

Frequently asked questions on “Farmers’ Producer Company (PC)” an Institutional PC concept

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Introduction

To the best of our information and understanding ‘Producer Company (PC)’ or the Institutional Producer Company (IPC), a federation of PCs, as dreamt by us is non-existent as of Jan 2007. It is a company like any other company in the corporate world but with a difference, and how we visualize it to be formed and functioning. This concept has been talked about for over a decade and at different fora and some components of it have been implemented at several locations in different countries but not in its wholeness as discussed below.

What is a PC?

PC is a Producer Company of the farmers, by the farmers and for the farmers, financially facilitated by the government, but managed by professionals, leaving farmers to farm and on-farm activities. The concept visualizes to leave farmers to their area of expertise, farming and on farm activities, whilst the management of the ‘cash to cash cycle’ of the company will be taken over by the professionals staffing the PC. In today’s competitive world, a farmer has to fend for everything right from finance, procuring inputs, farming for production and marketing for profitability. Each activity is an expert area and we cannot expect a farmer of limited resources and exposure, to be competitive. PC is proposed to take over all responsibilities from the farmers groups, leave them to farm, making them sustainable, where they remain stakeholders to the end.

Is PC same as co-operative or a Society?

PC is not a co-operative society. The PC is something between a co-operative society and a private limited company, minus external vested interests due to transparency, public audit and accountability. A PC as visualized should enable government, banks and financial institutions (eg. – NABAARD in India) to deliver of its programs, funds, etc, meant for farmers.

What is the difference between a PC and an Institutional PC (IPC)?

The PC intervention takes care of all that needs to be done and should be done locally, using their members and the local communities to add value, provide services, increasing their incomes, etc. The IPC could be located at the district, state, national or

even to serve a few countries in the area, requiring sizable investments, eg a plant to produce, package and market corn, rice, wheat flakes, etc, processed and packaged spices, coffee, tea, etc, canned fruits, vegetables, juices, etc, branding, or export marketing calling for heavy expenditure and risks on travel, advertising, sales promotion, etc.

Why should a government facilitate a PC?

Farming, particularly in several developing countries, is at cross roads due to (a) high cost of production, (b) young members of farming families quitting farming in favor of jobs in cities, (c) agro-chemicals reaching the aquifer and threatening the basic survival, (d) high level of pesticide residues in food and water, threatening human health. Governments have a responsibility to provide safe food and drinking water to its population at affordable prices and in a sustainable manner, including to those in far flung rural areas and this could be made possible by PC as an intervention.

Would a PC require special support policy and structure?

Most countries have legislated 'company's act' (eg. Companies Amendment Act 19A, 2002, India). In Dec 2002, amendment IX A of the 'Indian Company's Act' permits existing Societies, Co operatives, NGOs, Trusts, Private Ltd Companies etc. to convert themselves to PCs. However, the concept stated here is at a variance than the one stated in the amendment in (a) our PC is of the farmers, for the farmers and by the farmers, where members are stakeholders to the end, (b) we expect governments to provide financial, policy and structural support that empowers PCs to decide how they would like to dispose of their produce for the betterment of farmers and the local communities.

How would a PC address the issues stated above?

A PC would harness the knowledge and innovative technologies of growing and protecting crops using low-cost and eco-friendly approaches, minimizing the cost of production, obviate the need of harmful agro-chemicals and ensuring their members follow the 'good agricultural practices' . It would also use innovative systems of marketing farmers' produce, more details on how this would be achieved is (will be) given in other documents.

How would a PC be formed?

All families in a village (or cluster of several villages) will be informed/educated on the PC concept and only interested farmers will be made its members. Each member/farmer will have one vote in the company, irrespective of their share. Government (or its nominated bodies) will fund, facilitate and guide its formation, a professional HRD organization will be involved in selecting professionals who will staff and run the company. Infrastructure needed for training farmers, administration, storing farm produce and adding value to it will be assisted by the government (at present wherever this concept is operational, farmers are themselves investing in the infrastructure, eg. see information/example on www.iofpcl.com) as in a private company. Alternatively, a PC can be given need-based seed capital to enable it to borrow the required capital and working capital from financial institutions for the

implementation of the project proposal after it has been appraised and accepted as viable.

How would a PC function?

PC professionals would guide its members (employees of the PC would also be shareholders along with farmers and thus stakeholders to the end). Plans and budgets, macro for 3 years and micro, carved out of the macro, for one year, detailing the crops to be grown by the different members and on how much area, the price they will be paid on harvest, etc. This will be determined by factors such as (a) survey on needs of local community in the village, (b) contracts obtained (preferably in advance) from market (c) contracts from government programs such as 'mid-day meal' in India, etc. Each farmer will be paid price of his/her produce that was determined at the time of sowing. PC professionals will be accountable to the board of directors of the PC, which will include some farmers – general body of the farmers/members will have the ownership of the PC, through an annual business plan and budget, as done by a corporate company indicating production strategy, market strategy and the projected positive cash flow.

Who will pay and how much to the PC professionals?

Each professional and other employees of the PC will be paid out of the money generated due to value addition to the farm produce and not from price paid to farmers for the farm produce, thus will not pinch into the money due to the farmer. Salary can be high and at par or even higher than that prevailing in nearby corporate structures, depending on extent and quality of value addition planned by PC, ensuring a positive cash to cash cycle.

How would a PC help farmers?

It will do every thing to ensure that a member farmer is left to farming and on farm activities, rest everything should be the responsibility of the PC. Some such duties are indicated below:

- Training members on good agricultural practices (GAP – see a list of such practices at www.eurogap.org) based farming system approach and low-cost and environmental friendly inputs.
- Arrange finance, capital and working capital
- Advising crops to be grown.
- Preparing and providing inputs at low-cost
- Procuring produce at a price committed at the time of sowing/planning.
- Providing items of daily needs (only those produced by the members) to the whole village and not only to its members. Thus obviating the need of 'Public Distribution System (PDS) in the rural areas. This strategy should greatly enhance purchasing power of the rural communities.
- Procuring firm orders from market and government programs.
- Adding value to the farm produce locally and thus add to profitability of the company. [Note: The PC thus generate employment for rural people right in their own vicinity and links well to the employment guarantee programs of countries like India.]

- Market value-added products at maximum profits and thus generate funds for salaries of its employees, generate reserves of cash and profits for the company.
- Maintain links with other PCs and business interests with the aim to enhance profitability of the company and welfare of its members.
- Facilitate grants for rural welfare, including from government programs, eg. rural cleanliness through eco-friendly toilets.

Can PC help exports of agricultural produce?

Yes, it can certainly help enhance export of agricultural produce, particularly of ethnic products in several ways. Because the member farmers will be required to follow GAP and will not use synthetic pesticides it will address the problem of product rejection by importing countries due to pesticide and heavy metal residues. However, major focus of the PC will be to help implement mandate of the government to provide food, health and nutrition security to its masses, particularly in rural areas.

How can a PC help whole village or a cluster of villages?

A given farmer grows only limited number of crops in a season/year but his/her family needs over ten items that are produced in a given village. Except those produced by a family on their farm, the other needs are purchased (within the village or from nearby town) at prices much bigger than if it was produced by the farmer himself/herself. The PC will provide all items to all its members at farm-gate prices and thus substantially enhance their purchasing power, perhaps by a factor of two. In our dream PC, not only the member farmers but all people in the village (including landless families) will be eligible to buy their daily needs from the PC (because we propose the government to support it financially) and thus it will address governments' mandate of food, health and nutrition security for the masses.

How can a PC help organic farmers?

Focus of PC is on using GAP involving low-cost eco-friendly materials for crop production. Most of these inputs can be produced right on farmers' field and are already in use by practitioners of organic farming. Also, a PC can readily introduce provisions of the Internal Control Systems – ICS and of Participatory Guarantee System – PGS and thus substantially reduce cost of certification – the major bottleneck in marketing organic products. Thus practitioners of organic farming will be the major beneficiaries of this concept because their cost of production would be much lower than conventional and net income much higher, enabling them to sell their produce at same or even lower than those of conventional products.

How can PC be a partner in addressing food security?

As indicated above, the concept will provide food to farmers and non-farming families in a village at farm-gate prices and generate local employment opportunities. Thus this concept will not only bring in food security to the area where it will operate but will even address health and nutritional security of masses of a nation, because all food, nutrition and health items can be planned, produced in the village under the guidance of professionals and marketed in nearby towns or even exported.

How much funds will be needed for setting up one PC?

This will vary from case to case and the potential of the local area, funding available from Govt, guidelines covering various Govt programmes and schemes. Eg Govt is funding Rs 10,000 per acre for conversion to Jaivik. Similarly, Govt could fund a similar amount for those farmers agreeing to become stakeholders of the local PC promoted as an intervention to deliver Govt programmes, schemes, training, creating common facilities for storage, adding value, etc, essential for the sustainability of small farm holdings.

What is the scope that it will fail?

Going back about 60 years when India embarked on development assistance to cottage industry in backward areas, and small, medium and large industries in general, liberal financing terms were given by the central and state governments. A large number of ventures failed in India due to various reasons (many due to greed and vested interests) but with the passage of time the numbers of failures came down rapidly and today India has a healthy (to a large extent) industrial sector. The reason why only one co-operative venture 'Amul' (now a global player, was a rural enterprise set-up by a committed group) succeeded and not the others thousands that were set-up are now well known. We can take lesson from these.