Producer Company as an Institutional Option For Small Farmers in India

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ABSTRACT

Producer company is a primary producer institution in India that has all the core features of private enterprise but, similarly to cooperatives, incorporates mutual assistance principles in its mandate. This institutional form was introduced by the Companies (Amendment) Act, 2002 and anticipates exclusive shareholding by primary producers, one member-one vote principle, rotation of the Board of Directors, non-tradable nature of shares, shareholding in proportion to the patronage of the company, profit distribution commensurate with the volume of business, and dispute resolution through arbitration. With this amendment, small and marginal farmers with small tradable surplus, that constitute an absolute majority of farming population in India, received an option to become owners of their own company through collective action. The company can have a multi-tiered structure and include producer groups as its institutional members. The research looks into the aspects of how producer companies are established and working in a dyad with supporting organizations at pre- and post-formation stages, considering the low level of capacity and asset base of their membership, and what the objectives and expected outcomes of such cooperation are. The research discusses the lessons and challenges from dyadic relationship between producer companies and supporting organizations. The discussion is framed according to the World Bank's empowerment framework. The research gives the feedback to the framework by answering the question if it is relevant and adequate for producer organizations.

Key words: producer company, small farmers, empowerment framework, dyads, supporting organization, institutional structure

ABBREVIATIONS

AoA – Articles of Association

APMC - Agricultural Produce Marketing Commission

BoD – Board of Directors

CEO – Chief Executive Officer

CHIRAG - Central Himalayan Rural Action Group

CIG – common interest group

COAPCL - Chetna Organic Agriculture Producer Company Ltd

COFA - Chetna Organic Farmers Association

FBG – farmers’ business group

FDI – foreign direct investments

FFA - Federation of Farmers’ Associations

FICCI - Federation of Indian Chambers of Commerce and Industry

IFPRI - International Food Policy Research Institute

INDOCERT – Indian Organic Certification Agency

IOFPCL - Indian Organic Farmers Producer Company Ltd

JKAPCL - Jhambukhand Kisan Agro Producer Company Ltd

MPUAT - Maharana Pratap University of Agriculture and Technology

LUMES - Lund University Master’s Programme in Environmental Studies and Sustainability Science

NAARM - National Academy of Agricultural Research Management

NABARD - National Bank for Agriculture and Rural Development

NAIP - National Agriculture Innovation Project

NGO – non-governmental organization

NREG - National Rural Employment Guarantee

PO – producer organization

PRADAN - Professional Assistance for Development Action

SHG – self-help group

WB – World Bank

WSSS - Wayanad Social Service Society

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INTRODUCTION

Agriculture has been and remains an important sector of Indian economy. Agriculture and allied activities support livelihoods of nearly 70 percent of India's rural population (Hiremath 2007:1). However, the growth rate of agriculture in India over the last decade has been stagnating and has gone down to 1.8 percent in 2006, whereas industrial growth has been buoyant at more than 9 percent. Such skewed growth rates are a matter of serious concern for planners and policy makers of the country at the highest level (Mondal 2010:29). Share of agriculture in Indian GDP has reduced from 29.2 percent in 1989 to 17.8 in 2009 (WB 2011:1). Recent government policy, including the reform of Agricultural Produce Marketing Commission (APMC) Act, is largely aimed to open way to contract farming and agricultural production at industrial scale. The Government of India's National Agriculture Policy envisages that "private sector participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oilseeds, cotton and horticultural crops" (SPICE 2003:1).

Such vertical integration of agricultural producers and potential take-over of agriculture chains by large industrial players raise concerns that small and marginal farmers may be squeezed out from agricultural production, with gloomy chances to find occupation or employment in another sector or elsewhere. To a significant extent, India is a country of self-employed people, both formally and informally, and farmers are no exception. Out of India's huge labor force, over 390 million strong, only 7% are in the organized sector (Harriss-White, Gooptu 2001:89). India also has the largest number of illiterates in the world; of the 1 billion illiterates in the world (a sixth of the total world population), about 300 million are in India – larger than the population of the US, and twice the population of Brazil or Russia (Srinivas, Proctor 2009:4). With this in mind, 400 million people are expected to be taking – now and in the near future – the distress migration route, migrating from rural areas in search of menial jobs in the sprawling urban conglomerates (Sharma 2006:Web).

Emerging organized retail sector is a significant force that can contribute to transformation of agriculture chains in India. However, there is no systematically collected data on large-scale retail impact on small and marginal farmers, particularly for fresh fruits and vegetables. Currently, foreign direct investment (FDI) in multi-brand retail is forbidden. FDI is allowed up to 51 per cent in single-brand retail, and up to 100 per cent in cash-and-carry hypermarkets that can sell exclusively to businesses. There is a number of domestic multi-brand retail chains (Bharti, More, ITC, etc.) that slowly but steadily establish themselves in metropolitan cities and currently dominate the domestic organized retail market. With expected removal of restriction on FDI in retail, supermarket chains will develop at a much faster pace. As Gulati et al (2005:36) point out, the preponderance of smallholders in South and Southeast Asia makes their inclusion in the changing retail structure especially important. The average size of land holdings is around 1.6 hectares in South Asia and Southeast Asia. Farms of less than 2 hectares in size account for 88 percent of the operated area in Indonesia and 81 per cent in India.

In 2005, the International Food Policy Research Institute (IFPRI) conducted a study on implications of contract farming for small farmers. The results show that net profits for contract farmers were more than double those of non-contract farmers in the case of dairy, 78 percent higher for vegetable (spinach) growing farmers, and 13 percent higher for poultry farmers. Costs of production for contract farmers were lower by approximately 21 percent for milk and 21 percent for vegetables compared with non-contract farmers. The share of transaction and marketing costs in total costs was markedly lower for contract growers (Gulati et al. 2008:9). However, some experts raise the issue of inclusion of small and marginal farmers in contract farming schemes. Kirsten and Sartorius (2002:18) summarized the problems and disadvantages that can contribute to exclusion of smallholders from contractual relationships as follows:

- Enforcement of contracts
- High transaction costs of dealing with many smallholders
- Strict demands for consistency (no variation), quality, food safety, due diligence, etc.
- Business attitudes and ethics referring to non-payment, delayed payments or even reduced payments
- High rate of product rejection by agribusiness firms and traders, and
- Weak bargaining position of farmers vis-à-vis a limited number of traders.

Another form of producer integration in agricultural value chains, referred to by some authors as "horizontal integration" (Torero 2011:29), which is under way in India, is producer organizations. As Alagh (2007:8) points out, a problem visualized in contract farming is the organization of farmer groups to interact with large companies. One answer is to encourage farmers groups in this context. One of the most common forms of producer organizations, both globally and in India, is agricultural cooperatives. Cooperatives are primarily legislated at the state rather than central government level in India. Over their century long history, cooperatives have seen a number of state controls on their governance and management. The dependence of cooperative societies on state governments led to the changes in, or parallel enactments to, state cooperative laws. Under these enactments, government capital is prohibited, the management of the societies is vested in the Board of Directors, and policies are decided by the General Body subject to limited regulatory powers exercised by the Registrar (registration of society, registration of by-laws, etc.) (Misra 2008:2).

In an attempt to upscale cooperatives, the Companies (Amendment) Act, 2002, introduced a new legal and organizational format for producer groups in India. The attempt was to draft the chapter to enable farmers and other primary producers to set up companies, which resembled cooperatives as closely as possible. Where profits in companies are normally shared on the basis of share holding, producer companies can distribute profits based on patronage of services. Where other companies with several shareholders have to list their shares in the stock market, producer companies do not. Voting rights in producer companies where individuals are members is on the basis of one member, one vote. However, where institutions are members, voting right is based on patronage of business transacted with the federation. While it is possible for a producer company to wind up its affairs, the registrar of Companies has the right to "strike off" the name of the company, if he/she does not believe it to be based on mutual assistance among members (Dutta 2005 as quoted in Alagh 2007:8-9).

According to the Dr. Alagh, one of the creators of the Companies (Amendment) Act, 2002, the producer company law provides for an effective alternate organizational form for rural producers offering an opportunity for competing on an even footing with other business organizations. It also provides a professional management and flexibility in organizational operations, including entering into collaborations/joint ventures – that would become necessary in a changing economic environment in order to optimize the benefits to their producer members. It combines the institutional strengths of Mutual Assistance and the Cooperative Principles within the liberal regulatory framework; as well as strict disclosure norms that the Company law offers. Thus, the Producer Company legislation is carefully thought out and provides for a new concept that enables new generation cooperatives to be set up to compete with the private sector in the present liberalized environment (ACCESS 2009:154-155).

A number of organizations met during the scoping phase of this master's thesis research indicated the producer company as essentially unique form of producer organization that, considering the present transformations of the agriculture sector in India, can provide a space for inclusion of small and marginal farmers and requires further research on its practical implementation. These organizations included the Federation of Indian Chambers of Commerce and Industry (FICCI, S. Baskar Reddy), the Federation of Farmers' Associations (FFA) in Anhdra Pradesh (Chengal Reddy) and the National Academy of Agricultural Research Management (NAARM, P.K. Joshi).

Therefore, this research has an objective to study the producer company institution as an example of unique hybrid organization in the Indian rural society – both endogenous and exogenous to agricultural producers (there is a long-standing tradition of farmer self-help groups and other community-based organizations, however producer company is a new organizational option for farmers to become entrepreneurs), an organization at the brink of formal and informal economies (both working with formal and informal farmer groups), and a private company based on the principles of mutual assistance. The research aims to provide a feedback for the developmental initiatives aimed at either horizontal or vertical coordination of agricultural producers in the value chains, specifically with relevance for the producer organizations. Another point of interest for the research is that, given the above-said, establishing a producer company requires innovative and visionary thinking on part of the farmers, and, hence, the question is what kind of support or impulse is needed for company to take off and develop into a full-functioning and profitable organization, considering the present low level of capacity and education among smallholders.

The thesis has the following structure:

- Literature review: defining producer organizations (POs); producer company and its place among institutions in India; producer company and supporting organizations; World Bank's (WB's) empowerment framework and its relevance for POs.
- Methodology
- Overview of case studies
- Specific findings from the cases: how producer company works with supporting organizations, how producer company fits into WB's empowerment framework
- Discussion and conclusion.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Defining Producer Organizations

There exist multiple definitions of producer organizations (POs). The majority of them focus on the nature of organization (formal/informal) and the existing legal forms, as well as on the objectives stimulating producers to come together and the services organization is supposed to provide. Some of the definitions are contradictory, others – mutually supportive. Below is a number of select definitions that are relevant for this master's thesis in general and for the producer company in particular.

The producer organizations are formal rural organizations whose members organized themselves with the objective of improving farm income through improved production, marketing, and local processing activities. POs deal with: policies on issues such as pricing and export and import of agricultural products; improvement of agricultural production practices; access to inputs and services, including agricultural credit; marketing of agricultural production; and local processing of agricultural production and its marketing (Rondot, Collion 2000:5).

A producer organization is an association, a society, a cooperative, a union, a federation, or even a firm that has been established to promote the interests of farmers. As each producer has its own farm, the main goal of the PO is to provide services that support producers in their farming activities, including the marketing of the farm products. POs exist in many different forms and provide a variety of services. They range from formal institutions, such as cooperatives, to informal producer groups and village associations (Bijman, Wollni 2008:3).

There are advantages and disadvantages to formalization, depending on the particular social, political and legal context. With formal legal status, a producer organization can enter into contracts and borrow money. Without legal status, any contract with a third party must be with an individual member of the PO. Also, a formal organization and its membership can more easily be protected from abuses such as the fraudulent use of funds or the misuse of the PO's name and identity. Legal status clarifies the liability of the organization and its members (Bijman, Ton 2008:5).

As Onumah et al (2007:10) indicate, the formal POs perform a "bridging" function to organize relationships between the group and the outside world. In many developing countries, formal POs typically have elements of both traditional and formal organizations. They are rooted in local customs, but organized on economic principles. Unlike traditional groupings, which tend to be inclusive, formal producer organizations are often more exclusive. .. POs can be local and serve only at village and inter-village levels, or can operate at regional and national levels (as advocacy, apex organizations and federations).

The rural PO is a form of collective action that will both improve the farmers' access to credit, information, and improved varieties of crops. .. Wherever there are economies of scale, be it in production or marketing, producers will have incentives for collective action, generally in the form of producer associations. .. By negotiating in block, farmers get better conditions: higher prices for their products, lower prices for their inputs. Furthermore, transport costs can be dramatically reduces by synchronizing demand for transport services. Another consequence is the creation of on-site packaging and other added-value activities, promoting rural non-farm economies. .. Under the broad definition, [producer] institutions play five potential roles in strengthening markets for commodities produced, bought, and sold by smallholders: reducing transaction costs; managing risk; building social capital; enabling collective action; and redressing missing markets (Torero 2011:6, 30).

Agarwal (2010:67) points out that for the landless, a group approach can increase market access to land. By pooling financial resources and negotiating jointly, groups can prove much more effective than individuals for purchasing or leasing in land. .. This would especially benefit women, who typically lack the funds to operate effectively in land markets. .. Pooling land for cultivation helps overcome problems of small size and fragmentation. In India, lack of formal right to land (property or land lease) often prevents land cultivators from accessing credit or insurance services, whereas a group approach can help establish linkages with credit and financial institutions.

Producer Company and its Place among Institutions in India

Producer company is a legal entity registered under the Companies Act 1956 and is defined through its objects and activities described in the section 581B of the Companies (Amendment) Act, 2002. The list of objects and activities includes eleven items among which, in addition to the core activities of the company such as production, value addition and marketing of the produce, one can find such activities as providing education on the mutual assistance principles to its members and others; rendering technical services, consultancy services, training, research and development and all other activities for the promotion of the interests of its members; and promoting techniques of mutuality and mutual assistance.

At the core of the design of the "producer company" are its members, who have to be "primary producers," that is, persons engaged in an activity connected with, or related to, primary produce. The design also introduces new systems for accountability and transparency in what are otherwise still community-based organizations committed to "cooperative" values (Bhandari 2010, Web). Such systems, among other, include one member-one vote principle, rotation of the Board of Directors, non-tradable nature of shares, shareholding in proportion to the patronage of the company, profit distribution commensurate with the volume of business, and dispute resolution through arbitration or mediation.

A primary producer company, in contrast to the cooperative, can have both individual and institutional membership. This is a step ahead in the direction of recognition that producer company, despite itself being a formal organization of primary producers, may require a lot of institution and capacity building at the grassroots level and, therefore, may have to work both with formal and informal rural POs on the ground including them as building blocks in the company. Such organizations at the grassroots level may include farmers' self-help groups (SHGs), common interest groups (CIGs), farmers' business groups (FBGs) and similar, and agricultural cooperatives.

Pastakia (2007:11, 17) indicates that collectivization of informal institutions at the grassroots through federations of people's institutions or through cooperatives or producer companies has emerged [in India] as the most important strategy for scaling up and strengthening livelihood interventions. .. Many of the interventions which previously started with the cooperative structure are now shifting over to producer company format. .. The main advantage seems to be lack of interference from government officials. It also enables the organization to focus entirely on the economic activity in a professional way so as to compete in the open market with other private companies.

From the definition of producer company through objects and activities in section 581B of the Companies (Amendment) Act, 2002, it is obvious that it is designed as a multi-purpose organization. Given its ability to include institutional members into the structure and depending on the level of its ambition and geographical scope, it can function as a multi-tier producer institution. According to Pastakia (2007:21), when the activity is promoted beyond the local community and if distant markets are to be tapped, additional tiers would have to be added to deal with the market forces as well as the needs of the producers to upgrade technology and product design. .. In general, the number of institutions and tiers increase when more functions are added or when more geographical coverage takes place.

Hence, the producer company is a multi-purpose, potentially multi-tiered formal institution of primary producers in India that has all the core features of private enterprise but, similarly to cooperatives, incorporates mutual assistance principles in its mandate. The essential features of the producer company that make it different from the private company can be summed up as follows: it can be formed by ten or more individuals, without limitation on the number of members (for private companies – maximum number is fifty); its shares cannot be traded on the stock exchange (but can be transferred); its share capital consists only of equity shares held by primary producers; its voting rights are based on one member-one vote principle, for individual membership, or distributed according to the volumes of produce traded with the company, for institutional membership; it can invite experts to sit on the Board of Directors; the limit of investment in other companies shall not exceed 30 per cent of its capital; for amalgamation, merger and division the company is under the jurisdiction of the Registrar of Companies, with a right of appeal to the High Court (the private companies are under the jurisdiction of the National Company Law Tribunal); governance disputes should be settled by the Arbitration and Conciliation Act (for private companies – by the Company Law Act); producer company can be converted into inter-state cooperative society, but not into public or private company (adapted from ICAI 2003:10.3-10.6).

As Alagh (2007:8) indicates, the question of the organization of small farmers and their links with higher level organizations like input supplying or selling companies, or irrigation systems, is a complex one. Possibility of small farmers to form their own companies, without loss of control on their land, now exists under the law and needs to be explored.

Support for Producer Company – Dyadic Relationship with NGOs

Another point of interest for this master's thesis is the role of supporting organizations in formation and development of the producer companies. The developmental literature focuses on the importance of NGOs and donor agencies in capacity building, innovative practices and experimental learning of the POs at various stages and in various contexts. Berdegué et al (2008:2) point out that in order to achieve and sustain inclusion of small-scale farmers in restructured markets, different agents need to participate and cooperate. This is a big challenge. The successful case studies [of POs] share the characteristics: collaborative arrangements between trained and organized farmers, a receptive business sector, and conducive public policies and programs. Such arrangements are in most cases supported by specialized partnership facilitators.

Many authors indicate the importance of network governance for producer organizations that can be facilitated, at least at the initial phase, by the supporting external organization. Wilkinson (2008:9) says that donors should make producer organizations partners, empower them, listen to them and then build what is really required to grow and develop. Producer organizations should be linked with other people, other practitioners, other farmer organizations in the region, including to the national farmer organizations. That would make them stronger.

Other authors draw attention to the innovative business practices and efficient operational procedures that make producer organizations successful, in addition to networking capability. According to Berdegué (2008:10), for the POs that did become viable, autonomous organizations, three factors seem to explain their success. The first is that they must act as vehicles for change. Producer organizations can be effective for farmers who are willing to change their practices, but not for those who wish to maintain the status quo in the context of traditional commodity production systems. The second factor is related to the POs' networking capability. Effective organizations are embedded in dynamic multi-agent networks that link their members to ideas, resources, incentives and opportunities from beyond their rural communities. Finally, a system of rules and incentives for the internal allocation of costs and benefits, both among the members, and between the farmers as a group and the organization itself, is key to success. With effective and sustainable POs, these rules typically transmit undistorted market signals to individual members, to which the members are able to respond.

By their nature, producer companies in India are a sophisticated and skill-intensive organizational form offered for farmers to innovate and become entrepreneurs. In many cases, they are facilitated by external agents, to a different degree of success. The three most popular forms of organizations supporting or facilitating producer companies in India and working in dyadic relationship with them from the pre-formation stage are the society, charitable trust or Section 25 (Companies Act) not-for-profit company (Pastakia 2007:18-19). Many of them succeed in attracting funds of international donor organizations.

The World Bank's Empowerment Framework and its Relevance for POs

As per the World Bank's framework of empowerment, institutional design that leads to empowerment of poor people in a broad sense should incorporate four elements (World Bank 2002:15-18):

- **Access to information**: without information that is relevant, timely, and presented in forms that can be understood, it is impossible for poor people to take effective action. Critical areas include information about rules and rights to basic government services, about state and private sector performance, and about financial services, markets, and prices.
- **Inclusion and participation**: inclusion focuses on the "who" question: Who is included? Participation addresses the question of how they are included and the role they play once included. An effort to sustain inclusion and informed participation usually requires

changing the rules so as to create space for people to debate issues and participate directly or indirectly in local and national priority setting, budget formation, and delivery of basic services.

- **Accountability**: accountability refers to the ability to call public officials, private employers or service providers to account, requiring that they be answerable for their policies, actions and use of funds. At the community level this also includes giving poor groups choice and the funds to purchase technical assistance from any provider rather than requiring them to accept technical assistance provided by government.
- **Local organizational capacity**: local organizational capacity refers to the ability of people to work together, organize themselves, and mobilize resources to solve problems of common interest. Often outside the reach of formal systems, poor people turn to each other for support and strength to solve their everyday problems.

It is the dual nature of the producer company as a private enterprise based on the principles of the mutual assistance and self-help and having a broad mandate that presupposes the company should succeed both in its core activity such as production, value addition and marketing of agricultural produce with an equitable economic benefit to its members, and in capacity building, technical services and education to its members and local community, that makes the above empowerment framework relevant for application to the producer company.

Producer company in tandem with supporting organizations will objectively need to work on several fronts to enable farmers run their own company and get access to the market. These fronts can broadly correlate with the elements of the WB's empowerment framework.

For example, producer company will aim to enhance access of information by the farmers, due to the fact that "when market information and markets themselves are not accessible to the rural poor, farmers capture little of the value that they create, demand and supply are highly unstable, and distribution costs for rurally produced goods are very high" (Torero 2011:6).

Producer company will be trying to adapt to and change present social structures by creating a space for deliberation among farmers and their participation in decision making, with an overall aim to improve farmers' individual capabilities and access to services. "When social cleavages are deep and systemic, access to services and opportunities is determined not by individual characteristics but by social structures and a culture of inequality that discriminate against or exclude entire social groups" (World Bank 2002:21).

Producer company will work as an apex level institution bringing together and building on the producer groups of lower level, in order to improve their organizational capacity, achieve volumes of the produce and act as an interface between farmer groups and institutional buyers. This will require specific governance and internal communication systems to connect the levels in one organization and make the organization accountable to the membership base. "The apex serves as a wholesale financier and supervisor for the system. The aim is for the apex to centralize and standardize human resource management, capacity building, operational management and internal controls. Decision-making and governance, however, remain relatively decentralized to allow flexibility at the group levels. In practice, it is difficult to balance member-ownership and decentralization with the demands of running an efficient organization at scale, especially in remote areas" (Misra 2008:1).

METHODOLOGY

Introduction to the Research Process

This master's thesis research consisted of four phases:

- Formulating the preliminary topic and research questions
- Scoping phase (the first part of the field work in India), with purpose to refine the topic and validate the approaches
- Collection of data through case studies (the second part of the field work in India), and
- Review and analysis of the collected data.

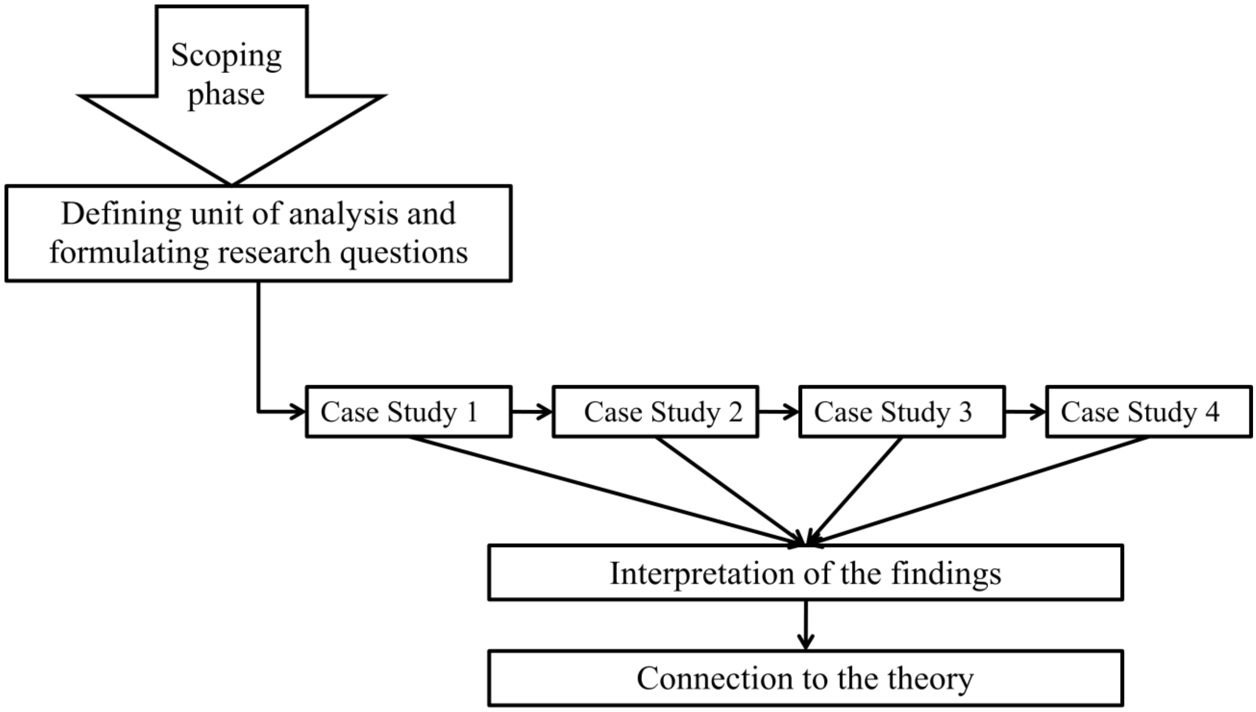


Figure 1. Research Process

The topic for research was initially formulated as "Emerging Business Linkages and Institutional Arrangements in Context of Large-Scale Food Retail Penetration in India" and later, by results of the scoping phase, adjusted to the "Producer Company as an Institutional Option for Small Farmers in India". The unit of analysis is the producer company and its dyadic relationship with supporting organization, if such organization exists. The field work in India – from scoping phase to case studies – was undertaken between 1 February and 5 April 2011 in cooperation with two classmates from LUMES (Lund University Master's Programme in Environmental Studies and Sustainability Science).

It is obvious from Figure 1 that the research has a predominantly inductive orientation. Bryman (2008:11) points out that, with an inductive stance, theory is the outcome of research and the process of induction involves drawing generalizable inferences out of observations. The epistemological standing of this research is critical realism in a sense that the author recognizes the need to identify and study the structures that generate events and discourses forming the reality and these structures are instrumental in understanding the social world which these events and discourses are part of. The ontological position of this research is constructionism whereby the author accepts that events and discourses of the social world are in the constant state of flux, which is the reflection of social dynamics and interactions. New meanings and phenomena are a part of this dynamics, therefore knowledge, to a certain extent, remains indeterminate, while the researcher represents his or her version of the social reality.

The initial phase of the research included literature review, with a purpose to establish basic facts and the context setting on agricultural producers (small and marginal farmers) in India, and scoping for the following field study. Scoping had a purpose to validate some of the assumptions on problematic of smallholder farmers and farmers' institutions in India, as well as to confirm the relevance and importance of the research questions. The scoping also helped to identify the unit of analysis – agricultural producer company or the dyad of producer company and a supporting NGO, since many interviewees indicated this model as an emerging and under-researched alternative to contract farming specifically stipulated by law (Companies (Amendment) Act, 2002) that allows horizontal integration of primary agricultural producers in the value chain. The scoping activities included meetings and interviews with the developmental and government agencies, research institutes and universities, NGOs, journalists and individual researchers.

The main phase of the field work included four case studies and consultation with an Indian NGO (PRADAN, Professional Assistance for Development Action) that is a major facilitator of producer companies, as represented in the figure below.

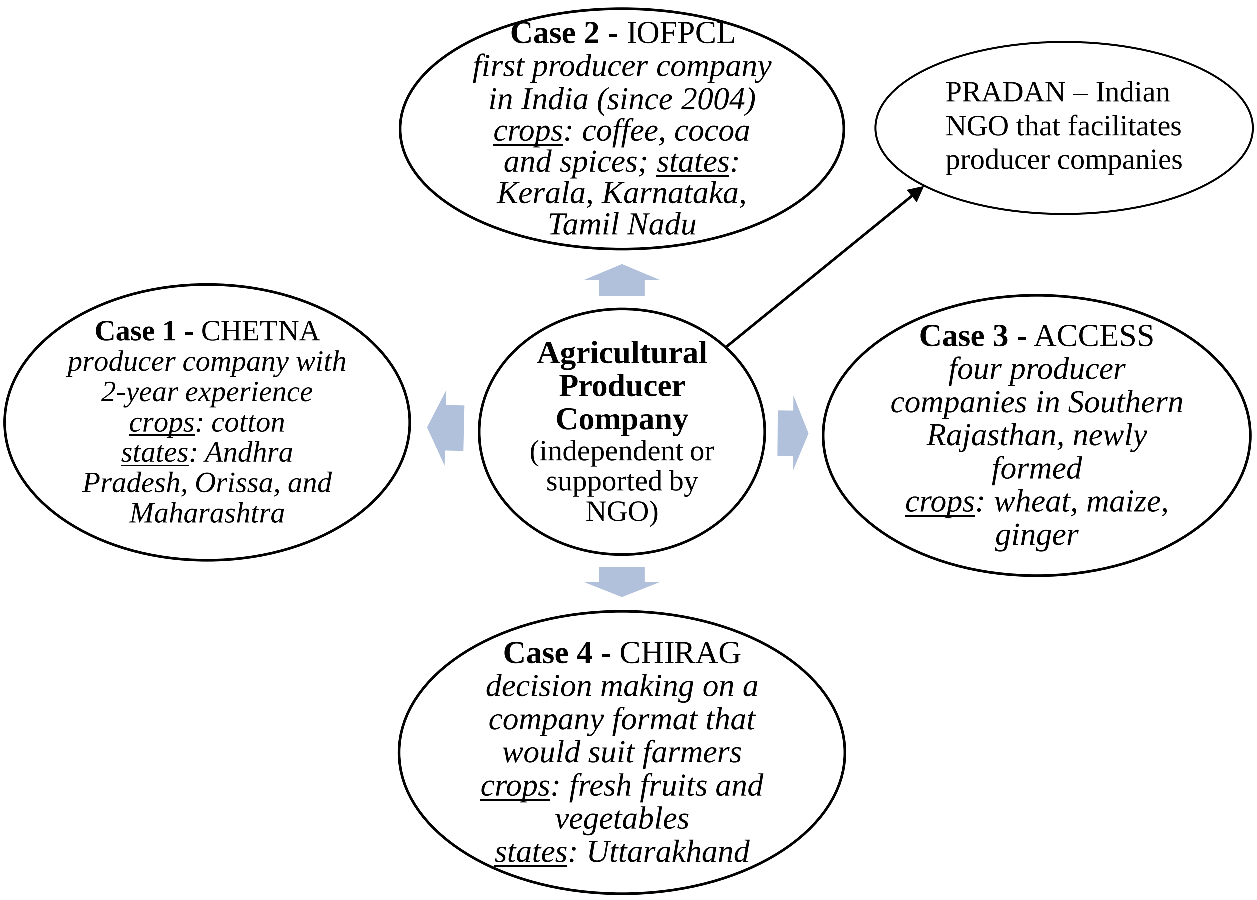


Figure 2. The Unit of Analysis and Case Studies

The concluding phase of the research consisted of interpretation of the findings from the four case studies and their discussion against the four key elements of empowerment, as defined by the World Bank in its *Empowerment and Poverty Reduction Sourcebook* – access to information, inclusion/participation, accountability and local organizational capacity.

Research Questions

Producer company is a new option for Indian farmers to organize, work together and advance themselves on the market as a producer group. In order to follow an objective to study the producer company and the support it requires at different stages, this thesis looks into producer companies working in dyads with (facilitated by) supporting organizations, for example NGOs rooted in the local communities, to see what kind of outcomes this cooperation entails for producer company and for the farmers and what kind of support systems and networks are created, both internally and externally. In addition, the research attempts to look at how, why and in response to which challenges or needs the legal and organizational form of producer company emerged and which objectives it is deemed to solve; connections with other locally based producer institutions and other legal or organizational forms; benefits and limitations of this form for primary producers (small and marginal farmers); producer company as an institution that encourages and relies on collective action, its main actors and agents; producer company as an apex-level organization and its links with existing rural and/or community based institutions, in particular, in relation to newly created or previously existing institutions of the lower level and scope; scope of action and services (to be) provided by the producer company to primary producers and roll-out stages; challenges on the ground and support needed by the farmers and/or farmer groups at different stages; and how the producer company works against the four criteria defined by the World Bank's empowerment framework.

Empowerment has an institutional definition relevant for the research topic and unit of analysis:

> *Empowerment is the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives* (World Bank 2002:vi).

The two main blocks of **research questions** are:

- How does producer company work in tandem with supporting organization? What are the outcomes of dyadic relationship between the two organizations?
- How does the producer company fit into the four criteria of the World Bank's empowerment framework – access to information, inclusion and participation, accountability and local organizational capacity? What is the research feedback for this framework?

Research Methods

As pointed out earlier, the primary data for this research were collected through the scoping phase and four case studies that were a part of the two-month field work in India. The methods employed in this research include literature review (academic articles, conference papers, studies and surveys, public reports by NGOs and developmental organizations, books, legal reviews and dissertations); semi-structured individual and group interviews with researchers, policy makers, journalists and activists, management and staff of supporting organizations working in dyad with producer companies, producer companies directors and management/professional staff; focus groups with farmer leaders, representatives of cooperatives and self-help groups; unstructured interviews with farmers and participant observations in villages; narrative analysis; review and analysis of the internal documents provided by NGOs and/or producer companies.

Two questionnaires were used in the main phase of the field work for the semi-structured interviews and partly for the focus groups with staff and directors of the producer companies, farmer leaders, and staff of the supporting organizations. One questionnaire was used for general fact finding and to reveal organizational structure and capacity (shared between the three researchers), and the second one (individual) – to explore the issues related to inclusion, accountability, participation and access to information. Both questionnaires, as well as the complete list of all interviewees with contact details, are attached as Appendices 1-3 to this master's thesis.

Additional secondary source of information for the research were already published case studies and reports on the producer companies in India, as well as materials from the workshop on producer companies facilitated and conducted by PRADAN in New Delhi in December 2007. This allowed a meta-analysis – applying the same research questions to a larger sample in addition to the small-N case studies.

Research Limitations

In its analysis, this master's research heavily relied on the data obtained from the interviews and internal documents provided by the producer companies and their supporting organizations. Despite the interviews covered a broad range of actors, including staff of the supporting organizations, producer company directors, farmer leaders, and focus groups with farmers, there may be a certain bias in the collected data, since the processes has been normally guided by the staff of supporting organizations in case of the dyads and by the management of producer company in case of IOFPCL.

Another limitation of this research concerns the depth of its analysis. The research included four case studies and consultation with PRADAN (organization that facilitates producer companies). Due to the time constraint, the data collected may not reflect a full scope of the challenges producer companies are facing on the ground, in particular, from the perspective of small and marginal farmers. Such analysis would require focusing on one specific case study and much deeper immersion in local community to uncover existing social structures and specific socio-economic conditions on the ground. However, the cases in this research are significantly diverse from the point of view of geographical location, crops grown by the farmers, company membership and relations with supporting organization, and allowed undertaking a cross-case comparison and draw some general inferences regarding the problematic of producer company.

Economic performance of producer companies and market analysis were out of the scope of this research. However, this is a significant component if one aims to assess the sustainability of producer company and its performance, in particular, in comparison to more traditional agents on the market.

INTRODUCTION TO THE CASE STUDIES

Selection of the Case Studies

The case studies in this research were selected purposefully to represent different geographical locations. The main criterion for selection of the cases was availability of the unit of analysis – agricultural producer company – at the different stages of development. Several groups and organizations were contacted during the scoping phase and later, during the main phase of the research, and the cases were selected also as a matter of willingness of the organizations and groups to cooperate. The cases represent a fairly diverse spread of farmers, farmer groups, crops grown and traded, local socio-economic conditions and organizational settings around the model of the producer company.

One of the cases (CHIRAG) was selected despite the absence of the registered producer company per se. The logic for this choice is explained by the fact that this was the only organization primarily dealing with fresh fruits and vegetables (perishable crops) and also due to the fact that, when approached, the organization appeared to be exactly on the crossroads of decision making about the company format as the next stage of institutional development of the facilitated farmer groups and cooperatives in the Kumaun region of Uttarakhand. This latter factor allowed taking a deeper look into existing legal and organizational alternatives to the producer company model of the similar level and standing (an apex level organization that builds on grassroots farmer groups), considered by the NGO working with farmers on the improving their access to markets.

Chetna Organic Agriculture Producer Company Ltd (COAPCL)

Chetna Organic Foundation is a 3-tier structure producer organization, with farmers' self-help groups at the bottom, cooperatives at the middle level and agricultural producer company on top (Chetna Organic Agriculture Producer Company Ltd, COAPCL). The producer company as an apex level organization closely cooperates with not-for-profit organization called Chetna Organic Farmers Association (COFA). The farmers are members of all these organizations at all levels. Membership is individual at SHG and cooperative levels and institutional at the level of COFA and COAPCL (through cooperatives). The company works between three states – Andhra Pradesh (Adilabad & Karimnagar), Maharashtra/Vidarbha (Akola, Amravathi, Washim & Yavatmal), and Western Orissa (Kalahandi, Bolangir & Lanjigarh). Currently, there are more than 9,000 members, including a significant proportion of small and marginal farmers from tribal communities. COFA was registered in June 2007, under AP Societies Act. COAPCL was incorporated under part IX A of the Companies Act 1956 in February 2009. Cotton is the main crop produced by the farmer members, and the company is significantly oriented towards export. The farmers get 20% organic premium if they sell their produce through Chetna.

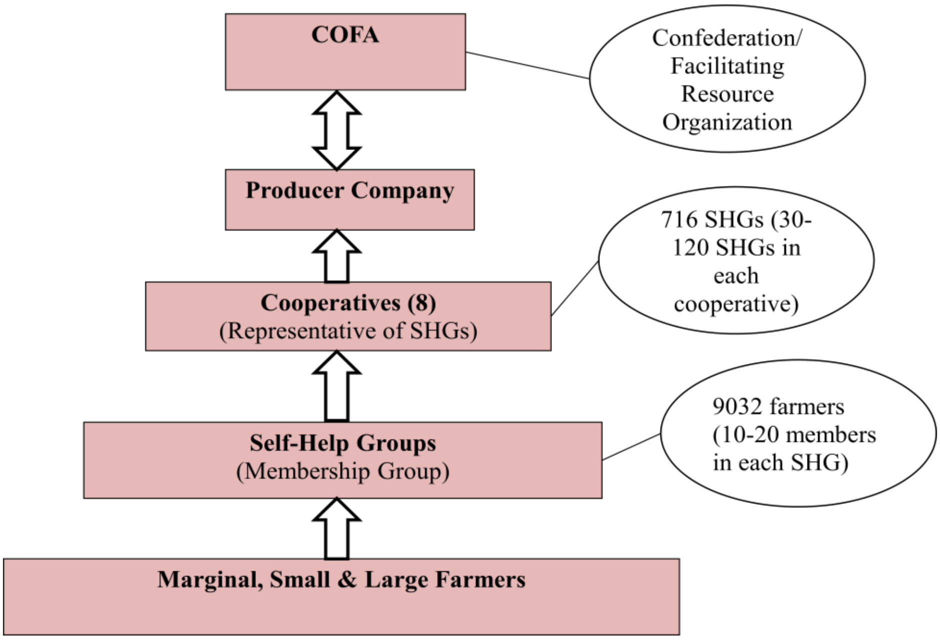


Figure 3. Chetna Organics Institutional Structure (adapted from Chetna Annual Report 2010)

There are nine Directors on the Company Board, eight of them representing each of the cooperatives/societies and one expert Director from COFA. The Directors are not remunerated for their service but get reimbursed for the travel costs and participation in the meetings.
The future plans of COAPCL include expanding the marketing services to non-cotton crops, as per the crops diversification strategy and desire of the farmer members. For domestic market, the company is developing a zero-pesticide brand of pulses as a cheaper alternative of organic certification. This is a potential market opportunity for COAPCL, given the rising demand for organic produce in Indian markets. In addition, marketing of non-cotton crops also addresses a need (i) of farmers to be involved in a non-exploitative market system for all their crops and (ii) provide an additional incentive to farmers to practice organic farming by creating an entire organic ecosystem around him/her (Chetna Annual Report 2010:22).

Challenges related to the institution building and farmers' participation in the producer company identified by Chetna (Annual report 2010:10-12, 18, 27-28):

- Farmers drop-outs, mainly due to the challenges of switching to organic farming. This is addressed through introducing farmers to non-pesticide management practices, before enrolling them into organic certification program. Organic practices are management intensive and require greater commitment. Economic factors are the important determinants for adoption. Some of the commonly mentioned economic factors holding farmer from adoption are the cost of adopting, the uncertainty of profitability, and loss of productivity, labor demand, short term economic necessity, and macro level economic policies.
- Increased dependency of farmers on Chetna – currently, emphasis on technical and marketing aspects overpowers institutional aspects. Most of Chetna field staff started acting as direct service delivery agents rather than the facilitators of cooperation and institutional building. This resulted in lower performance of SHGs and cooperatives/societies.

- Decreasing membership of SHGs – in 2010, there were several groups with less than 10 members, mostly of medium and big farmers. Such groups were considered as Common Interest Groups (CIGs) and the institutional processes that need to be followed were completely absent in these. It was difficult to trace the activities of such groups as data was not maintained properly. Field staff found it difficult to facilitate or manage such groups. Chetna is considering putting in place a monthly and quarterly progress verification system in all the cooperatives/societies, with purpose to strengthen institutional processes in the groups. Another approach is to encourage savings and credit activities among the farmers.
- Side-selling by the farmers - farmers selling 40-65% of their cotton in open markets for various reasons (in spite of 20% premium if they sell through Chetna): (a) to avail immediate cash for meeting various expenses – cotton being a long duration cash crop (120-150 days), farmers only keep investing through the period without getting any returns; (b) pressure from the traders and money lenders (both are same) to repay the loans as farmers still depend on external financing; (c) selling through Chetna would entail automatic recovery of bank loans through deductions –as all transactions are through bank and no cash transactions; (d) rumors of loan waiver offers (politically motivated); (e) cotton prices going up by almost 40% in 2008 and 2009; (f) COAPCL did not have the working capital to purchase instantaneously from the farmers at the farm gate prices.
- Weak by-laws of cooperatives/societies and inadequate representation of SHGs - The bye-laws of Cooperatives/Societies were not accommodating a democratic representative process. The representation of SHGs in the Cooperatives/societies was also not in organized manner. While few SHGs had multiple representations, many others were completely neglected. Such ad-hoc representation has led to certain challenges related to farmer ownership and mutual accountability. This created a necessity to amend by-laws to allow re-organization processes. In the coming years, Chetna decided to train the cooperative board members on monitoring and reviewing the performance of SHGs.

Indian Organic Farmers Producer Company Ltd (IOFPCL)

IOFPCL is a first producer company formed in India in 2004. It has its headquarters in Aluva, Kerala and operates across three states – Kerala, Tamil Nadu and Karnataka. The main farmer base is located in Kerala, in four areas – Wayanad, Kannur, Palakkad and Idukki. Currently, about 4,500 primary producers are members of the company. The company has mixed individual and institutional membership and the voting rights are distributed according to one member – one vote principle. Main crops produced by the farmer members are cashew, cocoa, coffee, coconut, ginger, turmeric, vanilla, nutmeg, cardamom, chili and black pepper. The majority of crops gets either organic or Fair Trade certification (80%) and 90% of those crops go for export. The farmers are paid from 10 to 20% premium price by IOFPCL for organic products at the time of procurement.

The company was formed through the assistance of INDOCERT, an organic certification body, and exceptional individual efforts of a group of large local farmers. The main reason for forming the producer company was a perceived need to couple organic certification of crops and introduction of respective internal control systems with export-oriented marketing, which required significant aggregation of efforts and collective action. Besides, small farmers couldn't individually bare certification costs, as well as they didn't have the capacity to streamline the organic practices and organize monitoring. Before formation of the producer company, the farmers were organized into charitable societies, which are equivalent form of cooperatives as per the state legislation (Kerala Cooperative Societies Act 1969).

Currently, the company has 594 individual and 7 institutional members. The total area of land cultivated by the shareholders is 10,800 acres with an average holding size of 2.40 acres. Initially, there were eleven Directors on the Board, but five of them were inactive and eventually resigned. The six Directors represent six cooperatives (the seventh institutional member is a passive shareholder) and six different areas respectively. There is one woman Director out of six. The Directors are doing voluntary service and are not remunerated or compensated any direct costs related to the travel and participation in the meetings. In terms of full-time professional staff, IOFPCL has a CEO, two procurement managers and an accountant.

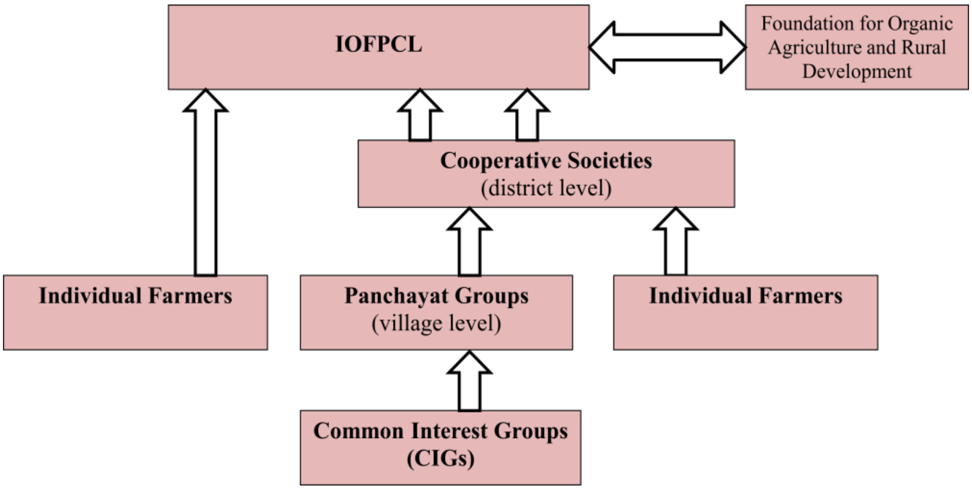


Figure 4. IOFPCL Institutional Structure

The size of cooperatives, average landholding size, member profiles and farmers' problems differ a lot in different areas. For example, the cooperative society in Palakkad has 47 farmer members with an average landholding size of 35 acres, while the society in Wayanad (Wayanad Organic Agricultural Development Society) has about 500 members (initially it was 1,600 but the society faced a lot of drop-outs) with an average landholding size from 0,5 to 5 acres. The first one is struggling with a shortage of labor, while the second one has problems with liquidity and pre-paying farmers at the time of produce collection.

Some of the institutional shareholders in IOFPCL can be referred to as "passive shareholders", since they possess shares but neither use the services of the company nor actively participate in decision making. One of such groups is the Wayanad Social Service Society (WSSS). This group started with 80 farmers in 2000 and has now grown to about 3,000 members, with 157 farmers' groups on a grassroots level and 15 panchayat groups. In 2005, the society started exporting coffee and spices (cardamom, ginger, turmeric and vanilla), and has now tried exporting processed jack fruit to the US. There are essentially two main buyers the WSSS depends on for export. The society has two professional staff working on marketing and cooperates with IOFPCL for marketing the produce on an ad-hoc basis. The membership of the WSSS is largely composed of small and marginal farmers with an average landholding size from 0,8 to 1,5 acres. The society lacks capacity for training farmers in organic practices and providing technical support. There is also a recognized need to develop domestic market for organic products, like coffee and spices, which is a macro-task the society cannot solve on its own. WSSS is now considering a possibility of forming producer company of its own. The estimated membership base is around 100 farmers with landholdings of 2-3 acres.

As many other producer companies, IOFPCL has challenges with funds and has received a minimal support from the government since the time of its establishment. The company was able to get a credit from bank in the amount of INR 2,500,000 only when one of its Directors provided his property as a collateral security. The interest rate is high and the company is currently facing problems to repay the debt. IOFPCL, unlike other cases in this thesis, was not created through support of NGO and had to deal with problems related to capacity building among its farmer members and hiring professionals as company executives on its own.

IOFPCL has developed its own brand named “Jaiva”. The company has a processing unit for cocoa but lacks processing capacity for other crops. IOFPCL has been marketing various products with different degree of success – it has been able to export coffee, coconut oil and vanilla as Fair Trade certified products and has a long-term supply contract for cocoa with a Swiss chocolate producer. Through the inspection and advice of the latter, IOFPCL has developed its own protocol of organic processes for producing cocoa. At the same time, the success with marketing spices has been limited and the farmers growing black pepper are dissatisfied with marketing by the producer company. It’s also hard for small farmers to switch between the crops based on the market situation, since coffee and pepper are perennial crops, and farmer needs to wait for 5-6 years for the first harvest.

IOFPCL is facing a problem of farmers’ drop-outs. In 2010, only in Wayanad Organic Agricultural Development Society 60 farmers left for another organization and 200 farmers dropped organic practices. The reasons are similar as for COAPCL case: significant initial investments needed, failure to see immediate benefits, lack of domestic market for organic products and lack of capacity on part of IOFPCL to market/export different products with the same degree of success and, thus, guarantee the organic or Fair Trade premiums.

ACCESS Development Services and four producer companies in Southern Rajasthan

ACCESS was set up in March 2006 as a not-for-profit company under Section 25 of the Company Law. The overall aim of the organization is to incubate new farmers’ institutions to enable their self-sufficiency and self-sustainability (ACCESS 2009:i).

ACCESS has facilitated establishment of thirteen producer companies in India. Four of these companies are in Southern Rajasthan, where ACCESS has been working in partnership with the National Agriculture Innovation Project (NAIP), and cooperated with the World Bank. The NAIP has assisted in establishment of three out of four producer companies. The project targets groups in two tribal-dominated districts, Dungarpur and Banswara, both characterized by low income and productivity, poor soil and water management, limited adaptation of new technologies, limited inputs, and high population (ACCESS 2011a:1). The producer companies are currently comprised of over 220 Farmer Business Groups (FBGs) and have extended a combination of services including forward/backward linkages, extension services, and credit linkages to well over 6,000 households (ACCESS 2011b:4).

The institutional structure of the companies and the ACCESS approach to the institutional building in all four cases are very similar. At the village level, the farmers are organized into farmers' business groups (FBGs), at the district level – to clusters, and clusters, in their turn, are federated into producer company. The role of ACCESS is to provide training and facilitate the institution building process along the self-help principles with purpose to help the farmers to aggregate the produce surpluses, get access to information, initiate savings and credit activities. The main crops produced in the area are wheat, maize, chili, ginger and turmeric, with a limited surplus for trading. The average landholding size of the member farmers is 1-1,5 acres. About 20% of the farmers have more than 2-3 acres of land. Before establishment of the producer company, the farmers sold the produce to local markets and did barter exchanges. At this stage, the focus of economic activity of producer companies is primarily on collective procurement of inputs (seeds and fertilizers) and goods for domestic consumption by their members. This collective procurement allows saving up to 20% on the cost. Thus, individual members are able to save on input costs up to INR 3,000 per year.

Formation of the companies started from FBGs making small savings (INR 10-20 per person per month). The groups have very homogenous membership (similar incomes, land size, social status, caste, etc.). This is done to prevent an excessive influence of larger farmers on decision making process, at least within the groups, and make sure that a collective decision comes from the group and not from individual members.

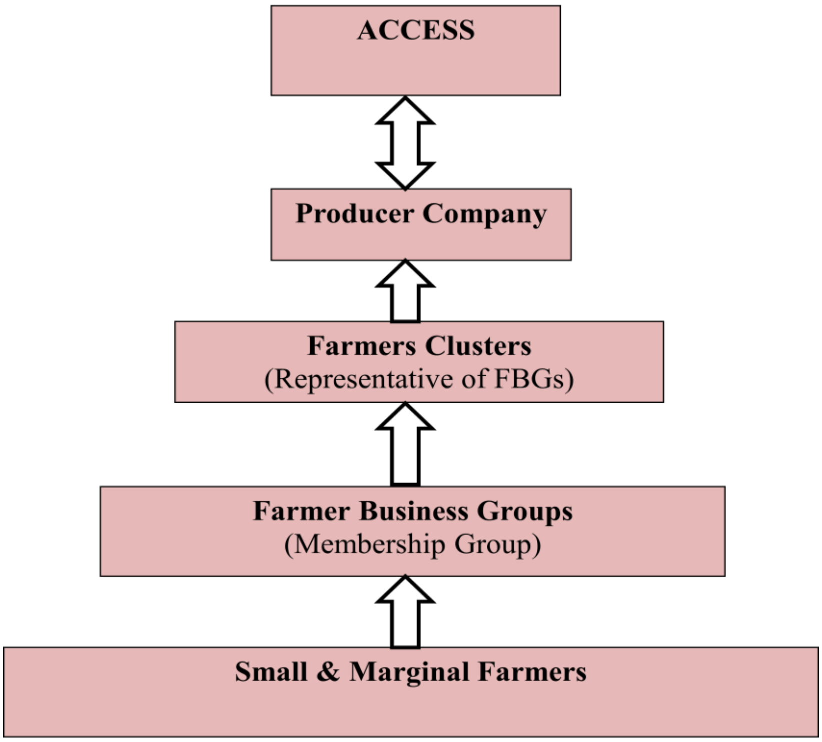


Figure 5. Institutional Structure of Producer Companies Facilitated by ACCESS

Every month FBGs leaders take part in cluster meetings. Each cluster has a President, Secretary and Cashier. There is a penalty for failure to show up at the meetings in the amount of INR 25.

The main topics of discussion are current basic needs of the groups and operational issues, training needs, etc. As a rule, facilitators from ACCESS are present during these meetings. In the end of each month, the FBGs representatives also participate in the company meetings where they discuss the input procurement needs and marketing prices.

Jhambukhand Kisan Agro Producer Company Ltd (JKAPCL), one of the four companies ACCESS has facilitated, has 29 FBGs in Garhi Cluster and 25 FBGs in Talwara Cluster. The total number of members is 724, with over 1,000 marginal farmer beneficiaries in 11 villages. The company has 13 Directors on the Board, each representing one village plus two expert Directors – one from the ACCESS and one from the Maharana Pratap University of Agriculture and Technology (MPUAT). The company also has professional full time staff such as the CEO, two production managers, a marketing manager, a village institution expert and an account/administrative manager. Company Directors are normally not remunerated for their service but some of them are rewarded for their individual business efforts on an ad-hoc basis. There is a provision in the Articles of Association that every two-three years one third of the Board of Directors should be changed (a conveyor rotation system).

ACCESS distinguishes three discreet stages in development of the producer company (please see Appendix 4 for more details):

- Collective marketing of inputs
- Seed production (hybrid seeds) – *currently, a pilot project*
- Own branding of seeds.

JKAPCL has been active in trading wheat, maize and chili, mostly with one institutional buyer in Durgarpur. It has also launched a vegetable shop in Patarpur, Banswara. Grading the produce is part of the marketing activities, which enables the farmers to get higher returns since the price is defined according to the grade. JKAPCL has started processing red chili procured from its members. The main value addition here is weighing and packaging, which is done by women in their leisure time. The chili powder is later distributed to local shops, and, as part of the community exchange, among members and to the two other producer companies in ACCESS network. Three women FBGs are involved in the production of animal feed that JKAPCL sells to its members under its own brand. In future, JKAPCL is planning to develop the vegetable shop in Patarpur into a franchise shop and expand the line of produce marketed through the shop. The company also anticipates starting its own hybrid maize seeds production and marketing, as well as tying up with major seed and fertilizer producers in the state for distributorship.

The main problems with marketing the produce collectively on behalf of farmer members is the lack of liquidity for aggregation and transport, limited common storage and processing facilities and need for more market information. There is also the problem of indebtedness among the farmers that often forces them to borrow from local money lenders and commit to sell back their produce at the pre-agreed prices as part of the deal. Working capital is a major issue and is currently managed through farmers' own contributions. For example, in 2010, the JKAPCL has borrowed INR 300,000 from FBGs at the 10% interest rate.

CHIRAG (Central Himalayan Rural Action Group) and pre-formation stages of the farmers owned company

CHIRAG is a rural development organization based in the Kumaun region of Uttarakhand in India. Since 1987, it has worked closely with communities on issues relating to forestry, soil and water conservation, agriculture, animal husbandry, drinking water, health care, education and skill and knowledge development of young people. CHIRAG works in nearly 250 villages in Nainital, Bageshwar, Pithoragarh and Almora districts (CHIRAG Web). The organization has adopted a livelihoods approach to rural development and linking local small and marginal producers to markets is a part of it.

CHIRAG has currently reached out to 2,200 small and marginal women farmers assisting them with market linkages by establishing the collection centers and aggregating the produce, grading and packaging, transportation, and selling the produce both through the local and distant mandis (government-operated markets) and to the institutional buyers (retail stores). The marketable produce grown in the region is fruits (peach, mango, pear, apricot, plum, lemon and apple), vegetables (potato, cauliflower, cabbage, and peas), maize and pulses. Most of this produce is perishable, that's why prompt delivery times, storage and transportation are extremely important, and CHIRAG shares a major part of the risks.

At the grassroots level, farmers – women farmers with land holdings of less than 1 acre – are organized into self-help groups that are further federated into cooperatives. Currently, eight cooperatives in the region are functioning under the umbrella of CHIRAG. Two of them are older and larger ones (400-500 members), two are newly registered and four are in the process of registration. CHIRAG is planning to increase the number of cooperatives in the area, with a general estimation that their total number may reach 40. The next step in up-scaling cooperatives' activity is establishing a company that will take on a number of responsibilities on value addition and marketing. At the time when the field work was conducted, CHIRAG was in the process of deciding on the format of this future company. Producer company (as per the Companies (Amendment) Act, 2002), public unlisted company, private company limited and limited liability partnership were considered as alternatives. A summary of advantages and constraints of each of these forms for small farmers, as discussed by the CHIRAG staff, is given in the Appendix 5. An alternative view to establishing the company, expressed by one of the area leaders, was to strengthen cooperatives so that they can bargain, negotiate prices and procurement conditions on their own, outsource processing and procure required services (training & expertise) from professionals. The newly created company will work around six verticals:

- branding of the produce,
- provision of information,
- input supply,
- financial services,
- value addition and marketing, and
- logistical coordination.

SPECIFIC FINDINGS FROM THE CASES

Dyadic Relationship Between the Producer Company and Supporting Organization

Dyad 1 – Chetna Organic Farmers' Association and Chetna Organic Agricultural Producer Company Limited (COAPCL)

Dyad 2 – ACCESS Development Services and four producer companies in Southern Rajasthan (Jhambukhand Kisan Agro Producer Company Ltd (JKAPCL, Banswara), Vijwa Agro Producer Company Ltd (VAPCL, Dungarpur), Udaipur Agro Producer Company Ltd (UAPCL) and Dungaria Agro Producer Company Ltd (DAPCL, Mewada))

Dyad 3 – Central Himalayan Rural Action Group (CHIRAG) and eight cooperatives in Uttarakhand (the cooperatives will later be federated in either producer or public unlisted company)

Dyad 4 – PRADAN and cooperatives and producer companies it facilitates (Tasar Yarn Production, Broiler Poultry Rearing, and Masuta Producers Company Limited)

An **outlier -** Indian Organic Farmers Producer Company Ltd (IOFPCL) – there is no permanent supporting structure or organization that facilitates development of the company. However, the company was established through essential assistance of the organic certification body (INDOCERT). In addition, in 2006, the company helped establish a non-for-profit organization called Foundation for Organic Agriculture and Rural Development with purpose of sourcing funds and donation grants and provide training and technical assistance to farmers.

Cross-case narratives on the objectives and expected outcomes of the dyadic relationship between the supporting organizations and producer companies are given in the Appendix 6.

Generally, the objectives of the dyads can be described through three broad categories: institution building, creating linkages, and achieving a sustainable standalone producer company. While two first categories are the main foci of the dyads at pre- and post-formation stages of the producer company and can overlap in timing, the third one is seen as a final outcome of cooperation between the supporting organization and producer company.

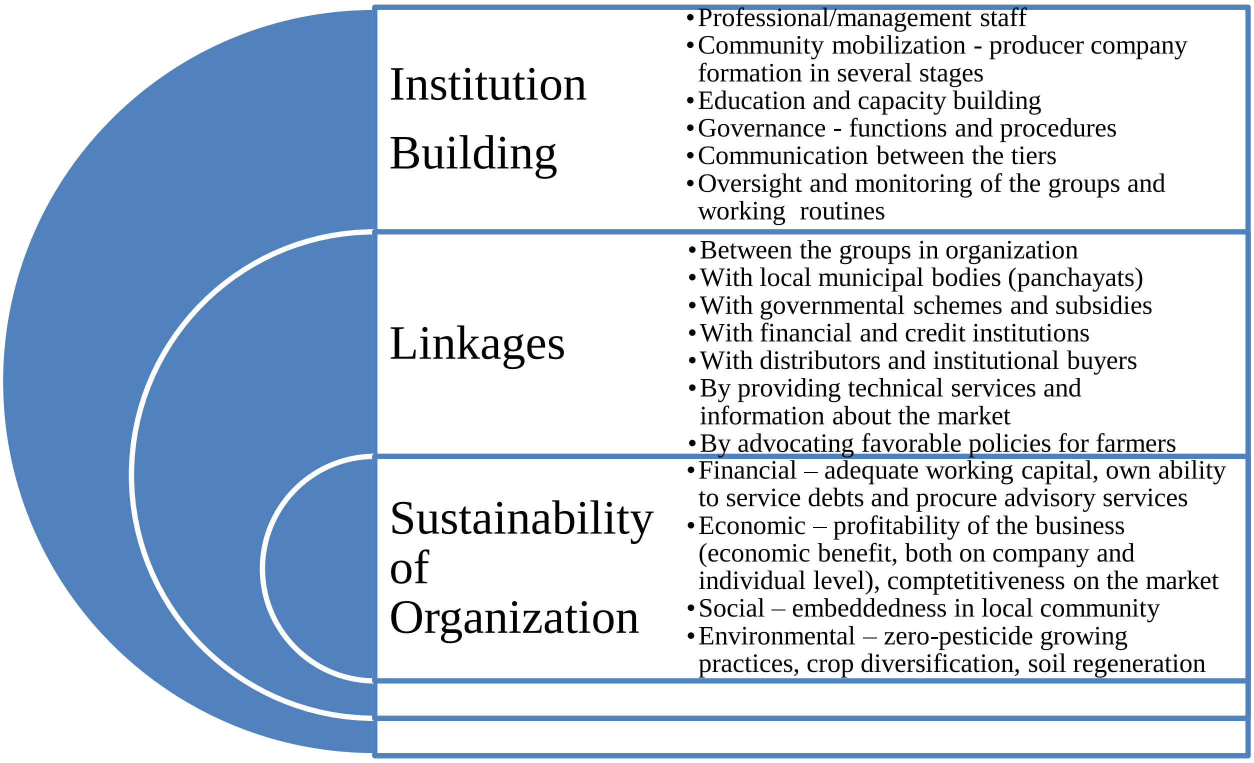


Figure 6. Objectives of the Dyadic Relationship between NGOs and Producer Companies

Lessons from the dyads on institution building:

- Collective action and group approach are a prerequisite for linkages: “Engagement with markets, financial institutions, knowledge resource institutions requires groups” (dyad 4)
- Functioning and aspirations of the groups are not uniform: staff [of the supporting NGO] should have facilitators to tailor services to diversified needs of the groups (dyad 1)
- Dysfunctional groups require extra institutional and financial support: “We need to teach them how to resolve conflicts and build leadership capacity” (dyad 2)
- There is a challenge to avoid concentration of power with few people: “Decisions in producer company should be taken on behalf of cooperative societies through involvement of the farmers” (dyad 2); grassroots level “as the primary building blocks should place demands on the cooperatives and, at the same time, be accountable to the mission statement of the cooperative. … So we are trying to build systems towards that. This is the challenge at the cooperative level.” (dyad 1)
- Building the system in-between the tiers is a balancing act: each institution needs to be financially sustainable (dyad 1)
- In future, services should be provided on a fee basis (all dyads): “dependence on subsidies and grants is not a solution for producer companies and will not necessarily make them self-sustainable in the long run, and any support, such as technical advice,

marketing, company management and institution building, ideally, should be on a fee basis" (dyad 2)

Comments of the dyads on linkages:

- Linkages with National Rural Employment Guarantee (NREG) scheme: dyads 1-2 and IOFPCL find it problematic to link farmers to NREG, since most of the funds under the scheme are directed outside of the agricultural sector, for example, on infrastructure development; dyads are involved in policy advocacy on this issue;
- Linkages with credit and financial institutions: at early stages, when producer company cannot access institutional credit, the dyads are focusing on encouraging savings and facilitating credit linkages at the grassroots level (SHGs), and, provided these linkages are successful, the producer company can borrow capital from these groups (dyad 2);
- Linkages with institutional buyers: long-term relationship with select institutional buyers requires certain flexibility and concessions in negotiating prices and contractual terms, in particular, for futures contracts, and, in some years, the prices on the market exceed the prices negotiated under long-term contracts with buyers. This leads to side-selling of the produce by the member farmers, which is problematic for producer company since it undermines its supplier base (dyad 1). There is a recognized need to expand market linkages to strengthen bargaining position of the company (dyad 1, IOFPCL).

Reflections of the dyads on organizational sustainability:

- Choice of institutional format: all of the dyads indicated that they have chosen a producer company model because it combined business purpose with mutual assistance principles and farmers' ownership, and also represented an alternative organizational and legal form to the discredited form of cooperatives. The choice of the format is normally made by the supporting organization, while the farmers accept and trust that this solution is good for them. Many of the supporting organizations are reflexive on the issue if this choice is ultimately the best available option for the farmers with small marketable surplus.

"The reality of the matter is that not farmers we work with decided one day that they wanted to create their own institution, they came to us and we're doing this. That is not the truth. The truth is that we thought it's going to be good for them and we're going out and doing that. So, in all honesty, before we consult them. Because they're saying, "If you say it's a good idea we trust you."" (dyad 3)

"If you ask the farmer about the contract farming and say, I guarantee you a price and I buy all your produce, most farmers we work with would say "yes". If our ideology is limiting people's choices, then we actually do a disservice to them." (dyad 3)

- Choice of business model: to a certain extent, this is a choice of slow growth versus fast growth strategy that depends on the ambition of supporting organization vis-à-vis producer company. The fast growth strategy (dyad 1 and 3) is when the company is designed to actively engage in value addition through processing of the produce from its initial stage and, hence, requires significant capital investments for leasing in or purchasing processing facilities. Producer company format has its limitations for this strategy, since its working capital is limited by the equity shareholding of its members. This strategy requires supporting organizations to raise significant funds or chose an alternative company format that would allow attracting equity investments (public unlisted company, dyad 3). In contrast, slow growth strategy anticipates much lower ambition from the beginning, for example, collective procurement of inputs and consumer goods, organized community exchange, and primary sorting, grading and packaging with its own labor force (dyad 2). However, if the company decides to expand its activities in the future, it will face similar issues of capital constraint. On another note, slow growth strategy may potentially allow supporting organization to spend more time focusing on institution building and farmers' education. The choice of the business model is a dilemma for supporting organizations.

"One of the things we're trying to do and the producer company will try to do is value addition, which means that capital costs of setting up a factory are very high. We need capital and, subsequently, will have to take debt to set up a fruit processing unit. .. The cost of servicing debt is very high. The pressure on the enterprise from the day one becomes very high because the debt is very expensive. .. Thus, in the process of creating institution that producers own [producer company], are we, in some sense, locking them up to a smaller scale?" (dyad 3)

- Ownership versus sustainable rising income: both cooperatives and producer companies help small farmers achieve economies of scale by pooling their produce and collectively selling it on the market. Institutional buyers, for example retail chains, also prefer to negotiate with groups rather than with individual farmers. However, the issue is that ownership of their own enterprise requires farmers to become entrepreneurs and take on all the respective risks, in particular the risks of matching quality and quantity expectations of institutional buyers, due delivery times, fluctuating market prices, etc. Setting up a producer company requires significant initial investments and may not bring immediate benefits. The question is whether all the small producers really want to become entrepreneurs:

"Leave aside capital issue, there are two other concerns [with producer company]: 1) what is the most important for producers/farmers, to own the institution or to manage it? They might want to own it, they need not want to manage it; 2) more than ownership, the producers want sustained incomes guaranteed and a constant improvement of that. If they had to choose over sustained incomes over time and owning their own institution that would actually work at sub-optimal level, they would still go for sustained incomes." (dyad 3)

- Governance deficit and existing social structures: all the dyads admit that they have to work with and, to certain degree, adapt to existing social structures in places of their interventions. In many cases, the approach to group formation consists in revitalization of existing structures, rather than forming new ones (dyad 2). However, by creating new cooperatives, the dyads are trying to use the past experience of the institutions that discredited themselves by filling the organization with a new spirit of mutual assistance and freedom of political interference, which requires creating new group processes and building internal trust and confidence. Traditionally, it is male heads of households who become members in the cooperatives. However, it's very common that households delegate women to take part in the SHG meetings. There is a recognition among the supporting organizations that membership in cooperatives and producer company is, to a certain extent, driven by the traditional patterns of social exclusion existing in the villages where group formation takes place.

“There is a problem of governance deficit – you cannot do away with it. Tribal societies and dalits have been poor for the last 5,000 years. There is a variety of society mechanisms. We have to look at the next generations. They will bridge capability, asymmetry of information, aspirations, imagining what is possible. PRADAN has formed managerial separation, architecture of associated tiers. This is a part of coordinated system. But there is a generational issue.” (dyad 4)

- Feasibility of collectivization in today’s context: this issue essentially goes down to the question if farmers’ owned institutions are able to compete with private businesses in value chains, considering the low level of education and, generally, low asset base among the farmers and the large number of market forces that create competition.

“When you’re isolated in a village you’ll never get other competitive service providers. Today private companies are coming in and providing service, so you have a real competition. They have their own problem of bringing people together, there is a cost to collectivization. The cost of collectivization has to be met from the benefits of collectivization. So the real challenge is this: what is the logic around which people will come and why they should remain together? The business model is the challenge.” (dyad 4)

- Avoiding overloading the company with too many objectives: there are certain social commitments that supporting organizations undertake in parallel with establishing producer company, such as supporting local schools and/or hospitals, providing education for the adults, organizing small pilot projects that require collective action such as managing a collective well, nursery, etc. These activities are a part of livelihood approach and associated with strengthening local communities and assisting institution building for producer company. However, not all of them are to be handed over to producer company when it becomes self-sustainable, since this may outweigh a business purpose of organization. These activities will require long-term support from NGOs outside of the scope of producer company.

- Influence on decision making of the company: in the same way as the decision on organizational format is initially taken by the supporting organization, the latter becomes naturally involved in decision making in and around producer company, through professional staff it attracts and procedures it develops. To create producer company from scratch and to avoid having excessive influence on decision making by the farmer members is a delicate balancing act.

“… promoter has to be very careful in how he engages with these organizations and, what is often seen, they are run as a subsidiary of the organization. So, obviously, you can never evolve into a producer organization. Whether it is a cooperative or a producer company, it doesn’t matter. And it is not because of intention. Poor people have poor access to capital and knowledge systems, and have poor access in their ability to organize themselves. So when you work exclusively with poor people, they have a constraint in their ability for themselves to organize, they have no experience of doing that. So they need external person to seed that, but this fellow comes with the baggage. So there is a huge amount of information and capability asymmetry. Because of that asymmetry, what happens is that he occupies extra institutional space and starts influencing decisions and the governance. It's extra constitutional. So this is the real problem." (dyad 4)

- Exit of supporting organization: this is a major concern of all the dyads, since none of the supporting organizations has been able to step back from the producer company(-ies) it has facilitated. Most of the dyads are currently covering a significant part of direct and operational costs of the producer companies. However, the goal is that the company should be able to cover these costs from its profits in the future. The dyads visualize somewhat similar exit strategies that anticipate a continued presence of supporting organization at the side of producer company and ad-hoc assistance on a paid basis in the future. Dyad 1 calls this a "transition into mentoring agency for producer company". Dyad 2 anticipates handing over the small producer assistance resource centers that it's currently funding to the balance of producer company in the future.

"If you can't see economy of scale building in and being able to break even over time, you should shut it [producer company] down, you can't subsidize it for life as that defeats the purpose. That doesn't make sense setting up an enterprise if it doesn't stay on its feet." (dyad 3)

IOFPCL as a standalone producer company

IOFPCL, in contrast to producer companies in dyadic relationship with supporting organizations, has not received a similar assistance in institution and capacity building at its pre- and post-formation stages.

"This company was not promoted by the outsider. We're all part of this group initiated by the farmers who wanted to grow more organic products." (IOFPCL)

On the issue of mixed membership of small and large farmers, IOFPCL, unlike dyads, didn't voice similar concerns of possible excessive influence of large farmers. On the contrary, it referred to it as "productive symbiosis". This may also be one of the reasons why the whole existence of the company became possible. The Company Directors are highly educated larger farmers and some of them have received their degrees abroad. One of the Directors provided his property as collateral security to get loan from the bank for the company's needs. From the operational perspective, despite that small and large farmers face different challenges (for example, the former – shortage of liquidity, the latter – shortage of labor), according to the Company Directors, they cooperate well together when it comes to collection and marketing of the produce.

In 2006, IOFPCL helped establish the Foundation for Organic Agriculture and Rural Development registered under Section 25 of the Companies Act 1956 as a not-for-profit organization, due to a perceived need to strengthen farmers' organizational and technical capacity and provide educational programs. The argumentation for this was the following:

"There are certain commercial and business activities you can do as a company and we cannot go beyond that. For example, we cannot source funds, donations or grants. Funds cannot be easily sourced by a corporate. We realized that we need another platform which can receive this kind of support or funds, which can channel some of the activity like capacity building that company cannot really do, spending limited money company has. So, I think, for any successful functioning of a producer company, it is good that there is a supportive NGO which can do a lot of supporting activities." (IOFPCL)

Common challenges with producer company model across all cases

Overall, many of the interventions of supporting organizations with small farmer groups in different states started from soil regeneration and improving the quality of inputs (seeds, fertilizers), non-pesticide pest control and crop diversification, with an overall aim to enhance productivity. However, higher productivity without farmers' ability to access markets for tradable surplus of their produce could not be an end aim in itself. The form of producer company, after it was stipulated by law, was regarded as an appropriate value addition and marketing arm for small producer groups. A number of common challenges were identified with producer company across the cases:

- Lack of working capital: since only primary producers can be equity shareholders, access to finance is problematic. Bank credit can be obtained only after three years of successful operation of the company. Hence, there is a related issue of dependency on supporting organization for funds and services. However, "dependency on subsidies is not an answer to the problems, services [procured by the producer company] should be on a paid basis, even if it's a nominal amount" (Dyad 2-3). The company also has a limited ability to make payments to small and marginal farmers at the time of produce collection, which depends on the company's success with concluding pre-finance contracts with buyer (Dyad 1-2-3, IOFPCL);
- A model built by the principle of "matryoshka doll": as a multi-tiered, apex level organization, the producer company depends on grassroots level farmers' institutions for successful set-up and operation, and there is a necessity for each of these institutions to be economically and socially sustainable. This requires a lot of institution building efforts, as well as the financial and skill infusion, from the pre-formation stage of a producer company;
- Gap in training and capacity building: this challenge includes at least two aspects – entrepreneurial and technical. 1) in order to exercise the opportunity of producer company, the farmers need to be ready and educated to become entrepreneurs and business owners, which means that they need to understand, accept and share the objectives of the producer company, its structure, operational procedures and business strategy; 2) farmers need to be prepared to work according to the two overarching goals of the producer companies, in particular i) to raise productivity and diversify crops, and ii) to establish market linkages with institutional buyers. If the last task can potentially be delegated to professionals, the success with first task requires substantial technical advice and extension services, in addition to farmers' willingness to take risks connected with adoption of new practices, switching crops or turning to organic processes and bear related costs;

- Lack of time for evolution of all constituents of institutional structure: according to the theory, it takes up to 4,5 years for new self-help groups and primary cooperatives to form, stabilize and become functional institutions ready to be federated into an apex level organization at the next stage (Fernandez 1995:8-10), where members have the ownership of organization and are informed about its objectives. In reality, all these stages in institution building (formation, stabilization and withdrawal) are often squeezed in time, and the next level of institutional structure is created almost at the same time as a grassroots level (Dyad 1-2-3);
- For organic crop production – certification costs and establishment of internal control systems are a major challenge because of the costs and risks entailed and the resources needed to introduce technical support and monitoring; non-pesticide brands are considered as a cheaper and more appropriate alternative for domestic markets;
- Marketing of diverse crops: all of the dyads and IOFPCL recognize that there is a challenge to market various crops produced by the farmer members with a same degree of success, which leads to dissatisfaction of the farmers and eventual drop-outs; there is also an issue of dependency for marketing on a few select buyers with whom a producer company tries to build long-term relationships, while in parallel looking for alternative channels to market the produce; dependency on a few select buyers puts the company in a weak position in terms of negotiating prices, volumes and delivery terms;
- Development of own brand, similarly to organic certification, is a major undertaking, both for domestic and international markets, that requires a special mechanism in place that guarantees the quality of inputs and uniform production and handling processes. According to Gulati et al (2005:29), performing this market function requires … a form of governance that translates the discipline of the market into *enforceable incentives* for compliance with norms;
- Democratic governance challenges – systems preventing excessive influence of large farmers (Dyad 1-2, IOFPCL), election and rotation of leaders, ownership and control by the members, informed decision making;
- Difficulty to attract talent – this challenge is related to the limited working capital. In case of dyads, staff costs are covered by the supporting organization;
- Dependency on supporting organization - from an NGO perspective, there is a challenge of establishing a supporting structure for the producer company to become self-reliant, both economically and skill-wise, without creating a dependency relationship and with a clear strategy to withdraw when specific criteria are met. From a farmer's perspective, a supporting NGO may be occupying extra institutional space by taking over the functions and responsibilities of producer organization and creating safety nets around it.

Discussion of the Cases Against the WB's Empowerment Framework

Element 1 (Access to Information)

All of the studied producer organizations emphasized the problem of access to market information and technical know-how by the small farmers. The farmers often get the information on prices and technical aspects of cultivation from local traders or seed providers and there is a huge power and information asymmetry between them.

"We try to deliver a real package how to cultivate crops – farmers lack that capacity. Currently, they are getting this information from seed providers who are not very competent. Also, there's a lot of cheating on costs and exploitation." (Dyad 2)

One of the key priorities of producer companies and supporting organizations are to mitigate this information asymmetry through brokerage on the market and linkages with private and public sector. The companies usually hire a professional staff to work on the marketing strategy and market analysis. There is also a gap in scope of extension services and technical advice provided by the governmental bodies, and producer companies try to fill in this gap by taking up these functions. In two of the cases (Dyad 1 and IOFPCL), the companies have adopted organic practices and introduced internal control systems for organic certification, which required substantial training and on-going operational support for the farmers. However, both companies are facing the problem of farmers dropping organic practices, even though they are aware of their long-term benefits and get technical training, due to the need of substantial initial investments and marketing risks. Here comes the dilemma of whether the farmers should be immediately expelled from the program and respective farmer groups or allowed to stay and get extra support, with possibility to convert to organic farming later. Dyad 1 has adopted a strategy whereby 30% of the total farmers are saturated with all the recommended organic practices by focusing training of the selected farmers intensively and facilitating the mobilization of required resources from diverse sources. Assumption is that the results gained by the 30% of the farmers would influence the rest 70% of the farmers and give the opportunity to concentrate on them in subsequent years (Chetna Annual Report 2010:19).

As part of institution building efforts, dyads 1 and 2 organize exposure visits for farmer leaders to successful cooperatives in other states. Such visits have a double purpose: first, to show case the successful examples of similar organizations to the farmers and, second, to connect the farmer organizations across states.

The producer company is multi-tiered organization and each tier has its own specific functions, also in terms of circulation of information, for example, SHGs are regarded as a forum for farmers to meet and discuss their immediate problems, while cooperatives extend their scope to marketing and technical support linkages and producer company gets engaged in negotiations with institutional buyers and has a coordination role over all constituent institutions. Although not all of the information is relevant for all the tiers, producer company needs to make sure that information is not concentrated on the upper level of organization or only among certain functions/staff. Another issue is that information should be circulated in a relevant form – while professional staff in supporting organization and producer company can handle complex documents, farmers in SHGs may only be receptive to the information presented in oral form. In all the dyads, it was assumed that the governance structure based on representative principle should take care of information exchange.

Element 1 (Networking)

Networking and linkages are found to be another prerogative in the activity of producer company. All four dyads are working to connect farmer groups to the state programs and/or subsidies by informing them thereof and taking them through the whole process of enrollment into the scheme by providing legal and administrative support. The typical linkages facilitated by supporting organizations through producer companies are: linkages to input supply from Department of Agriculture and private companies, linkages to primary processing and value addition, linkages to institutional credit and crop insurance, linkages to national or regional schemes and subsidies, and linkages between farmer groups for collective management of communal resources (e.g. wells or irrigation systems).

All of the dyads and IOFPCL try to link farmers with the National Rural Employment Guarantee (NREG) scheme for various projects that require on-farm and off-farm labor. Under the scheme, a poor farmer can get 100 days of guaranteed employment per year, with a minimum wage of INR 100-120 per day.

“The state government asks the village panchayats to develop projects, including a business plan and a budget, to which the NREG scheme will be subsequently linked. CHIRAG’s role in this process is to facilitate development of such projects and create non-farm job opportunities. So we’re trying to train people on how to make these project plans and budgets” (Dyad 3)

IOFPCL gives an example of how a group approach allows to connect farmers to another government scheme: “In the last three years, Kerala government has been providing grants to farmer groups that partly cover organic certification costs, and this has allowed IOFPCL as a grant recipient to reduce certification fee for its farmer members from INR 300 to INR 150 per acre.”

A typical credit linkage strategy was described by dyad 2 as the one including several stages: assessing credit demands through farmer group and cluster meetings, organizing a combined meeting with NABARD[1], banks and partner NGOs, following up with farmers to aggregate information, having approval meeting between farmers and banks facilitated by supporting organization (ACCESS), and overseeing effective utilization of the credit by farmers and its repayment (ACCESS 2010c).

As it was emphasized by all the dyads and the IOFPCL, the producer company has a coordinating and networking role in building linkages with other producer organizations, government programs, institutional buyers, etc., thus creating a clout of contacts around the company.

“We have a concept of rural business hub (productivity hub), a collection of several producer companies in one region dealing with different commodities, and these commodities can be aggregated and marketed to the ACCESS company.” (Dyad 2)

Element 2 (Inclusion)

Common features of membership base across the cases	- Low level of literacy and farmer’s education – to a different extent, with Orissa and Kerala at negative and positive extremes respectively - Predominant small size of the landholdings and limited ability to diversify crops - Cycle of debt the farmers are part of - Exploitative relationship with local traders and money lenders - All farmers are members of at least one of the local groups; many of the existing cooperatives are discredited and subject to political interference - The choice between organic and non-organic crops is often subsidies driven - Social structure of exclusion based on caste, tribe, gender - Migration for seasonal work and out of the rural areas - Outflow of young population from agriculture

The research found that all of the producer organizations tend to be exclusive in membership, to various degrees and for various reasons. Overall, the producer company is exclusive by definition as it opens its membership only to primary producers and, in case of agricultural producers, only to those who own land, which significantly narrows down the base of its membership. For example, cultivators who don’t have a formal land title cannot participate in producer company. In many cases, it is the male heads of households that are members of the cooperatives and the producer company

[1] NABARD – National Bank for Agriculture and Rural Development

respectively. However, in dyads 1 and 2, the supporting organization is actively working to involve women into the processes of value addition by creating non-farm opportunities (in grading and packaging) or assisting them in accessing credit and leasing in land (as groups). Dyads 1 and 2 are planning to expand their membership by saturating the existing groups and cooperative societies rather than creating new structures or reaching out to new geographical areas.

	Dyad 1	**Dyad 2**	**Dyad 3**	**Dyad 4**	**IOFPCL**
Membership	- large, small and marginal famers (heads of households), also in tribal communities; - have interventions specifically targeted to women (however, outside the producer company - as a part of COFA strategy towards community development)	- mostly small and marginal farmers from tribal communities (heads of households) - have interventions targeted to women, e.g. by creating non-farm work opportunities	"Our membership is all women and is based on economic assessment, where the bulk of members should be out of the poorest and average, otherwise we won't form the cooperative. So, in some sense, we have a significant number of people with very poor asset base."	Interventions specifically targeted to women, also in tribal communities – in some of the producer companies (Masuta, Tsar Yarn, Poultry)	- large, small and marginal farmers (heads of households) – a "productive symbiosis"

Two out of the four dyads (3-4) in their institution building efforts were targeting specifically women and, in this way, became exclusive for male membership. Dyad 3 commented that women in reality do most of the farming job and deserve to take the benefit of it as entrepreneurs. Another aspect in decision making was that women are considered more reliable partners than men and presumably can better deal with money. CHIRAG has a unique position of embeddedness in the local community and has been working in Uttarakhand for around thirty years, that's why villagers are familiar with the organization and its activity, and such women-oriented approach for creating an institution that will facilitate market linkages is accepted among the villagers/men. Such exclusive approach prevents possible problems with power issues and social norms in respect to women's roles at the level of households. Women cooperatives employ men for non-farm paid jobs (grading and packaging). However, it is not know if potential synergy from mixed membership – small-large farmers, women-men farmers – is lost in such exclusive approach.

Dyad 1,2 and IOFPCL have significantly diverse membership in terms of size of landholding. Dyads 1 and 2 are also working with tribal communities. IOFPCL has a broad diversity among members in terms of crops grown. In all of the cases, the interviewees emphasized on the positive aspects of such diversity. However, the issue of potential excessive influence of larger farmers was raised in dyad 1 and 2. IOFPCL made such comment on the heterogeneity of its membership: “We see this [mixed membership of small and large farmers] as a kind of symbiotic relationship. We work max. on conditions of 50% pre-finance and, in time of need, we ask larger farmers to pay smaller farmers. There is also an issue of quantity, in particular, for exports - small farmers are not able to achieve, while large farmers deliver.” (IOFPCL)

Element 4 (Local Organizational Capacity)

By facilitating development of the producer company, dyads help to connect the grassroots level groups across the communities by federating them into organizations of higher level, for example cooperatives or clusters. Often, farmers’ associations or similar network organizations are formed in parallel. Each tier in the organization is designed to satisfy group needs at that level and enhances potential for the collective action of the poor farmers. Producer company links together both formal and informal farmers’ institutions. Each of these institutions has its place and specific functions at different levels of the structure. For the sake of producer company, it doesn’t make any difference if its constituent institutions are formally registered or not. This is a unique feature of this legal and organizational form. According to dyad 1, formal or informal status of the group doesn’t influence farmers’ cohesion and commitment to the group objectives; it is rather economic benefits and financial commitments that create the sense of responsibility among members, that’s why the farmers in SHGs are encouraged to engage in savings and credit activities. However, there are certain functions that require legal registration of producer groups, such as obtaining licenses, certifications, inter-state trade, exports, contract relations with institutional buyers, etc. Such functions are taken up by the producer company or second-tier formal institutions in its structure.

Another point is that, to be effective, local institutions of the poor have to be socially viable. The members need to be able to work together as a group; they should be able to function in a way where the collective efforts of its members towards the goals of the institution are more than the sum of the individual efforts of its members (Krishnamurthy 1988:2). Dyads 1-2-3 indicated that they were using baseline surveys of farmer households in the areas where they operate to facilitate the formation of the grassroots level groups. Selection of the group members was also based on choices and cooperation practices in the villages. However, there is a concern that, due to the fact that different stages in institution building are often merged, the groups lack time to naturally develop the social cohesion and trust among the members, which is a crucial factor for self-help to succeed.

For all of the dyads, many of the functions performed by the producer company and supporting organization overlap and farmer members are not always able to tell the difference between the two structures. This happens because, in the first years after creation of producer company, the supporting organization occupies the institutional space by providing education and capacity building services and hiring and sharing the professional staff with producer company, for example, for legal and administrative services, marketing, licensing and certification, etc.

As Misra (2008:13) discusses, the multiple tiers and networks … present an opportunity to address varied liquidity needs of different members and groups. While base tier organizations provide small emergency loans, second tiers and linkages bring in larger loans. It is a conundrum. A less tiered system would be more efficient and members feel more like owners due to the potential to centralize governance and reporting. However, it may not be as well positioned to manage linkages. Any simplistic approach to meeting varied needs at different levels may cause disruptions in the system causing it to become ineffective for members.

Differentiation of responsibilities between the three organizational levels of the producer company and supporting organization:

	Organizational form	**Functions**
Tier 1	*Informal* self-help groups (SHGs), common interest groups (CIGs), farmer business groups (FBGs) panchayat groups	- basic needs - immediate advice and support in case of day-to-day problems = self-help - savings and credit activities
Tier 2	*Formal* Cooperatives, trusts, societies (the organizational and legal form depends on the state legislation) *Informal* Business clusters (village level groups)	- Help to aggregate the agricultural supply to be sold through producer company - Primary value addition: grading, sorting, packaging - Sub-licensees for various kinds of certifications (including organic certification) - Monitoring and strengthening the performance of grassroots level groups - Help SHGs to build linkages: disseminate information among the farmers on technical know-how, availability of institutional credit and governmental schemes (through help of supporting organization) - Forming the procurement plans and supply of inputs - Procurement of seeds and inputs for the farmers at discounted rates

Tier 3	*Formal* Producer Company (Companies (Amendment) Act, 2002)	- Marketing arm: as a company, collaborates directly with distributors and retailers to sell the produce - Coordination function in aggregation, transportation and delivery of the produce - Linkages with various institutions, both governmental and private - Governing structure for strategic decision making – Board of Directors - Board members are representatives elected from each cooperative/business cluster - Knowledge and information provision to constituent members (including information on market situation, prices, technical know-how) - Training farmer groups in value addition and collective marketing (together with supporting organization) - Institution building, managing growth and development (together with supporting organization)
Supporting Organization	*Formal* society, charitable trust or Section 25 (Companies Act) not-for-profit company	- Fund raising - Various kinds of interventions targeted at different levels of producer company – institution and capacity building, technical and extension services - Staff sharing with producer company - Policy issues and advocacy for farmers' needs - Coordination role in commodity exchanges between the producer companies (dyad 2)

Element 2 and Element 3 (Participation and Accountability)

"For any institution owned by producers, governance is going to be crucial, that's experience worldwide." (Dyad 3)

There is a number of concerns related to participation and accountability and, hence, the corporate governance of the producer company as multi-tiered organization. Some of these concerns are:

- Effective and democratic participation of members: farmers' ability to influence the decision making through definition of immediate and long-term goals of the company by voicing one's opinion in the group meetings and delegating power by electing representatives to a higher level of organization/Board of Directors;
- Legitimacy of group representatives at all levels: representatives are democratically elected, periodically rotated and represent different member groups in the company (in particular, important for the companies with heterogeneous membership);
- Inter- and intra-group dynamics: how well members cooperate between themselves and decide on the priorities (old-new members, large-small members, different crop growers, etc.);
- Motivation of the leaders: it is a serious commitment on part of the farmers to get involved into the management of the company, which is both time and resource consuming; some of the farmers combine several functions on different levels of the company structure (SHG leaders – cooperative leaders, or cooperative leaders – company Directors); in none of the cases, Directors are remunerated for their service;
- Decentralization vs efficiency: How does the company both develop and maintain decentralized system of governance and remain effective in decision making? How to prevent asymmetries in terms of information and decision making power within the company and who should govern this process?
- Accountability of the management: relations between the Board of Directors and professional staff/staff of supporting organizations, considering the possible gaps in education and experience. Are the Directors actually able to guide and set priorities for the staff by voicing farmers' opinions at the bottom of the membership ladder?

All of these questions deserve a separate in-depth research on the corporate governance of the producer companies, which was not the focus of this study. In many ways, one can draw the parallels in the global experience with corporate governance challenges for cooperatives and corporate governance issues for producer company. For example, there is a pressing need to address the corruption problem that arises from having board of directors performing functions on a voluntary basis. But even if the work of directors continues on a voluntary basis, the co-operative [or producer company] annual report should specify the benefits and entitlements that they receive in compensation. The point is to promote transparency and not whether services should be voluntary or under a remuneration policy (Corporate Governance and Co-operatives 2007:14).

The research found that the governance structures were more streamlined in case of the dyads, compared to the standalone producer company (IOFPCL) that hasn't received external support in institution building. This reflected in the uniformity and symmetrical character of company structure, equal representation of all groups on the Board of Directors of the cooperatives and producer company, group approach in institution building (supposed to prevent the influence of the larger individual farmers). All of the dyads had institution building experts and were working on improving the company's governance structure, in terms of group representation and leaders' rotation.

Governance Structure	**Dyad 1 (CHETNA)**	**Dyad 2 (ACCESS)**	**IOFPCL**
Membership	institutional	institutional	Mixed individual and institutional
Voting Rights	Based on the volumes of business institutional members have with the company (patronage)	One member – one vote	One member – one vote
Company structure	3-tier = informal (SHG) + formal (cooperative) + formal (producer company)	3 tier = informal (FBG) + informal (cluster) + formal (producer company)	Multi-tiered for institutional members, one-tiered for individual members (larger farmers)
Board of Directors	- Specified term of service, election by general body - Each of the Directors represent one cooperative + 1 expert Director - Compensated for travel days	- Specified term of service, election by general body - Each of the Directors represent one village + 2 expert Directors - Compensated for exceptional individual efforts	- Specified term of service, election by general body - Each of the Directors represent six cooperatives and six different areas respectively (one institutional member has a dormant membership and is not represented on the Board of Directors) - Completely voluntary service

Succession planning can be anticipated as a big issue for producer companies in the future. It is important to have stipulations on the period of service and democratic election of the Directors in Articles of Association. However, even more important is to have actual procedures that would facilitate leadership development and rotation of the group leaders at all levels. It takes leadership to examine systems that place limits on terms in office so that you institutionalize the need to seek new talent and stop the perpetuation of entrenched elites. The basic lesson about succession reveals that elites recruit peers, and thus shut out younger generations from succession planning (Corporate Governance and Co-operatives 2007:15).

There is an awareness among the dyads that corporate governance is an important issue in development of producer company. Dyad 2 indicated that it had a special program of "conveyor rotation" for the Directors of the company (every three years one third of the Directors should be rotated) and is working on the specialized training program targeted to development and improving leadership skills among group leaders and farmer members. Dyad 1 had guiding principles differentiating the roles of the Management Committee and the Board of Directors.

DISCUSSION AND CONCLUSIONS

Dyadic Relationship with Supporting Organization

The research aimed to enquire into objectives and outcomes of the dyadic relationship between the supporting organizations and producer companies. The research was motivated by the interest in how the decisions about formation of the producer company and choice of the business model are made, considering the low techno-managerial capacity of the small farmers.

The research revealed that supporting organizations work at least against three fronts while establishing the producer company – institution building, creating linkages and organizational sustainability. The decision to establish the producer company as well as the choice of business model in case of the dyads is a prerogative of supporting organizations. This is normally done following the community development projects and baseline surveys of the farmer population in respective areas. The supporting organization, by sourcing funds and designing the intervention, undertakes a huge responsibility for the outcomes of establishing a producer company and one of the main concerns is that the created company should be able to **break even** with supporting organization at certain point of time. This means that the company is expected to become fully economically, financially and socially sustainable and be able to function as a standalone entity. All of the dyads are aware of the issue of **dependency** they are creating for producer company by **occupying extra institutional space**, creating safety nets around the company and potentially **influencing decision making** of the farmers.

It is the complexity and resource intensity of producer company format for the small and marginal farmers and its multi-tier structure that **necessitate a supporting organization** as an external agent able to stimulate changes in local communities. Alternatively, as in the case of IOFPCL, it is a **symbiotic relationship of large and small farmers** that allows initiating similar changes internally. In this case, there is a challenge that larger farmers will naturally take over the responsibility and decision making power in the company, which may benefit the small farmers economically but will not necessarily lead to their empowerment, for example, through access to information, participation in decision making, holding the group leaders accountable and organizational capacity. However, there's no doubt that, even in this case, the producer company represents a less exploitative alternative to the traditional market agents such as local traders.

One of the voiced concerns of the dyads was that **choice of company format and business model** should not limit farmers' options, in particular in economic sense. However, the working capital constraint, at least at the initial stages, may lock the producer company and its member farmers into a smaller scale, preventing the company from engagement in value addition. Alternatively, the other formats (e.g. public unlisted company), if chosen, raise concerns with regard to ownership and control by the farmers and require even more oversight from supporting organizations, in particular, towards interaction between farmers and external equity investors.

Unlocking the growth potential of producer company by inviting equity investors or sourcing the donor funds for capital investments in value addition through supporting organization may present significant challenges for capacity building of the farmers. For example, fast growth requires development of respective techno-managerial skills among the farmers in a short amount of time. Farmers' skills, none the least, should include the ability to assess and choose service providers, as well as operational planning and management of processing facilities. Alternatively, management and professional skills can be fully outsourced. However, this may raise similar issues of farmers' understanding and control over company tactics. The supporting organization will have to take extra efforts to represent and advocate for farmers' interests vis-à-vis company management.

With this in mind, the supporting organizations have to work in conditions of governance deficit – or lack of ability to hold the decision makers accountable – and existing structures of social relations on the ground. These structures, generally, do not run against the objectives of the producer company but may influence its membership strategy and approaches to capacity building. Changing the structures to allow for more equitable representation in producer company (for example, women or landless cultivators) may also depend on existing enabling environment on the state and national levels and require significant shifts in policy making, outside of the scope of producer company (for example, land reform). Supporting organizations often network with other advocacy organizations to engage in policy advocacy for the farmers and facilitate linkages. However, a significant achievement of producer companies working in dyads with supporting organizations in strengthening local organizational capacity is that they create the platform for debates and deliberation in farming communities, with more complex issues handled at each higher level of organization and governance structure built on the basis of representation principles.

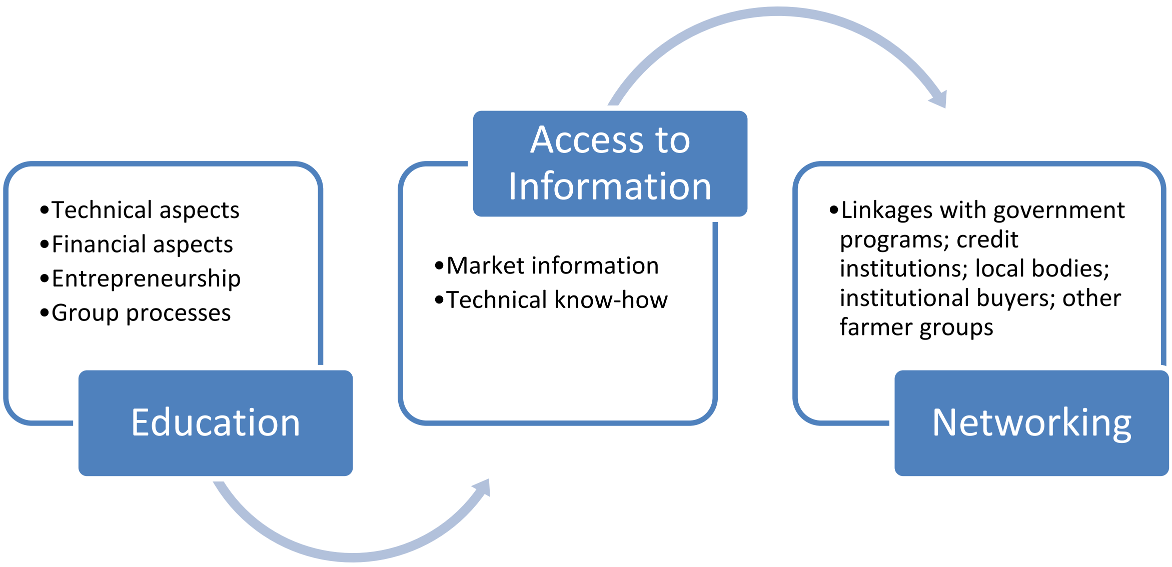
A few issues that require further attention of supporting organizations working in dyads with producer companies are:

- **Internal conflict resolution system**: since there is a general recognition that "there always will be unhappy farmers" (dyad 2) and many companies have significantly heterogeneous membership, there must be an explicit internal unbiased system of dispute resolution among the farmers;
- **Transparency on the director remuneration**: it should be clear how the Directors and farmer leaders are rewarded for their activity, even if they are rewarded on an ad-hoc basis;
- **Leadership development program**: a functioning system should be developed and institutionalized to uncover leaders and support their development;
- **Rotation of leadership**: provisions in the Articles of Association should be complemented by the actual succession planning for the directorship;
- **Participatory trainings and management**: train-the-trainer approach should be adopted as widely as possible, if supporting organizations plan to hand over the training function to the farmers in the future (internalize it to producer company);
- **Undistorted market signal to individual members**: direct and operational costs should, with time, be transferred to the balance of producer company, as well as the marketing risks should stay with the farmers and not with supporting organizations;
- **Ability to choose service providers on part of the farmers**: farmer should be taught and given the ability to choose service providers in the future, even if this will imply not sticking to the services provided or brought in by supporting organizations.

Feedback for Theoretical Framework

The idea with this thesis was not to evaluate the producer company against the WB's Empowerment Framework but rather to frame the discussion according to its elements. Therefore, the thesis didn't aim to answer the question if the farmers who become members of the producer company are more empowered than those who don't. The study had an exploratory nature and the framework was applied to discuss the main objectives of the producer company in tandem with supporting organization at pre-formation and post-formation stages. This allowed seeing which elements of the framework can help better describe the challenges the companies are working with towards farmers' empowerment and why this is important for small farmers.

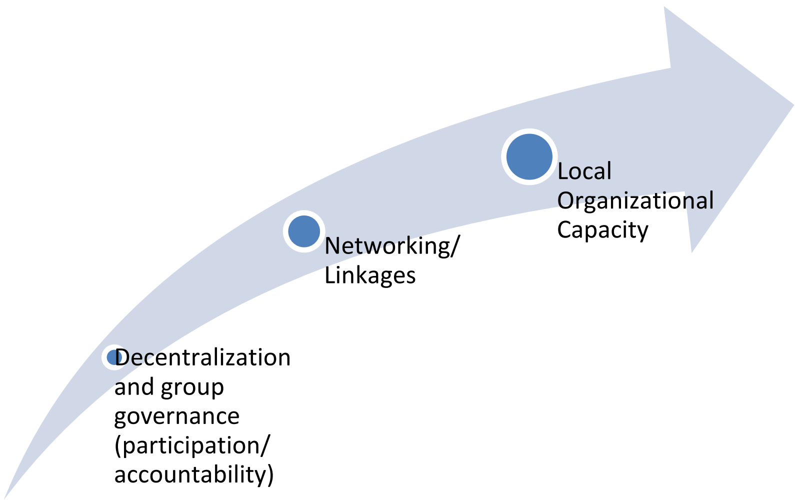
Some elements of the framework were reworked – split into two components or grouped together. For example, the element 1 – access to information was divided in two sub-components – access to information and networking (linkages). Two of them, though mutually reinforcing and overlapping, deserve a separate discussion and evaluation. Linkages with external agents or programs will supplement access to information. Access to information can be a discreet service the producer company procures for its members, while linkages can be seen as long-term commitment to cooperate between the producer company or its constituent members and external agents. Both access to information and networking are part of farmers' capacity building and education.



Element 2 was also divided into two sub-components – inclusion and participation, since the first one is related to membership strategy of producer companies and the second one – to organizational capacity and governance.

Despite that review of the literature on producer organizations reveals that all of them tend to be exclusive in membership compared to some of the other community based organizations, the element 2 – social inclusion is still relevant since it allows discussing different membership strategies of producer companies. The research revealed that the producer companies tend to be exclusive to different extent and for different reasons. Some of the dyads had a strategy of deliberate exclusion of male (3 and 4) or larger farmer (3) members from their interventions, while others were focusing on predominantly small farmers in tribal communities (1 and 2). Each of the organizations had its own argumentation for membership strategy. In many cases, deliberate exclusion of certain population groups, despite them being also involved in production, was seen as a way to prevent excessive influence of those who, given the existing social structures, are more powerful in local communities. Such approach was considered to be more empowering for those disadvantaged. However, further research is needed on the issues how such selective strategies in membership influence the abilities of those farmers included in producer company to engage in decision making process or access new options to dispose of their assets, as well as their own perception of themselves in the community.

Local organizational capacity (element 4) was discussed through the prism of the producer company as an apex level producer organization. For all the dyads, institution building started from the grassroots through facilitating formation of the farmers' groups and federating them into cooperatives or clusters. Along with introducing the group processes and instituting governance between different tiers in producer company, the dyads undertake oversight and monitoring of the group functioning by deploying special staff. However, the goal is to create the conditions for the grassroots groups to address their own immediate concerns independently and build up self-confidence. The staff of supporting organizations aims to undercover the factors motivating or de-motivating the participation. Thus, element 4 – organizational capacity is closely related to element 2 – participation and element 3 – accountability. All the dyads anticipate building the governance structure whereby the grassroots level groups put pressure on the cooperatives to fulfill their needs and at the same time are accountable to mission statement of the cooperatives. The cooperatives, in their turn, should do the same for producer company. The structure is built on the principles of representative power. The bottom levels should delegate their power to the higher levels and hold them accountable for their actions, while the exchange of information should flow in both directions. Supporting organization has a coordination function and creates linkages between farmer groups at different levels of producer company structure, in this way element 4 is also connected to element 1 (networking/linkages).



Overall, the WB' Empowerment Framework appeared to be at least one size too small for producer companies, as it doesn't allow to discuss the business aspects of the company and options it offers to the small farmers as a business agent. Some of the aspects in this area can be discussed through access to information, linkages and organizational capacity. However, if one would aim to compare the standing of the farmers who become members of producer company with those who do not, one would also have to look at the business processes the farmers are subject to in different phases of their production activity and how respective business decisions and farmers' incomes are influenced by membership in producer organization, as well as what kinds of risks new business choices entail. So, the question is: even if all the elements of the WB's Empowerment Framework are met will the farmers necessarily stick to producer company? The element of individual economic benefit sustained over time is lacking here and it is uncertain if the farmer would choose owning a company over stable and/or rising income, considering other options available (contract farming). Collective action obviously helps member farmers save on procurement of inputs/technical services, establish linkages for credit and governmental schemes, and deal with institutional buyers. However, the output marketing remains a challenge for all of the producer companies in this research, which is one of the reasons for farmers' drop outs or side-selling to local traders, despite all the other obvious benefits of the producer company structure.

Need for Further Research

The experience of producer companies in India is relatively young, and very few of the companies were actually able to evolve into independent self-sustainable business entities. Further in-depth research is needed on several aspects of producer company now and in the future, when some of the producer companies reach their maturity. Below are some of the possible avenues for such research:

- Membership strategies: how selective membership affects the standing of certain population groups in local communities and affects their well-being; a comparative study of two producer companies with different membership strategies could reveal how this influences internal inter- and intra-group dynamics and company governance, and what link this potentially has with economic performance of the company;
- Corporate governance: procedures that regulate inter-group dynamics, rotation of leaders, exchange of information, separation of functions (between directors and management);
- Economic benefits for the small farmers: how farmer members of producer company compare to farmers trading outside of the company or involved in contract farming;
- Producer company form in comparison to other forms: how producer company performs compared to other producer organizations, for example cooperatives or public unlisted companies with similar membership and similar produce;
- Organic vs. conventional farming: comparative study of producer companies that assist farmers in transition to organic farming practices and introduce organic certification and producer companies involved with conventional farming;
- Linkages and network governance: a detailed study is needed on how producer companies work on creating linkages with various institutions and actors in the value chain, and what are the outcomes of such governance.

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APPENDIX 1. LIST OF INTERVIEWEES

Date	Name	Organization	Position	Contact Info
3-Feb	Ashok Gulati	International Food Policy Research Institute (IFPRI)	Senior Management Team, IFPRI-New Delhi	Tel. 9871030553 (M) (Ruchi, secretary) 25846565 a.gulati@cgiar.org
8-Feb	Aditya Batra	Centre for Science and Environment (CSE)	Coordinator, Education and Training	Tel. 9810825775 (M) aditya@cseindia.org
8-Feb	Richard Malrapatra	Centre for Science and Environment (CSE)	Reporter	richard@cseindia.org
8-Feb	Chandra Bhushan	Centre for Science and Environment (CSE)	Deputy Director General	Tel. 91-11-29955124, 29956110, 29956394 Email: chandra@cseindia.org
9-Feb	Devinder Sharma	Journalist, activist		Tel.: +91 (11) 5250494 e-mail: dsharma@ndf.vsnl.net.in
9-Feb	Inder Abrol	Centre for Advancement of Sustainable Agriculture (CASA)	Director	+91-1125848188 e-mail: iabrol@gmail.com
10-Feb	Dharmendra Kumar	India FDI Watch	Director	9871179084 (M) e-mail: dkfordignity@yahoo.co.uk
10-Feb	S Baskar Reddy	Federation of Indian Chambers of Commerce and Industry (FICCI)	Joint Director, Head Agriculture Water & Rural Development	Phone : 011- 23753124 (D), 9899599455 (M) /23738760-70 (Extn 407 & 488) Email: baskar@ficci.com
10-Feb	Romit Sen	Federation of Indian Chambers of Commerce and Industry (FICCI)	Senior Assistant Director, Agriculture, Water and Rural Development	9871961575 (M) Email: romit.sen@ficci.com
14-Feb	P. Chengal Reddy	Federation of Farmers Associations in Andhra Pradesh	Chairman/ Secretary General	Ph: 91-40-23319643 (Hyd), 91-11-24505048 (Delhi) Email: chengal.p@gmail.com , cifa@indianfarmers.org
14-Feb	Pravhakar Reddy	Federation of Farmers	Assistant Secretary	9866399706 (M)

		Associations in Andhra Pradesh	General	
14-Feb	P.K. Joshi	National Academy of Agricultural Research Management	Director	Tel: 91-40-24015070, 24015654 email: pkjoshi@naarm.ernet.in
15/16 Feb	Field trip to Karimnagar with Chetna Organic			
16-Feb	Mrunal Lahankar	Chetna Organic Farmers Association (COFA)	Program Officer (Monitoring and Research)	Tel.: +919966321169 (M), 04064639944 Email: mrunal@chetnaorganic.org.in mrunal@gmail.com
18- Feb	Arun Ambatipudi	Chetna Organic	Executive Director	Tel. 9959300330 arun@chetnaorganic.org.in
18-Feb	G V Ramanjaneyulu	Center for Sustainable Agriculture	Lead in Hyderabad	9000699702 email: ramoo.csa@gmail.com
22-Feb	Ashutosh P. Deshpande	Chetna Organic Agriculture Producer Company (COAPC)	CEO	9985157794 Email: ashutosh@chetnaorganic.org.in
23-Feb	G.S. Rao	Chetna Organic Agriculture Producer Company (COAPC)	State Coordinator in Orissa	9937092494 9437092494 Email: gsrao26@gmail.com gsrao@chetnaorganic.org.in
24-Feb	Rao + cooperative mgt focus group	Chetna Organic in Orissa		
25-26 Feb	Birendra & cooperative members & ginning unit	Chetna Organic in Orissa	Field trips	
28-Feb	Rama Krishna	Chetna Organic Farmers Association in Hyderabad	Director - Programmes	9701110175 (M) Email: rkrishnay@gmail.com
28-Feb	Mrunal Lahankar	Chetna Organic in Hyderabad	Certification	
1-Mar	Samata Valluri	Chetna	Institution	Tel. +919492034920

		Organic in Hyderabad	Building Officer	Email: samatha@chetnaorganic.org.in samvalluri@yahoo.co.in
10-Mar	Shiney Mathew	Indian Organic Farmers Producer Company Limited (IOFPCL)	CEO	9447046353 (M) Email: shiney@iofpcl.com
11-Mar	Mathew Sebastian	INDOCERT (organic certification)	Executive Director	91484-2630908, 2620943 Email: mathew.sebastian@indocert.org
11-Mar	Directors (5, incl. Chairman)	IOFPCL		*contacts listed separately*
	Dr. Fr. Peringarapallil Varghese Joseph	IOFPCL	Chairman, Karnataka	09449553433 sadhujoseph@rediffmail.com
	Dr. Joshy Vilangupara	IOFPCL	Director, Tamil Nadu	09443703384 joshyvcherian@gmail.com
	Mr. Pullanthanikal Joseph Chackochan	IOFPCL	Director, Organic Wayanad	09605991256 vanamoolika@yahoo.com
	Mr. Joykutty Vincent	IOFPCL	Director, Kannur	09446657790 joychenmv@yahoo.com.in
	Mrs. Chandramathi Moorkoth	IOFPCL	Director, Kannur	09961474237 chandramathi@iofpcl.com
	Mr. Karippaparambil James Thomas	IOFPCL	Director, Palakkad	09446236123 kjt321@gmail.com
	Mr. N.M. Kurian	IOFPCL	President, High Range Organic Producer Society, Idukki	09447058939
11-Mar	Sreekumar M.S.	Foundation for Organic Agriculture and Rural Development	CEO	91484-2620850, 9495627407 Email: ceo@organicfoundation.in
16-Mar	P.J. Charkochan	IOFPCL	Director, Organic Wayanad	
17-Mar	K.M. George	Organic Wayanad, IOFPCL	Organic Certification Coordinator	Tel. 09447316626 Email: kmgeorgeow@gmail.com
18-Mar	P.A. Jose	WSSS, IOFPCL	Director	Tel. 09656203020 Email: pajosewsss@gmail.com
18-Mar	Farm visit (Shaji	IOFPCL		

	Pulickal)			
21-Mar	Suryamani Roul	Access Development Services	Vice President, Livelihoods	Tel. 09818141650 (M) Email: suryamani@accessdev.org
24-Mar	Jitendra Mallick	ACCESS Development Services	Project Coordinator (Vijwa CEO)	Tel. +919887910481, 8003091314 (M) Email: jitendra@accessdev.org
24-Mar	Manov Maity (striped shirt, big)	ACCESS Development Services	Manager	Tel. +919799495795, 912942434634 Email: manov@accessdev.org
24-Mar	focus group with farmer leaders	Access Development Services	South Rajasthan	
25-Mar	Kulranjan Kujur (with a leg, limping) + Manov	ACCESS Development Services	Senior Manager	Tel. +919456512705, 912942434634 Email: kulranjan@accessdev.org
25-Mar	Lakshya Vijay Singh (Uttrakhand)	Access Development Services	Project Coordinator	Tel. +919456536955, 912942434634 Email: lakshya@accessdev.org
29-Mar	Triveni Sati	Central Himalayan Rural Action Group (CHIRAG)		9758764795 triveni.sati@gmail.com triveni@chirag.com
29-Mar	V K Madhavan	CHIRAG	Executive Director	09412084690 Email: madhavan@chirag.org
30-Mar	Sanjay Tewari	CHIRAG	Marketing Coordinator	sanjay@chirag.org
30-Mar	2 coop members meeting (Kamala Bisht, member + Bimla Bisht, president)	Pragati Swatiya Sahkatita coop		
30-Mar	Area Managers (2)			
30-Mar	Megha Mathur and Prasad	Indicorps (CHIRAG)		97500720846 megha.mathur1@gmail.com
31-Mar	Decision-making meeting on the company model (Madhavan + group)			
1-Apr	Sanjay, Triveni, Madhavan			
2-Apr	Anish Kumar	Pradan	Director	911140407700

APPENDIX 2. Questionnaire 1 (Common Between the Three Researchers - Margena & Paul Cegys, Nadiia Pustovoitova)

General Fact Finding, Organizational Structure, Capacity, Relations with Supporting Organization

1. SCALE

1.1. When was the PC established? Where?

1.2. Who was the initiator of the PC?

1.3. Who provided the administrative costs of registering the PC?

1.4. Is the membership of the PC individual, institutional, or both?

1.5. How many individual/institutional members?

1.6. In total, how many farmers does the PC belong to directly?

1.6.1. What percentage are women?

1.7. How many shares have been released and what is their value?

1.8. What is the average size of the farmers landholdings?

1.8.1. What percentage of landholdings belongs to women?

1.9. What kind of crops are presently procured by the PC?

1.10. What percentage of these crops is organic?

1.11. What percentage of these organic crops is certified?

1.12. Which certification is used?

1.13. What percentage of PC procured crops is for export markets?

1.14. What percentage of PC procured crops is for domestic markets?

1.15. How many buyers does the PC work with?

1.16. How many of these are long-term buyers?

1.17. Who are the buyers? (eg. retail, schools, hospitals, processors, etc.)

2. ORGANISATIONAL STRUCTURE

2.1. What levels are the farmers organized into?

2.2. Describe the distribution and role of staff members.

2.2.1. How many work at the head office?

2.2.2. How many work in district offices?

2.3. What organizations does the PC collaborate with? Please describe the history of collaboration and what services these organizations provide?

2.4. Are the farmers you work with members of both organizations?

A. GRASSROOTS STRUCTURE (SHGs)

A.1. At the lowest-level (grassroots/SHG) what criteria are groups organized according to?

A.2. How many groups are there in total?

A.3. Are these groups are informal? (If no, skip to A.3.4.)

A.3.1. If yes, are they federated into more formal structures?

A.3.2. What formal services can/do these groups access? (eg. bank services)

A.3.3. Explain how these groups are not informal?

A.4. What is the average membership size?

A.4.1. Are there male-only groups?

A.4.2. Are there female-only groups?

A.4.3. Are there mixed groups?

A.4.4. Which are the predominate types of group?

A.5. What is your preference for how membership of different genders should be organized? Why?

A.6. How often do these groups meet?

A.7. What decisions are taken at these meetings?

A.8. How are these groups represented at the PC level?

A.9. How does membership fluctuate in these groups?

A.10. What is the average debt load of the farmers?

A.11. What saving and lending services (formal and informal) are available at this level?

A.11.1. Do the groups lend internally?

A.11.2. Have the groups established savings funds? If yes, for which purposes are the funds used?

A.12. Have the groups made any investments? If yes, what have they invested in?

B. MEZZO LEVEL STRUCTURE (CO-OPERATIVE)

B.1. At the mid-level (co-operative) level what criteria are groups organized according to?

B.2. How many groups are there in total?

B.3. Are these groups are informal? (If no, skip to B.3.4.)

B.3.2. If yes, are they federated into more formal structures?

B.3.3. What formal services can/do these groups access? (eg. bank services)

B.3.4. Explain how these groups are not informal?

B.4. What is the average membership size?

B.4.2. Are there male-only groups?

B.4.3. Are there female-only groups?

B.4.4. Are there mixed groups?

B.4.5. Which are the predominate types of group?

B.5. What is your preference for how membership of different genders should be organised? Why?

B.6. How often do these groups meet?

B.7. What decisions are taken at these meetings?

B.8. How are these groups represented at the PC level?

B.9. How does membership fluctuate in these groups?

B.10. What saving and lending services (formal and informal) are available at this level?

B.10.2. Do the groups lend internally?

B.10.3. Have the groups established savings funds? If yes, for which purposes are the funds used?

B.11. Have the groups made any investments? If yes, what have they invested in?

C. TOP LEVEL STRUCTURE (Producer Company, PC)

C.1. What is the total number of staff positions in the PC?

C.2. What management positions exist at the PC level?

C.3. Does the PC hire any salary positions? If yes, what are they?

C.4. Which positions are held by farmers?

C.5. How was the CEO elected?

C.6. How many members are on the Board of Directors?

C.7. Are there any honorary/special members on the Board of Directors? What is there function?

C.8. How is the Board of Directors elected?

C.9. Has the PC made any investments with its dividends? If yes, what investments has it made?

C.10. How forms of compensation do Board Members received? (eg. compensation for travel expenses, day remuneration, etc)

C.11. How often does the general body meet?

C.12. How often does the executive body meet?

C.13. Did any of the Board Members received training specifically targeting their responsibilities at the PC level (eg. management, marketing, business, etc)

C.14. Are there crucial individuals who establish networks and communications with buyers?

C.15. If yes, are these farmer members of the PC or hired personal?

C.16. Does the PC have access to credit and bank lending?

C.17. How does the PC generate revenue?

C.18. What administrative costs does the PC carry?

C.19. What are the main challenges the PC is struggling with currently?

C.20. Have the same individuals sat on the Board of Directors since the beginning? Otherwise how has the Board Membership fluctuated?

C.21. Does the PC operate between more than one State?

C.22. If yes, what advantages are associated with membership across different States?

C.23. What challenges are associated with membership across different States?

C.24. How does the PC balance the needs across the different States?

C.25. Do you feel a single PC functions well between the different States?

D. SUPPORTING ORGANIZATION

D.1. What is the focus and objectives of supporting organization at the grassroots level?

D.2. What is the group/collectivization approach, both for the grassroots level and cooperatives?

D.3. Please describe the challenges with institution building and how you work with them.

D.4. Why have you chosen the producer company model?

D.5. What is the role of supporting organization at different stages of producer company?

D.6. How would you describe the relationship between the supporting organization and producer company?

APPENDIX 3. Questionnaire 2

Inclusion, Participation & Accountability, Access to Information

MEMBERSHIP / INCLUSION

1. Please generally describe your members. How has the company's membership evolved since the year of establishment?
2. Are women/women groups represented at any level of company's institutional structure and, if yes, how?
3. Is the company planning to increase membership in the future? If yes, what is the recruitment strategy (for example, through approaching existing farmers' institutions like SHGs and cooperatives or establishing new ones)? Why have you chosen this strategy and what are the challenges with that?
4. Are there any significant differences between member farmers, based on landholding size, average household income, crops produced, duration of membership, age, belonging to certain caste or tribe, social status, etc.? *If no, proceed to Q.5.*
   4.1. Can you distinguish any specific groups? What are those groups?
   4.2. Are the differences between farmers most manifested inside the cooperatives, between cooperatives or both?
   4.3. How are these differences reflected in decision making (members' ability to influence company decisions)?
   4.4. Do they lead to conflicts or tensions between members?
   4.5. Do they create opportunities for productive cooperation/symbiosis?
5. From your experience, are there significant variations in members' activity (extent to which members rely on producer company for marketing and other services), from year to year and between members?
6. What is the proportion of inactive members in the company? Is there any mechanism to exclude inactive or non-performing farmers? Is such mechanism needed? If yes, please elaborate.
7. Are there instances of drop-outs? If yes, what are the reasons?

PARTICIPATION / ACCOUNTABILITY

8. Please describe how the Board of Directors of producer company functions.
9. Are the Directors remunerated for their service and, if yes, how?
10. How is Directors' performance evaluated?
11. Is there a succession mechanism at the Board of Directors (for example, any leadership and professional training provided for well performing farmers to create a pool for potential future directors)?
12. What is the Directors role versus management role?
13. Is there a mechanism for internal conflict resolution in the company? (for any kinds of conflicts: between members, between members and directors, between directors and management, etc.). If yes, please describe.
14. Have you company ever resorted to arbitration? For what kind of disputes?

15. What are the professional skills the company is lacking at the moment? Are you planning to find/train these skills in the membership or obtain them from outside (through professional staff hiring)?
16. What are the performance criteria of the producer company? What objectives are you trying to achieve?
17. Are you facing a lot of side selling by your member farmers? *If no, proceed to Q.18.*
    17.1. What are the reasons for that? Do you analyze them?
    17.2. Is this a problem for the company? Why?
    17.3. Do you take any actions to accommodate these side marketed volumes through the producer company?
18. *If the company markets multiple crops:*
    18.1. Considering that company may be marketing different crops with various degree of success, would it be fair to say that some farmers are more disadvantaged than others?
    18.2. Does this create an incentive for them to switch to other crops? How hard is this?
    18.3. Is producer company willing to add new members based on specific crops (that are marketed better)?
    18.4. In future, are you planning to cover marketing needs for all crop variety among your members or focus on a few select crops?

ACCESS TO INFORMATION

19. How are the internal information and communication processes organized in the company? In which ways do the Directors bring the information back to the level of individual farmer and vice versa – from bottom level up?
20. Does the producer company collect, process and distribute market information among the member farmers and, if yes, how?
21. When volumes and prices of the produce are negotiated with buyers, are the farmers involved? How, at which stage and at which level of institutional structure (cooperative leaders or PC directors)? Do they get the chance to meet a buyer?
22. What payment does farmer get at the time of produce collection? Does the company at that point commit to a certain price?
23. Are the farmers subject to any subsidies or government support schemes you know of? What are those schemes? How well are they informed about them? Does the company have any role in linking farmers to such government schemes and/or subsidies?

APPENDIX 4 – Stages of Development of the Producer Company in Dyad with Supporting Organization (ACCESS 2011b:4)

Stage	**Time**	**Major Activities of producer companies**	**Assistance to Producer Companies at different stages**		
			Administrative /Governance Assistance	**Assistance on Enterprise Management**	**Credit Requirement (INR in millions)**
Intensive Incubation	Years 1-3	Aggregator, input provider, knowledge provider	AoA and MoA orientation, financial management (share holding, pricing/purchasing decisions, bill book, receipt, challan, cash and banking transactions, stock maintenance, operational expenses maintenance, tax), cash flow, target and budget, etc	Increasing agriculture productivity, aggregation, sorting and grading, value addition, processing, packaging, branding, product cost analysis, maintenance and handling of processing unit, management of warehouse, credit and debit financing, market planning - mandi price and relation, obtaining necessary clearances, extension services	10.44
Partial Autonomy	Years 4-5	Intermediating with corporate entities	Orientation of new board members, benefit sharing according to patronage, staff/ HR management, final HR policy, business target and responsibility distribution, risk mapping and management, preparation for withdrawal, etc	Assistance on in-house production of processed good and value addition, training on seed production and organic cultivation, linkage with national and international market, market analysis, retail and bulk marketing strategy, reviewing business plan, etc	33.78
Complete Self-sufficiency	Years 5+	Own processing facility, brand and market channels	Participatory performance assessment, training on basis of assessment findings, withdrawal mechanism, etc	Quality assurance, export mechanism, internal assessment, training on different government schemes, convergence	114.03

APPENDIX 5 - Advantages and Constraints of Different Company Formats for Small Farmers (as per CHIRAG's discussions)

	Producer Company	**Public Unlisted Company**	**Private Company / Partnership**
Advantages	- possibly, a good format for branding - guarantees ownership of the producers - can have both individual and institutional shareholders - only producers receive benefits - 20% of the Board can be external advisors (financial & marketing advisors)	- can open to 2-3 major equity investors - allows to set up a manufacturing capital intensive company - articles of association can be framed to secure the interest of producers - easy to have bank linkages - dividends can be distributed both among the producer groups and other equity investors, bonuses will be given only to producers who transact with the company	- the easiest form in terms of compliance - can open to 2-3 major equity investors - can have both individual and institutional shareholders - allows to set up a manufacturing capital intensive company - articles of association can be framed to secure the interest of producers - private limited company can be converted to public unlisted company at a later stage
Constraints	- Lack of working capital - Cannot invest more than 30% of its equity capital in another entity - Slow growth strategy = branding and marketing can be done with the company, value addition & processing outsourced - Issue of attracting talent	- Issue of ownership and control = governance concerns - Impossible to convert public unlisted company to a producer company on a later stage	- Limitation on the number of shareholders (max. 50) - No requirements on the meetings of Board of Directors - Issue of ownership and control = governance concerns

APPENDIX 6. Cross Cases Narratives on Dyadic Relationship Between the Supporting Organizations and Producer Companies

Dyad 1 – Chetna Organic Farmers' Association and Chetna Organic Agricultural Producer Company Limited (COAPCL)

Dyad 2 – ACCESS Development Services and four producer companies in Southern Rajasthan (Jhambukhand Kisan Agro Producer Company Ltd (JKAPCL, Banswara), Vijwa Agro Producer Company Ltd (VAPCL, Dungarpur), Udaipur Agro Producer Company Ltd (UAPCL) and Dungaria Agro Producer Company Ltd (DAPCL, Mewada))

Dyad 3 – Central Himalayan Rural Action Group (CHIRAG) and eight cooperatives in Uttarakhand (the cooperatives will later be federated in either producer or public unlisted company)

Dyad 4 – PRADAN and cooperatives and producer companies it facilitates (Tasar Yarn Production, Broiler Poultry Rearing, and Masuta Producers Company Limited)

An outlier - Indian Organic Farmers Producer Company Ltd (IOFPCL) – there is no permanent supporting structure or organization that facilitates development of the company. However, the company was established through essential assistance of the organic certification body (INDOCERT). In addition, in 2006, the company helped establish a non-for-profit organization called Foundation for Organic Agriculture and Rural Development with purpose of sourcing funds and donation grants and provide training and technical assistance to farmers.

	Dyad 1 (CHETNA)	Dyad 2 (ACCESS)	Dyad 3 (CHIRAG)	Dyad 4 (PRADAN)	IOFPCL
Focus and objectives at the grassroots level	"Initially, our focus was on providing technical exchange and services and placing systems for certification. Slowly we realized that it was not adequate, that we need to diversify services and also have discussion at the group level because they might have diversified needs and if we are not able to cater for their requirements, slowly they will lose interest"	"First, the idea was to provide them [small and marginal farmers in tribal communities] with access to technology and, through this, increase the production. By forming producer collectives, the farmers will also be able to achieve economies of scale through aggregation and marketing of their small produce."	"Right now our main focus is on the capacity building. We try to 1) take contributions from the villagers, 2) focus more on capacity building, and 3) focus on mobilization and raising awareness of the community. Also, what we're trying to do is to link up the villagers with government schemes."	The first engagement is mobilizing them [farmers] into groups (self-help groups, SHGs). The primary motivation for us in regard to collectives is for individuals to engage. This requires group processes. Engagement with markets, financial institutions, knowledge resource institutions requires groups. We initially started with cooperatives, when in the late 1990s many states reformed their cooperative laws.	
Grassroots level - Group approach	"Functioning of the groups is not uniform. It is according to the requirements of the group members. That is something we realized. … to make that happen, staff should have facilitators, adequate capacity to visualize the requirements and to visualize the services to meet their aspirations."	Farmer business groups (FBGs), with 70-80% of small and marginal tribal farmers, come together on the basis of three or four common crops. It could be easier if large farmers were part of the groups. These groups are institutional members of the producer companies. They are involved in grading but not yet processing of the produce. "About 20% of the groups have problems, and we need to teach them how to resolve conflicts and build leadership quality."	"We have selected poor women farmers in the villages to form cooperatives… These women, they need money, they need technical support, they need resource material." "What skills, capacity building do you do that allows someone with a small asset base to diversify risk or do some high income activities? Cooperatives and federal institution will have to find ways how to create markets that offer better returns to them."	On institutional space: "It requires individuals to work in group settings to address their internal issues of self-confidence, their own self-view about being farmers, producer, all engaged with markets, which, as of today, they have never done."	

Cooperative level - approach	"We work exclusively with new cooperatives, in the last years not spreading to new areas, trying to saturate farmers to the existing cooperatives." "The cooperatives we are trying to promote are related to participation of the community ... We are very cautious that power should not be concentrated with few people, so they are accountable to grassroots SHGs farmer members. So we are trying to build systems towards that. This is the challenge at the cooperative level."		"Our cooperatives are not single commodity cooperatives, nor are they single value chain cooperatives. Our cooperatives are livelihood cooperatives. So they are going to deal with cereals, pulses, spices, fresh fruits and vegetables, even with livestock products. Most cooperatives traditionally are trying to be either single-commodity cooperatives or single value chain, for example, milk products, they can then do the whole value chain of dairy, but they cannot do milk as well as necessarily fresh fruits. We're trying to do that, and this is setting a complication. It's an advantage and a disadvantage."	"First critical thing is the design of that collective, must be a very robust design. Then [we should] invest a lot of intellectual energy in pre-formation stage."	
Comments on Institution Building	"One more challenge is building the system in-between three tiers, which means that producer company as the apex level and cooperatives as the second level institution and then the farmers' SHGs – the primary groups. It is a balancing act – every institution needs to be financially self-sustainable."	Some of FBGs are dysfunctional or become dysfunctional for various reasons and require institutional and financial support from ACCESS for some more years. Usually, when the group is malfunctioning or inactive the cluster and/or the Board of Directors of the producer company will interfere to find out the reasons for inactivity and loss of	"Retail doesn't want to buy from multiple cooperatives. Organized retail wants to deal with one person, one vendor. So the producer company might want to step into that." "One of the things we're trying to do and the producer company will try to do is value addition, which means that capital costs of setting up a factory are very high. We need capital and, subsequently, will have to take	"There is a problem of governance deficit – you cannot do away with it. Tribal societies and dalits have been poor for the last 5,000 years. There is a variety of society mechanisms. We have to look at the next generations. They will bridge capability, asymmetry of information, aspirations, imagining what is possible. PRADAN has formed managerial separation, architecture of associated tiers.	On problems for smaller farmers: - Want to market perishables - Company is not ready to pay cash at the time of procurement (a major reason for drop-outs) On problems for larger farmers: - Shortage of labor - Marketing (both are the reasons for selling land) "We see this [mixed

	"If you want to have detailed discussions between the members and disseminate communication from bottom to top and from top to the bottom, the grassroots level is necessary. It constitutes the primary building blocks to place demands on the cooperatives and, at the same time, is accountable to the mission statement of the cooperative. Also, to avoid the power concentration. At the primary level, the people will be exposed to responsibilities, will see day-to-day functioning of the group and cooperative, will have regular meetings."	interest. The strategy is to revitalize existing structures rather than to create new ones. ACCESS recognizes that dependence on subsidies and grants is not a solution for producer companies and will not necessarily make them self-sustainable in the long run, and any support, such as technical advice, marketing, company management and institution building, ideally, should be on a fee basis.	debt to set up a fruit processing unit. .. The cost of servicing debt is very high. The pressure on the enterprise from the day one becomes very high because the debt is very expensive. Grant or subsidy is another story but pure debt doesn't make any sense. .. Thus, in the process of creating institution that producers own, are we, in some sense, locking them up to a smaller scale? " "If you ask the farmer about the contract farming and say, I guarantee you a price and I buy all your produce, most farmers we work with would say "yes". If our ideology is limiting people's choices, then we actually do a disservice to them."	This is a part of coordinated system. But there is a generational issue." "Legal form is the least important issue; it is not issue at all. Basic issue is the whole logic of collectivization, the feasibility of collectivization in today's context, where you have a large number of market forces. When you're isolated in a village you'll never get other competitive service providers. Today private companies are coming in and providing service, so you have a real competition. They have their own problem of bringing people together, there is a cost to collectivization. The cost of collectivization has to be met from the benefits of collectivization. So the real challenge is this: what is the logic around which people will come and why they should remain together? The business model is the challenge."	membership of small and large farmers] as a kind of symbiotic relationship. We work max. on conditions of 50% pre-finance and, in time of need, we ask larger farmers to pay smaller farmers. There is also an issue of quantity, in particular, for exports - small farmers are not able to achieve, while large farmers deliver."
Supporting organization	"COFA is farmers' owned organization. It provides social and technical exchange services, and advocates favorable policies to the farmers. After some time, it is going to be a mentoring agency for the	"The major issue is capacity building of farmers and producer company that they own. So ACCESS mainly focuses on building that capacity so that the decisions are taken on behalf of cooperative societies through	On the role of CHIRAG: "Ideally, we should create the structure that is open to other farmers also, work with organizations in other locations who work on establishing institutional structure, in order to add marketing and achieve a	On the role of PRADAN: "We have created a structure that has a role, we have established a [poultry development] trust that has a general oversight function [over producer company]."	"This company was not promoted by the outsider. We're all part of this group initiated by the farmers who wanted to grow more organic products. People felt it was better way of doing things. Basic commitment is rooted into understanding of the

	producer company. It is also represented by the cooperatives and taking the responsibility of nurturing cooperatives. It has procurement staff. Chairman is an Expert Director in the producer company."	involvement of farmers and board members – bottom-up approach. So if ACCESS moves out tomorrow it's a standalone company that can run on its own." "In each of the stages, company needs different kind of support." "We are trying to divide the businesses between the companies. This allows achieving synergy and exchanging capacity. The process is managed and coordinated by ACCESS. For example, producer company in Dungarpur supplies consumer goods to other companies as well."	synergy." "Leave aside capital issue, there are two other concerns [with producer company]: 1) what is the most important for producers/farmers, to own the institution or to manage it? They might want to own it, they need not want to manage it; 2) more than ownership, the producers want sustained incomes guaranteed and a constant improvement of that. If they had to choose over sustained incomes over time and owning their own institution that would actually work at sub-optimal level, they would still go for sustained incomes. Thus, we have to look at creating an ownership but this cannot be at the cost of sustainable rising income."		groups." "In almost all the places in India where the producer companies are working, they have been put up by NGOs which are involved in capacity building and basic grassroots enhancement. At some stages, they would have realized that they need an institution to go into commercial activity, so they would have adopted this model and started a producer company. So, all these initial challenges that we faced as a producer company may not be there for producer companies that already have been supported by a larger NGO."
On dyadic relationship	"If producer company will continue to depend on COFA and not on the cooperatives, then it will not be able to grow as a business entity. Producer company needs to work with cooperatives in a balanced manner and, for that, COFA needs to develop capacity of the cooperatives. So, once the cooperatives are enabled, they will be	"Since the beginning, we're telling them that this is their own organization they have to run. Another aspect is business purpose of the organization. Economic benefit is important both at farmer level and institution level." On small producer assistance resource centers ACCESS helped to set up: "Their main objective is to support the producer	"If you can't see economy of scale building in and being able to break even over time, you should shut it [producer company] down, you can't subsidize it for life as that defeats the purpose. That doesn't make sense setting up an enterprise if it doesn't stay on its feet. So producer company seriously needs to get into the added value because the margins are there. And they will also have to	"The [business] logic [of collectivization] is how people come together. Someone has to seed it. NGOs are not going to profit from the services of these collectives. What is at stake for external promoter is own professional repute. What is not at stake is a capital deployed there, what is not at stake is the benefits accrued, the benefits are for members only. It is a real challenge, so promoter has to be very	"We're ourselves promoting an NGO. There are certain commercial and business activities you can do as a company and we cannot go beyond that. For example, we cannot source funds, donations or grants. Funds cannot be easily sourced by a corporate. We realized that we need another platform which can receive this kind of support or funds, which can channel some of the activity

	able to put pressure on the producer company for adequate services and, at the same time, we need to build the capacity of the cooperatives also to take wise decisions on behalf of their members.”	companies and producer collectives, where they have been established. At the end of the day, these producer companies will have to operate on their own at the market. They will be trying to compete with the existing businesses that already have well-established systems and competing with them is not so easy for primary producers with low techno-managerial capacity. So that is where ACCESS visualizing itself with these small producer assistance resource centers that will help producer companies in establishing themselves in the market.” “We try to meet the cost of these centers from various projects. When the producer companies start making profits, they can cover these costs.”	diversify their income base, so that’s why [we’ve decided on] six verticals.” “The reality of the matter is that not farmers we work with decided one day that they wanted to create their own institution, they came to us and we’re doing this. That is not the truth. The truth is that we thought it’s going to be good for them and we’re going out and doing that. So, in all honesty, before we consult them. Because they’re saying, “If you say it’s a good idea we trust you.” They’re going with us. But our team also needs to buy this idea. When the consensus is built up, we’ll go with it. I don’t think it’s worth creating an institution if our own team is not on the same page.”	careful in how he engages with these organizations and, what is often seen, they are run as a subsidiary of the organization. So, obviously, you can never evolve into a producer organization. Whether it is a cooperative or a producer company, it doesn’t matter. And it is not because of intention. Poor people have poor access to capital and knowledge systems, and have poor access in their ability to organize themselves. So when you work exclusively with poor people, they have a constraint in their ability for themselves to organize, they have no experience of doing that. So they need external person to seed that, but this fellow comes with the baggage. So there is a huge amount of information and capability asymmetry. Because of that asymmetry, what happens is that he occupies extra institutional space and starts influencing decisions and the governance. It’s extra constitutional. So this is the real problem.”	like capacity building that company cannot really do, spending limited money company has. So, I think, for any successful functioning of a producer company, it is good that there is a supportive NGO which can do a lot of supporting activities.” “When we’re doing our cocoa procurement, we have to give some field training to the farmers in terms of growing, quality, harvesting. So this NGO gives us support in this. They help to educate the farmers in times of their involvement into production and harvesting.” “NGO is complementary to our program. We identify needs, they cater to these needs.” On relations with INDOCERT (an organic certification body): “Relations with INDOCERT naturally evolved. They’re first certification body in India and we’re first producer company. We have a common organic platform.”