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Training Programme on Formation and Management of Producers Groups and Federations

Reading Material



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1. *Promotion of Producers Groups (PGs)/ Farmers Interest Groups (FIGs) and Federations*

Introduction:

Farmers' Organizations are seen as a useful organizational mechanism for mobilizing farmers' collective self-help action aimed at improving their own economic and social situation and that of their communities. Such organizations were perceived to have an ability to generate resources from their members. They could operate at different levels from the local to the national.

Many governmental and non-governmental organizations have been trying to organize farmers into groups and integrate them into the development process by actively involving them in transfer of technology, production and marketing, planning, implementing and monitoring of different projects on rural development, agriculture and allied sector development, natural resource management etc. Some of the popular examples of Farmers' Interest Groups (FIGs)/Farmers' Organizations (FOs) under National Agricultural Technology Project (NATP), Farmers' federation under UPDASP, Watershed Associations under Participatory Watershed Management Programs, Vanasamrakshana Sameti under Joint Forest Management Projects, Farmers' Clubs under NABARD scheme, Self-Help Groups of farmers organized by MYRADA and CEAD in Andhra Pradesh and Rythu Mithra Groups (RMG) in Andhra Pradesh are some of the initiatives taken to mobilize and organize the farmers. The Kerala Horticultural Development Programme (KHDP) formed Self Help Groups (SHGs) of vegetable and fruit growers to help and promote new technology and participatory technology development (PTD) skills, to help farmer's access credit and strengthen their negotiating power through collective marketing, namely the Vegetable and Fruit Promotion Council, Kerala.

National Commission on Farmers, Ministry of Agriculture, and Draft National policy of farmers has indicated the following aspects on group approach:

Group Farming by Self-Help Groups (SHGs) has been mainly organised for supporting micro-enterprises operated by women with the help of micro-credit. With the growing diminution in the size of operational holdings, it will be useful to promote SHGs at the production end of the farming enterprise involving men. This will be particularly helpful in the case of integrated pest management, integrated nutrient supply, scientific water management, improved post-harvest technology, marketing, etc. SHGs will however become sustainable, only if they have backward linkages with technology and credit, and forward linkages with processing and marketing organizations. Steps will have to be taken to convert micro-finance into livelihood finance through appropriate support systems. There is also a need for establishing SHG Capacity Building and Mentoring Centers.

Farmers' organizations of all types have an important role in development – they provide space for participation, which contributes to group members' ownership of the issue at one hand as well as any solutions. This in turn builds group cohesiveness, solidarity and promotes mutual support. They can be the platform for building a sense of community, a social support system, increasing self-confidence, learning together and providing a sense of equality. A well-organized group can be taken seriously in a wider environment.

Groups with common interests can secure access to services that individuals cannot such as training, credit or equipment, infrastructure etc. Lack of access to any of these could be the vital issue that an individual farmer faces. This is particularly the case where farmers organize as a response to marketing concerns, as there are clear economic benefits of working in groups. These include the ability of groups to buy inputs in bulk, access

more distant markets and access to information. Working together can increase members' bargaining power, which helps to share, and lower risks and costs. In areas where farmers are scattered geographically, and transport and communications are difficult, the importance of such organizations is even greater.

Everywhere in the world, a limited number of farmers are collaborating with each other in some way or the other and forming groups for sharing information and working together. Under the right circumstances, farmers' groups can make a very positive difference to the lives of those working to improve their livelihood options as well as to the sustainable development of agriculture. Working together can take many forms, and a variety of terms are used to cover the scope of this idea – collective action, farmers' organizations, women's' groups, unions, co-operatives, self-help groups, networks, alliances, associations, committees, clubs, partnerships etc. These terms imply a range of methods for joining forces, at different levels, in a variety of sizes and scopes, with different aims or with different legal status.

Part –I: Promotion of Farmers' Interest Groups

Groups of farmers, who come together spontaneously or through their own efforts to answer their own felt needs, are more likely to be effective than groups that are brought together to suit the needs of an external agency. The groups/associations of the latter category last only as long as the project period. Their cohesion and motivation often lie in material and financial considerations. Spontaneous and voluntary formations of social groups involve a high degree of trust, which cannot be manufactured. This is one reason why community groups are often formed around one strong personality, and due to some immediate issue.

There is an important difference between farmers or communities that organize themselves to work together, and farmers being organized in groups by external actors, who see this as a vital step and entry point for community development. External agencies often view the creation of

organizations as a positive intervention, a way of increasing impact and sustainability of activities. Farmers and communities often do benefit from participating in such projects through gaining access to trainings, information, resources and further linkages. However, groups formed in this way are typically more prone to difficulties at the start and there is a risk that they will not continue if or when the initiating institution withdraws from the project. Alternatively, where previously established local groups gain the support of external agencies, this arrangement can be very positive. A key challenge for facilitating agencies is to act as catalysts and bring out the self-organizing capacities of farmers in the most locally relevant and useful way. Effective support can facilitate or enable local groups to achieve more, or be heard by the right people. It can be especially constructive while community groups are establishing themselves, or in response to a stated need. However, as groups develop and find their own strength, the external agencies need to consider different types of support groups may need.

1. Stages of group formation:

Broadly there are five stages in organization of group as indicated below:

- Forming ▪ When the group members enroll themselves and conduct 1-2 initial meetings
- Storming ▪ When the group members start discussing and reacting to the various issues / conflicts
- Norming ▪ When the groups start framing norms to run it successfully
- Developing ▪ Provide capacity building to the group members on different areas
- Performing ▪ When the group starts performing by involving in planning the commodity converge with developmental programmes, management of inputs and output, value addition, packaging, grading, transportation, marketing etc.

2. Guidelines for formation of FIGs:

a) The core functions of FIG are

- Acting as collateral through group pressure
- Ensuring optimal production planning, meeting the market and household food security needs
- Maintaining common infrastructure –farm machinery, farm ponds, bore wells, tractors, storage godowns, drying platforms, primary processing units etc. and equipment which cannot be afforded by one farmer but can be owned by 20 farmers together
- Linking with the local government at panchayat level to obtain access to governmental programmes like agriculture and allied sector development programmes/funds etc.

b) Characteristics of the FIG

- Number of members in a FIG is 15 to 20. This is keeping in view the experiences of SHGs' promotion in the country.
- Age – above 18 years
- Practicing farmer of the village
- While promoting FIGs, different other community institutions promoted in the area under various government and non-government programmes have to be kept in view. The details of such institutions, lessons learnt etc. have to be kept in view while promoting FIGs. Such institutions may include the following:
 - Self Help Groups (SHGs)
 - Village Organisations (VOs) (Federations of SHGs at village level.)
 - User Groups– Groups of farmers in compact areas promoted to use the benefits of a common structure erected under watershed programme, such as Watershed Committee, or any other such livelihood groups, Groups of wage labour promoted under NREGS Groups of farmers formed on compact lands assigned to SC, ST farmers – compact land blocks developed

under programmes like NREGS, CLDP, NABARD etc., Commodity groups, Cooperatives, Tank management committee, VSS/ FPC, Community networks etc.

If such groups exist then it is advisable to select appropriate groups keeping in view the objective of the project and then treat them as FIGs. The advantage will be that you will get the benefit of an existing and organisationally stronger group.

The following specific steps may be taken for organization of FIGs:

- Organize informal meetings with prospective group members to discuss the purpose, methods of operation and benefits of groups as well as possible enterprises/activities.
- Farmers' groups may be formed once the participants have identified viable income-raising activities
- They decide on criteria for group membership: for example, whether members should belong to a specific category on the basis of common needs, common problems, common interest, similarity in commodity, small holders, social affinity, homogeneity in socio-economic status and neighbourhood etc.
- FIGs will get informal recognition from agriculture and horticulture departments. FIG is not a legal body.
- Only one member from one household may be considered for FIG and no person can be a member in more than one FIG for all financial matters. From the perspective of equity this is important. If there is a joint family, multiple memberships are possible on the basis of one member per 'chula'.
- FIGs should choose their leaders and co-leaders. No designations like Chairperson, Treasurer, and Secretary etc., need to be given to the leaders. Instead, the designation of Representative can be used.

Thus, this does not take on significance of a hierarchy and they are perceived as Representatives.

- It is always better that the leadership is rotational. However, the periodicity of rotation etc., should be left to the group. It is also to be remembered that there should be sufficient time for the leadership to work before they are changed in order to give all members leadership experience.
- In a village, apart from compact area of group members of each FIG, the area under all FIGs also has to be compact. Keeping the functions of the FIG in view, farmers will be covered in a contiguous land patch of 20 farmers and these 20 farmers will form a potential FIG. This is so that it becomes easy to access watershed funds and also plan for common infrastructure for a particular commodity.
- As far as possible, the village saturation (i.e. coverage of all farmers cultivating the entire cultivable area of village) approach has to be adopted.
- Due attention has to be given to farmers cultivating lands in ridge areas, rain fed lands, assigned lands etc.
- Confidence and clarity of key persons (*Sarpanch*, elders, opinion makers, key informants etc) has to be taken while mobilisation and organisation of farmers.
- Periodic meetings and consultations at the village level is a must to keep the community informed about the interventions that the project is making. Often this is forgotten leading to isolation of the project in the villages. At least one meeting a month and minimum 12 meetings per year must be conducted at FIG level. Transparency and democratic functioning must be emphasized through example. Questions must be encouraged and fully answered.
 - Each farmer may have a common fund in the group
- The FIGs must maintain a set of records relating to their financial transactions, membership register, minutes book etc. This will vary in accordance to the nature of the groups. It is suggested that the

Group promoters to be in touch with the organisations that have been promoting such primary groups and take their help in developing the record system at the groups.

- For different activities (like formation of FIGs, election of group leaders, group meetings etc), decisions/resolutions have to be recorded in Minutes Book with required signatures.
- Members will seek primary membership in FIGs. Services to the members will primarily be provided at savings, credit, insurance, procurement, marketing, trading, storage, processing, land, soil & water resource management, etc.
- Admission/Removal/Resignation of members can formally be done at FIG level; norms to be established for this component.
- Organize farmers group with the help of locally-available/ identified community organizers/group promoter.
- Group promoters make a list of potential group members and leaders, possible group activities and required inputs.
- Assess their productive resources, including capital, skills and experience.
- During the initial period of 6-9 months, the members may be encouraged to take small amount of loan at a reasonable rate of interest as decided by the group. This shall help them in developing a habit of repaying the borrowed amount in different installments. This type of modality shall help in developing solidarity in the group, planning for their commodity till it reaches markets.
- Ranking/grading of the above FIGs may be done after 6-9 months. At that stage, only mature FIGs may be given external or project benefit, revolving fund, etc. The remaining FIGs may be further strengthened with the help of group promoter and may be given project benefits, revolving fund etc., as and when they get maturity. Proper transparent criteria may be used for assessing the maturity of FIGs. Provide capacity building on each and every stage of the group.

At this stage, special care may be taken not to break any of the existing group, just because of availability of certain small financial incentives to FIGs. The formation of viable and stable groups requires patience and, in most cases, a period of two to six months. Both overly rapid formation and overly long delays, which may dampen the interest of potential group members, are avoided. The process of group formation may face formidable obstacles. In most of the cases, the rural poor are economically dependent on landowners, traders and middlemen and may fear intimidation if they are involved in independent peasant organizations. Local leaders who may see the groups as a threat to patron-client relationships pose other constraints. At local level, project staff can help to overcome this antagonism by calling meetings to sensitize leaders to the objectives of the project/programmes and, above all, to illustrate the benefits of its activities to the area as a whole.

c) Services FIG will provide:

1. Trading
2. Insurance
3. Credit Linkages
4. Storage / Ware housing
5. ICT- Market Information, Price information, Technology
6. Processing
7. Input Linkages- Fertilizers, Manure, Irrigation, Equipments and Pesticides
8. Water shed activities, water budgeting and water audit
9. Capacity building
10. Seed processing and seed bank
11. Technical support
12. Fund mobilization
13. Government linkages
14. Short, Medium, and long-term credits
16. Seed banking and processing
17. Marketing, Exporting, etc.

d) Functions of FIG:

1. Demand estimation
2. Distribution
3. Soil testing
4. Book Keeping
5. Thrift and credit management
6. Crop plan group wise
7. Group Management
8. Processing units
9. Grading
10. Farmer Field School (FFS)
11. Loan Guarantee
13. Knowledge Sharing
14. Managing common Infrastructure etc

Group emphasizes income-generating or cost-saving activities based on local experience and low-cost technology. These undertakings do not replace but are meant to supplement members' normal production. Activities of this type are most likely to broaden the groups' economic base, mobilize savings, strengthen group cohesion and develop their enterprise management skills. Groups are encouraged to undertake social or community improvement activities only at a later stage. It is important that - as far as possible - each group identifies plans, carries out and evaluates its own activities. This is essential for group development and, eventually, self-reliance. While group promoters have an important role in encouraging group activities, especially in the initial stages, theirs is a facilitating role that will be reduced gradually as the groups develop.

e) Grading of FIGs:

Based on the maturity criteria, the groups are graded into A, B, C and D categories

Maturity criteria

- Regularity in meeting
- Good attendance (> 80%)
- Good recovery (> 90%)
- Proper maintenance of records and accounts
- Fine for absentees, late comers or those who delay in payment of dues
- Involvement in development of agriculture, allied sector and rural development activities.

Once a group fulfils all the above criteria, it will be considered under group - "A Grade" and such matured groups, placed in "A" grade, are eligible for involvement in developmental programmes. The B, C and D grade groups need capacity building to become "A" grade group.

3. Group promoters

The group promoter (GP) is a key agent in the success of any participatory project. He or she works with the farmer, building up their confidence in their own abilities and promoting their self-reliance. As this work must be done without creating dependency, the GP's task is essentially that of an intermediary, with three basic roles:

- group adviser, strengthening the groups' leadership, organizational and planning capacity
- participatory trainer, teaching groups basic technical, literacy and problem-solving skills
- "link person", facilitating communication between the groups and government and NGO development services.

Experiences show that one group promoter can help to organize an average of 15-20 groups. GPs must have experience in working with people and local organizations in rural areas, and familiarity with the problems of the farmer. It is essential that candidates have a strong commitment to live with, work with and assist the farmer. Capable group promoters may be recruited from government agencies or local NGOs willing to work with farmer. In some cases, preference has gone to government agencies willing to second their staff to the project.

GPs promote self-reliance by involving the group members in activities that allow them to develop leadership and record keeping skills. They encourage group-to-group exchanges, and ensure the presence of one or more group members whenever they deal with supporting institutions such as banks and delivery agencies. When and how should GPs withdraw from their groups? Past experiences in the projects indicate that it takes three to five years for groups to achieve complete self-reliance.

Once groups have established a sound economic, technical and management base, project can promote their consolidation into local-level inter-group federations. These federations promote solidarity and economies of scale both in group activities and delivery of developmental services. Development of local and, eventually, regional and national structures also stimulates formation of more groups. An inter-group federation must be accountable to all group members. It has a facilitating; coordinating and educational role as a source of technical assistance, economies of scale and guidance. For instance, a federation can offer training to new groups, financial help to their activities from savings and perform some of the functions of group promoters by providing technical and marketing support to the farmer groups etc.

4. Case study – I: Harvesting herbs -*A farmers' forum shows the way*

Farmers in North Karnataka region have organized themselves and have found solutions together in overcoming crop failures. Their initiative in including medicinal herbs in their cropping systems is paying rich dividends.

Gadag district in north Karnataka is a drought prone area receiving an average rainfall of 300-350 mm annually. Farmers in this region have traditionally been growing crops like jowar, sunflower, cotton and horse gram, exclusively under rainfed conditions. Due to erratic and unreliable rainfall pattern, farming was most uncertain and majority of the farmers migrated to places like Goa, Mangalore etc., to earn their livelihoods. Farming was also not viable due to high cost of inputs and dwindling net returns. Moreover, the farmers in villages located on the fringes of the forest areas have to face yet another problem – browsing by deer. In 2006, about 65 farmers belonging to six villages in Gadag and Koppal districts (Belvanki, Kotumachigi, Mannapur, Itagi, Bannikoppa, Chikkahandigol) came together to address the issue of crop failure under dry land conditions. They tried including *Ashwagandha*, a medicinal crop, in their cropping system owing to its hardiness requiring less moisture and the absence of threat from deer as they are not preferred as feed. Also, the presence of fertile black cotton soils, rich in organic matter, and the fairly wide spread Kharif and Rabi rains made *Ashwagandha* a preferred crop under rainfed conditions.

The members of the group started growing *Ashwagandha*, along with pulses and cereals, as a mixed crop. They followed low external input methods. They started benefiting, continued to grow and also motivated other farmers to grow medicinal plants. The farmers then formed a society called “*Ashwagandha Belegarara Okkuta*” (*Ashwagandha Farmers Forum – AFF*) under the Karnataka Society Registration Act 1960. Membership to the group is open to any farmer, willing to grow herbs, paying a nominal fee.

The members of the group are supported with a financial assistance from the Department of Horticulture under National Medicinal Plants Mission.



AFF member showing Ashwagandha plants

To gain from collective marketing, AFF has arranged buyback arrangements with noted pharmaceutical companies. AFF started promoting medicinal species like Ashwagandha (*Withania somnifera*), Kalmegh (*Andrographis paniculata*) and Nelanelli (*Phallanthus amarus*) among farmers of neighbouring villages. Since these species require minimum moisture and can be grown successfully in drought prone areas, small farmers started showing great interest. The forum also trained interested farmers in growing these crops under organic conditions. Farmers were also trained to integrate the cultivation of medicinal plants in the normal cropping systems being followed in the area. Experts from Agriculture Universities and Research Institutions were invited to train the farmers on technical matters. Exposure visits to neighbouring states where herbs are being grown were organized.

PART – II: Formation and Management of Federations

When we use the term “federation”, we mean an organisation of organizations; a federation can be created for different purposes. It could help to access credit, or help in procurement of inputs, marketing of produce brought in by the members of the FIGs, or, it could engage in policy advocacy. It could also engage in a mix of all these or other developmental activities.

2.1. Organizational forms

FIGs can promote several types of federations. Some are registered, some not. Registration is necessary if the federation expects to hold properties, financial transactions and for legal identification. In the case of land, buildings, office equipment, and so on, it would be best if these were in the name of the federation, rather than in the name of individuals. For that, the federation needs to have its own identity as a registered organisation.

The four laws providing body corporate status to organisations are:

- a. The Companies Act – for organisations whose aim is to provide a service to the larger community; profit and control are proportionate to the investment made by the owners.
- b. The Trade Union Act – for organisations whose aim is to help workers in a specific industry or work place improve their working conditions including wages; organisational profit is not the aim; members have equal voting rights.
- c. The Societies Registration Act – for organisations whose aim is to help members scientifically, culturally, politically, etc., or, to undertake charitable work for the larger public; profit is not the aim but where

profit is earned, it cannot be shared by members; members have equal voting rights.

- d. The Cooperatives Act – for organisations whose aim is the social and economic betterment of members through the use of services provided by the cooperative; profit is shared among members in proportion to the use of services by members; responsible and active members have equal voting rights.

As can be seen from above, if a federation's primary aim is to provide financial and/or marketing services to its members, registering as a cooperative may be the most sensible thing to do.

If the main aim is the social and political empowerment of the people, to do charity and the federation does not undertake any business, then registering under society may be more useful.

As it is unlikely that our members have a lot of money to invest, and members would like to continue to control their federations, registering a company at this stage may not be useful. The companies as of now have a chapter on producer companies, which are like cooperatives for all practical purposes.

2.2 Organization of federation of farmers' groups.

At the initial stage, major attention need to be paid towards organization of sustainable farmers' groups. After about 1 year or so, the groups can be graded. If more groups are in 'A' grade, then the farmers' groups can be federated at different levels namely, village, block, district, state, national and international levels etc. Farmers' groups working at grassroots level have internal group pressure, technology dissemination, and management of inputs, services and infrastructure. Experience shows that in some villages,

farmers' groups are also taking the help of Information and Communication Technology to get the information.

Village level federation:

It is appropriate to recognize that undue hurry should not be made in organizing higher-level federations of farmers' groups. It may be better if a step wise approach is adopted in which higher level federations are organized only after the stabilization of lower level federations. The higher-level federations may be encouraged to become autonomous bodies through registration under Cooperative societies Act. These federations may sustain themselves through contribution from farmers' groups and village level farmers' organizations against satisfactory delivery of services. If needed, more than one federation may be organized at higher level so that farmers' groups may have flexibility in approaching those, which provide better quality services.

- The village level commodity federation may be voluntary bodies – no election but nomination of the members by general body to the executive committee. But all members with equal status to act as a pressure group to redress or address the problems of a particular commodity.
- Liaison between the farmers' groups and block level federations
- Village level federation (VLF) can develop detailed action plan of village by collecting indents from the farmers' groups, crops grown, needs of the farmers, input requirements, output management strategies etc.
- Based on the detailed action plan, village level federation can procure inputs and distribute the same to the farmer through farmers' groups.
- VLF can manage storage, grading and primary processing facilities at village level and marketing of produce.

Block and District level federations:

Block level federation may be a registered body under mutually aided Cooperative Registration Act. Two members may be nominated by each farmers' group/VLF at village level to these block level federations. These members will form Executive committee. All members of the FIGs are the general body members of BLF. General body meeting can be held once in six months or once in a year.

Roles and responsibility of federations:

- Liaison between the district level and village level federations
- Horizontal net working of federations
- Provide high quality seeds, fertilizers, pesticides and other inputs
- Discuss crop related issues in relation to market perspective and perceptions based on expert opinion and placed before the village associations
- Pre-crop, mid crop, pre-harvest and post-harvest meetings are to be convened by these associations without any restrictions on number of meetings to be conducted by the associations earlier
- Federation will act as a pressure group helping policy-framework
- These federations can work as advisory bodies for the commodity groups
- Gradually, these associations can federate at state and national level
- Flow of market information and market extension
- To provide global marketing information to the farmers' groups of society through internet
- Storing, Packaging, grading and marketing can be done through this federation
- To export value added produce
- Developing linkages with all developmental programmes and routed through these federations

- Provide capacity building for these federations on management of federations, linkage with other institutions, management of forward and backward linkages, market linkages, market extension etc.
- The federation can organize workshops, preparation of detailed action plan of the block level federations, provide capacity building to the groups etc.
- Federation can engage a Para worker for the major commodities on service charges-basis by the farmers' groups
- Provide training to the farmers' groups on seed treatment, crop management practices, technical know how, post-harvest management, grading, packaging, processing, value addition etc.

State and National level federations:

- The state and apex level federations can articulate policy advocacy and lobbying
- They can develop institutional mechanism to identify partners for marketing/ processing/exports
- The federation can integrate the initiatives of APMC – contract farming – Commodity trading
- Build the global competitiveness in post-liberalization/WTO regime in quality parameters and cost of production
- Federation can promote market led extension, marketing of produce etc.
- They can focus on Credit, Interest, Crop Insurance, MSP, etc.

2.3 Principles of federations

Each type of federation, in each area, has its special characteristics. However, there are some basic principles of federating groups to keep in mind at all times. These are relevant regardless of the type of federation or its location. These principles are valid only for federations which are democratically structured, and which aim at being member-controlled and member-sensitive. Let us look at these principles.

1. Principle: Farmers create FIGs and FIGs create federations.

FIGs are agents of their members. Federations are agents of FIGs.

Actions which we may consider taking:

- a. Form federations after promotion of enough strong FIGs.
- b. Federations can help to form some more FIGs in the area.
- c. The villages to be included for new FIGs must be decided by leaders from all the existing FIGs in the area.
- d. The formation of new FIGs by the federation may be taken up only if the development, business or advocacy agenda of the federation requires more numbers of FIGs.
- e. New FIGs may not be formed in order to create enough development, business "in order to meet the wages of staff". Federations are not formed to meet staff salaries. They are formed to serve the ultimate members i.e. farmers.

2. Principle: The services that a federation provides to its member-FIGs must be such that a majority of members will stand to benefit from them.

Explanation: Federation may take up several activities on behalf of member-FIGs. However, some may benefit, and some may not. Federation sometimes earns profit on some activities and loss on others. If federation earns profit and everyone gets a share, then no one complains. If, however, the business results in loss, then members who did not participate in the business get annoyed, asking why they should bear the loss. Also, for many activities, federation needs to invest money. Why money, which has come for all, should be invested in activities, which might benefit only some members?

Actions which federation may consider taking:

- a. Review the activities that federation undertakes. Identify those that can benefit the majority of members, if managed well.
- b. Retain only those activities.

3. Principle: The federation exists for its members, that is, the FIGs. FIGs do not exist for their federation.

Explanation: The federation exists for member-FIGs. Its business is not

more important than that of the FIGs. It ought not destroy the business of its member-FIGs. Therefore, a federation may upscale the activities undertaken by FIGs.

Actions which we may consider taking:

- a. Review the activities of the federation.
- b. Identify the problems and needs of the groups, based on this technical information. Input requirement and marketing management can be done through federation. (Refer case study on onion growers' federation).
- c. If there is any activity that most of the members of FIGs already manage well, upscale the activity.
- d. Examine if help in some other form is required for FIGs from the federation. Reorganize the service accordingly.

4. Principle: A service best provided at a point nearest to the member, ought to be provided at that level, and not at the more distant federation.

Explanation: The more distance that a federation representative has to travel to service its members, the greater its costs. Therefore, not only should a federation's area be compact, it should have large numbers of small and marginal farmers participating from that small area, for it to be vibrant, and have impact on the development- local, social, political, and economic scene. Apart from this, the more distant a federation from the ultimate member, the less interest in it. Just as farmers believe the FIGs to be theirs, so, farmers should feel that the federation too is theirs.

Actions which we may consider taking:

- a. Draw a map of our area.
- b. Note on the map the villages already covered by the federation. (Or, let us look at the villages that will be covered by the proposed federation.)
- c. Look at bus connections, distances, and so on, so that our leaders can easily move from one village to another, particularly for procurement of inputs for and collection of outputs of agriculture. Based on that, define the area that the federation ought to cover.

- d. Look at how many FIGs we already have in each of these villages.
Estimate how many more FIGs can be promoted in the same villages.

5. Principle: Active and responsible FIGs alone should have right to make decisions and vote in federation meetings.

Explanation: In our FIGs, if a defaulter becomes a leader, do we not have problems? In the same way, in our federation, let us give the right of vote only to such member-FIGs, which regularly fulfil their obligations to the federation. This way, federation will have a responsible membership and, therefore, a responsible leadership.

Actions which we may consider taking:

- a. First define the responsibilities of a member in a FIG.
- b. Then define the responsibilities of the FIG in the federation.
- c. Responsible FIG can have the right to vote and stand for elections in the federation.
- d. Irresponsible FIGs will not have the right to participate in federation management.

6. Principle: Leadership of federation should mean responsibility and accountability, not privilege.

Explanation: Most leaders think that to be elected means to be privileged. True leadership is about accountability and about taking responsibility. Therefore, we need to design our federations in such a way that only responsible members take up leadership positions.

Actions which we may consider taking:

- a. Deny the right to serve on the Board of the federation to such farmers who have been defaulters in their FIGs.
- b. Board should be required to present an annual report and financial statements each year at the annual general body meeting. Every invitee to the general body meeting should be provided with a copy of the report and accounts.
- c. Board should present future activities and annual action plan for the next year in the general body.

- d. Board may also be required to have the budget approved by the General Body of the federation.
- e. The income and expenditure statement of the federation for a given year may be presented along with the budget for the same year.
- f. Board members may be required to settle advances within a week of the expenditure. An advance should be given only when the previous advance has been fully settled.
- g. The Board needs to be well trained in all management and policy-making matters, if the federation has to succeed.

7. Principle: Staff of the federation, including the chief executive, must be 'working farmers' drawn from the membership. The federation leaders may recruit them and FIGs may decide wages from the earnings of the federation.

Explanation: Federation needs to employ staff that feels accountable to the members. Federation can be able to question them, and even challenge them, if it feels their work is not getting done properly. For all these reasons, federation needs to recruit people who can be held accountable.

Actions which we may consider taking:

- a. When federation recruits a staff, tom-tom in respective villages to let members and other farmers know that the federation is intending to recruit on a particular day, particular time and a particular place.
- b. Test and Interview the candidates, and select the best one (s) regardless of caste or religion.
- c. Identify 2-3 competent persons on our Board. Ask the external agencies to train these Board members and the new staff recruited.

8. Principle: Federations should set and maintain high standards of financial discipline.

Explanation: If a federation is to guide its member-FIGs in financial discipline, then it must live up to the highest standards of financial

discipline itself.

Actions which we may consider taking:

- a. Some federations have different records and registers to maintain and different cashbooks, for each donor. It is important that a federation maintain only one cashbook. There can be clear separation of accounts in the general ledgers.
- b. The cashbook should be closed each day and denominations of cash-on-hand noted.
- c. Every month, the Board of the federation should receive monthly financial statements of accounts.
- d. The federation should get different member-FIGs to conduct internal audit of its accounts each month. This will enable all FIGs to know what is happening in the federation, and will also keep it running transparently.
- e. Annual general meetings should be held with all the members of FIGs
- f. The federation should get its accounts audited by a chartered accountant.
- g. The federation should encourage member-FIGs to have the same rigor.

9. Principle: Where a federation expects to monitor and supervise the accounts of its member-FIGs, there, it ought not take responsibility for writing of the books of accounts.

Explanation: Federation staff writing the books of accounts of FIGs and taking the responsibility for monitoring and supervising of FIGs' work would be difficult. It would be better to leave it to FIGs to maintain their own accounts, after appropriate training, and leave the supervision to the federation.

Actions which we may consider taking:

- a. Take note of who writes the books of accounts in FIGs. If the designated member does not maintain the books in each FIG, ask

each FIG to identify a member who is willing to be trained for this work. The FIGs should identify 3-4 farmers who can be given simple training in the maintenance of books of accounts.

- b. The wages to be paid to the book writer can initially be based on the time needed to do the work, at the local wage rate. Let the FIGs decide how much to pay.
- c. Arrange for the training of the identified persons and provide them with necessary books and records.
- d. Federation leaders/staff regularly monitor, supervise and guide the FIG book -keepers in their work.
- e. Make sure that the federation representative informs formally the FIG members at their meetings about the status of their accounts.

10. Principle: For a federation to succeed, its member-constituents must be successful. For its sustainability, its member-FIGs must be sustainable.

Explanation: Just as an FIG has no life outside its members, so too, a federation has no life outside of its member-FIGs.

Actions, which we may consider, taking: The success of FIGs is essential to the success of genuine federations.

As already mentioned, regardless of the type of federation that is promoted, the above principles are needed and to be discussed by federations and FIGs, which are planning to promote federations. The principles need to be fine-tuned and must be converted to practice, if federations are to have a long successful life.

It is important to mention here that if FIGs are not expected to have a long life, then most of this will not matter. If we look around us, we see rural institutions, which are owned and managed by men and women. We need to ensure that in every village, there are institutions, owned and managed by farmers, with a life well beyond that of existing members and will last many generations and change the status of farmers in our area.

2.4 Process in the formation of Federations

- 1) **Scope:** Federation is envisaged primarily to play the role of a financial intermediary along with other services to the FIGs in Forward and Backward linkages to the farmers, Book keeping, auditing, Bank linkages and other linkages with developmental programs in agriculture and other line departments etc. The federation is also envisaged to take up social issues and other developmental issues.
- 2) **Federation jurisdiction:** Federation is a network of FIGs in the given village/block/district/state/nation or any geographical area decided by the FIGs and facilitating organization.
- 3) **Situation Analysis:** Before starting dialogue on formation of federation with farmers' groups, facilitators shall assess if there are any other federation or MAC Societies already existing and functioning in the operational area or at cluster level covering that particular village. If any federation of FIGs exists, the process of federation formation should be in such a way that the existing federations are not affected.
- 4) **Common understanding at facilitating organizational level:** All the extension staff first need to be given orientation on concept of federation, need, advantages of federation, vision of the federation etc. through training and exposure visits to successful federations.
- 5) **Preparatory Facilitation:** Facilitator not less than 2 Years experience in the sector should take responsibility for initiating the dialogue on formation of federations. The process of formation will take place in three or four dialogues spread over two to three weeks. The facilitation to form federation will not start with potential financial benefits, but with appraising the need for support to ensure effective forward and backward linkages to the farmers, book keeping, auditing, bank linkages and other linkages

with developmental programs of line departments, conflicts' resolution etc.

- 6) **Federation formation:** Willingness of the FIG members to come together to form a federation is critical for formation of federation. The members should be given prior information about benefits and likely hardships that they may face with the federation such as more meetings, paying user fees etc., so that they are given an opportunity to make informed choice before federating themselves.
- 7) **Stake of members:** For formation of the federation, each group may be sensitised to contribute one-time share capital. This corpus amount will be helpful for the federation to access bulk loans from the banks and MFIs. Further, each group is expected to pay an annual membership subscription of Rs. X/- to federation to get the services from field functionaries, book keeping, auditing, facilitation support etc.
- 8) Identify an appropriate place or building for meeting-cum-federation office
- 9) **Executive Committee and General Body:** The federation will have a general body with all the FIG Members as members. The federation will have Executive Committee (EC) with one/two/three representatives from each Group/Cluster (If there are less than 10 Groups/Clusters three representatives, 10-20 Groups/Clusters two representatives and if more than 20 Groups/Clusters one representative). The federation will select 5 Office bearers viz., President, Secretary, Vice President, Joint Secretary and Treasurer from executive committee.
- 10) **Federation meetings:** The General Body shall meet at least once in Six months. In the initial phase, the federation may be encouraged to have General Body meeting once in three months. The Executive Committee of Federation shall meet at least once in a month.

- 11) **Setting norms:** Series of facilitations by Coordinator/Facilitator should take place in setting up of appropriate objectives and norms for the federation. Norms include role of federation in preparation of action plan for development of agriculture and allied sector, modalities for forward and backward linkages, regular scheduled meetings, participation, decision-making, and mechanism for book keeping for FIGs and federation etc.
- 12) **Registration under appropriate act:** After this process, the Federation will be facilitated to register under appropriate act. A registration workshop at Federation level may be organised. A request may be made from Federation to Joint Registrar, Cooperative Department, to attend this workshop so that registration of Federation will take place on the second day of the workshop. Sufficient homework shall take place to do this registration at block level. Before registration, the federation will be facilitated to understand and develop appropriate bye-laws.
- 13) **Bank Account and withdrawal:** While filing for registration, the Federation should be facilitated to open a Bank Account in the name of federation. Two or three office bearers among President, Secretary and Treasurer will sign the cheques to draw the money from federation account. The federation Executive Committee will make resolution for every financial transaction. The federation will write cheque only after resolution from Executive Committee.
- 14) **Bookkeepers:** Each Federation may have a group of three or four book-keepers to take care of book-keeping of its member-clusters. One of these book-keepers will also write the books of accounts for federation for which federation will pay appropriate honorarium to the book keeper.
- 15) **MoU between facilitating organization and Federation:** Promoting organisation and Federation would have common understanding and develop MoU on the roles and responsibilities of each of the partners in strengthening the federation.

- 16) **Role of external agency in the initial years:** The facilitator will compulsorily attend and extend necessary facilitation support for every meeting of federation, whether EC or General Body. The facilitator will share the collected required information from FIGs/clusters and submit to federation for decision-making. The facilitator will take responsibility to ensure that regular monthly meetings of EC and General Body meetings of the federation are held.
- 17) **Capacity building:** The members of the Executive Committee should be given training in Leadership, federation concept, federation Management, financial Management, linkages, input and output management etc.
- 18) **Networking:** The federation will be encouraged to deal with local banks/apex institutions, line departments to access further services and linkages. The facilitator shall take all appropriate steps to encourage federations to participate in the appropriate district/state level forums so that effective networking takes place.
- 19) **Interface with other Federations:** The Federation will be facilitated and capacities should be built to develop and maintain good relations with other federations for sharing and learning.
- 20) **Bank linkage:** Now the NABARD has developed guidelines for banks to finance the federations. The facilitating organizations should also take a proactive role to link the Federations with banks.
- 21) **Procurement of Inputs:** Based on the collected and consolidated indents from the group, report to be submitted to executive committee/general body of federation. Later, bulk procurement of inputs may be directly done from the wholesaler/company.
- 22) **Marketing of produce:** Federation can maintain storage facilities. Value addition of output through groups, procurement of

produce, marketing of produce etc., can be done through federation.

Finally, we will look briefly at the FIGs themselves – the very foundation of the federations. A true federation, however, cannot be strong if its very foundation, the FIG, is weak. We will touch on a key area that needs nurturing, if the FIGs are to be strong and have a long life. The aim of this material is to help you design/redesign your federation to be more member-controlled and member-sensitive. However, it is important that the contents of this booklet be thought through, debated on, fully understood, and only then applied to your federation.

Let us discuss one successful case.

2.5 Case study - II: Onion growers' co-operative purchase and sale society limited

In Maharashtra, the major onion growing districts are Nasik, Pune, Ahmednagar, Satara, Dhule and Jalgaon. In Ahmednagar district, Parner taluk is leading the taluk for onion area and its production. The onion growing farmers are not able to keep the benefits of production because of dominance of middle men, highly fluctuating prices, poor storage facilities, lack of holding capacity by farmers and post harvest losses like sprouting, rotting and evaporation. Due to this problem, it is necessary to construct the onion shed for storing onions up to 4-6 months period for marketing of onions etc. The Government of India has also declared Ahmednagar district as an "Export Zone" area for onions. Taking this into consideration, in Ahmednagar, the onion growers have cooperatively established a society named as Ahmednagar District Onion Growers' Co-operative Purchase and Sale Society Limited on 10 January 2003. The Society has taken the membership of the NAFED, APEDA, NHB, Maharashtra State Agricultural Marketing Board (MSAMB), Exporters, etc. Presently there are 1100 members in 300 villages in 14 blocks in Maharashtra. The Society office is at Ahmednagar and packaging and grading centre is at Supa in Parner taluk of Ahmednagar district. The main objective of the society

is to provide technical information, increase onion production, storage facilities, market facilities, marketing information and marketing of onions.

Activities of the society:

Inputs:

Seed, fertilizers, organic pesticides and other inputs will be supplied through the society to the members. In case of seeds, there is no credit facility; whereas for fertilizers the members should pay the amount to the society within 2-3 months, for which no interest is charged by the society.

Procurement of Onions from the farmers:

In each block, one sales man, who is a Diploma/B.Sc in Agriculture, was selected by the society. He will go and collect onions from the villages and send them to packaging & grading centre. Within fifteen days, the farmers receive payment in the form of cheque or D.D. The sales man will get Rs. 2000/- per month as salary and ½ percent as service charges from the society.

Storage:

Two types of storage are available. At members' level, 25 tonnes storage units are there which were provided by Central Bank or DCCB on loan basis, with 8% interest. Preparation of bank proposals, sanctioning of loans and assistance in construction of RCC structures are done by the society. Presently 450 farmers are having storage facility of 25-50 metric tonnes. Remaining farmers are following ITK storage facility only. The other storage facility is in Supa.

Packaging:

Packaging is done at Supa. Every day, 10 tonnes of onions are packed through packaging machines in 40-60-80-100 mm grading in 25 kgs, 50 kgs and 100 kgs bags. Presently, they have a centre at Supa in Parner taluq and they are also going to open another centre at Umbre in Rahuri taluq and Sangamner.

Marketing:

Procured onion is graded and packed at taluq level. The Society gets the information from the Saphal markets through NDDDB channel from Bangalore, Delhi, Mumbai etc., through phone call. Bags, transport charges and 2% service charges to the society have to be borne by the farmers only for local marketing.

Export marketing of Onions:

Society received Import and Export code No. for exporting of onions to foreign countries from the marketing board. Presently, the society is exporting onions to UAE and other Arab countries, and Great Britain. The marketing board has given the target to society to export about 10,000 metric tonnes of onions. Bags, packaging charges, shipping rent and 10 % service charges to society have to be borne by the farmers for export marketing.

Training:

- Crop cultivation practices of onions will be given by Rajguru nagar Onion and Garlic Research Institute.
- CD had been given to farmers on cultivation practices.
- One-day training has been imparted on plantation, weeding, sowing, fertilizer application and cutting of onions

Outcome of the society:

- Sharing of farmers' experiences of problems and solutions
- Easy access to innovations and techniques of common interest
- Accessing credit facilities and enabling such facilities to reach significant number of beneficiaries
- Distribution of improved variety's seeds and other inputs
- Information on market trends

Case Study-II - Collective farming, collective benefits - *A case of Women Farmers' Collective*

Access to land is the greatest limitation, especially for the poor women. The problem becomes more acute when these women are single and neglected by families, often leading to hunger and starvation. The Tamil Nadu Women's Collective has succeeded in enabling such women to come together, pursue collective farming, produce food for the family and lead a life with dignity. In almost all the villages in India, there are about 20-30% of women who remain single, either as widows or abandoned by their families and society, and who individually shoulder the burden of caring children and elders in their families. These women are either landless or

have very small pieces of fragmented rain fed lands. Owing to lack of resources to invest on their own land and lack of capacities to manage their farms, these women end up doing



low skilled tasks in agriculture and cattle rearing, mostly as wage labourers. Tamil Nadu Women's Collective is a network of 35 women- headed non-profit organisations in working for the empowerment of the rural and marginalized communities. The Collective started in 1994 as a registered society and covers around 20 districts in Tamil Nadu. The Collective conducted a study in 13 villages to understand the status of single women, widows and landless women farmers in these villages. This was done with the help of Women Farmers' Sangam of Tamil Nadu Women's Collectives, already established and functioning in the villages. The Sangam also studied the availability of un-utilized and uncultivable lands in that area. The details of the study were discussed at the Sangam meetings on how to engage the landless women in agriculture activity with the available un-utilized land. During the discussion, the idea of collective farming emerged. The prime

objective of this collective farming is not only to ensure food security but also to ensure safe food through adaptation of organic farming methods. After a series of discussions, certain criteria were identified for promoting collective farming initiative based on the following principles - The farmers' collective should have maximum 10 members consisting of women who are either widows, landless or single. The group should decide on the size of land to be farmed under collective farming and lease the land for three years. One-third of the crop yield should be shared with the land owner. The members should agree to grow local food crops of daily use such as grains, vegetables and pulses. The group should maintain a bank account, records and registers bringing transparency in accounting. Presently, collective farming is being promoted with 15 farmer groups in 13 villages of Tuticorin, Virudhu Nagar, Madurai, Salem, Thiruvannamalai, Vellore, Kancheepuram, and Thiruvallur districts in Tamil Nadu.

Farming together

Training programmes were organized for the farmers' collective on participatory planning, decision making, crop choice and method of farming with the help of eminent resource persons like Dr. G. Nammalvar. The training programmes helped women learn some practical skills like preparation of different bio inputs. With continuous support and guidance, the women farmer's collectives have gained necessary skills on agriculture, improved their decision-making capacities and leadership qualities. Tamil Nadu Women's Collective supports each farmers' collective with an amount of Rs.10000 as seed money for meeting expenses like buying seeds, bio inputs etc.

Allotment of work is decided in the weekly meetings during the cultivation period. All members, using a revolving system of labour, share all the farm works equally so that all the members are engaged in all type of farm activities. As the focus of collective farming is primarily on meeting family

food needs, right now, they are not marketing their produce. The produce from the collective farming provides food for the family for at least 15 days in a month. Weeds, harvested in collective farms, are also being used as fodder for the livestock. The farmers' collectives are also getting support from their neighbouring landholding farmers. The landed farmers help and encourage these women by providing raw materials such as cow dung and cow urine, which are required for bio input preparation.

This relationship has also led to a process of learning and sharing between landless women farmers and the landholding farmers. There are challenges too, like the delays in monsoon and frequent power cuts. Also the soil of the collective land is of very low quality and almost dead. It needs more organic inputs to regenerate. Not being disheartened with these challenges, these women discuss alternative farming methods to overcome them. They are confident that continuous application of bio inputs will help in improving the soil health, which will result in better incomes in future. Considering the high cost involved in purchase of seeds for their farming activities, the women's groups are planning to develop seed producers in their group and establish a seed bank in their village.

"We are happy to have a piece of land where we are able to cultivate and gain experience in organic farming methods. We are happy and proud to be a farmer to produce, eat and feed our families with poison-free food and thus ensuring better health", says a woman farmer.

For more details, contact Ms. Ponnuthayee, Tamil Nadu Women's Collective, No. 79, Senbaga Vinayagar Koil Street, Keezha Bazaar, 7th Ward, Vasudevanallur, Sivagiri taluk, Virudhunagar - 627 758. www.leisaindia.org



Members harvesting groundnut crop from a collective farm

Limitations and difficulties in Farmers' Organisations:

There are other difficulties, which must be overcome if groups are to develop and flourish in the long term. Often these are problems of day-to-day management such as farmers not having enough time to participate as fully as they would like or having difficulty in finding fees or other contributions required. Farmers will weigh these investments against benefits, but often these and other pressing practical concerns can become a difficulty for farmers' groups.

According to the circumstances in which specific organizations are formed, each group will need different types of support, resources and information. Access to this can affect how groups perform. In larger groups or networks, difficulty in reaching decisions and resulting internal conflict is more common. If objectives are not achieved or results do not come up to expectations, members may lose interest. Groups also have to deal with external pressure or influence, and always have to operate within the local

political and economic environment. Challenges faced by groups include ensuring that everyone is involved, avoiding self-interest and dominant voices.

Although working together is beneficial in many situations, it must be recognized that organizing for the sake of organizing, or organizing because it is requested by outside projects will not necessarily bring the results expected. Successful groups take some planning, thought and careful consideration of what form they should take in order to reach their goals. Would a co-operative work in the local economic climate? Local or traditional institutions already exist that can be built on or formalized? Members should also look at why it is beneficial to be in a group, and consider all their options.

Successful groupings

By looking at examples of success, we can begin to draw out some common characteristics of effective groups. Research and experience with groups shows that the most successful are often small, informal groups, formed by people of similar backgrounds or concerns, who have a clear objective and vision, are responding to commonly felt needs, and share a high degree of trust. Members of successful groups also realize that the benefits of organizing outweigh the costs. They are able to secure adequate support, clear rules and responsibilities, hold meetings regularly and communicate effectively by fulfilling the needs of the members. These groups often have focus on income generation, and many have on savings or emergency fund.

Legal status is also usually needed for an organization to be recognized by public authorities or to access public services. It can also be useful when finding partners and institutionalizing into more formal structures – developments which can help an organization to progress and move forward. Supportive local policies and an institutional environment are of critical importance. Power relationships at the local and district level are often

complex; those strengthening farmers' voices and making sure they are listened to, are crucial elements of sustainable agriculture.

Let us sum up

Many groups organize themselves as a response to a felt need. If this need is resolved, members may feel that working as a group is no longer necessary, or that they need to change their objectives to suit the new situation. As such, some groups are not meant to last forever and it is valid for them to achieve their objectives and move on. What is important is that a group has a clear vision of where it is going and what it wants to achieve – this vision can be adapted over time. In most circumstances, farmers' organizations are beneficial to those involved, although choosing the most appropriate type of organization and its internal management need careful thought in relation to achieving objectives.

Finally, farmer's organization is critical and central for sustainable agriculture. This works at every level, from farmers experimenting together to locally improve techniques to jointly representing their interests at an international level. Given the difficulties faced by farmers, every effort is needed in order to achieve the improvements needed in their various circumstances. Farmers' Interest groups, networks or federations can all make a huge contribution to raising awareness and campaigning for change. In majority of cases, strong local organizations are, and will continue to be, key to building sustainable development of agriculture.

Source: Developed by Dr. B. Renuka Rani, Asst. Director, MANAGE, Rajendra Nagar, Hyderabad

2. Producer Company Model - Current Status and Future Outlook : Opportunities for Bank Finance

In recent times, almost every major business house of the country is venturing in a big way into the agri-business sector, especially with regulations allowing corporates to now directly have contractual arrangements with farmers. One of the triggers for this newfound interest in agribusiness by the corporates is the change occurring in the retail markets, where consumers are making dramatic shift from purchasing at neighbourhood kirana stores to shopping at supermarkets, malls and food plazas, enabling development of food supply chains from the farms to consumers.

Ironically, at this very time we get news that between 1995 and 2005, one and a half lakh farmers committed suicide across the country. A Situation of Farmers study undertaken by the National Sample Survey Organization (NSSO) of the Government of India indicates that forty percent of farmers, given a choice wish to get out of agriculture. How is it that when the capitalists are rushing into agriculture in droves, the farmers are rushing to get out of it?

With a population of over one billion and rising disposable income, the demand for food is only growing. Why then are the farmers in distress? Is there an explanation to this dilemma? One explanation for this is that value addition in agricultural commodities happen only post production. And since in the Indian context the farmer disposes off his produce in unprocessed form, there is no plough back of surpluses from value addition to the farmer. Can something be done to address this dichotomy? Producer Companies look to be one plausible solution.

Expectation of Farmers from Agriculture

The expectation of farmers while carrying on agricultural activities is, beyond meeting his consumption needs, to be able to get a reasonable return on the time and money invested by him. Also his desire is to increase his share in the consumer rupee. The structure of agricultural markets as they exist today involves a number of intermediaries and therefore, the producers share in the consumer rupee is small as can be seen from Table 1, which is illustrative for a few vegetables and fruit but the same pattern exists in all agricultural commodities. Further, it is only when the commodity is processed and branded that value addition occurs. As the farmer exits from the scene after transacting in the primary market, he has no part in the surpluses that emerge post production. Only when agriculture as an enterprise in the long term generates surpluses or the farmer perceives deriving benefit would he make efforts to put back some of the surplus generated into the agricultural enterprise, creating further capital formation in agriculture. If not, he would divert the cash flows to other activities which he perceives to be more remunerative than his present engagement. As the farming community sees the general progress and all-round prosperity of the country through sustained growth of the economy at 7-8%, they also aspire for themselves and their future generations, improvement in their standard of living.

	Tomato	Potato	Cabbage	Cauliflower	Banana
Price paid by end consumer (Rs. per kg)	8.20	12.00	9.00	9.50	12.00
Price received by farmer (Rs. per kg)	2.00	6.60	5.00	5.50	4.00
Price realization by farmer as % of end consumer price	24	55	56	58	33
Percentage mark up (price paid by end consumer to the price received by farmer)	310	82	80	73	200

Source: Field Study by Profs. S Ragunath & D Ashok, IIM Bangalore

Expectation of Agri-business Enterprises

Agri-business enterprises after making substantial investment in capital infrastructure for building the supply chain look for consistent continuous and adequate supplies of produce on an ongoing basis. In the existing market mechanisms of agricultural mandies, there is no premium for quality, nor are there long term relationships. Agribusiness enterprises are therefore increasingly looking for direct tie-up with farmers to source the agricultural produce required by them. As these enterprises do not have the capacity or intend to deal with individual farmers, they are looking for aggregators or intermediary institutions that can pool produce in adequate quantity and help them to deal with a large number of small landholding farmers.

The Cooperative Option

Cooperatives are one form of organization that enables farmers to organise themselves as collectives and move up the value chain by ownership and operation of their own processing units and sometimes extend the chain upto the retail level. India has a large number of cooperative institutions in a vast range of enterprise sectors, but there have been few successes that can be talked about. Infact, the only stars are in the cooperative dairy sector and that too limited to a few states. The cooperative experience in our country has not been a very pleasant one, as cooperatives have largely been state promoted, with a focus on welfare rather than to do business on commercial lines. The cooperative institutions are controlled by the State through the Registrar of Cooperative Societies whose overriding powers to direct and regulate cooperatives on his terms whenever the Government deems necessary has throttled the growth of the very institutions they were mandated to nurture. Thus, cooperatives have never emerged as successful business enterprises but only as extended arms of the State. The reasons for this are many and have been analyzed at length by several expert committees from time to time. The Mutually Aided Cooperative Societies (MACS) Act to a certain extent has been an attempt to remedy the malady,

but it has been accepted in only a few states, and even there, not many commodity cooperatives have migrated to the MACS Act.

Producer Companies

The concept of producer companies was introduced in 2002 by incorporating a new Part IXA into the Companies Act based on the recommendations of an expert committee led by noted economist, Y. K. Alagh, that was given the mandate to frame a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring the unique elements of cooperative business with a regulatory framework similar to that of companies.

Salient Provisions of Companies Act relating to Producer Companies

In a 'Producer Company', only persons engaged in an activity connected with, or related to, primary produce can participate in the ownership. The members have necessarily to be 'primary producers.'

Primary produce has been defined as a produce of farmers arising from agriculture including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products: produce of persons engaged in handloom, handicraft and other cottage industries: by-products of such products; and products arising out of ancillary industries.

Formation

Any ten or more individuals, each of them being a producer, that is, any person engaged in any activity connected with primary produce, any two or more producer institutions, that is, producer companies or any other institution having only producers or producer companies as its members or a combination of ten or more individuals and producer institutions, can get incorporated as a producer company.

The companies shall be termed as limited and the liability of the members will be limited to the amount, if any, unpaid on the shares. On registration,

the producer company shall become as if it is a private limited company with the difference that a minimum of two persons cannot get them registered, the provision relating to a minimum paid-up capital of Rs. 1 lakh will not apply and the maximum number of members can also exceed 50. Members' equity cannot be publicly traded but only transferred.

Objectives

The objectives of producer companies shall include one or more of the eleven items specified in the Act, the more important of these being:

- (i) Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of members or import of goods or services for their benefit;
- (ii) Processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its members; and
- (iii) Manufacture, sale or supply of machinery, equipment or consumables mainly to its members.

The other objects include rendering technical or consultancy services, insurance, generation, transmission and distribution of power and revitalization of land and water resources; promoting techniques of mutuality and mutual assistance; welfare measures and providing education on mutual assistance principles.

Management

Every producer company is to have at least five and not more than 15 directors. A full time chief executive is to be appointed by the board. He shall be an ex-officio director and will not be liable to retire by rotation and shall be entrusted with substantial powers of management as the board may determine.

Members' Benefit

Members will initially receive only such value for the produce or products pooled and supplied as the directors may determine. The withheld amount

may be disbursed later either in cash or in kind or by allotment of equity shares. Members will be eligible to receive bonus shares.

There is a provision is for the distribution of patronage bonus (akin to dividend) after the annual accounts are approved — patronage bonus means payment out of surplus income to members in proportion to their respective patronage (not shareholding). Patronage, in turn, is defined as the use of services offered by producer companies to their members by participation in their business activities.

Reserves

Every producer company has to maintain a general reserve in every financial year and in case there are not sufficient funds in any year for such transfer, the shortfall has to be made up by members' contribution in proportion to their patronage in the business.

Dispute Resolution

Dispute relating to producers companies are to be settled by conciliation or arbitration under the Arbitration and Conciliation Act, 1996 as if the parties to the dispute have consented in writing to such procedure.

Inter-State Cooperative Societies

Inter-State Cooperative Societies not confined to one State can also make an application to the Registrar for recognition as producer companies. The statute also provides for re-conversion of such producer companies to their former status as inter-State cooperative societies subject to the approval of High Court.

Further, "all the limitations, restrictions and provision of the Act, (other than those specified in Part IXA), applicable to a private limited company, shall apply to a producer company, as if it is a private limited company.

In other words, a producer company is a hybrid between a private limited company and a cooperative society. It combines the goodness of a cooperative enterprise and the vibrancy and efficiency of a company. It

accommodates the unique elements of cooperative business with a regulatory framework similar to that of a private limited company.

Table 2 below gives a comparative picture of the main features differentiating a producer company from a conventional producer's cooperative

Table 2: Cooperative and Producer Company - Key Differentiators		
Features	Producer Cooperative	Producer Company
Registration	Cooperative Societies Act	Companies Act
Membership	Open only to individuals and cooperatives	Only those who participate in the activity
Relationship with other corporates/ business houses /NGOs	Transaction based	Producers and corporate entity can together float a producer company
Shares	Not tradable	Not tradable but transferable
Voting Rights	One person, one vote, but Government and RCS holds veto powers	One person one vote. Those not having transactions with company can't vote
Reserves	Created if there are profits	Mandatory to create every year
Role of Registering authority	Significant	Minimal
Administrative control	Overbearing	None
Borrowing Power	Restricted	More freedom and alternatives
Dispute Settlement	Through Cooperative mechanism	By Arbitration

International Experience

The United States of America, New Zealand and Denmark have provisions for cooperatives and producer enterprises to register and operate under the same laws as govern companies. While at the back end, these are producer owned enterprises, at the front end, they look and function like any other corporate enterprise.

Indian Experience

Although no comprehensive data base on the number of Producer Companies established in the country and their performance exists, estimates are that there would be fewer than hundred such companies as on date. Following is a listing of some Indian Producer Companies and their activities and performance:

Kerala

Indian Organic Farmers Producer Company Ltd. - The first farmers' producer company

The Indian Organic Farmer Producer Company Ltd. is an Aluva (Kerala) company of farmers producing organic products. Only producers with organic certification are eligible for membership of the company, where patronage for one share is fixed at Rs.40,000. Thus, the holder of one share can market his/her own organic products worth a maximum of Rs.40,000 through the company. An individual can purchase more than one share, but will have only one vote, irrespective of the number of shares held.

The company provides advice to farmers on mapping and assessing resources (mainly soil and water), sustainable resource utilization and scientific production methods. The company markets organic products after branding. 'Healthy People, Wealthy Farmer, Healthy and Wealthy Nation' is the motto of the company. One of the company's future plans is attracting environmental funds from farmer-friendly groups abroad who are interested in supporting fair trade. (The HINDU, Sep 23, 2004)

Vanilla India Producer Company Ltd (VANILCO) / Banana India Producer Company Ltd (BIPCL)

Vanilla India Producer Company Ltd (VANILCO) has been promoted by Kerala based Indian Farmers Movement (Infarm), a charitable society with over one lakh farmer members for catering to the long-term interests of the vanilla farmers. VANILCO works in tandem with vanilla growers to produce and market the best and choosy vanilla beans and extracts. The company procures processes and markets the members' produce in the most professional manner to ensure handsome dividends and bonuses for its shareholders as also intervening in the market through pool procurement.

Banana India Producer Company Ltd (BIPCL) has also been formed by Infarm with a broader objective of "building brand equity for the 25 varieties Indian bananas cultivated in different parts of India at the international level. The company plans to promote each variety of banana as exotic varieties of "India Banana". The sole owners of BIPCL are the primary producers (farmers) of the country.

Infarm has been working towards value addition of agricultural produce for the last six years and has launched branded rice, honey, coffee, tea, coconut oil etc in the market. The NGO has set up retail outlets in several parts of Kerala and in cities like Delhi. (FnBnews.com, November 12, 2005)

Evangelical Social Action Forum (ESAF)

ESAF Swasraya Producers Company Limited (ESPCL), Thrissur promoted in 2006 by ESAF (Evangelical Social Action Forum), a premier NGO and leading MFI having 13100 women SHGs & 2.2 lakh members. The Producer Company has three areas of activity (1) Handicrafts, (2) Herbal & Agriculture, (3) Food, and Dairy & Meat. The Handicrafts & Herbal divisions could benefit 1000 Handicraft artisan families for production worth Rs 22.6 lakhs and market Rs 23.5 lakhs worth products during 2007-2008. In the herbal area, Rs 20.7 Lakhs worth raw herbal drugs were traded.

ESAF has also incorporated a Retail Company also called ESAF Retail (P) Limited to support the Producer Company through forward & backward

linkages and also run the eight retail stores which had a total turnover of Rs 2.5 Crores in 2007-2008.

Madhya Pradesh

The Government of Madhya Pradesh under District Poverty Initiatives Programme (DPIP) has promoted a large number of Producer Companies in various parts of the state, the details of which are given in Table – 3

Table 3: Producers Companies Promoted by Government of Madhya Pradesh under District Poverty Initiatives Project			
S. No.	Name of the Company	Location	Commodities Dealt
1	Hardol Agriculture Marketing & Producers Company Private Limited	Shivpuri	Seed, grain
2	Lavkush Crop Producer & Marketing Company Private Limited	Raisen	Seed, grain
3	Khujner Agriculture Producer Company Private Limited	Rajgarh	Seed, grain
4	Churhut Agriculture Producer Company Private Limited	Sidhi	Rice, tomato
5	Rewa Crop Producer & Marketing Company Private Limited	Rewa	Seed, grain, chili
6	Nowgong Crop Producer Company Private Ltd	Chhatarpur	Seed, grain, chili
7	Khajuraho Crop Producer Company Private Limited	Chhatarpur	Seed, grain, chili
8	Narsingh Farmers Producer Company Private Limited	Narsinghpur	Seed, grain, peas, turmeric
9	Ram Raja Crop Producer Company Private Limited	Tikamgarh	Seed, grain, ginger, chili
10	Mahila Murgi Utpadak Company Limited	Tikamgarh	Poultry
11	Govind Seeds and Crop Producer Company Private Limited	Damoh	Seed, grain, potato
12	Neshkala Crop Producer Company Private Limited	Guna	Seed, grain, coriander
13	Sironj Crop Producer Company Limited	Vidisha	Seed, grain
14	Sagar Samridhi Crop Producer Company Limited	Sagar	Seed, grain
15	Sagar Shri Mahila Dugdh Utpadak Company Limited	Sagar	Milk & Milk processing
16	Karnavati Producer Company Limited	Panna	Seed, grain
17	Samarth Kishan Producer Company Limited	Shajapur	Seed, grain, bio fertilizer

Source: Panchayat Raj & Rural Development Department, Government of Madhya Pradesh

These companies have a total membership of 44,800 share holders and have generated a turnover of Rs.4.84 crore. The World Bank India office in the Newsletter of March 2008 has reported that the formation of producer companies has stimulated introduction of horticulture crops like tomato, spinach and chili and has helped farmers to raise their incomes substantially. Local level value addition has provided 30 to 40% higher realizations on agricultural produce to participating farmers. It is reported that agricultural income level of participating farmers increased by 66% and savings of households have gone up by 183%. It has also enabled farmers to talk with companies like Reliance Fresh and ITC to do dedicated farming.

The Government of Madhya Pradesh has been supporting the emergence of producer companies through policy measures and financial support, the details of which are summarized in Table 4:

Table 4: Government of Madhya Pradesh's Policy for Strengthening Producer Companies
<p>Key Features</p> <ul style="list-style-type: none"> • Focus on Poor • Modular Structure • Insulation from political/ administrative control
<p>Support and Benefits</p> <ul style="list-style-type: none"> • Cost of organizing producer organization and hand holding support for three years provided • Debt linked Start-up support based on business plan • Viability gap support for establishment costs <p>Treating on par with Coops/industries</p> <ul style="list-style-type: none"> • Performance linked – Back ended interest-subsidy • Support – price preference, infrastructure development
<p>Source: Anish Kumar, PRADHAN presentation at Workshop on Producer Companies</p>

Gujarat

At Dari in Amreli District, a producer company has been formed with ten watershed development groups from ten villages who are working in

agricultural input supplies and provision of technology under the guidance of Development Support Centre, Ahmedabad. The objectives of the company are to carry on the business of production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce e.g. groundnuts, oilseeds, grains, and other agro products of the members or import goods or services for their benefit, to provide for mutual assistance and technical consultancy services, to provide for insurance cover and credit facilities to the farmers in a profitable manner and to provide for welfare measures or facilities for the benefit of members.

The Junagarh Dairy which was in losses has been reconstituted as a producer company and now operates in over 130 villages and covers 5000 producers. The Dairy is able to give a better price for the milk than alternate channels and thus farmers are experiencing prosperity and investing in more buffaloes.

Amul

The Gujarat Cooperative Milk Marketing Federation popularly known as AMUL, the largest and most successful producer owned cooperative enterprise in the country, was as reported in the press in May 2006, planning to convert into a producer company. That it has not converted so far indicates probably that it is doing re-think on the idea.

Assam

In Assam, the Spices Board under the Ministry of Commerce, Government of India has promoted two producer companies, the Coinonya Farm Producer Company Limited for turmeric and Karbi Farms Producer Company Limited for ginger and chilly in Karbi Anglong District of Assam under organic cultivation for processing and export. The spices board has put in Rs. 1 crore as equity in each of the companies, while the rest of the equity is held by tribal farmers, 600 in Coinonya and 400 in Karbi.

Producer Companies of Artisans and Craftsmen Rangсутra

Rangсутra, a Producer Company registered in 2004, comprises 1000 odd weavers, artisans and craftsmen from Rajasthan, Assam and Uttaranchal. Promoted by Sumita Ghose, the company's main object is to systematically

develop the market for the produce of artisans, weavers and craftsmen. Combining the power of organization with the dynamism of a commercially viable outfit, the company plans to, “substantially increase the income of their members so they can send their children to school, improve their health and food intake,” things that most people take for granted.

Masuta Producer Company

The NGO Pradhan has promoted Masuta Producer Company Ltd. comprising a group of 2000 tasar yarn weavers and spinners in Jharkhand. The company could generate a turnover of Rs.7 crores and a profit of Rs.38 lakh during 2006-07, inspite of tough competition from Chinese tasar which is 40% cheaper.

Fab India

Fab India, a company which exclusively markets produce of rural artisans and craftsmen through a chain of retail outlets spread across the country has decided to promote 35 producer companies in different states covering about 20000 weavers almost entirely from muslim, dalit and other backward classes to enable them to aggregate their fragmented production and increase volumes and returns. One of the companies floated by Fab India with weavers in Rajasthan has declared a 50% dividend in the current year. Fab India with 80 retail stores and plans to increase this number to 250 by 2010 sees the potential for having similar producer companies in about 350 districts of the country. The credit requirements of these producer companies are to be met from commercial banks, through a model devised by Fab India in association with ICICI Bank. (See Figure 1)

Banks Financing Producer Companies

As can be seen from the aforementioned case studies, so far most of the producer companies are still in a nascent stage and most are operating as providers of technical knowhow or facilitating marketing. It is probably for this reason that there has not been any significant demand for bank finance by producer companies and consequently not many examples of bank finance to producer companies are available.

One interesting experience is that of Bank of Maharashtra who has financed Panchakroshi Pashusamvardhan Produce Company Limited in Satara District for stall-fed goat rearing by small farmers. In this project, bank finance of Rs. 50,000 per farmer is directly extended to 100 farmers who are members of the producer company. The producer company has been promoted by two reputed NGOs with long years of field experience in the sector, Maharashtra Goat and Sheep Research Development Institute (MGSRD) and the Animal Husbandry Division of Nimbalkar Agricultural Research Institute (NARI). The main role of the producer company is envisaged to be provision of backward and forward linkages such as technical assistance and market access to the producer members to profitably rear goats. The company plans in the long term are to have a slaughter facility when the total number of goats available to the company reaches around 20,000. The experience of the bank with this project is being studied by other banks who are venturing into financing producer companies.

Challenges in Financing Producer Companies

As Producer Companies take stronger roots, they will require capital in large quantities from the banking system which will be a major challenge for banks, as the companies may not have much else than the producer member equity to leverage borrowings. Banks will thus be faced with the dilemma of what are the assets to back their loans and in what manner the company will be able to raise the margin money required to mobilize the loan.

Unconventional approaches would be required where credibility and reputation and the principles on which the company operates may be the only tangible assets, not physical assets. Similarly, guarantees and undertakings from the promoter institutions and purchase orders / agreements may have to be relied upon to extend finance. As the model is in the stage of evolution, banks will also require to act as incubators, and in some cases even go beyond the conventional banking role and provide professional and commercial support to these companies.

Spanner in the Works

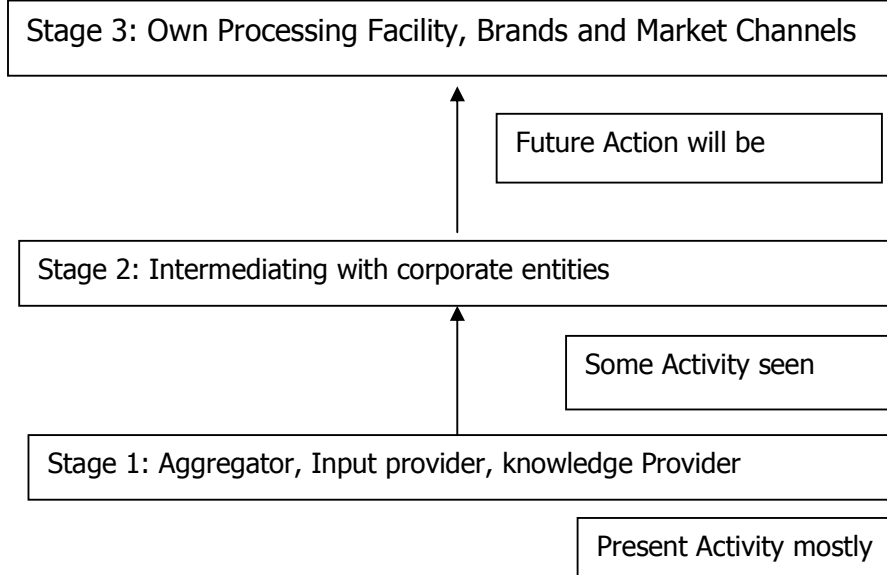
Just when the potential that Producer Company model can offer in empowering the primary producer and link with terminal markets is being recognized by the government and the corporate sector and its capabilities tested, the whole concept came under question and is being challenged. A committee under the chairmanship of Dr. JJ Irani to review the Companies Act which is in the process of being re-written has suggested that the "Special dispensations for Producer Companies need not be provided through the Companies Act, and if need be, a separate legislation may be considered for such entities." The committee probably was not aware of the long years of struggle and efforts made by cooperators like Dr. Kurien who often had to battle the cooperative bureaucracy in the government, seeing this as a model to insulate cooperatives from the stranglehold of the government and to professionalise them. There is now increasing appreciation among policy makers of the need to provide such an option to blend the best of the cooperative principles with commercial operations.

Future Outlook

As can be seen from the experience so far, most of the companies that are emerging in the producer companies' space are start-ups rather than existing cooperatives transforming into producer companies. Further, almost all of them have been promoted by a sponsor institution like a development agency or an NGO. Most of them are performing the function of providing technical services and inputs to farmers or pooling produce for collective marketing. This is the first stage of evolution.

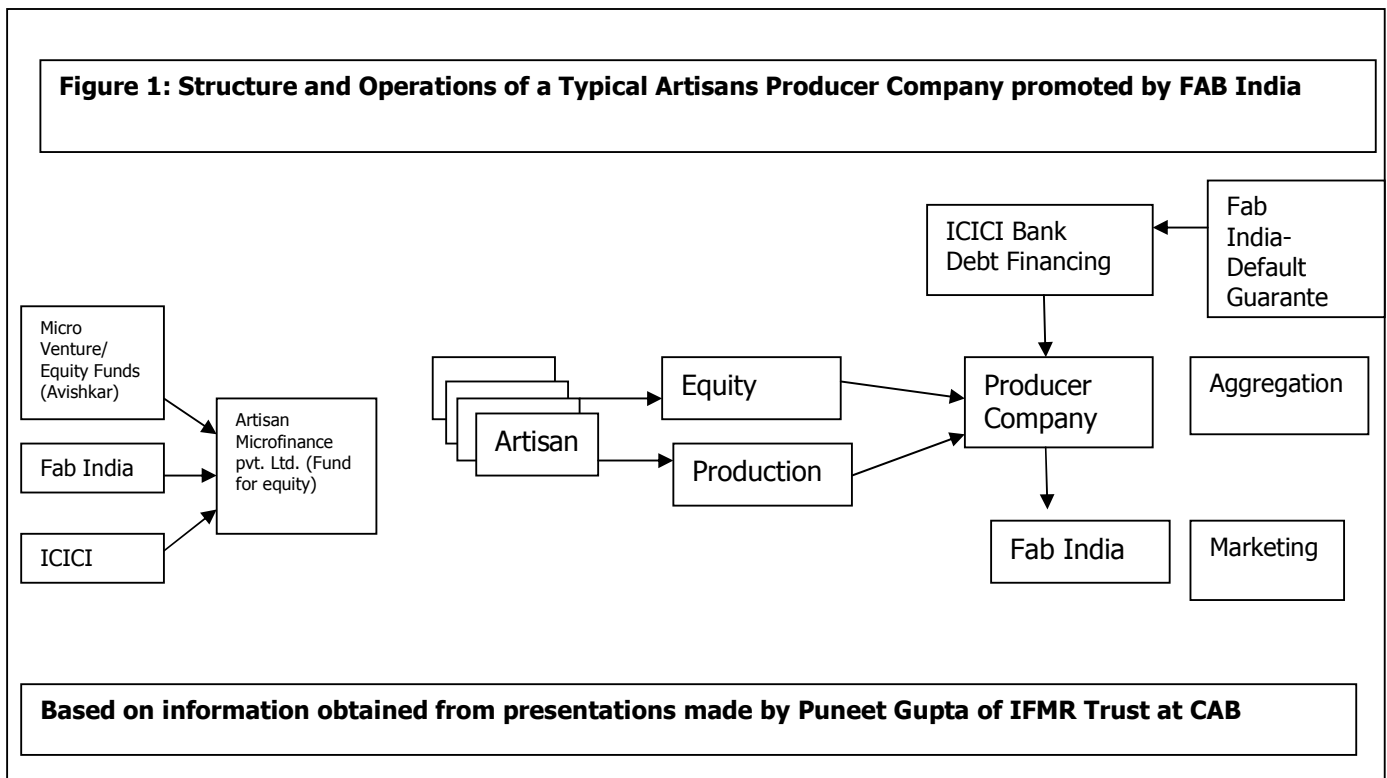
In the second stage, more activity will be seen in the emergence of producer companies like that promoted by Fab India, where corporates come together with farmers to share prosperity with the farming community through commercial farmer corporate/ retailer partnerships. Producer Companies having their own processing infrastructure, and developing their own identity, brands and supply chain will be the third stage. Only then will the producers be able to directly connect with and have command over the markets and thus a greater share in the retail pie.

Table 5: The Three Stage Evolution Process of Producer Companies



If through initiatives like producer companies, farming becomes more remunerative and the lot of farmers improves, the whole agricultural portfolio of banks would become robust. It is hoped that banks especially those that have their heart in rural India will support the emergence of a large number of producer companies in various commodity segments which will set off a wildfire that will bring back the glow of pride in the lives of the farming community.

Figure 1: Structure and Operations of a Typical Artisans Producer Company promoted by FAB India



Source: Sri. EV Murray, Faculty Member, Reserve Bank of India, College of Agricultural Banking, Pune 411 016. The guidance provided by Shri. HR Khan, Executive Director, Reserve Bank of India in the preparation of the paper is gratefully acknowledged. The author can be contacted at evmurray@rbi.org.in or evmurray@yahoo.com

RELEVANT WEB-SITES AND BOOKS

CIRAD: <http://www.cirad.fr/presentation/programmes/agri-fam/org.shtml>
Cirad-Tera (Dept Territoires, environnement et acteurs), Programme Agricultures Familiales presents its work programme and key researchers. Pierre-Marie Bosc is the contact point for work on farmers' organisations, and partnerships between FO's and agricultural service providers. CIRAD provided 4 team members for the CORAF Initiative study presented above.

ODI: www.oneworld.org/odi/rpeg
ODI coordinated and provided several team members for the CORAF Initiative study presented above. The full set of CORAF Initiative reports will soon be available on this site.

WECARD/CORAF: www.coraf.org
WECARD/CORAF requested the research presented here and financed part of the study (alongside UK DFID and the French Ministère des Affaires Etrangères). A member of the research team was provided by CORAF and it organised a stakeholder workshop to discuss the study's results in Dakar in January 1999.

World Bank:
<http://wbln0018.worldbank.org/essd/essd.nsf/producer/casestudies>

Club du Sahel (OECD): www.oecd.org/sah

Fondation Rurale de L'Afrique de l'Ouest / West Africa Rural Foundation (FRAO/WARF): www.frao.org

IFAP: www.ifap.org

The International Federation of Agricultural Producers – which jointly hosted the Washington workshop on producer organisations with the World Bank in 1999.

Inter-Réseaux: www.rio.net/Inter-Reseaux

An organisations supported by the French Government to carry out networking and information sharing between rural development actors, including farmers organisations, in developing countries.

ISNAR: www.isnar.org/publications

International Service for National Agricultural Research which has a number of publications on the theme of linkages between farmers' organisations, research and extension in Africa.

World Resources

Institute: www.igc.org/wri/sustag/npsa-hom.html

Proceedings of the Pradhan Workshop on Producer Companies (available at <http://www.pradan.net/index.php?option=com>

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