BANKERS INSTITUTE OF RURAL DEVELOPMENT, LUCKNOW
(Designated Nodal Training Institution at Central Level by GoI under the Central Sector Scheme on Formation & Promotion of 10000 FPOs)

FPOs are growth engine of Indian Agriculture

Resource Material for

Capacity Building of Chief Executive Officers (CEOs) of FPOs

Central Sector Scheme on Formation & Promotion of 10000 FPOs

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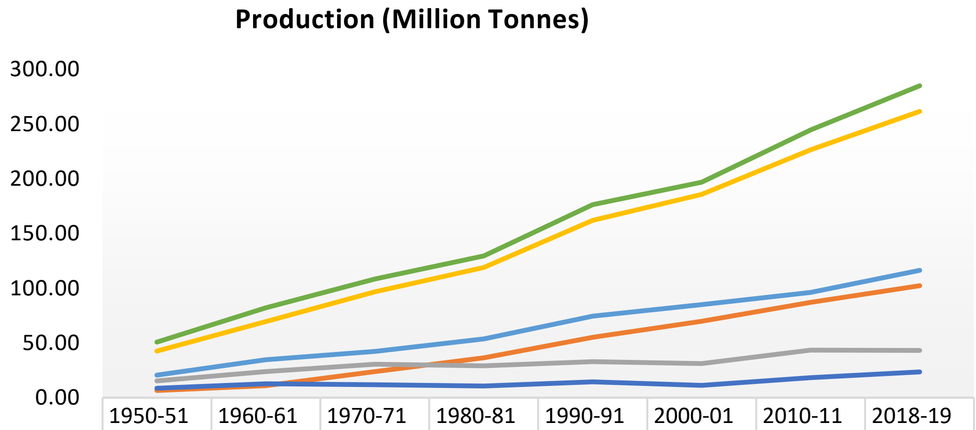
Contents

Session I	Overview of Indian agriculture, aggregation strategies and salient features of the Central Sector Scheme on Formation & Promotion of 10000 FPOs

Agriculture – Historical perspective

After gaining Independence, in 1947, agriculture in India was characterised by low productivity on account of use of primitive technologies with almost 3/4th of the population dependent on agriculture for employment. Thus, one of the biggest challenge for the country, then, was to ensure nation's food security for which multipronged strategies were drawn for enhancing the food crop production like focus on intensive agriculture through use of improved technology aiming at increase in production and productivity, investment in irrigation sector and various institutional reforms like Minimum Support Price (MSP), land reforms, priority sector lending, etc. As a resultant, we as a nation not only attained self-sufficiency in food grains & become food secure but also transited from net importer to net exporter of agriculture products. During this period (1950-51 to 2018-19), the total food grain production increased by about 4.61 times, cereal production increased by about 5.17 times, wheat production increased by 14.72 times and the rice production increased by almost 4.65 times. The increase in production was in contrast to increase in acreage under the crops which only increased by about 27 percent under total food grains, 25 percent under total cereals, 197 percent under wheat and about 42 percent under rice cultivation.



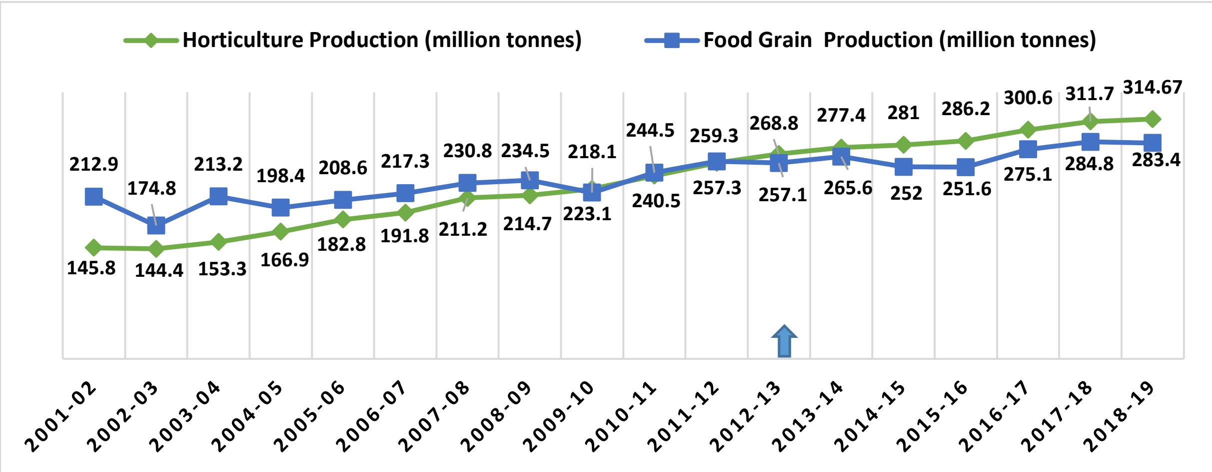
	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11	2018-19
Rice	20.60	34.60	42.20	53.60	74.30	85.00	96.00	116.40
Wheat	6.50	11.00	23.80	36.30	55.10	69.70	86.90	102.20
Coarse Cereals	15.40	23.70	30.60	29.00	32.70	31.10	43.40	43.00
Total Cereals	42.40	69.30	96.60	119.00	162.10	185.70	226.30	261.60
Pulses	8.40	12.70	11.80	10.60	14.30	11.10	18.20	23.40
Total Foodgrains	50.80	82.00	108.40	129.60	176.40	196.80	244.50	285.00

Rice Wheat Coarse Cereals Total Cereals Pulses Total Foodgrains

The enhancement in food grain production was not in linear correlation with acreage, thereby, indicating that adoption of latest technologies complemented by increase in assured irrigation facilities played an important role in productivity enhancement. This resulted in almost 297 percent increase in production per unit area in rice (668 Kg/ha in 1950-51 to 2659 Kg/ha in 2018-19) and about 430 percent increase in wheat (from 663 Kg/ha in 1950-51 to 3507 Kg/ha in 2018-19).

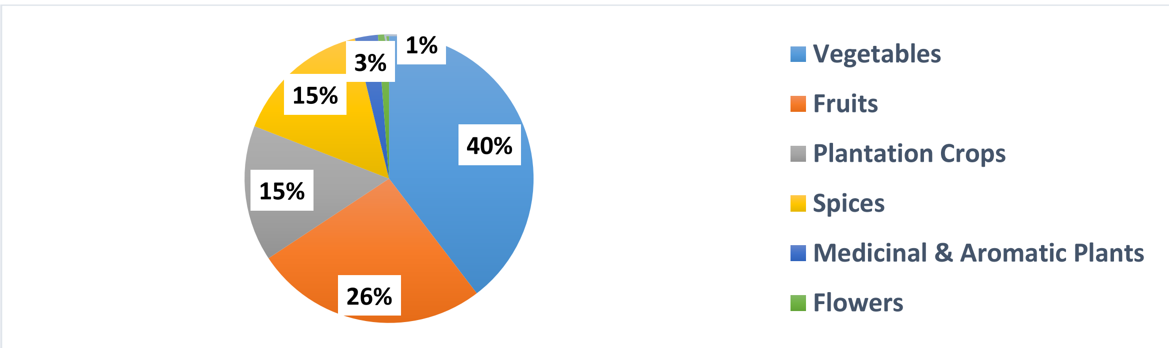
Horticulture: With time, gradual diversification in the cropping patterns was also observed especially in last few decades with horticulture coming up in a big way as cash crops.

Year-wise comparison of food grain & horticulture production



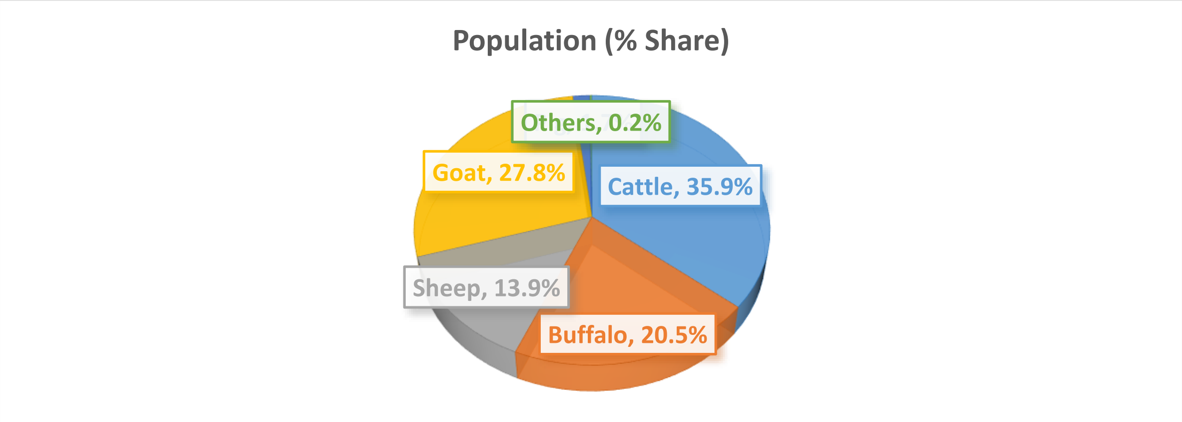
It was for the first time in the year 2012-13 that the horticulture production surpassed food grain production and the production gap between the two is widening since then. Within horticulture sector, the maximum share in terms of acreage is occupied by vegetables followed by fruit trees, plantation crops, spices, medicinal & aromatic plants and floriculture respectively.

Acreage under different horticulture sub-component (2018-19)



<u>Agriculture Allied Sector</u>: This sector comprises of allied activities undertaken by farmers along with production of food grains and horticulture crops like livestock farming *(dairying, poultry, fisheries, piggery, goat & sheep rearing)*, sericulture, apiculture, mushroom farming, etc. As per Livestock Census (2019), the total Livestock population in our country is 535.78 million, an increase of 4.6 percent over Livestock Census (2012). The share of major species is presented below.

Share of Major species as per Livestock Census (2019)



⇒ **<u>Few emerging facts from Livestock Census (2019)</u>**

- The female cattle (cows population) is 145.12 million and the total buffaloes in the country is 109.85 million showing an increase of 18 percent & 1 percent over the previous census (2012) respectively.
- The total sheep & goat population was 74.26 million & 148.88 million showing an increase of 14.1 percent & 10.1 percent over previous census. The total pigs in the country were 9.06 million in 2019.
- Poultry in the country comprised of 851.81 million birds (increase of 16.8 percent over previous census). The total Backyard Poultry in the country is 317.07 million (growth of 45.8 percent) and commercial poultry was 534.74 million (growth of 4.5 percent)

<u>Trends in All-India Production – Allied Sector</u>

- **3.5 times increase in milk & fish production since 1990-91**
- **4.9 times increase in egg production since 1990-91**
- **Status quo as far as wool production is concerned**

Position of India in World Agriculture: In terms of geographical area, India ranks 7th in the world whereas in terms of population, we are ranked 2nd i.e. next to China which is the most populated country in the world. As on 2018, FAOSTAT, Food and Agriculture Organization of the United Nations, India's global production rankings are as under:

India's position in World Agriculture

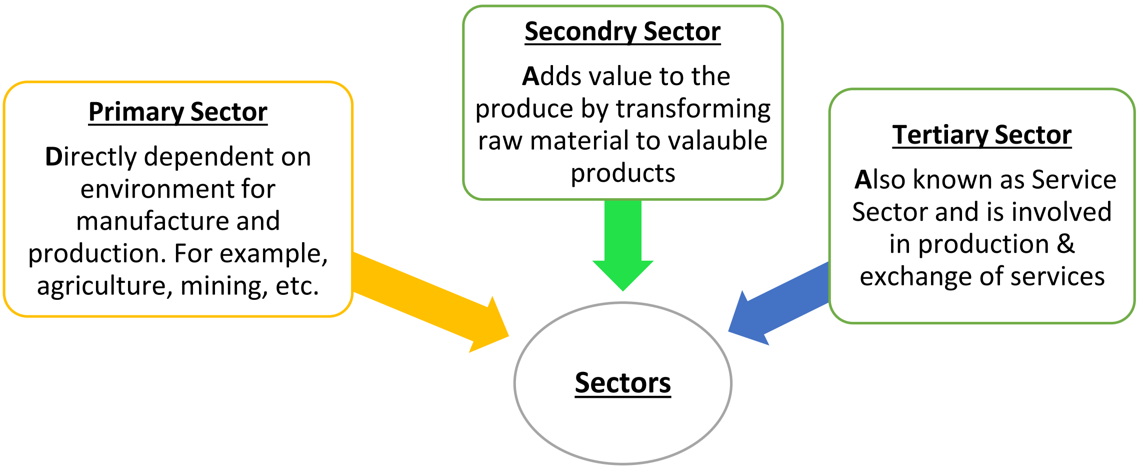
Category	Largest Producer	2nd Largest Producer	3rd Largest Producer
Cereals, Pulses & oilseeds	Millets, Pulses	Rice, Wheat, Lentil	Rapeseed, Sesame
Vegetables	Dry Beans, Chick Pea, Okra	Lettuce & Chicory, Onion (dry), Cabbage, Cauliflower & Broccoli, Eggplant, Potato, Pumpkin, Squash & Gourd, Tomato	Green bean
Sugarcane	--	Sugarcane	--
Fruits	Banana, Mango, Guava, Lemons & Lime	Papaya	Oranges
Dairy	Buffalo Milk, Goat Milk	--	--
Spices	Chili pepper, ginger	Garlic	Nutmeg, Cardamoms
Fibres	Jute	Cotton, Silk	
Others	--	Cashew, Tea	Eggs

(Source: Wikipedia based on FAOSTAT-2018, FAO)

Agriculture Exports: Despite leading position in production of various agri-commodities as stated above, agri-exports accounts for only a little over 2 percent of world agricultural trade. During 2018-19, the total agri-exports were valued at Rs. 2.75 lakh crore which constituted about 11.9 percent of the total country's exports and thus, there exists a huge scope to tap this market. Though, an increasing trend is observed as far as agri-exports are concerned (2009-10 to 2018-19), the pace was slow.

Role of Agriculture & Allied Sector in Indian Economy

An economy is best understood through study of its components or sectors which can be defined as a large segment of the economy in which businesses share the same or a related product or service. Generally, economy is categorized into three sectors viz. Primary, Secondary & Tertiary Sector.



Further, the economy is measured in terms of Gross Domestic Product (GDP) which is the value of all goods and services produced in it (all the three sectors) over a period of time. After following Gross Domestic Product (GDP) concept for many years in India, we have now switched over to the concept of Gross Value Added (GVA) to analyse the growth. While the GDP gives the picture from the consumers' side or demand perspective, the GVA gives a picture of the state of economic activity from the producers' side or supply side.

Performance of different sector in India

The performance of different sectors in Indian economic growth are given below:

GVA by Economic Activity at Constant (2011-12) basic prices

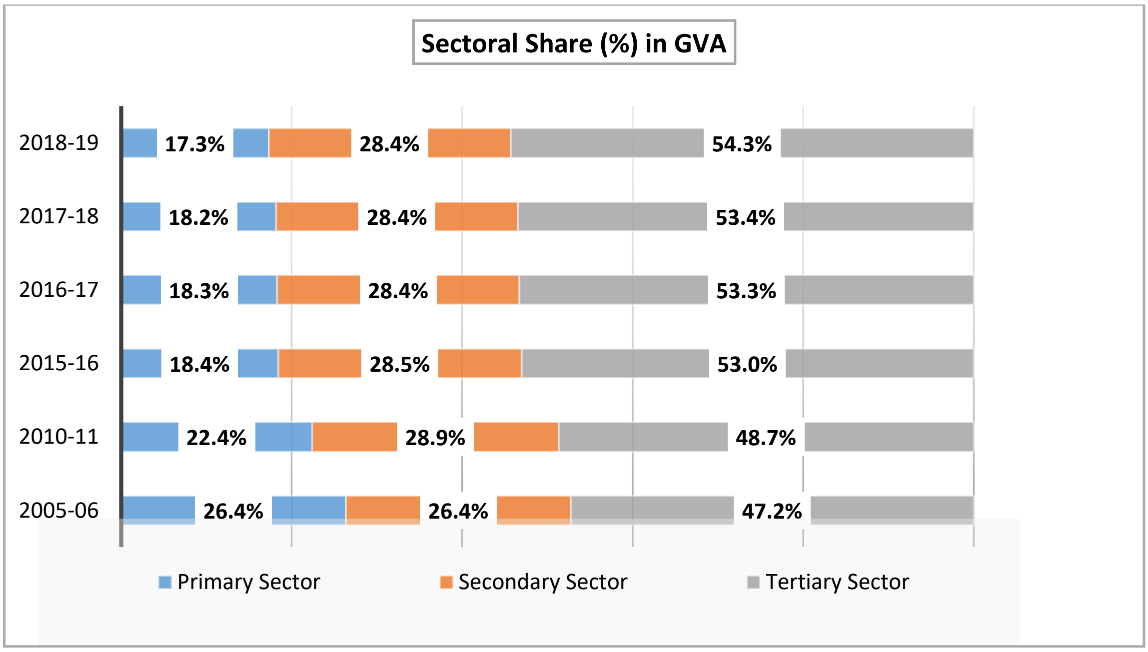
(₹ lakh crore)

Sectors	2005-06	2010-11	2015-16	2016-17	2017-18	2018-19
Agri (Crops)	7.97	9.16	9.69	10.20	10.65	10.54
Agri Allied (Livestock)	2.24	3.04	4.20	4.62	4.96	5.36
Agri Alled (Forestry & logging)	1.37	1.26	1.37	1.45	1.53	1.54
Agri Allied (Fishing & Aquaculture)	0.50	0.65	0.90	1.00	1.14	1.28
Subtotal - Agri & Allied	12.08	14.12	16.16	17.26	18.28	18.72
Mining & Quarrying	2.46	3.17	3.18	3.49	3.66	3.45
Total - Primary Sector	**14.55**	**17.28**	**19.34**	**20.75**	**21.95**	**22.17**
Manufacturing	8.67	13.67	19.04	20.55	21.91	23.17
Electricity, Gas, Water Supply & Other Utility Services	1.23	1.72	2.24	2.46	2.74	2.97
Construction	4.65	6.87	8.65	9.16	9.62	10.20
Total - Secondary Sector	**14.56**	**22.26**	**29.93**	**32.18**	**34.27**	**36.34**

Trade, repair, hotels & restaurants	5.93	8.35	12.61	13.89	15.28	16.57
Transport, Storage communication & services related to Broad casting	3.40	4.94	7.31	7.57	7.82	8.31
Financial, Real State & professional Services	10.80	14.65	22.95	24.93	26.09	27.87
Public Administration, Defence & Other services	5.91	9.56	12.77	13.96	15.34	16.77
Total - Tertiary Sector	**26.04**	**37.50**	**55.64**	**60.35**	**64.53**	**69.52**
GVA at Basic Prices	**55.14**	**77.05**	**104.92**	**113.28**	**120.74**	**128.03**

(Source: Agricultural Statistics at a Glance, 2019)

⇒ We observe that in absolute terms, the GVA shows an increasing trend and also the fact that all sectors including agriculture & allied activities exhibits a positive trend. However, it may be interesting to study the share of each sector and its growth pattern on a time series to get a more granular picture.



⇒ From above, it is observed that only the share of primary sector in the GVA is showing a declining trend. This is in line with the normal course on the development path adopted during the movement from developing to developed stage of economy wherein with development, the secondary & tertiary sectors overtakes the primary sector with the progression.

⇒ As regards growth rates among different sectors are concerned, a high variability in the growth rate of primary sector is observed which primarily comprises of Agriculture & Allied Sector.

Share of Agriculture & Allied Sector in Indian Economy

GVA by Economic Activity at Constant (2011-12) basic prices

(₹ lakh crore)

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Agri Allied (Fishing & Aquaculture)	0.50	0.65	0.90	1.00	1.14	1.28
Industry	**17.02**	**25.43**	**33.11**	**35.67**	**37.93**	**39.79**
Services	**26.04**	**37.50**	**55.64**	**60.35**	**64.53**	**69.52**
GVA at Basic Prices	**55.14**	**77.05**	**104.92**	**113.28**	**120.74**	**128.03**

⇒ In absolute terms, though the share of Agriculture & Allied Activities in total GVA is increasing, however, in percentage terms, it is showing a gradual decline (declined from more than 50 percent in 1950-51 to 14.6 percent in 2018-19.

⇒ Within overall contribution to GVA by Agriculture & Allied Sector, the share of agriculture crops and forestry & logging is declining whereas the share of livestock and fishing & aquaculture is increasing

Challenges at Farmers' Level

The challenges faced by farmers specially the farmers in marginal & small category are discussed below:

a) **High dependency for livelihood on Agri & Allied Sector**

Population & Agriculture Workers

(Units in millions)

Year	*1951*	*1961*	*1971*	*1981*	*1991*	*2001*	*2011*
Total Workforce	139.5	188.4	180.4	244.6	314.1	402.2	481.9
Cultivators	69.9	99.5	78.2	92.5	110.7	127.3	118.8
Agri. Labours	27.3	31.5	47.5	55.5	74.6	106.8	144.3
Total Agri. Workers	97.2	131	125.7	148.0	185.3	234.1	263.1

⇒ The scenario prevailing in 1950s suggests that about 70 percent of the total workforce was dependent on agriculture and allied sector for their livelihood which now has reduced to about 55 percent.

⇒ The share of Agri & Allied sector in GVA in 1950 was more than 50 percent which has now reduced to about 15 percent.

⇒ Logically, with increasing share of manufacturing & service sector in GVA, there should have been a proportionate shift of workforce to these sector as they being employment generating sectors but that has not taken place which has resulted in more dependency on this sector having an adverse bearing on per capita income from this sector.

b) **<u>Income – Issue related to disparity in income as compared to Non-Agri-Worker</u>**

⇒ Past strategies for development of agriculture sector in India focussed primarily on raising agriculture output and improving food security by strategizing production and productivity enhancement through better technologies & varieties (increased use of quality seeds, fertilizers, irrigation & agrochemicals) and providing incentives in the form of remunerative prices on some crops and subsidies on farm inputs. Thus, the advocated policies in the past supported production orienting systems with focus on produce rather than the producer which created a disparity in the income of the farmers as compared to income of a non-agriculture worker.

⇒ There was a more than 3-fold increase in the income of a non-agriculture worker as compared to a cultivator.

⇒ This is causing an adverse impact on the interest in farming & farm investment particularly in the minds of rural youth.

c) <u>**Technology –** Issues related to Transfer & Adoption of Technology</u>

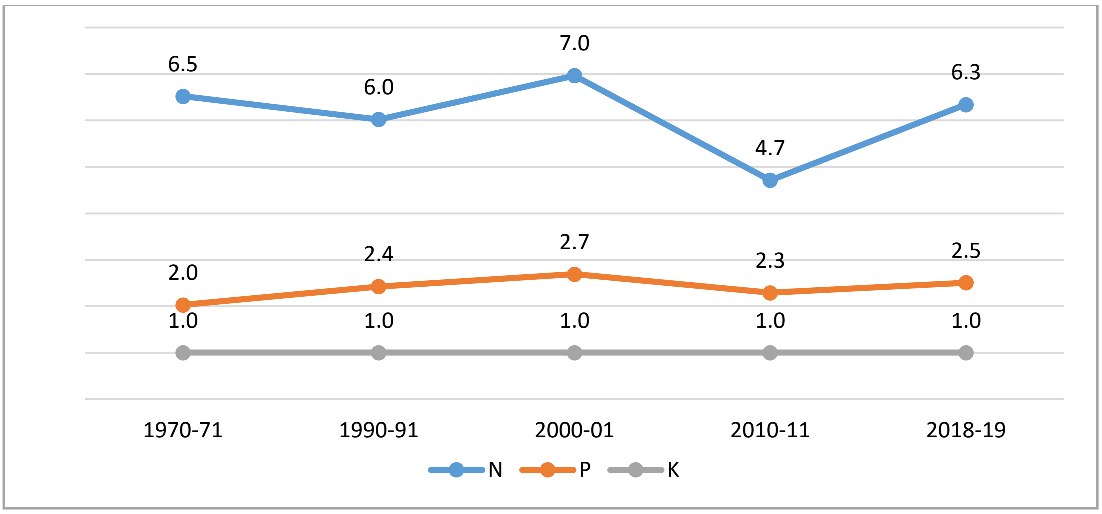
⇒ Given that farmers are moving from subsistence to market-oriented farming, there is increased requirement of information not only on production practices like new crop varieties & associated technology, but also on market-oriented information like trends in harvest season prices, quality of produce and export markets. Several government schemes like crop insurance, subsidy on farm implements and electronic agricultural markets are knowledge-intensive, which needs to be catered to through widespread dissemination of information. Thus, right information at right time through appropriate channels is crucial for farmers to take informed decisions about what crops to grow, what quantity of fertilisers and pesticides to use and when, where and at what price to sell.

⇒ The ratio of extension workers to farmers is low at 1:1162 at national level (one agricultural officer serving 1162 farmers) as against recommended ratio of 1:750. In spite of efforts by both public and private agencies, it has been found that the outreach of the agricultural officers as also extension agents from private agencies is limited *(Source: www.thehansindia.com - Reform-agri-extension-to-boost-ryots-income, 2018).*

⇒ As a resultant of gap in technology transfer, the technological recommendations could not be adopted properly resulting in issues like:

Indiscriminate use of fertilizers: Not only spoiling human health but also soil degradation and income loss to the farmers by impacting the production efficiency on account of higher cost of inputs.

Figure 15: NPK ratios related to fertilizer usage in agriculture



⇒ The ideal ratio of NPK is 4:2:1 but average usage is more (6.3:2.5:1), resulting in not only wastage of fertilizer on account of atmospheric & leaching losses but also contamination of water aquifers, spoilage of soils and loss of income to the farmers as fertilizer constitute about 10-15 percent of the cost of production.

d) Access to Inputs – Issues related to quality, timely availability & adequacy

⇒ *'A smallholder farmer purchased maize seeds from a local inputs shop. The dealers' terms were that, with a receipt the seed would cost Rs.1500/-, but without a receipt the cost would fall to Rs.1400/-. Thinking that the receipt would be of no use to him, the farmer chose to pay Rs.1400/-. To his utter dismay, only around 20 percent of the seeds germinated. Upon reading the cover of the seed pocket, to his shock, he noticed that the seeds were for demonstration purposes and had expired three months ago. He took the empty pack back to the input shop and demanded compensation for loss of crop for that season. But without a receipt as proof of purchase, the* *farmer was powerless to obtain compensation.'* Farmers told us that every cropping season there is a dilemma in the village over whether they should buy inputs from a local shop or the nearby town or city. Most farmers, particularly small and marginal farmers, buy the inputs they need (seeds, fertilizers or pesticides) using credit. The majority of the farmers we spoke with, emphasized that close to fifty percent of their total crop production cost goes for inputs. So, the quality of these inputs is very important. To ensure quality inputs, farmers can opt to buy from a retailer in the nearby town. However, they may not be able to obtain inputs on credit without a reference from the market intermediary. Those retailers who do provide inputs on credit to farmers then charge 2-3 percent interest rate per month till the harvest. There is also a requirement to sell the produce through the same trader (though there is no formal agreement). These restrictions and higher costs on purchases in the city, coupled with a one-day wage loss and transport costs for travel to the city (and delivery in the case of fertilizers), force most of the farmers to buy inputs from local (un) authorized village shops. In the absence of insurance, if the crops fail, perhaps due to poor quality inputs, or for any other reason, farmers then get into a vicious circle of debt *(Source: Does the small farmers have access to quality inputs?, ICRISAT, 2020).*

⇒ Further, apart from quality, the inputs are required at a particular time and in adequate quantities considering the seasonality concept which many a times is not the case.

e) Marketing Issues

⇒ Based on recommendations of Commission for Agricultural Costs and Prices (CACP), GoI declares MSP for 22 commodities and FRP (Fair and Remunerative Price) for sugarcane. The 23 crops include 7 cereals (paddy, wheat, maize, sorghum, pearl millet, barley & ragi), 5 pulses (gram, tur, moong, urad & lentil), 7 oilseeds (groundnut, rapeseed-mustard, soyabean, seasmum, sunflower, safflower & nigerseed) and 4 commercial crops (copra, sugarcane, cotton & raw jute). During 2018-19, acreage under the crops for which MSP was declared was about 164.74 million hectares. With Gross Cropped Area (GCA) of around 198.36 million hectares, roughly these crops covered about 83 percent of the total GCA. Effectively, the coverage gets further extended, considering the fact that 4-5 percent of the total cropped area is under forage cultivation. Thus, the system has been devised in such a manner that theoretically, it leaves only a very small segment of producers outside the production and price mitigating mechanism. However, though the MSP is declared for 23 crops as on date, but effectively ensured through procurement only for few crops like wheat & paddy and thus, the effectiveness of the system at the ground level has been questioned from time to time.

⇒ A comparison of the production and procurement data of rice and wheat for last 10 years (2009-10 to 2018-19) is given below.

All India Production & Procurement (Rice & Wheat) at MSP (2009-10 to 2018-19)

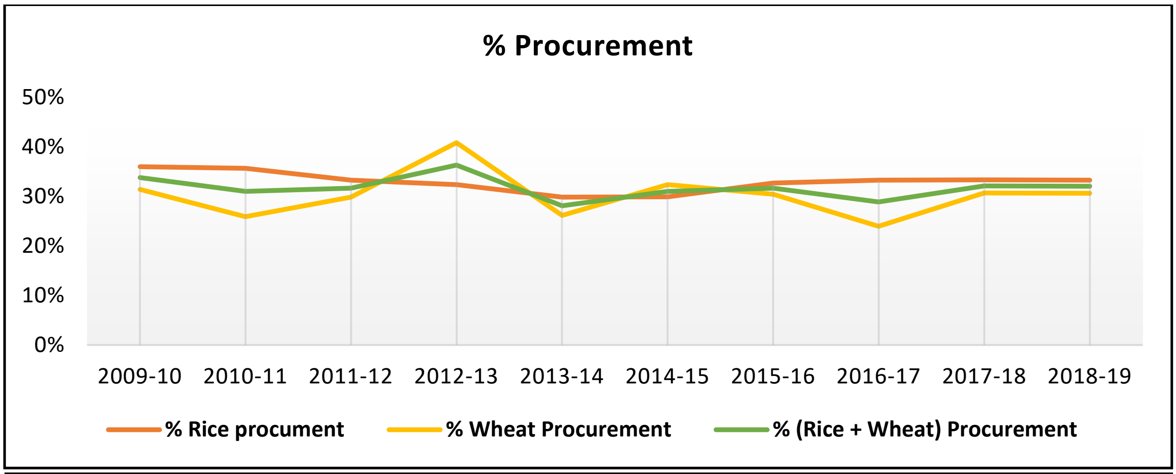
(million tonnes)

Year	Production			Procurement		
	Rice	Wheat	Total	Rice	Wheat	Total
2009-10	89.09	80.80	169.89	32.03	25.38	57.42
2010-11	95.98	86.87	182.85	34.20	22.51	56.71
2011-12	105.30	94.88	200.18	35.04	28.34	63.38
2012-13	105.24	93.51	198.75	34.04	38.15	72.19
2013-14	106.65	95.85	202.50	31.85	25.09	56.94
2014-15	105.48	86.53	192.01	31.55	28.02	59.57
2015-16	104.41	92.29	196.70	34.14	28.09	62.23
2016-17	109.70	98.51	208.21	36.48	23.63	60.11
2017-18	112.91	99.70	212.61	37.60	30.60	68.20
2018-19	116.40	102.20	218.60	42.70	35.00	77.70
Avg.	**105.12**	**93.11**	**198.23**	**34.96**	**28.48**	**63.45**

(Source: Statistics on Indian Economy 2018-19, RBI)

On an average basis, only 63.45 million tonnes of rice and wheat was procured against the average production of 198.23 million tonnes. In percentage terms, the average overall procurement was about 32 percent of the rice + wheat production put together. The procurement under rice was about 33 percent and in wheat was about 30 percent of total production.

Procurement (Rice & Wheat) to production under MSP (2009-10 to 2018-19)



⇒ Spatial disparity in terms of procurement being concentrated only in few states also exists. The highest producer of rice is West Bengal and that of wheat is Uttar Pradesh whereas the average procurement during last 5 years (2014-15 to 2018-19) for these states were only 11.9 percent and 8.9 percent respectively.

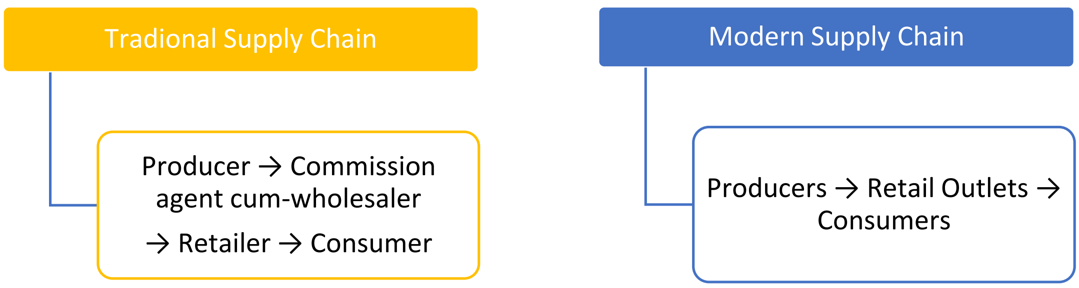
⇒ While it is true that now the MSP offered by the Government is 50% more than the A2+FL Cost as determined by the CACP, various farmer organizations are demanding 50% increase over the 'C2' cost and not over the 'A2+FL' cost.

I	**A2**	**Actual paid out cost**
II	**A2+FL**	**Actual paid out cost plus imputed value of family labour**
III	**C2**	**Comprehensive cost i.e. including rental value of own land (Net of land revenue) and interest on value of own fixed capital assets (excluding land)**

⇒ In this scenario, as a way forward, for income enhancement, farmers would be required to undertake crop rotation planning based on demand & supply with active participation on different marketing platforms including the institutional setup like e-NAM, commodity exchanges & contract farming for risk hedging, participation in global markets through exports, contract farming, use of direct marketing channels to capture intermediaries' margins in supply & value chains, etc.

f) <u>Less share of Producer in Consumer Price (Limited participation in supply & value chains)</u>

The average share of farmers in the consumers' rupee is found to be in a range of 28 percent and 78 percent for different food items (RBI Bulletin, 2019). The majority of the studies have reported that the producers associated with emerging marketing channels (organised retail chains) have been experiencing more advantage than the traditional supply chain.



The producers contracted by modern retail chains receive higher prices, higher net profits and incur lower transaction costs. Several studies have been conducted in different parts of India to compare the efficiency of the traditional as well as modern supply chain of vegetables and fruits. The net price received by the producers and producer's share in consumer's rupee was higher in supermarket channel than in traditional channels. The direct market models were found to be the best because it eliminated middlemen completely. Thus, the length of the supply chain has a negative impact on the efficiency of the marketing channel. **But the issue is that the marginal & small farmers are not able to participate and take advantage of it in individual capacities due to time constraint,**

not in a position for undertaking primary processing and requirement of quantities in bulk.

g) **Reducing landholding size** (Issue of economies of scale)

As at the end of 2015-16, the total operational land holdings in the country were 14.65 crores. Based on the size of land holdings, they can be divided into 5 categories viz. Marginal, Small, Semi-Medium, Medium and Large. The details of number of land holdings category wise are presented below.

Number of Operational Landholding by Size group

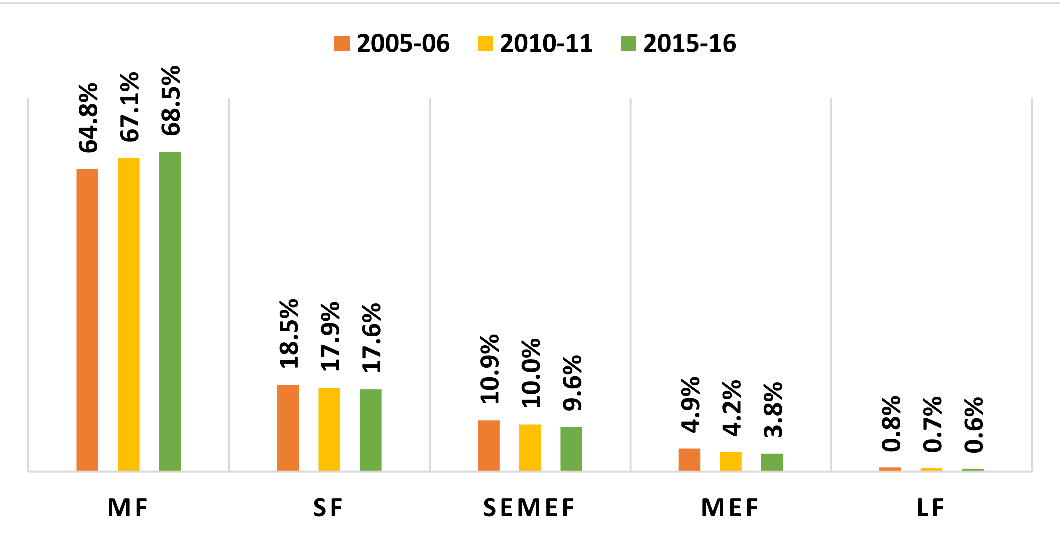
S. No.	Categories	Land Holding	Number of Holdings (crore)		
		(Area in Hectares)	2005-06	2010-11	2015-16
1	Marginal Farmers (MF)	< 1	8.37	9.28	10.03
2	Small Farmers (SF)	1 - 2	2.39	2.48	2.58
3	Semi-Medium Farmers (SEMEF)	2.1 - 4.0	1.41	1.39	1.40
4	Medium Farmers (MEF)	4.1 - 10	0.64	0.59	0.56
5	Large Farmers (LF)	> 10	0.11	0.10	0.08
Total Land Holdings			**12.92**	**13.83**	**14.65**

⇒ The number of holdings in the marginal land category were about 68.5 percent (2015-16) and an increasing trend is observed with time most probably on account of division of land within the family.

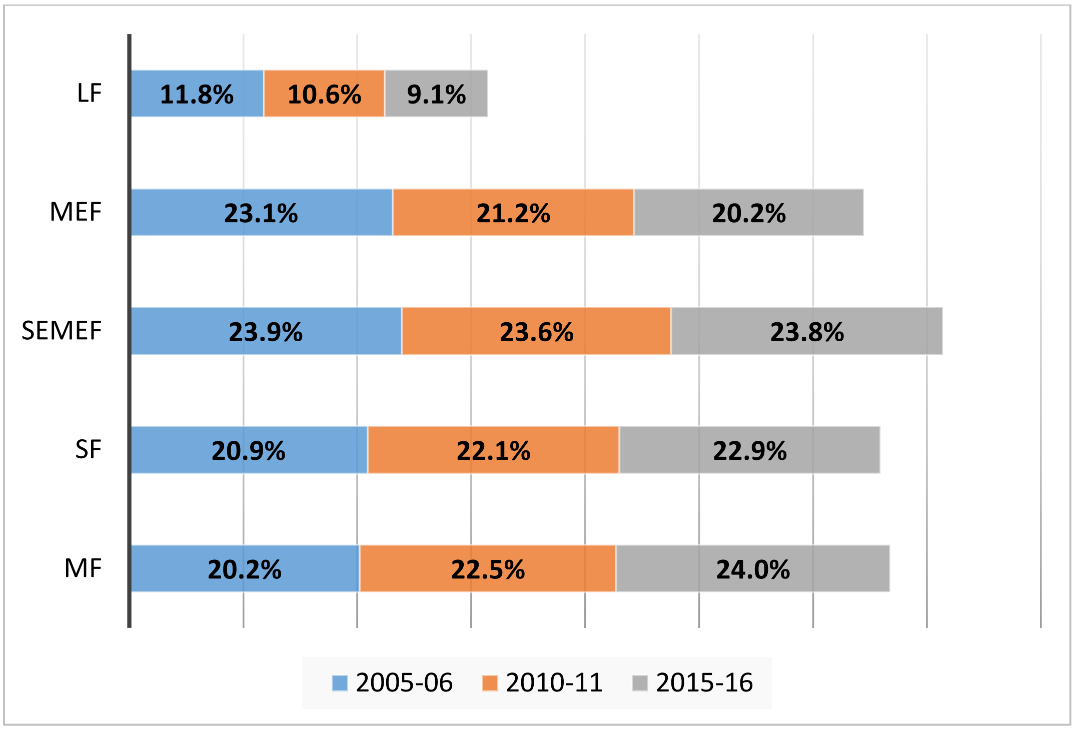
⇒ Similarly, the landholdings in other categories are showing a declining trend over a period of time.

⇒ About 86.1 percent farmers (2015-16) belong to the category of small & marginal farmers i.e. have land holding of less than 2.0 hectares

Category-wise change in number of landholdings with time



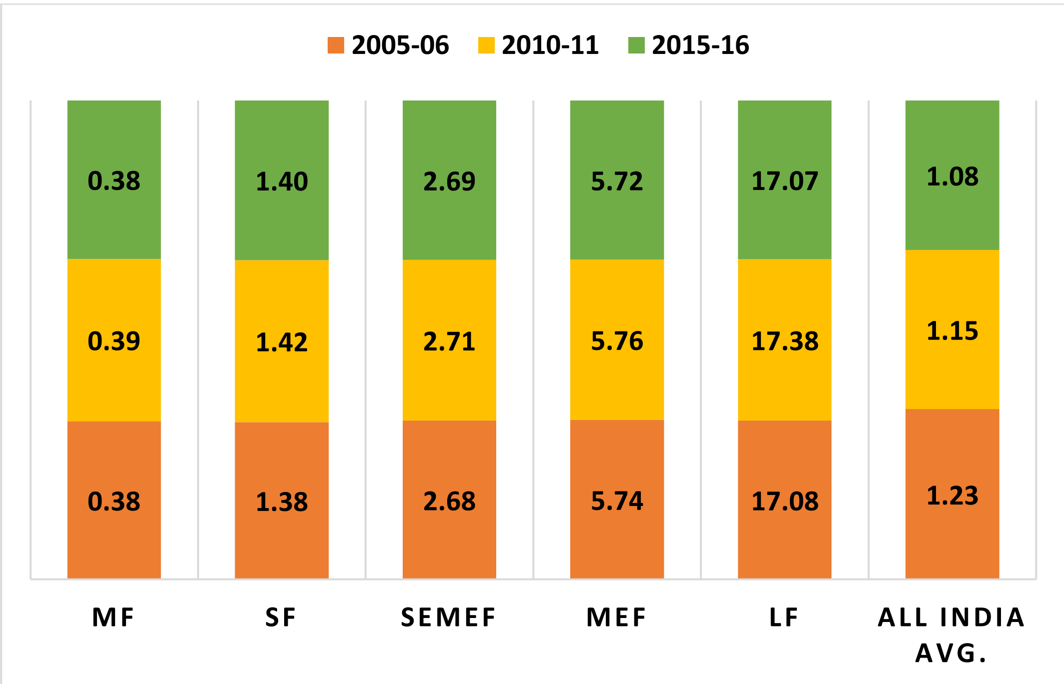
Area of Operational Landholdings by Category



⇒ The area cultivated by farmers having marginal and small land holdings is increasing with time and the area being cultivated by medium & large farmers is declining with time.

⇒ As on 2015-16, the area cultivated by Small & marginal farmers constituted 46.9% of the total cultivated area.

Average land Holding Size (Ha)



⇒ The All India Average land holding is 1.08 hectares (2015-16) and showing a declining trend with time

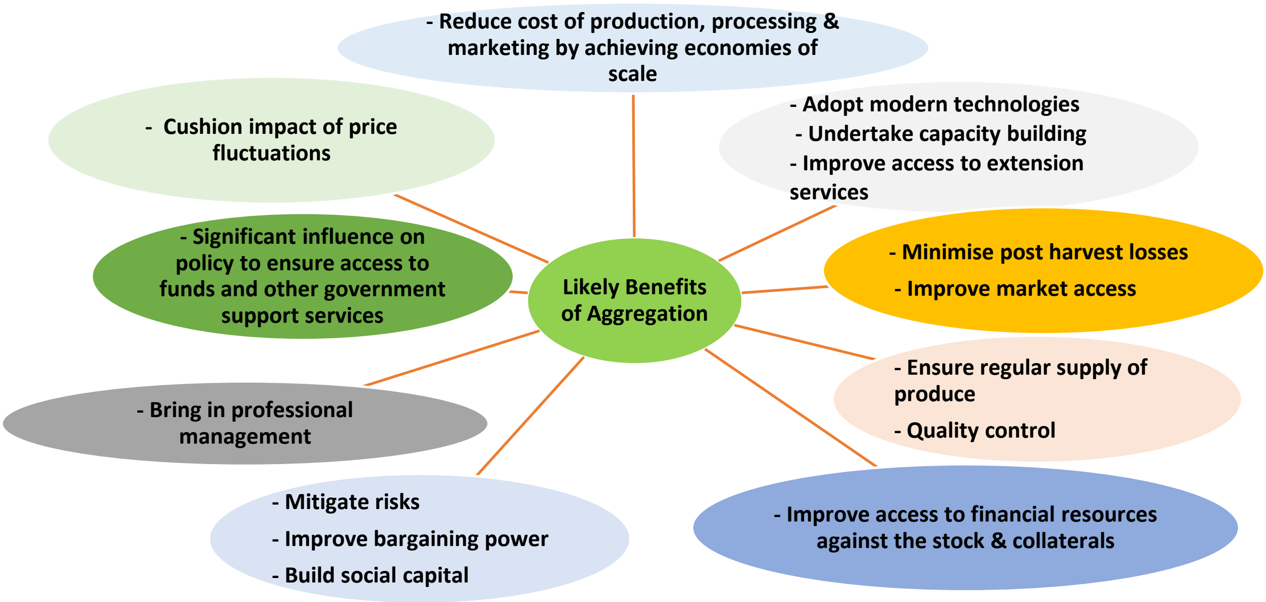
⇒ The average land holding of marginal farmer being just 0.38 hectares (2015-16) and that of a small farmers just 1.40 hectares.

Let us look at these issues and try to find a way forward:

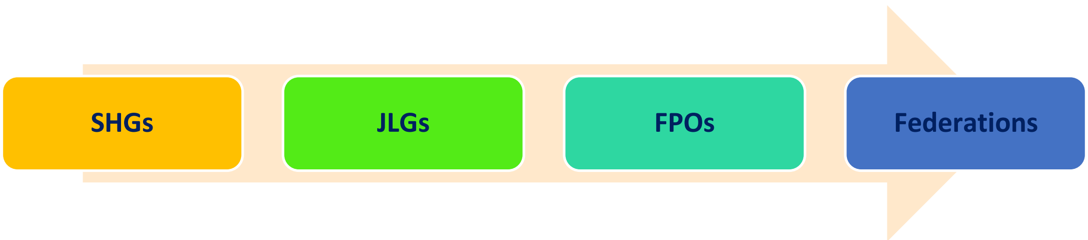
Let us start with the basic issue of average land holding size being only 1.08 hectare and the fact that with future family divisions, this trend is likely to continue. As per the data available almost 86 percent of the land holding are with farmers under the category of small and marginal land holdings i.e. with less than 2.0 hectares of land. Within this category, almost 69 percent farmers are cultivating on an average about 0.38 hectare of land and about 17.6 percent farmers in India cultivating on an average about 1.40 hectare of land which means they are producing agriculture commodities on a very limited scale on individual basis. As a result, they are likely to come across some of the following constraints:

• **May not be able to take advantage of economies of scale both on input side as well as output side**
• **Have very limited bargaining power on account of low scale of production**
• **Viability may be an issue for higher order mechanisation**
• **May not be viable to create farm level storage infrastructure which can facilitate them in taking advantage of price movement of commodities with time**
• **May not be in a position to participate at advanced level of supply chain including global markets through exports**
• **Would not be in a position to participate in value chain (processing) for increasing their share in the consumer price**
• **Appropriate & timely technical assistance and access to modern technology limited on account of distorted ratio of extension workers & farmers**
• **Access to markets specially the modern marketing channels & contract farming for better price realisation will be challenge as they deal in bulk quantities**
• **Difficulty in participating in government programs on account of awareness and time constraint**

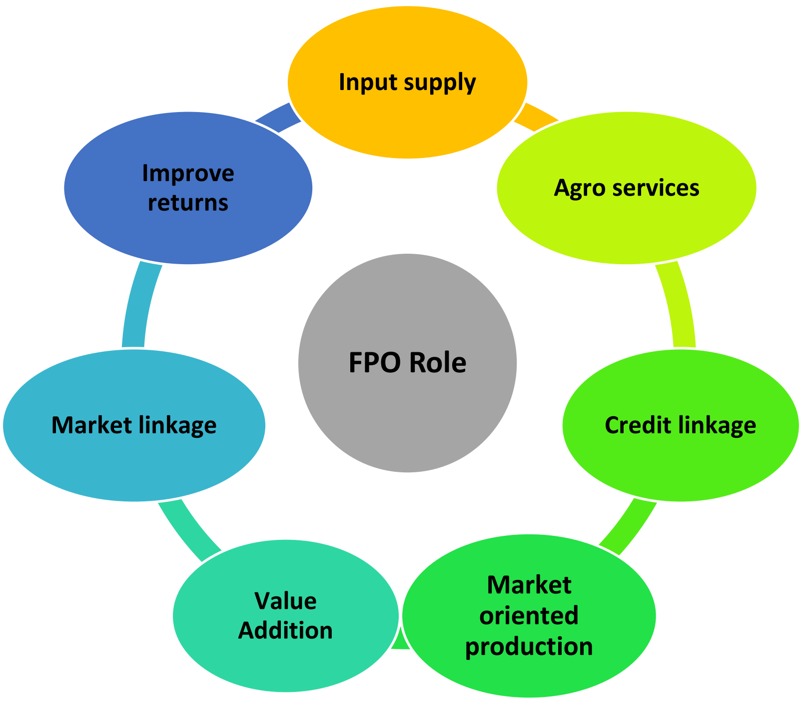
Could aggregation of these small and marginal farmers be a probable solutions?



Mode of Aggregation



Role which a Farmers' Producer Organsiation (FPO)



Advantages of FPOs: Numerous reports and studies have clearly captured and established the positive role of FPOs. Some of the important benefits ascribed to FPOs are as under:

a) Cost of production or cultivation may be reduced by procuring all necessary inputs in bulk at wholesale rates, as well as use of custom hiring services of farm equipment.

b) Aggregation of produce and bulk transport reduce marketing cost, therefore, enhancing the net value accruals to the producer.

c) Building scale through aggregation of commodities lends advantage of economies of scale and attracts traders, processors, and retailers to the farm gate.

d) Easy access to modern technology, extension services and joint training on Good Agricultural Practices (GAP) and ensuring traceability of agriculture produce.

e) Post-harvest losses can be minimised through joint storage and value addition facilities.

f) Adverse price fluctuations and distress sale can be managed or avoided; if good practices are imbibed. These include contract farming agreements, stocking in own common facilities or leased storage facilities with credit support, etc.

g) Ease in communication for dissemination of information about prices and volumes in different locations and other farming-related advisories thereby reducing in formation asymmetries.

h) Access to institutional credit against stock, without collateral by virtue of joint liability implicit in the FPO framework.

i) Movement up the value chain and graduation into primary and secondary processing will be possible as minimum scale economies are reaped.

j) Greater bargaining power to farmers and greater quality orientation in production and processing activities.

Note: *As a result of the above initiatives, farmer members of the FPOs saves on cost of production, reduction in post-harvest losses and participation in value chains. Thus, the institution of FPO shall generally lead to augmentation in income levels of the member farmers and this must be highlighted by the Trainer*

FPO - The Concept

A Farmer Producer Organisation entails the spirit of a cooperative society which has been there on the ground for last more than 100 years. However, for inculcating the principles of cooperation along with professional management, the Government of India (Ministry of Law, Justice and Company Affairs by its order No. 11/12/99-CL-V dated 01 November 1999) constituted a High Powered Committee to:

- *Examine and make recommendations with regard to framing legislation which would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies*

- *Ensure that the proposed legislation accommodates the unique elements of cooperative business within a regulatory framework similar to that of a private limited company*

The Committee constituted under the chairmanship of Dr. Y K Alagh recommended that the GoI enact legislation to enable the registration and operation of producer companies, wholly owned and self-regulated by users, managed by professionals in the user's interest and in a manner consistent with the principles of mutual assistance. The committee evolved the legislation for the above purpose on the experience of producer organisations all over the country. The committee was of the opinion that keeping in view the importance to the survival of the producer organisations in a market economy, GoI should take up the matter of adoption of the legislation as early as possible. The legislation will provide rural producers with an effective alternate organisational form which will both encourage professionalization and a modern corporate culture while retaining and supporting the principles of mutual assistance.

The Ministry of Company Affairs introduced a Bill for amendment in the Companies Act, 1956 by inserting Part IX A, paving a way for the incorporation of Producer Companies. The Act has allowed primary producers to organize themselves to gain a maximum profit.

FPO - Legal Forms

Producer organisations is a general concept and FPOs can be formed and registered under different prevailing Acts as under:

- State Cooperative Societies Act
- Producer Company under Section 581(C) of Indian Companies Act, 1956, as amended in 2013
- Section 25 Company of Indian Companies Act, 1956, amended as Section 8 in 2013
- Multi-State Cooperative Society Act, 2002
- Public Trusts registered under Indian Trusts Act, 1882

However, as per the Central Sector Scheme on Formation and Promotion of 10000 FPOs, the focus is on FPOs registered under Cooperative Societies Act and Companies Act

Central Sector Scheme on Formation & Promotion of 10000 FPOs - Salient features

A. Aims & Objectives of the Scheme

i. To provide holistic and broad based supportive ecosystem to form new 10,000 FPOs to facilitate development of vibrant and sustainable income oriented farming and for overall socio-economic development and wellbeing of agrarian communities.

ii. To enhance productivity through efficient, cost-effective and sustainable resource use and realize higher returns through better liquidity and market linkages for their produce and become sustainable through collective action.

iii. To provide handholding and support to new FPOs up to 5 years from the year of creation in all aspects of management of FPO, inputs, production, processing and value addition, market linkages, credit linkages and use of technology, etc.

iv. To provide effective capacity building to FPOs to develop agri-entrepreneurship skills to become economically viable and self-sustaining beyond the period of support from government

B. Key features of the scheme:

1) **Target & Coverage**:

a) The scheme aims at providing a holistic & broad based supportive ecosystem for formation of 10,000 new FPOs by 2023-24. For achieving economic viability & self-sustainability beyond support period, newly formed FPOs are to be initially provided handholding support in terms of capacity enhancement in areas of management, governance, business development and business diversification particularly through their participation in supply & value chains, market linkages, credit linkages and use of technology, etc.

b) FPOs are to be formed with a minimum farmer-members' base of 300 with an exception of 100 members in difficult areas like North-Eastern & Hilly regions *(area at a height of 1000 metre or above MSL)*. For above, the farmer-members cohesively located with almost same interest are to be mobilized to form a small informal group of 15-20 members (Farmer Interest Group (FIG)/ Self Help Group (SHG)/ Farmers Club (FC)/ Joint Liability Group (JLG)/ Rythu Mitra Group (RMG)) and with such groups forming an area-based producer cluster based on certain commonalities to be put together to form an FPO.

c) Special focus is to be accorded to small & marginal farmers, women farmers, women SHGs, SC/ST farmers and other economically weaker categories to make the FPOs more effective and inclusive.

d) Concerted efforts to be made for prioritizing formation of FPOs in aspirational districts with a target of promoting at least 15% of the 10,000 FPOs i.e. 1,500 FPOs. The aim set is to promote at least one FPO in each block of aspirational districts of the country.

e) In addition to above, priority is to be given to promotion of FPOs in the notified tribal areas in the country for undertaking business activities in forest and minor forest produce by the tribal communities through convergence with schemes of Tribal Affairs Ministry, DONER and North Eastern Council (NEC).

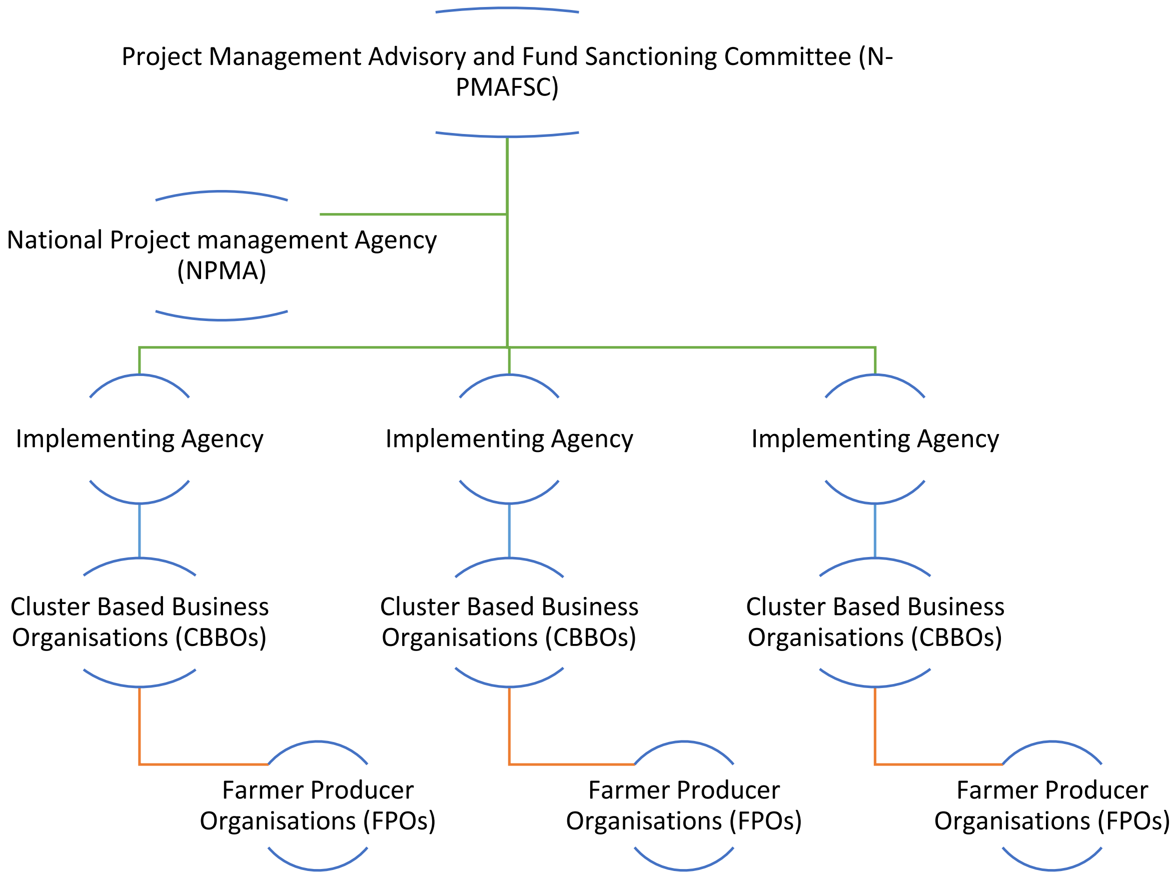
f) Overall, the scheme envisages to cover all blocks in the country under scheme as also achieve an average membership base of 500 farmers in normal areas and 200 farmers in Hilly and North-Eastern regions to make them sizable for economic sustainability and profitability.

g) <u>Types of FPOs Covered</u>: FPO is a generic term, which means and includes farmer-producers' organization incorporated/ registered either under Part IXA of Companies Act or under Co-operative Societies Act of the concerned States and formed for the purpose of leveraging collectives through economies of scale in production and marketing of agricultural and allied sector. **However, FPOs registered under Cooperative Societies Act of the State (including Mutually Aided or Self-reliant Cooperative Societies Act by whatever name it is called) for the purpose of this Scheme, is to be insulated from all kinds of interference including election process and day today management through suitable provisioning in their Memorandum of Association and Bye-laws with a view to encourage healthy growth and development of FPO**

h) <u>Budgetary provision</u>: The scheme is to be implemented till 2023-24 with budgetary support of Rs. 4496.00 crore. Since, financial support *(except management cost)* is to be extended for five years, therefore, FPOs formed will be required to be financially supported till 2027-28. Provision for this additional committed liability for period from 2024-25 till 2027-28 of Rs. 2369.00 crore say Rs. 2370.00 crore will be made. Thus, the total budgetary requirement up to 2027-28 would be Rs. 6866.00 crore. The budget requirement will be met from overall allocations of DAC&FW.

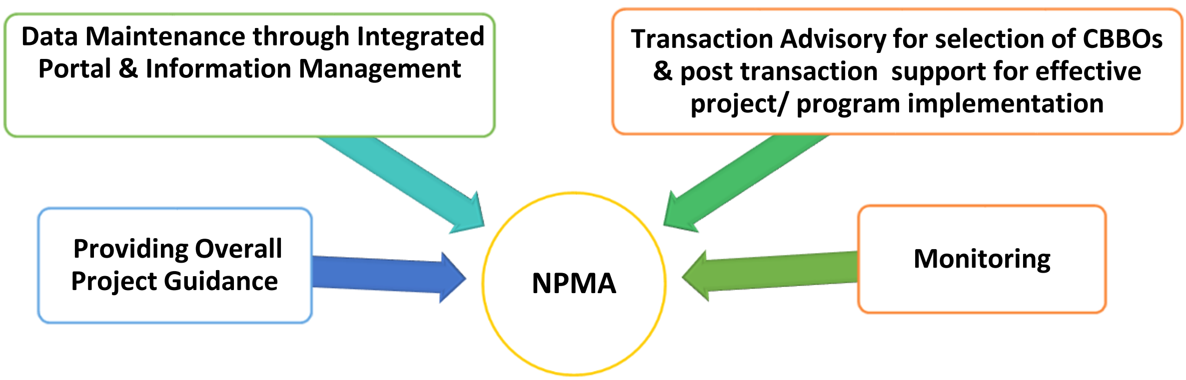
2. <u>Stakeholders – Role & Responsibilities</u>

The program will be implemented under the overall guidance of **Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC)** constituted under the Chairmanship of Secretary, DAC&FW with Joint Secretary (Marketing), and DAC&FW as Member Secretary. The hierarchical structure under the scheme would be as under:



As per the scheme guidelines, the important stakeholders, their respective roles as also the implementation & monitoring mechanism prescribed are as under:

a) **National Project Management Agency (NPMA):** NPMA shall be set up by SFAC for the following purpose:



NPMA to be equipped with a technical team comprising five categories of specialists viz. Agriculture / Horticulture, Marketing & Processing, Incubation Service Provider, IT/MIS and Law & Accounting for providing overall guidance at All India level

- Identification of target value chains (value chain analysis)
- Detailed SOPs for each stakeholder in the value chain
- Clusters to be chosen for FPO formation

- Function as National level Data Repository through maintaining integrated portal
- Serve as National Platform for FPOs (MIS & digital platform for maintaining FPO related data

- NPMA will assist in facilitating and identifying National & State level institutes in the field of Agri-business
- Assist in linking/ undertaking MoUs with these institutions for long term engagement & development of FPOs

b) Implementing Agencies (IAs)

i. For promoting FPOs in uniform and effective manner three Implementing Agencies viz. NABARD, SFAC & NCDC have been identified.

NABARD	SFAC	NCDC
• Promote FPOs registered under Part IX A of Companies Act as also under Co-operative Societies Act of States	• Promote FPOs registered only under Part IX A of Companies Act	• Promote FPOs registered under only Co- operative Societies Act of the States

ii. Based on the Implementing Agencies' area of operation in a particular States/ Regions/Districts/Produce Cluster along with their human resource capital and area of specialization, targets for number of FPOs to be promoted by them will be tentatively allocated by Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC).

iii. In addition to aforementioned three implementing agencies, in case, if any State/Union Territory is desirous to have its own implementing agency, they can approach DAC&FW for consideration of the same.

Role of Implementing Agencies

a) Identification of CBBOs
b) Provide fund to CBBOs & FPOs as envisaged in the Scheme
c) Monitoring of CBBOs & undertake regular desk and/or field monitoring of the borrowing FPOs
d) Ensuring regular data entry on integrated portal (Integrated National Level Data Repository through Portal managed through NPMA)
e) NABARD and NCDC will also maintain and manage the Credit Guarantee Fund (CGF) for credit guarantee to banks for FPO financing
f) Developing tools for FPOs to assess their level of activity, economic viability and sustainability, etc.
g) Coordination with concerned Value-Chain Organization(s) for channelizing their claim to N-PMAFSC for payment

c) Cluster Based Business Organisations (CBBOs):

i. Implementing Agencies will be identifying **Cluster- Based Business Organizations (CBBOs)** at the State/Cluster level to form and promote FPOs. A Committee under Chairmanship of MD, SFAC with representatives of Chairman, NABARD and MD, NCDC will finalise the eligibility criteria for selection of CBBOs for consideration of DAC&FW.

ii. In a State, based on geography, produce clusters, cropping pattern, etc., there can be one or more CBBO and a CBBO can also serve in more than one State.

iii. CBBOs should have professional expertise & requisite experience in formation of FPOs in agriculture & allied sector and should have a panel of specialists in following domain areas :

- **Crop husbandry**
- **Agri. marketing / value addition and processing**
- **Social mobilization**
- **Law & Accounts**
- **Information Technology/Management Information System**

Role of CBBOs

CBBOs will undertake Feasibility Study in assigned clusters which will include the following:

a) Cluster Identification – Undertaking diagnostic study including Baseline survey to:
   - Map the current situation of farming specially in respect of small, marginal and landless farmers for aggregation
   - Identify the geographical area for potential interventions
   - Based on socio-cultural similarity, identify the produce, existing gap *(production knowhow, supply & value chain, post-harvest management, marketing, etc.)* and the scope of potential interventions
   - Shortlist interventions in terms of infrastructure, services, etc. required in the value chain development of identified agricultural/horticultural produce including post-harvest management and marketing

b) Preparation of Prospective Business Plan: Prepare a prospective Business Plan in order to establish a fit case for formation of an economically sustainable FPO

c) Undertake community mobilization as well as mobilization of members for FPO

d) Registration of FPO

e) Execution of Business Plan

f) Training and capacity buildings of FPOs/farmer groups *(FPO management, marketing, financial management, compliance management, etc.)*

g) Monitoring and data submission as required under the scheme

h) Assist in regular interface with stakeholders

i) Convergence with ongoing government programs/schemes & Networking

j) Assist in Federating FPOs

iv. Moreover, interested Central & State Government Agriculture Universities & KVKs promoting FPOs can also seek empanelment as CBBOs in consultation with N-PMAFSC on nomination basis.

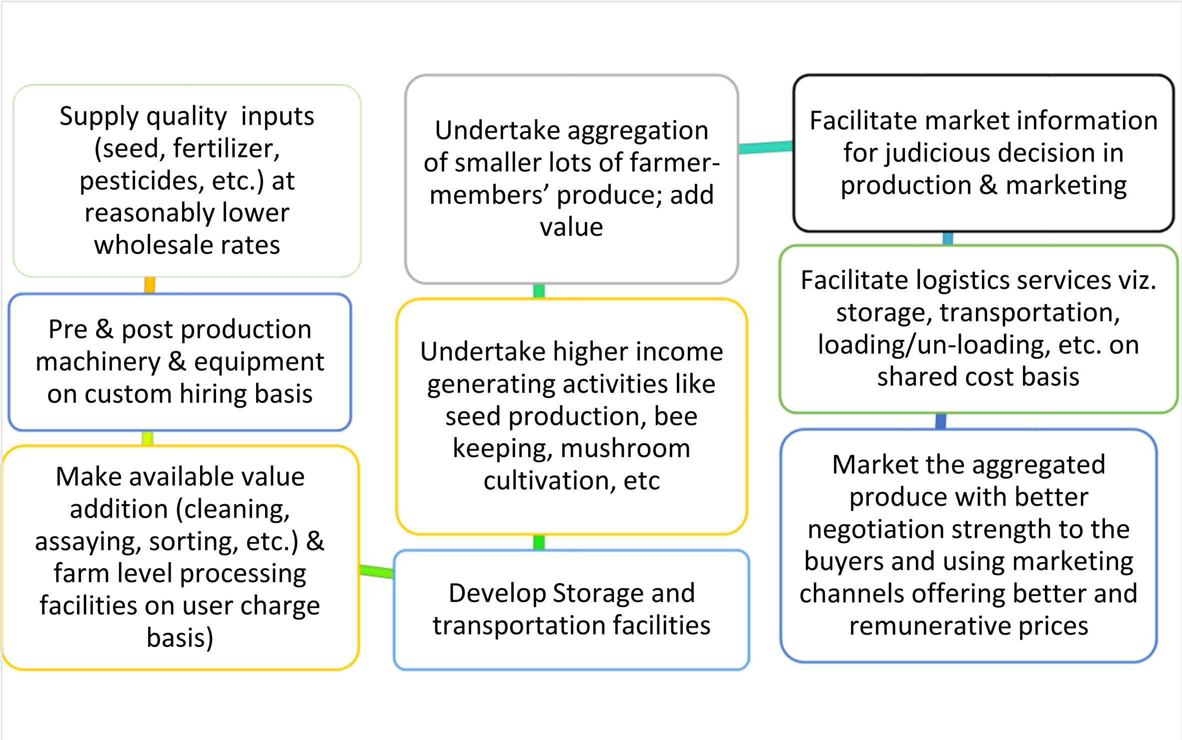
d) Formation of FPO (Industry Concept)

i. Concerned Industries (Value Chain Processing & Export Industries) can also form and promote FPOs directly through cluster approaches and will be eligible for assistance under the scheme. However, their eligibility is subject to the condition of ensuring buyback of at least 60% of the produce of members of such FPOs with appropriate processing & assured marketing linkages on sustainable basis for remunerative prices for improving the income of the members.

ii. The FPOs promoted by them can avail credit guarantee cover under Credit Guarantee Fund from banks along as also equity grant through implementing agencies and the advisory services rendered by NPMA provided they comply with the norms & guidelines of respective schemes.

iii. However, for participating in the program, these entities are required to submit detailed proposals in advance to N-PMAFSC along with year-wise action plan for consideration.

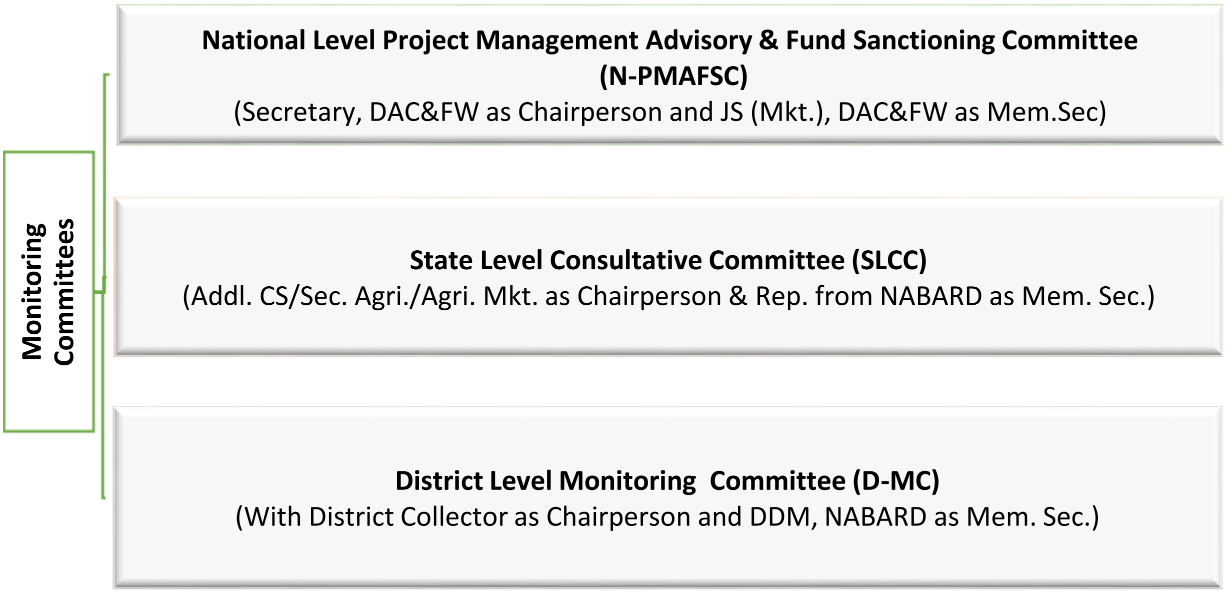
e) Thrust on FPO participation in product value chains: For sustaining an FPO, in addition to business as usual (aggregation model), the focus under the scheme is to explore possibilities for FPOs participation in the supply & value chain business. Thus, the business modelling should incorporate participation of FPOs in supply chain & value chains along with standard model to strike viability. The standard business model could be as under:



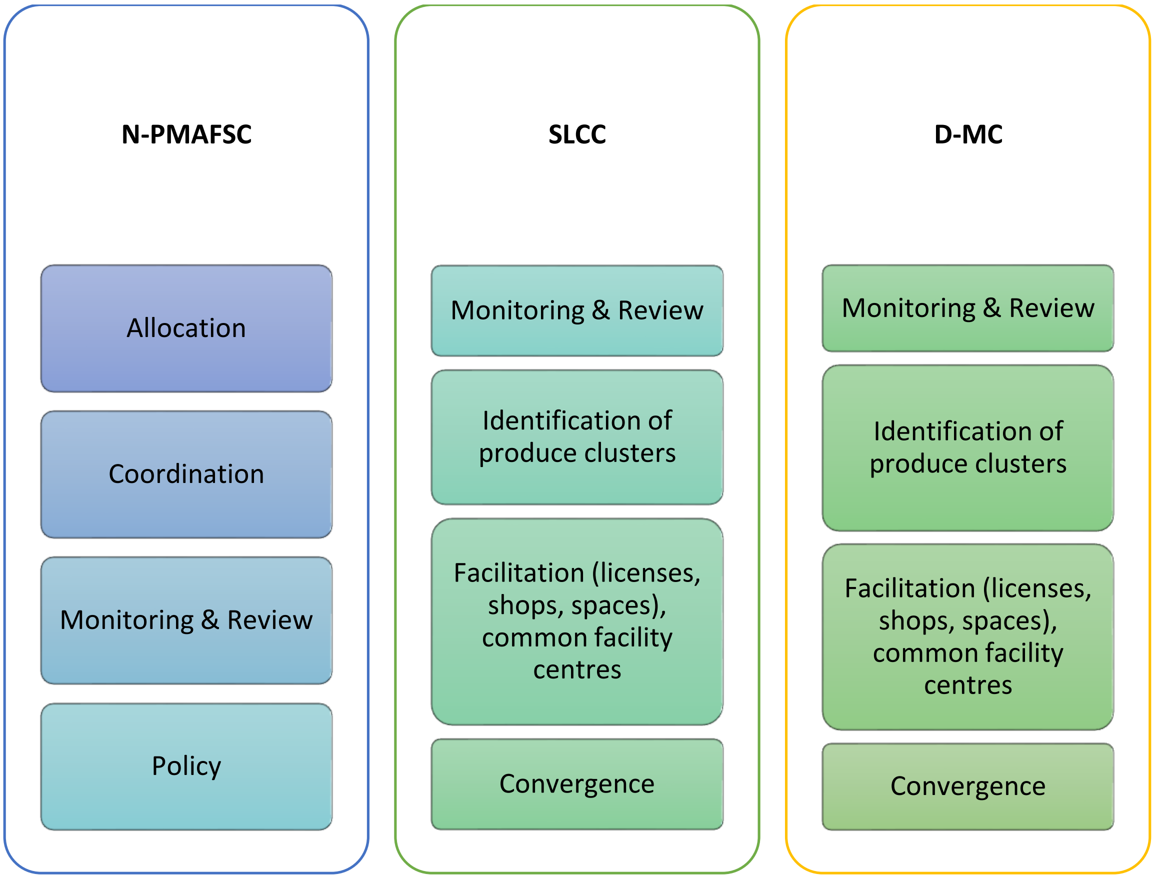
- For economical sustainability, diversification of risk and enhanced returns, the FPO can also have additional product and service mix so as to have enough activities and engagements with the members throughout the year.

f) Implementation & Monitoring Mechanism

i. A three tier institutionalized structure (National, State and District level) has been conceived under the scheme for effective implementation and monitoring.

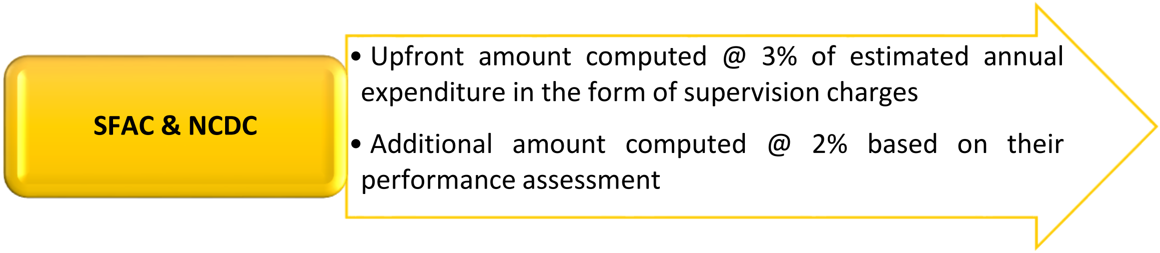


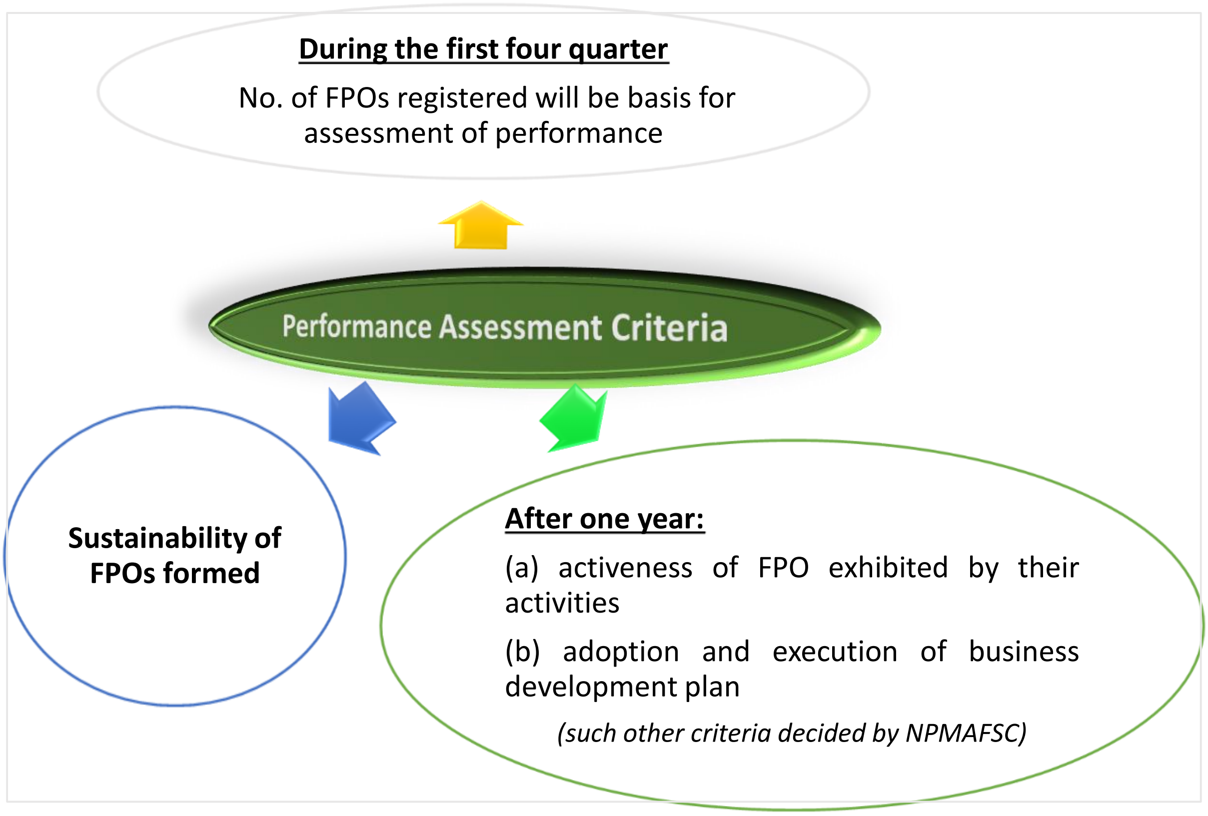
ii. Role & Responsibilities of Committees



g) Support available under the scheme to different stakeholders

1) Incentive to Implementing Agency:





2) Incentive to Cluster based business organisations (CBBOs): The formation and incubation cost of CBBO, limited to maximum of **Rs. 25 lakh / FPO** of support or actual whichever is lesser, is to be provided **for five years** from the year of formation.

   a. It includes cost towards undertaking baseline survey, mobilization of farmers, organizing awareness programmes and conducting exposure visits, professional hand holdings, incubation, other overheads etc. Payment will be made to the CBBOs by Implementing Agencies and shall be released after receiving the utilization certificate of the previously released amount.

b. The Implementing Agencies after applying the due diligence will satisfy themselves with the performance of the CBBOs as per the following criteria:

First 6 months

- Performance of the CBBOs will be assessed based on baseline survey, report submitted and aggregation activities undertaken for FPO formation

6 mths to 1 yr

- No. of FPOs formed in allocated aspirational districts in different blocks, if any
- Number of farmers mobilized to become the members of FPOs (min. membership of 300 in plain areas & 100 members in NER & Hilly areas (including such other areas of UTs) as per prescribed minimum number;
- Registration of FPOs
- Formulation of Business Plan for FPOs

Yr-2

- First equity grant availed by the FPOs
- Statutory clearances obtained to carry out business activities
- Minimum 50% of business activities executed as per business plan
- Number of preliminary awareness programmes for member/BoDs and exposure visits of FPOs are undertaken
- First tranche of Equity Grant availed by FPOs, if any
- First tranche of Credit Guarantee Facility availed by FPOs, if any
- Institutional Training provided to CEOs/BoDs
- Registration of FPOs in e-NAM or other electronic platform undertaken and trading activity thereon taken place

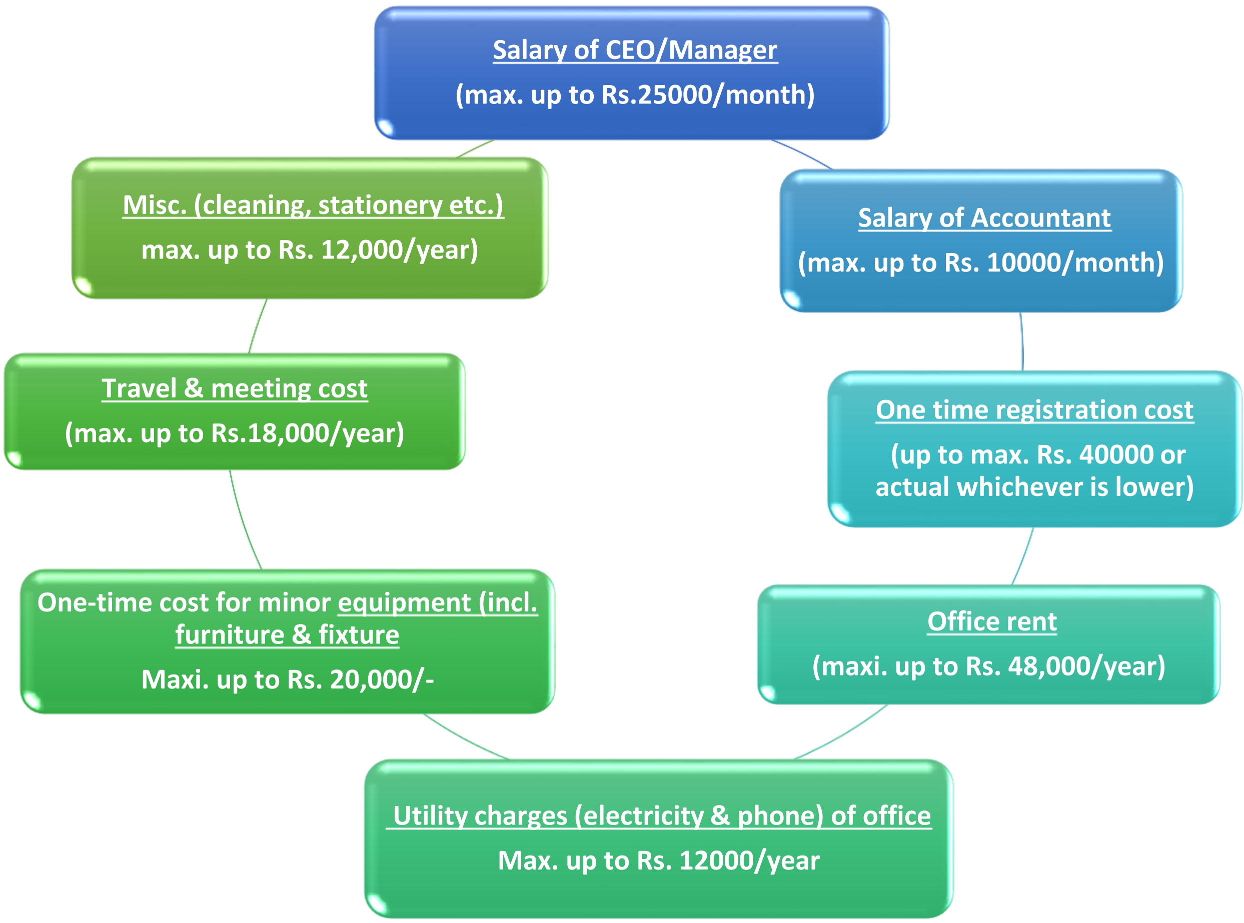
Yr-3 & 4

- Issuing Share Certificates to each member in third year, if any
- Audited Financial Statements for FPOs for second year and third year in due time and filing as required
- MoU and vendor registration as per Business Plan with Marketing Agencies/Institutional Buyers
- Trading/uploading of produce in e-NAM/other sources, if any
- Second tranche equity grant to FPOs, if any; and (f) second tranche of credit guarantee facility, if any

Yr-5

- Audited Statements of accounts of FPO and filing it
- 100% of agri-business plan executed and value chain developed
- Revenue model showing financial growth in last 3 consecutive years
- Detailed project completion Report
- Third tranche of credit guarantee facility if any.

3) FPO Management Cost: Under the scheme, financial support up to maximum of **Rs. 18 lakh / FPO** or actual, whichever is lesser is to be provided to FPOs for **three years** from the year of formation. From fourth year and onwards, the FPOs have to manage their own business activities. The indicative financial support broadly covers:



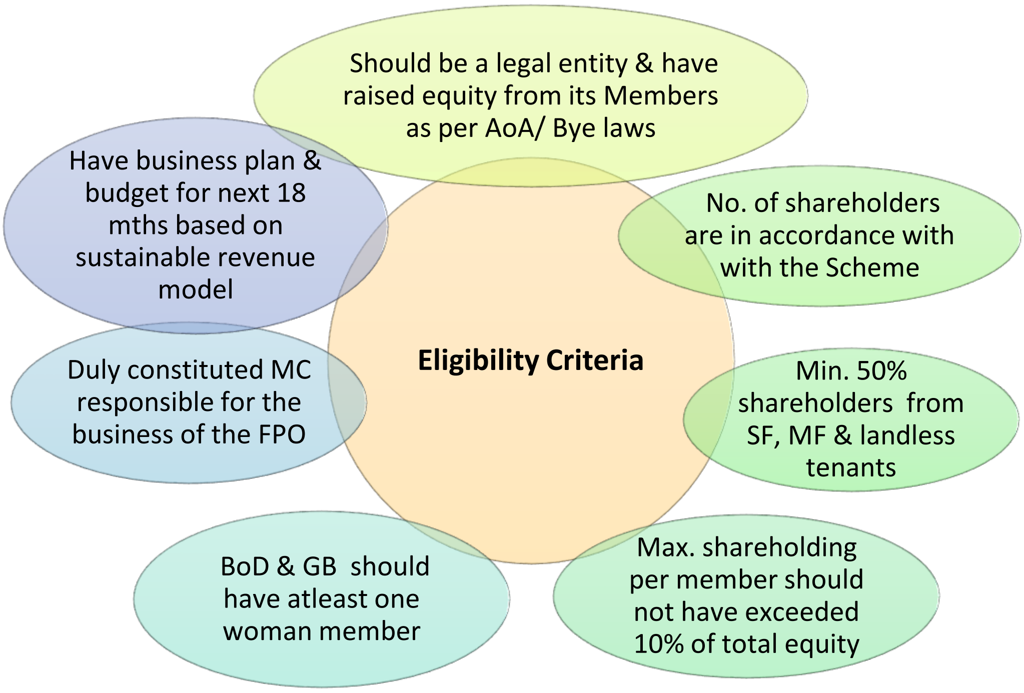
Note: *Any expenditure of operations, management, working capital requirement and infrastructure development etc., over and above this, is to be met by the FPOs from their financial resources*

4) Equity Grant for FPO

A. Support: Equity Grant shall be in the form of matching grant up to **Rs. 2000 per farmer** member of FPO subject to maximum limit of **Rs. 15.00 lakh per FPO**.

Objective		
Enhance viability & sustainability of FPOs	Increase credit worthiness of FPOs	Enhance shareholding of members to increase their ownership and participation in their FPO

B. Broad Eligibility Criteria



- Equity Grant sanctioned will be released to respective Implementing Agency for transferring to the bank account of the FPO.
- Post receipt follow-up action time frame: Within 45 days of the receipt of the Equity Grant, FPO will have to issue additional shares to shareholder members.
- No. of times it can be drawn: The FPO can draw the Equity Grant in a maximum of 3 tranches (within a period of 4 years of the first application and within the handholding period of CBBO) subject to the cap and the extent it is able to raise additional Member Equity to qualify for an additional matching grant.
- Recourse on Non Compliance: In the event of violation of any of the terms and conditions, Implementing Agency will have the right to demand and enforce forthwith, the repayment of the entire amount of Equity Grant sanctioned by Implementing Agency along with appropriate damages.

5) Credit Guarantee Facility for Lending Institutions

Objective
Providing a Credit Guarantee Cover to Eligible Lending Institution enabling them to provide collateral free credit to FPOs by minimising their lending risks

NABARD

Will create & maintain a Rs. 1000 crore Credit Guarantee Fund

Provide credit guarantee for FPOs promoted & registered under both Coop. Act & Companies Act

NCDC

Will create & maintain a Rs. 500 crore Credit Guarantee Fund

Provide credit guarantee for FPOs promoted & registered under Co-operative Societies Act only

Covered

Credit facility (term loan, working capital or composite loan) sanctioned within 6 mths from date of application for guarantee cover without any collateral security and/or third party guarantees

Not Covered

Credit facility against collateral security and/ or third party guarantee, risks additionally covered under any scheme operated by RBI/Govt/General Insurer, Overdue for repayment, Rescheduled or Restructured loans on becoming overdue for repayment, etc.

Credit Facilities

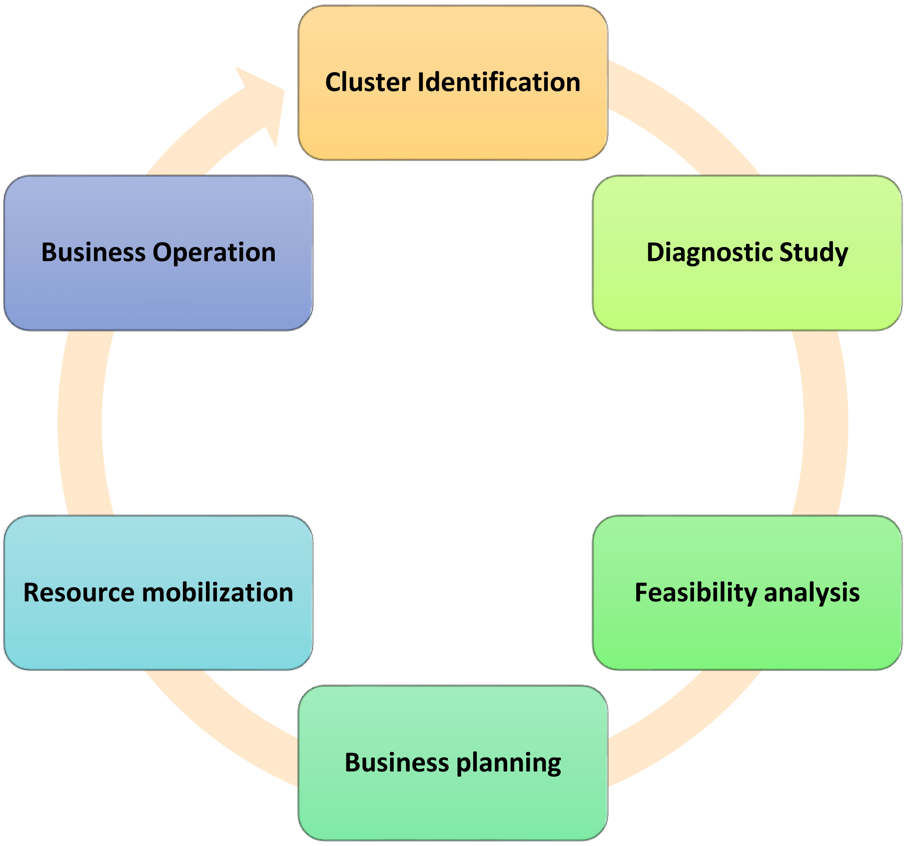
Credit guarantee cover per FPO limited to project loan of Rs. 2 crore

Loans up to Rs. 1 crore, guarantee cover 85% of project loan with ceiling of Rs. 85 lakh (Max. guarantee fee 0.75% of credit facilty)

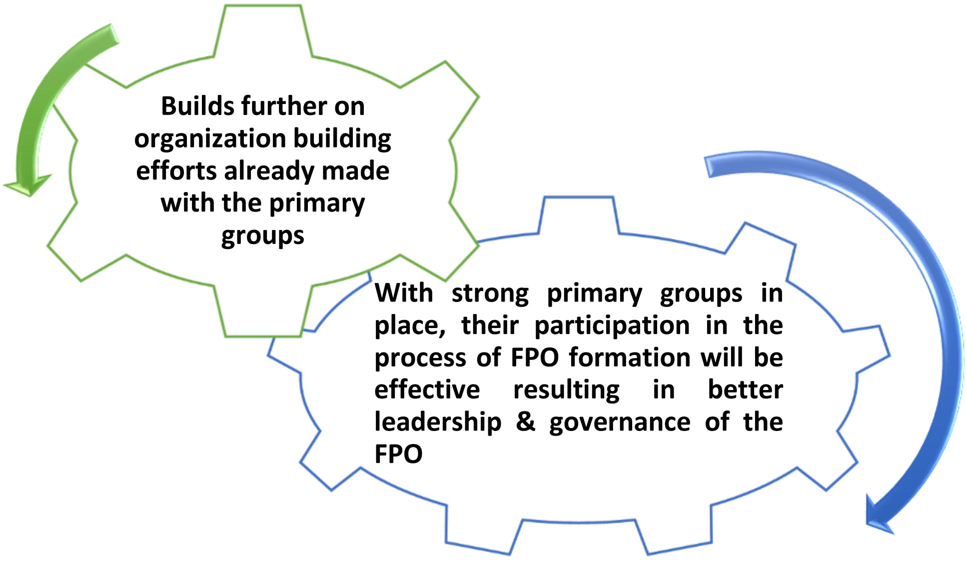
For Rs.1 - 2 crore, guarantee cover to be 75% with a maximum ceiling of Rs. 150 lakh (Max. fee 0.85% of credit facility)

Session	Evolution process for vibrant FPOs- Cluster identification to operationalising business plan
II	

Cluster Based Business Organisation (CBBO) have been assigned the task of formation & promotion of vibrant FPOs. The broad approach to be adopted by them would be as under:



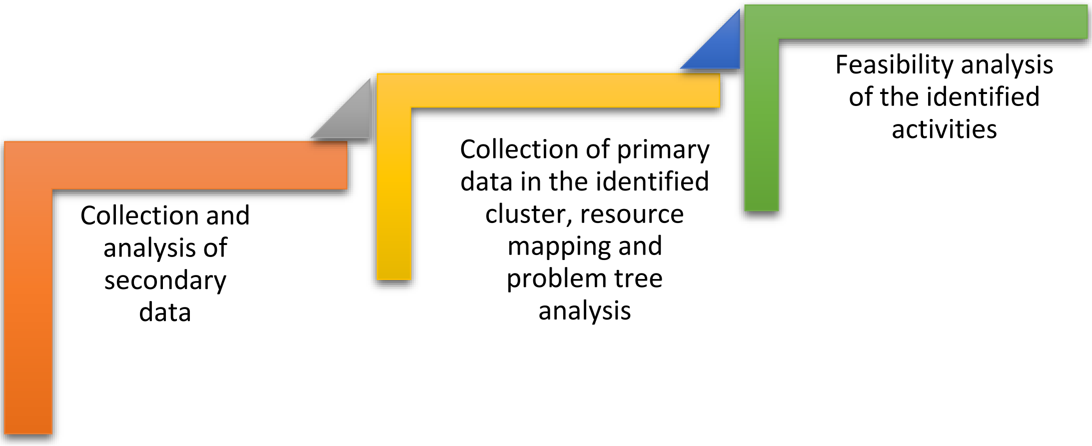
1) **Cluster identification:** Ideally, a cluster of more than 1000 farmers is to identified within one or two Blocks covering about 20-30 contiguous villages in a particular district to form agriculture based Farmer Producer Organisation (*However this may change depending upon the products to be handled by the FPO)*. Normally, selection of the cluster and the members will be done on the basis of the commonalities like produce, farmers' need and common problems which they face in terms of inputs, production and marketing. Strategy involves organizing the primary groups on the basis of common interest, geographies and then federating them as FPO to address the larger issues of economies of scale in input management, integration with the market, participation in supply chain at higher order, value chain development, etc. based on felt need by the members of the primary groups. The benefits of adopting this approach would be:



Past experiences have shown that FPOs mature faster in cases where primary groups like Common Interest Groups (CIGs), Self Help Groups (SHGs), Water Users' Groups (WUGs), etc. are converted into FPOs without altering & diluting their original identity i.e. they continued to function as primary groups as earlier. Further, areas where past project investment on land, water, agriculture had been undertaken *(watershed, wadi, irrigation, land development projects, etc.)*, the FPOs are found to have better control over the production systems and better understanding of the market which works in positive way for the FPOs.

2) **Undertaking Diagnostic Study:** The diagnostic study in selected clusters will be undertaken to assess the preliminary situation of the farmers and the status of agriculture in that area. The study will also facilitate in identifying the potential interventions required and understanding the specific context of project implementation. The objective of the study would be to develop a planning as well as reference document defining the pre-development contours in the context of goal desired to be achieved. Hence, the facts and figures that are presented, must be comprehensive and must lead to an action. The sustainability of any intervention depends on the impact of the intervention on the member families. The design variables for the intervention will include elements like size, scope, institutional structure, management and technology. The diagnostic study will facilitate in finalizing the design variables using the primary and secondary data analysis and contextualize the interventions. The process of diagnostic study would as under:

Process involved in conducting Diagnostic Study



(i) **Collection of secondary data:** Collection and analysis of secondary data would be undertaken for identification of potential activities and assessment of resource availability to continue & sustain the activities to be undertaken by the FPO. Though, most of the needed information is available in the official website of the concerned district (district.nic.in), however, the discussion with the concerned line department officials and concerned KVKs will be required. The collected data will be subjected to analysis to get a bird's eye view about the cluster area and the livelihood opportunities available therein. Even though, it does not give the full picture about the existing status and developmental issues related to livelihood, it surely provide certain leads for further probing. The analysis will be undertaken as under:

- **Preparation of Block map:** Will give the idea about the boundary and landscape of the cluster area, details of panchayats and villages and other details like status of transport facilities, communication facilities, location of banks, infrastructure facilities like godowns, collection centres, markets (both for inputs & outputs), availability of natural resources, crops grown, etc. This information will facilitate fine-tuning of clustering of the block based on the crops/activities.

- **Occupational structure of cultivators:** Information on the details of activities undertaken by farmers under agriculture and allied sectors and other livelihood activities in the area will be collected and analysed. The proportion of cultivators' vs marginal workers will give details on the availability of the workers for the production function and also help to understand the availability of work for the labourer.

- **Rainfall Pattern:** The analysis of the rainfall data for past 25-30 years will facilitate understanding the trends in rainfall pattern and impact of climate change in the cluster. The analysis will also provide us with useful information like period of onset and withdrawal of monsoon, quantity of rainfall received per annum & frequency of occurrence of dry spells/

drought/floods. All the above information will help in understanding the trends in rainfall pattern during the year and the expected risk in the selected crop/activities.

- **Seasonality, cropping pattern and preparation of cropping calendar:** Seasonality in agricultural operations would provide information on the availability of employment opportunities and crops grown in different seasons. Knowledge on this aspect would also facilitate credit assessment & identification of potential relevant technologies for the agricultural operations. The analysis of change in cropping pattern at least for last 5 seasons will help in understanding the production trends, market demand, soil health, labour demand and the availability of resources.

- **Land use pattern and productivity assessment:** The total cultivated area of each of the villages and the wet, dry and backyard land details could be assessed to understand the land use and cultivation practices. The details of waste land, dry land & grazing land availability could also be analysed which will enable us to define the future interventions. Year-wise productivity assessment of the major crops grown in the block can also be assessed to understand the trends in production and productivity in the cluster area and to find out the cropping intensity.

- **Natural Resources:** The information on forest cover, non-timber forest produce, tanks, watershed, wasteland, river, coastal area, etc. will help in understanding the potential economic opportunities available for the people in the cluster. This information can come handy while planning for the resource conservation for the benefit of the farmers.

- **Irrigated area in the Block:** The information on sources of irrigation viz. canal, tank, tube well, open well, drip/sprinkler, etc. and also on aspects like net area irrigated, irrigation intensity, etc. in each village under the cluster can be analysed which can be enabler in taking decision on the interventions required.

- **Infrastructure facilities:** The information on following can be a key to planning for business:

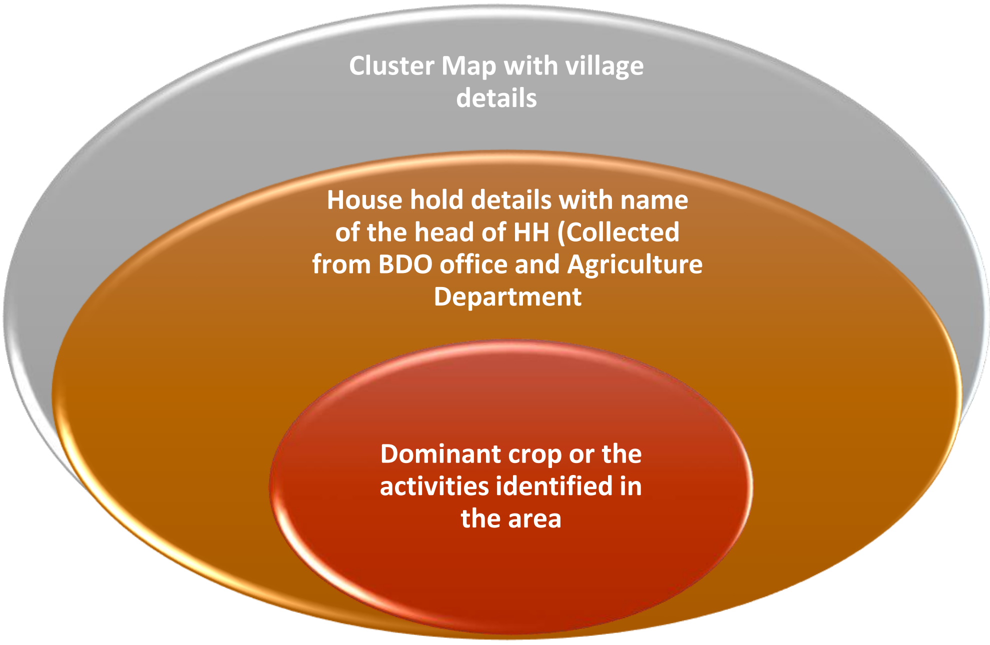
Road & Rail Connectivity	**Approach Road between villages**	**Transport facilities**
Internet Connectivity	**No. of bank branches & distance between the villages and the branch**	**Marketing cooperatives & PACS**
Sorage facilities	**Irrigation sources**	**Markets**

Above details could be analysed and its sufficiency toward running the business could be assessed for finalizing the cluster and the feasibility of running a business.

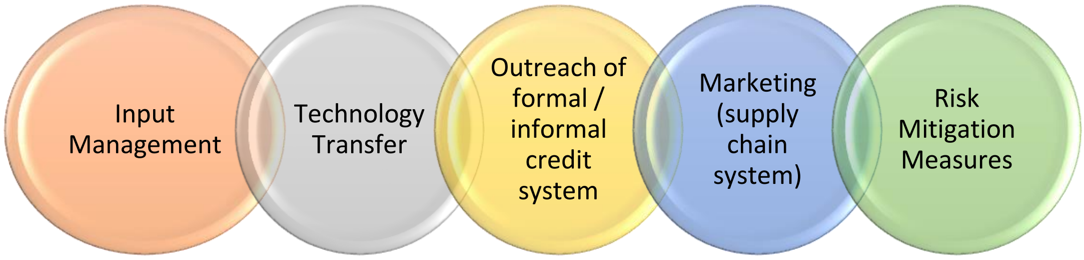
- **Market details:** Information on the distance of market both for input and output services from the production site is very important information for assessing the cost of operation and the scope for marketing. Similarly, the informal intermediaries other than formal market systems operate in the markets which decide the price for most of the commodities. Due to the vulnerable situation, the farmers are forced to accept the price offered by them. To understand this issue, government rates (MSP) and actual prevailing rates are also to be collected through secondary sources and then through interaction with the community to understand the reality.

Overall, the analysis of the secondary data will help in understanding the overall socio-economic scenario, availability & gaps in infrastructure, livelihoods patterns, land-use pattern, dominant crop of the area, availability of work force, market & marketing details, existing natural resources, etc. These details could be marked in a map which will help to identify the cluster of nearby villages based on commonalities.

(ii) **Primary Data Collection (baseline survey & PRA):** Collection and analysis of secondary data is also expected to generate the following information in addition to many more:



- Using this information, base line survey is to be conducted in the identified cluster villages for collection of primary data from each household for undertaking feasibility analysis.
- To undertake feasibility study for a FPO, primary data of the identified cluster is required which will help in formulating technically feasible and economically viable business plan. The required primary data for undertaking base line survey can be broadly categorized in five major heads which are as under:



Input Management	Technology Transfer
Cropping Pattern	Advocated Package of Practices for the crops grown in the area adopted
Land preparation : Method, season & cost	Present level of adoption of technologies
Seed : Availability, accessibility, variety & quantum per unit area	Institution involved in the area
Irrigation : Type of irrigation, infrastructure, frequency and scheduling of irrigation	Mode & efforts of the institutions for transfer of technologies
Fertilizer : Availability, accessibility, type and quantum required per unit area	Farmers and institutions view on the above
Pesticides : Availability, accessibility, type and quantum	Information on new/modern technologies suggest in the area by technical institution
Labour/workers availability workers and the prevailing rates	Issues involved in adoption of new technology
Assets ownership / custom hiring, level of mechanization and expenditure involved	Government schemes related to above along with incentives
Intercultural operations	
Pre and post-harvest management practices and available infrastructure support	
Input-wise expenditure per unit area	
Production and productivity	

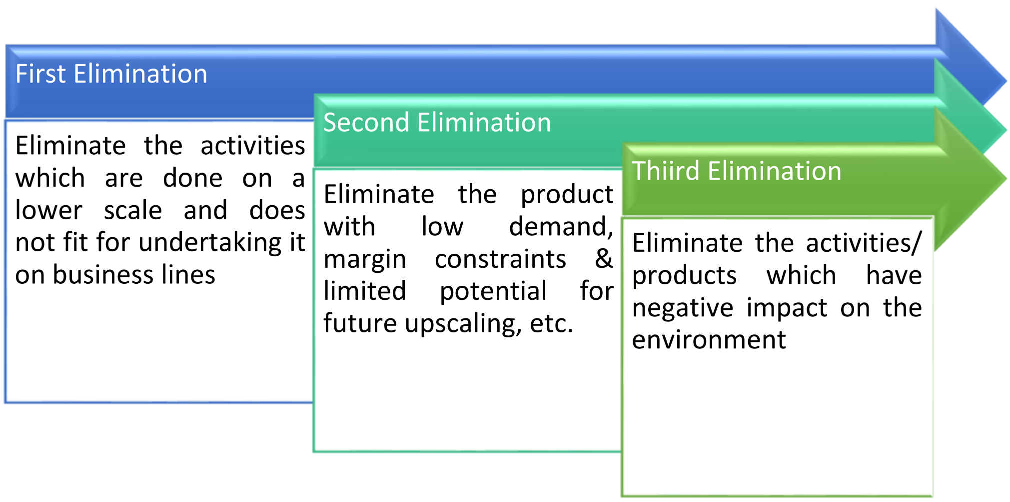
Outreach of credit	Marketing	Risk Management
Types of financial resources available	Types of supply chain	Level of risk associated with production (drought, flood, pest and diseases, water scarcity etc.
Availability and extent of formal credit	Extent of business participation of the farmers in existing supply chain	Coverage of crop insurance
Gap in requisite credit needs	Distribution of economic rents among different stakeholder of supply chain	Diversification of crops
Cost of informal credit	Gaps in economic rent under formal and informal supply chains	Status of agriculture allied sector, expenditure, income / loss, input supply etc.
Issues / constraints in credit outreach	Possibility of alternative supply chains	Outreach of schemes, procurement on MSP

- **<u>Output of baseline survey</u>:** Having undertaken the baseline survey following information is expected to be available for feasibility analysis:

• Cropping Season/ Crop Rotation	• Land preparation – Mode & Cost
• Varieties and seed rate	• Seed availability – Source & Cost
• Level of adoption of Package of practices and gaps	• Cost of cultivation per unit area
• Access & availability of resources for cultivation (water, fertilisers, pesticides, credit and technology support)	• Quantity of input needed per acre and the cost of input
• Availability of labour/workers and prevailing wage rates	• Crop-wise/Activity-wise production & productivity as also the gaps
• The risks associated with the production (rainfall, water, climatic condition, pest and diseases)	• Adoption of new technologies and issues involved
• Risk mitigation mechanism – schemes, coverage, tools	• Market price movements
• Marketing supply chains, level of farmers participation, gaps, scope of developing alternate supply chains	• Details of service providers and associated margins
• Formal & informal credit – Sources, cost, outreach, etc.	• Social & cultural setup

(iii) **Feasibility analysis:** Using the above information from the primary & secondary data, the feasibility of the prospective business plan for the identified cluster can be assessed to achieve success of a proposed business venture. While undertaking feasibility analysis of the gathered information following parameters need to be considered:

General Rules for elimination of unviable economic activities:



Potential gap in the input management

- ✓ Quantitative gap assessment in availability of quality seeds and distributor/retailer margin
- ✓ Quantitative gap assessment in availability in fertilizers/micro nutrients/pesticides on time and distributor/retailer margin
- ✓ Status and utilization of farm mechanisation and gap in farm power
- ✓ Status of diversification in farm implements
- ✓ Assessment of the crop and input-wise cost of cultivation

Potential gap in technology transfer

- ✓ Crop-wise gap in potential and realized yield
- ✓ Extent of adoption of scientific package of practices for different crops grown
- ✓ Extent of adoption of new/modern technologies suggested in the area by technical institution

Potential gap in market and marketability

- ✓ Extent of market surplus of agriculture produce
- ✓ Mechanism of marketing
- ✓ Actors involved in the marketing
- ✓ Opportunity cost / farm gate price during the past 3 years under different supply chain
- ✓ Product-wise demand and supply gap in the nearest mandis
- ✓ Assessment of any product which is in demand in the market but not produced in the cluster
- ✓ Assessment of marketing cost and marketing margin
- ✓ Distribution of economic rent among different stakeholders in prevailing supply chain.

Potential gap in credit outreach

- ✓ Sources of funds for agricultural operation
- ✓ Assessment of the formal and informal credit
- ✓ Gap in the availability of the formal credit
- ✓ Extent of under-financing by the RFIs

Potential gap in risk management

- ✓ Extent of diversification of agriculture & potential thereof
- ✓ Extent of crop insurance coverage
- ✓ Extent of storage facility vis a vis requirement in the cluster
- ✓ Availability of weather forecasting services
- ✓ Level of access to market information/intelligence
- ✓ Level of convergence under various State/Centrally sponsored schemes

Determination of economically viable activities

Based on the above information, the identified activities can be grouped as under

- Aggregation of input
- Aggregate marketing
- Enhancement of production and productivity of identified crops
- Primary and secondary processing
- Trading business

Steps required for assessment of economic viability of identified activities

Step I - Name of the economic activities to be undertaken

Step II – Working out annual cost of operation incl. capital cost

Step III – Estimate the benefit to be accrued

Step IV - Financial appraisal of the identified activity

Step V – Recommendation/ Decision for selection/rejection

Note – Repeat all the steps for all the identified activities

- While identifying the opportunities available for the FPO in the identified cluster based on feasibility analysis, it is of utmost importance to follow due diligence in opportunity selection as errors given below are fairly common:

  ⇒ **“Copy-cat” syndrome**: There are FPOs who choose a given opportunity because others have taken it up and are seen to be doing well. They do not realize that there is no room for too many entrepreneurs in a particular product line.

  ⇒ **Fallacy of Numbers:** Many persons have a tendency for accepting and relying upon income and profitability estimates. Other factors such as location, local competition, risks involved which may affect profitability are not considered.

  ⇒ **Mismatch** in hard/soft skill competencies of entrepreneur

  ⇒ **Undifferentiated products/services**: A large number of small enterprises are not performing well or closing down because they are too identical. There are several similar products in the market. The competition rests on price and the price comes down to an unprofitable label.

- The outcome of the feasibility analysis gives us an insight to take decision on the following counts -

  ⇒ Scope & scale of input business in the cluster

  ⇒ Selection of products for aggregation and marketing

  ⇒ Minimum acreage under crop/s for threshold scale for conducting business

  ⇒ Quantum of produce required for facilitation of marketing by FPO to at least reach the breakeven point

  ⇒ Scope for increasing the production base for future expansion procurement and marketing business

  ⇒ Based on the marketing study, identification of scope for primary/ secondary processing in the cluster area

  ⇒ Scoping for demand based product/crop diversification

  ⇒ Gap in the availability of the infrastructure, convergence linkage, credit, etc. in the cluster area

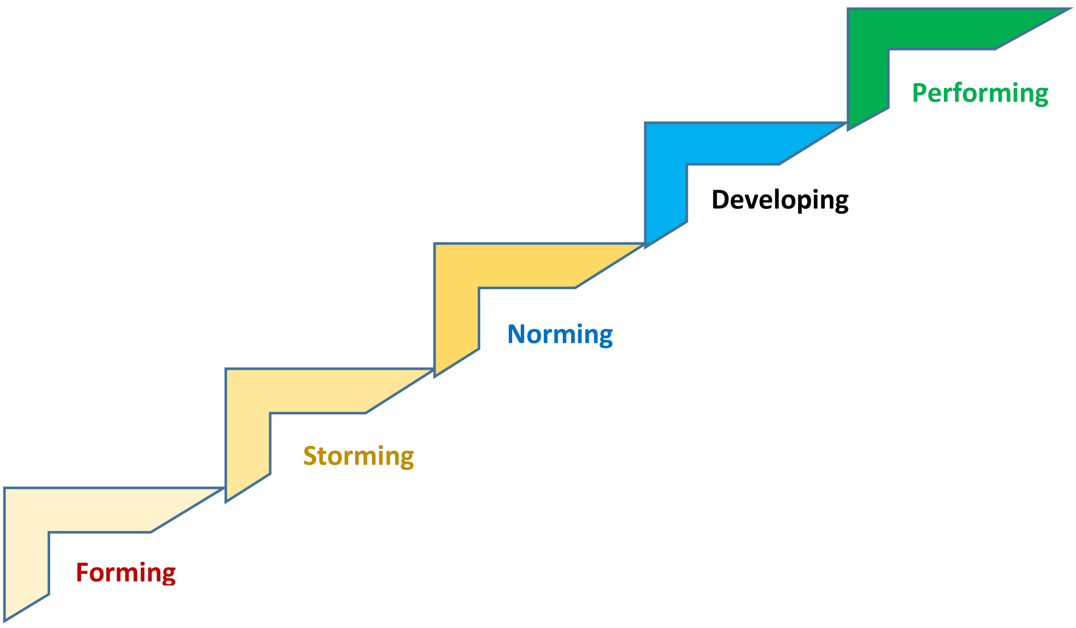
- Using the above information, the plan for the intervention and coverage of members can be planned and incorporated in the business plan.

Effective strategies for mobilization of farmers for formation of FPOs

For the viability and sustainability of the FPO, it is important that the FPO has a reasonable membership base and is also able to retain them by offering them the required services as members are also the customers of the FPO. In community mobilisation for FPOs formation and sustainability, both the human and non-human resources together need to be put-forth in such a way that community priorities and needs are addressed substantially. For increasing the membership base of the FPO, it is pertinent to initiate the process of community mobilisation through following steps:

- **Awareness creation in the identified cluster about the concept of FPO**
- **Discussion on the issues of farmers and their probable solutions with reference to the feasibility study conducted in the cluster area**
- **Involvement of PRI members, progressive farmers and other influential persons in the area**
- **Experience sharing by successful FPO members**
- **Exposure visit to a vibrant FPO in the nearby areas**
- **Capacity building of core group of the identified farmers**

Generally, the group formation process passes through following 5 stages:



<u>Focus on participation of FPOs in Agricultural Value Chains</u>

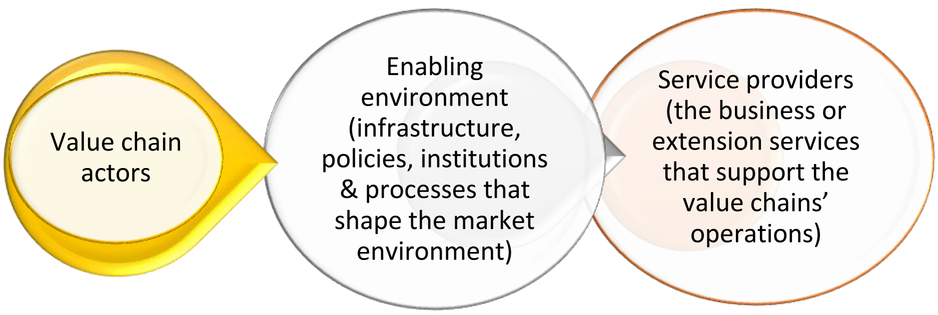
The first step in mapping the market is to delineate the value chain. The flow of inputs to farmers and produce to the market occurs along chains. These can be referred to as value chains because as the product moves from chain actor to chain actor e.g. from producer to intermediary to consumer it gains value. A value chain can be defined as the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final customers, and final disposal after use. The chain actors who actually transact a particular product as it moves through the value chain include input (e.g. seed suppliers), farmers, traders, processors, transporters, wholesalers, retailers and final consumers. Value chains may include a wide range of activities and an agricultural value chain might include: development and dissemination of plant and animal genetic material, input supply, farmer organization, farm production, post-harvest handling, processing, provision of technologies of production and handling, grading criteria and facilities, cooling and packing technologies, post-harvest local processing, industrial processing, storage, transport, finance, and feedback from markets.

Agriculture in developing countries often is characterized by dual value chains operating in parallel for the same product: one informal or traditional, and the other formal or modern. Small holders are frequently involved in informal chains that deliver products to local middlemen and then to small local stores. Formal value chains can deliver the same product, usually in better or more uniform quality, from larger farms or more organized groups of small farmers to more commercial wholesalers and from there to supermarkets or exporters. This duality has been accentuated by the explosive growth of supermarkets in developing countries. It can limit many small producers to markets characterized by low-quality products, and low prices and low returns for them — hence a frequent concern is to find ways to integrate small producers into more modern value chains, both domestic and export-oriented.

If we want to understand more about the rationale behind farmers' decisions vis-à-vis the types of inputs that farmers purchase, then we also need to know about the extraneous factors that influence the way that the value chain works. This is where the market map comes in useful.

Market map is a conceptual and practical tool that helps us identify policy issues that may be hindering or enhancing the functioning of the chain and also the institutions and organizations providing the services (e.g. market information, quality standards) that the different chain actors need in order to make better informed decisions

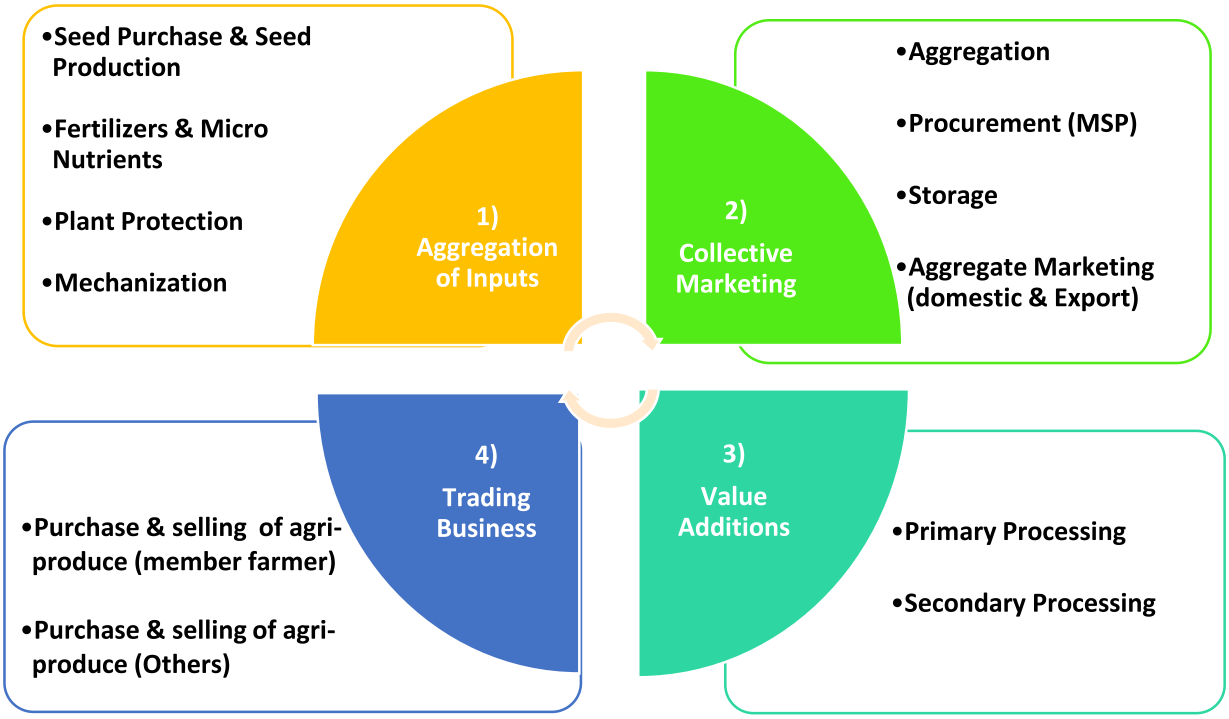
For example, a group of farmers may not know that a particular seed supplier has on offer a seed type that no other seed supplier has in stock. If the farmers do not know the seed is on offer, they may not buy it and, consequently, that particular variety will not be planted. Another example is that farmers might hear from the radio that there is an increasing demand for a particular type of maize. On hearing this on the radio they may well then go and seek out seed of the maize type in question. In order to understand farmer decision-making vis-à-vis what seed they purchase, it is important to note where farmers do or do not get their information from. The Market Map is made up of three inter-linked components



The enabling environment consists of the critical factors and trends that are shaping the value chain environment and operating conditions, but may be amenable to change. These "enabling environment" factors are generated by structures (national and local authorities, research agencies etc.), and institutions (policies, regulations and practices) that are beyond the direct control of economic actors in the value chain. The purpose of charting this enabling environment is not simply to map the status quo, but to understand the trends that are affecting the entire value chain, and examine the powers and interests that are driving change. This knowledge can help determine avenues and opportunities for realistic action, lobbying and policy entrepreneurship. A value chain approach in agricultural development helps identify weak points in the chain and actions to add more value. Farmers could expand their profits from these multiple potential markets if solutions were found for value chain issues such as:

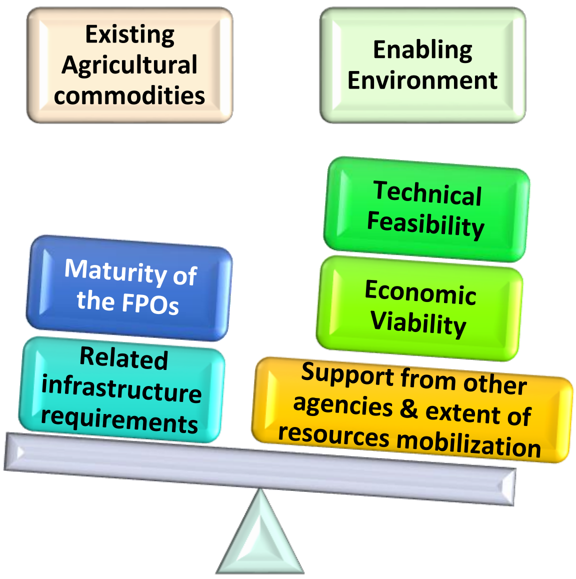
- Poor quality of seeds and varieties inappropriate for the various uses
- Poor quality of product at harvest, with grains of inconsistent size and coloration
- Inadequate threshing techniques and post-harvest drying and storage, which reduce quantity and market quality
- Inadequate grading
- Insufficient market development and communication with markets regarding varieties and quality of agricultural produces desired
- Insufficient training and finance for improved post-harvest management

Principles of mapping agricultural value chain for Farmers Producer Organizations: There are four basic core principals which are required for mapping of existing agricultural value chains and assessment of the opportunity for FPOs to make business out of it.



Stepping business operations of FPOs

The business participation in the above identified activities would be undertaken by the FPOs in a phased manner depending upon:



It is suggested that during the first 6 months (1st Phase) of the business operation, FPOs should focus on aggregation of input management	
6 to 12 mths (2nd Phase)	Start collective marketing of those agriculture produce/s which requires least primary processing for collective marketing
3rd Phase	Secondary processing for example establishment of rice mill for processing of paddy and selling rice to FCI and by products (broken rice, rice bran and husk) in open markets / animal feed manufacturing companies. Similarly, primary and secondary processing of milk can be undertaken during this stage of FPOs. Establishment of the animal feed and poultry feed units is the suggested activities which is requires 75-80% of ingredients raw material produce by the members
On Attaining Maturity & Stability in Business Operations	Trading business may be undertaken wherein the FPO can purchase other produces from other farmers from local as well as from distant producing areas and sell purchased produces in a prospective market during the lean period of the agricultural operation

Potential Farmer Activities/ Services required at intermediary level

Identifications of the key areas required to be addressed by the intermediary (FPOs) is the prime important factor for the success of the FPOs. Step by step process would be as under:

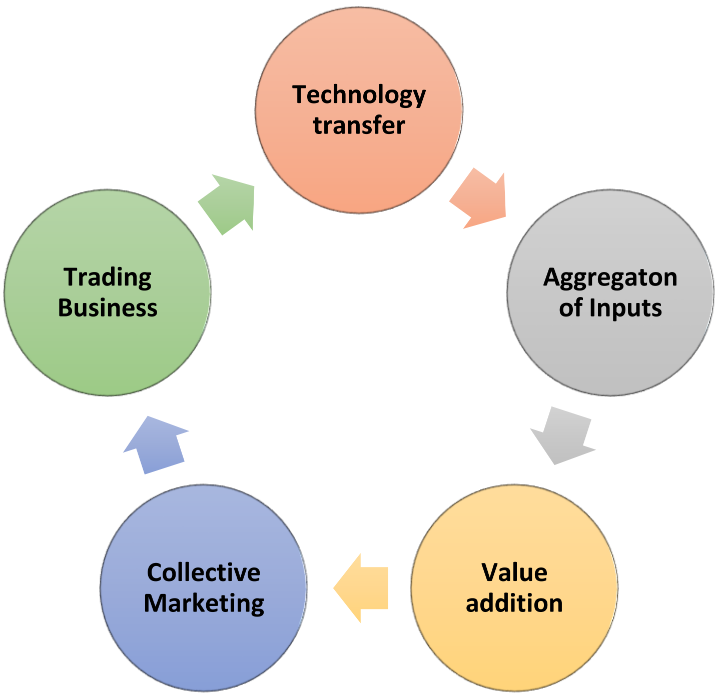
- **Identify services needed by farmers**
  - **Undertake cost-benefit analyses to study intermediaries profitability**
    - **Infrastructure assessment & arrangement for providing services (e.g. sprayers, planters, sheller, dryers, etc.)**
      - **Training of Intermediaries in service**
        - **Build intermediary capacity in business skills and linkage to credit institutions**
          - **Marketing their services *(field days, radio messages, IEC materials, e-extension animated films)***
            - **Increase the scope of service package to at least 4 - 5 services**

Some of the illustrative activities according the agricultural value chain have been given in box given below:

Pre-Production	Production
✓ Crop insurance agent ✓ Soil testing agent ✓ Crop monitoring agent (for banks, insurance companies) ✓ Custom Hiring services ✓ Digital profiling agent	✓ Input supply services ✓ Planting services ✓ Weeding services ✓ Pesticide spraying services
Post-Harvest	**Marketing**
✓ Shelling services ✓ Grain cleaning services ✓ Drying services	✓ Bulking/aggregation services ✓ Rural sales agent, non-agricultural products ✓ Rural banking and Digital Financial Services (DFS) agent

Illustrative Agricultural Value Chain Model of Maize Crop

As we are aware that there are five key elements for the assessment and formulation of the prospective business plan for the FPOs.

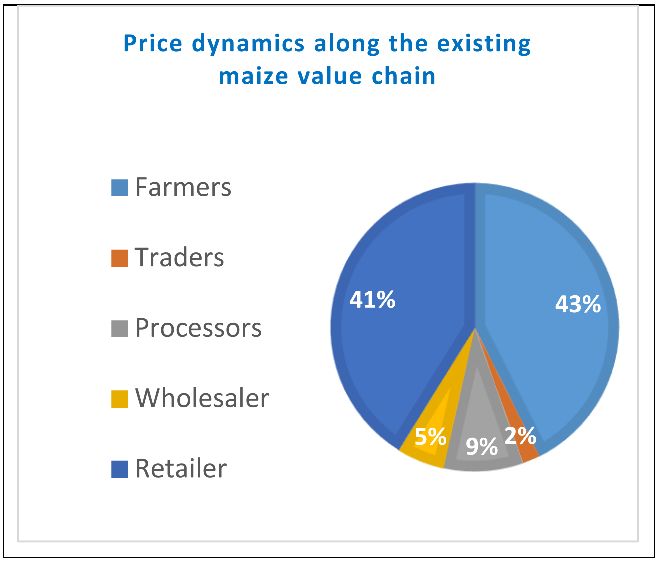


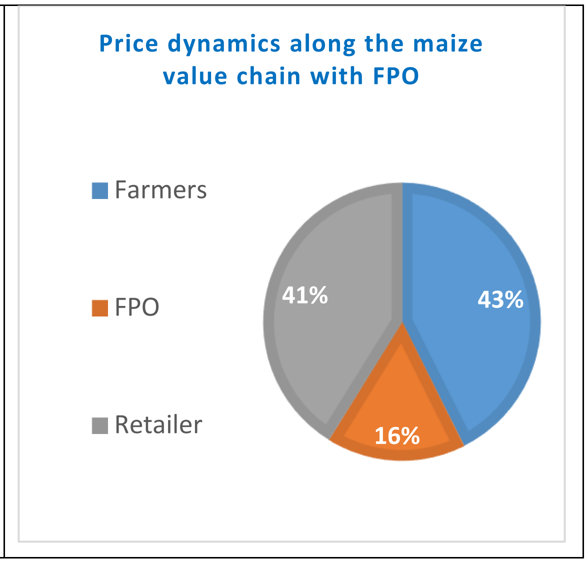
1. Assessment and management plan for **technological gap**
2. Assessment and management plan for **input management (Aggregation of Inputs)**
3. Assessment and management plan for **Primary / secondary processing (Value Addition)**
4. Assessment and management plan for **marketing (Collective Marketing)**
5. Assessment and management plan for **trading business** during the lean period of the agricultural operation of concern FPO's members

Based on price fluctuation trends, a value chain model has been formulated and discussed to understand the working of a value chain under maize crop. It shows, how the dynamics of a value chain can be modified / strengthened through participation of the FPOs as intermediary for better price realization for the farmers.

Price Spread of the maize and major stakeholders

Actor	Value (Rs./Qtl.)	Value (%)	Gross Margin (%)	Actor	Value (Rs./Qtl.)	Gross Margin (%)
Farmers	1300	43	43	Farmers	1300	43
Traders	1360	45	2	FPO	1795	16
Processors	1632	53	9			
Wholesaler	1795	59	5			
Retailer	3051	100	41	Retailer	3051	41





The methodology of applications of the five elements for the cluster of the farmers cultivating maize crops is illustrated as under:

1. **Assessment and management plan for technological gap**

The potential yield of the maize crop in India is 4.52 MT/ha against the average realised yield of 3.26 MT/ha. Further, potential yield in Tamil Nadu State is 5.81 MT/ha against the realised yield of 5.04 MT /Ha. There is large productivity gap between average potential yield and average realised yield in India. i.e. 1.26 MT/ha. This can be enhanced by undertaking best practices. In terms of economic loss and opportunity of enhancing gross returns due to the productivity gaps can be worked out as under:

Particulars	No of Farmers	Area (ha)	Input Cost (Rs./ha)	Prod. (MT)	Productivity (MT/Ha)	Gross Return (Lakh)	Gross Income (Lakh)
WITHOUT FPO	300	180	39543.80	586.80	3.26	76.28	5.10
WITH FPO	300	180	39543.80	813.60	4.52	105.77	34.59
CHANGE				**226.80**	**1.26**	**29.49**	**29.49**

The above table reveals that there is opportunity of enhancing gross margin of Rs.29.49 lakh in 180 ha of maize crop cultivated by 300 farmers.

2. **<u>Assessment and management plan for input management (Aggregation of Inputs)</u>**

Particulars	No of Farmers	Area (ha)	Input Cost (Rs./ha)	Gross Margin (Rs. In Lakh)
WITHOUT FPO	300	180	39543.80	71.18
WITH FPO	300	180	38153.80	68.68
CHANGE			1390	**2.50**

Similarly, there exists an opportunity of reduction in input cost of Rs.1390/ha through aggregation of inputs by FPO. Hence, there is gross margin of Rs.2.50 Lakh for the FPO for input supply to 300 farmers who are under taking cultivation of maize crop under 180 ha.

3. **<u>Assessment and management plan for primary/secondary processing (Value Addition)</u>**

Particulars	No of Farmers	Area (ha)	Output Cost (Rs./qtl)	Gross Margin (Rs. In Lakh)
WITHOUT FPO	300	180	1300.00	
WITH FPO (as a trader)	300	180	1360.00	3.52
WITH FPO (as a processor)	300	180	1632.00	15.96
CHANGE				**19.48**

There are different stakeholders in the existing value chain of the maize who are undertaking business of aggregator, processors, wholesaler and retailers. There is gross margin of Rs.60/quintal and Rs.272/quintal when product moves from farmers to trader and then trader to processor. If the business model and role of the trader and processor is also taken over by FPO, this will result in enhancement of the gross margin of Rs. 19.48 lakh for a cluster of 300 farmers cultivating maize crop in 180 ha of area.

4. Assessment and management plan for Collective Marketing

Particulars	No of Farmers	Area (ha)	Output Cost (Rs./qtl)	Gross Margin (Lakh)
WITH FPO (as a processor)	300	180	1632.00	
WITH FPO (as a Wholesaler)	300	180	1795.00	9.56
CHANGE				**9.56**

If the FPO also take role of wholesaler and undertake collective marketing of finished product, there is gross margin of Rs.163/quintal. If the business model and role of the wholesaler is taken over by the FPO, it will result in enhancement of the gross margin of Rs. 9.56 lakh for the 300 farmer' cultivating maize crop in 180 ha.

Gross enhance of the business participation and gross margin of the FPO

S. No.	Particulars	No of Farmers	Area (ha)	Gross Margin (Lakh)
1	Enhancement of Productivity	300	180	29.49
2	Aggregation of Inputs	300	180	2.50
3	Procurement and Processing	300	180	19.48
4	Collective Marketing	300	180	9.56
	Total			**61.03**

The above analysis reveals that there is opportunity of enhancing business participation of the farmers in existing value chain through FPO mode along with undertaking basic functions of the FPO i.e. technology transfer, aggregation of inputs, procurements, processing and collective marketing. The example revealed that there is an opportunity of enhancing gross margin of Rs.61.03 lakh by promoting FPO for 300 farmers cultivating an area of 180 ha of maize crop. The contribution in total gross margin would come from enhancement of the productivity (48%), aggregation of input (4%), procurement and processing (32%) and collective marketing (16%)

<u>Participation in value chains through corporate tie- ups</u>: One of the easier method in participation in value chain for the FPOs could be through tie-up with corporates.

<u>Contract Farming</u>

- Under contract farming, agricultural production (including agri-allied sector) can be carried out based on a pre-harvest agreement between buyers (such as food processing units and exporters) and producers (farmers or farmer organisations)
- The producer can sell the agricultural produce at a specific price in the future to the buyer as per the agreement and reduce the risk of fluctuating market price and demand.
- The buyer can reduce the risk of non-availability of quality produce

Types of contracts

Models	Sponsors	General Characteristics
Centralized	Corporates, Other private players & agencies	Generally the initiative is taken by the buyer; Popular in many developing countries for high-value crops; Commitment to provide *material and management inputs* to producer
Nucleus estate	State agencies, Corporates, other private players & agencies	Is a variation of the centralized model where the sponsor also manages a central estate or plantation; The central estate is usually used to guarantee throughput for the processing plant but is sometimes used only for research or breeding purposes; Is often used with resettlement or transmigration schemes; Involves a significant provision of material and management inputs
Multipartite	Sponsorship by various organizations, e.g. -State agencies -State marketing authorities -Private corporate sector - Landowners - Farmer cooperatives	Multiple sponsors for product/activity; Joint-venture approach; requires coordination between sponsors
Informal developer	Entrepreneurs Small companies Farmer cooperatives	Not usually directed farming; Common for short-term crops i.e. fresh vegetables to wholesalers or supermarkets; Normally minimal processing and few inputs to farmers; Contracts on an informal registration or verbal basis; Involves greater risk of extra-contractual marketing

Models	Sponsors	General Characteristics
Intermediary (tripartite)	Private corporate sector, State agencies	Involves sponsor in subcontracting linkages with farmers to intermediaries; Not a holistic approach; there is a danger that the sponsor loses control of production and quality as well as prices received by farmers as it depends on the market

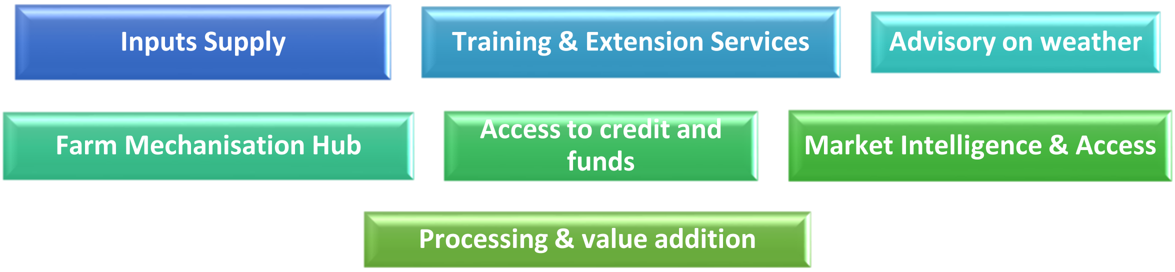
With a view to integrate farmers with bulk purchasers including exporters, agro- industries etc. for better price realization through mitigation of market and price risks to the farmers and ensuring smooth agro raw material supply to the agro industries, Union Finance Minister in the budget for 2017-18 announced preparation of a “Model Contract Farming Act” and circulation of the same to the States for its adoption. Farmer’s Producer organizations (FPO’s) have a major role in promoting Contract Farming and Services Contract. On behalf of famers they can enter into agreement with the sponsor. The final Model Act “The ….State/UT Agricultural Produce and Livestock Contract Farming and Services (Promotion & Facilitation) Act 2018” came into existence on 22 May 2018.

Salient features of Model Contract Farming Act, 2018

- The Act lays special emphasis on protecting the interests of the farmers, considering them as weaker of the two parties entering into a contract.(i)
  - In addition to contract farming, services contracts all along the value chain including pre-production, production and post-production have been included.
  - “Registering and Agreement Recording Committee” or an “Officer” for the purpose at district/block/ taluka level for online registration of sponsor and recording of agreement provided.
  - Contracted produce is to be covered under crop / livestock insurance in operation.
  - Contract framing to be outside the ambit of APMC Act.
  - No permanent structure can be developed on farmers’ land/premises
  - No right, title of interest of the land shall vest in the sponsor
- Promotion of Farmer Producer Organization (FPOs) / Farmer Producer Companies (FPCs) to mobilize small and marginal farmers has been provided
  - FPO/FPC can be a contracting party if so authorized by the farmers.
- No rights, title ownership or possession to be transferred or alienated or vested in the contract farming sponsor etc.
  - Ensuring buying of entire pre-agreed quantity of one or more of agricultural produce, livestock or its product of contract farming producer as per contract.
  - Contract Farming Facilitation Group (CFFG) for promoting contract farming and services at village / panchayat at level provided.

- Accessible and simple dispute settlement mechanism at the lowest level possible provided for quick disposal of disputes.
- It is a promotional and facilitative Act and not regulatory in its structure

Nature of tie-ups with corporates



Input supply

Farmers are the only business entities who purchase in retail and sell in bulk. Perhaps the activity of FPO which draws maximum membership is supply of quality and timely inputs at door-step. The relationship with corporates is not only restricted to the inputs but extends beyond it. For example Indian Farmers Fertiliser Cooperative Ltd (IFFCO) not only does business of inputs with the FPOs but through its wing Indian Farm Forestry Development Cooperative Limited (*IFFDC)*, a separate Multi-State Cooperative Society undertakes seed production Program on farmer's fields, provides soil testing facilities through its mobile soil testing units to the FPOs, conducts onsite & offsite training programs for associated FPOs covering various aspects of farming and balanced use of fertilizers. The implications of such tie-ups in addition to profits could be:

a. *Increase in membership base of FPOs due to increased faith on account of delivery of adequate and timely inputs at the door step of the member*
b. *With increased share capital, FPO becomes eligible for matching grants*
c. *Record maintenance improved as officers from corporate tie-up agency involves in stock inspections from time to time and guide FPO in improving the MIS systems*

Training and Extension Services

The last mile extension services are the biggest weak link in the farming sector. In our country apart from front line agriculture workers of agriculture department, there are Krishi Vigyan Kendras (KVKs) in almost all districts acting as resource centre for agriculture technology and its dissemination. However, it is practically difficult for KVK to touch each & every farmer effectively with more than 14 crore farming families with only 668 KVKs. Further, the farmers interested in cultivation of niche crops & requiring advanced information may not get all their needs fulfilled. Therefore, farmers need the extension services of corporates who will work with a well-defined group of farmers.

The example which can be quoted in this regard is could be corporates like ITC & BILT for undertaking forest plantation activities on farmer's field by providing the specialised planting material as also building capacities of farmers in the technology adoption along with forward market-tie-us. Another example is Invictus FPC Ltd. (Ghaziabad, UP) promoting piggery after getting trained IVRI, Barelli, National Research Centre on Meat, Hyderabad and National Research Centre on Piggery, Guwahati and now supplying piglets to companies in Manipur and other NE states.

Advisory on weather

Reuter Market Light (RML) is providing personalised messages to the farmers in 09 local languages spread across 17 Indian states. RML services prepared for 450 crop varieties, 1300 markets and 3500 weather stations and are used by 13 lakh farmers across 50,000 villages. Enterprise Solution by RML provide data, insights and intelligence on farmers, farmer groups, and commodities to agri-enterprises to take informed decision.

ICT based Agriculture platform called Krishidoot has brought together farming communities and agribusinesses. Krishidoot is the largest aggregation of Farmer Producer Organisation in India.

Farm Mechanisation Hub

Mahindra Agri Solutions Ltd., a wholly owned subsidiary of Mahindra and Mahindra Ltd. is helping execution of World Bank aided project called Maharashtra Agriculture Competitiveness Project (MACP) to increase productivity, profitability and market access for the farming community in Maharashtra. Mahindra Agri Solutions Ltd through their digital platform *MyAgriGuru* is helping FPOs on crop advisory, weather forecasting, market information, price forecasting, etc. MACP has also established an in-house Centre for "Indian Agriculture Market Intelligence cell" for price forecasting of select agriculture commodities. This forecast report is disseminated through the *MyAgriGuru* App to FPOs empowering them to take better decisions.

Similarly, Escort Crop Solutions operates almost 100 combine harvesters, host of tractors and other equipment on rental basis under franchisee model and has been assisting FPOs by supply of machinery, training of drivers and also providing other services. They are actively looking for with FPOs in these states.

Access to credit and fund

Whenever, FPOs deal with niche products especially the ones which are seasonal in nature, the working capital requirements increases. The problems become compounded when the same are to be processed or sent to distant markets as delays in realisation of funds are expected.

In many cases the corporates dealing with such FPOs come forward in providing advance payment for seasonal procurements to facilitate FPOs in making immediate payments to the farmers from whom the procurements are done. This is important in case of niche crops which are grown by farmers based on specific demand. The system ease out the working capital requirements of the FPO and becomes a win-win situation for all, FPO and its members on one hand and Corporate on the other.

Market Intelligence and Access

Market intelligence benefits a FPO in getting reliable information in advance on demand-supply situation, price discovery, location of markets, etc. NCDEX, the biggest technology based commodity market enables FPO to participate and hedge risk. Based on intelligence, a farmers can plan for their crops based on the future price in the commodity market.

The FPOs can also link with corporates for maximisation of profit like:

⇒ PepsiCo supplying seed and package of practices of tomato for their supply of raw material for processing

⇒ Potato cultivation through contract by Balaji Wafers

Thus, there is an excellent opportunity for FPOs for profit maximization through adoption of B2B model of marketing of products which offers win-win situation both for FPOs and the corporates.

Ninja cart is India's largest fresh produce supply chain company that is using technology platform for connecting producers directly with retailers, restaurants, and service providers using in-house applications that drive end to end operations. Currently, their Supply Chain is equipped to move 1400 tonnes of perishables from farms to businesses, every day, in less than 12 hours. Benefits of the arrangement also includes receiving payment in 24 hours, employment generation, exposure to professional grading & packing operations at the village level, convenient mode of transportation, digital transaction process, etc.

The Reliance Foundation, the CSR wing of Reliance industries has formed 22 FPCs to empower farmers across 12 states. In 2018-19, these FPCs have transacted farm and non-farm products worth over 25.3 crore benefitting 19200 families, raising farmer’s income significantly. (Business India, 24 Feb to 08 March 2020)

Some of the companies like Sewa Paper Mills-BILT and JK Paper Mills have formed exclusive FPOs for promotion of pulpwood plantations in their hinterland. Patneswari FPO in Jeypore-Koraput and Nagavali FPO by JK Paper Mills had access to mills for marketing of wood. Sewa Paper Mills was also extending Bulk Supply Bonus where in each ton will be provided extra Rs 100 when supplier provides the materials in bulk.

Thus, the FPOs can enter into arrangements with corporates in accessing bulk markets for their products for increasing their profit margins.

Processing & Value Addition

The major challenge for any FPO is value addition through processing, storage and marketing of processed products. While challenges of finance would be there, additionally challenges related to technology and infrastructure are also there. To a large extent, the association with corporates in this regard would facilitate in overcoming the same.

Disa Multipurpose Cooperative Society (DMCS) were novices in seed sector when they first entered into sector. But the discussions and training programmes conducted by NABARD for such agencies where the corporates like M/s Agrosaw have explained the nitty-gritty have helped them in establishing their own seed processing plants.

Gorakhnath FPC had similar experience by aligning with agencies like National Seed Corporation and major Seed Dealers. Initially, they had only seed grader and their products were rejected. However, later they upgraded their machinery and now produce and market nearly 4000 q of seeds through network of dealers across the State of Odisha.

Sahaja Aharam had established their own processing plants for food processing through tie ups with research institutes and also employing tech savvy staff.

Kishore Biyani's Future Group had signed a memorandum of understanding (MoU) with Sahyadri Farms for direct sourcing of fruits and vegetables for its supermarket chain Big Bazaar, triggering hope among many policymakers that the FPC model may succeed where traditional solutions have failed, in helping India overcome the agrarian case and doubling farmers' incomes. Sahyadri Farms, the farmer producer company (FPC) set up in 2011, has grown to become the largest FPC in the country, with a membership of 8,000 farmers and a turnover of Rs 300 crore and has become India's largest grape exporting company

Challenges in Corporate Tie-ups:

While many examples were seen from field where the tie ups with corporates have helped FPOs in strengthening their business and achieving significant growth but certain operation and legal weaknesses were also observed over a period of time. Some of them are listed below:

Most of the agreements between corporates were informal or loosely worded

Corporates wanted continuous supply of good quality materials but FPOs in dealing with large number of farmers could not always guarantee uniform product quality

Companies use to pick up the best quality product and leave the rest. FPOs faced problem in marketing of the rejected lot

Corporates were always enjoying the float by delaying payments to FPOs while FPOs had to make arrangements for funds for making immediate payments to farmers

Companies sometimes create infrastructure in the premises of the FPOs and they insisted that same should not be used for other works even in idle time

Companies per se may be having fair policies but the field level employees sometimes caused damage to FPOs through fraudulent practices

Many a times competition was killed by corporates by not allowing FPOs to approach alternate markets even with surplus and vice a versa i.e.companies enjoyed freedom to choose alternate sourcing channel when they got raw material at cheap rates

FPOs expectations from Companies to invest in extension was not fulfiled

Sometimes agreements were wholly lopsided and FPOs faced issues in executing deals as per agreement terms

Formulating a prospective business plan for FPO

Every business irrespective of size needs planning. Business planning is essential for growth and sustainability. It provides broad ideas to meet the expected and unexpected opportunities and obstacles the future holds. In case of a PO, it is all the more essential since most of the members will be acting as businessmen for the first time. A business plan will help the FPO in the following ways:

a) Examining viability of the venture in a particular market

b) Provides guidance to the FPO for organising and planning activities

c) Will serves as an important tool in accessing finance/funding

Considering all the above factors, a prospective Business Plan for 3-5 years will be prepared by the CBBOs under the scheme for the FPO. The document will specify the components of a strategy with regard to the business mission, external and internal environments and problems identified in earlier analysis. The business plan will hold good for next 3-5 years and only modified when a new venture is developed or a major new initiative is launched.

In short, the business plan must contain answers to the questions like:
"Who/ What/ Where/ When/ Why/ How/ How Much".

Characteristics of good business plan:

A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan.

a) The first is the business concept, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.

b) The second is the market place for the product, in which you describe and analyse potential customers: *who and where they are, what makes them buy* and so on. Here, you also describe the competition and how you'll position yourself to beat it.

c) Finally, the financial section contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from accountant and a good spreadsheet software program.

The business plan should invariable contain:

⇒ **Marketing Plan:** The marketing plan describes how the product will be sold, how the business will motivate the customer to buy. The purpose of developing and including the marketing plan in the business plan is twofold:

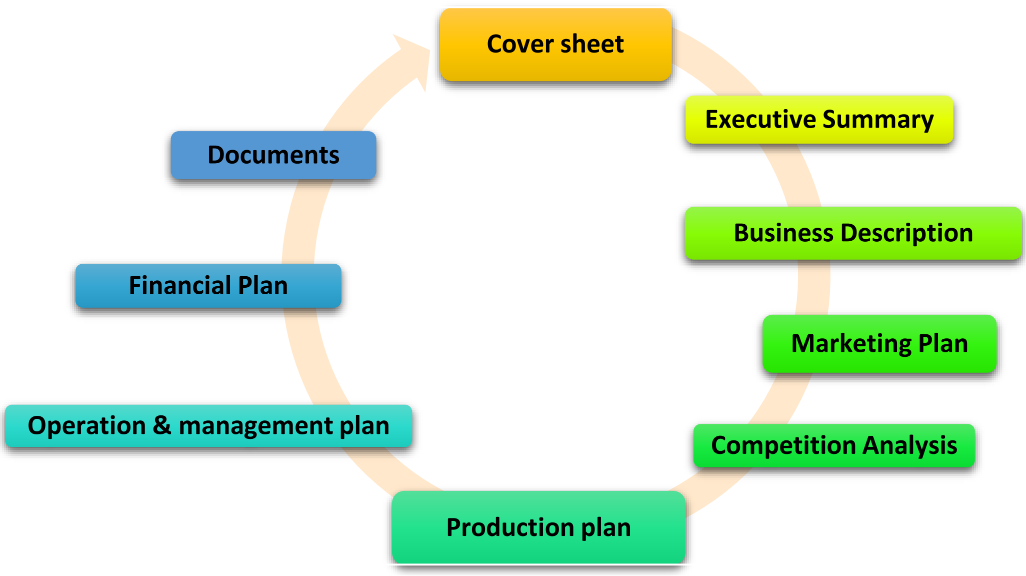
a) The process of designing a coherent marketing plan, that is an integral part of the overall business plan, will help the business to test ideas, explore options, and determine effective strategies for success.

b) The result of a well-conceived and coherent marketing plan will convince the business plan reader about the competence of the business.

⇒ **Financial Plan:** The financial plan translates all the other parts of the business - the opportunity, the operating plan, the marketing plan, the management team—into anticipated financial results. It contains the current status and the future projection of financial performance of the business. The financial plan represents the best estimates of the risks involved, and the return on investment. Three financial areas are generally discussed in the financial plan:

Broad outline of a Business Plan

A business plan is essentially a written description of a business's future. It provides an in depth report on the environment in which the company functions, what the company plans to do in the near future and predictions on its performance. A business plan conveys business goals, the strategies one uses to meet them, potential problems that may confront one's business and ways to resolve them, the organizational structure of business (including titles and responsibilities), and finally, the amount of capital required to finance your venture and keep it going until it breaks even.



A Typical Business Plan Document would be as under:

A. ***Cover sheet:*** *Serves as the title page of the business plan. It should contain the following:*

   a) *Name of the Producer Company*

b) Company address

c) Company phone number (include area code)

d) Logo (if any)

e) Names titles addresses phone numbers (include area code) of CEO/Board of Director

f) Month and year of the plan was issued

g) Name of the person/organisation who prepared it

B. ***<u>Executive Summary</u>:*** *Within the overall outline of the business plan, the Executive Summary will follow the title page. The Executive Summary should be to the point and in a nutshell convey the value of your proposition.*

Key elements that should be included are*:*

a) *<u>Business Concept, the business and market</u>: Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the bushiness will hold a competitive advantage.*

b) *<u>The management team</u>: A brief summary of the business team composition, special skills required to operate the proposed business successfully should be provided in the executive summary of the business plan. The nature and type of deployment of the key personnel and in case of specialized needs who would support the key business proposition.*

c) *<u>Business rationale</u> - why the proposal is different: A statement of business rationale establishing how and why the proposal is different than other businesses of the same nature in the prevailing industry. This will prompt the financial institutions and others watching and planning to support the business.*

d) *<u>The proposal</u>: State clearly the intent of the proposal and what precisely you are planning to do and achieve the intended output.*

e) *<u>Basis for its success</u>: State your logic as to why you think the proposed business would succeed in the present circumstances and how it will meet the intended outputs. Strength – Opportunity matrix may help summarize the logic.*

f) *<u>Profitability and financial feature</u>: Highlights the important financial points of the business including sales, profits, cash flows and return on investment.*

g) *<u>Financial requirements</u>: Clearly state the capital needed to start the business and to expand. It should detail how the capital will be used, and the equity, if any, that will be* *provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.*

h) *<u>Risk assessment and mitigation strategies</u>: The executive summery may also include a brief sketch of the potential and killer risks assessed while analyzing the business proposition visa- vis industry and the potential competitors. How the risks would be mitigated should form the body of the risk mitigation or aversion strategy.*

i) *<u>Current business position and prospects</u>: Provides an overview of the market in which the start-up is to function. In brief, it focuses on the proposed strategy to beat the competition.*

j) *<u>Future Prediction</u> as to the targeted market share, profitability and return on investment*

k) *<u>Key conclusions</u>: Based on above the key conclusions may be drawn for a quick snap shot vision of the whole business plan.*

C. *<u>Brief description of the business</u>*

Business Description:

a. *<u>The business background</u>: The business description is an extended version of the Executive Summary, where you must convey the crux of your proposition and provide some depth of knowledge regarding the plan.*

b. *<u>Location and operational area</u>: The business description usually begins with a short description of the industry. When describing the industry, discuss the present outlook as well as future possibilities. You should also provide information on all the various Markets within the industry, including any new products or developments that will benefit or adversely affect your business. Base all of your observations on reliable data and be sure to footnote sources of information as appropriate.*

c. *<u>Method of operation</u>: When describing your business, the first thing you need to concentrate on is its structure, i.e., wholesale, retail, food service, manufacturing or service oriented. Also state whether the business is new or already established. A very major part of the Business Description is detailed information about the team.*

d. *<u>Defining the prospective market and the customers</u>: You should also mention, who you will sell to, how the product will be distributed, and the business's support systems. Support may come in the form of advertising, promotions and customer services.*

e. *<u>Type of business and services offered</u>: Once you've described the business, you need to describe the products or services you intended to market. The product description statement should be computed enough to give the reader a clean idea of your identification. You may want to emphasize any unique features or variations from concept* *that can typically be found in the industry. Be specific in showing how you will give your business a competitive edge. The revenue model you propose must also be touched upon in the business description.*

f. *Statement of viability: This section deals with financial analysis of the proposal and depicts the viability of the business which enables the resource institutions, Shareholders and others assess and allocate resources.*

D. ***Marketing Plan:*** *A marketing plan includes information about the total market with emphasis on the target market. It helps in identifying the target customers and suggest the means to rightly position and supply the products or services to them.*

a. ***Target market:*** *Identify characteristics of the customers. Tell how the results have been arrived. Back up information with demographics questionnaires and surveys. Estimate the market size.*

b. ***Competition:*** *Evaluate indirect and direct competition. Show how one can compete.*

c. *Evaluate competition in terms of location market and business history.*

d. ***Place:*** *Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports, rate sheets etc.*

e. ***Promotion:*** *How the advertising will be tailored to the target market? Include rate sheets, promotional material and time lines for advertising campaign.*

f. ***Pricing:*** *Pricing will be determined as a result of market research and costing of the product or service. Tell how the pricing structure has been arrived and back it up with materials from research.*

g. ***Product:*** *Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.*

h. ***Timing of market entry:*** *Decide when to enter the market and how this decision has been arrived at.*

i. ***Targeted sales:*** *State the sales targeted for the next 3 years. The first year's sales may be presented month-wise.*

j. ***Industry trends:*** *Give current trends about how the market may change and what is the plan to adjust with the changing scenario.*

E. *Competition Analysis*

a) *The competition analysis is a statement of the business strategy and how it relates to the competition. The purpose of the competitive analysis is to determine the strength and the weaknesses of the competitors within the proposed market, the strategies that will provide the proposed business a distinct advantage the barriers that can be developed in* *order to prevent competition from entering your market, and any weakness that can be exploited within the product development cycle.*

b) *The first step in a competitor's analysis is to identify the current and potential competition. There are essentially two ways you can identify your competitors. The first is to look at the market from the customer' view point and the group all your competitors by the degree to which they contend for buyers' perception value in terms of money or satisfaction by its use. The second method is to group competitors according to their various competitive strategies so you understand what motivates them.*

c) *Once you have grouped your competitors, you can start to analyze their strategies and identify the areas where they're most vulnerable. The aim is to get a competitive advantage over them. The analysis could be carried out on the parameters like (1) reasons behind their success or failure; (2) prime customer motivator; (3) major component costs and (4) industry mobility barriers.*

d) *The strategy for negotiating the proposed market share may focus on (1) product (2) distribution (3) pricing (4) promotion and (5) advertisement. Arriving at a projection of the market share for a business plan is very much a subjective estimate. It is based on not only an analysis of the market share but on highly targeted and competitive distribution, pricing and promotional strategy. The market share should have a time horizon. To estimate this, factors like industry growth which will increase the total number of users and conversion of users from the total feasible market needs to be considered.*

e) *This section of business plan should include strategies for successful positioning of the business in the competitive business environment. The strategic issues like how the competitors are positioning themselves, what specific attribute your product have that competitors' do not and what customers' needs does your product fulfil.*

f) *The success of the business significantly depends on pricing policy. To keep the pricing policy competitive any of the of the following methods could be used: Cost-plus pricing- it assures that all costs both fixed and recurring or variable are attained with desired percentage of profit; b) Demand pricing- the pricing based on demand; c) Competitive pricing – this strategy is implied by the companies that are entering in to the market where there are already established pricing exists and it is difficult to differentiate one product from another; d) Mark-up pricing – used mainly by retailers, mark-up pricing is calculated by adding your desired profit to the cost of the products. Each method listed above has several strength as well as weakness.*

g) *Distribution includes the entire process of moving the product from the place of manufacturing to the end users. The type of distribution network chosen will depend upon the industry and the size of the market. A good way to make your decision is to analyse* *your competitors to determine the channels they are using, and then decide whether to use the same type of the channel or an alternative that may provide you with a strategic advantage. Some of the more common distribution channels include direct sales, retailers, wholesalers, etc.*

h) *The promotion strategy in its most basic form is the controlled distribution of the communication designed to sell your product or services. In order to accomplish this, the promotion strategy encompasses every marketing tool utilized in the communication efforts. This includes advertising, packaging, public relations, sales promotion, etc.*

F. Production plan

a) *The purpose of the production plan section is to provide a detailed overview of how the actual production will be carried out in the case of a manufacturing concern, or the service performed in the case of service industry.*

b) *The production plan is very crucial for a manufacturing concern. In the case of a service company, it may be done away with and the relevant issues would be covered in the operation and management plan. The production plan should include – production process adopted, capacity planning and task scheduling and cost estimation.*

G. Operation and management plan

a) *The operation and management plan is designed to describe just how the business functions on a continuing basis. The operation and management plan will highlight the logistics of the organization such as the various responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operation and management of the business.*

b) *There are two areas that need to be accounted for when planning the operations of your company. The first area is the organizational structure of the company, and the second is the expense and capital requirement associated with its operation.*

c) *Organizational structure: The organization structure of the company is an essential element within a business plan. It should include the personnel deployed by the producer organization like Chief Executive Officer, Accountant, Service Providers, the personnel from the supporting agency for the technical skills like agriculture Technologies and marketing. Details of the key personnel should be appended with the business plan to foster confidence in the financial agencies.*

d) *Depending upon the organization structure, the personnel requirement at various levels of the organization is estimated. In addition to this, the costs of support services required for the functioning of the organization are estimated. These costs are then used to compute the overhead costs which, in turn, are used in the calculations involved for the financial statements.*

H. ***Financial Plan:*** *These are the records used to show past, current and projected finances. The following are the major documents that would be required to include in the business plan. The work is easier if these are done in the order presented.*

a) ***Cash flow statement (budget):*** *This document projects what your business plan means in terms of rupees. It shows cash inflow and outflow over a period of time and is used for internal planning. Cash flow statements show both how much and when cash must flow in and out of your business.*

b) ***Three year income projection:*** *A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.*

c) ***Break-even analysis:*** *The break-even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total rupees or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.*

d) ***Debt-service ratio:*** *The Debt Service coverage ratio is a measure of the firm's ability to meet long term obligations. This ratio is expressed as the amount a project pays (or proposes to pay) each year for principal and interest on the debt/loan; that is, the amount of debt service to be paid when compared with the funds available to pay that debt service.*

I. Supporting documents

a) *Brief profile of the PC and Resumes of the key Director/CEO*

b) *Copies of Leases, if any*

c) *Letters of Reference*

d) *Contracts / work order / MoU for selling produces etc.*

e) *Legal Documents (registration, business license, etc.)*

Session III	Key role and responsibilities of CEOs in management of FPOs

The sustainability of the organization and unity among the members in thick and thin depends on the Governance of the Organisation. The Governance broadly defines the roles, rights and responsibilities of members, elected body, staff including CEO and other stake holders. While awareness about above issues is one part of the governance, the crucial part is every person playing expected role and being able to play the expected role without fear and favour is the crux of Governance.

To understand the governance of the company, it can be segregated in three major divisions as defined by the law (a detailed description follows):

- **Members / Shareholders:** In a Producer Company, only a producer or producer institutions can acquire membership. Producer Company is a membership based body and it can act only through its members. Thus, a company is created by the members, and can also be wound-up by them. Members act through their General Body.
- **Board of Directors**: Elected by members and may act collectively only in meetings
- **Office bearers**: Individual selected to look after the day-to-day affairs of the company, like CEO, accountant, godown keeper, etc. They are salaried people of the company.

> *Q. Can a Member become CEO of the Company?*
>
> *A member cannot be the CEO of the Producer Company. Similarly a CEO cannot take membership in a producer company. It is also desirable that close relative or kith and kin of directors not to be appointed as CEO.*

<u>Chief Executive Officer</u>

Board of Directors should appoint full time CEO amongst persons other than members. The qualification, experience and the terms and conditions of services shall be decided by the Board. The CEO shall be the ex-officio Director of the Board and shall not retire by rotation. The CEO shall be entrusted with substantial powers of management as may be determined by the Board. S/he is accountable for the performance of the Producer Company, both, to the Board of Directors and to the Members.

The CEO shall be authorized to exercise the powers and discharge the functions as described below:

- Do administrative acts of a routine nature including managing the day-to-day affairs of the Company;
- Operate bank accounts or authorize any person, subject to the general or special approval of the Board;
- Make arrangements for safe custody of cash and other assets of the Company;
- Sign business related documents as may be authorized by the Board for and on behalf of the Producer Company;
- Maintain proper books of account, prepare annual accounts, place the audited accounts before the Board and in the annual general meeting of the Members;
- Furnish the members with periodic information to appraise them of the operation and functions of the Company;
- Make appointments to posts in accordance with the powers delegated to him by the Board;
- Assist the Board in the formation of goals, objectives, strategies, plans and policies;
- Advise the Board with respect to legal and regulatory matters concerning the proposed and ongoing activities and take necessary action in respect thereof;
- Exercise the powers as may be necessary in the ordinary course of business;
- Discharge such other functions, and exercise such other powers, as may be delegated by the Board;
- Provide timely information to the Members and Board of Directors for scheduled company meetings or emergency or short notice meetings.

Skill sets required in performing the role of a CEO

Creativity and problem solving

A critical competency of an entrepreneur is creativity and problem-solving attitude and skills. Many barriers develop due to pre-conceived ideas which impede the growth of creative thinking. The barriers are

1. Closed frame of mind
2. Avoiding challenges

An open minded approach and efforts help to remove barriers hindering creativity within person. In routine life, many problems are often not even noticed. This is because experience have equipped us with spontaneous reactions that solve them. However, sometimes when we face an unusual or difficult problem, there is no routine reaction. In such cases, various approaches and ways have to be tried. In appropriate system, approach and methodology is developed to solve problem in an enterprise which help the entrepreneur to manage his / her affairs smoothly and he / she would not remain under stress and tension while encountering problems. The following steps are suggested for developing a problem-solving mechanism:

- ✓ Build a problem solving attitude
- ✓ Recognise the problem and it seriousness, specify the problem
- ✓ Formulate possible causes
- ✓ Test and develop alternative solutions with relevant cost-benefits
- ✓ Compare and implement appropriate solution
- ✓ Internalise the process so that similar problems will be easily resolved

Negotiation and Networking

Negotiation is a key activity in business. One negotiates within an enterprise with employees, and outside with suppliers, customers, support institutions and financers. A successful entrepreneur is a successful negotiator. It is, therefore, imperative for an aspiring entrepreneur to develop negotiating skills. Negotiation is a process of arriving at a mutually satisfying agreement / understanding / position by different actors/ parties having differing viewpoints initially – upon effective negotiation they reach an agreed position, which satisfies all.

General principles of negotiation

- ⇒ Know what you are trying to accomplish
- ⇒ Develop a game plan before negotiations start
- ⇒ Study and understand your counterpart
- ⇒ Work towards a win-win
- ⇒ Avoid negotiating with yourself
- ⇒ React strongly to an untrustworthy party at the negotiating table
- ⇒ Remember that it takes two parties to negotiate or renegotiate a deal

So, before entering a negotiation, be well prepared. Know when you are willing to walk away. Understand your situation and that of the other party, including strengths, weaknesses and alternatives. If you are in a long-term relationship with the other party, drive for a win-win. Exercise caution driving for a win-lose. People have long memories, and you might encounter them again, perhaps when they are in a position of relative strength.

Relevant technique for influencing others to achieve workplace objectives

1. Identify the Audience: Figure out who you will need to influence. Weigh the variables such as a difference in generation, the level of understanding for the project, personality, and any details that can cause a significant impact. Then choose the leadership style that best fits the goals. Pick up on any non-verbal cues that show resistance or approval. Try to determine who has the most influence on the decision. Nurture those relationships with genuine interest.

2. Identify the Wants and Needs: In a meeting, most people lead with their own agenda at the forefront. Blazing ahead with great reasons and well thought out data. This is the reverse of an effective influencing technique as it does not align the interests of others before your request. Areas that could spell trouble should be forecast before promoting your idea. Knowing ahead of time is a great way to prepare and can direct your expected questions.

3. Build Trust: Research continues to show that it is important to create a connection before leading. Establishing this trust happens when the person recognises certain qualities in you:

- People trust people who are like themselves
- Aligned interests - Find mutual commitments or common values
- Have a genuine concern for others
- Capability or competence - The ability to deliver on your promises
- Predictability and integrity - Consistent trustworthy attitudes
- Listen fully, hear other sides and open to discussion

Trust takes time to develop. If time is short and you need to show more commonality with the person, then you can use a technique called mirroring *(**Mirroring** is a method applied in sales and any other business negotiations. ... When **mirroring**, one person scans and subtly replicates the physical and verbal behaviours of another in order to establish rapport and empathy during a conversation)*. This gives the person a sense of comfort and familiarity.

4. Explain the Win-Win

If you have correctly followed steps one, two and three then you are certain to have a more receptive audience for step four. This is where reasoning comes in. Explain the advantages clearly and give examples. Nothing beats a strong argument that shows how the request ties to the needs of others. How are co-workers affected if they do-not take part? Pain points like this can often be as strong a motivator of support as if they do take part. Detail how the person or company is worse off, if they do not act.

Three negotiation strategies for conflict resolution

1. **Avoid being provoked into an emotional response:** By challenging, demeaning, and criticizing you, the other party (whether consciously or not) may be attempting to

provoke you into an emotional response that will shift the balance of power in their favour

2. **Don't abandon value-creating strategies:** Disputants may also be able to create value by trading on their differing preferences and priorities. Suppose Party A places a high value on receiving a formal apology from Party B. Party B might be willing to grant the apology in exchange for a lower settlement payment to Party A. Through such trade-offs, negotiators can increase the odds of a peaceful and lasting resolution.
3. **Use time to your advantage:** The perceptions we hold about the dispute resolution process may change over time as a result of our experiences dealing with the conflict and with the other party. For example, a couple that endures a rancorous divorce might grow more cooperative over time for the sake of their children. Rather than viewing your dispute as permanently intractable, try to view it as being constantly in flux.

The Value of Networking

Depending where you are in the life cycle of a business (entrepreneur or established business), there are two key things that are found valuable about networking viz. learn something and get ideas. No matter where you are in your life, you can always learn something. This is a result of the world changing drastically every single day. You alone are not able to capture all of the change happening. Get outside opinions.

There are three types of networks important in business - Operational, Personal and Strategic. While a lot of managers excel at building and using their operational network, they often overlook their personal and strategic networks.

⇒ **Operational networking** involves cultivating the relationships with people you need to accomplish your job. This may mean working closely with your HR manager to make sure you hire the right people or developing relationships within other departments to win support for your initiatives.

⇒ **Personal networking** is an afterthought for many busy managers. These networks allow you to meet a diverse group of like-minded professionals. They also are a way to develop important social skills for many professionals and may be the first place you turn when you start thinking about changing careers.

⇒ **Strategic networking** is the toughest but most essential if managers want to become business leaders. Ibarra explains that contact with peers and with senior executives in your field is vital and she encourages managers to look beyond their industry as well. This allows managers to share ideas about best practices in management, learn new approaches and keep close tabs on developments in business and technology. It helps managers to see the bigger picture and create their own visionary approach.

Delegation

Effectiveness of an entrepreneur will depend upon the level of performance of his employee or other. Delegation of authority is a process in which the authority and powers are divided and shared amongst the subordinates. When the work of a manager gets beyond his capacity, there should be some system of sharing the work. This is how delegation of authority becomes an important tool in organization function. Through delegation, a manager, in fact, is multiplying himself by dividing/multiplying his work with the subordinates.

Importance of delegation

1. A manager is able to divide the work and allocate it to the subordinates.
2. With the reduction of load on superior, he can concentrate his energy on important and critical issues of concern. This way he is able to bring effectiveness in his work as well in the work unit. This effectively helps a manager to prove his ability and skills in the best manner.
3. Delegation of authority is the ground on which the superior-subordinate relationship stands. The flow of authority is from top to bottom which is a way of achieving results.
4. Delegation of authority in a way gives enough room and space to the subordinates to flourish their abilities and skill. They get motivated to work and this motivation provides appropriate results to a concern.
5. Delegation of authority is not only helpful to the subordinates but it also helps the managers to develop their talents and skills. It is only through delegation, a manager can be tested on his traits.
6. Delegation of authority is help to both superior and subordinates. This, in a way, gives stability to a concern's working.

What Is Leadership?

Leadership captures the essentials of being able and prepared to inspire others. Effective leadership is based upon ideas (both original & borrowed) that are effectively communicated to others in a way that engages them enough to act as the leader wants them to act. A leader inspires others to act while simultaneously directing the way that they act. They must be personable enough for others to follow their orders, and they must have the critical thinking skills to know the best way to use the resources at an organization's disposal.

An entrepreneur as a leader

- ✓ Successful entrepreneurs have been competent leaders as to motivate and guide others to follow his dream / vision and / or an evolved common vision.
- ✓ Instruments that can be used to enhance leadership skills include imitating role models, analysing experiences of self and learning from those situations to modify behaviour and to enhance the effectiveness.

Developing leadership skills and effectiveness

- ✓ Develop skills of communication and negotiation and building trust of members
- ✓ A single leadership style will not work in all situations. One's style may have to vary
- ✓ Goal setting and goal selling to followers have been found very useful. Therefore, setting appropriate goals, communicating them clearly and providing support in terms of guidance go a long way to improve performance.

What is Systematic Planning?

In simple terms, systematic planning is 'developing and using logical, step-by-step plans to reach the goals'. It is possible by:

- Breaking a large task down into sub-tasks
- Developing plans while anticipating obstacles
- Evaluating alternatives
- Taking a logical and systematic approach to activities

Planning has been defined as the most basic of all managerial functions. It involves selecting purposes and objectives and actions to achieve them. This requires decision making, i.e., choosing the future course of action from alternatives. Plans thus provide a rational approach to pre-selected objectives.

The planning process

i) Fixing targets such as increasing sales / profits

ii) Fixing premises / assumptions regarding matters such as raw material prices

iii) Deciding quantitative targets of objectives

iv) Determining the resources required, such as men, material and money

v) Scheduling of activities

On account of changes in conditions, mistakes are committed. Therefore, a periodic measurement of the actual and comparing them with the planned targets and taking remedial measures is important for sustainability.

Entrepreneurial and management skill may be referred to as hard management skill and soft (entrepreneurial or intrapreneurial) skills, respectively. A director needs to act as an "intrapreneur" or an "entrepreneurial-manager" within FPO. Hard skill have reference to techno-managerial skill while soft skill have more to do with personality and internal behavioural traits and characteristics of intrapreneurial manager or director.

Managing Enterprise

Effectively managing a business enterprise involves many aspects. From the day-to-day to the large-scale annual events, managerial duties are often never-ending. A solid leadership and understanding of the industry are a great start, but these alone will not create solid management in a business.

1. Lead with knowledge and confidence: To build your leadership skills, find a more experienced manager willing to mentor you. Use networking to connect with managerial staff from other companies that can give you wisdom. In this ever-changing world, it is crucial that you stay current and informed on any technology, products and practices that relate to your organisation.
2. Delegate effectively: No matter how skilled you are, you will not be able to manage everything on your own. However, delegating can create more work for you if you do not do it well. Make a list of things that you know you must do yourself and things that could successfully be accomplished by another. Your time should be spent in the areas in which you excel, but be careful not to over-delegate. If you have given too many tasks away, you will spend all of your time monitoring their progress, leaving you unable to accomplish your own tasks.
3. Hire the right employees and manage them with care: Interview and screen every candidate, performing background checks and credit checks, especially if they will be handling money. Be purposeful about job descriptions so that the eventual employee will know of your expectations and be clear about what is required of them. Set clear expectations in employee manuals and be prepared to consistently enforce those expectations. Consequences for unethical or inappropriate behaviour should be labelled in employee manuals.
4. Motivate and train your employees: As business practices and technology change, it is important to educate your employees. Motivate them with bonuses and rewards for specific achievements. Building employee morale will benefit you and the business.

Share the organisation's success with the employees to give them a sense of ownership and belonging.

5. Meet the needs of your customers: Your employees should be well-trained in customer service, but you should lead as their best example. Make it a priority to truly listen to the needs of your customers. Ask appropriate, open-ended questions about the customer's needs and desires.
6. Market your company effectively: Although the business owner may have a paid marketing staff, you must still be willing to use your own skills. You may be required to coordinate and create marketing activities, including print media, target market research, advertising and customer communication.

Inter personnel skills

Interpersonal skills are **the qualities and behaviours we exhibit while interacting with other people.** They are considered to be one of the most sought after types of soft skill. We demonstrate them whenever we engage in any kind of verbal or nonverbal communication. In fact, qualities as basic as body language and attitude toward others greatly affect our chances of excelling at work. Strong interpersonal skills are a key indicator of success in a working environment, as benefits include the ability to cooperate with teammates to solve difficult problems, as well as simply enhancing your popularity around the office. On the other hand, lacking them might lead to conflicts with colleagues or management and cause others to see you as a hindrance to getting the job done. **The most effective interpersonal skills examples are as under:**

1. Emotional Intelligence: Emotional intelligence refers to the ability to keep one's emotions under control and navigate social situations with composure. Employers are looking for individuals who can keep calm under pressure and avoid pushing their personal frustration onto others. This is **invaluable in any position that requires teamwork or communication between colleagues.**
2. Communication: Communication is a quintessential interpersonal skill that must be demonstrated to potential employers. Hiring managers are looking for individuals who can clearly articulate complex ideas to others. Any job that involves team-based collaboration, or deals directly with customers or clients, requires both verbal and non-verbal communication abilities**. Effective body language and eye contact are just as important** as the words you use to express your thoughts.
3. Reliability: Reliability encapsulates your work ethic and the integrity to see things through to the end. Simply being on time for work every day puts you on the fast track for promotion, and always fulfilling promises is a key way to earn social capital in the

workplace. Arriving on time and completing high quality work goes a long way in overcoming common negative stereotypes and earning a solid reputation.

4. Leadership**:** Leadership is an interpersonal skill that sets candidates apart from their peers. Employers are looking for motivated and **capable workers who can inspire others** and **take charge when work needs to be finished.** Leadership involves not only giving orders and making an operational plan for the company, but also getting the most out of every employee and helping everyone feel like they are making valuable contributions to the organization.
5. Positivity: Candidates and employees who demonstrate positivity are much more likely to find success in a position and be well-liked at the company. Positivity is especially important for administrative assistants, because maintaining a cheerful attitude is **valuable in helping others keep stress levels down and in generating a feeling of optimism throughout the office.**
6. Negotiation**:** Negotiation is not only the act of buying or selling goods, but **any interaction in which two or more people engage in a discussion in an attempt to come to a shared agreement.** Interpersonal communication skills naturally play a large role here, but critical thinking and problem solving are also keys to finding the best solution available to satisfy all parties.
7. Openness to Feedback: No company wants an arrogant or unteachable employee, so it's great to show a willingness to receive feedback and use it to grow. A professional mind-set calls for suppressing one's ego and focusing on the objective requirements for an assignment or project. As a result, **individuals who accept constructive criticism have a better chance of coming out on top in the long run.**
8. Empathy: People at work gravitate towards those who are capable of showing empathy and taking actions consistent with an understanding of how others feel. Empathy can be displayed at work in a variety of ways. For example, you could lend an ear to a colleague experiencing problems in the organisation or, support a project when an unforeseen difficulty strikes.
9. Teamwork: Teamwork is another great interpersonal skill to have in your repertoire. Modern workplaces often require employees to rely on each other in some capacity and be willing to support others when called upon. Effective teamwork involves **knowing when leadership is required** and **when it's okay to stand back and be a supportive project member.**
10. Active Listening**:** It's easier to demonstrate being a good listener during a face-to-face discussion, but it's still valuable to show your willingness to listen and respect others on your resume. Being open to the ideas of others will lead to an environment where

all employees feel free to share their thoughts. In addition, **actively listening enables you to clearly understand** all instructions and thus deliver work that satisfies requirements.

Summary of soft skills

Persistence	Efficiency orientation
Initiative	Systemic Planning
Seeing and acting on Opportunities	Problem Solving
Information Seeking	Self Confidence
Concern for Work Quality	Assertiveness
Commitment to works contract	Persuasion
Employment of Influence Strategies	

Persuasion and use of influence strategy

There are many influence strategies available to an entrepreneur to persuade people to act in a required manner.

- ✓ Business potential
- ✓ Knowledge
- ✓ Relationship building
- ✓ Facilitate involvement
- ✓ Effective negotiation

The various persuasion and influence strategies need to be employed. The success of business will depend on intrepreneur initiatives within and outside his business premises. One can influence activities within a business but not easily with outsiders like bankers, term-lending institutions, and suppliers. However, she/he may employ different influence tools where feasible/appropriate. Existing FPOs may use the lever of giving or withdrawing business to influence the behaviour. A potential / new intrapreneur in a FPO needs to convince others of the potential of the business. This needs three things:

- Hard evidence of the potential
- A credible action plan
- Evidence on competence of the intrapreneur

A well-drawn business plan may serve as an influence mechanism. Knowledge / information on one’s business, expertise in some aspects of the business serve as an effective influencing strategy. Associating with experts can also help. Building relationship through networking is another tool of influencing. A known person is more likely to evoke a more favourable response. Involving people in what one is doing is another way in which one can influence others. In negotiation the methodology involves identifying basis of mutual benefits and then to appeal to it. While using the entire gamut of skills, properly planned communication can be a powerful tool of influencing.

Importance of developing networking & convergence for FPO

Given the importance of agriculture sector, Government of India has taken several steps for its sustainable development. Steps have been taken for facilitation in enhancing the production and productivity of different agriculture crops & agri-allied activities, improved access to irrigation and enhanced water efficiency, improving the health of production systems like soils, strengthening marketing systems, development & dissemination of improved technologies, etc. through implementation of different schemes over a period of time. Broadly the schemes can be categorised in two categories viz. the Central Sector Schemes and Centrally Sponsored Schemes. Centrally Sponsored Schemes are different from Central Sector Schemes in the sense that Central Sector Schemes are implemented by Centre directly while Centrally Sponsored Schemes are implemented by States. Though, the schemes are implemented by States but are largely funded by Central Government with a defined State Government share. This is done to provide flexibility to States to mould schemes according to the local requirements, flow of funds, accountability, enforceability, implementation, etc.

Similarly, other than government, there are schemes of other organisations viz. developmental institutions, banks, corporates, etc. which have direct or indirect linkage with farmers of farmers' organisation like FPOs.

FPOs needs to link up with institutions:

a) To mobilise essential resources like finance, agricultural inputs, information, marketing & liaison, value addition and other services required for the activities of FPO and its members

b) To have access to new technologies from private and government institutions, academic institutions.

Literally, convergence is when two or more things come together to form a new whole. The other synonym for convergence could be confluence, conjunction, meeting, etc. Here under convergence, we talk about linkage of the beneficiaries (farmers) to the support available (cash/kind) under the various ongoing schemes of the government and other agencies.

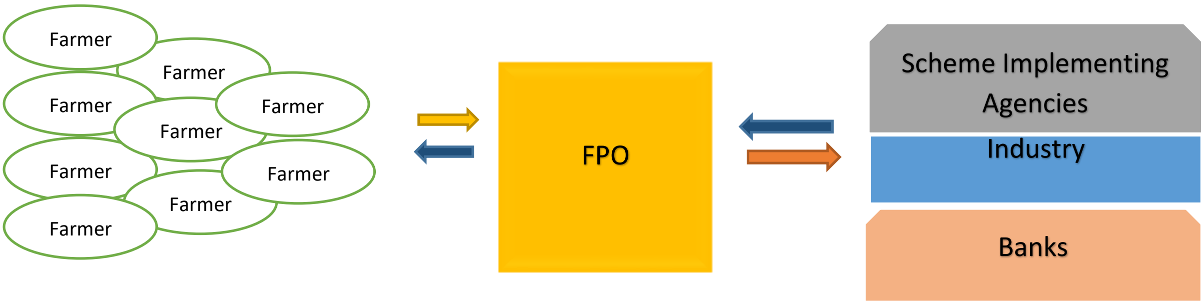
The lack of linkage or convergence can be on two counts:

⇒ **Awareness about the scheme & incentives**

⇒ **Knowledge gap on the process part of it i.e. fulfilling the modalities under the program for linkage.**

⇒ **The critical gaps viz. time & knowledge constraints existing at individual level in accessing benefits under such programs**

These constraints or gaps can be circumvented through an aggregation mode and here FPOs can play a very important role.



Convergence result in the following advantages:

(i) Will help the farmer to taking advantage of ongoing programs where FPOs will act as facilitators

(ii) Will also provide opportunities for FPOs for business diversification (setting up of storage facilities, custom hiring centre, soil testing lab, processing units, etc.

(iii) Will facilitate implementers in identification of right beneficiaries with ease

<u>Let us understand it through this example</u>:

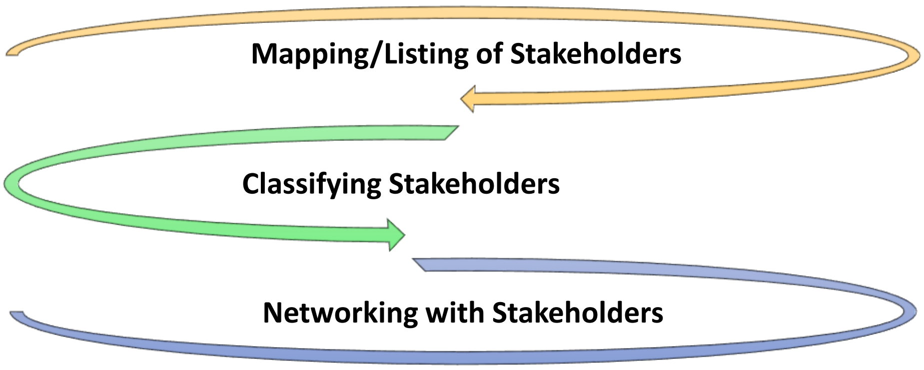
An FPO was involved in doing input business. Most of the farmers in the FPO were growing vegetable growers and they wanted to get into the business of aggregation and selling the produce. They decided to approach the office of Horticulture department to seek their opinion. After going there, they came to know about the Departments scheme under national Horticulture Mission. It was informed by the Horticulture Development Officer that he still has a budget for distribution of high quality vegetable seeds, if they are interested. He also informed that a capital subsidy can also be availed of for setting up of a low cost cold storage. They came back and discussed among themselves and studied the feasibility aspect. After deciding to go ahead, they invited the officials to their next board meetings for further discussion. Six months down the line, the department not only provided them with improved seeds but was able to connect them an online buyer group for marketing of their produce. The horticulture department also supported the FPO in drafting the agreement with the buyer. Subsequently, the department also facilitated set up a grading and sorting facility with financial support under MIDH. Using the good quality seed, the farmers were also able to improve their productivity.

Thus, from the above, we can visualise the importance of convergence. But for convergence to happen, networking and stakeholder engagement is very important.

Stakeholder

An individual, group or organisation who is impacted by the outcome of a project and also have an interest in the success of the project

The simplified step-wise approach for stakeholder analysis & networking could as under:



1. **Mapping/Listing of Stakeholders**: Preparation of list of people or institutions FPOs interact/likely to come across in conduct of FPO business. FPO Stakeholders are individuals, institutions that are directly or indirectly engaged or who can influence the FPO positively or negatively.

Stakeholder Examples		
Primary	**Secondary**	**Tertiary**
⇒ Users/Beneficiaries	⇒ Local Authority ⇒ Direction of Municipality Technical Services ⇒ Traditional Authorities ⇒ NGOs ⇒ Development Agencies ⇒ Businesses and Suppliers ⇒ Govt. Line Departments ⇒ Research Institutions ⇒ School and University ⇒ Services Providers	⇒ Financial Institutions ⇒ Donors ⇒ National Authorities (at all levels) ⇒ Opinion Leaders ⇒ Civil Society ⇒ Foreign Cooperation Agencies ⇒ Media

2. **Classifying Stakeholders**: Stakeholders can placed in 3 categories (very important, somewhat important and not so important)

3. **Networking with Stakeholders**: Engaging with important and somewhat important on a regular basis through networking

⇒ **Methods of Stakeholder Engagement**

One-on-one Meeting	Group Meeting	Organising Events and inviting stakeholders
Inviting stakeholders to BOD meetings	Phone calls	WhatsApp Groups
Disseminating information through WhatsApp	Email	Virtual Meetings

⇒ **How to create a stakeholder engagement and networking plan**

Name of stakeholder (if institution, name of contact person with designation and role)	Reasons for Linking	How to engage with them	Name of person responsible for initiating link	By when	Constraints (in linking)	Ways to overcome constraints? Whose support?

Market Network

A Market Network is a hybrid business model comprising of a marketplace, a social network and SaaS (software as a service) tools. In the Agri value chain a digital market network would allow all the players in the value chain to discover each other via profile pages, connect and exchange information in real time to negotiate deals and manage the transactions and workflows to complete their business.

Challenges before traditional marketplaces

Farmers in India have traditionally been selling their produce via government operated wholesale marketplaces called APMC (Agriculture Produce Marketing Committee) Yards or Mandis. These marketplaces operate on a structure of licensed commission agents who act as traders in the marketplace, buying from farmers and middlemen and selling to wholesale buyers. One of the biggest challenges with this model has been Cartelization by commission agents to manipulate prices which results in farmers receiving unfair value for their produce.

In addition, farmers are prone to facing malpractices like incorrect produce grading and tampering of measurement instruments at mandis which further affects the money they receive for their produce. Any sale which the farmer does at the mandi is also subject to marketing charges and fees which increases the farmer's cost of sales, adding to already existing costs like transportation of farm produce to the mandi, and other production related costs. Till recently, APMC Yards or government mandis had monopoly status in most states which further led to a lack of alternatives for farmers to market their crops.

How does Network help solve the traditional marketplace challenges?

Agri Market Network allowing all Agri value chain participants to discover, connect and transact with each other in a real-time, transparent and fair trade driven environment.

Farmers should act as shareholders, suppliers and also customers of the ecosystem thereby gaining also from long term wealth creation as the ecosystem grows. By leveraging block chain technology, aim should be to make all network transactions transparent for all participants and allow full origin traceability of Farm Inputs and Produce across the supply chain. Combining this with fair trade business principles one can ensure to deliver the deserved share of value for each player across the value chain.

Make an eco-system to enable any local service enabler (eg. Logistics providers, Food Processors, Financial Institutions etc.) to participate in the Market Network and connect with the rest of the network participants to derive and share value across the ecosystem. Once a Market Network participant signs in they can manage their profiles, market their services, connect and communicate with other network participants and initiate or complete transactions in a transparent and secure manner.

As an agribusiness leader, with whom do you want to network?

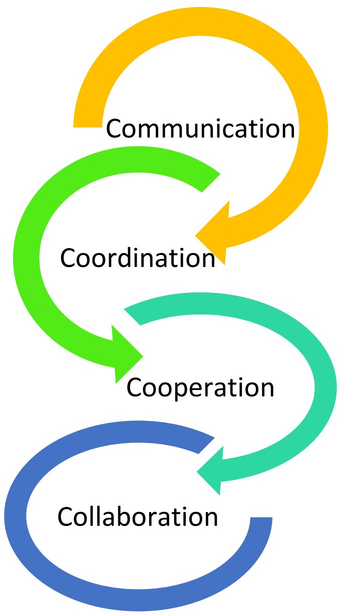
- ✓ Technology sources (eg. University, research centres, technology companies)
- ✓ Suppliers (inputs, intermediate products, equipment providers)
- ✓ Farmer organizations (cooperatives, associations, groups)
- ✓ Financiers (banks, venture capital)
- ✓ Government agencies that sponsor programs for SME development
- ✓ Political leaders relevant to your business in your locality or nation
- ✓ Regulators (issuing licenses, permit)
- ✓ Chamber of commerce
- ✓ Trade associations
- ✓ Professional associations
- ✓ International network

- ✓ BSD providers (accountants, management consultants, trainers,...)
- ✓ Logistics agents
- ✓ Lawyers

Methodology

- ✓ Define the priorities for your network
- ✓ Monitor your contacts
- ✓ Select the trusted contacts
- ✓ Keep in contact with the selected ones
- ✓ Cut the B.S. (sorry, I meant the not so productive) contacts Enjoy the networking experience
- ✓ Aim at personal contact in the network

Four "C" in networking



Session IV	Management and Governance aspects in FPOs- Differentiated role of BoDs and CEOs

The principles of accountability, transparency, ethics and fairness are the basic principle in context of corporate culture. These need to translate into real everyday practices and policies which business organisation must adopt.

The following aspects may be considered to understand the governance and management of a FPO:

1. Democratic functioning
2. Following proper / due process
3. Transparency
4. Social and gender justice
5. Maintaining confidentiality
6. Collective responsibility for decisions
7. Ensuring continuous learning and improvement
8. Accountability
9. Being answerable to all stakeholders
10. Balancing business and social objectives

There can be several other practices that one can identify and add to the above list which is only illustrative and by no means exhaustive.

1. Democratic Functioning

FPO shareholders may contain huge diversity viz. gender, social, economic, etc. and thus pose a huge challenge not only in bringing them all to a common platform but having an equal say in its management. Democratic functioning means that the organisation provide all of them equal opportunities for participation in decision making and handling the affairs of the FPO. Considering the diversity, it would be truly challenging to ensure the above, but rotation policies and conscious efforts, all can be taken together in the journey of a FPO.

It is essential that a democratic attitude must be inculcated in the normal administration and functioning and should get reflected in conduct of meetings, decision making (convincing members with reasons), etc. Very often members who are not convinced and silenced by a majority starts showing resentment and even leave the organisations later on). Due attention is also required to given to ensure that the meetings are organized at a time and location that is convenient to all / most of the members.

2. Following Proper / Due Process

Functioning and decision making must follow a due process which should be written laid down procedure or system. A written and approved policy for key function like staff selection, purchase of assets, equipment, etc. should be in place and the process of taking a decision should be based on it.

- ✓ A proper and clear laid down criteria on taking key decisions
- ✓ Clarity on who is responsible for taking the decisions
- ✓ Process of decision making to be transparent and in the best interests of the organization

3. Transparency

Transparency not only in how the decision has been arrived at but also sharing the important and key decisions with all the stakeholders who are entitled to know this. Thus, there are two aspects viz. due process and transparency. Transparency in this context would mean that the criteria and the process by which the decision was made is shared and made known to all the concerned persons – in this case the shareholders. This will ensure that the shareholders will come to know about what decisions has been taken, why it has been taken and also how it has been taken. This eliminates the doubt of bias & self-interest.

Suppose a FPO has been assigned the responsibility of distribution of free seeds to its members. To maintain the transparency, FPO should maintain clear documentation about the farmers to whom the seeds was distributed along with the quantities and submit a report as required by the department with details and photographs. A board may be placed at a prominent place in each village or near the fields displaying that the farmer is using seeds distributed by the department. It should also be prepared to arrange for field visits where the officials can see the actual places where the seeds have been distributed. The APC may charge a facilitation fee that can be collected from each of the beneficiary farmers also.

4. Social and Gender Justice

The functioning must ensure participation of all, irrespective of gender, caste, creed or economic status. There may be persons from different backgrounds, who needs to be equally accommodated and represented in the decision making bodies. The interest of all must be kept in mind and this should not only appear to be but translate in the functioning.

5. Maintaining Confidentiality

In the course of discharging duties for a producer company, a person may come in possession of information that is sensitive or confidential. For example:

- Decision about hiring of a candidate
- Decision about sale of agricultural produce and the prices at which they may be sold

• Purchase of land for the company

Maintaining confidentiality would mean that information should be shared / discussed only with the concerned persons as and when it is required *(only on a need to know basis)* but not shared with any other persons. Improper sharing of information may lead to legal problems and other issues.

6. Collective responsibility for decisions

Various management bodies existing in a FPO viz. General Body of Shareholders, Board of Directors, various committees, etc. must assume collective responsibility for decisions. In practice this would mean that, while there may be difference of opinions and various options discussed in meetings, once a decision has been made, everybody should accept the decision and works towards its implementation. In general the discussions between the members of a group (such as the Board of Directors) would remain confidential and not shared with others. The approach adopted should be:

- ✓ The leadership / chairperson must create an atmosphere so that whenever a matter is discussed all express their views freely.
- ✓ Differences of opinion are healthy and may be treated in positive manner

  Once a decision is made, it should accepted as a collective decision of the body and all members must cooperate fully in implementing the decision.

7. Ensuring continuous learning and improvement

The value of any individual/institution will improve continuously with experience, if one learns and performs accordingly. Though learning makes a difference but does not take place "Automatically". It requires special effort and analysis. Some possible methods could be –

- ✓ Performance analysis
- ✓ Analysis of procedures and continuous improvement through documentation and review.
- ✓ Benchmarking – the learning based on a comparative study of peer organizations specially who are performing better than us

Benchmarking is the process of comparing our business processes with processes & strategies adopted by other companies – usually those that are considered as the best in the field. Usually, this involves the following steps.

- ✓ A specific subject may be selected for study which may be a problem area. Ex. quality control
- ✓ Identify other industries which have similar processes
- ✓ Identify organizations that are leaders in this area
- ✓ Collect information about / visit these companies to identify leading practices
- ✓ Companies typically agree to exchange information beneficial to all parties in the benchmarking group and share the results within the group

✓ Implement the new and improved business practices and monitor the results

8. Accountability

Accountability is the obligation and willingness to accept responsibility and account for one's actions. For a producer company, being accountable means, demonstrating regularly that it uses its resources wisely & judiciously. Some of them could be:

- The basic information about the company, its activities and policies are readily available and accessible to all the members.
- This information is also available to potential new members as well as banking institutions and agencies who provide support to it.
- The FPO must be willing and open to accept suggestions that can help improve the performance or cut down costs.

9. Being Answerable to All Stakeholders

Who are the persons to whom FPO have to relate to / report to or have a responsibility?

Some of them are:

✓ Shareholders

✓ Investors such as banks, who have provided loan or credit facility

✓ Stakeholders within the organization – employees, consultants, etc.

✓ Other companies with whom FPOs have dealings – Sub contractors, suppliers, etc.

✓ Customers who purchase their products and services

✓ General public/residents of the area where FPO works – office, processing plant, godown, etc.

In some of the above cases, the requirement is legal like a company has to report to its shareholders as specified in the Companies Act, the company has responsibilities towards all employees as specified in the Act relating to the payment of minimum wages, etc. whereas some good practices may not be governed by statute.

10. Balancing social and business objectives

FPOs are meant to combine cooperative principles with professional management and government is supporting this movement through special facilities like giving financial support for formation, registration, CGF (Credit Guarantee Fund) and MEG (Matching Equity Grant), etc. These are the benefits that are available only to FPOs and not others private or public companies. This is because of the

expectation and understanding that producer companies are also serving social objectives. Some of them are:

- ✓ Taking care of the interest of small and marginal farmers
- ✓ Taking care of the landless section among farmers
- ✓ Operating in an area that is backward and with poor infrastructure
- ✓ Having members who are from disadvantaged groups such as tribals

Management of the Company

An understanding or comprehension of good practices is only a starting point of the journey. In order to translate them into practice and ensure that there is continuous review, feedback, learning and improvement, specific institutional processes need to be put in place. Such an effort has to begin at of the highest level of the organization i.e. the Board of Directors. Putting in place appropriate practices through the tools of policies & procedures is the prime job of the BoD.

The management of the company can be broadly divided into three parts namely

- ➢ Deciding on the business : Scope and size and geographical parameters
- ➢ Obtaining all licenses / permissions etc. necessary for the company and necessary for selected business
- ➢ Putting in place an MIS and ensuring compliance to legal formalities including filing of returns etc.

Above aspects are discussed in detail in following paragraphs.

BUSINESS IN A COMPANY

After the registration of the company, the major task of the company starts, that is operating the company successfully. The first major task is to prepare a business plan with consultation of the members.

Other than preparing business plan, the company also has to do the following simultaneously:

- ➢ Open a Bank Account with two to three officially nominated signatories in the name of the Company.
- ➢ Procure PAN number from the Income Tax Department and TIN number from the Commercial Tax Department to carry out business. Also, the company has to register itself for Service Tax from Commercial Tax Department and VAT from Excise department.
- ➢ Apply for the commercial connection of power supply to related agency/board.
- ➢ Water Connection with local water supply authority.

A detailed discussion on the business plan of the company should be done during the first general meeting. While making the business plan, the company has to understand the area (physical, social and cultural) of their working, it’s potential, requirement of the shareholders (if the company is only for farmers) inputs of farming (fertilizer, seeds, pesticides and machineries), surrounding markets and competitors. Demand and supply analysis of products to be sold and products to be required by shareholders would be helpful.

A business plan would not only convey the organizational structure, business goals and the strategies to meet them, but also will allow the company to assess the potential problems and the ways to solve them. Business plan will also help to assess the capital required for the planned business, which, further may be required to be submitted to any financial agency (nationalized / cooperative banks etc.,) to apply for loans.

For the successful management of the Company's business, the Company should have the following divisions or clear demarcated roles for staff. (It all depends on the business of the company):

- Production Division: The division should do market survey and help forecast to the farmers of the products that are in demand and which can yield maximum profits. Also, the division can process the product of the members to gain maximum profit. The Company might have to acquire statutory obligations like permission from pollution control board (depending on the business of the company).
- Marketing Division: The products manufactured by the processing unit or produced by the members would be sold through this division. The division should try to get maximum price for the products of members. Also, the company can sell the products of its members through the Agricultural Produce Market Committee (APMC). For the purpose the company has to procure the mandi license. The company can also procure certification from AGMARK, ISI and BIS to increase the marketability of its product.
- Purchase and Procurement Division: After collection and compilation of demands of their members within the working territory of the Company, the Company can place a purchase order through their purchase and procurement committee. The purchase committee should contact all interested and available manufactures, producers, suppliers or distributor for supply of required material at a comparative price and quality bidding in volume notified by the committee. The negotiated supply price may be lower than local market price with better quality assurance and timely availability to the members.
- The best possible way (as per the experience of the interviewed CEO's of four companies) to initiate a business of Producer Company is by timely supply of agricultural inputs like seeds, fertilizer and pesticides to farmers in their own village at an appropriate price. For the purpose, the Producer Company has to attain the necessary licenses from the respective organization/institutions.
- In case, the Company intends to undertake the production, processing and marketing of seed, the certification is done for the concurrent production process each season (as per the procedure laid down by the state seed certification agency for each individual grade and crop accordingly).

ANNUAL FILING

From September 16, 2006, electronic filing is mandatory to all type of companies and physical documents are not permissible for filing. As a part of Annual Filing, Companies incorporated under the Companies Act, 1956 are required to file the following documents along with the e-Forms to the Registrar of Companies (RoC):

Sr. No.	Document	e-Form
1	Balance-Sheet	Form 23AC to be filed by all companies
2	Profit & Loss Account	Form 23ACA to be filed by all companies
3	Annual Return	Form 20B to be filed by companies having share capital
4	Annual Return	Form 21A to be filed by companies without share capital
5	Compliance Certificate	Form 66 to be filed by companies with paid up capital between Rs 10 lakh to Rs 2 crore

How to do the Filing?

The companies can do e-Filing in three different ways:

- The company representative can upload the e-Forms from the MCA 21 portal through the 'Annual Filing Process' link (after registering oneself as a user of the portal) at his convenience from his office/ home. This is the most convenient way for e-Filing.
- The company representative can prepare the e-Form following the guidelines, copy them in a CD and go to the nearest Temporary Facilitation Offices opened for the purpose of accepting Annual Filings e-Forms or can take service of Company Secretary to avoid official problem. During normal days, the TFO staff will help the company representative to upload the form and generate a Challan. During last 10 days of Oct and Nov. CDs will be collected and an acknowledgment given. The files will be uploaded into the system subsequently and the company will have to download the challan from the link provided at the Annual Filing Corner of the portal after two working days of the submission. At Other locations where TFO's/Collection Centre are not being opened, the eForms will be accepted at the existing Registrar's Front Offices (RFO).
- The company representative can also contact any of the Certified Filing Centers (CFCs) for the Annual Filing of e-Forms by paying the service charges to the CFCs. The details about the CFCs are available under the 'CFC Corner' on the MCA 21 Portal.

Important Points to Remember

- This time the Balance Sheet and the Profit & Loss Accounts are to be filed as two separate documents with different e-forms;
- Each e-Form along with the relevant attachment should be less than 2.5 MB.
- The Annual Return, the Balance Sheet and the Profit & Loss Account are filed as attachments to the respective e-Forms. So far, the users have been filing the attachments as scanned images of those documents. Please note that a scanned copy considerably increases the size of the document besides being more expensive. As such, you are advised to use the Text file/ Excel sheets as such, convert the

same into PDF by using the PDF converter (the software is available on the portal for a registered user without any charge) and upload these attachments as PDF documents.

- The MCA21 database in respect of Authorised Capital and Paid-up Capital may not be correct. The companies have been requested to apply for correction of Master Data in this respect. Since this process is taking time, the Ministry will be accepting the Authorised Capital and Paid-up Capital figures as declared by the companies in the respective forms pertaining to Annual Filings. Accordingly, the companies are requested to declare the correct amount on these points without waiting for formal correction in the database.

Do's & Don'ts

Do’s

- ✓ Apply for DIN from the MCA 21 Portal in case you don’t have DIN
- ✓ Apply for Digital Certificate from the MCA 21 Portal (or the portal of any of the Certifying Authorities portal) in case you don’t have any.
- ✓ Check your master data from the portal with Authorized Capital
- ✓ Download the latest version of the eForm, User Guidelines and Index Sheet from the portal
- ✓ Read the guidelines carefully before filling up and pre-scrutiny. You will need an internet connection for doing the online pre-scrutiny of the form.
- ✓ You can use the pdf converter facility in the MCA21 Portal. Business Users can upload a word/excel/powerpoint/gif/jpeg/ tif document along with their e-mailed, and the converted pdf copy will be e-mailed to the User.
- ✓ Upload the form through the VFO or the Facilitation Centres opened for the purpose of Annual Return Filing. In both cases you will get the *Challan* immediately. You can also opt for online payment through Credit Card.
- ✓ Alternatively you can submit the eForms in a CD at the collection centers. In such case you have to download the *challan* from the portal after two days.

Don’ts

- ☒ Do not wait for the last date. To avoid rush file in advance.
- ☒ Do not use Digital Certificate of others. Use of Digital Certificate by person other than the person to whom it has been issued is not in consonance with the IT Act.
- ☒ Do not use physical documents for filing. Electronic filing is mandatory w.e.f. 16/09/2006.
- ☒ Do not fill up the eForms in a hurry. Read the guidelines carefully before filling it up.
- ☒ Do not add bulky attachment to the eForm. The total size of an eForm along with the attachments should be less than 2.5 MB. See the guidelines if the size of your eForm exceeds 2.5 MB. Use the PDF Converter on the portal if your attachments are in MS Word or Excel.
- ☒ Do not file, in case approval for increase in Authorized Share Capital or Change in Location from one

ROC to another ROC is pending with ROC. File after you have received the approval or before the last filing date whichever is earlier.

- Do not forget to pay the filing fees at any authorized bank branch before the expiry date of the *challan*. If the *challan* expires you have to file again.

COMMITTEE OF DIRECTORS

A Committee may be constituted to assist BoD for its efficient discharge of its functions. Provided the Board shall not to delegate any of its powers or assign the powers of the Chief executive to any committee. It needs to be mentioned here that :

- The CEO or a director of the Producer Company shall be a member of such committee.
- Every such committee shall function under the general superintendence, direction and control of the Board, for such duration and in such manner as the Board may direct.
- The fees allowance to be paid to the Members of the committee shall be such as may be determined by the Board
- The minutes of each meeting of the committee shall be placed before the Board at its next meeting.

DEVELOPMENT OF MIS

The graduation from one person knows all/ tells all to a system that is having well set MIS is a very important aspects of any Producer Organisation. The formats of returns, books or reports may vary from agency to agency and also demand driven. However, there are registers like membership registers, BOD resolutions, minutes of Board of directors meeting, general body meeting, CEOs executive orders are common for all agencies. Most important from business point of view are daily purchase and sales registers, income statements, transaction summaries that would ultimately help in filing of statutory returns on one hand and analysis of business for future corrections and reporting on the other.

Need for documentation of Orders and commercial decisions

While most business decisions and orders, of late, are over phone or even WhatsApp, it is necessary that post factor written orders are obtained particularly where commercial aspects are involved. A TA bill approval without a tour programme approval may be questioned!!!

MEETINGS

Need and Importance of Meetings

In a corporate body like Producer Company, where every member have equal voting rights, meetings are important for collective decision making. Meetings provide a place for fruitful participation of the managerial committee in planning and executing their job and later on justifying their actions before another forum i.e. meetings of members. Such forums enable free and face-to-face exchange of ideas and views and provide for collective wisdom to be brought into place for achieving the corporate goals.

The Companies Act, 1956 has given elaborate provisions for holding and conducting meetings. It is necessary to observe those provisions; failing to it will disqualify the decisions taken and cannot be effected.

Annual General Meeting (AGM)

Shareholders are the owners of the Producer Company, thus, it is desirable that they should meet once in a year to discuss and review the company's work. It is during AGM that directors are elected/re-elected, and also, decision on replacing or re-appointing of auditors is decided. The annual report of the company is presented in this meeting. Also, decisions on distribution of dividend are taken in these meetings.

⇒ A Company shall hold its first general meeting within a period of 90 days from the date of its incorporation.

⇒ Producer Company should, in each year, hold an annual general meeting (in addition to any other meetings).

⇒ Not more than fifteen months shall elapse between the date of one annual general meeting and that of the next.

⇒ An annual general meeting of the Company shall be called by giving not less than fourteen days prior notice in writing.

⇒ The Registrar may, for any special reason, permit extension of the time for holding any annual general meeting (not being the first annual general meeting) by a period not exceeding three months.

⇒ The Members shall adopt the articles of the Producer Company and appoint directors of its Board in the annual general meeting.

⇒ The notice calling the annual general meeting shall be accompanied by the following documents, namely:-

- the agenda of the annual general meeting;
- the minutes of the previous annual general meeting or the extraordinary general meeting.
- The names of candidates for election, if any, to the office of director, including a statement of qualifications in respect of each candidate;
- The audited balance-sheet and profit and loss accounts of the Producer Company and its subsidiary, if any, together with a report of the Board of Directors of such Company.

⇒ The details to be contained in audited balance sheet and P&L account should reflect with respect to:

- The state of affairs of the Producer Company;
- The amount proposed to be carried to reserve;
- The amount to be paid as limited return on share capital;

- The amount proposed to be disbursed as patronage bonus;
- The material changes and commitments, if any, affecting the financial position of the Producer Company and its subsidiary, which have occurred in between the date of the annual accounts of the Producer Company to which the balance sheet relates and the date of the report of the Board.
- Any other matter of importance relating to energy conservation, environmental protection, expenditure or earnings in foreign exchanges;
- Any other matter which is required to be, or may be, specified by the Board;
- The text of the draft resolution for appointment of auditors;
- The text of any draft resolution proposing amendment to the memorandum or articles to be considered at the general meeting, along with the recommendations of the Board.

⇒ The Board of Directors shall, on the requisition made in writing, duly signed and setting out the matters for the consideration made by one-third of the Members entitled to vote in any general meeting, proceed to call an extraordinary general meeting.

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

Other aspects related to conduct of AGMs are as under

➢ The notice of the general meeting indicating the date, time and place of the meeting shall be sent to every Member and auditor of the Producer Company.

➢ Unless the articles of the Producer Company provide for a larger number, one-fourth of the total number of members of the Producer Company shall be the quorum for its annual general meeting;

➢ The proceedings of every annual general meeting along with the Director's Report, the audited balance-sheet and the profit and loss account shall be filed with the Registrar within sixty days of the date on which the annual general meeting is held, with an annual return along with the filing fees as applicable under the Act.

➢ In the case where a Producer Company is formed by producer institutions, such institutions shall be represented in the general body through their Chairmen or the Chief Executives, who shall be competent to act on their behalf.

Business to be transacted at Annual General Meeting

The following will be approved in the AGM:

➢ The agenda of the annual general meeting

➢ The minutes of the previous annual general meeting or the extraordinary general meeting.

- The name of the candidates for election, if any, to the office of the director including statement of qualifications in respect of each candidate.
- The audited balance sheet and profit and loss accounts of the Producer Company and its subsidiary, if any, together with a report of the Board of Directors of such Company with respect to, the state of affairs of the Producer Company, the amount proposed to be carried to reserve, the amount to be paid as limited return on share capital and the amount proposed to be distributed as patronage bonus.
- All big (equal or more to Rs.1 lakh) contracts with other company or persons, done by BoD or CEO or other person authorized for the same on behalf of the Company.
- Any other disputed/ unsolved/ problematic issues of Board of Directors or any other business or management matters required so far and felt by CEO can be brought in the meeting for approval or finalisation.
- Proceedings of every annual general meeting along with the Directors report, the audited balance sheet and the profit and loss account shall be filed with the Registrar within sixty days of the date on which the annual general meeting is held, with an annual return along with the filing fees as applicable under the Act.

Extraordinary General Meeting Convened by Board: Every general meeting, other than AGM, is an extraordinary general meeting. It is usually called by the BoD for transacting some urgent business for which has to be done before the next annual meeting. It has to be done as per the provisions of Companies law. The Board of the Directors shall, (on the requisition made in writing duly signed and setting out the matters for consideration, made by one-third of the members entitled to vote in any general meeting), proceed to call an extraordinary general meeting in accordance with the provisions made in companies act.

Meetings of the Board of Directors: The Board may meet as often as it may consider necessary for transaction of the business. However, it shall meet at least once in every two months. In any circumstances, the Board shall meet not less than once in every three months and at least four such meetings shall be held in every year.

Formalities/ modalities for the meetings of the BoD

- ⇒ The Board meeting shall be called generally with seven days' notice (should be issued by CEO), but in case of emergencies, it can be called at a shorter notice.
- ⇒ In case, the CEO fails to issue a notice for holding a meeting of the Board, s/he will be punishable with fine which may extend to one thousand rupees.
- ⇒ Every year after the constitution of the Board, in the first Board meeting the Board shall elect the Chairman of the Producer Company for a period of two years.
- ⇒ The Chairman shall preside over the meeting of the Board. In case of his absence, the directors present shall elect one of the elected directors as the Chairman of the meeting.

⇒ Each member of the Board shall have one vote.

⇒ Decisions at the Board meeting shall be arrived at by majority votes of the directors present. In case of a tie, the Chairman of the meeting shall have the casting vote in addition to his usual vote except in case of election of the Chairman. Tie in case of election of chairman, the matter shall be decided by draw of lots.

⇒ An elected member of the Board who is absent from three consecutive meetings of the Board without obtaining the leave of absence, shall cease to be a member of the Board.

⇒ No member shall be present at discussion or vote on any matter in which he has personal interest.

Quorum: The presence of at least three Directors or one third of its total strength, whichever is higher, shall form the quorum for the Board's meeting. In absence of quorum in a meeting, then the meeting shall automatically stand adjourned till the same day in the next week, at the same time and place, and if that day is public holiday, till the next succeeding day, which is not a public holiday, at the same time and place.

Sitting Fee: The Articles of Association may authorise the payment of a sitting fee and allowance to directors - including the co-opted directors - for attending the Board meetings. The quantum of the sitting fee and allowance shall be determined by the members in a general meeting from time to time.

An illustrative chart of the roles and responsibilities of CEO and BODs

Roles and responsibilities of BoDs	Roles and responsibilities of CEOs	Shared roles and responsibilities
Encourage members to participate in the activities of the FPC and to make use of FPC's services.	Ensure efficient and timely services from FPC to members. Be part of various Committees like procurement Committee, marketing committee etc., formed by the BoD	Build confidence and encourage farmers to enrol as shareholders in the FPC.
Get Approval of decisions taken by the Board of Directors in the General Body Meeting, and implement activities as per the decision of General Body	Take decisions required for day-to-day functioning of the FPC. Get Approval of decisions taken by the CEO in the Board of Directors Meeting, and implement activities as per the decision of Board of Director	Play an active role in the decisions of the FPC and consult others while taking decisions
To monitor and supervise the activities of the FPC	Sign all business-related documents, like invoices, Purchase Order etc., on behalf of the FPC	Provide information to company members about the activities of the FPC.
To appoint and supervise the activities of the CEO and other FPC employees	Responsible for providing timely information to the company's members and Board of Directors for FPC meetings, including emergency or urgent meetings.	
Check whether proper books of account are being maintained	Responsible for maintaining proper books of account, prepare annual accounts	Place the audited accounts before the Board and in the annual general meeting of

Roles and responsibilities of BoDs	Roles and responsibilities of CEOs	Shared roles and responsibilities
		the members.
Sanction any loan or advance, in connection with the business activities of the Producer Company to any Member. A Director cannot sanction a loan for self or Director's relative;	Shall operate the bank accounts as joint signatory of a Director. He / she shall decide for safe keeping of cash and other assets of the producer company	To raise funds required for FPC business and ensure that the funds are used for business activities
Decide the dividend payable to members	Any other task or responsibility as decided by the Board of Directors for the smooth functioning of the company	
Decide the withheld price payable to members		
Purchase or sale of FPC property, and investment of the funds of the Producer Company for its business		
Other activities to be done as per the decisions taken at the General Body meeting by members		

GOVERNENCE AND ROLES OF CONSTITUENTS

A. MEMBERS

Defining Member: A member is defined as a person or producer institution, whether incorporated or not, admitted as a member of a Producer Company and who retains the qualifications necessary for continuance as such. Being a membership based entity, membership shall be voluntary and is available to all eligible members (criteria of membership defined in the Articles of Association of a company) who can participate and avail the facilities or services of the Producer Company. Shares in a Company can be held in more than one name, which to be called 'Joint Membership'. Under the Companies Act, there is no ceiling on the number of persons holding shares jointly.

Modes of Acquiring Membership

One can become a Member of a Company by any one of the following ways:

⇒ **By subscribing to the Memorandum of Association**

A subscriber to the Memorandum of Association becomes a Member *ipso facto* on incorporation of the Company, in respect of the shares subscribed by him, without any further application by him or allotment of shares to him. He will be liable for whatever number of shares he has subscribed for.

A subscriber to the Memorandum remains a Member of the Company until s/he accepts a surrender of the shares for valid reasons to do so by the articles of association or the subscriber himself transfer shares to somebody else.

⇒ **By agreeing in writing**

By application and allotment: two essential conditions have to be fulfilled by any person to become a member of a Company other than by subscribing to its Memorandum of Association, they are:

- An agreement in writing to become a member, and
- Entry in the register
- By taking a transfer of shares: membership may be acquired from an existing member by purchase if all or any of the shares of the company. A transfer deed duly executed by both the transferor and the transferee together with the share certificate. However, the membership will be granted to transferee only after when the transferor will give in writing in a prescribed form, and when the transfers registered in the books of the company.
- By transmission of shares: a person can become a shareholder in consequence or by reason of the death or bankruptcy of a member or any other event constituting transmission. Here also, person will become member only when he applies in writing requesting the company to make him a member and the company puts his/her name on the register of members.
- Estoppel: by allowing his/her name to be in the Register of Members or otherwise holding himself out or allowing to be out as a member.

The Authority of Members on the Company: Members act through the General Body, and the Body alone can:

- Approve the Budget and adopt the Annual Accounts of the Company;
- Approve the quantum of withheld price;
- Approve the patronage bonus;
- Authorize the issue of bonus shares;
- Appoint an auditor;
- Declare a dividend and decide on the distribution of patronage;
- Amend the Memorandum of Association and Articles;
- Specify the conditions and limits of loans that may be given by the Board to any Director; and
- Approve or act on any other matters that are specifically reserved in the Articles for decision by the Members.

Rights of Members: When once a person becomes a member s/he is entitled to exercise all the rights of a member until s/he ceases to be a member in accordance with the provisions of the Act. The rights of a Member are:

- to transfer his shares;
- to vote on resolutions at meetings of the Company;
- to requisition an extraordinary general meeting of the Company or to be a joint requisitions;

- to receive notice of a general meeting; to attend and speak in a general meeting
- to move amendments to resolutions proposed at meetings;
- in case the Member is a corporate body, to appoint a representative to attend and vote at general meetings on its behalf;
- to require the Company to circulate its resolutions;
- to enjoy the profits of the Company in the share of dividends;
- to elect directors and to participate in the management of the Company through them;
- to apply to the Company Law Board for relief in case of oppression;
- to apply to the Company Law Board for relief in case of mismanagement;
- to apply to the Court for winding up of the Company;
- to share in the surplus on winding up; and
- to have a share certificate issued to him in respect of his shares

It can be exercised only if the person possesses the requisite minimum shares holding. Otherwise they can be exercised jointly with the number of shareholders.

Voting Rights of a Member

- In a case where the membership consists solely of an individual member, the voting right shall be based on single votes for every member, irrespective of his/her shareholding or patronage of the Producer Company.
- There shall be no allocation of additional votes to any Active Member at the end of each financial year, on the basis of their patronage.
- In a case where the membership is composed only of Producer institutions, the voting rights may be computed on the basis of the participation in the business dealings of the Company by the respective institutions in the previous year, save that for the first year of its registration, the voting rights shall be determined on the basis of the shareholding.
- In a case where the membership is composed of individuals as well as Producer institutions, the voting rights shall be computed on the basis of a single vote for every Member.
- Each Active Member shall have a minimum of one vote. However newly admitted Members shall have no voting rights for at least six months (or for a time period as specified by the Board).

Cessation of Membership: A member is ceased of with his/her membership:

- by transferring his/her shares. In the case of a transfer, the person transferring will continue to be a Member until the shares are registered in the name of the transferee;
- by forfeiting his/her shares;
- by a valid surrender;

- by death, but until the shares are transmitted, his/her estate will be for any money due on the shares;
- by the Company selling his shares in exercise of its right under its Articles of Association;
- by order of a Court or any other competent authority attaching and selling the shares, in satisfaction of a decree or claim;
- by the official assignee disclaiming his shares, on his adjudication as an insolvent;
- by recession of contract of membership, on the grounds of misrepresentation or mistake.

B. BOARD OF DIRECTORS

Every Producer Company should have a Board of Directors of not less than five and not more than fifteen.

i. Powers and Functions of the Board

The Board may act only in areas not reserved to the General Body and may not exercise executive functions. In general, the Board has authority and is responsible for formulating, supervising, and monitoring of the performance of the producer Company in respect of the following matters:

- Determination of the dividend payable.
- Determination of the quantum of withheld price and recommended patronage to be approved at General meeting.
- Admission of new members.
- Pursue and formulate the organizational policy, objectives, establish long-term and annual objectives, and approve corporate strategies and financial plans
- Appointment of a CEO and other officers, as may be specified in the Articles. Exercise superintendence, direction and control over CEO and other officers.
- Sanction any loan or advance, in connection with the business activities of the Producer Company to any member, not being a director or his relative.
- Investment of the funds of the Company in the ordinary course of its business.
- Acquisition or disposal of property of the company in its ordinary course of business. Check that proper 'books of account' is maintained.
- Ensure that annual accounts are placed before the annual general meeting with the auditor's report.
- Take such measures or do such other acts as may be required in the discharge of its functions or exercise of its powers.

The Board may make recommendations in the case of those matters reserved for decision of the General Body. All the powers specified above shall be exercised by the Board only by means of a resolution passed at its meeting and decision can be made or resolution adopted by ‘circulation’. Also to be noted that a director or a group of directors who do not constitute the Board, shall not exercise any of the powers exercisable by it.

ii. Restrictions on the Power of the Board

The Board of Directors shall be authorized to exercise the following powers on behalf of the Company, subject to the approval of the Members by a resolution adopted in a general meeting:

- approval of budget and adoption of annual accounts of the Producer Company;
- approval of patronage bonus;
- issue of bonus shares;
- declaration of limited return and decision on the distribution of patronage;
- specify the conditions and limits of loans that may be given by the Board to any director; and approval of any transaction of the nature as is to be reserved in the articles for approval by the Members.

iii. Appointment of Directors:

The members who sign the memorandum and articles may designate therein the first ‘Board of Directors’ who shall govern the affairs of the Company until the directors are elected by the members in a general meeting, which shall be done within ninety days of incorporation of ‘Producer Company’.

Also, it must be noted that the entire Board of Directors, except the Chief Executive Officer and Expert Directors, is subject to retirement by rotation in a period of five years. Retirement of Directors shall take place at the Annual General Meeting where the re-election also shall take place. However, every director who retires is eligible for re-appointment.

Q. Does expert director have rights to vote for director of the company?
A. Expert Directors, who are not shareholders, shall not have the right to vote in the election of the Chairman, but may serve in that position if elected by the Board.

iv. Appointment of Directors by the Board

- **Additional or Expert Directors:** The Board may co-opt one or more expert directors or an additional directors not exceeding one fifth of the total number of directors, or appoint any other person as additional director for such period as the Board may deem fit.
- **Alternate Directors:** The Board of Directors of a Producer Company may, if authorized by its Articles of Association or a resolution passed by the Company in general meeting, appoint an alternative director to act in a place of an original director during his absence for not less than three months from the State in which the Board meetings are ordinarily held. The alternative director so appointed holds office for the period the original director is away from the State

and when the original director returns to the State in which the meetings of the board are ordinarily held, the alternative director ceases to be the director.

- No specific provisions have been made regarding filling up of casual vacancies, occurred between two Annual General Meetings due to such resignation, insolvency, disqualification etc.

v. Remuneration to Directors: Reimbursement of actual expenses of travelling, lodging and food occurred while attending the Company's meeting (Business/Non-business). However in case of business need of the Company, provision can be made for a fixed Daily Allowance (DA) and other facilities like communication allowances for all or only selected directors who are giving their extra time, for the promotion of the company' business activities.

Q. What should be the qualification of directors?
As per the Companies Act, 1956, Section 253, only an individual can be a Director. There is no statutory requirement that a Director must hold qualification shares in the Company in which s/he is a Director. Thus, a person may be a director in a Company without being its member.

vi. Removal of a Director and Cessation of Directorship

a. By Shareholders of the Company

⇒ A director may be removed from office before the expiry of his term by shareholders of the Company.

⇒ The shareholders of a company may, by passing an ordinary resolution at a general meeting, remove a director before the expiry of the period of his office.

⇒ However, the following directions cannot be removed by the company unless otherwise stipulated in the terms of their appointment.

- a director appointed by the Central Government under Section 408;
- a director appointed by a financial institution under the terms of a loan agreement; and
- a director appointed by the National Company Law Tribunal

b. By the Central Government

A director may be removed by the Central Government. The Central Government may remove a director by making a case against the person and refer the same to the Tribunal with the request that the Tribunal inquire into the case and record the decision as to whether or not such a person is a eligible to hold the office of director, or any other office connected with the conduct and management of any company. The Central Government may make such an application to the Tribunal where it is of the opinion that there are circumstances suggesting:

- that any person concerned in the conduct and management of the affairs of a Company is or has been in connection therewith guilty of fraud, misfeasance, persistent negligence or default in carrying out his obligations and functions under the law, or breach of trust; or
- that the business of a company is not or has not been conducted and managed by such person in accordance with sound business principles or prudent commercial practices; or
- that a Company is or has been managed by such person in a manner which is likely to cause, or has caused, serious injury or damage to the interest of the trade, industry or business to which the Company pertains; or
- that the business of a Company is or has been managed by such person with intent to defraud its creditors, members or any other person or otherwise for a fraudulent or unlawful purpose or in a manner prejudicial to public interest.

c. **By the Tribunal**

- Where on application to the Tribunal for prevention of oppression under Section 397 and mismanagement under Section 398 of the Act, the Tribunal finds that the relief ought to be granted, it may terminate or set aside any agreement of the Company with the Director or Managing Director or other managerial personal on such terms and conditions as it think just and equitable. The court may constitute an advisory board as a proper administrator.
- Where the appointment of the Director is so terminated or set aside, he cannot, except with the leave of the Tribunal, serve any company in a managerial capacity for a period of five years. He also cannot sue the company for damages or compensation for loss of office.

vii. Resignation of Directors

- The Companies Act does not make express provisions for the resignation of a Director. A Director may resign his office in the manner provided by the Articles. If the Articles contain no provision regarding the resignation by a Director, he may resign his office at any time by giving reasonable notice to the Company, no matter whether the Company accepts it or not.
- Thus, in the absence of any provision in the Articles, resignation once made will take effect immediately when the intention to resign is made clear. In such a case, the resignation tendered by a Director equivocally in writing will take effect from the time when such resignation is tendered.
- A Chief Executive or Managing or Whole Time Director, however, cannot resign merely by giving notice. His resignation is governed by the terms and condition of his appointment. In this case, the formal acceptance of the resignation is essential so as to make it effective, for he has to be relieved of his duties and obligations.

viii. Penalty of a Director

If a Director or an officer of a Producer Company wilfully fails to furnish any information relating to the affairs of the Producer Company required by a Member or a person duly authorized in this behalf, he shall be liable to imprisonment for a term which may extend to six months and with a fine equivalent to five per cent of the turnover of that company during preceding financial year. Thus, if a Director or officer of a Producer Company

- makes a default in handing over the custody of books of account and other documents or property in his custody to the Producer Company of which he is a director or officer; or
- fails to convene the annual general meeting or other general meetings;

She/he shall be punishable with a fine which may extend to Rs. 1 lakh, and in the case of a continuing default or failure, with an additional fine which may extend to Rs. 10,000 for every day during which such default or failure continues.

Session	Importance and type of record keeping, book keeping, MIS and internal assessment tools for FPO
V	

Books of account and registers to be maintained by Producer Company

FPOs are registered under different statutes. Therefore, they are required to comply with the certain requirements with regard to maintenance of accounts for their operations and preparation of financial statements. Besides, there is a need to assess the operational performance of these entities to know the benefits that have accrued to farmers due to their association with FPOs. Against this background, maintenance of proper books of accounts and other subsidiary registers assumes significance. While maintaining these records, the requirement of the statute, under which a FPO is registered would be taken care of. Each FPO should maintain the following records/ books to facilitate legal compliance as also evaluation of its performance.

Books of Accounts and Records are sub-divided into following two broad categories:

1. Financial Books

1. Cash Book
2. Bank Book
3. Bank Reconciliation Statement
4. Journal
5. Ledger
6. Share Capital Register
7. Subsidiary Books

(i) Input (Purchase, Sale & Stock) Register

(ii) Produce (Purchase, Sale & Stock) Register

2. Non-Financial Books

1. Members' Profile Register
2. Members' Progress Register
3. Minutes Book/Register

Objectives of maintaining books of account and records:

1. Financial Books

a. To know the position of cash and bank balances on a day-to-day basis and facilitate preparation of Bank reconciliation statements.

b. To facilitate preparation of financial statements viz. P&L A/c, Balance Sheet and cash flow statement.

c. To know profit earned or loss incurred by FPO. Book keeping keeps complete records of business transactions. Thus, profit or loss of business transactions can be easily ascertained/ known.

d. Knowledge of assets and liabilities belonging to FPO – When a FPO keeps the books of different business assets and liabilities in a systematic manner, it can easily know the position of assets and liabilities as on a particular date.

e. To facilitate audit of books of accounts.

f. Compliance with legal requirements.
g. Facilitate preparation of MIS required by the management and filing of different returns with government authorities.

2. Non-Financial Books and Records

- To know the socio-economic status of members after joining the FPO.
- To track record of the improvement in socio-economic condition of the members.
- To monitor the effectiveness of governance system of FPO.
- To facilitate preparation of business plan with concrete steps in order to make the most optimal use of the available resources.

It is compulsory for Producer Company to maintain the register's discussed below, failing to it will be punishable with fine which may extend to Rs.500/- (in case of first two registers) or up to fifty thousand rupees and with a further fine extending up to two hundred rupees for every day during which the default continues (in case of third register). All the registers mentioned below should be open to inspection by members of the company, without any charge, during the business hours of the company. The third register should also be produced at the commencement of every annual general meeting of the company and shall remain open and accessible during the continuance of the meeting. *Failing to produce the registers on demand, the concerned person, would be liable to fine, which may extend to five hundred* *rupees.*

Register of Directors, Managing Directors, Managers and Secretary

The following particulars of directors, managing director, CEO and secretary have to be kept in a register in its registered office :

- his present and any former name and surname in full;
- his father's (in case of a married woman her husband's) name and surname in full:
- his nationality or the nationality of origin:
- if he holds the office of director, managing director, manager or secretary in any other corporate body (except in case of a private company which is not a subsidiary of a public company), the particular of each such office held by him; and
- the date of his birth

a. Statutory Registers, Books etc. to Be Maintained

- Share/Debenture transfer register [Section 108]
- Copy of every instrument deed, etc., creating any charge which requires registration [Section 136] Register of charges [Section 143]
- Register of members [Section 150] Index of members [Section 151]
- Copies of annual returns and certificates and documents required to be annexed thereto [Section 159 to 161]
- Minute books of Board Meetings & meetings of committee of the Board [Section 193] Minute books of general meetings [Section 193]
- Register of dividend declared and remaining unpaid [Section 205] Proper books of accounts [Section 209]
- Proper books of accounts in relation to transactions effected at Branch Office.
- Register of contracts, companies and firms in which directors are interested [Section 301]. Register of directors, etc.[Section 303]
- Register of directors' share-holdings, etc. [Section 307]
- Register of inter-corporate loans and investments [section 372A]
- Register of renewed and duplicate certificate [Rule 7(2) of the Companies (Issue of Share Certificates) Rules, 1960]
- Register and index of beneficial owners.
- Books of accounts of producer company [Section 581ZE(1)]
- Register of particulars of investments of producer companies [Section 581ZL (7)].

The director and other managerial personnel are under a statutory obligation to disclose to the company within twenty days of their appointment.

b. Register of Contracts, Companies and Firms in Which Directors Are Interested

Every Company shall keep one or more registers in which particulars of all contracts or arrangements, to which Section 297 or Section 299 of Companies Act applies, should be kept.

- date of contract or arrangement;
- names of the parties;
- principal terms and conditions;
- in the case of a contract to which Section 297 applies or in the case of a contract or arrangement to which sub-section(2) of Section 299 applies, the date on which it was placed before the Board;
- names of the directors voting for and against the contract or arrangement and the names of those remaining neutral.

c. Register of Director's Shareholders

- The number description and amount of shares.
- Debentures of the company or its subsidiary or holding company which are held for him, or which he has any right to become the holder whether on payment or not.
- Details of any transactions (date, price and any other information considered important) regarding the shares or debentures of the directors.
- The nature and extent of directors' interest over the shares or debentures should also be indicated in the register.

d. Inventory/Fixed Assets Register

The management has to maintain a 'fixed asset register' of the physical assets of the company.

Fixed Assets Register
(FAR) is required to show all the permanent assets owned by Company. It should show the quantity and value of things like all fixed assets, furniture, fixtures, vehicles, land, buildings, plant and machinery etc. and both should not be merged at one place

For the purpose, management have to exercise physical verification of the assets at least once in a year. The process is necessary to safeguard Producers Company assets lying at different locations with several user / user departments. This is also required to ensure proper reconciliation between physical assets lying at different locations and assets as per books of accounts. Steps should be taken for physical verification of assets is:

- Prepare list of assets, lying at different locations, on the basis of Fixed Assets Register;
- Send the list to each unit/ department/ location for carrying out the physical verification of assets;
- The list should, then be compared with the Assets register and case of variances noted;
- The reason of the variances must be clarified by the user/ user department and forwarded to the Head Office for action;
- Balance sheet should show only physical assets available with the unit/ user department;

A glimpse of the key parameters for qualitative assessment of FPOs for understanding of the readiness of the FPOs in terms of credit linkage.

Rating Tool for Producers Organizations

Sr.No	Max Marks-Category-wise	Parameter	Max Marks	Obtained Marks
	65	**PART-A**		
A	**5**	**Age profile and Experience of PO in Related Field/s**		
I		> 3 Years	5	
Ii		1-3 Years	3	
iii		<1 Year	1	
B	**10**	**Share Capital /Membership Fee Mobilized**		
I		>10 lakh	10	
Ii		5-10 lakh	7	
iii		3-5 lakh	5	
Iv		1-3 lakh	3	
V		<1 lakh	0	
C	**5**	**Active Members out of Shareholder Members**		
I		>75%	5	
Ii		50-75%	4	
iii		25-50%	2	
Iv		<25%	1	

Sr.No	Max Marks-Category-wise	Parameter	Max Marks	Obtained Marks
D	**5**	**Availability of Audited Balance Sheets**		
I		3 Yrs and > 3 Yrs	5	
Ii		2 Yrs	3	
iii		1 Yr	2	
Iv		< 1 Yr	1	
E	**10**	**Availability of Professional Support**		
I	Managerial & Technical Support	If Yes, from POPI, NGO, CA, CS, professionals etc.	5	
		No	0	
Ii	Marketing Support/Concrete Market Linkages/Value Addition support	If Yes, from POPI, NGO, CA, CS, professionals etc.	5	
		No	0	
F	**10**	**Average Turnover**		
I		>100 lakh	10	
Ii		50-100 lakh	7	
iii		25-50 lakh	5	
Iv		10-25 lakh	3	
V		0-10 Lakh	1	
vi		0 or No Turn Over	0	
N	**10**	**Types of services provided**		
I		Agro Input Trading (seed, pesticides, fertilizers etc.)	2	
Ii		Seed Production	2	
iii		Extension and marketing support - crop	2	
Iv		Custom hiring	1	
V		Processing support	1	
vi		Own Branding of FPO	1	
vii		Any other important Services to members	1	
G	**5**	**Profitability**		
I		If in Profit (positive PAT)	5	

Sr.No	Max Marks-Category-wise	Parameter	Max Marks	Obtained Marks
		If in Profit (positive PBT)	3	
Ii		If in losses	0	
I	**5**	**Credit History**		
I		Availed financial assistance from other Lenders and repaid in time, regular account	5	
Ii		Irregular repayment/overdue/not availed	0	
SUB TOTAL OF "A"				
	35	**PART-B**		
J	**5**	**Governance**		
I		Composition of Board (elected board/no of blood relatives/representation to women/SF/MF, representation to other villages), Experience of Board (members/qualifications/long term association etc.), Competence and involvement of Board Members to oversee operations of FPO	3	
Ii		Conduct of Meetings & Quorum	1	
iii		Agenda and Quality of Discussion	1	
K	**5**	**Management**		
I		Availability of Full Time CEO (qualification, salary borne by FPC, Managerial skills)	3	
ii		Adequate availability of other Staff (proportionate to business operations and its salary borne by FPC) and their qualification	1	
iii		Training & Experience of staff	1	
L	**5**	**Infrastructure**		
I		Separate office Premises/own/rented	3	
ii		Other Infrastructure - shop, Godown, machines etc.	1	

Sr.No	Max Marks-Category-wise	Parameter	Max Marks	Obtained Marks
iii		Computers, furniture's, fixtures etc.	1	
M	**5**	**Accounts, MIS and Compliances**		
I		Up to date Audited Accounts (within 6 months)	2	
ii		Maintenance of books and records and their regular updation	2	
iii		Availability of book keeper/timely compliance to audit observations/regulating authorities/compliances under companies Act etc.	1	
O	**5**	**Convergence**		
I		SFAC assistance/support mobilized from Govt and other agencies/Convergence initiatives/Relationship with other agencies- ***Received SFAC equity grant***	5	
P	**5**	**Sustainability of the organization**		
I		In relation to management/governance/HR	2	
ii		In relation to Business model - previous, present and proposed	2	
iii		In relation to financials- regular augmentation of capital, membership increase, profitability, market support	1	
Q	**5**	**Use of accounting software/s and Technology Solutions in business operations**		

Sr.No	Max Marks-Category-wise	Parameter	Max Marks	Obtained Marks
		If, Yes (pls specify)- Tally is being used by the company, and regular updation of the accounts is done by the accountant. All other figures and documentation is done in Microsoft word and Excel.	5	
		If no	0	
SUB TOTAL OF "B"				
	100	Total Marks		
	Rating Category	Rating Marks	Result	
	A	>75%	87%	
	B	60-75%		
	C	50-60%		
	D	<50%		
	D	<50%		

Monitoring

Monitoring can be defined as a systematic collection and analysis of information of an ongoing project or business activity. It is aimed at improving the **efficiency and effectiveness** of conducting the business so as to derive maximum benefits. Efficiency speaks about whether the output in terms of benefits exceed the expenditure. It is the ratio of output and input. Funding agency will monitor how efficient the CBBO and PO has been in implementing the project. Similarly, the PO will monitor itself in terms of its success in terms of the set targets. Certain parameters like the amount spent per farmer vis-a-vis the increase in income could be one indicator of efficiency. Higher the increase in income for the same amount spent, higher is the efficiency. Effectiveness on the other hand is a measure of the extent to which the project achieved the specific objectives it set. For example, if the objective of a project is to increase the income levels of all the farmers producers engaged with the PO, we have to measure the extent of increase in income. Similarly, if one of the objective is to increase the volume of the produce, we shall measure the extent of increase. These assessments will indicate how effective the program has been. Higher the increase in income levels and production levels higher would be the effectiveness of the project.

Management Audit of FPOs

A management audit is an analysis and assessment of the competencies and capabilities of an organisations management in carrying out corporate objectives. The purpose of a management audit is not to appraise individual executive performance but to evaluate the management team in its effectiveness to work in the interests of shareholders, maintain good relations with employees, and uphold reputational standards.

A management audit might address such questions as the following:

- What organizational structure has been set up by management? Are there clear lines of reporting, or is there confusion?
- What are the policies and procedures of the finance group, and is it always in compliance?
- How effective are current risk management measures?
- What is the state of relations among the employees of the organization?
- How does management put together its annual budget?
- Are the company's IT systems kept up-to-date?
- Is the management group responsive to shareholders?
- How effective is workforce recruitment and retention? Are there training programs to keep skills current among employees?
- Is management doing its job to ensure the company is a "good corporate citizen"?
- Is management strategically guiding the company toward its financial targets

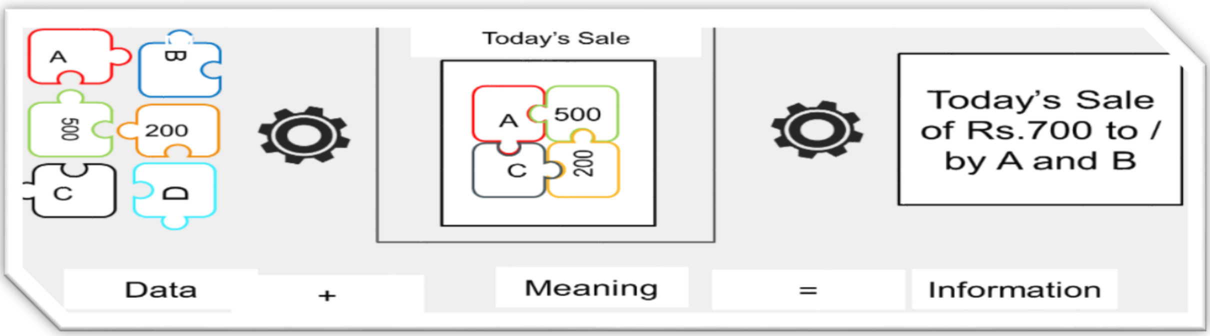
Parameters for Management Audit

1	**Preliminaries (Total marks 1.0)**	**Max. Marks**	**Marks Obtained**
1.1	Profile of FPO		
1.2	Office of the FPO	1	
2	**Core Management Elements**		
2.1	**FPO Management (Total Marks: 35.0)**		
i	Memorandum of Articles & Articles of Association	3	
ii	Mandatory registers and common seal	5	
iii	Share allotment, transfers and transmission	3	
iv	Annual general meeting	3	
v	Board of directors meeting	5	
vi	Abstract of balance sheet & profit and loss statement	2	
vii	RoC compliances and filings	10	
viii	GST compliance	2	
2.2	**Finance management (Total marks 24)**		
i	Basics of bank accounts	2	
ii	Accounting systems	10	
iii	Loans and borrowings	3	

iv	Equity grant	5	
v	Credit guarantee find scheme	2	
vi	Venture capital assistance	2	
2.3	**Human resource management (Total marks 10)**		
i	Scheme benefits and services	5	
ii	Professional trainings to CEOs and BoDs	3	
iii	Exposure visits to BoDs and CEOs	2	
2.4	**Business management (Total marks 20)**		
i	Business activities	10	
ii	e-NAM linkage and web marketing initiatives	6	
iii	IE code and export status	2	
iv	Procurement for SFAC / department	1	
v	Contract seed production	1	
2.5	**General administration (Total marks 10)**		
i	Committees and function status	2	
ii	Office records and registers	2	
iii	Periodical technical reports	1	
iv	Linkage with FIG and joint ventures	2	
v	Process of fixed assets purchase for FPO	1	
vi	MoUs for any project	1	
vii	Court cases and legal issues	1	
	Ranking marks for FPO (Grand total of marks 100)		

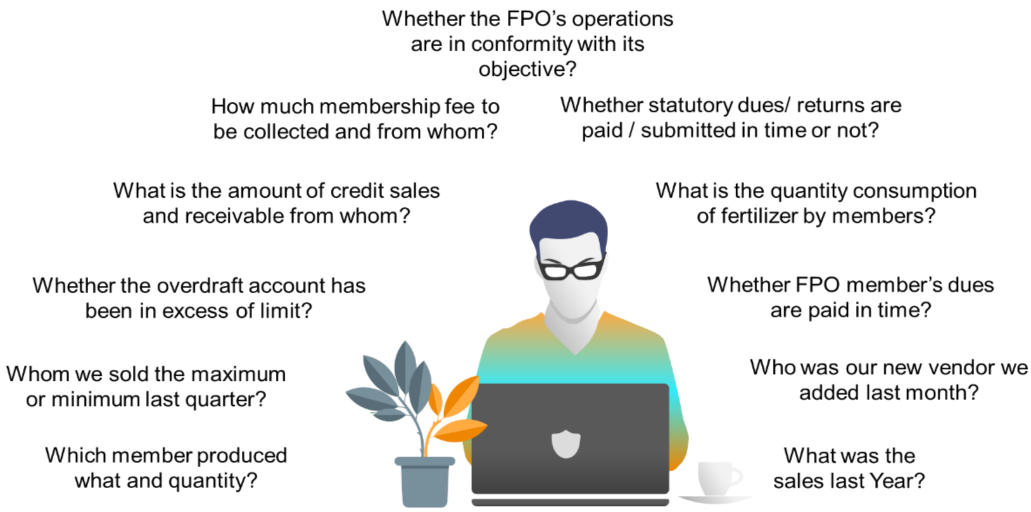
Source: Tamilnadu consortium of farmer producer company ltd.

Management Information System is the study of information system in business and management.



In the context of FPOs, data flows from various activities like sales & marketing, purchases/ procurement, human resources, manufacturing, etc. If meaningful information is to be extracted from these data for decision making, at first the data need to be generated, arranged and processed in a systematic manner.

Why do we need Information?



An information system can be defined technically as a set of interrelated components that collects (or retrieve), process, store, and distribute information to support decision making and control in an organisation. In addition to support decision making, coordination and control also helps the CEO / Manager of FPO to analyse problems, visualize complex subjects and product development.

From data to Decision…..business way

Credit Decision

Context / Goal

Processing

XYZ FPO - Sales A/c - FY 2019-20								
Date	**Name**	**Qty.**	**Rate**	**Gross Amount**	**Less**	**Net Amount**	**Pay Mode**	**O/s Sales**
23-Sep	Abdul	15	22	330		330	Credit	330
13-Jun	Abu	20	24	480	48	432	Cash	0
14-Aug	Abu	22	28	616		616	Credit	50
02-Sep	Peter	20	25	500	50	450	Cash	0
30-Sep	Peter	20	23	460		460	Credit	460
14-Apr	Ram	10	20	200	20	180	Cash	0
03-Jul	Ram	12	25	300		300	Credit	0
21-Sep	Ram	15	23	345		345	Credit	300
14-Apr	Shyam	15	20	300		300	Credit	50
Total		**149**	**23.33**	**3531**	**118**	**3413**		**1190**

In business, data represents the facts of transaction that occurs on daily basis. A transaction can be thought of as an event of consequence. Organizations attempt to capture the data (facts) associated with each transaction. For example in a sale transaction, we generally capture name of the party, quantity sold, unit rate, total cost, discount given (if any), net payable / paid etc. These data has no meaning until it is processed and interpreted.

Information is the interpretation of these data. An interpretation of data always has some goal and context. For example, for making a credit sales decision to Ram, the FPO would like to know quantity purchased earlier and credit history of Ram. Please note that data itself can be informative without any additional transformation, but other times we must do additional work to turn the data into information to answer important questions

Management information system uses information for collecting and communicating information an organisation uses to operate. Every function of the business produces its own data be it financial or operational and as a result, requires a separate information system of its own to keep a track of it all.

There are many types of information systems used to extract data, create reports and help managers in decision making. Uses of management information system differs based on requirement. Selecting the requited type of MIS is thus important.

MIS for Accounting and Finances:

Management information systems in accounting are designed to store and aggregate financial data. The resulting analyses are used both internally by managers and CFOs and externally by consultants, regulators, tax agencies and others. Reports generated by the accounting MIS include profit-and-loss statements, accounts receivable tracking and other financial statements. Because these reports enable management to analyse the company's financial health, it is imperative that the data input into to the system be complete, accurate and secure.

Financial MIS

⇒ To know the position of cash and bank balances on a day-to-day basis and facilitate preparation of Bank reconciliation statements.

⇒ Preparation of financial statements viz. P & L a/c, Balance Sheet and cash flow statement.

⇒ To know profit earned or loss incurred by FPO. Book-keeping keeps complete records of business transactions. Thus, profit or loss of business transactions can be easily ascertained/ known.

⇒ Knowledge of assets and liabilities belonging to FPO

⇒ To facilitate audit of books of accounts.

⇒ Compliance with legal requirements.

MIS for Human Resource Management

Human resource information systems handle employee data such as basic personnel information, attendance and hours, performance review ratings and payroll tracking.

Because the data can include private information (names, addresses and social security numbers), protecting privacy and maintaining security is paramount.

Non-Financial MIS

⇒ To know the socio-economic status of members after joining the FPO.

⇒ To track record of the improvement in socio-economic condition of the members.

⇒ To monitor the effectiveness of governance system of FPO.

To facilitate preparation of business plan with concrete steps in order to make the most optimal use of the available resources.

Thus, on a daily basis, one tries to find an answer to these financial, non-financial, operational, business and strategic questions. These details are essential for operating the business of FPO. One is required to take decisions and one's decision is based on certain information. Now some of the information required for decision making may have been available to you out of your own knowledge and experience. For others, you may have to collect data from various books/ registers maintained by FPO or get information from other sources like internet. What is important is to have access to data from which meaningful information can be derived for decision making and over a period of time you acquire the knowledge to distinguish between relevant from the irrelevant information for decision making.

Decision, on the other hand is a choice or judgement that you make after thinking about various possibilities. Decision making is the process of making choices by identifying a decisions and assessing alternative resolutions. A step-by-step decision making process can help you make more deliberate, thoughtful decisions by organizing relevant information and deliberate alternative. Like in this example, relevant information about the credit history of Ram would help you in taking credit decision.

In the organisational context, the FPO management need to take numerous decisions on a daily basis. Do you think, without a systematic arrangement for flow of data and interpretation, would you be able to get relevant information for decision making?

Probably, not; but with the help of MIS, Yes.

Use of IT in compliances of FPOs

In general, **compliance** means conforming to a rule, such as a specification, policy, standard or law. **Regulatory compliance** describes the goal that organisations aspire to achieve in their efforts to ensure that they are aware of and take steps to comply with relevant laws and regulations. In most cases, a law comes to light only after its contravention, resulting in severe penalties. ***Compliances is a must in keeping you away from the long arm of the law!***

⇒ **Classification of compliances**

a. One Time Compliance

b. Annual compliance

c. Event Based Compliance

⇒ **Pre incorporation compliance**

(i) Apply for digital signatures

(ii) Apply for DIN

(iii) Apply for TAN

(iv) Approval of company name by MCA

(v) Apply for GST

(vi) Internet banking facility

⇒ **Post incorporation compliance**

First meeting of the board of directors of the company

a) Printing of Share Certificate

b) Issue of Share Certificates

Obtain certificate of registration under various acts to begin business

1) **Apply for a Permanent Account Number (PAN):** Allotment of new PAN https://www.tinnsdl.com/download/pan/form49a.pdf.

2) **Apply for Tax Deduction and Collection Account Number TAN:** TAN is applied through "Form No. 49B". A completed form can be submitted online at the NSDL website or at the "Tax Information Network Facilitation Centre" (TIN-FC). Application form: https://www.tinnsdl. com/download/tan/form49b.pdf

3) **Apply for Registration for Shop License:** Shop license is required to be obtained from state/ municipal bodies. In most of the State, application process is online, for more details refer to the applicable law of the particular state.

4) **Apply for Registration under GST/VAT/CST:** Any entity engaged in trading of goods is required to register itself under the State VAT Tax Act. In most of the States, application process is online.

5) **Apply for Service Tax Registration:** Portal for tax registration: https://www.aces.gov.in/

Mandatory compliance / Annual compliance

1) **Filing of Annual Return (e-form MGT-7)** the audited balance sheet and the profit and loss account shall be filed with the Registrar within sixty days of the date on which the annual general meeting is held, with an annual return along with the filing fees as applicable under the Act.E-form MGT-7 can be downloade from the below link : http://www.mca.gov.in/MinistryV2/Download_eForm_choose.html.

   Annual Return will be for the period of 1st April to 31st March.

2) **Filing of Financial statements (e- form AOC-4)** Every Company is required to file its Financial statements, Auditor report along with Director's report by uploading on MCA portal e-form AOC- 4 within 30 days of holding of Annual General Meeting. E- form AOC- 4 can be downloaded from the below link:

   http://www.mca.gov.in/MinistryV2/Download_eF orm_choose.html

3) **Filing Income Tax returns** Filing of Income Tax Returns is available online.

4) **Internal audit:** Every Producer Company shall have internal audit of its accounts carried out, at such interval and in such manner as may be specified in articles, by a Chartered Accountant

Event based compliance

Besides Annual Filings, there are various other compliances which need to be done as and when any event takes place in the Company. Instances of such events are:

1) Change in Authorised or Paid-up Capital of the Company
2) Allotment of new shares or transfer of shares
3) Giving Loans to other Companies
4) Giving Loans to Directors
5) Appointment of Managing or whole time Director and payment of remuneration
6) Loans to Directors
7) Opening or closing of bank accounts or change in signatories of Bank account

Session VI	Statutory and regulatory compliances as per the legal form of FPO

Definition of a FPO and FPC:

A Producer Organisation (PO) is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen. A PO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits among the members. In some forms like producer companies, institutions of primary producers can also become member of PO.

Farmers Producer Organisation (FPO) is one type of PO where the members are farmers. PO is a generic name for an organization of producers of any produce, e.g., agricultural, non-farm products, artisan products, etc. A Farmer Producer Organisation entails the spirit of a cooperative society which has been there on the ground for last more than 100 years. However, for inculcating the principles of cooperation along with professional management, the Government of India (Ministry of Law, Justice and Company Affairs by its order No. 11/12/99-CL-V dated 01 November 1999) constituted a High Powered Committee to:

- *Examine and make recommendations with regard to framing legislation which would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies*
- *Ensure that the proposed legislation accommodates the unique elements of cooperative business within a regulatory framework similar to that of a private limited company*

The Committee constituted under the chairmanship of Dr. Y K Alagh recommended that the GoI enact legislation to enable the registration and operation of producer companies, wholly owned and self-regulated by users, managed by professionals in the user's interest and in a manner consistent with the principles of mutual assistance. The committee evolved the legislation for the above purpose on the experience of producer organisations all over the country. The committee was of the opinion that keeping in view the importance to the survival of the producer organisations in a market economy, GoI should take up the matter of adoption of the legislation as early as possible. The legislation will provide rural producers with an effective alternate organisational form which will both encourage professionalization and a modern corporate culture while retaining and supporting the principles of mutual assistance.

The Ministry of Company Affairs introduced a Bill for amendment in the Companies Act, 1956 by inserting Part IX A, paving a way for the incorporation of Producer Companies. The Act has allowed primary producers to organize themselves to gain a maximum profit. FPOs are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. FPO members must believe in the ethical values of honesty, openness, social responsibility and caring for others.

Formation of a Producers' Company

Producers' company is a body corporate registered under the Companies Act, 1956 (Section 581C) and having specified objects and activities. Ownership and membership of such companies is held only by 'Primary Producers' or 'Producer Institution', and member equity shall not be publicly traded. However it may be transferred, only with the approval of the board of directors of the Producer Company.

In terms of the Act, Primary Produce has been defined as produce of farmers from agriculture and allied activities or produce of persons engaged in handloom, handicraft and other cottage industries, including any by -product and product resulting from ancillary activities thereof. Also, any activity intended to increase the production or quality of aforementioned products or activities.

⇒ **Who can form a Producer company?**

Any one of the following can get a producer company incorporated under the Act:

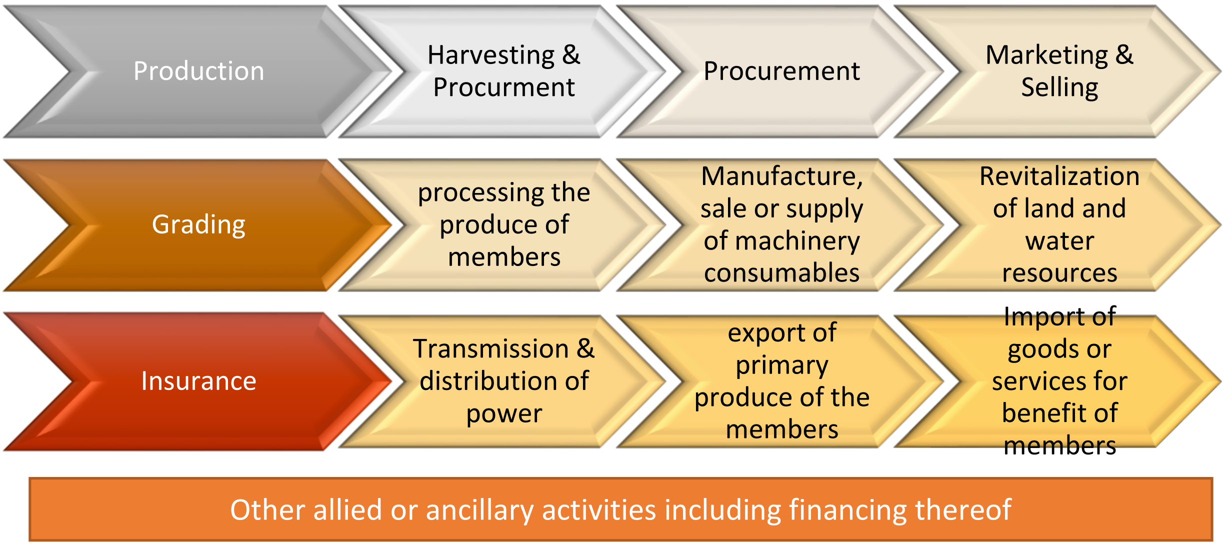
a) Any ten or more persons engaged in any activity connected with primary produce, or
b) Any two or more producer institutions or companies, or
c) A combination of ten or more individuals and producer institutions

⇒ **Characteristics of a Producer Company**

a) The registered producer company should be treated as a private limited company with the significant difference that a minimum of two persons cannot get them registered.
b) These companies are with limited liabilities and limited only by share capital.
c) The liability of the members is limited to the unpaid amount of the shares held by them.
d) Minimum paid-up authorized capital is of Rs. 5 lakh.
e) The maximum number of members can exceed 50.
f) It shall never become a public (or deemed public) limited company.
g) Members' equity cannot be publicly traded but be only transferred - As such, "producer companies would not be vulnerable to takeover by other companies or by MNCs.''

⇒ **Activities of a Producer Company**

As per the Companies (Amendment) Act, 2002 (Section 581B) following are the objectives of forming a Producer Company



Key Features of a Co-operative Society

Co-operative principles are like directive principles of state policy as incorporated in the constitution of India which are not enforceable as such. But the principles laid down are fundamental in the governance of the cooperative movement. Cooperative principles can be achieved by administrative, financial and legal measures. Here in this article, we will restrict ourselves to the legal aspect of cooperative principles as incorporated in the cooperative law. It is important to note that the cooperative principles find reference in **section 4 of the Gujarat cooperative societies Act, 1961.** However, the cooperative principles are not incorporated anywhere in the GCS act. 1964. Therefore, we will first of all, try to incorporate the cooperative principles which have been adopted in the international cooperative alliance in the year 1995 at Manchester. They are reproduced as under:-

1st Principle: Voluntary and open Membership Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of; membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control Co-operatives are democratic organizations controlled of' their members, who actively participate in setting their policies or in making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation Members contribute equitably to, and democratically control the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Member allocate surpluses for any or all of the following purposes developing their cooperative possibly by setting up deserves part of which at least would be indivisible, benefiting members in proportion to their transactions with the cooperative, and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence Co-operatives are autonomous, self-help organizations controlled by their member. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, Training and Information Co-operatives provide education and training for their members elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public particularly young, people and opinion leaders about the nature and benefits of cooperation.

6th Principle: Co-operation Among cooperatives - Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national regional and international structures.

7th Principle: Concern for Community Cooperatives work -for the sustainable development of their (communities through policies approved by their members).

Key differences between Cooperatives Societies and Producer Companies

Particulars	Cooperative Societies Act	Companies Act
Objectives	Single Object	Multi-object
Area of Operation	Restricted, Discretionary	Entire Union of India
Membership	Individuals & cooperatives	Any individual, Group, Association, Producer of the goods or services
Share	Non-tradable	Not tradable but transferable limited to members on par value
Profit sharing	Limited dividends on share	Commensurate with volume of business
Voting rights	One member one vote but Govt. and Registrar of Cooperatives hold veto power	One member one vote. Members not having transaction with the company cannot vote

Particulars	Cooperative Societies Act	Companies Act
Government. Control	Highly patronised to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in real world scenario	Fully autonomous within the provisions of the Act
Reserves	Created, if there are profits	Mandatory to create every year
Borrowing Power	Restricted	More freedom and alternatives
Relationship with other corporates/business houses/NGOs etc.	Transaction based	PCs may subscribe to the share capital of, or enter into any agreement or other arrangements, whether by way of formation of its subsidiary company, joint venture, or in any other manner with any body corporate for the purpose of promoting the objects of the PC by special resolution

Mandatory Compliances under Companies Act, 2013

Compliances under Companies Act, 2013 can be categorized in following types:

- After incorporation compliances under Companies Act, 2013
- Annual compliances under Companies Act, 2013
- Event based compliances under Companies Act, 2013

I) After Incorporation Compliances under Companies Act, 2013

There are certain Compliances under Companies Act, 2013 that are required to be done once company registration is successfully completed. After registration every company gains a separate legal entity and it becomes liable to comply with all the legal requirements mandated under the Act. Following is a list of all such required compliances under Companies Act, 2013:

Verification of Registered Office

After successful incorporation every company is required to complete verification of its registered office with the registrar of companies. They have an option to communicate the same via SPICe Form at the time of incorporation. However, if that is not done, then it must be communicated through INC-22 within 30 days of incorporation.

Display company information: Every registered company is required to display the following information outside its registered office and above its business letters, billheads and on all other official documents and publications:

- Company's name
- Corporate Identification Number
- Registered office address
- Official phone number
- Website, email Id & Fax No.

First Board Meeting: Every newly incorporated company is required to conduct its first board meeting within 30 days from the date of its incorporation**.**

Appointment of auditor: Every company is required to appoint an Auditor within 30 days of incorporation in a board meeting who will either be confirmed or changed in the subsequent AGM.

Share Certificate Issuance: Every company is required to issue share certificates to the shareholder named in the incorporation document. All the incorporation details along with share certificate numbers must be mentioned in the records maintained by the company.

Disclosure of interest by Directors: Every director is required to disclose the details of interest in other registered companies through Form MBP-1 in the first board meeting held within 30 days after incorporation.

Maintenance of Minutes: Every company is required to maintain minutes of every meeting held. These minutes must be prepared within 15 days of such meeting and are to be finalized within 30 days.

Maintenance of Statutory Registers: As per Section 85 & 88 of companies Act, 2013 every registered company is required to prepare and maintain certain statutory registers at its registered office. These statutory registers include Register of Members, Register of shareholders, Register of Charges, Register of Employee Stock Option, etc.

In case any registered company fails to maintain such statutory registers then such company and directors will be prosecuted and fined under the Act.

II) Annual Compliances under Companies Act, 2013

Now that we have covered all the after incorporation compliances under Companies Act, 2013, lets discuss about the compliances under Companies Act, 2013 that are required to be completed on yearly basis. Following is a list of all such yearly compliances under Companies Act, 2013:

Board Meetings: Here we will discuss the yearly board meeting requirement. This is in addition to the first board meeting every registered company is required to conduct that we discussed in the after incorporation compliances. Every registered company is required to conduct minimum 4 board meeting every year. The maximum gap allowed between two consecutive board meetings is 120 days.

Annual General Meeting: Apart from 4 board meetings every company is required to conduct its annual general meeting of its members every year. First AGM is required to be conducted within 9 months from the end of financial year and in the subsequent years it is required to be conducted within 6 months from the end of financial year. Maximum gap allowed between two subsequent annual general meeting is 15 months.

Receipt of Form MBP-1: Every director is required to submit a disclosure of his/her interest in every other registered entity in Form MBP-1. This disclosure is required to be done every year in the first Board Meeting by every existing director on a mandatory basis. Along with yearly disclosure every director must also disclose any change in his/her interest in the subsequent board meeting after such change happened.

Receipt of Form DIR-2: DIR-2 is used for submission of disclosure of non-disqualification by the directors of the company. The company must ensure receipt of this disclosure form every financial year.

Preparation of Director's Report: As per Section 134 of the Companies Act, 2013 Board of Director of every registered company is required to prepare Director's report. This Director's report will be submitted with the Form AOC-4 at the time of annual filing. Director's report will include information including financials, state of affairs, any kind of changes in company's composition, declared dividends, loans etc.

Preparation and circulation of Financial Statements: Every company is required to ensure maintenance of its financials and circulate the same along with Director's report and auditor's report along with the Notice of their annual general meeting.

Appointment of Auditor: Every registered company is required to appoint an Auditor. Auditor can be appointed for a period of 5 years and information of their appointment is required to be submitted with the ROC in Form ADT-1. Earlier this appointment was required to be ratified every year in the AGM during the course of those 5 year. However, this requirement has been done away with.

Filing of E-Form MGT-7: Section 92 of Companies Act, 2013 specifies that annual return of every company is required to be submitted in e-Form MGT-7. It must be filed within 6 days from the date of its annual general meeting. For every company with paid up capital more than 10 crore rupees along with listed companies the annual return is required to be certified by practicing company secretary.

Filing of E-Form AOC-4: Along with annual return you are also required to submit company's financials are required to be filed with ROC within 30 days from the date of its annual general meeting in e-Form AOC-4. Following documents are submitted as attachments with this form:

- Copy of Balance sheet
- Copy of Profit and Loss A/c

- Notice of AGM
- Director’s Report
- Auditors’ Report

III) Event based Compliances under Companies Act, 2013

Apart from above mentioned regular compliances there are several even based compliances under Companies Act, 2013 that are required to be adhered to. Such compliances under Companies Act, 2013 are non-negotiable and are to be adhered to without any lapse. If there is any delay in filing such forms after due date then it attracts penalties and punishments.

Following are examples of few such event based compliances:

Change in Directorship: Whenever there is any change in board of directors including appointment and cessation or change in designation it must be communicated to the registrar through filing of DIR-12 within 30 days of such change.

Change in Registered Office Address: Any company can change its registered office due to various reasons. However, it is obligated to intimate such change to the Registrar Of Company. Following are different scenarios for change in registered office:

- If such change is within the local limits of the city then only INC-22 is required to be filed for intimation.
- If such change is outside the boundaries of city but within the state then special resolution is passed. E-Form MGT-14 along with INC-22 is required to be filed.
- On the other hand if registered office is shifted to another state or outside the jurisdiction of one ROC to another there are some additional compliance. Furthermore, along with MGT-14 and INC-22 company is required to file for Central Government approval in INC-23 and its confirmation is filed in INC-28.

Increase in Authorized Capital: In case you are planning to increase the authorized capital of any company first step is to pass a special resolution for changing the MOA in the EGM. File MGT-14 for registering such special resolution. Finally, the next step is to file SH-4 with the ROC.

Change in Company Name: If the members decide to change the name of a registered company then following steps are required to be followed:

- Check for name availability and reserve it through RUN service.
- Pass special resolution and file MGT-14.
- File INC-24 for central government approval.

Registration/Amendment/ Settlement of Charge: These are the compliances under Companies Act, 2013 in case the company creates any charge i.e a security given for securing any amount of loan. In case of creation of a fresh charge or any modification of existing charge e-Form CHG-1 is required to be submitted.

On the other hand in case of settlement of charge e-Form CHG-4 is to be filed.

It is important to consider that these compliances under Companies Act, 2013 are tedious and repetitive process. Such compliances under Companies Act, 2013 is an ongoing process and not a onetime thing. Only event based compliances under Companies Act, 2013 are dependent on any incident.

<u>Rules and Regulation for Producer Company Registration and compliance</u>

S. No.	Particulars	Section	Provisions
1	Name of the company	Section 581F(a)	The company name must be ended as "Producer Company
2	Number of the Directors	Section 581P	Minimum- 5 Directors
			Maximum- 15 Directors
			In case of an inter-State co-operative society incorporated as a Producer Company registration, such company may have more than 15 directors for a period of 1 year from the date of its incorporation as a Producer Company.
3	Election of the Directors	Section 581P(2)	1st Directors of the company must be re-elected within 90 days from the date of incorporation. "Inter-State co-operative society incorporated as Producer Company can avail privileges of 365 days instead of 90 days.
4	Additional Directors and Expert Directors	Section 581P(6)	Every Director or an additional director of the company may be co-opted but the number of such directors shall not be exceeding 1/5th of the total number of directors.
			But such expert directors shall not be having the right to vote in the election of the Chairman but are eligible to be elected as a Chairman.
5	Private Company	Section 581C(5)	On registration, the Producer Company shall become a body corporate as if it is a private limited company.
			It cannot become or deemed to become a public limited company
6	Share Capital and transfer of the shares of Producer Company	Section 581ZB	The share capital of the Producer Company can consist of equity shares only.
		Section 581ZC	The active members may have special rights if provided in the Articles.
		Section 581ZD	The shares will be non -transferable. The shares having special rights may be transferred to another active member with the approval of the Board.
			On becoming the member of the company the member shall nominate a nominee within 3 months of becoming the member. After the death of the member, the nominee shall get all the benefits. In

			case the nominee is not a producer, the board shall direct the nominee to surrender his shares.
7	Alteration of Memorandum of association and Articles of Association	Section 58111- MoA	Memorandum or Articles of the company can be altered by passing the special resolution, but such alteration shall be inconsistent with the section 581B.
		Section 5811- AoA	In case of alteration of Articles- It has to be proposed by; • not less than 2/3rd of the elected directors or; • not less than 1/3rd of the Members and adopted by special resolution. Copy of the altered MoA or AOA along with the copy of the special resolution has to be filed with the Registrar within 30 days of adoption of such alteration.
8	Annual General Meeting	Section-581ZA	1. First AGM shall be conducted within 90 days from the date of incorporation.
			2. The Registrar may permit extension of the time for holding Annual General Meeting (not being the first annual general meeting), but such extension shall not be more than 3 months.
			3. Every year Producer Company shall hold Annual General Meeting and not more than 15 months shall elapse between the dates of one Annual General Meeting to the next.
			4. The Notice for AGM shall be issued at least 14 days' before the meeting.
			5. The proceedings of every AGM along with Directors' Report, the audited Balance Sheet and Profit & Loss Account shall be filed with the Registrar within 60 days of conducting the AGM.
		Section 581 S	The shareholders shall have exclusive rights to be exercised in the Annual General Meeting such as:
			a. Approval of budget,
			b. Adoption of annual accounts,
			c. The issue of bonus shares,
			d. Approval of patronage bonus,
			e. Declaration of limited return and decision on the distribution of patronage,
			f. Specify the conditions and limits of loans that may be given by the Board to any director; and
			g. Approval of any transaction of nature as is to be reserved in the articles for approval by the Members.
		Section-581Y	Quorum: – 1/4th of the total number of members.
9	Meetings of the Board Quorum.	Section 581V	The board shall meet at least once in every three months and at least four such meetings shall be convened in every year.
			The Chief Executive shall give notice for the board meeting at least 7 days in advance of the meeting.

			The meeting can be called with shorter notice but the reasons thereof shall be recorded by the Board.
			Quorum: – 1/3rd of the total strength of Directors subject to a minimum – 3
			Penalty: If the Chief Executive fails to comply with the provisions of sending notice, he shall be punishable with a maximum fine of Rs. 1,000/,
10	Chief Executive	Section 581W	Producer Company shall appoint a Full-time Chief Executive who shall be amongst person other than the member of the company.
11	Company Secretary	Section 581X	Every Producer Company, having an average annual turnover exceeding Rs. 5.00 crores in each of three consecutive financial years shall have a whole time Company Secretary.
			The penalty for not appointing Company Secretary:
			Every Officer and the company which is in default shall be punishable with a fine. The fine shall be Rs. 500/- for every day during which the default continues.
12	Internal Audit	Section 581ZF	Every Producer Company shall have an internal audit of its accounts carried out in such intervals and in such manner as specified by its articles, by a Chartered Accountant.
13	General Reserve and other reserves	Section 5S1ZI	Every Producer Company shall maintain a general reserve in every year in addition to the Reserves as may be specified in the Articles.
			If the company does not have sufficient funds in any financial year for transfer to maintain the reserves as may be specified in articles, the contribution to the reserve shall be shared amongst the Members in proportion to their patronage in the business of that company in that year

Statutory Registers and Compliances

S. No.	Name of Statuary Register	Form No.	Who fill	Periodicity
1	Register of members	MGT-1		
2	Register of Directors and shareholdings			
3	Register of Renewed and Duplicate Share Certificates	SH-2		
4	Register of charges	CHG-7		
5	Register of Loans and investments made by the Company	MBP-2		
6	Register of Related Party Transactions	MBP-4		

Major statutory forms to be filed with ROC under the Companies Act

S. No.	Form No.	Purpose for which it filled under Indian Company Act, updated year	Who fill	Periodicity
1	INC-12	Intimation of change of registered office		
2	INC-24	Application for change of name		
3	PAS-3	Return of allotment of shares		
4	SH-7	Notice of increase or change in share capital		
5	CHG-1	Registration of creation/Modification of Charge on property to secure repayment of borrowed funds from banks etc.		
6	CHG-4	Registration of satisfaction of charge on repayment of loan for releasing the charge		
7	MGT-14	Registration of satisfaction of charge on repayment of loan for releasing the charge		
8	DIR-3	Application for Director Identification No		
9	DIR-11	Notice of resignation of director to be filed by the director		
10	DIR-12	Particulars of appointment and changes of directors to be filed by the company		
11	AOC-4	Form for filing of annual accounts annually every financial year		
12	MGT-7	Form for filing of annual return of shareholders every financial year		

Offences and penalties prescribed for producer companies

S. No.	Name of offence	Quantum of punishment
1	Any member acquires business interest in conflict with the business of the producer company	Ceases to be a member and shall be removed as per AOA
2	Any director votes, approves or acts in contravention of the provisions of this Act or any other Law	Director/s should make good the loss, damage or profit to the company, on account of such voting or action
3	Failure to appoint a qualified company secretary in a producer company whose average turnover in the last 3 years exceeded Rs. 5 crores	Company and defaulting officer shall be liable to fine up to Rs.500 per each day of default
4	Failure by a director to furnish information relating to the affairs of the Company to a member or authorized person	Imprisonment up to a term of 6 months and fine up to 5% of the turnover of the company in the preceding year
5	Failure to hand over the custody of books of account, documents or property to the producer company	Punishable with fine up to Rs.1 lakh and additional Rs. 10,000/- for each day of continuing default
6	Failure to convene AGM or General meetings	Punishable with fine up to Rs.1 lakh and additional Rs. 10,000/- for each day of continuing default

7	Producer Company's Failure to commence business within one year of its incorporation	Striking off the name of the company by the ROC after making inquiry in to the facts and giving directors a reasonable opportunity of being heard; Appeal can be made to National Company Law Tribunal (NCLT) by director or member against the order of ROC
8	Producer Company ceases to transact business with the members	
9	Producer Company is not carrying on the objects specified under the act	
10	Producer Company is not maintaining any of the Mutual Assistance Principles	
11	Disputes amongst members/former members/nominees of deceased members/producer company/ directors/ office bearers/liquidators/ past or present (relating to formation, management or business of a producer company)	Shall be settled by conciliation or arbitration under Arbitration and Conciliation Act, 1996 (whether the dispute is relating to formation/ management/business or not, decision of the arbitrator shall be final.

KEY POINTS FOR PRODUCER COMPANY

i.	**The members have necessarily to be primary producers**
ii.	Name of the company shall end with the words "**Producer Company Limited**".
iii.	The limit of maximum number of members is not applicable to these Companies
iv.	On registration, the producer company shall become as if it is a **Private Limited Company** for the purpose of application of law and administration of the company
v.	Minimum No. of 10 member (individual).
vi.	Share capital of a Producer Company shall consist of **equity shares only**
vii.	Minimum **5** and not more than **15** directors
viii.	Producer Company can carry only activity prescribed under the Act.
ix.	Only of individuals, then voting rights shall be based on a single vote for every member.
x.	A full time chief executive should (CEO) be appointed by the board.

General Legalities

Factories Act, 1948: This is applicable to enterprises where the number of employees is ten or more and where power is used; or twenty or more and power is not used. The enterprises covered under the Act are required to keep certain records: muster roll; workers register; overtime register; advance register; register for fine; register for deductions; register of wages; register of accidents and dangerous occurrences; bond inspection book; register of cleaning and white washing; record of examination of parts of machinery.

Employees Provident Fund and Miscellaneous Provisions Act, 1952: The Act applies to every factory or establishment employing 20 or more employees. It, however, exempts a factory or establishment for an initial period of 3 years from commencement of business if the number of employees is more than 50 and for an initial period of 5 years if the number of employees is less than 50. The minimum contribution pay able by the employer is 12% of the basic salary contribution and Dearness Allowance. The employee also makes an equal contribution. The Act, however, does not specify a maximum contribution.

Employees' State Insurance Act: It provides benefits to employees in case of sickness, maternity and employment injury and for certain other matters in relation there to. The Act also provides for payment of contributions by employers and employees at the rates specified in the First Schedule of the Act. The existing rates of employee's contribution vary according to wages and the employer's contribution is exactly double the employee's contribution. It shall apply to factories employing 20 or more people.

Payment of Wages Act, 1936: This Act is applicable to factories and establishments, which come under

The factories Act.

Minimum Wages Act, 1948: The employer has to pay minimum wages to employees in certain scheduled industries. At present, the minimum wages act is applicable in 44 scheduled industries.

The Indian Partnership Act, 1932: The Indian Partnership Act, which was amended in 1932, provides for rules relating to foundation of legal partnership. It states the rights and duties of the partners amongst themselves and outside and lays down rules regarding the dissolution of partnership.

The Income Tax Act, 1911: The Act governs the levy of income tax in India. It defines various terms and expressions and states the liability of a person to pay income tax. The rates and pattern of taxation, however, are changed from time to time.

Pollution Control Act: The State Air and Water Pollution Control Board is the body responsible for implementing this Act. The act is applicable to all kinds of industry. Further, units need to secure GST registration also.

Specific Legalities (Food Processing):

In addition to the general legal requirements, there are a few legal requirements that are specific to Food Processing Industries. A food processing enterprise has to comply with several compulsory legal requirements. Implementation of these norms with regard to Small and Medium Enterprises is relatively stringent while cottage and household level units sometimes tend to compromise on such stipulations. These laws include:

- Prevention of Food Adulteration Act (1954): It is the basic statute to protect consumers against supply of adulterated food. The Central Committee for Food Standards under the Directorate General and Health Services Ministry of Health and Family Welfare has specified the standards.
- Milk and Milk Products Order (MMPO): It regulates milk and milk products production in the country. The order requires no permission for units handling less than 10,000 litres of liquid milk per day or milk solids up to 500 TPA.
- Fruit Products Order (1955): It regulates manufacture and distribution of all fruit and vegetable products, sweetened aerated waters, vinegar and synthetic syrups. The license is issued by Regional Director of MoFPI located at Mumbai, Delhi, Kolkata, Chennai and Guwahati based on the satisfaction of the concerned officer with regard to quality of production, sanitation and hygiene, machinery and equipment and work area standards.
- Standard of Weights and Measures (Packaged Commodities) Rules (1977): It lays down certain obligations for all commodities in packed form with respect to their quality declaration. The Directorate of Weights and Measures under the Ministry of Food and Civil Supplies operates these rules.
- Export (Quality Control and Inspection) Act (1963): It is operated by the Export Inspection Council and under this act many exportable commodities have been notified for compulsory pre-shipment inspection unless specifically requested by the importer not to do so.
- Voluntary Standards: They are regulated by organizations involved with voluntary standardization and certificates systems concerning quality parameters in food. They are the Bureau of Indian Standards (BIS) and Directorate of Marketing and Inspection (DMI). The food processing industries sector as a whole involves other legislations.
- Oils, Deoiled Meal and edible Flour Control Order (19€L)and Vegetables Products Control Order(19L€): It controls the production and distribution of solvent extracted oils, de-oiled meals, edible oil seed flours and hydrogenated vegetable oils (Vanaspati).
- Meat Food Products Control Order (1973): It regulates manufacture, quality, and sale of all meat products and is operated by the Directorate of Marketing and Inspection.

Regulatory Compliances: Food Safety and Standards activity of India

The Food Safety and Standards Act, 2006 seeks to consolidate the laws relating to food and to establish the Food Safety and Standards Authority of India for laying down science based standards for articles of food and to regulate their manufacture, storage distribution, sale and import, to ensure availability of safe and whole some food for human consumption and for matters connected there with or incidental there to.

Session VII & VIII	Experience sharing by members of a successful FPO

The objective is to acquaint the participants with successfully working FPOs to see for themselves the operations of a FPO. Showcasing the following aspects:

- Members participation in the decision making and business operations of FPO
- Book keeping and record maintenance leading to transparency and accountability
- Business orientation of the FPO with an eye for making profit
- Efforts being undertaken by FPO towards diversification of activities, member benefit orientation and risk mitigation strategies
- Compliance to regulatory and statutory requirements for showcasing a formal and strong institutional mechanism
- The effective role being played by the CEO and Board of Directors
- Convergence with other development schemes

Session	Conceiving and drafting a business plan
IX	

What is business plan?

A business plan is a document that summarizes the operational and financial objectives of a business. It is a business's road map to success with detailed plans and budgets that show how the objectives will be realized. A business plan is a guide for how a company will achieve its goals. For anyone starting a business, crafting a business plan is a vital first step. Having these concrete milestones will help track the business's success (or lack thereof). There are different business plans for different purposes, and the best business plans are living documents that respond to real-world factors as quickly as possible.

Coverage of Business Plan

- What is to be produced / offered, how and when?
- How much investment is required?
- Where will investment come from?
- Where could loan be secured from? What are its terms & conditions? Can loan be comfortably serviced?
- Can a business survive fluctuations in any of the key parameters?
- What is the payback period of the investment?

How Does a Business Plan Work?

If you have an idea for starting a new venture, a business plan can help you determine if your business idea is viable. There's no point in starting a business if there is little or no chance that the business will be profitable, and a business plan helps to figure out your chances of success. In many cases, people starting new businesses don't have the money they need to start the business they want to start. If start-up financing is required, you must have an investor-ready business plan to show potential investors that demonstrates how the proposed business will be profitable. Business owners have leeway when crafting their business plan outline. They can be short or long, and they can include whatever detail you think will be useful.

A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan:

- The first is the *business concept*, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.

- The second is the *marketplace section*, in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you'll position yourself to beat it.
- Finally, the *financial section* contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from your accountant and a good spreadsheet software program

Breaking these three major sections down even further, a business plan consists of seven key components:

1. Executive summary
2. Business description
3. Market strategies
4. Competitive analysis
5. Design and development plan
6. Operations and management plan
7. Financial factors

Market Analysis: The market analysis will reveal whether there is sufficient demand for your product or service in your target market. If the market is already saturated, your business model will need to be changed (or scrapped). The objectives of the market analysis section of a business plan is:

- Know your market
- To study whether the market is large enough to build a sustainable business

In order to do that, the following needs to be studied:

- Demographics and Segmentation: Volume and Value/Potential customer/Market Value
- Target Market: The target market is the type of customers you target within the market
- Market Need: Details of the drivers of demand for your product or services.
- Competition: Understand competitors' positioning and assessment of their strengths & weaknesses
- Barriers to Entry: What prevents someone from opening a shop in front of yours and take 50% of your business? and what makes you think you will be successful in trying to enter this market?
- Regulation: The main regulations applicable to your business.

Competitive Analysis: The competitive analysis will examine the strengths and weaknesses of the competition and help direct your strategy for garnering a share of the market in your marketing plan. If the existing market is dominated by established competitors, for instance, you will have to come up with a marketing plan to lure customers (lower prices, better service, etc.). Competitive analysis is an exercise of comparing your business, product, and service with other companies and finding similarities and differences. The most critical part of kicking off a competitive analysis is choosing the right competitors to analyse. But how can you develop a list that accurately reflects your real competitors? Here’s what you need your organization to align on first:

⇒ Customer (Who): Who are your target customers (and companies)?

⇒ Problem (What): What core problem does your product solve for your target customers?

⇒ Product Category (How): How do you solve this problem? Are you solving this problem with a unique technology or process?

Management Plan: The management plan outlines your business structure, management, and staffing requirements. If your business requires specific employee and management expertise, you will need a strategy for finding and hiring qualified staff and retaining them.

Operating Plan: The operating plan describes your facilities, equipment, inventory, and supply requirements. Business location and accessibility are critical for many businesses. If this is the case for your business, you will need to scout potential sites. If your proposed business requires parts or raw materials to produce goods to be sold to customers, you will need to investigate potential supply chains.

Financial Plan: The financial plan is the determining factor as to whether your proposed business idea is likely to be a success. If financing is required, your financial plan will determine how likely you are to obtain start-up funding in the form of equity or debt financing from banks, angel investors, or venture capitalists. You can have a great idea for a business, along with excellent marketing, management, and operational plans, but if the financial plan shows that the business will not be profitable enough, then the business model is not viable and there's no point in starting that venture.

Plan Updation: Here are seven reasons to think about updating your business plan. If even just one applies to you, it's time for an update.

1. A new financial period is about to begin: You may update your plan annually, quarterly or even monthly if your industry is a fast-changing one

2. You need financing, or additional financing: Lenders and other financiers need an updated plan to help them make financing decisions
3. There's been a significant market change: Shifting client tastes, consolidation trends among customers and altered regulatory climates can trigger a need for plan updates.
4. Your firm develops or is about to develop a new product, technology, service or skill: If your business has changed a lot since you wrote your plan the first time around, it's time for an update
5. You have had a change in management: New managers should get fresh information about your business and your goals
6. Your company has crossed a threshold: Crossing certain level of sales mark
7. Your old plan doesn't seem to reflect reality any more: Maybe you did a poor job last time; maybe things have just changed faster than you expected. But if your plan seems irrelevant, redo it.

Case Example

Purvanchal Poultry Producer Company Limited (PPPCL), Deoria (UP)

Background: Considering the primarily agrarian economy of district Deoria (UP), developmental interventions in agriculture and allied sector were essential to speed up the pace of the economy of the district. Barring sector like farm mechanization, investment credit in agriculture was not picking up. In 2011, though, animal husbandry in general and dairy and poultry activities in particular held good potential in the district, however, bankers were not keen to finance poultry due to very small presence of poultry units in the district and also the absence of limitation of getting insurance for this activity. In view of the above, the developmental focus was shifted to demand side interventions (entrepreneurship development) rather than supply side (Banks) initiatives. The initiatives resulted in tremendous success and now the district stands first in egg production in Uttar Pradesh.

Particulars	*Unit*	*2011*	*2016*	*2018*	*2019*
Poultry Layer Units	No.	10	150	200	250
Poultry Layer Birds	No.	53530	1000000	1500000	2000000
Poultry Broiler Units	No.	340	1200	1000	1000
Poultry Broiler Birds	No.	172052	1200000	1000000	1000000
DOC Business	Rs. Lakh	225.29	2352.78	1725.00	1900.00
Poultry Feed Business	Rs. Lakh	1121.95	11351.91	12628.67	15983.81
Poultry Meet Business	Rs. Lakh	1083.93	8640.00	7200.00	7200.00
Poultry Eggs Business	Rs. Lakh	485.38	8402.60	14235.00	18980.00
Poultry Support Services	Rs. Lakh	86.03	600.00	500.00	500.00
Total Poultry Business in Dist. Deoria, UP*		**3002.58**	**31347.29**	**36288.67**	**44563.81**

*** Note: Capital Investment, value additions on account of primary processing of poultry meat, wholesale / retail business of eggs, Value of poultry manure, Medicines and Medical Consultancy and employment generation are not included in above estimate**

However, the sector was still facing bottlenecks in availability of inputs (costly & low quality feed), high mortality rates and timely availability of DOCs, lacks of medical facilities and marketing of the eggs and broilers.

In the next phase of the development (2014-15 and 2015-16), 150 poultry layer units were established and egg production reached a level of about 8 to 9 lakhs per day. On analysis of the complete value chain of poultry sector, it was decided to focus upon and plan for aggregate marketing. To begin with, a meeting with poultry farmers both a village & block were organised and through organised mobilization process, the interested farmers were brought under the one umbrella. This lead to formation of the Purvanchal Poultry Producer Company Limited in Deoria district which was incorporated on 30th of October 2015 with an authorized capital of Rs.10.00 lakh and paid capital of Rs.6.00 lakh. The same has now increased to Rs.20 Lakh and Rs.16.26 lakh, respectively.

The company started with aggregate marketing of eggs in January 2016 and aggregate feed production was initiated in June 2016.

Key components of Business

What is to be produced / offered, how and when	75 to 80% of the operational cost of the poultry development is feed. Further, viability of the poultry unit is strongly linked to cost of the feed. Even 25 paisa per kg change in cost of the feed will make big difference in the IRR. Further, nutritional value of the feed *(energy content, digestible protein content, carbohydrate, fat, micronutrients etc.)* will affect the efficiency of egg production and boiler meat. Hence, first important intervention chosen was aggregation of feed ingredients, processing and distribution among the growers to enable reduction of feed cost and improved feed quality. 
How much investment is required?	**Initial Business plan and implementation:** Initially, a small feed unit of one of the director was taken on custom and hiring basis for processing and storage of the feed. **Evolving business plan as per the needs:** To facilitate transport services and income generation through mechanization, a Farm Machinery Centre with TFO of Rs.11.50 Lakh was established with credit support (IDBI Ltd.) of Rs. 9.0 lakh and convergence under "Sub Mission on Agriculture Mechanization" Scheme of GoI.

	Later on to meet increased demand, a new feed mixing unit with a processing capacity of 2 tonne per hour with Financial Outlay of Rs.14 lakh was established with credit support of Rs. 8.0 lakh from DCCB, Deoria which was converged with the "EDGE component of Poultry Venture Capital Fund Scheme" of GoI.
Sources of Funds used	**Initial source of fund:** ✓ Paid up capital of Rs.12.02 lakh ✓ Rs. 0.50 lakh from "Produce Fund" **Subsequent Source of fund:** ✓ Incremental paid up capital ✓ Reserves and surplus on account of profits ✓ Invest credit of Rs.9.0 lakh from IDBI Ltd. ✓ Invest credit of Rs.8.0 Lakh from DCCB, Deoria ✓ Subsidies from CSS and State Sponsored Schemes ✓ Equity grant from SFAC
Securities offered	⇒ Loan against farm machinery centre was secured against the primary security and locking of subsidy in bank. ⇒ Loan against new feed mixing unit was secured against the FDR of one of the director of the company and locking of subsidy in bank. ⇒ Loan was comfortably serviced due to convergence of the Government Sponsored scheme and profit earnings
Could the business diversification withstand the fluctuations?	Diversification of the activity enabled the company to hedge the market risk (poultry sector passes through price fluctuation of eggs, sharp increase in price of maize ingredient, production cost of feed and unhealthy competition from feed companies)
What was the payback period of the investment?	Payback period of the investment credit was of 5 years and all repayments have been made by the company in time

Elements of Business Planning

Business Idea	Business plan was conceptualised on the basis of 1) ***aggregation of inputs*** (feed ingredients) 2) ***Value addition*** (feed processing) and 3) ***marketing of finished products*** (supply of finished feed to poultry growers)
Market & Marketing	**Potential Customer:** There were 150 poultry layer units and 1200 small broiler units operating in the district. Total business of the poultry sector was about 313.47 crore. Of which, feed business segment comprising to the extent of 113.52 crore. It was thought that if PPPCL was able to undertake 4% of the feed business then estimated turnover of the company would be around Rs. 4.5 crore per annum. **Quality and provision of flexible segment**: Provision was made that any poultry grower can take help of any feed formulation expert from within or outside the company and processing of the feed ingredient can be undertaken in presence of growers or their representatives.

	Pricing: Unit cost of the feed was estimated on the basis of feed formulation formula provided by the experts, prevailing market price and profit margin. Profit margin of the company was decided by the BODs keeping in mind that price should be lower than the market price to face the competition
Finance	**Operational Strategy:** It was decided that feed would be supplied to growers on credit up to amount of paid up capital contribution and grower had to pay the credit amount before subsequent purchase. This cycle was generally of 15 to 20 days. **Meeting the working capital requirement** • Paid up capital of the company • Supply credit for 7 to 15 days • Support under PRODUCE Fund of NABARD **Capital Investment** • Office infrastructure created through support under PRODUCE Fund from NABARD • Initially, one Eicher diesel engine with TFO of Rs. 0.85 Lakh purchased from paid up capital to run the old feed mixing unit taken on custom and hiring basis.

Financial Plan of PPPCL

Techno economic parameters

Present capacity of feed production unit established at Harriya Basantpur, Hata - Deoria Road in District Deoria	10 MT/day
Additional required capacity of feed production unit proposed at village Kaithwalia, Block Tarkulwa in District Deoria	24 MT /day
Present Size of Birds for which feed is being produced	80000 birds
Projected Size of Birds for which feed would be required	**210000 birds**
Feed requirement up to laying, i.e. 20 weeks (kg/bird)	8.5
Feed requirement during laying (kg/bird) - 52 weeks laying	40.0
Feed requirement of Broiler Birds up to 40 days - Kg/bird	4.0
Sale price of Layer Feed (average price Rs/kg)	22
Sale of Broiler Feed (average price Rs/kg)	25
Gross Margin (%)	**4.5**
Net Margin (%)	**3.0**

Financial Parameters

Size of the poultry feed industry in District, Deoria

(Rs. Lakh)

Year	No of Layer Birds	Business of Layer Feed	Margin under layer Feed	No of Broiler Birds	Business of Broiler Feed	Margin under broiler feed	Total feed business	Gross Margin
2016	1000000	7370	-	1200000	8400	-	15770	-

Projected business plan of PPPCL, Deoria (UP)

(Rs. Lakh)

Year	No of Layer Birds	Business of Layer Feed	Margin under layer Feed	No of Broiler Birds	Business of Broiler Feed	Margin under broiler feed	Total feed business	Gross Margin
2016	80000	407	12.21	5000	35	1.05	442	13.26
2017	100000	508	15.24	10000	70	2.10	578	17.34
2018	120000	610	18.30	15000	105	3.15	715	21.45
2019	140000	711	21.33	20000	140	4.20	851	25.53
2020	160000	813	24.39	25000	175	5.25	988	29.64
2021	170000	864	25.92	30000	210	6.30	1074	32.22
2022	180000	915	27.45	35000	245	7.35	1160	34.80
2023	190000	965	28.95	40000	280	8.40	1245	37.35
2024	200000	1016	30.48	50000	350	10.50	1366	40.98
2025	210000	1067	32.01	60000	420	12.60	1487	44.61

Financial analysis

(Rs. Lakh)

Year	Benefits	Cost	Net Benefits
2016	3.32	17.16	-13.85
2017	8.67	3.03	5.64
2018	10.73	3.75	6.98
2019	12.77	4.47	8.30
2020	14.82	5.19	9.63
2021	16.11	5.64	10.47
2022	17.40	6.09	11.31
2023	18.68	6.54	12.14
2024	20.49	7.17	13.32
2025	22.31	7.81	14.50
		Present worth of benefits	**62.11**
		Present worth of cost	**35.65**
		Net present worth of benefits	**26.46**
		BC ratio	**1.74**
		IRR	**54%**

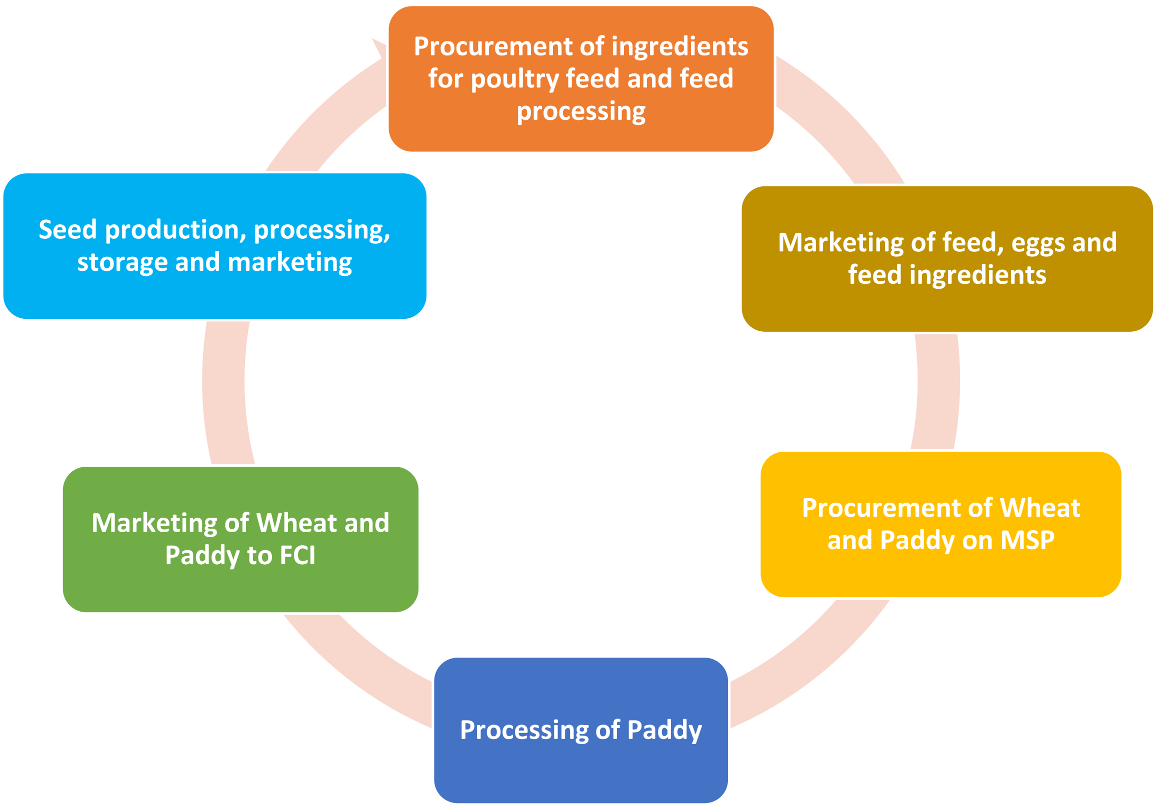
Risk Mitigation Business Plan

In the meantime, competition and malpractices of the feed companies tried to dislodge PPPCL by selling feed to poultry growers on credit up to 20-25 weeks. Further, there was need to enhance membership of the company. Hence, Company started procurement of wheat and paddy on MSP. This generated a requirement of establishment of a rice mill to supply processed paddy (rice) to FCI. The company established the facility by taking a second hand rice mill after repair and maintenance.

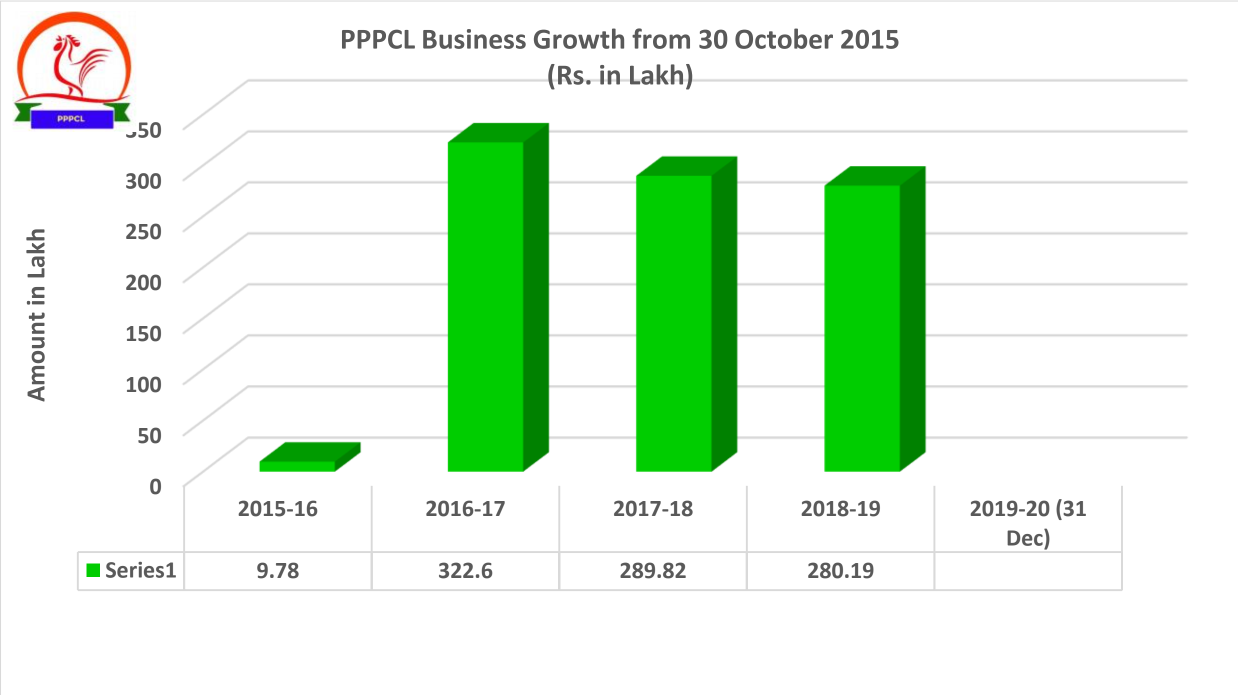
Diversification Business Plan

Now the company is in process of establishing seed processing unit through convergence with the State Government sponsored scheme (grant support available). This includes 4 activities viz. seed production, seed processing, seed storage and seed marketing. Necessary infrastructure support and services are in built under this scheme.

Business activities being undertaken by PPPCL, Deoria



PPPCL, Deoria – The Journey



साझा सफर देवरिया के 18 किसानों ने शुरू किया था काम, आज 500 से ज्यादा लोग हैं साथ

अपनी मुर्गी, अपना दाना... इनसे सीखें बिजनेस जमाना

NBT

खुशनुमा रविवार

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किसान कुंभ में पूर्वांचल पोल्ट्री उत्पादक कंपनी स्टॉल लगाकर दे रही है पोल्ट्री फार्मिंग की जानकारी।

ऐसे बढ़ी कंपनी

5 लाख रुपये टैक्स दिया 2016-17 में

3 लाख रुपये टैक्स दिया 2017-18

2 साल में 20 लाख रुपये से ज्यादा की स्थायी सम्पतियों का निर्माण

दो लाख की बिक्री रोजाना

वेद का कहना है कि एक मुर्गी आमतौर पर एक दिन में 100 ग्राम चारा खाती है। छोटे से छोटे पोल्ट्री फार्म में 2000 मुर्गियां होती हैं। ऐसे में प्रति दिन 200 किलो चारे की खपत होती है। हमारी कंपनी 20 रुपये प्रति किलो के हिसाब से फार्म मालिक को चारा उपलब्ध करवाती है। यानी 4000 रुपये का चारा तो एक फार्म लग ही जाता है। हम रोजाना एक लाख से ज्यादा मुर्गियों के लिए रोज चारा तैयार करते हैं। यानी दो लाख रुपये का माल रोज बिकता है।

लखनऊ : भारतीय गन्ना अनुसंधान संस्थान परिसर में चल रहा किसान कुंभ अपने साथ कई कहानियां लेकर आया है। कॉन्ट्रैक्ट फार्मिंग के बिजनेस मॉडल को लोकल लेवल पर मुर्गी पालन में इम्पलिमेंट करने की ऐसी ही दिलचस्प कहानी है देवरिया से आए किसान शंकर्षण शाही और उनके साथियों की। सफलता की कहानी पूर्वांचल पोल्ट्री उत्पादक कंपनी लिमिटेड के नाम से लगे स्टॉल पर देखने-समझने को मिल जाएगी। 18 किसानों से शुरू हुए इस साझा सफर से आज 500 से ज्यादा लोग जुड़ चुके हैं।

शंकर्षण शाही का कहना है कि उनकी कंपनी खेती से जुड़ी पहली कंपनी है जो कॉरपोरेट टैक्स दे रही है। इसकी शुरुआत 2015 से हुई। जुलाई में नाबार्ड की टीम देवरिया के हरैया बसंतपुर इलाके में किसानों के लिए चलाई जा रही योजनाओं के संबंध में ट्रेनिंग देने आई थी। इस दौरान नाबार्ड के अफसर राजेश यादव ने उन्हें फूड प्रॉसेसिंग कंपनी खोलने की सलाह दी और बारीकियां भी समझाईं। यह आइडिया ट्रेनिंग में मौजूद 18 लोगों को पसंद आया। लेकिन कोई भी नया लोन लेने के झमेले में नहीं फंसना चाहता था। ऐसे में तय हुआ कि जिसके पास, जितना भी पैसा है, पूल करेगा और काम शुरू किया जाएगा। मुर्गी का दाना बनाने की प्रॉसेसिंग मशीन और जरनेटर खरीदने में 12 लाख रुपये खर्च हुए। 18 किसानों में से कई पहले ही पोल्ट्री फॉर्म चला रहे थे। ऐसे में वे अपनी ही कंपनी से दाना खरीदने लगे और धंधा चल निकला। 15 अक्टूबर 2015 को शुरू हुई कंपनी पिछले दो वित्तीय वर्ष में 8 लाख से ज्यादा का कॉरपोरेट टैक्स भर चुकी है। कंपनी के निदेशक वेद व्यास सिंह बताते हैं कि हमारी सफलता सिर्फ हमारी ही नहीं है। दाना बनाने के लिए मक्के, धान व जौ आदि की जरूरत होती है। हम आसपास के करीब 500 किसानों से ही कच्चा माल खरीदते हैं। इससे उनकी मंडी तक की दौड़ भी बचती है।

Session	Understanding the value chain concept – Assessment of business opportunity for a FPO
X	

What is agriculture value chain?

It normally refers to the whole range of goods and services necessary for an agricultural product to move from farm to its final customer. The World Bank's definition of the term "value chain'' describes the full range of value adding activities required to bring a product or service through the different phases of production, including procurement of raw materials and other inputs".

Why talk about agricultural value chains?

⇒ Small-scale farmers in India and elsewhere in the world often say that receiving low prices for their produce is a major challenge. Typically, a farmer waits for traders to visit his farm. The trader offers a low price and won't buy the entire crop. The farmer is unhappy – time and effort are not well-rewarded. He / she may blame the trader for her problems.

⇒ Farmers and traders often fight over prices. Farmers may cheat traders by putting low-quality produce at the bottom of crates, and traders may cheat farmers by using inaccurate weights and measures. There is often a lack of trust between the two. This results in the value chain not working as well as it could, which means worse outcomes for everyone.

⇒ The trader sells the farmer's produce to a processor, who supplies a wholesaler, who supplies a retailer, who supplies a consumer, with transport and other links in between. Each player in this chain adds value, and in return receives an economic return, usually called "economic rent." The amount each actor in the chain receives varies between different products and value chains. But the price the farmer receives for his raw goods is only a small fraction of the price paid by the consumer.

⇒ As individuals, small-scale farmers are often at a disadvantage in these kinds of value chains. Because many farmers grow crops or raise animals on an individual basis, they have little bargaining power. They have little or no influence on the price traders pay them for their produce, or the price they pay input suppliers for seeds, fertilizers, pesticides, etc.

⇒ Also, farmers often lack information about the market for their produce. For example, they may not know how much their produce is really worth, and how much more they could earn if, for example, they transported it to a nearby market rather than selling it to a trader. They may not know who the other players in the market are; they may not know what happens to their produce after they sell it; and they may not know what types of products consumers want. In many cases, the farmer is growing the wrong crop for the market. For all these reasons, it is difficult for farmers to benefit fully from the value chains they are already involved in.

⇒ In part, farmers unknowingly contribute to their own problems. For example, a farmer might produce mangoes of all kinds. Some are large and healthy, others small and spotty. The farmer packs all her mangoes together in a crate. The trader doesn't know what quality to expect, so offers a low price.

⇒ To increase their income and capture more of the value ("economic rent") in the value chain, farmers need to "upgrade" their involvement in the value chain. There are many ways to do this. One step they must take is to become a "crop specialist." A crop specialist is a farmer who has improved his or her farming practices and is producing goods for the market in an efficient and productive way. For example, by using better farming practices, the farmer can produce more mangoes – and higher quality mangoes. This satisfies both the buyer and the consumer.

⇒ Other way of to increase their income in the value chain, farmers need to "upgrade" through framework of institutional model comprising aggregation and collectivization of their resources, production, operations, management and marketing by business participation more and more in the value chain.

What are the benefits of taking a value chain approach?

⇒ The value chain approach considers the role of existing chain actors, supporting actors, and the policy environment. It allows us to look at current challenges in a value chain, as well as the opportunities for improving the efficiency of the value chain and the benefits for everyone involved. From a farmer's perspective, being part of a well-functioning value chain can bring greater income.

⇒ Analyzing a value chain (identifying its challenges, weakness, and strengths) can help to identify new income-generating opportunities. Sometimes, participating in a well-functioning value chain brings farmers not higher incomes or prices, but a more stable and predictable income.

⇒ Participating in value chains can help a farmer learn new skills and adopt improved practices. Instead of piling vegetables in a crate and trucking them to a trader or market, farmers can earn more money by doing basic processing on the farm. Even cleaning and grading produce can make a difference. Washing and packaging lettuce or tomatoes and delivering them to a local store or supermarket can earn a higher price. Peeling and cutting fruit can be an effective way of getting into the growing market for ready-to-eat food products near urban areas.

Who benefits from value chains?

Everyone who participates in a value chain adds value as the product moves from the beginning of the chain towards the consumer. In exchange for adding this value, all participants receive an economic rent. That is the main benefit or incentive for participating in a value chain. The people most likely to benefit from value chains are entrepreneurial, have a willingness to communicate with people in different parts of the value chain, and have the farm and financial resources and the knowledge to develop new markets or participate more effectively in current markets. Farmers who have little land, who are more remote from markets, who have fewer assets, who have language barriers and who are not involved in effective farmer organizations may find it more challenging to benefit from a value chain.

The importance of farmer groups

Farmers need to be well organized to compete in an increasingly demanding market place. Like becoming a crop specialist, joining a farmer organization is a necessary step for small-scale farmers who want to increase their income and capture more value in the value chain. Unlike individual farmers, farmer organizations have the resources to attract and build relationships with different links in the value chain, both locally and further afield.

Farmer organizations help individual farmers by combining the harvests of a number of producers, buying bulk inputs at lower prices on farmers' behalf, and giving farmers access to farm support services. By their sheer size, co-operatives have enough market power to raise the prices received by individual farmers and ensure that farmers receive a steadier, more secure income. Many farmer groups also include savings and loan schemes for their members. These schemes help farmers work with money, keep records, and learn financial skills that are essential to improve their businesses.

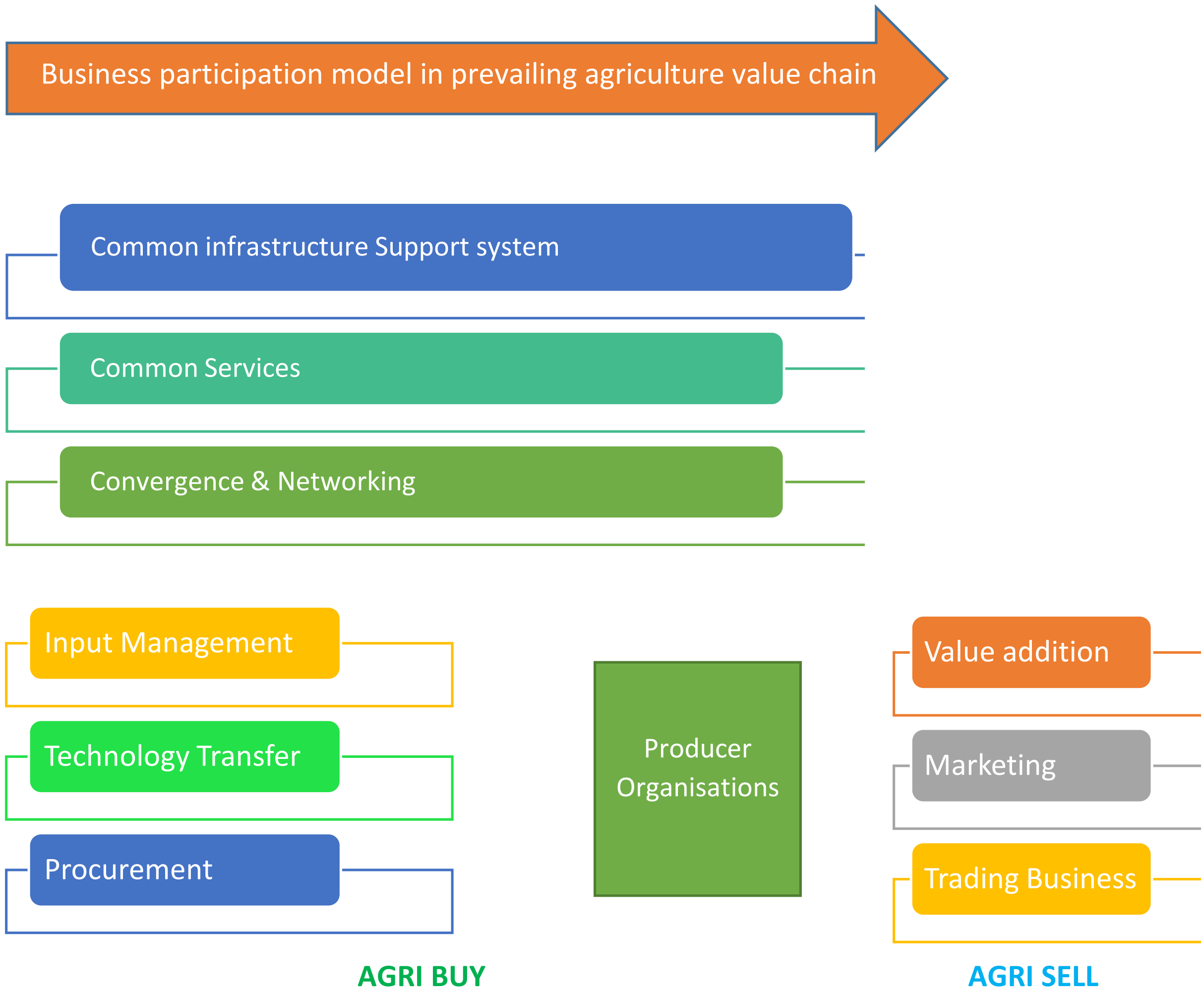
Aggregation models in agriculture value chain

Aggregation brings together small farmers and buyers to achieve economies of scale, create market signal, and provide access to adjacencies in order to reduce friction with other third party ecosystem partner marketplace such as financial services. As one of the most important frameworks for powering small farming, **aggregation in agriculture has the potential to empower local agricultural communities across global markets.**

Opportunity of business participation in prevailing agriculture value chain

Enhancement of "economic rent" may be possible through more and more business participation of the producer in aggregation and collectivization of the individual resources, production and marketing in given institutional framework. One or multiple approaches of aggregations, depending upon the available resources, potential and prospects and enabling environment, can be undertaken by farmer producer organization which are as under:

6. Participation to fulfil ***technological gap***
7. Business participation in ***input management (Aggregation of Inputs)***
8. Business participation in ***Primary / secondary processing (Value Addition)***
9. Business participation in ***marketing (Collective Marketing)***
10. Business participation in ***trading business*** during the lean period of the agricultural operation of concern FPO's members



<u>Potential Farmer Activities/ Services required at FPO level</u>

Identifications of the key areas required to be addressed by the intermediary (FPOs) is the prime important factor for the success of the FPOs. Step by step process would be as under:

- Identify services needed by farmers
  - Undertake cost-benefit analyses to study intermediaries profitability
    - Infrastructure assessment & arrangement for providing services (e.g. sprayers, planters, sheller, dryers, etc.)
      - Training of Intermediaries in service
        - Build intermediary capacity in business skills and linkage to credit institutions
          - Marketing their services *(field days, radio messages, IEC materials, e-extension animated films)*
            - Increase the scope of service package to at least 4 - 5 services

Some of the illustrative activities according the agricultural value chain have been given in box given below:

Pre-Production	Production
✓ Crop insurance agent ✓ Soil testing agent ✓ Crop Monitoring agent (for banks, insurance companies) ✓ Custom Hiring services ✓ Digital profiling agent	✓ Input supply services ✓ Planting services ✓ Weeding services ✓ Pesticide spraying services
Post-Harvest	**Marketing**
✓ Shelling services ✓ Grain cleaning services ✓ Drying services	✓ Bulking/aggregation services ✓ Rural sales agent, non-agricultural products ✓ Rural banking and Digital Financial Services (DFS) agent

Principles of mapping agricultural value chain for Farmers Producer Organizations: There are four basic core principals which are required for mapping of existing agricultural value chains and assessment of the opportunity for FPOs to make business out of it.

Aggregation of Inputs • Seed Purchase & Seed Production • Fertilizers & Micro Nutrients • Plant Protection • Mechanization	**Collective Marketing** • Aggregation • Procurement (MSP) • Storage • Aggregate Marketing (domestic & Export)
Value Additions • Primary Processing • Secondary Processing	**Trading Business** • Purchase & selling of agri-produce (Members) • Purchase & selling of agri-produce (Others)

Session	Business segment, product planning and marketing-Demand and competition analysis, product mix planning, pricing, marketing strategy and business innovation
XI	

Price Policy and Agricultural Marketing

The Government of India intervenes in the agricultural markets to achieve certain developmental objectives. The overarching reasons for effective government interventions are stated to be food security and price stability. The government intervenes in domestic market in various forms such as food grain procurement and distribution, price support, input subsidies and marketing legislations. The objectives and forms of intervention have undergone substantial changes over time. The interventions attempted to bring in regulation of various agricultural activities to protect the interests of producers and consumers. But, such regulations did not foster a competitive environment for fair play of market forces.

Procurement and Distribution

The Government of India's food grain policy aims at achieving reasonable price support and procurement system to increase farm income and making available food grains to consumers at reasonable price through distribution of subsidised food grains and price stabilisations/ buffer stock operations. The Food Corporation of India (FCI) is entrusted with implementation of food grains policy particularly for rice and wheat. FCI or the designated agency of state government procures paddy and wheat from the farmers at minimum support price (MSP). Additionally, FCI procures rice through a levy system from rice mills. Depending on the state, rice mills are required to deliver to the FCI from 10 to 75 per cent of their milled rice at the prescribed levy price. Wheat and paddy/ rice procured, thus are used to meet the demand for public distribution system, buffer stocks and other welfare measures. FCI's operations are intended to build buffer stocks to meet any exigency, open market sales to stabilise the domestic price and to meet the food security requirements.

Food subsidy

The economic cost of the process of food procurement and distribution includes three components, viz. price paid to the farmers, procurement operations and the cost of distribution. The difference between economic cost of food grains and the issue price of FCI is equivalent food subsidy.

Reform of APMC Act

Observing the inefficiency caused by licensing/registration, market controls and other interference introduced by APMC Acts, it was strongly felt that an alternative marketing system needs to be introduced. The government should facilitate smooth operations of the markets and should not control over it. Further, greater participation of private sector should be encouraged to make investments required for the development of marketing infrastructure and other supporting services.

The Ministry of Agriculture, Government of India in consultation with state governments formulated a Model Act, called "The State Agricultural Produce Marketing (Development and Regulation) Act, 2003. The important features of the Model Act are given below.

- ✓ Permission for establishment of Private Markets/Yards, Direct Purchase Centres, Consumer / Farmers Markets for direct sale and promotion of Public Private Partnership in the management and development of agricultural markets in the country.
- ✓ Provisions for separate constitution of Special Markets for Commodities like Onions, Fruits, vegetables, Flowers etc.
- ✓ A separate Chapter has been included in the legislation to regulate and promote contract-farming arrangements in the country.
- ✓ It provides for prohibition of commission agency in any transaction of agricultural commodities with the producers.
- ✓ It redefines the role of present Agricultural Produce Market Committee to promote alternative marketing system, contract farming, direct marketing and farmers/consumers markets.
- ✓ It also redefines the role of State Agricultural Marketing Boards to promote standardisation, grading, quality certification, market led extension and training of farmers and market functionaries in marketing related areas.
- ✓ Provision made for resolving of disputes, if any arising between private market/ consumer market and Market Committee.
- ✓ Provision has also been made in the Act for constitution of State Agricultural Produce Marketing Standards Bureau for promotion of Grading, Standardisation and Quality Certification of agricultural produce. This would facilitate pledge financing, E-trading, direct purchasing, export, forward/future trading and introduction of negotiable warehousing receipt system in respect of agricultural commodities.

Price Support

Government's price support policy provides guarantee against sharp fall in commodity prices and helps ensure reasonable income to farmers. Presently, government sets minimum support price for 23 commodities. The Commission for Agricultural Costs and Prices (CACP) recommends the MSP for these commodities. The minimum support prices, especially for food grains, are being effectively implemented only in a few surplus states like Punjab, Haryana, Uttar Pradesh and Andhra Pradesh and only a small segment of farmers in the country are benefited (Acharya, 1997; Vyas, 2003; Chand et al, 2003).The government need not bear the commodity price risks once the income safety nets for the poor have effectively been put in place.

Reforms in Agriculture Marketing

Produce and Livestock Marketing (Promotion & Facilitation) Act, 2017

1. The entire State would be treated as a single market, doing away with the earlier notified area for an APMC
2. The Market Committee and State Agricultural Marketing Board would be fully democratized
3. Enhancing competition for the farmers produce by providing conditions for creation of private wholesale markets and farmer-consumer market yards
4. Reducing price spread by enabling direct contact between farmers and consumers or other end-user categories such as processors, exporters and so on
5. Freedom to the farmer to sell his produce to any person or agency at any place of his choice which may fetch him better returns
6. Declaration of warehouses, silos and other storage structures as markets or sub-market yards to enable direct linkage between the farmer and the buyer
7. Promoting e-trading to link markets across geographies and make trade process transparent
8. Single-point levy of market fee and single trading license across the State
9. Create conducive conditions such as inter-state trading license, grading, standardization, and quality certification for promoting a nation-wide, single agricultural market

The extent to which different states have adopted the 2017 model act is also different.

Three bills were passed by the Government of India in 2020, the gist of which is given below:

Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020

- Expands the scope of trade areas of farmers' produce from select areas to "any place of production, collection, aggregation".
- Allows electronic trading and e-commerce of scheduled farmers' produce.
- Prohibits state governments from levying any market fee, cess, or levy on farmers, traders, and electronic trading platforms for the trade of farmers' produce conducted in an 'outside trade area'.

Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020

- Provides a legal framework for farmers to enter into pre-arranged contracts with buyers including mention of pricing
- Defines a dispute resolution mechanism.

Essential Commodities (Amendment) Act 2020

- Removes foodstuff such as cereals, pulses, potato, onions, edible oilseeds, and oils, from the list of essential commodities, removing stockholding limits on such items except under "extraordinary circumstances"
- Requires that imposition of any stock limit on agricultural produce be based on price rise

Feature	APMC Regime	Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020
Trade of Farmers' Produce	Farmers to only sell to licensed middlemen in these notified markets (Market Yard / Mandies)	Farmers free to sell in open markets (outside the trade area)
Alternative Trading Channels	Produce has been sold mainly in notified wholesale markets run by APMCs	Barrier-free inter-state and intra-state trade of primary agricultural commodities
Market Fee	Traders binds to obtain licensed and pay requisite tax to AMPC	Farmers and buyers of their produce to trade outside these tax-free markets
Electronic Trading	No such mechanism is there.	It allows the electronic trading of scheduled farmers' produce (agricultural produce regulated under any state APMC Act) in the specified trade area. It will also facilitate direct and online buying and selling of the agricultural produce via electronic devices and the internet.

Thus, there are initiative taken by the GoI to address the operational and legal issues listed above by enforcement of three farmer's bills, 2020. There is a framework for contract farming through an agreement between a farmer and a buyer prior to the production or rearing of any farm produce. The act links contract price to market price. Provision has also been given to ensure buying of entire agreed produce of grower by the contracting agency. It provides for a three-level dispute settlement mechanism: the conciliation board, Sub-Divisional Magistrate and Appellate Authority.

Strategic positioning

Positioning strategy can be conceived and developed in a variety of ways. It can be derived from the object attributes, competition, application, the types of consumers involved, or the characteristics of the product class. All these attributes represent a different approach in developing positioning strategy, even though all of them have the common objective of projecting a favourable image in the minds of the consumers. The general approaches involve:

- **Using Product characteristics or Buyer Benefits as a positioning:** This strategy basically focuses upon the characteristics of the product or customer benefits. Example organic produce. Further, *a product* can be positioned along two or more product characteristics at the same time.
- **Pricing as a positioning:** Quality Approach or Positioning by Price. Basically because of perception, as most of us perceive that if a product is expensive will be a quality product whereas product that is cheap is lower in quality. If we look at this Price – quality approach it is important and is largely used in product positioning strategy.
- **Positioning based on Use or Application:** Let's understand this with the help of an example like Nescafe Coffee for many years positioned itself as a winter product and advertised mainly in winter but the introduction of cold coffee has developed a positioning strategy for the summer months also.
- **Positioning strategy based on Product Process:** Another positioning approach is to associate the product with its users or a class of users.
- **Positioning based on Competitor: In** this type of positioning strategy, an implicit or explicit frame of reference is one or more **competitors.** In some cases, reference competitor(s) can be the dominant aspect of the positioning strategy of the firm, the firm either uses the same of similar positioning strategy as used by the competitors or the advertiser uses a new *strategy* taking the competitors' positioning strategy as the base.

Key aspects of agricultural marketing

Agricultural marketing comprising of all activities involved in supply of farm inputs to the farmers and movement of agricultural products from the farms to the consumers.

⇒ The agricultural marketing system includes two major sub-system viz. product marketing and input (factor) marketing. The product marketing sub-system includes farmers, village/primary traders, wholesalers, processors, importers, exporters, marketing cooperatives, regulated marketing committees and retailers. The input sub-system includes input manufacturers, distributors, related associations, importers, exporters and others who make available various farm production inputs to farmers.

⇒ The agricultural marketing system is understood and developed as a link between the farm and non-farm sectors. A dynamic and growing agriculture sector requires fertilizers, pesticides, farm equipment's, machinery, diesel, electricity, packing material and repair services which are produced and supplied by the industry and non-farm enterprises. The expansion in the size of farm output stimulates forward linkages by providing surpluses of food and natural fibres which require transportation, storage, milling or processing, packing and retailing to the consumers. These functions are performed by the non-farm enterprises. Further, if the increase in agricultural production is accompanied by a rise in real incomes of farm families, the demand of these families for non-farm consumer goods goes up as the proportion of income spent on non-food consumables and durables tends to rise with the increase in real per capita income. Several industries, thus find new markets for their products in the farm sector.

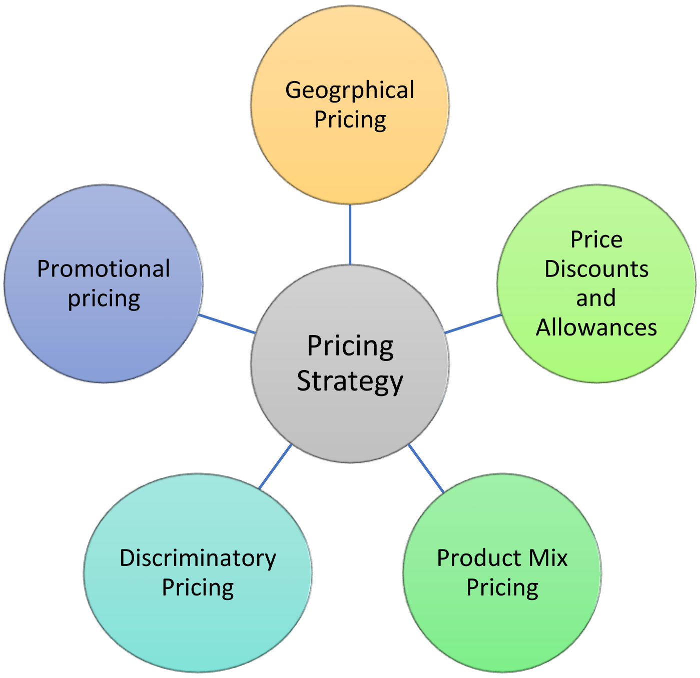
✓ The marketing system should be such as may bring about the overall welfare to all the segments (producers, consumers, middlemen and traders) society. Government act as a watch-dog in ensuring the interest of all the groups associated in the marketing.

✓ The subject of agricultural marketing includes marketing functions, agencies, channels, efficiency and costs, price spread and market integration, producer's surplus, government policy and research, training and statistics on agricultural marketing and imports/exports of agricultural commodities.

The overall objective of agricultural marketing in a developing country like India is to help the primary producers viz. the farmers in getting the remunerative prices for their produce and to provide right type of goods at the right place, in the right quantity and quality at a right time and at right prices to the processors and/or ultimate consumers.

Pricing Strategies

The only time when price setting is not a problem is when you are a "price-taker" and have to set prices at the going rate, or else sell nothing at all. This normally only occurs under near-perfect market conditions, where products are almost identical. More usually, pricing decisions are among the most difficult that a business has to make. In considering these decisions it is important to distinguish between pricing strategy and tactics. Strategy is concerned with setting prices for the first time, either for a new product or for an existing product in a new market; tactics are about changing prices. Changes can be either self-initiated (to improve profitability or as a means of promotion) or in response to outside change (i.e. in costs or the prices of a competitor).



Pricing strategy should be an integral part of the market- positioning decision, which in turn depends, to a great extent, on your overall business development strategy and marketing plans. Companies usually do not set a single price, but rather a pricing structure that reflects variations in geographical demand' and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts, and other factors. As a result of discounts, allowances, and promotional support, a company rarely realizes the same profit from each unit of a product that it sells.

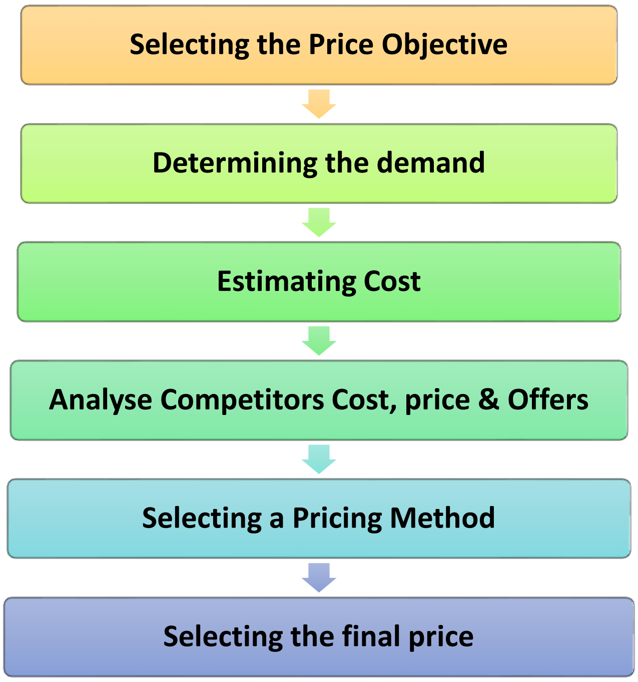
SETTING THE PRICE

Let us now attempt to understand the process of how firms set prices. When does a firm set prices? A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enter bids on new contract work. Is setting prices easy? It involves making a number of guesses about the future. You would want to know how, an organization should proceed:

1. Identify the target market segment for the product or service, and decide what share of it is desired and how quickly.
2. Establish the price range that would be acceptable to occupants of this segment. If this looks unpromising, it is still possible that consumers might be educated to accept higher price levels, though this may take time.
3. Examine the prices (and costs if possible) of potential or actual competitors.

4. Examine the range of possible prices within different combinations of the marketing mix (e.g. different levels of product quality or distribution methods).
5. Determine whether the product can be sold profitably at each price based upon anticipated sales levels (i.e. by calculating break-even point) and if so, whether these profits will meet strategic objectives for profitability.
6. If only a modest profit is expected it may be below the threshold figure demanded by an organization for all its activities. In these circumstances, it may be necessary to modify product specifications downwards until costs are reduced sufficiently to produce the desired profit.

An organization goes through the following steps in setting its pricing policy



Session	Financial Management in FPOs
XII	

The last part of the business planning process is the preparation of the financial plan. It is based on the marketing plan. Here, we will try to understand the following:

A. Concepts of finance	B. Financial Analysis	C. Sensitivity Analysis
• Budget and its importance • Fixed and Variable costs • Working Capital	• Break-even sales and BE Analysis • Net Present Value • Internal Rate of Return • Cash Flow Statement	• Acid test ratio • Debt service coverage ratio

What is a 'Budget'?

For any entrepreneur or business, 'budget' is the ultimate tool with which to monitor and keep a control over the business. A budget is a forecast of all cash sources and expenditures. Budgets help to determine how much money you have, where to use it, and whether you can achieve your financial targets. It shows the flow of money into, through and out of the business. The three basic elements of a budget are:

- Sales revenue
- Costs, and
- Profits

⇒ **Sales revenue**: Sales revenues are the key figures in any budget. One has to estimate the sales revenues that would accrue to the business as accurately as possible. These should be based upon the past sales records or the industry averages. Once the sales targets have been fixed (as accurately as possible), then the necessary costs can be estimated which would help in realizing the sales revenues.

⇒ **Costs:** Estimating costs in any business is a complicated procedure. Small changes in the assumptions on which the costs are estimated can render the whole budgeting exercise futile. Costs are of two types – ones that change with volumes of sales and ones that do not change. These are called variable costs and fixed costs, respectively.

- **Variable costs:** Variable costs are those that change directly with the sales volumes or with the size of the business. For example the cost of inventory or raw material is a variable cost. The more you sell, the more raw material you have to purchase and vice-versa. Suppose you are in the business of aggregating the agriculture produces and sell it in the bigger market. The more number of farmers you add to aggregate produce, the more you have to spend on procurement, grading, transportation, etc.

- **Fixed costs**: Fixed costs are those which remain unaffected by the sales volumes. This means that you have to incur them, no matter how much is the sales volume. Rent or certain number of staff hired for the business are good example of fixed costs.

⇒ **Profits:** For any business to be viable in the long run, the sales revenues must always be greater than the costs. This difference in the sales and the costs is called profit. Simply put,

Sales – Costs = Profits or in other words:

Sales = Costs + Profits

This means that one should target the sales to be of such a volume that it covers all the costs and also have a reasonable amount of profits which is at least equal to the benchmarked Return on Investment

What is working capital?

Working capital is the difference between a business' current assets and its current liabilities. In simple terms working capital is the amount of money required by a business to cover its short term liabilities. Working capital includes:

- Cash
- Marketable securities
- Accounts receivables
- Inventories
- Accounts payable, and
- Wages/ salaries and taxes

Since any firm or business has about 40% of its capital tied up in current assets, decisions regarding working capital greatly impact business success.

How to prepare a Budget?

To prepare a good budget, the following three questions should be answered:

⇒ ***How much net profit (i.e. sales minus costs) do I want the FPO business to make in the financial year?***
⇒ ***How much it will cost (both fixed and variable costs) to generate that profit?***
⇒ ***How much sales revenue is necessary to support both profit and costs?***

Based upon the answers of the above three questions, the budget can be prepared.

Breakeven analysis

The most commonly used budgeting statement is the "breakeven analysis". In simple terms, this means that one has to find out using the above three answers what should be the sales revenues so that all the costs incurred in the business are recovered. This volume of sales is called the breakeven sales or the breakeven point. The fixed costs that must be recovered from the sales revenues after the deduction of variable costs determines the sales volume required to breakeven. This also means that any amount of sales after this would result in profits for the business. At breakeven point, the total variable costs plus the fixed costs is equal to the total sales revenue. This can be expressed as:

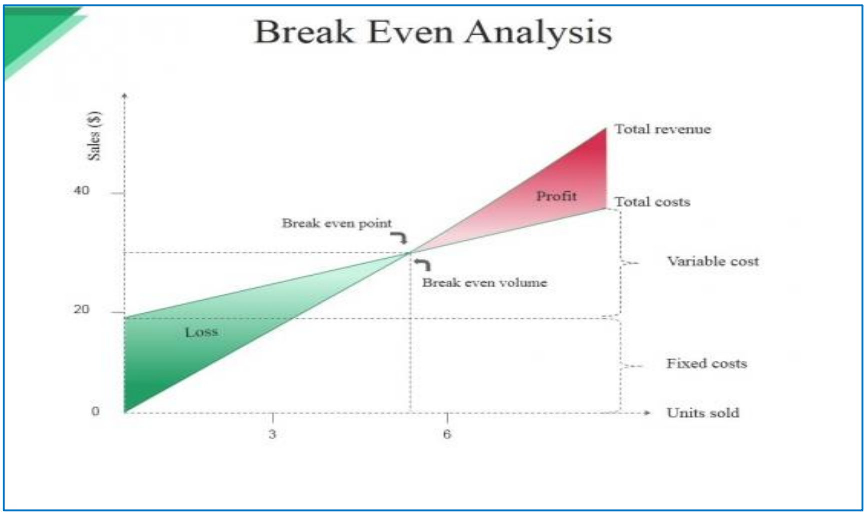
$$F + V(X) = P(X)$$

Where, F = Fixed costs,

V = Variable costs/ unit

X = Volume of output (in units)

P = Price per unit



Let us take a simple example to illustrate the above concepts.

⇒ *A FPO wants to sell agriculture produce (gram). The purchase price of gram from the farmers is Rs. 3000/- per quintal. Its overall fixed costs per annum is Rs. 1,00,000/- (which includes rentals, salaries, communication, promotion, etc.). Additional variable cost per quintal of produce works out to Rs. 250/- per quintal (which including transportation, waste, insurance, etc.). The sale price of gram in open market is Rs. 3,600/Qtl. How much volume of business the FPO is required to do to breakeven?*

What would be the breakeven sales for FPO?

Assuming that the breakeven sales is Vb, the breakeven sales for FPO would be:

3600 x Vb – 100000 – (3000+250) x Vb = 0
350 Vb = 100000
Vb = 285.714
This means that FPO will have to sell more than 286 quintals of gram in one year to break even.

⇒ **Now if the FPO also wants to recover the depreciation cost of its machinery (grading plant, generators, etc.) which works out to Rs. 10,000 per month and targets a profit of Rs. 140,000/-during the year, then what quantity of gram he should sell?**

Total sales – Total costs = (Rs.10,000 x 12) + Rs.140,000 =Rs 2,60,000
Applying the same formula:
3600 x Vb – 100000 – (3000+250) x Vb = 2,60,000
350 x Vb = 3,60,000
Vb = 1028.57
This indicates that in order to earn a profit and depreciation cost, the FPO has to sell more than 1029 quintals of gram during the year provided the assumption undertaken holds true during the entire year.

Sources of finance

In simple terms, ways and means to raise the capital or money required to be invested in a business is called 'financing'. There are four basic but different ways to raise capital or funds for investing in any business. These are:

- ✓ **Personal financing**: This is the money that FPO has ready access to and the FPO does not have to pay any interest on. It may be sourced from the reserve and surpluses from the previous years. This is the easiest (but not the best) way to finance the business. However, in case of a new FPO this opportunity will not be there.
- ✓ **Credit capital**: Credit capital can be obtained from credit institutions or from potential buyers who give a grace period before the amount is due or charge interest on it. The producers who sell their products to the FPO would not hesitate in giving credit period to the FPO, if convinced about the soundness of the business idea. On the other hand the FPO can get part payment in advance from prospective buyers of certain agriculture produce that FPO has made a deal to supply. It can get agriculture inputs from the Agro dealers on the conditions of payment after sales. But mostly this type of finance is not available for start-up businesses or a new venture.

- ✓ **Equity financing**: Equity financing does not require the business to directly repay the money lent or invested by the investors. In case of FPO the equity comes from the members and no external financier can participate in the equity investment. Being a small producer's organisation, the equity contribution is generally less and therefore it cannot contribute significantly to the total fund required of a FPO.
- ✓ **Debt financing**: This is the most preferred way of financing a new business. Here it is a direct obligation to pay the interest on the money lent by the financier. The biggest advantage is that the financier does not have control over the business as opposed to equity financing. The important point to be noted in this is the rate of interest is charged on the money lent. However, it is not easy to raise debt financing for a producer company without collateral.
- ✓ **Grant support**: The FPO being a small holder's organization may seek working capital support from the Government under certain government schemes and also from other development agencies.

Cash Budgeting Method

Cash budgeting is done for a year, with month to month cash flows being taken up for analysis. Information required (to be called for from the borrower) is as follows:

1. Balance sheet for the previous financial year (In case of existing FPO)
2. Projected balance sheet for the budget year
3. Projected profit and loss account for the budget year
4. Estimate of monthly sales and purchases
5. Estimate of monthly expenses and incomes other than from purchases and sales
6. Seasonality factors in the business, if any

From this information, the cash flow is computed as follows:

A	**Cash inflow**	Opening cash/bank balance (+) amount of receivables at the beginning of the month (+) sales (-) amount of receivables at the close of the month
B	**Cash Outflow**	Payments made for raw materials /consumables (opening trade credits (+) purchases (-) trade credits at the end of the month); payment made to fixed asset suppliers, payment of interest; Payment of tax; payment towards other expenses such as labour, utilities, etc.; closing cash balance
A - B	**Difference**	Indicate period when the business is short of cash and to what extent it requires funding

Cash Flow Statement

Cash flow statements show cash inflow and outflow over a period of time and are used for internal planning. If it is an established business, worksheets can be put together from the actual figures of income and expenses of previous years combined with projected changes for the next period. If it is a new venture, one will have to project the financial requirements and disbursements. The profit at the end of the year will depend on the proper balance between cash inflow and outflow. The cash flow statement identifies:

- ✓ When cash is expected to be received?
- ✓ How much cash will be received?
- ✓ When cash must be spent to pay bills and debts.
- ✓ How much cash will be needed to pay expenses?

It also allows the Manager to identify the source of necessary cash, i.e., will it come from sales and services rendered or should it be borrowed? One has to make sure that the projections take into account receivables and how long it will take the customers to pay. The cash flow statement deals only with actual cash transactions and not with depreciation or other non-cash expense items.

A cash flow statement can be prepared for any period of time. It should be prepared on a monthly basis for the next year and revised not less than quarterly to reflect actual performance in the preceding three months of operations.

Preparing Cash Flow Statement

The vertical columns of a cash flow statement represent the twelve months, preceded by a total column. Horizontal rows on the statement contain figures for the sources of cash and cash to be paid out copied from the two previous worksheets and from individual budgets.

The figures are projected for each month, reflecting the flow of cash in and out of the business for a one-year period. Begin with the first month of the business cycle and proceed as follows:

- ✓ Project the beginning cash balance. Enter under the first month of the business cycle.
- ✓ Project the cash receipts for the first month.
- ✓ Add beginning cash balance and cash receipts to determine total cash available.
- ✓ Project the direct, indirect and interest expenses for the first month.
- ✓ Project monies due on taxes, long-term assets and loan repayments. Also project any amounts to be drawn by owners.
- ✓ Total all expenses and draws. This is total cash paid out.

- ✓ Subtract total cash paid out from total cash available. Enter the result under cash balance/deficiency. If the result is negative, be sure to bracket this figure.
- ✓ Project loans to be received and equity deposits to be made. Add to cash balance/ deficiency to get ending cash balance.
- ✓ Carry forward the ending cash balance for January as February's beginning cash balance.
- ✓ Repeat the process through the last month of the business cycle.

To complete the total column, proceed as follows:

- ✓ Enter the beginning cash balance for the first month in the first space of the total column.
- ✓ Add the monthly figures for each category horizontally and enter the result in the corresponding total category.
- ✓ Compute the total column in the same manner as each of the individual months. If you have been accurate in your computations, the December ending cash balance will be exactly the same as the total ending cash balance.

What is Net Present Value (or NPV)?

Present Value or PV is a method to calculate what would be the value of a future cash flow if it were to happen today. Here a discount rate (similar to interest rate) is used to calculate the PV. An interest rate looks forward in time. It represents what someone expects to earn in the future. A discount rate serves the same function, except that it works backwards in time, taking a future cash flow and giving it a value today. The Present value is calculated in the following manner:

PV = A / (1+D)T

Where A = Amount expected,

D = Discount rate, and

T = Time (in years)

If PC-A were to earn Rs. 10,000 in 1 year from today, its present value given a discount rate of 12% would be: PV = Rs. 8928.57. This means that if PC-A were to earn Rs 8928.57 today, it would be equivalent to getting (cash inflow) Rs 10000 in the next year. Please note that it would also mean that if PC-A were to give Rs. 10000 next year (cash outflow), it would be equivalent to giving Rs. 8928.57 today. Similarly, if PC-A were to give Rs1000 in two years' time from now, its present value would be Rs 7971.94.

The Net Present Value or NPV is the sum total of present values of such cash outflows or inflows over a period of time. This is used when calculating the present worth of future investments or cash inflows or instalment payments. The formula is as follows:

NPV = A1/(1+D/100)1 + A2/(1+D/100)2 + A3/(1+D/100)3 + …….. + An/(1+D/100)n

Where, A1, A2, A3, …., An are the cash flows expected in 1, 2, 3, and nth year respectively and D is the discount rate.

Theoretically, the net present value of a future stream of cash flows (outgoing and incoming) must be positive to justify an investment. In other words, if a project is worth more than it costs (outflows are less than the inflows), its NPV will be positive.

In the example below the NPV has been calculated on three different marketing strategies generating three different cash flow although total cash flow is the same. In such case, a net present value analysis would help the PC-A to compare among the three choices.

Cash flow-I

Year	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (12%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	(9338)
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	13944
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	16500	6467

Please note that the outgoing cash (in Year zero) is always shown as a negative, as it is an investment. Looking at these three choices, only two strategies (B & C) have a positive NPV at a 12% discount rate while the third (Strategy A) is negative. This means that even if the three strategies would cost the same (the sum total of all the three cash flows is Rs 1,65,000), the net present value of these is different and the Strategy with the best NPV (Strategy B in this case) should be normally selected over the other two.

Now if the discount rate changes, the NPV would also change. For example if the discount rate is lowered from 12% to 8%, the resulting NPV would be:

Cash flow-II

Year	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (8%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	(61704)
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	(81460)
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	16500	(75060)

Now all the three strategies yield positive net present values. Now if the discount rate changes to 16%, then NPV for the same streams of cash flow would yield the following result:

Cash flow-III

Year	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (16%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	(57472)
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	(32732)
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	16500	(40633)

In this case all of the three strategies yield negative NPV and hence do not appear attractive. This exercise demonstrates that in financial analysis, and especially in net present value (NPV) analysis, the choice of discount rate is crucial. However for investments, analysis only on the basis of NPV may lead to faulty outcome and decision as its result hinges crucially on the discount rate adopted. Calculation of discount rate is complicated and requires expert advice.

Is there another, easier and a surer method to compare different cash flow streams? Yes, another technique called the Internal Rate of Return or IRR – is used for project analysis or the comparison of cash flow alternatives without having a specific discount rate.

What is an Internal Rate of Return?

An internal rate of return calculation allows you to determine the interest rate that a business will earn on the original amount of capital invested and the expected future cash inflows. In other words it provides the discount rate that a business produces rather than applying a discount rate determined from outside the business. It is calculated by equating the present value of expected cash outflows with the present value of expected inflows. Mathematically it may be represented as:

A0 = A1/(1+R/100)1 + A2/(1+R/100)2 + A3/(1+R/100)3 + …….. + An/(1+R/100)n

Where A0 is the initial investment and A1, A2, A3, …., An are the cash flows expected in 1, 2, 3, and nth year respectively and R is the Rate or Internal Rate of Return. The Internal Rate of Return – IRR – Requires a computer for calculation.

- ✓ On computer MS Excel programme:
- ✓ Enter cash flows in cells
- ✓ Open f*
- ✓ Choose Financial
- ✓ Choose IRR

- ✓ "OK"
- ✓ Highlight values from Year 0 to Year n
- ✓ "OK"

In our example of PC-A's expected cash inflows from the three strategies, the IRR as calculated with the help of computer is as follows:

Calculation of IRR

Strategy	IRR
Strategy A	7.74%
Strategy B	9.29%
Strategy C	8.73%

What do these values mean? Or what should be the acceptance criteria?

Here PC-A will have to compare the IRR from the three strategies with the required rate of return. If the IRR is more than the required rate of return, then the proposal would be accepted. For example, if the required rate of return is 12% then the IRR has to be equal to or more than 12% for consideration.

Sensitivity analysis: After having learnt all these concepts, how can we evaluate the performance of PC-A's business? One of the measurements of the financial condition and performance of a business venture is a ratio or index, which relates to pieces of financial data from the business. There are several indices which can be used, here we would be discussing only two of the most commonly used ones, namely, Acid Test Ratio and Debt Service Ratio.

- ⇒ **Acid test ratio:** Acid Test Ratio or Quick Ratio is the measure of the ability of the firm to be able to meet short-term obligations. This is a ratio of the current assets of the firm to its current liabilities. The current assets include cash and bank balance, short-term marketable securities and debtors/receivables. It may be noted that the inventories already lying with the firm are not included in the current assets. This ratio is the best available measures of the liquidity position of a firm. Usually an acid test ratio of 1:1 is considered satisfactory as a firm can quickly meet all its current or short-term liabilities.

- ⇒ **Debt Service Coverage:** While acid test ratio is a measure of the ability of a firm to pay off its current liabilities, the Debt Service coverage ratio is a measure of the firm's ability to meet long-term obligations. This ratio is expressed as the amount a project pays (or proposes to pay) each year for principal and interest on the debt/loan; that is, the amount of debt service to be paid when compared with the funds available to pay that debt service.

If PC-A's income is Rs 100,000 and its operating expenses are Rs 50,000 it has Rs 50,000 available to pay principal and interest on loans (debt service). If the PC borrows Rs 1,50,000 for 10 years at 16% interest with equal payments every year, its obligation is Rs 31,035. When compared to the Rs 50,000 available for debt service the project has what is called a 1.6 times debt service coverage or debt service coverage ratio or DSCR (arrived at by dividing Rs 50,000 by Rs 31,035).

In real life however, the projects do not have such uniform debt service coverage calculations. For this reason we must look at what is called Average Debt Service Coverage (the sum of all the year's available amounts divided by the sum of all the debt service payments) and examine the coverage ratios of each year. We should then focus on the years when the debt service coverage is the lowest as well as the average DSCR.

Why is the debt service coverage ratio important and how are they used?

DSCR is important because they tell a lender what excess funds exists in the event revenues or expenses are less or greater than estimated in a project. Most lenders have a specific cut-off ratio that must be met for both average and lowest year debt service coverage. If a business cannot meet these tests then the options with the borrower could be:

- ✓ Lowering the amount to be borrowed (and increasing the amount of equity that needs to be put in a project).
- ✓ Setting up reserves or credit agreements to pay the shortfall amount in the specific year.

Essentially Debt Service Coverage calculations determine how much debt a project can afford. Combined with IRR, these two tools assist the entrepreneur to determine the business viability.

<u>Various permissions and licenses required for business operations</u>

Food Safety and Standards Authority of India (FSSAI)

The Food Safety and Standards Authority of India (FSSAI) has been established under Food Safety and Standards Act, 2006 which consolidates various acts & orders that have hitherto handled food related issues in various Ministries and Departments. FSSAI has been created for laying down science based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption.

The details of regulations may be accessed from their website www.fssai.gov.in. Some of these regulations are listed below:

a) FSS (Licensing and Registration of Food Business) Regulation, 2011
b) FSS (Packaging and Labelling) Regulation, 2011
c) FSS (Food Product Standards and Food Additives) Regulation, 2011
d) FSS (Contaminants, Toxins and Residues) Regulation, 2011
e) FSS (Prohibition and Restriction on Sales) Regulation, 2011

AGMARK: AGMARK is a certification mark employed on agricultural products in India, assuring that they conform to a set of standards approved by the Directorate of Marketing and Inspection, an agency of the Government of India. The present AGMARK standards cover quality guidelines for 205 different commodities spanning a variety of Pulses, Cereals, Essential Oils, Vegetable Oils, Fruits & Vegetables, and semi-processed products like Vermicelli.

Organic Certification: India Organic is a certification mark for organically produced food products manufactured in India. The certification mark certifies that an organic food product conforms to the National Standards for Organic Products established in 2000.

a) Those standards ensure that the product or the raw materials used in the product were grown through organic farming, without the use of chemical fertilizers, pesticides, or induced hormones. The certification is issued by testing centres accredited by the Agricultural and Processed Food Products Export Development Authority (APEDA) under the National Program for Organic Production of the Government of India.

b) Even though the standards are in effect since 2000, the certification scheme and hence the certification mark came into existence in 2002.

Food safety and standards (packaging and labelling) act of 2006: Packaged food products sold in India are required to be labelled with a mandatory mark in order to be distinguished between vegetarian and non-vegetarian. The symbol is in effect following the Food safety and standards (packaging and labelling) act of 2006, and got a mandatory status after the framing of the respective regulations (Food safety and standards (packaging and labelling) regulation in 2011. According to the law, vegetarian food should be identified by a green symbol and non-vegetarian food with a brown symbol.

Bureau of Indian Standards: The Bureau of Indian Standards, empowered through an Act of the Indian Parliament, known as the Bureau of Indian Standards Act, 1986, operates a product certification scheme by which it grants licences to manufacturers covering practically every industrial discipline from Agriculture to Textiles to Electronics. The certification allows the licensees to use the popular ISI Mark, which has become synonymous with Quality products for the Indian and neighbouring markets over the last more than 55 years. The Bureau's predecessor, the Indian Standards Institution began operating the product certification Scheme in 1955.

Hazard Analysis and Critical Control Point (HACCP): Hazard Analysis and Critical Control Point (HACCP) is a process control system designed to identify and prevent microbial and other hazards in food production. It includes steps designed to prevent problems before they occur and to correct deviations as soon as they are detected. Such preventive control system with documentation and verification are widely recognized by scientific authorities and international organizations as the most effective approach available for producing safe food.

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Bankers Institute of Rural Development (BIRD), Lucknow is an autonomous institute promoted by National Bank for Agriculture and Rural Development, the Development Bank of the country. It is a premier institute for providing training research and consultancy services in the field of agriculture and rural development banking in India and abroad. The Institute was established in 1983, for addressing the capacity building needs of stakeholders. BIRD, Lucknow is an ISO 9001: 2015 certified training Institute

Clients

All Banks, Government agencies, MFIs, NBFCs, Financial Sector, NGOs and Civil Societies.

Coverage (Training, Consultancy, Research)

Project Lending-Agriculture and MSME, Climate Finance, Rural Banking, Farmer Producer Organization, Micro Finance, Human Resource, Financial Inclusion, Training of Trainers, Executive Development, Management Development Programme, IT based Banking, Green Finance, Responsible CSR, Group approach to Development, Women Empowerment, Organizational Development, Investment & Treasury Management, Risk Management.

Faculty

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