



PRODUCER COMPANIES LINKING SMALL PRODUCERS TO MARKETS

Report of the Workshop
organised by
National Resource Centre for Rural Livelihoods

December 20, 2007, New Delhi

प्रदान
Pradan





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Context of Workshop

Enhancing livelihoods of small producers below the poverty line has unique challenges. It requires capital and knowledge infusion from outside to enhance production as well as increased linkages with external markets. However, markets are often situated far away from villages where small farmers and artisans stay. There is need for aggregation, sharing services and absorbing price risks, leading to the necessity of promoting producers' organisations that serve these needs in a sustainable manner. Important too is the need for these producers' organisations to adhere to principles of member-ownership, members' participation in governance, efficient operating systems and transparent processes.

Small producers were, so far, being brought together by registering them as co-operatives. However, due to political interference, corruption, capture by the elite and other issues, traditional co-operatives stand discredited. Reforms have been carried out in the Co-operative Act to address these lacunae. Over the past few years, there has been considerable exploration of alternate legal forms for organising small producers. Of these, the option of a producer company stands out because of the advantage it offers in terms of maintaining the member-ownership nature of a co-operative and the structural advantages of being a company. It offers a way forward for poor producers to establish themselves as market entities, operating on social principles without compromising on business credibility.

Producer companies came into existence in 2003 with the amendment to Section 581 of the Companies Act, 1956. The amendment gave primary producers the flexibility of organising themselves on the one person-one vote principle—the essence of a democratic institution. A producer company operates under a regulatory framework that applies to companies, making it distinctly different from co-operatives, which suffer from a reputation of being arbitrary. Some of the salient features that provide a producer company its competitive edge are:

- The format provides higher legitimacy and credibility in the immediate business environment.
- It allows membership of registered and non-registered groups (such as self-help groups or user groups), offering enhanced possibilities for creating a member-controlled organisation.
- Outsiders cannot capture control of these companies. In other words, the Act permits only “primary producers” and persons or associations connected with the primary producers to participate in the ownership of producer

“ Possibility of small producers to form their own companies, without loss of control of their assets, now exists under the law and needs to be explored.”

Prof. Y K Alagh

“When you are an enterprise you are not just operating in the product market space. To successfully do that, you also have to operate in the market for capital, market for labour, and now, as we are increasingly finding, in the market for land.”

Vijay Mahajan

companies.

- The format provides for patronage based participation in governance. Surplus distribution also may be determined by the level of patronage provided by members.
- It has stringent regulations making statutory demands for better disclosure and reporting, thereby, protecting members' interests.

The Workshop on 'Linking Small Producers to Markets through Producer Companies' offered an opportunity to learn about the experiences of practitioners working with producer companies. It sought to enhance participants' awareness of the strengths of producer companies as well as the precautions that need to be exercised. Among the questions the Workshop sought to answer were: Why was the producer company route chosen to organise producers? How does the Producer Company Act compare with other Acts such as the Mutually Aided Co-operative Societies' Act or the Multi State Co-operative Act? What have been the experiences of producer companies? What are the emerging issues and concerns that need rectification? The Workshop also had eminent resource persons, with experience of working in the sector, sharing their understanding of the opportunities that the Act makes available, in particular, new developments in the public and private sectors that have potential for small producers.

The Workshop was held at the India Habitat Centre, New Delhi, on December 20 2007. It was organised by Pradan, with support from the Aga Khan Foundation through the European Commission co-financed SCALE programme. This Workshop was the first of its kind organised by Pradan. It sought to reflect, critically and collectively, on the efforts made so far and develop an understanding of the successes and the constraints still being faced by producer companies. There was sharing of information about experiences of organisations on some of the above questions.



Prof. Y K Alagh set the note for the Workshop in his keynote address by encapsulating the agro-economic imperatives that demand the need for community organisations in general, and producer companies in particular. He said the producer company incorporates the best elements of cooperatives and allows the entity to exist as a company as well. There was no question of either and or. Both cooperatives and producer companies were needed. The way ahead was to find the best means to make producer companies profitable.

In the first session on 'Experiences of Practitioners', the panellists were Mr William Bissell, Fab India; Mr Madhabananda Ray, Masuta Producers Company; Mr Sachin Oza, Development Support Centre; and Ms Sumita Ghose, Rangсутra. The post-lunch session focused on 'Issues for Policies: Opportunities and Challenges'. It was chaired by Vijay Mahajan of BASIX and the panellists comprised Dr Sankar Datta, The Livelihood School; Mr Ravi Shankar, National Dairy Development Board; Mr Anish Kumar, Pradan; and Professor Arvind Gupta, Institute of Rural Management, Anand. The deliberations aimed at trying to make sense of the experiences as well as the potentials and constraints to go back with an assessment, as to whether the producer company was indeed a useful structure, through which one could organise small producers and start linking them to the markets. And if they were, then what were the pitfalls one had to watch out for and what were the potential that one could try and address, based on good practice.

This report seeks to synthesise the collective learning and inquiry that took place at the Workshop. It collates the views presented at the Workshop on the basis of issues and concerns to reflect collective perspectives rather than individual views. The suggestions and recommendations that emerged during the Workshop will be presented to policy makers, working to bring about inclusive growth.



“Ultimately the producer institutions are also enterprises and that is why a long term engagement of the promoter in institution building efforts is required.”

Anish Kumar

Case for Producer Companies

A legal framework within which a flexible yet accountable structure can exist is provided by the Producer Company Act, which came into existence in 2002. The Companies Act, 1956 (the Act), recognised only three types of companies, namely, companies limited by shares (sub-divided into public limited and private limited companies), companies limited by guarantees and unlimited companies. With the coming into force of the Companies (Amendment) Act 2002, (1 of 2003), a fourth category, “producer companies”, found a place in the Act. The legislation enabled (a) incorporation of cooperatives as companies and conversion of existing cooperatives into companies, and (b) ensured that the proposed legislation accommodated the unique elements of cooperative business with a regulatory framework similar to that of companies. The members have necessarily to be ‘primary producers,’ that is, persons engaged in an activity connected with, or related to, primary produce.

“ One of the real problems with poverty, specially in rural India is that the assets of the poor are actually hidden from the view of the capitalist system, which could have provided a better method of evaluating those assets. ”

William Bissell

What is primary produce? In terms of the Act, it is a produce of farmers arising from agriculture, including animal husbandry, horticulture, floriculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products: produce of persons engaged in handloom, handicraft and other cottage industries: by-products of such products; and products arising out of ancillary industries.

The need for such a flexible structure has arisen primarily because of the dismal agricultural scenario, as described



below, which had led to large-scale casualisation of labour and declining employment opportunities.

Agricultural Scenario

At the base of the problem of the abysmal development of the rural areas is the fact that overall Indian agriculture is doing badly despite some improvement in the last three or four years. Unless agriculture prospers, it is extremely difficult that rural areas and people will prosper.

The reasons for the agriculture sector faring badly are many. The first problem is the large scarcity of what is called arable area or net area sown. One reason for this is irrigation, which is a very important land augmenting strategy in Indian agricultural development. More land under irrigation permit double cropping. Newer crop varieties, because of their photo insensitivity properties, also permit more cropping intensity. As detailed in Prof. Y K Alagh's paper (see Annexure), whenever irrigation went up, or whenever there were special programmes for increasing groundwater or surface water irrigation, cropping intensity also went up, therefore the area under crops went up. This, however, stopped happening from the mid-90s onwards. Investment in irrigation has declined.

Another trend is that there is a certain amount of consolidation of holdings that is taking place. With very poor farmers getting out of agriculture, there is an increasing casualisation of labour as brought out in the National Sample Survey. There is also the growing process of reverse tenancy, which occurs when very small peasants give land back in tenancy to middle-level peasants.

Another 'problematique' highlighted by Prof. Y K Alagh is that



“It does not matter whether your company is registered as a producer company or as a cooperative or a private company or a public listed or unlisted company, ultimately it is about the leadership and the vision and the underlying principles that guide your organisation.”

Sumita Ghosh



CASE STUDY: DHARI KRUSHAK VIKAS PCL

Dhari Krushak Vikas Producers Company is a group of watershed associations facilitated by DSC from 1995 to 2000. We tried to consolidate our efforts through a producers' company in part because of its flexible design.

We had promoted about 150 irrigation cooperatives and had sufficient experience of cooperatives and the way the cooperative registrar would try to interfere, even in the business of an irrigation cooperative. So we got in touch with NDDDB to learn about the whole concept of a producer company, which we felt gave a lot of freedom to the primary producers, or farmers, in running the show, instead of a cooperative registrar doing so. They would be the directors of the producer company and would have the freedom to operate and also provide some primary services. The design was primarily what attracted us.

Initially we had these 10 watershed associations which were implementing the programme. They were not registered but were federated in a sense of functionality and they formed the producers' company. The process was started in 2004 and the federation was registered as a Producer Company under the Companies Act 1953 in June 2005. A lot of time and energy was spent in the registration; it took us one-and-a-half year and by that time the federation had almost given up. Each watershed association contributed Rs 10,000 to build the share capital of Rs 1 lakh.

Our objectives are largely to look after production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce and other agro products or import goods or services for members. We also provide mutual assistance and technical consultancy; insurance cover and credit facilities to farmers and organise welfare measures or facilities for our members' benefit.

The structure of the company: if you start from down, they are the members of the watershed associations, formed in 10 villages by about 100-150 farmers from each village. The association selected three members each—two men and one woman—to form a 30-member General Body. Out of the 30 members, 10 are on the Board. They have elected their Chairman and the DSC is only a facilitator. There are about 1,000 members under an ex-officio

member secretary.

We have an outlet in Dhari since 2006 to sell seeds, pesticides and improved agriculture equipment. The focus is on productivity enhancement and cost reduction, risk mitigation and they have taken several measures like promoting soil testing to about 150 farmers and they plan to scale it up to around 500 farmers, and carry out various demonstrations that will enhance the value and decrease the costs. Linkages with the agricultural universities for training and capacity building of members with successful experiments and demonstrations on new varieties of wheat, cotton, etc., will also be set up.

They are currently engaged in a land levelling fund, which has been funded by NABARD. They are also looking at other livelihood activities like vermi-composting and purchase of agricultural equipment.

Over the years, the DSC has largely focused on commons redevelopment, looking at both water and land. We have found that individual farmers were not benefiting from the watershed activities that we facilitated. Looking at the cost-benefit ratio, it was felt that it would be worth taking a loan. At present, land levelling is being carried out and loans worth Rs 2 lakh have been disbursed. The amount sanctioned by NABARD is Rs 10 lakh. NABARD unfortunately refused to recognise the Producers' Company, a legally registered body and instead gave the loan to the DSC.

We pass on the loan to the Producers Company from whom it goes to the associations and then to the beneficiaries. At every level, 1 per cent is charged. The cost-benefit ratio is 5.19, which is huge and the payback period is 3-4 years.

Recent developments include the recruitment of two professionals for carrying out economic activities. They have already initiated the process of providing knowledge based inputs. Looking at the unseasonal rains in 2007 winter, there were huge losses in cotton and groundnut, so they are trying to initiate rainfall insurance on a pilot basis. The turnover is Rs 7.5 lakh and this is expected to reach Rs 10 lakh by the end of the current rabi season.

As told by Sachin Oza

CASE STUDY: RANGSUTRA

The idea of Rangsutra came to me as a space where people from different parts of a supply chain, from all different segments of society, right from the producer to the one who is doing the value addition, to the one who is selling it, retailing it, and the customer could all come on a common ground.

In December 2004, we set up the Rangsutra Producer Company, comprising primarily of artisans and craftspeople. Having worked with NGOs and in handlooms and handicrafts, I felt there was a demand for their products in the market, whether national or global. In fact, demand was actually on the rise, with growing appreciation among people for handmade products. The sad reality was that the people who made such products got a pittance.

We formed Rangsutra as a producer company with five NGOs as shareholders. I was inspired by Amul and the cooperative movement, but I wanted to avoid the welfare-oriented approach, which we know creates a lot of dependency. With the producers being the shareholders, it showed that they had joined in because they had faith in their craft, in its market potential and not because we had got a grant from somewhere. We were the third company to register as a producer company. Our authorised and paid up capital was Rs 1 lakh. The capital was set at Rs 1 lakh simply because we had little money to spare and this was the lowest amount that one could form a producer company, with the registration costs being less than Rs 20,000.

The producers who were shareholders in it, included 10 producers representing five artisan groups from different regions and five individuals with different experience in the sector.

We had Grassroots from Uttarakhand, three URMUL organisations and one organisation from Assam as shareholders. The Board also included members from producer organisations, NGOs, and the ones extending support on the marketing and design side.

In 2004, we went to the ICICI Bank to open a bank account. They took over three months to do so, as they did not know what a producer company was. The biggest problem or challenge we faced was generating adequate funds. None of the 10 shareholders, who had

each invested Rs 10,000, had the wherewithal to generate more resources. Imagine working with Rs 1 lakh as working capital when your company is geared towards providing marketing support and also working in the handicrafts sector, where from the time you invest to the time you get returns could be six months to a year.

Private investors were reluctant to invest because they were afraid of politics and the fact that 10 people with 10 shares could take over the Board. We looked for government support. But, no, to be even considered for any government funding, one had to have at least a three-year balance sheet. International donor agencies were only willing to invest in doing viability studies, though that amount could have kick-started the organisation. Eventually when the consultant came up with his grand plan, the sum and substance of it was that there is huge potential here. We already knew that!

Then we managed to get in some investors, one of them being Aavishkar's Vineet Rai. But, even he had a tough time convincing his Board. Internally also, we gave it a lot of thought. What were our goals? Why was one doing it: to increase livelihood options, and to create market access for the artisans, who have amazing skills, but do not have the necessary services that they need. Is the form important if the goals are being met?

Finally, we registered a private company, with four equal stakeholders: One-fourth owned by artisans, one-fourth by me, one-fourth by Aavishkar and one-fourth by another joint investment fund, set up by Fab India to promote artisans. We realised that combining business with social goals was the crux of the matter. Investors want to look at your profit and loss statement at the end of each month, every quarter, and that does teach you a lot of financial discipline.

We registered the private company in the middle of 2006. In one year, our turnover was Rs 30 lakh. This year, working with the same artisans, we are achieving Rs 3 crore in sales and we hope to give back good dividends at the end of the year.

As told by Sumita Ghose



land is moving away from agriculture and that's happening on a much larger scale way than is officially acknowledged. The rate of urbanisation is much faster than the official rate. Much of this is happening as agriculture is fast becoming non-remunerative for farmers.

There is urgent need for producers to come together and co-operate to bring about land consolidation, invest in irrigation and function collectively so as to establish market linkages as well as bring in technology innovations. Unless this happens agriculture will not be able to effect reasonable returns to the individual producer. Prof. Y K Alagh offered the Producer Company format as a suitable organisational form for collectivising small producers. This is an opportunity for small producers to collectivise without losing control on their lands, as well as get into collaborative arrangements with big companies at a later stage for larger value for their produce.

Economic Imperatives

To address such issues, one needs mixtures of community efforts and private initiative. This is irrespective of whether it is in the context of the classical watershed development programmes or urban planning programmes or rural development programmes. It is here that the case for producer companies arises. Organisations have to be community oriented, because the problem is at the level of the community, the aquifer and the agro-climatic regime, and they have to be profit-oriented too, and efficiency oriented. For this to happen, you need either a producer company or a farmers' cooperative, said Prof. Y K Alagh. Either way, it has to work flexibly; it has to respond to economic stimuli; it has to have profitability built into it; and, it also has to have a strong community focus.

“Is there anybody who has set up a producer company or is familiar with a producer company where there has been no backup institution. If there is not, then we have a design problem that we need to sit down and resolve in theory before we will be able to solve it in practice.”

Vijay Mahajan



Importantly, the farmer (or the producer) should be a stakeholder in this process. In high value-added agriculture, there are others who will do the job beyond the first stage processing. It is the companies or corporates who do the selling in cities. They will have to link up with the local level. If farmers are not organised, there is no way one can link up with the corporates.

In fact, producer companies may be necessary for two other reasons: one is, of course to organise agriculture and work out the terms acceptable to all players. The other is actually a question of legality. For example, since a tenant farmer does not have the legal right as a tenant, he cannot leverage his strength. No company will negotiate with an entity who is illegally occupying land. Let us recall that the only institution in India that recognises a tenant farmer is the primary agricultural credit society because it considers the crop to be the collateral. Even land development banks do not recognise tenant farmers. Thus, one needs tenancy reforms and organisational structures so that these people can leverage their relationship with land for taking part in the new strategic partnerships that are coming up.

Even in case of the National Rehabilitation Policy, which provides for stakeholder participation in the process of land transfer, you need producer companies, cooperatives or panchayat institutions. There is already some debate over involving panchayat agencies in this task since this is primarily a revenue function and panchayat agencies are already part of the revenue setup.

The Case Against

There are some who argue against the idea of producer



“ Having just the right institutional and legal form is not enough for us to link the producer to the market. We have to also pay attention to technology, backward and forward linkages. ”

Sankar Datta

CASE STUDY: MASUTA PCL

If we say silk, people normally relate it to mulberry silk. There are two broad categories of silk. Mulberry accounts for more than 80 per cent of Indian silk. Non mulberry silk is eri, muga and tasar. I will be dealing with tasar. Even in tasar there are two types – temperate tasar grown in Uttarakhand where the host tree is oak. But in this central Indian plateau, the tasar is tropical tasar. In India, 100-300 tonnes of tasar is produced annually. In India however, we use 1,200-1,500 tonnes of yarn. Most of the yarn comes from outside, is converted into fabric and again goes outside. So, there is huge scope in the market.

Traditionally, the sector is unorganised and there are two parts to it; cocoon production that is raw material used for yarn production. The practices followed for cocoon production are traditional and age old. The other part is yarn production. This too is fragmented and unorganised and is confined to forest dwellers and the tribal population and to small weaving clusters. The production of yarn is done using primitive tools. The yarn production is thus low and it is a very low earning activity.

As much as 75 per cent of tasar yarn in the country is imported. In tasar production, traditionally there are just two sets of producers, the cocoon producers and the fabric weavers. In our interventions we have introduced two new producer levels, the yarn producers and the seed producers.

The objective of the yarn producers is to promote livelihoods for women in rural interiors and it is an independent enterprise, not clubbed with weavers, it is suitable for women as there are limited job opportunities, the local wage rates are low and there are a lot of landless and marginal farmers. So this creates a separate set of actors in the tasar value chain. The general profile of our yarn producers is that they travel a long distance daily to collect firewood from the forest to sell in the market at very low rates, or work as seasonal workers or would do household chores.

The intervention starts with the formation of women SHGs based on savings and credit activities. In a single hamlet there might be 3 or 4 SHGs and not all SHG members are yarn producers. Few of them opt for yarn producing,

some may opt for other activities.

All the yarn producers are clubbed together and are formed into a yarn producers' organisation which is registered as a mutual benefit trust. It is primary yarn producers group at the village level. So they elect their representatives at the Block Level, this is not a registered body but a unit committee. The unit committees elect their representatives to the Masuta General Body. They also elect their director in the Masuta Board of Directors. Masuta is the secondary level yarn producers company.

There is solid reason behind forming the National Collective, that is the Masuta Producers Company Limited. The reasons behind forming a collective are; the producers are small producers and do not produce more than 20-30 kg of yarn per year; they are fragment and distributed in remote areas; their markets are distant, their yarn is not used in the village and it is not a consumable product; not only is market distant, the market also wants the yarn in bulk; the weaver to cater to a particular product, requires a typical kind of yarn in larger quantities, say 50-100 kg, which the single producer cannot supply; there is no organised market of traditional yarn; there is also the threat of imported yarn which is available in bulk and in a certain quality.

The advantage of a national collective is aggregation. Masuta can aggregate the yarn, sort them, grade them and supply it to the market. The buying of cocoons is also capital intensive, once it's a collective it becomes bankable.

Individual producers cannot get credit of Rs 20-30,000 since they have no net worth, their lands are not in their names, they are women and have no physical assets. But with aggregation they become bankable.

The other thing is collective purchase. The producers can now purchase the cocoons and other materials in bulk, they can bargain with the big sellers, negotiate on the price and also participate in the State auctions. At another level it also requires segregation, because the cocoons have to be distributed to the individual producers; now we are recognised as the largest tasar yarn producers.

So the advantages of the Masuta as a producer

company are; it is owned by 2,037 women yarn producers; the intrusion of non-producers is prevented; the management is also more on the lines of corporate management, there are compliances and also among the producers there is a strong cooperation; they have gained faith in financial institutions; participation rather than shareholding is emphasised.

There are also disadvantages, it is not recognised by many State governments as an alternative to other producer organisations and there are problems in raising grants and subsidy. The core activity of Masuta producer company is yarn production and marketing. But there is also the question of value addition, it can be converted into a fabric and sold in the market.

However in that case the emphasis on yarn producers might become diluted, that's why we have tied up with a private entrepreneur for fabric production and marketing. So Masuta will get the benefit of value addition and will not be faced with the problem of management of fabric business.

We also have a partnership with the Jharkhand government, they have a government corporation called JHARCRAFT for cocoon producers who are also not organised. Through this joint venture with JHARCRAFT we purchase the cocoon required for the entire year, so the burden of interest is lowered for the yarn producers.

Another important facet of this company is membership development. It has five different stages. The first stage of this is the acquisition of technical skills, the next is the development of individual business sense, the third is through development of primary groups business, the fourth is leadership for the primary group and finally the leadership for their secondary group that is Masuta.

The governance in Masuta is as follows; there is a General Body with representatives of all member trusts, and there is a Board of Directors, of eight elected producers, four expert directors who are co-opted directors to

infuse knowledge, and there is an ex-officio Managing Director.

In the operations there is a Managing Director, managers, executives, officers and assistants. The major operations are production, finance, marketing, membership development and human resource development. In production the work is largely on the upgradation of technology.

There is no private investment in technology upgradation. Government investment is also very low in technology upgradation. The technology of the Central Silk Board is out dated. So we work with other resource agencies to upgrade the technology. We have collaborations with IITs and DU Delft in the Netherlands. We have recently developed a new spinning machine and are developing a new reeling machine.

We have also diversified the yarn types, the production was 7.4 tonnes in the first half compared to 9.4 tonnes produced last year. Our half yearly turnover was Rs 6 crore compared to last year's turnover of Rs 7 crore; profit distributed was Rs 38 lakh and profit earned after distribution Rs 18 lakh. Direct yarn sold was Rs 46 lakh and fabrics sold after conversion Rs 75 lakh. We have mobilised around Rs 2 crore as fresh loan this year.

There is huge scope for expansion, since the raw material (tasar cocoon) is the constraint and not the market. In terms of market and products, there is a huge potential and we can grow up to nearly 7,000 yarn producers with the current level of cocoon production.

As told by Madhabananda Ray

Masuta Producers' Company Ltd
(Abridged Balance Sheet - As on March 31, 2007)

SOURCES OF FUND		APPLICATION OF FUND	
Paid up Capital	100,000	Gross Fixed Assets	419,920
Reserves & Surplus	8,202,715	Investment	2,500,000
Secured loan	15,000,000	Net current Assets	43,540,903
Unsecured Loan	21,258,439		
Current Liabilities & Provisions	1,899,669		
Total	46,460,823		46,460,823



companies, saying that these were thought of with the same laudable intention that the government had when it thought of cooperatives or other similar organisations, but which actually devalue peoples' assets. The system of capitalism exists to value and provide liquidity for assets that exist in properly formed corporations or regular companies. By creating producer companies, they argue, one is basically pushing the assets of the poor back into the invisible spectrum. Throughout history policy makers have been very adept at doing this.

If one agrees that a producer company is really creating an asset that is marketable, can this asset be valued, using the tools that most investors employ. It turns out that the best way to achieve valuation is to create a corporate form, which is easily recognisable by those who are going to provide the value for it. Investors will not touch a company in which voting is not proportional to ownership. The question with cooperatives or producer group companies is about whether there is one person-one vote or one share one vote or whether groups of shares can vote. You can have majority voting, you can have 26 per cent blocking rights, all these are safeguards that investors pay for.

Some feel that the profits now being made by producers companies are too insignificant to inspire replication. Therefore, the odd success story is dismissed casually. But, it is necessary to appreciate the form and also try to understand from where such form has originated.

Historical Perspective

If we look at it in a historical perspective, the impetus for patronage-driven organisations, which finally came to be known as cooperative organisations, came from the way

“The two issues that need discussion are: one, provisions enabling existing co-ops to convert and two, the steps needed to carry this to the people.”

Arvind Gupta



capital-driven organisations were working for returns on investments.

The concept of a patronage-driven company or producer company is similar in nature to the cooperative. If we look at cooperatives in the Indian context, there are two distinct periods we see. One was pre-Independence, the first legislation came in 1904, one that was very simple and enabling. At the time, government role was very limited. But, post-Independence, the idea that took root was that there should be a partnership between the government and the cooperatives. And from 1953 to 1991, with such partnerships coming into place, there was a transformation in the character of the cooperatives, both in the legislative and as well as in the structural sense. The evolving cooperative legislation format sought to place everything in the hands of either the State government or the Registrar. It must be remembered here that debate on the discomfort that such changes were causing started as early as in 1957 itself. And it was on the basis of that debate that in 1995, we had the first progressive legislation: the Mutually Aided Cooperative Society Act was legislated in Andhra Pradesh.

Then came the Producer Company Act in 2002. This too was a legislation that came through a detailed process of deliberation. Since they were started in India in 1904, cooperatives had become prisoners of the very structure that had been created to serve them, namely the State government and the Office of the Registrar of Cooperative Societies. The Registrar of Cooperative Societies was supposed to be responsible for implementing the Co-operative Act, but had instead over a period of time become so powerful, that one did not have the freedom to manage one's organisation or business. For everything, one was dependent on the Registrar of Cooperative Societies. And one



“We have found that once we have linked to the market, we have been able to give a return of not less than 30-40 per cent extra to the producers, than what she or he would have otherwise got.”

Madhabananda Ray



“By the very capital intensity of the processes we are involved with, it seems very unlikely that we can have an institutional form in which the small producers can themselves contribute the capital. Therefore we need an institutional design where we should be able to draw capital from those who have excess of capital, but do it on terms which do not disadvantage us.”

Vijay Mahajan

had no choice but to pay heed because the law provided that he had the powers to prescribe and give directions. It was in this background that people saw the producer company legislation as defining a new legal space, which otherwise was not available to small producers and to people who wanted to come together and organise themselves outside the purview of the State Government and the Registrar.

One of the key things we need to understand here is that the Producer Companies Act is a Central Government Act, uniform across the country and therefore safe from the problems one sees with the State cooperative laws. The second is that it is also based on patronage. While creating the legal space within the Company Law, the policy-makers have tried their very best to retain the spirit of cooperative principles, ones which have been universally accepted across the world.

Let us take a look at some of the key positive features of the producer company law. We have seen how the primacy of social purpose overtook the economic logic of cooperatives leading to a large number of cooperatives languishing today. The producer company format is very clear in defining a private institution that is centred on members' interests and membership is only for those who can provide patronage. Here, at the primary producer level, you can have membership of individuals or institutions or both. Producer institutions can come together and form a producer company, Ten or more producers can come together to form a producer company or producer institutions along with individuals can form such a company.

Another thing is special rights and their transferability. One of the issues with the cooperatives has been that patronage rights are not defined clearly. In the case of producer companies, the Act has tried to make a provision that equity participation or contribution to equity should be in proportion to the patronage rights. Patronage rights have



been defined as special rights and these special rights are transferable.

Another important thing is limited return. There is tremendous flexibility to limited returns, allowing one to define them in the company's articles of association. There are also the features of ownership, freedom to appropriate surplus and freedom to promote new initiatives, alliances, subsidiaries and joint ventures.

One of the areas where this law is far superior to any other law is rotational membership, which gives one the advantage of continued wisdom, pre-defined terms, and scope of continuation if eligible. It also allows co-option of expert directors, which is very important, because one of the limitations of the small producers is their lack of expertise to either add value or link up with the market. For directors also, incentives by way of sitting fees and allowances are possible.

Positive Trends

Increasingly, we are seeing a partnership between the private/ public corporate sector with farmers' federations or community groups. These are emerging within the framework of profit-driven initiatives, governed on business lines, with CEO/partners accountable to a Board, in which both the sides, including the farmers' federations, CBOs and PRIs have representation.

Another interesting phenomenon is the emergence of farmer producer companies in different parts. For example, there are several producer companies in different districts, exclusively made up of small and marginal farmers. With membership ranging from 1,000 to 3,000 farmers, these institutions have broken new ground in aggregating



“ A large portion of the existing producer company law was meant for conversion of existing cooperatives. What NDDB did was dig up sections that enabled formation and promotion of greenfield producer companies. ”

Ravi Shankar





productive assets such as land and machinery, as well as negotiating bargains for inputs, technology, etc., and leveraging collective output.

Many of these producer companies employ agriculture graduates to provide technological inputs and supervision. Three such companies have dealer licences to sell fertiliser, seeds and other agri inputs to their members as well as other farmers in the area they operate in. Several of these institutions, and hundreds of individual farmers, have entered into contract farming arrangements

with leading companies to custom produce seed, cereals, pulses as well as vegetables and spices. The risks associated with fragmented holdings have thus been successfully addressed by members of these producer companies through a combination of collaborative partnerships and market orientation.

Ensuring well functioning markets, facilitating competition, creating an enabling environment for direct producer-buyer linkages and institution building for farmers provide some recent examples of success of producer companies in the agricultural landscape. When added to the traditional approach of risk management in the form of moisture conservation, irrigation and technology transfer, there appears fresh hope on the farm front. At the policy level, the challenge before State agencies is to respond to the dynamism displayed by farmers with matching changes in the regulatory framework. If anything, it is policy that is lagging in sufficient flexibility to further reduce controls and create greater space for innovative risk management devices to emerge.

The Rangсутra presentation may lead one to believe that private companies are better. However, the key question here

“One needs to recognise that in most, if not all cases, while promoting a producer company, it is the poor that are in focus. The poor cannot raise capital and therefore have to depend on somebody.”

N.V. Belavadi



is why did a donor/ lender not see the potential in a producer company, considering that it is those very promoters who are now working together, aiming to achieve a turnover of Rs 3 crore. The main point is one of availability of capital and who invests it. It is important how we build up the capital of the producers in the producer company even as we ensure their participation in the business. The producer company legislation very explicitly provides that equity shall be in proportion to the business transacted. The articles provide for it, and it is to be decided how these are used while setting up the company. It is for the practitioners to make use of it very precisely to determine in what proportion to the volume of the business should a stakeholder contribute to the share capital.

One needs to recognise that in most, if not all cases, while promoting a producer company, it is the poor that are in focus. The poor cannot raise capital and therefore have to depend on somebody.

“To run a business enterprise, a supportive environment has to be created that actually promotes such efforts. A case in point is the language outlining a producer company's byelaws. These are in English, a language that is beyond the understanding of a small marginal farmer or producer.”

Sankar Datta



Linking Small Producers to Market: Some Issues

Producer companies are engaged in livelihood promotion or support. They have to make specific efforts in collectivising people, aggregating their products and services, and building their institutions. Importantly, they have to work on developing markets, sometimes new segments, sometimes through an alternate channel. Many issues and constraints can be identified that impede operations and growth. These may differ in nature and from region to region.

Some constraints are generic to any legal form, any organisation trying to work with small disadvantaged poor people and trying to link them with actors in the market place with whom they have unequal power status. These issues have nothing to do with whether they are members of producer companies, cooperatives or members of just an unorganised association or a mutually aided cooperative society.

Then, there are issues which have to do with the newness of the idea. The fate of the DSC Producer Company, and to a lesser extent what Rangсутra faced, had more to do with the fact that it was a new idea. All this is not intrinsic to being a producer company; it is intrinsic to it in being a new institutional idea, linked to which is the lack of awareness and incentives.

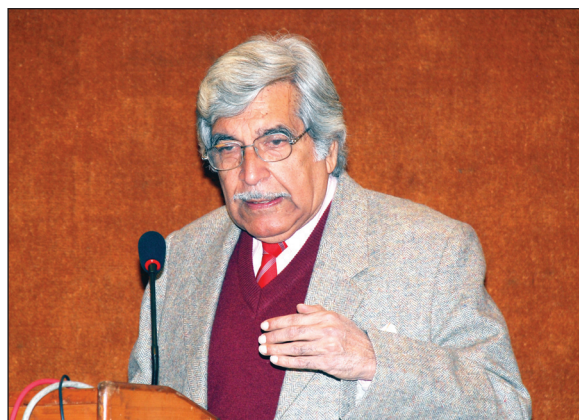
The third set of issues has to do with the special architecture of the institution. And that primarily is because of the legislated constraint on capital, which is that capital shall only come from members, and members can only be

“I don’t think we need to shy away from the fact that whether we can partner with a private company or not; or we should only partner with a government enterprise or other co-operatives. We can partner with Reliance, partner with AMUL, partner with anybody, as far as forward linkages are concerned.”

N.V. Belavadi



producers. Therefore, the design itself sets out the constraints on capital. Here, one faces a Hobson's choice between bearing all the consequences, such as slow growth, or not being able to use the most modern technology, or modern designs or investing in marketing and advertisements, or in professionals. Or the other choice, which some have tried, is to get capital which does not seek returns, that is seek grants. The current form of the legislation does not permit mobilisation of appropriate amount of capital and that is something we need to worry about. But the other very important point is that capital also brings in control. The people we are talking about are dispersed, segregated, small, there is a need for bringing them together and therefore there is a need for an institution, which has a clear format.



Institutional Design

But just devising an appropriate format or building an institution is not enough. We need to design the appropriate business, which part of the business will be done by which part of the institution. There are also issues of technology and of market linkage, both on the raw material and the output side. So having just the right institutional and legal form is not enough for us to link the producer to the market. We have to pay attention to all of these other issues as well. The question, then, before us is whether the producer company format facilitates all this.

When we talk about the design of the institution, it does not have to be just one institution, we can look at multiple institutions. There are already examples of a partnership between a producer company and a private limited company. The producer company has helped in aggregating a large number of producers, who individually would not



“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.”

Prof Y K Alagh

CASE STUDY: NATIONAL DAIRY DEVELOPMENT BOARD

Under Operation Flood, NDDB led the way and helped establish more than a lakh village dairy cooperatives, 170 district cooperative milk producers unions and more than 22 State Dairy Federations. They are playing an extremely important role and are providing incomes to millions of milk producers.

So, what really are the efficiency inhibitors in the existing structure. It is a three-tiered model. And the most critical and most inhibiting is the fact is that these district milk unions and the federations are geographically defined. The second aspect is that all federations outside Gujarat, with the exception of those in Kerala and Karnataka, have government officials as managing directors. Most interestingly, the producer for whom this whole structure is supposed to work and serve, can become a cooperative leader with a Rs 10 share at the village level. Capital formation is far from happening in the present existing structure. This is the reality of dairy cooperatives as they exist today.

What did we (at NDDB) do with the Producer Company Legislation? This legislation has a substantial portion devoted to helping dairy cooperatives become producer companies. It is a law under which their competitors are registered and regulated. It is a law that enables good business and efficiency to be the drivers of that particular cooperative. In our case, what we did was dig up sections on producer companies that enabled formation and promotion of greenfield producer companies--milk producer companies..

A large portion of the existing producer company law was meant for conversion of existing cooperatives. For obvious reasons, we did not like to go into areas where there was already a cooperative union and there set up village cooperative societies followed by a producer company operation as a parallel competitive arrangement. We chose pockets where there had been cooperative failures, where cooperatives had not managed to reach and it was in these areas, we started creating conditions to promote greenfield producer companies.

In our approach to promoting greenfield milk producer companies, we have gone in a phased manner. We are not constrained by district boundaries; we are more interested in economic zones, in efficiency and logistics, so the milk that is procured is transported at the minimum cost to the nearest dairy plant in the quickest possible manner and its quality is maintained as best as possible. So we have gone into a region, selected a set of districts after proper survey and facilitated the formation of milk producer institutions. These are unincorporated institutions which the Producer Company Law very critically provides for.

These milk producer institutions select a pratinidhi or a representative. He liases with the project and the dairy where the milk will be sent. The milk is then received by the village sahayak.

In the conventional village dairy cooperative society, there is the secretary who is responsible to receive the milk, measure it, test it and send it to milk unions dairy, as also receive payments from the milk unions; and then disburse the payments to producer. So there is a convergence of activities related to measurement, testing and payment with the secretary at the village level.

Outside Gujarat, outside perhaps Karnataka and certain other areas where the milk unions have imbibed some spirit of the Anand pattern, the secretary has become a doodhiya by himself. It provides enormous clout, as the secretary decides how much milk will go to the milk union to maintain affiliation of the village cooperative society and how much to private dairy plants.

Next in the new system is milk testing. The sample bottles of each individual milk producer in the village goes to cluster testing facility where sample bottles are randomly coded with the number of the associated milk producer; the tester sitting here is not really concerned about which producers' milk is he testing. He is just doing his job in the most efficient manner possible.

So the testing of the samples is done and we have a record of the quantity of milk received at

the village, measured by the sahayak. When does the milk moves to dairy 1 or dairy 2 or to a chilling centre, that's a call taken by the project, in terms of good efficiency and logistics.

What happens finally is that the payment of the value of milk supplied by every individual producer is made only through the bank. It does not go through the secretary as is the case in the current DCS model.

In places where we have taken this initiative, in Junagadh and Nanded for instance, the payments go to individual bank accounts of the producers. And they are extremely happy and satisfied with it. In certain other areas where we are getting this initiative going, and because producers have not yet been able to graduate to the level of holding individual bank accounts, we help them form group bank accounts akin to a SHG account, and it is through the SHG account that they withdraw their individual amounts.

The sahayak who receives the milk has no role in the disbursement of money. So we have very clearly demarcated the roles of receiving milk and measuring it, testing it and then the business of collating and knowing what is the value of the milk, which is done at the dairy level. The payment is made directly to the producer.

This is the initial project mode with which we have launched the new generation cooperative initiative, in order create the conditions for promoting a producer company. This is the phase I that I was talking about. During phase I, we also do begin a bit by providing technical inputs, be it artificial insemination services, feed or fodder, but these are provided through private input service providers. These are not provided through the sahayak, and these are not provided as was envisaged 40-50 years ago through the village cooperative society.

Why I have focused on this is, that till we get this right we are not getting into the producer company mode.

The second phase is about setting up the milk producers company. You have the milk producer members getting confidence in the system, that's the time to start building ownership and that's the time to put in governance mechanisms.

The Producer Company law provides that a Producer Company can be promoted by bringing together individuals or individual milk producers and milk producer institutions or only milk producer institutions. There are options and we have not yet come to a clear consensus as to which option should be pursued.

If you have a Producer Company comprising only of individual milk producers, you will necessarily have one member having one vote. But even here there is the concept of active member, you cant be casting that vote if you are not an active member and that is a very crucial distinguishing feature vis a vis the existing cooperative law, where once you are a member you end up casting your vote.

These members of the General Body will elect the Board of Directors and they in turn will have to appoint the CEO and staff. But the heart of the promotion of the producer company is how will capital formation begin to happen in the proposed producer company.

Fortunately in the case of milk the commodity is such that it enables us to put a charge in the name of each individual milk producer and try and build individual capital in the system in a sustained manner. And it is that growth of capital that will also enable that individual producer to exercise patronage voting rights. And this the model we are going to follow when we start promoting producer companies.

Here I would like to pause and say, I don't think I have come across a milk producer, who says I want a producer company. The milk producer is very clear, he says you are in project mode, if there is fairness and transparency continue with that, I don't need a producers' company, and this is an important hurdle we have to cross.

And once may be the milk producers have provided for the capital say to the extent of 20 per cent or 25 per cent or whatever is the proportion, they should start owning the asset, that helped kick start the whole project phase towards becoming a proper full-fledged producer company.

As told by Ravi Shankar

have a voice in the partnership company or the private limited company. But having collected under a producer company, they have a larger voice than they otherwise would have had. This is different kind of function a producer company has performed. It is a new institutional design.

Another point is the development of systems, of how quality and quantity is measured, like in the NDDDB milk experiment. In producer companies this calls for a high degree of trust. Now if that is missing—and it does not matter what the law says—the system will fall flat.

Access To Capital

Where does capital come from? Capital can be a mixture of a grant, soft capital and hard capital. It is in the area of soft capital that one needs to do a lot of work. Also, we need to come up with appropriate governance systems to enable easier raising of capital.

It is very unlikely that we can have an institutional form in which the small producers themselves contribute to the capital. Therefore, what is needed is an institutional design that enables the producer company to attract capital, but on terms that deliver equal benefits to both the parties. In the case of cooperatives, the government would put up the capital. But, they tend to be 'sarkari' in nature, affecting the whole system in the process. The other alternative is to follow the capitalist route, in which case the investor would end up taking away the bulk of the returns. In both cases, the beneficiary is not the rural artisan or the farmer or the craftsperson.

Is any hybrid of the two systems possible? Are there lessons from the corporate sector or are there new systems evolving in the financial world that can enable capital to be raised in a manner that it equitably benefits all concerned parties. The answer to both is yes. The financial sector is constantly

“...the need to do capacity building will remain, it is an abiding need.”

Vijay Mahajan



innovating to meet the needs of different sectors and suitable institutional mechanisms should be evolved to benefit from them.

Globally, individuals have committed over 100 billion dollars for public purposes in the last two years alone. The issue on hand is how does the development sector attract some of that money to build up the capital it needs. Currently, there is no mechanism to link the capital market to producer companies. For example, if Warren Buffet found that the NDDDB had a viable plan, there is no reason why he would not consider investing in it. All investors look for liquidity but not all of them are looking for control. Generally, investments are determined by the rate of return. In the financial world, there is a lot of differentiation happening on the supply side. It in this regard that the producer companies need the necessary legal and administrative structures to be able to attract such differentiated capital.



One of the ways in which producer companies can attract suitable capital is by allowing them to issue preferential shares or B class shares or voting shares. Changing the institutional design will enable mobilisation of capital. The current form of the legislation restricts mobilisation of appropriate amount of capital and that is something that needs to be looked at.

A producer company can also look at raising capital indirectly, through alliances, partnerships or joint ventures with another private company. Earlier, the norm was that such forward linkages could only be with some arm of the government and not a private company. Today, one can start a pooling company, a supply company, a bulking company, having contractual arrangements with another private company. Today, a producer company can partner with

“The transition from a beneficiary to producer to owner, these entail transitions of self view, skills, and resource endowments.”

Anish Kumar



Reliance, with AMUL, or with anybody, provided such linkages are commercially rewarding. There is thus scope for building up capital gradually by linking capital or equity with the services that such alliances enable.

Value Addition

Aggregating producers, distributors, retailers is one part of the process, the other is to ensure that suitable value addition takes place all along the value chain. A producer company has an institutional structure, one which substantially changes the cost-benefit dynamics. As the scales change, the markets widen and the benefit devolves to a wider spectrum of players.

An institutional structure helps to access even the products markets better than that can be accessed by a bunch of disaggregated producers. But, it is here that existing producer companies have inadvertently disadvantaged themselves. The need is to ensure that capacity building, either in human resources or in value addition, spreads across the value chain. For example, a company in Himachal Pradesh is now raising Rs 3 crore to set up a fruit and canning unit. Earlier, it was just cultivating fruit. But it is moving up the value chain, getting into making jams and marmalades, pickles, etc. This will help it to add value and generate higher returns, two goals that should drive all producer companies.

Building Capacity

Setting up a producer company and attracting the required capital are issues that are specific in nature. What is more generic is how a producer company can help build the capacities of the people it has been set up to benefit. This is not a function that another competitor is going to perform. The more organised producers become, the more they will become a part of the larger supply chain. There may be some who think that such integration is not desirable. But if

“The producer company format is very clear in defining a private institution which is centred around the members' interest and membership is only for those who can provide patronage.”

Arvind Gupta



enhancing livelihoods of small producers is the aim, the only way forward is to make such producer companies commercially viable. It is only then that one will be able to move up the growth pyramid, with the benefits percolating to all in the supply chain.

The key challenge is how do producer organisations become a business and institutional success. Human resources are important in all forward and backward linkages that producer companies associate with as they increase their interaction with the markets. It is here the role of professionals in running such organisations becomes important.

Small-scale enterprises, owned by middle class people, also suffer from disadvantages, as do private limited companies run by highly qualified professionals. Everyone needs inputs for ongoing professional capacity building. Large corporations do, small producer companies do. However, in the case of producer companies, such capacity building assumes greater importance, specifically because they have been set up to benefit the small rural producer, the rural poor. This is a generic issue about institutional development rather than a specific issue related to producer company legislation.

Efforts At Market Development

For a producer directly selling to a trader, the trader is the market. But in the case of a business enterprise, the market is not only the product market. There are other markets that an enterprise has to participate in by virtue of being a commercial venture. Instead, it is also competing in the market for capital, market for labour, and even the market for land. So market space that a small producer never thought he was playing in becomes important for a producer company. So all the classical factors of production which we never thought were relevant are actually the stuff of what an enterprise is competing about all the time. Only labour today has become substantially more differentiated.



“

The institutional design is not going to be of any use unless you are also allowed to mobilise capital. The current form of the legislation does not permit mobilisation of appropriate amount of capital and that's something we need to worry about. ”

Sankar Datta

Opportunities and Ways Forward

There are three facets to the co-operative structure. One facet deals with the regulatory environment, another deals with all aspects related to governance and the third facet deals with the kind of professional management that the cooperative would necessarily need to have.

The current workshop concluded that these facets were equally relevant to producer companies as well. It was pointed out that in this regard, the producer companies actually have a distinct advantage since it allows professionals to take part in governance as Directors which helps bridge the information asymmetry between the producer Directors and professional managers. The Producer Company Act says that the producer institutions can even be unincorporated entities. Producer companies provide us with the opportunity of retaining the unique characteristics of a cooperative enterprise even as it enables flexibility in business operations that is not available under the Cooperative Act. There are undoubtedly going to be challenges as in the case of cooperatives. These include: How does one ensure that people with vested interests do not come on the board of such producer companies? How do we keep vested political interests way from what essentially should be a business enterprise? There are other problems that would arise as a producer company creates its space in the marketplace. These are only natural and only a professional management will be able to ensure that adequate commercial benefits accrue to all stakeholders.

What is important here is that the producer company is well-

“You need either a co-operative or a producer company, you can name it whatever you want, but it has to work flexibly, it has to respond to economic stimuli, it has to have profitability built into it, and it also has to have a strong community focus.”

Prof Y K Alagh



CASE STUDY: PRADAN'S EXPERIENCE

In Madhya Pradesh, there is a policy on activity federations. Under it, they have gone ahead and promoted 16 producer companies. The ministry of rural development has provided support to producer members for equity. As a result, banks are now willing to look at producer companies.

The key factors in the MP policy are that it focuses on the poor, and talks of membership of BPL families and of APL families. It talks of a modular structure of the smaller groups, activity groups, SHGs; it talks of insulation from political and administrative control. It has provided for the entire cost of organising the producer organisation and hand-holding support for three years by an external organisation that could be a private company, or a civil society organisation. It provides for a start-up support of Rs 25 lakh and it is based on a business plan. The policy talks of establishment costs and other overheads over a period of five years on a declining basis. As the operation scale-up costs are expected to be met, it provides a lot of sops for creating a level-playing field with the cooperatives. It recognises the producer companies being on par with the cooperatives for licensing and other requirements. To help debt financing, there is a back-ended interest subsidy component. Then it also talks of support price preference and support for providing infrastructure needed in remote areas.

The key challenges that I see; how do we make these producer organisations a business and institutional success. Human resources should be the key looking both at the forward and backward linkages, and as we are looking at interacting with markets, the role of a professional run member organisation is important. What are the business ideas around which these organisations can be created? Conceiving and ideating business ideas which can stand the efficiency of the new economy, is also a challenge.

There are also some key issues in externally promoted producer organisations. What is the role and space and the core competence that the external promoter enjoys? This can complicate the issues of governance, membership, operations; interactions and the interplay among them would be complicated.

Whose vision will the producer organisation, which is a member-based organisation, work on? If the organisation starts doing well and starts focusing on wealth, you may have still have other poor producers that the promoter would like to link up. How do you incubate these profit making organisations which are also member organisations?

When you have large memberships—we have promoted 3,000-4,000 members, there is the issue of far removed management. How do you interact in a situation where face-to-face interaction cannot happen and control has to happen through a representative structure. Building capacities to handle these issues of governance is an issue.

When we are looking at the context of the poor, membership development is critical and there is an evolved membership in terms of individual capacity to align with the collective. We have seen in small affinity groups, organised around savings and credit, how such development happens through the structure of SHGs.

Modular structures in such large membership should help in exercise of ownership. We are looking at various activities, what is the collectivity logic, why are you collectivising, one has to go beyond mitigating the downside risks of technology, or new activities or volatile markets. There has to be a logic around which the collectivisation effort is to be geared.

Ultimately, the producer enterprises are also enterprises, and running businesses should have owners otherwise they would abdicate. That's is why a long-term engagement of the promoter with institution building efforts is required and is necessary.

The key as I see is a producer centric, but a small although responsive supply chain that has to be created. And when that happens, who will be at the receiving end would continue to be a question. Whether the producer organisations or the producers will be able to influence the realisation that you get, and can partnerships evolve not only with producer organisations, with private players too?

As told by Anish Kumar



linked to the market. The key to success in terms of value addition or enhanced returns to producers is dependent on how well the producer company is able to establish the forward linkages. While other linkages have their role to play, it is the linkage to the end-market that is critical. This is possible only if the producer company builds a transparent and fair mechanism that adds value up the entire value chain. In fact, it is the failure to ensure such mechanisms that has been the bane of the cooperative movement. How

does one build and sustain such linkage that is at the heart of a producer company's success.

Proposed Legislation

The Workshop took up the Irani Committee's suggestion that the Producer Company Amendment be scrapped as it was a failure. According to the Irani Committee, the institution is either a company or not a company, and producer company is not a company. But, this suggestion treats producer companies purely from the profit point of view, totally ignoring that the major driving force behind setting up a producer company was enhancing livelihoods of small producers. While profit ensures the success of any commercial venture, it is not true that all successful ventures enhance the livelihoods of small producers, specially those living in rural areas or below the poverty line.

While some may argue that a producer company is not the best way of enhancing livelihoods of small producers, the civil society should actively work towards ensuring that any change in the Companies Act incorporates the interests of community-based institutions, and the small producers also.

“Our large objectives are largely to look after production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce and other agro products or import goods or services for the members.”

Sachin Oza



Herein also lays an opportunity. If the Producer Company Act is enacted as a separate law, civil society can work towards removing the shortcomings of the existing legislation and incorporate the necessary improvements.

Areas Of Improvement

The improvements must emphasise extension of patronage-based voting rights to all. Currently, the law has one member-one vote as the key feature of a producer company if only individuals are members or if individual and the producer institution are the members. The problem is that any other investor will primarily look at his/her economic interest and this could be to the detriment of small producers, who do not have the necessary capital muscle. So there should be some flexibility with respect to defining patronage-based voting rights.

As with any other business enterprise, the producer company should also be given some tax exemptions. In case, there is a member who is doing business through his own producer company, first the income at the company level is taxed, then such member's own individual income is taxed. This needs to be looked at.

The Act must also clarify on 'patronage bonus'. The legislation has used the term pooling and has also used the term 'withheld price'. The two are somehow not seen as tenable in law. Pooling by implication implies that there is no price, just a sharing of materials or resources. The moment the word 'price' is used, in the sales tax context, it connotes exchange, and is accordingly taxed. This is especially important in the case of agricultural commodities' producer companies where such taxes can be as high as 4 per cent.

There is also the need to look at the implications of carry

“We have very clearly demarcated roles... the whole business of collating and knowing the value of the milk is done at the dairy at the project level and the payment is made through the bank directly to the producer.”

Ravi Shankar



“Producer companies are also going to be collectives of people, so there is a whole range of issues about managing collectives. So while the new law is enabling certain things, we need to take these into account.”

Sankar Datta

forward deficit for a patronage system. Whatever surplus is generated in a year by a producer company, it is being appropriated by the members in proportion to their patronage. But in case of a loss, it is being carried forward, becoming a penalty for new patrons and members. Now there are laws and provisions that prohibit such carry forward and they make a clear provision that profit or loss has to be proportionately shared within the same year. Here, the Irani Committee has only commented on such practice but has not really substantiated it. In fact, the issues raised by the Irani Committee can just as well be applied to private companies also, and no-one says that private companies should also be stopped, it was opined.

The biggest challenge is at the policy level, the procedures are quite cumbersome at least in the case of agricultural producer companies. For example, in the case of dealing in fertilisers, the Company requires a principal certificate; and in many States these certificates are only given to cooperatives. To run a business enterprise, a supportive environment has to be created that actually promotes such efforts. A case in point is the language outlining a producer company's byelaws. These are in English, a language beyond the understanding of a small marginal farmer or producer.

The process of registration also needs to be simplified. Producer companies should be treated at par with cooperatives. There should be some incentives for the promotion of producer company, specially for NGOs. A lot of incentives are given to cooperatives but not extended to producer companies.

Separately, the Workshop noted that the Government could consider extending some start-up capital to producer companies, specially those formed by small and marginal farmers or rural poor, for recruiting professionals to help the



enterprise move forward.

Advocacy And Awareness

There are also issues related to building awareness and sensitivity at the level of the bureaucracy. They actually need to be told that the Producer Companies are in the interests of the primary producers. Currently there are no efforts from the Government to promote producer companies. The only person who seems to know about producer companies is the Company Secretary and the Registrar of Companies. As in any business entity, you need to build entrepreneurial skills of stakeholders in producer companies. Unlike in the cooperative model, where systems of accounts and reporting procedures are streamlined, such issues still need a lot of clarification in the case of producer companies,. So there is continuous need for hand holding support at the district level.

A massive dissemination campaign is therefore required on the salient features of producer companies and how it scores over the cooperatives. This should be cutting across all target groups-across bureaucracy, across NGOs and across primary producers.

There should be a nodal department to look at issues concerning producer companies. The cutting edge should be at the district level. Most primary producers are at the block level or even below that.. So we need hand-holding at that level.

The concerned line departments such as rural development, agriculture and animal husbandry should help in capacity building of various stakeholders involved in promoting and facilitating the functioning of a producer company.



“There is need to document and disseminate best practices on capacity building, awareness creation and the enabling environment for promotion of producer companies”

Sachin Oza

Last, but not least, documentation and dissemination of best practices on the various processes of promoting of producer companies, need to be taken up.

Those who have worked with both cooperatives and producer companies feel that the latter have a great potential in terms of organising the primary producers. A producer company is based on the centrality of community-based organisations, that they have the power to run their institutions. Appropriate action at the ground level will facilitate and enable producer companies to really flourish and play the role of linking small producer to markets effectively.

“
*Relocation from
land will be the
most vexed
question in India, in
the years and
decades to come*”

Prof Y K Alagh

Annexure 1:

On Producer Companies Prof. Yoginder K Alagh

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:

"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 Chittoor 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

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

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.

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 studied.¹ 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 were still classified as 'villages'.

Table 2:

Level & Growth of Urbanisation in Gujarat

Year	Number of towns	Population		
		State	Urban	Urbanisation (in %)
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* (revised)	364	39.46	30.14	39.57

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

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, *Land Resources*, Delhi, Academic, 2004.

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.

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 1990s, 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

Table 3:

Irrigated Area in India 1998/99-2002/03

(million hectares)

Year	Population		Irrigation Intensity
	Net Irrigated Area	Gross Irrigated Area	
98/99	56.51	77.64	121.13
99/00	56.76	77.99	121.23
00/01	54.83	74.29	119.46
01/02	55.88	77.00	121.12
02/03	53.07	70.67	117.60

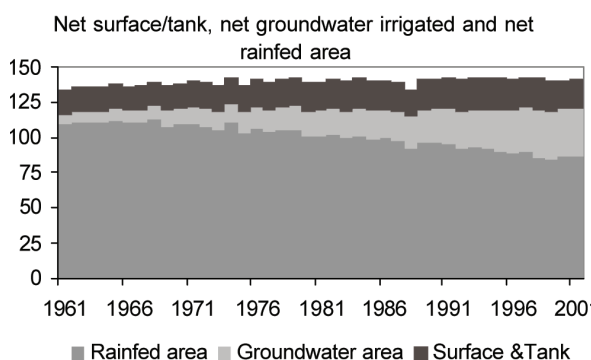
Source: Government of India, Ministry of Agriculture, Nov.2005, Agricultural Statistics at A Glance: 2005, Table 14.2, p.176.

Table 4:

Perspectives on Land and Water

Variable	1991/2	1996/7	2001/2	2006/7
Population (millions)				
Planning Commission*	856	938	1016*	1099
UN (Unrevised)	874*	955	1042	1130*
Net Area Sown (mn. hec.)				
Planning Commission	140	141	141	141
Revised		141	141	141
Gross area sown (mn. hec.)				
Planning Commission	182	191	197	203
Revised	183	191	197	205
Gross Irrigated Area (mn. hec.)				
Planning Commission	76	89	102	114
Revised	64	78	92	107
Cropping Intensity				
Planning Commission	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				
Planning Commission	41.5	46.9	51.7	56.1
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



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

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

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)

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

Table 5:

Impact of Special Irrigation Programmes in the Seventies and Eighties

Year	Net Irrigated Area	Gross Irrigated Area	Irrigation Intensity
74/75	33.71	41.74	108.03
75/76	34.59	43.36	108.77
76/77	35.15	43.55	108.40
77/78	36.55	46.08	109.53
78/79	38.06	48.31	110.25
87/88	42.89	56.04	113.15
88/89	46.15	61.13	114.98
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

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 elsewhere,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.

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 up to 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

For land development, access to water, technology

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 1970 programme, the scepticism 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 1980s programme.

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

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 the centre,

⁵ Government of India, 1989, Agro-Climatic Planning: An Overview, New Delhi, Planning Commission (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.

states, or donors.” (Anil Shah⁷)

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 instructions. 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:

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, the programme must identify and account for losers and 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 Tushar 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 up to 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.

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,

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 up to 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.

⁹ Samar Dutta, *Cooperatives in Agriculture*, Delhi, Academic, 2005.

*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

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 Prime Minister 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.

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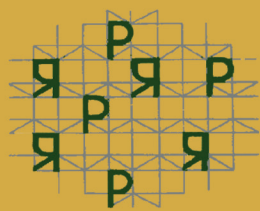
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Pradan was registered as a society in 1983 by a few young professionals inspired by the belief that well-educated people with empathy towards the poor must work at the grassroots to remove mass poverty. Over the years, Pradan has emerged as one of the largest NGOs in India engaged in livelihood promotion. It has been able to attract, groom and retain a large number of development professionals at the grassroots. It has discovered and put into practice many new approaches to development and prototypes that enhance poor peoples' livelihoods on a large scale and also influence government policies affecting the development sector. Over 200 Pradan professionals are now engaged with disadvantaged communities in 30 of India's poorest districts spread across seven states. It currently works with as many as 130,000 families.

The Pradan Research and Resource Centre or RRC was set up to meet the knowledge need of professionals, both in terms of facilitating reflection and documentation as well as as well as bridging knowledge gaps. The RRC aimed at enhancing efficiency and effectiveness of practice, developing methodologies for scaling up and setting systematic processes for policy advocacy. The RRC has been involved in knowledge development and management for the past five years with support from stakeholders such as the Ford Foundation, United Nations Development Programme, and Sir Dorabji Tata Trust. This year, it entered into a partnership with the Aga Khan Foundation to set up a National Resource Centre for Rural Livelihoods under the SCALE outreach programme. This initiative seeks to enrich the resource for livelihood related knowledge and create a forum for knowledge exchange between practitioners.



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