ADVANCE MODULE-05

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

Governance & Management

under
Central Sector Scheme on Formation & Promotion of 10000 FPOs

NABARD

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Chapter 1: Creating Member Driven FPOs

Modern agriculture is a complex, unpredictable and individual business. In the given context of continued reduction in landholding size, a farmer is facing challenges like availability of quantities of quality inputs in a timely manner, adoption of modern technology for productivity enhancement, managing the post-harvest losses and getting right price for its produce to make farming a viable enterprise. Farmer Producer Organizations (FPO) are emerging as effective mean to cater to these needs of farmers, particularly Small and Marginal Farmers (SMF) at the grassroots level. Problems faced by SMFs can be mitigated to a large extend by organising them into FPOs as a business entity.

In general, farmers have skill and expertise in agriculture production but generally need support for improving the productivity and marketing of what they produce. FPOs can enable them to reap the benefits of economics of scale access as also timeliness and adequacy of supply of quality inputs and undertaking collective marketing of their produce through better linkages with different markets. In addition, farmers together as members of FPO can also take over the responsibility of any one or more activities in the value chain of the produce right from supply of quality inputs, making available the required technology, procurement of raw material to delivery of the final product at the ultimate consumers' doorstep.

Uniqueness of the FPO model: When compared to a normal corporate enterprise, the FPO as an organisation is different in a sense that these organisations are '*Of the farmers - Managed by the farmers - For the farmers'*. Thus, the owners, managers and customers are same. This position FPOs differently as compared to others both in terms of advantages and disadvantages. The advantages in terms of using economies of scale from an aggregation model can be maximised with enhanced membership base. Thus, a robust and higher revenue business model would require not only increase in membership but increased member engagement, member retention, attendance, etc.

Importance of membership in FPOs:

The number of members in an FPO and how well they participate in the FPO's activities determines

the FPO's Viability and the FPO's Sustainability

For the viability and sustainability of FPO, it is important that FPO has a reasonable membership base and the FPO is able to retain them by offering required services, as members are also the customers of the FPO

How can this happen?

In community mobilisation for FPOs formation 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

Effective Community Mobilisation

i	Awareness creation in the identified cluster about the concept of FPO	- In rural areas, community level meeting is the best platform for adding new members - Conducting series of meetings with the potential farmers, building rapport and introducing the concept of FPO - Along with socio-economic benefits, it is important to share the probable risks and their implications with the potential share holders
ii	Discussing issues of farmers and probable solutions based on the feasibility study findings in the cluster area	- Detailed discussions on the issues faced by the farmers and obtaining their perspective. Concept of FPO and probable benefits to be highlighted in such meeting
iii	Involvement of influential people and opinion maker of the target area - PRI members, progressive farmers, bank officials, successful SHG members, Government officials, etc.	- All issues faced by the farmers cannot be resolved by the farmers/FPOs, thus, involvement of other influential functionaries becomes utmost important as problem solvers and influencers to become members of the FPO - Stakeholders like banks, line departments, successful SHGs, etc. in such meeting can act as motivators of farmers to become members of FPO
iv	Experience sharing by successful FPO members	- Generally, farmers connect with each other easily - Experiential learning from successful FPO members is a very effective strategy
v	Exposure visit to a vibrant FPO in the nearby area	- Exposure visit to successful nearby FPO further strengthens their understanding.

Likely challenges being faced by FPOs and how to overcome them:

- Difficulty in mobilising enough members
- Limited organisational and management skills
- Limited participation in value chains
- Inability of FPOs to access institutional credit

1. Mobilising Members for the FPO

- The local social fabric, economic constraints of farmers, inability to conceptualise what an FPO can achieve, even negative experience of past attempts at collectivising – creates initial challenges to mobilising farmers.
- Therefore, those who are organising farmers must cover an extra mile - educating farmers about the usefulness of the FPO concept and providing required assurance for their active participation.
- The threshold numbers of active members important to get the desired results as the basic essence of the concept is to take advantage of economies of scale.
- The first steps in organising farmers is one of the most crucial stages as the further progress and stability of group largely depends on initials members of the group.
- A strategy in this regard could be to encourage formation of small homogenous informal groups (Farmers Interest Groups – FIG) so that they can learn more quickly and gel together on account of similar interests and backgrounds.
- Assist the farmers in identifying areas for group action and setting up of objectives. Frequent meetings must be encouraged in the initial stage of group formation.
- Ensure leadership development to avoid too much dependency on a single individual.

2. Limitations in organisational and management skills

- The BoDs/leaders of FPOs have limited entrepreneurship and business management skills – as managing FPOs is quite complex.
- Helping farmers evolve from growers to agripreneurs would require equipping them with required knowledge and skill thorough capacity building, training, exposure and graduated experience.

3. Inability of FPOs to access institutional credit

- As an organisation, during the initial phase, the FPOs find it extremely difficult to access institutional credit due to:
    - lack of collaterals
    - understanding of system and procedures for availing credit
- Having more members increases the ability of an FPO to build up own funds through shares and increase business of the FPO.

4. Limited participation in value chains (Processing/ storage/ hiring facilities, etc.)

- Initially FPOs often experience difficulties in establishing necessary infrastructure facilities to complement their business activities due to limited access to
  - equity
  - institutional funds
- FPOs can increase their participation in more stages of a value chain – through accessing various special funds available to FPOs. See Annexe 2 for the Equity Grant Scheme of the Small-Farmers Agribusiness Consortium (SFAC).

More members more Equity

More Equity more Zero Cost Funds for Undertaking business Activities

As per an Exploratory Study of FPOs in Maharashtra by CAB, Pune
Some desirable points for consideration

- Consider FPO for farmers having their lands in contiguous micro-watersheds to address the issues relating to sustainability.
- The FPO may cover generally one or two contiguous Gram Panchayats for ease of management.
- The scope of the FPO should be defined in such a way that there shall be good number of crops to be grown to maintain the soil health, support for allied activities like dairy, nutritional security of the local people and to mitigate risk. The purpose of the FPO at all times must be to serve the larger needs of the community and the ownership of the FPO should always rest with all its members
- The productive land under an FPO may be around 4,000 ha and the number of farmer producers that need to be covered may be around 700 to 1,000.
- The cost of managing a FPO of the above nature may be around Rs. 2 lakh/month or Rs. 24 lakh/annum. The total value of the produce of the farmers/non-farmers handled by the FPO may be around Rs. 2.5 crore, assuming that approx. 10% of the total turnover may be spent towards cost of management.
- Further, the markets selected for the FPO for selling their produce may be within 200 KM to make their marketing activities viable.
- The secret to sustainability of FPO depends on comprehensive engagement of the FPO with their members throughout the year.
- The management of the FPO should take into account the incubation of the local youth in such a way that in a few years' time, say in 3-7 years, local youth should be able to take over and manage the FPO effectively.

Annexe 1: Optimal size (No. of Members) of an FPO

As per various sections of the Companies (Amendment) Act, 2020, Chapter XXI A

- 378C (1) - Any ten or more individuals, each of them being a producer or any two or more Producer Institutions, or a combination of ten or more individuals and Producer Institutions, desirous of forming a Producer Company having its objects specified in section 378B and otherwise complying with the requirements of this Chapter and the provisions of this Act in respect of registration, may form an incorporated company as a Producer Company under this Act
- 378D (1)(a) In a case where the membership consists solely of individual Members, the voting rights shall be based on a single vote for every Member, irrespective of his shareholding or patronage of the Producer Company
- 378D (1)(c) In a case where the membership consists of individuals and Producer Institutions, the voting rights shall be computed on the basis of a single vote for every Member
  - As per clause (5) of the section 581C of Co. Act, 1956, the Producer Company shall become a body corporate as if it is a Pvt. Co. without any limit to the number of members
  - One of the condition for participating in Equity Grant Scheme of SFAC is that the number of shareholders should not be less than 50 and paid-up equity does not exceed Rs. 30 lakh
  - Under 10000 FPO program, the minimum members to be 300 in plain areas and 100 in Hilly areas and NER for individual FPO with overall avg. of 500 and 200

Annexe 2: Facilitation for enhanced member base through Equity Grant Scheme of the SFAC

- FPOs are allowed to draw the Equity Grant in a maximum of 2 tranches within a period of 3 years of the first application subject to the cap of Rs. 15.00 lakh per FPO
- Third tranche shall as a special case be allowed to only those FPOs who have already availed second tranche within a period of 3 years subject to the cap of Rs. 15.00 lakh per FPO in order to provide them equal opportunity

S. No	Eligibility for the Equity Grant Scheme
1	It is a duly registered FPC under Part IX of Company's Act, 1956
2	It has raised equity from its Members as laid down in its Articles of Association
3	The number of its individual shareholders is not lower than 50
4	Its paid up equity does not exceed Rs. 30 lakh
5	Minimum 33% of its shareholders are small marginal and landless tenant farmers
6	Maximum shareholding by any one member other than an institutional member is not more that 5% of total equity of the FPC
7	It has a duly elected Board of Directors (BoD) with a minimum of five members, with adequate representation from member farmers and minimum one woman member
8	It has a duly constituted Management Committee responsible for the business of the FPC
9	It has a business plan and budget for next 18 months that is based on a sustainable, revenue model as may be determined by the implementing Agency
10	The FPO has an Account with a "Bank"

Post Disbursement Compliance

- List of additional shares issued by FPO to shareholders to be shared along with the respective Folio Numbers, verified and certified by a CA within 45 days of the funds of receipt of funds
- If the FPO does not honour its commitment in any manner whatsoever, either in the matter of issuing shares or in notifying within the specified time limit, the Equity Grant amount sanctioned and released is liable to be cancelled and recalled

Annexe 3: All Strength Lies Within You (A Case Study)

Mr. Kallanagouda Mugannavar has taken the charge of the Noolvi Primary Agriculture Credit Society (PACS), as its CEO. Going through the records, he observes that the society has been incurring losses since 2001-02. He is worried. Shri Durgappa, while crossing the PACS office, along with 3 other farmers, greeted Kallangouda by waiving his hand. He used to be a regular visitor to PACS office few years back, but now avails credit facilities from a local commercial bank branch. He is no more an active members of the society. Like Shri Durgappa, many other members of the society are not availing services from the society.

Noolvi Society situated in Hubballi Taluk of Dharwad (Karnataka) was established in 1956 covering Noolvi and Kotagondahunasi villages of Hubballi Taluka. The Society catered to the crop loan needs of the members.

Mr. Kallangouda, studied the business of the society and observed the following:

- The accumulated losses which were Rs. 2.17 lakh in 2001, increased to Rs.15.83 lakh in 2010.
- The number of active members (availing some credit/non-credit service from the society) was only 24% members (210 out of 850 members).
- The balance sheet size of the society was only Rs. 56.66 lakh (2010).
- The main source of funds included borrowing of Rs.27.73 lakh from the DCCB, Dharwad followed by share capital (Rs. 5.04 lakh) and member's pigmy deposit (Rs. 5.92 lakh). The Society had also received a grant assistance of Rs.6.54 lakh under the Vaidyanathan package.
- Total loans to members were just Rs. 27.7 lakh primarily consisting crop loan (74%).
- The Society was also engaged in providing ration under PDS, but would often run out of funds for the same and thus not able to provide service to its members.
- Continuously for last 10 years, the Society was rated as 'C' class in audit rating.

The reasons for losses

On exploring the reasons for loss of active membership, Mr. Kallangouda observed that the society has not being able to provide adequate services to its members leading to members becoming inactive over a period of time. Most of society members were now availing credit services from a nearby branch of Karnataka Gramin Vikas Bank. Only 210, out of 858 members, continued a business relationship with society now. For non-credit services, viz, fertilizers, tarpaulin sheets, spray pumps, etc., and for household items (edible oils, *agarbatti sticks,* soaps, candles, teapots, etc.) people go to local traders and private shops.

The path ahead

To bring back the society on the path of progress, he thought that first step should be to restore the confidence and trust of the society members and the only way for that was not only to provide of necessary required services to them but extending them in more efficient manner. His first task was to activate the members for availing services.

To win back the trust of inactive members, the society was required to provide credit and non-credit services for which funds were required. However, this was chicken and egg problem, the society could not provide services without mobilising deposits from members – members would not contribute capital without some services from the society. Kallanagouda needed to kick-start a tough virtuous business cycle.

Kick-starting the action

Though having understood the resolution process, desperation set in as time was running out until one day when Kallanagouda met an NGO representative in the office of NABARD. The NGO was involved in formation and promotion of SHGs. Mr Kallangouda shared that he also had some understanding on SHGs functioning and believed that they are an effective tool for social mobilisation and economic upliftment. On his request to go deeper into the SHGs, the NABARD DDM deputed him for training in Bengaluru for formation of SHGs. Moreover, in order to further sharpen his skills and understanding of cooperatives, he also undertook a 'Diploma in Cooperative Management' from Karnataka Institute of Cooperative Management.

SHG Business

Motivated by the deeper understanding of concept and strength of cooperatives, Sri Kallanagouda started forming SHGs in his village. He formed 20 SHGs in a span of 6 months with around 350 members. The SHGs were formed with a majority of women members and only a few male members. He then facilitated the saving linkage of SHG members with society and encouraged then to keep their savings with the Society.

During 2010-11, the first year of SHG formation, an amount of Rs.66,490 was deposited by the SHGs with the society. These SHGs deposits were used as working capital by the society to undertake the society's non-credit businesses viz. PDS shop, tarpaulins, fertilizers, etc. His continuous efforts to engage with society members started yielding results and the number of active members increased by 19% (from 210 to 250) during 2010-11. These results acted as a *sanjeevani (lifesaving drug)* for Sri Kallanagouda and his society.

During 2012-013, after observing the patterns of consistent savings and internal lending by SHGs, Sri Kallanagouda with the help of District Central Cooperative Bank (DCCB) facilitated loans to SHGs members at 6% ROI (getting loan at 4% from DCCB and extending loans to SHGs @6%). During first year Rs. 4.20 lakh was disbursed to SHGs. With prompt repayments, this became a regular loaning business of the society thereafter. Over a period of time, the deposits from SHGs to the society grew to Rs.10.72 lakhs by 2020-21, registering a CAGR of 32% from 2010-11 to 2020-21.

Joint Liability Group business

In 2013, Sri Kallanagouda was introduced to the concept of Joint Liability Groups (JLGs) in a training organised by NABARD. A JLG is an informal group comprising of 4-10 individuals who come together to borrow from banks as individuals or through group mechanism against mutual guarantee. Inspired by the concept, Kallanagouda started forming JLGs in Noolvi village and formed 15 JLGs with male farmers as members. During its first year of formation (2013-14), a decent amount of Rs. 27,600 was deposited with the society by the JLGs. Over a period of seven years, the JLG deposit grew to Rs.1.71 lakh by 2020-21, registering a CAGR of 30% since 2013-14.

Resource Generation for Business

- Fixed Deposits: Winning back the trust of the members of the society was a watershed moment for the society for deposit mobilisation. Members started depositing their surplus with society which improved the fund availability with the society and boosted the credit disbursement. The society mobilised deposits from members between 7-9% and lending to its members between 13-16%, considering various parameters, thus making a margin of 6-7%. The FDs portfolio of merely Rs.6,000 (2009-10) increased to Rs. 41,000 (2010-11), Rs. 1,41,000 (2011-12) and Rs. 7,01,000 (2012-13). This growth of deposits was happening parallel to SHGs business and the growth was further boosted by JLGs business (2013-14) resulting in outstanding of Rs. 16.92 lakh (2014-15). Overall, the members deposits grew from a meagre amount Rs.6,000 to Rs. 247.75 lakh by 2020-21, registering a CAGR of 90% over a period of 14 years and the fixed deposits of the members were 36% of the balance sheet liabilities of the society as on 31 March 2021, thus exhibiting the strong confidence and trust of members in the society's functioning.

- Savings, current, pigmy and recurring deposits
  In addition to deposits from SHGs, JLGs and fixed deposits from members, society also got significant amount of *pigmy* deposits and deposits under savings and current category from its members (*Pigmy deposit is a very small deposit on a daily basis, collected by a society representative at members' doorstep)*. The society also started recurring deposits scheme during 2018-19 and received a good response. The cumulative deposits under these other categories (savings, current, pigmy and recurring

deposit) grew from Rs.6.72 lakh to Rs.148.45 lakh at a CAGR of 27% during 2007-08 to 2020-21.

With the return of members into society fold, the active number of members increased many folds and so did the deposits with the society. The total deposits increased from Rs. 8.28 lakh to Rs. 410.55 lakh (from 2010-11 to 2020-21) registering a staggering CAGR of 45% over a period of 11 years.

- Loan from NABARD: During 2015-16, looking at the credit appetite and the past history of society, DDM NABARD facilitated a term loan of Rs.33.00 lakh to Noolvi PACS under PODF (Producers Organisation Development Fund) including a grant of 5% of total term loan amount. This amount was utilized by the society to provide various types of term loans to its members thus boosting the credit growth. The loan from NABARD under PODF has been fully repaid in 2021-22.

Enhanced business from improved resource base

With the increased availability of funds, the society expanded its business activities providing various types of loans to members including vehicle loans (a car loan to one of its members during 2020-21) and housing loans against mortgage of property to salaried people against the salary slips. The total loans provided by the society to its members (other than crop loans) increased from Rs. 39.90 Lakh to Rs.502.27 Lakh (from 2010-11 to 2020-21) registering a CAGR of 25% over a period of 10 years. In addition, Noolvi PACS has also made investment in share of other cooperatives, viz, KCCB Dharwad, IFFCO, cooperative textile mills, NAFED and has also purchased NSCs.

Repayment rate: the CEO, its directors and staff continuously involved in educating farmers and villagers about cooperative movement and its importance. All these efforts resulted in improved recovery rate, i.e., 100% under crop loans, > 97% under other Loans.

Non-credit services

- Society also observed that farmers were facing problem of availability of fertilizers at reasonable prices. The farmers used to purchase fertilizers from local shops/businessmen. At times artificial scarcity of fertilizers created by the local businessmen forced the farmers to pay exorbitant prices for fertilizers. To address the issue, society obtained the license from IIFCO and KRIBHCO during 2011-12 and started purchasing fertilizers directly and provided the same to its members at a reasonable rates (with a small margin of Rs. 10-20 per bag). This helped in bypassing 2-3 levels of middlemen, thus reducing the cost fertilizers and also ensuring timely availability of fertilizers to the farmers.
- Based on demand from members, Society started marketing tarpaulins sheets (plastic sheets used for covering harvested crops during rains) and insecticide spray pumps in bulk and making them available at farmers' doorstep at reasonable rates.
- The fertilizer business (800 MT/annum), tarpaulins and other farm equipment business generated a margin of 8 to 10 % resulting in an incremental profit of Rs.8.00 lakh

- Earlier, society used to provide food grains to villagers under Public Distribution System (PDS) but due to fund constraint the scale of operation was very limited. With increased availability of funds, the scale was improved (1901 cardholders) resulting in enhanced revenue from commission to the tune of Rs. 4 lakh/annum. *(Previously, the society was short of funds to purchase ration under PDS, but its President, Directors and other members supported the society in mobilisation of funds for PDS activities which is also a perfect example of belief in an organisation ability and capability).*
- As a part of business diversification, the society also started purchasing in bulk, various daily household consumer goods like soaps, candle, *agatbatti*, teapots, edible oil, etc. and sold them to members at very reasonable rates. Further, the society also sells e-stamps, bond papers, non-judicial stamp papers and provides copies of land documents to its members by retaining small margins.
- During 2018-19 and 2019-20 society established a purchase centre under Karnataka State Co-Operative Marketing Federation (KSCMF), Hubballi to purchase peanuts under Central Government's Minimum Supporting Price scheme and earned commission which added to society profit.
- Apart from business activities, the society also participates in social initiatives like promoting rainwater harvesting, organising health camps, eye camps, blood donation camps and honouring meritorious school students of village Noolvi with "Prathibha Puraskara" out of its profit. These initiatives reinforce and deepen the trust of the local community, leading to increased active membership and positive spill-over effect on the PACS's business.
- Revamped human resources: During 2009-10, when Sri Kallanagouda took charge as the CEO, there was only one staff member - a peon. With increased business over a period of time, today Noolvi PACS has seven staff members on its payroll, viz, CEO, accountant, cashier, computer operator, clerk, salesman and peon. Thus, in addition to providing credit facilities to its members, Noolvi PACS has also provided employment at local level. With increased professionalism and vibrancy in the functioning, a dress code has also been introduced which strengthens a sense of pride and professionalism in its employees and improves customer impressions and respect

Outcome

With these efforts and initiatives, society could wipe out its all accumulated losses and improved the audit category from C to B during 2016-17 and again improved the audit category from B to A during 2018-19. With profits on regular basis, the Society also has started distributing dividends to its members.

Way forward

On a strong financial health footing, with a dynamic leadership of CEO, members reposed faith, the society, not only increased its resources but was also able to diversify its business in both credit and non-credit areas. Now it plans to:

- Construct a godown cum office complex with an approx. cost of Rs. 80 lakh - sanctioned a term loan of Rs.70 lakh under AIF through DCCB

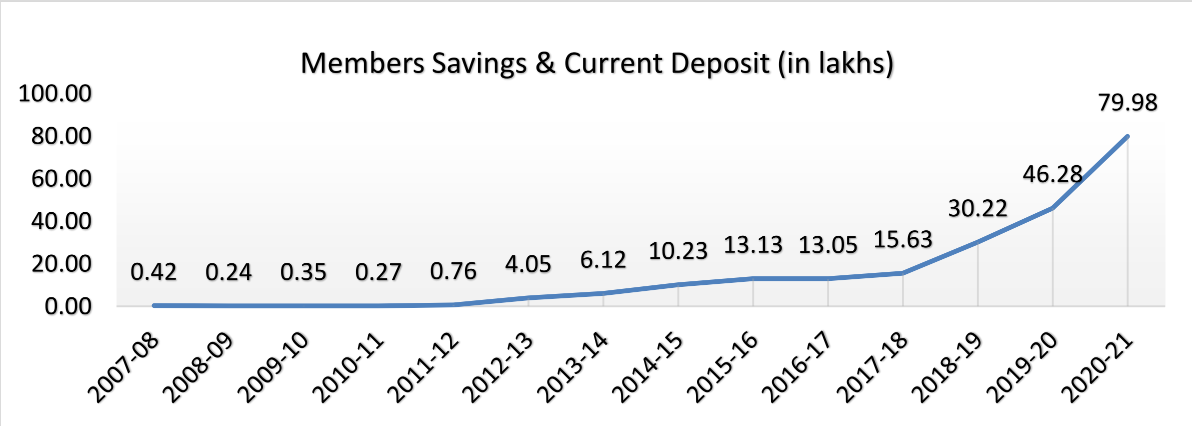
- Plans to start sales of food items and construction material
- Plans to start a manufacturing unit for Tarpaulin and plastic pipes
- SBI has offered to provide credit to meet its enhanced credit requirements

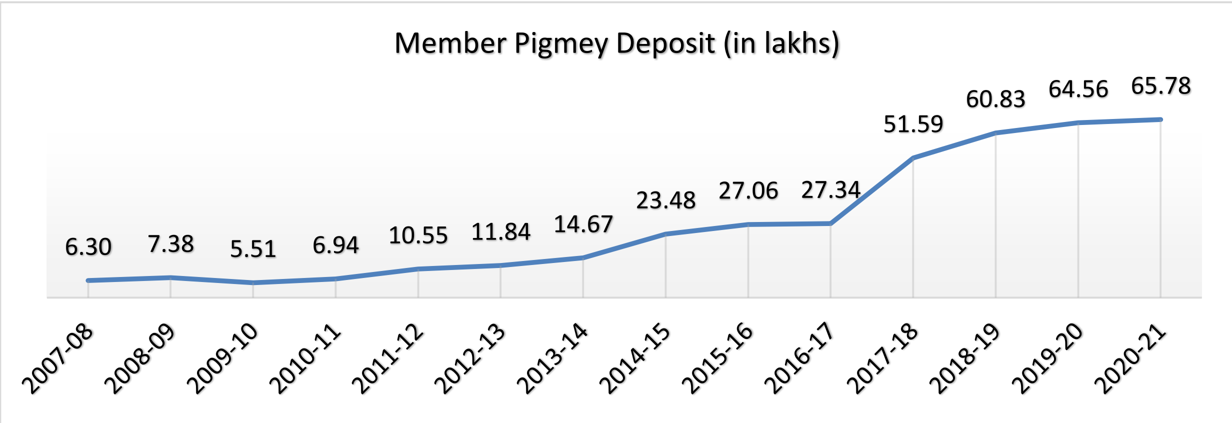
Information Sheet

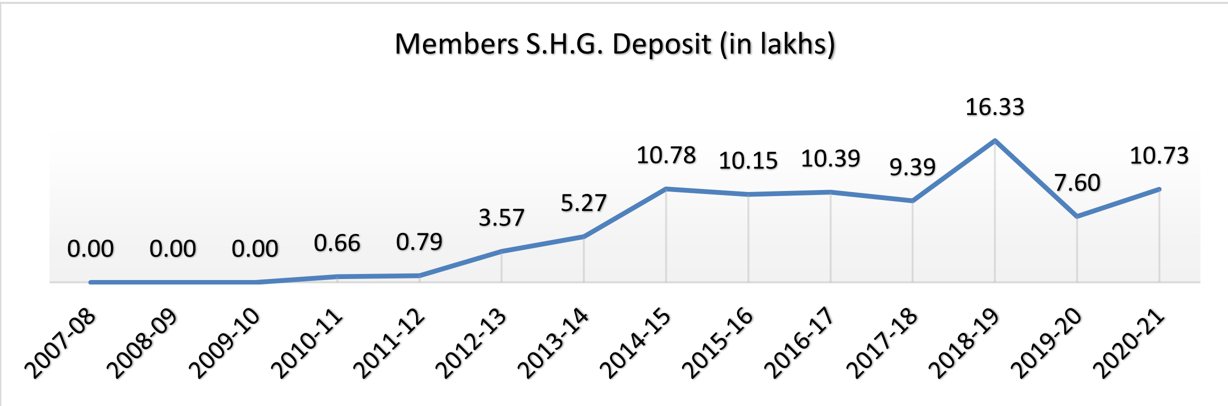
NOOLVI PACS - Year wise memberships, profit/loss, audit class, balance sheet size

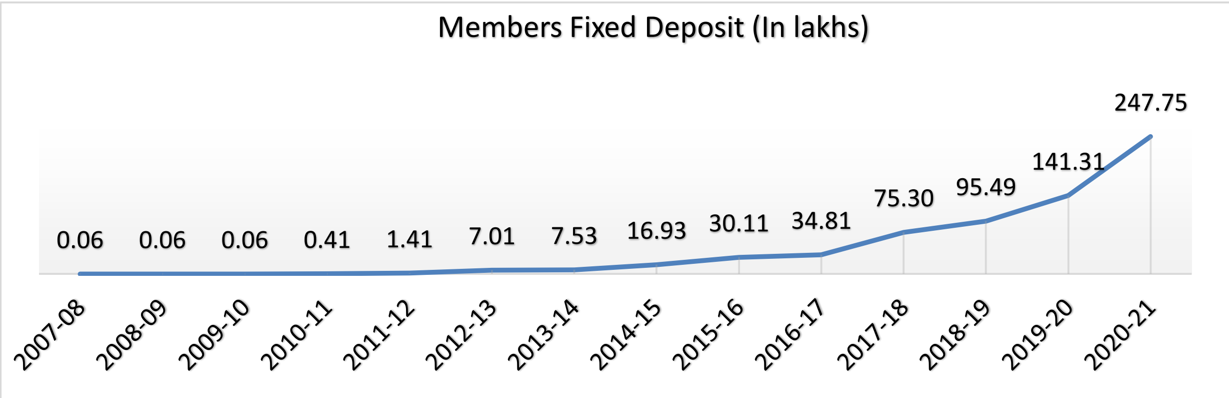
(Rs. Lakh)

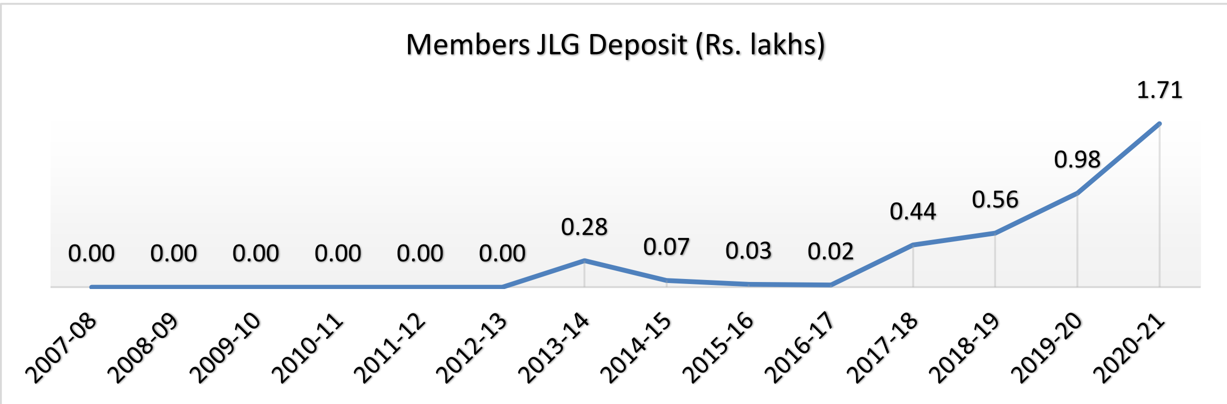
Year	Total Members (nos.)	Active Members (nos.)	Current Year Loss/profit	Allocation for fund and dividends	Profit/Loss	Audit Class	Balance sheet size
					-1.54		
2000-01	805		-0.63		-2.17	" C "	
2001-02	815		-1.00		-3.17	" C "	
2002-03	822		-1.79		-4.96	" C "	
2003-04	822		5.62		0.66	" C "	
2004-05	819		-3.04		-2.38	" C "	
2005-06	818		3.35		0.97	" C "	
2006-07	817		-3.93		-2.96	" C "	
2007-08	829	179	-3.38		-6.34	" C "	45.07
2008-09	838	190	-6.07		-12.41	" C "	50.63
2009-10	850	210	-3.42		-15.83	" C "	56.66
2010-11	857	250	-0.28		-16.11	" C "	74.21
2011-12	857	330	1.40		-14.71	" C "	96.00
2012-13	857	380	6.25		-8.46	" C "	121.52
2013-14	857	420	1.79		-6.67	" C "	102.59
2014-15	857	500	4.94		-1.73	" C "	156.20
2015-16	857	570	7.52		5.79	" C "	205.40
2016-17	857	680	4.16		9.95	" B "	224.80
2017-18	862	720	8.87	2.37	16.45	" B "	297.47
2018-19	918	780	9.26	7.57	18.14	" A "	351.05
2019-20	1019	902	25.02	8.86	34.30	" A "	485.02
2020-21	1070	983	14.51	9.26	39.55	" A "	688.56
CAGR		14%			27%		23%

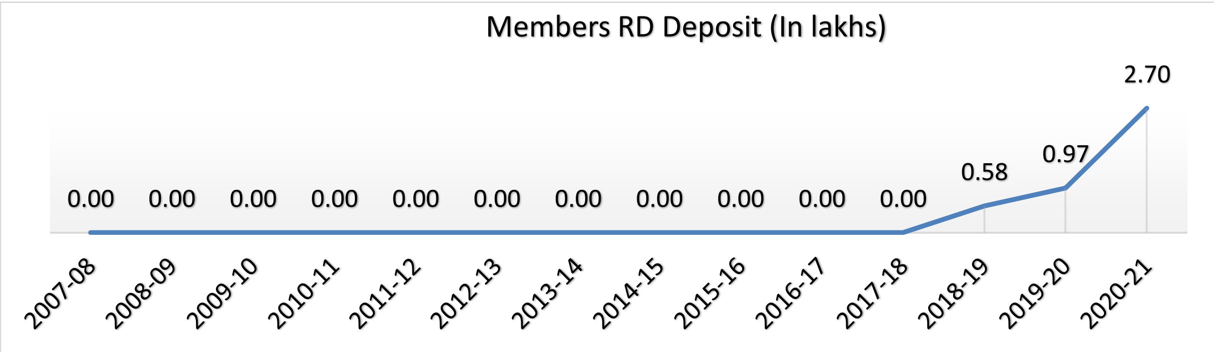

Members Savings & Current Deposit (in lakhs)
100.00
80.00
60.00
40.00
20.00
0.00
0.42
0.24
0.35
0.27
0.76
4.05
6.12
10.23
13.13
13.05
15.63
30.22
46.28
79.98
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21

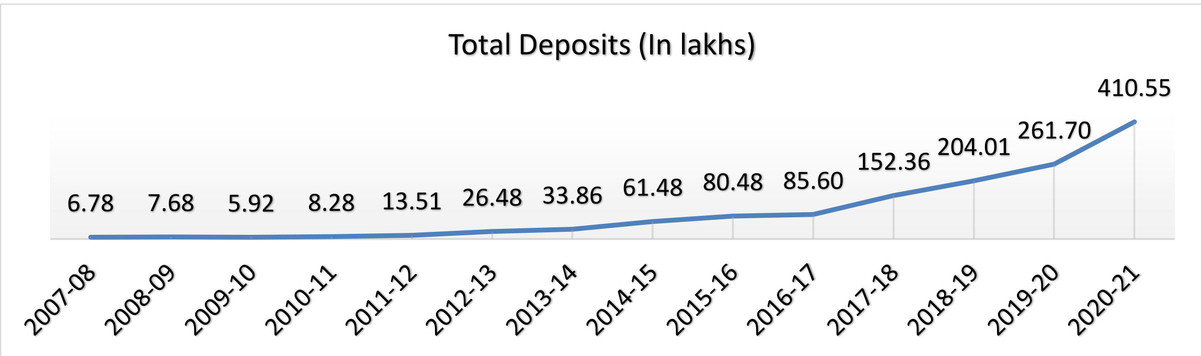

Member Pigmey Deposit (in lakhs)
6.30
7.38
5.51
6.94
10.55
11.84
14.67
23.48
27.06
27.34
51.59
60.83
64.56
65.78
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21


Members S.H.G. Deposit (in lakhs)
0.00
0.00
0.00
0.66
0.79
3.57
5.27
10.78
10.15
10.39
9.39
16.33
7.60
10.73
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21


Members Fixed Deposit (In lakhs)
0.06
0.06
0.06
0.41
1.41
7.01
7.53
16.93
30.11
34.81
75.30
95.49
141.31
247.75
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21


Members JLG Deposit (Rs. lakhs)
0.00
0.00
0.00
0.00
0.00
0.00
0.28
0.07
0.03
0.02
0.44
0.56
0.98
1.71
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21


Members RD Deposit (In lakhs)
0.00
0.00
0.00
0.00
0.00
0.00
0.00
0.00
0.00
0.00
0.00
0.58
0.97
2.70
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21


Total Deposits (In lakhs)
6.78
7.68
5.92
8.28
13.51
26.48
33.86
61.48
80.48
85.60
152.36
204.01
261.70
410.55
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21

Chapter 2: Challenges in Governance – Giving Shape to Ideals of Corporate Governance

Introduction

Farmers' Producer Organisations while being business entities are also member owned. This creates more challenges for governing the organisations. Some of them are elaborated in this chapter. Improving the Governance of FPOs is the primary role of the Board of Directors – who needs to coordinate with their staff and their FPO members to find the best ways forward.

A. Challenges faced by FPO Governance Systems

1. Ownership
2. Conflicting interests
3. Knowledge and professional skills
4. Lack of openness
5. Low financial literacy and business skill
6. Lack of clarity on role and responsibility
7. Gender barriers (poor involvement of women)

1. Ownership: Sometimes the Board of Directors of an FPO lacks ownership. One reason could be that BODs do not received sufficient incentives/payment for their role and responsibilities. They render their services to the company on honorary basis. This is an unreasonable expectation when directors belong to small and marginal farmers.
2. Lack of clarity on role and responsibility: Most of FPOs Directors may not have adequate clarity on their roles and responsibilities. Awareness is low on important aspects such as FPO's vision and mission, long term and annual objectives - corporate strategies and financial plans, statutory compliances - audit, conducting and importance of various meetings (Board meeting, AGM etc.), understanding FPO business plan, member retention and addition.
3. Conflicting interests: Finding selfless and dedicated leaders for FPOs is generally not very easy. The leaders/BODs who join FPOs sometimes may have vested interests – political and economic. When their interests do not align with FPO's functioning, the FPO can suffer.
4. Low financial literacy and business skill: Due to low literacy or financial literacy, BODs are not able to read and understand financial statement of their FPOs. This may lead to difficulties in their performance during Board meeting and management of business.

5. Knowledge and professional skills: The BODs lacks professional skills in managing an institution e.g. documentation, negotiations, understanding business plan and its implementation, etc. This is to be expected, as many older farmers in the country are from small and marginal farming families, who may not have many years of formal schooling or exposure. Many skills of a director are also gained through experience.
6. Lack of openness: The BODs may not be open to new ideas or persons with new skills and knowledge. Risk taking for small and marginal farmers is difficult – and this risk averseness may be reflected in the BoD's functioning as well. Also the outside world does not treat them at par with business men and the important functionaries' viz., government officials, private agencies, bankers, etc., may not accept them as entrepreneurs. This can make them defensive as well.
7. Gender barriers (poor involvement of women) and other social barriers: The participation of women member in FPOs Board as well as members of FPO is very low. Also women are not encouraged to participate on account of gender bias. Similarly, certain farmers may have difficulty participating in the Board due to their educational, financial or social backgrounds.

B. Management System Challenges

The challenges faced during daily operations of the FPO or Management Challenges are as under:

- Availability of qualified and experienced manager/personnel to run the company professionally, issue of adequate remuneration for personnel
- Availability of local talent to run the FPO
- Availability of a good accountant for proper maintenance of books of accounts –
- Adequate Information flow and documentation – availability of technology and ability to use the technology
- Dependence on Chartered Accountants located far away – financial and regulatory compliances
- The CEO, BoDs and members lacking business skills
- Lack of capital for establishing backward and forward linkages

Access to Credit Markets:

FPOs face difficulty in accessing credit for want of collateral and credit history required by financial institutions to finance them. Knowledge of markets, access to up-markets for better price realization is lacking among the FPO members. The current policy guidelines mandate many statutory compliances making it difficult for nascent FPOs to function. The Market regulations and need for various business licences put the FPOs at disadvantageous condition in undertaking business.

Ways to resolve these governance challenges

- Building capacities of BoD members (roles and responsibilities, business (input, output), business plans, compliances, value addition)
    - Awareness creation programs of regular basis
    - Frequent board meetings in the initial years
- Build a pool of professionals
- Developing rural youth capacity to manage FPC business as CEO and accountant
- Initial seed capital : Institutionalised support in the initial years to FPC to meet its operational cost
- Leadership building - Build and incubate adequate professional leadership from among the members of FPCs
- Continuous Training - To build capacity and awareness of staff and stakeholders Standardized Modules on MIS may be made available to FPOs.

Standard operating manuals for HR, Financial Management, Business operations Effective Management Information System (MIS) for FPCs should be developed.

Giving Shape to the Ideals of Corporate Governance

- Basic principles for governing an FPO
    - Accountability to member-owners
    - Transparency in dealings
    - Ethics and Fairness in business and management

  These principles need to be translate into real everyday practices and policies

Aspects to be considered in Governance and Management of a FPO

- Democratic functioning
- Collective Decision Making
- Accountability
- Confidentiality
- Balancing business and social objectives
- Social and Gender Justice

Democratic Functioning

FPO shareholders are very diverse coming from different gender, social, economic, backgrounds. To bring them to a common platform and enabling equal say in the FPO's functioning is a challenge. Democratic functioning in FPO means that all members have equal opportunities decision making and management of the FPO. It is essential that a democratic attitude must be inculcated in the normal administration and functioning and gets reflected in meeting discussions, decision making, etc. Many simple practices can greatly improve democratic functioning - such as regular meetings with members, holding meetings when it is convenient to members, rotation of leadership, giving members to freely express their opinions, discussing issues calmly and with data.

Decision Making Process

Functioning and decision making must follow a due laid out procedure process. Written and approved policies for key functional areas like staff selection, purchase of assets, equipment, etc. should be in place facilitating decision making. Having good systems of functioning reduced the need for adhoc or arbitrary/discretionary decisions - this increases transparency. The FPO should therefore aim to have:

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

Transparency

Transparency in an FPO will clarify not only in how a decision has been arrived at but also shares all key decisions with all the stakeholders in a clear and timely manner. 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. This reduces doubts of bias and intent of decision makers.

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 FPC may charge a facilitation fee that can be collected from each of the beneficiary farmers also - but make this process clear.

Social and Gender Justice

The FPO management and Board 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 fair but also translated into actual practice.

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, conflicts and damages.

Collective Decisions

Various management bodies existing in a FPO - the 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

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 of staff, Board and operations

- 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
- Learning visits to other FPOs and businesses and interacting directly with peers in these organisations.

Benchmarking is the process of comparing our business processes with processes and 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 say quality control

- Identify other industries/FPOs 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

Accountability

Accountability is the obligation and willingness to accept responsibility and account for one's actions. For an FPO, to be accountable means to demonstrate regularly that it uses its resources wisely and judiciously. Some of them could be:

- The basic information about the FPO, 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.

Answerable to 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), other companies with whom FPOs have dealings (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 accountability requirement is legal (compliance) - e.g., the FPO has to report to its shareholders as specified in the relevant Acts like payment of minimum wages.

Balancing Social and Business Objectives

FPOs are meant to combine cooperative principles with professional management and the 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, women 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 tribal families, women farmers.

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 and procedures is the prime job of the BoDs.

Chapter 3: Registering the FPO - Legal Options

A Ready Reckoner/Rule Book for Registering a new FPO

Introduction to the chapter:

The Farmers' Producer Organisations are being promoted to enable Indian farmers to double their incomes and gain economies of scale. The legal forms of FPOs are diverse, but several governance and management issues are common. This section provides an overview of laws and principles governing FPOs.

The Farmers' Producer Organisations are governed by several laws, rules and regulations prevalent in India. This chapter provides a ready reference to the relevant sections of laws under which FPOs are registered.

Legal Forms of PO

FPOs can be formed and registered under different prevailing Acts in five major forms as under:

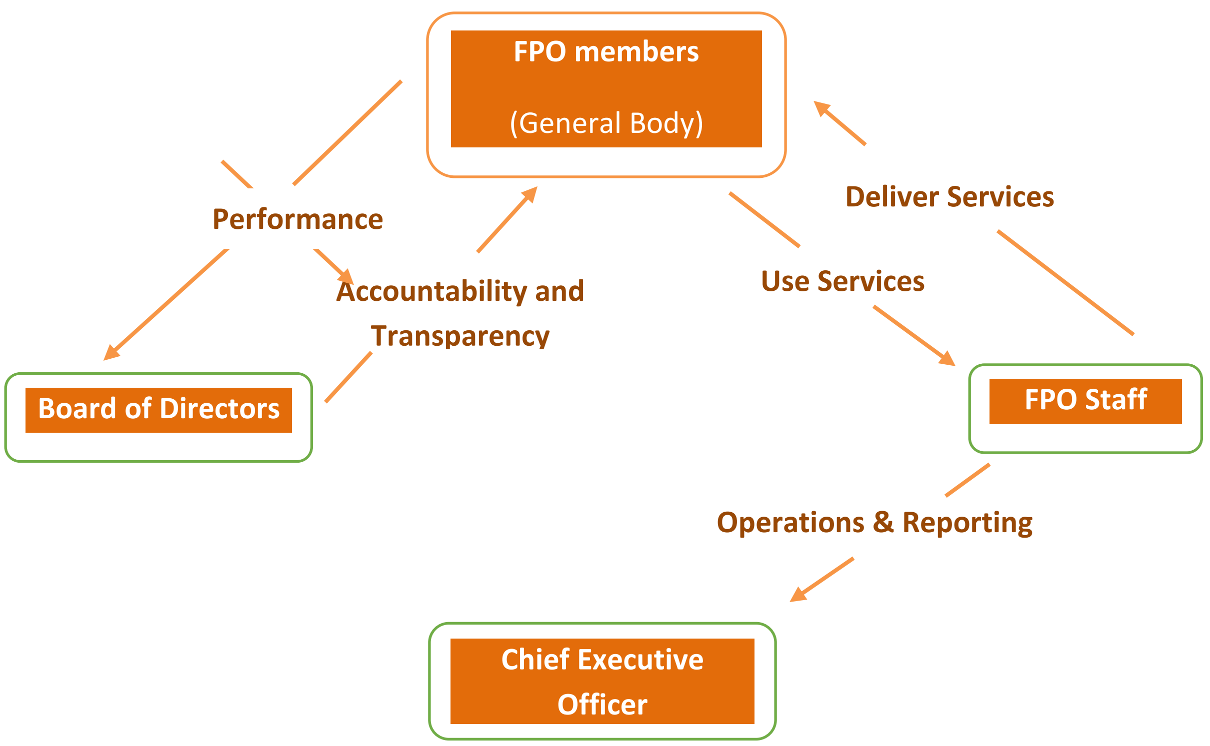
1. A Producer Company under Section 378 of Indian Companies Act, 1956, as amended in 2020
2. A Section 25 Company of Indian Companies Act, 1956, amended as Section 8(1) in 2013
3. A Cooperative under State Cooperative Societies Acts – of respective states of India
4. A Cooperative under Multi-State Cooperative Society Act, 2002
5. A Public Trust registered under Indian Trusts Act, 1882

The Central Sector Scheme on Formation and Promotion of 10000 FPOs focuses only on FPOs registered under **Cooperative Societies Act and Companies Act.** The content in this module therefore excludes issues related to FPOs that are Public Trusts.

This chapter deals with the key laws, principles associated with the Companies and Cooperatives Acts – for registering an FPO, selection and tenure of directors and elections. The legal terms have been retained – to ensure their meanings are not altered.

Whatever the legal form of the FPO – the structure and principles of functioning are common as depicted in the following diagram. Also a small note on the importance of the Memorandum of Association (MoA) and Articles of Association (AoA) is given.

Organisational Structure of FPOs



Note: Memorandum of Association (MoA) and Articles of Association (AoA)

Before starting their business, the grouping of farmers must become a legal identity by registering under the Companies Act or any of the Cooperative Acts as may the case. These registered bodies are then governed through legal documents that describe the dos and don’ts for the organisation, namely,

the Memorandum of Association (MoA), and

the Articles of Association (AoA)

These two legal documents define the FPO’s scope of work and internal management. Drafting these documents is one of the most critical steps. MoA/Bye-laws and AoA are supreme legal documents forming the FPOs constitution. They are indispensable, and the foundation of the FPO. Therefore, drafting them requires utmost precision and clarity. Let us look into their meaning and importance in the following sections.

The Producer Company

The concept of the 'producer company' was introduced in 2002 keeping in mind the pressing issues of farmers and agriculturalists - collectively termed producers. A producer company allows farmers' co-operatives to function as a corporate entity (company) under the Ministry of Corporate Affairs (a hybrid of a cooperative and a company). A Producer Company is registered under Section 378 Chapter XXIA of Indian Companies Act, 1956, as amended in 2020. https://www.mca.gov.in/Ministry/pdf/Producer_Company.pdf

378B (Objects of Producer Company)

- Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit:
- Processing (preserving, drying, distilling, brewing, vinting, canning and packaging of produce)
- Manufacture, sale or supply of machinery, equipment or consumables
- Providing education and rendering technical services, consultancy services, training, R&D
- Generation, transmission and distribution of power
- Insurance of producers or their primary produce
- Promoting techniques of mutuality and mutual assistance
- financing of procurement, processing, marketing or other activities specified above including extending of credit facilities or any other financial services to its Members
- Any other activity, ancillary or incidental to any of the above which may promote the principles of mutuality and mutual assistance amongst the Members

Mutual Assistance Principles for a Producer Company

- Membership - voluntary, available to all eligible persons willing to accept the duties of membership; each member shall (save otherwise) have a single vote irrespective of shareholding
- Administration by Board – consisting of persons elected or appointed as directors in the manner consistent with the provisions of this Chapter and the Board shall be accountable to the Members
- Shareholding and fund distribution - particulars on limited return on share-holding, equitable distribution of surplus (providing for development of business, common facilities and distribution among members)
- Mutuality: Provision for members/employees education on principles of mutuality and techniques of mutual assistance; Active collaborations with similar organisations to serve the interest of members and communities at large

Memorandum of Association of a Producer Company

As per Section 378F of THE COMPANIES (AMENDMENT) ACT, 2020, Chapter XXI, the Memorandum of Association of every Producer Company shall state:

1. Name of the FPO and the State in which the registered office is situated
2. The main objects of the FPO (one or more of the objects specified in section 378B)
3. Names and addresses of the persons who have subscribed to the memorandum
4. Amount of share capital with which FPO is to be registered and division thereof into shares of a fixed amount
5. Names, addresses and occupations of the subscribers being producers, who shall act as the first directors
6. Against the subscriber's name, the number of shares each subscriber takes provided that no subscriber shall take less than one share
7. That the liability of its members is limited
8. That in case the objects of the FPO are not confined to one State, the States to whose territories the objects extend

As per Section 378G of ***the Companies (Amendment) Act, 2020, Chapter XXI***

- *Along with Memorandum, its articles duly signed by the subscribers to the memorandum shall be* presented, for registration to -
  The Registrar of the State to which the registered office of the Producer Company is situated at the time of registration.

Amendments of Memorandum of Association (378 H)

- A Producer Company may, by special resolution, not inconsistent with section 378B, alter its objects specified in its memorandum
- A copy of the amended memorandum, together with a copy of the special resolution duly certified by 2 directors, shall be filed with the Registrar within 30 days from the date of adoption of any resolution
- In the case of transfer of the registered office of FPO from the jurisdiction of one Registrar to another, the copies to be filed with both the Registrars within 30 days
- The alteration of the provisions of memorandum relating to the change of the place of its registered office from one State to another shall not take effect unless it is approved by the Central Government on an application in such form and manner as may be prescribed.

Composition of the Articles of Association of a Producer Company

The Articles of Association under each heading must elaborate on each of the indicative items.

- Members:
    - Qualifications for membership
    - Terms and Conditions for continuance/ cancellation of membership
    - Conditions and procedure for transfer of shares
    - Conditions for giving credit, loans/advances to a Member
    - Right of a Member to obtain information relating to general business of the company, etc.
- Board:
    - Manner of constitution
    - Its powers and duties
    - Min. and Max. No. of Directors
    - Manner of election, appointment and retirement by rotation
    - Conditions for election or co-option of Directors, method of removal of Directors and filling up of vacancies on the Board,
    - Manner and terms of appointment of the Chief Executive, etc.
- Directors:
    - Qualifications for being elected or continuance
    - Terms of office of Directors
    - Their powers and duties,
    - Manner of voting at the general or special meetings
    - Procedure for voting by directors at meetings of the Board, etc.
- Chairman:
    - Election of Chairman
    - Term of Office of Chairman
    - Powers of the Chairman and the circumstances under which the Chairman may exercise a casting vote, etc.
- Payment to members:
    - Circumstances under which, and the manner in which, the withheld price is to be determined and distributed;
    - the manner of disbursement of patronage bonus in cash or by issue of equity shares, or both
    - Contribution to be shared and related matters referred to in sub-section (2) of section 378ZI (*General and Other Reserve*);
    - Matters relating to issue of bonus shares out of general reserves as set out in section 378ZJ *(Issue of bonus share).*
- Raising Equity and Funds

- Basis and manner of allotment of equity shares of the Producer Company in lieu of the whole or part of the sale proceeds of produce or products supplied by the Members
    - Amount of reserves, sources from which funds may be raised, limitation on raising of funds, restriction on the use of such funds and the extent of debt that may be contracted and the conditions thereof
    - Basis and manner of distribution and disposal of funds available after meeting liabilities in the event of dissolution or liquidation of the Producer Company
- Division/amalgamation etc.
    - Authorisation for division, amalgamation, merger, creation of subsidiaries and the entering into joint ventures and other matters connected therewith

Amendments of Article of Association (378 I)

Any amendment of the articles shall be proposed by **not less than 2/3rd of the elected directors** or **by not 1/3rd of the Members** of the FPO, and adopted by the Members by a special resolution

A copy of the amended articles together with the copy of the special resolution, both **duly certified by 2 directors**, shall be filed with the Registrar **within 15 days from the date of its adoption**

Both **Memorandum and Articles of the FPO** are laid before the Board in a special general meeting to be held within 90 days of its registration.

Directors - As per the Companies (Amendment) Act, 2020, Chapter XXI A

- 378-O. Every Producer Company shall have at least 5 and not more than 15 Directors: Providedthat in the case of an inter-State co-operative society incorporated as a Producer Company, such company may have more than fifteen directors for a period of one year from the date of its incorporation as a Producer Company
- 378P (1) ……., the Members who sign the memorandum and the articles may designate therein the Board of Directors, not less than five, who shall govern the affairs of the Producer Company until the directors are elected in accordance with the provisions of this section
- 378P (2) the election of directors shall be conducted within a period of 90 days of the registration
- Every person shall hold office of a Director for a period not less than 1 year but not exceeding 5 years as may be specified in the articles
- Every director, who retires in accordance with the articles, shall be eligible for re-appointment as a director
- Directors of the Board shall be elected or appointed by the Members in the Annual General Meeting

Expert Directors

- The Board may co-opt one or more Expert Directors or an additional director not exceeding 1/5th of total number of directors or appoint any other person as additional director for such period as the Board may deem fit
- Expert directors shall not have the right to vote in the election of the Chairman but shall be eligible to be elected as Chairman, if so provided by its articles
- Maximum period for which the Expert Director or the additional director holds office, shall not exceed such period as may be specified in the articles

Vacation of Office by Directors

A director shall have to vacate office for causes related to the Director's own conduct or the FPO's non-compliance to legal requirements – such as

- The director is Convicted by court of any offence involving moral turpitude and sentenced to imprisonment for not less than 6 months
- He/she has made a default in repayment of any advances or loans taken from the FPO in which he/she is a Director

The FPO, in which he/she is a director -

- Has made a default in repayment of any advances or loans taken from any company or institution or any other person and such default continues for 90 days
- Has not filed the annual accounts and annual return for any continuous 3 financial years or;
- Has failed to, repay its deposit or withheld price or patronage bonus or interest thereon on due date, or payment of dividend and such failure continues for one year or more
- Has defaulted in holding election for the office of Director in accordance with the provisions of Companies Act and articles
- The Annual General Meeting or extraordinary general meeting of FPO, in which he/she is a director, is not called in accordance with the provisions of this Act except due to natural calamity or such other reason.

Committees of Directors

- The Board may constitute such number of committees as it may deem fit for the purpose of assisting the Board in the efficient discharge of its functions
- The Board shall not delegate any of its powers or assign the powers of CEO, to any committee
- A committee constituted may, with approval of Board, co-opt such number of persons as it deems fit as members of the committee provided that CEO or Director be 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 fee and allowances 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

Liabilities of Directors

378T(1): When the directors vote for a resolution, or approve by any other means, anything done in contravention of the provisions of this Act or any other law for the time being in force or articles, they shall be jointly and severally liable to make good any loss or damage suffered by the FPO

FPO shall have the right to recover from its director:

where such director has made any profit as a result of the contravention specified in sub-section 378T(1), an amount equal to the profit so made;

Where FPO incurred a loss or damage as a result of the contravention specified in sub-section (1), an amount equal to that loss or damage

- Liability imposed shall be in addition to and not in derogation of a liability imposed on a director under this Act or any other law for the time being in force

FPO registered under Co-operative Societies Act

Cooperatives are an old form of registering collectives of farmers. There is some variation between different cooperatives Acts across the country. The FPO must refer to the latest versions of the Act applicable to its legal form. Some details for Multi-State Cooperatives are provided below. Whatever their legal form, all cooperatives are organised around the Seven Cooperative Principles.

7 Cooperative Principles

I. Voluntary and Open Membership- Cooperatives are voluntary organisations, open to all persons capable of using their services and willing to accept the responsibilities of membership, without discrimination on bases of gender, social inequality, racial, political ideologies or religious consideration.

II. Democratic Member Control- Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and decision making. Elected representatives of these cooperatives are responsible and accountable to their members

III. Member's Economic Participation- Members contribute equitable and control the capital of their cooperative democratically. At least a part of the surplus arising out of the economic results would be the common property of the cooperatives. The remaining surplus could be utilised benefiting the members in proportion to their share in the cooperative

IV. Autonomy and Independence- Cooperatives are autonomous, self-help organisations controlled by their members. If cooperatives enter into agreement with other organisations including Government or raise capital from external sources, they do so on terms that ensure their democratic control by members and maintenance of cooperative autonomy.

V. Education, Training and Information- Cooperative provide education and training to their members, elected representatives and employees so that they can contribute effectively to the development of their cooperatives. They also make the general public, particularly young people and leaders aware of the nature and benefits of cooperation.

VI. Cooperation among Cooperatives- Cooperatives serve their members most effectively and strengthen the cooperative movement, by working together through available local, regional, national and international structures.

VII. Concern for Community- While focusing on the needs of their members, cooperatives work for the sustainable development of communities through policies accepted by their members.

Process of registering under a Cooperative Societies Act

1. To form a Co-operative Society, it is essential to find 10 individuals who share a common objective and desires to commence a Society. They need to convene meeting of all members and pass resolutions for the constitution, name of the society and opening of Bank accounts. The entire process needs to be done unanimously.
2. To constitute a Provisional Committee/Board/Management Committee and elect Office bearers. President, Secretary and Treasurer's name should be recorded in the resolution passed by the members in another/next meeting.
3. Selection of various Committees: Then all the members must voluntarily select various committees like Audit committee, etc and pass resolution for the above. This may be done in the next meeting.
4. Apply for Name Reservation: Now you need to apply to the Registration Authority for name reservation of your Co-operative Society. You must obtain a confirmation letter for the name reservation. Also, understand that the reserved name shall be valid for 3 months.
5. Share Collection: collect the entrance fees and share capital from all the prospective members of your society
6. Open a bank account in the name of your Co-operative Society and deposit the collected entrance fees and share money in that account. Also, procure a certificate in that respect
7. Request for Registration: After the third meeting, the society may make a request for registration with all documents like KYC of all members/office bearers, fee receipt, certified copies of resolutions, affidavits, etc depending upon the state specific Cooperative Act's requirements. Now deposit the registration fees with the Reserve Bank of India/Treasury and thereof obtain a receipt of challan.
8. Submit the application for registration to the Registrar of Societies of the concerned jurisdiction along with the necessary documents.
9. Acknowledgement from Registrar: Subsequent to your application, the Registrar will enter the particulars in his register in Form "B." Thereby he will give you serial number and issue a receipt in acknowledgement of the same.
10. Notification of Registration: Lastly, the Registrar notifies you about the registration of the Co-operative Society in the Official Gazette and thus issues you the certificate of registration.

FPOs registered under Multi-State Cooperatives Act, 2002

No multi-state cooperative society shall be registered under this Act, unless

- Its main objects are to serve the interests of members in more than one state
- Its bye-laws provide for social and economic betterment of its members through self-help and mutual aid in accordance with the cooperative principles

Registration Requirements of Various forms of Membership for an MSCS.

1. MSCS with all individual members
   The application shall be signed, by at least 50 persons from each of the state concerned
2. MSCS with members being Coop. Societies
   Duly authorised representatives on behalf of at least 5 such societies as are not registered in the same state
3. MSCS with another MSCS and other Coop. societies as members
   Duly authorised representatives of each of such societies provided that not less than 2 of the coop. societies shall be such as are not registered in the same state
4. MSCS of which the members are cooperative societies/MSCS and individuals
   At least 50 persons, being individuals, from each of the two states or more and one coop. society each from 2 states or more or 1 MSCS

Processing of Application by the Central Registrar:

- For the purposes of registration, an application shall be made to the Central Registrar (CR) accompanied by four copies of the 12 proposed bye-laws of the MSCS
- The application to be disposed of by the CR within a period of 4 months from the date of receipt. In case of refusal, the order of refusal together with the reasons are to be communicated and no order or refusal shall be made unless the applicants have been given a reasonable opportunity of being heard
- If the application for registration is not disposed of within a period of 4 months or the CR fails to communicate the order of refusal within that period, the application shall be deemed to have been accepted for registration and the Central Registrar shall issue the registration certificate.

Bye-laws may provide for all or any of the following matters

a)	the name, address and area of operation of the society	**b)**	the objects of the society
c)	the services to be provided to its members	d)	the eligibility for obtaining membership
e)	the procedure for obtaining membership	f)	the conditions for continuing as member
g)	the procedure for withdrawal of membership	h)	the transfer of membership
i)	the procedure for expulsion from	j)	the rights and duties of the members

membership

k)	the nature and amount of capital of the society	l)	the manner in which the maximum capital to which a single member can subscribe
m)	the sources from which the funds may be raised by the multistate cooperative society	n)	the purpose for which the funds may be applied
o)	the manner of allocation or disbursement of net profits	p)	the constitution of various reserves
q)	manner of convening general meetings and quorum thereof	r)	the procedure for notice and manner of voting, in general and other meetings
s)	the procedure for amending the bye-laws	t)	the number of members of the board not exceeding 21
u)	the tenure of, directors, chairperson and other office bearers of the society, not exceeding 5 years	v)	the procedure for removal of members of the board and for filling up of vacancies
w)	the manner of convening board meetings, its quorum, number of meetings in a year and venue of such meetings	x)	the frequency of board meetings
y)	the powers and functions of the Chief Executive in addition to those provided under section 52	z)	the manner of imposing the penalty
aa)	the appointment, rights and duties of auditors and procedure for conduct of audit	bb)	the authorisation of officers to sign documents and to institute and defend suits and other legal proceedings on behalf of the society
cc)	the terms on which a multi-state cooperative society may deal with persons other than members	dd)	the terms on which a multi-state cooperative society may associate with other cooperative societies
ee)	the terms on which a multi-state cooperative society may deal with organisation other than cooperative societies	ff)	the rights, if any, which the multi-state cooperative society may confer on any other multi-state cooperative society or federal cooperative and the circumstances under which such rights may be exercised by the federal cooperative
gg)	the procedure and manner for transfer of shares and interest in the name of a nominee in case of death of a member	hh)	the educational and training programmes to be conducted by the multi-state cooperative society
ii)	the principal place and other places of business of multi-state cooperative society	jj)	the minimum level of services, to be used by its members

How to amend bye-laws of a MSCS?

- No amendment of any bye-law is valid unless it is registered under this Act.
- Resolution to be passed by 2/3rd majority of members present and voting at general meeting In every case society proposes to amend its bye-laws, an application to register such amendments shall be made to the Central Registrar Resolution not valid unless 15 clear days' notice on proposed amendment given to the members

Documents to be submitted to registrar regarding amendments

1. Copy of resolution and relevant bye-laws in force with amendment proposed to be made together with reasons justifying such amendments
2. 4 copies of bye-laws incorporating therein the proposed amendments signed by officer duly authorised in this behalf by the general body
3. Copy of the notice given to the members and the proposal to amend the bye-laws
4. A certificate signed by the person who presided at the general meeting certifying that the procedure as per Act had been followed
5. Every such application shall be made within 60 days from the date of the general meeting at which such amendment to the byelaws was passed

Additional Information to be forwarded:

- Date of the general meeting at which the amendments to the bye-laws were made
- Number of days' notice given to convene the general meeting
- Total number of members of the multi-state cooperative society
- Quorum required for such meeting
- Number of members present at the meeting
- Number of members who voted in such meeting
- Number of members who voted in favour of such amendments to bye-laws

Registration of the Amendments by the CR: The Central Registrar shall forward to MSCS, a copy of the registered amendment together with a certificate signed by him within a period of 1 month from the date of registration thereof and such certificate shall be conclusive evidence that the amendment has been duly registered

- Where the Registrar refuses to register an amendment of the bye-laws, he/she shall communicate the order of refusal together with the reasons therefore to the Chief Executive of the within 15 days from the date of such refusal
- Provided that if the application for registration is not disposed of within a period of 3 months or the Registrar fails to communicate the order of refusal within that period, the application shall be deemed to have been accepted for registration and the Registrar shall issue registration certificate in accordance with the provisions of this Act

- Amendment of bye-laws comes into force on the day on which it is registered, unless it is expressed to come into operation on a particular day

Board of Directors (Multi State Cooperative Society)

- There shall be a board of directors for every MSCS; the members of MSCS by a resolution in a general meeting, shall elect directors who shall be members of board
- The board shall consist of such number of directors as may be specified in the bye-laws provided that the maximum number of directors in no case shall exceed 21
- The board may co-opt 2 directors in addition to twenty-one directors
- The functional directors in the MSCS shall also be the members of the board and such members shall be excluded for the purpose of counting the total number of directors

Disqualifications for being a member of board

1. Has been adjudged by a competent court to be insolvent or of unsound mind
2. Concerned or participates in the profits of any contract with the society
3. Convicted for an offence involving moral turpitude
4. Holds any office or place of profit under the society provided that the Chief Executive or such full time employee of the society as may be notified by the Central Government from time to time or a person elected by the employees of such society to represent them on the board of such society shall be eligible for being chosen as, or for being, a member of such board
5. Has been a member of the society for less than 12 months immediately preceding the date of such election or appointment
6. Has interest in any business of the kind carried on by the society of which he is a member
7. Has taken loan or goods on credit from the society of which he is a member, or is otherwise indebted to such society and after the receipt of a notice of default issued to him by such society, has defaulted in:
    - repayment of such loan or debt or in payment of the price of the goods taken on credit, as the case may be, within the date fixed for such repayment or payment or where such date is extended, which in no case shall exceed six months, within the date so extended
    - when such loan or debt or the price of goods taken on credit is to be paid in instalments, in payment of any instalment, and the amount in default or any part thereof has remained unpaid on the expiry of 6 months from the date of such default provided that a member of the board who has ceased to hold office as such under this clause shall not be eligible, for a period of one year, from the date on which he ceased to hold office, for re-election as a member of the board of MSCS of which he was a member or for the election to the board of any other MSCS

8. Person against whom any amount due under a decree, decision or order is pending recovery
9. Is retained/employed as a legal practitioner on behalf of or against the MSCS, or on behalf of or against any other MSCS which is a member of the former society
10. Has been convicted for any offence under this Act
11. Is disqualified for being a member; has been expelled as a member
12. Absents himself from 3 consecutive board meetings and such absence has not been condoned to by the board members in the general body

A person shall not be eligible for being elected as member of board of a MSCS for a period of 5 years if the board of such MSCS fails to:

- Conduct elections of the board
- Call AGM, and
- Prepare the financial statement and present the same in the AGM

Prohibition to hold office of Chairperson/President/Vice-Chairperson/Vice President

- Is a Minister in the Central Government or a State Government
- Has held the office as such during 2 consecutive terms, whether full or part
- No person shall be eligible to hold, at the same time, office of a president/chairperson/vice-president/vice-chairperson on the board of more than 2 MSCS

Elections

- Term of office of the elected members of board shall not exceed 5 years from the date of elections
- Election of the members of the board shall be held in the general meeting of the members
- Election of members of Board shall be held by secret ballot
- Elections to Board of MSCS shall be the responsibility of the existing board
- Where the board fails to conduct election of the members of board, the Central Registrar shall hold the election within a period of 90 days from the date when such election became due.
- No person shall be eligible to be elected as a member of the board of a MSCS unless he is a member of the general body of that society
- The expenses for holding election by the Central Registrar shall be borne by the MSCS

Removal of elected members by General Body

An elected member of a board, who has acted adversely to the interests of MSCS may on the basis of a report of the Central Registrar or otherwise be removed from the board upon a resolution of the general body passed at its meeting by a majority of not less than 2/3rd of the members present and voting at the meeting: *Provided that the member concerned shall not be removed unless he has been given a reasonable opportunity of making a representation in the matter*

Nominee of Central Government or State Government on the Board

The total amount of issued equity share capital held by the Central Government or the State Government	Number of Central/State Government Nominees on the Board
• Less than 26%	1 member of the board
• 26% or more but less than 51%	2 members of the board
• 51% or more	3 members of the board provided that the number of such nominated persons **shall not exceed 1/3rd** of the total number of members of the board

- Provided further that where the Central Government or a State Government has guaranteed the repayment of principal and payment of interest on debentures issued by MSCS or has guaranteed the repayment of principal and payment of interest on loans and advances to a MSCS or has given any assistance by way of grants or otherwise to a MSCS, the Central Government or the State Government in this behalf, as the case may be, shall have the right to nominate person on the board of such a society in the manner as may be prescribed
- A person nominated shall hold office during the pleasure of the Government by which he has been so nominated

Summary

The content of the chapter puts together the essentials for an FPO to get started and register itself under the legal form it finds most appropriate. It is necessary for the office bearers of the FPO to become aware of the details of the law and comply with the same. The latest Acts, regulations are available online in the respective departmental/ministry websites.

References

1. The Companies Amendment Act (2020). https://www.mca.gov.in/Ministry/pdf/Producer_Company.pdf
2. Multi-State Co-Operative Societies. Ministry of Cooperation, Govt. of India. The website provides several resources. https://mscs.dac.gov.in/ , https://mscs.dac.gov.in/Guidelines/GuidelineAct2002.pdf

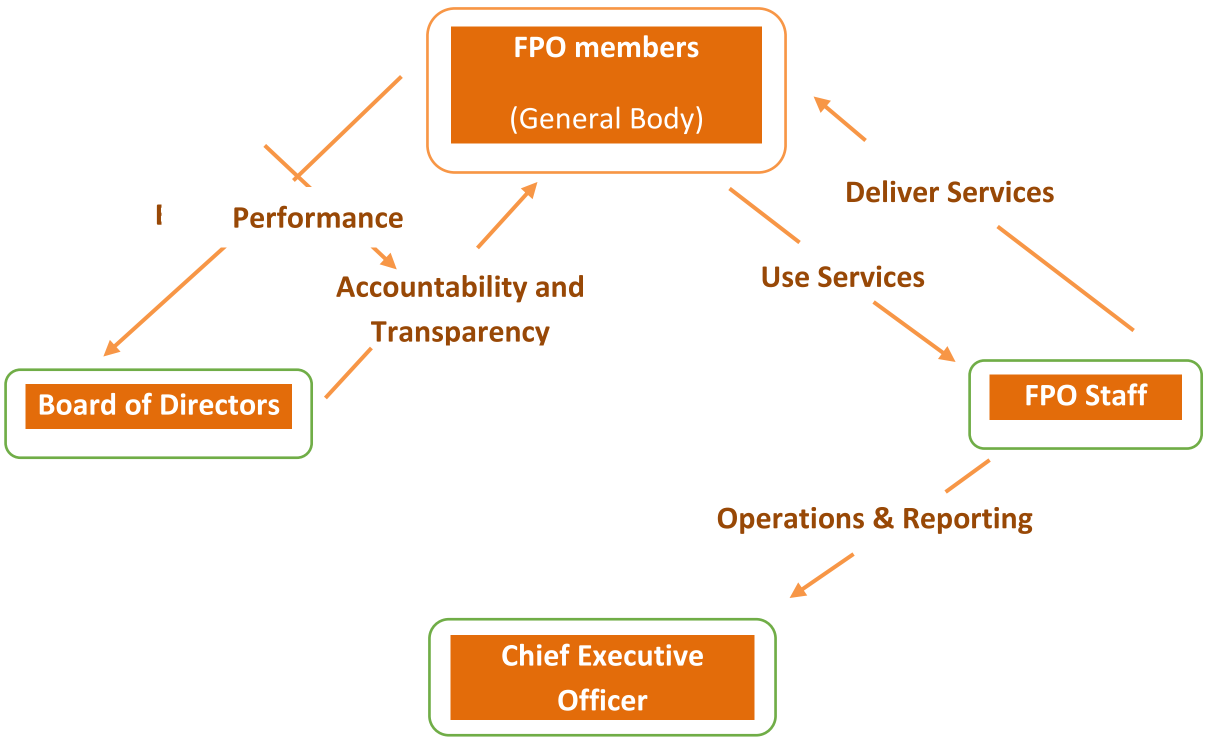
Chapter 4: Role and Responsibilities of Board, CEO and Members

Understanding Various Management Functions in FPOs

Introduction

Once the FPO has been registered under an appropriate law, it is time to understand the various management functions in an FPO both as a legal and a business entity. The FPO consist of three major arms – the members, the representatives – Board of Directors and the executive arm consisting of the CEO and other staff. Their roles are different and complementary. The roles of members, BOD and CEO are alike whatever the legal form under which the FPO is registered. However, the specifics of compliance may vary between legal forms. The content below segregates the legal compliances expected of various stakeholders of companies from the multi-state cooperatives. Requirements of different State Cooperative Acts must be verified through appropriate online resources.

Organisational Structure of FPOs



Members of FPO

The Members of the FPO are the owners of the organisation. Their role is to invest in the FPO through share capital and elect their representatives to govern the FPO. They need to demand accountability and transparency from the BoD that they have elected – formally through the general body meetings and informally through interactions with the BoD. The members also demand quality services from the FPO as rendered through the staff and use the services available – by buying or selling through the FPO.

Role of the Board of Directors

The Board of Directors is a representative body of the members or the General Body and act on its behalf. The BoD is accountable to the GB and should be transparent in its functioning. The BoD monitors the functioning of the CEO – who in turn oversees other staff.

Chief Executive and the CEO's role in an FPO

The CEO is the chief executive functionary of the FPO and ensures that the management of the organisation's activities is smooth. The CEO is answerable to the members of the FPO through the BoD and ensures that all the staff members perform their work.

The Roles, Rights and Responsibilities within Producer Companies

A. FPO Members

Share Capital and Members Rights

Share capital shall consist of equity shares only. The shares held by a Member shall be in proportion to the patronage (amount of business the member does with the FPO) of that FPO as far as possible.

Shares of a Member shall not be transferable – with the following exceptions:

- A member may, after obtaining the previous approval of the Board, transfer the whole or part of his shares along with any special rights, to an active Member at par value
- Every Member shall, within 3 months of his becoming member nominate a person to whom his shares shall vest in the event of his death *(The nominee shall, on the death of the Member, become entitled and the Board shall transfer the shares of the deceased Member to his nominee)*
- In a case where such nominee is not a producer, the Board shall direct the surrender of shares together with special rights, if any, to the FPO at par value or such other value as may be determined by it.

If any member has ceased to be primary producer or failed to retain his qualifications, Board shall direct the surrender of shares to the FPO at par value or such other value as may be determined by it. However, the Member has to be served with a written notice and given an opportunity of being heard

The articles of any FPO provide for the conditions, subject to which a Member may continue to retain his membership, and the manner in which voting rights shall be exercised by the Members.

- No person with any business interest which is in conflict with business of the FPO shall become a Member of FPO
- A Member, who acquires any business interest which is in conflict with the business of FPO, shall cease to be a Member and be removed in accordance with the articles
- Subject to the provisions made in articles, every Member shall initially receive only such value for the produce or products pooled and supplied as the Board of FPO may determine, and the withheld price may be disbursed later in cash or in kind or by allotment of equity shares, in proportion to the produce supplied to the FPO during the financial year to such extent and in such manner and subject to such conditions as may be decided by the Board
- Every Member shall, on the share capital contributed, receive only a limited return: Provided that
    - Every such Member may be allotted bonus shares in accordance with the provisions contained in section 378ZJ (3)
    - The surplus if any, remaining after making provision for payment of limited return and reserves referred to in section 378ZI, may be disbursed as patronage bonus, amongst the Members, in proportion to their participation in the business of the FPO, either in cash or by way of allotment of equity shares, or both, as may be decided by the Members at the general meeting.
- Every Member shall have one vote and in the case of equality of votes, the Chairman or the person presiding shall have a casting vote except in the case of election of the Chairman.
- The FPO may, if so authorised by its articles, restrict the voting rights to active Members, in any special or general meeting

B. Role of the Board of Directors

The Board of Directors is a representative body of the members or the General Body and act on its behalf. The BoD is accountable to the GB and should be transparent in its functioning. The BoD monitors the functioning of the CEO – who in turn oversees other staff.

Subject to the provisions of the various Acts and Articles, the Board of Directors of a FPO shall exercise all such powers and to do all such acts and things, as that FPO is authorised – such as:

- Admission of new Members to the FPO
- Appointment of a CEO and other officers of the FPO as may be specified in the articles and exercise superintendence, direction and control over
- Pursue and formulate the organisational policy, objectives, establish specific long-term and annual objectives, and approve corporate strategies and financial plans
- Determination of the dividend payable
- Determination of the quantum of withheld price and recommend patronage to be approved at general meeting
- Cause proper books of account to be maintained; prepare annual accounts to be placed before AGM with the report of auditor and the replies on qualifications, if any, made by the auditors
- Acquisition or disposal of property of the FPO in its ordinary course of business
- Investment of the funds of the FPO in the ordinary course of its business
- Sanction any loan or advance, in connection with the business activities of the FPO to any Member, not being a Director or his relative
- Take such other measures or do such other acts as may be required in the discharge of its functions or exercise of its powers.

C. Chief Executive and the CEO's role in an FPO

The CEO is the chief executive functionary of the FPO and ensures that the management of the organisation's activities is smooth. The CEO is answerable to the members of the FPO through the BoD and ensures that all the staff members perform their work. Under various Acts, the role of the CEO is defined thus:

- Every Producer Company shall have a full time Chief Executive, by whatever name called, to be appointed by the Board from amongst persons other than Members
- The Chief Executive shall be ex officio director of the Board and such director shall not retire by rotation.
- Save as otherwise provided in articles, the qualifications, experience and the terms and conditions of service of the Chief Executive shall be such as may be determined by the Board
- The Chief Executive shall be entrusted with substantial powers of management as the Board may determine -
    1. Do administrative acts of a routine nature including managing the day-to-day affairs
    2. Operate bank accounts or authorise any person, subject to the general or special approval of the Board in this behalf, to operate the bank account
    3. Make arrangements for safe custody of cash and other assets
    4. Sign such documents as may be authorised by the Board, for and on behalf of FPO

5. Maintain proper books of account
6. Prepare annual accounts and audit thereof and place the audited accounts before the Board and in AGM of the Members
7. Furnish Members with periodic information to apprise them of the operation and functions of the FPO
8. Make appointments to posts in accordance with the powers delegated to him by the Board
9. Assist the Board in the formulation of goals, objectives, strategies, plans and policies
10. Advise the Board with respect to legal and regulatory matters concerning the proposed and ongoing activities and take necessary action in respect thereof
11. Exercise the powers as may be necessary in the ordinary course of business
12. Discharge functions and exercise such other powers, as may be delegated by the Board

The Chief Executive **shall manage the affairs of the FPO** under the general superintendence, **direction and control of the Board** and **be accountable for the performance** of FPO

D. Secretary of FPO (Company Secretary)

Every Producer Company having an average **annual turnover exceeding Rs. 5 crore** or such other amount as may be prescribed in each of 3 consecutive financial years **shall have a whole-time secretary.**

No individual shall be appointed as whole-time secretary unless he possesses membership of the Institute of Company Secretaries of India constituted under the Company Secretaries Act, 1980

If a Producer Company fails to comply, the Company and every officer of the Company who is in default, shall be liable to a penalty of Rs. 100 for every day during which the default continues subject to a maximum of rupees one lakh.

No penalty shall be imposed if it is shown that all reasonable efforts to comply were taken or that the financial position of the Company was such that it was beyond its capacity to engage a whole-time secretary.

Meeting of Committees of Directors

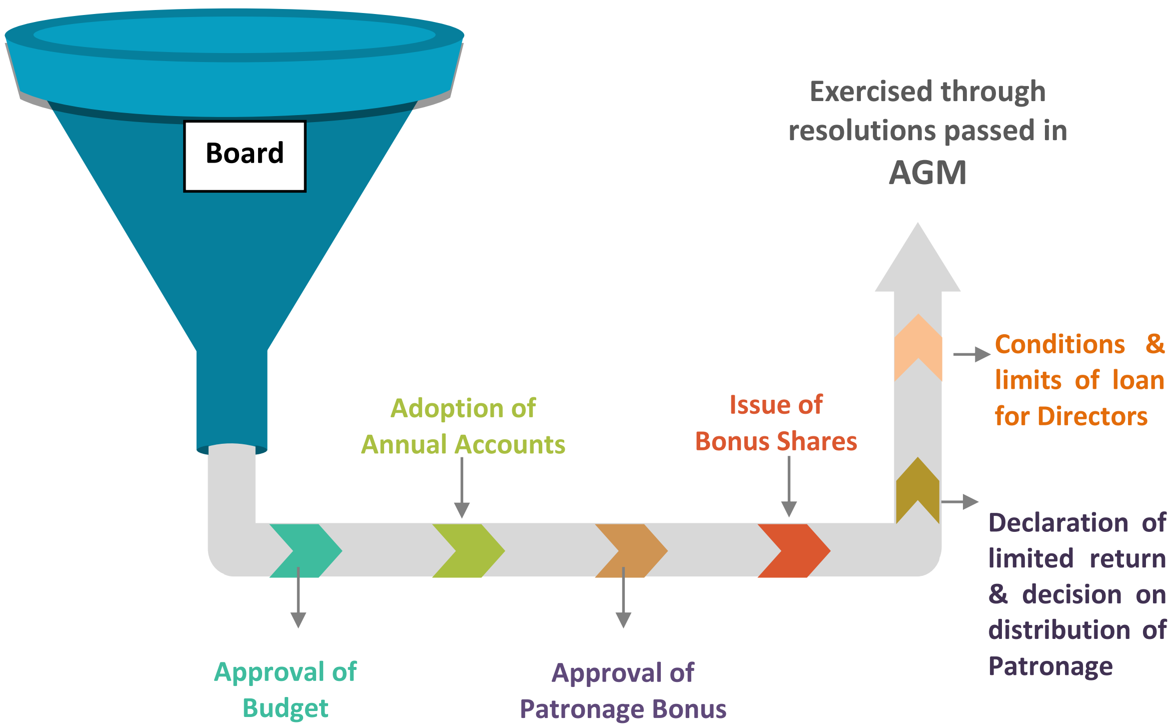
The minutes of each meeting of the committee shall be placed before the Board at its next meeting

Board Meetings

- Once in 3 months, not less than 4 meetings in a year

- Meeting may be called at shorter notice but reasons thereof shall be recorded in writing by the Board
- Notice to be issued in writing with minimum 7 days' notice period; for non-adherence the CEO is liable for penalty of fine of Rs. 5,000.
- Quorum shall be 1/3rd of total strength of directors, subject to a minimum of 3 members.
- The minutes of each meeting of the committee shall be placed before the Board at its next meeting

Matters to be transacted by Board only at Annual General Meeting



Annual General Meeting (AGM)

The first AGM should be held within 90 days from the date of its incorporation (*Adopt the articles and appoint directors of its Board)*

- Not more than 15 months shall elapse between the date of one AGM and that of the next (Provided that the Registrar may, for any special reason, permit extension of time for holding any AGM (not being the first annual general meeting) by a period not exceeding 3 months)
- AGM shall be called, during business hours, on a day that is not a public holiday and held at registered office

- AGM shall be called by giving not less than 14 days prior notice in writing (indicating the date, time and place of the meeting) shall be sent to every Member and auditor of FPO
- Unless the articles of FPO provide for a larger number, $1/4^{th}$ of the total number of members of FPO shall be the quorum for its AGM

The Notice calling the AGM shall be accompanied by the following documents:

a) The agenda of the AGM
b) The minutes of the previous AGM or the extraordinary general meeting
c) The names of candidates for election, if any, to the office of director including a statement of qualifications in respect of each candidate
d) The audited balance-sheet and profit and loss accounts with a report of the Board of Directors with respect to:
    - The state of affairs of the FPO
    - 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 which have occurred in between the date of the annual accounts 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
e) The text of the draft resolution for appointment of auditors
f) 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 $1/3^{rd}$ of the Members entitled to vote in any general meeting, proceed to call an extraordinary general meeting
- Proceedings of every AGM along with the report of the BoDs, the audited balance-sheet and the profit and loss account shall be filed with the Registrar within 60 days of the date on which the AGM is held, with an annual return along with the filing fees as applicable under the Act.

Rights, Roles and Responsibilities within Multi-State Cooperative Societies

Here we look at the roles and responsibilities of members/general body, board of directors and the CEO.

A. Members of Multi-state Cooperative Societies - Duties, Rights and Liabilities

Members of MSCS can be any of the following – as stipulated in the Act.

- An Individual
- Any MSCS or Coop. society
- The Central and State Governments
- National Cooperative Development Corporation
- Class/classes or persons/association of persons permitted by the Central Registrar having regard to the nature and activities of MSCS.

Applying for membership in an MSCS

- Every application for admission as a member of a MSCS shall be disposed of by such society within a period of 4 months from the date of receipt of the application
- It shall be the duty of every member of a MSCS to promote and protect the interests and objects of society
- A MSCS may, if provided in its bye-laws, admit a person as nominal or associate member –No such nominal or associate member shall be entitled to subscribe the shares of such society or have any interest in the management thereof including right to vote, elect as a director of the board or participate in the general body meetings
- No member of MSCS shall exercise the rights of a member, unless he has made the payment to the society in respect of membership

Disqualification for member, if

- Member's business is in conflict or competitive with the business of such MSCS
- Member has used for 2 consecutive years the services below the minimum level specified in the bye-laws
- Member has not attended 3 consecutive general meetings and such absence has not been condoned by the members in the general meeting
- Member has made any default in payment of any due amount to be paid to the MSCS

Expulsion of members is by resolution passed by a majority of not less than 2/3rd of members present and voting at general meeting held for the purpose.

- Member shall not be eligible for re-admission as a member for a period of 1 year from the date of such expulsion

Vote of members

Every member of MSCS, including a member who is an employee of such society, shall have one vote in the affairs of the society *Provided that a member who is an employee of such society shall not be entitled to vote:*

- *at the election of a member of the board of such society*
- *in any general meeting convened for framing the bye-laws of such society or any amendments thereto*
- *in the case of an equality of votes, the chairperson shall have a casting vote*

Every member of a MSCS shall exercise his vote in person and no member shall be permitted to vote by proxy - provided that a MSCS or a cooperative society or any other institution which is a member of any other MSCS may appoint its representative to vote on its behalf in the affairs of such MSCS

Shares

- Restriction on holding of shares - No member, other than the Central Government, State Government, NCDC, any other corporation owned/controlled by the Government and any Government company as defined in section 617 of the Companies Act, 1956 (1 of 1956) shall hold more than such portion of the total share capital of society (in no case exceeding 1/5th thereof) as may be prescribed in the rules or bye-laws of such MSCS
- Redemption of shares - Shares held in MCSC by any of the authorities referred above shall be redeemable in accordance with the bye-laws of such MSCS and in a case where the bye-laws do not contain any such provision, in such manner as may be agreed upon between MSCS and such authority. *The redemption of shares shall be on the face value of the shares*
- Transfer of interest on death of members - On the death of a member, a MCSC may transfer share/interest of deceased member to the person nominated in accordance with the bye-law or, if there is no person nominated, to such person as may appear to the board to be the heir/legal representative of the deceased, or pay to such nominee, heir/legal representative, as the case may be, a sum representing the value of such member's share or interest unless within 6 months of the death of the member prevented by an order of a competent court, pay all other moneys due to the deceased member from the society

Constitution, Powers and Functions of General Body (Multi State Cooperative Act)

- General body of a MSCS shall consist of all the members of such society
- Ultimate authority of MSCS shall vest in the general body of its members

- The board of every MSCS shall, within such period as may be prescribed, and not later than 6 months after the close of the corresponding year, call the AGM for the following purposes
  1. Consideration of audited statement of accounts, audit report, annual report
  2. Disposal of net profits
  3. Review of operational deficit, if any
  4. Creation of specific reserves and other funds
  5. Approval of the annual budget
  6. Review of actual utilisation of reserve and other funds
  7. Approval of the long-term perspective plan and the annual operational plan
  8. Expulsion of members ; List of employees who are relatives of board members or CEO
  9. Amendment of bye-laws, if any; election of members of the board, if any

Where the board of a MSCS fails to convene AGM within the period specified

- Central Registrar shall be competent to convene such AGM within a period of 90 days from the date of expiry of the period and expenditure incurred on such meeting shall be borne by the society
- At every AGM, the board will lay before the society, a statement showing details of loans or goods on credit, if any, given to any of members of the board or spouse/son/daughter of board member during preceding year or outstanding against him/against such spouse/son/daughter of member of the board

Special General Meeting of the General Body

- The Chief Executive may, at any time, on the direction of the board, call a special general meeting of the society and shall call such meeting within one month after the receipt of a requisition in writing from the Central Registrar or from such member or members or a proportion of the total number of members, as may be provided in the bye-, in the opinion of the Central Registrar, was or were responsible for the refusal or failure to convene the special general meeting
- The Central Registrar or any person authorised by him in this behalf shall have the power to call such meeting and that meeting shall be deemed to be a meeting called by the Chief Executive and the Central Registrar may order that the expenditure incurred in calling such meeting shall be paid out of the funds of the society or by such person or persons who, in the opinion of the Central Registrar, was or were responsible for the refusal or failure to convene the special general meeting.

Minutes of proceedings of general meetings and of board and other meetings

- Every society shall cause minutes of all proceedings of every general meeting and of all proceedings of every meeting of its board or of every committee of the board, to be kept by making within 30 days of the conclusion of every such meeting concerned, entries thereof in books kept for that purpose with their pages consecutively numbered
- Each page of every such book shall be signed and the last page of the record of proceedings shall be dated and signed by the chairperson of the said meeting
- The minutes of each meeting shall contain a fair and correct summary of the proceedings thereat; In no case the minutes of proceedings of a meeting shall be attached to any such books as aforesaid by pasting or otherwise
- In the case of a meeting of the board or of a committee of the board, the minutes shall also contain (a) the names of the members of the board present at the meeting; and (b) in the case of each resolution passed at the meeting, the names of the members of the board, if any, dissenting from, or not concurring in, the resolution

B. Board of Directors (Multi State Cooperative Society)

- There shall be a board of directors for every MSCS; the members of MSCS by a resolution in a general meeting, shall elect directors who shall be members of board
- The board shall consist of such number of directors as may be specified in the bye-laws provided that the maximum number of directors in no case shall exceed 21
- The board may co-opt 2 directors in addition to twenty-one directors
- The functional directors in the MSCS shall also be the members of the board and such members shall be excluded for the purpose of counting the total number of directors

Board Functions

- Admit members
- Interpret the organisational objectives and set up specific goals
- Periodic appraisal of operations
- Appoint and remove a CEO
- Place annual report, fin. Statements, annual plan and budget for approval in AGM
- Acquire or dispose of immovable property
- Approve annual/supplementary budget and raise funds

Board Meetings

- The Chief Executive shall convene the meetings of the board at the instance of the chairperson or president
- The total number of meetings of the board in a year and the venue of meetings as may be specified in the bye-laws: Provided that the board shall meet at least once in every quarter
- The Chairperson, if for any reason is unable to attend a meeting of the board, any other member of the board chosen by the members of the board present from amongst themselves at the meeting, shall preside at the meeting

C. Chief Executive Officer (CEO)

- There shall be a CEO in every MSCS to be appointed by board and he shall be a full-time employee of MSCS
- He shall be a member of the board and of the Executive Committee and such other committees or sub-committees
- Where the Central Government or the State Government holds 51% or more of equity share capital, the salary and allowances payable to and other terms and conditions of service including pension, gratuity and other retirement benefits of the Chief Executive shall be such as may be prescribed
- The Chief Executive shall under the general superintendence, direction and control of the board

Responsibilities of the CEO	Operate the account and be responsible for making arrangements for safe custody of cash	Sign on the documents for and on behalf of the multi-state cooperative society
Make arrangements for the proper maintenance of various books and records of the MSCS and for the correct preparation, timely submission of periodical statements and returns	Convene meetings - General body, Board, Executive Committee and other Committees or Sub-committees constituted and maintaining proper records for such meetings	Make appointments to the posts in the multi-state cooperative society in accordance with the bye-laws
Assist the board in the formulation of policies, objectives and planning	Furnish to the board periodical information necessary for appraising the operations and functions of the MSCS	Appoint the person to sue or be sued on behalf of the MSCS
Present the draft annual report and financial statement for the approval of the board within 30 days of closure of the financial year	Perform such other duties, and exercise such other powers, as may be specified in the bye-laws of the multi-state cooperative society	Overall Day-to-Day management of the business

Summary

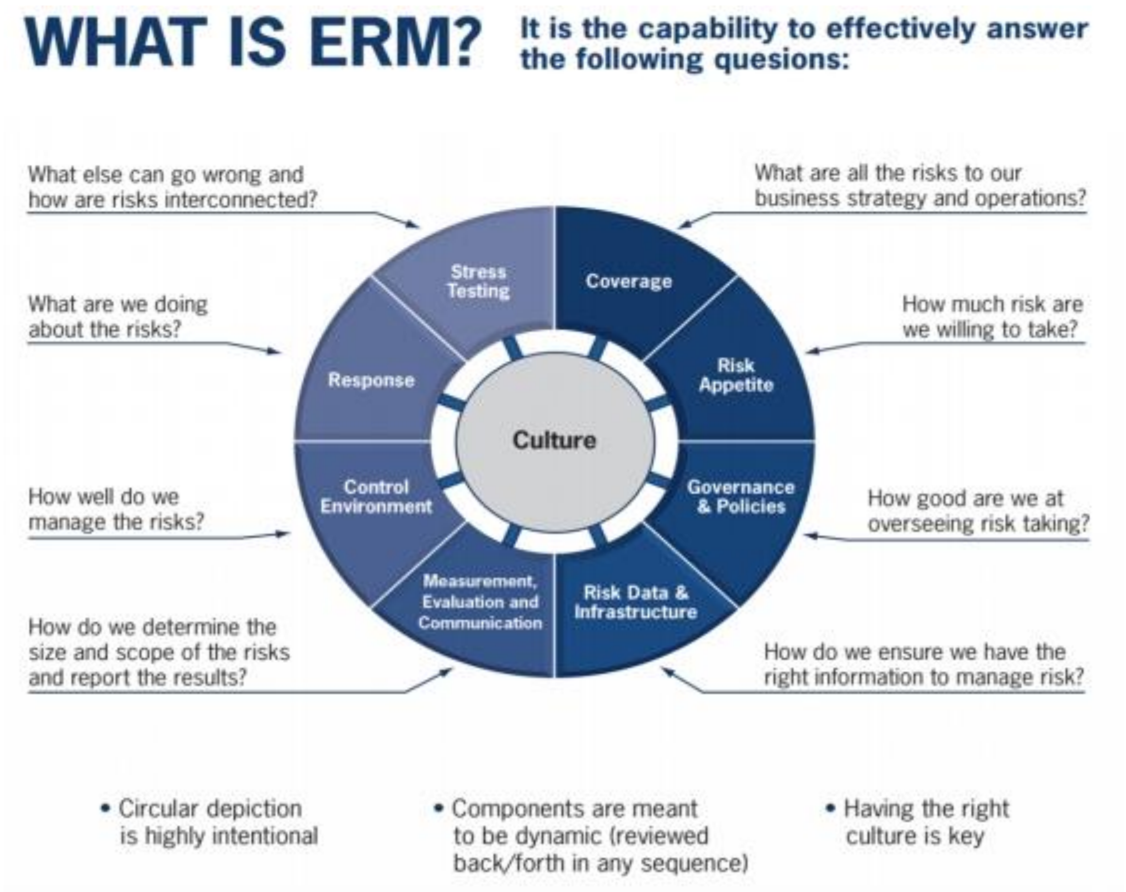
Regardless of the legal form of the FPO, the roles of the various members of the FPO – the membership, the board and the CEO remain the same. However, one must be aware of the specific legal compliance matters pertaining to the legal form – that may vary between various Acts. When each arm of the FPO plays its role, the FPO can function smoothly and grow to help its members improve their livelihoods.

Chapter 5: Enterprise Risk and Their Management – Role of Key Functionaries

This chapter outlines the various kinds of risks that an agricultural enterprise such as an FPO is likely to face along with possible strategies for mitigating such risks.

Enterprise Risk Management (ERM) is a term used in business to describe risk management methods that a firm uses to identify, assess and mitigate risks which pose problems for the enterprise. The simple question that ERM practitioners attempt to answer is:

"What are the major risks that could stop us from achieving the mission?"



https://qmc.binus.ac.id/2020/12/03/enterprise-risk-management/

The ERM framework helps management answer these relevant business questions:

1. What are all the risks to our business strategy and operations? (coverage)
2. How much risk are we willing to take? (risk appetite)

3. How do we govern risk taking? (culture, governance, and policies)
4. How do we capture the information we need to manage these risks? (risk data and infrastructure)
5. How do we control the risks? (control environment)
6. How do we know the size of the various risks? (measurement and evaluation)
7. What are we doing about these risks? (response)
8. What possible scenarios could hurt us? (stress testing)
9. How are various risks interrelated? (stress testing)

Major risks faced by FPOs and mitigation strategies:

Agriculture as an enterprise is subject to many uncertainties. Agricultural risk is associated with negative outcomes that stem from imperfectly predictable biological, climatic, and price variables. Managing risk starts with identifying the most crucial risks faced; understanding the potential impacts and likelihood of undesirable outcomes; and identifying and taking possible steps to mitigate or lessen the impacts.The major risks faced by the farmers & their collectives and suggested tools and strategies for managing each of these risks are given as under :

1) **Production Risk**: Production risk relates to the possibility that the farm yield or output levels will be lower than projected. Production risks mostly arise from adverse weather conditions such as drought, hailstorm or excessive rainfall at harvest or planting stage. Damage due to insect, pests and disease despite control measures employed, and from failure of equipment and machinery such as an irrigation pump can also pose risks.

Strategies to manage production risks include:

- Follow recommended production practices.
- Diversify enterprises by growing different crop varieties and completely new crops.
- Expand production through more intensive growing practices or by planting more acreage.
- Purchase crop insurance coverage to stabilize income during times of loss
- Consider site selection - use fields less susceptible to pests and rotate crops.
- Maintain equipment and keep facilities in good working condition.

2) Marketing Risk: Marketing risks relate to the possibility that the farmers will lose the market for their products or that the price received will be less than expected. Lower sales and prices due to increased numbers of competitors or changing consumer preferences are common sources of marketing risk. Marketing risks can also arise from loss of market access due to a wholesale buyer or processor relocating or closing, or if a product fails to meet market standards or packaging requirements.

Strategies to manage marketing risks include:

- Develop a marketing plan with realistic sales forecasts and target prices.
- Increase direct marketing efforts to capture a higher price.
- Market through multiple channels or outlets to reduce reliance on a single market.
- Enter into sales or price contracts with buyers.
- Spread harvest and sales over the season by scheduling planting and considering storage.
- Conduct essential market research - understand your customers' needs and preferences.

3) Financial Risk: Financial risk relates to not having sufficient cash to meet expected obligations, generating lower than expected profits, and losing equity in the farm. Production and marketing risks described above are usually the cause for financial risk. In addition, financial risks may also be caused by increased input costs, higher interest rates, excessive borrowing, higher cash demand for family needs, lack of adequate cash or credit reserves etc.

Strategies to manage financial risks include:

- Develop a strategic business plan.
- Monitor financial ratios and enterprise benchmarks.
- Control key farm expenses - consider other suppliers and alternative inputs.
- Conduct a trend analysis to assess change in farm profits over time.
- Communicate and renegotiate agreements with suppliers and loan terms with lenders.
- Consider leasing and rental options rather than purchasing machinery, equipment or land.
- Evaluate the possibility of business diversification or contracting different enterprises.

4) **Legal and Environmental Risk**

In part, legal risk relate to fulfilling business agreements and contracts. Failure to meet these agreements often carries a high cost. Another major source of legal risk is tort liability - causing injury to another person or property due to negligence. Lastly, legal risk is closely related to environmental liability and concerns about water quality, erosion and pesticide use.

Strategies to manage legal risks include:

- Review business insurance policies and carry sufficient liability coverage.
- Understand business contracts and agreements - ask questions if you are unsure.

- Use good agricultural practices to limit environmental risk.
- Know and follow the Govt. rules and regulations related to the farming operation

5) Technology risk

Like most other entrepreneurs, farmers are responsible for all the consequences of their activities. Adoption of new technologies in modernizing agriculture such as introduction of genetically modified crops causes an increase in producer liability risk.

Strategies to manage technological risks include:

- Stay upto date with latest technological advances in farming through newspapers, TV, radio
- Stay in touch with agriculture universities, progressive farmers, agriculture extension service providers to understand the latest technologies in their respective area, the advantages and disadvantages of adopting these

(the bullets below are for other organisations supporting farmers and not the farmers/FPOs themselves, hence deleted them)

6) Operational Risk

Operational risks are those that arise out of day to day operation and business activities due to various work related hazards and uncertain conditions. This risk disrupts regular working process of a business organisation. This occurs due to internal or external frauds, business practices, execution, delivery and processing.
These can be mitigated by a monitoring system to monitor daily processes and functions of the enterprise

7) Compliance Risk

Compliance risk is the risk of legal or regulatory sanction. Business may suffer as a result of its failure to comply with laws, regulation, rules and code of conduct applicable to its business activities.
Periodic internal and statutory audits can mitigate this risk to a large extent

8) Governance Risk

Governance risk that is risk of the FPO as an organisation failing to function/becoming defunct due to conflict between members/shareholders and representatives.
Mitigation strategies would include good governance systems such as regular transparent communication between members and proper conflict management procedures in place.

Risk Management Mechanism

Identification of risks and setting possible safeguards to manage them is an integral part of the risk analysis. Though in an ideal world all risks can be envisaged to be eliminated, it is an impossible proposition. So, risk management must involve the process of identifying risks and assessing whether they can be eliminated entirely or mitigated to a manageable proportion through operational resilience. If the risks seem unmanageable to the extent of affecting the very existence of the business, then one may discard the business idea all together. As risks may continue to remain in the business environment both internally and externally, even after starting the business, it is extremely important to develop a risk assessment, measurement mechanism and risk mitigation strategy. Some of them can be:

- Identifying and mapping the processes / factors that would have the biggest impact on earnings, if disrupted. *For Example,* a bad monsoon may severely affect crop production in rain-fed areas thus reducing earning of the FPO considerably
- Identifying critical infrastructure - including processes, relationships, people, regulations, plant, and equipment - that supports the FPO's ability to generate earnings. *For instance*, a break-down in the bulk milk chilling unit, could lead to the whole stock of milk being spoilt, besides adversely affecting the supply chain.
- Identifying the main vulnerabilities - Vulnerability is the inability to cope with the adverse effects of an event or risk. *For Ex*ample, storage, processing, and trading of commodities can come under new regulation, imposing conditions which the FPO may find difficult to comply with, at a short notice.
- Identifying the weakest links - the elements on which all the others depend. For instance, a single buyer for all produces, is the weakest link in this scenario

Identification of risk warning signals

One of the most common reasons for the failure of a business is due to management, particularly in small businesses, where the business owners/directors have limited understanding of the obligations and, in many cases, limited education and/or experience in financial matters. Too often, business owners/directors take months or even years to realise that their business is in trouble and often ignore the early warning signs. Here is list of some warning signals in case of FPOs which indicate that the business may be at risk:

Early warning signals

1. **Cash flows**: The first sign that things are going wrong is a constant shortage of cash. If a business is spending more than it earns, it will lead to problems, unless it is deliberate and well-funded. Cash flow statements are a critical indicator of financial distress. A negative cash flow statement implies that the company is paying more cash than it generates from its operations. If cash flow stays negative over a sustained period, it is a signal that cash in the bank could be running low and eventually it may lead to bankruptcy.

2. **Falling margins and poor profits**: Falling margins suggest that costs are increasing and/or income is decreasing, which can cause pressure on cash flows. When a business struggles to earn profit and there isn't a clear path to profitability, then it will not sustain itself from internal funds and will be forced to raise money externally at higher cost. This will raise its business risk (reputation risk) and lower its credit worthiness with creditors, suppliers, investors and banks eventually limiting access to the funds and leading to the failure.

3. **Poor sales growth or decline in revenues**: Sales growth is an indicator that the market is positively responding to your products or services based on your business model. There is no better parameter of market/customer acceptance than revenue. If revenue is dipping or it is not growing, chances are that the business will be under pressure to sell its product or service at lower margins or even at loss leading towards the sorry state of financial distress.

4. **Extended payment days**: Another sign of possible trouble is a rise in either creditor or debtor payment days. If business has to delay payments to its creditors, this can force some suppliers to stop supplying and it may cause delays in your production/delivery of service which can be bad for your reputation and that of your business. Adverse changes in these payment days should be investigated to see whether they are signs of something more serious. In instances where the company has significant dependency on one or two major customers, this risk is greatly enhanced.

5. **Defaulting on payments**: Anyone can miss or forget a payment, but if the frequency with which it occurs increases, it suggests a business cannot pay in its own way. This is considered a sign of business failure, paving the way for insolvency and liquidation.

6. **Increase in interest payments**: Interest payments can put pressure on cash flows, and this pressure is likely to be worsened for financially distressed companies. If money lenders view the business as high risk, funding debt will cost more (e.g. interest payments will be high). This could indicate poor financial health and be a sign that the bank or other lenders are suspicious of business viability.

7. **Relationship with the bank**: When the relationship with the banks becomes significantly strained; asking for extra security, personal guarantees, withdrawing overdrafts and of course declined loans, it more often than not implies that the business' creditworthiness has been eroded.

8. **Legal and contractual non-compliance**: Inability to comply with the terms of loan agreement, or non-compliance with capital and other statutory requirements, suggest that raising additional funds can be a challenge. Legal or regulatory proceedings against the company should be assessed and monitored carefully as it may result in any claim on the company affecting its cash flows.

9. **Business and market risks**: Look out for changes in the market and external environment. Often, they can trigger, if not cause, deterioration in a company's financial health. Loss of a major market, key customer, franchise, license, or principal supplier can adversely affect the sales. A downturn in the economy, the appearance of a strong competitor, an unexpected shift in buyer's habits, among other things, can put serious pressure on a company's revenues and profitability. Be aware of such risk factors and try to stay ahead of these changes in the market conditions.

10. Poor and negative participation by FPO members: this includes participation in various meetings, decreased patronage (buying from and selling to the FPO), unresolved conflict during meetings, non-cooperation with field staff, etc. Emergency Board Meetings may need to be called if the situation continues.

Unless these problems are effectively managed, they can be the start of a downward slide in the FPO's fortunes

To sum up, an FPO must be aware of the potential risks that can negatively affect its business and therefore the incomes of its members. It might not be possible to envisage all risks at the outset as some risks may develop as the business of the organisation grows. However it is important that members be aware of the potential risks, aware that unknown risks await and be ready to take on challenges as and when they arise.

Chapter 6: Finance, Accounts, Audits - FPO Management

Finance, Accounts, Audit Function and Guidelines on Dispute Resolution Mechanism and Mergers and Acquisitions

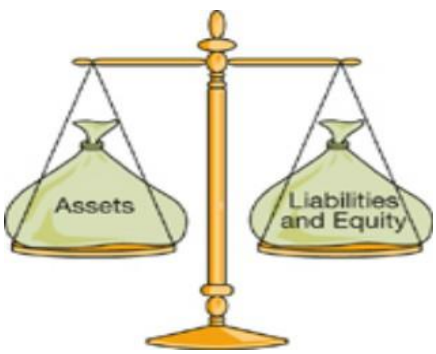
The health of an FPO is determined by the strength of its management of its resources - especially its financial resources. The different laws governing FPOs in India stipulate several guidelines and rules for management of finance, accounts and audits. This chapter delves into the legal compliance requirements for finance and accounts management, rules for mergers and acquisitions among FPOs as also how to resolve disputes when they arise for FPOs registered as Companies and Multistate Cooperative Societies.

Legal Requirements for Financial Management in FPOs - registered as a Company

Books of Accounts: As per Section 378ZE - Every FPO shall keep at its registered office proper books of account with respect to:

- All sums of money received and expended and the matters in respect of which the receipts and expenditure take place;
- All sales and purchase of goods by FPO;
- The instruments of liability executed by or on behalf of the FPO;
- Assets and liabilities of the FPO;
- In case of FPO engaged in production, processing and manufacturing, the particulars relating to utilisation of materials or labour or other items of costs

Financial Statements: The balance-sheet and profit and loss accounts of the Producer Company shall be prepared in accordance with the provisions contained in Section 129, Companies Act 2013



- The financial statements shall give a true and fair view of the state of affairs of the company
- Comply with the accounting standards notified under section 133; Such financial statements shall be in accordance with the accounting standards: 81
- At every AGM of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year
- If a company contravenes the provisions of this section - MD, the whole-time Director in charge of finance, the CFO or any other person charged by the Board with the duty of complying with the requirements of this section and in the absence of any of the officers mentioned above, all the directors shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than Rs. 50,000, but which may extend to Rs. 5 lakh, or with both.

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 CA.

As per Section 378ZG*, the auditor shall report on the following additional matters relating to the FPO:*

- *Amount of debts due along with particulars of bad debts, if any;*
- *The verification of cash balance and securities;*
- *The details of assets and liabilities;*
- *All transactions which appear to be contrary to the provisions of this Chapter in on Finance, Accounts and Audit;*
- *The loans given by the FPO to the Directors;*
- *The donations or subscriptions given by FPO;*
- *Any other matter as may be considered necessary by the auditor*

General and other reserves

As per Section 378Z-I

1. Every Producer Company shall maintain a general reserve in every financial year, in addition to any reserve maintained by it as may be specified in articles.
2. In a case where the Producer 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.

Issue of bonus Shares

As per Section 378Z-J

- Producer Company may, upon recommendation of the Board and passing of resolution in the general meeting, issue bonus shares by capitalisation of amounts from general reserves referred to in section 378Z-I in proportion to the shares held by the Members on the date of the issue of such shares

Loans to Members

As per Section 378ZK the Board may, subject to the provisions made in articles, provide financial assistance to the Members of the:

1. credit facility, to any Member, in connection with the business of the Producer Company, for a period not exceeding six months

2. loans and advances, against security specified in articles to any Member, repayable within a period exceeding three months but not exceeding seven years from the date of disbursement of such loan or advances: Provided that any loan or advance to any director or his relative shall be granted only after the approval by the Members in general meeting

Investments

As per Section 378ZL

1. The general reserves of any FPC shall be invested to secure the highest returns available from approved securities, fixed deposits, units, bonds issued by the Government or co-operative or scheduled bank or in such other mode as may be prescribed

2. Any FPC may, for promotion of its objectives acquire the shares of another FPC

3. Any FPC may subscribe to the share capital of, or enter into any agreement or other arrangement, whether by way of formation of its subsidiary company, joint venture or in any other manner with anybody corporate, for the purpose of promoting the objects of the Producer Company by special resolution in this behalf

4. Any FPC may invest, by way of subscription, purchase or otherwise, shares in any other company, other than a FPC, specified under sub-section (2), or subscription of capital under sub-section (3), for an amount not exceeding 30% of the aggregate of its paid-up capital and free reserves

5. All investments by a FPC may be made if such investments are consistent with the objects of the Producer Company.

6. The Board of a FPC may, with the previous approval of Members by a special resolution, dispose of any of its investments

7. Every FPC shall maintain a register containing :

- Particulars of all the investments, showing the names of the companies in which shares have been acquired, number and value of shares; the date of acquisition; and the manner and price at which any of the shares have been subsequently disposed of.
- The register shall be kept at the registered office of the FPC and the same shall be open to inspection by any Member who may take extracts therefrom.

As per Section 378ZM

1. If any person, other than a Producer Company carries on business under any name which contains the words "Producer Company Limited", he shall be punishable with fine which may extend to Rs. 10,000for every day during which such name has been used by him.
2. If a director or an officer of a FPC, who wilfully fails to furnish any information relating to the affairs of the FPC required by a Member or a person duly authorised in this behalf, he shall be liable to imprisonment for a term which may extend to 6 months and with fine equivalent to 5% of the turnover of that FPC during the preceding financial year.
3. If a Director or Officer of a FPO -
   - Fails to hand over the custody of books of account and other documents or property in his custody to the FPC of which he is a director or officer; or fails to convene annual general meeting or other general meetings
   - he shall be punishable with fine which may extend to Rs. 1.0 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

Amalgamation, Merger or Division

As per Section 378ZN

1. A FPC may, by a resolution passed at its general meeting
   - decide to transfer its assets and liabilities, in whole or in part, to any other FPC, which agrees to such transfer by a resolution passed at its general meeting
   - A FPC can divide itself into two or more new FPCs
2. Any two or more FPCs may, by a resolution passed at any general or special meetings of its Members, decide to

   (a**) Amalgamate** and form a new Producer Company;

   (b) **Merge** one FPC with another FPC

3. Every resolution of FPC under this section shall be passed at its AGM by a majority of total Members, with right of vote not less than two-thirds of its Members present and voting and such resolution shall contain all particulars of the transfer of assets and liabilities, or division, amalgamation, or merger, as the case may be
4. Before passing a resolution under this section, the FPC shall give notice thereof in writing together with a copy of the proposed resolution to all the Members and creditors who may give their consent
5. Notwithstanding anything contained in articles or in any contract to the contrary, any Member, or any creditor not consenting to the resolution shall, during the period of one month of the date of service of the notice on him, have the option:
   - Transfer his shares with the approval of the Board to any active Member thereby ceasing to continue as a Member of that Company
   - In case of a creditor, to withdraw his deposit or loan or advance, as the case may be
6. Any Member/Creditor, who does not exercise his option within the period specified shall be deemed to have consented to the resolution
7. A resolution passed by a FPC under this section shall not take effect until the expiry of one month or until the assent thereto of all the Members and creditors has been obtained, whichever is earlier
8. The resolution referred to in this section shall provide for:
   a) The regulation of conduct of the affairs of FPC in future
   b) The purchase of shares or interest of any Members of the FPC by other Members or by the FPC
   c) The consequent reduction of its share capital, in case of purchase of shares of one FPC by another Producer Company
   d) Termination, setting aside or modification of any agreement, howsoever arrived between the company on the one hand and the directors, secretaries and manager on the other hand, apart from such terms and conditions as may, in the opinion of the majority of shareholders, be just and equitable in the circumstances of the case
   e) Termination, setting aside or modification of any agreement between the Producer Company and any person not referred to above clause
   f) Setting aside of any transfer, delivery of goods, payment, execution or other act relating to property, made or done by or against the FPC within 3 months before the date of passing of the resolution, which would if made or done against any individual, be deemed in his insolvency to be a fraudulent preference;
   g) The transfer to the merged company of the whole or any part of the undertaking, property or liability of the Producer Company;
   h) The allotment or appropriation by the merged company of any shares, debentures, policies, or other like interests in the merged company;
   i) The continuation by or against the merged company of any legal proceedings pending by or against any Producer Company;
   j) The dissolution, without winding up, of any Producer Company;
   k) The provision to be made for the Members or creditors who make dissent;

l) The taxes, if any, to be paid by the Producer Company;
m) Such incidental, consequential and supplemental matters as are necessary to secure that the division, amalgamation or merger shall be fully and effectively carried out.

9. When a resolution passed by a FPC under this section takes effect, the resolution shall be a sufficient conveyance to vest the assets and liabilities in the transferee
10. The FPC shall make arrangements for meeting in full or otherwise satisfying all claims of the members and the creditors who exercise the option, within the period specified not to continue as the Member or creditor, as the case may be
11. Where the whole of the assets and liabilities of a FPC are transferred to another FPC, the registration of the first mentioned Company or the merging company, as the case may be, shall stand cancelled and that Company shall be deemed to have been dissolved and shall cease to exist forthwith as a corporate body
12. Where two or more FPCs are amalgamated into a new and the Producer Company so formed is duly registered by the Registrar, the registration of each of the amalgamating companies shall stand cancelled forthwith on such registration and each of the Companies shall thereupon cease to exist as a corporate body
13. Where a FPC divides itself into two or more FPCs and the new FPCs are registered, the registration of the erstwhile FPC shall stand cancelled forthwith and that Company shall be deemed to have been dissolved and cease to exist as a corporate body
14. The amalgamation, merger or division of companies under the foregoing sub-sections shall not in any manner whatsoever affect the pre-existing rights or obligations and any legal proceedings that might have been continued or commenced by or against any erstwhile company before the amalgamation, merger or division, may be continued or commenced by, or against, the concerned resulting company, or merged company, as the case may be.
15. The Registrar shall strike off the names of every Producer Company deemed to have been dissolved
16. Any member or creditor or employee aggrieved by the transfer of assets, division, amalgamation or merger may, within 30 days of the passing of the resolution, prefer an appeal to the Tribunal
17. The Tribunal shall, after giving a reasonable opportunity to the person concerned, pass such orders thereon as it may deem fit
18. Where an appeal has been filed, the transfer of assets, division, amalgamation or merger of the Producer Company shall be subject to the decision of the Tribunal

Dispute Resolution

As per 378Z-O - Where any dispute relating to the formation, management or business of a Producer Company arises -

- Relating to the formation, management or business of a Producer Company
- Among Members and Former Members, Nominees of deceased Members

- Between a member/ Former Members/Nominees of deceased Members and the FPC/Board of Directors, office-bearers, or liquidator, past or present
- Between the FPC or its Board/ any director/office-bearer/ any former director or nominee, heir or legal representative of any deceased director of FPC
- Disputes: To be settled by conciliation or by arbitration as provided under the Arbitration and Conciliation Act, 1996

For the purposes of this section, a dispute shall include:

a) a claim for any debt or other amount due;

b) a claim by surety against the principal debtor, where the FPC has recovered from the surety amount in respect of any debtor or other amount due to it from the principal debtor as a result of the default of the principal debtor whether such debt or amount due be admitted or not;

c) a claim by FPC against a Member for failure to supply produce as required of him;

d) a claim by a Member against the FPC for not taking goods supplied by him

If any question arises whether the dispute relates to formation, management or business of the Producer Company, the question shall be referred to the arbitrator, whose decision thereon shall be final

Legal Requirements for Multi-State Cooperative Societies - finances, audits, dispute resolution

Similar to FPOs registered as companies, FPOs registered as cooperatives are also expected to maintained detailed accounts of their transactions and present the final statements during their AGM. However, there are specific rules for the management of funds as detailed below.

Properties and Funds of Multi-State Cooperative Societies

- Funds not to be divided by way of profit - No part of the funds, other than net profits, of MSCS shall be divided by way of bonus or dividend or otherwise distributed among its members.
- Net profits in respect of a society - Earning profits shall be calculated by deducting from the gross profit for the year, all interest accrued and accruing in relation to amounts which are overdue, establishment charges, interest payable on loans and deposits, audit fees, working expenses including repairs, rent, taxes and depreciation, bonus payable to employees and equalisation fund for such bonus, provision for payment of income-tax, development rebate, provision for development fund, bad debt fund, price fluctuation fund, dividend equalisation fund, share capital redemption fund, investment fluctuation fund, provision for retirement benefits to employees, and after providing for or writing off bad debts and losses not adjusted against any fund created out of profit
- Provided that such society may add to net profits for the year interest accrued in preceding years, but actually recovered during the year

Disposal of net profits - out of its net profits in any year

- Transfer an amount not less than 25%, to the Reserve Fund
- Credit 1% to Cooperative Education Fund maintained by the National Cooperative Union of India Limited
- Transfer an amount not less than 10% to a Reserve fund for meeting unforeseen losses

Subject to such conditions as may be prescribed, the balance of the net profits may be utilised for all or any of the following purposes-

a) Payment of dividend to the members on their paid-up share capital at a rate not exceeding the prescribed limit

b) Constitution of, or contribution to, such special funds including education funds, as may be specified in the bye-laws

c) Donation of amounts not exceeding 5%, of the net profits for any purpose connected with the development of cooperative movement or charitable purpose
d) Payment of ex gratia amount to employees of the society to the extent and in the manner specified in the bye-laws

Investment of funds

MSCS may invest or deposit its funds in a cooperative bank, state cooperative bank, cooperative land development bank or central cooperative bank; in any of the securities specified in section 20 of the Indian Trust Act, 1882 (2 of 1882); in the shares or securities of any other MSCS or any cooperative society; in the shares, securities or assets of a subsidiary institution or any other institution; with any other bank**

> (**"bank" means any banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), and includes- (i) SBI (ii) a subsidiary bank as defined in clause (k) of section 2 of the SBI (Subsidiary Banks) Act, 1959 (38 of 1959); (iii) a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970) or a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980).

Restriction on contribution

No Society shall make a contribution, either in money or in kind, whether directly or indirectly, to an institution which has an object of furtherance of the interest of a political party

Restriction on loans/borrowings

1. A multi-state cooperative society, other than a cooperative bank, shall not make a loan to a member on the security of his share or on the security of a non-member
2. Notwithstanding anything contained above, a multi-state cooperative society may make a loan to a depositor on the security of his deposit
3. A MSCS may receive deposits, raise loans and receive grants from external sources to such extent and under such conditions as may be specified in the bye-laws: Provided that the total amount of deposits and loans received during any financial year shall not exceed 10 times of the sum of subscribed share capital and accumulated reserves: Provided further that while calculating the total sum of subscribed share capital and accumulated reserves, the accumulated losses shall be deducted

4. Subject to provisions of (1) above, a MSCS may accept funds or borrow funds for the fulfilment of its objects on such terms and conditions as are mutually contracted upon.
5. A MSCS may issue non-convertible debentures or other instruments subject to the provisions of any law for the time being in force to raise resources for the fulfilment of its objectives to the extent of 25% of its paid-up share capital

Contributory Provident Fund

Subject to the provisions of the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 (19 of 1952), a MSCS having such number or class of employees as may be prescribed, may establish a contributory provident fund for the benefit of its employees to which shall be credited all contributions made by the employees and the society in accordance with the bye-laws of the society. Monies standing to the credit of any contributory provident fund established shall not:

1. Be used in the business of the society;
2. Form part of the assets of the society;
3. Be liable to attachment or be subject to any other process of any court or other authority

Financial Audits

Appointment and remuneration of auditors

1. Every MSCS shall cause to be audited by an auditor/s (from a panel of auditors approved by the Central Registrar or from a panel prepared by MSCS) its accounts at least once in each year
2. Every MSCS shall, at each AGM, appoint an auditor or auditors to hold office from the conclusion of that meeting until the conclusion of the next AGM and shall, within 7 days of appointment, give intimation thereof to every auditor so appointed
3. Every auditor appointed shall within 30 days of receiving appointment advice from society, inform the Central Registrar in writing that he has accepted, or refused to accept, the appointment
4. Where at an AGM, no auditors are appointed or re-appointed, the Central Registrar may appoint a person to fill the vacancy
5. First auditor or auditors of a society shall be appointed by the board within 1 month of the date of registration of such society and the auditor or auditors so appointed shall hold office until the conclusion of the first AGM
6. The remuneration of the auditors in the case of an auditor appointed by the board or the Central Registrar may be fixed by the board or the Central Registrar, as the case may be

Qualifications and disqualifications of Auditors

- A person shall not be qualified for appointment as an auditor unless he is a chartered accountant
- None of the following persons shall be qualified for appointment as auditor
  - a body corporate
  - an officer or employee of the MSCS
  - a person who is a member or who is in the employment of an officer or employee of the society
  - a person who is indebted to the society or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the society for an amount exceeding Rs. 1000/-
  - A person shall also not be qualified for appointment as an auditor, if he is disqualified for appointment as an auditor of any other body corporate or MSCS or cooperative society
  - If an auditor becomes subject, after his appointment, to any of the disqualifications above, he shall be deemed to have vacated his office as such

Powers and duties of auditors

1. Every auditor shall have a right of access at all times to the books, accounts and vouchers of the society and shall be entitled to require from the officers or other employees of the multistate cooperative society such information and explanations as the auditor may think necessary for the performance of his duties as an auditor
2. The auditor shall inquire
   - whether loans and advances made by the society on the basis of security, have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the society or its members
   - whether transactions of society which are represented merely by book entries are not prejudicial to the interests of the society
   - whether personal expenses have been charged to revenue account
   - where it is stated in the books and papers of the society that any shares have been allotted for cash, whether case has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance-sheet is correct, regular and not misleading
3. The auditor shall make a report to the members of the society on the accounts examined by him and on every balance-sheet and profit and loss account and on every other document required to be part or annexed to the balance-sheet or profit and loss account, which are laid before the society in AGM during his tenure of office, and the report shall state whether, in his opinion and to the best of his

information and according to the explanations given to him, the said accounts give the information required in the manner so required and give a true and fair view
   - in the case of the balance-sheet of the state of society's affairs as at the end of its financial year
   - in the case of the profit and loss account of the profit or loss for its financial year
4. The auditor's report shall also state-
   - whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit
   - whether, in his opinion, proper books of account have been kept by the society so far as appears from his examination of those books, and proper returns adequate for the purposes of his audit have been received from branches or offices of the society not visited by him
   - whether the report on the accounts of any branch office audited by a person other than the society's auditor has been forwarded to him and how he has dealt with the same in preparing the auditor's report
   - whether the society's balance-sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns
5. Where any of the matters referred to above is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.
6. Signature of audit report etc
   - Only the person appointed as an auditor of the multi-state cooperative society shall sign the auditor's report, or sign or authenticate any other document of the multi-state cooperative society required by law to be signed or authenticated by the auditor.
7. Reading and inspection of auditor's report
   - The auditor's report shall be read before the members of the society in the Annual General Meeting and shall be open to inspection by any member of the society. All notices of, and other communications relating to, any general meeting of a society, which any member of the society is entitled to have sent to auditor, shall also be forwarded to the him; and the auditor shall be entitled to attend any general meeting and to be heard at any general meeting which he attends on any part of the business which concerns him as auditor.

Dispute Resolution

- Notwithstanding anything contained in any other law for the time being in force, if any dispute (other than a dispute regarding disciplinary action taken by a society against its paid employee or an industrial dispute) touching the constitution, management or business of a society arises such dispute shall be referred to arbitration

- The following shall be deemed to be disputes touching the constitution, management or business of a multi-state cooperative society:

  - Claim by the society for any debt or demand due to it from a member or the nominee, heirs or legal representatives of a deceased member, whether such debt or demand be admitted or not

    - Claim by a surety against the principal debtor where the MSCS has recovered from the surety any amount in respect of any debt or demand due to it from the principal debtor as a result of the default of the principal debtor, whether such debt or demand is admitted or not
    - Any dispute arising in connection with the election of any officer of a MSCS
- If any question arises whether a dispute referred to arbitration under this section is or is not a dispute touching the constitution, management or business of a multi-state cooperative society, the decision thereon of the arbitrator shall be final and shall not be called in question in any court
- Where a dispute has been referred to arbitration, the same shall be settled or decided by the arbitrator to be appointed by the Central Registrar
- The provisions of the Arbitration and Conciliation Act, 1996 (26 of 1996) shall apply to all arbitration as if the proceedings for arbitration were referred for settlement or decision under the provisions of the Arbitration and Conciliation Act, 1996.

Filing of returns

Every year within six months of the closure of the accounting year every society shall file the following returns with the Central Registrar:

- Audited Statements of accounts
- Plan for surplus disposal as approved by general body
- List of amendments to the bye-laws of the society
- Annual Report of the activities
- Declaration regarding date of holding of general body meeting and conduct of elections where due

Summary

The legal compliances related to finance management in FPOs, dispute resolution and mergers/amalgamations/divisions - as specific to the legal forms under which the FPOs are registered. Every FPO must access the latest versions of the Act and Rules - so that they comply and avoid costly penalties.

Chapter 7: FPO as an Enterprise – Essentials of Business Planning and Management

The FPO is a hybrid organisation, with the farmer-centredness of a cooperative society and the business orientation of a company. This Chapter studies the various business opportunities that an FPO can undertake to support their members and make the FPO viable.

Business opportunities to FPOs

In brief, the FPO can undertake the following economic activities as a business entity:

- **Input Management**
- **Credit**
- **Technology Transfer**
- **Risk Mitigation Measures**
- **Marketing**

Thus, an FPO can support the member farmers in getting more income by undertaking any/many/ all of the activities indicated above. By aggregating the demand for inputs, the FPO can buy in bulk and at cheaper price compared to individual purchase. Such bulk purchases can reduce the cost of transportation, thereby, reducing the overall cost of production. Similarly, the FPO may aggregate the produce of all members and market in bulk, to fetch better price per unit of produce. The FPO can also provide market information to the member farmers to enable them hold on to their produce till the market price become favourable. All these interventions will result in more income to the member farmers, thus improve the trust and increase the loyalty of the farmer member to the FPO.

Various business opportunities available to FPOs:

Pre-Harvest Stage

- Input and Implement supply business– Agri inputs like seeds, fertilizer, pesticides (FPO can think to get licence for these inputs) and agri implements sprayers, pump sets, pipelines, accessories etc. can be procured and sold to farmers
- Custom hiring business – Hiring of tractor, power tiller, thresher, land leveller, weeder, transplanter, etc., through common facility centre. (the Central and many State Governments currently provide financial assistance for undertaking this activity by FPOs)
- Dissemination of technology and innovations in Agri and Allied sector – Increasing farm productivity

Post-Harvest Stage

- Aggregation or procurement of produce
- Storage of produce: Take advantage of commodity price movement over time period
- Marketing business – Bulk marketing to mandi/whole seller/ institutional buyers - Participation in commodity exchanges and eNAM
- Primary processing - Sorting, drying, cleaning and grading
- Insurance services – Crop insurance, farm machine insurance, etc.
- Packaging and Standardization, Trading, Brand building, Exports

Indicators of a sound business enterprise:

The FPO as a business entity should inculcate the features of a sound business enterprise. A few features are mentioned below -

- **Location and Size**: Favourable location, adequate number of members and members' active involvement have a great bearing on the success of FPO as a business concern.
- **Objective**: The FPO's objective should be clearly described and be realistic; each business activity should be directed towards the achievement of set objectives.
- **Planning**: Planning to be rational and realistic; orderly thinking about the ways and means for achieving the set objectives. It should base on identification and analyses of problem/issue and dwell on providing pragmatic solutions within the overall framework of the objectives of the firm and risk mitigation.
- **Innovation and technology:** It is required to improve the methods and techniques of production, quality of the products and also to introduce new products. It enables the FPO to meet the changing needs of customers, demand and gives competitive edge.
- **Sound Organization:** It is a means for exercising effective control and management of any business. A good organizational chart indicating the roles and responsibilities of the CEO, Board of Directors, other office bearers and staff is necessary for the organization with different talents and skills.
- **Adequate Finance:** Finance is the life-blood of the organization. Inadequate finance may hinder business expansion and fail to meet the demand of the farmer members. Hence, arrangements should be made to meet the short-term and long-term financing requirements of the business. Flow of funds and deployment of funds should be planned well in advance.
- **Effective leadership and Management:**In order to achieve the objectives of the business, visionary leadership and effective and efficient management is essential. No firm can achieve success unless it has an efficient management.

Business Plan

A business plan is a succinct document that specifies the components of a strategy with regard to the business mission, external and internal environment and problems identified in earlier analysis. It is an important document to be submitted to the funding agency, post registration. The entire plan of activities of an FPO is mentioned in the business plan. Any individual activity within a business plan of an FPO that needs to be promoted as a micro enterprise, requires a bankable business plan for the funding support of a bank. The consolidation of individual activities/ microenterprises becomes a Business Plan or detailed project report for an FPO. Along with the bankable business plan of the micro enterprise, the business plan of an FPO can be submitted as a supporting document.

In short, the business plan must contain answers to the questions like:

"Who/ What/ Where/ When/ Why/ How/ How Much"

A Good Business Plan acts as a compass to the FPO – showing the right direction needed from time to time. Several FPOs prepare business plans for the sake of preparation and it remains a statement of intention rather than a tool for direction. However, a good Business Plan (BP) is the engine that drives the FPO to the destination it has envisioned. As the members of an FPO are farmers, when an FPO as a representative of farmer members is doing business with the farmers, caution must be ensured that it should be a **"win-win"** for both the farmer members as well as the FPO. So, each FPO should come out with a policy of its own with respect to the benefit to its farmer members.

Rationale/Key benefits of a good and practical Business Plan

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 FPOs, it is all the more essential since most of the members will be acting as businessmen for the first time. A business plan helps the FPOs in the following ways:

i. It helps in examining viability of the venture in a particular market
ii. It provides guidance to the PO for organizing and planning activities
iii. It serves as an important tool in accessing finance/ funding. If the financier is comfortable with the business plan, the FPO will be asked to prepare a Detailed Project Report (DPR)

Key Benefits of a good business plan:

- Provides the needed direction to the FPO in carrying out business for the benefit of its shareholders on a sustainable basis
- Gives bankability to the FPO as bankers will be agreeable to finance doable and achievable business plans
- Gives eligibility for the FPO to get benefit of subsidy linked government schemes

- Prepared in a realistic way, gives operational and financial sustainability to FPO- recognizing the scope for income and areas of expenditure in a precise way
- Gives confidence to the shareholders that the FPO business is going in the right direction
- Helps in setting priorities for managing time, effort and strategy
- Gives scope to track the important things and recast the plan as per need/situation

Steps involved in formulating a vibrant business plan

A new FPO dealing with agricultural activities should follow 05 steps while preparing a vibrant business plan as detailed below:

The business planning process starts with *Generation of Business Ideas*, followed by *Opportunities and Threats Analysis* leading to Identification of suitable business opportunities. Once business opportunity is identified, a *Marketing Plan* is prepared. The final part of the process deals with the preparation of a Financial Plan.

1. Business Idea Generation
2. Opportunity and Threat Analysis
3. Risk Identification and safeguards
4. Marketing Plan preparation
5. Financial Plan preparation

Process of Business Planning

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Step #1: Business Ideas Generation

Identification of specific business opportunity is largely a reactive process. Some of the ways to hit upon a business idea are given below:

a. The idea can be a solution to a problem experienced by primary producers. For instance, collective sale of agricultural produce to the bigger market will reduce the role of middlemen and ensure better price to producers. Collective purchase of agricultural inputs such as seeds, fertilizers, pesticides, etc., and selling them to the producers reduces per unit cost while ensuring quality of the inputs.
b. It can be for use of new technology or material to meet a widely felt need. An idea of creating an agro service center for hiring tractor, power-tiller, transplanter, harvester, thresher, etc., on rental basis to the small farmers can reduce cost of production besides increasing productivity. Similarly, establishing a Bulk Milk Chilling Unit for milk producers can be a good business idea.
c. It can be for establishing Primary processing facilities for sorting / grading / packaging for improving marketability and better price realization of an agri-produce available in bulk in the area.

Step#2: Opportunities and Threats Analysis

Once a few business ideas are generated, each idea must be critically evaluated with respect to the external business environment for identifying the business opportunities and threats. Every idea must be evaluated to know whether it is worth pursuing. The opportunities and threats of each idea are analyzed in terms of the following attributes:

a. Size of the market
b. Its stability i.e., the demand for the product long term or purely temporary?
c. The extent to which the market is dissatisfied with the existing solution
d. Level of competition: high, medium or low
e. Price and quality sensitivity of the market
f. Barriers to entry / exit
g. Changes in government's policies such as subsidy, availability of low cost funds, etc.

Step #3: Risk Identification and Safeguards:

Identification of risks and possible safeguards is an integral part of the Opportunity/Threat analysis. The goal is not to eliminate risks altogether (an impossible proposition) but to identify them and assess whether they can be managed or minimized through operational resilience. If the risks or threats seem unmanageable then one may discard the business idea altogether. Even after starting the business, the risks continue to remain in the business environment, internally and externally, both. Hence, it is important to develop risk assessment mechanism and risk mitigation strategy.

Step #4: 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.

Step # 5: 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.

Technical Feasibility of the business plan

A technical feasibility study assesses the details of how a business intends to deliver a product or service to customers. It is the logistical or tactical plan of how a business will produce, store, deliver, and track its products or services. Technical feasibility lays out details on how a good or service will be delivered, which includes transportation, business location, technology needed, materials and labor. For undertaking the Technical Feasibility of the business to be undertaken by the FPO, the following aspects need to be examined:

1. Availability of technical resource available including the capability of technical team as well as of the machinery etc. required for the proposed business
2. The main aspect to be considered are technology of the project :

- Size of the project
- Location of the project
- Pollution caused by the project
- Production capacity of the project
- Strength of the project
- Emergency or stand by facilities required

3. Primary task of Technical Feasibility is blueprinting:

- Manpower Needs
- Resources, and project Design
- Provide Design Alternatives
- A Choice of Available Technologies, and Cost estimates for each alternative

Business Viability

The viability of a business depends on:

- Customers and Competition
- Capabilities
- Cash flow Management
- Capital
- Quality management
- Diversification of products

Steps required for assessment of economic viability of identified activities

Step 1: Name of the economic activities to be undertaken

Step 2: Working out the annual cost of operation including capital cost

Step 3: Estimate the benefit to be accrued

Step 4: Financial appraisal of the identified activity

Step 5: Recommendation/decision for selection or rejection of the proposal

Tips for selecting viable economic activities for new FPO

- Based on the baseline survey and PRA exercise, analyse what are the problems faced by the farmers in the cluster area viz., unavailability of inputs at time, marketing, high cost of cultivation, storage issue etc.
- What problems we can solve through FPO. Please remember, the problems faced by the farmers are basically business opportunities for FPO
- While selecting the viable economic activities as business of the FPO, just think whether the FPO can provide round the year service to its members
- Though procurement and marketing of fertilizer has very low margin, however, it is very essential component and promote organic link between FPO and the member farmers
- While selecting the economic activities for the FPO, focus should be on reducing the cost of cultivation as well as reduction in marketing cost
- The prioritization of the economic activities should be based on availability of financial resources and capacity of the FPO with minimum risk. In the beginning select 4-5 viable economic activities for better output but provide end to end solution. Other unviable activities to be avoided. FPO can’t give solutions to all the problems of the farmers
- Complementary activities providing year the round engagement of the FPO with the farmer members may be selected initially
- Scaling of the business activities should be taken step by step depending on increase in reserve and surplus and capacity of the FPO
- Provide extension services to member farmers for input supply, technology transfer, aggregation, strategic marketing and bring new technologies/ practices/ innovation in the business activities of the FPO
- Prepare crop calendar for each selected crops/ allied activities. For example the variety of crops, date of nursery raising/ transplantation / sowing/ weeding/ harvesting etc. to plan its procurement and marketing activities well in advance

Need Analysis (Problems)

As stated earlier, the existence of problems in a particular area offers business opportunities to the FPO. Some of the perceived problems in agriculture at various levels as enumerated below:

Input Level

- Inputs like fertilizers, pesticides, seeds, agricultural equipment are not easily available in the blocks
- Farmers are not getting the proper input at the right time as per their demand
- Farmers have to depend on small retail outlets for their agricultural needs
- The farmers are not aware of quality of the products sold to them

Farmers' Level

- As per the baseline survey done by the FPO the younger generation is reluctant to continue in agriculture.
- Farmers need proper guidance from the line department about agriculture.
- They are not aware about the various schemes of the Government departments.
- There are no other farmers' institutions available in the blocks like FPO, Farmers Club etc.

Production Level

- Farmers are not getting proper guidance and proper package of practices for production for different crops. So their production level is decreasing by the time
- Due to excess use of chemical fertilizers and improper water management, natural calamities, lack of technology awareness, the productivity level is low
- In spite of promotion of mechanization of agriculture in some parts of the areas, most of the agricultural operations in are carried out manually using simple and conventional tools and implements like wooden plough, sickle, etc.
- Continue to produce traditional crops instead of migrating to high value crop production

Marketing

- Agricultural marketing is the major problem in the area. Due to lack of proper facilities in the block, the farmers have to depend upon local traders and intermediaries for the sale of their farm produce.
- There are one or two local markets in the block but the farmers are not getting good prices for their products.
- Some of the farmers are going outside the district to sell their product but the transportation cost is very high.
- The farmers don't have any contacts or any idea about the good market where they can get the right price of their product.
- Due to absence of an organized marketing structure, private traders and intermediaries capture the marketing of agricultural produce. All these problems are affecting the income levels of the farmers.

Storage

- Storage facilities of the area are very poor. Under such conditions, the farmers are bound to sell their produce immediately after harvesting.
- There is one cold storage in the district headquarters which is around 50 to 60 km away from the block.
- Due to lack of staying power (perishable nature), farmers are not willing to store their product.

Pricing

- Pricing of the product is a big issue for the farmers in the block. Farmers are not getting proper price for their produce as compared to their expenses.
- As there is no big market in the block, farmers mostly depend on the intermediaries or middlemen of the area to sell their produce.
- In this situation the middlemen and small vendors are giving low prices to the farmers.

Processing /Value Addition

- There are no food processing or value addition units in the block.
- Farmers are not processing their produces and hence the produce value is low.
- Lack of knowledge about processing - farmers don't undertake value addition like grading, sorting, and packaging to increase the selling price.

Growth and Diversification Strategy

Every business needs a growth strategy to take them from being a small business to becoming a big business. It is important to review the current business and then see in what ways it can grow. A growth strategy is a plan of how you get from where you are today to where you want to be in the future. Diversification is a growth strategy that involves entering into a new market or industry that the FPO's business does not currently operate in or creating new products which it is not offering at present. The aim of diversification is to spread the risk while generating income from multiple sources, thereby allowing the FPO business to grow quickly but in a sustainable way. FPOs can adopt the following strategies for growth of their business and maximising returns to their members:

i. **Improved Production Standards:** FPOs can support their member farmers by connecting them to institutions which provide extension services as this can help them to raise the production standards
ii. **Product Upgrading:** Product upgrading means improvement of the product marketed. Farmers can improve their product in many ways. They can plant a new variety that has more desirable characteristics; or receive support with post-harvesting activities which increases the quality and the price of the product

iii. **Process Upgrading:** it implies producing the same product more efficiently, by applying new technologies or management methods. For example, farmers may grow more by applying fertilizer; they may reduce pest attacks and save costs through integrated pest management rather than spraying

iv. **Functional Upgrading:** Functional upgrading means taking on new activities or changing the mix of activities a FPO undertakes in order to add value to the produce marketed. Processing and branding are examples of functional upgrading for FPO. These kinds of activities are often not feasible for individual farmers. For farmers, collective marketing is an example of functional upgrading: FPO enables farmers to perform a function higher up in the value chain, namely marketing instead of production alone

v. **Business Diversification:**This is another way of providing value addition to members. Often the focus is on "doing better" than on "doing different". It can also be strategic for FPO to explore how higher returns can be obtained by doing different things. FPOs can recommend those crops which have better markets

Reviewing / Revisiting the Business Development Plan

An FPO prepares a business development plan (BDP) generally for a period of 3-5 years and it envisages the year-wise growth in business activities. The BDP projects the level where the business of the FPO would reach in coming times in terms of revenue generation, profits and returns to the members. Thus, it is important that a periodic review of the BDP is undertaken by the BODs and CEO of the FPO. Business plans should be reviewed and possibly updated at least once in six month /one year, especially in case of FPOs which are relatively new as Business Enterprises. Updating the business plan after review is more focused than the writing the original one.

The performance assessment and monitoring tools clearly indicate the way the business of an FPO is progressing or otherwise. Updating original business plan is of vital importance. When reviewing the financial position of the FPO business, the following points may be considered:

- Cash flow - this is the balance of all of the money flowing in and out of the business. It has to be ensured that the actual and projected cash flows are somewhere in sync
- Working capital – Review the position of working capital requirement, any change in requirement steps may be taken to mobilise from the available sources
- Cost base – Review the cost requirement constantly and ensure cost incurred in the business are covered by the sales
- Borrowings - Assess the position of any line of credit or loan and explore availability of cheaper cost (interest rates + fees) of finance
- Growth – Are there plans in place to adapt to the financial requirement to accommodate your business' changing needs and growth?

- Customer demand- Assess any increase/decrease in the demand for the FPOs products and identify the factors responsible for the demand fluctuation
- Capacity- Review the current processing /storage facility vis-à-vis existing and forecast demand capacity
- Location -Assess the advantages and disadvantages of the current location of the FPO's business
- Human Resource - Availability of skills staff in the field of human resources, sales, marketing, accounting and information technology. Any need of training requirement for up scaling their skills.
- Changes in External factors such as the economy, government policy and new technology

These are some of the indicative parameters for review of the Business Development Plan. The FPO management should review the BDP on a periodic basis and redraw the same depending upon the performance.

Chapter 8: Essentials of Financial Planning in FPO Management

Financial Planning is the process of estimating the capital required to undertake various activities by the FPO and scouting the possible sources for raising the required funds as and when required. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise. Financial Planning has got many objectives:

- **Determining capital requirements**: This will depend upon factors like cost of current and fixed assets, promotional expenses and long- range planning. Capital requirements have to be looked from both perspective - short-term and long-term.
- **Determining capital structure**: The capital structure is the composition of capital, i.e. the relative kind and proportion of capital required in the business. This includes decisions of debt- equity ratio, both short-term and long-term
- **Framing financial policies** with regards to cash control, lending, borrowings, etc.
- A finance manager ensures that the scarce financial resources are maximally utilized in the best possible manner in order to get maximum returns on investment

Importance of Financial Planning

Financial Planning is process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as:

- Adequate funds have to be ensured
- Helps in ensuring a reasonable balance between fund outflow and inflow to maintain liquidity
- Helps in making growth and expansion programmes for long-run survival
- Reduces uncertainties with regards to changing market trends which can be faced easily through enough funds
- Helps in reducing the uncertainties which can act as hindrance to growth. This helps in ensuring stability and profitability

Some Financial concepts relevant to FPO Financial Management:

- **Cash flows**: Cash Flow (CF) is the increase or decrease in the amount of money, a business, institution, or individual has. In finance, the term is used to describe the amount of cash (currency) that is generated or consumed in a given time period.
- **Income and Expenditure Statement**: An income statement is one of the three important financial statements used for reporting a company's financial performance over a specific accounting period, with the other two key statements being the balance sheet and the statement of cash flows. The Income and Expenditure Account is a summary of all items of incomes and expenses which relate to the ongoing accounting year. It is prepared with the objective of finding out the surplus or deficit arising out of current incomes over current expenses

- **Balance-sheet**: A balance sheet gives a statement of a business's assets, liabilities and shareholders' equity at a specific point in time. It offers a snapshot of what your business owns and what it owes as well as the amount invested by its owners, reported on a particular day. A balance sheet shows a business's worth at a given time, so you can better understand its financial position. The balance sheet displays the company's total assets, and how these assets are financed, through either debt or equity. It can also be referred to as a statement of net worth, or a statement of financial position. The balance sheet is based on the fundamental equation:

Assets = Liabilities + Equity

Assets and Liabilities:

- **Assets**: Assets are everything a business owns. They are found on the left side of a balance sheet. There are two types of assets: current and fixed assets. Current assets are assets that can be quickly converted into cash. They include cash, cash equivalents, accounts receivable and stock inventory, marketable securities and other liquid assets. The more current assets a small business has the better, as this means they can survive longer without borrowing money. Fixed assets are physical items that last over a year and have financial value to a company, such as building, land, computer, equipment and tools, grading/sorting/ processing plants, transport vehicles, etc.
- Assets are also categorized as either tangible or intangible. Tangible assets are physical objects that can be touched, like vehicles. Intangible assets are resources that have no physical presence, though they still have financial value. Examples include copyright and brand recognition.
- **Liabilities**: Liabilities are everything a business owes, now and in the future. They are found on the right side of a balance sheet. A common small business liability is money owed to suppliers, i.e., accounts payable. All businesses have liabilities, unless they exclusively accept and pay with cash. Cash includes physical cash or payments made through a business bank account.
- There are two types of liabilities: current and long-term liabilities. Current liabilities need to be paid back within a year and include credit lines, loans, salaries and accounts payable. Many company expenses are current liabilities. Long-term liabilities can be paid back after a year and include mortgages and bonds.
- **Profit and Profitability**: Profit is an absolute number determined by the amount of income or revenue above and beyond the costs or expenses a company incurs. It is calculated as total revenue minus total expenses and appears on a company's income statement. No matter the size or scope of the business or the industry in which it operates, a company's objective is always to make a profit.
- Profitability is closely related to profit – but with one key difference. While profit is an absolute amount, profitability is a relative one. It is the metric used to determine the scope of a company's profit in relation to the size of the business. Profitability is a measurement of efficiency – and ultimately its success or failure. A further definition of profitability is a business's ability to produce a return on an investment

based on its resources in comparison with an alternative investment. Although a company can realize a profit, this does not necessarily mean that the company is profitable

- **Reserves and Surplus**: Reserves and Surplus are all the cumulative amount of retained earnings recorded as a part of the Shareholders Equity and are earmarked by the company for specific purposes like buying of fixed assets, payment for legal settlements, debts repayments or payment of dividends etc.
- **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:
    - Marketable securities
    - Accounts receivable
    - Accounts payable
    - Wages, salaries and taxes
    - Inventories
    - Cash

- Since any firm or business has about 40% of its capital tied up in current assets, decisions regarding working capital greatly impacts business success.
- Working capital requirements depend upon the operating cycle of the company's business.

Operating Cycle

Operating cycle is the length of time required to convert items like stocks and receivables in to cash. If raw material/ agri-produce, etc., are to be held by FPO for a longer period before actually selling and getting cash then the operating cycle is longer. On the other hand, if the time gap between procurement and sale is less, then the operating cycle is shorter.

Components of Working Capital

The following components of the day-to-day business operations require liquid fund which form the basis of requirement of working capital when not met by the current assets:

- Purchase of agri-inputs to be supplied to its members
- Purchase of raw materials in case of processing
- Purchase of agricultural produce in case of simple trading
- Storage of raw material/ finished goods/ agri-produce
- Processing expenses (food processing / seed processing, etc.)
- Transportation of raw material, agro produce, items for selling, etc.
- Maintenance of Plant / Machinery / Equipment, etc.

- Staff salary, travel, rent, electricity, telephone, Insurance of goods and other administrative expenses, which can be termed as management and administration cost

The working capital requirements of an FPO are generally met either from member equity or business development grant received by them in the initial years. The increased demands for business expansion are met either through credit purchases or through short term working capital limit from the banking system like Cash credit / overdraft facilities.

Long Term Capital

In a business enterprise, long term capital is required for the purpose of acquiring capital assets such as construction of factory buildings, purchase of machinery, modernisation of plant and is repayable from out of the future earnings of the enterprise, in phases/ instalments as per a pre-arranged schedule. Such activities are generally funded through Long Term loans sanctioned for a fixed term normally for a period of more than 3 years, depending upon the cash flow generation from the business enterprise and economic life of the assets created. A term loan is only one of the sources to meet the total project cost. The project cost is assessed on the basis of expenses to be incurred for the following purpose (indicative):

- Land
- Factory building / shed / godown/etc.
- Machinery
- Furniture and fixtures
- Technical know-how / research and development
- Pre-operative expenses and contingencies
- Margin money for working capital

Sources of Finance for FPOs

The finance can be arranged from the following sources:

- Own Resources
- Suppliers' Credit
- Buyers' Advance Payment
- Equity
- Grant Support
- Debt Financing
- Govt Funding

Own Resources: The reserve and surpluses of previous years are the own sources for financing business of FPOs .However, in case of new FPOs this opportunity will not exist.

Suppliers' Credit and Advance Payment from Buyers: Suppliers' credit can be obtained from credit companies or from potential buyers and sellers. The producers who sell their products to the FPO can sell on credit. FPO can get part payment in advance from prospective buyers. It can get agriculture inputs from the dealers on the conditions of payment after sales. But this type of finance is often not available for start-up businesses or new ventures.

Equity: In case of a FPO the equity comes from the members and no external financier can participate in the equity investment.

Grant support: The FPO being a small holders' organization may seek capital support and other assistance from the Government under certain government schemes. Two major initiatives to support FPOs are:

- Support for enhancing **equity** base of FPO by providing matching equity grants
- Setting up of a **Credit Guarantee Fund** to provide guarantee cover to the banks advancing loans to FPOs without collateral securities

Convergence with on-going government schemes: Financial assistance is also available under different government ongoing schemes viz. Agriculture Infrastructure Fund, National Horticulture Mission, etc.

Donor Agencies: World Bank, bilateral / multilateral donor agencies and corporate under CSR may be other possible source of funds/grants for FPOs. The FPOs will have to develop a financially viable business plan for the purpose of securing these funds.

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 being charged by the financing entity. However, it is not easy to raise debt financing for a FPO without collateral and margin.

Access of finance from various rural financial institutions

The banks provide short-term loans to meet working capital requirements and medium to long-term loans for acquisition of capital assets for any business. A composite loan to take care of both short and long-term financial requirements is also sanctioned by the Banks. The finance will depend on the nature and volume of business which would vary from case to case. The FPOs will have to approach the bank with a financially viable business plan / Detailed Project Report. The banks will generally require some of the following information / documents for sanction of loan:

Indicative List of documents for borrowing from formal institutions

- Detailed Project Report along with application for loan / grant required in Duplicate
- List of movable / immovable assets of the organization/promoters
- List of tangible unencumbered security offered as collaterals. In case of land property, copy of sale deed along with extract of latest land record
- Income Tax and Wealth Tax details for last 3 years with copies of Assessment/Return, if applicable
- Certificate of reliefs given under statute (IT, Sales Tax, etc.)
- Copies of sanction letters from other institutions, Government Agencies, Overseas agencies sanctioning loan, grant or other support services relating to the activity
- Provisional Registration Certificate from the concerned authority viz., Registrar of companies, Registrar of Cooperative Societies, District Industries Centre, etc.
- Certificate of Incorporation from competent legal authority. In case of corporates, certificate of commencement of business issued by Registrar of Companies
- Memorandum and Articles of Association / Byelaws of Society
- Permission / license from Competent Authority (for textile, foods and drugs, forest dept, etc.)
- Certified copy of sale deed along with extract of latest land record in respect of land. (The land should be in the name of company/ society, For rented accommodation rent agreement for a minimum of eight years or covering the entire loan period)
- Three quotations in respect of each item of plant and machinery and raw material, proposed to be purchased
- Import / Export Licenses
- Details of power requirement and tie-up with State Electricity Board
- Permission from Water and Pollution Control Board
- Approved Building plan from Competent Authority with cost estimates from the Architect
- KYC of all directors
- PAN card
- CIBIL for all the directors
- Company’s Bank statement of 6 months
- Three years audited balance sheet
- IT return of previous year
- Sales and purchases record as per GST

Other options for meeting the fund requirement of FPO

A newly formed FPO does not have enough share capital, reserves and credentials for doing successful business; therefore mobilizing funds from banks is difficult in the initial phase. With all the costs included, the FPO may face a huge financial burden from the beginning and the idea of setting up FPO may not even take off. To overcome the problem, FPOs may adopt one or more of the following business model in the initial years before they generate reserves and establish credentials for raising resources on their own strength:

- Choose activities which require very less capital or no capital and which are relatively risk free in the initial years
- Take dealership of seeds and fertilizers from the companies and work as commission agents. FPOs can earn good margin and build a business relationship with those companies which results in getting credit limit in the subsequent years for expansion of the activity
- Dealership from various companies for various agriculture implements like water pump sets, mechanized plough, etc., which they can sell to their members at a reasonable price and earn commission
- Procurement of agriculture produce – FPOs may identify the prospective buyers and arrange buy-back guarantees from them. Agreements can be framed in such a manner that sales can be arranged at the farm gate level, and therefore no transportation and storage cost would be involved at the FPO level
- The FPO should ensure a transparent transaction between the buyers and sellers (members and non-members both) to build on relationships which can facilitate Credit transactions from both ends
- Pledge financing through Warehouse Receipts is another option available for FPOs
- The successful demonstration of such business would build their credentials among the members and other stakeholders. Further, demonstration of fair trade practices is very important for the PO. These small activities give FPOs the opportunity to demonstrate such practices. Both the members and the trade and industry appreciate such fair practices and it builds reputation for the FPO.

Credit Guarantee Facility ensures access of FPOs to credit from mainstream banks and Financial Institutions, without collaterals. The dedicated Credit Guarantee Fund (CGF) provides suitable credit guarantee cover to accelerate flow of institutional credit to FPOs by minimizing the risk of financial institutions for granting loan to FPOs so as to improve their financial ability to execute their business plans leading to increased profits.The primary objective of CGF is providing a Credit Guarantee Cover to Eligible Lending Institution (ELI) to enable them to provide collateral free credit to FPOs by minimizing their lending risks. A dedicated Fund of up to Rs. 1,500.00 crore will be created as CGF for loaning to FPOs. Out of this up to Rs. 1,000.00 crore has been created and is being maintained and managed by NABARD and the rest of up to Rs. 500.00 crore will be created by NCDC.

Chapter 9: Networking and Convergence for Promoting FPOs Business

This Chapter highlights the importance of networking and how it helps promote the business of the FPO. Also given is a list of schemes and programmes in India that farmers and their collectives can avail

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

An FPO can be expected to undertake several functions - supply of inputs and technology for enhancing production, procurement of the produce, quality enhancement and marketing of the products at remunerative prices to enhance the income of its members. In the process they have to build business relationships with many players in the market viz. suppliers, financiers, government agencies, technology providers, marketing agencies, logistics providers, etc. An indicative list of market players with whom the FPO must build networking for its smooth functioning is given below:

- Technology providers (University, Research Centres, Technology Companies, etc.)
- Suppliers (inputs, intermediate products, equipment providers, etc.)
- Farmer organizations (cooperatives, associations, groups)
- Financiers (banks, venture capital)
- Government agencies
- Political leaders relevant to your business in your locality or nation
- Regulators (issuing licenses, permit)
- Industry Houses
- Trade associations
- Professional associations
- International network
- Basic Service Providers (accountants, consultants, trainers, etc.)
- Logistics agents
- Lawyers
- Others

Methodology for Networking

- Define the priorities for your network
- Monitor your contacts
- Select the trusted contacts
- Keep in contact with the selected ones
- Aim at personal contact in the network

Four "C"s in networking

- Communication
- Coordination
- Cooperation
- Collaboration

Importance of developing networking and convergence for FPO

Literally, convergence happens when two or more entities come together to form a new whole. Synonyms for convergence are 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.

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 and agri-allied activities, improved access to irrigation and enhanced water efficiency, improving the health of production systems like soils, strengthening marketing systems, development and 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.

- **Central Sector Schemes**
- **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. The latter are largely funded by the 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 need to link up with Institutions:

1. To mobilise essential resources like finance, agricultural inputs, information, marketing and liaison, and other services required for the activities of FPO and its members
2. To have access to new technologies from private and government institutions, academic institutions, etc.

Convergence can result in the following advantages:

1. Help the farmer take advantage of ongoing programs where FPOs will act as facilitators
2. Help in creating opportunities for FPOs for business diversification (setting up of storage facilities, custom hiring centre, soil testing lab, processing units, etc.)
3. Help implementers in identification of right beneficiaries with ease

The following are the three main activities involved in effective convergence and networking:

- Mapping/Listing of Stakeholders
- Classifying Stakeholders
- Networking with Stakeholders

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

Stakeholder Examples		
Primary	**Secondary**	**Tertiary**
Shareholders **Users** **Beneficiaries** **Staff**	• Local Authority • Directors 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 be 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
- Disseminating information through WhatsApp/email
- Virtual Meetings

How to create a stakeholder engagement and prepare a 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?

Schemes/programs (Indicative) relevant to agriculture and allied activities can be broadly categorised as under:

- Input management
- Production Management
- Output Management
- Risk Management
- Extension Management

The following are the government schemes that currently exist in India:

A. Input management Schemes/Programmes

- Soil Health Card Scheme (SHC)
- Sub-mission on Seed and Planting material (SmSP)
- Protection of Plant varieties and Farmers' Rights Authority
- Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)
- Watershed Development Component of PMKSY (WDC-PMKSY - erstwhile IWMP)
- Sub-mission on Agricultural Mechanization (SMAM)

- Sub-mission on Plant Protection and Plant Quarantine (SMPPQ)

Agriculture Credit

- Kisan Credit Card (KCC) Scheme
- Interest Subvention (IS) Scheme
- Agriculture Infrastructure Fund (AIF)
- Joint Liability Group (JLG) Scheme:

B. Production Management Schemes for Higher Productivity

- National Food Security Mission (NFSM)
- Bringing Green Revolution to Eastern India (BGREI)
- National Mission on Oilseeds and Oil Palm (NMOOP)
- Mission for Integrated Development of Horticulture (MIDH)
- Horticulture Mission for North East and Himalayan States (HMNEH)
- National Livestock Mission (NLM)
- Fishery (Blue revolution)

C. Output Management Schemes – Post Production

- Agri Marketing under AMI Sub-Scheme
- National Agriculture Market (e-NAM)
- Schemes of Small Farmers Agribusiness Consortium (SFAC)
- Minimum Support Price (MSP)
- Price Support Scheme (PSS)
- Market intervention Scheme (MIS)

D. Risk Management Schemes for Agriculture

- Pradhan Mantri Fasal Bima Yojna (PMFBY)
- Drought Management Scheme
- Risk management and insurance in animal husbandry and dairying

E. Extension Management in Agriculture

1. State Extension Programmes for Extension Reforms Scheme (ATMA Scheme)

2. Mass media support to agricultural extension
3. Agri-Clinics and Agri-Business Centres (ACABC)

Programme/Schemes supporting Agri-Allied Activities

- Rashtriya Krishi Vikas Yojana - Remunerative Approaches for Agriculture and Allied Sector Rejuvenation (RKVY-RAFTAAR) For more details visit https://rkvy.nic.in
- Entrepreneurship Development and Employment Generation For more details visit www.dahd.nic.in
- Attracting and Retaining Youth in Agriculture (ARYA) For more details visit https://dfr.icar.gov.in/Extension/ARYA

F. Sustainable Agriculture Management

- Paramparagat Krishi Vikas Yojana (PKVY) For details visit https://pgsindia-ncof.gov.in/pkvy
- Mission Organic Value Chain Development for North Eastern Region (MOVCDNER) For details visit http://agricoop.nic.in
- National Mission for Sustainable Agriculture (NMSA) For details visit https://nmsa.dac.gov.in
- Sub-mission on agroforestry (SMAF) For more details visit https://nmsa.dac.gov.in/pdfdoc/Agroforestory_Guidelines
- Long Term Irrigation Fund (LTIF) For details visit https://www.nabard.org
- Micro irrigation Fund For more details visit: https://pmksy.gov.in/MicroIrrigation/Archive/Guideline_MIF
- Fisheries and Aquaculture Infrastructure Development Fund (FIDF) For more details visit http://mmd.nfdb.gov.in/FIDF-Guidelines
- Dairy Processing and Infrastructure Development Fund (DIDF) For details visit https://nabard.org
- Animal Husbandry Infrastructure Development Fund (AHIDF) For more details visit www.dahd.nic.in

It is important for FPOs to be constantly on the lookout for ever new partners and agencies that they can connect with to grow their business (besides the traditional collaborators such as agricultural universities and government departments). FPOs need to nurture their relationships with collaborators to ensure the sustainable growth of their business.

Chapter 10: Monitoring and Control Systems – Management Information and Performance Assessment Systems

This chapter outlines the importance of putting in place a Management Information System (MIS) for an FPO and the aspects of a good MIS. Examples of monitoring tools used by institutions such as NABARD are provided.

Management Information System (MIS) is the use of information technology, people, and business processes to record, store and process data to provide information that decision makers can use to make day to day decisions. The purpose of MIS is to extract data from varied sources and derive insights that drive business growth.

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

Management Information System uses multiple tools for collecting and communicating information an organization uses to operate. Every function of the business produces its own data be it financial or operational and requires a separate information system of its own to keep a track.

MIS has five major objectives which include:

1. Data Capturing
2. Data Processing
3. Storage
4. Retrieval
5. Dissemination

MIS plays an important role in business organizations. Some of these roles are listed below:

1. Decision making
2. Coordination
3. Identifying Problems
4. Comparison of Business Performance
5. Devising Strategies

MIS for Accounting and Finances: MIS in accounting is designed to store and aggregate financial data. The data analysis is 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. These reports enable management to analyze 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. Profit and Loss Account, Balance Sheet and cash flow statement
- Profit or loss of business transactions can be easily ascertained / known
- Knowledge of assets and liabilities position belonging to FPO
- To facilitate audit of books of accounts
- Compliance with legal and statutory 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 attributes

- To monitor the effectiveness of governance system of FPO
- To facilitate proper deployment of manpower for preparation of business plans and optimal use of human resources.

Monitoring

Monitoring can be defined as a systematic collection and analysis of information of an ongoing project. It is aimed at improving the efficiency and effectiveness of the project implementation so as to derive maximum benefits for the producers/FPO.

Steps in Monitoring

1. Identification of key parameters
2. Decide how often the data are required to be analysed
3. Develop a monitoring format
4. Decide how the data will be collected
5. Collect, analyse and report

Types of Monitoring

A. Desk Monitoring/Off Site Monitoring

Desk monitoring includes internal review of the project by the project implementing agency. It is difficult for the funding agency and the project implementing agency to conduct field visits at frequent intervals, hence based on the returns submitted by the CBBOs, desk review of the progress could be done.

B. Field Monitoring/On Site Monitoring

Field level monitoring involves collection of actual data at the field level. There is elaborate data collection through interactions with the farmers/producers and other stake holders

Monitoring Indicators of FPOs

- Economic Development Indicators
- Social Development Indicators
- Institutional/ Organizational Development Indicators

Example: Performance Indicators/assessment of CBBOs in FPO 10000 Scheme of GoI

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

Six months to One year:

- No. of FPOs formed in aspirational districts
- Number of farmers mobilized to become members of FPOs
- Registration of FPOs and
- Formulation of Business Plan for FPOs.

Second Year:

- 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 programs for member/BoDs and exposure visits for FPOs
- 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 and trading activity thereon

Third and Fourth year:

- 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
- Second tranche of credit guarantee facility, if any

Fifth Year:

- 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

Examples of some of the Performance Assessment Tools for FPOs:

NABARD's FPO Performance Measurement (Grading) Tool

Sr. No	Max Marks (Category wise)	Parameter	Max Marks	Obtained Marks
A	5	Age profile FPO		
i		> 5 Years	5	
ii		4-5 Years	4	
iii		2-3 Years	3	
iv		<1 Year	2	
B	10	Governance		
i		Composition of Board (no blood relatives /representation to women /SF/MF), Experience / professional qualifications of Board members / representative of Farmers' association, etc.) (Range 3 to 0)	3	
ii		Extent of strategic support from promoter or promoting organisation to FPO (Range 2 to 0)	2	
iii		Regular conduct of Board Meetings and quorum (Range 3 to 0)	3	
iv		Quality of agenda and discussion / decision making (Range 2 to 0)	2	
C	10	Management		
i		Availability of Full Time professional CEO -4 Marks , Part time CEO -3 marks, Non-professional, part time CEO from FPO Members -2 marks ; CEO below 10th std. - 1 mark.	4	
ii		Availability of paid staff -2 marks, If not -	2	

Sr. No	Max Marks (Category wise)	Parameter	Max Marks	Obtained Marks
		Zero marks		
iii		Training/Experience of staff (CEO and Staff trained -4 marks, only CEO or staff trained -2, No training -zero mark)	4	
D	5	Infrastructure		
i		Separate office Premises/own/rented (Range 3 to 1) - (0 marks for no office)	3	
ii		Other Infrastructure like computers, furniture, fixtures, etc. -2 marks; only furniture -1 mark, No infrastructure-0 mark)	2	
E	10	Membership of FPO		
i		More than 1000	10	
ii		Between 501 to 1000	8	
iii		Between 201 to 500	6	
iv		Between 101 to 200	4	
v		Between 50 to 100	2	
vi		Below 50	1	
F	5	% of total members contributing to Share Capital		
i		> 90%	5	
ii		> 70%	4	
iii		>60%	3	
iv		>50%	2	
v		<50 %	1	
G	5	Total Share capital collected (Rs lakh)		
i		>5 lakh	5	
ii		3-5 lakh	3	
iii		< 3 lakh	1	
H	10	Training of Board members		
i		All Board members trained	10	
ii		> 80% of Board members trained	8	
iii		> 70% of Board members trained	6	
iv		> 50% of Board members trained	4	
v		<10% of Board members trained	2	
vi		< 10 % of Board members trained	0	
I	4	Business Plan		
i		Business plan including financial plan prepared for 3 years	4	
ii		Business plan including financial plan prepared for 1 year	2	
J	2	Financial Aspects		
i		Availed financial assistance from lending	2	

Sr. No	Max Marks (Category wise)	Parameter	Max Marks	Obtained Marks
		institutions - 2 Marks, If not zero mark		
K	10	Turn over (Annual)(Rs lakh)		
i		Above 50 lakh	10	
ii		Between 25 to 49 lakh	8	
iii		Between 10 to 24	6	
iv		Less than 10 lakh	3	
v		No business	0	
L	4	Market linkage		
i		Market linkage established with corporate buyers/ processors etc.	4	
ii		Dependent on local market/s	2	
M	10	% of members availing services (Input supply/Extension, other services to members)		
i		Over 75 %	10	
ii		Over 50 %	8	
iii		Over 25%	5	
iv		Over 10%	3	
v		Less than 10 %	0	
N	5	Convergence with Govt. Schemes / corporates etc.		
i		SFAC equity support provided and convergence with Govt / other agencies achieved	5	
ii		Either SFAC support or Govt. convergence achieved	3	
iii		No convergence	0	
O	5	MIS/Compliance / record keeping		
i		Regular submission of Audited Balance sheet and other legal compliances	3	
ii		Only audited balance sheet regular and other compliances are irregular	2	
iii		Balance sheet not audited and compliances not done	1	
iv		No balance sheet, No compliance	0	
v		Maintained all required registers (Range 2 to 1)	2	
vi		Register not maintained	0	
	100	Total Marks		

	Grade	Marks obtained	Remarks
	A	>75%	
	B	60-75%	

Sr. No	Max Marks (Category wise)	Parameter	Max Marks	Obtained Marks
	C	50-60%		
	D	<50%		

Source: NABARD FPO grading tool.

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 and 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 and 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

Institutional Monitoring

Institutional Monitoring can be defined as a systematic collection and analysis of information of an ongoing project or business activity. The important purposes of monitoring under any developmental programme are as under:

- Accountability to funders
- Performance Management
- Impact Measurement
- Project improvement
- Compliance

Primarily, the monitoring exercise is aimed at improving the efficiency and effectiveness of implementation of a programme.

Monitoring Mechanism under the 10000 FPO Scheme

Considering the significance of effective implementation and better monitoring mechanism for success of a scheme, a well-structured, Three-Tier Institutionalized monitoring mechanism has been laid out under the scheme. The framework includes instituting Monitoring Committees at National, State and District level for monitoring the progress under the scheme against the set objectives.

- Monitoring Committees
    - National Level Project Management Advisory and Fund Sanctioning Committee
    - (N-PMAFSC)
    - (Secretary, DAC&FW as Chairperson and JS (Mkt.), DAC&FW as Member Secretary)
    - State Level Consultative Committee (SLCC)
    - (Addl. CS/Sec. Agri./Agri. Mkt. as Chairperson and Rep. from NABARD as Member Secretary.)
    - District Level Monitoring Committee (D-MC)
    - (With District Collector as Chairperson and DDM, NABARD as Member Secretary)

Role and Responsibilities of Committees

- N-PMAFSC
    - Allocation
    - Coordination
    - Monitoring and Review

    - Policy
- SLCC
    - Monitoring and Review
    - Identification of produce clusters
    - Facilitation (licenses, shops, spaces), common facility centres
    - Convergence
- D-MC
    - Monitoring and Review
    - Facilitate identification of produce clusters
    - Facilitation (licenses, shops, spaces), common facility centres
    - Convergence

National Level Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC)

To cohesively coordinate the Implementing Agencies, activities and to decide the policy guidelines in the matter for better outcome of the Scheme, there is a National Level Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC) constituted in DACandFW. The composition of the Committee shall be as under-

S.N.	Particulars of the Members	Designation
1	Secretary, DAC&FW	Chairperson
2	Addl. Secretary (Marketing), DAC&FW	Member
3	AS&FA, DAC&FW	Member
4	JS (MIDH, RKVY, Co-operation), DAC&FW	Member
5	JS (MoFPI), as nominated by its Secretary	Member
6	JS (DoAHD), as nominated by its Secretary	Member
7	JS (Dept. of Fisheries), as nominated by its Secretary	Member
8	JS (MoRD), as nominated by its Secretary	Member
9	JS (DoNER),as nominated by its Secretary	Member
10	JS (Tribal Affairs) nominated by Secretary	Member
11	Managing Director (SFAC)	Member
12	Managing Director (NCDC)	Member
13	NABARD's representative not below the rank of CGM	Member
14	JS (Marketing), DAC&FW	Member Secretary

- The Chairperson has the flexibility to co-opt any additional member(s) including from any other Ministry/Department, States or expert(s) to assist the functioning of the Committee.
- In case of co-opted Members(s) from States, it shall be on rotation basis.
- Two prominent farmer members or representatives of FPOs are also to be nominated as member of the Committee by Government of India.
- Directorate of Marketing and Inspection, an attached office of DAC&FW will provide the necessary secretarial services and assistance including technical inputs to N-PMAFSC in coordination, scrutiny and sanction of proposals and will coordinate with NPMA, which shall also assist N-PMAFSC with inputs on policy formulation, coordination among implementing agencies.

State Level Consultative Committee (SLCC)

Considering the significance and strategic roles of the State Government and its machinery in synergizing the efforts through its various programs, for undertaking a periodic review of the progress under the scheme, a State Level Consultative Committee called SLCC will be constituted. The Composition of the SLCC would be as under:

S.N.	Particulars of the Members	Designation
1	Addl. Chief Secy/Secy. I/c Agriculture/ Agriculture Marketing	Chairperson
2	Secretary of Ministry/Department, Horticulture	Member
3	Secretary of Ministry/Departments, Animal Husbandry and Fisheries	Member
4	Secretary of Ministry/Departments, Co-operation	Member
5	Secretary of Ministry/Departments, Marketing	Member
6	Secretary of Ministry/Department, Rural Development	Member
7	Secretary of Ministry/Department, Panchayati Raj	Member
8	Representative of SFAC	Member
9	Representative of NCDC	Member
10	Representative of NABARD	Member-Secretary
11	Convener, SLBC	Members
12	Two Experts from Agriculture Universities/Institutions	Members

- Representative of NABARD will be Member Secretary to convene and coordinate the meetings of SLCC, however, in State (s) where there is presence of NCDC and State level SFAC and they are playing lead and significant roles in formation and promotion of FPOs, their representatives may be Member Secretary in place of NABARD. In case of any dispute, decision of N-PMAFSC in this regard shall be final.
- In State/UT where there is no post of ACS/PS, Secretary (In-charge of Agriculture) will be the Chairperson and members may be Directors of line Departments
- Chairman may co-opt additional Member(s) as per requirement and In-charge of DMI of respective State/UT may be invited in the meeting as special invitee
- Two prominent farmer members or representatives of FPOs in the State/UT are also to be nominated as member of the Committee
- State Governments/ UT Administration will issue order for formation of State Level Consultative Committee

District Level Monitoring Committee (D-MC)

D-MC has been assigned the role of a coordinator at the district/cluster level as effective coordination among the stakeholders is critical to the success of the scheme. The Composition of the District Level Monitoring Committee would be as under:

S.N.	Particulars of the Members	Designation
1	District Collector	Chairperson
2	CEO , District Council	Member*
3	District level officer of Agriculture Department	Member
4	District level officer of Horticulture Department	Member
5	District level officer of Animal Husbandry Department	Member
6	District level officer of Fisheries Department	Member
7	District level officer of Marketing Department	Member
8	District level officer of Cooperation Department	Member
9	DDM , NABARD	Member-Secretary
10	Lead District Manager (LDM)	Member
11	Experts from KVK, ATMA, Local producers' Organisations (3 No.)	Members
12	Representative of NCDC/SFAC , if available	Members

- The District level Committee will be chaired by CEO, Zila Parishad in State(s) where development/agriculture related work is the responsibility of Zlila Parishad
- Chairperson may co-opt additional Member(s) including the representative of CBBOs/ PACs as per requirement
- The implementation of the Scheme would also be reviewed by District Development Coordination and Monitoring Committee (DISHA) in their periodic reviews
- State Government/UT Administration will issue advisories to Districts for formation of District Level Monitoring Committee

Duties and Responsibilities of D-MC

- Closely monitor and review the progress of FPO development and functioning by holding its regular meetings
- Suggest the potential produce clusters in the district (where FPOs can be formed and promoted) to N-PMAFSC and will also assist Implementing agencies, CBBOs and other stakeholders in identification of cluster(s) and activities and also in mobilization of farmers
- Resolve the financial constraints of FPOs through the forum of District Level Bankers' Committee and provide feedback to N-PMAFSC
- Identify the constraints in implementation of scheme at the ground level and communicate the same to SLCC for further taking up the matter with DAC&FW and N-PMAFSC for appropriate policy decision

Development of an Integrated Portal under the Scheme

NPMA in consultation with DAC&FW will get configured an "Integrated portal" which will also act as National Level Data Repository. The portal will serve as an e-National Platform for FPOs. The portal will have basically two components:

- Management Information System (MIS) to cater the data needs of stakeholders
- Vertical and horizontal e-Market place functioning digital platform for business transaction through various stakeholders

The portal will facilitate data tracking up to FPO level. The integrated portal will be developed through outsourcing or through NIC by SFAC.

- Functions
    - FPO-wise information on formation, registration, location, major business activity, profitability status, etc
    - Details of FPOs produce - Quantity and quality ready for sale
    - Details of availability of quality inputs along with prices with FPOs
    - Details of custom hiring facility along with rates charged by FPOs

- Act as a window to highlight the problems and quick response by respective agency to resolve it
- All the software developed by Implementing Agencies with respect to FPOs are to be inter-operable with this Integrated portal

The MIS adopted by the FPO should be one that captures all relevant data. MIS tools should be user-friendly with appropriate training provided to the managers on how to use the tools

Chapter 11: Managing Regulatory and Statutory Compliances

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.

Pre Incorporation Requirements

- Apply for digital signatures
- Apply for DIN
- Apply for TAN
- Approval of company name by MCA
- Apply for GST
- Internet banking facility

Mandatory Compliances under Companies Act, 2013

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

- Post incorporation compliances
- Annual compliances
- Event based compliances

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

- **Verification of the 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 the "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 on its business letters, bill heads and on all other official documents and publications:
    - Company's name
    - Corporate Identification Number
    - Registered office address
    - Official phone number
    - Website, email Id and 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
- **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 and 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.

Annual Compliances under Companies Act, 2013

Following is a list of all such yearly compliances:

- **Board Meetings:** This is in addition to the first board meeting every registered company is required to conduct. A 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:** A company is required to conduct 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 AGM is 15 months.
- **Filing 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 happens.
- **Filing 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.

- **Filing 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. The Director's report is to be submitted with the Form AOC-4 at the time of annual filing. It includes 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 preparation of its financial statements, Directors Report, Auditors report and circulate the same along with AGM notice.
- **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 to ROC in Form ADT-1. Earlier this appointment was required to be ratified every year in the AGM during the course of those 5 years which has been dispensed 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 AGM. The annual return, filed by a listed company or a company having paid up share capital of ten crore rupees or more or turnover of fifty crore rupees or more shall be certified by the Company Secretary in practice and certificate shall be in Form No MGT-8.
- **Filing of E-Form AOC-4:** Annual Returns along with financial statements are required to be submitted to ROC within 30 days from the date of AGM in e-Form AOC-4. Following documents are submitted as attachments with AOC form:
    - Copy of Balance sheet with notes
    - Copy of Profit and Loss Account with notes
    - Notice of AGM
    - Director's Report
    - Auditors' Report
    - Cash flow statement

Event based Compliances

Apart from the above mentioned regular compliances, there are several event based compliances to be complied with without any lapse to ROC under Companies Act, 2013. These compliances are non- negotiable and the delay 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, 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. 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)
    - If registered office is shifted to another state or outside the jurisdiction of one ROC to another (Additionally 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 FPO is planning to increase the authorized capital, 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, this triggers the following:
    - 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 is 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 note that these compliances are an ongoing process and not a onetime thing. Only event based compliances under Companies Act, 2013 are dependent on any incident.

Rules and Regulations for Producer Company Registration and compliance

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 Ltd. Co.
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 amendment 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 changed 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 amendment
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 AGM (not being the first AGM), but such extension shall not be more than 3 months.
			3. Every year Producer Company shall hold AGM and not more than 15 months shall elapse between the dates of one AGM 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 and 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 AGM 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
			g. Approval of any transaction of nature as is to be reserved in the articles for approval by the Members
		Section-581Y	Quorum: – 1/4thof the total number of members.
9	Meetings of the Board Quorum.	Section 581V	The board shall meet at least once in every 3 months and at least 4 such meetings shall be convened 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 crores in each of 3 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 CA
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

S. No.	Name of Statutory Register
1	Register of members
2	Register of Directors and shareholdings
3	Register of Renewed and Duplicate Share Certificates
4	Register of charges
5	Register of Loans and investments made by the Company
6	Register of Related Party Transactions

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	Periodicity
1	INC-12	Intimation of change of registered office	After obtaining name approval of the company for obtaining license
2	INC-24	Application for change of name	Within 30 days of EGM
3	PAS-3	Return of allotment of shares	Within 15 days from date of allotment
4	SH-7	Notice of increase or change in share capital	Within 30 days of the date of Annual General Meeting
5	CHG-1	Registration of Creation/ Modification of Charge on property to secure repayment of borrowed funds from banks etc.	Within 30 days from the date of creation or modification
6	CHG-4	Registration of satisfaction of charge on repayment of loan for releasing the charge	Within 30 days from the date of payment or satisfaction
7	MGT-14	Registration of satisfaction of charge on repayment of loan for releasing the charge	Within 30 days from the date of passing of resolution or formation of agreement
8	DIR-3	Application for Director Identification No	30th September of the immediately next financial year
9	DIR-11	Notice of resignation of director to be filed by the director	Less than 30 days from the date of resignation
10	DIR-12	Particulars of appointment and changes of directors to be filed	Within 30 days from the date of receipt of the notice

		by the company	
11	AOC-4	Form for filing of annual accounts annually every financial year	30th October of the relevant year
12	MGT-7	Form for filing of annual return of shareholders every financial year	Within 60 days from the AGM

Annual Compliances for Private Limited Company including Producer Company

S. No.	Compliance	Section and Rules	Particular of Compliance	
1.	Receipt of MBP-1	184(1)	Form MBP- 1	Every Director of the Company in First Meeting of the Board of Director in each Financial Year will disclose his interest in other entities
				Every Director is required to submit with the Company fresh MBP-1 whenever there is change in his interest from the earlier given MBP-1.
2.	Receipt of DIR- 8	164(2)	Form DIR – 8	Every Director of the Company in each Financial Year will file with the Company disclosure of non-disqualification
3.	E- Forms Filing Requirements	92	E-form: MGT-7	Annual Return: Every Small Company will file its Annual Return within 60 days of holding of Annual General Meeting. Annual Return will be for the period 1st April to 31stMarch
4.	Copy of Financial Statement to be filed with registrar	137	E-form: AOC-4	Financial Statement: Company is required to file its Balance Sheet along with statement of Profit and Loss Account and Director Report in this form.
			Attachment: Balance Sheet, Statement of Profit and Loss Account (Including Consolidated Financial Statement), Directors' Report, Auditors' Report, Cash Flow Statement and Notice of AGM.	
5.	Annual Return	92	MGT-8	Private Company: Having paid up share capital of 10 Crore or more or turnover of Rs. 50 crore or more shall be certified by a Company Secretary in Practice.
6.	Directors' Report	134	Directors' Report will be prepared by mention of all the information required under Section 134. It should be signed by the "Chairperson" authorized by the Board, where he is not so authorized by at least 2 Directors.	
7.	Circulation of Financial Statement and other relevant Documents	136	Company will send to the members of the Company approved Financial Statement (including consolidated Financial Statement), Cash Flow Statement, Directors' Report and Auditors' Report at least 21 clear days before the Annual General Meeting. (Except in case of AGM is called on Shorter Notice).	

8.	Notice of AGM	101 and SS-II	Every Notice of Annual General Meeting will be prepared as per Section 101 of Companies Act 2013 and Secretarial Standard – II.
9.	Sending of Notice of AGM	101 and SS	Notice of Annual General Meeting will be sent to following: All Directors; Members; Statutory Auditor; Secretarial Auditor (if any)
10.	AGM / EGM	96 and100	• Any other General Meetings other than Annual General Meeting will be called as Extra Ordinary General Meeting (EGM). • It is required to follow Secretarial Standards (SS 2) on General Meetings. • Minutes to be recorded and signed by Chairman within 30 days and the pages to be consecutively numbered and signed by Chairman. • Minutes to be kept permanently. • Attendance register to be maintained in the prescribed format and to be signed by all the attendees of the Meeting.
11.	Board Meetings	173 and SS-I	• Every Company shall hold a minimum number of FOUR meetings of its Board of Directors every calendar year in such a manner that maximum gap between two meetings should not be more than 120 (One hundred twenty) days. Companies shall follow the Secretarial Standards on Board and Committee Meetings (SS1). The major compliances are as follows: • Notice in writing shall be given to all Directors at least 7 days before the Board Meeting. • Minutes to be recorded after the Board Meeting and the draft of the same shall be circulated to all the Directors within 1 days from the Meeting. • Attendance register to be maintained in the prescribed format and to be signed by all the attendees of the Meeting. • Minutes to be properly numbered and the pages to be consecutively numbered and all pages to be initialed/signed by the Chairman.

			• Minutes to be recorded in the Minutes book within in 30 days, after providing at least 7 days for Directors comment on the draft Minutes. • Minutes to be kept permanently and the notice, agenda and any other annexure placed before the Meeting to be kept for at least 8 years.	
12.	Appointment of Auditor	139	E-form ADT-1	Auditor will be appointed for the 5 (Five) year and form ADT-1 will be filed for 5-year appointment.
13.	Maintenance of Registers	88	Company will maintain the following mandatory Registers:	
			Register of Director;	
			Director Shareholding;	
			Members.	
14.	Annual Return	92	Annual Return of Every Private Company (Except Small Company) should be signed by Company Secretary in Practice, if there is no whole time Company Secretary	
15.	DIR 3 KYC		Every Director to file DIR 3 KYC every year to keep the DIN active.	
16	MSME 1		Every Company which has any outstanding payments to MSME for more than 45 days have to file form MSME 1 half yearly i.e. on to before 30th April, and 31st October for the corresponding half year end	
17	DPT3		The Companies which has deposits from shareholders need to file form DPT 3 on or before 30th June, every year	

Due Dates for other Statutory Filing

TDS		
1st Quarter	1st April to 30th June	31st July
2nd Quarter	1st July to 30th September	31st Oct
3rd Quarter	1st October to 31st December	31st Jan
4th Quarter	1st January to 31st March	31st May
ADVANCE TAX		
1st Quarter	On or before 15th June	15% of advance tax less advance tax already paid
2nd Quarter	On or before 15th September	45% of advance tax less advance tax already paid
3rd Quarter	On or before 15th December	75% of advance tax less advance tax already paid

4th Quarter	On or before 15th March	100% of advance tax less advance tax already paid
TDS PAYMENT		
Every month except March		7th of the following month
For March month		30th April
GST		
for regular dealer		
GSTR1 monthly		10th of the following month
GSTR1 quarterly (if opted)		30th of the month following the quarter
GSTR 3B monthly		20th of the following month
Annual Return		31st December
Professional Tax		
for employer		30th April (yearly)
Amount		Rs 2500
for employee		20th of the following month (monthly)
Amount		Rs 200 per employee per month
		(if gross salary is >Rs 15,000pm)
		(to be remitted by employer only)
Provident fund if applicable		
Monthly payment		15th of the following month
ESI if applicable		
Monthly payment		20th of the following month
INCOME TAX FILING		
If tax audit applies		30th September
If tax audit does not apply		31st July
If TP audit applies		30th November

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.

General Legalities

- **Factories Act, 1948**: This is applicable to enterprises where the number of employees is 10 or more and where power is used; or 20 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 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 liters 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, De-oiled Meal and edible Flour Control Order and Vegetables Products Control Order:** 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.

Chapter 12: Golden Rules of Effective Governance of FPOs – Dos and Don'ts

What is Corporate Governance?

Before understanding Corporate Governance needs and principles in FPOs, let us discuss a case study of one of the most successful FPOs, Sahyadri FPC in Nashik, Maharashtra, India. According to a study report published by MANAGE, Hyderabad the "Secrets of Success" of the FPC are as under:

a) **Leadership**: The success of the SFPC can be attributed mainly to unique leadership of its founder Shri Vilas Shinde. He was convinced about the business opportunities in agriculture right at the beginning of his career. This made him establish Sahyadri Farmer Producer Company even after failing in two agriculture- based ventures. His ability for risk-taking and entrepreneurship helped him identify business opportunity and led to the success of the Sahyadri Farmer Producer Company.

b) **Winning the loyalty of the Farmer Members'**: The Company has the active participation of its farmer-members. The success of the Sahyadri Farmer Producer Company would not have been possible without their commitment. The company has earned the loyalty of the members by working closely with them for their benefits and well-being. The members have a sense of ownership over the brand "Sahyadri Farms". Now, both the company management and the farmer-members are complementing each other by making the company sustainable and profitable.

c) **Efficient Internal Governance:** The CEO and managers of the Company are well aware of their roles and responsibilities in the company and work hard to deliver results. . Though there is a formal organisational structure under which the various functionaries operate, the working atmosphere is an informal one. Thus, governance is ensured not only because of rules and regulations but also because of the commitment of the people. This sort of functioning is compatible with the work culture of farmers. The farmer-members also get ample scope to contribute to the day-to-day operations of the company through different committees / sub-committees.

d) **Professionalism**: The Company has the motto 'for the farmers, by the farmers and of the farmers'. The entire team of staff and management works with this motto with utmost honesty and sincerity. The company has been successful in inculcating the spirit of professionalism amongst its staff and management. There are engineers, accountants, company secretary, management professionals, food-technologists etc. working in the company within the well-defined structure of the organization.

e) **Participatory Approach:** The farmer-members are involved in decision making process of the company and some of the technically qualified farmers work as technical advisors to the company.

f) **Vertical and Horizontal Integration:** The company has put in place integrated supply chains of different produce by bringing about both backward and forward linkages through vertical integration. The company is also expanding its business horizontally by setting up retail outlets, input business, insurance for farmers etc. This sort of diversification not only helps the company in providing insurance cover for their business risk, but also in making utmost utilization of its infrastructure and technical manpower.

g) **Non-bureaucratic style of functioning:** Though the organization has a hierarchy, the communication amongst functionaries is like that of a flat organization, as any farmer-member or manager can speak to the Chairman or any Senior Manager directly. There are no communication barriers that are associated with a typically bureaucratic setup.

h) **Harmony with Local Culture of farmers:** The Company has aligned its objective with the well-being of the farmers it is working with. The technologies and new practices are introduced in such a manner that the same are compatible with the local environment and culture for their smooth adoption and sustainability.

i) **State of the Art Technology and Infrastructure:** The Company, over the years, has developed state- of- the art technology and infrastructure which provides it access to international markets.

j) **Proximity to the market and timely catering to market demand:** The Company has inherent locational advantage of being in close proximity to two major consumption markets i.e., Mumbai and Pune, but what is really important is that the company has adopted appropriate product diversification strategies to tap market demand. It has developed a range of products and follows a delivery mechanism to supply products at a competitive price in a timely manner to the consumer.

k) **Branding and its maintenance:** The Company has substantially invested in its brand i.e., Sahyadri Farmer Producer Company. It has built up its brand-equity by coming up with quality products through a full-proof quality management system. It is not only measuring up to the expectations of the export market, but also supplying quality products to different established retail chains of Mumbai and Pune. It is also selling its branded products through its own retail outlets.

l) **Legal Compliance:** The Company is complying with all the legal requirements like FSSAI, Companies Act and other State Acts/Rules. The Company is also complying with standard practices of storage, packaging, processing, transportation and hygiene. This has helped the Company to access the international market, minimize rejection and operate on a thin margin making it competitive in the market.

m) **Capacity Building:** Farmers get requisite training through the extension workers of the company at different stages of crop production. The capacity building and extension programmes of the company have helped farmers in adopting the requisite technologies.

n) **Commitment of Employees**: Employees consider the activities and objectives of the company as a movement. This speaks volumes about the level of motivation of the employees

The above essentially entails the following aspects of the Corporate Governance in FPOs:

- Strong and visionary leadership
- Participatory and transparent method of operation
- Working for the benefit of the members
- All stake holders play their roles effectively
- Capacity building for improving effectiveness of the organisation
- Professional approach
- Addressing Legal and Regulatory compliances
- Creation of Brand Value of FPO

The above could be summarised through the following graphic:

Why good governance is important?

Corporate Governance is intended to achieve transparent work culture, accountability of the Board and office bearers, improved member participation, fairness in business practices and responsive behaviour towards farmer members and other stake holders.

Best corporate governance practice is about achieving the stakeholders' goal, and delivering success in an ethical way. Some of the benefits of good corporate governance include:

- Builds morale, reputation, and a legacy
- Increases success rate for financial performance and enhances sustainability
- Creates a greater ability to attract and retain talent
- Creates an effective framework aimed at meeting business objectives
- Creates more opportunities to gain a competitive advantage
- Creates opportunities for investment
- Provides a practical way to guide decision-making at all levels

Components of Corporate Governance:

The main components of a Corporate Governance structure include shareholders, Board of Directors, characteristics of the Board, Committees of the Board, management and the various levels of engagement and interactions amongst them. The size, characteristics, composition and interaction of these components determine the effectiveness of the overall governance structure and hence performance.

Corporate Governance Principles

Corporate governance refers to all laws, regulations, codes and practices, which define how the institution is administrated and inspected, determines rights and responsibilities of different partners, attracts human and financial capital, makes institution work efficiently, provides economic value to stakeholders in the long turn while respecting the values of the community to which it belongs. For corporate governance, the management approach should consider the following aspects.

- Governance structure
- Structure of the Board and its committees
- Director's duties, remuneration and performance
- Director Appointment procedure
- Risk governance and internal control
- Reporting and integrity
- Audit
- Relations with shareholders and other key stakeholders

Principle 1 - Governance structure:

All Organizations should be headed by an effective Board. Responsibilities and accountabilities within the organization should be clearly defined

Principle 2: The structure of the Board and its committees:

The board should comprise independent minded directors. It should include an appropriate combination of individuals to prevent one individual or a small group of individuals from dominating the board's decision taking. Appropriate board committees may be formed to assist the board in the effective performance of its duties.

Principle 3: Director Appointment procedure:

There should be a formal, rigorous and transparent process for the appointment, election, induction and re-election of directors. The search for board candidates should be conducted, and appointments made, on merit, against objective criteria (to include skills, knowledge, experience, and independence and with due regard for the benefits of diversity on the board, including gender and caste).

Principle 4: Director's duties, remuneration and performance:

Directors should be aware of their legal duties. Directors should observe and foster high ethical standards and a strong ethical culture in their organization. Each director must be able to allocate sufficient time to discharge his or her duties effectively. Conflicts of interest should be disclosed and managed. The board should be transparent, fair and consistent in determining the remuneration policy for directors and senior executives.

Principle 5: Risk governance and internal control:

The board should be responsible for risk governance and should ensure that the organization develops and executes a comprehensive and robust system of risk management. The board should ensure the maintenance of a sound internal control and compliance system

Principle 6: Reporting and integrity:

In its annual report and on its website, the board should present a fair, balanced and understandable assessment of the organization's financial, environmental, social and governance position, performance and outlook.

Principle 7: Audit:

Organizations should consider having an effective and independent internal audit function that has the respect, confidence and cooperation of both the board and the management. The board should establish formal and transparent arrangements to appoint and maintain an appropriate relationship with the organization's auditors.

Principle 8: Relations with shareholders and other key stakeholders:

The board should be responsible for ensuring that an appropriate dialogue takes place among the organization, its shareholders and other key stakeholders. The board should respect the interests of its shareholders and other key stakeholders within the context of its fundamental purpose.

Governance and Management related issues and challenges before the FPO

The management related issues and challenges of Farmers Producer Companies as revealed in a study conducted by CESS, Hyderabad and the possible suggestions to overcome the constraints are as under :

Issues and Challenges	Suggestions to the FPOs

General body meetings not conducted annually.	It is mandatory to conduct annual general body meeting every year in the FPCs. The shareholders should be made aware of the entire business model and every farmer should have company awareness. The FPCs should show the financial statements and discuss the results in the annual general meeting.
BOD members are not active.	The board of directors are not active and the entire business is in the hands of the CEO. Such directors should be removed immediately and elections should be conducted to elect the active directors.
Low awareness about the activities of the FPO among members.	It was observed that some of the members are not aware of their FPCs and they just paid the capital amount after which they were neither called for any meeting nor did they get any inputs from the company. Awareness about the activities of the FPO is very important for each and every member.
Members not ready to take responsibility.	Such need to elect active members as directors. It is very difficult for CBBO/POPI or only CEO to manage the company without active directors.
No change in BOD since inception.	Fresh elections to the board must be adhered to as per the AoA. The process improves member participation in the activities of the FPO.
Need training and capacity building programmes.	Member education and improving the capacities of the employees is an essential part for sustaining their interest and contribution to the institution. Training programmes on marketing needs, technical support, and adoption of new technology are required to be conducted on a regular basis by the FPO / POPI including exposure visits to successful farmer driven enterprises.
There is no increase in the number of members since inception.	Many FPOs find it difficult to increase the membership after their initial formation. The reason being, that other farmers are not able to find value in joining the FPO or the activities undertaken by them are not attractive to others. The need based activity selection and sustained campaign should result in fruitful improvement in

	membership
Low participation of members in AGM and other meetings	If the attendance in AGM is less, the members will not get information about the company and its functioning. Therefore the FPCs should increase the attendance in their annual general meetings. Information should reach all the members and active participation only will bring success.

The BOD must take necessary steps to address the above issues for sustainable functioning of the FPO.

Responsibilities of Board of Directors

i. Pursue and formulate the organizational policy, objectives, establish specific long term and annual objectives, and approve corporate strategies and financial plans.
ii. Appointment of a Chief Executive and such other officers of the Producer Organisation, as may be specified in the articles.
iii. Exercise superintendence, direction and control over Chief Executive and other officers appointed by it.
iv. Cause proper books of account to be maintained; prepare annual accounts to be placed before the annual general meeting with the auditor's report and the replies on qualifications, if any, made by the auditors.
v. Determination of the dividend payable.
vi. Determination of the quantum of withheld price and recommend patronage to be approved at general meeting.
vii. Admission of new Members.
viii. Acquisition or disposal of property of the Producer Organisation in its ordinary course of business.
ix. Investment of the funds of the Producer Organisation in the ordinary course of its business.
x. Sanction any loan or advance, in connection with the business activities of the Producer Organisation to any member, not being a director or his relative.
xi. Take such other measures or do such other acts as may be required in the discharge of its functions or exercise of its powers.

Responsibility of CEOs

Every producer organisation shall have a full time Chief Executive Officer (By whatever name called), to be appointed by the board from amongst persons other than members.

i. S/he shall be the ex-officio director of the board.
ii. S/he shall work under direct guidance of BOD of the respective FPO
iii. Chief executive shall be entrusted with substantial powers of management as the board may determine.
iv. S/he shall operate the bank accounts with joint signatory of a member of board of director. S/he shall make arrangements for safe custody of cash and other assets of the producer company.
v. S/he shall sign all business related documents on behalf of the company. S/he may exercise the powers as may be necessary in the ordinary course of business.
vi. S/he shall be also responsible for maintaining proper books of account, prepare annual accounts and thereof; place the audited accounts before the Board and in the annual general meeting of the members.
vii. S/he furnishes company members with periodic information to appraise them of the operation and function of the producer company.
viii. S/he shall also be responsible for providing timely information to the company's members and Board of directors for scheduled company meetings or emergency or short notice meetings.
ix. S/he shall also be responsible for increasing membership in the FPOs.

Dos for Board of Directors

Attend meetings diligently	Accurately record the minutes of the meeting	Have your dissenting vote on board action recorded in minutes
Be on time to the meetings	Be attentive	Become informed, study your information packet prior to meeting
Update yourself regarding the latest developments in the environment	Ask questions until you are fully advised	Make your own best decision, based on the information you have on the issues. If information is insufficient - postpone decision until better advice

Don’ts for Board of Directors

DO NOT

Use the Director’s position for personal gain of any kind	Accept gifts, fees, loans favours, or anything of value if it gives any appearance of inducing the Director to compromise Board responsibility	Attempt to privately use the employees to gain detailed, special or in-depth information for the purpose of dominating board meeting discussions
Disclose details of Board meetings to those who have no need to know	Never ask for special treatment, favours or concessions	Give instructions, directions, or orders on conducting the daily affairs of the FPO directly to the employees
Make commitments as an individual Director in the name of the FPO		

Good corporate governance practices are essential for effective and efficient functioning of the FPO. They ensure accountability of the FPO to its members in turn ensuring sustainability of the organisation.

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.

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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.

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