

Study of Marketing Options and Structures Available for Organic Products for Non-Governmental Organisations in India

Vijayalakshmi, K¹, Suresh, M², Balasubramanian A V³ & Arumugasamy S⁴

Key words: Organic marketing structures, Non-governmental organisations, Societies, Companies, India

Abstract

Centre for Indian Knowledge Systems (CIKS) is an NGO working towards enhancing livelihood security of small and marginal farmers through organic farming in India. CIKS has been exploring various avenues and methods to establish a marketing model for the organic products through a study. The purpose of this study was to understand different forms of enterprises that an NGO in India can choose to promote and operate the commercial activity of marketing organic products and at the same time safeguard the farmers' interest. Five enterprises having different structures were studied. It was concluded that if the enterprise model carried out as a society is proven viable, it would not be difficult to attract mutual fund investors particularly those keen on supporting rural enterprises. After the initial phase of establishment when the enterprise operations have stabilized and matured, the enterprise can be converted into a suitable form as a producer, public or private limited company, depending on the interest of the stakeholders. The results and analysis of this study would provide insights to various other development organisations involved in organic cultivation and marketing.

Introduction

Centre for Indian knowledge Systems [CIKS] is a non-governmental organisation registered as an independent trust in 1995. The main aim of this organisation is to enhance the livelihood security of small and marginal farmers through conservation of indigenous genetic resources and empower them with organic farming technologies. CIKS has been working towards developing organic packages for a variety of crops.

¹ Centre for Indian Knowledge Systems, 30, Gandhi Mandapam Road, Kotturpuram, Chennai – 600 085. India. E-mail: info@ciks.org, Internet: www.ciks.org

² As Above

³ As Above

⁴ As Above

CIKS has been training farmers groups in organic production of different crops in four districts of Tamil Nadu. This initiative is also moving towards organic certification. Very soon the certified organic farmers would have organic products for the market. In this context CIKS has been exploring the avenues and methods to establish a marketing model for the organic products through a study. The results and analysis of this study can provide insights to various other development organisations involved in organic cultivation and marketing.

Several development organizations in India are involved in supporting the production of organic crops both technically and financially. However, these organizations currently do not have much of technical expertise in terms of marketing which is very critical for the promotion of organic farming. The legal regulatory framework in India currently does not allow certain trade related activities under the structure in which various NGOs are registered. Hence, these development organizations need to study and understand what is the best method by which they could set up an enterprise for organic marketing complying with the legal framework and at the same time achieving maximum benefits for farmers. It is in this context that the study was taken up.

Materials and methods

The main aim of this study was to understand different forms of enterprises that an NGO can choose to promote to operate the commercial activity like production and sale of organic produce like food grains, vegetables, value added materials etc. It was also decided to compare ownership, management, profit sharing and other parameters. By undertaking specific case studies of different form of enterprises in existence, the strengths and weaknesses of the same was assessed. The work focused towards studying enterprises that are promoted by development organisations with particular reference to enterprises for organic products. These enterprises have been promoted by development organisations for the purpose of improving the ownership of stakeholders in the commercial activity, provide a platform for livelihood enhancement through participating in business, and improve the market for its stakeholders' goods and services.

The information was gathered through individual visits to the organisation and perception made based on discussions with relevant staff and documents made available as well as information made public in the websites. Request was made to each organisation explaining about the purpose of the study and a meeting was sought. All the organisations contacted were keen to explain their nature of operations; challenges faced and shared data unless they felt it was commercially not appropriate to do so. All the organisations studied were willing to share their experience in the process of enterprise development. Quite a few of them also took us to the project area for further clarification.

Results

The results obtained from the five enterprises promoted by development organizations are provided below.

1. Organic Wayanad - It is an unregistered entity. Farmers are shareholders of Indian Organic Farmers Producer Company Limited (IOFPCL) and market the products through it. It is promoted by Indian farmers Movement (INFAM), Wayanad District, Kerala. Activities include organizing and training farmers for Internal Control Systems (ICS) for organic certification. It works with 1200 farmers of which 450 have been certified by INDOCERT and others are in transition stage. Products are plantation crops. Farmers are given 30% more than market price for organic products.
2. Wayanad Social Service Society (WSSS) - It is a society. Ownership of the society is confined with WSSS. It is promoted by Wayanad Social Service Society. Activities include organizing, training farmers for ICS. It works with 1500 farmers of which 805 have been certified by SKAL. Products are plantation crops. Farmers are given 20-40% more than market price for organic products.
3. Peermade Development Society: It is a society. Ownership rests with the society. A consortium of NGO and farmers is formed to ensure smooth operation. It is promoted by Peermade Development Society, Peermade, Idukki district, Kerala. Activities include organizing training farmers for ICS for organic certification. 1526 farmers covering 1500 ha have been certified by SKAL & IMO. Farmers are given 10% more than market price. Products are plantation crops.
4. Indian Organic Farmers Producer Company Limited – It is a Producer Company. Catalysts in the formation of the company are INDOCERT and farmers certified by it who wanted an avenue to market the certified organic products. Shareholders are farmers. It is promoted by INDOCERT, Kochi, Kerala. Activities include marketing of certified organic products. Gives 30% more than the market price for organic products to shareholders.
5. Himalayan Action Research Centre (HARC) – Three structures are adopted; society, cooperative and private limited company. Ownership rests with Self Help Group (SHG) women and farmers. It is promoted by Himalayan Action Research Centre, Dehradun, Uttaranchal. The farmers association organizes collective marketing of vegetables and fruits produced by its members. The women cooperative undertakes semi-processing of fruits and vegetables and market it in cities.

Discussion

Of the five enterprises two have adopted a society model. The advantages of adopting / continuing with society model by these enterprises are that they are able to attract financial support from donor agencies which are useful for building assets like processing facilities and common facility centre. Besides this, financial support by way of grant is received from a donor that is used as working capital for procurement. However, these models do not ensure complete ownership of the enterprise (not completely community / people owned as expected in a development scenario). WSSS and PDS have formed informal and unregistered bodies like the Farmers Consortium (as in PDS) that allows a certain level of participation in the enterprise operations by way of discussion at periodical intervals. The farmers cannot completely steer the operations if they want to. For e.g. if they want to have higher procurement price they cannot control the decision as they are not owners by way of shareholding in the enterprise. The society model disallows this. One other enterprise operates as an unregistered entity, one operates as a company and one has a combination of a society, company and self help groups.

In the case of HARC we observe a unique situation in that - it has registered the vegetable and fruits growers farmers association as a society and has been nurturing for the last five years in understanding the market demand and supply, prices across different markets, identifying reliable buyers (market intelligence), forging buy-back agreements between buyer and growers, creating infrastructure like CFCs, physical support like plastic crates, identifying low cost transporters (through annual auction), technical back-up like agro-technology etc. rather than forming a producer or public limited company in the initial period itself. The farmers association has done a business of Rs. 11 crores, registered as a society. HARC now feels that it is time to opt for more commercial accepted producer company model as the turnover is high and that the farmers associations has attained a better level of maturity. However it would continue with the Business Development Services support (a department of HARC) to the farmers association. HARC also does not have membership in the farmers association and hence the farmers body is community owned.

IOFPCL termed as the first to be registered producer company in India is a well conceived model for ownership of members, as it has only certified organic farmers as shareholders; those farmers who would like to market the produce through IOFPCL have to buy shares and thereby limiting one- time farmers; The company is focused on getting better price for the organic products produced by the members and has left the intricacies of organic production and certification to NGOs.

Conclusions

Rural development initiatives of NGOs that seek to provide commercially viable and socially sensitive enterprises need not necessarily adopt legal entities like companies, in the initial period of establishment itself. As the study shows, successful enterprises (in terms of turnover and financial management) are not those models that have registered under companies act, only. While ownership stakeholder is best provided by enterprises that have adopted enterprises under companies act, however capital mobilization for asset creation (for post-harvesting, storage, processing) and working capital can be mobilized as grant from donor agencies under the Society model. This is evident from those enterprises that have formed/continued with society model and are contemplating to convert the society models into company model. While it is not possible to share the profit to members in society and trust, it is possible to pass on the benefits or profits through way of higher procurement price of produce/organic products.

If the organic farmers when organized into associations and registered as a society can take VAT registration and even a IE code and conduct business. The NGO that has promoted the farmers association, can channel grants from donor agencies for the purpose of processing and other facilities or even pass on a revolving grant for procurement operations. The initial period can be focused on developing and strengthening standard operating procedures, supply chain and business practices, rather than focus on attracting credit from banks or other means. If the enterprise model carried out as a society is proven viable, it would not be difficult to attract mutual funds investors, particularly those keen on supporting rural enterprises.

Acknowledgments

The authors would like to acknowledge the Directors and staff of all the NGOs involved in the case studies. We would also like to thank HIVOS, Netherlands for supporting this study.

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