

# FARMING FUTURES

Reimagining Producer Organisations in India

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## DYNAMICS OF INCUBATING A MULTI-COMMUNITY, MULTI-COMMODITY, MULTI-LOCATION FPO

The case of Krushidhan Producer  
Company in Gujarat

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# DYNAMICS OF INCUBATING A MULTI-COMMUNITY, MULTI-COMMODITY, MULTI-LOCATION FPO

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## 1. Introduction

### 1.1 Context

Managing scarce water resources for farm productivity is critical for Gujarat's 60% population dependent on farm-based livelihood. Ahmedabad-based Development Support Centre (DSC) addressed this issue by supporting farming communities to implement participatory irrigation management (PIM) in irrigated areas and watershed management in dryland areas. It soon became a national resource agency for water management in agriculture, having extended its work to Madhya Pradesh, Maharashtra, and Rajasthan.

DSC realised that enhancing water management alone was not enough, as agriculture was plagued by several problems. Indiscriminate use of chemical fertilisers and pesticides affected soil health, micro-climates, and farmers' health. Uncertain weather conditions exacerbated by climate change had made it more risky. Lack of market information left marginal farmers at the mercy of traders. These issues were compounded by the near absence of an agri-extension system that could guide marginal farmers constituting 70% of farmers.

It is in this context that Krushidhan Producer Company Ltd. (KPCL), registered in December 2013, was visualised as the central part of a strategy that would transform agriculture. The slogan "*takau kheti – kamau kheti*" (sustainable farming – profitable farming) was adopted even before the company was born. Although KPCL had restricted the number of shareholders, its services were available to all farmers within the target area of 190 villages

in northern and central Gujarat. Given its unique mission KPCL became a multi-location, multi-commodity, multi-community farmer producer company (FPC) by choice. This case explores the challenges of incubating such an institution over a period of six years and making it financially independent. It also shows how the incubator and incubated organisations can support each other to achieve their common mission.

KPCL received early recognition at the state and national levels for its impact on marginal farmers of the region. It was conferred the Best Agri-preneur Award at the 7th National Conference, Game Changer Awards (2017), and FPO Impact Award from Access Livelihood Services (2019).

### 1.2 DSC's theory of change

In 2008, DSC developed a systematic plan for promoting sustainable and profitable agriculture with the following key objectives: *productivity enhancement, cost reduction, risk mitigation, and increased price realisation through value addition and market linkages*. Collective action and enterprise was necessary to make its initiatives sustainable. It therefore visualised a three-tier organisation comprising farmer's clubs and SHGs at the hamlet level, organising committees at the cluster level and a FPC at the regional level (Figure 2.1).

The implementation of such a plan became possible with financial support from RBS Foundation through a ten-year programme called LEP-NRM (Livelihood Enhancement through Participatory Natural Resource Management).

## 2. Incubation of the producer company

### 2.1 Overview

The first phase of four years (2008–11) represents the pre-KPCL phase, during which much of the spadework was done. In phase 2 (2012–16) the company was launched on 2 December 2013. During phase 3 financial and other supports to the company were continued while it explored various options for revenue generation. The company became financially independent from 1 October 2019. Figure 2.2 shows the overlap of the LEPNRM support during the incubation stages of the company.

The coverage of farmer participants and their institutions as of 2019:

- Farmers in targeted area      45,000
- Farmland covered (ha)      52,650
- Villages      190
- Kisan Clubs      338
- Woman SHGs      185 (78 engaged in productive activities)

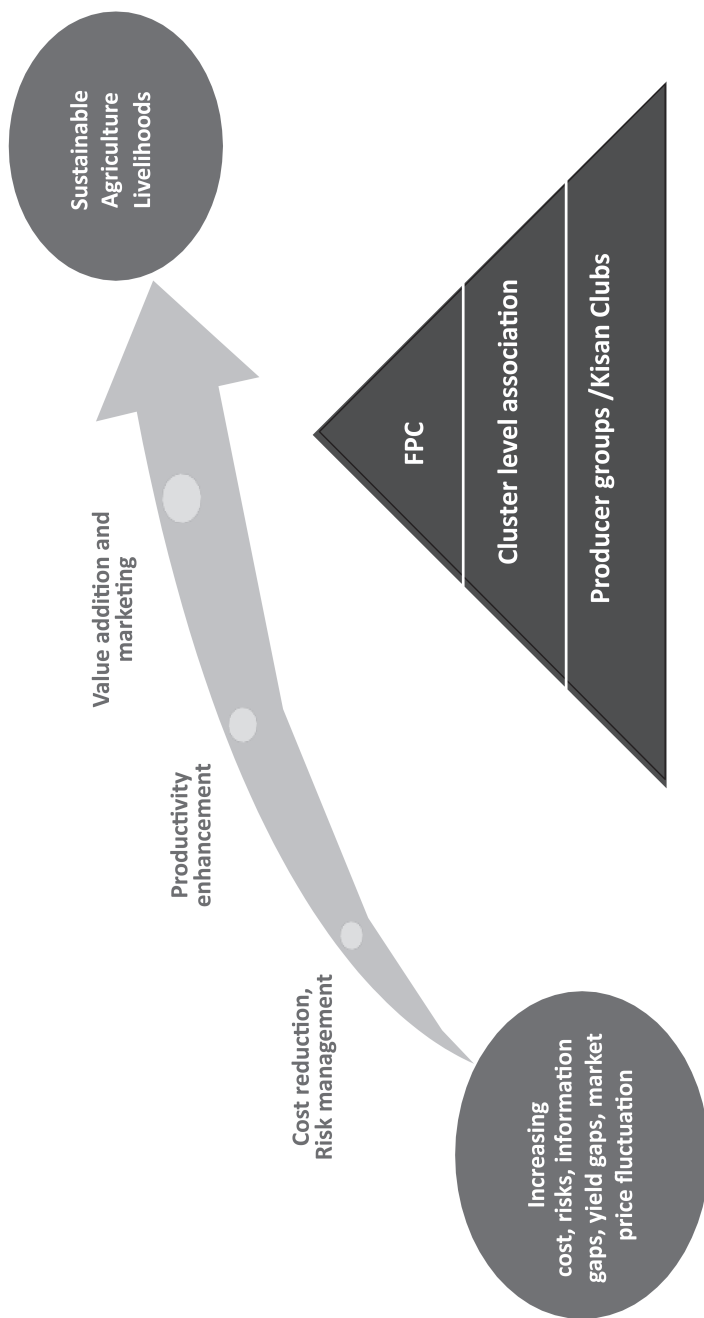


Figure 2.1 DSC's theory of change  
(Source: Development Support Centre)

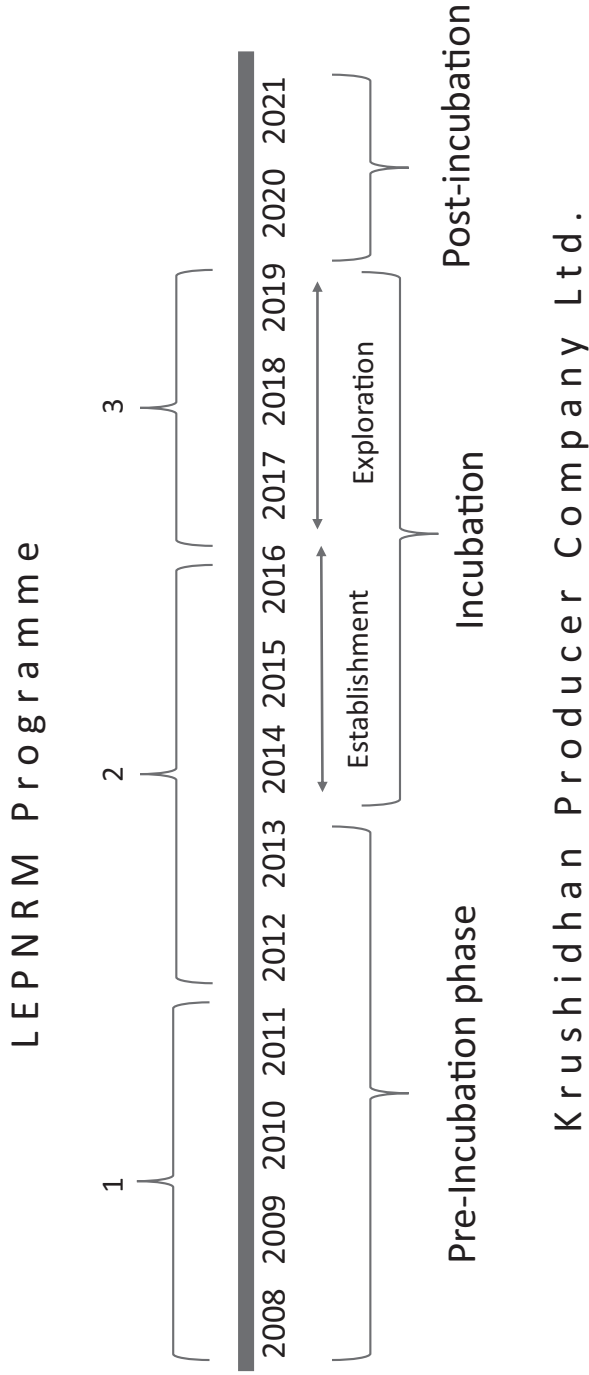


Figure 2.2 Timeline of LEPNRM including incubation of KPCL

- Farmers patronising KPCL 14,000
- KPCL shareholders 4,409

The total amount spent under LEPNRM was Rs. 27.8 million of which Rs. 21.4 million was towards extension work and Rs. 6.4 million towards incubating KPCL.

### 3. Phases of development

The story of KPCL's seeding and incubation is told in three phases, as described next:

- 1 Pre-incubation – Building the base
- 2 Incubation
  - a) Establishment
  - b) Exploration
- 3 Post-incubation – Financial independence

#### 3.1 *Pre-incubation (2008–11)*

This was largely devoted to laying the ground for the farmer producer organisation (FPO) and rebuilding the agricultural system to make it viable and sustainable. It was used to build an agri-extension system consisting of a team of para-workers providing the latest information about non-chemical and organic methods of farming, to Kisan Clubs (KCs) and women's SHGs at the village level. This was achieved through demonstrations/trials in farmers' fields, exposure visits, farmer meetings/workshops, training, night video shows, awareness campaigns, among other methods of extension.

Package of practices (PoPs) and new technologies were demonstrated in more than 5,000 farmer's fields and adopted by 15,000 farmers, indicating a multiplier effect of three. Crop productivity increased from 20 to 70% generating increased interest and ownership among farmers.

#### 3.2 *Incubation (2013–19)*

##### 3.2.1 *Establishment (2013–15)*

This phase saw the strengthening and expansion of the agri-extension system. It also saw the formal *launch of KPCL in December 2013*. The Board of Directors (BoD) were provided suitable training, covering financial and legal literacy, collective decision-making, market exposure, and good governance. Backward linkages were established to deal with aggregated demand for agri-inputs.

The company promoted production of certified and foundation seed for wheat crop by its own farmers in 2015, thereby benefiting both farmer producers and farmer consumers. In the same year KPCL got into Minimum Support Price (MSP) scheme on behalf of groundnut producers on a pilot scale, aggregating 380 MT from 15 villages, valued at Rs. 15 million. The positive impacts through better price realisation prompted more farmers to become shareholders.

### 3.2.2 Exploration (2016–19)

This phase of incubation was focused on building strong networks with Krishi Vikas Kendras (KVKs) and agri-universities, so that para-workers and KCs could directly approach them for help and guidance in the coming years. Demonstrations and other extension activities were implemented through *convergence* with government agencies like KVKs and Agricultural Technology Management Agencies (ATMAs). A number of KPCL farmers were recognised and awarded by KVKs at the district level for their contribution to agriculture extension.

Special efforts were made to address the issue of climate change. Among these, short duration varieties of wheat and castor found ready acceptance. Solar-powered group fencing proved effective for protecting cash crops from wild boar and other ungulates. Innovative organic farmers were supported for both production and marketing. However, adoption of organic farming by 2019 was still partial and mainly for home consumption. Multiple reasons were identified and are being addressed to hasten adoption.

KPCL began aggregating produce for better price realisation. Having had a positive experience with MSP in the previous phase, it took this up on a larger scale. By 2017–18, the company's sales turnover reached Rs. 161.9 million. However, this time the company had negative experiences during implementation, including non-reimbursement of transport expenses, which affected its profitability. As a result, gross revenue fell to Rs. 19.45 million in 2018–19 due to non-participation in MSP procurement.

Two other initiatives taken during 2017 were significant. (a) Maize procured from Meghraj farmers by KPCL was used to produce cattle feed and supplied to Himmatnagar and Modasa farmers. Maize farmers got better prices while the others got cattle feed at cheaper rates. (b) There were production and sale of groundnut seed (without certification) to farmers in the same region. By 2018, the professional team of KPCL and the BoD were seriously looking for an *anchor activity* that would generate enough income for the company to cover its salary expenditure and overheads which were estimated at Rs. 0.25 million. In the rabi season of 2019, KPCL took up contract farming with Iscon-Balaji Pvt. Ltd. for potato crop, on a pilot scale, which turned out to be a success. The following year, this was scaled up four times, resulting in income that covered more than 50% of the salary and

overhead expenses. At the time of writing, this activity was poised to replace MSP as an anchor activity that would keep the company financially viable. But Jasvant Chauhan, the CEO, was on the look out to develop more activities that had the potential. For instance, production of certified wheat seed by farmers had great potential to be scaled up. It would benefit both farmers and the company financially.

### *3.3 Post-incubation (October 2019 onwards)*

As mentioned above, potato contract was scaled up to cover half the fixed expenses from its revenue. The rest was covered by the agri-input and seed business. With the onslaught of Corona pandemic, KPCL's activities were somewhat affected due to higher operating costs. Gross revenue decreased from Rs. 85 million to Rs. 63 million, that is, by 25%. However, from 2022 to 2023, it is expected to reach more than Rs. 70 million.

## **4. Functioning of agri-extension system**

During the entire incubation period of six years, the agri-extension system worked as a partnership between the incubator and incubated institutions. DSC created the demand for new technology and associated agri-inputs while KPCL met this demand by establishing backward linkages and supplying quality inputs at the doorstep of the farmer. This process is captured in the diagram in Figure 2.3.

As shown in the figure, a team of para-workers link DSC to the farmers through KCs and women's producer groups, providing them information about the latest practices, technologies, and agri-inputs for sustainable agriculture. The technology is discussed within the group, and farmers draw support from each other, leading to higher adoption.

Farmers also go through stages of adoption. First-time adoption usually implies a trial. If the farmer does not get the desired results, he/she may discontinue. Here the role of the local resource person becomes critical in following through until the farmer takes more trial(s) and gets the desired results. After sustained adoption, the farmer is likely to encourage others to adopt as well. By September 2019, 45,000 farmers had been exposed to new technology and KPCL was actively serving 18,400 of them.

## **5. Evolution of marketing strategies**

During the exploration phase, cluster committees were formed as a platform for KCs to express their needs and suggest ideas that would benefit their clusters. Company directors representing each cluster facilitated these



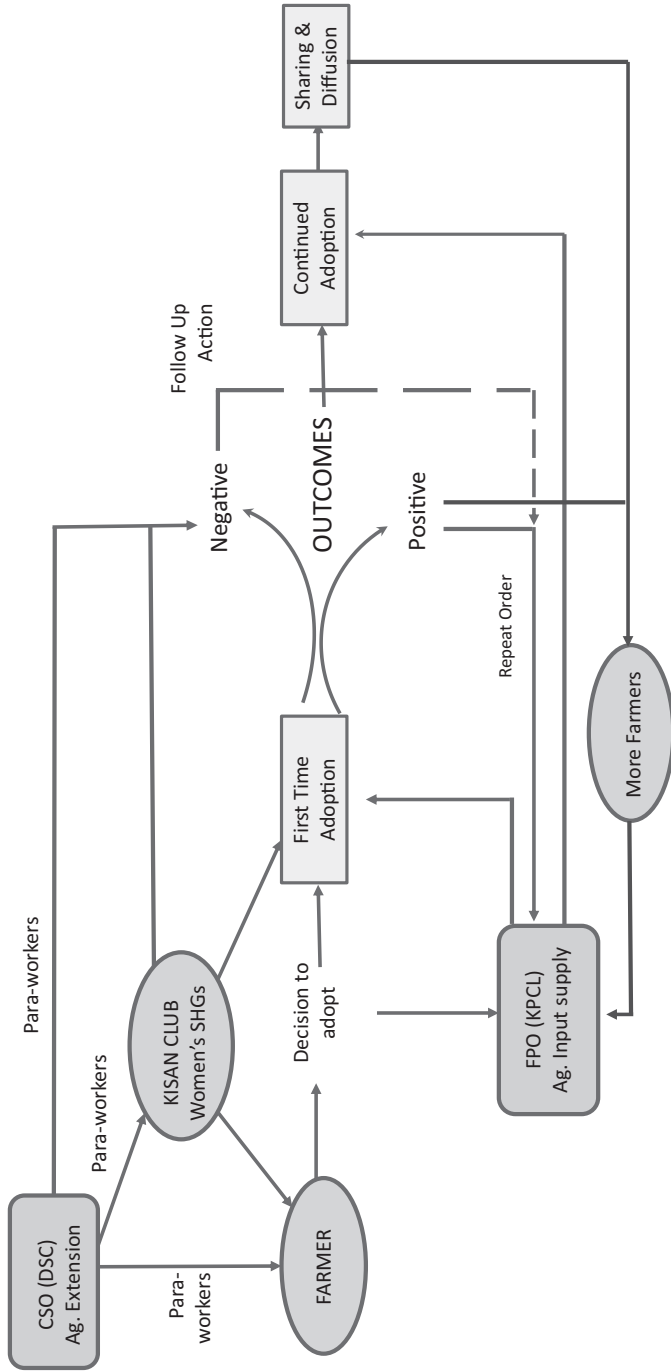


Figure 2.3 Agri-extension system – complementary action of civil society organisation and FPO

meetings and were given a free hand to test different ideas with a fund of Rs. 1,00,000. Several ideas were suggested by the expert director and DSC staff to see if these would appeal to the BoD.

Two brainstorming workshops, one in 2016 and another in 2020, were facilitated by external consultants. The criteria used for selecting promising ideas were (a) scalability, (b) profitability, (c) entry barriers, (d) growth potential, (e) strategic potential, and last but not the least (f) social benefits. Promising ideas were pilot-tested and later scaled up if successful.

Figure 2.4 summarises the mix of market initiatives on both backward and forward sides that have enabled growth of the company. Significantly, the backward side is well covered with three instances of backward integration. On the forward side, a few linkages have been made of which the MSP scheme in groundnut was the most beneficial. Currently the state government has banned FPOs from participating in it on account of a few instances of violation of norms. The spices processing initiative could never progress beyond local markets. *Figure 2.4* KPCL's market initiatives

The potato initiative promises to replace MSP scheme as an anchor activity to increase profitability of the company (see Box 2.1).

### *5.1 Search for a suitable revenue model*

Most of the activities undertaken so far were primarily aimed at meeting the felt needs of the marginal farmers. These also happened to provide low to moderate margins to the company (Table 2.1). However, an appropriate revenue model involves having at least one or two product lines that can contribute enough income to the company to cover its fixed costs. Selecting such an anchor activity has two main considerations: (a) what is the margin and (b) what is the existing or potential volume that can be achieved over a reasonable time frame.

Seeds coming through distributors (the regular supply channel) provide very low margins at around 3% as they have to accommodate many middlemen. Chemical pesticides provide better margins, but these are promoted as a measure of the last resort under responsible farming. Bio-products from distributors provide high margins but are not proven and therefore still under observation. Farm equipment provide moderate margins, but these are not very fast-moving items and require space and capital for storage. Bio-pesticides and bio-fertilisers produced by own farmers are mostly sold to other farmers at the village itself. Hence although margins are good, the volumes are limited and unlikely to grow in future. Margins on sale of cattle feed produced by KPCL itself are moderately good at about 15%, but at present volumes are not high and production is not even. On account of low entry barriers, 'me-too players' can provide stiff competition, making it unattractive in the long run.

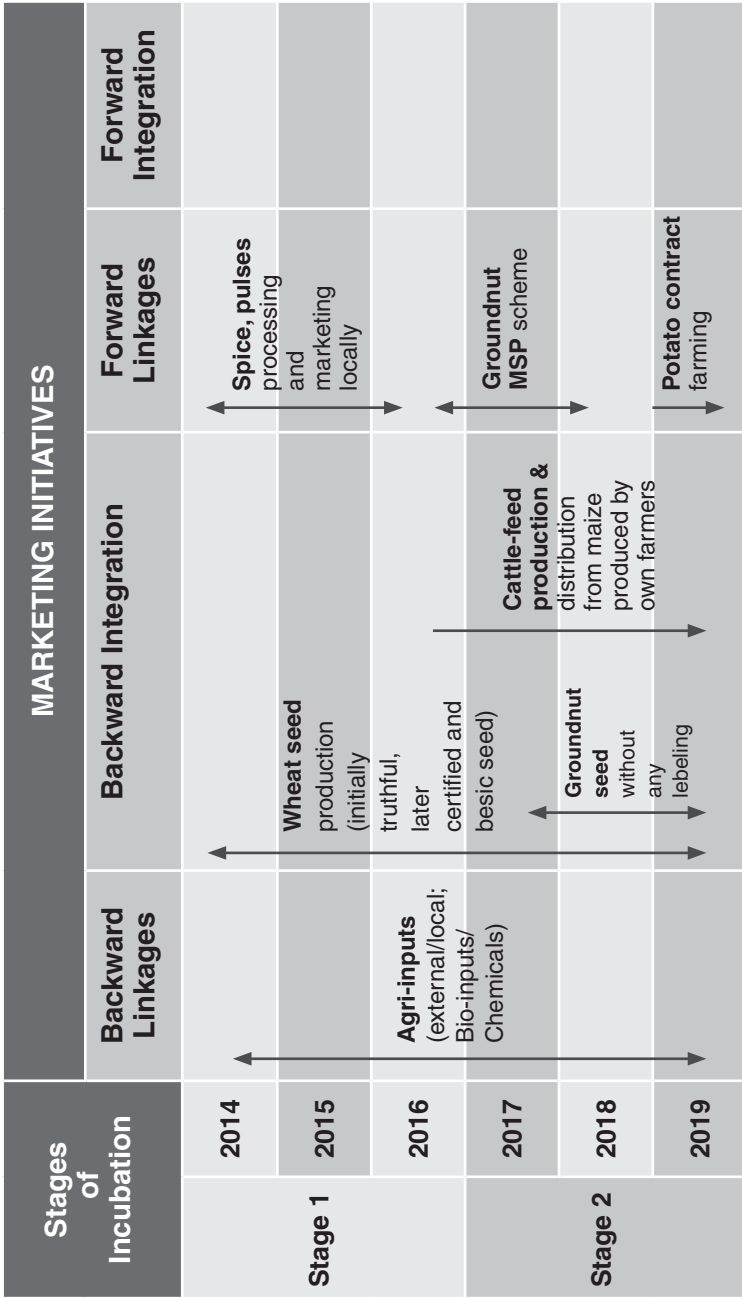


Figure 2.4 KPCL's market initiatives

Table 2.1 Margin analysis of products/product categories (%)

Details	2016–17	2017–18	2018–19
1 <i>Agri-inputs from distributors</i> (average margin)			
1.01 Seeds	3.25	3.50	2.89
1.02 Pesticides	12.50	12.35	12.93
1.03 Bio-products	27.30	23.54	22.56
1.04 Farm equipment	12.08	9.64	7.58
2 <i>Agri-inputs produced by own farmers or KPCL</i> (average margin)			
2.01 Wheat seeds	7.48	8.50	10.16
2.02 Groundnut seeds	5.20	6.00	7.56
2.03 Fodder seeds	15.00	15.00	16.36
2.04 Bio-fertiliser	12.00	12.00	11.78
2.05 Bio-pesticide	8.05	8.75	9.09
2.06 Cattle feed	15.22	12.67	16.67
3 <i>Aggregation and marketing of agricultural produce</i>	7.00	7.25	7.46
4 <i>MSP with government (groundnut)</i>	1.00	1.00	1.00
5 <i>Retail outlet – Ahmedabad/Himmatnagar (KPCL/Gujpro)</i>	0.50	0.50	0.72
6 <i>Potato – contract farming (2019–20)</i>	2.75		

### Box 2.1 Potato contract farming: Emerging anchor activity

In 2018–19, KPCL became a vendor for farmers of Himmatnagar on a pilot scale, with Iscon-Balaji as the partner company. The biggest advantage with Balaji was that it could procure under-sized potatoes as well as those affected by blight because it owned a manufacturing plant producing powder for industrial uses. Farmers were expected to respect the intellectual property rights of Iscon-Balaji and not sell their produce to other competitors. A contract was signed on 30 August 2019. The company provided 100 MTs of potato seeds of its patented variety *Santana* to 30 selected farmers, and the purchase price for the output was fixed in advance. Fifty percent of the seed material was provided on credit, and farmers had the option to have it deducted at the time of harvest. Farmers were provided technical support on site as well as through telephone during the farming period (November to March).

As per the PoP recommended by the company, the farmer was expected to put 20–25 MTs (about ten trolley loads) of compost/organic fertiliser in one acre of land. The returns would depend on his/

her ability to apply fertiliser. According to Dr Namita Oza of Iscon-Balaji, technically, *Santana* had the potential to produce potatoes of as much as 1 kg per piece!

KPCL supported the farmers with technical guidance, procurement, and transportation of potatoes after harvest and supervision of potato grading as per specified standards. By the end of March 2020, the harvesting was completed although marred somewhat by the Covid-19 pandemic.

Encouraged by the success of the pilot, the following year, operations were scaled up by four times (Table 2.2). KPCL came up with a service (optional) to supply agri-inputs as per the PoP specified by the company, for a small fee, resulting in an income of Rs. 0.25 million. KPCL also gave credit to the farmers for 3–4 months, which was recovered at the time of harvest.

Table 2.2 Results of contract farming with Iscon-Balaji

Particulars	2019–20	2020–21
Production (MT)	1090	4800
Average price realized (Rs)	9046	10,000
Gross value (Rs. Million)	9.86	48.00

The farmers were happy with the production, price, and timely technical support received. Farmers experienced, on an average, net profit of about Rs. 0.1125 m/acre. The profit/sales ratio was 52.9%, which was much higher than that of wheat, their main crop.

About 50–60% of the farmers involved are marginal, while the rest are relatively larger. This may appear to be a compromise with the original goal of working largely for marginal farmers. But in the absence of any other anchor activity that would ensure the economic viability of the company, a conscious choice was made. As it turned out, it led to a larger acceptance of the company within the farming community, even though 75% of its members were marginal (ownership of land < 2 ha).

Retailing of commodities, especially pesticide-free and organic produce in cities like Ahmedabad and Himmatnagar, has been initiated through Gujpro (the state-level FPO federation in Gujarat). As of now this option is not very attractive because of very low margins (<1%) and low volumes. In the distant future when consumers become more health conscious and are willing to pay a premium for certified produce this would become a viable option for the company.

### 5.2 Promising product lines

- 1 Certified and truthful labelled seeds produced by farmers themselves are promising as the margins are moderate and potential for volumes is high. As of now achieving higher volumes is constrained by lack of sales personnel. Jaswant Bhai, the CEO, is contemplating signing a B2B contract with Ankur seeds in the near future, in order to achieve higher volumes. If this works, it could become one of the future anchor activities which also benefit the farmers a great deal.
- 2 Aggregation and collective marketing of commodities provide low margins at around 7% and are a risky business. However, volumes can be high and social benefits are also high. The company has recently taken up a registered shop at the Himmatnagar *mandi*. KPCL farmers would have the option to sell their produce through this shop.
- 3 Selling commodities to government under MSP scheme has proved beneficial in the past. Even with a margin as low as 1% it works out well because of very high volumes. Farmers also gain substantially through assured and better price realisation. Whenever the state government reopens this option for FPOs it will be worth taking up.
- 4 The opportunity of potato contract farming has taken care of the present worry of covering salaries and overheads. It is promising because although it provides low margins (2.75%) volumes can be high with greater prospects for steady growth. Among the current players in the market, Balaji-Iscon is one of the few which understands the FPO and works with them as per their terms and conditions.

## 6. Financial performance

Table 2.3 provides a summary of financial performance of the company on key parameters. While sales revenue and profit after tax have fluctuated, it is worth noting that the losses of Rs. 0.734 million carried over from its previous form, the Dhari Krishak Vikas Producer Company Ltd (DKVPCL),<sup>1</sup> have finally been wiped out in 2017–18. By September 2019 the company had reserves and surplus of about Rs. 0.39 million. Its fixed assets had gone up from Rs. 0.075 million at the end of stage 1 to Rs. 1.224 million at the end of stage 2. These assets include a plot of land and a godown of 35 sq. ft. for storage of agricultural produce. A significant development during stage 2 is the accessing of long-term debt to the extent of about Rs. 1.83 million of which about Rs. 0.80 million has been contributed by large farmers and the remaining from KCs/SHG. The revolving fund of Rs. 1.0 million refers to the amount provided by SFAC as a matching grant for purchase of equity by marginal farmers. During 2020–21 the company was able to access another long-term loan from NABKISAN of Rs. 2 million at a reasonable interest rate of 8.5%.

Table 2.3 Summary of financial performance (Rs. in million)

Particulars	Incubation Stage 1					Incubation Stage 2					Post Incubation		
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2020-21	2019-20	2020-21	2020-21	
Gross Revenue	2.91	4.63	10.63	56.58	161.94	19.45	32.75	85.05					
Profit Before Tax	0.38	0.17	0.84	0.22	0.24	0.08	0.01	0.02					
Profit After Tax	0.38	0.17	0.84	0.04	0.16	0.07	0.01	0.02					
Share Capital	0.54	0.78	1.02	2.56	3.77	4.41	4.41	4.41					
Reserves and Surplus	-0.35	-0.19	-0.14	-0.01	0.32	0.39	0.40	0.43					
Long-Term Liabilities	-	-	0.30	-	1.51	1.83	1.14	2.53					
Revolving Fund	1.00	1.00	1.00	1.00	1.00	1.00	1.42	1.42					
Fixed Assets and Investments	0.03	0.03	0.07	0.15	0.20	1.22	1.25	1.58					
Current Liabilities	0.97	1.26	2.10	1.29	12.97	1.76	6.94	15.71					
Current Assets	1.96	2.64	3.77	6.38	19.03	8.17	14.56	21.90					
<i>Ratio Analysis</i>													
Gross Profit/Revenue	0.1310	0.0360	0.0790	0.0040	0.0010	0.0040	0.0003	0.0002					
Debt-Equity Ratio (Total Liabilities/Equity)	1.8110	1.6120	2.3620	0.5030	3.8450	0.8150	1.8320	4.1370					
Debt to Asset Ratio (Total Debt/Total Assets)	0.4890	0.4720	0.6250	0.1970	0.7530	0.3830	0.5110	0.7770					
Current Ratio (Current Assets/Current Liabilities)	2.0110	2.0980	1.7970	4.9520	1.4670	4.6350	2.0980	1.3940					

The table also shows the trend of four key financial ratios over time. The profitability ratio has been consistently low with the second stage doing even worse than the first stage. Although the reserves and surplus now stand at Rs. 0.398 million for a company that is seven years old, this balance needs to be substantially increased. For the same reason the company has not been able to declare any dividends so far. After changes in the rules, during 2020–21 no tax has been deducted from profits as companies with turnover lower than Rs. 1,000 million are exempted. The remaining three ratios are well under control, thanks to the strategy of being asset light and raising funds from internal sources – such as savings of its network of SHGs and KCs. Current ratio has been consistently low, indicating use of internal resources as well as good working capital management. The debt/equity ratio in 2020–21 has shot up to more than 4.0; however, this is still well covered by total assets.

Mohan Sharma, Executive Director of DSC, who has served KPCL as an ‘expert director’ for three years, makes a significant observation regarding financial performance of the company:

The present system of accounting tends to grossly underestimate the financial situation of the company, as there is no provision to show the economic benefits generated by the company for farmers (both members and non-members). Until such time that a new system of reporting is designed exclusively for social business enterprises such as FPOs, perhaps it will be best to carry out independent impact studies at regular intervals.

(per.com)

Benefits to the farmers are both tangible and intangible. The tangible benefits can be traced and quantified under the four objectives of *cost reduction*, *risk reduction*, *productivity improvement* and *better price realisation through market linkages and/or value addition*.

### 6.1 Tangible benefits

To get a flavour of the benefits generated for the marginal farmer, rough estimates were made for the case of groundnut sold through MSP scheme.

In 2018–19, farmers benefitted to the tune of Rs. 31.8 million simply from better price realisation. The difference between MSP and prevailing market price ranged from Rs. 175 to 250 per 20 kg. For its services in organising supervision of quality standards and logistics, the company earned Rs. 1.413 million by way of commission. Hence for every one rupee earned by the company, it generated a benefit of Rs. 22.5 for the farmers! (Table 2.4).



Table 2.4 Estimate of benefits passed over to farmers through MSP

<i>Ground Nut (MSP scheme)</i>	2017–18	2018–19
Procurement (MT)	1021.70	3174.60
Value (million)	43.40	141.30
KPCL revenue (million)	0.43	1.41
Benefit to farmers (million)	10.20	31.80
KPCL returns as % of sales value	1.00	1.00
Farmers' benefit as % of sales value – higher price realisation	23.50	22.50
<i>Ratio of Benefits to farmer/profits to KPCL</i>	23.50	22.50

## 6.2 Intangible benefits

Considerable impact has also been made through intangible benefits such as *risk mitigation* in agriculture (dealing with climate change, improving soil health and sustainability, reducing negative impacts of chemicals on local micro climate) and health of farming communities (reduction in problems related to cancer induced by chemical pesticides). Most of these are difficult to measure as they may occur over a long time-frame.

## 7. Governance and its challenges

### 7.1 Decision-making at KPCL

KPCL found itself doing the balancing act on a number of fronts, as described next:

- Balancing social and commercial goals:

Choosing the right portfolio of activities that ensure commercial viability while meeting social objectives is a major preoccupation of the BoD and professional staff.

Another issue is to ensure that small and marginal farmers are the main beneficiaries and owners of the company. An analysis of member farmers based on size of their land-holding (2015–16) confirmed that more than 72% of the members were small and marginal. Only ten farmers representing 0.5% were large farmers. According to Mr Mohan Sharma, since there was an organic growth of the company, inclusion of certain farmers who fell in medium or big category was unavoidable. According to Sharma, “large farmers had not proved to be a problem – rather they were often helpful in their own ways. A few large farmers had even provided loans to the company in their individual capacity” (per. com.).

- Participation of members versus non-members

During the initial stages farmers were eager to get the services of the company but not so eager to put their money on it. Many of them adopted the ‘wait and watch’ policy even when DSC and KPCL had carried out drives to increase the shareholding. A stage has now come where farmers are eager to join, but there is cap on the extent of shareholding that KPCL can accept. This is because a share capital beyond Rs. 5 million would reclassify KPCL as medium scaled. This would have implications for compliances and taxes, which, for the time being, KPCL would like to avoid. In 2018 the company stopped taking new members. The peak participation of non-member farmers was in 2018 on account of the MSP scheme, when they were three times the number of shareholders (Figure 2.5).

- Balancing needs of geographical regions/clusters

The communities residing in different areas are different and so are the cropping patterns. Meghraj has tribal and OBC communities engaged in rain-fed farming. Dhari also has OBC communities and is rain-fed. In contrast, the others (Visnagar, Himmatnagar, and Modasa) have irrigated land and belong to upper- or middle-caste Hindu families. Their contribution is significantly higher as reflected in shareholding pattern and sales, because of which they have larger representation in the governing board. Out of a total



Figure 2.5 Shareholder versus non-shareholder beneficiaries

of ten directors in the BoD, Visnagar has three, Himmatnagar and Meghraj have two each, while the rest including Modasa, Vehlal, and Dhari have one each. One seat is reserved for the expert director. This gives Visnagar, Himmatnagar, and Modasa greater say in decision-making.

The ability of the representatives from larger and more successful clusters such as Visnagar and Himmatnagar to understand and accept the needs of relatively backward/smaller clusters like Meghraj would ensure future collaborations between clusters.

- Balancing participation of men and women

In 2015–16, only 19% of the members were women. By 2019 it had gone up to 27%. These women are mainly from SHGs that have taken up productive activities. The participation of women is much higher in tribal areas (60%) than non-tribal areas (all < 35%) as shown in Table 2.5. Upper-caste families feel that women have “no time for such activities” because they are engaged mainly in household work and animal husbandry.

As of 2019 there were two women representatives on the BoD. An initiative proposed by women representatives, aimed at making available grocery provisions in bulk for social occasions, was taken up at Himmatnagar in 2018. However, it was wound up within six months presumably because the assumptions made in the project did not hold. A special report from a gender specialist in the evaluation of LEPNRM 3 has come up with a number of measures to improve the gender balance.

The relationships between various participants in the FPC are depicted diagrammatically in Figure 2.6.

The diagram helps to bring out the complexity of the institution. It also shows why FPOs are so fragile and take so much time to incubate. Building from below is the key to stability, but this inevitably calls for investment in time, and capacity building of various constituents and power centres. KPCL is a product of such an investment. It has now reached a crucial stage where its leadership will be put to test as DSC’s role is reduced to that of friend, philosopher, and guide.

Table 2.5 Women shareholders in different clusters

<i>Unit</i>	<i>Female Shareholders</i>	<i>Total Shareholders</i>	<i>Percentage of Female Shareholders</i>
Visnagar	358	1729	31.11
Himmatnagar	200	868	23.04
Modasa	290	855	33.91
Meghraj	330	545	60.55
Dhari	5	412	1.21
Total	1183	4409	26.83

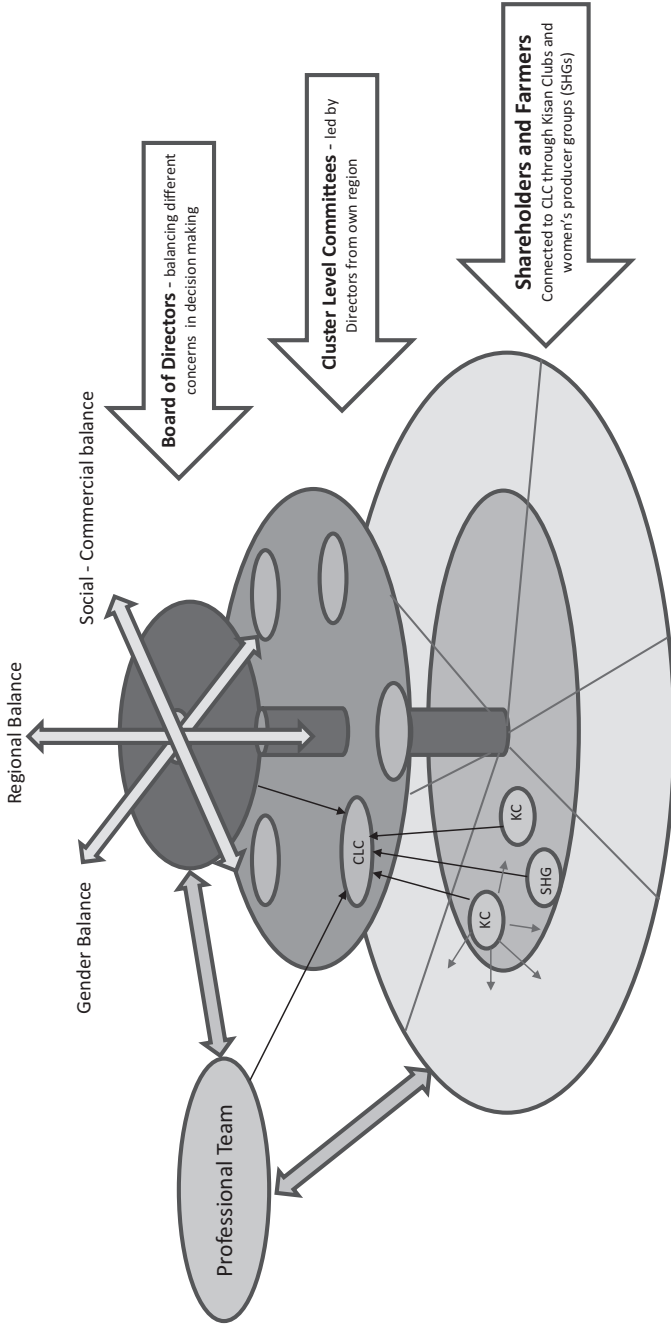


Figure 2.6 Relationships between participants in KPCL

7.2 *Quality of leadership*

Leadership has to come from the BoD, which is expected to volunteer considerable amount of its time to a multitude of tasks.

Two main criteria used for selecting board members were (a) membership with a KC and (b) active participation in the work of the company and KC. How has the leadership at KPCL performed so far? A preliminary assessment indicates that the BoD has been as active as the professional staff of KPCL and DSC staff during the years of incubation, although the areas in which they have been active are different. There were local issues that they could handle comfortably, but for some issues they needed DSC’s support (Table 2.6).

Table 2.6 Leadership at KPCL during incubation period

No.	Function	BoD’s Contribution	DSC’s Contribution
1	Mobilising farmers and creating member allegiance	BoD leaders took responsibility for their own clusters and used their influence to improve shareholding as well as participation of both members and non-members. It has taken up the idea of decentralised governance by taking the lead in functioning of cluster-level committees.	DSC used its influence with SHGs and KCs to improve shareholding through specific drives; it used farmer meetings to raise awareness and create member allegiance.
2	Supporting professionals and implementation team	During the first stage of incubation BoD played a valuable role by identifying the felt needs of the farmers on the one hand and smoothening supply issues with farmers at the point of supply on the other. It has maintained customer relations and put in place a grievance-redressal system.	Implementation team, particularly the manager deputed by DSC, played a critical role in making the BoD understand its role. He provided market information and facilitated decision-making.
3	Mobilising resources	The board understood how difficult it was to access formal credit. It chose to rely on internal funding and mobilised funds from SHGs, KCs, and even individual farmers who were aligned with the company’s goals and mission.	DSC was only partly successful in mobilising funds from external sources – for instance the equity grant provided by SFAC.

No.	Function	BoD's Contribution	DSC's Contribution
4	Dealing with external and internal threats	During the second stage of incubation, local vested interests, which felt threatened by the rising economic power of the company, threw a spanner in the works by using false accusations with National Agricultural Cooperative Marketing Federation of India Ltd (NAFED) to get KPCL blacklisted from becoming a vendor. It was the patient lobbying by Vasantbhai, the chairperson, that got the company out of this situation.	Since Vasantbhai was handling the situation in a mature manner, DSC only needed to support him in this case.
5	Identifying new market opportunities	Two ideas suggested by BoD were tested and selected for implementation. These included seed production (wheat, groundnut, and fodder) and contract farming of potato. Both these have promise for becoming anchor activities.	To improve their entrepreneurial orientation, DSC took several initiatives such as brainstorming sessions, feeding of ideas from time to time, and so on, which were evaluated by BoD and ultimately owned and implemented by it.
6	Financial and legal literacy for better compliance and administration	Since company laws are in English and rather complicated, this was an area where they needed help. Later couple of directors were made familiar with the rules and their implications.	This was a new area even for DSC staff, who had to rely on their auditor to learn the ropes before they could build the capacity of the BoD.

The issue of financial and legal literacy of the BoD is a major challenge. This is an area of capacity building, which should continue beyond incubation as the rules keep changing from time to time and need to be understood for specific situations before proper decisions can be taken.

The leadership demonstrated by Vasantbhai the chairman in the face of external threats was exemplary. These external forces cannot be underestimated, and a system of 'eternal vigilance' needs to be brought in place

to safeguard the interests of the company. This is a leadership skill that is not very common and needs to be valued. It also needs to be built into the capacity-building agenda of the BoD. Dealing with internal threats is equally important. Maintaining transparency, ensuring democratic decision-making, and aligning members with the common goals, as done by KPCL, are among the measures to avoid internal threats.

A recent move has been to create cluster committees as a form of *decentralised management* where directors representing various clusters would take leadership for their respective areas. To this end, each director has been given a free hand to spend up to Rs. 1,00,000 on local initiatives which could drive change.

As of March 2021, KPCL had 11 employees apart from the CEO, who are organised in three categories: (a) finance and administrative, (b) supervisory staff, and (c) field staff (Figure 2.7). Jaswant Chauhan, who was deputed from DSC as the manager in 2013, continues as the CEO in 2021. The staff

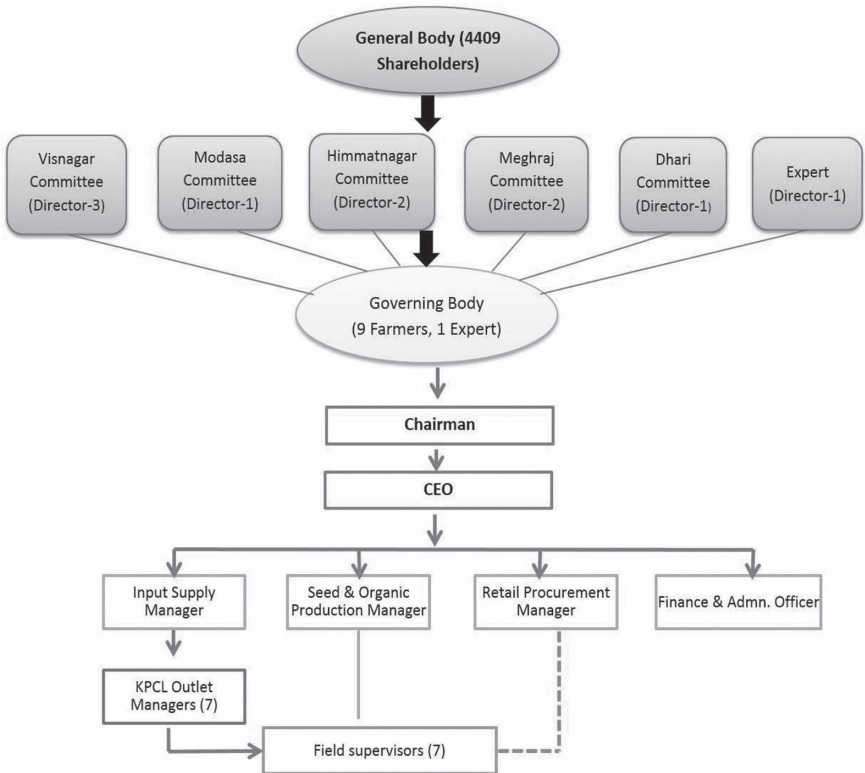


Figure 2.7 Organogram of KPCL (2021)

members at cluster level are accountable to the cluster committee. But they are also accountable to their executive managers and ultimately to CEO.

The present staff has demonstrated its commitment to the FPO over the past 7–8 years. During the Corona pandemic, it voluntarily deferred 20% of its salary until such time that company's financial condition improved. It received the pending amount only eight months later after the potato harvest.

## 8. Conclusion

KPCL has become financially independent since October 2019. After two years, it has demonstrated that it can keep its head above the water by covering all its fixed expenditure. Potato contract-farming has emerged as the current anchor activity. Scaling up of certified seed production by the farmers could become the second. The search for such activities by Jaswant Bhai, the CEO, will continue in order to meet the expectations of financial sustainability.

KPCL is making a huge social contribution towards farming communities in target areas, particularly marginal farmers – which is not reflected in its balance sheet. In the absence of suitable norms for reflecting these benefits in their annual reports, FPOs may find it practical to use two kinds of ratios to assess the depth and spread of social benefits realised by the farming community:

- 1 For every rupee of gross profit to the company, what is the average increase in gross profit to the farmer taking advantage of its services (through cost reduction, increase in productivity, better price realisation, reduced risk, and so on)?
- 2 What is the proportion of benefits passed on to non-members (other farmers accessing services of the company) as compared to members (shareholders)?

These ratios can be calculated for specific activities as well as for the services provided by the company as a whole. For better analysis the proportion of benefits passed on to farmers through backward versus forward linkages and through backward versus forward integration can be worked out. Non-tangible benefits that accrue over long term if any, such as improved soil health and better health of farming communities on account of shift to organic farming, could be taken note of with some quantification where possible. Periodic impact studies would serve the purpose and could be read along with the annual financial reports.

The lessons provided by this case study can prove invaluable to FPCs catering to the needs of entire farming communities, rather than a few hundred



farmers cultivating a single crop. The latter can be taken up only by farmers with high-risk-taking ability or by FPCs that have access to support from government and other organisations. The KPCL model shows that multi-commodity, multi-community, multi-location companies can deal more effectively with risk on their own, while creating greater social benefits. However, this can only become possible when the support institution has made considerable investments prior to the launching of the company. More specifically these investments may include (a) creating an agri-extension system with the active participation of farmers and extension agencies, (b) promoting SHGs and KCs that become the building blocks for the future FPC, and (c) building the capacity of local youth who work as local resource persons, to build the extension system and who would join the professional management team when the company is launched.

### Note

- 1 It may be noted that KPCL is a new form of Dhari Krishak Vikas Producer Company Ltd (DKVPCL), initiated by DSC in Amreli district of Gujarat in 2005. It was found more expeditious to transform DKVPCL into KPCL rather than to create a new FPC. As a result of this decision, KPCL inherited losses worth Rs. 0.73 million. On the other hand, DSC had gained practical experience which proved invaluable for incubating KPCL.