

Case Study on Farmers Producers Company

January 2017

Jointly developed by CIKS & FWWB

Farmers Producer Company: A Game Changer!

Prologue

Post structural economic reform in the early nineties focused more on industry, tax reforms, foreign trade and investment, banking and capital markets without any specific focus on agriculture. Though there has been impressive growth in terms of GDP, real development in terms of growth shared by all sections of population has not taken place. We still grapple with the problems of poverty, unemployment, inequalities in access to health and education and making agriculture a real growth sector. Though agriculture contributes only about one sixth of GDP, it employs more than half of the working population of the country signifying its paradoxical position in the economy. More so, because Indian agriculture is the home of small and marginal farmers (85% of total landholdings). As per the last Agriculture Census done in 2010-11 and it was estimated that 117 millions of land holdings were small and marginal out of total 138 million. Thus, livelihoods of a vast section as well as food security depend on the sustainable agriculture growth and performance of small and marginal farmers.

Needless to mention, in a country like India role of small farms (and small holdings) in poverty reduction is well recognized (Lipton, 2006). However, in the absence of robust public/private support system at the ground level farmers face challenges in accessing land, water, inputs, credit, technology and market. Then, there are emerging challenges like risk and vulnerabilities due to climate change and natural calamities (Thapa & Gaiha, 2011).

There are structural and governance challenges too. Though agriculture is a 'state subject' under the Constitution, central government plays critical role in shaping macro level agricultural policies where the states implements them.

Changing diet pattern amongst growing middle class people to more of vegetables, fruits, and milk and meat products is putting high pressure on the small farmers to either produce high value crops or remain excluded from the market being non-responsive ! High value crops bring high risk too, which the small and marginal farmers are averse to.

There is fast gender diversification taking place in agricultural activities , with more women taking the major responsibilities where men are gradually shifting to non-farm activities. This feminization of agriculture is taking place without any structural changes in matters relating their property rights or access to productive resources.

In spite of the challenges discussed above, there are technological as well as institutional innovations taking place to enable small farmers for increasing productivity and income through collective initiatives. Different models of collectives have been tried in India such as Primary Agricultural Cooperative Society (PACS), Self Help Groups, Federations of SHGs, Common Interest Groups (CIGs), Joint Liability Groups (JLGs), Farmers Club, Producers Organisations etc. Some have succeeded where majority have not for varieties of reasons. To provide further impetus to the farmers

collective, government mooted the idea of making the collectives think and behave like business entities by getting incorporated as Producers' Companies under the Companies Act of 1956 (amended in 2002). In fact, Government of India, as a matter of policy considers Producers Company as the most appropriate institutional form around which farmers must build their capacity to collectively leverage their production and marketing strength.¹

Producers Organisation/ Company

Depending on the membership there are three types of producers companies- companies with individual producers as members only, with institutional members only (where collective at village or panchayat level is a member) and both individual and institutional members. Empirical evidences show that producers companies are evolving as centers of economies of scale as business entities, though there are issues in varied extent relating to their size, scope, technology, management and ownership to be addressed. We have a gigantic producer's cooperative called AMUL which is functioning like any big corporate giant and small producers companies like Devnadi Valley Producer Company with 856 members. The efficacy and efficiency of a producer organization/company working as a true business centre depends on the kind of supportive eco-system it has received.

The formation and development of producers organizations are being actively supported by central and state government and their agencies. Multilateral agencies like World Bank, UNDP, bilateral donor agencies are also extending support. Major financial supports are flowing from Small Farmers Agribusiness Consortium (SFAC), NABARD and state livelihood missions with technical support from promoting NGOs and Resource Institutions.

Studies observe that producer companies need at least 8- 10 years of hand holding and mentoring support from the promoters/facilitating agencies to become self reliant in managing their own affairs.² Centre for Indian Knowledge system (CIKS) is one such promoter which has extended support to 15 producers companies during last four years and would like to share its candid learning with the larger stakeholders by providing two case studies of one relatively older and matured while other is new and emerging.

CIKS and its work with producer companies

CIKS was set up in the year 1995 with a vision to revive and strengthen Indian Knowledge system and practices for achieving 'food and nutritional security' and enhanced livelihoods for all in the realm of sustainable agriculture' through research, extension and building farmers' institutions. Being headquartered at Chennai it has field offices in the districts of Kancheepuram, Tiruvannamalai, Dindigul, Nagapattinam and Ramanathapuram. It also extends its services to the farmer in other districts like Cuddalore, Tanjore and Ramnad in Tamil Nadu as well as the Karaikkal region of Pondicherry. CIKS has a team of about 45 persons as part time and full time staff in addition to a panel of consultants, volunteers and village service providers. It has so far reached out to 0.11 million households and supported sustainable agricultural practices in more than 10000 hectares of

¹ FPO Policy and Process Guidelines, Govt. of India, 2013

² Nayak Amar KJR (2014) : "Executive Summary of All India Baseline Study on Producer Companies & Natural Farming Practices: Part 1", Supported by DEAR, NABARD, Mumbai

land. It has been supporting 23 farmer producer organizations, out of which 20 have been incorporated as companies and three are in the process of being so. It is recognized as a resource agency both by NABARD and SFAC. Apart from NABARD and SFAC, CIKS has received financial support from HIVOS, DFID, Rabo Bank Foundation to promote producer organizations.

CIKS has been providing necessary guidance to these organizations to tap financial support from organizations like NABARD, NABFINS, FWWB, Ananya Finance, and public sector banks; and convergence/linkage with various government programmes.

CIKS's learning from two producer companies

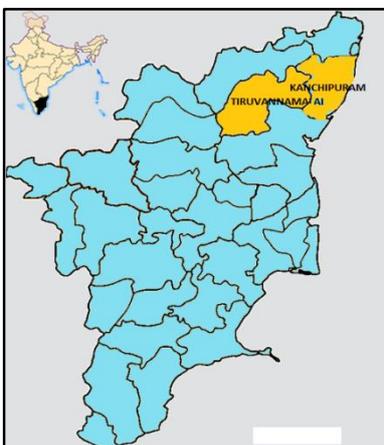
An attempt has been made to draw a contrast and continuum of its learning from a relatively stable producer company to an upcoming one.

1. Marutham Sustainable Agriculture Producer Company – a relatively matured and stable producer company
2. Kurinji Sustainable Agriculture Producer Company – a growing and upcoming producer company

MARUTHAM SUSTAINABLE AGRICULTURE PRODUCER COMPANY LIMITED

Genesis

Nestled against the backdrop of the beautiful hills of Thiruvannamalai there lies a rich and fertile agricultural belt of Tamil Nadu. The farmers were mobilized and supported by Centre of Indian Knowledge Systems (CIKS), Chennai and by Vrutti Livelihood Resource Centre (VLRC), Bangalore to set up a producer company to make small and marginal farmers self reliant and market competitive. It got registered under Section 581-C of Part IX-C of the Companies Act, 1956 under a special provision called Producer Company on August 21, 2013. It started with 3756 registered shareholders and has reached to 4167, spread across 38 panchayats spread across Vandavasi taluk in Thiruvannamalai district and two taluks of Uttaramerur and Madurantakam in Kanchipuram district.



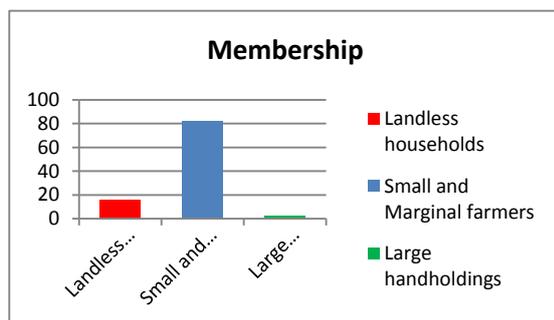
CIKS had been working with the farmers in the locality since 2004, however it worked in a more focused manner during the period 2012 – 2015 for a project “Poverty Reduction through Sustainable Agriculture in Southern India” in partnership with VLRC at Bengaluru. The project was funded by DFID and co-funded by HIVOS. As part of this project 9000 farming families were being provided support for conversion to Sustainable Agriculture of which 4000 were from Tiruvannamalai and Kancheepuram. Aspiration of majority farmers was to build an institution which would sustain and carry forward the activities

on its own. That was how this producer company came into being. The company was set up to build producers' institution to address the emerging requirements of the producers. Immediate as well as long term issues to be addressed were:

- To enhance productivity by crop intensification and diversification
- To make quality inputs available timely at reasonable prices
- To get remunerative price for the produces
- Seed security by conservation of indigenous varieties.
- Soil fertility improvement activities, which includes various composting techniques as well as neem based solutions
- Crop protection techniques like use of bio- pesticides.
- Agricultural Machinery Facilitation Centre (modernizing agricultural operations to make them more cost effective)
- Value addition activities for crop produce.
- Promoting home gardens of vegetables for landless women, for household consumption, improved nutrition and occasionally for income supplement
- Promoting backyard poultry – for supplementary incomes as well as household consumption.
- Helping farmers to benefit from various entitlements like Kissan Credit Card, Pradhan Mantri Krishi Sinchai Yojana , Pradhan Mantri Fasal Bima Yojana etc and social security measures like various pension and insurance schemes

Membership

The membership of the company is diversified and inclusive. Out of 4167 shareholders 16% members belong to landless households, who depend on agricultural and wage labour for their incomes. 82% members are small and marginal landholdings and rest 2% members have large landholdings.



Most significant character in membership is the share of women, which stands at 59%! This corroborates the fact on feminization of agriculture.

In terms of social groups it is again diverse representing Backward Class (BC) and Most Backward Class (MBC) and Scheduled Caste (SC). In fact, majority of landless members belong to SC.

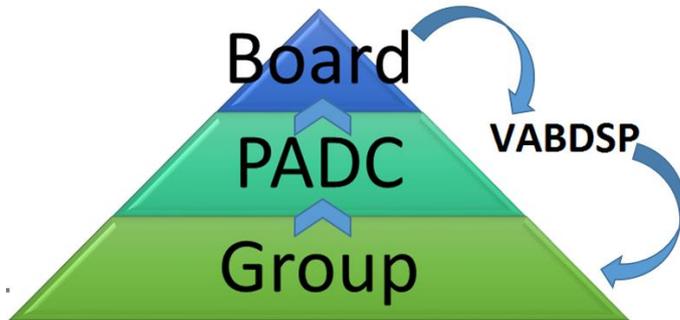
Shareholding

Having 4167 shareholders, about INR 1.4 million comes as paid up share capital at a price of INR 250 per share. In addition to this, Marutham became the first farmer producer company in Tamil Nadu to avail the matching equity of INR 0.9 million under Equity Grant Scheme (EGS) of the Small Farmers

Agribusiness Consortium (SFAC) of the Ministry of Agriculture, Government of India. At present it has a paid up capital of INR 2.4 million against the authorized capital of INR 2.5 million.

Structure

The company has a three tier structure consisting of – farmers (shareholders) as the members of the groups at village, panchayat and cluster level. The base is the SHGs at the village level. These groups were formed during the DFID project period and became a solid support system to build on



the company. Apart from the savings-credit transactions, they discuss various requirements for their agricultural operations- who needs the harvesting machine, or the transplanting machine, or how much seeds they need, or how much provisions they need, etc. Each SHG president or secretary is responsible for communicating the

group's requirements with the panchayat level body, PADC (Panchayat Agriculture Development Committee , which is a federation of SHGs at panchayat level) which is supported by a volunteer called the VABDSP – Village Agri Business Development Service Provider. For exigencies individual member can directly contact the VABDSP.

At the monthly directors' meet, the requirements from different panchayats are discussed and appropriate measures are taken to address the requirements on priority and feasibility basis. Once cleared, the purchase committee of the board is given the task of placing orders. Once delivery happens to the company, it is distributed to the various panchayats in accordance with their demands. The excess stock is kept at the Marutham Store at Desur, which is the company's retail outlet open to the general public. The VABDSPs are made responsible for delivery from the panchayat level to the group and member level. Most VABDSPs are well networked and are known within their panchayats. Most members come and directly buy their requirements from the VABDSP's premises, which functions as an informal store. First the members are served, then the non-members.

The VABDSP are paid an honorarium of INR 1500 per month along with the special incentive based on their business transactions. The incentive structure is in evolving stage.

Governance

The company has a Board of directors, consisting of 13 members, where women enjoy a thin 7-6 majority. As per social groups 12 of the 13 belong to MBC and BC communities while one director belongs to SC community. As per land holdings, 7 of the 13 are small or marginal farmers, 4 are large farmers and 2 are landless directors. The CEO of the company is hired from the promoting agency (here CIKS) who has an ex-officio role on the board. For smooth functioning and sharing of

responsibilities, there are six sub-committees to manage the whole gamut of business. The decision of the subcommittee is accepted by the board unless otherwise it requires any further review.



First AGM



Transportation Vehicle

(a) Finance management committee

- ✓ Discusses details about the financial need and the expenses
- ✓ Verifies the detailed accounts records of the company
- ✓ Coordinates with banks and NBFCs for availing finance
- ✓ Responsible for loan repayment by the members to company and company to lenders
- ✓ Checks the credit repayment schedule.
- ✓ Shares the financial status of the company during the board meeting.
- ✓ Audit the income and sales statement.
- ✓ Prepares annual report.

(b) Technical advisory committee

- ✓ Mobilises technical guidance in the aspects of banking sector, legal matters, as well as new technologies in agriculture and agriculture machinery
- ✓ Arranges trainings on the above aspects

(c) Marketing committee

- ✓ Makes market assessment on output (produces)
- ✓ Based on the assessment advises the members to grow a particular variety/commodity
- ✓ Fixes the selling price based on market price and quality
- ✓ Sells the produces procured from members as well as provisions
- ✓ Updates the overall stock left after selling and buying at every month end

(d) Procurement committee

- ✓ Makes a demand assessment to decide which input and provisions are in demand
- ✓ Procures the products from the company members
- ✓ Formulates a procurement standard for each and every product
- ✓ Fixes the procurement price based on the quality
- ✓ Undertakes field inspection to ascertain the quality of the product
- ✓ Maintains the storage go-down
- ✓ Distributes cheques to the members for procurement made

(e) Monitoring committee

- ✓ Monitors the activities of the VABDSP'S, BoD's, CEO and Staff
- ✓ Keep a track of the activities of various committees
- ✓ Monitors the periodical functions like AGM and BoD's meeting, etc
- ✓ Provides reports to the concerned committee if there is any problem

(f) General administration committee

- ✓ Extends support to village level SHG and sustainable agriculture groups in undertaking their business
- ✓ Collects shares and subscription charges

- ✓ Gives awareness training regarding procurement and market price to the group members.
- ✓ Inspects the organic farming fields
- ✓ Organizes and conducts Annual General Body meeting.

Each director is assigned her/his role in any of the committees of their choice. Some are in multiple committees since some of the functions and responsibilities overlap. Most important decisions are taken at the board level. Once a decision is taken by the board, they delegate parts of the planning and preparation to the committees. The final ground level implementation is done by the board members, staff and the VABDSPs. All the board members are also VABDSPs at the village level. So, they are involved at the ground level implementation as well. The CEO is responsible for the implementation of all these decisions.

Major services delivery

Supply of quality seeds : Getting good quality seeds on time and at reasonable price is most critical for the farmers. With commercialization of seed production (especially genetically modified or hybrid seeds) and marketing, farmers have been marginalized over a period of time. In the process, there has been a rapid loss of indigenous seed varieties. According to Dr RH Richaria, a well-known rice scientist, 4,00,000 varieties of rice existed in India during the Vedic period. He estimates that even today, 2,00,000 varieties of rice exist in India. This means that if a person were to eat a new rice variety every day of the year he would live for over five hundred years without having to repeat eating a variety! Every variety has a specific purpose and utility. The varieties provide everything from medicinal properties, to nutrition and climate resilience. The indigenous rice varieties are rapidly disappearing as a result of market pressures.

Given the prominence of rice crop in South India CIKS has been working for over 20 years focusing on the conservation and revitalization of indigenous rice varieties. With support from CIKS, the company caters to :

- a. Providing training and support for the production of certified seeds by the farmers. The company procures these seeds from the farmers and sells the seeds both to members and non-members.
- b. Organizing the supply system to meet various seed requirements of the members. For this purpose seeds are procured both from the member farmers who are producing certified seeds (mentioned above) as well as other sources.

Besides, the company has put in place a quality assurance system to ensure that only quality seeds are purchased for its members. This has made Marutham a trusted name in the region for its seeds, which ensures repeat customers. By reviving and promoting some of the indigenous varieties of paddy such as *Seeraga Samba*, *Mappilai Samba*, *Pisini*, it has generated more interest amongst the farmers.

Organic fertilizer: One of the challenges of promoting farming is that the inputs for the enrichment of soil fertility which are not readily available in good quality and in sufficient quantities. Hence, one of the efforts that are taken up at the field level is setting up of two kinds of units – neem based and vermicompost. Neem products such as Neem seed powder, leaf extract and Neem seed cake

are used for pest control, seed storage and as fertilizers. Organic fertilizers units are managed viably by an SHG. This unit started in 2008 with support from CIKS under grant support by Ford Foundation and Hivos but became dormant in 2010 and again revived with support from Marutham and CIKS in 2013.

In fact, Neem cake makes soil more fertile due to an ingredient that blocks soil bacteria from converting nitrogenous compounds into nitrogen gas. It is a nitrification inhibitor and it prolongs the availability of nitrogen to both short duration and long duration crops. Neem cake also prevents the hatching of pests/insect eggs in the soil. So it has great demand among organic farmers.



Composts and vermin-compost are procured by the company both from member and non-member farmers and then sold to other members as well as non-members as a business activity. There are women SHGs who make it as an enterprise. Though, there are challenges as cattle population is dwindling.

Credit linkage and crop loan: The producer company provides activity specific loans such as cattle loan for dairy to eligible members by taking loans from private financial firms such as Ananya microfinance, FWWB, Samunnati finance, etc. In the year 2016, over 150 cattle loans were provided under this activity. The company draws service charges and an interest margin from this activity. The members are grouped into farmer groups or women SHGs, which are in-turn linked with NABARD Financial Services for credit. The company facilitates individual members to get their Kisan Credit Cards from commercial banks in lieu of a service charge. With Marutham as mediator, the trust level of banks has gone up.

Provision store : The grocery provisions are purchased in bulk quantity from wholesalers and sold in retail to members keeping a profit margin so that they get at lesser price and relatively better quality than that from the open market. About 70 % members take this benefit. It also adopts market approach to provide bundle of provisions at discounted prices and gift packs on festive occasions.

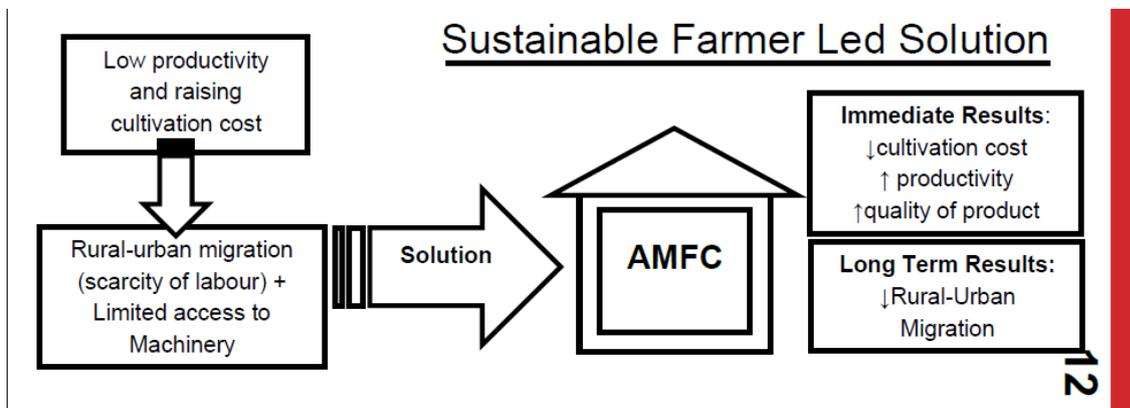
Agricultural machinery and implements:

To address the ever increasing cost of farming by small and marginal farmers, the company has been renting machineries and implements to members at affordable cost (much below the cost charged by private players) through Agriculture Machinery Facilitation Centres (AMFC). The need for having these machineries available at a local level at an affordable cost has been a realized farmers since long. In fact, farm mechanization helps in increasing productivity by about 30% besides enabling the farmers to raise a second crop or multi-crops. Marutham is privileged in one sense to inherit some of the initiatives taken by CIKS (in process of building farmers clubs) with support from

DFID as far as farm mechanization is concerned. A set of agricultural equipments were purchased with 50% contribution from DFID and the remaining 50% either through government subsidy or loan and farmers' contribution. The machineries like transplanter, ground seeder, weeder and power sprayer are available with AMFC. The non-members also avail this facility as second priority.



Pictures of neem based products : (From right to left)
 Top row: drying the seeds, lifting bags, pouring into the disintegrator
 Bottom row: getting the powder, filling the bags, storing



During the initial six months of one AMFC's operation a total revenue of INR 2.384 lakhs was generated and by deducting the expenses the net profit came to be INR 1.21 lakh. After paying back the members' contribution of INR 60,000 the net surplus stood at INR 61,000. The surplus has been ploughed back to purchase new machineries like Seeder and Channels, Winnower etc. The implementation of the AMFC has been acclaimed to be a model for others. Marutham has gone a leap forward to purchase a tractor-mounted combined harvester with grant support from NABARD, which is available to member at INR 1200 per hour instead of INR 1500 charged by private player.

Output market linkage: Needless to mention that procuring produces from the farmers and selling them to big traders and companies for realizing better prices has its own set of challenges and opportunities. In paddy, it has been experienced with both ups and downs. Company is still grappling with how to build brand based on organic nature of produces, linking to niche market, resolving warehouse issues etc.

Women focused activities: Supporting low investment activities like kitchen garden and backyard poultry was initiated amongst member households even before company was formed. The activities continues with renewed thrust of focusing on landless and women farmers giving multiple benefits like :

Kitchen garden \Rightarrow vegetable purchase reduced -37%, nutritional status improved- 25%, reduced expenditure on health reduced- 23%, and additional income from sale of vegetables- 15%.



Backyard poultry \Rightarrow manure from bird droppings - 20%, improvement in of nutrition of family- 37%, reduced expenditure on health - 12%, reduction in meat expenses for the family - 20% and additional income from sale of meat and eggs- 39%.

Besides, 10 women SHGS are into production of vermin-compost, biopesticide unit, mushroom unit, production of value added products from indigenous rice varieties and ready to eat food mixes in an entrepreneurship mode. A plan on anvil to integrate bio-gas with vermin-compost to encash its double benefits

“Being 12th passed I was mostly accompanying my husband to cities for doing some odd jobs in lieu of wages. We never practiced farming thinking it would not sustain our livelihoods. Today, we are not only into farming, but also into various enterprising activities like backyard poultry, vermin-compost making, and ready to eat dry food making. I am supporting the SHGs in their book keeping work, and above all we have collective strength which all has brought unexpected transformation in our life. “

Ms. U. Selvi , One of the Directors, Rettaimangalam village , Kanchipuram district.

Other services: Besides, a number of services are provided to members. Services like capacity building of farmers on scientific crop planning, identifying good quality seeds, their treatment,



Selvi in meeting

improved and low cost methods on seedling development, transplantation, weeding, moisture management, plant protection, harvesting and other improved agronomical practices.

Down the line 10 years Marutham plans to have

To set up an 'Integrated Marutham Technology Park' which would include a Training Centre, Technical wing, Credit wing, Procurement wing, Marketing wing, Value Addition Wing, Machinery wing etc. so as to provide one stop solution to the members.

SWOT Analysis of Marutham

Marutham has much strength to build further and become a model producer company. At the same time, it has to make concerted effort to overcome its gaps/shortcomings and get prepared to take the advantage of opportunities.

Strength

- ✓ Large number of women shareholders and women directors with growing feminization of agriculture.
- ✓ Guidance from the experienced agency like CIKS
- ✓ Social mobilization and institution building process was easier as company got a readymade platform from the earlier project supported by DFID
- ✓ Progressive management and governance system in place
- ✓ Good assets base – its own land for building warehouse, Neem based production unit, small carrier van (TATA Ace), harvester, photo copier, electronic balance, currency counting device
- ✓ Transparent payment system- digital/cheque payment above INR 2000
- ✓ Farm mechanization through AMFC
- ✓ Promoting sustainable agriculture practices such as organic farming

The company has inspired the members to such extent that one Mr. T. Elumalai of Kelambakkam village who is one of the shareholders and at present a Board Member of the company has donated 5 cents of land for Marutham, where a storage godown is under construction from the support of NABARD.

Weaknesses

- ✓ Financial – the paid up capital and credit available is still low in comparison to the demand. Delay in recovery of sales proceeds.
- ✓ In terms of activities – low procurement of produce of shareholders, not enough emphasis on seed production, not many sources for permanent income, lack of activities relating to value addition.
- ✓ Insufficient experience in some business activities - trade relating to coconuts, chilies and paddy – resulted in problems.
- ✓ Assets base is not sufficient as the demand is increasing
- ✓ VABDSPs – the incentive structure is not encouraging, their activities are sometimes not satisfactory
- ✓ Subsidy driven measures increases the expectation level of farmers which often inhibit them to work with a business mind set

Opportunities

- ✓ Financial – credibility with Banks enhanced and they are now coming forward to give credit, so also with other NBFCs
- ✓ To work on financial services like crop insurance
- ✓ Links with traders and various other Producer organizations at district and state level can further strengthen the company
- ✓ Creating a brand value for Marutham on services or produces(especially organic) or both
- ✓ In terms of activities – establishment of a fodder unit, production and preservation of indigenous seed varieties, production of ready to eat traditional foods in packaged form are prospective areas where business can grow
- ✓ Market/demand study on certain produces and helping farmers to produce and ensuring early entry to market
- ✓ Promoting protective farming and high value crops
- ✓ Having demonstration farm for hands on training to farmers

Threats

- ✓ Private input suppliers and traders often spreads disinformation amongst the member farmers. Any failure by the company becomes the game point for them.
- ✓ Natural disasters and climate change
- ✓ Price fluctuation of the produces
- ✓ Differences of opinions and conflicts when not contained at right time

Some impact: (in quantitative term)

- Per hectare production improvement : 5 - 10%
- Increase in net return to farmer : 5- 15%
- Sub-sector development : concerted work done at paddy, ground nut and black gram to increase its productivity, value addition, market linkage and availed government support
- Gap in availability of input reduced : 90% farmers got quality seeds in time at nearest point to their households
- Average savings per household due to provisions supplied by company, kitchen garden, and backyard poultry etc. ranging from INR 1000 – 1500 per family per month
- Crop intensification and diversification : paddy, ground nut , millets, flower and vegetables and fruits
- Livelihood basket diversified : vegetables and mushroom production , and livestock (4000 Families have vegetable gardens, 2000 Families have back yard poultry, 2500 families have Milch Animals)
- Additional employment generated due increased livelihood activities : 4-5 person days in 100 working adults
- Migrating households stayed back in the villages

Awards and Honours

Farmers Clubs who formed part of the MSAPCL have won Awards three times as listed below :

1. Kadambai Farmers Club, Kadambai Village, Vandavasi Taluk, Tiruvannamalai District –State level second price during the financial year 2013-14.
2. Isakulathur Farmers Club, Isakulathur Village, Vandavasi Taluk, Tiruvannamalai District – Got a cash award during the financial year of 2013 -14
3. Isakulathur Farmers Club, Isakulathur Village, Vandavasi Taluk, Tiruvannamalai District – Got a cash award during the financial year of 2014 -15.

Some Milestones Achieved

1. Date of Registration: 21st August 2013
2. First Annual General Meeting (AGM) : 12th November 2013
3. First loan availed from FWWB for working capital Rs. 5.00 lakhs : February 2014
4. Working capital loan availed from NABFINS Rs. 70.0 lakhs : October 2014
5. Stock loan from PACCS, Desur, Tiruvannamalai district Rs. 16.9875 lakhs : January 2015
6. Purchase of TATA Ace vehicle (Value Rs. 5.74 lakhs) : 29th September 2015
7. NABARD term loan under the SFAC – PODF Credit Guarantee Scheme (CGS) : Rs. 23.48 lakhs : September 2015
8. Support under the NABFINS Banking Correspondent Model : 7th January 2016
9. Purchase of paddy harvester (Value Rs. 20 lakhs) : 22nd January 2016
10. SFAC Matching Equity Grant (MEG) sanctioned (Value Rs. 9.0325 lakhs) : March 2016
11. SFAC Credit Guarantee Fund (CGF) sanctioned : 18th September 2016
12. During the current financial year (April 2015 – March 2016) the turn over of Marutham was Rs. 105.97 lakhs and their net profit was Rs. 0.056 lakhs

KURINJI SUSTAINABLE AGRICULTURE PRODUCER COMPANY LIMITED

Genesis

Kurinji (KSAPCL) is an extended outcome of the project undertaken in the Dindigul district of Tamil Nadu by CIKS on promoting organic agricultural practices. The project, started in 2010 for a period of three years, was very successful in terms of converting 600 acres of land into organic farming by 192 farmers (through farmers' clubs) with proper certification. With farmers dreaming for a sustainable future in agriculture through sustained efforts, the seed of setting up a producer company was germinated in the year 2014. With support from ProCif and Vrutti, Kurinji Sustainable Agriculture Producer Company began to take shape in the Natham block of Dindigul and got incorporated in the year 2015.

Background of the area

With reasonably good rain fall the area used to be agriculturally rich. Crops like sorghum, varieties of minor millets are grown along with pulses including blackgram and horsegram. Groundnut is also a major cash crop in the area. In the irrigated tracts, long duration paddy used to be grown from July-August onwards. Cotton was another popular crop for the post-paddy season. There is considerable amount of plantations like coconut, mango and tamarind. However, the last three years have seen considerably much less rainfall, thereby posing a serious challenge to the cropping pattern and livelihood system of the people. The open wells have dried up and many deep bore wells go much below than 700 ft depth. Thus, shifting to other livelihood options including migration has been on increasing trend. The major shift has been to livestock such as dairy.

Membership

Of the total 733 members, 410 (54%) are women and 323 are men. Women constitute a majority among the board of directors too - 6 of the 11 directors. Majority (85%) of the members belong to small and marginal farming households, landless households constitute 13%, and the rest of the 2% belong to large farming households.



In terms of representation of different social groups, large majority belong to BC/MBC caste groups with very negligible Scheduled Caste membership.

Shareholding

The share price is at INR 500/share. The authorised share capital is Rs.20 lakhs. The plans are on anvil to further raise equity from members and also to apply to the Equity Grant Scheme (EGS) of the Small Farmers Agribusiness Consortium (SFAC). Under this scheme, the FPOs equity base would be doubled, i.e. an equal amount of money paid by members would be paid by SFAC on behalf of the existing shareholders. Thus, the shares owned by each member are doubled.

Governance

The board of directors comprises 11 members, where 6 are women. Amongst them seven belong to small and marginal farmers, two are landless and two are large farmers. They are all nominated by the groups. The criteria for their nomination were based on their level of commitment and previous contributions in farmers' collectives/SHGs before the company came into existence. In fact, they were the ones who devoted time in mobilizing others in their villages and beyond to join as shareholders in the company. Some of them had previous experience of working with NGOs in the past, and therefore, were familiar in social mobilization and institution building processes.



AGM



Board meeting

To maintain more diversity in board, 11 directors come from 11 different villages. With support from the appointed CEO, the board is responsible for the day to day functioning of the company. Besides, they have a number of committees to look after the specific tasks.

- ✓ Purchase committee has four members
- ✓ Sales committee has six members
- ✓ Financial committee has three members
- ✓ Technical committee has two members
- ✓ Monitoring committee has two members

The board members play a dual role as Village Agri Business Service Providers (VABDSP) as well. All the services of the company are routed through them at the village. In a sense, their efficiency is synonym with the effectiveness of the company. The company has obtained PAN, TIN, CST, TAN as well as license for the sale of seeds, fertilizers and pesticides. Besides they have also obtained the license for the setting up of a provision shop. The company has office furniture, a photocopier and electronic balances.

Service delivery

Farm inputs : The company buys essential inputs such as seed, fertilizer, pesticide in bulk and sells through its retail outlet in Sendurai panchayat. In the first year of operations, it could supply cotton and various vegetable seeds catering to over 100 members, and several more non-members at a price lower than the informal market in the region. **In fact, it created a competitive environment where other players had to lower their prices.** Besides, Kurinji facilitated availability of new varieties of pulses and oilseeds sourced from Krishi Vigyan Kendras (KVKs), Agricultural Universities and the Agri Department of the government. However, in the year 2016-17 with the agriculture taking a massive hit, the business of the company dropped to its lowest.

Procurement of produces : In the year 2015-16 , as a pilot operation, the company procured sorghum, ragi, horsegram, minor millets, coconuts and neem seeds from some of its members, which in turn was sold to institutional buyers. However, due to drought conditions and worsening farm produces , this activity is put on hold.

Financial services : As usual, access to credit has been a major stumbling block. Microfinance companies charge an effectively around 36% interest. The local informal money lenders are even much more expensive. On the contrary members have been able to avail crop loan at 20% interest from the company. Besides, the time taken for disbursement is minimum with no opportunity cost involved. Since the company works through village groups and the VABDSP, the trust level between the members and the company is very high. So far, 130 members have availed of such crop loan from Kurinji. The company has encouraged more people to turn to cattle and dairy for a source of



supplementary income in such hard times by designing a special loan product for it. It has tied up with Samunnati Finance (an NBFC) as well as FWFB to generate a total finance of INR 4 million to lend the members as cattle loan, and a part as crop loan. As many as 125 members have been provided with a cattle loan of which 100 are first time into dairy activity.

Though people have been into dairy based activities none was going for cattle insurance. Kurinji created awareness and made cattle insurance mandatory for all who took cattle loan. For a cow worth INR 40-45000, the insurance premium comes to be INR 2000 for a year. The company earns through the service charge for both the loans as well as the insurance, approximately INR 3000 per loan application. It also charges a 6% interest earning, i.e. the company gets the loan at 14% and lends it to its members at 20%. Together, this activity has been the biggest revenue generator for the company. **Roughly over 40%, of the monthly revenues come from this activity.**

Cattle feed : With cattle loan, company has taken up back end support in making good quality cattle feed available at reasonable price. It has taken dealership with one of the top brands, SKM cattle foods. As a result, there is a good price difference between Kurinji's sales point and the market in the region. For example, a 50 kg bag at the Kurinji store, costs INR 1080, whereas the same bag costs INR 1150 in the retail market. Due to this competition, many local shops have opted for cheaper and lower quality feed brands. Almost all the members and many more non-members come



Meeting on need assessment

to the Kurinji Store to buy their cattle feed. Besides, Kurinji is in the process of innovation by introducing new types of cattle feed additives to the local market, such as biscuit residue, colloquially called '*Biscuit Maavu*' (literally meaning biscuit powder). This is considered a very tasty additive to the cattle feed. As of now, Kurinji enjoys monopoly over this product in the local market.

Provision store : The company provides some essential provision like pulses, rice, oils, soaps, shampoos, etc. This activity is currently underway in 6 of the 20 villages where Kurinji has a presence. Members avail same product at lower price than the retail market. It is constrained to expand in other villages as some members have small provision shops and therefore a conflict of interest might arise.

Though this activity accounts for less than 15% of the monthly revenues, it is quite significant simply because of the number of the members it caters to.

Non-revenue services: As part of the mission of the company to promote sustainable agricultural practices, it extends all support for adopting organic farming techniques. It periodically conducts training programmes, demonstration and meetings to this effect. In fact, pulses, sorghum, millets and groundnuts are grown in rain fed lands in the area entirely organic by default. These farmers do not use any synthetic fertilisers nor chemical pesticides, weedicides, etc. The major problem they face is the lack of protective irrigation facilities. Besides, due to high uptake of dairy farming among its members, the company has facilitated some trainings on improved cattle management practices.

Milestones of Kurinji

1. Date of Registration: 27th April 2015
2. First AGM held : 09th July 2015
3. Working capital loan from FWFB – INR 10.00 lakhs (one million) : 19th November 2015
4. Opening of shop : 22nd November 2015
5. Milch animal loan from Samunnati Finance – INRR 30.00 lakhs (three million) : 1st June 2016
6. Milch animal loan from FWFB – INR 20.00 lakhs (two million) : 5th July 2016

During the last 12 month average monthly income has been INR 25000 and expenditure INR 18000 (recorded in Nov, 2016)

SWOT Analysis of Kurinji

An objective assessment on SWOT gives the following observations

Strength

- ✓ Being the first producer company in the area it has generated much enthusiasm amongst people in general and agricultural households in particular
- ✓ Being managed by all locals, including the CEO

- ✓ Based on strong community based collectives such as SHGs and FIGs
- ✓ Members are disciplined in matters of repayment of loan
- ✓ Credible relationship being maintained with financiers
- ✓ The Board as well as staff are conscious of the benefit cost ratio on any activity is undertaken
- ✓ More women members alongside of the trend of feminization of agriculture
- ✓ Regular handholding support from CIKS
- ✓ Credit is cheaper comparing to prevailing rate

Weakness

- ✓ Credit absorption capacity assessment mechanism is not in place
- ✓ More attention is being given to credit business rather than increasing income by diversifying livelihood activities and reducing expenditure on inputs
- ✓ All the directors are also working as VABDSPs , which might create complications in leading to situation 'conflicts of interest'
- ✓ Systems need to developed as most of the work is still being done in informal manner by the VABDSPs

Opportunities

- ✓ Being first and only FPO in the area, it has potentiality to grow
- ✓ Though Government extension department is not proactive, regular liaison with them can be beneficial with supportive policy environment
- ✓ Improving market linkage , especially with wholesale traders in Dindigul, Madurai and Natham area
- ✓ Regular interaction with NABARD and Krishi Vigyan Kendra (KVK) will benefit the company through various schemes
- ✓ Taking benefits from *Pradhan Mantri Fasal Bima Yojana* (PMFBY) – Prime Minister's Crop Insurance Scheme and *Sinchai Yojana* (irrigation scheme)
- ✓ Company can work on tamarind value chain , which the women have been informally doing
- ✓ Possibility of obtaining Matching Equity Grant and Credit Guarantee Fund from SFAC
- ✓ Can build collaboration with other FPOs
- ✓ Strengthening marketing activities for giving better price to members

Threats

- ✓ Low rainfall, drought like situation and climate change impact
- ✓ Large number of middlemen in market value chains
- ✓ Nationalized banks are not proactive to finance
- ✓ Lack of storage facilities for inputs
- ✓ Limited capacities of the director due to their limited education and exposure

Overall impact

Though it is premature to make an assessment on the impact of this company in little more than one year of its existence, nevertheless it has made a good footing and can be made futuristic. To mention a couple of achievements, the company played really a very critical role in motivating some members to take cattle loan for purchasing milch animal consequent upon consecutive droughts in the area. This yielded very encouraging result. The daily collection of milk shot up 24 litres per day to 200 litres by a local dairy. The activity could give some cash earning to the farmers. The other one happened in the area of credit, which used to be very expensive either from MFIs or moneylenders. The credit was made available to members at 20 % rate of interest much below even the MFIs (36%). Besides, the defunct self help groups were revised and were bank linked for small credits.

Immediate future plan

Considering the present and expected potentiality of the area and core competencies of the people the company has a couple of plans on anvil.

1. **Tamarind processing**: This activity has been going on in good scale in an informal manner in the area. The company has made an assessment that if it could be organised and done in bulk quantity, it can generate reasonably good wage income for many. Though challenges are there to compete with informal operators keeping quality in mind.
2. **Commission mandi** : There are some members who are into flower and vegetable cultivation. To enable better price realisation for them and other such cultivators in the region, the company has plans to start a commission Mandi between Sendurai and Madurai, the biggest trading hub for these perishables.
3. **Value addition** : Medicinal herbs , coconuts, vegetables are some of the produces in the region that are sold just as they come from the farm/forest. Currently, there is very little value addition happening to them. Value added products have longer shelf life and better demand in the market. Now, the company is exploring on what items it would go for value addition and how. One immediate idea is to install a biomass based dryer that would dry the herbal produces and coconuts so that they can be sold directly to the pharmaceuticals and oil mills respectively. CIKS shall give direct support from the project it has received from the Department of Science and Technology (DST)

Conclusion

Farmers' collectives in the form of cooperative by law or otherwise have their own limitations and have not succeeded to the extent it was expected in India. Thus, a suitable amendment was made to Companies Act so that farmers' collectives work as truly business entities complying all the statutory provisions of the country. Needless to mention that all other companies started in India are either by educated people or people/families having traditional business for long time. Thus, the challenges remain inherent when a group of farmers (who do not have education, especially English education, limited world view and do not understand the language of the statutes) form a company to protect their own interest as well as do business! They need support like a creeper plant to reach a platform where they can manage their affairs. What support and how long they should be provided and by whom is a subject or discipline which has not yet matured or standardized in our country yet. It is still in evolving stage. As a matter of fact, most of the non-government organizations (inherently

working as not-for-profit entities) have promoted producer companies either on grant or soft loan financial support. Huge investment goes in social mobilisation part. However, NGOs have done commendable job in whatever little that has been achieved in this area. In the course of preparing this case study an attempt was made to find out an approximate value of the investment made to set up these two producer companies and the benefit thereof so far gone to the households. It is found that about a sum of INR 40 million has been so far invested for about 9000 (INR 4500 per household) households where a per capita household benefit has been INR 6500 and the households will continue to get more such benefits in years to come.

It is a matter of fact that the design of Producers Company has generated enthusiasm amongst producers, be they farmers, fisher folk, or artisans. Nevertheless, many producers companies have not been able to establish themselves as business establishments in real sense. There are inherent challenges like 'tragedies of the commons' and without a clearly defined incentive structure. Then comes the issue of capability and its development. When producers try to do business, then they have to overcome a set of challenges posed by established middlemen/ retailers (both in input procurement and output marketing) in the entire value chains of different produces.

The challenges for the producers companies (collectives) have remained intertwined and interdependent. Despite such challenges both Marutham and Kurinji have been trying to establish themselves as true business organizations as they have realized the strength of collective action. Besides, they get continued patronage from CIKS, which is an accredited Producer Organization Promoting Institution. They are trying to diversify their business activities so as to reduce the risk factors. Notably, both the companies have been able to create a hope amongst the farming community. Some of the migrant families are back to their village and have been able to build a stable livelihood system based on agriculture and allied activities. Women members being more in number they take extra care for building the company as they see agriculture and allied activities can build a sustainable livelihood system for them, where as men tend to largely tilted towards non-farm based employment opportunities.

Complying regulatory requirements and maintaining records mostly in English is still a challenging area to overcome. Availing finance, especially from the commercial banks, continues to be a major challenge. Though supportive policy is in place, their effectiveness at ground level is far from the reality. Some mechanism should be in place to address these issues at quickest possible time. Credit and equity guarantee fund should be available on merit and priority basis. A district level mechanism should be in place to resolve these issues at the minimum waiting time.

A producer company needs a minimum of five years of handholding and capacity building support to function on its own, some may require more time depending on the level of their education and physical proximities to available services. Capacities on governance, making business plan, building market linkage and value chain development along with infrastructure support should be extended on a time bound manner. People from successful producer companies can be hired to build the capacity of new companies in the district as well as the state.

Climate change impact being increasingly an impending factor in agri-allied sector, targeted intervention in production as well as livelihood system is necessary. More closer collaboration is

required with scientific action research entities such as KVK , and indigenous science research and application organizations.

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