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Farmers' producer companies in India: a new concept for collective action?

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Abstract. Producer companies can help smallholder farmers participate in emerging high-value markets, such as the export market and the unfolding modern retail sector in India. As elsewhere in the developing world, in India, small farmers' livelihoods are being threatened due to the liberalization and privatization of Indian agriculture and the increasing interest of private capital in the agribusiness sector. The withdrawal of the state from productive and economic functions, and changes in the organization of marketing channels, present new challenges for small-scale farmers. In this environment of greater instability and competition, organization and collective action can help to enhance farmers' competitiveness and increase their advantage in emerging market opportunities. We build on the ideas of value-chain governance and collective-action literature and introduce the functions and organizational structure of producer companies in India within this context. On the basis of a case study of a specific producer company in Maharashtra, which produces and markets mango and cashew nuts, we discuss the potential benefits for rural communities and the reempowering effect of this form of farmer organization.

Keywords: collective action, value chains, governance, agrifood network, smallholder, India

1 Introduction

In comparison with many other countries, the transformation of the agrofood system in India started relatively late. Here, the corporatization of retail, and later of agriculture, started from 1991, when the Indian government started to deregulate and liberalize the economy. A major focus in political strategies has been placed on economic, trade, and industrial policies. This has had, and continues to have, a particular impact on India's population in the nonindustrialized sectors, such as agriculture. The deregulation and the subsequent decline in state subsidies for production inputs such as water, electricity, fertilizer, and seeds created an economic environment of unknown competition for many smallholders (Motiram and Vakulabharanam, 2007; Sharma, 2007).

At the same time, the Indian market environment changed—also affecting smallholder farmers. Along with changing consumer demands, new corporate actors are entering Indian agrofood networks, such as corporate retailers, processors, or exporters of quality produce. These firms are often aiming to execute vertical coordination in their supply chains, which ensures them greater control over the production processes and thus to source produce which meets their strict requirements and standards (Barghouti et al, 2004). Within the frame of vertical coordination, links between farmers and buyers are becoming tighter to replace conventional open-market relations (Humphrey and Memedovic, 2006). This type of procurement organization is also the result of the changing national policy orientation in India, following somewhat neo-liberal tendencies, which is also affecting agriculture and trade (Landes, 2008; Pitale, 2007).

However, the Indian government not only aims to initiate new organizational forms in agricultural production and marketing to integrate large firms, but also aims to encourage groups of small-scale primary producers to connect with corporate buyers. With the amendment of the Companies Act 1956 in 2002, the Indian government

introduced the concept of ‘producer companies’, which constitute an attempt to establish basic business principles within farming communities, to bring industry and agriculture closer together, and to boost rural development (Kumar Sharma, 2008).

Farmers’ producer companies can be seen as hybrids between private companies and cooperative societies. The producer-company concept is aimed to combine the efficiency of a company with the ‘spirit’ of traditional cooperatives. Producer companies aim to integrate smallholders into modern supply networks—minimizing transaction and coordination costs, while benefiting from economies of scale (Lanting, 2005). They are run and owned by farmers, financially facilitated by the government or donor agencies, and managed by professionals. The concept of producer companies is still in its infancy in the agricultural sector and has captured almost no attention in the literature—particularly outside India. Our general intention in this paper, therefore, is to analyze the potential of the producer-company model as a bottom-up approach for smallholder participation in emerging markets.

The paper is based on material collected in India during two visits, in 2008 and 2010. In total, forty-five in-depth interviews were conducted with representatives of producer companies, buyer organizations, interest groups, and government agencies. The methodological idea was to gather information at different scales of organization. Therefore, representatives of higher level organizations were approached, to collect material to aid our conceptual understanding about producer companies and the regulatory framework behind them. In addition, interviews were conducted with local actors at producer-company level, for specific case-study data, at seven producer companies and their supporting organizations in the states of Karnataka, Tamil Nadu, Gujarat, Madhya Pradesh, and Maharashtra. The specific information on VAPCOL, the case-study described in this paper, is based on six interviews with representatives of this particular producer company, in addition to a three-day field visit to various VAPCOL sites in Maharashtra in 2008. The selection of VAPCOL as an analytical case study for producer companies was based on the impression gained during field work, and the subsequent analysis of the primary data, that VAPCOL represents a rather successful example of this type of farmer organization. It has been running for more than one season and, therefore, its organizational structures and procedures were fully operational.

The paper is organized into four sections. In section 2 we outline an analytical framework in relation to arguments from the value-chain governance and the collective-action debates. In section 3 we deal with the structural characteristics of agriculture in India and the regulatory framework on which the concept of producer companies is based. In addition, in this section, we outline the ideal and typical characteristics of producer companies. In section 4, the case study of VAPCOL is presented and analyzed in relation to the success of this producer company in empowering farmers and improving their livelihood. In the final section, we conclude that producer companies are a promising new model of smallholder organization, but one which needs continued support and further critical analysis.

2 Reempowering farmers through collective action

The global food system is characterized by high levels of influence of powerful firms from the trading, processing, manufacturing, and retail fields. Large retailers, for example, are able to control agricultural production in more and more regions of the world through rapid internationalization and their increase of market share in food sales across the globe (Brown and Sander, 2007; Pimbert et al, 2001; Reardon et al, 2009; Reardon et al, 2004). Along with the spread of supermarkets, public and private

standards related to food quality and safety are gaining in importance—including in developing countries (Coe and Hess, 2005; Henson and Reardon, 2005).

As outlined in a more general perspective by Gereffi et al (2005), increased specificity of products and higher standards requirements in globalized production and trade systems lead to tighter governance of value chains. This assertion is based on the transaction-costs approach, which states that more complex transactions lead to greater segments of the production process being controlled by, or integrated into, the same firm (Gereffi et al, 2005). In the case of smallholder agriculture, transaction costs for firms dealing with small farmers are particularly high for a number of reasons: for example, the small units of output per farming household, low capacity, low information levels of farmers, uncertainties in dealing with farmers, as well as simple physical distance because of underdeveloped infrastructure.

In a scenario of (1) high complexity of transactions, (2) low ability to codify transactions, and (3) low capabilities of the supplier base, high levels of explicit coordination occur in value chains (Gereffi et al, 2005, page 87). Within the literature on agrofood systems, the term 'vertical coordination' is used to describe the explicit coordination of agricultural production processes by lead firms, such as retail chains (Humphrey and Memedovic, 2006). In this context, vertical integration describes the most explicit types of agrofood chain governance where buyers have strong control over the means of production. Network coordinations of vertical integration include food-production systems, such as contract farming or outgrowing schemes. Therefore, vertical integration in agrofood networks falls into the governance typology of Gereffi et al (2005, pages 87–89) of 'captive' and 'hierarchy', in which lead firms have strong control over suppliers.

Product and logistic requirements are especially high in the case of high-value agricultural products such as fresh fruits and vegetables, which makes transactions complex. Many case studies have shown, for a number of countries and product groups, that large retail chains tend to integrate transactions between the farm gate and the retail outlet vertically to ensure product quality and safety, traceability, and timely aspects of supply (Brown and Sander, 2007; Dolan and Humphrey, 2004; Key and Runsten, 1999; Masakure and Henson, 2005; Shepherd, 2005). As Dolan and Humphrey (2000; 2004) have shown for the case of vegetable exports from Kenya to the United Kingdom, increasing requirements lead to increases in explicit coordination and vertical integration of farm production, when they are not accompanied by either codification or higher supplier competence.

It can be argued that such reorganization in contemporary agrofood networks does not predominantly lead to an increase in production, which should equate to value creation but, rather, changes the mode of value distribution through a reorganization of power structures (Chossudovsky, 2003; Dicken, 2011; Harvey, 2003; 2006). According to Harvey (2006), redistributive rather than generative economic strategies lead to the movement of assets from the less to the more powerful, or from the more to the less vulnerable. Applied to contemporary agrofood networks, the ongoing trends of concentration lead to less income going to the less-concentrated parts of the network—that is, the producers' end (Humphrey and Memdovic, 2006). Here, disempowerment occurs because farmers risk becoming simple pieceworkers on their land, while corporate enterprises control the means of production and the output, and capture most of the value circulating in the system (Potter and Tilzey, 2007; Wilson, 1986).

The risk for farmers becoming exposed to and suffering from unequal relationships with large firms, if they are integrated into their supply networks, is particularly high in developing countries with a large number of smallholder or subsistence farmers. Here, agrarian structures are less suited to feed into the industrialized model of producing,

processing, and selling food. A number of case studies have shown that small farmers in particular in developing countries struggle to cope with the aforementioned trends in the global agrofood system, which confront them with challenges they find difficult to meet (Markelova et al, 2009; Maskaure and Henson, 2005; Narrod et al, 2007; 2009; Reardon et al, 2009). As a result, only the most productive and competitive, and usually the largest, farmers have the potential to be recast as suppliers of inputs into a much larger network of processors, distributors, and retailers (Potter and Tilzey, 2007; *The Guardian* 2005). Many small and family farmers who are not included in these networks find themselves on the margins, and with increased threat to their livelihoods. This is especially the case in India where smallholder farmers, who cultivate less than 2 ha of land, account for the overwhelming majority of farming households (Misra, 2008).

Smallholder agriculture faces several constraints related to the small size of the operation. These include the inability to create scale economies, low bargaining power because of low quantities of marketable surplus, scarcity of capital, lack of market access, shortage of knowledge and information, market imperfections, and poor infrastructure and communications (Barham and Chitemi, 2009; Biénabe and Sautier, 2005; Mercoiret and Mfou'ou, 2006; Teshome et al, 2009). Against this backdrop, a renewed interest in farmer organization has developed in recent years (Barham and Chitemi, 2009). Much emphasis has been placed on its potential role for poverty alleviation within a so-called 'smallholder revolution' in the 2008 World Bank report (World Bank, 2007a). Most of the collective-action literature emphasizes increasing economies of scale as well as the lowering of transaction and coordination costs as the main benefits of organizing farmers (Bernard and Spielman, 2009; Biénabe and Sautier, 2005). The creation of countervailing power, access to capital markets on favorable terms, risk management, and income improvements are other major reasons for establishing farmers' organizations (Datta, 2004). Most farmer organizations act as multipurpose organizations and offer a wide range of services to their members, independent of the specific type of organization (see table 1).

In view of the trends within global agrofood systems and the strong power concentrations in buyer organizations, farmers' organizations, especially in the Western world, are in the process of adapting their organizational structures. This includes strategies to develop structures as regular commercial companies (Datta, 2004; Singh, 2008). Strategic reorientations are largely reactions to problems at several organizational scales.

Table 1. Services provided by farmers' organizations (source: Hellin et al, 2009; Markelova et al, 2009; Narrod et al, 2009; Rondot and Collion, 2007).

Organizational services	organizing farmers, catalyzing collective action, building (strategic) capacities, establishing internal monitoring systems
Production services	input supply, facilitation of (collective) production activities
Marketing services	transport and storage, output marketing, processing, market information and analysis, branding, certification
Financial services	savings, loans, and other forms of credit, financial management
Technology services	education, extension, research
Education services	business skills, health, production
Welfare services	health, safety nets
Management of resources	water, pasture, fisheries, forests, soil conservation
Policy advocacy	

Cooperatives in particular, as a prominent form of farmer organization, experienced problems in relation to their leadership, member commitment, as well as opportunism and free riding. This has resulted in a lack of performance, as well as problems with financial and managerial resources (Datta, 2004; Singh, 2008). Therefore, cooperatives are developing towards greater market orientation in the form of so-called 'new generation cooperatives' for which examples exist in the agricultural sector of the USA and Canada (Singh, 2008).

Also with regard to developing countries there is a demand for farmer organizations to engage in the improvement of market performance and to create an 'entrepreneurial culture' (Barham and Chitemi, 2009) in rural communities (Lundy et al, 2002; Markelova et al, 2009), because impeded access to markets is viewed as one of the major factors preventing smallholder farmers from prospering in the global economy. However, as Hellin et al (2009) emphasize, there is still a need to clarify: (1) the most appropriate type of farmer organization; (2) the type of crop—undifferentiated or high-value crop—for which organization makes more or less sense; (3) whether the public or the private sector is best-placed to support these organizations; and (4) the conditions necessary to ensure their economic viability.

Within this context of hybrid organizations between institutions of collective action and market-driven private enterprises, we aim to analyze the model of farmer producer companies which is emerging as a new type of formal farmer organization in the agricultural sector of India. Producer companies are an example of changes towards more profit-oriented forms of organization arising among farming communities. In India these changes can be seen as reactions to a new market and regulatory environment. Unlike top-down models of smallholder market integration, such as contract farming or outgrowing, producer companies create and nurse an entrepreneurial spirit at the community level. By leaving production decisions and major assets in the hands of farmers, they contribute to their reempowerment. At the same time, producer companies try to enable access to new markets by establishing flexible linkages to highly specialized demand.

3 The reorganization of agrofood production in India

These new forms of demand are largely the result of socioeconomic and sociocultural changes within India. Throughout the last two decades, this country has experienced significant changes within both its economy and its society. However, despite the decreasing contribution of agriculture to the Indian GDP, its role as a source of employment remains significant: 55% of India's economically active population was employed within the agricultural sector in 2009 (FAO, 2010). This figure had dropped only very slowly over the course of the past three decades, as it was 68% in 1980 (FAO, 2010). In this context the number of people depending on agriculture and allied activities for their livelihoods increased by around 35% in the past three decades, from 434 to 585 million between 1979 and 2009 (FAO, 2010).

One key characteristic of India's agricultural sector is the fragmentation of landholdings: around 80% of India's farmers cultivate small and marginal holdings of up to 2 ha. For vegetable crops the share of small and marginal holdings increases to around 90% (Datanet India, 2010). Over the past two decades there has been an increase in the total number of small and marginal holdings, while the trend in the case of medium and large holdings has been the reverse (see table 2). Between 1995/96 and 2005/06, the number of marginal holdings increased by around 17.6%, while the total area cultivated under marginal holdings increased by only 13.9%. In 2005/06, 83.3% of all holdings were small and marginal, and covered 41.1% of India's arable land (see table 2).⁽¹⁾

⁽¹⁾ In India, the financial year runs from 1 April to 3 March.

Table 2. Number and area of holdings by size group in 1995/96 and 2005/06 (source: Government of India, 2010).

Size of holding	Total holdings			
	1995/96		2005/06	
	number (million)	area (million ha)	number (million)	area (million ha)
Marginal (<1 ha)				
total number	71.12	28.1	83.7	32.0
percentage of total holdings	61.6	17.2	64.8	20.2
Small (1–2 ha)				
total number	21.7	30.7	23.9	33.1
percentage of total holdings	18.7	18.8	18.5	20.9
Semimedium (2–4 ha)				
total number	14.3	39.0	14.1	37.9
percentage of total holdings	12.3	23.9	10.9	23.9
Medium (4–10 ha)				
total number	7.1	41.4	6.4	36.6
percentage of total holdings	6.1	25.3	4.9	23.1
Large (≥ 10 ha)				
total number	1.4	24.2	1.1	18.7
percentage of total holdings	1.2	14.8	0.9	11.8

This fragmentation in Indian agriculture creates problems for the supply side as well as the demand side of the market. On the supply side, farmers of small holdings are often unable to apply knowledge and technologies. Low levels of technology input usually result in low levels of output productivity, low incomes, and low creation of surplus value to support the family livelihood. On the demand side of the markets, it is often difficult to find a sufficient supply of produce meeting certain quality standards at the required time. In addition, large-scale distribution organizations, such as the evolving retail chains in India, are searching for alternatives to the existing supply models, in which a number of independent intermediaries such as small aggregators, traders, and wholesalers are also involved between smallholder production and retail distribution (Trebbin and Franz, 2010). Therefore, supplying a growing domestic or export demand for, for example, high-value produce, from smallholder agriculture is a challenge in terms of constant volumes as well as quality.

A common mode of production in many developing countries, especially in the case of high-value produce, is the implementation of contract farming or similar forms of vertical integration of production. In this case, ‘vertical integration’ has to be understood as captive supply relations or explicit coordination of production processes (see section 2). In India, until 2003, such practices were prevented by the Agricultural Produce and Marketing Act (APMA) 1951. After the APMA amendment in 2003, almost all Indian states removed restrictions which constrained wholesale of agricultural commodities to only state-regulated markets and promoted the setup of markets in the private and cooperative sector. This happened in a context in which the national government implemented neoliberal policy strategies following almost two decades under the “indirect rule of the IMF” (Chossudovsky, 2003, page 169). As a result, contract farming is expanding, for example, in the fertile and irrigated areas of Punjab and Maharashtra, while the establishment of a regulatory framework lags somewhat behind (World Bank, 2007b, page 51).

In this current setting, without effective organization, Indian farmers “are likely to face either a life of continued poverty and exploitation at the hands of those controlling

value chains, or progressive isolation from active involvement in economically viable agricultural activities” (Croucher, 2010, page 6). Therefore, and in view of the various problems facing Indian farmers and agriculture as a whole (such as sluggish growth, stagnating productivity, ecological degradation of the production base, and climate change), there is a need not only to improve the situation through technology-driven solutions but also through institutional reforms.

In an attempt to move into this direction, the Indian government introduced a new form of organization which offers farmers the opportunity to compete with other business organizations: the Companies Act 1956 was amended on 6 February 2002. Since then, producer companies have been recognized as a fourth form of corporate entity—alongside companies limited by shares (public limited and private limited companies), companies limited by guarantees, and unlimited companies. The new legislation ensures that producer companies maintain unique elements of cooperatives while the regulatory framework is similar to that of other company types. By the end of 2009 around 150 producer companies were established across India, either as start-ups or through the transformation of existing cooperatives (AOFI India, 2009).

“The concept of producer companies in India is a very recent development. These are just like cooperatives, but they are registered as companies. The requirement is that the members, the shareholders of this company, are producers themselves. No nonproducer can be a member of the company. They get together; they combine their share capital, register as a company, employ a professional to run the company and do value addition, whatever is possible. Some of them even have their own processing units” (interview with representative of the National Bank for Agriculture and Rural Development, NABARD, in 2010).

The emphasis on the collective spirit of these new producer companies stems from the idea that groups of stakeholders (that is, primary producers) are best suited to commonly and sustainably manage and develop community resources such as land and water. As land and water scarcity are likely to be the largest constraints in Indian development, large corporate enterprises engaged in Indian agriculture, through organizational forms such as contract farming, have used these resources rather exploitatively (Singh, 2002). In contrast, farmers' organizations are, as outlined in section 2, concerned with a wider range of activities, such as environmental conservation, in addition to their overall business goals. Small farmers and their organizations can, therefore, be regarded as critical for local food security and as managers of key environmental services in the self-interest of those living from and working the land (Seville et al, 2011).

However, the reason why producer companies as a new form of farmer organization was needed in India is only partially explained by the changing economic and regulatory environment. It also correlates with the decline in success and the increasing problems of cooperatives. Cooperatives are a very prominent form of collective action in agriculture, and have long been established in India, and especially Maharashtra, in a vast range of sectors. However, the direct benefits for the farmers involved and confidence in this form of organization has continuously decreased over the last decades.

“Cooperative farming was up to the 1970s, 80s very successful. They tried to be entrepreneurs, to improve the productivity, the land cultivation and to improve the incomes of farmers. However, that attitude has gone. There is nowadays an exploitative attitude they have developed” (interview with representative of EPW research foundation, in 2008).

To prevent the same problems occurring in the cooperative sector, the producer-company legislation contains some important changes. Government control is very limited, as no state representative is part either of the organization as such or of

its management. Producer companies are formed only among primary producers, that is, only people engaged in activities connected to primary production can join the company. The minimum number of founding members is ten individual members, or two institutional members such as self-help groups (SHGs), cooperatives, or any other formal farmer organization. The seed capital of the company is generated through an initial sale of shares. The producer companies studied made it an obligation for farmers interested in becoming a member to buy at least one share in the company. The share value, on average, is very low, ranging from 50 to 200 Indian Rupees (information gathered on field visits). As it is difficult to raise high levels of capital stock among small-scale producers, the Companies Act allows the suspension of the requirement for capital companies to have a minimum capital stock of 100 000 Indian Rupees, so that producer companies are free of this requirement. Instead, the liability of the members is limited to the amount they have spent on shares. Hence, farmers do not risk losing their land or any other assets should the company go bankrupt. Shares cannot be publicly listed and traded; they are only transferable among members. This ensures that successful producer companies do not risk takeover by other companies or TNCs (interview with the Agricultural Finance Corporation, AFC, in 2010).

Managerial capacities are regarded as key capacities for farmer organizations integrated into contemporary agrofood networks, and are generally hard to find among smallholder farmers (Barham and Chitemi, 2009; Biénabe and Sautier, 2005). Therefore, the producer-company legislation requires the appointment of a professional manager, at least in the form of a chief executive, selected by the board of directors. Every producer company must have a minimum of five but not more than fifteen directors. The members of this board of directors are appointed from within the participating farming communities. Hence, the farmers also have direct voting rights, which is a source of democratic power. The directors are a group of members of the village community and are, in consequence, deeply embedded within local social structures. This kind of recruitment practice and representation ensures leadership acceptance from within the community, and is a crucial point in successful farmer organizations (Wilson, 2009).

In producer companies, the professional manager's wages are variable: they are basically paid an incentive on their business performance. However, fieldwork evidence suggests that the recruitment of qualified managers is a major problem for most Indian producer companies:

“The professional leadership is a major problem. In this model there has to be a manager, or a CEO. Most producer companies I visited had either no one in that capacity or, if there was one, the handling and experience was not very good” (interview with the Indian Tobacco Company, ITC, in 2010).

The primary goal of producer companies is to link smallholders to markets. Therefore, they predominantly work on the downstream end of the production system (see table 3). The benefits of the entire concept, however, can be seen both on the supply side as well as on the demand side of the market. Individual smallholders would be unable to deliver directly to and interact with large-scale customers. The producer-company organization replaces intermediaries between market participants. Through this, profits which otherwise would be paid to intermediary organizations such as wholesalers are captured by the farmers themselves because they are shareholders in the producer company. In addition, through the collective market appearance, smallholders are able to access market information in terms of required standards and prices and to integrate this information into their production planning and methods.

Producer companies are also implementing programs to upgrade farmers' production methods. In particular, production organization, production planning, and knowledge

Table 3. Fields of assistance from producer companies (PCs) to farmers.

Field of assistance	Smallholder farmer	Producer company
Marketing	small volumes, limited bargaining power	aggregation and marketing
Market information	limited access, but increasing with the spread of mobile phones	direct links between PC and potential buyers
Transportation	often time-consuming and/or costly	transportation is organized within/facilitated by the PC
Cold storage	no facility	set up of cold/ripening chambers as shared infrastructure
Irrigation	no irrigation facility, or dependence on the well owner/water supplier	establishment of community wells; construction of collecting tanks; laying of pipes
Extension services and technology	no access/one-sided information	farmers' education and regular training sessions from farmer to farmer, preservation of traditional farming practices
Input supply	need to buy in the market, credit problem	provided by the PC at lower than market price through bulk buying, in-house production of organic manures and pest killers; links to banks
Production planning	short time horizon	constant information flows of market processes to the farmer—allow a more systematic planning approach
Excess production	risk of distress sales or waste	further processing, value addition
Branding	none	brands might be introduced by the PC or the buyer

and technology transfers are critical aspects increasing the chances for farmers to work profitably and, therefore, to enhance their livelihoods. This also involves the timely supply of production inputs, such as seeds and fertilizer. These inputs are procured centrally in bulk, and can therefore be supplied to farmers at lower cost. This procurement and supply of inputs also includes the organization and facilitation of finance credits to farmers to allow such procurement. With these activities listed in table 3, producer companies cover much of the services which farmer organizations generally provide for their members (see also table 1). This is an important aspect, because it means that concentrating on generating a profit in a market does not mean that an organization cannot be of greater service to its members, the community, and the environment. As such, producer companies prove that organizations beneficial to the public need not necessarily be nonprofit organizations.

4 The Vasundhara Agri-Horti Producer Company (VAPCOL)

As stated in the literature on collective action and farmers' organizations, facilitating agencies, such as nongovernmental organizations (NGOs), have an essential role—not only in the establishment of any form of producer organization, but also in organizing and maintaining its operations (Barham and Chitemi, 2009; Hellin et al, 2009; Kaganzi et al, 2009; Markelova et al, 2009; Murray, 2008; World Bank, 2007a). This is also true in the case of VAPCOL, which has been promoted by an Indian NGO, the Bharatiya Agro Industries Foundation (BAIF).

Our case study, the Vasundhara Agri-Horti Producers' Company Ltd (VAPCOL), transformed into a producer company through the merger of various farmer organizations,

including cooperative societies, farmers' associations, and SHG federations. VAPCOL commenced its operations in 2008, and within its first year had already generated a turnover of 34 million Indian Rupees through the sale of mango and cashew products (BAIF, 2011). Currently, VAPCOL includes thirty-seven members from districts in the Indian states of Gujarat, Karnataka, Madhya Pradesh, Maharashtra, and Rajasthan, but is centrally managed from its headquarters in Pune, Maharashtra (BAIF, 2011). It is one of the largest producer companies presently existing in India. The internal organizational structures, therefore, are relatively complex, but are similar in the different federal states. Our case study is based on the analysis of the VAPCOL Maharashtra branch.

Figure 1 outlines the hierarchical organization and structure of VAPCOL Maharashtra. Groupings are formed at different organizational and spatial scales. The basis of the organization is individual farmer families (*wadi* families). Their average annual family income lies between 10 000 and 30 000 Indian Rupees (MITTRA, 2008). Between eight and twelve families form together into *wadi tukdis* (participant groups). As *wadi tukdi*, they are able to access finance capital, as group-based microcredits, and market information. The next organizational level is the *vibhag*, which includes ten to twenty *wadi tukdis*. This level of organization is responsible for the collection of produce from and the distribution of revenues back to *wadi tukdis*.

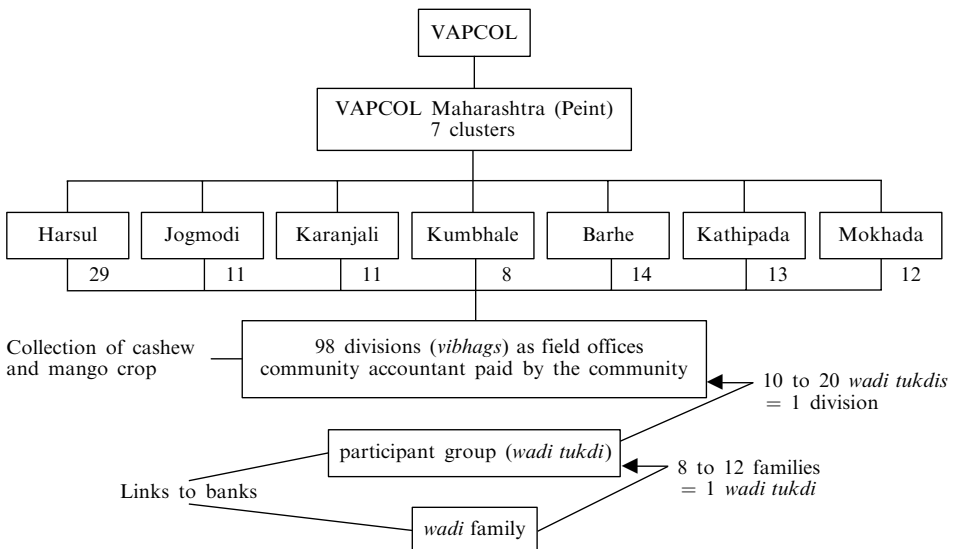


Figure 1. Organizational structure of Vasundhara Agri-Horti Producer Company (VAPCOL) Maharashtra.

In total, there are ninety-eight *vibhags* within VAPCOL's Maharashtra branch, which are bundled into production clusters. Within Maharashtra there are seven of these clusters of farming activity. These clusters, which are managed from a headquarters in Peint, in Nashik district, form VAPCOL Maharashtra. In September 2010 a total of 13 848 families in 258 villages were organized into the Maharashtra branch (MITTRA, 2011). As shown in table 4, the cultivated land totalled 4975 ha (12 294 acres), in which 67% of the families worked on land of around 0.40 ha (1 acre), 31% of the plots had an approximate size of 0.2 ha (0.5 acres), and only 2% of the plots reached 0.61 ha (1.5 acres). The average *wadi* size was around 0.34 ha (0.85 acres) (MITTRA, 2008). The incongruity between the number of *wadi* and the number of participating families in table 4 stems from the fact that some of the participants are

Table 4. Vasundhara Agri-Horti Producer Company Maharashtra participant coverage details (source: MITTRA, 2008).

Name of the block	Name of the cluster	Number of villages	Number of participating families	Estimated wadi areas (rounded)			Total area (ha)
				0.20 ha (0.5 acres)	0.40 ha (1.0 acres)	0.61 ha (1.5 acres)	
Peint	Harsul	77	3 681	985	2 667	55	1 297
	Jogmodi	30	1 363	515	905	51	496
	Karanjali	31	1 716	355	1 358	76	661
	Kumbhale	30	1 037	354	793	11	395
Surgana	Barhe	35	2 475	873	1 589	74	855
	Kathipada	32	1 891	559	1 301	36	654
Mokhada	Mokhada	23	1 685	726	1 017	17	562
Totals		258	13 848	4 367	9 630	320	4 920

landless families, and some of the families are also working together on one wadi. Since the agricultural sector of India predominantly consists of smallholders, this hierarchy of VAPCOL outlines how producer companies create structures to manage the enormous number of actors involved. It also shows that producer companies allow even very poor, marginalized families as well as very small farmers, who would otherwise be ignored as potential business partners, to participate in a marketing enterprise.

VAPCOL has a focus on the marketing of mango and cashew nuts. In Maharashtra in the case of cashew nuts, the produce is collected at vighag level and transported to one of the four village-level processing units set up by this producer company. The main activities here are the boiling, cutting, peeling, and drying of the cashew nuts [see figure 2(a)]. From there, the semiprocessed nuts are transported to VAPCOL's headquarters in Peint, where they are graded and packed for sale under VAPCOL's own brand—Vrindavan.

Whereas the value-creation processes for cashew nuts are primarily conducted within four decentralized processing units, the processing of mango is conducted in a single modern processing facility in Peint [see figure 2(b)]. In the case of mango processing, value creation is a centralized process because of the relatively high demand for finance capital required for the purchase of the machinery, as well as for hygienic reasons.

VAPCOL's main goal as a producer company and multistate marketing company is to establish market linkages between producers and corporate bulk buyers. They conduct negotiations with buyer organizations centrally, and transfer information on



Figure 2. [In colour online.] A landless woman peeling cashew nuts (a) and the mango-processing facility in Peint (b) (source: (a)—author; (b)—BAIF, 2011b).

market demand to lower spatial and organizational scales. The relatively loose linkages within the network of participating farmers allows a relatively flexible reaction to changes in demand. The potential to react on the elasticity of demand, therefore, increases the chances of avoiding unfavorable market lock-ins of farmers.

“Producer companies organize farmers. They link them right up to the final market. For example: the Pune area farmers may be having some 80 000 hectares under their command. Basically, they are growing vegetables and flowers. They can be organized into some of a network. The network plans and tells them: “this is what is feasible for us. If we do this, probably we get the best out of the market next year. These kinds of flowers we will have to grow in this season and this is what we should do in the vegetable growing area’. They tell people how to produce and then help them to bring their produce to a place where it could be processed, preserved, and then taken up for further marketing. The second part is to invest in processing capacities. It is very difficult to do a diversified cropping in some regions. So you might do the same crop, but you need to know how to safely take out the excess production” (interview with an independent agroconsultant, in 2008).

In 2008 VAPCOL managed to organize the sale of the mango crop through various channels. Through their organizational market proximity, they were able to sell 21% of the entire crop (around 54 tonnes) to ITC, which also operates as a large food retailer within India. Of the remaining crop, 47% was sold to local traders and 32% consumed at household level (by the wadi family or extended-family members). Prices realized with corporate buyers in 2008 were considerably lower than those paid by local traders. For semiripe Kesar mangos sold in bulk to ITC, the retail company paid only 15 Indian Rupees per kilo and 8 Indian Rupees for semiripe Rajapuri mangos. In the open market the farmers realized prices between 35 and 50 Indian Rupees per kilo for Kesar mangos and 15 to 20 Indian Rupees per kilo for Rajapuri mangos per kilo (MITTRA, 2008). As reported by Singh (2010), for the following year VAPCOL closed a deal with ITC for 40% of the VAPCOL farmers’ mango crop, for 15%–20% more than the market price. This agreement with ITC included various processes along the value chain, including the production and aggregation, as well as the sorting and grading of produce.

As this example shows, prices vary, with differing results for the producer company in relation to the average market price each year. However, selling bulk volumes to larger business partners at preagreed prices also has significant advantages for actors on both sides of the market. For example, on the supply side, this allows farmers some economic-planning security and reduces dependency on short-term market changes: highly volatile and fluctuating market prices are common in India’s agrofood markets. Especially during times of peak harvest for perishable produce, there is an immense volume of produce available on the market: this affects the price mechanism and often results in extremely low prices levels and negative incomes for farmers. In these circumstances, sustaining the livelihood of the farming household and making investments for the new season become problematic. To avoid this market situation, VAPCOL’s efforts to generate preagreed contracts for large quantities of perishable produce help farmers to plan their economic situation for longer periods.

The organization by VAPCOL, as well as the value addition and collective marketing done by the company, had positive effects on participating farming families in addition to opening another marketing channel for them. These effects are related to the producer companies’ additional beneficial services for its members (see table 3). The introduction of vegetable cultivation, for example, of tomatoes, radish, bitter gourd, chilli, beans, cucumber, and pumpkins in kitchen gardens, has not only improved the nutritional basis of the families but also allows them to earn extra income through

their sale in local markets. In addition to the introduction of new marketable crops among participating families, soil-conservation and rainwater-harvesting methods were introduced in the community form via regular training and farmers' meetings—*kisan melas*. In similar meetings, called *mahila melas*—women's meetings—basic health and hygiene issues were discussed.

These core and additional activities conducted by VAPCOL improved the awareness of the participating families of a wide range of issues. Most importantly, VAPCOL also generated employment opportunities among the community, and hence allowed wadi families to improve their economic situation and, at the same time, reduced labor migration: 42.5% of the participating adult family members had employment through VAPCOL for between 8 and 12 months in the company's first year. Another 38.7% were employed for between 4 and 8 months. Only 6.5% of the participants had no additional employment opportunity during this time period (MITTRA, 2008). This creation of employment opportunities has led to a considerable reduction of labor migration, both in time and in distance. Before VAPCOL started, 865 family members were migrating to find labor for a period of 80 to 180 days a year and travelled as far as 45 to 180 km. After VAPCOL's first year, the number of migrating participants decreased to 211; the number of days away fell to between 60 and 90, while the migration distance remained almost the same (MITTRA, 2008).

And producer companies like VAPCOL can have positive effects not only among the farming community, but also on the demand side of the market. There they offer the significant advantage to the buyer that transaction costs for procurements are lower when dealing with a single representative of producers. In addition, buyers will get an agreed volume of produce at prearranged prices and times. This makes this form of business transaction relatively calculable for buyers; otherwise, they would have to search market places to secure and satisfy their demand. Therefore, the long-term goal of VAPCOL is to intensify and create more links between participating families and corporate buyers.

“There are so many small farms there, hardly 1 hectare plots. I don't see a large-scale movement towards large farms in the near future. It is going to be the other way. But to have many, many small farms working for you as a buyer also has potential for a lot of flexibility. If I am a supermarket and I want 100 kilos broccoli, fresh corn of about 2 tonnes, and maybe 500 kilos of egg plants, there is no problem for this within the given frame of a producer company. If you take a large farm, they will deliver on contracts only. You need several farms to get all this. For a producer company it is no problem” (interview with representative of MITTRA in 2008).

This interview quote highlights the potential for the producer company to organize a network of individual farmers to react relatively flexibly to changes in market demand. The producer-company concept allows farmers to obtain their independence and to improve their position of power within the production system. Given the increasing flexibility requirements, producer companies can successfully collaborate with larger organizations of retailing and processing industries. In the medium to long term, this form of producer organization might allow farmers to move into a more relational form of value-chain relationship with corporate large-scale buyer organizations.

5 Conclusions

The start of the Indian IMF-inspired national policy framework of neoliberal orientation in 1991 also changed the potential ownership structure and access to community resources. In general, this policy orientation represents an increasing threat of farmers being expelled from their land—which is often their only economic resource and security. The disempowerments of smallholder farmers and the takeover of primary

production by large private enterprises has occurred within the integration of Indian agriculture into the global economy. Nevertheless, and paradoxically, the importance of smallholder agriculture is emphasized not only in international strategy papers dealing with rural development and poverty reduction, but also in the Indian government's Eleventh Five Year Plan. Indeed, the Indian government mainly supports private enterprise activity in agriculture, but also tries to encourage groups of primary producers to connect with corporate buyers. A strategic step in this direction has been the introduction of the concept of 'producer companies' which try to establish principles of profit-oriented contemporary business organizations within farming communities, to connect these with corporate buyers from the rapidly transforming Indian retail landscape.

The concept of producer companies can be analyzed within the general trend of farmer organizations transforming into more market-oriented and business-oriented forms of institutions. It represents a tool for smallholder farmers to get organized and to reap benefits—not only from joint action, but also from links to evolving high-value markets in India's urban centers. The organizational structure of producer companies borrows much from the cooperative idea, but they are professionally managed to ensure economic viability and to prevent political leverage. The success of producer companies, however, depends on more or less the same factors as for cooperatives, because it depends on farmers' commitment to the company. The integrity and quality of the leadership, its acceptance within the community, as well as the market environment are the most crucial factors for a successful producer company. It has to be economically beneficial for the participating farmers to market their excess production through the company. At the same time, the company has to provide appropriate knowledge to generate excess production from within the community in order to maintain linkages to the target markets. Nevertheless, concerns can be raised when it comes to the role of NGOs in the support of producer companies. Setting up a producer company is a lengthy and demanding undertaking, which cannot be done on smallholders' individual initiatives alone. Nevertheless, there is a need to define limits of support, especially when the aim of the new model is to establish competitive and independent business units.

Furthermore, the fact that, to date, the concept of producer companies has captured so little attention, even in India needs to be addressed. The Indian government does not actively promote those companies, but leaves their setup to civil society organizations. This suggests that there is little belief on the government's side in this concept as an alternative to the privatization of agriculture as designed by the WTO. However, with farming being a rather risky enterprise due to the natural processes underlying it, and assuming that these risks will increase over time, producer companies might become attractive trading partners for corporate buyers seeking to avoid the risks of production themselves. Producer companies have the advantage of flexible production methods, they integrate local knowledge, are locally embedded, they are more sustainable with regard to the environment and to the livelihoods of the people involved, and, last but not least, they leave the means of production and most of the decisions related to the production process in the hands of the farmers. In this way, they empower smallholder farmers while giving them the opportunity to deal with contemporary market actors and to enter high-value markets within the Indian economy and abroad.

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