and Jhambukhand was chosen as it is the name of the area/region. At the time of registration, PC had 600 member farmers and 52 FBGs, which increased to 800 member farmers and 62 FBG by 2012 (table 22). A member can buy maximum of 100 shares. Every BOD has to purchase minimum 100 shares. PC has authorized share capital of Rs. 1.10 lakh and authorized share capital of 10 lakh. PC has 2 professional managers whose salary is paid by ADS and 8 other staff including accountant and village level workers, some part of whose salary is paid by PC itself and major part by the NAIP funding.

Presently, PC has 800 members of which 60% is well aware of PC business (table 25). The member farmers have average land holding of 0.8 hectare (table 27), which is mostly canal irrigated. Farmers grow 3-4 crops in one season like Wheat, Barley, mustard and Chickpea in Rabbi Season and Paddy, Soya bean, Maize, Sugarcane, cotton and chilli in Kharif season. The member farmers also do labour work in others fields or under NREGA. Farmers also complain about the non-availability of inputs at the time of need.

Business

The main business of the PC is input supply and collective output marketing (table 24). PC has contact and tie up with input dealers like Banswara Agro, Rajseed, Ashok Kesari Mal Gandhi (Chambal dealer), Bharat Saha Trader and Kray-Vikray Sehkari Samiti and for output, it had tie up with FCI, Local *Mandi* (Talwara), Ashish traders and also sells to other PC like Vijwa Agro Prod. Co., Dungarpur. PC established an outlet in every village, where a worker is appointed who sells and purchases on behalf of PC. Input is mostly given on cash payment, but sometime also on credit, to the farmers. PC has account in IDBI Bank, Banswara. Beside the support Rs. 2 lakh from the ADS, JKAPCL also borrow unsecured loan from the different FBG associated with it and is also creditor to one cluster, KVK, entrepreneur and other 4 individuals.

PC also planning to start vegetable and maize seed production, but they need grading equipment and unit set up cost. This year JKAPCL make tie up with Rajseed for seed production through ADS but when number of farmers increased, Rajseed was not able to

handle such bulk production and withdrew its support. PC wants that for proper establishment of company, for initial 5 years, funding is provided by the government through any agency, projects or through banks and also support of Human Resource by government just like presently by ADS. PC is expected to breakeven in 2013 but still it is not feasible under the present conditions. In future, PC will sell the excess production of the member farmers that will come from the use of hybrid seeds, advanced technology and improved package of practices and work as middlemen in providing input at proper time and selling the excess produce.

Problems

The main problems of the PC is of working capital shortage, bank does not give loan to the PC as it demands 3 year balance sheet, also inputs are not available at right time and sale through dealer increases the cost of inputs and also the inputs are given to the farmers on credit basis and recovery is very slow. The PC has professionals which are now paid by access as PC is not in a position to pay them. So, the human resource is also the main problem. Also there is no support from the state agricultural department.

Vijwa Agro Producer Company Limited

Initially the formation of one FBG by ADS was done in Jan 2009 and opened a joint account and organised monthly meetings at fixed time and place and made future strategies for the improvement of the conditions of member farmers. Then, more groups were formed and they together form a cluster. The number of groups in cluster was 25 and around 350 farmers and cluster was named as Waghad Kissan Sangh in November 2009 and worked to collectively purchase inputs and sell output. After one year, to do more business and to get their own license for the purchase of inputs, Sangh was converted into a PC in November 2010 and at that time PC had 38 FBGs and 588 members (table 22). 100% of the PC members are well aware of its business (table 25). Each group has average of 15 members. Maximum number of members in each group is 19 and minimum number is 10. 38 groups has total collective saving of Rs. 8.5 lakh, out of which 3 lakh is given as loan to the members in groups. PC has control over this money as it is managed by the groups themselves.

The farmers grow wheat, chickpea and mustard in Rabi season and maize, urd and vegetables in Kharif season. Those who have water in wells, they complain about electricity problems. The average land holding of member farmers is 0.72 hectare with maximum holding of 2.4 hectare and minimum holding of 0.16 hectare (table 23). Besides the crop production, farmers also rear cows and poultry for self consumption and 2 to 3 goats for selling them in markets. Farmers even did not meet the food requirement for their home consumption from their land, they have to purchase from the market for self consumption. They said, “Agar unnat bij mil jaye to kuch acha ho sakta hai, per pehli samsya to paani ki hai” (If we got good hybrid seeds, then we can produce well but our biggest problem is of irrigation water). 75% of PC members are Schedule Tribes (ST) and rest 25% are *patidars* (OBC). Most of the farmers of this area are small and marginal and main problem is the irrigation water. They depend mostly upon rain for farming and those who have wells, water level also goes down day by day and they don't have money to dig deeper wells. The *Patidars* have their wells but mostly they did not give water for irrigation to ST and when they give they charge Rs. 80-100/ hour, which is not in the reach of small and marginal farmers and they depend mostly on rainfall for irrigation.

Business

The main function of the PC is to supply inputs and grains for consumption (table 24). PC also purchased 10 quintal chilli in 2010 from Sawai Madhopur and distributed among the members for self consumption. PC also sells daily household items which they purchase from Hindustan Lever Limited and ITC dealers in Dungarpur to their members. PC purchased wheat and maize from JKAPCL in April 2010 and May 2011 and sold it to the members for consumption. PC gives inputs and grain to the members on credit basis, as it knows that the farmer members has the money in their groups saving and if they did not pay of their own, they paid by getting loan from the groups. The members are also happy with the formation of PC as they got the input from their own village, which earlier they had to purchase from Dungarpur.

Problems

The main problem of the PC is the shortage of working capital, godown for the storage of inputs and presently they are using rented shop as godown. Due to shortage of money, PC is

not in position to purchase the produce of farmers as farmers are willing to sell through the PC but due to urgent need of money they sell their produce to local traders. 20% of the farmer members are not satisfied with the work of PC.

Dungaria PC

Dungaria PC has emerged out of Mewada Kissan Sang which was in existence for one year. It is managed by a graduate from agricultural family background who has been working for three years. Though the PC was registered in 2010, the FBG was operational since 2008-09. The maximum number of shares can be upto 100 and minimum 10. The maximum number of share is kept by agreement all the member of the board of director has bought 100 share each. The PC has 26 FBG from 12 villages affiliated to it. Besides shareholders, there are 219 other ordinary members. There are 125 individual member shareholders with landholding varying from 0.08 hectare to 1.12 hectare, the average being 0.48 hectare (table 23). The main business of farmer in the region is vegetable production and animal husbandry including dairy, poultry, and sheepry. As most of the area is dry land and the tubewell are the only source of irrigation and 90% of members access the tubewells.

Business

The main business of the PC has been BT cotton seed production for a seed organizer based in Himmatnagar in Gujarat who in turn supplies the contracted produce to Biosheetal and Deepak seeds. It also supplies input like vegetable seed, fertilizers including bio fertilizer and pesticides to the member farmers. It also sold groceries for some time on commission basis. Since many members also own cattle, sheep and goat, it supplied cattle feed to them, which was bought from Sabar dairy which buys the milk from local area. In 2010-11, 90% of its turnover was made of BT cotton seeds. The PC buys BT cotton seed at Rs 410 /kg and get Rs 15 /kg as commission. The seeds are delivered by the members through the PC for ginning at Idar in Sabarkantha district in Gujarat. The cost of transport is born by seed organizer. All the inputs for seed production including seeds are provided on credit by the seed organiser. 60% of the seed producers are shareholders and the rest ordinary members. Out of total of 126 seed producers 80% were into seed production before the PC came in and only 20% of the total seed producers are non-members (table 23). The PC is mostly working with member farmers

and only 10% of the business comes from non-members. It has also started supply of tubewell equipment this year with arrangement from agro dealer. It buys inputs from other PC as well as KVSS. In general, farmer purchase 25 to 50 % of their input need from the PC and sell 50% of their seed production to company (table 25). It was involved in distribution subsidized spray pumps to its members on behalf of state department of agriculture.

Table 22: Basic profile of PCs in Rajasthan

Producer Co.> Parameter	Udaipur Agro (Jhadol, Udaipur)	Jhambukhand Kissan Agro (Banswara)	Vijwa Agro (Dungarpur)	Dungaria (Dungarpur)
Established from	1.Kamleshwar Kisan Sangh (K S) 2. Harihar K S 3. Sawariya Seth K S 4. Shak Vinayak K S	Jhambukhand Kissan Sangh	Waghad Kissan Sangh	Mewada Kissan Sangh
Date of registration	22-8-2010	28-6-2010	20-11-2010	29-10-2010
Authorised capital (lakh)	10	10	1	1
Share capital (Rs.)	300000	110000	58300	30000
Support by promoter (Rs.)	300000 (loan in 2010)	200000	Regn. fee	Regn. Fee
Shareholding Pattern				
Types of holder				
<i>Initial</i>				
-Individual	92	100	475	125
-Groups	8			
<i>Now</i>				
-Individual	92	100	475	125
-Groups	8			
Share Range	1-5	1-200	10-100	10-100
Education of farmer promoter	Primary	HS	Primary	Primary
FBG/SHG/Coop. Associated	99	62	38	26
No. of directors (Experts)	8 (6)	9 (2)	7 (3)	10
No. Prof. Manager (paid by)	3 (ADS)	2 (ADS)	2(ADS) &1 (KVK)	1 (ADS)
No. of employees				
- Prof/ managerial	2	2	1	1
- Other/technical	1	8	1	-
- Total	3	10	2	1

The PC was assisted in registration and in cost involved by the ADS and the CEO salary is also paid by the ADS. In the 12 villages from which PC draws its membership, there is a LAMPS in the panchayat of 30 villages, and a NGO Called PEDOMADA. 50% of the PC members are also members of KVSS and 70% of shareholders are members of KVSS. It also lent to a Sang (cluster) a short term loan and also lent Rs 60000 to another PC (Vijwa). It buys

Table 23: Profile of membership of PCs in Rajasthan

Producer Co.> Parameter	Udaipur Agro (Jhadol, Udaipur)	Jhambukhand Kissan Agro(Banswara)	Vijwa Agro (Dungarpur)	Dungaria (Dungarpur)
<i>Total users</i>	3000	1500	788	382
- Member	1200	800	588	344
- Non-member	1800	700	200	38
% of total business from non-members	60	20-30	10	10
Avg. Size of holding of member (Range) in Ha	0.8 (0.2-4)	0.8 (0.16-1.6)	0.72 (0.16-2.4)	0.48 (0.08- 1.12)

Table 24: Business profile of PCs in Rajasthan

Producer Co.> Parameter	Udaipur Agro (Jhadol, Udaipur)	JK Agro (Banswara)	Vijwa Agro (Dungarpur)	Dungaria (Dungarpur)
Main business	Input supply including seed and purchase of ginger crop/produce	Input Supply, Collective marketing of produce	Input and grain supply	Cotton seed contract farming facilitation and input supply. 126 seed producer (shareholder: 60%, Member:80%, Non-member:20 %)
Other services like extension, insurance, hiring of equipment (annually) (figures in Rs.)	100000 for organizing the meeting of the FBG at different villages and clusters and also install drip irrigation system at 5 members field cost Rs 1 lakh under RKVY	3,00,000 organizing the meeting the FBG at different villages and clusters (paid by access)	75000 organizing the meeting the FBG at different villages and clusters (paid by access)	Spray pump on subsidy from Agrl. Dept. Govt. of Rajasthan total cost 1300, subsidy-500, Farmer cost-800, PC commsn-100
Year (2010-11) Turnover (Rs. Lakh)	13.85	15.59	28.91	9.50
Profit (loss) in Rs. Lakh	0.04006	0.13847	0.14458	0.6
Loan from	ADS and Associated clusters	From associated FBGs	No	Loan from FBG
Corporate and govt. linkage -Name -Vol. of business done -Service fee charged -Formal/informal		KVSS, Rajseed Input supplies Rs. 15 lakh 2000 formal w/ Rajseed	KBSS Input Supplier Rs. 2.5 lakh - Informal	Seed co. JKAPCL, KVSS, Agro input dealer

Table 25: Farmer awareness and perception of PCs in Rajasthan

Producer Co.> Parameter	Udaipur Agro (Jhadol, Udaipur)	Jhambukhand Kissan Agro (Banswara)	Vijwa Agro (Dungarpur)	Dungaria (Dungarpur)
Farmer awareness				
-Total no. of farmer	1200	800	588	344
-Aware of company business (%)	100	60	100	95
-Rate its working satisfactory (%)	100	80	90	90
-Avg. farmer sale (%)		10	5	50
-Input purchase from co.(%of total used)				
- Seed	60	50	40	50
- Fertilizer/feed	100	50	100	25
- Pesticide/medicine	100	50	20	25
- Others				
-Satisfaction with various services (%)				
- Input	100	80	100	
- Output	100	70	80	
- Others				
- Mgmt. of PC	100	80	100	
-% of member who are member of other PC	no	no	no	
- % of member who are member of coop. in area	no	no	no	70

inputs from other PCs as well as KVSS (local sale and purchase co-operative federation). In general, farmers purchase 25 to 50 % of their input need from the PC and sell 50% of their seed production to company (table 25). 50% of the PC members are also members of KVSS and 70% of shareholders are members of KVSS.

Problems

The PC does not have license for trading and sells input on behalf of another PC (Vijwa) to which it gave a small loan.

Performance of PCs in Rajasthan

Only in case of one PC (JKPCL), member farmers and FBGs had grown from 600 and 52 at the time of registration to 800 member farmers and 62 respectively. Two of the PCs (JKPCL and Vijwa) also supplied grains (wheat and maize) to members for consumption. Only two of them (UAPCL and JAPCL) had input sale licenses only. Most of the produce sales were in

local markets and in one case to another PC. All of them had a small profit in 2010-11- the first year of operation after registration (table 24), but this was in the presence of plenty of support from promoting and other government agencies.

The board of directors is aware of the benefit of the PCs but farmers have only a basic idea of the organization though Sang have been helpful in building awareness. The market linkages are also weak. This year JKAPCL made a tie up with Rajseed for seed production and supply through ADS but when number of farmers increased, Rajseed was not able to handle such bulk production and withdrew its support. 20% of the farmer members are not satisfied with the work of PC. They also face difficulties in getting APMC license due to traditional cooperatives already having licenses in the same area, in some places. It is said that even after five years of existence of the law on PCs, neither the state nor development agencies have tried to create awareness of the concept and its practice. All PCs work with the same regulations, with only difference being in the value of shares across PCs. In spite of all such work, PCs are still not in a position to hire skilled or professional staff. Their funding is mostly dependent on the grants. They are not still recognized by the banks. Their capacity depends mostly upon facilitating agency. As they deal mostly with small and marginal farmers, who already lack inputs and resources, they depend mostly on the support and technical assistance provided by the agencies. ADS experience shows that it takes 4 year to make a new PC viable.

Chapter 6

Producer Companies in Maharashtra

Maharashtra is known for its horticulture and processing sectors like sugar, grapes and milk. Though there are areas of agrarian distress like Vidarbha in the state which have led to the state being the one with the highest number of farmer suicides during the last decade in India, it also has vibrant agro export and processing sectors despite being rainfed to a large extent. Besides, being the most industrialised state, it is also known for its agricultural co-operative structure with major successes being in sugar and milk. The PC initiatives need to be seen in that context. It is the state with one of the largest number of PCs registered in the past few years though not as old as MP. Also, in Maharashtra, most of the PCs are NGO or farmer initiated and managed.

A profile of PCs in Maharashtra

All of the PCs have come up only in 2009 or after and all the genuine and NGO/WUA promoted PCs have small authorised capital i.e. Rs, 5 lakh each and they mobilized only about Rs. 2 lakh each actually from their membership which ranged between 100 and 200 each. They did not have adequate professional staff in most cases (table 26). Their users were mostly members except in one case where non-members were larger than members (Baliraja) and non-members contributed 70% of business of the PC. All of them had a small holder member base with average land holding per member being 1-2.4 hectares each, the latter (with average of 2.4 hacs) being a grape growers' PC (table 27). The three genuine PCs reported turnover which was small except in case of grape PC and all of them were into losses continuously (table 28). They had some market linkage with private sector but were not working well. But, the farmer interface was still lacking in terms of use of inputs or sale of output e.g. Baliraja had 75% membership awareness about the PC, farmers sold about 25% of their output to PC and 80% of inputs were bought from the PC. But, in the grape PC, only 2% of farmer produce was sold through the PC, that too to one corporate buyer only once (table 29).

Case studies of PCs

Corporate PCs

Sahyadri Agriculture PC (SAPC)

SAPC was started by an agricultural graduate, who is also an MBA from Mumbai. He was in the corporate sector before he started the business in financial planning, which is his core business under the name of KAIJING Disciplined Investment Solution. He registered SAPC in November, 2011 to make investment in purchase of land, which is further used for plantation. He is the main promoter of the PC and did not get any support from anyone. Initially there were 45 shareholders, which increased to 70 (table 30). Minimum 1040 shares are to be bought for 2 acres of land. PC invests in the purchase of the waste land for plantation as they focus on wasteland management in the rural areas which is unirrigated and non-agricultural land. According to the CEO, PC vision is to:

- be leader in nourishing the people and the industry.
- create a distinctive value.
- be trustworthy, creative and enterprising.
- satisfy customers with profitable growth.

Business

Investors leased the land to the Sahayadri for 15 years for various agricultural activities on the basis of profit sharing, which will be distributed according to shareholding. Presently the PC has 500 acres of land of which plantation are done in the two areas- 100 acres in Baveli and 360 acres in Mandokli. The PC has 5 directors. The main business of the company is the plantation of eucalyptus trees for the Karnataka based paper company-West Coast Paper Mill limited.

Presently the PC has no turnover, as it is in plantation business and the plantation was done in the last year, which will be harvested in 2015 (table 28). It has a 5-year contract with West Coast Paper Mill Limited (WCPM) under which all expenses for land development, plantation, maintenance, security, growth, harvesting and transportation will be met by

WCPM, and post-harvest, Sahyadri will get Rs. 800/- per ton and after 5 years, PC can decide whether to continue with the agreement and plantation or not. If it wishes to continue, it can either keep the maintenance contract with West Coast but it will have to pay certain charges or continue with eucalyptus and manage the entire show on its own. If it discontinues, West Coast will clean the entire land, remove the roots and hand over back to Sahyadri. The 2nd harvest will be after 4 years from first harvest and 3rd harvest after 4 years from 2nd harvest. For 2nd and 3rd harvest; PC will get the prevailing market rate for eucalyptus log per ton. The PC has 3 professional paid managers. According to the CEO, they don't take any farmer land or make any farmers shareholder, as a farmer has very little land and wants returns every year, but plantation business will give return only after the harvesting of first plantation crop. PC only invests the money of the corporate or people who want to purchase land or want to invest money in the property. The main motive of the PC is to produce raw material for the agro based industries.

PC has plans to start agro based tourism, medicinal plants zone in 50 acres and plantation contract with more corporate like ITC, Pepsi etc. KAIJING Agro Services, the sister concern is also planning to facilitate contract farming of baby corn for Malaysia based company.

This is a case of a PC which is not formed by primary producers as none of the promoters is a farmer. Most of them are into service or business occupation and women members as homemakers. This is a case of misuse of the Act.

Sahyadri Farmers PC (SFPCL)

SFPCL is formed by a grape exporter of the Nashik district, who is M.Tech in Agricultural Engineering. He is into grape export business from the last 6 years under the name of Ms. Vilas Vishnu Shinde Exporters who undertakes contract farming of grapes with 400 farmers which are Globalgap certified. He registered the PC in October, 2010. The PC has authorized share capital of Rs.1 crore, and Rs. 85 lakh as paid up capital (table 26). Main promoter of the PC is the exporter and farmers themselves. They don't want any support from the government.

Table 26: Basic profile of PCs in Maharashtra

Producer Co. > Parameter	Baliraja krishak (Ahmednagar)	Sahyadri Farmers (Nashik)	Sahyadri Agriculture (Pune)	Waghad Agri (Nashik)	Devnadi Valley Agri (Nashik)
Established from	Krishak panchayat Sangathan	-	-	WUA	WUAs
Date of registration	15-10-2009	15-10-2010	26-11-2009	Sept. 2009	2011
Authorised capital (Rs. lakh)	5	100	25	5	5
Share capital (Rs lakh.)	2.25	85	10	1.7	2.3 lakh
Main promoter/facilitator	Lok Panchayat (NGO)	Exporter	Financial Advisor	WUA Federation	Yuva Mtra
Shareholding Pattern					
Types of holder					
<i>Initial</i>					
-Individual	100	11	45	24	103
<i>Now</i>					
-Individual	220	11	70	107	173
Share Range	50-1000	Not fixed	1040	1000	Not fixed
Education profile of main farmer promoter	Middle	M. Tech	MBA	B com	B Com
No. of directors	11	5	5	7	11
No. of Prof. Managers (who pays them)	2 (Lok panchayat)	Staff of the export Co.	3 (PC)	0	NGO staff
No. of employees		Employees of the export company also see the work of PC			
- Professional/managerial	2		3		NGO staff
- Other/technical	4		2	1	
- Total	6	20	5	WUA Staff	

Table 27: Profile of Membership of PCs in Maharashtra

Producer Co. > Parameter	Baliraja krishak (Ahmednagar)	Sahyadri Farmers (Nashik)	Sahyadri Agriculture (Pune)	Waghad Agri (Nashik)	Devnadi Valley Agri (Nashik)
<i>Total users</i>	750	800	70	107	173
- Member	220		70	107	173
- Non-member	530				
% of total business from non-members	70	100	0	0	0
. Size of holding of member (Range) in Ha	1 (0.4- 6)	2 (0.8- 20)	1.9 (0.8-4)	2.4 (2-4)	1.5 (0.1-4.1)

Table 28: Business profile of PCs in Maharashtra

Producer Co. > Parameter	Baliraja krishak (Ahmednagar)	Sahyadri Farmers (Adgaon, Nashik)	Sahyadri Agriculture (Pune)	Waghad Agri (Nashik)	Devnadi Valley Agri (Nashik)
Main business	Production/marketing of organic products/bio input supply	Input supply, technical support and export of grapes	Plantation of eucalyptus tree for paper mill	Grape sale, input supply	Marketing of member vegetables
Year (2009-10) Turnover (Rs. Lakh)	No turnover	-	-	39.25	-
Profit (loss) in Rs. Lakh	(0.10840)	-	-	(6.91)	-
Year (2010-11) Turnover (Rs. Lakh)	5.59	No turnover	No turnover	108	16
Profit (loss) in Rs. Lakh	(0.15530)	-	-	(4.0)	(0.10098)
Corporate and govt. linkage	Nirmati women coop, and SHG and traders in Pune, Nashik, Banglore	Exporter. Sygenta, BAIF, BASF, Religare.	5-year contract with the West Coarse Paper Mill	Tata Khet se for one year only	Tata khet se (60% of total sale), Mahapik market

Table 29: Farmer awareness and perception of PCs in Maharashtra

Producer Co.> Parameter	Baliraja krishak (Ahmednagar)	Sahyadri Farmers (Nashik)	Sahyadri Agriculture (Pune)	Waghad Agri (Nashik)	Devnadi Valley Agri (Nashik)
Farmer awareness					
-Total no. of farmers	220	800 (users)	70 (Investors)	107	170
-Aware of PC business (%)	75	100	100	-	-
-Rate its satisfactory (%)	75	100	100	-	-
-Avg. farmer sale (%)	25	100	-	2	-
-Input purchase from PC(% of total used)					
- Seed	-	50			
- Fertilizer/feed	80	50			
- Pesticide/medicine	80	50			
- Others					
-Satisfaction with various services (%)					
- Input	100	100			
- Output	100	100			
- Others	-	-			
- Mgmt. of PC	100	100			
-% of member who are members of other PC	no	no			
- % of member who are member of coop. in area	100	100			

PC has 11 shareholders and there is no share distribution till now. PC has 5 directors and 100% of the PC business is from the non-members as they have not distributed its share. PC has 800 users (table 27). The main business of the PC is input supply, technical support and export of grapes (table 28). Farmers associated with the PC have average land size of 2 hectares ranging from 0.8 -20 hectares (table 27). As the PC was registered in Oct, 2010, there was no business in the PC in the 2010-11.

Business

In 2011-12, PC has turnover of Rs. 20 crore, out of which 20% is from the input supply and 80% is from the grapes export. 100% of its business is from the non-members (table 28) Grapes are the perishable commodity, so there is no fixed price, it all depends upon the consignment sale, there is minimum price assured by the trader and then they give this price to the producer. But from last 3-4 years, they are giving Rs. 7-8 above the minimum price.

80% of the total grapes exported are to Europe and the rest 20% is in the Gulf market, Russia, Dubai, Egypt. Earlier, he used to purchase the grapes from the contract farmers and export through his export company, but after the formation of PC, they export through the export company but billing is done under the name of SFPCL. Still the PC has no staff and 20 numbers of staff of the export company also work for PC.

PC started software known as SFPCL Krishi Software, with which the farmers are always connected with the PC through their mobile phones regarding any technical support, climate information, price information, demand from PC, etc. PC has the license for seed, fertilizer, pesticides, export and import but does not have APMC license. Last year, PC imports Rs. 2.5 crore worth of fertilizer from China and sold at 25% lower than market cost to its members.

PC has 800 users, who are 100% aware of the company business and rate its working 100% satisfactory. 50% of the total inputs used on their farms are purchased from the PC and they all are the members of the other local cooperatives (table 29).

NGO Promoted PCs

Baliraja Krishak PC

Lok Panchayat the local NGO, who worked for watershed development programme in the Ahmednagar district and after this they started post-watershed programme for sustainable agriculture. This work started from 1993 and ran upto 2001. In 2001 they did the rally called Kissan Samvad Yatra just to know the issues and status of agriculture and talk with the experts regarding the issues and concluded that cost of cultivation is increased due to usage of chemical fertilizer and it also affected the environment, increases health issues and the organic farming is the solution for this. Then they started awareness for the organic farming. In 2005, UNDP supported them for the demon plots of organic farming in 20 villages with 22 farmers and started motivating the other farmers to do the same.

They started organic farming in the dry land areas as the farmers of these areas still practicing traditional farming and use less or no chemicals in their fields, but for the irrigated crops like wheat, vegetable, they have to come to the semi irrigated area and then start farming with the tribals of the semi irrigated areas. Then the problem was how to sell the organic produce. They took it to the big malls but they asked for certification and in 2008, they went to the Organic Farming Centre of Government of Maharashtra in Nagpur and link with them and also in Pune, there is agency called NOCA, who give organic certification and they gave it to them.

They started making groups of the farmers in every village and collectively all these group formed one Krishak Panchayat and they started Participatory Guarantee System (PGS), in this farming group themselves certified each other product and take responsibility of each other. Than to move in the business form and to make it sustainable, they do meeting with all the farmer groups and asked them to register as PC and in this way they registered as PC in 2009 with 100 shareholders which is now increased to 220 (table 26).

There are 302 SHGs in the 60 villages managed by the Lok Panchayat, they have saving of Rs, 2 crore but they don't have any concern with the PC. PC has 11 directors, one CEO, who is agricultural graduate, one consultant who is MBA and 4 other staff members. The main business of the PC is organic farming, supply of organic inputs like traditional seeds,

vermicompost, Neem seed, marketing of organic produce, monitoring and technical support to the farmers. PC has 70% of total turnover from the non-members. Members have the average land holding of one hectare ranging from 0.4-6 hectares (table 27). Member farmers sell through the PC and get 10-15% extra price from the market price of every crop. 95% of the output is sold in the local market and only 5% is sold in Bangalore. PC supply only organic product and also purchase only from the organic farmers.

Business

PC started the seed bank programme and collected the sample of traditional seeds and grows them in the trial plots of the farmers. The database is ready regarding the seed grown by the farmers before every sowing season. They also exchange seed with the traditional seeds in a ratio of 1:2. This year PC also start selling the product made from wild products like Karonda Squash, Honey collected by tribals from the forest, Jamun juice and pickle from the Aadhar Kendra run by the Lok Panchayat for the welfare of single women (Widows, Leaved by husband). They also start making Jaggery (gur) in the organic way and also want to established factory of that. PC has two retail outlets in the Sangamner and also they supplied on order. But it has always made losses (table 28).

The PC has linkage with the Nirmati women cooperative, SHG of Lok Panchayat for the neem seed supply and the traders of Pune, Nashik, Bangalore for the output supply. Some time they also sell in the exhibitions.

75% members are well aware about the PC business and they rate its working satisfactory. Farmers sell only 25% of total output to the PC (table 29). The want to sell more to the PC, but PC is not able to buy all from the farmers due to shortage of money. PC gives 50% to the farmers at the time of purchase of produce and rest 50% after the sale of produce. 100% PC members are the members of the other local cooperatives.

Problems

The main problems of the PC are the shortage of working capital. There is no proper information about the availability of particular machines and also problems in the technical

assistant regarding usage of machines. Local support for the farmers' group is very negligible. It has very high dependence on non-members for business (table 28).

Devnadi Valley Agriculture PC

Devnadi Valley Agri PC was registered in 2011 though start operating from 2009 itself. It is also based on existing WUAs (2) and promoted by an NGO called Yuva Mitra promoted by Sunil Pote in 1995 which started work on 2000 in areas of alternative education, bio diversity conservation and check dam revival. Sunil is MSW and has worked with Baba Amte NBA and Glaxo. The NGO operates in 20 villages and has helped irrigate and rehabilitate 1100 ha in these villages. It has also promoted dairy development through a private limited company which handles milk collection and chilling besides sale to Dynamic dairy. It works with 170 supplying member and collects 2000 litre milk daily. It was registered online. It has 173 members with shareholding of Rs. 1000 each and 10 Directors with shareholding of Rs. 5000 each making for total paid capital of Rs. 2.13 lakh. In 2010-11, it had 103 shareholders (table 30) and the land holding of Directors ranged from 2 acres to 20 acres with major crops being onion and garlic and other vegetables besides wheat, with onion acreage ranges from 1 to 3 acres. The chairperson of the PC is commerce graduate and has been the director of PACS for 5 years. The other directors are under graduate or graduate besides being farmers.

The PC was promoted with the objective to promote direct linkage between farmers and consumers and assured market and prices for the crops through multiple marketing channels, increased yield and production through quality and balanced input used and modernization of farming techniques. The PC members come from 10 villages of Sinner taluka of Nashik district. Most of these villages have more than 40% of their land unirrigated. Major crops of the area include soybean, onion, wheat and vegetables like tomato, garlic.

Business

It is into the business of marketing of member farmer vegetable produce. It supplied 160 MT of onion to Tata Khet Se in 2010-11 and 4 tonnes weekly for 3 months to Tata retail venture-Star Bazaar on consignment basis. It also used to sell vegetable through a SHG run shop in a police colony in Nashik, which is now closed. It provides training to farmers on production of exotic vegetables in open houses.

It claims that it has been able to get Rs. 70-120/qtl. higher price than the local market after 5% margin for the PC. It has not attempted any value addition so far. It has sold in markets of Delhi and Mumbai and the turnover of Rs. 28 lakh in 2010-11 of which almost 60% was sold to Tata Khet Se (table 28). PC stopped working with Tata Khet Se as it wanted 9% commission to sell PC produce. After this PC started using two models one buying from farmers and sharing profit losses on 50-50% basis and two selling on the behalf of farmer and charged 3% commission. It has no APMC or export license and has not been provided any loan by any funding agency.

PC is planning to set up rural business hubs as agro malls which will have cluster level presence in terms of service centres and in turn will supply inputs to the member farmers at village level and collect farmer produce for better marketing and selling. These collection center and service units will be managed by SHG or farmer groups or clubs. Each service centre will serve 10-20 villages. The PC has been granted a loan of Rs. 30 lakh by NABARD under its Producer Organization Development Fund (PODF) in 2012.

Problems

The major problem is shortage of funds especially investment capital. But, the promoting agency feels that the most important problem is lack of awareness among farmers about the PC concept and its practice besides even among professionals. The lack of farmer involvement and professional orientation is a major hurdle for this professional management support is needed to make PC work. It has no linkage with any other PC in the region. 110 member of this PC were given training by the promoting NGO for 5 days. PC proposes to increase the membership to 1000 to achieve the economies of scale. Its major marketing problem includes quality and assured supply which depend upon input control.

It claims that its entire membership is aware of the PC business though new ones who join later did so to obtained input facility. In 2010-11 it sold produce of 56 members. Initially on their behalf and later buying from them at a minimum assured price and paying the difference later. It lost money in onion due to high cost of bigger truck than needed for on farm pickup of produce but the PC was still in profit. The members of the PC are also the member of WUAs and PACS.

Farmers Organised PC

Waghad Agri PC

The PC was registered in September 2009 and became operational in 2010. The promoter guided by local Executive engineer learned about the PC and registered it online. The promoters have 1000 shares each valued at Rs.10000 (table 26). Most of the members are the members of WUA. There are 3 BPL farmers, but they have not bought any shares. Besides the promoter, there are 14 other members. The chairperson of the PC is a commerce graduate and other directors are matriculates or under graduates.

There are 3 water user associations (WUAs) in the village- one in each minor canal area which are built on a medium irrigation project. These WUAs are part of the canal water users association formed since 1995 and covers 4 villages. These associations are federated into a canal Water Users' federation since 2003, which covers 24 WUAs with 50000 members.

The authorized share capital of PC is Rs. 5 lakh @ Rs. 10 per share. It has paid up capital of Rs. 1.7 lakh from 107 shareholders. The land holding of the 7 directors who had the 1000 share each ranged from 2.5 acres to 30 acres and grape acreage from 4 to 25 acres. It was the major crop besides tomato, soybean and Guava. The PC has provided for reserve funds in which the 10% of the net profit or Rs. 1 lakh, whichever is higher will be transferred. The return on fully paid share capital is restricted up to 3% per annum or as specified by the board and approved by general body. Of the total surplus from the operation of the PC, 5% will go for development of business, 1% for common services, 5% as withheld price, 1% for the education of members and employees about principles and techniques of mutual assistance and distribution among the members of the access as per their patronage of PC.

In 2009-10, the PC had fixed assets of Rs. 20000 cash and bank balance of the order of Rs. 10.1 Lakh and liabilities of Rs. 17.7 lakh, resulting in net current assets of Rs. -6.72 lakh. During the year, it had sale income of Rs. 39.25 lakh and total expenditure of Rs. 46.44 lakh resulting in loss before taxation of the order of Rs. 6.91 lakh (table 28). It has paid only Rs 47000 as salary and Rs. 1.29 lakh as administration expenses. It did not pay any remuneration to the directors during the year and paid only Rs. 7500 as auditor fee.

Business

The main business of the PC is grape sale, which is grown by members anyway. There are 10000 hectares under horticulture in the command area of the canal. The PC was organized to facilitate the marketing of these high value crops. It sold grapes worth Rs. 73 lakh to the wholesaler Tata Khet Se and in Ahmadabad and Surat market, worth Rs 35 lakh in 2010-11.

The average size of holding of the members is 2.4 hectares ranging from 2-4 hectares (table 27). The grape acreage alone ranges from 0.4-2 hectares. The sales in the case of Tata Khet Se were consignment based in 2009-10, which meant that if they were sold, then only farmers were paid. The PC sold to Tata Khet Se only once. It mostly sold through traders and realized much lower prices than promised to farmers. This resulted in Rs. 11 lakh loss in 2009-10 and Rs. 4 lakh loss in 2010-11. This loss is borne by the PC as farmers were paid promised price, some payment are due, due to losses made. Tata Khet Se gave 1% commission to the PC for the produce it bought but the quantity bought was only 3-4% of the total. Tata Khet Se provided other support like crates on credit and as part of its open auction, the PC was given preference. The PC also bought 5000 packing boxes from Tata Khet Se besides plastic pouches for grape packing.

The PC takes grape farm on contract like other grape buyers and then organizes harvest and sale. Last year, it had taken 40 grape farms on lease and this year (2011-12) it has 21 farms, on an average, a farm being half an acre. It is exploring agricultural input dealership from Tata Chemicals.

It sold 15 tonnes of seed as part of the government programme and 15 tonnes of DAP. It claims that all the farmers are aware of the PC concept and business but it has been able to handle only 2% of the grapes produced by its members. It hopes that members will stay at the PC as future expectations matter. It is also involved in selling fertilizers on cash basis though it has no trading license. It has also sold member farmers' vegetables like lady finger, bitter guard and tomato once or twice but did not make any profit. Some of its farmer member also do soyabean and wheat seed production on their own. It has not attempted any value addition so far. It also participated in training of 100 farmers in poly house production over 3 days in 2010 after which 30 farmers went in for poly house production.

Problems

The PC has no CEO and only one accountant. It has no APMC and export license. It operates from WUA office and has internet and computer facilities. It has been able to get two outlets for sale of inputs and recently obtained license for that. The major problem include lack of funds as there is no collateral to give, lack of marketing skills and no financial support from the buyers of produce.

Performance of PCs in Maharashtra

In Maharashtra, of the five PCs studied, two are into high value (grape) exports and two into other high value business (vegetables and organic produce). In grapes, one is genuine PC originating from WUAs and their federation, the other is promoted by an exporter of grapes and is not genuinely farmer based. It is only on paper and there is no separate staff for it. In fact, another PC in the state (Sahaydri Agri) is also a case of misuse of the PC clause as it is promoted by a professional with business background and all of the promoters are non-producers. Further, they are into land buying and using it for plantation purposes to supply wood to a paper mill. It is more like the earlier plantation companies. It can be called a land company, not a PC.

There is another case of a PC of banana growers in Jalgaon (Vitthal Rakhumai Banana Producer Company) which was registered in 2009-10 which is also large grower outfit. Its 11 directors have land ranging from 15-35 acres and seven of them also leased land ranging from 7-14 acres. Besides, their other major crop was cotton. It had a turnover of Rs. 50,000 in 2009-10 planned to increase it to Rs. 25 lakh in 2010-11. But, it could not sell to Tata Khet Se as they did not find their bananas of good quality. But, this is clearly a case of a PC owned and managed by large growers and landholders.

All the three genuine players are into losses as they deal with high value crops like fruits and vegetables but could not sell well despite linkage with corporates like Tata Khet Se. They also did not get any financial support in any form from anywhere for upscaling their business. Only now, one of them- Devnadi- has been granted a loan by NABARD under its PODF.

The finance businessman promoted PC has not even bothered to procure any license for any business of its PC. On the other hand, none of the genuine PCs had obtained any licenses for input sale or output market participation.

Chapter 7

Summary, major problems and recommendations

Summary

The membership/shareholding of PCs in India ranges from individual producers to informal self-help groups and individual producers, registered self-help groups and individual members, and only institutional members. The number of members ranged from 11-220 in Maharashtra, 30-6000 in Gujarat, 344-1200 in Rajasthan and 10-6500 in MP. Though authorized capital ranged from Rs. 3-25 lakh across PCs, the paid up capital remained within Rs. 1-5 lakh with only a few (4) touching Rs. 10 lakh and only one having authorised capital of Rs. one crore (table 30).

But, most of the DPIIP PCs in MP had given out shares to large number of farmers ranging from 1200-6500. The number of users was even higher ranging from 2460-8000 (table 30). Except one PC, most of the PCs mainly did business with membership, and non-member business was only around 20%, but it was the highest among all states (table 31). Most of them represented really small farmers with land holdings averaging around one hectare. Most of them had professional managers though in many cases, the turnover of professionals was high. A significant support to start the PCs had come from promoting agencies or projects, especially in MP. Most of the MPDPIIP PCs were into seed production and farm input supply as their main business (table 32). The financial performance of most of the PCs was weak with most making losses and other very low profits.

The NGO- ASA promoted PCs had even lower capital base (20-40% of authorised capital) and very small membership and user base and low professional support. They too worked with small holders and largely member farmers for business transaction as they were into better cotton programme including input supply. They were of relatively recent origin and one of them did make profits within two years despite the fact that they did not get any state support unlike MPDPIIP and other PCs in the state. The other NGO (Srijan and PRADAN) promoted PCs had much larger capital base (Rs. 3-51 lakh) and all of them had received support from MPDPIIP as by the DPIIP PCs (table 30). Most of them had only institutional members and some professional support/staff. But, their user base was much larger (2200-4000) as two of them were into dairy

and poultry business which required scale. For this, they also (two of them) depended on non-member business upto 40% of their turnover. But, only poultry PC (of PRADAN) was consistently into profits (table 32).

In Gujarat, NGO promoted PCs were not able to raise authorised capital to a large extent which was anyway small (Rs. 1-5 lakh) and shareholding was restricted to a few groups and farmers. They did not have many professional managers. The user member base was small and farm holdings larger than in MP (table 31) and sold mostly inputs and facilitated producer selling. But, both were not active now and were being restructured and re-energised. On the other hand, the farmer organisation (BKS and OGCF) promoted PCs were doing better in terms of business volumes as well as profits. The most striking case was that of BKS leader promoted PC which had touched farmer member base of 6000 across six districts and achieved turnover of the order of Rs. 25 crore within two years and making good profits without any external support. But, its farmer base was large and medium farmers and it had high value produce for exports and domestic markets. The other farmers organisation based PC was doing good sales and business management but seemed more of an outfit of a few people with large non-member sales .

The PCs in Rajasthan were relatively very new and had modest farmer base (300-1200) with mostly individual shareholders (100-500) but had large number of farmer groups associated with them (table 30). They had fairly good professional support from the promoter NGO (ADS). In some of them, non-member dependence was high (20-60%) though farmer base was really made up of marginal and small farmers, that too, in tribal areas. Though most of them were also into input supply, two of them also ventured into facilitation of seed contract farming and ginger production and marketing. Their annual turnover was in the range of Rs. 10-30 lakh and all of them were into profits, though modest.

The PCs in Maharashtra presented a mixed bag with some being extremely genuine and others completely fake as there were also non-NGO (corporate) promoters in some cases. Of the two NGO promoted PCs, capital base was small (Rs. 2-3 lakh), number of shareholders was small (200) and professional help was missing. Similar was the case of one farmer group promoted PC

Table 30: State-wise Basic profile of PCs in India

State>	MP										
Promoter> Producer Co.> Parameters	MPDPIP (all from CIGs)						ASA(from SHGs)		SRIJAN (from CIG)	PRADAN (first from CIG and second from Co-ops)	
	Khajurao (Chattarpur)	Nowgaon Agri (Tikamgarh)	Sagar Samridhi Crop (Sagar)	Khujner Agi (Rajgarh)	Samrath Kissan (Shajjapur)	Ramraja Crop (Tikamgarh)	Nimad farmers (Ojhar,Barw ani)	Khargaon (Khargaon)	Sagar Shri Mahila Dugh Utpadak (Sagar)	Sironj Crop (Sironj, Vidisha)	MP Women's Poultry (Bhopal)
Authorised capital (Rs Lakh)	5	3	5	5	15	25	5	5	25	5	25
Share capital (Rs. Lakh)	4.6	1	1	1.8	9.5	1.67	2.14	1	5	3.42	25
Shareholding Pattern											
Types of holder											
<i>Initial</i>							367	5	10	10	5 (Coop.)
-Individual	12	10	200	450	3000	650					
-Group	-	-	-	-	-	-	514	100	10	1910	6 (Coop.)
<i>Now</i>									142		
-Individual	4625	1000	1203	1860	6500	1647					
-Groups	140 (23% of all)										
Shares per member	10	10	10	10	12-22	100	20	50	10	10-100	1-10
FBG/SHG/Coop. Associated	140	No	No	200	No	No	No	1000	142	No	6
No. of directors	12	5	11	5	14	7	15	5	8	10	6
No. of Prof. Managers (who pays them)	3 (DPIP and PC)	1(DPIP)	1 (DPIP and PC)	3 (PC and DPIP)	2(DPIP and PC)	2 (DPIP and PC)	1 (ASA)	1(ASA)	3 (DPIP and SRIJAN)	1 (DPIP)	1 (PC)
Total No. of employees	10	3	4	9	5	4	4	2	11	5	NA
Main business	Seed contract farming and responsible soya production facilitation and input supply including soil testing	Seed contract farming facilitation and input supply	Seed contract farming facilitation and input supply besides seed processing	Seed contract farming and responsible soya production facilitation with input supply and collective sale, and sale of daily	Seed contract farming and better soya production facilitation and input supply	Seed contract farming and responsible soya production facilitation and input supply	(Better) Cotton production facilitation and input supply	(Better) Cotton production facilitation and input supply	Milk procurement and sale and cattlefeed manufacture and sale	Seed contract farming facilitation and input supply	Poultry production facilitation and sale of poultry inputs and birds (meat)

				necessities							
State >	Maharashtra			Rajasthan				Gujarat			
Producer Co. > Parameters	Baliraja krishak (Sangamner)	Waghad Agri (Dindori, Nashik)	Devnadi Valley Agri (Sinnar)	Udaipur Agro (Jhadol)	Jhambukhan d Kissan Agro (Banswara)	Vijwa Agro (Dungarpur)	Dungaria (Dungarpur)	Dhari Krishik Vikas PC (Dhari)	Mahagujrat PC (Amreli)	Farmer Crop Care PC (Budhel, Bhavnagar)	North Gujarat agro PC (Palanpur)
Established from	Krishak panchayat Sangathan	WUA	WUAs	4 kissan sanghs	Kissan Sangh	Kissan Sangh	Kissan Sangh	WUAs	-	-	-
Authorised capital (Rs. lakh)	5	5	5	10	10	1	1	1	100	11	5
Share capital (Rs lakh.)	2.25	1.7	2.3 lakh	300000	110000	58300	30000	1	88	10.42	3.205
Main promoter/facilitator*	NGO	WUA Federation	Yuva Mtra (NGO)	ADS (NGO)	ADS (NGO)	ADS)NGO)	ADS (NGO)	DSC (NGO)	BKS (FO)	BOGCF/SFW A (Co-ops)	Farmers Union (FO) and 3 NGOs
Shareholding Pattern											
Types of holder											
<i>Initial</i>											
-Individual	100	24	103	1200 99	600	588	344	10	800	11	200
-Group											
<i>Now</i>											
-Individual	220	107	173	1200 99	800	588	344	10	6000	30	641
-Groups											
Share Range	50-1000	1000	Not fixed	1-5	1-200	10-100	10-100	1000	1-25	500-5500	5
FBG/SHG/Coop. Associated	1	1	1	99	62	38	26	10 (1)	13 (1)	6	13
No. of directors	11	7	11	8 (6)	9 (2)	7 (3)	10	1 (DSC)	6 (PC)	No	No
No. of Prof. Managers (who pays them)	2 (Lok panchayat)	0	NGO staff	3 (ADS)	2 (ADS)	2 (ADS) & 1 (KVK)	1 (ADS)	1 (DSC)	6 (PC)		--
No. of employees	2	1 WUA Staff	NGO staff	2	2	1	1	1	10	3	-
Main business	Bio-input supply and marketing of organic produce	Input supply and grape sales	Vegetable selling	Input supply and purchase of produce	Input supply and collective marketing of produce	Input and grain supply	Cotton seed contract farming facilitation and input supply	Input supply	Cotton and mnago selling and input supply thru own retail shops at local level	Input selling	Input supply and fruit selling

Note: *ALL PCs im MP were promoted by DPIP. Sahyadri Farmers (Nashik) and Sahyadri Agri (Pune) PCs from Maharashtra are removed from this table as they are fake PCs. For information on them, please see table in relevant chapter

Table 31: Membership Profile of PCs in India

State>											
MP											
Producer Co.> Parameters	Khajurao (Chattarpur)	Nowgaon Agri (Tikamgarh)	Sagar Samridhi Crop (Reori,Sagar)	Khujner Agriculture (Rajgarh)	Samrath Kissan (Shajjapur)	Ramraja Crop (Tikamgarh)	Nimad farmers (Ojhar,Barwani)	Khargao n (Khargao n)	Sagar Shri Mahila Dugh Utpadak (Jaishee nagar, Sagar)	Sironj Crop (Sironj, Vidisha)	MP Women's Poultry PC (Bhopal)
Total users	6600	5000	3000	2460	8000	3000	767	148	2200	3000	4000
- Member	4600	1000	1200	1860	6500	1647	517	73	1500	1000	4000
- Non-member	2000	4000	1800(inputs only)	600	1500	1353	250	75	(SHG) 700	2000	0
% of total business from non-members	15	30	20	20	20	50	5	50	40	40	0
Avg. Size of holding of member (Range) in Ha	1 (0.2-3.4)	0.8 (1-10)	0.8 (0.4-4)	1 (0.25-10)	1.5 (0.3-7)	1(0.4-1.6)	1 (0.25-2.5)	2 (0.5-5)	2 (1-4) Buffaloes	1.5 (0.5-3)	400 (300-600) (birds)
State>											
Maharashtra				Rajasthan				Gujarat			
PC> Parameters	Baliraja krishak PC (Sangamner)	Waghad Agri PC (Dindori, Nashik)	Devnadi Valley Agri PC (Sinnar)	Udaipur Agro PC (Jhadol)	Jhambuk hand Kissan Agro PC (Banswara)	Vijwa Agro PC (Dungarpur)	Dungaria PC (Dungarpur)	Dhari Krishik Vikas PC (Dhari)	Mahagujrat Agricotton PC (Amreli)	Farmer Crop Care PC (Budhel, Bhavnagar)	North Gujarat agro PC (Palanpur)
Total users	750	107	173	3000	1500	788	382	1500	6000	Everyone	700
- Member	220	107	173	1200	800	588	344	1150	6000	but prefer	641
- Non-member	530			1800	700	200	38	350		member first	60
% of total business from non-members	70	0	0	60	20-30	10	10	25	0	90	10
. Size of holding of member (Range) in Ha	1 (0.4- 6)	2.4 (2-4)	1.5 (0.1-4.1)	0.8 (0.2-4)	0.8 (0.16-1.6)	0.72 (0.16-2.4)	0.48 (0.08-1.12)	2.74 (0.45-4.57)	10 (0.4- 16)	4 (0.8-6)	18.88 (2.2-34.28)

Note: Sahyadri Farmers (Nashik) and Sahyadri Agri (Pune) PCs from Maharashtra are removed from this table as they are fake PCs. For information on them, please see table in relevant chapter

Table 32: Business Performance and Profile of PCs in India

MP											
Producer Co.> Parameters	Khajurao PC (Chattarpur)	Nowgaon Agri PC (Tikamgarh)	Sagar Samridhi Crop PC (Reori, Sagar)	Khujner Agriculture PC (Rajgarh)	Samrath Kissan PC (Shajjapur)	Ramraja Crop PC (Tikamgarh)	Nimad Farmers (Ojhar,Bar wani)	Khargaon (Khargaon)	Sagar Shri Mahila Dugh (Sagar)	Sironj Crop (Sironj, Vidisha)	MP Women's PPC (Bhopal)
Year (2006-07) Turnover (Rs. Lakh) Profit (loss) in Rs.	3.63 30362	2 25	44.60 -	4.68 (99000)	4 (4000)	18.42 (240000)	-	-	4.46 (4000)	2005-06 91 27000	2007-08 389.65 5.02 Lak
Year (2009-10) Turnover (Rs. Lakh) Profit (loss) in Rs.	29.95 (34198)	30 (1.74 lakh)	28.10 (10000)	40.22 59000	158 (5.2 lakh)	15.38 (4.5 lakh)	4.19 9068	66000 (7000)	45.29 (1300000)	150 80000	958.25 8.48 Lak
Year (2010-11) Turnover (Rs. Lakh) Profit (loss) in Rs.	22.57 (14600)	54.70 15000	62 (2.3 lakh)	100.58 26536	189 50000	15.47 (150000)	5.27 62000	No business in 2010- 11	49.57 (458000)	127 (12,00,000)	518.47 1613000
State>	Maharashtra			Rajasthan				Gujarat			
Producer Co.> Parameters	Baliraja krishak (Sangamner)	Waghad Agri (Dindori, Nashik)	Devnadi Valley Agri (Sinnar)	Udaipur Agro (Jhadol)	Jhambukh and Kissan (Banswara)	Vijwa Agro PC (Dungarpur)	Dungaria PC (Dungarpur)	Dhari Krishik Vikas PC (Dhari)	Mahagujrat Agricotton (Amreli)	Farmer Crop Care Bhavnagar)	North Gujarat agro (Palanpur)
Year (2009-10) Turnover (Rs. Lakh) Profit (loss) in Rs.	No turnover (10840)	39.25 (691000)	- - 28	-	-	-	-	15.59 29533	1000 -	230.61 61320	- -
Year (2010-11) Turnover (Rs. Lakh) Profit (loss) in Rs.	5.59 (15530)	108 (400000)	-	13.85 4006	15.59 13847	28.91 14458	9.506 60000	10.04 (206000)	2500 26,98000	289.34 278485	21 200000

Note: Sahyadri Farmers (Nashik) and Sahyadri Agri (Pune) PCs from Maharashtra are removed from this table as they are fake PCs. For information on them, please see table in relevant chapter

Table 33: Farmer awareness and perception of the PCs in India

State>	MP										
	Khajurao (Chattarpur)	Nowgaon Agri (Tikamgarh)	Sagar Samridhi Crop(Sagar)	Khujner Agiculture (Rajgarh)	Samrath Kissan (Shajjapur)	Ramraja Crop (Tikamgarh)	Nimad Farmers (Barwani)	Khargaon (Khargaon)	Sagar Shri Mahila Dugh Utpadak, (Sagar)	Sironj Crop (Vidisha)	MP Women's Poultry PC (Bhopal)*
-Total no. of farmer	4625	1000	1203	1860	6500	1647	514	73	950(SHG member)	3200	6 (Coop)
-Aware of company business (%)	50	70	20	60	90	60	80	100	100	60	100
-Rate it satisfactory (%)	50	70	20	60	70	60	70	80	70	60	100
-Avg. farmer sale of seed (%)	100	100	100	90	100	100	50 (cotton)	90 (cotton)	100	100 (seed)	0
-Input purchase from co.(%of total used)											
- Seed	60	100	50	30	70	100	70	-	-	40	-
- Fertilizer/feed	70	100	50	100	40	-	30	85	100	100	100
- Pesticides	60	-	50	100	40	-	-	-	100	20	100
-Satisfaction with various services (%)									70		
- Input	100	100	30	100	100	100	100	100	80	100	100
- Output	-	100	30	100	100	100	100	100	100	100	100
- Mgmt. of PC	80	100	30	100	80	80	90	100	100	100	100
- % of member who are member of coop. in area	No	10	No	60	No	80	80	80	No	70	80
	Maharashtra			Rajasthan				Gujarat			

State>											
Producer Co.	Baliraja krishak PC (Sangamner)	Waghad Agri PC (Dindori, Nashik)	Devnadi Valley Agri PC (Sinnar)	Udaipur Agro PC (Jhadol)	Jhambukhand Kissan Agro PC (Banswara)	Vijwa Agro PC (Dungarpur)	Dungaria PC (Dungarpur)	Dhari Krishik Vikas PC (Dhari)	Mahagujrat Agricotton PC (Amreli)	Farmer Crop Care PC (Budhel, Bhavnagar)	North Gujarat agro PC (Palanpur)
Farmer awareness											
-Total no. of farmer	220	107	170	1200	800	588	344	1500	6000	30	641
-Aware of company business (%)	75	-		100	60	100	95	30	75	100	70
-Rate its satisfactory (%)	75	-		100	80	90	90	30	75	100	70
-Avg. farmer sale (%)	25	2			10	5	50		only 10%		100%
-Input purchase from co. (% of total used)											papaya
- Seed	-			60	50	40	50		100	100	-
- Fertilizer/feed	80			100	50	100	25		100	100	50
- Pesticide/medicine	80			100	50	20	25		100	-	50
-Satisfaction with various services (%)											
- Input	100			100	80	100			100		-
- Output	100			100	70	80			100		-
- Mgmt. of PC	100			100	80	100			100		
- % of member who are member of coop. in area	100			no	no	no		No	90	Some in PACS	80% of PACS, 100% of milk cop.

Note: * the information in this table relates only to one of the co-operative members of this PC.

Sahyadri Farmers (Nashik) and Sahyadri Agri (Pune) PCs from Maharashtra are removed from this table as they are fake PCs. For information on them, please see table in relevant chapter

which had similar profile. Farmer base comprised of small farmers. In one case, non-member dependence was very high (70% of business). All of them made losses and suffered from capital shortage (table 32). On the other hand, both the exporter and the business person promoted PCs were more on paper and did not have any farmer base and shareholding was restricted to small numbers (11 and 70). The PCs were managed by staff of the other businesses of the promoters.

In terms of profitability, majority of the DPIP PCs in MP were into losses, majority of non-DPIP were into profits, all except one in Gujarat were into profits as was the case of all four PCs in Rajasthan. All three in Maharashtra were into losses. But, most of the PCs did benefit the members in some way or the other like employment generation, increase in income, higher market price, dividends and fair and prompt payments and self-respect and identity for small producers (table 33).

So far the viability of the PCs is concerned, there were different factors in different contexts. In case of Maha Gujarat Agricotton, it was more of scale, nature of farmers, and crops handled (table 33). On the other hand, in case of Poultry co-operative, it was the scale and the professional management of the value chain besides women member involvement which made the difference. In case of Nimad and Khargone, it was again the high value crop-cotton, that too, better cotton market and the ASA support which made them sustain as was the case with most of the ADS promoted PCs in Rajasthan. Another explanation for most PCs being in loss could be that as PC income is taxable, the PCs tend to pass on the surplus generated to members as price benefit to avoid taxation.

The legal provisions and origins and process of formation of PCs in India and Sri Lanka have been similar. In both cases, PCs have been founded on the strength of pre-existing organisations like water users' associations and SHGs or other such entities in most cases though there are also completely fresh origins of PCs in India like the one in north Gujarat and a few in Maharashtra and MP. The only difference has been that in Sri Lanka, a member could own maximum of 10% of total shares, but, in India, there is no such restriction.

Major problems

Across states, problems have been reported and seen in the functioning of PCs. Major policy issues for PCs in MP were: lack of working capital support other than the DPIIP initially, poor professional management due to inability to afford professionals as well as high turnover of professionals, besides the difficulty of managing the accounts and paper work of the PCs.

In Gujarat, the DSC reported registration process and compliance related problems. Further, since cooperative have been in existence in Gujarat for a long time, the PC is seen as a competitive entity rather than a complementing one by the bureaucracy and other stakeholders do not have orientation on PCs. The PC also had difficulty in obtaining various licenses.

In Rajasthan, the major issues in PC management include working capital shortage and lack of access to loans as banks ask for 3-year balance sheet as the PCs are not yet recognised by the union or state government for any incentive or support. Secondly, banks refuse to lend to the PCs due to the lack of state or government guarantees. Besides this, professionals are costly to hire and sustain. Some of the PCs managers are also being lured by private sector interested in promoting collectivities of producers. There has also been some resistance from local traders.

In Maharashtra, most of the studied PCs are very commodity specific in their business like grapes or organic produce or vegetables which places additional pressure to perform and be viable as individual crop or produce markets can be very volatile. The PCs in India, in general, appear to be product focused rather than producer/farmer focused.

The major hurdles for a PC, in general, are: getting registration and digital signatures of board of directors who are small farmers and illiterate villagers who do not have any identity proofs, accessing capital from outside; and not being able to access grants as they are commercial entities. The PCs also suffer from tax on income (30.2%) unlike cooperatives which can show income under tax free heads. There have also been cases of hijacking of PCs. In MP, government appointed its own CEOs as it had given grants to PCs. In Gujarat, a PC was hijacked by the promoters. But, the PC Act provides for handling such malpractices.

The major problems found by another recent study of 9 PCs across India were: poor skills of professionals of the PCs; lack of vision and direction from BoD; operational problems like low equity base due to low share value (share capital ranged from Rs. 1-5 lakh cross PCs); inability to attract capital or credit from outside though some promoting agencies had routed grants to the PCs or managed credit through joint ventures, and most of the studied PCs had managed to obtain loans (investment and working capital); poor marketing and value addition expertise; and no or poor business plans which were needed for obtaining finance as well (NABCONS, 2011).

A comparison of cooperatives and PCs in policy treatment in India shows that income tax exemption, non-taxable welfare income exemption, land lease at nominal rates or free, fertilizer allocation to PACS, foundation seed supply and marketing support to seed cooperatives, state agency grants to cooperatives, export incentives and provision of distribution outlets for selling products which is available to cooperatives is not available to PCs (table 34).

Recommendations

The PCs suffer from lack of finance in the formative years as the kind of support provided by the MP government has not come from any other state government or the union government until recently. The union government has already made provision for PCs in the 2013-14 budget for matching grants upto Rs. 10 lakh per FPO/PC with a provision of Rs. 50 crore and for a credit guarantee fund for FPOs through the Small Farmer Agribusiness Consortium (SFAC) with allocation of Rs. 100 crore. The Reserve Bank of India has put PCs under priority sector lending upto Rs. 5 crore per PC. National Bank for Agriculture and Rural Development (NABARD) has a fund for promotion of producer organisations which provides for business plan based loans to PCS as well as capacity building grants to promoting agencies. Recently, the Ministry of Agriculture has advised all the state governments to treat PCs on par with the co-operatives for various policy incentives.

A working group on PCs, convened by the National Resource Centre for Rural Livelihoods of PRADAN, an NGO promoting such enterprises, and chaired by Mr. Nitin Desai, in its report in 2009 suggested a few mechanisms to deal with some of the problems: One was to provide for a mechanism to assess the value of shares held by the farmers and declare a fair value

Table 34: A comparison of policy incentives for co-operatives and PCs

Parameters	Cooperatives	PCs
1. Income tax rebate under Income Tax 1961	Section 80P of the Income Tax Act for providing exclusive tax rebate to cooperative societies.	All income is taxable @ 30.2 %
2. Relaxation from income tax	Income up to Rs. 1 lakh is also free from tax if it is earned other than activities mentioned in point no. 1	None
3. Provision for distribution of income	There are different provisions for distribution of income in different welfare heads which is non-taxable	None
4. Lease out of Govt. land	Provision made at Govt. revenue department for lease out Govt. land at very low rates	None
5. Central seed subsidies for production & marketing	Eligible for all Govt. seed production, distribution and marketing subsidies under different schemes like ISOPAM, NFSM, RKVY etc.	PCs are not eligible for such subsidies
6. State support	State Govt. is supporting several cooperatives support cells like Beej Maha Sangh providing all kinds of logistics, production, training and marketing support to seed cooperatives; while MARKFED is another such federation supporting primary cooperatives	No such support is available for PC. In fact membership of those federations is not open to PC even if they want.
7. Allotment of fertilizers	Cooperatives are eligible for fertilizer allocation through State Marketing Federation (MARKFED) which is the authorized body of state government to get allocation and distribution through member cooperatives	It is not available for PC. Markfed is not open for membership to the PC
8. Allotment of Breeder seeds which is regulated by Govt.	Allotment of Breeder seed is only made to Central & State Seed Producer Agencies like NSC, State Seed Corporations, and Cooperatives like IFFCO & KRIBHCO and all State Seeds Cooperative through Federations like Beej Maha Sangh	No such provision is available.
9. State Govt. policy to support such initiatives	Number of policies are available at every state & central level	To some extent in M.P, no other states have any policy on PC.
10. Mandi (APMC) Tax	Cooperatives are exempted	No such provision

Source: ASA, Bhopal, personal communication.

periodically. This is expected to incentivise members to acquire more shares. Second was to enable transfer of shares within membership at freshly assessed value rather than at par value as well as issue new shares at new fair value of a share. It also recommended provision for issuance of preference shares, bonds and debentures to raise external risk capital from non-producer members (NRCRL, 2009). But, if dividend is not paid to such members for three

years continuously, then they acquire voting rights automatically as per existing law. It also recommended buy back of shares by the PC, if needed. Its other recommendations included lowering the startup authorised capital from Rs. one lakh to Rs. 10,000, tax exemption to PCs for a few years, and restriction on membership of the PC for new members by the existing members for reasons of business (NRCRL, 2009).

Governmental support in the form of grants during the early stages of the PC should be made available. Exemption from corporate tax at least for initial few years and the inclusion of financing agency on the board of PC can also help (NABCONS, 2011; NRCRL, 2009). In India, banks give collateral free loans to Small and Medium Enterprises (SMEs) which can also cover PCs. Similarly, a PC can be treated as Non-banking Financial Company (NBFC) to provide loans to farmer members.

It is also possible to mobilise more equity from within the membership. For example, some PCs have attempted variation in shareholding related patronage to mobilise capital. One had voting rights linked to the patronage and another linked patronage to shareholding. Others had minimum patronage in terms of sale or purchase transactions annually with the PC to remain members (NABCONS, 2011).

The PCs also need to choose their activity portfolio carefully keeping in mind the member centrality. It is possible to identify new activities in local areas which are valuable for small farmers e.g. custom hiring of farm machinery and equipment which they can't afford to buy but can rent in. This is being done in some parts of India viably by private entities and PACS.

It was found in the case of NGCs in the United State of America (USA) that planning and development and financing and costs were the two major factors in success of the NGCs across various agro processing sectors (Carlberg, et al, 2006). In fact, it is also argued that effective farmer producer organizations need to have clarity of mission, sound governance, strong responsive and accountable leadership, social inclusion, be demand and service delivery driven, have high technical and managerial capacity and effective engagement with external actors like government, donors or private sector. But, even this needs to be

supplemented by supportive and enabling legal, regulatory and policy environment that guarantees autonomy and level playing field (Thompson et al, 2009).

There is also need for a central agency to promote PCs with grants and disseminate awareness about the concept and practices of PCs among farmer producers and other stakeholders.

Both the state and the union governments in India should recognise PCs as producer cooperatives and extend all support as extended to traditional cooperatives in terms of credit, licenses for inputs and output sale and purchase. They should be considered eligible for investment and working capital grants for processing and marketing infrastructure creation. The PCs practicing organic farming can be designated as certifying agencies for third parties and individual growers by the union government agencies like the Agricultural and Processed Foods Products Export Development Authority (APEDA). The promotional and non-governmental organisations supporting these PCs should be given project based grants by the state/union government.

It is also important for development agencies and state to try out the joint stake company model to tackle problem of capital for scale up and competition. The joint stake company not only assures farmer supplier loyalty but also helps build brand and social capital, and on the other hand, farmers get access to credit and market as shareholders. In a joint –stake company, a part of the equity of the PC is held by non- producers. In one such company (Agrofair) in Europe which is into fresh fruit import and marketing including fair trade bananas, there are more than 15 producers' organization members and other ethical investors, it achieved sales of the order of Euros 16 million and it is one of the major suppliers to the European supermarkets. Most of its farmer cooperatives have complied with all the quality and other standard of the market and have become reliable and professional partners (Koning and PETERS, 2009).

In Ghana, Farmapine Ghana Limited (FGL) formed in 1999, for the members of the 5 pineapple growing cooperatives which own 80% shares of the company and rest being with two former pineapple exporters, includes 160 farmers and has contracted with 60 other growers. FGL has been able to increase the exportable fruit from 30% to 45% of the total at farmer level within 2 years and exported 12000 tonnes of pineapple to the western markets in

2003. Similarly, in Ghana again, a farmer owned cocoa buying company-Kuapa KoKoo Limited (KKL), was set up with support from Twin Trading. Twin UK membership includes 24 farmer cooperatives in 8 countries representing 163000 farmers. In 1995, Kuapa KoKoo Farmers Union (KKFU) was set up which represented primary societies with 48854 members in 2009. KKFU, along with non-producing shareholders like the Body Shop, Christian Aid, Twin Trading and Comic Relief set up a joint stake company called Divine in 1998, which was renamed Divine Chocolate Limited in 2007, when it had a turnover of \$US 19 million. In 2000, a DFID guaranteed bank credit from a major UK commercial bank of the order of 400,000 pounds, helped the company not only with lower cost finance but also facilitated Kuapa KoKoo to own the 33% shares of the company. Further, Body Shop which had 14% shares donated them to Kuapa Kokoo, when L'Oreal took over Body Shop in 2006. This led KKFU to own 47% of the Company. The other 41% shares are with Twin Trading and 12% with Oikocredit. KKFU received a minimum price of \$ US 1600/tonne of cocoa bean and paid a social premium of \$US 150/tonne. All the shareholders contributed in increasing the market access for Divine Chocolate and consumer awareness. In 2006-07, Divine Chocolate had turnover of 1,07,02,500 Pounds and purchased 1420 tonnes of beans and paid a premium of \$US 213 (Koning and Piters, 2009).

Similarly, Kuyichi, a Dutch fashion brand in design, production and distribution of organic and fair trade jeans and fashion clothing, launched in 2001 was initiated by Solidaridad, a Dutch NGO, to introduce organic cotton in the European market. The other founders of Kuyichi include: Foundation Stimulans (FS), Triodos and Association of Kuyichi Producers (AKP), each owning 25% of the shares. The startup capital came from FS, Solidaridad and ICCO and later Triodos and Cordaid provided second round of equity in 2004. By 2009, there were 6 partners including 3 Dutch NGOs with 33%, 32% and 9% shares and two investment funds (PPM Stimulans and Tridos ventures) with 5% each and AKP with 16% shares which are held in trust by Cordaid (a Dutch development organization), which financed the purchase of shares with a 10 year loan @ 6% interest to be repaid from dividends. The AKP holds shares on behalf of its members, who include not only individual cotton farmers but also farmers' cooperatives, sewing factories and suppliers of fabrics. The members are enrolled after they have one year business relation with Kuyichi, are certified organic producers or users and are SA-8000 certified. Another similar initiative of Solidaridad is a joint stake

company in Peru, launched in 2000 (Oro Blanco) in sustainable production and commercialization of organic cotton. In 2006, 30% of company shares were transferred to small organic cotton producers with the rest owned by Solidaridad. Kuyichi buys 10% of its cotton from Oro Blanco, which is a shareholder in Kuyichi through Solidaridad. The farmer shares ranged from 7% to 49% and there was some representation on the board, though there was no direct correspondence between shareholding and control. Farmer organizations were concerned more with transparency and involvement in decision making than shareholding (Koning and Piters, 2009). Further, since the shares were not open to purchase by outsiders, it was more like a PC in India but different from it in that social ventures and development agencies could buy shares on behalf of farmers. Another important reason for the success of Divine Chocolate was the convincing business plan which even a commercial bank was willing to finance, though it was guaranteed by DFID. Though farmers mobilization and donor support is important to create farmers companies, capital investment is needed for a scale up and to allow the business to move forward, which can come from social investors and venture funds. Equally important is the support provided by promoters in terms of market outlets, in creation of market for products and communicating the differentiated messages like sustainability or fair trade or farmer's ownership. The farmer organizations can obtain shares in such companies, if they have no revenue generating equity, through grant from a public and non-government source, a trust fund or a bank loan (Koning and Piters, 2009).

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