On Producer Companies

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Introduction

It is an appropriate time to rekindle civil society interest in institutional reform in bodies like cooperatives, producer companies and community groups. The crisis the country is facing on land and water needs this. The Producer Companies have been around for some time and need review and strengthening and also the concept is under attack. That also needs a response.

Some Examples

Designing new structures to raise incomes is recommended and The Producers Company, possible since 2003, may have some of the answers. If existing cooperatives join and form a Producers Company, the one share one vote rule applies, to nurture the cooperative spirit and marry it with corporate efficiency. But if individuals form one and want to enter into strategic alliances with say other Boards, Companies or Corporations, then the economic strength of the actors could form the structure of the Producer Companies. In this case, strategic partnerships, the details of which cannot be outlined in advance, would be possible.

Many are experimenting with the Producers Company. Since I chaired the Committee which drew up the law, I am kept loosely informed. At Dari in Amreli District, the late Anil Shah had set up a Producer Company with ten watershed development groups as founders from the ten villages they were working in and now the Company is in agricultural input and technology supplies and doing reasonably well. We call this Watershed Plus since money has to be made after the water is harvested.

In December 2005, the NDDB restarted the Junagadh Dairy which on account of mismanagement earlier had gone to the BIFR. Milk collection was again started at the four talukas of Keshod, Manthali, Mendad and Junagadh and is now spread over 130 out of the 244 villages and covers 5,000 producers. This time around the approach is business all the way. At the village level there is a Sahayak who collects the milk from the as yet informally created milk producers' institution. The testing centre for fat content is away and after the samples are tested the money is deposited in the savings bank of the producer. Given the politicisation the conventional cooperatives have gone through, the idea is to focus on the business aspects only to build up the traditions to set up the Producers' Company, in one hopes, the not too distant future. In Saurashtra it is buffalo milk and the demand is rising. On account of this and the high fat content the dairy is able to give around thirteen rupees a litre. Farmers like Rambhai in Dhandhusar and Chandulal in Mohabatpur which I had visited earlier and is on the prosperity route, are investing more in buffaloes. But it is early hours yet and I suspect when the systems stabilise, NDDB will make an effort to organise the Producer Company. Here since there would be experience on the economic interest taken by individual producers the strategic partnership variant seems more plausible. At the December 2006 event Dinshaw Patel the popular Anand MP and now Minister at Delhi and others were enthusiastic, but Sharad Pawar with all his cooperative and agriculture experience was stating hopes when he said that

"We have accepted the cooperative system, which is over a hundred years old. There is a need to change. The reforms have been introduced following the recommendations of Prof Alagh. It begins from Junagadh. If this venture succeeds you will be remembered as the torchbearers of the new path of the cooperative movement. You will be successful in paving the way for the new model."

NDDB had in fact been experimenting with the same model in Chittor District in Andhra, which also had a flourishing dairy, which went in disrepair with blatant political interference at fairly high levels. This is a poorer area and the milk producer institutions started around women led SHGs. With difficulties in cotton and oilseed farming, milk became a more important source of income and is being latched on to the Balaji Dairy at Tirupati.

A Group called 'Just Change' met in Bangalore in 2005. Just Change - as a concept was first introduced in 1994 by Stan and Mari Thekaekara based on their experience of working with the adivasis of Gudalur. It is an initiative to enable communities to take control of their economy by directly trading with other similar communities. Basically, the concept is to create a new marketing chain where the traditional links between investors, labourers and consumers can be redefined. The Ratan Tata Trust agreed to support the process of converting the concept into a reality. Just Change was set up as a trust in the UK and pilot trading with 3 community groups started. The Just Change Producer Company would be made of community groups as shareholders and would handle the trading operations. The Just Change Trust would be for planning and R&D support. This is thinking out of the box.

Land and Water

These new experiments are important. Land is going to be the central issue in India in the years to come, with the cropped area going down. We must have successful ways of the farmer, many times women, farming their land and developing links with technologies and management on the input, technology and market side. Those who believe that contract farming means giving land away to companies are in for shocks.

Land

In 2002-03, the last year for which we have a number, the Net Sown Area in India was 132.86 million hectares (Table 1). In a book authored with Uma Lele of the World Bank, (Table 4) I had predicted wrongly that net area sown would be stuck at 141 million hectares and growth needs would need to be sourced from productivity and more intensive cropping. Growth in net area sown at around 1% annual in the early period of planning fell to around 0.6% and then to 0.3% in subsequent decades and was now not growing at all. It was reasonable to assume that the geographical area of the country or the extensive land frontier for exploitation had reached its limits and some of us while at the Planning Commission had correctly projected that the net area sown or arable land of the country would remain constant. But now for the first time in Indian economic history we are told that net area sown, rising slowly earlier and constant since the early nineties has gone down by eight million hectares. The last year in which NAS was less than the 2002/03 number was in 1958/59.

Table1: Net Area Sown in India 1999-2002		
(*also years after 1960/61 with NAS below 135 million hectares*)		
S.No.	Year	NAS (million hectares)
1.	1987/88	134.09
2.	1991/92	141.63
3.	1999/00	141.10
4.	2000/01	141.08
5.	2001/02	141.40
6.	2002/03	132.86

Source: *Government of India, Ministry of Agriculture, Nov.2005, Agricultural Statistics at A Glance: 2005 , Table 14.2, p.176*

It would be imprudent to brush aside the decline in cropped area as a consequence of the drought of 2002-03. It is true that in the South West Monsoon, 2002, 21 meteorological sub-divisions out of 36 had deficient/scanty rainfall. In the earlier drought in the late Eighties, NAS also fell and the severity of the drought in 1986-87 and 1987-88 was comparable. But in the Eighties even in the second year of drought NAS was 134 million hectares and it was 139.58 million hectares in 1986-87. More basic factors seem to be now at play. We need to disentangle the 'drought' effect from these more basic factors leading to diversion of land from agriculture and this needs analysis with statistical and GIS data and field level verification, but at a more general level soil degradation, urbanisation and slow down of irrigation have been suggested as reasons.

Soil degradation has been extensively studied1. It is now being suggested that

urbanisation is proceeding much faster than earlier estimates of scholars like A. Kundu,

who worked with the low urbanisation growth rates of the Census 1991-2001 period. For example for Gujarat, Yoginder K. Alagh and P. H. Thakkar worked out that a number of habitations which met the Census 2001 criteria of urbanisation

[1] Ratna Reddy has done considerable work in this area. Also see the summary of studies in G.K.Chaddha, S.Sen and H.R.Sharma, and Resources, Delhi, Academic, 2004.

were still classified as 'villages'. According to Population Census-2001, Census Towns are non-statutory towns and are actually rural areas, but satisfy the following criteria:

(A) Minimum population of 5,000

(B) Density of population of at least 400 persons per sq. km.

(C) 75 per cent of the male working population engaged in non-agricultural activity.

It was found that in the decade 1991-2001, in Gujarat, rural non-agriculture main workers increased more than urban non-agriculture main workers. As per the 2001 Population Census, there were 122 big villages in Gujarat, each of them satisfying the three Census criteria of non-statutory towns. These villages had a total population of 11.21 lakhs. If this is taken as a correction factor, then the revised estimate of degree of urbanisation of Gujarat for the period 1991-2001 will be nearly 39.57 per cent (earlier estimate being 37.36 per cent and the correction factor being 2.21 per cent).

Table 2: Level and Growth of Urbanisation in Gujarat

Year	Number of Towns	Population (in Million)		Urbanisation (in %)
		Entire State	Urban Areas	
1	2	3	4	5
1961	181	20.63	5.32	25.77
1971	216	26.70	7.50	28.08
1981	255	34.09	10.60	31.10
1991	264	41.30	14.25	34.49
2001	242	50.67	18.93	37.36
2001 Revd.	364	39.46	30.14	39.57

Source: Yoginder.K.Alagh and P.H.Thakkar, ***Short Notes on Urbanisation Levels,*** *Ahmedabad, SPIESR, 2006*

The level of urbanisation in Gujarat has therefore not increased by 2.87 % points, but 5.06% points, which is close to double the earlier estimated change and makes a big difference in policy and forecasting work, since it is well known that urban projections are based on urban-rural growth differences and changes in first differences of the magnitudes considered can make big impacts on outcomes. Earlier land use studies found little effect of urbanisation on land use. For example, decadal release of land for urbanisation was generally less than 5%. This may now change. If land is to be released for non-agricultural purposes and if the farmer is to share in the process if his rights to land are protected, he could through producer associations, leverage his strengths in strategic partnerships with other companies.

Water

There is an intimate relationship between cropping intensity, land use and water development. Irrigation permits the possibility of multiple cropping by bringing additional land under cultivation and the same land to be used more than once. Application of new technologies in the past was related to assured water supply. The new technology obviously raises productivity. But on account of photo insensitivity properties, newer technologies permit shorter duration crops, which also is associated with increase in cropping intensity. The use of these kinds of relationships has been common in Indian agricultural policy and plan models, since the mid-Seventies when the first agricultural sub-model of Indian planning was formulated for grain self reliance and is used in the current generation of water forecasting models also 2.

In the Nineties arable area had stopped growing and so the land constraint was far more severe. Growth was seen as now to be sourced from double cropping and yields. This fundamental relationship was used to project the intensive resource base of the economy. Table 3 shows that it was projected that by the end of the decade India would have used up most of its balance water reserves, with the irrigated area reaching around 114 million hectares by 2010. Projections for 2020 were a requirement of irrigation of 122 million hectares. The projections assume a vastly improved performance on the land and water management frontiers. It needs to be remembered that the balance ground water reserves are now more limited. A very dramatic effort will be needed to harvest and carefully use the available water.

Meanwhile in actual fact in this decade irrigated area stopped growing. (Table 3)

Table 3: Irrigated Area in India 1998/99-2002/03(mn.hec.)				
S.No	**Year**	**Net Irrigated Area**	**Gross Irrigated Area**	**Irrigation Intensity**
1.	98/99	56.51	77.64	121.13

[2] K. Chopra and B. Golder, Sustainable Development Framework for India: The Case of Water Resources, Delhi, Institute of Economic Growth, 2001. Table 2.6)

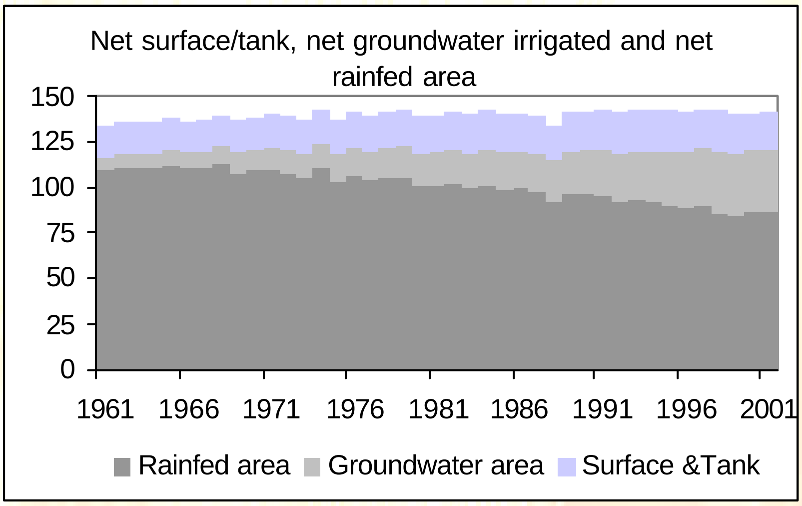
2.	99/00	56.76	77.99	121.23
3.	00/01	54.83	74.29	119.46
4.	01/02	55.88	77.00	121.12
5.	02/03	53.07	70.67	117.60

Source: Government of India, Ministry of Agriculture, Nov.2005, Agricultural Statistics at A Glance: 2005, Table 14.2, p.176.

Table 4: Perspectives on Land and Water				
Variable	**1991/2**	**1996/7**	**2001/2**	**2006/7**
Population (millions)				
a. Planning Commission ☨	856	938	1016☨	1099
b. UN (Unrevised)	874☨	955	1042	1130☨
Net Area Sown (mn. hec.)				
a. Planning Commission estimate	140	141	141	141
Revised Gross area sown (mn. hec.)		141	141	141
a. Planning Commission estimate	182	191	197	203
Revised	183	191	197	205
Gross Irrigated Area (mn. hec.)				
a. Planning Commission estimate	76	89	102	114
Revised	64	78	92	107
Cropping Intensity				
a. Planning Commission estimate	1.30	1.35	1.40	1.44
Revised	1.30	1.35	1.40	1.45
Gross Irrigated Area as % of Gross Area Sown				
a. Planning Commission estimate	41.5	46.9	51.7	56.1
b. Revised	35.0	41	46	51

☨*Source: Uma Lele, Y.K.Alagh, et.al., Forestry in India: An Evaluation, Washington, World Bank, 2000, Annex H*

People like me were wrong in forecasting that cropped area would remain constant, but are right in the warning we gave. The decline in canal irrigated area is equally recent and shocking, having been discovered by Tushar Shah of the International Water Management Institute in this neat little picture copied from the IWMI website.



We really do not have a detailed analysis of the debacle in irrigation. The first issue is the failure of the Advanced Irrigation Benefit Programme. This programme for completing on going irrigation projects was started when I was Planning Minister. It was started because we have a long history of successes with such programmes. The first such programme was started in 1975-76, when we had formulated a plan for food self reliance. Table 5 shows that it worked and irrigated area went up by 5 million hectares and irrigation intensity from 108.77 to 110.25. We then reinvented it in 1987-88 when the late Rajiv Gandhi wanted a Plan for stepping up stagnating agricultural production. As member in the Planning Commission, I saw it again worked and over a brief period irrigated area went up by around 5 million hectares and irrigation intensity from 113.15 to 115.15. There has been very little progress since. These earlier programmes and the critical role they played have been described elsewhere3[3], but the real issue is why did the AIBP fail? (See Table 3).We need a serious professional evaluation, but being involved with planning and monitoring such programmes for over three decades, I suspect that not including a Canal component to cover the last mile of water deliveries is one reason and the other is bringing in a loan component and not keeping it a Central Plan scheme.

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[3] See, Yoginder.K.Alagh, State of the Indian Farmer: An Overview, Delhi, Academic and Ministry of Agriculture, 2004, pp.40-42, for a description of the Seventies programme, the skepticism of Western scholars and aid agencies and the support of the then Prime Minister Indira Gandhi and pp.48-51 and 253 for the support of the then Prime Minister, Rajiv Gandhi for the Eighties programme.

Table 5: Impact of Special Irrigation Programmes in the Seventies and Eighties

S.No	Year	Net Irrigated Area	Gross Irrigated Area	Irrigation Intensity
1	74/75	33.71	41.74	108.03
2	75/76	34.59	43.36	108.77
3.	76/77	35.15	43.55	108.40
4.	77/78	36.55	46.08	109.53
5.	78/79	38.06	48.31	110.25
6.	87/88	42.89	56.04	113.15
7.	88/89	46.15	61.13	114.98
8.	89/90	46.70	61.85	115.15

Source: Government of India, Ministry of Agriculture, Nov.2005, Agricultural Statistics at A Glance:2005, Table 14.2, p.176

There are, however more basic factors at play. As compared to relief against rainfall failure, the farmer now wants yield enhancing water supplies for water stress periods of diverse crops grown with modern technology. Access to ground water gives them this facility, badly planned and inefficiently managed canals don't. Farmers and their communities now want control on water deliveries. We have just started canal systems which employ for example hydraulic controls upto distributory levels and the successful examples are few and far between. In a recent critique of the Ken Betwa project put on web by the Interlinking of Rivers Project we have described how the soil scientists have shown that the area is unsuitable for paddy and irrigation would enhance yields from oilseeds, pulses and fodder crops, but the system is designed largely for flood irrigated paddy. We have also described the alternatives now possible, like the computer controlled delivery systems being constructed in the Sardar Sarovar Command.4

The implications of these trends are not being realised with the urgency they deserve, since at a basic level resource constraints of a more severe kind faced by certain East Asian economies are now being approached in India. Organisations, communities, households and individuals will have to grasp this fact and live with it. The severity of the blow will take time to sink in. But time India does not have. A few years ago I had warned that we are getting close to the kind of land and water shortage East Asian societies like China, Japan and Korea have grappled with, but have built up institutions through the centuries to cope. I had argued that we need to hasten. We would we hoped harvest water and improve irrigation deliveries.

Institutional Reforms

[4] Yoginder.K.Alagh, Methodology of Irrigation Planning: The Ken -Betwa Case, in Yoginder.K.Alagh, Ganesh Pangare and Biksham Gujja, Ed., Interlinking of Rivers in India , Delhi, Academic, 2006, pp.81-102

For land development, access to water, technology and markets, three kinds of institutions are being talked about and experimented; namely, the private sector, stakeholder institutions like Cooperatives and Producer Associations, which can register under the Companies Act, 2002, Second Amendment Bill, which translated into law, a model I had developed for the reform of the Cooperative Sector and the Panchayats themselves. The first aspect to note is that it is early hours yet and we should go by experienced based studied results and I trust the Ministry would support the tradition of Rapid Appraisals, Case Research and Evaluations to feed back into decision making through real time. I believe that enough is going on in the field to make this possible. We may discuss some of the possibilities.

When the original legislation on Panchayati Raj was being designed in the late Eighties, under the supervision of the present Minister of Panchayati raj, the idea that agencies that access technologies and markets to farmers or artisans would have a relationship with the Panchayat was discussed. A Think Tank, working under Secretary Planning Krishnamurthi saw stakeholder institutions as Sub-Committees of the Panchayat. This was very preliminary and in fact sounds rather naive now. The Mid term Appraisal of the tenth Plan and the Approach paper of the Eleventh Plan sets the right tone and the PM has in his Independence Day address last year opted for the Authority for Rainfed Regions. Indira Gandhi started the quest for self reliance in foodgrains in 1975 from the Red Fort, Rajiv Gandhi was the forerunner of agro-climatic planning, the origin of the “second green revolution’ again in 1986 from there and so we must in the centenary of S. K. Dey Saheb hope for the best. If the New Authority now set up is taken up in earnest the beginning of the battle is won. The Technical Committee on Watershed Programmes, 2006 or the S. Parthasarathi report, with inputs from activists like Mihir Shah has given the Blueprint, and these were also there in what is called the Bopal Declaration, but there are many issues that remain to be addressed.

I believe that working models with stakeholder groups and PR agencies need much greater attention. Land scarcity is going to be perhaps the single greatest constraint to Indian development. Local bodies are the repositories of what are called Common Resources. Those who work or live off a resource are obviously the first to be affected and need to be consulted. We need to build models of cooperation rather than clash. These are not simple matters and while best practice cases exist, we do not as yet have working systems. The idea that land is not an economic good in the market which lies behind the tenancy legislation is irrelevant in practice for the greatest change that has taken place in rural India is land being transferred voluntarily from very small peasants to middle peasants in what is called reverse tenancy. Private organisations are expanding in ground water exploitation and there is the beginning in places like Kaira District in Gujarat of small water storage tanks in private plots. The economic interest in land and water has to be at the heart of any reform process. I believe that groups of stakeholders, including the smallest peasants can cooperate for well defined and limited purposes for land development and water projects. Farmer level irrigation management systems, watershed development projects, groundwater cooperatives are all thriving and many more and very promising possibilities are there.

The argument that each agro-climatic region has its own solutions is well known and so I won't repeat it. Suffice it to say that a Framework Plan with targets, best practice cases, policies and threats anticipated exists, sadly on paper.5 Its developments have been professionally reviewed.6 We always complained, but now one of the more experienced hands has called the Nineties the "Golden Decade" for watershed development, JFM's and Participatory Irrigation Management). Therefore:

"When those working for Participatory management of natural resources were hoping for strengthening and carry forward participatory approach in 2000-2001 at the time of formulation of the Tenth Plan, there was severe setback as described in the paper "The Fading Shine of the Golden Decade." The paper, annexed to this report, is a cry of anguish. When this paper was presented to Dr. MS Swaminathan and Prof. YK Alagh, they encouraged DSC to organise national level deliberations to voice concern at the dilution and almost reversal of the participatory approach and at the same time present Principles that should guide the formulation and modification of schemes of NRM by center, states, or donors." (Anil Shah[7])

The Bopal Declaration emerged because stakeholder participation was diluted both in watersheds and in JFMs; the former in the Hariyali Guidelines and the latter in departmental insrtructions. It consists of Eight Principles for revival and Road Maps for each.It is of some importance since it has been introduced in the Eleventh Plan

These are:

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[5] Government of India,1989, AgroClimatic Planning : An Overview, New Delhi, Planning Commision (authorship, Y.K.Alagh, et.al.)

[6] Chopra,K., C.H.Hanumantha Rao, and R.P. Sengupta, 2003, Water; Resources, Sustainable Livelihoods and Eco-System Services, Delhi, Concept

[7] Development Support Center, 2005, The Bopal Declaration, Bopal

Principle-1: Centrality of Community Based Organisations (CBOs)

Gram Sabha and as its executive committee the Gram Panchayat should be associated with stakeholders' organisations so as to secure required support for the development of local resources. CBOs will represent interest group of primary stakeholders

Principle-2: Equity

At the design stage itself program must identify and account for losers and gainers or les gainers. Interventions in the form of differential contribution, customised village level institution building (e.g. gender segregated user-groups), non-negotiable budget provisions, gender-sensitive choice of technology and targeted delivery options are some of the approaches known to be more effective in reaching out to poorer sections.

Principle-3: Decentralisation

Flexibility in technical, social and financial norms to suit varying local conditions should be facilitated through a decentralised process, by a broad based organisation at the district level. The district level organisation must be led by a CEO who is competitively selected for a fixed term on a performance contract basis and is granted full autonomy to deliver results within the limits of the organisation's charter, a Governing Board with strong representation from stakeholders and, multi-disciplinary professionals with high competency that can provide support for effective decision-making.

Principle-4: Importance of facilitating agency

Principle-5: Monitoring and Evaluation

These lessons have to be distilled from the field and made available to both policy makers and programme review body in a manner and time-span that it can be instrumental in improving programme policies and reforming or adopting improved procedures. When programmes are monitored in real-time and feedback is used for bringing reforms in the field, key functionaries are motivated to "embrace errors" and convert failures into learning opportunities.

Principle-6: Training and software inputs

Principle-7: Sustained momentum of development

"Initiate productivity enhancement and value addition during the project period and for a few years beyond so that NRM programmes realise full potential of local resources resulting into rising income and prosperity for the rural communities

Principle-8: Organisational re-structuring. These organisations, at the national, regional, district, and local levels need to have much greater operating autonomy, and accountability for performance to their funders and for service delivery to the intended recipients.

Global experience with public sector organisations indicates that several mechanisms of autonomy and accountability need to be institutionalised for excellence. These include a charter for the organisation that clearly spells out its mission, mandate, powers, responsibilities, and autonomy; a competitively selected CEO on a (renewable) contract appointment with considerable operating autonomy though within the organisation's charter; a governance board with strong representation of the organisation's stakeholders and relevant professionals; an annual MoU that spells out the performance expectations for the organisation and support expectations for the institution to which the organisation reports; an MIS that periodically reports to the stakeholders and the controlling institution progress vis-à-vis performance targets as well as other developments; a charter of services that the stakeholders can expect from the organisation and a mechanism to redress grievances should they arise; transparent, merit-oriented human resource management policies (vis-à-vis hiring, emoluments, promotion, etc.); performance linked rewards; 'best value for money' market tests for the services offered, etc.

NRM programmes require relatively highly autonomous organisations at district, state and national level with performance accountability, accountability for service delivery to their stakeholders, and multi-disciplinary competencies, to enable them to design, modify, operationalise, and implement as appropriate the NRM programmes within their respective mandates. At the national level, this organisation will take the form of a Board for each major programme. To facilitate excellent contribution to their respective missions, each of them must have a charter that clearly spells out its mandate, mission, powers, responsibilities etc., a CEO who is competitively selected for a fixed term on a performance contract basis and is granted full autonomy to deliver results within the limits of the organisation's charter, a governance board with strong representation from stakeholders and relevant professionals; an annual MoU between the organisation and its controlling/funding authority that sets out performance and support expectations on both sides; a management information system (MIS) that provides periodic information on the organisation's performance against its MoU commitments to its controlling authority and its stakeholders; a stakeholders' charter that sets out what services the stakeholders can expect from the organisation and the mechanism for redressing any grievances they may have; transparent HRM policies; performance-linked rewards; and 'best value for money' market tests.

The relevance of all of this to a group of rural development specialists is obvious. I will only highlight two Principles for you for this is a converted and highly motivated group which should not be harangued. The first is, let us forget about the past. The second is that the seventh principle since it is new. Watershed Plus says that, CBO's have to take the community to the market to take advantage of value addition and prices. This is an addition to the concept box and not easy. It took me quite some time to convince my friend Harnath Jagawat for example that his adivasi girls and boys will have to sell produce for profit, after successfully running lift irrigation cooperatives. For a land and water developer this is a new ball park and needs an effort. Cooperators will see this aspect immediately.

Are there Alternatives to CBOs, Cooperatives and Producer Associations?

The only alternative model which I know which is seriously suggested is Tushaar Shah's plea that the Chinese experiments in private sector institutions at the village level to run water systems should be the preferred model. Incidentally his model also includes a strong system upstream say upto the distributory as we would call it.8

Also I think he is underestimating the role of the Communist party in directing public-private partnerships in China. My impression after field visits in regions similar to the ones he worked leading a Rajiv Gandhi Foundation delegation in October 2004, is that the local agents are carefully selected, and are responsible to higher authorities. It is not an accident that The Mayors of Shanghai go to Beijing at the highest levels.

[8] Irrigation projects have, therefore, now to be designed within the framework of a very detailed understanding of the agro-climatic and agro-economic regime in India also.. It is possible to take into account the diverse features of the Indian agricultural economy to develop such designs. For example, a computerised hydraulically controlled system designed for SSP was implemented and is at present being constructed. It provides for controls upto the level of a distributory and measurements below. For details see Anil. B. Mandevia, Irrigation System Operational Management by Way of Canal Automation, in R. Subbaiah, et. al., Ed., Sustainable Management of Water Resources, Delhi, Himanshu, pp.25-37

My view is, it is early hours yet and the mixture of public and private initiatives in strategic organisations is an issue with experimental possibilities. The question of the organisation of small farmers and their links with higher level organisations 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. Later on, they may be allowed to have joint ventures with big companies, if they so decide. A problem visualised in contract farming is the organisation of farmer groups to interact with large companies. One answer is to encourage farmers groups in this context. According to a recent review of such issues by Samar Dutta:

"Even though several states have introduced parallel cooperative laws, and even though the union law, too, has been made more liberal, yet the pace of reform has been far too slow. Several states have resisted all effort at reform. Farmers in Gujarat, Maharashtra, Tamil Nadu, West Bengal, Punjab, and several other states continue to have few options. Under these circumstances, a new chapter on producer companies was introduced in 2002, to the Companies Act. This legislation was based on a draft produced by a Committee under the Chairmanship of Y.K.Alagh. (Y.K.Alagh, 2000) 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."[9]

[9] Samar Dutta, Cooperatives in Agriculture, Delhi, Academic, 2005.

The Producers Company legislation now on the statute book provides an important method of strengthening farmer groups to take advantage of strategic alliances for growth following the cooperative principle. The Cooperative principle is alive and kicking, if we have the strength to adapt and innovate. It is being reported that the proposed amendments to the Company Act are planning to change the Producer Company provisions. It is important that the institution is strengthened, since it could provide the sinews to the National Authority for Rainfed Regions.

It is early hours yet and the mixture of public and private initiatives in strategic organisations is a question with experimental possibilities. In the forthcoming period, I suspect farmers groups, stakeholder organisations and cooperatives, apart from playing a larger role themselves, will also play a larger role in strategic partnerships with business groups. Otherwise interaction between atomistic peasants and large companies may create problematic situations. A monopolist is not a villain of a Hindi movie. He just works with an inelastic demand curve. However the more we encourage organisations of smaller producers to organise their interests and strategise their relations with large companies, the better and more enduring will be the systems we will create. I believe Panchayats and bodies of stakeholder led institutions in the agricultural and related fields will play an increasing role in the emerging period.

The one role where this will I believe be most important will be access to land. Relocation from land will be the most vexed question in India, in the years and decades to come. The more we build up transparent institutions at the local level in the details of solutions to these questions, the better off we will be. Inheriting the "Revenue" tradition Panchayats are the obvious candidates to underpin a sensible National Rehabilitation Policy, once we get it going. The EGS is also away of empowering the Poor to participate in the process, at least with their labour and needs to be integrated with the growth strategy. I have in fact also been advocating the not very popular idea that a Minimum Assured Income from agriculture would also play a role in empowering small peasants, by way of fallback positions, to participate in the newer contract based regimes that are emerging. The cost for example will be less than the moneys we have spent this year on suicide aversion in Western Maharashtra with little success

The Attack on Producer Companies

It has been suggested with some justification that producer companies are not corporates, both in spirit and form and therefore cannot be companies. I argued however that this is a short sighted view. This is brought out best in a letter I wrote to the PM. which is as follows:

22 July 06

Dr. Manmohan Singh

Prime Minister

Government of India

New Delhi

Respected Prime Minister,

I am writing this letter with considerable concern on the proposal to amend Producer Company section of the Companies Act, 1956, based on the recommendations of the committee chaired by Shri JJ Irani.

In the proposed draft bill to amend the Companies Act, Part IX – A comprising 46 sections relating to Producer Companies, is sought to be replaced with a single Section. With this, many of the important and essential features of the Producer Company concept will be lost besides causing severe difficulties in implementation.

The Producer Company legislation passed by Parliament in 2002 was based on the recommendations made by a High Powered Committee constituted by the Government of India and I had the privilege of chairing this Committee. The Committee had examined in detail the problems and challenges rural producers are faced with in the emerging liberalised and competitive environment particularly owing to lack of resources and business like institutions to solve their problems. Recognising the importance of efficient professionally managed Producer owned enterprises to serve rural enterprises, including small producers and the inadequacies Cooperative Institutions suffer from, the Committee had appropriately recommended creation of specially devised Companies called "Producer Companies" within the ambit of the Company law. The Committee had taken note of the fact in countries such as the United States of America, New Zealand and Denmark, cooperatives and similar forms of user enterprises are registered and operate under the same laws as govern Companies and other Corporates. Consequently the amendment to the Companies Act in the year 2002, provided for incorporation of cooperative businesses as Producer Companies while accommodating their unique features within the liberal and enabling framework of company law.

A number of such institutions have been incorporated, although it is early hours yet, and many are doing well. In essence, the recently enacted provisions for Producer Companies under the existing Company law provides for: An effective alternate organisational form for rural producers offering an opportunity for competing on an even footing with other business organisations.

Professional management and flexibility in organisational operations, including entering into collaborations/joint ventures -- that would become necessary in a changing economic environment in order to optimise the benefits to their producer members.

The recognition of user enterprise as a business organisation and its equal treatment under the law;

Combining 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. Producer Companies have to observe and practice the unique features of cooperatives viz.

a. *One member one vote in Producer Companies with individual members and patronage based voting in Producer Companies with Producers Institutions as members*
b. *Limited interest on shares*
c. *Return to members in proportion to their participation in the business*
d. *No trading of shares*
e. *Users, alone, are owners*

The Producer Company legislation is a carefully thought out legislation which has been notified as recently as 2003 and which provides for a new concept that enables new generation cooperatives to be set up to compete with the private sector in the present liberalised environment. Considering that a Committee under the chair of a person with the eminence and experience of Shri J.J. Irani had made the suggestions, I asked some knowledgeable and experienced friends to examine the proposed amendments to see if we can accept some of them with some changes. Unfortunately we are not able to retain the essential features of the Producer Companies, namely transparency, one vote/one share, patronage voting based on interest taken and the possibilities of strategic partnerships, without keeping the existing text and so are not in a position to recommend the acceptance of the proposed text with amendments.

In view of the above considerations, I would urge you to ensure that the existing provisions for Producer Companies as provided for in Part IX – A of the Companies Act, 1956 is retained as such. If needed I will be very happy to brief anybody you so desire on any details which may need clarification. I could request friends from the NDDB to accompany me, since they have a concrete programme of action in setting up Producer Companies as also some executives of companies already set up.

With my regards and respects,

Yours sincerely,

Yoginder K. Alagh

The NDDB fully supported these initiatives. In response the PM was gracious enough to help.

Conclusion

The Company Affairs Minister has suggested that the legislation will be protected. If necessary a new legislation may be enacted. This is very encouraging, but civil society vigilance may be necessary and helpful. Also if experience shows the need the structure could be improved. This meeting is timely for both reasons.