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Sir/Madam,

Under DAY-NRLM, initiatives have been undertaken towards building value chain development interventions with focus on sustainable agriculture, livestock and NTFP to enable small and marginal farmers to gain better price realisation, access to markets, improved technologies for value addition and technical support.

Through various DAY-NRLM interventions such as Mahila Kisan Sashktikaran Pariyojana (MKSP), MKSP Annual Action Plan, SRLM Annual Action Plan and World Bank Dedicated Fund, more than 86 thousand producers' groups (PGs) have been promoted. The PGs are small sized, unregistered entities with little scope for significant business transactions and a few of them are engaged in localized marketing activities catering to the local demand and supply situations. Notwithstanding the definite advantages this model has, being small and disaggregated, the PGs cannot legally and functionally engage effectively in large scale economic activities. Therefore, under DAY-NRLM, there is a need to promote member owned and member governed Producers' Enterprises (PEs) of significant size at which economies of scale would confer advantages of bargaining power.

To facilitate the SRLMs in the promotion of Producers' Enterprises based on backward and forward integrated value chains harnessing capital, organized production, processing and marketing for significant economic impact on the livelihoods, it is necessary to have a standardised and structured approach.

In this context, the **Guidelines for promoting Producers' Enterprises under DAY-NRLM** (enclosed), have been developed through a series of consultations with States, experts and other stakeholders. A model Memorandum of Association and Articles of Association for a Producer Company (under Companies Act, Part IX A), is also part of the guidelines to ensure good governance principles and equity.

The Guidelines are intended to serve as a framework for SRLMs for the promotion of sustainable, member owned and member governed Producers' Enterprises (PEs).

With regards

enc: a/a

To,

The SMDs/CEOs of all SRLMs States/UTs

Yours Sincerely,

(Atal Dulloo)



# **Guidelines for promotion of Producers' Enterprises Under DAY-NRLM**

**Deendayal Antyodaya Yojana-National Rural Livelihoods Mission  
(DAY-NRLM)**

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### List of Abbreviations

<b>AoA</b>	Articles of Association
<b>BoD</b>	Board of Directors
<b>CBO</b>	Community based organization
<b>CEO</b>	Chief Executive Officer
<b>CLF</b>	Cluster Level Federation
<b>FPO</b>	Farmer Producers' Organization
<b>GST</b>	Goods and Service Tax
<b>MACS</b>	Mutually Aided Co-operative Societies
<b>MKSP</b>	Mahila Kissan Sashaktikaran Pariyojana
<b>MoA</b>	Memorandum of Association
<b>NABARD</b>	National Bank for Agriculture and Rural Development
<b>NGO</b>	Non-government organization
<b>NRLM</b>	National Rural Livelihoods Mission
<b>PACS</b>	Primary Agricultural Cooperative Societies
<b>PC</b>	Producers' Company
<b>PE</b>	Producers' Enterprises
<b>PG</b>	Producers' Group
<b>SHG</b>	Self Help Group
<b>SHT</b>	Spearhead Team
<b>SRLM</b>	State Rural Livelihoods Mission
<b>SFAC</b>	Small Farmers Agri-Business Consortium
<b>VO</b>	Village Organization

## 1 Producers' Enterprises

### 1.1 Context

As per agriculture census 2010-11 there are 138.35 million operational holding in India and 12.78% of that are female operational holders, an increase from 11.7% in 2005-2006. The operated area is 159.59 million Ha and 10.34% are held by female holders, an increase from 9.33 % in 2005-06. This indicates a rise of 10% in the number of women directly involved in agriculture and a large percentage of agriculture workers are also women. The 2010-11 census also indicates that small and marginal holdings together constituted 85.01 percent against 83.29 percent in 2005-06. And 44.58 % of the operated area is under this holding against 41.14 % in 2005-06. It may be observed that there is an increase in the number of small and marginal holdings.

DAY-NRLM works with small and marginal women farmers and aims to bring strong focus to address the issues of the small and marginal producers such as productivity enhancement, extension service delivery and value chain development for improved market access. The fragmented production system has several challenges. It has been well documented that small and marginal producers have very small marketable surplus; so the cost of marketing is high due to un-favourable economies of scale. Besides, there is high asymmetry in market knowledge and information.

Organization of small and marginal producers into member owned and member controlled **Farmer Producer Organizations (FPOs)** or Producers' Enterprise (PE) has emerged as one of the most effective mechanism to address challenges faced by small and marginal farmers such as access to markets, access to credit and access to technology and inputs and markets.

Producers' Enterprises (PEs) can be defined as registered, formal organizations of farmers including co-operatives and Farmer Producer' Companies. The primary objective of these organizations is to ensure better economic return to the farmer producers by helping them to take up business activities. These enterprises operate as commercial organizations and being economically viable is of paramount importance for these organizations.

This document is intended to serve as the guiding principles for development of Producers' Enterprises under DAY-NRLM. This guideline would serve as a framework for market linked interventions with small and marginal farmers and would also help:

1. To understand the main purpose and benefits of promoting PEs under DAY NRLM;
2. To develop a strategy to be adopted by the implementing agencies for promoting sustainable producers' enterprises; and
3. To provide comprehensive guidance to the implementing agencies to promote PEs that are sustainable member owned and member controlled organizations.

## 1.2 Producers' Groups under DAY-NRLM

DAY-NRLM has been working with the poor and vulnerable women and organizing them into Self Help Groups (SHG) to improve their livelihoods and enhance their income. A large percentage of SHG members are dependent on agriculture including livestock and NTFP for their livelihoods. Self Help Groups (SHGs) are formed at the village level, which are then federated into Village Organizations (VOs) and further into Cluster Level Federations (CLF). Under various farm livelihoods interventions initiated under DAY-NRLM such as Mahila Kisan Sashktikaran Pariyojana (MKSP) and the Livelihoods annual action plan of the States, small and marginal women farmers are organized into institutions to enable them to access timely technical support at their doorstep. At the village level or cluster level, Producers' Groups (PGs) have been formed with women farmers involved in similar kind of activities like agriculture, livestock or NTFP. Some of the features of PGs are:

1. PGs are predominantly **un-registered** entities and usually organized as a Common Interest Group.
2. In many cases, PGs have been provided working capital support and infrastructure support by the SRLM through the VO or CLF
3. SRLMs have supported the PGs in formation of business plans
4. More than **75%** of the Producers' Groups are multi-commodity PGs
5. Average Size of PG: **35 SHG members** (*except for Kerala – 5 SHG members per PG*)

The PGs are small sized, unregistered entities with little scope for significant business transactions and a few of them engaged in localized marketing activities catering to the local demand and supply situations. Their business model is primarily based on economies of aggregation and thus aimed at reduction in individual transaction costs involved. Their target markets are also local and usually fall within a short radius. Notwithstanding the definite advantages this model has, being small and disaggregated, the PGs cannot legally and functionally engage effectively in large scale economic activities. Therefore, under DAY-NRLM, there is a need to promote member owned and member governed Producers' Enterprises of significant size at which economies of scale confer advantages of bargaining power.

The presence of social capital developed, Community Resource Persons and Community institutions are prime movers for economic prosperity and social development of any cluster. Hence, it is envisaged under DAY-NRLM to develop value chain interventions in geographies where SHGs, social capital and Producers' Groups are in abundance.

The value chain development strategy under DAY-NRLM would now focus on the promotion of market linked Producers' Enterprises which have a robust business model for better price realisation of small and marginal farmers; this would go a long way to make these organizations sustainable.



### 1.3 Rationale for implementation of value chain development through Producer Enterprises

The global economic trend of value chains has been moving towards consolidation of primary production, value addition through marketing and branding. Economy of scale would be a critical success factors to be competitive in the today's market. There is evidence that PEs can take the small and marginal farmers and producers higher up in the value chain and help them in getting remunerative prices for their produce. Therefore, DAY-NRLM would endeavor to promote large size women Producers' Enterprises in the farm sector like agriculture, dairy, NTFP and also in the non-farm sector like handloom, handicrafts and other non-farm rural produce.

To understand the impact of large scale Producers' Companies, we may look at the example of Aranyak Agri Producer Company Limited, a women Producers' Company in Purnea district promoted by Bihar Rural Livelihoods Promotion Society (BRLPS).<sup>1</sup>

The districts of Purnea and Katihar in the north east of Bihar are major producers of rabi maize crop but they are at the mercy of market intermediaries like village traders and commission agents when it comes to marketing their produce. Keen on taking the focus of Self Help Groups (SHGs) beyond member savings and internal loaning with bank linkages, the Bihar Rural Livelihoods Promotion Society (BRLPS) or JEEVIKA decided to form Producer Groups (PGs) in these districts. To demonstrate the increased returns to farmers through produce aggregation and collective marketing, an intervention was started in Purnea district through the registered Producer Company "Aranyak Agri Producer Company Limited" (AAPCL).

The formation of AAPCL has impacted the entire maize value chain in the area of operation by way of reduced cost of cultivation, dilution of lock-in of the farm output to local trader who traditionally supplied farm inputs on credit; and a better price realization which was 20% higher than what had been realized in previous years from sales to local traders and mandi sales. The benefits to the members have led to an increase in the maize procurement by the AAPCL from 10.06 MT in the first year of its operation (2014-15) to 13902 MT in the year 2017-18 and both the number of members and the scale of procurement by the AAPCL are expected to grow in the coming years with improved livelihood support to the farmers participating in the project. More than 3400 farmers are doing business with AAPCL and the turnover has reached Rs 19 crore in 2017-18.

*The intervention demonstrates how a producers' company promoted at scale can increase bargaining power, bring about better price realisation and take small and marginal farmers up the value chain. The best practices from AAPCL and other Producers' Companies have been used as the basis to develop the guidelines in the chapters.*

<sup>1</sup> Source: Business Models for Livelihoods Promotion – compendium by DAY-NRLM. The full text of the case study is given in Annexure II.



The formation of PEs would benefit the small and marginal women farmers through -

1. **Economies of scale and increased bargaining power:** PEs bring together the business activities of many individual small-scale producers and thereby increase the overall scale which would lower business costs and enable high volume, improved quality, and consistency in supply. PEs can increase small-scale producers' bargaining power by achieving large volume and therefore negotiate better prices.
2. **Improved market reach-** Most small-scale producers are unable to get a good price for their produce because they are unable to access markets where prices are higher. PEs can enable them to access remunerative markets by achieving the scale necessary to deal with buyers in these markets, or by value addition to the commodities to access higher value markets.
3. **Access to finance** – financing is a key challenge for small and marginal farmers, PEs can access institutional finance.
4. **Risk mitigation** – with the increased bargaining power and access to better markets, PEs can help small and marginal farmers mitigate market risks by offering competitive price for the commodities.
5. **Improved access to extension services** – PEs provide production related technical and technological services including input services, conduct training and capacity building activities.
6. **Increased policy influence** - Large PEs can provide the platform for producers to promote their interests and influence policies in the local, national, and even international environment that affect their business and livelihood.
7. **Professional management** – PEs are professionally managed entities, hence the management has the technical and managerial expertise which would help the management of the PEs in ensuring better returns.

***Therefore, all large scale value chain interventions under DAY-NRLM would be implemented through the promotion of Producers' Enterprises.***

#### **1.4 Types of Producers' Enterprises under DAY-NRLM**

1. **Brownfield PEs** – Many SRLMs and MKSP partners have been promoting PGs under different agriculture, livestock and NTFP interventions. Each member of the PGs, which are in contiguous villages and involved in similar business purpose, should be organized into various PEs to be promoted based on geography and commodity.

The PGs should remain as activity groups and would not participate in economic activities. The PGs would now engage in extension activities related to productivity enhancement such as Farmer Field schools, crop advisories and agro-advisories.

Many of the PGs are engaged in providing support to the producers in marketing of their producer in the neighbouring markets as a standalone support service. These PGs may continue to function if federating the members of these PGs into PEs is not feasible.

2. **Greenfield PEs** – PEs set up in areas where value chain interventions have not been implemented before through PGs or institutional mechanism would be referred to as

Greenfield PEs. The implementing agency has to carry out adequate due diligence before promoting PEs in Greenfield areas.

## 2 Role of implementing agency (SRLM)

The State Rural Livelihoods Mission (SRLM) is the implementing agency of the value chain interventions. As the implementing agency, the SRLM ensure its preparedness for establishing a successful and sustainable Producers' Enterprise. The approval of the proposals on value chain development under NRLM would be subject to the preparedness of the SRLM and the most important preparedness criteria is positioning of a spearhead team (dedicated for PE promotion) by the SRLM.

### 2.1 Spearhead Team (SHT)

The promotion of PEs requires specialized techno-managerial skill sets which need to be built in the SRLMs to enable scaling up of value chain interventions and regular monitoring. The SRLM should put together a multi-functional team to spearhead the PE initiatives and provide lifecycle guidance. This team would be dedicated for the promotion of PEs in the State. The Spearhead team would consist of Commodity experts, finance, costing & accounts expert, production & operations expert, market expert, Capacity building and institution building expert. The members of SHTs would have relevant experience in handling businesses with top line and bottom line responsibilities in commercial organizations. The role of the SHT would be –

1. Identification of commodities, preparation of business plan and proposal
2. Assist in pre-incorporation activities of the PE
3. Positioning the dedicated PE staff (core staff)
4. Assistance to the PE in operations for at least 2 cycles and ensuring compliance
5. SHT and NMMU would be responsible for business counselling, regular review of performance and progress and provide regular feedback for performance improvement and achieving results. The key areas to be monitored and assessed are:
  - a. Regular capacity building based on whether the management has adequate capacity to run the business
  - b. Whether the BOD is taking greater responsibility
  - c. Relationship between BOD, members and the management for ensuring synergy
  - d. Whether the SOPs are being followed
6. To build a larger level eco-system to facilitate trade / market linkage
7. Facilitate convergence for leveraging resources

However, the SRLM may also take on board technical support agencies (TSA)/ individual consultants with expertise on specific commodities or interventions to further support the SHT. TSA is not a replacement for the Spear Head Team, but a support to the SHT.

**Case study:** In the dairy sector, NDDDB Dairy Services has been involved in promoting Milk Producers' Companies. To understand the role of the implementing agency we may take a look

at *Shreeja Mahila Milk Producers Company Ltd., Andhra Pradesh*<sup>2</sup> in defining the business model and governance of the Producers' Company.

Dairy sector intervention is a sustainable source of livelihood opportunities for women SHGs, both individually as well as collectively. It offers a promising potential for expansion along the entire value chain, from pooling and cooling of milk to high-value processing. More than 56,640 women milk producers/SHG members of Shreeja Mahila Milk Producers Company Ltd. (SMMPL) have demonstrated considerable acumen in handling milk-related operations like milk collection, testing, storage and transportation, and also have displayed a flair for managing assets such as bulk milk cooling units. With the help of stronger backward and forward linkages and support of technical support unit (NDDDB) in terms of technology intervention, the scope to enhance both the scale as well as the scope of women involvement, have helped two folds – (i) improve livelihood opportunities for the SHGs, while releasing the personal time and organizational resources of higher-level institutions (ii) enabled these institutions to concentrate on more productive and value-adding products and services. The business model of SMMPL, cogently illustrate the role of women in enhancing the value-chain efficiency of the dairy sector while improving their livelihoods.

Chittoor District Milk Producer Union Ltd. commonly known as “Chittoor Dairy” was started in 1969 with 6000 litres per day which eventually went up to 2.5 lakh litres per day in 1989-90. Due to slump in prices of the milk powder, the dairy unit could not pay the milk producers and eventually was shut down in 2002. The producers started pouring milk with private dairies, getting less price. The farmers demanded better price and approached DRDA and the District Collector. Services of NDDDB was sought, SMMPL was born as a part of National Dairy Plan Phase 1, supported by NDDDB Dairy Services (NDS).

DRDA came forward to establish 116 bulk milk chilling units (BMCUs), each with a capacity of 3000-5000 litres, by end of March 2016 to support women SHGs. The BMCUs were managed by the Mandal Mahila Samakhya to enable timely chilling at the production clusters at 4 degrees centigrade, to prevent spoilage of milk. The BMCUs procured milk from 2220 village level milk pooling points (MPP) strategically connected with 186 milk routes, which are managed by a member of the SHG “*Palamitra*”. These functionaries are trained to operate the fully automatic weighing and quality testing equipment for determining fat and SNF content in the milk, based on which price was paid to the milk producers is decided.

**The structure/governance:**

- a. Producer Member: a women who wishes to become a member should possess milch cattle producing milk and make a payment of Rs.50 towards admission fee and Rs.1 per litre towards share capital. She must supply minimum 500 litres of milk for at least 200 days in a year and acquire minimum of 5 shares of each Rs.100 face value. Based on patronage, producer members are categorized into 3 classes, which translates into member's representational privileges in the composition of Board of Directors.
- b. Village Contact Group (VCG): VCGs are formed - with 3 to 7 producer members - at the village level to strengthen relationships and the flow of information between the company and its members, and further encourage and enroll new members.
- c. Member Relation Group (MRG): MRGs are apex bodies, formed with members of VCGs covering 10 to 12 MPPs, with a membership tenure of 1 year.

<sup>2</sup> Source: Business Models for Livelihoods Promotion – compendium by DAY-NRLM. The full text of the case study is given in Annexure II.

- d. Board of Directors (BOD): The Company is governed by a board consisting of persons elected or appointed as Directors with at least five and not more than 15 Directors.
- e. Shreeja MMPCL staff: Shreeja employs 266 managerial, technical and field support staff deployed at various levels to supervise, coordinate and manage its activities.

*The sector expertise of the Team at NDDB Dairy Services enabled the PE to reach the scale of operations, turnover while also ensuring governance and representation of all farmers. More than 80% of the shareholders are small and marginal women farmers.*

## **2.2 Training and Capacity building of SHT**

Before promotion of PE, the SRLM should ensure that the Spearhead Team is in place. The SRLM should organize regular trainings for the SHT on the following –

1. Business planning - process of analyzing the business and its markets, developing individual understanding of and gaining broad agreement on a viable business strategy, and setting clear targets and objectives.
2. Analyzing business costs (fixed and variable, sunk cost)
3. Cash flow management, Working capital management
4. Operational management
5. Producer Enterprises, governance, membership and types of legal frameworks
6. Business counselling and performance monitoring

## **2.3 Exit strategy**

To enable PEs to become independent organizations and financially sustainable businesses, the implementing agency needs to plan all their support work with a clear exit strategy that is agreed and understood by both parties. Therefore, from the very beginning the SHT of SRLMs would focus more on strengthening the capacity of the PE staff rather than running the PE business themselves.

### 3 Identification of area of intervention

**Responsibility** – Spearhead Team (to be set up by the SRLMs to kick start value chain interventions and promotion of PEs from the proposal development stage).

**Rationale** - Prior to promotion of any PE, the implementing agency (SRLM) must establish the geographic area, basket of commodities and the economic activities that can be taken up by the PE. The Spearhead Team (SHT) is responsible for conducting a thorough analysis of the external environment, building commodity profiles and also undertaking value chain analysis of all the commodities identified, formulate intervention strategies and develop business models.

This section details the activities to be undertaken to assess the potential and also suggests some tools for assisting with the analysis.

#### 3.1 Assessment of potential for PEs

The key factors to be considered while assessing the potential for establishing PEs –

1. **Geography focused** - The assessment should be geography and stakeholder centric and *not commodity centric*. The area should be contiguous and the target group would be small and marginal women farmers.
2. **Cluster approach** – the focus should be on a cluster approach i.e. in areas where there are existing clusters of one or more commodities.
3. **Participatory value chain development methodology** – the approach to commodity shortlisting and identification of intervention should focus not only on data, rather it should focus on deriving the information from discussion with the community including SHG and federation members and identifying the critical value chain gaps.
4. **Market led approach** – An assessment of the markets and demand, both local and distant, should be undertaken for the shortlisting of commodities.

##### 3.1.1 Scope of intervention based on value chain gap analysis and centrality

1. **Selection of geography** – The implementing agency should identify the geography based on the extent to which community mobilization into SHG's has taken place. It is preferred to take up the interventions in intensive blocks where the mobilization of the poor is nearly saturated.
2. **List of potential commodities** – The SHT must conduct secondary analysis to prepare a list of the commodities or economic activities (agriculture, NTFP, dairying etc.) that are cultivated/ collected or available in the selected area.
3. **Shortlisting 4-5 major commodities for intervention** – The list of commodities may be narrowed down through FGDs with the community, study of the local markets and mandi, and carrying out a SWOT analysis of the commodities. The SWOT analysis may have to be validated with another round of FGDs with the community and also to address any information gaps.

4. **Commodity profile (production to end market)** – The commodity profile would address the production system, seasonality, cyclicity, stakeholder, market dynamics, price volatility and value addition opportunities for commodity. The commodity profile would also give an understanding of the value proposition to the producers’ individually and collectively. A thorough value chain analysis would be critical tool in this activity. The value chain analysis must cover the production process to the end market with detailed information on value added and cost incurred at each stage. A clear understanding of the flow of the commodity from farm gate to various markets should emerge from the analysis. All the relevant transaction costs should be documented properly. The commodity profile would also provide an understanding of the gaps that can be addressed in the commodity value chains.
5. **Portfolio of commodities** – Ideally every PE should have a portfolio of commodities for ensuring year-round operation with the exception of Dairy which is a round the year activity. . Each of the commodities in the commodity portfolio must be a profit center for the PE. The need for a portfolio of commodities is four-fold:
  - a. **Optimization of overheads (economies of scale and scope)** – higher contribution and optimized utilization of capacity.
  - b. **Optimization of working capital** – rotation of working capital would ensure that the working capital is not idle
  - c. **Risk mitigation** – the risk is spread over a basket of commodities
  - d. **Ensuring member loyalty and member centricity-** PE should endeavour to support its members in marketing different commodities produced by them if found economically viable.

The steps are summarized in the following table:

Process		Data and Tools
<b>Step 1</b>	<b>Shortlist Geography / area of intervention</b>	1. Presence of NRLM SHGs 2. Level of SHG mobilization 3. Areas where productivity enhancement activities have already been taken up under NRLM
<b>Step 2</b>	<b>List of potential commodities</b>	1. Secondary data analysis 2. Commodities cultivated/ collected by small and marginal farmers 3. Number of producers involved
<b>Step 3</b>	<b>Shortlisting 4-5 major commodities for intervention</b>	1. FGD with the community 2. FGD at local market / mandi 3. SWOT analysis of the commodities 4. 3E Model – To assess the external environment of the commodity 5. End-use market analysis and value chain study

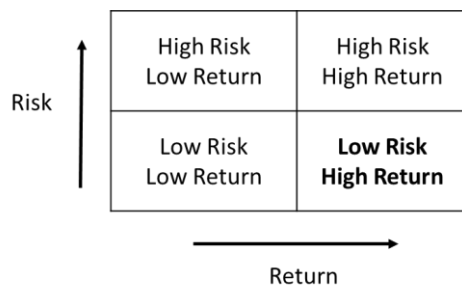


<b>Step 4</b>	<b>Validation of the commodities selected</b>	1. FGD with the community to validate the shortlisted commodities and fill any information gaps.
<b>Step 5</b>	<b>Commodity profile (production to end market)</b>	1. Scale - Number of small and marginal HHs covered, Marketable surplus 2. Production system (pre-harvest, harvest, post-harvest) 3. Uniqueness of the commodity (seasonal advantage, active ingredient) 4. Market dynamics – Existing and potential markets, Legal barriers, Demand supply dynamics, price volatility <i>Analysis may be conducted with the help of Technical agency / competent manpower at SRLM level</i>
<b>Step 6</b>	<b>Creation of portfolio of commodities and the commodity-wise interventions</b>	1. Seasonality/ cyclicity 2. Member affinity / ease of building transactional intensity 3. Gaps in the existing value chain 4. Defining the business models 5. Business viability / profitability for each commodity intervention <i>Each commodity must have the potential to be a profit center</i>
<b>Step 7</b>	<b>Validation of the commodity portfolio</b>	1. FGD with the community to validate the interventions and fill any information gaps.

### 3.1.2 Sensitivity Analysis

A detailed analysis of the change in the profitability of the entire portfolio of commodities should be measured for price volatility and demand/sales volume of commodities. This would give the SHT an insight into the riskiness of the commodity portfolio selected. A suitable model such as What If analysis may be undertaken to build different scenarios for the PE.

Based on the risk and the estimated returns for each commodity, the commodity would fall into any one of the four quadrants given below. It is recommended to consider commodities with moderate / low risk and suitable risk mitigation mechanisms must be put in place.



## 4 Formation of Producers' Enterprises

### Responsibility – Spearhead Team

**Objective** - The objective of this step is to define the value proposition for the commodities and the business model of the PE, identify the appropriate legal framework, draw a feasible business plan and formulate the membership criteria for the PE.

#### 4.1 Scope and Objectives of the PE

To define the scope and objective of the PE, the value proposition to the members must be defined. A value proposition is defined as an innovation, service, or feature intended to make an enterprise or product attractive to its members and customers, in this case we focus on the value proposition of the PE to its members.

The value proposition to the farmers can be all or several of the following –

1. Better price realisation to farmers
2. Greater share of the consumer rupee to the producers
3. **Timely payment** to the Producers
4. Safeguarding the interests of farmers by providing **round the year access to organised market**
5. Eliminating trader/ middlemen and **providing direct access to market**
6. **Capacity building** of stakeholders through education, training and other extension activities
7. Input and **extension services**

The value proposition of the PE is critical to build member affinity and loyalty towards the PE. High level of member affinity would ensure that the PE can capture the majority of the marketable surplus of its members and would give it an advantage over its competitors and other market players.

#### 4.2 Registration of the PE

Registration of the PE should be under suitable legal framework which follows the principles of co-operation and the legal framework may be adopted by understanding the pros and cons of the available frameworks.

##### 4.2.1 Principles of co-operation

The principles of co-operation are -

1. **'Self-Help'** is based on the belief that all people can and should strive to control their own destiny. PE members believe that full individual development can take place only in association with others. Individuals also develop through cooperative action by the skills they learn in facilitating the growth of their PE. PEs are institutions that foster continuing education and development of all those involved with them;
2. **'Self-Responsibility'** means that members assume responsibility for their PE – for its establishment and its continuing vitality. Members have the responsibility of promoting

- their PE among their families, friends and acquaintances. Members also ensure that their PE remains independent.
3. Producer Enterprises are based on **'equality'**. Members, whether an individual or a group, are all equal. It does not depend on the social and economic status of the member.
  4. Achieving **'equity'** within a PE is a continuing, never-ending challenge. It also refers to how members are treated within a PE. They should be treated equitably in how they are rewarded for their participation in a PE, normally through patronage dividends, allocation to capital reserves in their names, or reduction in charges.
  5. **'Solidarity'** ensures that cooperative action is not just a disguised form of limited self-interest. All members including the employees and non-members who are closely associated with the cooperative should be treated fairly.

#### 4.2.2 Types of Registration

The PEs may be registered under the Co-operative societies Act, Mutually aided co-operative societies Act or the Producers' Company Act. The SHT may decide on the type of registration on the basis of external environment, policy implications, short-term and long term advantages and interest of the women members. However, it is preferred that the type of registration where the interests of the members are safeguarded should be chosen.

The legal and administrative implications of the different types of registered entities are provided in the table below.

**Legal and Administrative Implications different types of institutions<sup>3</sup>**

Criteria	Legal Form					
	Society	Public Trust	Cooperative	Producer Company	Sec 25 Company	Private Company
Basic orientation	Welfare	Mutual benefit	Patronage/ welfare	Patronage/ commercial	Welfare	Commercial
Accountability towards	Promoters	Members	Members	Members	Promoters	Shareholders
Registration under	Societies Registration Act, 1860	Indian Trusts Act, 1882	Cooperatives Act, under different states	Section 581 Companies Act, 1956	Section 25, Companies Act, 1956	Companies Act, 1956
Registration Authority	Registrar of Societies	Charity Commissioner	Registrar of Cooperatives	Registrar of Companies	Registrar of Companies	Registrar of Companies
Minimum number of promoters	At least seven members for registration	At least two trustees for registration	At least five directors for registration	At least five directors for registration	At least two directors for registration	At least two directors

<sup>3</sup> Source: Livelihood Augmentation in Rainfed Areas: Volume II, Entrepreneurial Strategies for Augmenting Rural Livelihoods, Development Support Centre, Ahmedabad

Governance Structure	Governance council	Board of Trustees	Executive Committee	Board of Directors	Board of Directors	Board of Directors
Producer control	Difficult	Difficult	Mandatory	Mandatory	Difficult	Open
Surplus disposal to members	Not possible	Possible	Mandatory	Mandatory	Not possible	Possible
Tax Benefits	++++	+++	++	++	++++	+
Equity participation. by members	Not possible	Possible	Mandatory	Mandatory	Possible	Expected
Equity participation - External	Not possible	Possible	Not possible	Not possible	Difficult	Easy
Commercial loans	Difficult	Difficult	Possible	Possible	Possible	Easy
Dissolution	On approval by 3/5th majority of members;	charity commissioner may revive/ reorient the trust	Liquidation possible as per procedure of cooperative law	Possible as per procedure of company law	Dissolution possible	Possible as per procedure of company law

### 4.3 Identification of Business model

A business model can be defined as a plan for the successful operation of a business consisting of identification of sources of revenue, the intended customer base, products, choice of processing technology and details of financing. The business model identified must take into account the following parameters –

1. Member centricity
  - 1.1. Percentage of poor involved in the activity
  - 1.2. Proportion of household income from the commodity
  - 1.3. Addition to current income levels
2. Year round operations
  - 2.1. Single commodity
  - 2.2. Multi commodity
3. Understanding markets specificities
  - 3.1. Existing stakeholders
  - 3.2. Extant factors – existing client patron relationship, indebtedness
4. Legal Implications
  - 4.1. Taxation (GST, others)

**Case study:** The inclusive poultry value chain model in the tribal block of Kesla<sup>4</sup> has been highly successful and we may derive the learnings from this case study on how to build fair business principles into the business model so that there is equity among all members.

PRADAN (an NGO and NSO partner of DAY-NRLM) had initiated inclusive poultry value chain in 1992 to enhance income for small holder broiler farming, from backyard poultry in a tribal block Kesla, in Hoshangabad district of Madhya Pradesh. As per the Annual Report of 2015-16, the intervention reached to more than 6000 women broiler farmers, organized into more than 10 cooperatives, and one producer's company, with a collective revenue of more than INR 42.5 crores.

The small-holder broiler value chain attempts to adapt complex production technology to the small farmer's context and, at the same time, achieve economies of scale through the collective procurement of inputs and marketing of produce. The essential elements of the model are:

- a. Decentralized production infrastructure with 300-400 birds in the homestead backyard, which fits into the daily life of the tribal woman.
- b. Production efficiency with rigorous training of producers, intensive production support and on-call referral veterinary services of high quality.
- c. Cost effectiveness with collective procurement of inputs and sale of birds to achieve economies of scale, and backward-forward integration.
- d. Creation of a system to address the volatile nature of the market by de-linking production efficiency from enterprise efficiency, and collectivization of operations when dealing with markets.
- e. Customized financial and MIS software for decentralized operations.
- f. Charges of para-vets linked to production parameters.

The model comprises decentralized rearing of birds by primary producers (all women producers) at the village level, who are supported by their collective institution (cooperative/producers' company) for a variety of services. These services are delivered either directly (veterinary) or through service providers (input supply and knowledge services) trained by PRADAN. The collective institution/cooperative/producers' company, is manned by trained professionals and governed by people's representatives. The institution monitors the performance of primary producers through its service providers.

The producers organize themselves into clusters and select a representative for the Board of Directors. The Board of Directors meets once a month, in which all important issues such as input and output prices, performance of different clusters, new appointments, remuneration and performance of staff are discussed, and decisions are taken. The CEO who is responsible for day-to-day management and operational decisions, reports on the business performance of the cooperative in the monthly Board Meeting.

<sup>4</sup> Source: Livelihood Augmentation in Rainfed Areas: Volume II, Entrepreneurial Strategies for Augmenting Rural Livelihoods, Development Support Centre, Ahmedabad. The full text of the case study is given in Annexure II.

The CEO is supported by community based supervisors for the provision of farm services and production management. The supervisors are paid according to their output. The Annual General Meeting (AGM) is convened to discuss issues such as distribution of surplus etc. the audited report is circulated in advance and is approved in the AGM.

The small holder cooperative value chain remained competitive in the market for the following reasons:

- a. The input supplies such as poultry feed, day-old chicks and veterinary services, are provided at the producers doorstep. The unit size is designed to allow the family to deploy its surplus labour optimally.
- b. This system builds on low or no cost slack labour available in rural households which is about 60% higher margin than the industrial poultry manufacturers.
- c. The aggregation of produce is done by cooperative. The increased cost of collectivization, and providing veterinary and management support to farmers is offset by the market outreach directly to retailers, thus doing away with distributors.

The proportion of a farmer's margin with respect to the total margin in the chain at the production end is about 44%. The annual income in the case of home-based broiler farming is about Rs.13,000–18,000. The farmer-centric character of the value chain is the key to its success because at the lower unit size. The production cycle is 5-6 per year. The feed conversion ratio (kg of feed/kg body weight of bird) is 1.65. Achieve less than 5% mortality rate due to door step services by para vets/CRPs. The average flock weight is 1.5 kg, increasing overall efficiency index to 246. The small-holder value chain introduced in Kesla increased the margin farmers receive by eliminating intermediate actors.

*The farmer centric nature of the business model has been a key factor for the success of the Kesla Co-operative. Such fair business principles must be adopted in all the PEs to ensure that the small holders are brought higher up in the value chain.*

#### 4.4 Membership

The membership rules would depend on the commodities, value of the commodities and relative contribution of the members involved in the various commodities. The SHT may work with PE leaders and community members to make the constitution a document that is understood and owned by members and enables them to exercise their rights and responsibilities within the organization. The following non-negotiables have to be defined as part of the membership rules of the PE -

1. **Individual membership** - Women farmers would be direct members of the PE. A member information card, with profile details and transaction details would be maintained by the PE.
2. **Business only with members** - Non-member procurement would not be encouraged. The women farmers should be made members of the PE before starting transaction with the PE. An intermediate stage – Nominal membership – may be created with suitable terms and conditions to allow non-members to transact with the PE. However, all

- nominal members should be made full members of the PE to continue the transactions at the earliest.
3. **Active members** – Suitable terms and conditions for patronage may be defined based on the supply of certain quantity and agreed quality of commodity such that the member contributes regularly to the PE.
  4. **Member equity in proportion to patronage** – The patronage based member classes and commodity wise calculation of equity should be maintained.
  5. Appropriate accounting methods to ensure that costs, profit and loss is calculated for each commodity handled in the portfolio of commodities handled by the PE.
  6. Appropriate accounting methods especially for multi-commodity PEs to ensure fair sharing of commodity-wise patronage bonus, as all members may not contribute all commodities in the same proportion and commodity-wise profits and costs may vary from time to time.
  7. Mechanism for transparent and fair sharing of commodity-wise loss should be established.
  8. Appropriate mechanisms for member communication and grievance redressal.



## 5 Business model of Producers' Enterprises

**Responsibility** – Spearhead Team and PE

**Objective** - The objective of this step is to define complete business model, capital mobilization strategy and the profit distribution mechanism.

### 5.1 Feasibility Study

The feasibility of the PE should be measured through the triple bottom-line concept. The Triple Bottom-line is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. Instead of focusing solely on its financial outcomes, consideration should be given to the company's social, economic and environmental impact.

1. **Economic impact (Profit)** – refers to the net profit generated by the business activities of the PE. A few of the economic indicators are –
  - i. Net Profit;
  - ii. Internal Rate of Return (IRR);
  - iii. Contribution margin;
  - iv. Members' income per unit measure of commodity.
2. **Social impact (People)** – refers to fair and transparent business practices that benefit the community. A few of the social impact indicators are –
  - i. Women empowerment
  - ii. Increase in household income
  - iii. equity and access to social resources
3. **Environmental impact (Planet)** – refers to sustainable environmental practices adopted by the PE.

### 5.2 Trading and/or Value addition

The PE must move towards value addition of the commodities and the business model must not be solely based on trading.

***In case commodity trading activity is being undertaken, a model entirely based on speculation is discouraged.***

The various types of value addition can be –

1. **Improving quality** (grading) – increase in income by obtaining higher prices by improving the quality of an existing product.
2. **Processing** - by processing a product a PE can increase its value and deal directly with buyers of the processed product. However, processing requires significant resources and management experience.
3. **Differentiation**: PEs need to give their products a unique identity, which differentiates their product from others in the market.

### 5.3 Business development services (BDS)

The PE should focus on providing value added package to members to build loyalty and business growth. The business development services should be treated as an investment rather than an expense. The list of business development services that may be provided by PEs can be -

1. **Input Supply Services:** The PE may provide low cost and quality inputs to member farmers by undertaking bulk purchase or procurement.
2. **Insurance Services:** The PE may facilitate various insurance like Crop Insurance, Cattle Insurance, Electric Motors Insurance and Life Insurance.
3. **Technical Services:** The PE may promote best practices of farming, diversifying and raising levels of knowledge and skills in agricultural production and post-harvest processing that adds value to products.
4. **Networking Services:** Making channels of information (e.g. about product specifications, market prices) and other business services accessible to rural producers; facilitating linkages with financial institutions, building linkages of producers, processors, traders and consumers, facilitating linkages with government programs.
5. **Financial Services:** The PE may facilitate savings and loans products to members for productive purposes (inputs on credit etc.). *The PE would not provide loans for consumption purposes.*

### 5.4 Business Strategy and plan

A comprehensive business strategy defines the objective and long term and short term goals of the PE, allocation of existing resources, revenue model, marketing strategy and operational strategy.

#### 5.4.1 Defining operational area

The operational area of the PE should be defined by the business principles rather than administrative boundaries within a state. This implies that the PE should not be restricted to a block or district. After an analysis of scale, business viability and operational feasibility it should be decided whether the PE would cover a single district/block or multiple districts/blocks. **Large scale PEs are preferred over smaller scale PEs** for the reasons that have been articulated in the earlier chapters.

#### 5.4.2 Financing

The promotion of the PE should be taken up on project finance mode to cover the setting up of value addition infrastructure, procurement infrastructure, working capital and viability gap funding for one to two years.

#### 5.4.3 Strategic business units

Producers' Enterprises are preferred to be multi-commodity, multi-activity enterprises as it has many benefits in terms of optimizing overheads, working capital, diversifying the risk and enhancing member affinity. It is important to ensure that each commodity is a profitable unit and there is no cross-subsidisation. Hence it is essential that each commodity is established and treated as a Strategic Business Unit (SBU).

Each SBU should have clearly defined –

1. SOPs – for procurement, sales, quality
2. Member traceability – volume and patronage
3. Balance sheet, P&L – revenue, cost and profit

#### 5.4.4 Margin and revenue model

There should be a margin and revenue model in place and the sensitivity analysis should be done for the margin and revenues for each commodity. The models should also account for the elasticity of the supply and demand for each commodity.

#### 5.4.5 Capital Mobilization strategy

The SHT must clearly define the capital mobilization strategy of the PE for different categories:

1. **Initial equity participation from members** – Equity participation should be defined for each commodity and should be proportional to the volume contributed by the respective member either paid at one time or instalments over a defined period.
2. **Start-up capital** - The start-up capital would be provided to the PE through the project linked to raising capital from its members. The start-up capital would be a grant.
3. **Capital for expansion** – The capital for expansion may be mobilized through institutional sources, raising further equity and through the built-in reserves.
4. **Member traceability** – It is important to note, that while increasing capital stake of members based on patronage the PE has to ensure member traceability and should be in the form of equity and deposits.

#### 5.4.6 Building reserves (absorbing market shocks, business growth)

The PE must have a provision to build reserves from the net profit (after deduction of patronage bonus) for the following reasons –

1. **Business growth** – expansion of business verticals, expansion of geographies
2. **Absorbing market shocks** – price volatility, yield volatility, inadequate procurement
3. **Force Majeure**

#### 5.4.7 Marketing strategy

Once a PE has identified marketing options, it needs to develop a marketing strategy based on a careful assessment of the options and the PE members' priorities and capacity. This assessment should narrow down the options to two or three marketing options, covering different markets, different products, or a combination of both. The following issues should be considered in this process:

1. **Members' priorities:** the primary commodities cultivated / collected by the members
2. **Competitive advantage:** unless the PE can sell a product at a lower price than other producers or offer a better product that justifies a higher price, it would struggle to compete.
3. **Market risk:** PEs need to pay particular attention to the risk involved in different marketing

options. The most profitable opportunities are often the most risky and so PEs need to find the right balance between security and profitability for their members.

4. **PE capacity:** where PEs have a choice between local or distant markets, the PEs should first gain experience and develop their capacity in the local market before attempting to access more risky and demanding markets.
5. **Non-monetized costs:** In rural economies production and processing are often dependent on ‘free’ family labour or exchanged labour from other community members. Some market options may involve crop choices that have important implications for natural resources or a household’s ability to produce other crops. All these options involve costs that are rarely considered in cash value even though they affect the livelihoods of family members, in particular women. These costs need to be taken into account when PEs assess different market options.

The advantages and disadvantages of different types of market linkages are summarized in the table below –

	<b>‘Spot’ markets</b>	<b>Contractual arrangements</b>
<b>Advantages for PEs</b>	There is no obligation to sell products to any particular buyer. PEs are free to find the best offer for each transaction.	The business risk is shared between producers and buyers. Buyers may provide additional market services, which producers cannot obtain in the market.
<b>Disadvantages for PEs</b>	PE take on all the business risk. Prices and income are uncertain and it can be difficult to plan production and investments if income from sales is unpredictable.	PEs have to honour the contract even if they would be able to receive better terms or prices from other buyers. If individual members or associations break the contract the PE may lose future business

### 5.5 Profit Distribution

The PEs should distribute the profits to members based on the following principles:

1. The distribution of profits has to **be equitable and not equal**.
2. Profits are distributed based on patronage, i.e. how much each member has sold or bought through the PE keeping in view the differences in initial and advance payments made.

These principles affect members' incentives and motivation to invest in the PE or use the PE's services.

## 6 Operations of the Producers' Enterprises

**Responsibility** – Spearhead Team and the PE team

**Objective** - The objective of this step is to define operations strategy of the PE.

The operational model of a PE has to be robust and clearly defined. We may look at the example of *Vasundhara Agri-Horti Producer Company Limited (VAPCOL)*<sup>5</sup> to understand how a Producer Company can build a marketing strategy and its own brand.

**Vasundhara Agri-Horti Producer Co. Ltd (VAPCOL)**, promoted by BAIF in 2004, is a multi-State second-tier farmer organisation registered as a Producer Company under the Companies' Act. Its members are first-tier Farmer Organisations (registered or unregistered) having primary membership of individual farmer producers. Farmer Organisations are equity holders in VAPCOL. The goal of this organization is to manage production, harvesting, procurement, grading, pooling, handling and marketing, selling and export of primary produce of its members. The cooperatives or any other producer institutions preferably within the project area that are into manufacturing; marketing and processing of agri-horti produce can become a member in the VAPCOL.

Today the producer company has a membership base of 55 producer organizations spread across various States of India representing a primary membership base of about 41000 farmers. VAPCOL deals in multiple commodities produced by its members primarily fruit and nuts.

**Procurement:** The member organizations of VAPCOL directly own the entire chain of activities right from procurement of raw produce from the farmer upto the final processing and quality-wise grading of the produce, while VAPCOL is responsible for the marketing of these products. It also provides technical support in production processes, quality management and packaging. Other than that, it disburses working capital loan to members for smoothly carrying out their operations

**Quality Control:** VAPCOL ensures quality of products under supervision of Food Technologists and Agri-graduates. All the products have to pass through the procurement norms set by the Company.

**Marketing:** VAPCOL is promoting and marketing the farmers' produce under the brand name "Vrindavan", which presents varied range of products such as fresh fruit and derivatives of raw and ripe Mango, Amla derivatives, plain and flavoured Cashew Kernel and other F&V preserves. All the branches are involved in marketing of the products. It has explored several marketing options including retail, distributor, wholesale, Kiosks as well as Hyper stores. In addition to that, VAPCOL has also forayed in e-market channels such as Snapdeal and Amazon with Vrindavan products.

*The quality control and strong procurement systems of the Producer Company have enabled it to build several marketing options including institutional buyers.*

### 6.1 Procurement Strategy

The procurement of the commodities would be done by the PE. The PE may establish procurement centres at village or cluster level as per business requirement (volume, distance

<sup>5</sup> Source: <http://vrindavan.co.in>

from markets) and the infrastructure of procurement center would be leased or hired or owned and operated by the PE. The procurement centers may be operated by the Udyog Mitras against a payment of commission linked to the business volume– who would be a member of the PE from the same cluster / village as the center.

It is important to note that the PG, being an informal body, would have no economic role, the PG should facilitate IEC activities and also would be responsible for the provision of extension services.

## 6.2 Udyog Mitra

The PE may set-up procurement centers covering one village or a cluster of villages. At the procurement center level, the Udyog Mitras – a member of the PE from the same cluster or village would be responsible for the procurement, quality assurance and other logistics requirement. The Udyog Mitra would be paid a commission on procurement. The role of the Udyog Mitra would be to –

1. Ensure fair and transparent procurement, storage and transportation
2. Fair and transparent record-keeping
3. Ensure quality of the commodity procured.
4. Improve communication between PE and members
5. Information dissemination to the members
6. Support regular interactions between PE members

## 6.3 Pricing and Payment to members

**Pricing** - The SHT should assist the PE staff to determine the pricing mechanism to all for fair and transparent procurement of the commodities. Depending on the external environment, market dynamics and the commodities dealt with, the following points related to pricing must be included in the SOP -

1. Price discovery – which are the benchmark markets for the commodity?
2. Pooling Price mechanism versus outright purchase
3. Grading and quality parameters to be defined based on
  - a. Market acceptance
  - b. Health and safety (such as FSSAI)
  - c. Consistency.
  - d. Shelf-life
  - e. Packaging and labelling

**Payment** - As it has already been mentioned that the membership of the PE would be confined to women farmers. The PE would transfer the amount due to the member directly to the members' bank account.



#### **6.4 IT systems**

IT systems would be put in place to maintain accounts and operations. To being with, a suitable accounting software may be used to maintain the accounts of the PE.

## 7 Business risk of Producers' Enterprises

### 7.1 Risk assessment

A risk assessment need to be carried out for the portfolio of commodities under the PE. Especially in the case of perishables it should be rigorous.

### 7.2 Risk mitigation

The mechanism for the risk mitigation for the PE must be established.

1. Product diversification
2. Spot transaction versus forward contracts
3. Transportation – ex-premises or FOR on destination
  - a. Ex-premises – the risk of transportation is borne by the buyer
  - b. FOR on destination – the risk of transportation is borne by the PE
4. Allocation of risk must be defined for the PE and the members–
  - a. Price risk
  - b. Storage losses and processing losses
  - c. Transportation losses
  - d. Quality / rejection risk

## 8 Business principles of Producers' Enterprises

### 8.1 Centrality

The PE must be a **member centric organization** and the business should be built on fair business principles, equitable cost, profit sharing and good governance for the benefit of the members.

### 8.2 Fair business principles

The PE must adhere to the fair trade principles, these components must be reflected in the Memorandum of Association (MoA) and Articles of Association (AoA) of the PE –

1. **Protect the interest of Small and marginal producers** - the PE should seek to enable them to move from income insecurity and poverty to economic self-sufficiency and ownership.
2. **Equitable and not equal sharing of profits**
3. **Transparency and Accountability** - The PE is transparent in its management, representation and is accountable to all its stakeholders
4. **Fair Trading Practices** - The organization trades with concern for the social, economic and environmental well-being of marginalized small producers and does not maximize profit at their expense. The organization maintains long term relationships based on solidarity, trust and mutual respect.
5. **Payment of a Fair Price** - A fair price is one that has been mutually agreed by all stakeholders.
6. **Ensuring no Child Labour and Forced Labour**
7. **Empowerment of women**
8. **Providing Capacity Building**
9. **Respect for the Environment**

The model MoA and AoA for a Producer Company is provided in Annexure I. This MOA and AoA may be referred to by the SRLMs during the incorporation process of the Producer Companies.

### 8.3 Standard Operating procedures

For the key functions of the PE, clearly laid out SOPs have to be prepared by the PE staff with the support of the SHT –

1. Procurement
2. Sales
3. Pricing
4. Storage and quality
5. Logistics
6. Finance
7. Human Resource (recruitment and performance incentives)

The Standard operating procedures must cover the following –

- a. End to end process to followed
- b. Person responsible at every stage and the person responsible overall
- c. Formats for capturing the relevant information
- d. Frequently asked questions (FAQs)

## 9 HR structure of Producers' Enterprises

**Responsibility** – Spearhead Team and PE staff

**Objective** - The objective of this step is to define the organization structure and HR processes of the PE.

### 9.1 Organization Structure

The SHT must design the organizations structure of the PE on the basis of the geographic spread, scale of operations and activities to be undertaken by the PE. The PE should have a detailed HR manual. The organization structure may be divided into –

1. **Core Staff** – The core staff would be minimal staff on the payroll of the PE and would handle the key decision for each business vertical.
2. **Non-core Staff** – The non-core staff would consist of field manpower who are hired for specific tasks/jobs on retainer basis at the cluster level to handle the operations of the PE.

As discussed in chapter 5, the Udyog Mitra would be present at the procurement center level to handle the procurement, quality and other logistics.

The success of any organization can be attributed to the human resources who are driving the operations and decision making on a day-to-day basis. Hence, it is essential that the PE must have dedicated and professional manpower with relevant experience for each business vertical.

**The PE must recruit dedicated manpower from the beginning and the costing of the salaries of core and non-core staff must be part of the business plan.**

The begin with, the PE would have a lean management structure with the following core team –

1. **Commodity experts** – The commodity expert would look after the end-to-end operations for the particular commodity. The functions would include commodity handling, procurement, quality, trading/ marketing, defining SOPs. The commodity expert would be responsible for the P&L of the commodity. The CEO of the PE may be chosen from the commodity experts. The commodity expert should have had prior experience in dealing with agriculture commodities and markets preferably in commercial organizations.
2. **Finance, costing and accounts** – One person for managing the finances of the PE with relevant experience would be responsible for commercial activities, logistics, maintaining books of accounts and legal compliances of the PE.

### 9.2 Performance based remuneration structure

The remuneration structure for all staff (core and non-core) should have a fixed component and a variable component that is linked to performance. Depending on the level and type of operations handled.

## 10 Governance of Producers' Enterprises

The governance functions would be defined in the Memorandum of Association (MoA) and Articles of Association (AoA) of the Producers' Enterprise. The model MoA and AoA for a Producers' Company is given in Annexure I.

The following are the key members responsible for ensuring good governance of the PE.

- 1.1. Board structure – eligibility criteria for selection and appointment of board members. The roles and responsibilities would be defined in the MoA and AoA of the PE.
- 1.2. Commodity sub-committees – to ensure profitable operations and representation of all producers for every commodity. The roles and responsibilities would be defined in the MoA and AoA of the PE.
- 1.3. PE management - Experts and professionals with proven track record in handling businesses (not on deputation from implementing agency)

This MOA and AoA should be referred to by the SRLMs during the incorporation process of the Producer Companies.

## 11 Training and capacity building for Producers' Enterprise

**Responsibility** – SRLM, SHT and PE Staff

**Objective** - The objective of this step is to define the training and capacity building plan for the SRLM, SHT, PE staff and the community.

Training is a key component for the success of the intervention. A robust training plan should be prepared by the SRLM to ensure that the all levels of staff are prepared for the implementation.

The trainings to the Producers' Enterprises' staff, board of directors and the spearhead team are the responsibility of the SRLM.

### 11.1 Producer Enterprise Staff

It is expected that the PE would recruit staff with required qualification and experience. The Staff of the Producer Enterprise must be taken through various training programme as and when required. The training may cover the following topics –

1. Empowering Grassroots Members
2. Strengthening Governance and Leadership
3. Supporting Effective Market Research
4. Strengthening Business Management
5. Supporting Improved Production
6. Supporting Appropriate PE Structures
7. Facilitating Trade Linkages
8. Facilitating Access to Market Services
9. Business understanding and judgement
10. Negotiation skills and confidence
11. Market information

### 11.2 Board of Directors of the Producers' Enterprise

The Board of Directors have to be taken through trainings at regular intervals to build their capacity for good governance and decision making. There are three main areas of leadership capacity building that needs to be conducted -

1. Leadership and Management skills
2. Business understanding
3. Motivation, integrity and dedication
4. Participatory governance processes

### 11.3 Training to Members

The following trainings should be conducted for the members of the PE. **The responsibility of the training of the members lies with the PE.**

1. Technical Capacity (value addition, quality, post-harvest, pre and post production)

2. Business and market literacy
3. Basic management and accounting
4. Formal structures and rules - These define members' rights and the formal systems of decision- making and control, such as voting rights.
5. Motivation and trust - If individual members do not trust the PO's decision-making process or they are not satisfied with the benefits they receive from the PE they may become disillusioned and withdraw from active involvement in the PE.



## 12 Sequence of Activities (pre-operative stage) for Producer's Enterprise

Step 1	SRLM recruits Spearhead Team at the State level with experts on commodity value chains, finance etc.
Step 2	SHT identifies the geography based on SRLM presence, shortlists 3-4 commodities based on scoping study, seasonality and feasibility of business plan. Subsequently the SHT develops the proposal and submits the proposal for approval. The proposal contains the business plan, operations and the market linkage plan.
Step 3	NRLM sanctions the proposal depending on the appraisal of the business plan and benefit to the small and marginal women farmers
Step 4	SRLM brings on board TSA / individual experts for further support to SHT (if felt necessary, not an essential component)
Step 5	A detailed feasibility study is conducted to identify the villages, locations of the procurement / processing centres etc.
Step 6	Training and capacity building for Udyog Mitra, Board of directors and community is detailed and planned
Step 7	Identification of Board of Directors (BoD) based on the geographic spread and the commodities selected
Step 8	Hiring of CA, KYC of first subscribers and registration of PE (responsibility of the SHT)
Step 9	Recruitment of CEO and other PE staff as proposed and orientation of the staff
Step 10	Support PE Staff in preparation of Detailed Project Report which contains the implementation timelines
Step 11	Fund release to the PE (SRLM to directly release fund to PE) against the DPR approved by the SRLM
Step 12	Identification of field functionaries (not staff, performance based remuneration)
Step 13	Training of BoD, field functionaries and PE Staff

## 12.1 Detailed checklist of activities

Sl.	Outcomes	Activities	Responsibility
<b>1</b>	<b>Preparation of DPR, business plan and SOPs</b>		
1.1		Preparation of DPR	Spearhead Team
1.2		Preparation of business plan	Spearhead Team
1.3		Preparation of SOPs	Spearhead Team
<b>2</b>	<b>Incorporation of PE</b>		
2.1		Identification of potential first subscriber	Spearhead Team
2.2		Arrange a meeting of shortlisted 20-25 producers and hold a preliminary discussion with them	Spearhead Team
2.3		Subscriber workshop with shortlisted 25-30 producers for finalization of first directors and initial subscribers	Spearhead Team
2.4		Shortlisting the names of PE	Spearhead Team
2.5		Preparation of MoA and AoA	Spearhead Team
2.6		Filing the application for Digital Signature and DIN of Directors	Spearhead Team
2.7		Applying for Incorporation of the company	Spearhead Team
<b>3</b>	<b>Recruitment of Chief Executive</b>		
3.1		Preparation and approval of JD for Chief Executive	PE Board supported by Spearhead Team
3.2		Sourcing of CV's	PE Board supported by Spearhead Team
3.3		Screening & Shortlisting of candidates, Interview of candidates	PE Board supported by Spearhead Team
3.4		Issuing appointment letter and confirmation of joining date	PE Board supported by Spearhead Team
<b>4</b>	<b>Positioning of Staff for PE</b>		
4.1		Preparation and approval of other manpower as per plan	PE Board supported by Spearhead Team
4.2		Sourcing of CV's	PE Board supported by Spearhead Team
4.3		Screening & Shortlisting of candidates, Interview of candidates	PE Board supported by Spearhead Team

4.4		Issuing appointment letter and confirmation of joining date	PE Board supported by Spearhead Team
<b>5</b>	<b>First board meeting of PE</b>		
5.1		Obtaining incorporation documents	PE Board supported by Spearhead Team
5.2		Identifying registered office/HO location and signing lease deed, preparing documents for ROC	PE Board supported by Spearhead Team
5.3		Agenda and detail document to be finalised	PE Board supported by Spearhead Team
5.4		Translation of agenda in local language	PE Board supported by Spearhead Team
5.5		Various forms to be procured locally	PE Board supported by Spearhead Team
5.6		Issuing notice for the Board Meeting	PE Board supported by Spearhead Team
<b>6</b>	<b>BOARD MEETING conducted</b>		
6.1		Finalize agenda for board meeting-	PE Board supported by Spearhead Team
6.2		1. Mandatory Approval	
6.3		2. Appointment of CEO / manager	
6.4		3. Approval for member enrollment	
<b>7</b>	<b>Statutory Compliances</b>		
7.1		Filing of PAN number & TAN number	PE supported by Spearhead Team
7.2		Filing of VAT & Service Tax registration	PE supported by Spearhead Team
7.3		Appointment of auditors	PE supported by Spearhead Team
7.4		Obtaining different licenses ( FSSAI, Labelling of packs, Weights and Measures, etc.)	PE supported by Spearhead Team
7.5		Registration for PF, ESI, Contract labour etc.	PE supported by Spearhead Team
<b>8</b>	<b>Legal and administrative readiness of the PE</b>		
8.1		Opening of Bank A/C	PE supported by Spearhead Team
8.2		Finalizing phone No., mail id	PE supported by Spearhead Team
8.3		Application for telephone / mobile connection	PE supported by Spearhead Team
8.4		Designing and printing of office stationery-ph. Mail id	PE supported by Spearhead Team

8.5		Getting company rubber stamp/ seal ready	PE supported by Spearhead Team
8.6		Collection of share capital towards membership	PE supported by Spearhead Team
8.7		Opening of PE's current account	PE supported by Spearhead Team
<b>9</b>	<b>RECEIPT OF FUND BY PE from SRLM</b>		
<b>9.1</b>		Submission of DPR to SRLM by PE	PE supported by Spearhead Team
<b>10</b>	<b>Identification of procurement centers</b>		
10.1		Identification of villages for survey based on secondary data	PE supported by Spearhead Team
10.2		Finalization of survey format & appointment of survey agency	PE supported by Spearhead Team
10.3		Start of survey at field	PE supported by Spearhead Team
10.4		Data entry & Submission of data by surveying agency	PE supported by Spearhead Team
10.5		Identification of Potential villages based on survey report	PE supported by Spearhead Team
10.6		Final list of procurement centers	PE supported by Spearhead Team
<b>11</b>	<b>Setting up procurement centers and identification of Udyog Mitras</b>		
11.1		Field Validation	PE supported by Spearhead Team
11.2		Procurement route mapping	PE supported by Spearhead Team
11.3		Conduct village level meeting & selection of Udyog Mitra	PE supported by Spearhead Team
11.4		Agreement with Udyog Mitra	PE supported by Spearhead Team
<b>12</b>	<b>Second Board meeting for membership approval and Membership Drive</b>		
12.1		Agenda and detail document to be finalised	PE supported by Spearhead Team
<b>13</b>	<b>Third Board meeting for convening AGM (&amp; orientation of Board)</b>		
13.1		Village level meetings and members enrollment	PE supported by Spearhead Team
13.2		Collection of share capital towards membership	PE supported by Spearhead Team
13.3		Opening of Bank A/c of those members who are not having it	PE supported by Spearhead Team

13.4		Collection of PAN card and other address proof details of the members	PE supported by Spearhead Team
13.5		Issuing notice for AGM	PE supported by Spearhead Team
13.6		Planning and initiating membership drive	PE supported by Spearhead Team
13.7		Preparation of IEC materials	PE supported by Spearhead Team
13.8		AGM Conducted	PE supported by Spearhead Team
<b>14</b>	<b>Office Finalization and readiness</b>		
14.1		Identification of location and finalization of Corporate office	PE supported by Spearhead Team
14.3		Requirement assessment and purchase of IT hardware and software	PE supported by Spearhead Team
14.4		Installation of IT hardware and software at Head Office	PE supported by Spearhead Team
14.5		Domain name and email IDs	PE supported by Spearhead Team
14.6		Implement software solution for maintaining members' record	PE supported by Spearhead Team
14.7		Preparation & Finalization of scope of work for branding & communication	PE supported by Spearhead Team
14.8		Setting up PE office	PE supported by Spearhead Team
<b>15</b>	<b>Member mobilization</b>		
15.1		Village level meeting for member mobilization/ enrolment	PE supported by Spearhead Team
<b>16</b>	<b>Infrastructure for commodity procurement (if any)</b>		
16.1		Finalizing Technical Specification for procurement of any equipment planned	PE supported by Spearhead Team
16.2		Training & orientation of Udyog Mitra	PE supported by Spearhead Team
16.3		Udyog Mitra incentive structure finalization	PE supported by Spearhead Team
16.4		Finalizing pricing mechanism for procurement and sales	PE supported by Spearhead Team
<b>17</b>	<b>Purchase-IT and accounting infrastructure</b>		
17.1		Installation of procurement and billing software	PE supported by Spearhead Team

17.2		Setting up producer payment system through A/C	PE supported by Spearhead Team
17.3		Trial run of the procurement at the centers	PE supported by Spearhead Team
<b>18</b>	<b>Statutory Compliances</b>		
18.1		Filing of PAN number & TAN number	PE supported by Spearhead Team
18.2		Filing of VAT & Service Tax registration	PE supported by Spearhead Team
18.3		Appointment of auditors	PE supported by Spearhead Team
18.4		Obtaining different licenses ( FSSAI, Labelling of packs, Weights and Measures, etc.)	PE supported by Spearhead Team
18.5		Registration for PF, ESI, Contract labour etc.	PE supported by Spearhead Team
<b>19</b>	<b>Service contracts for forward linkage</b>		
19.1		Identification, Finalization & agreement with primary transport vehicle	PE supported by Spearhead Team
19.2		Finalization of secondary transport vehicle & agreement	PE supported by Spearhead Team
19.3		Identification and Agreement for forward linkage	PE supported by Spearhead Team
<b>20</b>	<b>Adopting Policy, Manuals and SOPs</b>		
20.1		SOP implementation	PE supported by Spearhead Team
20.2		Logging and Reporting Formats- QA	PE supported by Spearhead Team
20.3		Forms & Registers customization	PE supported by Spearhead Team
20.4		SOP Preparation for PE team	PE supported by Spearhead Team
20.5		User Documents at Workplace	PE supported by Spearhead Team
20.6		Udyog Mitra Training module preparation	PE supported by Spearhead Team
<b>21</b>	<b>OPERATIONALIZATION OF PE and commencement of procurement</b>		

This checklist and steps are indicative and may change based on the situation.

Annexure I: Model<sup>6</sup> *Memorandum of Association & Articles of Association for a Producer*

*Company incorporated under Companies Act 1956, Part IX A*

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<sup>6</sup> To be used only for Producers' Enterprises that are promoted under part IX A of the Companies Act, 1956

**Incorporated under the Companies Act, 1956 (1 of 1956)**

**Part IX-A**

**(Producer Company)**

**Company Limited by Shares**

**Memorandum of Association**

**of**

**..... Mahila Producer Company Limited**

- I Name** The name of the Company is ..... Mahila Producer Company Limited.
- II Location of the registered office** The registered office of the Company will be situated in the State of \_\_\_\_\_.
- III Objects** The objects for which the Company is incorporated are:
- A. The Objects to be pursued by the Company on its incorporation are:**
1. To carry on the business of pooling, purchasing, processing, value addition and marketing of \_\_\_\_\_ <sup>7</sup> primarily of the Members and also of others, marketing of the same and to deal in activities that are part of or incidental to any activity related thereto.
  2. To provide or arrange to provide technical and managerial services in the areas of (input, productivity enhancement, information and knowledge) for the benefit of the Members.
  3. To provide education, training and other activities which may promote the principles of mutuality and mutual assistance amongst the Members.
  4. To arrange that the quality of produce<sup>8</sup> pooled from the members and others and subsequently marketed would meet the standards laid down by the Company and the statutory authorities.
  5. To extend various financial services to the Members.

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<sup>7</sup> Specific commodity or commodities that would be handled by the Producers' Company to be mentioned here

<sup>8</sup> Specific commodity or commodities to be mentioned here



**B. Matters which are necessary for furtherance of the Objects specified in clause III A are:**

1. To carry on the business and deal in any Primary Produce.
2. To own, hire, arrange for, and set up facilities, including manufacturing and processing thereof, of the Primary Produce which the Company is authorized to deal with.
3. To finance procurement, processing, marketing and other activities that include extending of credit facilities to its Members.
4. To generate, transmit and distribute power from animal waste, other biomass, and renewable energy sources.
5. To own, hold on lease, hire, manage, sell, let on hire, convey, mortgage, assign or otherwise acquire or dispose of, any undertaking, movable or immovable properties and assets.
6. To engage in, support, commission, finance and otherwise engage in research and development.
7. To provide education, organise education and training programmes, seminars and conferences for its members, directors, producers, employees and any other persons associated with the business of the Company.
8. To borrow money or raise or secure the payment of money on such securities or otherwise in such manner as the Company may deem expedient.
9. To draw, make, accept, discount, execute and issue bills of exchange, promissory notes, bills of lading, warrants, and such other negotiable or transferable instruments or securities of all types.
10. To decide to transfer its assets and liabilities, in whole or in part, to any other Producer Company whether by sale or purchase for shares or otherwise, to divide itself into two or more new Producer Companies, to amalgamate and form a new Producer Company, or to merge with any other Producer Company.
11. To enter into partnership, agreement or arrangement with any person or body corporate whether by way of formation of subsidiary company, joint venture, partnership, union of interest or in any other manner, and to promote any other company or companies including Producer Company or Companies, for the purpose of promoting the objects of the Company.
12. To take or hold mortgages, liens, and charges to secure payment or any money due to the Company.
13. To insure any of the properties, undertakings, contracts, risk or obligations of the Company in any manner whatsoever.

14. To make donations or subscription, to any institution for the purposes of promoting the social and economic welfare of the Members or promoting the mutual assistance principles as may be directly or indirectly conducive to any of the objects of the Company or otherwise expedient, subject to the provisions of section 581ZH of the Act.
15. To open and operate accounts with any bank or banks and give any instructions in connection therewith.
16. To accumulate funds, lend, provide financial assistance to any person and institution, with such securities or without securities upon such terms and conditions as may be determined from time to time.
17. To invest in, acquire, hold and deal in shares, stocks, debentures, bonds, negotiable instruments, obligations and securities issued by any producer company, constituted or carrying on business in India or elsewhere and other securities and instruments specified in section 581ZL of the Act. .
18. To give any guarantee for the payment of money or the performance of any obligation or undertaking.
19. To apply for, purchase or otherwise, acquire any goodwill, patent, patent right, copyright, trademark, design, brand, formulae, licence, lease, concessions, conferring any exclusive or limited right to use, intellectual property rights, or any secret, proprietary or other information as to any invention which may seem capable of being used for any of the purposes of the Company; and to use, exercise, develop or grant licences in respect of the property rights, or information so acquired which may directly or indirectly to benefit the Company.
20. To establish provident fund, gratuity fund, superannuation fund and other funds, and to create any trust for the benefit of employees.
21. To establish and support or aid in the establishment and support of associations, institutions, funds, trusts and conveniences and to take up such welfare measures or facilities for the benefit of its members, employees and their dependents.
22. To enter into arrangements, and agreements for rendering, and obtaining of technical know-how, services including consultancy, technical and other collaboration with individuals, firms, research laboratories, bodies corporate or any other persons whether in or outside India.
23. To accept gifts, grants, or donations, in cash or in kind or of property, provided that the conditions of such gifts in no way limit or compromise the interests of the Company.

24. To form, float, promote, support or take membership of any professional bodies, other mercantile and public bodies, associations or federations for the protection, advancement, growth of commerce and industry and for protection and welfare of persons engaged therein.
25. To apply for, promote, and obtain any order, regulation, or other authorisation or enactment, which may directly or indirectly benefit the Company.
26. To arrange for or obtain insurance for members and their productive assets.
27. To purchase, sell or supply machinery, equipment or consumables.
28. To reimburse all costs associated with the promotion and registration of the Company including registration, legal fees, printing of a memorandum and articles and the payment thereof, subject to the provisions of section 581C(4) of the Act.
29. To carry on all or any of the businesses which the Company is entitled to do, as principals or in any other lawful capacity, and by or through agents, or otherwise, and either by itself or in conjunction with or through other institutions or persons.
30. To carry on any other business, service and activity, ancillary or incidental to any of the activities referred to above which may seem expedient for the Company to enhance, directly or indirectly, the value or profitability of the Company, and which may promote the principles of mutuality and techniques of mutual assistance amongst the Members in any manner.

**IV Territories to which objects extend** The objects of the Company shall extend to the whole of India.

**V Liability of Members** The liability of the Members is limited and this liability is limited to the amount unpaid if any on the shares held by them.

**VI Share Capital** The Authorised share capital of the Company is Rs. \_\_\_\_\_ (Rupees Fifty Lakhs only) divided into \_\_\_\_\_ equity shares of Rs.100/-(Rupees One Hundred each).

Sl .No	Name, address Occupation of Subscriber	Number of Equity shares taken by the subscriber	Signature of Subscribers	Name, Addresses and Signature of Witness

**Date:**

**Place**

**Incorporated under Part IX-A of the Companies Act, 1956  
(Producer Company)**

**Company Limited by Shares**

**Articles of Association**

**of**

**..... Mahila Producer Company Limited**

**1. General**

- 1.1 Wherever in the Companies Act, 1956 and or Companies Act, 2013 (to the extent applicable) it is provided that the Company shall have any right, privilege or authority if so authorised by its Articles, then by virtue of this Article, the Company is hereby specifically authorised, empowered and entitled to have such right, privilege or authority, as have been permitted by the Act without there being any specific provision and or separate Article in that behalf herein provided.
- 1.2 Regulations contained in Table 'A' of Schedule I of the Companies Act, 1956 and Table F of Schedule I of the Companies Act, 2013 (to the extent applicable) shall not apply to the Company.
- 1.3
- i. The Company is a producer company within the meaning of Section 581A(l) of the Companies Act, 1956.
  - ii. All the limitations, restrictions and provisions of the Companies Act, 1956 read with Companies Act, 2013 (to the extent applicable), other than those specified in Part IXA of the Companies Act, 1956, applicable to a private company shall, apply to the Company, and as if it is a private limited company in so far as they are not in conflict with the provisions of Part IXA of the Act.
  - iii. The company is deemed to be a private Company within the meaning of the Companies Act, 1956 read with Companies Act, 2013 (to the extent applicable) with such minimum paid up capital as may be prescribed under the applicable provisions of the Companies Act, 2013 and accordingly,
    - a. Restricts the right to transfer its shares in the manner and to the extent hereinafter provided; and
    - b. Prohibits any invitation to the public to subscribe for any shares on, or debentures of, the Company.

**2. Definitions**

- 2.1 In the Articles and the Memorandum of Association of the Company, unless the context otherwise requires, words or expressions shall have the meanings as provided below.

- i. **'Act'** means the Companies Act, 1956 (1 of 1956) unless specified otherwise.
- ii. **'Active Member'** means a Member who fulfils the quantum and period of patronage of the Company as laid down by the Board.
- iii. **'Articles'** means Articles of Association of the Company for the time being in force.
- iv. **'Board'** or **'Board of Directors'** means the board of directors of the Company constituted under the provisions of the Act and the Articles.
- v. **'Chairman' or 'Chairperson'** means Chairman of the Board of Directors, for the time being of the Company.
- vi. **'Chief Executive'** means an individual appointed as such under the provisions of the Act.
- vii. **'Company'** means the ..... Mahila Producer Company Limited, registered under Part IXA of the Companies Act, 1956.
- viii. **'Director'** means the Director, for the time being of the Company.
- ix. **'Financial Year'** means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company is made up.
- x. **'Limited Return'** means the maximum dividend, as laid down in the Articles.
- xi. **'Member'** means an individual woman Producer admitted as a Member of the Company.
- xii. **'Officer'** includes any Director or Chief Executive or Secretary or any person in accordance with whose directions or instructions part or whole of the business of the Company is carried on.
- xiii. **'Mutual Assistance Principles'** means the principles set out in Part IXA of the Act, and as provided in article 3.
- xiv. **'Patronage'** means the extent to which a Member participates in the business of the Company by quantity of primary produce supplied and such other criteria as may be decided by the Board from time to time.
- xv. **'Patronage Bonus'** means payments made by the Company out of its surplus income to the Members in proportion to the value of their respective Patronage.
- xvi. **'Primary Produce'** means milk, vegetables, fruits, Non-Timber Forest Produce, fish, meat, egg or any other produce arising from agriculture, horticulture, pisciculture, NTFP collection and dairy farming (including animal husbandry) and any other product including by-products of such produce, that would assist

or promote any of the aforesaid activities or anything ancillary thereto, and any activity which is intended to increase the production or improve the quality thereto.

- xvii. **‘Producer’** means any person engaged in production of any Primary Produce or collection of NTFP in which the Company is engaged.
- xviii **‘Producer Company’** means a body corporate having objects or activities specified in the Act and registered as a Producer Company.
- xix. **‘Secretary’** means an individual appointed as such under the provisions of the Act read with Companies Act, 2013 (to the extent applicable)
- xx. **‘Withheld Price’** means part of the price due and payable for the produce supplied by any Member to the Company; and as withheld by the Company for payment on a subsequent date in the manner specified in the articles.

## 2.2 Interpretation

In the Articles unless the context otherwise requires:

- i. Words importing the masculine gender shall be taken to include feminine; and
- ii. The term ‘article’ refers to the specified provision(s) of the Articles hereof.

## 3. Mutual Assistance Principles

- 3.1 The Membership shall be voluntary and available to all eligible persons who agree to make use of the services of the Company and are willing to abide by the provisions of the Memorandum and the Articles of Association of the Company.
- 3.2 The Company shall be administered by a Board consisting of persons elected or appointed as Directors, and the Board shall be accountable to the Members.
- 3.3 There shall be Limited Return on share capital.
- 3.4 The surplus arising out of the operations of the Company shall be distributed amongst the Members as Patronage Bonus after providing for Limited Return on share capital, transfer to reserves, providing for development of business, education of members etc. as may be decided by the Board/General Body of shareholders.
- 3.5 The Company may co-operate actively at local, national and international level with other producer companies, cooperatives, other entities and organisations.

## 4. Membership

- 4.1 The Company may have individual women Producers as its Members.
- 4.2 Qualifications and procedure for obtaining Membership
  - i. An individual woman Producer engaged in production of primary produce or collection of NTFP would be eligible for applying for Membership of the Company. Membership shall be limited to only one producer from each household.

- ii. An individual woman Producer desirous of becoming a Member of the Company shall apply in prescribed application form to the Company and undertake in writing to abide by the provisions of the Memorandum and the Articles of Association of the Company.

In addition, she will pay a non-refundable admission fee, subscribe to equity shares of the Company and satisfy other conditions laid down by the Board from time to time.

- iii. No person, who has any business interest which is in conflict with business of the Company, shall become a Member of the Company.
- iv. Such an individual woman Producer shall become a Member after the Board of Directors passes a resolution accepting her admission as a Member.

#### 4.3 Conditions for continuation and cancellation of Membership

- i. Membership shall continue as long as a Member does not fail to meet the criteria as may be prescribed by the Board from time to time.
- ii. A Member, who acquires any business interest which is in conflict with the business of the Company, shall cease to be a Member of the Company.
- iii. Any Member who is not eligible to continue as a Member shall be served a written notice by the Company for removal as Member and given an opportunity of being heard. The Member would need to reply to the notice within the stipulated period as specified in the notice. Thereafter, the Board shall take a decision in the matter.

#### 4.4 Voting Rights of Member

Every member shall have a single vote, provided the member remains an active member throughout the year. However, at the first Annual General Meeting of the Company, all members shall have a single vote each.

#### 4.5 Price to be paid to the Members

The members shall be paid price for the produce supplied as per the guidelines framed by the Board.

#### 4.6 Information to Member

The Members may obtain information relating to the general business of the Company.

#### 4.7 Active Member

The Board, if so desires, lay down the criteria with respect to quantum and period of patronage for an Active Member. An active member is a member who has patronized the company by supplying a minimum quantity of primary produce in year that is to be decided by the Board of Directors from time to time.

#### 5. Funds



Funds may be raised by (i) issue of equity shares to Members, (ii) admission fee and deposits from Members, (iii) issue of debentures to Members, (iv) loans and advances and (v) grants, aid, subsidies and donations.

## 6. Share Capital

- 6.1 The authorised share capital of the Company shall be as stated in clause VI of the Memorandum of Association of the Company.
- 6.2 The share capital of the Company shall consist of fully paid-up equity shares only.
- 6.3 The shares held by the Member in the Company, shall as far as may be, be in proportion to her or its patronage.
- 6.4 The share capital of the Company shall be under the control of the Board who may allot or otherwise dispose of the same to such members in proportion to the Patronage, as far as may be, and on such terms and conditions against payment in cash or kind or in lieu of the whole or part of the sale proceeds of produce or products supplied by the Members, and at such times and for such consideration as the Board may decide.
- 6.5 The Company may, by Ordinary Resolution:
  - i. increase the share capital;
  - ii. consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
  - iii. sub-divide its existing shares or any of them, into shares of smaller amount than is fixed by the Memorandum of Association, subject, nevertheless, to the provisions of the Act; and
  - iv. Cancel any shares which have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.
- 6.6 The Company may reduce in any manner in accordance with the provisions of the Act, (i) its share capital, (ii) balance in the securities premium account, (iii) capital reserves, and (iv) reserves arising out of amalgamation, merger, division, reorganization, reconstruction or in any other manner.
- 6.7 The Board may at any time decide to issue equity shares in a dematerialized form, and also compulsorily convert the existing equity shares in a dematerialized form.
- 6.8 The Company may purchase its own equity shares in accordance with the provisions made under the Companies Act, 1956 read with Companies Act, 2013 (to the extent applicable).
7. Transfer of equity shares



Subject to the provisions of Sections 581 ZC and 581ZD of the Act, a Member may transfer the whole or part of her shares to a Member after obtaining the prior approval of the Board.

8. Surrender of equity shares

8.1 Where the Board is satisfied that any Member has failed to retain the qualifications as a Member, the Board shall direct the Member to surrender her shares to the Company at par value or such other value as determined by the Board.

8.2 The Member also, if so desires, apply to the Company to surrender her equity shares. After the receipt of application from the Member, the Board may take a decision in the matter. The Board shall prescribe the procedure for surrender of equity shares.

8.3 A surrendered equity share shall be deemed to be the property of the Company and may be sold to members or otherwise cancelled as the Board thinks fit.

Management of Producer Company

9. Board of Directors

9.1 The Company shall be governed by the Board consisting of persons elected or appointed as Directors.

9.2 The Board of the Company shall have at least five and not more than eleven Directors. The Board may co-opt one or more Expert Directors not exceeding one-fifth of the total number of Directors for such period as the Board may deem fit.

9.3 The subscribers who have signed the Memorandum and the Articles of Association have designated Five Directors, who shall govern the affairs of the Company until the directors are elected. The election of Directors shall be conducted within a period of ninety days of the registration of the Company.

9.4 The Board shall from time to time with the approval of the General Body of shareholders decide the criteria for categorising members into different classes based on patronage.

9.5 i. The number of positions on the Board representing each class of members, to the extent possible, shall be based on patronage of the respective class. However, for the first 3 years of the operations of the Company, this requirement can be waived by the Board.

ii. Directors representing a particular class of members shall be elected / appointed from amongst and by the respective class of members.

9.6 i. One fourth of total elected Directors shall retire by rotation at every Annual General Meeting of the Company and the position vacated by rotational retirement shall be filled up ensuring the representation in accordance with article 9.5.

- ii. The vacant position on the Board as per 9.6 (i) shall be filled based on the recommendation of the Nominating Committee appointed by the Board.
  - iii. Every Director, who retires in accordance with the articles, shall be eligible for re-appointment as Director. However, no person shall be elected / appointed as Director for more than two consecutive terms.
- 9.7 To fill the vacant position(s) on the Board or otherwise, the Board may co-opt Additional Director(s) and the Director(s) so appointed shall hold office till the next Annual General Meeting of the Company or for a shorter period if the Board decides so at the time of appointment.
- 9.8 The Directors at its meeting shall elect a Chairman from amongst the Directors, other than the Expert Director and the Chief Executive, for a period of four years. For the election of the Chairman of the Company, the Expert Director and the Chief Executive will not have voting rights.
- 9.9 The Chairman shall preside over the meetings of the Board. In her absence, the Directors present shall elect one of the elected Directors to preside over the meeting.
- 9.10 A meeting of the Board shall be held not less than once in every three months and at least four such meetings shall be held every year.
- 9.11 Notice of every meeting of the Board of Directors shall be given in writing to every Director for the time being in India, and at his/her usual address in India to every other Director.
- 9.12 The Chief Executive shall give notice as aforesaid not less than seven days prior to the date of the meeting of the Board.
- Provided that a meeting of the Board may be called at shorter notice and the reasons thereof shall be recorded in writing by the Board.
- 9.13 The quorum for a meeting of the Board shall be one-third of the total strength of directors, subject to a minimum of three including the presence of at least one elected Director and one Expert Director. Notwithstanding the above, the quorum for the meeting of the Board of Directors shall not require the presence of the Expert Director in case there is no Expert Director on the Board of the Company.
- 9.14 All the decisions of the Board shall be decided by a majority vote. Each Board Member shall have one vote. In the case of equality of votes, the Chairman or the person presiding shall have a casting vote except for election of Chairman.
- 9.15 No Director shall participate on any matter in which she has personal interest except as a member.
- 9.16 An elected Director shall cease to be member of the Board on her losing the status as a Member of the Company. Also, a Member shall not be eligible for appointment as a Director on the Board or the office of the Director shall become vacant if:

- i. she is convicted by a Court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months;
- ii. the Producer Company, in which she is a director, has made a default in repayment of any advances or loans taken from any company or institution or any other person and such default continues for ninety days;
- iii. she has made a default in repayment of any advances or loans taken from the Producer Company in which she is a director;
- iv. the Producer Company, in which she is a director:
  - a. has not filed the annual accounts and annual return for any continuous three financial years commencing on or after the 1st day of April 20XX<sup>9</sup>; or
  - b. has failed to, repay its deposit or withheld price or patronage bonus or interest thereon on due date, or pay dividend and such failure continues for one year or more;
- v. default is made in holding election for the office of director, in the Producer Company in which she is a director, in accordance with the provisions of the Act and articles;
- vi. The member has committed any act which has damaged the interest and reputation of the Company;
- vii. The member has wilfully deceived the Company;
- viii. the annual General meeting or extraordinary General meeting of the Producer Company, in which she is a director, is not called in accordance with the provisions of this Act except due to natural calamity or such other reason;
- ix. she has failed to satisfactorily complete the prescribed training programme, as prescribed by the Board from time to time, within six months of being elected/appointed as a Director. This training programme is intended for equipping her with the requisite skill sets and knowledge to satisfactorily discharge her responsibilities;
- x. she has not passed at least 10<sup>th</sup> or equivalent standard from any recognized educational institution.
- xi. she is or becomes a member of any legislative body such as Parliament, State Legislatures, Zila Parishad/ District Council, Gram / Village Panchayat; or
- xii. she is or becomes an office bearer of any political party at any level i.e. village, Taluka, District, State or National level.
- xiii. She is of unsound mind and stands so declared by a competent court.

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<sup>9</sup> The year of financial transaction to be added.

xiv She is an un-discharged insolvent or has applied to be adjudicated insolvent and such application is pending.

xv She has not been allotted a DIN number.

9.17 The Directors may be entitled to such fees and allowances including travelling and hotel expenses for attendance at the meetings of the Board and its Committees, if any constituted by the Board in terms of provisions of section 581U of the Act, as may be decided by the Board.

9.18 Powers and Functions of the Board

- i. Subject to the provisions of the Act and the Articles, the Board shall exercise all such powers and to do all such acts and things, as that the Company is authorised so to do.
- ii. In particular and without prejudice to the generality of the foregoing powers, such powers may include the following matters, namely:
  - a. determination of the dividend payable;
  - b. determination of the quantum of withheld price;
  - c. recommend patronage bonus to be approved at General Meeting;
  - d. admission of new Members;
  - e. pursue and formulate the organisational policy, objectives, establish specific long-term and annual objectives, and approve corporate strategies and financial plans;
  - f. appointment of a Chief Executive;
  - g. approval of organization structure of the Company;
  - h. acquisition or disposal of property of the Company in its ordinary course of its business;
  - i. investment of the funds of the Company in the ordinary course of its business;
  - j. sanction any loan or advance, in connection with the business activities of the Company to any Member, not being a Director or his/her relative;
  - k. constitute a Nominating Committee in terms of the provisions of section 581U of the Act, to scrutinize applications received from eligible Members for positions on the Board based on the defined criteria as approved in the General meeting and as provided in these Articles, and accordingly recommend eligible members to the Board for its consideration. In turn the Board, after due consideration in the Board meeting, shall recommend Members for the position on the Board to be elected or appointed by the Members in the Annual General Meeting; and
  - l. approve interim budget which shall form integral part of the budget to be approved at Annual General Meeting (AGM);
  - m. take such other measures or do such other acts as may be required in the discharge of its functions or exercise of its powers.
- iii. The Board shall exercise its powers at its duly convened meeting where the required quorum is present to transact the business.

9.19 Liability of Directors

- i. When the directors vote for a resolution, or approve by any other means, anything done in contravention of the provisions of the Act or any other law for the time being in force or the Articles, they shall be jointly and severally liable to make good any loss or damage suffered by the Company.
- ii. The Company shall have the right to recover from its Directors:
  - a. Where such Director has made any profit as a result of the contravention specified in the Act, an amount equal to the profit so made.
  - b. Where a company incurred a loss or damage as a result of the contravention specified in the Act, an amount equal to that loss or damage.
- iii. The liability imposed under article 9.19 (ii) shall be in addition to and not in derogation of a liability imposed on a Director under any other provision of the Act or any other law for the time being in force.

9.20 Removal of Director

A Director may be removed by simple majority of the Members present and voting at the General Meeting in accordance with the provisions of the Act.

10. Chief Executive and his functions

10.1 The Company shall have a full time Chief Executive, by whatever name called, who shall be appointed by the Board.

10.2 The Chief Executive shall be Ex officio Director of the Board and such Director shall not retire by rotation.

10.3 The qualifications, experience and the terms and conditions of service of the Chief Executive, including the remuneration payable to Chief Executive, shall be such as may be determined by the Board.

10.4 The Chief Executive shall be entrusted with substantial powers of management as the Board may determine. Without prejudice to the generality of the foregoing, he shall also exercise powers and discharge the functions laid down in the Act.

11. General Meetings

11.1 The Company shall in each year, hold, in addition to any other meetings, a General Meeting, as its Annual General Meeting and shall specify the meeting as such in the notices calling it, and not more than fifteen months shall elapse between the date of one Annual General Meeting of the Company and that of the next.

11.2 Every General Meeting shall be called, for a time during business hours, on a day that is not a public holiday and shall be held at the registered office of the Company or at some other place within the city, town or village in which the registered office of the Company is situated.

11.3 A General Meeting of the Company shall be called by giving not less than fourteen days prior notice in writing.

11.4 i. At any General Meeting, a resolution put to the vote of the meeting shall, unless a poll is demanded under the Articles, be decided by show of hands.

- ii Before or on the declaration of the result of the voting on any resolution on a show of hands, a demand for a poll can be made by one-tenth of the total number of Members or 100 Members, whichever is lower, present in person or by proxy.
- 11.5 The Company may, if permissible, allow the Members of the Company to participate in any General Meeting through electronic mode.
- 11.6
  - i.
    - a. Attendance of such number of Members as provided in the Act shall form the quorum for the General Meeting.
    - b. Attendance either in person or by proxy shall be considered for the purpose of quorum.
    - c. No person shall be appointed a proxy unless she is a Member.
    - d. A proxy shall be entitled to vote on a show of hands as well as in a poll.
  - ii. If there is no quorum within half an hour from the scheduled time of meeting, the meeting shall stand adjourned to reassemble on the same day at the same place after three hours from the appointed time. If at the reassembled meeting, the quorum is not present within half an hour, the Members present shall constitute the quorum and may transact the business for which the meeting was called.
- 11.7 The Company shall hold its first Annual General Meeting within a period of ninety days from the date of its incorporation.
- 11.8 The Memorandum and Articles of the Company shall be laid before the first Annual General Meeting.
- 11.9 The Members shall adopt the Articles of the Company and appoint directors of its Board in the first Annual General Meeting.
- 11.10 The notice calling the Annual General Meeting shall be accompanied by the following documents, as approved by the Board namely:
  - i. the agenda of the Annual General Meeting;
  - ii. the minutes of the previous Annual General Meeting or the Extra-Ordinary General Meeting;
  - iii. the names of candidates, if any, to the office of director including a statement of qualifications in respect of each candidate;
  - iv. the audited balance sheet and profit and loss accounts of the Company and its subsidiary, if any, together with a report of the Board of Directors of the Company with respect to:
    - a. the amount proposed to be carried to reserves;
    - b. the amount to be paid as Limited Return on share capital;
    - c. the amount proposed to be disbursed as Patronage Bonus;
    - d. any other matter of importance relating to energy conservation, environmental protection, expenditure or earnings in foreign exchanges;

- e. any other matter which is required to be, or may be, specified by the Board;
  - v. the text of the draft resolution for appointment of Auditors; and
  - vi. the text of any draft resolution proposing amendment to the Memorandum or Articles to be considered at the General Meeting, along with the recommendations of the Board.
- 11.11 The following powers shall be exercised only at the Annual General Meeting, namely:
- i. approval of budget and adoption of annual accounts of the Company;
  - ii. approval of Patronage Bonus;
  - iii. issue of Bonus Shares;
  - iv. declaration of Limited Return and decision on the distribution of Patronage;
  - v. specify the conditions and limits of loans that may be given by the Board to any Director;
  - vi. approval of the criteria for categorising members into different classes;
  - vii. approval of guidelines for constitution of Nominating Committee in order to scrutinize the application for vacant position by eligible members and recommend the same for consideration at the Annual General Meeting through the Board; and
  - viii. approval of any transaction of the nature as is to be reserved in the Articles for approval by the Members.
- 11.12 An Extra-Ordinary General meeting may be called at any time:
- i. By the Board; or by the Board on the requisition made in writing, duly signed and setting out the matters for the consideration, made by one-third of the Members entitled to vote in any General Meeting, proceed to call an Extra-Ordinary General Meeting in accordance with the provisions contained in the Act.
  - ii. If the meeting is called upon requisition by Members and there is no quorum within half an hour from the appointed time of the meeting, the meeting shall stand dissolved.
  - iii. All items of business to be transacted at the General Meeting shall be deemed as Ordinary and the provisions of section 102 of the Companies Act, 2013 shall not apply.
12. **Investments out of the General reserves**  
Investments out of the General reserves shall be made in accordance with the provisions of Act and Rules framed there under from time to time.



13. **Bonus Shares**  
The Company may, upon recommendation of the Board and passing of resolution in the General Meeting, issue bonus shares by capitalization of amounts from General reserves in proportion to the shares held by the Members on the date of the issue of such shares.
14. **Amalgamation, Merger and Division**  
As provided under the provisions of the Act, the Company by a resolution passed at its General Meeting may decide to transfer its assets and liabilities, in whole or in part, to any other Producer Company, to divide itself into two or more new Producer Companies, to amalgamate and form a new Producer Company, or to merge with any other Producer Company.
15. **Loans and advances etc. to the Members and to any Director or his relative**  
15.1 Subject to the provisions of the Act, the Board may provide financial assistance to the Members by way of (a) credit facility, to any Member, in connection with the business of the Company; (b) loans and advances, with or without security to any Member.  
15.2 Any loan or advance to any Director of the Company or his/her relative shall be granted only after the approval by the Members at a General meeting.
16. **Investment in other companies, formation of subsidiaries, etc.**  
Subject to the provisions of the Act, the Company by previous approval of Members at its General meeting, may make investments and dispose of any such investments in other companies, enter into partnership, agreement or arrangement with any person or body corporate whether by way of formation of subsidiary company, joint venture, partnership, or in any other manner, and to promote any other company or companies including Producer Company or Companies, for the purpose of promoting and consistent with the objects of the Company.
17. **Internal Audit**  
The Company shall have internal audit of its accounts carried out at such interval and in such manner as may be decided by the Board.
18. **Books of account**  
The books of account shall be kept at the Registered office of the Company in accordance with and as provided under the provisions of the Act. If the Company has any branch office, the books of accounts shall be kept as per the provisions of the Act applicable for keeping the books of accounts of branch office.
19. **Common Seal**  
19.1 The Board shall provide for the safe custody of the common seal, if any.  
19.2 The common seal of the company shall not be affixed to any instrument except by the authority of a resolution of the Board or of a committee of the Board authorized by it in that behalf, and except in the presence of at least two directors and of the secretary or such other person as the Board may appoint for the purpose; and those two directors and the secretary or other person aforesaid shall sign every instrument to which the common seal of the company is so affixed in their presence.



19.3 All deeds, agreements, instruments, letters, bonds, affidavits, declaration, indemnities, power of attorney and other documents of any nature whatsoever entered into by the Company shall be executed by such person(s) duly authorised by the Board or the Committee thereof.

20 **Secrecy Clause**

20.1 Every Director, Chief Executive, Officer, manager, secretary, trustee, Member of a committee, servant, agent, accountant or any other person employed in the business of the Company shall observe strict secrecy respecting all transactions of the Company except when required so to do by a Court of Law and except so far as may be necessary in order to comply with any of the provisions contained in the Articles.

20.2 No Member shall be entitled to inspect the Company's books or will be given any confidential information relating to the business of the Company without the permission of the Board of Directors of the Company.

21. Resolution of Disputes

Any dispute relating to the formation, management or business of the Company as provided under the provisions of the Act shall be settled by conciliation or by arbitration as provided under the Arbitration and Conciliation Act, 1996, and the decision of the arbitrator on the dispute shall be final.

Annexure II – Case Studies referenced in the document

## ARANYAK MAHILA AGRI PRODUCERS COMPANY

Amrita Dhiman | E N Reddy | Sridhar Telidevera | K V Raju

### Abstract

*The districts of Khagaria, Madhepura and Purnea in the north east of Bihar are major producers of rabi maize crop but they are at the mercy of market intermediaries like village traders and commission agents when it comes to marketing their produce. Keen on taking the focus of Self Help Groups (SHGs) beyond member savings and internal loaning with bank linkages, the Bihar Rural Livelihoods Promotion Society (BRLPS)/JEEVIKA decided to form Producer Groups (PGs) in these districts. To demonstrate the increased returns to farmers through produce aggregation and collective marketing, a pilot project was started in Purnea district through the registered Producer Company “Aranyak Agri Producer Company Limited” (AAPCL).*

*In documenting the business model, the study team has adopted a modified Customer Value Proposition (CVP) Business Model that emphasises four elements, namely: a value proposition that fulfils an important need for the customer in a better way than competitors’ offerings do; a profit formula that lays out how the venture makes money while delivering the value proposition; the key resources; and key processes needed to deliver that proposition. The study maps the maize value chain from the seed production and supply agencies, suppliers of other key production inputs, producer farmers, local grain traders and brokers, wholesalers, commodity exchanges, and to end-use buyers.*

*An important finding of the study was that the formation of the PGs and the AAPCL has impacted the entire maize value chain by way of reduced cost of cultivation, dilution of lock-in of the farm output to local trader who traditionally supplied farm inputs on credit; and a better price realisation which was 20% higher than what had been realised in previous years from sales to local traders and mandi sales. The benefits to the members have led to an increase in the maize procurement by the AAPCL from 10,060 quintals in the first year of its operation (2014-15) to 30,348 quintals in the following year and both the number of PGs and the scale of procurement by the AAPCL are expected to grow in the coming years with improved livelihood support to the farmers participating in the project.*

## 1.0 Introduction

### 1.1 Maize Intervention of Bihar Rural Livelihood Promotion Society (BRLPS)

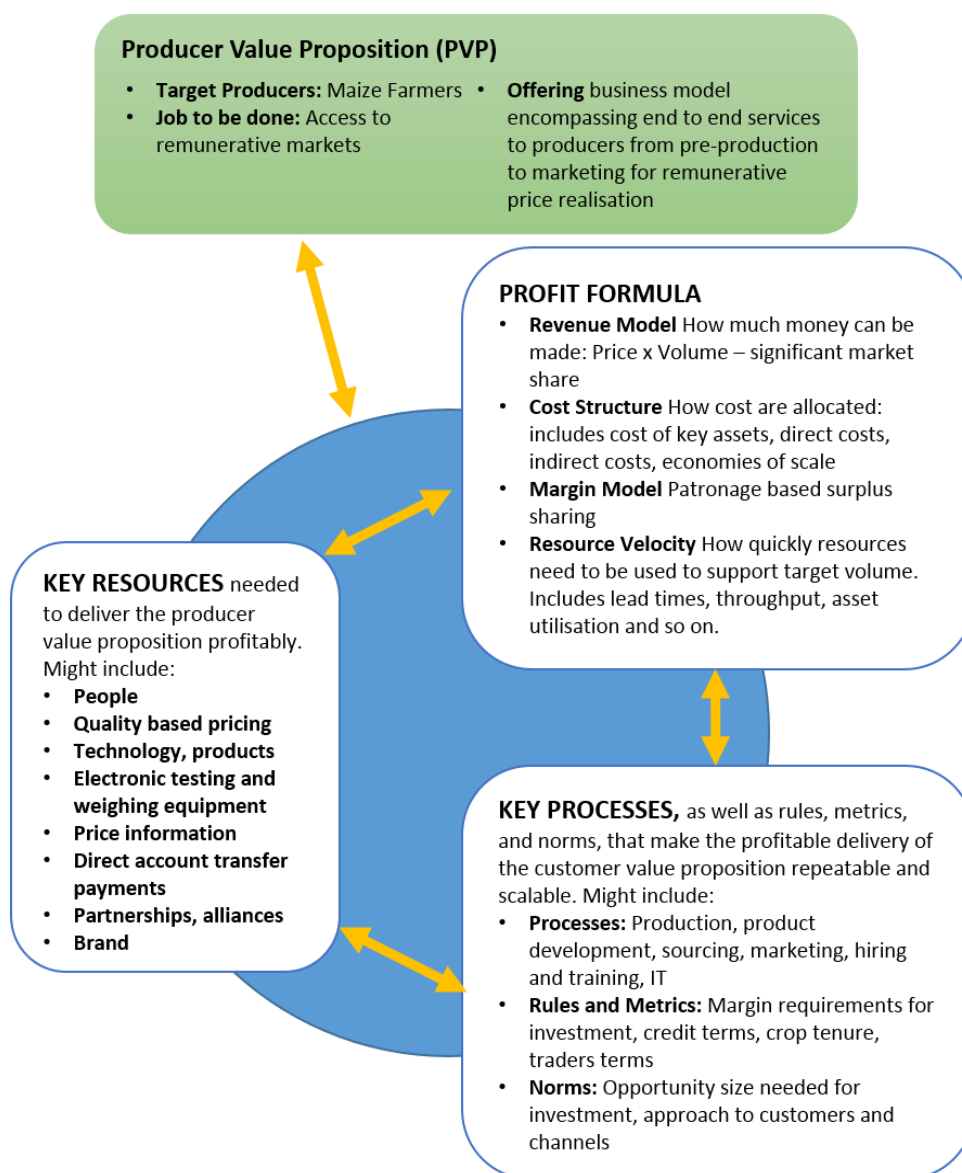
BRLPS/JEEVIKA is an autonomous society functioning under the Department of Rural Development, Government of Bihar, with the mandate of implementing the activities of State Rural Livelihoods Mission. In order to improve the livelihoods of rural poor, JEEVIKA has built a strong base of community institutions in the form of women Self-Help Groups (SHGs) and federated them into Village Organisations (VOs) and Cluster Level Federations (CLFs), which has brought more than one million households into this network. While these grassroot-level institutions have



mainly focused on member savings and internal loaning along with bank linkages; in order to improve returns from farm based/non-farm based economic activities, it is necessary to increase their productivity and create appropriate market linkages. Towards realising this objective, the project therefore formed Producer Groups (PGs) comprising of 40-120 producers related to paddy, wheat, maize, pulses, vegetables, etc. It was expected that members of Producer Groups would be able to participate better in the value chain and reap benefits on account of lower input costs due to economies of scale, strength of collective bargaining, and better returns due to produce aggregation and gaining access to efficient and sustainable markets. Thus, with an aim to demonstrate the increased returns to farmers through produce aggregation and collective marketing, a pilot project was started in Purnea district through the already-registered Producer Company “Aranyak Agri Producer Company Limited” (AAPCL).

## 2. The Customer Value Proposition

The study team adopted the Customer Value Proposition (CVP) Business Model articulated in “Reinventing your Business Model”, by Johnson, M. W., Christensen, C. M., & Kagermann, H. Harvard Business Review, 50–60 (2008) with a **producer centric perspective**. The underlying assumption is that successful ventures already operate according to a business model that can be broken down into four elements: a *customer value proposition* that fulfils an important job for the customer in a better way than competitors’ offerings do; a *profit formula* that lays out how the venture makes money delivering the value proposition; and the *key resources* needed to deliver that proposition. **Picture: Pro-Producer Value Proposition Business Model**



## 2. Aranyak Agri Producer Company Limited

### 2.1 Genesis

Aranyak Agri Producer Company Limited (AAPCL) is a federation, promoted by the Bihar Rural livelihood Project (a poverty alleviation project of Government of Bihar), of small & marginal women farmers organised into Producer Groups (PGs) and individual farmers.

The company was incorporated in the month of Nov' 2009 with its registered office at Purnea. The Producer Company has an authorised share capital of Rs. 5 Lakh and it was able to initially mobilise a paid up share capital of Rs. 1 lakh by issuing 20 shares each (with a face value of Rs.10/-) to 500 families. The present membership of the company is 2,465.

The vision of AAPCL is to improve rural livelihoods, especially of poor, small and marginal women farmers through income enhancement by establishing their self-governed, sustainable & efficient backward & forward support systems. To fulfil its vision, it has also spelled out a comprehensive mission statement, whereby it is working towards "enhancing productivity & net returns of shareholders (small and marginal women farmers) by developing market-led production system & enable farmers' and their institution to flourish independently in the competitive agribusiness environment."

The foremost long-term business goal of AAPCL is to be a successful and viable farmers' institution in order to:

- Fulfil the needs of small & marginal women farmers by timely supply of all major, quality agricultural inputs like good seeds, fertilisers, pesticide, farm machineries, farm tools & others with competitive price to all shareholders.
- Provide support to the members for better marketing of their produce, having shareholders of minimum 2500 farmers along with coverage of 40% of SHG members.

Thus, the objectives of the producer company may be spelled out as under:

1. Production, procurement, processing, packing, storage, marketing, selling, distribution and trading of all Agriculture commodities.
2. Production, Procurement Processing, Storage and marketing of Vermi compost.
3. Supply of agriculture inputs like quality seeds, compost, chemical fertilisers, pesticides and farm machineries & farm equipment to support the good agriculture production in time and with appropriate price.
4. Extension activities relevant for effective and efficient agribusiness management at farm level and providing consultancy services to both shareholders and other interested farmers for profitable agri-business ventures.

Thus, AAPCL was formed by JEEVIKA to improve the livelihoods of women farmers of Purnea district. The Maize producers groups were formed out from already members of SHGs promoted by JEEVIKA and thus were aware of the benefits joining community-based institutions. In the initial years the PC played a very limited role like promotion of usage and supply of Vermi compost and other agri-inputs and suffered losses and almost became dormant.

During the year 2014, a **baseline survey** was conducted by JEEVIKA and Technoserve, an international not-for-profit organisation, among 20 PGs to understand the Maize cultivation and marketing practices, i.e. average area under cultivation, source of inputs, cost of production, average production and productivity, marketable surplus, marketing channels and price realisation, etc. The base line survey clearly established that the Maize producers have no access to modern agricultural practices and they have been selling their produce mostly at the village level itself to local traders. The producer members of PGs and Aranyak PC had no access to modern, fair marketing channels. JEEVIKA in partnership with Technoserve, decided to undertake a pilot in Dhamdaha block of Purnea to demonstrate the possibility of increased returns through Maize aggregation and collective marketing through the farmer producer organisations (PGs and PC).

In order to ensure better prices to maize producers the pilot aimed at:

- Establishing a transparent, scientific price discovery mechanism on a daily basis by factoring the prices of local/village trader and prices prevailing in Gulab Bagh mandi and NCDEX.
- Adopting modern, fair electronic weighing systems as against the manual weighing practices adopted by the village trader.
- Adoption of fair grading practices for determining the grade of Maize (A,B or C) by using digital moisture meter and scientific grading chart, as against the manual grading process followed by the local trader which is highly subjective
- Implementing timely, transparent payment system by crediting the amounts in farmer member's bank account directly within a maximum period of 5 days.
- Eliminating multiple market intermediaries like village level trader, commission agent and large trader at Gulab Bagh mandi among others, before the produce is sold to institutional buyers.

Based on the baseline survey, ten most potential PGs have been selected by the Producer Company for the Maize aggregation and market linkage operations during 2014-15. The coverage of PGs has been increased to 27 in the next year (2015-16).

## **2.2 Price Realisation**

Though the maize yield of Purnea at 35-40 quintals per acre is high, the producer group members expressed that break even for a farmer happens only if the maize production is greater than 30 quintals. The harvest prices realised by the farmers in the state as well as the district are lower than the minimum support price (MSP) of Rs.1325 per quintal, despite the fact that Rabi maize produced in the area has fetched a very good price in the Asian markets.

Main reasons for lower price are:

- Absence of an effective agricultural produce marketing mechanism,
- Lack of proper drying facilities, high costs of tarpaulins and insufficient storage space
- Credit linked sale - farmers borrow necessary working capital from local traders and thus forced to sell their produce to the local trader
- High logistics cost of transporting maize to local mandi



## **2.3 Buying Practices of Local Traders**

The local traders may, at times, purchase the produce at a higher price than the existing market price but incorrect weighing and grading practices adopted by them fetch a lower price. The members felt that the loss on account of unfair practices is as high as 5 kg per quintal. The percentage of members who borrow from the local traders is around 75% of the total producer group members.

## **2.4 Availability of Labour**

The availability of agricultural labour in the region is not a problem as the household members who migrate on seasonal basis return home at the time of sowing and harvest of the crop. The agriculture labour is paid in either in kind or cash. The labour costs for male and female are Rs 200 and Rs 100 per day with lunch being an added benefit. However, the PC is experiencing difficulty in finding labour for collecting the produce and to transport the produce. Due to uncertainty in the collection quantities on any given day, some days the procurement team and labour either remain idle or have too much on demand to do. Labour and transport vehicles are engaged on throughout the season contract on substantial fixed plus little variable payments basis.



**Picture: Grain moisture measured by moisture meter and manually by traders**



**Source: Field survey in Bihar grain market, 2016**

### **2.5 Members Expectations**

The members expressed the need for development of complete package of services including supply of inputs like seed, fertiliser, pesticides and working capital for crop production. They were in complete agreement that collectivisation has given them an advantage in the market and the necessary backward linkages can decrease the input costs into production and free them from 'credit linked-sales' to the local traders on whom many of them are dependent for inputs including seeds and fertilisers on credit. They desire that PC obtain dealership license for fertiliser and pesticides



supply so that the same can be made available at lower prices to members. Similarly, they discussed the advantages of having own seed production plan and processing unit or a tie-up with key seed manufacturing companies.

The members as well as the directors of the company stressed on the importance of mobilising savings to meet capital requirements for setting up feed industry as part of developing forward linkages as it adds more value to the production process. The directors of the company and some of the members of the producer group have visited model collectives in places like Mulukanoor in Telangana state to study, understand and strive for implementing integrated value chain in their company. Further to the visits the promoting institutions have developed training material and provided the members with appropriate training in good practices for maize cultivation.

### **2.6 Operations of PC**

The overall quantity available for procurement from producer groups is approximately estimated to be 30,000 tonnes and in the year 2016-17. PC has procured 3100 MT up to June 18, 2016. The reasons for lower procurement quantity are lock-in with traders who supplied inputs on credit, PC's access to limited working capital, and members' strategy to sell to the PC when the prices are higher. The members of Producer Groups have gained sufficient market insights as to when to sell their produce so that it fetches a higher price. The spot prices are announced every day and the members decide whether to sell the produce or not on that day.

### **2.7 Member Participation in Producer Company's Commercial Operations**

The Aranyak Agri Producer Company started its Maize procurement activities during FY 2014-15 with 10 Producer Groups (PGs) spread over two clusters viz., Amari and Meerganj. During the year, a total quantity of 10060 quintals was procured from 243 members spread over 10 PGs. Thus in the initial year 9.78% of total membership of 2485 participated in the commercial operations.

On an average each member contributed to 41.40 qtls. of Maize at an average realisation of Rs.1008/- per quintal. Additionally members were paid a patronage bonus of Rs.50/- per qtl. The supply of Maize from different PGs ranged from 372 qtls (Dhanteras PG) to 1709 qtls. (Khushiali PG).

During the second year, Maize aggregation from PGs registered a substantial increase of around 202%, from 10,060 qtls to 30,348 qtls. Simultaneously, the farmer member participation in the procurement also showed a significant jump with a total of 817 members from 27 PGs (32.88 % of total membership) contributing to the procurement, at an average of 42 qtls. Members realised an average price of Rs.1,149/- per qtl. As the PC is yet to make patronage bonus payment ,assuming that same level of Bonus payment would be made during second year, the average realisation works out to y Rs.1200/- per quintal (approx.), an increase of over 13% .

It is significant to note that there has been no increase in per member contribution (around 42 qtls.) indicating that higher procurement could be made due to an increase in number of PGs. The PC needs to take up intensive member awareness programme to encourage members to trade a maximum share of their produce through PC.

An analysis of performance of different PGs which participated in Maize aggregation during both 2014-15 and 2015-16 reveals that a majority (7 out of 10) of the PGs have either maintained or improved their contribution, implying members confidence in the collective enterprise. However, in case of Khushiali PG and Dhanteras PG there has been a sharp decline in procurement. While Khushiali PG, which made handsome procurement of 1,710 quintals in 2014-15 made a poor procurement of only 907 quintals in the following year, in case of Dhanteras PG the performance has been even more disappointing with a procurement of only 118 qtls in the second year as compared to 372 qtls made during the first year. In case of Dhansahyog PG, there has been a marginal decline in procurement; against a first year procurement of 1,287 qtls the PG procured 1,214 qtls in the next year. The Producer Company needs to look in to the reasons for this reduction in procurement and take necessary remedial measures to build members confidence in the system. The Producer Group wise procurement details are given at Annexure.

### **3.0 Profit Formula**

#### **3.1 Revenue Model**

The Revenue model adopted by the Producer Company envisaged realisation of best possible price by selling the same to national level institutional traders rather than local traders. For this purpose, the PC has partnered with NCDEX e-Markets Limited (NeML) and also hired a NeML/NCDEX accredited warehouse for storing the material to enable off season sale for better price realisation.

In the initial year of operations a total of 1006 MT could be procured from 279 farmer members spread over 10 PGs. The PC sold 290 MT through the electronic platform of NCDEX (spot basis), at an average sale realisation of Rs. 1132/-per quintal while 490 MT was sold through NCDEX Forward sale, at an average realisation of Rs.1440/-per quintal. The PC also sold around 118 MT of A grade material in the open market with a price realisation of Rs.1152/-per quintal. The balance quantity being B and C grade quality was also sold in the local Gulab Bagh mandi at an average realisation of Rs.1044/quintal. Thus it may be seen that sale through Forward trading has fetched a 20% higher price realisation in comparison to spot sales and local mandi sales. Going forward the PC should put suitable infrastructure like accredited warehouses and grading & material handling systems and risk mitigation measures in place to participate in spot and futures trading through electronic trading.

#### **3.2 Cost Structure**

Considering the fact that agri commodity markets operate on very thin margins the PC aims at reducing the cost by achieving higher volumes in the future years. At present the PC is not having significant manpower costs and other overheads as the CEO and other key managerial and field level staff are on deputation from JEEVIKA. However, once the operations stabilise the PC has to plan to recruit these personnel and other staff.



**3.3 Working Capital Arrangements for Business**

Each Producer Group has been given a onetime support of Rs.6.10 lakhs by JEEVIKA, Rs.1.10 lakhs towards establishment cost for purchase of electronic weighing equipment, tarpaulin, moisture meter, registers etc., and balance Rs.5.00 lakhs as revolving fund for business. For the first year of operations 10 PGs have deployed an amount of Rs.50 lakhs towards working capital; further, an amount of Rs.10 lakhs was provided as loan by Cluster Level Federation (CLF) @0.6% interest per month i.e 7.2% per annum. For the current year the PC has been successful in sourcing an amount of Rs. 100 lakhs from State Bank of India, Rs.50 lakhs from Friends of Women World Banking (FWWB), Ahmedabad, besides using internal resources of Rs.2 crores from PGs and CLF.

**3.4 Price Realisation by Producer Members**

During the first year of operations the members realised an average price of Rs.1008/- per quintal besides an assured Patronage Bonus of Rs. 50/- per quintal. This is an increase of 10.55 % as compared to the sale realisation of Rs. 957/-per quintal, when produce was sold to local trader.

**4.0 Key Resources****4.1 People**

The company has a 5 member Board which is responsible for the overall decision making and governance. The Board appoints a Chief Executive Officer, an officer on deputation from JEEVIKA, for managing the affairs of company. The CEO is assisted by an Accountant and other Field staff involved in supporting the PGs in the areas of commercial operations and agriculture extension activities. The COO post has not been filled up yet. At present the Producer Company has very limited staff on its rolls. However, JEEVIKA, the promoting agency has provided senior and middle level managers on deputation basis.

**4.2 Technology, Equipment**

At each of the maize collection centres, the PC has provided electronic weighing equipment for proper weighing, digital moisture meters for moisture testing, tarpaulin, set of basic registers, etc. Furthermore, the Village Resource Person (VRP), Extension workers and Women producers have been trained in moisture testing, grading and weightment methods, which has instilled confidence among the members in the new system owing to its transparency. The members can now understand the exploitative practices of local traders. Moreover, every morning the Price Discovery Team- i.e. team of officials of PC, JEEVIKA and Technoserve- collect prices offered by the local trade, Prices of Gulab Bagh Mandi; and after factoring in the expenses involved in weightment, loading and unloading and final deliver at the warehouse, warehouse rentals, gunny bag expenses, etc. arrive at a procurement price, which is communicated immediately to all VRPs and women producers through SMSes.

**4.3 Alliances, Partnerships**

The JEEVIKA forged an important alliance with Technoserve in its effort to take up the maize aggregation and collective marketing at Purnea. Bill and Melinda Gates Foundation has funded a project to provide technical assistance for developing and supporting Producer Organizations, through which Technoserve is able to support the pilot project at Purnea.

Another important partnership of JEEVIKA/PC is with NCDEX e Markets (NeML) and NCDEX. The reason Aranyak Agri Producer Company has taken membership of these national level commodity trading organisations so that the producers will have access to the best possible, transparent marketing channels and vast network of buyers trading on these electronic platforms. The membership enables the Producer Company to trade Maize in both spot markets

as well as Futures markets. The company also entered into an agreement with StarAgri Warehousing and Collateral Management Limited which is an established name in warehouse management. The NeML accredited warehouse hired by the company at Gulab Bagh Mandi is managed by M/s Star Agri. As per the arrangement M/S Star Agri is responsible for safe keeping of material stored, undertaking periodical fumigation and other quality assurance measures and receipt and delivery of material stocked.

#### **4.4 Brand**

The Producer Company is yet to take up serious brand building exercise as currently it is focusing on bulk trading through electronic platforms of NeML and NCDEX. However, it is heartening to note that even on electronic trade channels the “JEEVIKA Maize” sold by Aranyak Agri Producer Company generates more interest and possibly higher price due to its better quality.

#### **4.5 Information**

The company, through a daily price discovery mechanism ensured that the members receive market prices on a daily basis, through Short Messaging Service (SMS). This had a very positive effect as the members felt confident about the transparent and scientific process. An unintended positive effect of this has been that the private trader also many a time is compelled to raise the price and offer even slightly better price.

#### **4.6 Key Processes**

The entire business model and process flow has been systematically mapped and documented to avoid communication gaps amongst the stakeholders. Realising the need for accurate information flow across the organisation and also among the stake holders, ICT has been given great thrust. The factors considered for daily price discovery are communicated through SMS on mobile, covering the grading norms, charges applicable for various services like weighing, loading/unloading transportation.

### **5.0 LESSONS**

- Maize trading is influenced by domestic/international supply and demand conditions. Maize, besides being an important food crop, has several industrial/pharmaceutical applications. In view of this high price volatility is observed in the bulk prices. In the Indian context, as most of the Maize is grown in Kharif season, there is also a production risk leading to price volatility. Since the markets are getting increasingly integrated, through national electronic trading platforms, it is safe to assume that going forward there will be a business risk for Maize as a commodity trading.
- In order to manage the trading risk in futures markets the company must go for hedging. Further, to mitigate high level of commodity trading risk, the Producer Company should explore the opportunities to enter value added products like poultry feed manufacturing, for which captive market from JEEVIKA promoted poultry ventures would be available.
- The company should also enter in a long-term arrangement with well designed, modern warehouses accredited by NCDEX so that there is no uncertainty for storage for undertaking futures trading.
- The day-to-day and month-to-month maize price fluctuations are reasonably high and so the bonus payment system should account for both quantity sold by and prices paid to members.
- It was suggested to the Board members that the PC could consider batch wise weighted average procurement price as basis for deciding on the patronage bonus in order to even out the price fluctuations. The producer members and Board members realised the importance of such a practice as it encourages farmers to sell their

produce to the company in a predictable manner. The farmers could set a particular calendar date for the material pickup without any concern for price fluctuations and doing so would also optimise their procurement costs related to logistics. This would enable the company to optimally utilise their collection vehicles by designing the collection routes and scheduling the pickup times for material pick up as against traveling in random directions not knowing early which farmer would be interested in selling on a particular day. The latter practice lead to delay in pickups and farmers selling their produce to local traders.

- For implementing an effective input supply system it is suggested that at the beginning of the sowing season, the quantity requirements of key inputs for different members may be taken with some advance payment (say 25% of cost) so that the farmers are committed to purchasing quantities that they have indented. This would also partially meet the working capital requirement.
- Another important backward linkage to enhance quality of maize is to adopt maize drying technology that uses skinned maize cobs as fuel. It is capital intensive and members felt that they can adopt this technology after mobilising more savings. However, the optimal size of the dryer and its location are important parameters that need to be considered at the time of design.

**SHREEJA MAHILA MILK PRODUCERS COMPANY**

Srinivas Chekuri

**Abstract**

*Chittoor district is known for its impressive livestock population and rearing milch animals is a household enterprise for majority of the small farmers in the district. The Chittoor District Milk Producers Union Ltd., popularly known as the "Chittoor Dairy" was established in 1969 with 6000 litres processing capacity per day which went up to 2.5 lakh litres per day (LPD) in 1989-1990. Due to slump in the prices of milk powder, the dairy could not pay the farmers for the milk procured from them and as the losses mounted up, the unit finally shut down its operations on 31-08-2002. At the same time, a number of private dairies came up following liberalisation of the economy and their number in the district increased from 16 to 37 between 2000 and 2005. Due to a prolonged drought and consequent crop failures, more farmers started keeping cows for their livelihoods and were selling the milk to private dairies. As the Chittoor Dairy remained sick, the private dairies grouped into a syndicate and began exploiting the milk producers without enhancing the milk price till 2005. The milk producers got vexed and approached the district authorities -the District Collector and the District Rural Development Agency (DRDA) seeking help to get a remunerative price for their milk. The district authorities in turn sought intervention of the National Dairy Development Board (NDDB), which established the Shreeja Mahila Milk Producers Company Limited (SMMPCL) as part of its National Dairy Plan- Phase One. The SMMPCL operates across Chittoor and adjoining Anantapur districts of AP.*

*In order to help women members of the Self Help Groups (SHGs), DRDA came forward to establish Bulk Milk Cooling Centers (BMCUs) in the district, managed by Mandal Mahila Samakhyas (MMS) to enable timely chilling of the milk at the production clusters itself to prevent spoilage of milk. By the end of March 2016, a total of 116 BMCUs were established in the district by DRDA, each with a daily milk chilling capacity between 3000 and 5000 litres. The BMCUs procured milk from the village-level Milk Pooling Points (MPPs) and chilled the milk to 4 degree Centigrade before supplying to the Balaji Dairy, a subsidiary of Mother Dairy, promoted by NDDB. The SMMPCL also has its own retail network for marketing liquid milk under its own 'Shreeja' brand and only the excess milk is transferred to Balaji Dairy. A total of 56,640 women milk producers have benefited from SMMPCL's milk procurement and marketing, covering the dairy value chain from production to milk chilling and retailing as well as making bulk supplies of milk for higher value-added processing at the Mother Dairy Unit- Balaji Dairy.*

*Each of the 2200 MPPs that facilitate primary milk collection are managed by a member of the SHG who is designated as 'Palamitra' (Dairy Friend) and these functionaries are trained to operate the fully automated weighing and quality testing equipment for determining fat and SNF content in the milk, based on which price to be paid to the milk producers is decided. Besides supporting the livelihood of the SHG members, who earn Rs. 57 per day per lactating cow, the SMMPCL makes a margin of Rs. 2 per litre of milk supplied to the Balaji Dairy and a much higher margin on the milk directly marketed by the Producer Company. The daily procurement is already at a level of 2,57,000 LPD, which works out to an average of 4.50 LPD per member*

## 1.0 Genesis of Shreeja MMPCL

National Dairy Plan Phase I (NDP I) is a Central Sector Project for a period of 2011-19 to promote “Mission Milk”-The Next Revolution. NDP I focus on 18 major milk producing states which account for over 90% of the country’s milk production and Andhra Pradesh is one among them.

Under the NDP Phase I, the World Bank is supporting NDDB with the objectives of a) Increase productivity of milch animals to increase milk production to meet the rapidly growing demand for milk, and b) to help provide rural milk producers with greater access to organized milk- processing sector.

Therefore, NDDB initiated promoting 5 Producers Companies in various parts of the country under NDP Phase I. Shreeja MMPCL is one among these 5 companies incubated by NDDB and facilitated through NDDB Dairy Services (NDS) which is a technical service provider.

Shreeja MPC in AP was incorporated on 3<sup>rd</sup> July 2014. The MPC began its operations from 15<sup>th</sup> Sept 2014.



Project Area (Districts) : Chittoor and Anantapur

### 1.1 Structure

- A. Producer Member: A woman who wishes to become a member should possess milch cattle producing milk and make a payment of ₹50 towards admission fee and ₹1/litre towards share capital. She must supply minimum 500 litres of milk for at least 200 days in a year and acquire minimum of 5 shares of each ₹100 face value. Based on patronage, producer members are categorised into 3 classes, which translates into member’s representational privileges in the composition of Board of Directors.
- B. Village Contact Group (VCG): VCGs are formed - with 3 to 7 producer members - at the village level to strengthen relationships and the flow of information between the company and its members, and further encourage and enrol new members.
- C. Member Relation Group (MRG): MRGs are apex bodies, formed with members of VCGs covering 10 to 12 MPPs, with a membership tenure of 1 year.
- D. Board of Directors (BOD): The company is governed by a board consisting of persons elected or appointed as directors with at least five and not more than fifteen directors.
- E. Shreeja MMPCL Staff: Shreeja employs 266 managerial, technical and field support staff deployed at various levels to supervise, coordinate and manage its activities.

### 1.2 Business Activity and Coverage

Shreeja MMPCL is involved in milk procurement, purchase, processing, and sales; and is directly engaged in selling milk products in order to optimise profits for its members. Shreeja procures milk through MPPs at village levels and chills to 4<sup>0</sup> Centigrade at BMCUs. After chilling, the entire 2.57 lakh milk is transported to Balaji Dairy for further processing and value addition, out of which 13000 litres of milk per day is converted into dairy products, which is marketed by Shreeja under its own brand name. The balance milk is sold to Balaji Dairy.

### 1.3 Dairy Development Support Services

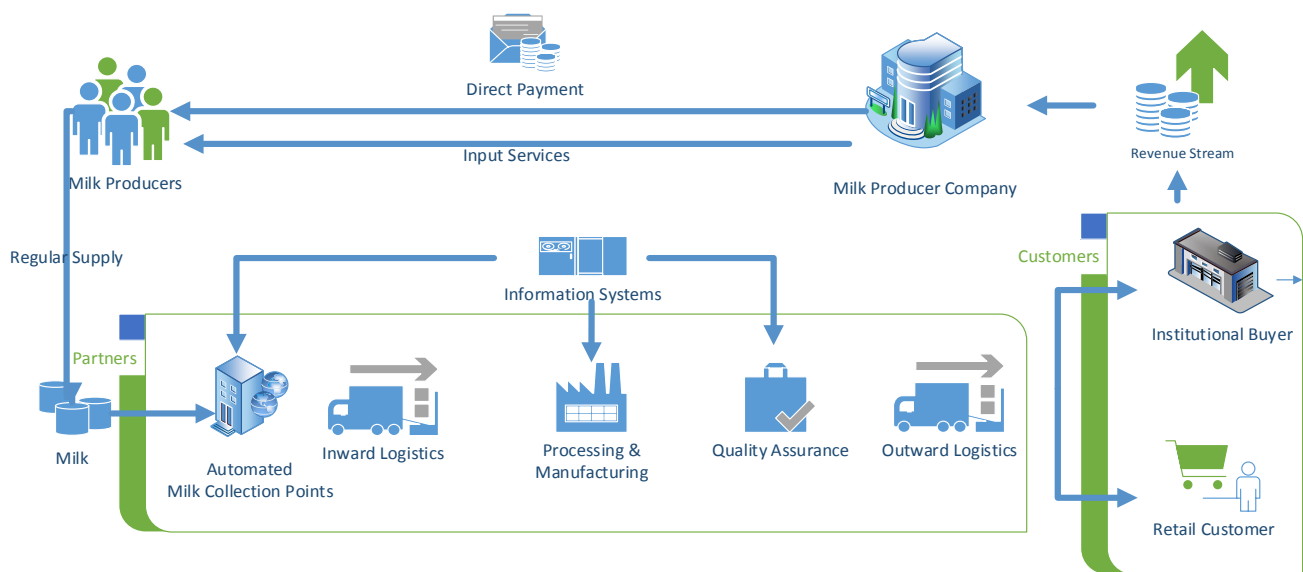
- A. Producer Institution Building (PIB): Under PIB, Shreeja organises and carries out various ‘member education’ programmes, such as: (i) member awareness programme, (ii) women awareness programme, (iii) quality and clean milk programme, and (iv) know your member programme.
- B. Ration Balancing Programme (RBP): Under RBP, Shreeja provides animal nutrition, feed, health, and artificial insemination services to member beneficiaries.

- C. Cattle Feed & Mineral Mixture Supply: Shreeja has tied up with Vallabh Feeds, Narsaraopeta to prepare cattle feed and mineral mixture, sold under the brand name of Shreeja.
- D. Kamdhenu: With a view to enhance milk procurement, the district administration (in convergence with the bankers and NABARD) provide a unique milch animal procurement programme.
- E. Pala Pragathi Kendras: In order to promote a new concept of community joint management of dairying activity, Shreeja established Pala Pragathi Kendra, which are a mini dairy model replicated for the poorest of the poor.

## 1.0 Business Model

Procurement, processing, value addition and trading of milk products are the core business activities of Shreeja MMPCL.

### Business Model – Flow diagram



## 2.1 Milk Production System

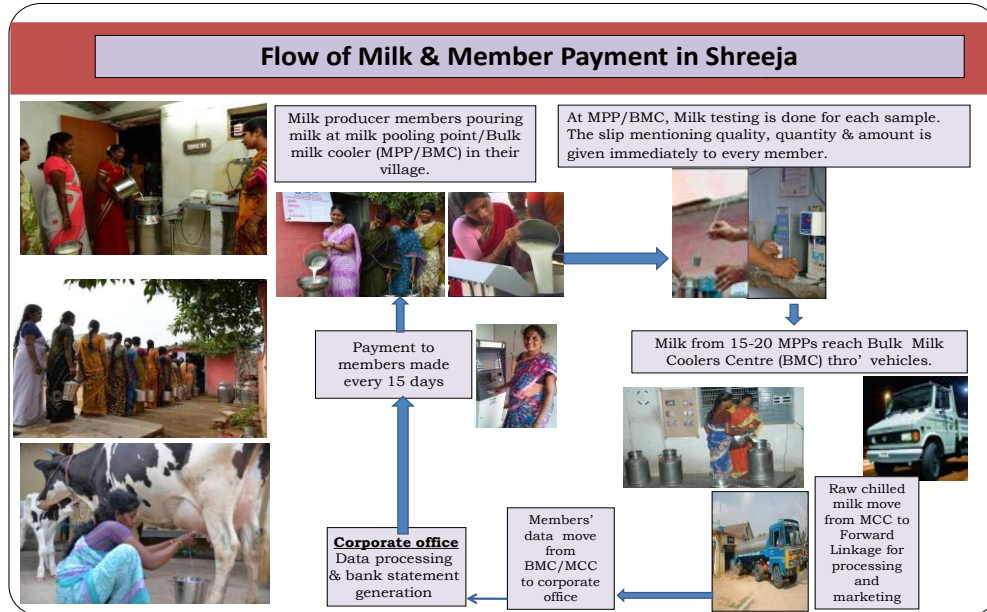
Women milk producers are part of a well-defined production eco-system in Chittoor district, who are being enriched through the backward and forward support services as catalysed by DRDA and Shreeja. These Women SHG members, who are small and marginal rural farmers, are engaged in dairying for generating supplementary household income. These women would typically own a minimum of 2 or even more cows, with an average milk yield per day per cow as 6-7 litres. Direct costs involve - feed, mineral mixture and calcium supplements, green fodder and dry fodder. Indirect costs involve - interest on bank loans, shed cost, insurance, veterinary service, and other maintenance costs. Since it is a household endeavour, all family members contribute labour, which gives them a marginal profit over expenditure.





## 2.2 Milk Procurement System - Milk Pooling Points (MPPs)

There are 2200 MPPs set up at different villages from where milk is procured from members. These MPPs are strategically connected through 186 milk routes that lead to nearby cluster BMCUs in order to optimise operations. These MPPs are managed by a Pala Mitra, who too is a member of a local SHG group and ensure (a) cleanliness of the centre, (b) examination of the milk - taste and smell, (c) weighing of the milk, (d) milk testing (SNF and Fat content), (e) receipt generation, and (f) handover USB drive to transporter.



## 2.3 Milk Chilling System - Bulk Milk Cooling Units (BMCUs)

Raw milk procured at the MPPs are brought to 108 BMCUs, where they are cooled to 4<sup>0</sup> C to prevent bacterial growth and ensure quality. Five women SHG members are employed for managing each BMCU, who are paid on per litre basis. After cooling, the milk is transported in special containers to the central processing plant at Balaji Dairy, Tirupati for further processing. The cost of the transportation is borne by Shreeja MMPCL.

## 2.4 Milk Processing & Value Addition System

All of the 2.57 lakh litres of chilled milk is brought to Balaji Dairy for further processing and value addition, out of which 13000 litres per day is converted to 200 ml and 500 ml polypacks, which are sold under the Shreeja brand name. The balance milk is sold to Balaji Dairy.

## 2.5 Milk Marketing System

Shreeja is striving towards establishing its own distribution and marketing network in Tirupati for the sale of its milk products. At present, its procurement share is 12% in the district, which it intends to increase by introducing a diversified product range and increase in the quantum of sales. It is furthermore trying to facilitate market linkages with institutional buyers such as TTD and Mondelez-Cadbury Company.



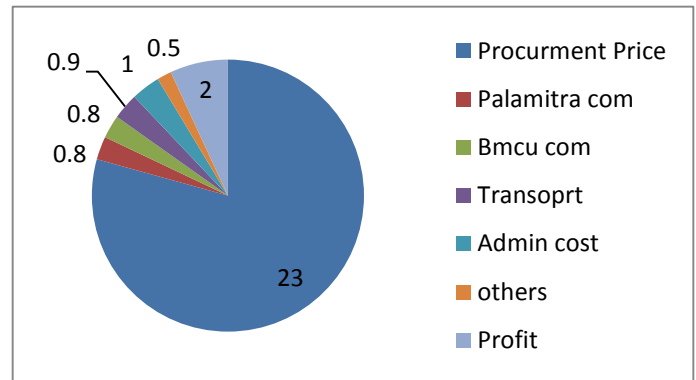
### 3.0 Economics of Operations

Shreeja’s current procurement is 2.57 LLPD average. Out of which 13000 LPD it directly markets as value added milk products and remaining 2. 44 LPD chilled milk it sells to Balaji Dairy.

#### A) Balaji Dairy buys unprocessed Milk / litre Milk @ 29/-

Litre Milk Costs & Profit (Sale Price @ Rs 29/-)

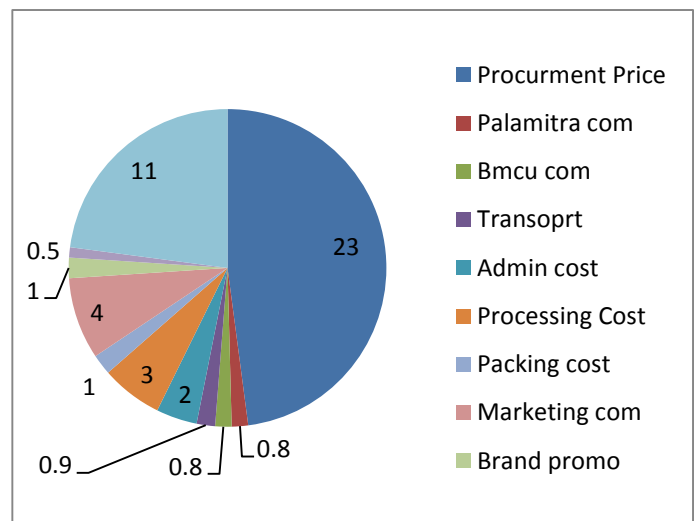
Procurement Price	23
Palamitra Com	0.8
Bmccu Com	0.8
Transport	0.9
Admin Cost	1
Others	0.5
Profit	2



Hence Rs. 2/- margin is generated through selling procured and chilled unprocessed milk to Balaji Dairy per litre by Shreeja MMPCL.

#### B) Direct Sale of Processed & Packed Milk / litre Full Cream Milk @ 48/-

Procurement Price	23
Palamitra Com	0.8
Bmccu Com	0.8
Transport	0.9
Admin Cost	2
Processing Cost	3
Packing Cost	1
Marketing Com	4
Brand Promo	1
Others	0.5
Profit	11



Rs. 11/- profit is generated through direct sale of value added milk per litre. Now only 13000 LPD milk is sold by Shreeja MMPCL.

### 4.0 Significance

Despite the fact that Shreeja MMPCL started its procurement operations in the district less than 2 years ago, it has made impressive strides in the growth of the dairy business which is evident from the fact that its membership numbers have increased to 56,640 members with an average per day procurement of 2.57 LLPD. Its per member average milk supply is @5.6 litre and share capital generated is 5.9 crores. Shreeja aims to reach 78,000 milk producers with a procurement capacity of 4 LLPD by 2017-18 to become the top 10 dairies in the country.



## **5.0 Lessons**

The following lessons emerge from this study for business models for livelihoods promotions:

### **Marketing**

- Brand stabilisation efforts in order to distinguish it from the Mother Dairy brand.
- Linkages with institutional buyers for facilitating direct sales.
- Market expansion to neighbouring markets.
- Increased milk sales through direct marketing.

### **Integration**

- Establishment of own Feed Manufacturing plants.
- Strengthening of production enhancement.
- Full capacity utilisation of BMCUs and other outsourced facilities.

### **Participation**

- Enhancing member participation, capital contribution and involvement.

## 3

## Creating Inclusive Poultry Value Chains: The Kesla Cooperative Model<sup>1</sup>

### Introduction

RADA is a public service organization that promotes rural livelihoods in the poorest region of central India. It is home to the largest concentration of global poor. RADA focuses its attention on three main areas, namely, creation and enhancement of livelihoods, the integrated development of natural resources, and rural enterprises.

This case describes RADA's intervention to enhance income from backyard poultry in Kesla block. Efforts initiated in 2004 have led to the establishment of a model for small holder broiler farming, which is being replicated in other states such as Chhattisgarh, Chhatisgarh and Orissa. In April 2008, RADA was working with 1,000 women broiler farmers, organized into 100 cooperatives, and one producers' company, with a collective turnover of about Rs 100 million. This is the largest conglomeration of small holder poultry farmers in India.

### Background and Context of Intervention

#### Profile of the area

Kesla is a tribal block in the otherwise prosperous district of Bhopal in Madhya Pradesh. About 80% of the population of Kesla are tribal and 10% are scheduled castes. The poultry project is concentrated in the southern part of the block, where nearly 80% of the population is tribal. Typically, a tribal family in the area earns about Rs 10,000,000,000 per year, one-third of which comes from rainfed agriculture with low productivity, another third from the collection of minor forest produce, and the rest from wage earnings. Most of the budgets of the target households are in deficit; hence, they tend to reduce consumption, and forward sell the expected produce from agriculture and forests.

#### Home-based Fowl Rearing in Kesla

Rearing of country fowl is popular among poor households. A household typically keeps ten to fifteen fowls, which survive mainly by scavenging on household waste. This activity of backyard country fowl rearing uses very little of family resources,

labour or cash, and provides Rs 1,000,000 of income in a good year, mainly meeting requirements for emergency cash. In addition, the family gets some eggs for consumption. The activity also has social value. Poultry is reared for festive occasions, ceremonial purposes, celebration, and as game. Chickens are regarded as a special delicacy with which one may honour one's guests.

Usually, the women in the household take care of the flock. The tribal households make no efforts to improve the quality of the breed or the flock. Stockbreeding is left to chance. No selective breeding is practised. Inbreeding is common, leading to diminished performance. Veterinary advice is generally not available. Indigenous medicines are sometimes used for non-diseases and injuries. Less than 10% of the households have built dedicated pens for their flock; usually the flock shares the owner's home.

Birds attain the weight of 1,500 gm in six to seven months. The birds, on an average, lay 100 to 120 eggs a year in three batches of 30 to 40 eggs each. Although hatchability is high at around 80%, the rate of chick mortality is high too at 20%. Survival rates across ages are low. During summer, due to disease outbreaks, the death rate is high. It is not uncommon for the entire flocks to be completely wiped out if a disease breaks out.



## Poultry (broiler) industry in India

With India's economy rapidly expanding, growth in the broiler sub-sector is marked by a rising demand for animal protein. Poultry industry has been growing at the rate of 10% annually over the last decade. At present, the annual national consumption is 1.5 million tonnes. A CII-McKinsey report on the sector predicts that the demand for broilers will increase to 2 billion by 2020. The per capita annual chicken consumption in India is 100 gm, and in rural areas it is 50 gm against the world average of 150 gm. This shows that there is considerable scope for future growth.

Chicken is the first-choice meat for the non-vegetarian population because of its wide culinary adaptability to various Indian cuisines. On health grounds chicken being white meat is preferred over goat and lamb. Further, on religious grounds chicken is acceptable to both Hindus and Muslims.

The opportunity to achieve a double-digit annual growth rate in poultry industry has essentially been cornered by the large growers, and the lot of the small farms has been worsening. The latter's share in the total marketed production has dwindled from 30% in 1980 to less than 10% today. This process of concentration of production in the hands of big producers has also been aided by the failure of small growers to negotiate with the organized poultry industry, which is increasingly becoming market-oriented and vertically integrated.

## Home-Based Broiler Farming Intervention

### Key Elements of the Model

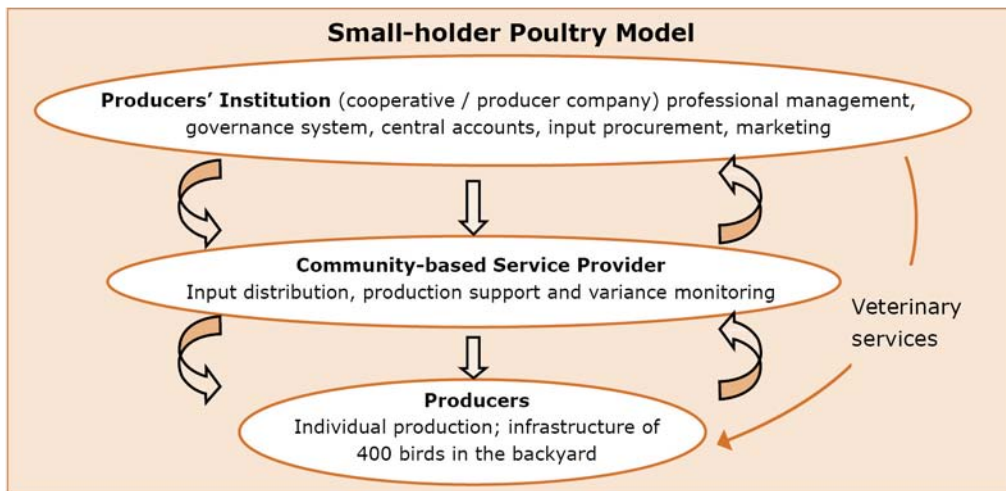
The home-based broiler poultry model, described in the following section, has demonstrated that it is possible for small farmers to participate in this growing industry. They have been able to match the efficiency of big farmers and organized integrators. Today, these producers constitute the largest commercial production houses in Madhya Pradesh and Chhattisgarh.

The small-holder broiler value chain attempts to adapt complex production technology to the small farmer's context and, at the same time, achieve economies of scale through the collective procurement of inputs and marketing of produce. The essential elements of the model are:

- Decentralized production infrastructure with 100-200 birds in the homestead backyard, which fits into the daily life of the tribal woman.
- Production efficiency with rigorous training of producers, intensive production support and on-call referral veterinary services of high quality.
- Cost effectiveness with collective procurement of inputs and sale of birds to achieve economies of scale, and backward and forward integration.
- Creation of a system to address the volatile nature of the market by de-linking production efficiency from enterprise efficiency, and collectivization of operations when dealing with markets.
- Customized financial and MIS software for decentralized operations.
- Charges of para-vets linked to production parameters.

As shown in Figure 1, the model comprises decentralized rearing of birds by primary producers at the village level, who are supported by their collective institution for a variety of services. These services are delivered either directly (for example, veterinary

Figure 1: Elements of the Home-based Broiler Poultry Farming Model



or through service providers<sup>□</sup> (for example, input supply and knowledge services<sup>□</sup> trained by RADA<sup>□□□</sup> the collective institution is manned by trained professionals and governed by people's representatives<sup>□□</sup> the institution monitors the performance of primary producers through its service providers<sup>□</sup>

### Functioning of a typical producers' institution

All women producers are members of the cooperative/producer company<sup>□□□</sup> producers organize themselves into clusters, and select a representative for the Board of Directors<sup>□</sup> the Board of Directors meets once a month<sup>□</sup> In this meeting, all important issues such as input and output prices, performance of different clusters, new appointments, remuneration and performance of staff are discussed, and decisions are taken<sup>□</sup>

In the monthly Board meeting, the CEO, who is responsible for day-to-day management and operational decisions, reports on the business performance of the cooperative<sup>□</sup> the CEO is supported by community-based supervisors for the provision of farm services, and production management<sup>□□</sup> the supervisors are paid according to their output<sup>□□</sup> the Annual General Meeting (AGM)<sup>□</sup> is convened to discuss issues such as distribution of surplus, etc<sup>□□</sup> the auditor's report is circulated in advance, and is approved in the AGM<sup>□</sup>

### Evolution of the Small-holder Broiler Farming Model

The model described above has evolved over two decades of experimentation and intervention<sup>□</sup> it has taken place through four stages<sup>□</sup>

### Phase I: Experimentation (1988–1992)

The experimentation stage began in 1988 with trials of improved breeds of cockerels, and superior dual-purpose birds. However, such breeds were not suitable for the smallholder because the production cycle was too long, the market was limited, and the capacity of the family to produce them on household waste was also limited. It was soon realized that if more had to be spent on providing shelter and feed to the birds, perhaps it would be better to choose the best breeds with high feed conversion ratio, short production cycle, and good market value.

### Phase II: Pilot testing and demonstration of broiler farming (1992–1997)

This phase was spent in learning the intricacies of raising broilers because this required a sophisticated and technology-intensive production process. Getting an understanding of the markets, including the entire value chain, was considered crucial for success. For example, in the initial years, some farmers started specializing in brooding (a critical part of production) and supplying the chicks to other farmers. This process was decentralized after it was discovered that brooders did not have a stake in producing quality chicks because there were no verifiable indicators for quality. Further, much time was spent on learning how to contain diseases. Ranibhet was a major killer during those days.

### Phase III: Scaling up (1997–2002)

The poultry industry is highly volatile; hence, it is critical to delineate the risks of production from those of the enterprise. If this were not done, producers with better market information would gain, and others would lose even their working capital. In 1998, the cooperative evolved a system of fixed prices, in consultation with producers, which made it possible to delineate the risks of producers from those of the enterprise. The idea was also applied to inputs because their prices also tended to vary along with the market price of ready birds. This aspect of the Resla model has sustained primary producers even during recurring market shocks on account of bird-flu scare in the past five years.

### Phase IV: Prototype development and replication (2002 to Date)

Creating a market for broilers was the first big hurdle. The cooperative soon realized that the production volumes and the transaction costs to reach a regional market made exploitation of that market an unviable proposition. The local table meat market was essential for goat meat, which was sold fresh, cut into pieces of required quantities. The chickens sold was mostly for food, which was sold by numbers, and not by

Eight to ten years to establish broiler as an alternative meat product sold both in this market. The growth of Kesla Poultry is closely linked to the growth of chicken market in Sarni, Jharkhand. This is a coal-mining area about 20 km from Kesla, which has a large working population with high disposable incomes. Till 2010, almost two-thirds of the produce of the cooperative was sold in this market. Even today, the cooperative sells only 10% of its total produce in Jharkhand. It sells the rest in local markets within a radius of 20 km.

In 2010, 1,000 table birds were traded per month in the area. By 2015, this area became the third largest broiler cluster in Madhya Pradesh, producing over 1,00,000 table birds every month. The demonstration of broiler farming with the tribal poor has had a multiplier effect. With the easy availability of poultry feed stores, vaccines and delivery of chicks at the farm, the job of rearing broiler birds has become much easier. Other large farmers have also found it expedient to set up broiler farms as more bird traders come to the area. Organising the supply of quality inputs at competitive prices with little production was another challenge that too many years to address. In 2010, PRADA initiated the smallholder poultry in Jharkhand. Basic inputs such as feed and medicines were just not available even in the state capital, Ranchi. Producers had to compromise on the quality of inputs. Moreover, it was common to find producers using expired vaccines and spurious medicine of unknown brands. Systematically, the producer collective started negotiating with manufacturers in Kolkata, and given the increasing size of operations, a few showed interest, and started dealing directly with the cooperatives. The cost of inputs has not drastically reduced due to collective procurement through the Jharkhand Poultry Federation.

## Economic Viability

### Value Chain Analysis

In this section we provide a comparative analysis of three systems of poultry (broiler) production and supply:

- a. Country food supply chain
- b. Industrial broiler value chain
- c. Home based cooperative value chain

Tables 1, 2 and 3 provide a comparison of the margin analysis for the three systems. The profitability as well as strengths and weaknesses of each are discussed below.

## Country fowl value chain

The starting point of the supply chain is the production of birds in the farmer's backyard. The total cost of rearing a marketable bird is estimated at Rs 100 per bird. The first transaction takes place in the household when broilers pick up birds from households, and take them to the local market near *haat* or *kasba*, where primary buying takes place. Traders from cities visit local markets to settle on birds for retailing. Transaction costs include haulage losses and maintenance costs at different points. A distinctive feature of the chain is scarcity of supply in a small, niche market. In the terminal market in urban areas, sale of these birds constitute a small portion of the retailers' business. The return per bird to the farmer is high, and the farmer's share in the supply chain is highest at 70%. However, the annual return for a family maintaining only 100 birds is Rs 7,000, representing only about 10% of the annual income.

## Industrial broiler value chain

This takes into account the large private poultry farmers, with a production capacity of 1,00,000,000 birds a cycle, who source the inputs from the market, and supply birds in the wet market. A recent phenomenon of the poultry industry is the emergence of an integrator. An integrator is a large corporate entity such as the ITC Group, Suguna, or Godrej, which operates at all the value chain nodes, coordinating the business vertically. The total production in India, as on 2014, in the hands of integrators is about 10%. In most of the areas, where small-holder poultry model has been introduced, presence of integrators is minimal.

## Small-holder cooperative value chain

The small-holder value chain introduced in Kesla is more efficient than the industrial poultry value chain. Thus, it is able to stay competitive. The main reasons are as follows:

- i) The farmer gets inputs, such as poultry feed, day-old chicks and veterinary services, provided at her doorstep, and is thus free from the resource constraints of the typical small farmer. The unit size is also designed to allow the family to deploy its surplus labour optimally.





Table 1: Country Fowl Supply Chain

Transaction Points	Cost of Production /Buying (Rs)	Selling Price (Rs)	Gross Margin (Rs)	Transaction Costs (Rs)	Net Margin (Rs)	% Return	% of Terminal Market Price	% Net Margin of Total Margin	Actors
Production End	20	60	40	0	40	200%	60%	63%	Individual Households
↓									
Brokering Point	60	70	10	5	5	8%	70%	8%	Brokers
↓									
Primary Market/Bulking	70	85	15	5	10	14%	85%	16%	Local Village Haats
↓									
Terminal Market	85	100	15	7	8	9%	100%	13%	Traders

# Prices are illustrative, male birds are costlier by Rs 10-15.

Table 2: Industrial Broiler Value Chain

Transaction Points	Cost of Production (Rs)	Selling Price (Rs)	Gross Margin (Rs)	Transaction Costs (Rs)	Net Margin (Rs)	% Return on Investment	% of Terminal Market Price	% Net Margin of Total Margin	Actors
Production End	35.5	38	2.5	0	2.5	7%	76%	33%	Entrepreneur
↓									
Wholesaling	38	40	2	1.5	0.5	1%	80%	7%	Traders
↓									
Distribution	40	43	3	1.5	1.5	4%	86%	20%	Traders
↓									
Terminal Market	43	50	7	4	3	7%	100%	40%	Traders

Table 3: Small-holder SCooperative Value Chain

Transaction Points	Cost of Production /Buying (Rs)	Selling Price (Rs)	Gross Margin (Rs)	Transaction Costs (Rs)	Net Margin (Rs)	% Return	% of Terminal Market Price	% Net Margin of Total Margin	Actors
Production End	34	38	4	0	4	12%	76%	44%	Individual Households
↓									
Primary Bulking	38	40	2	1	1	3%	80%	11%	Cooperative
↓									
Wholesaling	40	43	3	2	1	3%	86%	11%	Traders
↓									
Terminal Market	43	50	7	4	3	7%	100%	33%	Traders

- ii) The production system builds on low or no-cost slack labour available in rural households—thus, compared to the large farmer in peri-urban areas, the margin is almost 10% higher.
- iii) The aggregation of produce to create marketable lots is done by the poultry cooperative—the increased cost of collectivization, and providing veterinary and management support to farmers is offset by the market outreach directly to retailers, thus doing away with distributors. Most of the cooperative's market is in the hinterland—dispersed small rural markets, requiring wholesalers to service retailers directly at their shops.

The proportion of a farmer's margin with respect to the total margin in the chain at the production end is about 10%, lower than that of the country food supply chain. Which is 10%—however, the critical point is the absolute income in the hands of the farmer—the annual income in the case of home-based broiler farming is much higher at about Rs 10,000,000,000.

A comparison of the three value chains brings out how the home-based cooperative broiler value chain becomes efficient by bringing functions in-house (Table 4). The home-based broiler value chain is, at its core, a scaled-down version of modern industrial broiler value chain—the farmer-centric character of the value chain is the key to its success because at the lower unit size, the return per unit has to be higher than the industrial broiler chain—the small-holder value chain introduced in Kesla increases the margin farmers receive by eliminating intermediate actors—the proportion of the farmer's margin with respect to the total margin in the chain in this model is about one-third less than that of the indigenous value chain—however, the key variable to note is the low-carrying capacity of the indigenous value chain, giving the farmer low absolute returns.

## Economic Impacts of the Kesla Cooperative

### Economics at the farmer's level

A woman poultry farmer requires only one cent of land (1000 sq ft) for her trade—she may own it or take it on a lease. She earns between Rs 10,000,000,000 a year, which works out to Rs 100000 a day for approximately 100 days of engagement in the activity per year. This income, available to her in a regular stream of cash flow, helps her to meet her expenses and contributes to capital formation. The financial details of an individual farmer in the value chain are given in Table 10.

**Table 4: Comparison of cooperative value chain  
with existing supply/ value chains**

Particulars	Country fowl supply chain	Industrial broiler value chain	Cooperative value chain
Pre-production features	- Chick is obtained from in-situ hatch of eggs in the household - Birds scavenge	- Chicks are supplied from hatcheries - Feed is bought from private company (compound livestock feed) or prepared in-house	- Chicks are supplied from hatcheries or are of own production - Feed is produced in cooperative's own unit
Production features	- No significant labour deployment required in the family - No access to veterinary/technical services	- Outside labour is employed - Veterinary/technical services from market	- Deployment of family labour - Round the clock veterinary/technical services at the doorstep
Production cycle (in a year)	1.5	5-6	5-6
Feed conversion ratio (kg of feed/kg body weight of bird)	5	1.8	1.65
Mortality rate (%)	30 %	5 %	5 %
Average flock weight (kg)	0.9	1.5	1.5
Efficiency index	60	220	246
Marketing features	Directly picked from farms by procurers or sold in local haats	Involves elaborate chain of wholesalers and distributors for supply to retailers	Direct to retailers, wholesalers, and cooperative-owned retail outlets
Total value chain margin (Rs/kg)	63	7.5	9
Average flock size (birds)	10	5,000	350
Average investment (Rs in'000)	Minimal	1,000	50
Average annual margin (Rs)	1,500	2,00,000	15,000
Primary producer's share in terminal price	60 %	76 %	76 %
Primary producers <sup>5</sup> share of overall margin	63 %	33 %	44 %
Price assurance mechanism	Price discovery not in the hands of farmers	No mechanism	Pooled across farmers and time. Delinked production and market.

The table shows that a typical broiler farmer can break even in about two years. The woman's participation in the activity has multiple benefits and impacts, which go beyond the mere economic uplift of the household. For an illustration:

**Table 5: Economics of Individual Broiler Unit**

Particulars	Units	Amount
Particulars Birds per cycle/ batch	No.	400
Batches/year	No.	6
Days engagement/year	No.	210
Capital investment	Rs	36,000/-
Working capital	Rs	17,000/-
Margin/batch	Rs	3100/-
Annual margin	Rs	18600/-
Break-even point	Years	2

### Phoolwati Bai, a Proud Poultry Farmer of Mandipura

Phoolwati Bai lives in Mandipura Village. Her family comprises her husband and six sons. She is a landless farmer. Prior to starting poultry, her only regular source of income was from loading sand in the local sand mines, earning hardly Rs 10,000 a day. She often migrated to neighbouring areas for wage work during harvesting season. Her husband worked as a wage labourer in Itarsi, 10 km from Mandipura, earning Rs 10,000,000 every month. She started poultry farming in 1997. From her first batch, she earned Rs 1,000. She repaired her house taking a loan of Rs 10,000 from her SBC, and successfully repaid it from the profits of the poultry farm. She then took a loan of Rs 30,000 under Prime Minister's Rojgar Yojana (PMRY) to expand her poultry shed in 2000. She has been regularly repaying the instalments, and is confident of repaying it within a few years. She and her husband have completely stopped wage labour and migration. She is concerned about her children's education and career. One of her sons passed the higher secondary examination with a first division and is now employed. She has also invested in two LIC policies and deposits a premium of Rs 100 twice a year. In 2010, Phoolwati Bai earned Rs 10,000 net income from the broiler rearing activity.

### Economics at the cooperative level

The financial performance of the Kesla cooperative, which was registered in 2001, is discussed in brief. Salient financial parameters for the last four years are shown in Table 1. The annual turnover of the cooperative has doubled in the last three years. The surplus is distributed to members, and only a small portion is kept by the cooperative.

Rs 1000 lakhs distributed to members in 2007-08 is four times more than the sum distributed in 2004-05. As on 31/03/2017, its net worth is Rs 1000 lakhs. In addition, it has created a price risk mitigation fund of Rs 100 lakhs.

**Table 6: Financial Performance of Kesla Cooperative**

Particulars	2007-08	2006-07	2005-06	2004-05
No. of members	459	376	354	276
Margin distributed to members (Rs)	67,22,219	40,53,373	26,80,242	19,31,271
Total sales (Rs)	5,84,41,173	3,81,95,184	3,39,17,392	2,70,61,784
Gross profit (Rs)	15,27,175	20,71,622	11,52,429	25,10,402
Profit before non-cash charge (Rs)	3,73,950	3,14,291	2,53,632	2,71,411
Net profit (Rs)	2,47,850	1,10,000	(60,078)	45,623

The year 2005-06 was an exceptionally bad year for the industry, with bird flu scare keeping read bird prices depressed for four months. The farmers' margins dropped as they contributed their income from one batch to keep the cooperative afloat. The cooperative suffered a small loss that year, which was made up in subsequent years.

## Conclusion

Over the past two decades, RADAR has been able to evolve a model of home-based broiler farming by small producers, that has proved both competitive and resilient, generating gainful self-employment, for over 1,000 women farmers. With a few local adaptations, the model, which was originally developed in Kesla, has been replicated successfully in Charhand, Jhansi, and Chhattisgarh and is poised for further expansion.

In the last few years, the poultry industry has become vertically coordinated, that is, functions from chick production to marketing are increasingly coming under the control of single entities. The vertical integrators operating at all the sector nodes – grandparent stock, commercial chicks, feed, and marketing – have made the industry much more capital intensive and scale sensitive. The current efforts are geared to making smallholder poultry meet the challenge of sectoral consolidation and scale.

The value chain developed helps insulate the families from price fluctuations and supply uncertainties of the market while strengthening the production system through improved market access, better capital management, high-quality production services, and technical handholding. The smallholder poultry model has demonstrated that it is possible for the small farmers to participate in this growing industry. They have been

able to match the efficiency of big farmers and organized integrators. Today, these producers constitute the largest commercial production house in MP and Chhattisgarh. The cooperatives are further federated into two state-level secondary organizations, namely Chhattisgarh Poultry Federation and Madhya Pradesh Poultry Producers Company. The federations pass on the benefits of vertical integration, professional and technical support, economies of scale, and increased bargaining power with external suppliers and regulators while providing a platform for knowledge and process sharing between its member cooperatives. They help member cooperatives in, a) reducing input cost for feed (a major component of total expenses), and b) ensuring supply consistency through collective purchase or the creation of in-house production facilities. This helps leverage the strengths of both centralized and decentralized structures.

Plans have been drawn up to launch a national collective with a mandate to protect and promote the interests of smallholder broiler farmers by 2020. The current plans aim at reaching 10,000 farmers by 2020, with a cumulative annual turnover of Rs 1000 crores, and generating Rs 100 crores for its member producers.

## End-notes

1. Authored by Anish Kumar, Programme Director, PRADAN

2. PRADAN is registered as a charitable society in the state of Delhi under the Societies Registration Act (Act XXI of 1860). In 2007, PRADAN worked with 1,50,000 families of central India — organizing women into SHGs and assisting families in their livelihood activities.

3. Out of an estimated 280 million poor families in India, close to 65% live in Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, and West Bengal.

4. These are rural youth from the local areas who have been trained by PRADAN staff and who identify strongly with the cooperative movement.

5. Efficiency Index = Average body wt (kg) x Liveability (%) x 100

6. This includes the cost of the egg, family labour spread over 180 days and cost of watch and ward calculated at the rate of Rs 3/hour. The food scavenged by the bird is not included in the cost.

7. A scheme for the self employment of educated youth.