OCTOBER 2014

WORLD BANK GROUP

IFC International Finance Corporation

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SmartLessons
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Producer Companies in India:
Potential to Support Increased Productivity and Profitability of Poor Smallholder Farmers

In 2002, the "producer company" model emerged to benefit poor farmers in India. This SmartLesson, based on the World Bank's growing experience with producer companies in India, builds on lessons learned from the First and Second Madhya Pradesh District Poverty Initiatives Projects, which initiated 18 agriculture and livestock companies, involving 46,500 poor small farmers in over 1,550 villages in 14 districts—with 100 percent women shareholders in the livestock companies and 25 percent women owners in agriculture. Together, these 18 companies had an annual turnover of more than $9.5 million in 2011/12.

Background

With a population of over 1.2 billion and an increase in disposable income, India is experiencing a growing demand for food, but productivity remains among the lowest in the world. And most of the more than 60 percent of the population engaged in agriculture remain in economic and social distress. Most of the agriculture and livestock production takes place on small farms (less than two hectares) that are dispersed and fragmented. These small and marginal farmers lack organizing capacity and are often unaware of programs and options available to them or how to access them. Women, who account for about 70 percent of agriculture and livestock production, have an even more marginal role in markets. The reasons for the plight of farmers are several, interlinked, and often complex, and even though demand for their commodities is rising, farmers are locked in a perpetual cycle of poverty.

Poor farmers face a number of challenges to economic growth and improvement: they are unable to benefit from economies of scale because of their small size; they lack market information and are prone to distress sales (below market rates) to repay loans; they face unavailability or high prices of critical inputs (quality seeds, fertilizers, and farm implements) at the local markets; and they are unable to grade their produce and secure direct market links for better prices, which forces them to bank heavily on middlemen in local markets.

Stakeholders in India have tried to resolve these issues with the cooperative model to connect farmers to the value chain. However, with some notable exceptions in the dairy industry, cooperatives generally have not been successful because of political interference, elite capture, and corruption. Legal reforms to address these issues resulted in the emergence of the producer company (PC) model in 2002 via an amendment to the 1956 Companies Act.

What Is a Producer Company?

Owned by primary producers, a producer company is a legal entity that provides an organization for poor farmers, to help them integrate into a larger market value chain to improve their livelihoods and to allow the PC and members to thrive independently in a competitive agribusiness environment. Producer companies deliver social and economic benefits to members and nonmembers. For example, they result in the following:

• economic gains from increased productivity and income from backward and forward links;
• economies of scale and timely access to quality inputs at discounted rates;
• aggregation of produce, processing, value addition, and marketing support (storage, transportation, grading, packaging, market information, and market timing);
• access to production technology, credit, insurance, advisory, and other service support that reduce risk; and
• warehousing, which enables farmers to access credit on receipts based on future market prices.

The entire community benefits from productivity enhancements through increased availability not only of quality seeds produced by shareholders but also of food, which enhances food security and nutrition. PCs create jobs and potentially reduce migration. Women (who often are responsible for a majority of production labor but excluded from markets) benefit when companies build human capital; furthermore, productivity-enhancing and labor-saving efficiencies from group access to mechanization for planting and harvesting can be particularly beneficial to women. PCs also become a focal point for advisory support for agro-advisories and training as well as access to government programs.

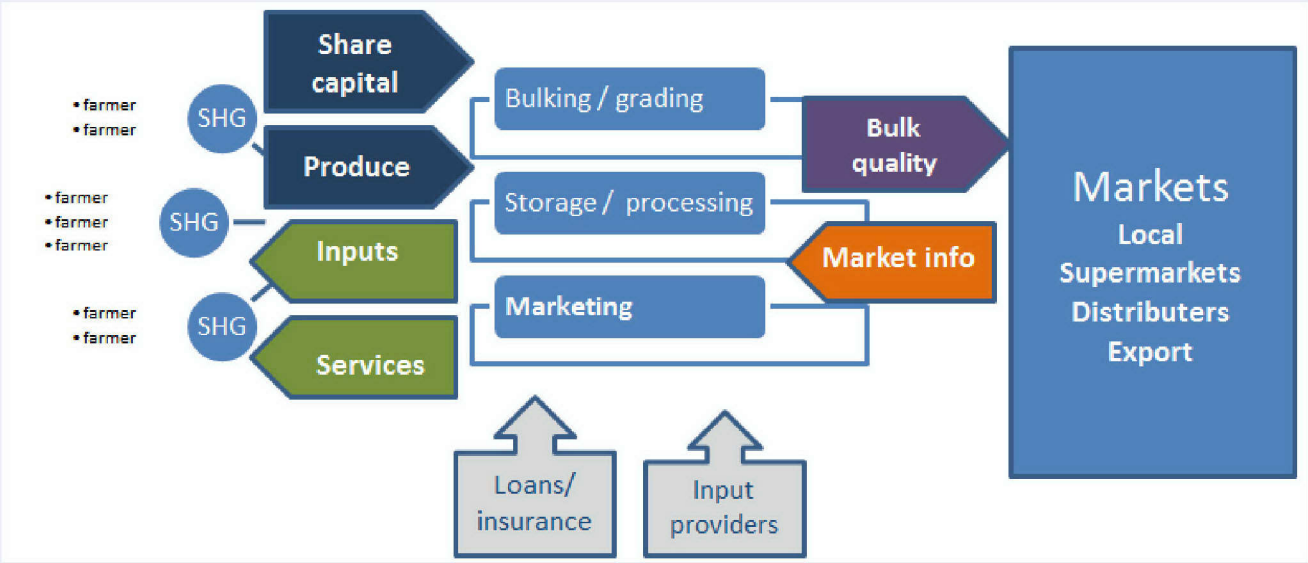
Timely planting and harvesting support adaptation to climate change. Organization also enables producers to benefit from environmental sustainable practices—increasing productivity, reducing the environmental footprint, and making bonus payments available through certification programs such as the Responsible Soybean program. These companies also benefit from association with the international agency Solidaridad, which provides technical and financial support as part of the Roundtable on Responsible Soy Association. Federated producer companies provide a powerful voice for small producers to engage more effectively with state governments to influence policy and government programs.

The Project

Madhya Pradesh (MP) is one of India's leading agricultural states, where agriculture contributes over 25 percent of the state GDP and engages more than two-thirds of the working population. MP was part of the World Bank's initial trilogy of livelihood projects in India. Given the prominence and scope for improvement of agriculture, the upward federation of common interest, and self-help groups to form producer companies, the Bank provided financing for the PCs under two phases of operation of the Madhya Pradesh District Poverty Initiatives Project (MPDPIP). The project became effective from March 2001 in 14 districts of MP, and the second operation began in 2009. Implemented in 2,902 villages, the project emphasized creating and improving opportunities for the poor and the vulnerable, especially women, by mobilizing them into grassroots institutions that follow the principle of aggregation—forming small groups, networking them, and then federating upward to enable better strength of voice, collective bargaining, and economies of scale.

The World Bank financed start-up capital in the form of a loan, while each company raised share capital from members. The Bank also provided advisory support for governance and operations arrangements, including backstopping support from nongovernmental organizations (NGOs), and helped catalyze convergence with government programs. The project support unit and specialized NGOs provided handholding and helped PCs progress through the preparation, start-up, and incubation phase, and several have achieved partial autonomy and maturity. (See Figure 2.) All PCs formed both backward and forward links; half of the PCs have formed at least seven or more links with input suppliers. All but four provide storage facilities, processing, and grading.

Figure 1: Producer Companies Link Farmers to the Value Chain

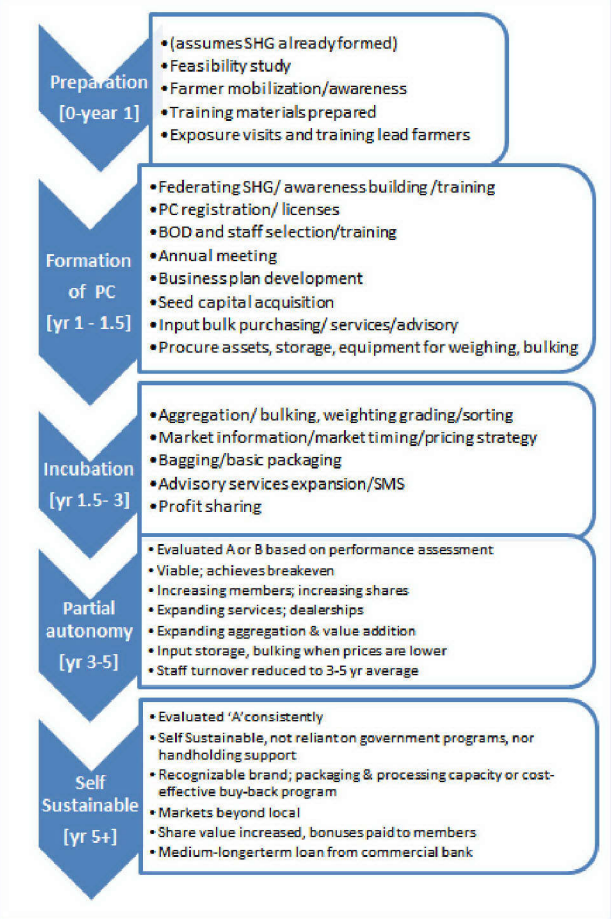


Lesson 1: Governance should include representatives from the producer as well as expert board members, whose appointment is based on capability. Strong training programs also should be provided.

The basic governance and organizational structure of a PC consists of a board of 5–15 people, elected or appointed. Up to 20 percent of the board members can be expert directors, and the CEO serves ex officio. Board members can be reappointed for no more than one additional four-year term.

Board training and retraining to apprise directors of their responsibilities and to support skills development are important, as is the establishment of minimal education requirements: 12th grade for men and 10th grade for women, whose representation thus far generally remains poor. The appointment of professional directors (at least one in addition to the CEO) also provides capacity building for the producer board members and support to the CEO. Producer companies hold an annual general meeting that requires participation of two-thirds of the members—a challenge, given an average of 2,500 members, and a deterrent for membership expansion.

Figure 2: Stages of PC Development, Duration, and Characteristic Activities During Each Stage



Lesson 2: Skilled, knowledgeable, well-networked, and trusted professional staff who are adequately supported is an essential component of the PC model.

Companies may have a minimum of five management staff—including the vitally important CEO, who needs to demonstrate skills in business and in management of both people and technical processes, be well-networked to suppliers and buyers, have good negotiation skills, and be trusted by the producers. Attracting and keeping such a multi-talented person is challenging. One option was to recruit graduates from major reputable institutions, such as Institute of Rural Management, Anand. Turnover of CEOs has been high—on average, two years or less—because of 1) frustration with the limited financial and technical capability of farmer board members and 2) salary and bonuses that were not competitive with market rates. These problems are alleviated by 1) imposing expert and minimum educational requirements on board members and 2) developing a human resource strategy that formalizes salary and bonuses packages and professional development opportunities.

Capital constraints meant that key staff positions often went unfilled. For instance, all but one company had a marketing director—a key position to lead the final stage of the company's development. The other critical position was commissioned agents, who are critical for aggregating demand for inputs and outputs, disseminating basic information, linking farmers to other service providers, and expanding membership. Commissioned agents either were farmers or were drawn from the community and trusted by them. Most successful companies also employed production managers—graduates trained by the company/incubator—who could provide both technical and business management advice.

Lesson 3: Clear performance targets should encompass both the economic and social objectives of the PCs.

Clear targets, although not set initially, have evolved to include livelihood benefits to shareholders. They measure increase in agriculture/livestock productivity, increase in gross margins from crop/livestock products, and increase in the producer share of the wholesale price. Women's participation (and how they benefit) also needs to be monitored. Business indicators include annual turnover, operating margin, working capital requirement, bonuses/dividends declared, and credit and repayment from commercial banks.

The commercial banking sector had little experience with producer companies. Assessment of PCs' business performance was fundamental to their ability to attract additional loans from banks. The International Crops Research Institute for Semi-Arid Tropics (ICRISAT) developed an agribusiness incubator (ABI) that was contracted to prepare case studies on the top six best-performing companies, to build confidence of commercial banks to release loans. Performance targets were important

Box 1: Women's Poultry Producer Companies Take Flight

Madhya Pradesh Women's Poultry Producers Company Pvt Ltd. (MPWPCL) started in 2005 with 300 shareholders and has grown to include over 3,750 women from tribal areas. It generates annually Rs. 998 lakh (about $1.8 million) in member income and a further nearly 20 percent in dividends per share. The company has captured 20 percent of the commercial broiler market in the state.

Before becoming shareholders in the company, women like Choti Bai had limited livelihood options. Many were engaged in hard labor with little income and struggled to feed their families; they had little social standing in the community and were pushed from place to place. Now they are businesswomen, active shareholders, and board members of this thriving company.

The company is becoming more vertically integrated by securing input, namely feed production and hatcheries to supply quality chicks. The PC, which with its affiliate cooperative employs 300 staff, received start-up investment from the MPDPIP and has been incubated by PRADAN. Now it attracts bright young graduates like Ms. Kusum from business and veterinary schools in India.

Choti Bai, one of the largest shareholders, who produces 5,000 broilers annually, and Ms. Kusum, an MPWPCL staff member. (Photo by the author)

for providing relevant capacity-building support. The aim of having 15 of 18 companies sustainable may be overly ambitious, given industry expectations that only 20 percent of start-ups are viable three years later. Performance standards are required for farmers, such as sustained quantity and quality of produce supplied. The most profitable company implemented a total quality management system with performance indicators throughout its business operations—human resources, production, purchasing, marketing, financial. (See Box 1.)

Lesson 4: Companies require handholding (including longer-term peer support) for five to six years to promote the PCs during several stages of development.

State- and district-level support units provide assistance to agri-focused PCs, while Pradan and Srijan assist livestock PCs. Any group of producers can set up a company, but it requires a promoter to build awareness, organize producers, and facilitate the PC's evolution (see Figure 2). Community mobilization can be time-consuming, so recruiting shareholders from existing self-help groups can shorten the process. Registration and licensing, setting up systems and processes, staff recruitment, and establishing forward and backward links require strong business skills.

Membership in consortia is another source of peer support. Nine PCs joined the Roundtable on Responsible Soy Association and can access technical and financial support through the international certification agency Solidaridad. As part of the project exit strategy, the project management unit plans to establish an apex organization at the state level to support business development, further aggregation, and marketing.

Through the National Agriculture Innovation Project, the World Bank is financing initiatives that provide comprehensive handholding and peer support: ACCESS provides extensive handholding and is establishing Small Producers and Agribusiness Resource Centers, which work with PCs at the member, management, and governance levels; the ABI at ICRISAT is building the capacity of business support units on 10 agriculture university campuses around the country; the National Dairy Development Board has established National Dairy Services, a not-for-profit company, to support the formation of PCs under the National Dairy Program; and most recently, the government of India identified and selected the Small Farmers' Agribusiness Consortium as the key body to provide advisory support to producer organizations. PCs could also evolve through public-private partnerships, with state governments supporting the initial stages of development, as it is in the interest of the private company to gain access to bulk supply of consistent quantity and quality.

Lesson 5: Major challenges include raising capital (although several options are possible) and achieving reforms related to taxation and land ownership.

MPDPIP provided a start-up loan of 25 lakh, and producers paid 10–100 Indian rupees per share, based on commodity. Patronage-based share packages are an option. With PCs having an average membership of 2,500, share capital has thus far been limited, and PCs under MPDPIP have been reluctant to expand membership, pending access to bank loans to expand their business. For start-ups, this is not an option, as banks require three years of balance sheets.

While the National Bank for Agriculture and Rural Development is mandated to provide credit and other facilities for various operations in the agriculture sector,

there are few examples where loans have been issued to PCs. The Small Farmers' Agribusiness Consortium commissioned an analysis of each of the top six agriculture-based PCs under MPDPIP to encourage commercial banks to release loans, with some success for companies assessed as mature. Infrastructure support has been sourced through government programs.

Other options include partnerships or alliances with other private companies, financing through venture capital funds, grants from national and international sources, or financing through corporate and private foundations. The new Companies Bill, whereby companies allocate 2 percent of profit to corporate social responsibility initiatives, is another option. Other options to raise capital without diluting the ethos of the PC could be to issue class B shares to nonproducers, with dividends but no voting rights.

Further reforms are also necessary to give PCs access to tax breaks and land leases that cooperatives often currently enjoy. For example, cooperatives can lease government land at very low rates.

Conclusion

Agriculture in India, as in many developing countries, is characterized by small-scale and often widely dispersed farmers who lack organizing capacity to increase productivity and access markets. PCs are still a new concept, and the PC model financed by the World Bank under MPDPIP represents some of the earliest examples in the country. In many respects the MPDPIP producer companies face challenges common to most private companies—attracting and keeping good staff, capable governance, and accessing capital—as well as additional challenges related to their social role.

Several other Bank-financed projects in India—including agriculture competitiveness projects in Maharashtra, Assam, and Rajasthan—are planning or implementing PCs and other producer organizations. The largest is the National Dairy Support Project, where the objective is to improve productivity and market access of 1.2 million smallholder farmers, about half of whom will be organized into producer companies. Over 100,000 farmers have already been organized into PCs in two of India's leading dairy states, with plans to establish companies in other leading dairy states as well as to expand membership in cooperatives.