

Producer Company: An Innovative and Enabling Institutional Form for Producer Owned Enterprises



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Producer-owned enterprises are important as they provide a powerful countervailing force against any possible exploitation of smallholder producers by investor-owned corporations in a market driven economy. Hitherto cooperatives have been the only institutional alternative available for forming a producer owned enterprise.

While the dairy cooperatives have achieved much, there is far more that must be achieved to ensure that large numbers of dairy producers are brought into the mainstream of economy. Dairy cooperatives network in India covered on an average about 23% villages only procuring about 19% of the marketable surplus leaving a large number of producers outside their ambit. Coupled with this and restrictive provisions in cooperative legislation, many dairy cooperatives are finding it difficult to cope up with the growing competition. These are, threatening the efficacy of dairy cooperatives' to sustain as a strong

countervailing force in the market. Administrators rather than marketing professionals continue to manage complex cooperative dairy business facing stiff competition from local, regional, national and global players. And also governance of cooperatives is being increasingly undermined by politicization.

Keeping in view the need for an enabling legislative framework for producer organizations, the Companies Act has been amended providing for formation of Producer Companies. The Producer Company legislation combines the institutional and philosophical strengths of cooperative (ownership limited to users; limited interest on shares; no trading of shares, patronage not capital based) with the flexibility and autonomy of company law.

Some of the enabling features of the producer Company are:

- Simplified Registration process
- Restricted powers of the Registrar compared to Cooperative Act
- No restriction of state boundaries in membership and operations

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- Expressed provision of active membership and restricting rights of non-users
- Flexibility of mobilization as well as investment of fund
- Stringent provision for regular and timely election and audit
- No provision of Government Nominee of board
- Provision of Expert Directors on Board
- Protects business autonomy and professionalism as external controls in any nature are removed.

Currently there are over 5000 Producer Companies registered and of these about 150 Producer Companies are in Dairy Sector. Sadly not all of these companies are doing well. In fact a large number of them have become unviable or defunct. It makes it amply clear that having an enabling legislation is essential but not sufficient to ensure success of an enterprise.

NDDDB Dairy Services (NDS), a subsidiary of National Dairy Development Board, has taken initiative in popularising Producer Companies as competitive, Inclusive, sustainable and scalable enterprises, and facilitated setting up of about 15 Milk Producer Companies (MPCs) so far. Of these five MPCs (Maahi in Gujarat, Paayas in Rajasthan, Shreeja in Andhr Pradesh, Saahaj in Uttar Pradesh and Bani in Punjab) are over five years of age and together collect about 30 Lakh kg of milk per day from a membership of over four lakh producers. These five companies have a share capital of over Rs100 crore contributed by the members in such a short span with a

collective turnover is over Rs5000 crore. The other ten MPCs are very nascent but growing fast.

NDS facilitated MPCs have adopted some important design principles to ensure member centrality and sustainability of these companies in long run. The design principles are:

- Business only with members.
- Active user membership and their participation in business and governance - No Free Riders.
- Member equity in proportion to patronage i.e. their milk supplies- 'building skin in the game'.
- Patronage based member classes and member class representation on the Board to ensure inclusiveness in governance.
- Appropriate mechanism for member communication and grievance redressal.
- Professionally managed business operations and economy of a scale sufficient to ensure viability and self-sustenance at the earliest and continuous capacity building of stakeholders.
- Leveraging technology for information and data management to ensure transparency and deliver need based services. (Member payments through individual bank account).

Producer Company form of enterprise holds a great future as Producer Owned Enterprises in India for the farmers especially the small holders. But it needs to be set up, enshrined in its DNA, certain core design principles to ensure success and sustainability.



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