Chapter-7.11

Promoting Entrepreneurship in Telangana: Experience from 'Producer Company' Model and Policy Strategies

Non-remunerative price, poor knowledge and adoption behavior, poor access to credit, input and market, low productivity, lack of surplus for value addition and exploitation by intermediaries apart from natural factors are reasons for distress status of farmers. Public extension system, which has onus to respond, could not keep pace with contemporary challenges due to inherent. Direct marketing from producer to customers through promotion of appropriate entrepreneurship models may enhance farm profitability.

'Cooperative' structure facilitates farmers to unite and move-up in different stages of supply and value chain but infected by political interference, corruption, poor efficiency and capital constraint. In 2002, there was an attempt by Government of India (GOI) to strengthen cooperative movement with amendment (in Section 581) in Companies Act 1956 by incorporating provision for Producer Companies, which facilitates farmers to own companies to do direct marketing and thus promotes entrepreneurship. Since then, about 150 producer companies have been established on different commodities.

I. Producer company model

Different Experiences

Indian Organic Farmers Producer Company Limited (IOFPCL), the first farmers' producer company in Kerala promotes organic products. Only producers with organic certification are members, where patronage per share is Rs. 40000/- with one member one vote policy. Company advices its members on sustainable resource utilization and scientific production methodologies. Company markets organic products with own brand.

Vanilla India Producer Company Limited (VANILCO), Kerala has been promoted by Indian Farmers Movement (INFARM), a charitable society with over one lakh vanilla growers. Company procures, processes and markets produce of members in professional manner to ensure handsome dividends and bonuses for shareholders. Banana India Producer Companies Limited (BAPCL), Kerala has also been promoted by INFARM with objective of building brand quality for 25 Indian banana varieties as exotic varieties at International market. Evangelical Social Action Forum (ESAF), Trissur, Kerala, a NGO having 13100 Self-help groups (SHGs) with 2.2 lakh members, promoted ESAF *Swasraya* Producer Company Limited (ESPCL) for handicrafts, herbal and agriculture products and food, dairy and meat. The handicrafts and herbal division could benefit 1000 rural artisan families. ESAF also established ESAF Retail (P) Limited to support company through forward and backward linkages.

Masuta, a producer company is promoted by PRADHAN, a NGO and independent rural enterprise suitable for women and landless and marginal farmers who had limited job opportunities and low wage rates. *Masuta* had 2000 members of *tasar* yarn weavers and spinners of Jharkhand with Rs.7 crores turnover and Rs.38 lakhs profit during 2006-07, in spite of tough competition from Chinese *tasar* which was cheaper by 40%(Pandya, 2008). *Fab* India, a company that exclusively markets produce of rural artisans and craftsmen through a chain of retail outlets across the country has 35 producer companies in different states covering about 20000 weavers. Credit requirements of these producer companies are met from commercial banks, through a model devised by *Fab* India in association with ICICI Bank. *Rangsutra,* another producer company that promotes products of artisans, weavers and craftsmen, was registered in 2004. It extends services in Rajasthan, Assam and Uttarakhand. Government of India, through Spices Board promoted two producer companies, *Coinonya* Farm Producers Company Limited for turmeric and *Karbi* Farm Producers Company Limited for Ginger and Chilly in Karbi Anlong district of Assam for promoting organic cultivation, processing and export. Spices Board invested Rs. one crore as equity in each company.

Ten watershed development groups of Amreli District of Gujarat formed a producer company '*Dhari Krushak Vikas* Producer Company Limited' at Dhari, Amreli, Gujarat, under guidance of Development Support Centre (DSC), Ahmedabad. The company facilitates productivity enhancement, cost reduction, risk mitigation, value addition, insurance cover and credit arrangements. *Agricons* Agro Producers Company Limited, Raipur, Chhattisgarh was incorporated in 2005 and extends services to members in lines of input supply, finance, farm produce procurement, agro-advisory service etc. Broadly, primary producers have many reasons to become members of producer companies (Table-1).

Table 1. Privileges for members of producer companies

Advantages of model	General benefits
• Membership only for producer/ producer organization and no room for elite capture	• Agro-advisory
• Shares not tradable and only transferable, thus, non-producer can't become member	• Access to innovative technologies
• One member one vote policy	• Input supply
• No administrative control from Registrar of cooperative society	• Credit support
• Dispute settlement through arbitration and no role for Registrar of cooperative society	• Insurance cover
• No external control on borrowings	• Procurement (price support)
• Mandatory reserve money coerces business vibrancy	• Storage facilities
• Patronage is based on extent of business transaction and not based on share ownership, thus, promotes transaction	• Value addition
• Allows corporate collaboration for business vibrancy	• Marketing and or export
	• Dividend and bonus for profit

Government of Madhya Pradesh (MP), through District Poverty Initiatives Programmes (DPIP) promoted 17 producer companies on rice, tomato, chillies, peas, sugarcane, turmeric, ginger, poultry, potato, coriander, milk and bio-fertilizers. These companies have about 45000 shareholders and generated nearly Rs.5 crores share capital. Such initiative resulted in income gain (66%) of members. Handholding support for three years, loan linked start-up capital, financial support towards establishment costs, performance-linked interest subsidy and support procurement and infrastructural development were benefits extended by Government of Madhya Pradesh.

II. Profile of Chetana Producer Company (CPC)

The CPC has small and marginal cotton growers as members (Rs. 10/- per share; maximum 10 shares/ member) representing semi-arid regions of Telangana, Maharashtra (Vidarbha region) and Orissa (Kalahandi and Bolangir districts). Initiatives are taken to organize 10-15 organic farmers as self-help groups (SHGs) at village level. These SHGs are federated as Mutually-aided Agricultural Cooperative Societies (MAACS) at either *mandal* or district level. To extend broad-based services, field staff (for every 75-100 farmers), block coordinators (for every 200-300 farmers) and society coordinators (for every society) are appointed by MAACS. These MAACS organizations of three states federated themselves in to Chetana Organic Farmers Association (COFA), an NGO, in 2004. The NGO, in order to indulge in vibrant business activities pertaining to commodities of producer members, established Chetana Producer Company (CPC) in 2009. CPC could provide premium procurement price to members and it had progressive business growth.

III. Evolution of producer companies

Most of the producer company initiatives were at start-up stage and promoted by NGOs/ development agencies/ sponsoring organizations. Most of them facilitated technical services and inputs to producers or pooling produce for value addition and marketing. This may be considered as first stage of evolution of producer companies. Emergence of producer companies like that promoted by *Fab* India, where corporates come together with farmers to share prosperity through retailer partnerships. Such initiatives may be considered as second stage evolution of producer companies. Producer companies having their own infrastructure and identity (brand), supply-chain process will be third generation evolution. Only when third stage occurs at which producers be able to directly connect with markets and have greater share in the market pie, then producer companies will be completely successful in India (Murray, 2009).

IV. Challenges faced

Amidst initiatives on establishment of viable producer company models, a committee under Chairmanship of Dr. J. J. Irani reviewed the Companies Act 1956 and suggested that 'special dispensations for producer companies need not be provided under Companies Act 1956 and if need be, a separate legislation may be considered for such entities'. If the special dispensation for producer companies will be removed, then distinct features of producer companies (Table 1) can't be adhered to. Also, if separate legislation is formulated, Producer Company can't have benefits of a private limited company. Any such tinkering with law will certainly create trouble for existing and proposed producer companies.

The concept has not yet been considered by either Central or State Governments for any incentive or support. There has been lack of awareness among the Government officials, producers and NGOs about such new concept. Producer companies have to compete with already established cooperatives in getting Agricultural Produce Marketing Committee (APMC) licenses for processing and trading. As per the present fertilizer licensing policy in Gujarat, the principal certificate can only be given to cooperatives and not to producer companies. Producer companies need a huge amount of working capital for procurement, value addition and marketing as well as extending credit, loan and advances. Being endowed only by equity shares of the primary producers, producer companies do not have assets to leverage for credit. Banks refuse to lend these companies due to lack of guarantees from either Central or State Governments (Murray, 2009 and NRRA, 2009).

Bank of Maharashtra had financed *Panchakroshi Pashusamvardhan* Producer Company Limited in Satara District of Maharashtra that addresses backward and forward linkages to goat and sheep farmers. *Fab* India initiatives were supported by ICICI Bank. NABARD supported *Dhari Krushak Vikas* Producer Company Limited. Such cases may critically be evaluated for arriving at appropriate institutional arrangements for credit support. Unconventional approaches from financial organizations are needed to extend credit facilities by considering credibility and reputation of companies and principles with which such companies operate as tangible assets and not merely physical assets. Guarantees and undertakings from promoter institutions, purchase orders and business agreements may be relied upon by banks and other financial organizations to extend credit facilities. IOFPCL, Kerala was told that village *Panchayat* can provide 50% of value of produce as loan against warehouse receipts. But while getting receipts from warehouse, rental value has to be paid in full, whereas, intending customer would make payment only after delivery of goods. These capital constraints make it difficult for producer companies towards value addition and marketing.

V. Needed policy interventions

- Simplifying registration procedure is of utmost importance.
- There is a strong need for orienting policy makers and NGOs/ possible promoters on distinct features and provisions of producer companies.
- There is an immediate need for working-out a mechanism for extending credit support to producer companies through either government grants or through independent institutional mechanism. Arranging investment and working capital credit may financially support the producer companies.
- Promoters and NGOs that support producer companies may be encouraged through project-based grants by the State Government.
- State-level APMCs are to be given power to extend licenses to producer companies for trading and processing on priority.
- Possibility of dovetailing Government schemes with activities of producer companies has to be explored for effective implementation of such programmes as well as raising funds for producer companies.
- Need for continuous and regular hand-holding support to office-bearers (Board of Directors and Secretary) of producer companies at least for initial 2-3 years to familiarize the functionaries on business procedures.
- Existing extension institutional arrangements like *Krishi Vigyan Kendras* (KVK), State Agricultural Management and Extension Training Institutes (SAMETI) and Agriculture Technology Management Agency (ATMA) may be effectively utilized for providing training support.

VI. Conclusion

Transformation from agriculture to agribusiness is espoused in India. In such context, analysis of producer company model suggests a six-point general framework for promoting entrepreneurship in agriculture in Telangana.

Inherent weaknesses of public extension system necessitate innovative and complementary models to extend broad-based services to farmers. 'Producer company' model facilitates farmers to own enterprises and do agribusiness. Though this model is promising, suffer due to lack of publicity, negligence from financial organizations and development departments and cumbersome formalities. Adequate attention and efforts from policy makers towards awareness creation on these models among related stakeholders, arranging financial support, generous business licensing, dovetailing government schemes, building capacity of entrepreneurs and arranging handholding support, is sought for promotion in Telangana.