

# Organizational Transformation through Producers Participation – a Case Study of Producers Company

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## Abstract

*Indian agriculture has achieved self sufficiency in food production with the advancement of research and significant contribution of the extension system. However, the farmers are facing various challenges in marketing their produce and have yet to realize better farm gate price, despite various models initiated by the public as well as private sectors. One such model initiated by DPIP in Madhya Pradesh is Producer Company. A case study on a Producer Company (HAMPCO) has been undertaken to analyze the existing producer and market linkage mechanism, organizational systems, and functioning of the model and initiatives to enhance the profitability of the farmers. The study reveals that a Producer Company is owned by the community and managed by professionals. It is a good platform for convergence and a vehicle for transfer of technology, helps reduce cost of farm inputs and realize better farm prices. However, Government interventions may be required for sustaining the producers company during the initial stages.*

## Introduction

Farmers across the world and specifically so in India have specialized in the production of multifarious commodities relating to the food sector. Over the last six decades farmers have exhibited a vibrant adaptability to new technology, new inputs and new methods of farming, resulting in increased productivity and production of various commodities, but they have yet to get a greater share of benefits from the consumer's rupee due to the long chain of intermediaries in the marketing of farm produce. In our country, various models have been initiated by the public as well as private sector, to link farmers with markets. Producers Company (PC) is one such alternative institutional model established to address various marketing related issues. Hence, a brief case study has been undertaken with the following objectives.

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The specific objectives of the study were:

1. To understand the existing producer and market linkage mechanism of producers company.
2. To document the existing organizational arrangement in functioning of producers company and
3. To undertake a SWOT analysis of producers company

### **Research Design and Locale of the Research**

The Government of Madhya Pradesh in collaboration with the World Bank established 17 producers companies under the District Poverty Alleviation Initiative Project (DPIP) in Madhya Pradesh. Hardol Agriculture Marketing and Producers Company Private Limited (HAMPCO Seeds) is one such company, established during the year 2006, in Shivpuri District of Madhya Pradesh. This company was selected purposively for the study and ex post-facto research design was applied. HAMPCO Seeds operates in five blocks of Shivpuri district. Out of the five blocks, two blocks were selected randomly to collect the primary data from various stakeholders.

### **Selection of Respondents and Method of Data Collection**

Detailed information with reference to the objectives of the study was collected from a cross section of stakeholders namely Share holder farmers (30), Management Executives (10) Project Facilitation Team (25) and Service Providers of HAMPCO (10), through a pre-tested interview schedule along with Focused Group Discussion followed by a field visit.

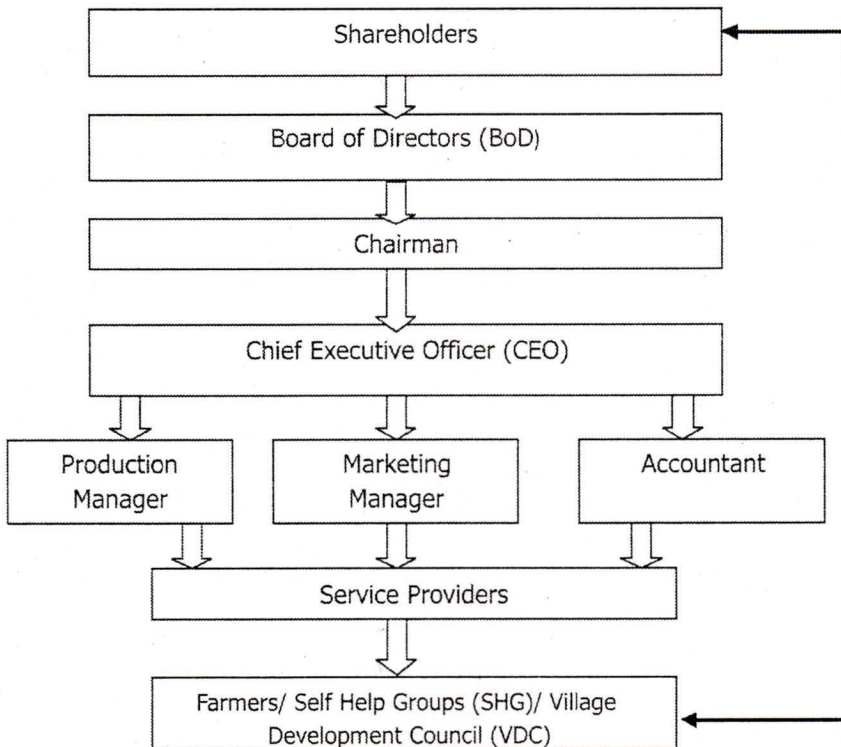
### **Outcome of the Study**

#### **Formation of Producers Company**

The District Poverty Initiative Project (DPIP) was initiated in Madhya Pradesh during the year 2001 for poverty alleviation, with World Bank funding support. As part of the project, it took up various activities in sectors like land, animal husbandry, income generation, service sector, village industries, trading and infrastructure. Farmers of Shivpuri district, associated with the project, used to contact the Project Implementation Team. During an interaction with the farmers, it was understood that seed is one of the important critical inputs, which is not available to the farmers in the project villages. In order to solve this problem, the then DPIP Project Coordinator put forth the idea of formation of a Producers Company. He further added that, a high power committee recommended an amendment to Companies Act to facilitate starting Producer Companies. As a result the Government of India enacted the Producer

Company Act or Companies (Amendment) Act 2002, (1 of 2003) which was basically a hybrid of Cooperative and Private Company Act 1956. The Act has paved the way for primary producers to organize themselves to gain maximum profit for their farm produce. This gave birth to the formation of “Hardol Agriculture Marketing and Producers Company (HAMPCO)” during 2006 named after a local deity called “Hardol Baba”. In a ‘Producer Company’, only certain categories of persons can participate in the ownership of the company. The members have necessarily to be ‘primary producers,’ i.e., persons engaged in an activity connected with, or related to, primary produce. This formal business organization has to ensure assured quantity, good quality, procedural expertise in case of seed production, easy operation, reliability and sustainability. Village, Cluster and District level meetings, group discussions and rallies were organized to create awareness among the farmers about the advantages of Federations and formation of Producers Company.

**Organizational Structure:** The organizational structure of the producers company is unique, and the details are as follows.



**Shareholders:** It was learnt during the discussion that, initially only five enthusiastic Directors and Five Promoters from the farming community of the project villages were chosen during 2006 – 07 as promoters. A paid up capital of Rupees One lakh was collected from them to fulfill legal compliances. Later, these shares were transferred to 763 members during 2007 to 2009. At present, 2163 individual farmers and 27 Village Development Councils (VDCs) are shareholders of the company. Each farmer purchased 10 – 20 shares worth Rs. 100 – 200.

**Board of Directors:** As of now, there are 12 members on the Board of Directors (BoD) who were selected by the shareholders. As per the byelaws, the Board of Directors may vary between 5-15 members. Election is held once in three years. Reappointment of members is done every year. The Board of Directors selects a chairman. Unlike in other organizations, farmers who are shareholders are supreme in the Producers Company and make all organizational decisions through their elected BoDs.

**Management Team:** The Working team of the producers company consists of the Chief Executive Officer (CEO), Production Managers, Marketing Managers and Administrative staff. The CEO is a qualified professional, non-shareholder and an outsider. The Management Team is appointed by the Board of Directors to professionally run day-to-day activities of the producers company. The working team works in close liaison with the service providers.

**Service providers:** The Service Provider is a progressive farmer who stays in the village. One service provider is identified within the community in each village. He may be a shareholder or non-shareholder. The service provider is a link farmer between the Producer Company and Shareholders. He is selected based on traits like communication skills, entrepreneurship, professional approach and positive attitude. The service provider is imparted technical knowledge and skills on agriculture and also on service delivery systems by the CEO, Sr. Production Manager and Junior Production Manager of the company on a monthly basis and as and when it is required. The service provider in turn imparts training to other shareholder farmers.

**SHGs/VDCs:** Farmers are organized as Self help Groups (SHGs) at Grass root level and these Grass root level organizations are federated at Village level as Village Development Council (VDC).

**Modus Operandi/ Production Planning:** HAMPCO fulfilled all statutory and legal obligations required for doing Agri business like selling seeds, fertilizers, licenses for seed production etc. The service providers and management team of the company are in close liaison with the SHGs/VDCs for transfer of technology, production,

procurement and distribution of inputs along with seeds to the shareholders. Service Providers, assess the demand for seeds and other inputs among the shareholders. The Producers Company collects and consolidates the information from all the 45 service providers in the service areas of the company and assesses the entire demand of the shareholders. Accordingly, the company is undertaking the seed production in the fields of other shareholder farmers. The service providers procure the seeds from the seed production farmers and also sell inputs on behalf of the company on commission basis. The seeds produced are sold to the other shareholder farmers through eight collection and distribution centers established at the village level. The service providers are paid commissions based on their business turnover. The margin varies from product to product. However, the service providers earn an average monthly income of Rs 1500 to 2000.

*Scale of Operation:* The Producer Company (HAMPCO) mainly works in seed production on four major crops of the district namely, Soyabean, Wheat, Bengal Gram and Mustard in 45 villages of Shivpuri district of Madhya Pradesh. It has produced 11783.64 quintals of seeds and traded fertilizers, insecticides, weedicides and fungicides to the tune of Rs 94,24,416 from the year 2007 - 08 to 2010 - 11. The turnover of the company has steadily increased from Rs. 21,90,000 to Rs.2,22,00,000 during this period.

### *Sources of Finance*

- i) *Paid up Share Capital:* There are 2163 individual farmers and 27 Village Development Councils (VDCs) who have taken shares worth Rs 2.90 lakhs in the producers company.
- ii) *Government support:* Besides paid up share capital, Madhya Pradesh Rural Development Department has given Rs 25 lakhs under state SGSY. This amount is kept as fixed deposit in the bank to avail Cash Credit limit towards working capital. The Government of Madhya Pradesh has given administrative expenditure to the tune of Rs. 7.00 lakhs in the first year, reducing by 15% every successive year upto five years. HAMPCO is in the last year to receive financial support to meet administrative expenditure. It also supported infrastructure namely godown and machinery to the tune of Rs 40 lakhs through SGSY contribution for a seed processing plant for the company. Integration of schemes and programmes and initial financial support for administrative expenditure from the Government helps in sustaining the Producers Company.
- iii) *Loan against the warehouse receipts:* HAMPCO also takes loan against the warehouse receipts to meet the financial requirement of the company.

## **Price fixed by HAMPCO for the produce**

HAMPCO fixes the price for the seeds based on the average price (average taken from highest and lowest) of the Wholesale Mandi indicated in the Dainik Jagran daily newspaper. Farmers can send the seeds to HAMPCO and have the option of either selling the seeds on the same day or selling whenever the price goes up.

## **Feedback /Perceptions of various Stakeholders about HAMPCO**

As per the byelaw of the producers company, PAN card and Date of Birth are compulsory to contest for the Board of Directors and to get the Director Identification Number (DIN). Most of the farmers may not have the birth certificate and PAN card. This is one of the issues in getting a farmer on the Board of the Company – said Mr.Vineet Gupta, CEO of the company.

Mr.Rakesh Choudhari, PFT – Coordinator, Dehrda expressed that, before establishment of the Producer Company, farmers were not aware of good quality seeds, pesticides, balanced fertilizers and other Good Agricultural Practices. After establishment of the Producer Company and its interventions, farmers are aware about improved technologies. He also indicated that good quality seeds and fertilizers were not available earlier but, after establishment of the company, farmers were getting good quality seeds and fertilizers. He added that due to existence of the Producers Company, farmers can retain the seed and sell as and when the price goes up. Farmers are also getting bonus in the form of discount coupon to an extent of 10-15 per cent. In case of a natural calamity, if seeds were spoiled, farmers were forced to sow the spoiled seeds. Since the company is established, farmers are not facing such situations.

He also indicated that as soon as the Government agency came to know about the seed production programme of the company in the villages, other existing schemes related to sprinklers, drip irrigation and other innovative production programmes from RKVY /NFSM were extended to their villages, and as a result, production enhanced so also the confidence level of farmers.

Mr.Rajender Prasad, PFT – Coordinator Bairad, indicated that the Producer Company has got its own outlets with the network of service providers and through these outlets it provides seeds, fertilizers etc. Farmers are getting good quality inputs at a cheaper price than in the open market, in their village itself.

Mr.Sardhar Baig, PFT Coordinator, expressed that he could observe the change of practice in usage of seed rate of soyabean among the farmers in the project area. He indicated that earlier farmers were using upto 50 Kg/bigha and gradually they

reduced to 19 to 15 kg/ bigha due to continuous education by the company. Farmers from non-project areas also started replicating this practice thereby minimizing their cost of production significantly.

Mr. Rajkumar Sharma, PFT Coordinator indicated that earlier, small and marginal farmers could not aggregate themselves. However, after the establishment of the company and its interventions, farmers could organize themselves and are able to deal with the market forces. They are also utilizing the soil testing facility managed by the company.

Mr. Vineet Gupta, CEO of the company expressed that the company has direct dealership /distributorship with seven seed and other input manufacturers, for vegetable seeds like tomato, chilli, onion, ladies finger, etc and is distributing only branded seeds to the farmers at the dealer price thereby eliminating middlemen in seeds distribution.

Farmers started sowing seeds than grain after establishment of Producers Company, says Mr. Arun Srivastava, PFT coordinator.

The entry level and other livelihood improvement activities undertaken in the DPIIP project of Phase – I, established trust and enhanced the confidence level of the people in the project area. The benefit of trust established in phase - I helped in the formation and sustainability of Producers Company in phase – II. Most of the farmers were sowing grain in the project area. Once improved seeds were introduced as part of project activity, farmers sowed improved variety of seeds instead of grain and realized significant yield difference.

Mr. Vineet Gupta, CEO of the company expressed that, Producers Company being a novel idea there is a lot of demand for advice from the company to replicate this model. HAMPCO is offering consultancy for establishment of Producers Company to various organizations namely Ambuja Cement Foundation, Ford Foundation, Action for Social Advancement, Gramin Rural Services etc. in various sectors like milk, Non Timber Forest Products and Agriculture. An amount of Rs.50,000/- is charged as consultancy fee for providing consultancy for establishing a producers company and an amount of Rs 5000/- is charged on every concurrent visit after establishment of the company. The Company generates income also through consultancy, he added.

The Sr. Production Manager of the company indicated that the Seed Processing unit established by the Company has the capacity to process 10 quintals of seed per hour. As the electricity is available only for a period of 4-5 hours a day, this processing unit is under utilized and can process only about 50 quintals of seeds in a

day. The Seed Processing unit can generate employment regularly for about five persons. Seed processing work is given on contract basis @Rs 24/q for grading and packing and each worker earns an amount of Rs 200 – 300/day. The processing unit is engaged in processing soyabean during November to February, mustard from February to April and wheat from April to June. While explaining the criteria adopted by the producers company for selecting the farmers for the seed production programme, parameters namely source of irrigation, capability of farmers in crop management including pest and weed control, availability of labour, accessibility of land for easy supervision and monitoring etc are considered. Every year around 10-15 per cent of the seed production farmers are rejected by the producers company when the seeds produced by them do not fulfill the required standards and specifications namely germination percentage, genetic purity etc.

Mr.Maneesh, Marketing Manager of the company explained that, “The cost of seeds sold by the producers company to the farmers is Rs 500/q lesser compared to the open market price. The Government is reimbursing distribution subsidy to the company @ Rs 500 per quintal based on the total quantity of seeds distributed”. The sale price of the seed at the company and open market is as follows:

Sl. No.	Crop / Seed	Sale Price (Rs /q)	
		Producer Company	Open Market
1.	Wheat	1550	2050
2.	Soyabean	2450	2950
3.	Mustard	3400	4000
4.	Bengal Gram	2950	3500 - 4000

He informed that farmers in the project area were using the seed at the rate of 80 - 100 kgs per hectare in soyabean. Due to seed production intervention by the company and its extension activities, farmers have gradually reduced the seed rate to 40 – 50 kg /ha and are thereby saving a considerable amount on the cost of seeds so also getting higher yields upto 20 -25 Q/ha compared to 15 – 18 q/ha earlier due to quality seeds and optimum population of plants.

Mr. Rahul Sikarwar, who is working for the company as a Service Provider and looking after one of the eight distribution centers in Muderri village expressed, “I am working as a link person between the company and farmer and sell fertilizers, seeds, weedicides on behalf of the company to the farmers on commission basis. The commissions vary from product to product and range between 1 – 10 per cent. The



turnover of Muderri distribution center is Rs. 6 – 7 lakhs /year. Besides this, I am getting Rs 60/- per farmer per season from the company to facilitate in organizing training programmes and to maintain the diaries of farmers who come for the Round Table on Responsible Soyabean (RTRS) programme”. The Service provider expressed that he earns an average of Rs 3000/ per month. He also added that, he is doing an internal audit by visiting nearly 200 fields of farmers who come under RTRS programme. He monitors the adoption of Good Management Practices enlisted under the RTRS programme in cultivation of Soyabean and gets an additional amount of Rs. 25 per farmer as a service charge.

Mr. Gupta, CEO of the company stated that, slogans on seed treatment, soil testing, certified seeds, artificial insemination, balanced cattle feed etc. are written as wall paintings in the villages at company expenditure for the welfare of the farmers though it is not directly related to company activities. He also expressed that the company is working in about 90 villages, selling certified seeds to about 1000 farmers and undertaking seed production with 125 farmers in 18 villages. The Company is working directly with 45 villages through Service Providers, Village Development Councils and Project Facilitation Team.

Mr. Naresh Dhakar, a farmer from Khairai village, Kolaras block, having primary education, possesses 3 ha. of land. He undertakes seed production of soyabean during Kharif season and wheat during Rabi season. He expressed that he was getting good quality seed, which gives high yield, from the company. He indicated that, all the farmers used to grow a single variety of soyabean namely JS 3335. As a result, all the agricultural operations such as sowing, inter cultivation and harvesting of crop used to coincide in the fields of all the farmers. Therefore, they were facing problems of labour at all stages of the crop. After harvesting of the crop there would be a huge queue in the APMC to sell soyabean and wheat. There were many occasions, when they had to wait up to 8 to 10 days with a tractor load of farm produce for their turn to sell the produce and thereby were forced to pay tractor rent during these periods. At present, Producers Company has introduced three varieties of different durations (JS 9560 – 95 days; JS9305 – 105 days and JS 3335 – 115 days) and hence problems such as coinciding agricultural operations and marketing were resolved. The Company also gives an additional amount of Rs 250/q for soyabean and Rs 100/q for wheat over and above the Minimum Support Price (MSP), he added.

Mr. Madan Sharma, a farmer from the same Khairai village informed that the company sends the electronic weighing machine and gunny bags to their house. They themselves weigh and take the grain to the company godown and randomly check the

weight. Hence, there is no question of cheating on weight by any middlemen, which is otherwise a normal practice in the village.

Based on the perceptions of various stakeholders, Strengths, Weaknesses, Opportunities and Threats of Producers Company were assessed and are enlisted as follows.

### **Strengths**

1. The Producer Company is owned by the community and managed by professionals and hence it is easy to introduce any new concept and system.
2. It is a good platform and may be used as a vehicle for transfer of technology and reach a large number of farmers within a short span of time through its well established organizational network of Service Providers, Village Development Council and Project Facilitation Team.
3. It is a good model for convergence with both public and private organizations. Ex: The Government is providing distribution subsidy to the Producers Company @Rs 500/Q of wheat seed distributed by the Producers Company to the farmers. Similarly, the Producer Company has taken dealership from various Agribusiness Companies and is procuring branded seeds in bulk and selling to the farmers at dealer's price.
4. The Producers Company can easily fulfill legal compliances like licenses for marketing seeds, pesticides and fertilizers whereas it is difficult for the individual farmers.

Aggregation of farmers by promoting Producers Company can help hire more efficient, qualified persons to run the company and its affairs as a business on behalf of farmers.

1. Producers Company is a business entity and voice of farmers, which will enhance the business approach to farming.
2. It is a very open and flexible model. It can do business with anybody, either with a cooperative, private, and Government body within or outside India without any restriction.
3. The Company has established its brand as HAMPCO and is selling its products on its brand name.
4. The Producers Company does not have bureaucracy and political interference. Hence, it has the advantage of a cooperative and protection from the drawbacks of a cooperative.
5. Producers Company is an Accountable Model. The CEO is accountable and the Balance Sheet is the mirror of the Producers Company. BoD is vested with a lot of power to take immediate action against the CEO and management of the company in case of any irregularities.
6. Producers Company is an emerging and powerful model for replication.

## **Weaknesses**

1. All the main documents like Memorandum of Understanding (MoU), Article of Association (AoA) etc are in English language. Besides this, all the Statutory Compliances regulated by Registrar of Companies (RoC) like challans, Balance sheet, Profit and Loss account, Annual Returns, Details of shares etc are to be submitted only online. As the shareholders and BoD members of Producers Company are mainly small and marginal farmers with low and medium level of education, it may be difficult for them to understand the documents in English and the online procedure. In case of malafide interest of the management and its staff, there is scope for them to mislead the BoD and shareholders.
2. In case the BoD has malafide intentions or wants to take undue advantage from the Producers Company like inputs, credit etc., the Chief Executive Officer (CEO) and management of the Producers Company cannot do much as they are directly under the control of BoD which is vested with power including dismissal of the CEO and Management.
3. Auditors play a major role in ensuring financial strength of the company. As per the rule, the General Body has to appoint the Auditor for the Producers Company. However, in practice, this is not happening and whoever the BoD proposes is generally appointed as the Auditor of the company.
4. Producers Company is treated as a profit making company / commercial organization. For e.g.; if a producer company receives financial assistance from a foreign agency to train the farmers on Good Management Practices of Soyabean cultivation under Roundtable on Responsible Soyabean (RTRS), the company has to pay 33 per cent of income tax, as the Producers Company cannot register under FCRA (Foreign Contribution Regulation Act).

## **Opportunities**

Producer Company has a number of opportunities to expand its business to many segments relating to primary products namely seed, vegetables, fruits, milk etc.

1. It can handle short, medium and long term activities together, e.g.; the place of origin of milk and vegetables may be from the same village; the Company can transport both the produce together at one time and procure both from the same farmer.
2. The proposed policy of the Government on FDI on retail may favour Producers Company. It can become a partner Company with MNCs and be a supplier company to MNCs due to its wide network and deep penetration at the village and its goodwill among the primary producers.

## **Threats**

1. The business performance of the Producers Company is mainly based on the season. One or two unfavorable seasons may upset the performance of the company. For e.g.; Continuous drought for one or two seasons may affect the business activity and performance of the company.
2. As most of the shareholders in the company are illiterate, there is a scope for the Management and BoD to hijack the decision and take undue advantage from the company.

## **Problems**

1. The share contributed by an individual farmer is only Rs 100/-, which is very less, and hence the ownership of shareholders is found to be less.
2. Distribution of the dividend is a problem for the company. As individual contribution in the form of shares is only Rs 100, even though the dividend is about 20 per cent, it amounts to Rs 20/- only, for each farmer.
3. Bankers are not coming forward to give loans to the producers company.
4. Working capital is very meager.
5. With limited technical manpower (one CEO, two production managers and one marketing manger) it is unable to cover all the shareholders of the company. As it is covering only 45 villages, shareholders in other villages are not getting any benefits and hence they are not taking any ownership.
6. Six CEOs from outside the district have quit the company within a year, as the remuneration and facilities of the company were not very attractive.

## **Suggestions for Strengthening and Replication of Producers Company**

1. Active participation of shareholders may be ensured through establishment of a three tier Model. i.e., Farmers may be organized at grass root level similar to SHGs or Commodity Interest Groups. These Grass root level organizations may be federated at cluster level like Village Development Council. These cluster level organizations can play a major role in formation and management of Producers Company. The BoD of the Producers Company should be answerable to the Cluster level organizations, and Cluster level organisations should be answerable to the Grass root level organization. Voter rights for selection of BoD of the producers company has to be only for the cluster level organizations. The proposed organizational structure may empower active participation of all the shareholders/producers at various levels.

2. Shareholders must be trained on the importance of selecting suitable auditors and reviewing the audit report.
3. Producers' Company is an aggregation of primary producers which basically consists of farmers and hence it should be treated as a primary sector. Therefore, the benefits which the farmers are entitled to, namely subsidy, loan etc. from the government should be enabled to the producers company too.
4. Producers' Company should be established at cluster level ideally for a cluster of 20- 25 villages.
5. Government may give some relaxation to the Producers' Company in the form of tax exemptions, subsidy and funding support for sustaining the company at least during the initial stage of the establishment.
6. It would be ideal to have qualified persons within the district to head the company especially in the initial period. It is also advisable to gradually develop manpower to lead the company within the community for better sustainability.

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