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PRODUCER COMPANIES IN INDIA: AN OVERVIEW OF PERFORMANCE, CHALLENGES, AND POLICY ISSUES

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INTRODUCTION: Major questions about small producer organisation

- What is the most appropriate form of small producer organisation?
- Is there any specificity about the crop or enterprise which matters e.g. commodities or high value crops?
- Who is more relevant promoter –state or civil society or private sector?
- What conditions are necessary for business and economic viability of such organisations?
- How to attend to Social Enterprise objectives thru such organisations i.e. inclusiveness, democracy, and community orientation

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Overview -Contents

- Understand current status of PCs in India in terms of ownership and management structure;
- Examine business performance on various parameters and in terms of improving smallholder incomes or market power;
- Differences, if any, among producer companies organised/facilitated by different external stakeholders/promoters like private sector, NGOs, government, Farmer organisations, and reasons thereof;
- Problems faced by PCs
- Lessons for better organisation and performance of PCs

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Table: Profile of study states

State	Average size of holding (ha)	%age of S&M farmers in total	% of rainfed area in total	No. of farmer suicides during 2001-2010
M. P.	2.28	64	62	13000
Gujarat	2.61	55	66	5000
Rajasthan	3.38	55	61	6000
Maharashtra	1.66	73	81	37000

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Methodology

Screening criteria: 1. At least three years old; 2. Not converted type (from Co-op to PC) and 3. Only agri produce PCs (not non-farm)

- Of the total 156 PCs then (133 agro PCs), only 56 regd. for more than 3 years at the time of study (2011)
- 67 across 5 study states including all 6 in one state defunct; contacted 40, visited 34, 10 dormant/defunct;
- Studied 24 across four states-north-west, west and central India (Rajasthan, MP, Gujarat and Maharashtra); 50% regd. before/in 2008; three fake
- Of these, 13 NGO, 6 state Deptt. (DPIP), 2 FO promoted

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Status of PCs

- Most in western region in Mah, MP and Gujarat
- 74% of all PCs in farm and allied production handling
- 60% more than 2 year old by early 2011
- First PCs promoted by state (MP) with large grants

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Overview of PCs in India

- Significant support to PCs had come from promoting agencies/projects, especially in MP and Rajasthan.
- Membership/shareholding of PCs in India ranges from individual producers to informal SHGs and individual producers, registered SHGs and individual members, and only institutional members.
- Number of members ranged from 11-220 in Maharashtra, 30-6000 in Gujarat, 344-1200 in Rajasthan and 10-6500 in MP.
- Poor mobilisation of capital from members: Though authorized capital ranged from Rs. 3-25 lakh across PCs, the paid up capital remained within Rs. 1-5 lakh with only one touching Rs. 10 lakh. (Ratios of paid up share capital to authorised capital only 6-40% in majority cases in MP, Mah and Rajasthan)

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Overview of PCs in MP

- Most of the DPIP PCs in MP had given out shares to large number of farmers (1200-6500).
- User numbers were even higher ranging from 2460-8000. 20% non-member business.
- Most of them represented really marginal farmers (average land:one hectare).
- Most of them had professional managers but, with high turnover.
- Most of the MPDPIP PCs were into seed production/farm input supply as main business.
- Non-MPDPIP PCs handled high value produce like cotton, milk, and poultry.
- Financial performance of most PCs was weak, most making losses/very low profits. Some managed to make profit due to scale, other businesses, and better and professional business/market management.

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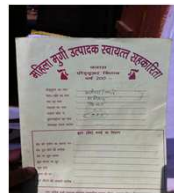
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Low value produce PCs in MP



High value produce PCs in MP



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Performance of PCs in MP

- Another recent study (Purushotham, 2012) of 5 PCs in MP, which also included two of the ones studied here, found **two successful, two at breakeven point and one into losses.**
- Membership ranged from 1059 to 3260
- Median size of member landholding 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 BPL category.
- Member awareness index low at 34% varying from 28 to 41%
- 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).**

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Performance of PCs in MP

- 63% of the member farmers not satisfied with the prices offered by PCs.
- Only 41% had ever transacted with the PCs ranging from 61%-34%.
- 41% (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.
- Savings on input purchase through the PCs were very modest at Rs. 453 in case of 31% members and ranged from 17-52% across PCs.
- Additional sale proceeds realization due to PC was 7.6% of their hh income and varied from 4-12% across PCs
- Transacting member better off to the extent of Rs. 4193 in their total income than non-users
- Only 5% members had sold 100% of their produce through the PC, another 32% only less than 25% and 56% did not transact produce with the PC.
- Only 5% were aware that PC is owned by them .

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Overview of PCs in Gujarat

- In Gujarat, NGO promoted PCs were not able to raise authorised capital which was anyway small (Rs. 1-5 lakh) and shareholding was restricted to a few groups and farmers. They did not have any professional managers.
- Small user member base and average farm holdings larger than in MP; sold mostly inputs and facilitated produce selling. But, both were not active/under restructuring and revival.
- Farmer organisation (BKS) promoted PCs were doing better in terms of business volumes/profits. The BKS leader promoted PC had touched farmer member base of 6000 across six districts and achieved turnover of the order of Rs. 250 million within two years and made good profits w/o any external support. But, its farmer base was large and medium farmers and it has high value produce for export and domestic markets.
- High value nature of business and scale seemed factors behind viable performance of the BKS promoted PC. Scale also worked for re-organised/restructured NGO promoted PC

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Overview of PCs in Rajasthan

- 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.
- 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 ranged between Rs. 1-3 million and all were into profits, though modest.
- Two of the PCs also supplied grains (wheat and maize) to members for consumption.

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Overview of PCs in Maharashtra

- PCs in Maharashtra presented a mixed bag with some being extremely genuine and others completely fake ((non-NGO (corporate) promoters)).
- Of the two NGO promoted PCs, capital base was small (Rs. 0.2-0.3 million) and number of shareholders small (200) and professional help missing. Similar was the case of one farmer group promoted PC which had similar profile.
- In all three cases, 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.
- Most of the studied PCs were in very commodity specific business like grapes/organic produce/vegetables which places additional pressure to perform/be viable as individual crop/produce markets can be very volatile.

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Overview of PCs

- PCs founded on the strength of pre-existing organisations like WUAs/ SHGs/FIGs in most cases though there were also completely fresh origins of PCs like the one in north Gujarat and a few in Maharashtra/MP.
- PCs, in general, appear to be product focused rather than producer/farmer focused.
- Limited corporate market linkages across all PCs



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Best Practices of PCs

- Large member base and involvement- choice of activity (high value or multiple businesses) and scale
- Mixed member PCs in terms of farmer base
- Value chain mapping based interventions
- Initial spadework in member mobilisation and some pre-existing structures of collectivisation like WUAs, FIGs
- Producer risk reduction (production and market)- e.g. contract farming, crop insurance
- Expert Directors in BoD
- Leveraging govt. schemes/programs

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Problems faced by PCs in India

- Lack of awareness among stakeholders and regulators
- Poor member equity mobilisation
- Some forced into PCs legally like in Odisha
- Lack of access to working capital
- Poor professional management, by and large- No business plans
- Narrow business focus or commodity specificity, not farmer focus

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Some recent policy steps for PCs

- MoA letter to State (provincial) DoA
- NABARD loans for PCs and grants to promoters
- RBI norms for PCs under Priority Sector Lending (upto Rs. 50 million)
- Budgetary support of Rs. 50 crore for matching grants upto Rs. 10 lakh each (2013-14)
- Budgetary support of Rs. 100 crore for credit guarantee fund through SFAC (2013-14)
- NABARD mandate to promote 2000 PCs in two years with Rs. 200 crore
- State involvement in direct promotion e.g. Karnataka
- FWWB loans
- ICCO PC capacity building project in Odisha by IIMA
- NCDC Act amendment?

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Some Recommendations

- Incentivise private sector to work with PCs
- Provide market space to PCs in APMC and other markets
- Preferred shares can be allowed
- Use dividends to build equity
- Treat them as Social enterprises- role in transactional services (basic market services) and transformational services- like social inclusion (75% members in MP PCs from marginalised), organic/fair trade, better cotton/better soya

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Lessons from Case Studies

- Organisation: wide stakeholder consultations
- Scope and Management: Choice of business activity, best practices, Prof. mgt.
- Member involvement: BoD can restrict membership
- Scale and Market linkage
- Capital mobilisation and mgt.
- Mixed member base
- Inclusion of small and disadvantaged like women
- Promoter withdrawal strategy

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Organization and Performance



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