# Producer Companies in India- Experiences and Implications

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## ABSTRACT

*The concept of 'Cooperative' is one of the options available for the producers to get organized themselves to move-up in the supply-chain by value addition and business ownership. However, the cooperative system in the country has been infected by several inadequacies. Hence, there was an amendment of Companies Act 1956 during 2002 that paved the way for incorporation of 'producer companies'. Since then, about 150 producer companies have been established in India covering a wider range of commodities. 'Producer Company' is the hybrid between a private limited company and a cooperative society. It combines the goodness of cooperatives and efficiency of corporate company. Most of the initiatives on producer companies are start-ups and promoted by NGOs/ development agencies/ sponsoring organizations. There are certain serious issues to be addressed for the effective functioning of producer companies. The effective functioning of 'producer company' model in India and scaling-up of this concept may bring prosperity to the future of peasants at a scenario wherein huge challenges pose before Indian agriculture. The best practices followed by the successful producer companies across the country in capacity building, awareness creation, promotional efforts etc are to be documented and disseminated. This paper intends to document the genesis and spread of producer companies, selected experiences and challenges ahead and to suggest policy implications for promotion.*

**Key words:** *Producer companies; Indian experience; challenge; implicative strategies*

National Sample Survey Organization (NSSO) reported that given the choice, 40% of the farmers, wish to leave agriculture (Murray, 2009). Non-remunerative price that has been realized by the primary producers has been one among the prime reasons. There has also been no surplus produce for value addition due to low productivity influenced by poor knowledge base towards production technology, access to credit, input, market and obviously the below-par adoption behaviour. The number of intermediaries in the structure of agricultural market limits the price realized by the primary producers to the lowest possible in the supply chain. At a time, when the country has been witnessing all-around economic growth, naturally the farmers aspire for prosperity from agriculture in the similar lines.

Cooperatives concept is one of the options available for the farmers to get organized themselves to move-up in the value-chain and having business ownership. Producer cooperatives are the aggregations of producers to share the scale of economies and provide service in terms of knowledge, agro-advisory, supply of input, credit, procurement, processing, marketing and distribution etc. Such organizations amplify the political voice of shareholders, reduce the input, transaction and transport costs, provide platform for sharing information, coordination of common activities and involve in collective decision making. They are registered under the State Cooperatives Societies Act. They are expected to provide access to risk-bearing capital, manage risk through product diversification, set market standards, provide marketing conditions and economic democracy at gross-root level. Analysis on the performance of cooperative system in the country conclude that they have been infected by political interference, corruption, elite capture, poor efficiency, loss-making ways and declining Govt. support (capital constraint) (Singh, 2008).

The below-par performance of cooperatives except for certain commodities *viz*, milk and fertilizers, led to the emerge of 'New Generation Cooperatives (NGCs)' with advanced member-friendly profile *viz*, restricted membership, tradable equity shares, product delivery right to shareholders, contractual delivery of produce by members, distribution of returns based on the patronage, value addition through processing, providing better market linkage, one-member one-vote policy and being economically efficient, financially viable and inculcating loyalty among the members. Ironically, the concept of NGCs too could not overcome certain pulling factors like preferred share premium, limited rights of members on internal control mechanism, suitability only to large holders, functioning like closely-held companies, risk of becoming investor-oriented company, off-market purchases to meet contract terms, leasing of delivery rights by members and dependence on non-producer member equity and non-member business (Singh, 2008). Amidst such deficiencies and inadequacies in cooperative system, there was an attempt during 2002 to strengthen the cooperative movement with the amendment (in Section 581) of Companies Act 1956 as a response to the Report of the Committee under the Chairmanship of Professor Dr. Yoginder K Alagh. Ministry of Consumer Affairs, Government of India introduced the Bill for amendment by introducing part IX A and thereby paved the way for incorporation of Producer Companies (Alagh, 2007, Gupta, 2007, Singh, 2008 and NRRA, 2009). Since then, about 150 producer companies have been established at various parts of the country covering a wider range of commodities (NRRA, 2009).

***Indian experiences:*** The public extension system in India has been suffering with inadequacies to cater to the diverse needs of the target groups through broad-based promotional approaches especially in rainfed, neglected, far-flanged and disturbed areas. To compensate such inadequacies, many concepts pertaining to broad-based rural services have been emerging time to time, being implemented and evaluated. The concept of producer companies is one such service that has been emanated between principles of cooperative and private limited companies. India has a large number of cooperative institutions in a vast range of enterprise sectors, but a few successes that can be replicated around. The cooperative experiences of India have been unpleasant due to promotion by state and focus on the welfare of the members rather than doing business on the commercial lines (Singh, 2008 and Murray, 2009). The Mutually Aided Cooperative Societies (MACS) Act was an attempt to remedy the malady to certain extent, but the concept has been accepted by a very few states and even there are no many commodity cooperatives have migrated to the MACS Act (Murray, 2009). The concept of incorporation of 'Producer Company' thus came into picture. The following are some of the Indian initiatives pertaining to Producer Companies and the experiences.

The Indian Organic Farmers Producer Company Ltd (IOFPCL), the first farmers' producer company in India is in Aluva (Kerala), producing organic products. Here, only the producers with the organic certification are the members, where patronage per share is Rs. 40000/- with one member one vote policy. The company advices its members on mapping and assessing the resources, sustainable resource utilization and scientific production methodologies; markets organic produces of the members with own brand. "Healthy people, wealthy farmer, healthy and wealthy nation" has been the motto of the company (Singh, 2008 and NRAA, 2009). Vanilla India Producer Company Ltd (VANILCO) has been promoted by Indian Farmers Movement (INFARM) of Kerala, a charitable society with over one lakh farmer members to cater to the long-term needs and interests of the vanilla farmers. The company procures, processes and markets the produce of the members in a most professional manner in order to ensure extremely handsome dividends and bonuses for its shareholders. Banana India Producer Companies Ltd (BAPCL) has also been promoted by INFARM with rather broader objective of "building brand quality for 25 Indian banana varieties as exotic varieties at the International market" (Murray, 2009). Evangelical Social Action Forum (ESAF), Thrissur, a premier NGO and leading MFI having 13100 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 incorporated a retail company "ESAF Retail (P) Ltd" to support the producer company through forwards and backward linkages.

The Government of Madhya Pradesh (MP) under District Poverty Initiatives Programmes (DPIP) has promoted a large number of producer companies at various parts of the states (17 locations) with respect to the commodities *viz*, rice, tomato, chilies, peas, sugarcane, turmeric, ginger, poultry, potato, coriander, milk and biofertilizers. These companies have 44800 share holders and generated Rs.4.84 crores as share capital. Such initiative has resulted in income gain of members (by 66%) and savings of the households have gone up exceptionally (by 183%). Local level value addition to the primary produce has resulted in 30 to 40% higher realizations while marketing. Providing the cost of organizing and handholding support for three years, debt linked start-up capital support based on the business plan, viability gap support for establishment costs, treatment on-par with the cooperatives as well as the industries, providing performance-linked interest subsidy and support for the price preferences and infrastructural developments were the supports and benefits extended by the Govt. of Madhya Pradesh under the Government of Madhya Pradesh Policy on Activity Federations (Anish Kumar, 2007).

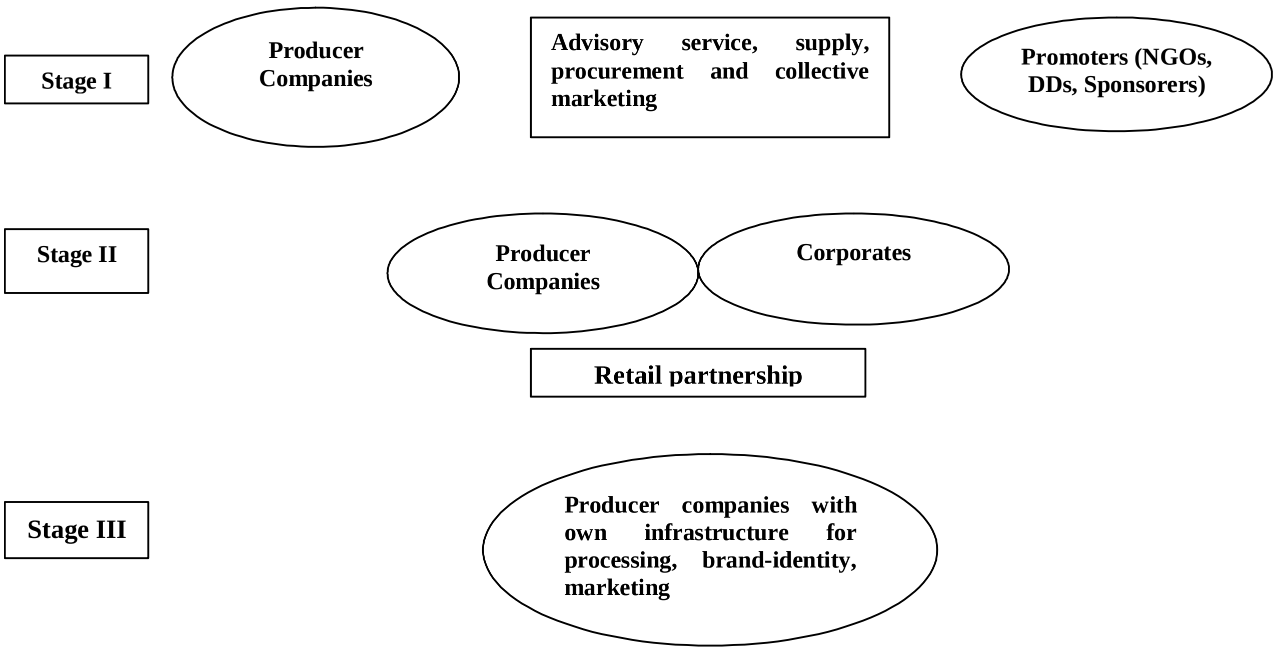
Ten watershed development groups of Amreli District formed a producer company "Dhari Krushak Vikas Producer Company Ltd" at Dhari, Amreli, Gujarat under the guidance of Development Support Centre (DSC), Ahmedabad. The company facilitates productivity enhancement, cost reduction, risk mitigation, value addition, insurance cover and credit arrangements in a profitable manner and agri-business on production, harvesting, procuring, grading, pooling, handling, marketing, selling and export of primary produce *viz*, food grains and oilseeds. Linkages with agricultural universities have been facilitated to provide capacity building of the producer members. (*DSC, 2007*). The Junagadh Dairy which was facing heavy losses has been reconstituted as producer company with the guidance of DSC and now covers 5000 producers across 130 villages.

Government of India, through Spices Board under the Ministry of Commerce has promoted two producer companies, the Coinonya Farm Producers Company Ltd for turmeric and Karbi Farm Producers Company Ltd for Ginger and Chilly in Karbi Anlong district of Assam for promoting organic cultivation, processing and export. The Spices Board invested Rs.1 crore as equity in each of the companies, while the rest of the equity has been held by tribal farmers (600 in Coinonya and 400 in Karbi) (Singh, 2008 and Murray, 2009). Agricons Agro Producers Company Ltd, Raipur, Chhattisgarh was incorporated in 2005 and extends services to the members in lines of input supply, finance, farm produce procurement, agro-advisory service etc. The company supplies agricultural inputs like seeds, fertilizers, pesticides, biofertilizers, bio-inoculants, bio-pesticides, farm implements, tools of information technology, inputs for agro-industries and post-harvest processing etc. The company developed a wide area of network spread all over the country to serve the customers in an efficient manner. The company has sophisticated warehousing unit also (Anonymous, 2010).

***Rangusta*** a producer company that promotes the products of artisans, weavers and craftsmen, was registered in 2004 and has been extending services in Rajasthan, Assam and Uttarakhand to bridge the gap between the artisans and the customer and to provide such artisans the sustainable rural livelihood options (Anonymous, 2007 and Murray, 2009). ***Masuta*** Producer Company Ltd is promoted by PRADHAN, an NGO as an independent rural enterprise suitable for women and landless and marginal farmers who had limited dignified job opportunities, low wage rates (Kumar, 2007). *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% (Ray, 2007). 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 representing muslims, dhalits and other backward classes to enable them aggregating their fragmented nature of production and increasing volume as well as the returns. The credit requirements of these producer companies are met from commercial banks, through a model devised by Fab India in association with ICICI Bank (*Murray, 2009*).

In general, most of the initiatives on producer companies are start-ups and promoted by NGOs/ development agencies/ sponsoring organizations. Most of them are performing the function of providing technical services and inputs to the producers or pooling produce for collective marketing. This may be considered as the first stage of evolution of producer companies. Emergence of some of the producer companies like that have been promoted by Fab India, where corporates come together with farmers to share prosperity through retailer partnerships and such initiatives may be considered as the second stage evolution of producer companies. Producer companies having their own processing infrastructure and developing their own identity, brands, supply-chain will be the third stage. Only when the third stage occurs at which the producers be able to directly connect with and have command over the markets and thus a greater share in the market pie, then the concept of producer companies will be completely successful in India (Murray, 2009).

***Challenges faced:*** The major issue is that the concept has not yet been considered by either Central or State Governments for any incentive or support (Ray, 2007). At a surprising note, the practicing producer companies like *Rangusta*, opined that the infusion of grants and subsidies from the states and others could lead to an absence of healthy competitive spirit (Anonymous, 2007). The producer companies also face difficulties in getting Agricultural Produce Marketing Committee (APMC) licenses for processing and trading due to the reason that the traditional cooperatives already having licenses in many places (Table 1). DSC (2007) reported that as per the present fertilizer licensing policy in Gujarat, the “Principal Certificate” can only be given to the cooperatives and no provisions in the by-laws to provide such licenses to producer companies. DSC also felt that the compulsory initial share capital for the producers companies will be a huge amount for the small and marginal producers. The 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 the equity shares of the primary producers, the companies may not have assets to leverage for credit from the financial institutions. 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 Ltd (promoted by Maharashtra Goat and Sheep Research Development Institute, Maharashtra and Animal Husbandry Division of Nimbalkar Agricultural Research Institute (NARI)) in Satara District of Maharashtra that has been functioning with the aim of providing backward and forward linkages to the goat and sheep farmers. Fab India initiatives were supported by ICICI Bank. Similarly, DSC arranged loan-based land leveling fund by NABARD and support to agriculture-based livelihood activities such as setting up of vermi-compost units and purchase of agricultural implements to Dhari Krushak Vikas Producer Company Ltd (DSC, 2007). Such cases may critically be evaluated for effective institutional arrangements for lending by financial institutions.




**Evolution of producer companies in India (Murray, 2009)**

Unconventional approaches from financial organizations are needed to extend credit facilities, where they can consider the credibility and reputation of the companies and the principles with which such companies operate, as the tangible assets and not merely the physical assets. Guarantees and undertakings from the promoter institutions and purchase orders and the agreements pertaining to business may have to be relied upon by the financial organizations to extend credit facilities (Murray, 2009). IOFPCL, Kochi, Kerala had been told that the Village Panchayats can provide 50% of the value of produce as loan against warehouse receipts. But at the time of obtaining the receipts from the warehouse, the rental value has to be paid in full, whereas, the intending company would make payment only after the delivery of goods. These capital constraints make it difficult for the producer companies to set up facilities for value addition and marketing (NRAA, 2009).

Another serious issue emerges at a time when the strength of the producer company concept has been gradually realized by the Government and the corporate sector. A committee under the Chairmanship of Dr. J. J Irani reviewed the Companies Act, suggested that the "special dispensations for Producer Companies need not be provided under the Companies Act and if need be, a separate legislation may be considered for such entities". The concern of the Committee were "producer company provisions are not in tune with the general framework for companies with limited liability in terms of restrictions of transfer of shares and thus the denial of exit opportunity, absence of competitive market for corporate control and the very existing platform for infeasibility of imposing Corporate Governance Regime". However, Prof. Alagh, who recommended the incorporation of amendment favouring the producer companies, argues that the comment "producer companies are not corporates; both in sprit and form and therefore cannot be the companies" is a short-sighted view. Because, such provisions are already under practice in USA, New Zealand and Denmark under similar laws that govern Companies and Corporates (Alagh, 2007). If the special dispensation for the producer companies will be removed, then the very essential features of producer companies like transparency, one vote/ one share, patronage voting based on the interest taken and the possibilities of strategic partnerships will not be retained. Any such tinkering with the law at this juncture will certainly create trouble for the existing and new producer companies (Singh, 2008). As cooperative structure as a legal entity has long since been in practice in Gujarat, the producer company has been viewed by the bureaucracy as the competitive entity rather than a complementary one. There has been lack of awareness among the Govt. officials, producers and the NGOs about such new concept (DSC, 2007). More over, it is very surprising to notice that even after five years of existence of the law on producer companies, neither the state nor the developmental agencies have tried to create awareness about the concept and its practice.

***Needed interventions:*** The working models of producer companies need much attention. The experiences of such producer companies are to be gathered keeping the institutional arrangement provisions for the producer companies unaltered. The more the encouragement towards strategic relationship with larger business companies, the better and more enduring will be the systems. There is an immediate need for working-out a mechanism for providing the critical support to producer companies through either government grants or through independent institutional mechanism. Provision of investment and working capital credit by the cooperative organizations, State Agro-Industries Corporations and Department of Industries has to be encouraged. Institutions like NABARD, NDDB and NFDB etc may financially support the producer companies (NRRA, 2009). The State Agricultural Marketing Boards are to be given power to extend licenses to the producer companies pertaining to trading and processing without stringent conditions that make producer companies to stay away from such arrangements. The producer companies practicing or promoting organic farming may be identified as the designated parties by the Agricultural and Processed Foods Products Export Development Authority (APEDA) for certifying the produce/ farms of individuals and third parties. The promoters and the NGOs that support the producer organizations may be encouraged through project-based grants by the State/ Central Governments. The producer companies must have the provisions to get exempted from any income or turnover taxes levied on the business as they are producer-owned. Nothing has to be meddled-with from the legal front with respect to alter the very status of the producer companies.

Registration and establishment procedures are very cumbersome, arduous and time taking. Hence, simplifying the registration procedure and capacity building of stakeholders of producer companies on these lines may be of utmost importance (DSC, 2007). The possibility of dovetailing the existing and new schemes of the Governments like RKVY, NHM, NFSM etc with activities of producer companies has to be explored for effective delivery of such programmes as well as raising the funds for producer companies, as done by IOFPCL in Kerala with NHM (NRAA, 2009). The 40 lakh SHGs of the country may be converted or up-scaled in line with the principles of producer companies with appropriate support mechanisms. The watershed projects being implemented as per the new guidelines aim at giving greater emphasis on livelihood activities and micro-enterprises. Hence, for achieving a quicker spread of the producer companies, it would be ideal to focus in the areas where watershed projects are being initiated at different states (NRAA, 2009).

There is a strong need for orienting the bureaucracy and NGOs on the salient features and provisions of the producer companies. Special notification may be provided for the chartered accountants on the provisions of producer companies with respect to filing returns. Need for continuous and regular hand-holding support to the officials of producer companies atleast for initial 2-3 years to familiarize the functionaries on maintenance of financial record, filing returns etc. Existing institutional set ups like KVK, SAMETI and ATMA may be effectively utilized for providing training support. Also, the process of registration would need to be simplified and translated into local languages (DSC, 2007). In a positive note, there already have been similar efforts from the Action for Social Development (ASA), Bhopal to bring out two manuals on Producer Companies (ASA, 2009,). Possibilities of partnerships among the producer companies are to be explored (Murray, 2009). The experience of *Masuta* is that market and not the raw material is the constraint for producer companies. Hence, the producer companies are needed to concentrate on novel and modern products to target niche export market (Ray, 2007).

## CONCLUSION

Studies that analyze the reasons for "why the existing cooperatives did not come forward to take the advantage of the conversion clause in the provisions for the producer companies?" are of utmost priority (DSC, 2007). The best practices followed by the successful producer companies in capacity building, awareness creation and enabling environment for

**Table 1. Challenges for producer companies and relevant strategic implications**

| Challenges | Rating | Implications | Rating |
|---|---|---|---|
| Report of J.J.Irani Committee-against the special | *** | No meddling with the law; simplification of provision registration procedure; initial handholding support | *** |
| Not yet recognized by the Central/ State Govt.; no handholding support | ** | Government support as grants/ through independent mechanism for start-up/ working capital based on business plan | *** |
| No incentives and support capital from Government | *** | Arranging credit/ loan facilities through Cooperatives / Agro-industries Financing Corporations, Banks etc for infrastructure development | *** |
| Compulsory initial share capital is too heavy for small and marginal farmers | ** | APMC licensing for trading and processing; income tax exemption; performance-based interest subsidy | ** |
| Lack of start-up and operational capital credit support from financial institutions | *** | Project-based grants for the promoters; dovetailing Govt. schemes | ** |
| No licenses from APMCs | ** | Promotion of cooperatives into producer companies; On par treatment to cooperatives | * |
| Lack of awareness among the Govt. Departments, NGOs and producers | *** | Facilitating SHGs to establish producer companies; promotion of the concept in watershed areas. | ** |
| Viewed as competitive entity for cooperatives | * | Facilitating partnership among the producer companies | * |
| Registration process is cumbersome | ** | Case studies to document best management practices of successful producer companies and impact | ** |
| Non-utilization of conversion class by the cooperatives | *** | Feasibility studies/inquiries on converting cooperatives into producer companies (In spite such clause in the amendment, so far no such conversions) | *** |

***-most serious; **- serious; *-some what serious promotion across the country are to be documented and disseminated. Management practices in terms of triggering factors, equity shares, patronage pattern, growth in membership, shares and turn-over/business, services provided, external investment, product diversification, voting policy, internal control mechanism, share transfer, capacity building, brand promotion, linkages and partnership, logistics provided, credit policy and the payment pattern etc are to be documented apart from impact on the member-producers with respect to increase in knowledge, adoption towards improved production technology, perception and attitude towards the concept, etc and on productivity, profitability, returns, credit acquisition, repayment, extent of business, accessibility to processing facilities, value addition, export opportunities, livelihood pattern and quality. Also, it will be imperative to know through the above-mentioned studies that "what steps are needed to carry the advantages and positive implications of producer companies to the common rural people?" *(Gupta, 2009).*

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*Abbreviations Used*

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|---|---|---|---|
| AFC | Agriculture Finance Corporation | NFSM | National Food Security Mission |
| APMC | Agricultural Produce Marketing Committee | NGC | New Generation Cooperatives |
| ATMA | Agricultural Technology Management Agency | NGO | Non-governmental Organization |
| BAPCL | Banana India Producer Company Ltd | NHM | National Horticulture Mission |
| CEO | Chief Executive Officer | NHM | National Horticultural Mission |
| DD | Development Departments | NRRA | National Rainfed Area Authority |
| DPIP | District Poverty Initiatives Programme | NSSO | National Sample Survey Organization |
| DSC | Development Support Centre | RCS | Registrar of Cooperative Society |
| ESAF | Evangelical Social Action Forum | RKVY | Rashtriya Krishi Vikas Yojana |
| ESPCL | ESAF Swasraya Producer Company Ltd | SAMETI | State Agriculture Management and Extension Training Institute |
| ICICI | Industrial Credit and Invest Corporation of India | SHGs | Self-help Groups |
| ICS | Internal Control System | VANILCO | Vanilla India Producer Company Ltd |
| INFARM | Indian Farmers Movement | KVK | Krishi Vigyan Kendra |
| IOFPCC | Indian Organic Farmers Producers Company Ltd | MACS | Mutually-aided Cooperative Societies |
| NABARD | National Bank for Agriculture and Rural Development | | |
| NDDB | National Dairy Development Board | MFI | Micro-finance Institute |
| NFDB | National Fisheries Development Board | MNC | Multi-national Company |
| APEDA | Agricultural and Processed Foods Products Export Development Authority | | |

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