“Farmers as Owners - Madhya Pradesh, India”
Improving Livelihoods through Community-Owned Institutions

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Dependence on Agriculture

The state of Madhya Pradesh is one of India’s leading agricultural states where the contribution of agriculture to the state Gross Domestic Product is 26.9% (Yr 2001-02), while the total working population in this sector is 72.2%. These statistics underline both the prominence and scope for improvement in productivity of agriculture and the industries associated with the sector in Madhya Pradesh.

Stumbling blocks

The major barrier to rapid agricultural growth in the State is the increasing number of small agricultural landholdings due to multiple divisions. In addition to the small size of landholdings, productivity is also affected by inadequate irrigation facilities. The financial requirements of small and marginal farmers have been traditionally met by informal money lenders who exploit them through exorbitant interest rates and unfair contracts and recovery systems. The farmers therefore make distress sales, often selling their produce at prices lower than the market rate in order to repay these loans. This vicious cycle is worsened by the unavailability or high price of critical agricultural inputs like seeds, fertilizers and farm implements at the local markets, and this poses a serious threat to economic growth and livelihood improvement initiatives. Furthermore, the small farmers’ inability to grade their produce and secure direct market linkages for better prices forces them to bank heavily on middlemen in local markets.

Building a farmer’s institution

The concept of the MPDPIP project is based on a graduation model of decentralized institution building that follows the principle of aggregation, i.e., forming small groups, networking them and then federating upwards to enable better strength of voice, collective bargaining and economies of scale. Most of the project
areas are developed as production clusters and primary producers have been organized through various community-based business initiatives to effectively reap the benefits of agri-business.

As the organizational platform, the project organizes farmers and other small producers into activity-based small groups called Common Interest Groups (CIGs), each with a minimum of five members. These groups use income generating activities as the main incentive for their cooperation and for developing their commodity-based activities and marketing access. The members are provided, on a demand-driven basis, grants for productive assets like irrigation facilities, milk animals, etc., for raising their income levels. The project has fostered effective linkages between community members, banks and financial institutions at the CIG level based on asset creation and associated savings generated by members.

This tier advances to form Village Development Committees (VDCs) with members drawn from CIGs, each having nearly 100 members at the village level. The executive body of a VDC consists of 10-15 members, mostly women. VDCs act as service-providers to their members and address the consumption requirements of the beneficiaries. VDCs assist in new CIG formation, monitoring of existing groups, management of accounts and procurement of inputs, trading and marketing services. They establish community-managed local financing, cost recovery and user charges. Each village has an Apna Kosh or village fund, which is financed by contributions from the community members. This fund is managed by VDCs and is used for micro-financing to the CIGs. VDCs decide the terms and conditions of lending (micro-credit) to CIG members, from the corpus fund of the Apna Kosh. Their interest rates are lower than the rates at which the money lenders offer loans, but high enough to enable Apna Kosh to be a sustainable fund for the village.

Village Resource Persons (VRPs) play a pivotal role in the delivery and promotion of the VDC agenda to rural households. Each VRP is responsible for 2-3 VDCs and has the task of facilitating CIGs to form their VDCs, start community finance activities, perform administrative duties of conducting their monthly meetings, record-keeping, and establish bank, knowledge and market linkages.

At the cluster level, i.e., for a group of 25-30 villages, a Project Facilitation Team (PFT) consisting of a coordinator and three technical members (experts in areas like agriculture, horticulture, civil works and veterinary science) is formed. Their main role is to assist and guide group and village organizations for self-development and facilitate aggregated interventions in each cluster. PFTs provide access to technical skill, credit, extension and other services by linking the CIGs with service providers. They also monitor the quality of the participatory and decision-making process at the local level.

The cluster based institutional development approach has organically extended to formation of viable business concerns, registered as a producers’ company under the appropriate legal framework.

**An Enterprise takes root**

The overall objective of these business concerns is to provide poor and marginal farmers with improved access to new agricultural technology, markets, financial and non-financial information and a bridge to grow and diversify their businesses, generate more income and employment as well as creating forward-backward linkages.

A producers’ company is a democratically controlled enterprise owned by the community and managed by professionals. Primary producers subscribe to the company by buying a fixed number of shares at a nominal value that build up the share capital for the company. A Board of fifteen directors is selected by shareholders and one chairman is selected among them. The decision-making authority is entrusted with the Board members. A Chief Executive Officer is appointed by the board who serves the farmer-controlled enterprise and has the operating responsibility of developing the company, strategic planning.
and overall management. The company employs professionals and specialists in the areas of agricultural production, procurement, financial management, general administration, business development, marketing and sales. The working staff composition is a mix of government employees and persons from non-government organizations, and people from specialized and business management background. Service providers and PFTs act as facilitators and bridge the gap between the farmers and the producers' companies.

The producers' companies have necessary statutory licenses and certification to undertake production, procurement, marketing, selling, storage, processing, packaging, distribution and trading of all agricultural produce.

**One Company, Many roles**

The producers' companies are operating as commodity institutions and aim at strengthening backward and forward linkages to induce market-driven agriculture with primary producer participation. They contribute immensely to the areas of:

**i. Cluster Development**

Existing community clusters are developed and strengthened through vital interventions by the producers' companies. Marginal and small farmers are supported by their producers' companies during the process of production, procurement, service delivery system and contract marketing through its cluster based solutions.

**ii. Market Linkages**

The producers' companies operate as a farmers' institution coordinating effective market linkages both for produce marketing, and procurement and distribution of agricultural inputs. Leading companies have partnered either as input suppliers or as contract procurers to the producer companies. Contract procurement is an arrangement with the procurers to provide them specified products; while, as an input supplier, the producers' companies enter into an agreement with private players to operate as dealers for their agri-based products. The dealerships are primarily in agri-based products like seeds, pesticides and farm implements that are critical agricultural inputs required for farming. Direct dealership brings a cost advantage by eliminating trader margins thereby reducing intermediaries and increasing farmer's realization. This arrangement also provides quality assurance and timely availability of farming products. As a seller, producers' companies play a dual role – one, supplying produce to procurers as per their specifications; two, purchasing, grading and selling farmer's produce in the market as their in-house packaged and branded products.

**iii. Knowledge Transfer / Skill Up-gradation**

As knowledge focused entities, producers' companies collaborate with public and private research agencies to introduce new crop varieties, transfer technology, and provide extension services, technical and operational training and support to farmers. The research organizations share their Package of Practice (PoP) which contains information about cropping practices including soil requirements, seasonality, land preparation, seed varieties, sowing methods, water management, use of pesticides, and other production technologies.

**iv. Aggregation**

Producers' companies support marginal farmers for aggregation of input demand, quality-unified produce and cost effective procurement through elimination of middlemen. By aggregating agricultural produce and building volumes, direct
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A Producer Company (PC) is a hybrid between a private limited company and a cooperative society.

- A PC retains the spirit of cooperative principles but is outside the purview of the State Government. The provision counters over-dependence on government assistance, excessive bureaucratic control, government interference and restrictions observed in cooperative societies.
- It brings in transparency, public audit and accountability to prevail over vested interests sometimes found in cooperatives.
- Unlike private companies, there are no limits to the number of members. Moreover, voting rights are based on the cooperative principle of one person-one vote and not the extent of shareholding as in normal private or public limited companies.
- With management by professionals and the objective of earning profit, the companies provide enough motivation to the members to put in their best effort and manage the society efficiently.

access to wholesale/corporate buyers is possible. This allows primary producers to circumvent the existing supply chain of small-scale brokers, local transporters, resellers, and other intermediaries that currently extract excessive value from each transaction. Producers’ companies actively compare buying prices and negotiate with wholesale buyers - exporters, processors, large retailers, and large institutions. As aggregators, they attempt to create a win-win situation for producers, as well as buyers.

v. Financial Linkages

The companies have strategically partnered with commercial banks, insurers and other financial institutions for fulfilling financial needs for infrastructure development, providing credit to producer members, working capital requirements, operations and insurance for members and their assets. Unlike CIGs and VDCs, the producer companies do not operate in micro-financing directly, but act as a medium or a facilitator to develop and strengthen financial linkages.

Economics

All producers’ companies are linked with banks for their working capital and other credit requirements. Capital formation is through share subscription by primary producers. Budgetary assistance is provided by the State government as a security capital of US$ 62,500 and an annual subsidy for administrative and operational expenses of up to US$ 17,500 each for the first five years. The Companies are committed to complying with all the relevant statutes under the Companies Act. The audit of the financial statements of the Companies is conducted in accordance with the accepted auditing standards in India.

On the pricing front, economic benefits from dealerships and marketing arrangements are extended to the small and marginal farmer share-holders. Direct dealings with seed, fertilizer, farm implements and machinery companies bring a major cost advantage for farmers as compared to the prevailing rates at the local markets. Low cost and better quality inputs assure superior produce and incremental savings for the community.

At the post-production phase, the companies secure optimum prices from contract marketing and procurement arrangements with public and private sector organizations. The producers’ companies buy the agricultural produce from the farmers, aggregate it to sell to their partners/bulk buyers at a premium over local market rates. The benefit of the premium is extended to the farmers while retaining a part of it for meeting operational expenses and transaction costs incurred in the contracts. The companies maintain individual accounts of all farmer members that include their input purchases and their produce sales. In the past, the producers’ companies were heavily dependent on procurers or bulk buyers for input assistance in seeds and fertilizers. As the companies grow and learn to operate efficiently, these farmers’ institutions are strengthening their infrastructure to undertake production without much support from procurers.

Producers’ companies are progressively emphasizing contract marketing arrangements that fix a minimum support price of the produce in advance, thereby hedging market risk for the primary producers. In addition, these contracts present the farmers with the flexibility to sell their crop at the local market at better prices. Wherever possible, transportation cost is negotiated to be borne by the procurers to derive an additional cost advantage.

Pitching the company

Collaborations & Partnerships

Producers’ companies have forged partnerships with facilitation agencies like non-governmental and
development organizations, public-private associates and various knowledge partners to garner support at the input phase or have production based association. Premier research institutes are working together with the producers’ companies on extension services, new technologies and knowledge transfer. Farmers generate and use knowledge, and are constantly experimenting to manage risks and improve their operations. They are therefore the natural partners of researchers and their institutions for a mutual exchange of modern and traditional knowledge. Farmers and their institutions are responsible for using and translating formal research results into real life production.

In marketing partnerships, the majority of private sector enterprises seek quality, quantity and competitive pricing in procurement and sourcing. Several private sector businesses have entered into contract marketing agreements with the producers’ companies in seed production and other agro-products. These players have strengthened the value chain with adequate input assistance, technological know-how, demand driven approaches and optimum pricing. Private organizations are increasingly shifting from their conventional model of procuring from big farmers or middlemen at local markets to partnerships with ‘aggregators’, such as producer companies. This shift is as a result of middlemen’s inability to assure quality and a dedicated supply chain and huge transaction costs incurred in operating with big farmers. Agro-processors who invest in farmers’ training try to maintain the linkage to avoid the problem of having to train different farmers all the time. Strong links tend to be created between farmers and fruit/vegetable processors due to the perishable nature of the produce. The linkage is usually mutually beneficial to both parties as it ensures a ready market for the farmer and assured supply of raw material for the processor.

Partnerships in the financial sector are mutually beneficial relationships between the formal and

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**Investing in Partnerships**

Samarth Kishan Producer Co. Ltd, Shajapur, an agribusiness producers’ company in the district of Shajapur in Madhya Pradesh is supplying 500 MT of soyabean at a premium over prevailing market rate to Krishidhan Seed Ltd, US$ 1250 million business in seed production. The partnership is expected to yield US$ 0.2 million business with an expected benefit of Rs. 0.5 million to farmers. At the beginning of the association, input assistance (quality seeds and fertilizers) was provided by Krishidhan to the company to optimize farming produce. Presently, the company is maturing with its in-house production of better quality seeds for cropping. As a result Krishidhan is gradually withdrawing support at the input stage to make the company self-reliant.

Deepak Chauhan, Production Executive from Krishidhan has emphasized the importance of aggregation to produce bulk quantities and reduce transaction costs for the partner. ‘There is a huge scope for Samarth to become our seed supplier along with other agricultural produce. Consequently, Krishidhan might not procure inputs from outside the state if our seed requirements are met’, he stated.

Mittal Fresh Food Pvt Ltd. with a business in processed foods has tied up with farmers for tomato production in 70 acres with Lavkush Crop Producer and Marketing Company Ltd, Raisen as a facilitating agency. It is a contract marketing arrangement wherein agri-inputs like hybrid seeds and fertilizers are provided by Mittal Fresh Foods at the cost of US$ 62.5 per acre with technical expertise from its horticulture specialists. The Memorandum of Understanding was designed after several rounds of discussions with more than 117 tomato growers in Raisen district of the state. The key highlight of the partnership is the minimum support price or hedge price fixed for the crop in advance. The produce is expected to be 200-500 quintals per acre at a hedge price of US$ 0.045/kg. Mr Mukul Mittal, Managing Director of MFFPL views the association as mutually beneficial and value-adding relationship. Commenting on his investment in support of farmers, he stated that a long term sustained income always precedes short term speculative income.

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**Producers’ Companies**
- Large constituency (potential)
- Easier convergence on goals & priorities
- Capacity for large-scale implementation
- Knowledge/contacts with technology end-users

**Research Institutions**
- Technological expertise
- Global access to information
- Efficient planning
- Knowledge/contacts with international experts
informal financial institutions. On one side, formal financial institutions like commercial banks and insurance companies have extensive infrastructure and systems, access to funds and opportunities permitting them to offer a wider range of services. However, they do not have access to a broad segment of consumers, particularly remote rural communities, partly owing to difficulties in obtaining adequate information and contract enforcement. Informal institutions like CIGs, VDCs, on the other hand, usually operate close to rural members, possess better information and enforcement mechanisms and are typically more flexible and innovative. However, they are constrained in the type of services they offer since informal institutions lack resources and infrastructure to serve clients beyond a small geographic area. Producers’ companies have therefore facilitated financial linkages between these bodies for a variety of micro-finance products ranging from working capital loans, irrigation loans to health, crop and general insurance.

Communication practices

Linking farmers and their producers’ companies – The requirement of additional workforce emerged from the need to liaise with the community members and build the communication channel between the primary producers and the companies. From among the community members, local rural volunteers are hired to be service providers on a commission basis to strengthen the communication link. These service providers are trained by the company to coordinate with the community members and exchange desired information. Project Facilitation Teams (PFTs) managing a cluster of 20-30 villages each bridge information gaps and strengthen the support system with their expertise.

Linking public-private sector to producers’ companies – Business meets, trade fairs, expositions organized by the Government, trade bodies and commercial establishments provide a networking platform to explore public-private partnerships. Internet presence and web based interaction has enhanced the communication network.

Making inroads

Company outlets are established as liaison and distribution offices in various parts of the district depending on the demand, concentration of beneficiaries and coverage of sales territories. Warehousing facilities are available for weighing produce, grading, packaging and storage of seeds and other agro-products. Producers’ companies attempt to minimize operating costs by reducing stock load and transportation costs. This is achieved by effective coordination of the procurer with the farmer in terms of his readiness to deliver.

Signs of Success

Results at a Glance
Given this breadth of implementation experience, the results so far are:

- Fifteen Crop Producers’ Companies, one Dairy Producer Company and one Poultry Producer Company have been formed.
- Membership of 47,700 shareholders has been registered under Companies Act.
- Most of these companies have been in existence for nearly two years and have a share capital base of US$92,450.
- Total turnover of US$1.4 million with a net profit of more than US$12,500 has been accounted by the companies.
- 38 outlets are operating under the producers’ companies and 46 are planned in the next one year.
- Under the existing producers’ companies, over 1160 villages are already included and benefiting.
- Over 0.13 million poor households are being supported and organized as company beneficiaries.

A Share-holder’s Success

Shiv Singh, shareholder of an agribusiness producers’ company, Samarth grows soyabean on his 1 hectare of land. He procures all his farming inputs from the company and sells back the produce at premium rates. Now, his input costs have reduced, his agricultural production has doubled with quality and regular supply of seeds and fertilizers and his produce fetches the best rate from the company. “My profits have tripled with better seeds, yield and from the rate at which I sell. I have made more than Rs.30,000 (US$ 750) with the help of the company. I have managed to pay off all my previous loans and now I retain a share of my profits to buy seeds and fertilizers for the next season”, he says.
Nearly 56,000 grass root community groups have been formed, including CIGs and village organizations, and are managing direct at village level, out of these 26,000 Community groups are associated with Producer Companies.

Realizations

Activity based cluster development
A sustainable model has emerged from the formation of activity based federations like the producers’ companies and their ability to improve rural livelihoods by upward integration of their self-managed institution with agribusiness and trade industry. Producers’ companies have successfully leveraged the cluster based and community driven development approaches and inculcated group behavior to make the project scalable and replicable across sectors.

Platform for social and economic empowerment
Social and economic empowerment at the grass root level is a reality with the federations, eliminating existing inequalities that govern the society and impede inclusive growth. Gender biases have taken a backseat with rural women demonstrating exemplary leadership skills and effectively enhancing income levels of their families. Alternate livelihood opportunities have resulted in additional income for poorest of poor families, bringing in more focus on health, nutrition and education.

Local Development and Accountability
The new paradigm facilitates full participation of all community members, especially marginalized groups such as women and youth, in the processes of governance. Such a participatory framework, along with adequate scope for local self-management, releases the abundant energy, innovative spirit, leadership talent, vibrancy and innate problem solving capacity which resides in the rural population. Planning for local sustainable development is effected through a participatory process in which the members forge a collective vision for local development, agree on common goals, and on strategies for achieving the goals and realizing the vision.

Transparency
Organizational transparency helps create trust among stakeholders, encourages more informed decision making, and supports greater participation and accountability. The companies foster a transparent culture that encourages innovation and openness conducive to its development.

Linkages and Partnerships
Business partnerships and market linkages have reinforced the demand-based approach of the producers’ companies. In order to maximize available business opportunities, community groups typically need assistance with effective ‘backward’ and ‘forward’ linkages, equipping them with the skills and means to access, negotiate and tie-up with external markets and partners, and orienting their skills to the growing demand.

Increasing income levels
Effective producers’ organizations increase the incomes of their members through services such as supplying agricultural inputs, credit financing, provision of transport and storage facilities and advisory and training services. Other benefits are reduced assembling cost, easier planning of production and delivery schedules.

Support Areas

Infrastructure development
Projections of production and marketed surplus of the agricultural produce show that the quantities, which the system will be required to handle in future, are quite large. A marketing system backed by strong, adequate infrastructure is at the core of agricultural marketing. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to rest of the year. Lack of adequate storage facilities might cause heavy losses to farmers and the companies in terms of wastage in quantity and quality of produce. There is a felt need in the companies for a resource center to provide producers with critical information and guidance related to market and industry trends, value-added market, economic and business information.
Organizational development
As the companies find new successes and avenues for growth, it is important to develop the internal capacity of the organizations to work efficiently and sustain themselves over the long term. Organizational development will aid the companies in diagnosing organizational problems in the areas of management, communication and allocating internal resources, designing and implementing interventions, and evaluating the effectiveness of the intervention.

Financial linkages
Access to financial resources continues to contribute significantly to farm business profitability, development and linkages with other businesses. Innovative micro-finance products and services in association with banks and other financial institutions need to be designed and implemented for sustainable development.

Policy level changes
The quorum for meetings is one third of the entire membership of the companies. In absolute terms, the majority required to be present for a meeting can be unrealistic to organise and manage. When the quorum is not met, it hinders the operation of the companies and impedes quick and efficient decision making. Towards this there is a need to have a policy amendment to revise the quorum for operational effectiveness. The quorum must satisfy a fair and sufficient representation of shareholders of the companies yet not hinder the functioning of the enterprise.

Future
Scale and coverage
Up-scaling is based on a proven model of success and furthermore draws directly on the experience of the existing producers’ companies. There is a vast scope in adapting or replicating the existing model of institution building to reproduce the positive impacts of the project in a number of other locations. The institutions owned by the communities and managed by professionals offer much promise for broadening and improving the economies of scale, market power and access to services of small farmers.

Policy influence
The community organizations, i.e., producers’ companies are poised to grow in scope and number. These organizations have supported traditionally marginalized communities in their efforts to improve their economic and social conditions. As institutions representing and serving marginal farmers are gaining experience and credibility, adding formal policy influence to their agendas might be a natural move for these companies. There is a need to use grassroots experiences and innovations as the basis for improved policies, and strengthen local capacities and structures for ongoing public participation. The producers’ companies help give voice to those who have been traditionally marginalized and provide them with a crucial vehicle for exercising their rights, holding local governments accountable and press for changes.

Long-term Partnerships
In order to more fully exploit the opportunities of working with the private sector, it is now important to build upon lessons learnt from existing partnerships. A greater focus impact assessment and accountability in partnerships requires the formulation of quantifiable criteria for measuring progress and outcomes. Furthermore, in a demand-driven approach adopted by companies, successful long term partnerships are considered to be a result of relationship-building and relationship-management and therefore additional skills and capacities are required to develop more sustained efforts in these areas.