



FARMER PRODUCER ORGANISATIONS

"The issue of profitability of small holding based agriculture has assumed importance in view of increasing proportion of small and marginal farmers in the country. I propose to supplement NABARD's Producers' organization development fund for Producer's development and upliftment called PRODUCE with a sum of Rs 200 crore which will be utilized for building 2,000 producers organizations across the country over the next two years."

Shri Arun Jaitley, Hon'ble Union Finance Minister, Govt. of India

Frequently Asked Questions (FAQs)



**National Bank for Agriculture and Rural Development
Mumbai
2015**



NABARD'S MISSION

Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

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Frequently Asked Questions (FAQs)



**National Bank for Agriculture and Rural Development
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FOREWORD



Indian agriculture is predominantly characterised by large number of dispersed and fragmented small holdings. Around 85% of the land holdings belong to small and marginal farmers. Being unorganised, these farmers are unable to realize good value for their produce.

Pilots implemented by SFAC, NABARD etc., indicate that the problems encountered by the small and marginal farmers can be mitigated to a large extent by organising them into Producer Organizations (POs). POs enable member-farmers to reap the benefits of economies of scale in purchase of inputs, processing and marketing of their produce. Forming a producer organization can also provide the member-farmers access to timely and adequate credit and provide linkages to markets.

Promotion of sustainable PO involves comprehensive process including observing legal formalities, developing sound organizational structure and effective capacity building. To achieve this, there is need for proper understanding of the basic concept of Producer Organization, key design variables, legal formalities, social capital building, process management etc.

With a view to providing resource support to promoting institutions and other stakeholders, NABARD with support of BIRD, has developed a comprehensive Manual on Producer Organizations. Major source of information for this manual has come from action research and study reports, experiences of various organizations, Govt. of India/ NABARD scheme guidelines etc.

I am sure all the stakeholders engaged in promotion and financing of Producer Organizations will find the document useful.

A handwritten signature in blue ink, appearing to read 'Harsh Kumar Bhanwala'. The signature is stylized and includes a small flourish at the end.

Harsh Kumar Bhanwala
Chairman

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Dr. B G Mukhopadhyay

Chief General Manager

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The Objective of this Manual is to act as a guide to Producer Organisation Promoting Institutions (POPIs) in Promoting and Capacity Building of Producer Organisations (POs) and help POs towards better Management and Business Development.

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CHAPTER 1

Concept of Producer Organisation

1.1 What is a Producer Organisation (PO)?

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

1.2 What is the need for PO?

The main aim of PO is to ensure better income for the producers through an organization of their own. Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work non-transparently leading to the situation where the producer receives only a small part of the value that the ultimate consumer pays. Through aggregation, the primary producers can avail the benefit of economies of scale. They will also have better bargaining power vis-à-vis the bulk buyers of produce and bulk suppliers of inputs.

1.3 What is a “Farmers Producer Organisation” (FPO)?

It is one type of PO where the members are farmers. Small Farmers’ Agribusiness Consortium (SFAC) is providing support for promotion of FPOs. PO is a generic name for an organization of producers of any produce, e.g., agricultural, non-farm products, artisan products, etc.

1.4 Can there be a PO for non-farmers?

Yes. The PO is an organization of the primary producers. If the produce in question is a non-farm item (for example, handloom or handicraft), then the PO will be that of non-farmers. The objective of the PO is to ensure better income realization to its members (who are producers) through aggregation and, if feasible, value addition.

1.5 What are the essential features of a PO?

- a. It is formed by a group of producers for either farm or non-farm activities.
- b. It is a registered body and a legal entity.
- c. Producers are shareholders in the organization.
- d. It deals with business activities related to the primary produce/product.
- e. It works for the benefit of the member producers.
- f. A part of the profit is shared amongst the producers.
- g. Rest of the surplus is added to its owned funds for business expansion.

1.6 Who owns the PO?

The ownership of the PO is with its members. It is an organization of the producers, by the producers and for the producers. One or more institutions and/or individuals may have promoted the PO by way of assisting in mobilization, registration, business planning and operations. However, ownership control is always with members and management is through the representatives of the members.

1.7 Who can promote a PO?

Any individual or institution can promote a PO. Individual persons or institutions may promote PO using their own resources out of goodwill or with the noble objective of socio-economic development of producers. If, however, the facilitating agency wishes to seek financial and other support, then they have to meet the requirements of the donor/financing agency.

1.8 Who provides support for promotion of PO?

NABARD, SFAC, Government Departments, Corporates and Domestic & International Aid Agencies provide financial and/or technical support to the Producer Organisation Promoting Institution (POPI) for promotion and hand-holding of the PO. Each agency has its own criteria for selecting the project/promoting institution to support.

1.9 Can an NGO promote PO?

Yes, it can. The NGO may be a non-profit organization, but not the PO. The NGO can promote PO which will provide better income to the members. Sharing of profit among members is an important objective of the PO.

1.10 What are the different legal forms of PO?

Producer Organisation can be registered under any of the following legal provisions:

- a. Cooperative Societies Act/ Autonomous or Mutually Aided Cooperative Societies Act of the respective State
- b. Multi-State Cooperative Society Act, 2002
- c. Producer Company under Section 581(C) of Indian Companies Act, 1956, as amended in 2013
- d. Section 25 Company of Indian Companies Act, 1956, as amended as Section 8 in 2013
- e. Societies registered under Society Registration Act, 1860
- f. Public Trusts registered under Indian Trusts Act, 1882

1.11 Which legal form is preferable for a PO?

Institutions registered as cooperative societies and producer companies have legal provisions for sharing of profit earned by the PO by way of dividend. Other legal forms do not explicitly provide for profit sharing. However, the PO can offer better price for the produce it procures from the members, thus, benefiting the latter. Similarly, it can procure inputs/raw material in bulk and sell to members with low margin. Such activities are permissible for POs under all legal forms. A comparative chart of important features of Cooperative Society and Producer Company is given below:

Key differences between Producer Companies and Cooperative Societies

PARAMETER	COOPERATIVE SOCIETY	PRODUCER COMPANY
Registration	Cooperative Societies Act	Indian Companies Act
Objectives	Single object	Multi-object
Area of Operation	Restricted, discretionary	Entire Union of India

PARAMETER	COOPERATIVE SOCIETY	PRODUCER COMPANY
Membership	Individuals and cooperatives	Any individual, group, association, producer of goods or services
Share	Non tradable	Not tradable but transferable; limited to members at par value
Profit sharing	Limited dividends on shares	Commensurate with volume of business
Voting rights	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One member, one vote. Members not having transactions with the company cannot vote
Government control	Highly patronized to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in "real world scenario"	Fully autonomous, self-ruled within the provisions of Act
Reserves	Created if there are profits	Mandatory to create every year
Borrowing power	Restricted as per bye-law. Any amendment to bye-law needs to be approved by the Registrar and time consuming.	Borrowing limit fixed by Special Resolution in general meeting. Companies have more freedom to raise borrowing power.
Relationship with other corporate / business houses / NGOs	Transaction based	Producers and corporate entity can together float a producer company.

1.12 Can a PO be registered under Acts governing non-profit institutions?

Yes. Institutions can be built for promoting common interests of members/producers. The limitation is that surplus generated by such a PO cannot be divided among members by way of dividend etc. The PO can re-invest the surplus to grow the business. Comparison of PO registered under different Acts governing non-profit institutions is given below:

Comparative Chart for Non-Profit Legal Forms

PARAMETER	SECTION 8 COMPANY	SOCIETY	TRUST
Objectives	Non-profit activities	Charitable, Literary, Scientific, etc.	Charitable, Socially beneficial
Statute / Law	Indian Companies Act, 1956	Societies Registration Act 1860	Indian Trust Act, 1882 or Bombay Public Trusts Act
Alternation of objects	Complex legal procedure	Simple procedure	Normally only Settlor can modify
Formation	Complex procedure, 3-6 months	Simple and easy	Simple and easy
Management	Formalities of Company law have to be observed	Few restrictions imposed under the Act	Very few restrictions imposed under the Act

PARAMETER	SECTION 8 COMPANY	SOCIETY	TRUST
Meetings	To be held as per provisions of law which are quite extensive.	Annual meeting as per law and Rules of the society	No provisions laid down
Penalties	Various offences and lapses attract severe penalties.	Few offences and penalties have been prescribed	Very negligible
Legal Status	Full legal status	Legal status with certain limitations	Legal status with limitations
Statutory Regulation	Exhaustive but mature	Very limited	Nominal
Removal of members	Not possible without consent	Possible without consent	Not applicable
Dissolution or takeover by state	Very difficult	Possible	Possible

1.13 Is registration mandatory for a PO?

It is preferable for the PO to work as a legal entity. Only such an entity can enter into legally valid contracts including mobilization of funds from other institutions. There are specific Acts under which the PO could be registered. It is also possible for a PO to migrate from one legal form to another. While choosing a legal form, the following factors may be kept in view:

- a. Primary producers should benefit from the surplus generated by the PO.
- b. Process of Registration should not be too demanding in terms of time and resources.
- c. The legal form needs to fit into its business needs, organizational priorities, social capital and management capacity.

1.14 What are the important activities of a PO?

The primary producers have skill and expertise in producing. However, they generally need support for marketing of what they produce. The PO will basically bridge this gap. The PO will take over the responsibility of any one or more activities in the value chain of the produce right from procurement of raw material to delivery of the final product at the ultimate consumers' doorstep. In brief, the PO could undertake the following activities:

- a. Procurement of inputs
- b. Disseminating market information
- c. Dissemination of technology and innovations
- d. Facilitating finance for inputs
- e. Aggregation and storage of produce
- f. Primary processing like drying, cleaning and grading
- g. Brand building, Packaging, Labeling and Standardization
- h. Quality control
- i. Marketing to institutional buyers
- j. Participation in commodity exchanges
- k. Export

1.15 How would a PO help the members?

A PO will support the members in getting more income by undertaking any/many/all of the activities listed under point 1.14 above. By aggregating the demand for inputs, the PO can buy

in bulk, thus procuring at cheaper price compared to individual purchase. Besides, by transporting in bulk, cost of transportation is reduced. Thus reducing the overall cost of production. Similarly, the PO may aggregate the produce of all members and market in bulk, thus, fetching better price per unit of produce. The PO can also provide market information to the producers to enable them hold on to their produce till the market price become favourable. All these interventions will result in more income to the primary producers.

1.16 What are other benefits for the members of a PO (other than better income)?

A PO is a collective of farmers (and non-farmers) who are the primary producers of a product (an agricultural produce or a manufactured product). It, therefore, can work as a platform to facilitate better access to government services, like PDS, MNREGA, Scholarships and Pensions, etc. It can liaison with the Government Departments for convergence of programmes, like drinking water, sanitation, health and hygiene.

1.17 Who can become member of a PO?

PO is an organization of the producers, specifically the primary producers. All primary producers residing in the relevant geography, and producing the same or similar produce, for which the PO has been formed, can become member of the PO. Membership is voluntary. The procedure for obtaining PO membership depends on the bye-laws of the PO. The founder-members are those who were there at the time of formation of the PO. Other members join the PO later. However, all members enjoy equal rights. A primary producer can become member of a PO by submitting an application and a nominal membership fee. Some POs also charge annual membership renewal fee. Although primary producers obtain membership of PO voluntarily, the promoting institution should make efforts to bring all producers into the PO, especially the small producers.

1.18 Who is a primary producer?

Any person engaged in any activity connected with or related to any primary produce will be treated as producer. Primary produce means the produce of farmers from agriculture and allied activities or produce of persons engaged in handloom, handicrafts and other cottage industries, including any by-product and product resulting from ancillary activities thereof. Primary produce also includes any activity intended to increase the production or quality of aforementioned products or activities. Persons engaged in agriculture, horticulture, animal husbandry, fishery, sericulture, apiary, handloom, handicrafts, etc., can become members of appropriate PO. Persons engaged in collection of minor forest produce are also eligible for membership of PO although they gather these from forests and strictly are not producers.

1.19 Can a person become member of more than one PO?

Family is the unit of production in rural areas. Benefits from the PO will accrue to members in proportion to the volume/value of produce given to the PO. Therefore, one person from a family can provide the whole produce of the family to the PO and get the same amount of benefit as multiple members providing the same volume/value. If however there are two different POs in the vicinity, each for a different type of produce, say vegetables and milk, one person can become member of both these POs, if the family produces both milk and vegetables.

1.20 Who will manage the PO?

Each PO will have an elected Board of Management / Board of Directors as per the bye-laws. The Board can engage professionals to manage its affairs. In the initial years, professional and managerial assistance is usually extended by the POPI. As the leaders of the PO gain experience, they should take over the affairs of the PO completely.

1.21 Can a PO engage professionals to manage its business?

All legal forms provide for engaging professional and other employees by the PO. Such persons should be paid out of the income of the PO. As far as possible, the income should come from value addition to the produce and not from price paid to members. If members get price less than the market, they will gradually move away from the PO. The professionals and other employees should be paid at par with the prevailing market to ensure that they remain for long with the PO. Compensation will also depend upon the business plan, ensuring a positive surplus.

1.22 Can a PO procure produce from non-members?

The objective of the PO is to ensure better income to the member-producers through aggregation and value addition. Therefore, procurement from non-members is usually not undertaken. However, market exigencies at times may necessitate such procurement. There should be provision in the by-laws of a PO to enable procurement from non-members during such exigencies.

1.23 Can a PO sell the produce in the commodity exchanges?

Yes, it can. The PO can aggregate the produce of its members, and sell it using the commodity exchanges. The produce needs to meet the quality standards specified by the commodity exchanges, and be stored scientifically in approved warehouses. The PO can become a member of the Commodity Exchanges to do trading directly, or else it can sell through the exchange-approved brokers.

1.24 Can a PO export the produce of its members?

Yes, it can. For exporting agricultural produce, all the members will have to follow Good Agricultural Practices (GAP). There are also other specific quality parameters that the importing countries impose for different produce which need to be complied with. For non-farm produce (handloom, handicrafts etc.), there are other quality specifications and other stipulations against using child labour, etc.

1.25 How much expenses will be incurred for registration of a PO?

Expenditure towards registration fee, stamp duty, preparation of documents and facilitation charges etc., will depend on the legal structure of the PO. In general, establishment of a producer company is more expensive than other legal forms. The estimated cost of incorporating a producer company is given below:

Estimated cost for incorporation of a producer company

Particulars	Item of expenditure	Amount (Rs.)
Application for Name of PC	Fees	500
Digital signature	Fees	2600
Stamp duty	Memorandum of Association and Articles of Association	1500
Registration/Filing fees	MoA, AoA, Form-1, Form-18, Form-32	17200
Fees of Chartered Accountant or Company Secretary	Consultancy charges	10000
Stamps cancellation		300
Affidavit expenses	Fees of Notary	500
Share transfer fees and processing		5000
Miscellaneous expenses		2000
Total		39600

1.26 What important factors should be kept in view while facilitating formation of PO?

Aggregating producers into collectives is one of the best mechanism to improve access of small producers to investment, technology and market. The facilitating agency should however keep the following factors in view:

- a. Types of small scale producers in the target area, volume of production, socio-economic status, marketing arrangement
- b. Sufficient demand in the existing market to absorb the additional production without significantly affecting the prices
- c. Willingness of producers to invest and adopt new technology, if identified, to increase productivity or quality of produce
- d. Challenges in the market chain and market environment
- e. Vulnerability of the market to shocks, trends and seasonality
- f. Previous experience of collective action (of any kind) in the community
- g. Key commodities, processed products or semi-finished goods demanded by major retailers or processing companies in the surrounding areas/districts
- h. Support from Government Departments, NGOs, specialist support agencies and private companies for enterprise development
- i. Incentives for members (also disincentives) for joining the PO

Keeping in view the sustainability of a Producer Organisation, a flow chart of activities along with timeline, verifiable indicators and risk factors is provided at Attachment-5.

1.27 At what stage of PO, should the member-producers be actively involved?

POs that are formed primarily in response to external initiative often struggle to develop into sustainable businesses. Therefore, the members should be actively involved from the very beginning. The facilitating agency should facilitate a process that results in producers taking the initiative to set up the PO and let the members drive the process. Activities like awareness creation, identification of potential members should precede the actual formation formalities.

1.28 What is the optimal size of a Producer Organisation (PO) and what are the parameters?

- a. It is desirable to have a Farmer Producer Organisation (FPO) for farmers having their lands in contiguous micro-watersheds to address the issues relating to sustainability.
- b. The productive land under an FPO may be around 4000 ha.
- c. The PO may cover generally one or two contiguous Gram Panchayats for ease of management.
- d. The number of farmer producers that need to be covered may be around 700 to 1000.
- e. The cost of managing a Producer Organisation of the above nature may be around Rs. 2 lakh per month or Rs. 24 lakh per annum.
- f. The total value of the produce of the farmers/non-farmers handled by the Producer Organisation may be around Rs. 2.5 crore, assuming that approximately 10% of the total turnover of the PO may be reasonably spent towards cost of management.
- g. Further, the markets selected for the Producer Organisation for selling their produce may be within 200 KM to make their marketing activities viable.

1.29 What are the design variables / factors governing the size of optimal size of a PO ensuring that the PO will be sustainable?

- a. A Farmers Producer Organisation is to be designed in such a way to cover all the lands that fall in one or two micro watersheds.
- b. The sustainability of the farmers of the micro watersheds is already in existence with various types of productive activities of the farmers to take care of risk factors, like variations in the market prices of various produce, continuity of income etc. which include sustainable agricultural practices.
- c. The secret to sustainability of a PO depends on comprehensive engagement of the PO with their members throughout the year.
- d. The design variables for a PO are mainly size, scope, technology, ownership of resources, management and purpose. These variables need to be aligned to meet the sustainability requirements indicated in the earlier two points.
- e. The size of the PO should be small to be able to be managed by the local talent available in the area of the PO.
- f. The scope of the PO 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.
- g. The technology adopted by the PO should be such that majority of the local people or members of the families of the PO should be able to adopt to it and work with it with minimal training, effectively.
- h. The management of the PO 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 PO effectively.
- i. The purpose of the PO at all times must be to serve the larger needs of the community and the ownership of the PO always should rest with all its members.

1.30 What should be the minimum and maximum number of members in a PO?

The minimum number of membership depends on the legal form of the PO. For example, 10 or more primary producers can incorporate a Producer Company under Section 581(C) of Indian Companies Act 1956 (same provisions are retained in the 2013 Act). There is no restriction on the maximum number of membership. Generally, the PO will require certain minimum scale of operation to remain in business. This operation scale/volume is known as break-even level. Studies have shown that a PO will require about 700 to 1000 active producers as members for sustainable operation.

1.31 Who can become a Producer Organisation Promoting Institution (POPI)?

An NGO, a bank branch, a Government Department, a Cooperative Society or any Association or Federation can become a POPI. Basically, the POPI needs to be a legal entity so that it can enter into legally valid contracts with other institutions including the PO which they seek to promote. Support is available for POPIs from SFAC and NABARD for meeting part of the recurring cost incurred for promotion of the PO based on individual project considerations. Details are available in the website of NABARD, SFAC and Ministry of Agriculture, Government of India.

1.32 What are the roles and responsibilities of POPI?

The primary responsibility of the POPI is to see that the PO reaches sustainable level of business and the staff of the PO acquire technical and managerial capability to run the business successfully when the POPI withdraws its support. The principal role of the POPI is, therefore, to build the capabilities of the Staff and Management of the PO through training and continuous hand-holding. The broad responsibilities of a POPI are indicated below:

- a. Cluster identification
- b. Diagnostic and Feasibility Studies
- c. Business Planning
- d. Mobilisation of Producers and Registration/Incorporation of PO
- e. Resource Mobilisation
- f. Development of Management Systems and Procedures
- g. Business Operations
- h. Assessment and Audit

1.33 What critical interventions could be covered under Grant and credit support for POPIs?

Activities involved in promoting and running a PO by POPI

Sr. no.	Activity	Grant or Credit	Duration
1	Survey of area for identification of existing economic activity and social groups which can serve as primary blocks for PO	Grant	1 month
2	Interaction and awareness creation about PO <ul style="list-style-type: none">• Exploratory interactions	Grant	3-4 months

Sr. no.	Activity	Grant or Credit	Duration
	<ul style="list-style-type: none"> • Meetings • Exposure Visits 		
3	Training and capacity building of members on running the POs	Grant	1 month
4	Formalizing management structure and registration of PO	Grant	1-2 months
5	Engagement of Professionals and preparation of business plan	Grant - salary expenses on tapering basis for 3 years One time consultancy charges for preparation of business plan	Salary expenses of professionals/ and consultancy charges for preparation of business plan
6	Production activity by members	Credit support	
7	Primary processing – grading sorting and storage	Credit support	
8	Separate storage structure is required	Credit support	
9	Separate quality control structure is required	Grant cum credit support	
10	Market survey, exhibition, grant	Grant	For first two – three years
11	New technology adoption <ul style="list-style-type: none"> • Visits • Machines 	Grant	As and when required (Subject to certain limit)
12	Exports – expenses for completing necessary formalities	Grant	As and when required (Subject to certain limit)

1.34 What are the taxation systems / laws governing the POs? Whether any tax benefit is available to FPOs?

Immediately after incorporation, a PO has to procure PAN number from the Income Tax Department and TIN number from the Commercial Tax Department to carry out business. Also, the company has to register itself for Service Tax from Commercial Tax Department and VAT from Excise department.

Currently, all FPOs are not eligible for tax exemption on par with cooperatives. The Producer Companies are taxable on par with the Private Limited Companies and Public Limited

Companies. However, the following are some of the various tax incentives available to the Producer Companies:

- a. The Income derived by a Producer Company through agricultural activities as defined in Income Tax Act, 1961 as amended from time to time, is treated as agricultural income and is exempted from taxation.
- b. The Government of India has vide the Finance Act, 2012, reduced the customs duty on the import of agricultural equipment and their parts which would benefit the Producer Companies engaged in agricultural activities to a great extent.
- c. Producer Companies engaged in the business of growing and manufacturing tea or coffee or rubber are eligible for deduction in respect of deposit of any amount with a Nationalised Bank or any other bank in accordance with scheme as approved between the Company and the respective Board.

1.35 What critical areas could be covered during training/ capacity building of BOD of POs/ other staff?

The critical areas to be covered under training /capacity building of Board of Directors of a PO and staff of PO are as under:

- a. **Vision and Mission:** The vision and mission of the PO is very important for the Board Directors as well as other staff. Creating value to the members by solving existing problems in the value chain, marketing and reasonable share of price realisation in the rupee spent by the consumer on the members' produce, should be the focus. All other activities / services should be to engage the members comprehensively throughout the year and to reduce their expenditures and increase their welfare.
- b. **Good Governance:** Governance which is responsible, transparent and keeping the interest of the members of the PO above all the considerations is a must for the success of a PO. Various aspects of good governance to be covered.
- c. **Sustainability:** Another most important aspect to be covered in the training is that the PO should not venture into unsustainable ventures which may create short term profits and harm the long term interests / welfare of the community.
- d. **Networking:** The success of a PO depends on the networking and continuous interactions with various stakeholders. The BODs and staff should have the understanding and importance of networking to obtain maximum benefits to their members under convergence mode.
- e. **Social Capital:** The training should concentrate on making the PO relevant to the members at all times, which creates social capital and trust.
- f. **Statutory Requirements:** The BoD and staff should have an understanding of the constitution of the PO, statutory provisions under which it is formed, various other requirements under the statute and compliance thereof.

- g. Business Planning:** The training should cover aspects of business planning to maximise benefits as well as to reduce the business risks. The aspects like DPR preparation, Balance Sheet Analysis, simple financial ratios for profitability, ratios that are seen by banks for financing, need to be covered.
- h. Financial Management:** The training also should cover management of the finances like maintenance of books of account, Management Information System, share capital, borrowings, savings, loans, cash flow, funds flow, receivables management, payables management, investments etc.
- i. Monitoring:** The BOD module should have various aspects of monitoring to ensure that the business goals are achieved and the business is carried out in a professional manner.

1.36 What support is available for PO from SFAC?

Mainly two types of support is available to the POs from the Small Farmers Agribusiness Consortium (SFAC). Details are available at www.sfacindia.com.

- a. SFAC operates a Credit Guarantee Fund to mitigate credit risks of financial institutions which lend to the Farmers Producer Companies (registered as Producer Company under Part IX-A of Companies Act) without collateral. This helps the FPCs (one form of PO) to access credit from mainstream financial institutions for establishing and operating businesses.
- b. SFAC provides matching equity grant up to Rs. 10 lakh to the FPCs to enhance borrowing power, and thus enables the entities to access bank finance.

1.37 What type of financial support is available for PO from NABARD?

NABARD provides financial support to the POs only through project mode through two financial products. A fund titled “Producers Organisation Development Fund” has been created by NABARD towards this end. Details are available at www.nabard.org (Financing and Supporting Producer Organisations).

- a. Lending to POs for contribution towards share capital on matching basis (1:1 ratio) to enable the PO to access higher credit from banks. This is a loan without collateral which will have to be repaid by the PO after specified time. The maximum amount of such assistance is Rs. 25 lakh per PO with a cap of Rs. 25,000 per member.
- b. Credit support against collateral security for business operations. Also, credit support without collateral security for business operations to FPCs which are eligible under Credit Guarantee scheme of SFAC. The credit product can be customised as per requirement of the business. In general, credit support is available for business activities and creation of assets like building, machinery, equipment, specially designed vehicles for transportation etc. and/or working capital requirements including administrative and other recurring costs connected with the project as

composite loan. Capital expenditures like purchase of land, vehicles for general transportation & personal use, etc., will not be considered for support.

1.38 Are there other support available to the PO from NABARD?

NABARD also provides technical, managerial and financial support for hand-holding, capacity building and market intervention efforts of the PO. Such support is available in the form of grant, loans, or a combination of the two based on the need of the situation, and is available only to those POs which avail credit from NABARD. Capacity building support will not be given in isolation in general. It would essentially be a part of the overall project having loan component. Grant, if any, will be maximum 20% of the loan amount. Capacity building should broadly cover any activity relating to functioning of a producer organization. Some such activities are given below:

- a. Skill development in order to enable members to improve production/productivity
- b. Business planning
- c. Technological extension through classroom training
- d. Exposure visits, agricultural university tie ups, expert meetings, etc.
- e. Any other capacity building initiative which directly benefits the P.O.
- f. NABARD through its Farm Sector Promotion Fund (FSPF) is providing financial assistance to various institutions including Farmers clubs for:
 - i. facilitating adoption of appropriate technologies by the agriculturists through the provision of training cum exposure visits, organizing for demonstrations on the use of the various technologies
 - ii. organizing financial credit counselling
 - iii. providing support for financial literacy
 - iv. Dissemination of appropriate technologies to the various people in need thereof
 - v. Promotion of Producer Organisation

1.39 How can NABARD help the POs in marketing their produce?

NABARD also provides support to the POs to access markets for their produce. Some of these activities are as below:

- a. Credit and/or grant support for setting up of marketing infrastructure facilities for sale of produce.
- b. Support for marketing through rural haat and rural mart which had already been established through NABARD support.
- c. NABARD may facilitate tie-ups with buyers for Producers Organization's produce.
- d. Through existing schemes of National Horticulture Mission and Ministry of Agriculture, NABARD may support creation of infrastructure wherever possible.

1.40 What support is available to the POPIs from NABARD?

NABARD provides incentives for the POPI for taking care of the PO within the overall ceiling of 20% grant support to the PO. The incentive scheme is as below:

- a. Max 5% of loan amount for POs up to 5 years old

- b. Max 2.5% of loan amount for POs more than 5 years old
- c. The incentive is given 10% in advance, 70% linked to timely repayment of instalments and rest 20% at the end subject to satisfactory repayment.

1.41 What support is available for PO from Government of India?

Government of India provides budgetary support to SFAC for its Equity Grant and Credit Guarantee Fund Scheme for the Farmer Producer Company. For creation of storage and other agricultural marketing infrastructure under the Integrated Scheme for Agricultural Marketing (Ministry of Agriculture, Government of India), FPOs are eligible to get higher subsidies. Details are available at www.agmarknet.nic.in. CAPART, Ministry of Rural Development also operates schemes through which support for some activities can be obtained by the PO. Details are available at www.capart.nic.in. Training institutions supported by the Ministry of Rural Development, Government of India (www.rural.nic.in) also impart skill and capacity building training which can be made use of by the PO for its members.

CHAPTER 2

Producer Organisations as Cooperative Society

2.1 What are the legal provisions for registering a PO as a Cooperative Society?

Producer Organisations can also be formed and registered as a Cooperative Society under the following Acts:

- a) Cooperative Societies' Act of Individual State
- b) Autonomous Cooperative Societies' Act existing in many States (minimal State intervention)
- c) Multi State Cooperative Societies' Act, which is a Central Act

2.2 What are Statement of Objects for Cooperative Societies?

- a) The Cooperative Society can be established for purpose/s of credit, production or distribution
- b) Unlimited society is not the best form of cooperation for agricultural commodities. However, such societies do exist and are working in several States. Unlimited society can distribute profits with the permission of State Government

2.3 How are Societies registered?

- a) A society which has as its object the promotion of economic interests of its members in accordance with cooperative principles can be registered as a Society
- b) Similarly, a society established with the object of facilitating operation of such a society can also be registered under the Act
- c) A registered society can be member of another society, but liability of such other society must be limited, unless State Government directs otherwise

2.4 Who can form a society?

- a) A society can be formed with at least 10 members of age above 18
- b) If object of the society is creation of funds to be lent to its members, all the members must be residing in the same town, village or group of villages or all members should be of same tribe, class, caste or occupation, unless Registrar otherwise directs
- c) The provision of minimum 10 members or residing in same town / village, etc. is not applicable, if a registered society is a member of another society
- d) The last word in the name of society should be 'Limited', if the society is registered with limited liability
- e) Registrar is empowered to decide whether a person is agriculturist or non-agriculturist or whether she / he is resident of the same town / village, etc. and his decision would be final

2.5 What are the rights and liabilities of members?

- a) If liability of members is not limited by shares, each member shall have one vote irrespective of amount of her / his interest in the capital
- b) If liability of members of a registered society is limited by shares, each member will have as many votes as may be prescribed by the bye laws
- c) If a registered society has invested in shares of other registered society, it can vote by appointing a proxy
- d) A member of a registered society shall not exercise his rights as member, unless he has made payment to the society in respect of membership or has acquired interest in society, as may be prescribed by rules or bye-laws

2.6 How will the society be managed?

- a) Each society will be managed by a Committee or the Governing Body
- b) Officers of a society include a Chairman, Secretary, Treasurer, Members of Committee or other persons empowered under rules or bye-laws to give directions in regard to business of society

2.7 Is the registered society a body corporate?

- a) A registered cooperative society is a body corporate with perpetual succession and common seal (just like a company)
- b) It can hold property, enter in to contracts, institute and defend suit and other legal proceedings, and
- c) Do all things necessary for the purpose of its constitution

2.8 Are there any restriction on loans by the Society?

- A registered society can give loans only to its members; however, it can give loan to another registered society with permission of the Registrar
- A society with unlimited liability cannot lend money on security of movable property without sanction of the Registrar
- State Government by issuing a general order, can prohibit or restrict lending of money on mortgage of immovable property by any registered society or class of registered society

2.9 Who will inspect the affairs of society?

- a. Registrar can hold an enquiry or direct some person authorised by him to hold enquiry in following circumstances:
 - i) Of his own motion
 - ii) Request of the Collector
 - iii) Application by majority of Committee Members of society or
 - iv) At least one-third of members of society

- b. All officers and members shall furnish necessary information to the Registrar or to a person authorised by him

2.10 Can a society be dissolved?

- a) Registrar, after inspection or inquiry, or on application received from 75% of members of society, may cancel the registration of society, if in his opinion, the society should be dissolved
- b) Any member can appeal against the order of the Registrar within two months to the State Government or other revenue authority authorised by the State Government
- c) If no appeal is filed within two months, the order of dissolution shall become effective
- d) If appeal is filed, the order will become effective only after it is confirmed by appellate authority

2.11 Are provisions of Companies Act, applicable to a registered cooperative society?

The provisions of Companies Act are not applicable to a registered cooperative society

2.12 Whether PACS can act as PO?

PACS, being a registered cooperative society, has been providing credit and other services to its members. It has been observed that PACS are generally meeting the credit requirements of its members. However, there is a need to provide other services to the farmers and hence, PACS should be developed as a unit to meet all their needs. PACS are generally providing the following facilities to the members:

- i. Input facilities in form of cash or kind component to members
- ii. Agriculture implements on hiring basis
- iii. Storage facility

PACS can play an important role in providing these facilities to the farmers. In order to enable PACS to provide more services to its members and generate income, an initiative was taken to develop PACS as multi service centres. Some of the PACS are also assisting farmers in marketing of their produce. Thus, PACS can provide both backward and forward linkages to its members, thereby acting as a PO, in order to promote efficient crop production practices for its members on one hand and opportunities for better price realisation of their produce, on the other. Following facilities can be taken up by PACS acting as a PO to the farmers:

a) Agro-Storage centre:

- a. Upgradation of the existing storage facility or construction of new godown along with sorting/ grading unit as per Negotiable Warehouse Receipt System. This will enable them to issue warehouse receipts. Based on these receipts, the farmers can get loan against the crop stored and can cultivate the next crop. Thus, the farmers will be facilitated to get better price by holding the crops without affecting the fund flow position.

- b) **Agro-service Centre:**
 - a. Purchase of hi-tech agri-implements like power tiller, land leveller, rotary slasher, movers, seed driller, multi crop planter, paddy transplanter, sprayers, combine harvester etc. depending upon the requirements of members. The earning will be from the rental of these equipment.
- c) **Agro-processing centre:**
 - a. Primary Processing: Sorting, grading unit, waxing/ polishing unit, pre-cooling chambers, etc.
 - b. Secondary Processing: Value addition to produce e.g. Mini rice mill, atta chaki, horticulture produce processing etc.
- d) **Agri -information centre :**
 - a. Testing lab for soil & water, creating panel of experts for providing services on payment basis, knowledge dissemination centre, arrange training to farmers. The testing lab & expert guidance will be available to farmers at a cost.
- e) **Agri Transportation & Marketing Facilities :**
 - a. Procurement of produce, direct market linkage after aggregation and/ or processing, setting up of rural mart etc. The PACS, which are either in the area of marketing or intend to undertake this activity, may create this channel to facilitate the farmers in marketing.

2.13 What role State Government / State Cooperative Bank can play in developing PACS as PO to serve as a Multi Service Centre (MSC)?

PACS can either use their own sources or avail credit facilities from StCB or CCB. In such a case, the grant support from PODF is not available. CCB or RRB can avail of refinance facilities as per the usual terms & conditions. Regional Office will keep a track of the facilities being developed at PACS level and monitor the same at regular interval. In cases where loan is from the StCB or DCCB, or own resources are being used and financial support from NABARD is not being taken, NABARD could guide in project formulation, if necessary, so as to enable best utilisation of funds. Financial support to PACS acting as a MSC / PO is also available through Producer Organisation Development Fund (PODF) of NABARD.

CHAPTER 3

Producer Organisation Registered as Producer Company

3.1 What is a Producer Company?

"Producer Company" means a body corporate

- a. registered under amended Companies Act, 1956,
- b. the terms of section 465 of the Companies Act, 2013, the provisions of the Part IX A of the Companies Act, 1956 shall be applicable *mutatis mutandis* to a producer company
- c. the objects of producer company shall conform to the activities included in 581B of the Companies Act, 1956

3.2 Who are members of a Producer Company and their position in a company?

- a. In a producer company, only primary producers or producer organisations can become members
- b. Membership is acquired by purchase of shares in a Producer Company
- c. A Producer Company can act only through its members
- d. Members create the company
- e. Members can also wind up the company
- f. Members act through their General Meetings

3.3 What is the minimum share capital for a producer company?

- a. The minimum Authorized Capital of Producer Company is Rs.5 lakh.
- b. The Authorized Capital of the company can be more than Rs. 5 lakh as indicated in the Memorandum of Association.
- c. The authorized share capital should be sufficient for carrying out the objects mentioned in the memorandum.
- d. The authorized share capital should be realistic.
- e. The minimum paid up capital for Producer Company is Rs. 1 Lakh.

3.4 What are the preparatory arrangements for registration and incorporation of a Producer Company (PC)?

The preparatory steps to be followed for the incorporation of a PC are

- a. Identify a cluster where the PO can be formed.
- b. Conduct Baseline and Feasibility Studies to ensure that a viable PO can formed in the cluster. Plan for business activities that are possible to improve the incomes.
- c. Meet the villagers (primary producers) and introduce the concept of Producer Company to them.
- d. Explore the need for a Producer Company (PC) with the primary producers. The primary producers should understand the benefits and feel the need for it.
- e. Take the interested primary producers on an exposure visit to a functioning Producer Company and enable meaningful interaction among them.
- f. Create a critical group of primary producers, who are very enthusiastic about the idea of Producer Company and empower them further with the concept and details and benefits of a producer company.

- g. Use the critical group for canvassing among other eligible members about the need, urgency and benefits of a Producer Company.
- h. Allow enough time to the prospective primary Producer Company members to understand the idea. Make frequent visits to them and clarify all their doubts. The objective should be that the prospective members have right understanding, and willing to participate and work together for their mutual benefit. It may take typically 3 to 6 month time for this kind of social mobilisation.
- i. Have focused group meeting and motivate eligible members to become shareholders.
- j. Hold a meeting with the prospective shareholders and discuss objectives and possible business ideas for the company.
- k. Revise the business plan for the company taking into account the views of the prospective members.
- l. Once the primary producers are willing to form a Producer Company and are ready to contribute to the share capital
 - a. Identify Promoter Directors.
 - b. Prepare a draft Articles of Association (AoA).
 - c. Prepare a draft Memorandum of Association (MoA). Hire the services of a consultant to get the AoA and MOA drafted, if necessary.
 - d. Call first informal meeting of the shareholders to approve
 - i. Articles of Association
 - ii. Memorandum of Association
 - iii. Selection of Promoter
 - iv. Authorized capital and cost of each share
- m. Collect the capital and savings also if possible.

3.5 What are the legal formalities for formation of a Producer Company?

- a. Obtain Digital Signature of the Nominated Director, who will be affixing DSC on all the documents to be submitted to RoC online, on behalf of the company.
- b. Chose maximum 4 names for the Producer Company in order of preference.
- c. Apply for the name availability in Form – INC1.
- d. Once name is available, a letter is received from RoC indicating it. The documents to be submitted to ROC thereafter are:
- e. Articles of Association (AoA).
- f. Memorandum of Association (MoA).
- g. Form No. INC-22 for Registered Office.
- h. Form No. DIR-12 for Directors' Appointment.
- i. Apply on-line for Directors Identification Number (DIN) for the proposed Directors.
- j. INC-7 – Affidavits by subscribers to Memorandum of Association to be filed, in case, if they have signed in Hindi.
- k. Power of Attorney in favour of a consultant to authorize him to make necessary changes in MoA and AoA as required by the RoC.
- l. Submit the documents to RoC for Incorporation of Producer Company.
- m. Obtain Certificate of Commencement in INC-21

3.6 What is Digital Signature Certificate?

- a. Digital Signature Certificates are equivalent to the paper certificates e.g. Driving License, Pass port etc. The certificates serve as a proof of identity of a person for a particular purpose. DSCs are used by the people for filing various important documents on-line.
- b. All documents need to be signed digitally and submitted online to the RoC as per MCA21 e-Governance programme and in accordance with Information Technology Act 2000.
- c. Digital Signature Certificate (DSC) is to be obtained for signing documents of the PC for submission online by the authorized person of the PC.
- d. Form for obtaining Digital Signature Certificate (DSC) is available from the Certifying Agencies of Certifying Authorities.
- e. After filling the form, it is to be submitted to Certifying Authorities.
- f. The DSCs are issued with one or two year validity normally and can be renewed thereafter.
- g. There are three classes of DSCs namely Class 1, Class 2 and Class 3. Class -2 DSC need to be used by an individual for filing various forms for Producer Company or to file an Income Tax Return.
- h. The cost of obtaining Class -2 (DSC) is market driven and depends on the Certification Agency and it costs Rs. 1000/- for one year and Rs. 1200/- for two years, as quoted by M/s Varacity an agent of M/s Safescrypt and (n)Code Solutions which are Certifying Authorities.

3.7 What is a Certifying Authority (CA) for Digital Signature Certificate and list the CAs?

The IT Act provides for the Controller of Certifying Authorities (CCA) to license and regulate the working of Certifying Authorities. The Certifying Authorities (CAs) issue Digital Signature Certificates for electronic authentication of users. At present the following organisations are authorized as Certifying Authorities under CCA, Government of India.

- a. NIC (For Government Departments / Undertakings only) (<http://nicca.nic.in>)
- b. (n)Code Solutions CA(GNFC) (www.ncodesolutions.com)
- c. Safescrypt (www.safescrypt.com)
- d. TCS (www.tcs-ca.tcs.co.in)
- e. MTNL (www.mtnltrustline.com)
- f. Customs & Central Exercise (www.icert.gov.in)
- g. e-Mudhra (www.e-mudhra.com)
- h. IDRBT

3.8 What is Director Identification Number (DIN)?

- a. Ministry of Company Affairs (MCA) maintains the details of all the Directors of all the companies with a unique Identification Number which is called Director Identification Number (DIN).
- b. Every director needs to have a DIN form MCA. DIN form is available on the website of MCA. Before formation of the PC all the Directors / Chairman should have DIN.
- c. If any Director got a DIN, the same need not be obtained afresh.
- d. MCA on online application provides DIN at a cost of Rs. 1000/- against identity proof. For identity only PAN Card, Voter ID Card, Passport or Driving License number is accepted.

3.9 How the company is named?

- a. Every Producer Company name should be unique.
- b. Every Producer Company name should end with “Producer Company Limited” which indicates its status as Producer Company.
- c. The Producer Company may be named in such a way that it inspires the entire membership and creates a sense of ownership for its members and is to be indicative of the objectives of the company.
- d. It is a better idea not to use the name of the Producer Organization Promoting Institution (POPI) directly or indirectly in the Producer Company name. Using POPI name will not help in creating ownership in the minds of the members.
- e. Apply for the name online to MCA in e-form INC-1.
- f. A fee of Rs. 1000/- is to be paid along with e-form INC-1.
- g. Digital Signature of the applicant for the name is to be attached.
- h. If the name is not available, RoC will inform about the same. This necessitates submission of fresh set of names in the same application.

3.10 What is Memorandum of Association (MoA)?

- a. MoA is a document that indicates what activities the company can undertake.
- b. MoA needs to be prepared carefully to cover all the activities planned for the present and future of the Producer Company in a broad manner.
- c. MoA should be prepared and printed on both sides of the paper.
- d. It is to be subscribed/signed by the requisite number of subscribers/promoters in his/her own hand along with details like father’s name, occupation, address and the number of shares subscribed for, by them.
- e. MoA needs to be dated after the date of stamping of the Articles of Association (AoA).

3.11 What is Articles of Association (AoA)?

- a. AoA is a document that specifies the rules for a company's operations.
- b. It defines the company's purpose and lays out how tasks are to be accomplished within the organization.
- c. It includes the process for appointing Directors and how financial records are handled.
- d. AoA should be prepared and printed on both sides of the paper.
- e. It is to be subscribed/signed by the requisite number of subscribers/promoters in his/her own hand along with details like father’s name, occupation, address and the number of shares subscribed for.

3.12 What are the documents to be submitted to the Registrar of Companies (RoC) for incorporation of a Producer Company?

- a. Copy of the letter of RoC confirming the availability of name.
- b. MoA and AoA duly stamped and signed.
- c. Form INC-22 indicating the Registered Office of the company with full address.
- d. Form DIR-12 in duplicate with details about the directors of the company.
- e. Form INC-7 on stamp paper declaring compliance with all and incidental matters regarding formation of companies.

- f. Consent of each of the Directors along with form DIR-12.
- g. An affidavit indicating that MoA is fully understood by the subscribers/signees, if they sign in Hindi.
- h. Power of Attorney to the agent who is dealing with the RoC to make corrections in MoA and AoA, if necessary, to the satisfaction of the RoC.

3.13 What is Certificate of Commencement (CoC)?

- a. CoC is issued by the RoC as a conclusive proof of formation of a Producer Company.
- b. Producer Company is effective and comes into existence from the date mentioned in the Certificate of Registration granted by the RoC.

3.14 What is the legal status of a Producer Company?

- a. On incorporation and from the date mentioned in the Certificate of Commencement (CoC), the company becomes a person in the eyes of law.
- b. It has perpetual succession, meaning members may come and go, but it will go on until it is wound up by following the process of law.
- c. It has a common seal, which is affixed on all the documents executed on behalf of the company in the presence of a director and signed by the authorized signatory or signatories.
- d. It is empowered to hold the properties in its own name and has its own right.
- e. It can enter into contracts in its own name.
- f. It can sue others and can be sued by others.
- g. In simple terms it has contractual capacity in the eyes of law just like any other person who has contractual capacity.

3.15 How much time is taken for registration of a Producer Company?

It may take anything between 2 to 6 months.

3.16 How much it costs for registration of a Producer Company?

- a. It is estimated that it may cost Rs. 40,000/- approximately.
- b. It depends on the fee charged by CA, Company Secretary and Authorized Agents etc.

3.17 Who will bear the cost of the registration of a Producer Company?

- a. Initially the promoters of the company will bear the cost of registration of the company.
- b. The promoters are generally the Producer Organisation Promoting Institution (POPI) or the initial directors.

3.18 Whether Producer Company reimburses the cost of registration to the promoters?

The cost of registration may be reimbursed to the promoters duly approved by its general body in its first meeting with a resolution passed to that effect.

3.19 Who will run a Producer Company?

The company is run / governed by members/shareholders, Board of Directors and Office bearers.

3.20 Who are Board of Directors (BoD)?

- a. Board of Directors are elected by the members.
- b. BoD may act collectively only through meetings.

3.21 Who are Office Bearers?

- c. An office bearer is a person who is selected / appointed to look after the day-to-day affairs of the Producer Company.
- d. The office bearers include Chief Executive officer (CEO), Accountant, godown keeper, etc.
- e. The company pays salaries to all the office bearers.

3.22 How to become a member of a Producer Company?

- a. By subscribing to the MoA.
- b. By an agreement in writing to become a member and with an entry in the register.

3.23 What is the authority of the members on the company?

Members exert authority on the company only through General Meetings. The General Meetings alone can do the following:

- a. Approve Budget and adopt Annual Accounts of the Company
- b. Approve the quantum of withheld price
- c. Approve the patronage bonus
- d. Authorize the issue of bonus shares
- e. Appoint an auditor
- f. Declare a dividend and decide on the distribution of patronage
- g. Amend the MoA and AoA
- h. Specify the conditions and limits of loans that may be given by the Board to any Director
- i. Approve any act or any other matter that is specifically reserved in the articles for decision for members

3.24 What are the rights of the members?

- a. to transfer one's shares
- b. to vote on resolutions at meetings of the Company
- c. to requisition an extraordinary general meeting of the Company or to make a joint requisitions
- d. to receive notice of a general meeting; to attend and speak in a general meeting
- e. to move amendments to resolutions proposed at meetings
- f. in case the member is a corporate body, to appoint a representative to attend and vote at general meetings on its behalf
- g. to require the company to circulate its resolutions

- h. to enjoy the profits of the company in the form of dividends
- i. to elect directors and to participate in the management of the company through them
- j. to apply to the Company Law Board in case of oppression
- k. to apply to the Company Law Board in case of mismanagement
- l. to apply to the court for winding up of the company
- m. to share the surplus on winding up
- n. to have a share certificate issued to him/her in respect of his/her shares

3.25 What are the voting rights of a member?

- a. In case of Producer Company comprising only of individual members or combination of individual members and producer institutions, then the voting rights shall be based on one vote per member.
- b. In case of Producer Company consisting only of producer institutions, then the voting rights shall be based on the participation in the business of the Producer Company in the previous year.
- c. The Producer Company can restrict the voting rights to only its active members provided it is authorized by its Articles of Association.

3.26 How a member is ceased of his/her membership?

- d. By completely transferring his/her shares
- e. By forfeiting his/her shares
- f. By a valid surrender
- g. By death
- h. By the company selling his shares in exercise of its right under its Articles of Association
- i. By order of a court or any other competent authority attaching and selling the shares, in satisfaction of a decree or claim
- j. By the official assignee disclaiming his shares, on his adjudication as an insolvent
- k. By rescission of contract of membership, on the grounds of misrepresentation or mistake

3.27 How many Board of Directors are permitted in a Producer Company?

A producer company can have a minimum of 5 Directors and not more than 15 Directors.

3.28 What are the powers and functions of the Board?

- a. The Board is responsible for formulating, supervising and monitoring the performance of the Producer Company.
- b. It should not act on the areas reserved for General Body.
- c. It should not exercise executive powers.

3.29 What are the matters, which the Board generally deals with?

- a. Determination of the dividend payable;
- b. Determination of the quantum of withheld price and recommended patronage to be approved at General Body Meeting;
- c. Admission of new members;
- d. Pursue and formulate the organizational policy, objectives, establish long term and annual objectives, and approve corporate strategies and financial plans;
- e. Appointment of Chief Executive Officer (CEO) and other officers, as may be specified in the AoA. Control CEO and other officers by exercising superintendence and direction;
- f. To sanction any loan or advance to members, who are not directors or their relatives, in the course of its business;
- g. Ensure proper books are maintained;
- h. Acquire or dispose property of the company in the day-to-day affairs of the business;
- i. Investment of the funds in the day to day business;
- j. Ensure annual accounts are placed before the Annual General Meeting (AGM) with the auditor's report.

3.30 Who appoints the Board of Directors?

- a. The names of the first Board of Directors are indicated in the MoA
- b. The AGM elects the directors in the first meeting and thereafter whenever required

3.31 What is the period of tenure for the Directors?

The tenure of a director appointed by AGM is minimum one year and a maximum of 5 years.

3.32 Who is an expert Director?

- a. Any person who is having expert knowledge in running the Producer Company can be co-opted by the Board as an expert director.
- b. Expert directors will not have right to vote in the election of Chairman.
- c. Expert directors should not exceed one fifth of the total number of directors.
- d. Expert director can become a Chairman.

3.33 Who is an alternate Director?

If a regular director is out of the State in which the meetings are held, for a period of 3 months or more, another person can be appointed as director in his place, who is called an alternate director. The tenure of the alternate director must be not less than 3 months. The moment the original director returns, the alternate Director ceases to be the Director.

3.34 How the Directors are remunerated?

Generally the Directors are reimbursed the cash expenditure incurred by them for attending the board meetings like expenditure on travel, lodging and food. However, if any Director, spends more time for the company, provisions may be made for providing fixed allowances like communication allowance, fixed daily allowance etc.

3.35 What should be the qualification of a Director?

Only individuals can be directors of a company. No educational qualification or minimum holding of shares is required. Hence any individual can become a Director as per Section 465(1) of Companies Act, 2013.

3.36 What is the procedure for removing directors?

- a. The shareholder directors of the company can be removed before the tenure by passing an ordinary resolution at a general body meeting.
- b. The Director ceases his post on completion of the tenure which ranges from 1 to 5 years.

3.37 What is the procedure for resignation of Director/s?

- a. Any Director can resign from his post by giving intimation to the company in a manner indicated in the AoA.
- b. If AoA do not indicate any procedure for resignation, then a Director can resign by giving reasonable notice. The resignation is deemed as accepted the moment the notice is given.
- c. In case of Chief Executive Officer or Managing Director or whole-time Director, mere notice of resignation will not be deemed as resignation. Their resignation will be governed by the terms and conditions of the appointment. In this case acceptance of the resignation is required to get relieved of their duties.

3.38 What is the accountability of a Director in a Producer Company?

- a. A director or an officer who fails to provide information to a member or a person, for whom he is required to provide information about the Producer Company, the Director is liable for imprisonment for a term extending to 6 months and with a fine equivalent to 5% of turnover of the company in the previous year
- b. If there is a failure for convening an Annual General Meeting or other general meetings, the Director shall be punishable with a fine extended up to Rs. 1 lakh. In case the default continues, an additional fine extended up to Rs. 10,000/- per day.

3.39 Who appoints the CEO and what are his/her functions?

- a. A full time CEO is appointed by the Board of Directors as per AoA
- b. The CEO is to be other than a member
- c. The CEO is accountable to both the Board of Directors and members

3.40 What are the functions of a CEO?

The functions of a CEO include the following:

- a. Do administrative acts of routine nature including managing the day-to-day affairs of the Company;
- b. operate bank accounts or authorize any person, subject to the general or special approval of the Board;
- c. make arrangements for safe custody of cash and other assets of the Company;
- d. sign business related documents as may be 'authorized by the Board' for and on behalf of the Producer Company;

- e. maintain proper books of account, prepare annual accounts, place the audited accounts before the Board and in the Annual General Meeting of the Members;
- f. furnish the members with periodic information to appraise them of the operation and functions of the Company;
- g. make appointments to posts in accordance with the powers delegated to him by the Board;
- h. assist the Board in the formation of goals, objectives, strategies, plans and policies;
- i. advise the Board with respect to legal and regulatory matters concerning the proposed and ongoing activities and take necessary action in respect thereof;
- j. exercise the powers as may be necessary in the ordinary course of business;
- k. discharge such other functions, and exercise such other powers, as may be delegated by the Board;
- l. to provide timely information to the Members and Board of Directors for scheduled company meetings or emergency or short notice meetings.

3.41 What is the minimum qualification for appointment of a CEO in a producer company?

- a. As indicated in AoA, the qualifications, experience and the terms and conditions of service of the Chief Executive shall be such as may be determined by the Board.
- b. The Chief Executive Officer (CEO) of a Producer Company shall be a full time employee of the company.
- c. The CEO shall be appointed by the Board of Directors of the company amongst persons other than members.
- d. The CEO shall be ex-officio director of the Board and such director shall not retire by rotation.

3.42 Provide details of a few Institutes promoting the establishment and management of the Producer Companies?

The establishment and the management of the Producer Companies are undertaken by various institutions as indicated below:

- a. Small Farmers' Agribusiness Consortium (SFAC): This organization provides facilities to the agriculturists in the following manner:
 - i. It links the agriculturist with the banks which in turn provide the requisite financial assistance.
 - ii. It provides training to the farmers on the various aspects of their activities viz., use of various technologies, selection of the appropriate fertilizers, etc.

- b. The various Non-Governmental Organizations which have promoted the Producer Companies are:

Promoting Organization	Name of the Producer Company	Activity of the Producer Company
Professional Assistance for Development Action (PRADAN)	Masuta Producer Company Limited	Reeling and spinning tussar yarn from tropical tussar cocoons.
Indian Farmers Movement (Infarm)	Vanilla India Producer Company Limited	Promoting vanilla production; Production and marketing of the best and choicest vanilla beans and extracts; processing vanilla as per international standards.
Evangelical Social Action Forum (ESAF)	ESAF Swasraya Producers Company Limited (ESPCL)	Empowering small rural producers of Handicrafts, Herbal Products, Agri-Food, Dairy and Meat Products, capacity building, production, value addition, quality assurance and marketing.
Maharashtra Goat and Sheep Research Development Institute (MGSRD) and Nimbalkar Agricultural Research Institute (NARI)	Panchakroshi Pashusamvardhan Producer Company Limited	Stall-fed goat rearing by small farmers

- a. In addition to the above organizations, Action for Social Advancement (ASA) has assisted in the establishment of sixteen Producer Companies in Madhya Pradesh and Bihar.
- b. Of the number of the Producer Companies formed, there are Producer Companies which have been successful viz., India Organic Farmers Producer Company Limited, Vanilla India Producer Company Limited, Rangutra Craft Duniya Producer Company Limited, Masuta Producer Company Limited, ESAF Swasraya Producer Company Limited, etc.

3.43 What are the advantages of a Producer Company?

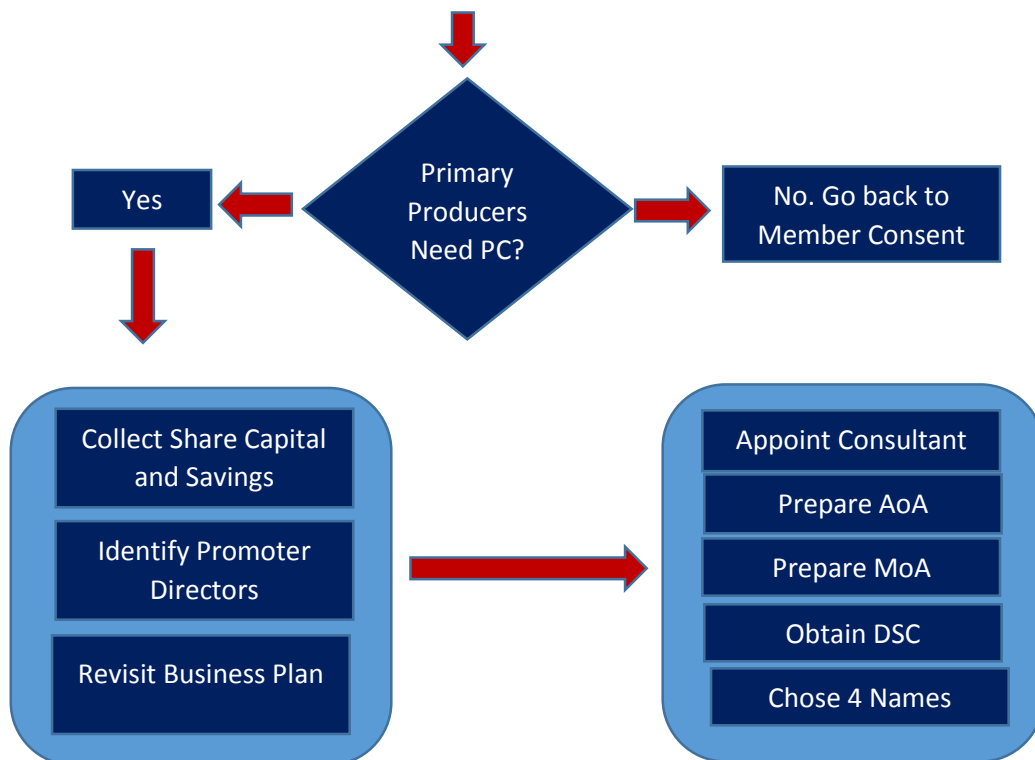
- a. A Producer Company is a hybrid between a Private Limited Company and a Cooperative Society, thus enjoying the benefits of professional management of a Private Limited Company as well as mutual benefits derived from a Cooperative Society.
- b. Ownership and membership of a Producer Company is held only by “primary producers” or “Producer Institution/s” and member’s equity cannot be traded. Hence, nobody can take over the company or deprive the primary producers of their organisation.
- c. The clauses of Private Limited Company shall be applicable to the producer companies except the clauses specified in Producer Company Act from 581-A to 581-ZL which make it different from a normal private or limited company (refer the Producer Company Act for details). This enables a professional framework for a Producer Company.
- d. The liability of the members is limited to the unpaid amount of the shares held by them. Hence, the private assets of the members are safe from company losses.
- e. The minimum paid-up Capital being Rs. 1 Lakh and minimum authorized capital being Rs.5 lakh for a PC, it easy to mobilise the small amount.
- f. Minimum number of producers required to form a PC is 10 while there is no limit for maximum number of members and the membership can be increased as per feasibility and need. This helps even 10 individuals start a Producer Company which is easy.
- g. There cannot be any government or private equity stake in the Producer Companies, which implies that PC cannot become a public or deemed public limited company. Hence, any Government or other corporate threat is non-existent in professional functioning of the company.
- h. The area of operation for a PC is the entire country giving flexibility to expand and do business in a free and professional manner.

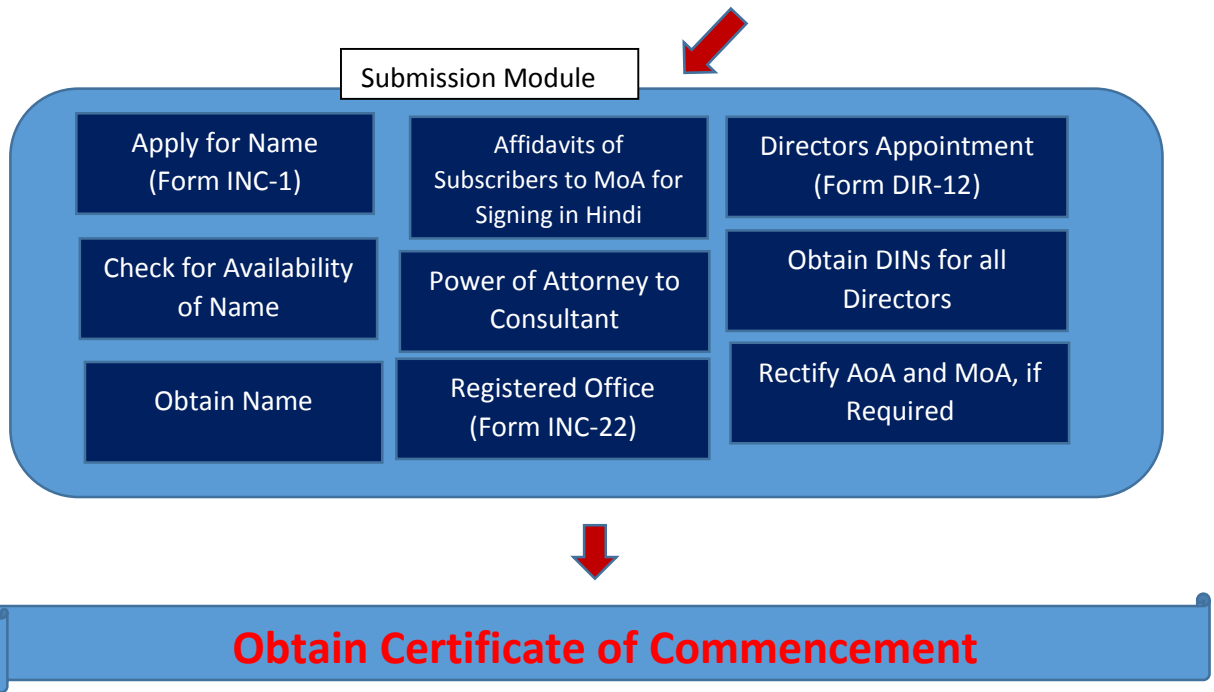
3.44 What are the limitations of a Producer Company?

- a. A Producer Company is to be registered as per the Part IXA of Indian Companies Act 1956, Reference Section 465(1) of the Companies Act 2013. It is a must to register the company and non-registered entities are not given the benefit of the Act.
- b. Registration of a Producer Company is a bit difficult, generally requiring the services of a consultant.
- c. The registration of a Producer Company is a sometimes time consuming process.
- d. The members cannot transfer their shares freely.
- e. Getting a professional CEO at an affordable cost is little difficult.

- f. The Producer Company should follow the statutory provisions of Indian Companies Act and should comply with the mandatory prescriptions of the Act without fail which is little difficult for the illiterate members to understand.

3.45 Provide a Flowchart for formation of a Producer Company?





Note: Please refer to the Companies Act 1956 and Companies Act 2013 and also the notifications, thereof.

CHAPTER 4

Producer Organisation Registered as Non-Profit Society

4.1 What is a society?

A society may be defined as a company or association of persons (generally unincorporated) united together by mutual consent to deliberate, determine and act jointly for some common purpose.

4.2 Who can form a society?

As per Societies Registration Act, 1860, a society can be formed by minimum seven persons eligible to enter into contract. Individuals (excluding minors but including foreigners), partnership firms, companies and registered societies are eligible to form a society.

4.3 For what purposes a society can be registered?

The society can be registered for any of the following purposes:

- a. Grant of charitable assistance
- b. Creation of military orphan fund
- c. Promotion of literature, science and fine arts, etc.
- d. Some states like Delhi and Gujarat also allow welfare and other purposes as eligible purpose.

4.4 Whether the certificate of registration issued to society is valid for life time?

The certificate issued by the Registrar of Societies or any other competent authority is valid for a particular period and then it is to be renewed. For example, registration of society is valid for a period of 5 years in UP.

4.5 What are the documents required for inception of the society

A society for its inception requires following documents:

- a. Memorandum of Association
- b. Rules and Regulations

4.6 What is a memorandum of association?

Memorandum of Association is the charter of the society. It describes the objects of society's existence and its operations.

4.7 What does Memorandum of association of a society contain?

The memorandum of association shall contain the following things:

- a. the name of the society;
- b. the object of the society;
- c. the names, addresses, and occupations of the governors, council, directors, committee, or other governing body to whom, by the rules of the society, the management of its affairs is entrusted.

A copy of the rules and regulations of the society, certified to be a correct copy by not less than three of the members of the governing body, shall be filed with the memorandum of association.

4.8 What is the purpose of rules and regulation of the society?

The rules and regulations are framed to guide the members of the governing body and to regulate the functions of the society and its internal management.

4.9 What does the rules and regulations of a society contain?

The rules and regulations generally contain-

- a. The conditions of admission of members.
- b. The liability of members for fines, forfeitures under certain circumstances;
- c. The termination of membership by resignation or expulsion or upon death;
- d. The appointment and removal of trustees and their powers;
- e. The appointment and removal of the members on the governing body
- f. The requirement as to notice, quorum etc., for holding meetings and passing resolutions;
- g. The investment of funds, keeping of accounts and for audit of accounts;
- h. The manner of altering the objects and rules;
- i. The matters to be provided in bye-laws;
- j. The dissolution of society and the manner of utilizing the property upon dissolution
- k. Such other matters as may be thought expedient with reference to the nature and objects of the society.

4.10 What does by laws of the societies provide for?

The bye-laws of the society are subsidiary to the rules and regulations and usually provide for:

- a. The business hours of the society
- b. The activities of the society in furtherance of its objects;
- c. The matters relating to enrolment of members, their removal, rights, applications and privileges,
- d. The manner in which the society shall transact its business;
- e. The mode of custody, application and investment of the funds of the society and the extent and conditions of such investment;
- f. The arrangements for day-to-day transactions, the expenditure to be incurred therefor, the staff to be employed and condition of services of such employees;
- g. The conduct of the general meetings and the procedure therefor;
- h. Such other matters incidental to the organization and working of the society and the management of its business, as may be deemed necessary.

4.11 Who can be a member of the society?

A person shall be eligible to become a member of Society, if he,—

- a. is 21 years of age on the date of admission;
- b. subscribes to the aims and objects of the Society;

- c. has deposited the membership fee as prescribed in the Bye-laws of the Society; and
- d. is not an insolvent or of unsound mind

4.12 When a person ceases to remain a member of society?

A person ceases to remain the member of the society:

- a. Upon resigning and acceptance of his resignation
- b. Upon death
- c. On non – payment of dues (period as prescribed in different state Acts)

4.13 What is the function of Governing body of Society?

The Governing body of the society is the body by whatever name it is called, to which the management of its affairs are entrusted by the rules and regulations of the society.

4.14 What are the sources of funds for the societies?

The societies can mobilise funds through following means:

- a. Donations
- b. Gifts
- c. Grants
- d. Loans

4.15 What books of accounts are to be maintained by the society?

The society has to maintain following books:

- a. Cash Book
- b. General Ledger

It also has to finalise its annual accounts and get it audited from a Chartered Accountant.

CHAPTER 5

Producer Organisation Registered as Trust

5.1 Can a PO be registered as a Trust?

POs can be registered as a charitable trust.

5.2 What is a Trust?

In simple words, it is a transfer of property by the owner to another for the benefit of a third person along with or without himself or a declaration by the owner, to hold the property not for himself but for another or another and himself.

5.3 How many parties are there in creating a Trust?

A person who creates a Trust is called a settlor, the person to whom the property is transferred on trust is called a trustee and the person for whose benefit the property is transferred is called the beneficiary.

5.4 How many types of Trusts are there?

There are two types of Trusts namely public trust and private trust. Private Trusts are generally formed for charitable or religious purpose, and are not intended to do commercial activities. A public charitable Trust is one, which benefits the public at large, or some considerable portion of it. While, the income from private Trusts is available to specified beneficiaries and not to the public at large.

5.5 What are the eligible purposes for establishing Public Charitable Trusts?

In general, Trusts may register for one or more of the following purposes:

- a. Relief of poverty or distress
- b. Education
- c. Medical relief
- d. Provision of facilities for recreation or other leisure-time occupation (including assistance for such provision), if the facilities are provided in the interest of social welfare and public benefit
- e. The advancement of any other object of general public utility, excluding purposes which relate exclusively to religious teaching or worship.

5.6 What laws in India govern Public Charitable Trusts?

No national law (except the broad principles of the India Trusts Act 1882, which governs private Trusts) governs public charitable Trusts in India, although many states (particularly Maharashtra, Gujarat, Rajasthan, and Madhya Pradesh) have Public Trusts Acts.

5.7 What documents are required for registration of Trust?

- a. The application for registration should be made to the official having jurisdiction over the region in which the Trust is sought to be registered.
- b. The application form should be submitted, together with a copy of the Trust deed. Two other documents which should be submitted at the time of making an application for registration are affidavit and consent letter.

5.8 What is a Trust deed?

The main instrument of any public charitable Trust is the Trust deed, wherein the aims and objects and mode of management (of the Trust) should be enshrined. In every Trust deed, the minimum and maximum number of Trustees has to be specified. The Trust deed should clearly spell out the aims and objects of the Trust, how the Trust should be managed, how other Trustees may be appointed or removed, etc. The Trust deed should be signed by both the settlor/s and Trustee/s in the presence of two witnesses. The Trust deed should be executed on non-judicial stamp paper, the value of which would depend on the valuation of the Trust property.

5.9 How many Trustees are required?

A Trust needs a minimum of two Trustees; there is no upper limit to the number of Trustees. The Board of Management comprises of the Trustees.

5.10 What are the sources of funds for the Trusts?

The Trusts can mobilise funds through following means:

- a. Donations
- b. Gifts
- c. Grants
- d. Loans

5.11 What books of accounts are to be maintained by the Trusts?

The Trust has to maintain following books:

- a. Cash Book
- b. General Ledger

It also has to finalise its annual accounts and get it audited from a Chartered Accountant.

5.12 Can NGOs take up business activities?

Section 11(4A) of the Income Tax Act, 1961 has been amended with effect from 1-4-1992. Accordingly, if the income from business is incidental to the attainment of the objects of the non-profit organisation and separate books of account are maintained by such an organisation in respect of such business, the profit is not considered for taxation. In other words, the profit is fully exempt from tax. Income from a business undertaking which is itself held under Trust for charitable purpose [under section 11(1) (a)] is also exempt. Further, an

activity resulting in profit need not always be treated as income from business. Income of a non-profit organisation from letting out halls (for private or public functions), rest houses or auditoriums does not amount to business.

5.13 Is the income of PO registered as Trust is exempt from Income tax?

The income of a PO registered as Trust is not exempted from the income tax, as it is not a charitable purpose.

5.14 What are the advantages of a Trust

- a. Simple process of registration.
- b. Simple record-keeping and even simpler regulations.
- c. Low possibility of interference by regulator.
- d. Exemption from tax due to charitable nature of operations.

5.15 What are the Disadvantages of a Trust?

- a. Tax exemption extended to societies may apply to public Trusts only to the extent the Income Tax department accepts their activities as being charitable.
- b. As a charitable institutional form, a Trust, in essence, is inappropriate for for-profit, financially sustainable organisations like POs;
- c. No system of equity investment or ownership, thereby, making it less attractive for commercial investors;
- d. Commercial investors generally regard the investments in such entities risky, primarily on account of their lack of professionalism and managerial practices, and are, therefore, reluctant to commit large volumes of funds to Trusts;
- e. In accordance with Section 45S of the RBI Act, 1934, no unincorporated bodies are allowed to accept deposits from the public. Organisations registered under the Societies Registration Act and the Trust Act are considered unincorporated bodies. Therefore, according to the law, they are not allowed to collect savings from general public.

5.16 What are the Documents required for registration of Producer Company as a Trust?

- a. Detail of all members or Trustees of the Trust with their address and PAN
- b. Certified true copies of the Trust's Registration Certificate
- c. Certified true copies of Laws & by-laws of the Trust
- d. Copy of income tax registration certificate
- e. Audited Balance Sheet and Income & Expenditure account with Audit Report of last 3 years
- f. The original copy of Trust Deed evidencing the creation of the Trust

CHAPTER 6

Producer Organisation Registered as Section 8 of The Companies Act, 2013

6.1 What is a Section 8 Company?

Section 8 Companies are those companies which are formed for the sole purpose of promoting commerce, art, science, religion, charity or any other useful object.

- a. These types of companies can be either public company or private company having a limited liability.
- b. Profits earned by these companies can only be applied for promoting its objects and cannot be distributed as dividend among its members.
- c. These companies can be formed with or without share capital. In case they are formed without capital, the necessary funds for carrying the business are brought in the form of donations, subscriptions from members and general public.

6.2 What advantages do the Producers Organisations get on registering themselves as Section 8 companies?

Section 8 Company is preferred as compared to Trust, society because of following reasons:

- a. Section 8 Company has uniform law across the country.
- b. Section 8 Companies are also preferred, as compared to others, in foreign funding because of stringent disclosure norms and regulatory provisions under Companies Act, 1956 and Foreign Contribution Regulation Act.
- c. The Central and State Governments recognised Section 8 Company in various Schemes implemented by them.
- d. A wide range of activities can be taken up.
- e. Exempted from using the word Private Limited or Limited
- f. Members/Owners easily transfer ownership in shares and interest by the manner provided by the Article of Association.
- g. The continuation of an incorporated Section 8 Company is unaffected by the death of any of its owner(s) or the transfer of its shares to a new entity/person

6.3 What are the disadvantages of a Section 8 Company?

The followings are the disadvantages of Section 8 Company:-

- a. Profits cannot be distributed as dividends to members and it will be applied for promoting its objects only.
- b. Alteration in the objects clause of the Company requires prior approval of Central Government.
- c. In comparison to Society and Trust, registration of Section 8 Company and complying with other terms & conditions are costly. Also, if there is any breach of law, a Section 8 Company has to bear penalties and fines.

- d. Section 8 Companies also fall under the definition of Company under Income tax. Therefore, same rate of tax is applicable to Section 8 Companies which is applicable to the normal profit making company.
- e. Generally, complete closure or winding of Section 8 Companies takes around 1-2 years and involves compliance of various formalities. Moreover, in certain cases, it requires the approval from the High Court.

6.4 What are the essential conditions for PO to get registered as Section 8 Company?

For registration of Section 8 Company, the following conditions must be fulfilled:-

- a. Minimum 2 Shareholders (for Private Limited Co.) and 7 Shareholders (for Public Limited Co.)
- b. Minimum 2 Directors (for Private Limited Co.) and 3 Directors (for Public Limited Co.)
- c. DIN (Director Identification Number) is required for every director.
- d. At least one Director of the PO should obtain Digital Signature.
- e. Memorandum of Association
- f. Articles of Association

6.5 What documents are required to be filed for obtaining Certificate of Commencement as a company?

For Grant of License the following documents are also required:-

- a. Three Copies of Memorandum of Association and Articles of Association
- b. Three Copies of list of names, descriptions, addresses of promoters/directors
- c. Three Copies of Statement showing estimates of future income and expenditure
- d. Three Copies of Statement giving in brief description of work done or proposed to be carried out after incorporation
- e. Three Copies of Statement specifying the grounds on which the application is made
- f. Declarations by all the directors of the company as per the prescribed proforma
- g. Declaration by Chartered Accountant or advocate of Supreme Court or of a High Court, an attorney or pleader entitled to appear before High Court or a Company Secretary that the Memorandum & Articles of Association have been drawn up in accordance with the provisions of the Act.
- h. Documentary Evidence in support of addresses of promoters
- i. All due diligence documents shall be notarized/attested by a gazetted officer or CA/CS/CWA

6.6 What is Director Identification Number (DIN)?

Any individual who intends to become a Director of a company shall have Director Identification Number (DIN) which is mandatory for e-filing of forms and documents with the Registrar of Companies and PAN cannot be used as an alternative to DIN. DIN is also mandatory for directors of Indian companies who are not citizens of India. But, DIN is not mandatory for directors of foreign company having branch offices in India. Further, only a single DIN is required for an individual, irrespective of the number of directorship held by him/her. Documents and information required for getting DIN (Director Identification Number) of Director:-

- a. Self-attested PAN Card of Director
- b. Self-attested address proof of Director

- c. Affidavit
- d. Self-attested colour photo of Director
- e. e-mail id of Director
- f. Mobile No. of Director
- g. Educational qualification of Director
- h. Current occupation of Director

6.7 What is a Digital Signature or a Digital Signature Certificate?

Physical documents are signed manually. Similarly, electronic documents, for example e-forms, are required to be signed digitally using a Digital Signature Certificate. Documents required for getting Digital Signature or Digital Signature Certificate are as follows:-

- a. Self-attested PAN Card of Director
- b. Self-attested address proof of Director
- c. One colour photo

6.8 What is Memorandum of Association of a Producer Company?

Memorandum of Association is a Charter document by which a company is registered. It contains the name of the company, state in which registered office of the company is situated, objects of the Company, authorised capital and capital subscribed by the shareholders of the Company.

6.9 What is Article of Association of a Producer Company?

Article of Association is the bye laws for the internal management of a company and defines the relationship between members and directors.

6.10 What is the Registered Office of a Producer Company?

Registered office is the principal place of business and is used for all official communication of the company. The registered office does not have to be necessarily owned by the company, it may be in a rented premises. Also, a company can change its registered office any time after following specific procedures as mentioned in the Companies Act, 1956 within the same state or in a different state from the state in which it was originally registered.

6.11 After registering a Producer Organisation as Section 8 Company whether any more registrations are required?

If a Section 8 Company gets registered under section 12A and 80G of Income Tax Act, it enjoys the following benefits:-

- a. Registration under Section 12A of Income Tax Act:- Income of Section 8 Company is exempt if it is registered under Section 12A of Income Tax Act. This is a one-time registration.
- b. Registration under Section 80G of Income Tax Act: Donors can claim tax deductions for donations to the Producer Organisation, if it is registered under Section 80G of Income Tax Act. This needs to be renewed after expiry of the validity period.

Note: Please refer to the Companies Act 1956 and Companies Act 2013 and also the notifications, thereof.

CHAPTER 7

Business Planning

7.1 What is the concept of value chain development?

Value chain comprises all the activities at different yet interlinked stages that add value to a particular product through the different phases of production, including procurement of raw materials and other inputs. Usually, there are many actors along the value chain for producing, transforming/processing and bringing goods and services to end-consumers through a series of sequential activities. When the produce originates from agriculture, we call it an agricultural value chain. Let us take the case of milk. For producing milk, the farmer requires milch cattle, feed and fodder and shed for the cattle. After milking (once/twice a day), the milk is taken to the collection centre where the volume, fat and SNF contents are measured. From the collection centre, milk is transported to the Bulk Milk Chilling Unit, where the milk is filtered and chilled to keep it fresh. From there, it goes to Milk Processing Plant, where bacteria is de-activated through pasteurization, and different types of milk and milk products are made. Liquid milk (whole milk, toned milk, vitamin-A fortified milk) is made into packets and sent to wholesalers. The retailers get milk packets from the wholesalers and sell to the consumers through milk booth and/or through door delivery. Processed milk products like butter, curd, cheese, ghee etc., also reach the end-consumers from the processing facility thorough the same channel. The whole chain from purchasing of milch cattle to delivery of milk packets to consumers is the value chain for milk. Though value is added at each stage, major addition takes place through Milk Chilling, Pasteurisation and Processing. All the persons/agencies undertaking one or more activities in this chain are called the actors in the value chain.

7.2 What is value chain intervention?

The PO may choose to undertake any one or more than one activity of the value chain. In the example above, the PO may manufacture/procure concentrate feed and supply it to the farmers. It can purchase milch cattle in bulk from outside the state for the members. It can establish Bulk Milk Chilling Unit or Milk Processing Plant. It can purchase refrigerated vans for transport of milk and milk products. It can establish milk parlours to sell milk and milk products to the end-consumers. Any such activity will be a value chain intervention. The key is to choose the intervention where the value-addition (and therefore the margin) is high, and which can be effectively managed by the PO keeping in view competition in the market.

7.3 What is the benefit from Value chain concept?

The benefits may be in terms of pricing, both for input supply, output delivery and services. In Agricultural value chains, benefits may come from the following, which would result in cost reduction or revenue maximisation

- a. Business Processes: Aggregation, segregation and logistics
- b. Productivity: Man, material, money, input and output
- c. Warehousing: Space, costs and logistics
- d. Processing : Own vs. out-source
- e. Products: Whole foods to processed foods and to derivatives
- f. Risk mitigation

7.4 What is a business plan?

Business plan is a succinct document that specifies the components of a strategy with regard to the business mission, external and internal environments and problems identified in earlier analysis. A business plan is not written each time a modification to a strategy is made. It should be written when a new venture is developed or a major new initiative is launched. Sincere contemplation is needed about the business concept, the business opportunity, the competitive landscape, the essential elements for success, and the people who will be involved. The exercise will often lead to more questions, and these new questions must be properly researched to gain deep insight into the issues and challenges that lie ahead. In short, the business plan must contain answers to the questions “Who/What/Where/When/Why/How/How Much”.

7.5 What is business planning?

The business planning process starts with Generation of Business Ideas, followed by Opportunities & 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 Financial Plan.



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

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

7.7 What are the elements of a business plan?

The business plan provides broad parameters for achieving the goals of the PO. A typical business plan will contain the following:

- a. Executive summary

- b. Business Description
- c. Industry/Sector analysis
- d. Marketing plan
- e. Operations plan
- f. Financial plan

7.8 What is included in an executive summary?

The executive summary is an abstract containing the important points of the business plan. Its purpose is to communicate the plan in a convincing way to important audiences, such as potential investors, so they will read further. It may be the only chapter of the business plan a reader uses to make a quick decision on the proposal. As such, it should fulfill the reader's (financier's) expectations. It is prepared after the total plan has been written. The executive summary should describe the following:

- a. The industry and market environment in which the opportunity will develop and flourish
- b. The special and unique business opportunity—the problem the product or service will be solving
- c. The strategies for success—what differentiates the product or service from the competitors' products
- d. The financial potential—the anticipated risk and reward of the business
- e. The management team—the people who will achieve the results
- f. The resources or capital being requested—a clear statement to your readers about what you hope to gain from them, whether it is capital or other resources

7.9 What is included in a Business Description?

The business description explains the business concept by giving a brief yet informative picture of the history, the basic nature, and the purpose of the business, including business objectives and why the business will be successful. The purposes of the business description are to:

- a. Express clearly understanding of the business concept
- b. Share enthusiasm for the venture
- c. Meet the expectations of the reader by providing a realistic picture of the business venture

7.10 What is Industry Analysis?

Understanding the industry, the competition, and the market in which the business will operate is fundamental to the business plan. The analysis will help in identification of a real opportunity that solves a real problem of the members.

The result of the analysis will:

- a. Provide thorough understanding of the business environment
- b. Guide in developing an effective marketing plan
- c. Persuade the readers of business plan of the realistic potential of the venture
- d. What special technology, innovation, new perspective, or unique concept will the business offer to the customer?

7.11 What is 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.

7.12 What is Marketing Strategy?

The marketing plan is the first step in developing any new strategy. It should be based on a realistic assessment of the external environment. Marketing strategy largely determine resource needs in other areas. For example, the strategy to seek a large share of a market will require a significant commitment of resources of various kinds. How the business chooses to promote and distribute the product will have huge implications on organizational, production, human resource and financial plans.

7.13 What is market analysis?

The market analysis should cover details about:

- a. The overall market
- b. Changes in the market
- c. Market segments, their attractiveness, profitability
- d. Target market and customers
- e. Description of customers
- f. Competitors – Direct and indirect

7.14 How do you choose a marketing strategy?

After choosing the market segment that the PO wishes to target and having carried out the SWOT analysis, the suitable marketing strategy should be chosen. The choice depends on a variety of factors including the image that the PO wants to project about the product and the organization, its sales objectives like whether it wants rapid penetration or is content with slow penetration of the market etc. The PO may choose one or more combinations of strategy, but needs to strategically plan a right mix of the 4 Ps (Product, Price, Place & Promotion – called the Marketing Mix) to develop an appropriate marketing strategy.

7.15 What is Operations Plan?

Operations is the work (activity) of the business. It is transforming of the raw materials into products to be sold to the customer. The operations plan gives an overview of the flow of the daily activities of the business and the strategies that support them. The main purpose of the operations plan section is to show that the business is focused on the critical operating factors that will make it successful. It should contain the critical success factors affecting *how* the business creates value for the stakeholders of the business, and the breakeven point.

7.16 What is break-even point?

It is that volume of operation of the business at which unit sales equals operating costs. The breakeven point determines how many units of the product must be sold to break even, to cover the cost of production. It is the point at which the business will have no profit, no loss.

7.17 What is Financial Plan?

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

- a. Capital requirement and financing pattern
- b. Financial projections including cash flow statement
- c. Financial returns (Return on Investment, Internal Rate of Return, Net Present Value)

7.18 What is a 'Budget'?

A budget is a forecast of all cash sources and deployments. Budgets help to determine how much money one has or can access, where to use it, and whether the financial targets will be achieved. It shows the flow of money into, through and out of the business. The three basic elements of a budget are:

- a. Sales revenue
- b. Costs
- c. Profits

7.19 How does one generate business ideas?

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 like 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 an Agri-Clinic for providing fee-based extension services.

7.20 How do you identify business opportunities and threats?

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

7.21 How do you identify the risks and provide safeguards?

Identification of risks and possible safeguards is an integral part of the Opportunity/Threat analysis. The goal is not to eliminate risk altogether (an impossible proposition) but to identify them and assess whether they can be managed or minimised through operational resilience. If the risks or threats seem unmanageable then one may discard the business idea all together. 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. There are five key steps in the development of this strategy.

- a. The first step is to identify and map the processes/factors that would have the biggest impact on earnings, if disrupted. For example, bad monsoon will severely affect crop production in rain-fed areas thus reducing earning of the PO considerably.
- b. The second step is to identify critical infrastructure—including processes, relationships, people, regulations, plant, and equipment—that supports the PO's ability to generate earnings. For example, if there is break-down in the Bulk Milk Chilling Unit, the whole stock of milk will be spoilt and go waste, besides adversely affecting the supply chain.
- c. The third step is to identify the main vulnerabilities. Vulnerability is inability to cope with the adverse effects of an event or risk. For example, storage, processing and trading of commodities can come under new regulation, imposing conditions, which the PO may find difficult to comply with, at short notice.
- d. The fourth step is to identify the weakest links, the elements on which all the others depend. For example, if there is a single buyer for all produces, this is the weakest link.
- e. The last step is to develop planned response to mitigate the risks. For example, the enterprise may build redundancies in some critical infrastructure like a spare refrigerated van for ferrying chilled milk.

7.22 What support is available from government departments for market linkage?

Many State Governments have schemes for preferential procurement of produce from POs. For example, procurement of certified seeds through POs has been implemented by the Government of Chhattisgarh. The facilitating agency should be able to get the relevant information from the respective Governments.

7.23 What support is available from corporates for market linkage?

The corporates need continuous supply of desired quality produce for processing and value addition. Therefore, they prefer to enter into contract with few producer organisations who will meet their requirement. Usually the following mechanisms are adopted:

- a. Retail chains tie up with POs for procurement.
- b. Corporates extend dealership for farm machinery and inputs to POs.
- c. Corporates provide primary processing machinery to PO with buy-back arrangement for the produce

7.24 What are the functions of the Food Safety and Standards Authority of India (FSSAI)?

The Food Safety and Standards Authority of India (FSSAI) has been established under Food Safety and Standards Act, 2006 which consolidates various acts & orders that have hitherto handled food related issues in various Ministries and Departments. FSSAI has been created

for laying down science based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption. It has been mandated to perform the following functions:

- a. Framing of Regulations to lay down the Standards and guidelines in relation to articles of food and specifying appropriate system of enforcing various standards thus notified.
- b. Laying down mechanisms and guidelines for accreditation of certification bodies engaged in certification of food safety management system for food businesses.
- c. Laying down procedure and guidelines for accreditation of laboratories and notification of the accredited laboratories.
- d. To provide scientific advice and technical support to Central Government and State Governments in the matters of framing the policy and rules in areas which have a direct or indirect bearing of food safety and nutrition.
- e. Collect and collate data regarding food consumption, incidence and prevalence of biological risk, contaminants in food, and residue of various contaminants in foods products, identification of emerging risks and introduction of rapid alert system.
- f. Creating an information network across the country so that the public, consumers, Panchayats, etc., receive rapid, reliable and objective information about food safety and issues of concern.
- g. Provide training programmes for persons who are involved or intend to get involved in food businesses.
- h. Contribute to the development of international technical standards for food, sanitary and phytosanitary standards.
- i. Promote general awareness about food safety and food standards.

7.25 What regulations need to be complied with for food processing and marketing?

The FSSAI has enacted regulations in 2011 covering licensing, food product standards, packaging, and labelling and food additives. The details of these regulations may be accessed from their website www.fssai.gov.in. Some of these regulations are listed below:

- a. FSS (Licensing and Registration of Food Business) Regulation, 2011
- b. FSS (Packaging and Labelling) Regulation, 2011
- c. FSS (Food Product Standards and Food Additives) Regulation, 2011
- d. FSS (Contaminants, Toxins and Residues) Regulation, 2011
- e. FSS (Prohibition and Restriction on Sales) Regulation, 2011

7.26 What is AGMARK?

AGMARK is a certification mark employed on agricultural products in India, assuring that they conform to a set of standards approved by the Directorate of Marketing and Inspection, an agency of the Government of India. The present AGMARK standards cover quality guidelines for 205 different commodities spanning a variety of Pulses, Cereals, Essential Oils, Vegetable Oils, Fruits & Vegetables, and semi-processed products like Vermicelli.

7.27 What type of tests are conducted on agricultural products by AGMARK?

The testing done by AGMARK laboratories include chemical analysis, microbiological analysis, pesticide residue, and aflatoxin analysis on whole spices, ground spices, ghee, butter, vegetable oils, mustard oil, honey, food-grains (wheat), wheat products (atta, suji, and maida), gram flour, soybean seed, bengal gram, ginger, oil cake, essential oil, oils and fats, animal casings, meat and food products.

7.28 What is India Organic Certification Mark?

India Organic is a certification mark for organically produced food products manufactured in India. The certification mark certifies that an organic food product conforms to the National Standards for Organic Products established in 2000.

- a. Those standards ensure that the product or the raw materials used in the product were grown through organic farming, without the use of chemical fertilizers, pesticides, or induced hormones. The certification is issued by testing centres accredited by the Agricultural and Processed Food Products Export Development Authority (APEDA) under the National Program for Organic Production of the Government of India.
- b. Even though the standards are in effect since 2000, the certification scheme and hence the certification mark came into existence in 2002.

7.29 What is a Vegetarian Mark?

Packaged food products sold in India are required to be labelled with a mandatory mark in order to be distinguished between vegetarian and non-vegetarian. The symbol is in effect following the Food safety and standards (*packaging and labelling*) *act of 2006*, and got a mandatory status after the framing of the respective regulations (*Food safety and standards (packaging and labelling) regulation* in 2011. According to the law, vegetarian food should be identified by a green symbol and non-vegetarian food with a brown symbol.

7.30 What is product certification by Bureau of Indian Standards (BIS)?

The Bureau of Indian Standards, empowered through an Act of the Indian Parliament, known as the **Bureau of Indian Standards Act, 1986**, operates a product certification scheme by which it grants licences to manufacturers covering practically every industrial discipline from Agriculture to Textiles to Electronics. The certification allows the licensees to use the popular **ISI Mark**, which has become synonymous with Quality products for the Indian and neighbouring markets over the last more than 55 years. The Bureau's predecessor, the Indian Standards Institution began operating the product certification Scheme in 1955.

7.31 What is Hazard Analysis Critical Control Point (HACCP) system?

- a. Hazard Analysis and Critical Control Point (HACCP) is a process control system designed to identify and prevent microbial and other hazards in food production. It includes steps designed to prevent problems before they occur and to correct deviations as soon as they are detected. Such preventive control system with documentation and verification are

widely recognized by scientific authorities and international organizations as the most effective approach available for producing safe food.

- b. HACCP involves a system approach to identification of hazard, assessment of chances of occurrence of hazards during each phase, raw material procurement, manufacturing, distribution, usage of food products, and in defining the measures for hazard control. In doing so, the many drawbacks prevalent in the inspection approach are prevented and HACCP overcomes shortcomings of reliance only on microbial testing.
- c. HACCP enables the producers, processors, distributors, exporters, etc., of food products to utilize technical resources efficiently and in a cost effective manner in assuring food safety. Food inspection too would be more systematic and therefore hassle-free. It would no doubt involve deployment of some additional finances initially but this would be more than compensated in the long run through consistently better quality and hence better prices and returns.

7.32 What is the role of Central Food Technological Research Institute (CFTRI), Mysore?

Central Food Technological Research Institute(CFTRI), Mysore (A constituent laboratory of Council of Scientific and Industrial research, New Delhi) came into existence during 1950 with the great vision of its founders, and a network of inspiring as well as dedicated scientists who had a fascination to pursue in-depth research and development in the areas of food science and technology. CFTRI is an ISO 9001:2008 and ISO 14001:2004 organisation and accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) for chemical and biological testing of samples.

7.33 What arrangements need to be made to procure appropriate technology?

The PO will require some technology-based equipment or plant & machinery to run its business and organisation. At an elementary level where the PO is engaged only in aggregating the produce without any primary processing, it would still require computer systems and printers to manage its inventory, generate receipts and for office administration. For scientific storage and handling of the produce, it may require scientific godowns, safety equipment etc. While acquiring technology, the following factors should be considered:

- a. Life-cycle of technology- The life-cycle of computer systems is about three years while that of grader/separator may be 10 years. For short life-cycle technology, it is desirable to go for the latest version.
- b. Cost - The latest technology is invariably more expensive. Therefore, it is desirable to look for appropriate technology which is reasonably priced.
- c. Competition – If other players in the market use the latest technology to produce better products, the PO needs to go for better or the same technology to meet market competition. A less attractive product will not sell in the market.
- d. Source – The reputation and experience of the supplier institution is also a key consideration while acquiring technology. Untested technology and new technology firms entail additional risk. The technology may not work optimally. The firm may not be able to provide support say three to five years after acquisition.

7.34 What are the main sources of technology?

Many ICAR institutions, State Agriculture Universities and KVKs help the POs to acquire appropriate technology. For food processing, CFTRI, Mysore is an important source of technology. CSIR institutions are also resource centres of many industrial technologies. In addition, industry associations, commodity boards, government departments are also great sources of technology advisory. The PO may explore as many sources as possible before finalising the technology and the vendor. Advanced planning, scheduling, and group buying (purchasing all related equipment together in one lot) will result in cost reduction and a more efficient business operation. Just-in-time delivery, negotiated bulk pricing, and end-of-life renewal clauses are all essential in technology procurement.

7.35 Can the PO enter into twinning arrangement with research institutions?

Many research institutions and technology suppliers can provide twinning arrangement to the PO. Under such arrangement, professional service will be rendered by the research institution through continuous deployment of its professionals to build the technical and managerial capacity by providing hand-holding support to the staff of PO. The duties and responsibilities of the research institution may include:

- a. Building up the capacity of staff
- b. Designing and implementing suitable management system
- c. Developing capacity to provide technical service and consultancy
- d. Designing and preparing courses and curricula for building capacity
- e. Conducting applied research to address specific problems
- f. Bridging the gap between PO's performance and national benchmarks

7.36 How will the research institutions, commodity boards and KVKs help the PO through twinning arrangement?

These institutions can act as technology guide as twinning partner for the POs. While some public sector institutions may provide their service free or on nominal cost, private technology companies would require to be adequately compensated. In general, the twinning partner can provide the following services:

- a. Evaluate available technologies and suggest the most appropriate technology
- b. Design the specifications for technology procurement
- c. Evaluate technology vendors and their technical and financial bids/quotations
- d. Train staff of the PO to use the technology
- e. Depute own technical personnel to the PO for initial period to provide hands-on training to the operating staff of PO
- f. Train staff of PO to undertake repair and maintenance periodically
- g. Assist the PO to access local, national and international markets
- h. Advice on solutions to specific problems being faced by the PO

7.37 What role corporates can play to assist the POs?

Corporates can support the POs financially and technologically through CSR initiatives. The following activities can be taken up:

- a. Training and capacity building of producers in better technology
- b. Providing support for common infrastructure
- c. Bulk supply of agricultural inputs to POs
- d. Providing support for acquiring technology, plant and machinery
- e. Establishing quality control and testing labs to meet market specifications
- f. Bulk purchase of produce of the POs for further processing
- g. Marketing the produce in collaboration with the PO

7. 38 What subsidies are available from MoRD, MoA, NHM, etc.?

#	Name of the Scheme	General Nature of Subsidy	Eligible Persons / Institutions	Website
1	Construction of Rural Godowns	Credit linked Back ended (25 to 33.33%)	Individuals, Groups of Individuals Registered FPOs, Partnership/ proprietorship concerns / Corporates. SHGs/ NGOs, Autonomous Government Bodies	Agricoop.nic.in
2	Development/Strengthening of Agri. Marketing Infrastructure, Grading and Standardisation	Credit linked Back ended	- Do-	Agricoop.nic.in
3	Agri Clinic and Agri Business Centres	Credit linked Back ended (36 to 44%)	Agriculture graduate and others (refer guidelines)	www. Agriclincs. net
4	Dairy Entrepreneurship Dev Scheme (DEDS)	Credit linked Back ended (25 to 33.33%) Individual producers can utilize the scheme.	farmers, individual entrepreneurs and groups of unorganized and organized sector. Group of organized sector, includes self-help groups, dairy cooperative societies, Milk unions, milk federation	dahd.nic.in
5	National Horticulture Mission			nhm.nic.in

#	Name of the Scheme	General Nature of Subsidy	Eligible Persons / Institutions	Website
	Nursery	Credit linked Back ended Maximum 50 %	Individuals	
	Nursery	Back ended Maximum 50 % (credit linkage not necessary)	Cooperative societies/ registered societies / Trusts and incorporated Companies	
	Vegetable seed production	Credit linked Back ended Maximum 50 %	Individuals – max. 5 ha	
	Vegetable seed production	Back ended Maximum 50 % (credit linkage not necessary)	Cooperative societies/ registered societies / Trusts and incorporated Companies	
	Establishment of new gardens			
	Fruits (perennial)	Credit linked Back ended Maximum 75 %	Individuals – Max 4 ha- subject to terms and conditions	
	Fruits (non- perennial)	Credit linked Back ended Maximum 50 %	Individuals – Max 4 ha- subject to terms and conditions	
	Cut Flowers	25% for OF 40% for SF/MF in general areas and 50% for NER/ Himalayan states	Subject to prescribed cost norms	
	Spices and aromatic plants	40% for farmers in General areas, 50% for NER/ Himalayan states	Subject to prescribed cost norms	
6	Food Processing			Mofpi.nic.in
	Cold Chain – Non horticulture	Grant in aid / interest subsidy	Individuals or groups of entrepreneurs, organizations such as Govt./ PSUs/ Joint Ventures/NGOs/ Cooperatives/ SHG's/ Private Sector Companies and Corporations	

#	Name of the Scheme	General Nature of Subsidy	Eligible Persons / Institutions	Website
	Primary Processing centre – The Scheme is applicable to both horticulture and non-horticulture produce such as: fruits, vegetables, grains& pulses, dairy products, meat, poultry and fish etc.	Grant in aid 50 % to 75%	individual entrepreneurs/ farmers, group of entrepreneur/ farmers, associations, co-operative societies, self-help groups, non-government organizations	
	Reefer Vehicles- for purchase of standalone reefer vehicle/s and mobile pre-cooling van/s (reefer unit and reefer cabinet permanently mounted on the vehicle) for transporting both Horticultural and Non-Horticultural produce	Credit linked back ended grants-in-aid @ 50% of the cost of New Reefer Vehicle(s)/ Mobile pre-cooling van(s) up to a maximum of Rs. 50.00 lakh	individual entrepreneurs, Partnership firms, Registered Societies, Co-operatives, NGOs, SHGs, Companies and Corporations	

CHAPTER 8

Financial Management

8.1 What is share capital?

Share capital or equity means the total of the payments made to the company/society by all the shareholders Members (farmer producers/ institutions of farmer producers) on their shares. It represents a form of member commitment to the group and it defines each member's stake in the group. In a Producer Company it shall consist of only equity shares.

8.2 What are the special aspects of equity share capital in case of POs?

- a. While finalizing the cost of share and the number of shares per member, the paying capacity of the economically deprived shareholders should also be considered.
- b. There is no bar on the number of shares per member in the company Act.
- c. It is suggested to have equal number of shares among the members to maintain a balance in the power structure of the PC.
- d. The norms for distribution of share should be mentioned in the Articles of Association.
- e. The eligible community members may apply through a membership application form (specified in the Act.) to the BoD. The General Body (GB) is the final authority to approve or reject the membership application.
- f. The shareholders finalize the authorized capital of the company and the cost of each share.
- g. Transfer of Share capital is limited to members on par value in a PC
- h. The amount collected through shareholders could be used for registration fees and other processing related expenditures like fees for Company secretary, stationary, travel etc. In the books of accounts it can be shown as loan taken from the share capital. Once the company mobilises resources through business it can be repaid.
- i. Minimum number of producers required to form a PC is 10, while there is no limit for maximum number of members and it can be increased as per feasibility and need.
- j. There cannot be any government or private equity stake in the producer companies, which implies that PC cannot become a public or deemed public limited company

8.3 What is the authorised capital?

Capital that a company/organisation has been authorized to raise by way of equity shares through the Articles of Association/Memorandum of Association. The minimum authorized capital at the time of incorporation of Producer Company should be Rs.5 lakh.

8.4 What is the issued capital?

The share capital that has been issued to the members in their names is called issued capital.

8.5 What is the process for increasing the Authorised capital?

- a. The authorised capital could be increased keeping in view the requirements of the Company, by creation of new shares by passing an ordinary resolution in general meeting. The resolution cannot compel the existing shareholders to take the additional shares.

- b. The alteration does not affect the company's issued capital.
- c. The Articles of Association of the company should confer this power, if not it should be suitably amended.
- d. The changes will cost registration fee and notice of increase in share capital should be filed in Form No. 5 within 30 days of passing resolution for increasing the share capital along with the filing fee.
- e. Amendment should be noted in every copy of Memorandum and Articles.

8.6 What is the procedure for Consolidation/Division/Cancellation of Share into Larger/Smaller Amount?

- a. For the consolidation/division/cancellation of shares, at first, it should be considered and approved by the Board in its meeting. In the same meeting the date/time for the general meeting and the notice of the meeting containing the necessary resolutions and explanatory statements may also be finalised and approved.
- b. At the general meeting:
 - The necessary resolution should be passed,
 - Form No. 23 has to be filed within 30 days of passing the resolutions along with the filing fees and enclosures as prescribed in Schedule X to the Act with the Registrar of Companies.
- c. In case of consolidation/division, the Members must be issued new certificates in lieu of the existing share certificates, by making appropriate entries in the register of members. Whereas, in cancellation of shares, a notice to the Registrar of Companies in Form No. 5, along with the fees as prescribed in Schedule X to the Act.

8.7 What is the procedure for Diminution of Capital?

- a. The Company may diminish the amount of its authorised or nominal (but not issued) capital by cancelling shares which have not been issued or agreed to be issued, if its Articles authorise such cancellation.
- b. The diminution may be affected and it must be given to the Registrar within 30 days thereafter in Form No. 5.
- c. It must be noted that the resolution does affect the Company from subsequently increasing its nominal capital by passing an ordinary resolution in general meeting.
- d. In case of diminution, the cancelled shares that have never been issued or allotted to anyone are extinguished.

8.8 What is the procedure for issue of Bonus Shares?

- a. Any Producer Company may, upon recommendation of the Board and passing of resolution in the general meeting, issue bonus shares by capitalization of amounts from general reserves in proportion to the shares held by the Members on the date of the issue of such shares.
- b. Proposed Bonus Shares should be well within the authorised capital of the Company.
- c. If not, necessary steps should be taken to increase the authorised capital, by amending the capital clause of the Memorandum of Association.
- d. A resolution should be passed in the general meeting duly convened and filed with the Registrar within 30 days together with requisite documents and fees.

- e. Where the Company has availed of any loan facility from term lending institutions, prior permission is to be obtained from the institution as per the term lending agreement.
- f. Form 2 should be filed with the Registrar within 30 days also with requisite fees.

8.9 Whether a Producer Company can give loans to its members?

The Board may, subject to provisions in articles, provide financial assistance to the members of the Producers company by way of:

- a. **Credit facility**, to any member, in connection with the business of the Company, for a period not exceeding six months.
- b. **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 loans or advances.

8.10 Whether a registered society can give loan to its members?

A registered society can give loans only to its members. However, it can give loan to another registered society with permission of the Registrar. [Section 29(1)]. A society with unlimited liability cannot lend money on security of movable property without sanction of the Registrar. [Section 29(2)]. State Government, by issuing a general or special order, can prohibit or restrict lending of money on mortgage of immovable property by any registered society or class of registered society.

8.11 Whether a Producer Company can invest in Other Companies?

The general reserves of any Producer Company should be invested to secure the highest returns available from approved securities, fixed deposits, units and bonds issued by the Government or co-operative or scheduled bank or in any other prescribed mode.

- a. A Producer Company may acquire the shares of another Producer Company.
- b. By passing a special resolution, it can also subscribe to the share capital, 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 objectives of the Producer Company.
- c. Any Producer Company, either by itself or together with its subsidiaries, may invest, by way of subscription, purchase or otherwise, shares in any other company, other than a Producer Company, for an amount not exceeding thirty per cent of the aggregate of its paid-up capital and free reserves. However, with the prior approval of the Central Government by passing special resolution, a Producer Company can invest even in excess of 30% of the aggregate of its paid up capital and free reserves.
- d. All investments by a Producer Company may be made if such investments are consistent with the objectives of the Producer Company.
- e. The Producer Company, at its registered office, 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. It shall be open to inspection by any Member.

8.12 Whether it is necessary to maintain general and other reserves?

- a. 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.

- b. 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.

8.13 Whether it is necessary to maintain the Books of Accounts by a PC?

- a. Each Company, has to maintain 'books of account' for all the transactions.
- b. Chief Executive Officer (CEO), every Director of the company (in absence of CEO), and every officer and other employee and agent of the company is responsible for keeping of 'Books of Accounts'.
- c. Proper 'books of account' of Producer Company should be kept at its registered office with respect to:
 - i. all sums of money received and expended by the Producer Company and the matters in respect of which the receipts and expenditure take place;
 - ii. all sales and purchase of goods by the Producer Company; the instruments of liability executed by or on behalf of the Producer Company;
 - iii. the assets and liabilities of the Producer Company;
- d. in case of a Producer Company engaged in production, processing and manufacturing, the particulars relating to utilization of materials or labour or other items of costs.

8.14 What is a Voucher?

A voucher should be prepared for each transaction and supporting documents (in original) should be attached to it, such as invoice, challan, bills, purchase orders etc.).

- a. All the vouchers should be approved by the authorised official.
- b. There are 3 types of vouchers to be maintained viz.; (1) Cash Voucher for cash transaction, (2) Bank Voucher for bank transaction and (3) Journal Voucher for internal adjustments.
- c. Vouchers should be serially numbered along with the ongoing financial year and filed in a sequential order along with supporting documents.
- d. Separate files should be maintained for Cash, Bank and Journal vouchers.

8.15 Whether it is necessary to prepare Balance Sheet and Profit and Loss account?

Yes. Each Producer Company/organisation should prepare a balance-sheet and profit and loss account (along with needed annexure) of each financial year, which will be laid before the shareholders at the AGM of the company.

- a. The balance sheet and 'profit and loss' account should be signed by two Directors (on behalf of BoD) and CEO of the company.
- b. Every producer company has to file its Directors' Report, the audited balance sheet and profit and loss account along with the proceedings and the annual return with the Registrar within 60 days from the day on which the balance sheet and profit and loss account were laid before the members at the annual general meeting.

8.16 What is the delegation of Financial Powers?

A. To CEO

- a. He can withdraw cash up to the limit of Rs. 5000/ (Rs. Five thousand) from the Company's bank account;

- b. The cash payment against any purchase of goods or services in any circumstances shall be limited to Rs. 500/- (Rs. Five Hundred Only).
- c. All payments above Rs. 500/- (Rs. Five Hundred Only) shall be paid by cheque only. In case of non-acceptance of cheque by any institution or individual, cash payment only with the approval of a committee comprising of 3 directors.
- d. Purchase of all consumable goods and services for use by the Company for its business operations or managing its affairs up to Rs. 5000/- (Rs. Five Thousand Only) following stipulated purchase procedure.

B. Advance from the Company

- a. The work advance may be taken from the office by staff for the following purpose:
 - Travel expenses and Daily Allowance(s);
 - Procurement of official item(s);
 - Any other purpose(s).
- b. Scrutinise advance account of staff by concerned employee to ensure that previous outstanding balance(s) has been cleared;
- c. Ensure proper approval of departmental head on the payment voucher or application for advance, before fresh advance is given to any staff.

C. Accounting for Advance Taken from the Company

- a. Before request for advance is granted, ensure that the proposed expense is within the limits of Plan & Budget for the relevant year;
- b. Ensure that purpose of work advance is mentioned on the voucher;
- c. Also ensure that advance should be sanctioned only when the previous drawings are settled and it is urgent.
- d. Ensure that accounts are settled within 15 days or immediately after the work is completed whichever is earlier.

8.17 Whether it is compulsory to get the Audit of accounts?

It is compulsory to conduct Internal Audit in the case of Producer Company/Organisation. Internal audit of its accounts should be carried out, at such interval and in such manner as may be specified in its Articles of Association, by a chartered accountant.

8.18 What are the Statutory Financial Compliance to be submitted by a producer company?

Electronic filing is mandatory. As a part of Annual Filing, companies incorporated under the Companies Act, 1956 are required to file the following documents along with the e-Forms to the Registrar of Companies (RoC):

#	Document	e-Form
1	Balance-Sheet	Form 23AC to be filed by all companies
2	Profit & Loss Account	Form 23ACA to be filed by all companies
3	Annual Return	Form 20B to be filed by companies having share capital
4	Annual Return	Form 21A to be filed by companies without share capital

CHAPTER 9

Funding Arrangements

9.1 What are the different financial requirements of a producer company/organisation?

Any business will have financial requirement to start the business and run the business. The capital requirement will depend on the nature and volume of business which would vary from case to case. The cost will include both fixed and running cost.

9.2 What is fixed cost?

- a. Fixed cost is the expenditure which will normally be a one-time expenditure. The expenses on minimum office setup with furniture, fixtures and other equipment like computer, printer, Almirahs, Internet/ telephone connections are fixed cost.
- b. Normally the PCs are engaged in the activities of procurement, aggregation and grading of raw produce before sale. In such cases, Infrastructure like warehouse, weighing machine, graders/ sorters, etc. will be required for any PC, which is also a fixed cost. These infrastructure can be purchased or can be taken on rent depending upon the situation.

9.3 What is Term loan?

Long term loans, required to meet the fixed cost, like buying machinery or setting up infrastructure.

9.4 What is running or working capital requirement?

The cost required by a PC its day to business is called 'running cost' or working capital requirement. The working capital of any business unit is calculated based on the following criteria:

- a. Procurement of Raw material, storage cost, processing, transportation, insurance, etc.
- b. Management and administration cost for day to day activity, which may include Staff salary, (Manager/CEO, Production Officer, Accountant, Marketing officer, etc.) travel, rent, electricity, water, telecommunication, Phone /Fax, Stationary, Cleaning, Meeting Expenses of BoD /GB, License fee, Insurance & Other statutory fee and Other Miscellaneous Expenses
- c. Training and capacity building of BoDs and PC functionaries: Training on subjects, like provisions in the Act, rules and regulations, statutory compliances, roles and responsibilities of BoD and General body, banking operations, and also by exposure visits to the successful PCs

9.5 What are Working capital loans?

It is a short term loan, required for running existing operations of the Producer Organization; which can be used for buying raw materials (for example, seed, fertilizer, etc., in case of farm sector and leather, thread, etc., in case of non-farm sector, depending on the type of unit) or building inventories. Working capital loan may be a part of a composite loan (term loan + working capital) or separate limit. There are different methods of working out the working capital limit. Normally banks provide 20% of the annual turnover as working capital loan.

9.6 How the working capital requirement is assessed?

The quantum of working capital requirement depends on various unit specific internal factors, like, operating efficiency, technology employed and the level of quality control and external factors, like, demand and supply gap, nature of activity, availability of production inputs (raw material, labour, power & fuel), and availability of credit, etc. Thus, the working capital would depend on the prevailing conditions, level and type of business. It may change with time. The banks, therefore, review and reassess the working capital requirements of borrowing enterprises on a regular basis.

There are several methods to assess the working capital requirement used by Banks. The methods like Cash Budget System, Turnover Method, Maximum Permissible Bank Finance (MPBF) System, and Net Owned Funds System, depending on the type of activity, are used by financial institutions.

A. Cash Budgeting Method: Cash budgeting is done for a year, with month to month cash flows being taken up for analysis. Information required (to be called for from the borrower) is as follows:

- i. Balance sheet for the previous financial year (In case of existing PO)
- ii. Projected balance sheet for the budget year
- iii. Projected profit and loss account for the budget year
- iv. Estimate of monthly sales and purchases
- v. Estimate of monthly expenses and incomes other than from purchases and sales (the table below gives some of the heads of inflows and outflows)
- vi. Seasonality factors in the business, if any

From this information, the cash flow is computed as follows.

Cash inflow: Opening cash/bank balance (+) amount of receivables at the beginning of the month (+) sales (-) amount of receivables at the close of the month

Cash Outflow: Payments made for raw materials/consumables (opening trade credits (+) purchases (-) trade credits at the end of the month); payment made to fixed asset suppliers; payment of interest; Payment of tax; payment towards other expenses such as labour, utilities, etc.; closing cash balance

S No	Particulars / Months	1	2	3	4	5	6	7	8	9	10	11	12
1	Opening cash balance												
2	Receipts – sales												
3	Collection of receivables												
4	Miscellaneous receipts												
	A Cash inflow (1 TO 4)												

1	Payments for raw material												
2	Payment for consumables												
3	Payment to creditors												
4	Payment for fixed assets												
5	Taxes, interest and Labour payments												
6	Other payments												
7	Closing cash balance												
	B Cash outflow (1 to7)												
	Difference between cash Out flow and inflow (B-A)												

The difference between inflow and outflows of cash would clearly indicate period when the business is short of cash and to what extent it requires funding. There would be variations in the cash deficit from month to month. The peak level of cash deficit would be the outer limit of working capital requirements. A two track working capital limit, one at the base level taking care of the normal requirements over the year and another additional limit to take care of increased seasonal demands, is worked out.

B. Projected Annual Turnover (PAT): The working capital credit limits provided by lending banks is at a minimum level of 20% of the Projected Annual Turnover (PAT). This norm is applicable in case of units (new as well as existing), village and tiny units with aggregate fund based 'working capital credit limits up to Rs.5 Crore from the banking system. The term PAT is with Gross Sales and not Net Sales.

- a. The lending norms presuppose that the working capital requirements of a unit may be considered as 25% of the value of output or PAT. Banks normally provide 4/5th or 80% of this amount, the residual portion to be brought in by the promoter by way of margin from long term sources. The working capital credit limits provided by banks is at a minimum level of 20% of the projected annual turnover.
- b. The total working capital requirements of a unit, pegged at 25% of PAT, assumes an average working capital cycle of 3 months. In reality though, different units with different activities have different working capital cycle patterns at levels higher and lower than the average cycle of 3 months. It is therefore, necessary that the permissible level of bank credit is also assessed by using other methods of appraisal as applicable in each case along with the PAT based appraisal of credit requirements for units.

9.7 What are the broad terms of financing for Working Capital?

The broad terms of financing would be as under

- a. Limits and sub-limits
- b. Security: Primary & collateral
- c. Margin requirement
- d. Rate of Interest
- e. Commission and other fee
- f. Drawing power
- g. Submission of Stock statement and Financial Statements
- h. Stock Audit
- i. Insurance
- j. Repayment Terms: Working Capital Loans are short term loans and are generally payable in 12 months period, from the date of disbursement/sanction, depending upon the operating cycle. The borrowers are sanctioned a limit for meeting their operating expenses and are free to draw and repay as many times as required, within the sanctioned limit and within 12 months period.
- k. Types of Documents/ agreements to be signed
 - i. Loan agreement
 - ii. Hypothecation agreement (term loan / working capital)
 - iii. Mortgage (equitable / registered)
 - iv. Demand Promissory Note (DPN)
 - v. Deed of guarantee (personal / bank / govt. guarantee)

9.8 How the Term loan requirement is assessed?

A term loan is a loan granted for the purpose of acquisition of capital assets, such as construction of factory buildings, purchase of machinery, modernization, rationalization of plant and is repayable from out of the future earnings of the enterprise, in phases/instalments, as per a pre-arranged schedule. Term Loans is 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. The term loan is only one of the source to meet the total Project Cost. The total project cost is assessed on the basis of expenses to be incurred for the following purpose;

- i. Land
- ii. Factory building/shed/godowns/administrative building
- iii. Machinery
- iv. Furniture and Fixtures
- v. Technical knowhow / research & development
- vi. Pre-operative & contingencies
- vii. Margin Money for working capital

9.9 What are the broad terms of financing Term Loan?

The broad terms of financing Term Loan are as under:

- a. Margins and sources of margins
- b. Disbursements in phases

- c. Security: Primary & collateral and Guarantee
- d. Rate of Interest
- e. Commission and other fee
- f. Insurance
- g. Repayment: Term loan is repayable in instalments (monthly, quarterly, half yearly or yearly or depending on the harvest seasons, mainly for crops and horticulture schemes), depending upon the activity supported and the cash flow generation from the project and economic life of the asset created.
- h. Types of Documents/ agreements
 - i. Loan agreement
 - ii. Hypothecation agreement (term loan / working capital)
 - iii. mortgage (equitable / registered)
 - iv. DPN
 - v. Deed of guarantee (personal / bank / govt. guarantee)

The following details would also be required to be made available for sanction of loan.

- ✓ **Land:** The business may be on existing land or on a leased land. Normally banks do not fund for purchase of land and the cost of land has to be borne by the Organization and the amount may be treated as Margin for the project.
- ✓ **Factory building/Shed/Godowns/Administrative:** Plan, approved by the appropriate authority, for construction of the Factory Building/Shed/Godowns/Administrative Building. The estimate for construction of the above structure shall be from the Chartered Engineer/Architect along with time frame for construction in different phases. Clearances from different regulators.
- ✓ **Machinery:** Quotations for purchase of requisite machinery with details of capacity of each of the machinery (including DG Sets & Electricity Poles & connection charges), the post sales services and the taxes and landing costs, if any, cost of erection/grounding the machinery.
- ✓ **Furniture:** Quotations for purchase of requisite furniture.
- ✓ **Technical Knowhow / Research & Development:** A copy of the Agreements entered into and the total cost involved shall be provided by the potential Borrower.
- ✓ **Pre-Operative & Contingencies:** Details of these costs

9.10 What are different sources of Finance for PC/PO to meet the financial requirement?

The finance can be arranged from the following sources.

- a. **Own Resources:** The reserve and surpluses of previous years are the source for personal financing. However, in case of a new PC this opportunity will not be there.
- b. **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 PO, can sell on credit. PO can get part payment in advance from prospective buyers. It can get agriculture inputs from the Agro dealers on the conditions of payment after sales. But mostly this type of finance is not available for start-up businesses or a new venture.
- c. **Equity:** In case of a PC the equity comes from the members and no external financier can participate in the equity investment.
- d. **Grant support:** The PC being a small holders' organization may seek capital support and other assistance from the Government under certain government schemes. Two

major initiatives to support Farmer Producer Organisations (FPOs) (i) support to the equity base of FPOs by providing matching equity grants, and (ii) setting up of a Credit Guarantee Fund to provide cover to banks which advance loans to FPOs without collateral has been announced by Gol. The Schemes will be implemented by Small Farmers' Agribusiness Consortium (SFAC). Details are given in Appendix ii.

Funding may also be available from the Department of Rural Development and Panchayats, Ministries of Agriculture and Cooperation or Horticulture or Food Processing Gol and or state Governments under various schemes like National and State Horticulture Mission, Small Agribusiness Consortium. World Bank, bilateral/ multilateral donor agencies and corporates under CSR may be other possible source of funds/grants from Producer organisations. The POs will have to develop a financially viable business plans for the purpose

- e. **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 charged. However, it is not easy to raise debt financing for a producers company without collateral and margin.

9.11 How POs can access finances from various rural financial institutions?

The banks provide Short Term loan to meet working capital requirements and Medium to Long Term Loan for acquisition of capital assets (Term Loan) for any business. A composite loan to take care of both short and long term financial requirements loan is also sanctioned by 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 the following information/ data for sanction of loan;

- a. A business plan and Detailed Project Report (DPR) as a formal application for availing the credit support
- b. Margin money contribution
- c. Details of project management (Executive team and Board of Directors with qualification and experience) of PO
- d. Details of dedicated team for execution and monitoring of the project
- e. Details of proposed business plan
- f. Financial requirements for executing the business plan
- g. Last 3 years audited financial statements (Balance Sheet & P/L statement) with notes on accounts & annexure. In case the PO is to be formed or in case it is less than three years old the projected financial statements may be submitted
- h. Details of earlier/ current loans/ grants if any (sanction letters) availed from other Banks/ FIs/ Dev. Agencies/ Individuals
- i. Details of security / collaterals to be offered
- j. Copies of Registrations (Certificate of Incorporation/Commencement of business/Society Registration/FCRA/Trust Deeds etc.) & MA/AAs
- k. Copies of PAN/TAN/Sales Tax Registration
- l. Copies of approvals for reliefs in Taxation (I-T & Sales Tax)
- m. Copies of agreements, if any, entered into for Lease / Confirmed Orders
- n. Details of Associate companies (with audited financials for 3 years)

9.12 What is Detailed Project Report (DPR)?

A DPR is a formal application for availing the credit support from any funding agency. It should provide details about the organization, Business plan, Marketing Plan, Operation and Management Plan, Financial projections and financial requirements. Although there would be some NGOs and Producer Organizations that are experienced in preparing DPRs, typically a Producer Organization would require assistance in preparation of the DPR through experts/professional, which may involve some cost.

9.13 Is any support available for preparation of DPR?

SFAC provides Project development Facility (PDF) for Equity Grant and Credit Guarantee Fund Scheme for the preparation of Equity Grant Application and Detailed Project Reports (DPR) through empanelled consultants/institutions. SFAC will cover the full cost of preparation of DPR. This facility will be available for FPC only. FPC desirous of assistance may approach the nearest empanelled consultant or SFAC directly. In addition to three broad categories of support (i.e. credit support, capacity building & market linkage) under PODF, NABARD provides grant support for preparation of DPR up to 0.5% of the project cost or Rs. 1.0 lakh whichever is lower, subject to the fact that the project is sanctioned by NABARD. The grant assistance would be within the overall cap of 20% of the loan amount.

9.14 If Banks do not provide credit facility, what are the options available for POs?

A newly formed PO 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 PO may face huge financial burden from the beginning and the idea of setting up PO may not even take off. To overcome the problem, the POs may adopt the following business model in the initial years before they generate reserves and establish credentials.

- a. Choose those activities in the initial years which require very less capital or no capital and which are risk free.
- b. Take Dealership of seeds and fertilizers from the companies and work as commission agents. POs can earn good margin and a business relationship with those companies which resulted in getting credit limit in the subsequent years.
- c. 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.
- d. Procurement of agriculture produce. The POs identified the prospective buyers and arranged buy back guarantee from them. Sell was organized at the farm gate level, therefore no transportation and storage cost were involved at the PO level. PO ensured a transparent transaction between the buyers and sellers (members and non-members both) and by doing so they earned some margin from the buyers.
- e. Many POs took the advantage of Gol scheme, which provide 80% of the value of produce as loan against pledge of Warehouse Receipts (WHR) without collateral.

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 POs the opportunity to demonstrate such practices. Both the members and the trade and industry with whom PO does the business appreciate such fair practices and it builds reputation for the PO.

9.15 Provide a Sample Format for Preparation of a DPR?

The project report is an essential building block for completion of a project. Hence, it must be prepared carefully and with sufficient details to ensure appraisal, approval and finally funding. Points to be covered in the Project Report are provided below:

Executive Summary

Executive summary is an important and necessary part of a project report. It includes all the details which will become part of a detailed project report but in summary form. It covers:

- a. Details of the borrower/ company background, shareholding pattern, existing bankers etc.
- b. Details of management team
- c. Sector background and rationale for project
- d. Project description and scope
- e. Location
- f. Layout of Factory / plant
- g. Plant and Machinery
- h. Technological arrangement
- i. Proposed capacity
- j. Product mix
- k. Raw material requirement, storage and handling
- l. Present and Future demand of end product
- m. Pollution Control equipment's
- n. Power and water supply
- o. Capital Costing including margin for one cycle of working capital
- p. Other subsidiary requirements and ancillary facilities like marketing, etc.
- q. Capacity building assessment
- r. Project phasing and timelines
- s. Project operation and maintenance planning
- t. Project financial viability and sustainability including
- u. Detailed business plan, with investment and operating cost estimates

1. Introduction

- a. Brief background of company/organisation
- b. Background of entrepreneurs
- c. shareholding pattern
- d. Location details of the project

2. Entrepreneur/ Management Details

Details of management team (Executive team and board of directors with qualification and experience)

3. Sector background and rationale for project

4. Project description and scope

a. Site description

- a. Location & Title of land
- b. Meteorological data
- c. Connectivity through road, train, air, etc.
- d. Proximity of raw material sources and other vital facilities
- e. Reason to choose the site

b. Plant Layout

This part of the project report will include the complete layout, structure and various facilities to cater with the production. This part must cover the layout map.

c. Technological considerations

- a. Technology generally used by other similar companies to produce the end product
- b. Merits and demerits of various technologies used
- c. Technology proposed to be used in the project with reasons
- d. Details of complete process cycle with process chart

e. Product Mix

- a. What is the service or End product proposed
- b. Proposed production and Manufacturing process

d. Raw Material

Details of raw material, Procurement plan for raw materials/ inputs etc., Physical Requirements, Availability in the market

e. Receipt, Storage & Handling of raw material

- a. Handling system, Feed system
- b. Storage arrangements (capacity): At the godowns – At the plant
- c. Transportation arrangements

f. Application of end product

- a. Whether it will be used in own plant
- b. Target market: Domestic or Export
- c. Industry details, where it is used

g. Environmental aspects

- a. Whether all environmental clearance certificates required for the specific industry has been taken and details of the same
- b. Arrangements to avoid pollution from the government specified limits

h. Waterpower and auxiliary services

Requirement, availability, Arrangement through government or private sources, Alternative arrangements

i. Quality Control

Sampling, Laboratory setup including R & D

j. Supplementary facilities

- a. Repairs and Maintenance facilities
- b. Ventilation and air conditioning system
- c. Instrumentation & telecommunication
- d. Automation and Computer Control
- e. Safety and fire protection arrangement
- f. Hydrant System

k. Sales/ Market arrangements

This part of project report covers complete market analysis of your end product. It also covers the marketing strategy which the organization is going to adopt in future, to sell its products;

- a. in present
- b. in future

l. Pollution control

Arrangements to avoid: Air Pollution, water Pollution, Noise Pollution, Arrangements for effluent disposal, if any.

m. Manpower planning

Category wise break up needs to be given along with the responsibilities of each cadre:

- a. Manpower Requirement: Senior Management, Technical staff, Marketing Staff, Maintenance Staff, Production staff, Quality Control Staff
- b. Cost Involved
- c. Training arrangement
- d. Employee welfare arrangements

n. Construction planning

Month wise target is to be given for

- a. Each construction phase
- b. Erection of plant and machinery
- c. Commencement of commercial production

5. Project cost and financial structuring

Capital Cost: Estimated cost is to be given for each capital expenditure planned up.

1	Land	Amt.
a	Cost of land	
b	Cost of site development	
2	Building	
a	construction cost, Internal designing cost	
3	Plant and Machinery	
a	Cost of purchase	
b	Erection and Commissioning charges	
c	Technical Know how	
4	Other cost	
a	Furniture and Fixtures	
b	Office Equipment	
c	Vehicles and Mobile equipment's	
5	Pre-operative expenditure	
a	Interest during construction	
b	contingencies, etc.	
c	Margin for working capital	

6. Means of Finance

1	Equity Contribution	Amt.
a	Existing	
b	Proposed	
2	Borrowed Funds	
a	Existing	
b	Proposed	
3	Grant & Subsidies Contribution	
a	Existing	
b	Proposed	

7. Financial Appraisal

- a. Projected balance sheet, Profit & loss, fund / cash flow statements for the next five years (covering the repayment period)
- b. Break Even Point (BEP that means no profit no loss)
- c. Calculation of Internal Rate of Return (IRR) on the basis of projected profitability
- d. Calculation of Debt Service Coverage Ratio (DSCR)
- e. Details of assumptions made to prepare projected financials
- f. Sensitivity Analysis – It is done to check the profitability if any projected targets not achieved
- g. Year-wise Budget for capacity utilization

8. List of documents need to be submitted with project report

- a. Detailed Project Report along with application for loan/ grant required in Duplicate
- b. List of movable/immovable Assets of the organisation/promoters
- c. List of tangible unencumbered security offered as collaterals. In case of landed property, copy of Sale Deed along with extract of latest Land record
- d. Income Tax and Wealth Tax details of last three years, with copies of Assessment / Return if applicable
- e. Certificate of reliefs given under statute. (IT, Sales Tax, etc.)
- f. Copies of sanction letters from other institutions, Government Agencies, Overseas Agencies sanctioning loan, grant or other support services relating to the activity
- g. Provisional Registration Certificate from the concerned authority viz., Registrar of companies, Registrar of Cooperative Societies, District Industries Centre, etc.
- h. Certificate of Incorporation from competent legal authority. In case of corporates, certificate of commencement of business issued by Registrar of Companies
- i. Memorandum & Articles of Association/ Bye laws of Society
- j. Permission/license from Competent Authority (for Textile, Foods & Drugs, Forest, etc.)
- k. 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 whichever applicable)
OR
- l. If rented premises, Rent Agreement for a minimum of eight years or covering the entire loan period
- m. Three quotations in respect of each item of plant and machinery and raw material, proposed to be purchased
- n. Import, Export Licenses (IEM)
- o. Details of power requirement and tie-up with State Electricity Board
- p. Permission from Water & Pollution Control Board
- q. Approved Building plan from Competent Authority with cost estimates from the Architect

9.16 How are Expected Indicators of Impact to be specified in the DPR?

The expected indicators of impact vary from project to project. However, the indicators have to be set before the project is implemented and based on the indicators the project impact has to be monitored. Log frame analysis may be used in the DPR to assess the economic and social changes in the project area. In the log frame methodology, the impact of the project is

defined at the beginning of the project in the form of project objectives. Based on these objectives, the impact, the outcomes, outputs and the input are identified. The details are as under:-

Impact – Desired Impact indicated in the project objectives. Actual impact is based on the analysis of outcomes. ↑

Outcomes - Analysis of the data- measure the increase or decrease in the values of parameters. ↑

Outputs- Post projects survey data: Collect data for the selected parameters as done in base line survey after implementation of the project so as to compare the changes. ↑

Inputs - Base line Survey- select parameters to assess impact and accordingly collect, base line data.

9.17. What are the broad impact parameters which could be considered for the PO projects?

The broad objectives of the project will set parameters of impact. Impact should match and fulfil the objectives of the project. The following broad parameters could be considered for assessing the impact:

- a. Farmer's/producer's income
- b. Agriculture and rural development
- c. Migration
- d. Market
- e. Quality of Life
- f. Environmental
- g. Women development with specific reference to gender issues

9.18 What is the Impact on producer's income?

The impact of the project is directly related to the improvement of the individual producer's post period income when compared to the pre-project period. The increase in income could be 'direct income' and 'indirect income'. Direct income is derived from increase in productivity and production. Indirect income is derived through timely availability of inputs and marketing arrangements at the door step of the farmer. This could be assessed in terms of person days and income could be assessed. The indirect income could be added to direct income and the total income could be compared with the pre-project income.

Total income from the project per producer per annum may be compared with the baseline income. Producer-wise data need to be collected in the house hold format. Analysis could be carried out by collecting data by land holding size and compare the same and gap in the income levels could be assessed. Further, this data also may give leads to how the project helped small producers.

9.19. What is impact on Savings, Investment and Credit?

- a. How much the individual producer saved, where he/she has saved and quantum of amount saved, needs to be assessed?
- b. Investment could be in purchase of land, cattle, agriculture implements, construction of wells, construction of house, purchase of jewelry, marriage and education of children etc. Changes in these need to be assessed.
- c. Whether the farmers/producers have availed any loans from banks or any other source because of the increased bargaining power. Is there any decrease in credit from banks in view of loans from PO? Such aspects may be seen.

9.20. What is the impact on Agriculture and Rural Development?

The agriculture related impact could be on productivity, production, increase in cultivated area, increase in irrigated area and cropping intensity. For example, in FPO initiative, farmer/producer wise data on increased yield, production, cultivated area, irrigated area and cropping intensity may be seen. Further, investment in land levelling, creation of water resources, etc., will give how much additional area has been brought under the cultivation. This speaks about the quality of land which is developed due to the development of wasteland in the project area. Due to trainings and capacity building of the farmers/producers, there may be improvements in quality of the produce at the production, harvesting and storage level. The benefit from the improved quality on the price of the commodity could be assessed.

- a. Further, is there any development in rural economy in the form of establishment of micro enterprises, creation of more jobs etc., could be established from the number of new industries and number of people employed in these areas. Data related to trainings, like no of trainings, no of people trained, type of skill development trainings provided also could be assessed and the impact of trainings on the package of practices can be analyzed.

9.21. What is impact on migration?

In the project areas, generally it is observed that there is reduction in migration and in some cases there is reverse migration. The level of reduction in migration and the extent of reverse migration need to be assessed. For this the level of migration has to be assessed under pre and post project situation.

9.22. What is the impact on Market/Mandi?

The PO may be able to have better say in the Market/Mandi management. The PO may transact in produce which is in tune with the market demand in terms of both quality and quantity. The PO gets better price for their produce and rejects may be reduced.

9.23 What is the Impact on Quality of Life of the producer?

Implementation of projects brings changes in the quality of life like improvement in the food security, changes in the consumption pattern, housing, health & hygiene, education of children etc,. Study and analysis of data related to these aspects is essential to assess the living standard of the people of the project area.

- a. Food security: The 'food insecurity' is an important aspect. The assessment of scarcity of food in pre and post project period gives an indication of the impact on the food security and quality of food intake.
- b. Improved consumption basket: Under developmental projects, it is observed that there is a relative reduction in the percentage of food expenditure and rise in the non-food consumption items and other items showed improvement in the quality of life of producers in the post period scenario. There will be changes in the pattern of consumption like consumption of a variety of vegetables milk, milk products, poultry, meat, fruits etc., which will definitely indicate changes towards a better living.
- c. Housing condition and sanitation facility: Housing is the first step in indicating better quality of life and sanitation is also associated with it. Assessment of immovable assets viz., house and sanitation facilities, during pre and post project gives an indication on the housing conditions and health improvements.
- d. Adequate Safe Drinking Water: Safe drinking water is a key to healthy life of the family and also a relief to women as fetching water from long distance is one of the curses for them. Study of source of drinking water in each producer's house and the project impact on the development of infrastructure in the project area gives an idea of the changes brought by the project.
- e. Health and Family Planning: How many respondents reported to have vaccination such as, polio, BCG, tetanus, etc. What is the percentage of deliveries in houses/ local village level, government hospitals and private hospitals? The extent of awareness and acceptance of family planning among sample households.

9.24 What is the impact on Environment?

Increase in the efficiency of irrigation water due to installation of water conservation systems or due to adoption of techniques or due to awareness, improvement in water use efficiency, usage of organic fertilizers or decreased use of chemical fertilizers and pesticides to improve the quality of soil, quality of ground water, plantation of trees or usage of renewable energy sources etc. How many farmers/producers are adopting these techniques? How many farmers/producers were involved in awareness programmes related to sustainable development of agriculture?

9.25 What is the impact on Women Development with specific reference to gender issues?

The women development related impact on account of their participation in the project needs to be examined in detail with reference to specific gender issues. The issues related to their social status, responsibility, roles in decision making, participation in family activities as well as their own development of capability and economic independence needs to be assessed. These may be assessed in the following ways:

- a. What is the percentage of women participating in the project/programme?
- b. How many women are there in the village level, federation and PO level institutions? How the project helped in gender equity?
- c. How many women are participating in SHG programme?
- d. Education of girl child i.e. any increase in the admission of female children in schools?
- e. How many women adopted family planning measures?

- f. In decision making with regard to the use of their income, how many of them took decision on their own, how many consulted family and in how many cases there was no consultation?

9.26 What is impact on Development Ethos and Work Culture?

Is there any impact of the project with qualitative changes leading towards positive development environment with participation of the poor farmers/producers? Any decrease/stop in consumption of alcohol and other addictions?

How the project brought unity among the farmer's/producers for collective marketing, procuring of inputs?

Improvement in these aspects may be assessed in the following ways:

- a. What is the percentage of families which could work on their own?
- b. How many desire to shoulder the responsibilities in village development?
- c. How many endorsed the women participation in development?
- d. How many endorsed the view of positive socio-cultural change in their society?
- e. How many beneficiaries accepted the positive role and help of PO in development of village community?
- f. How many beneficiaries accepted that the present project will help their children for better education?
- g. How many respondents' actively participating in the working of PO/Federation/cluster/village level committee?

9.27 How to design a house hold survey format?

A sample house hold format is given here. This is only an indicative format prepared keeping in view Farmers' Producer Organization. This would serve as a guide and separate formats need to be developed depending upon the requirement for other projects.

Household Survey Format

HH code:

Name:

Caste: OC/BC/SC/ST

Village/ Habitation

H .NO

Resident in the village / Non-resident

I. Details of Farm Household:

a) Family members

S. No.	Name	Male/ Female	Age	Relation with Family head	Educa- tion*	Dis- ability	Occupa- tion*	MNREG S Card Yes/ No	Card No

*Education: SSC/Inter/Degree/Technical; Occupation: Agriculture/ Agriculture Labour/
Wage Labour

II. Details of Land, Water Resources, Crops etc.

a. Land details:

Land (acres)	Source of irrigation	Assigned land	Own (as per pass book)	Leased in	Leased out	Others	TOTAL
Rain fed							
Irrigated							
Fallow							
Horticulture							
Waste land							

Water Resources:

Source	Area Under Irrigation	Season	No of days of water availability
Bore wells (No.)			
Dug Wells (No.)			

Crops:

	Paddy	Maize	Cotton	Jowar	Ground nut	Pulses	Others	Total
Area in ha								
Yield in qtl								
Income in Rs								
Selling place								

Agriculture Implements: (put a tick)

Plough		Tractor		Weeder		Sprayers	
Bullock cart		Sprayer		Others		Others	

Source wise annual Income and its percentage

Agriculture		Wage labour		Livestock		Migrant		Job		Skilled work/ Income Generating activity	
Income	%	Income	%	Income	%	Income	%	Income	%	Income	%

Total family income (In Rupees per annum):

Less than 30,000	>30000 to <50000	>50000 to <100000	>100000 to <2000000	>200000 to <300000	>300000 to >500000

Loans:

Loans from	Loan amount	Interest rate	Purpose for which taken	Remarks
Bank				
SHG				
Private persons				
Total indebtedness				

Thrift		
Membership in SHG	Yes	No
Name of the SHG		
Saving money	Yes	No

Membership in Groups	
Name of the group 1	
Name of the group 2	

Livestock

Name	No	Small	Big
Bulls			
Cows			
Buffaloes			
Sheep			
Goat			
Poultry			

Scarcity:

Item	How many months in a year	Purchasing? (Y/N)
Food grains		
Wage work		
Fodder		
Firewood		
others		

Assets:

Asset	Type of Asset	Value (Rs)
House	Kutcha / Pacca	
Drinking water source		
Bicycle / Two Wheeler / Four wheeler		
Refrigerator		
TV		
Others		

9.28 What are the components of the Project Execution Plan?

Typically the Project Execution plan includes the following elements:

- a. Project Objectives and Priorities
- b. Critical Analysis
- c. Organisation, Roles and Responsibilities
- d. Project Strategy, Implementation, Supervision and Monitoring

9.29 What are the Project Objectives and Priorities?

Project particulars, including the sponsor's name, the project name and reference and details of the business approvals.

- a. **Project Objectives:** The important project objectives which will be addressed by implementing the project.
- b. **Budget and programme:** Project components and the costing. Component wise cost and the total cost of the project.
- c. **Funding source:** How the budgeted amount will be met? It includes the sources of funds and the quantum of funds required from each source.
- d. **Approvals and consents:** The clearances from Pollution Control Boards may be required. Similarly licence to carry out the business may be required.

9.30 What is meant by Critical Analysis?

The perceived threats or constraints have to be identified and specified in critical analysis. With any project, there will be critical issues, risk and uncertainties which could threaten the project. How these risks would be addressed? A suitable institutional monitoring mechanism has to be placed to assess the risks and take remedial measures from time to time.

9.31 Describe the Organisation, Roles and Responsibilities?

The project should specify the names, addresses, telephone, fax, etc., details of all departments /sections involved in the project, including stakeholders. Names and responsibilities of other key personnel within each department. The roles, responsibilities, accountabilities, delegated financial authority for design, procurement, construction, commissioning and handover should be defined. To execute the plan effectively the PO should constitute Project Execution Team headed by a Project Manager who will be the in-charge for project planning and execution.

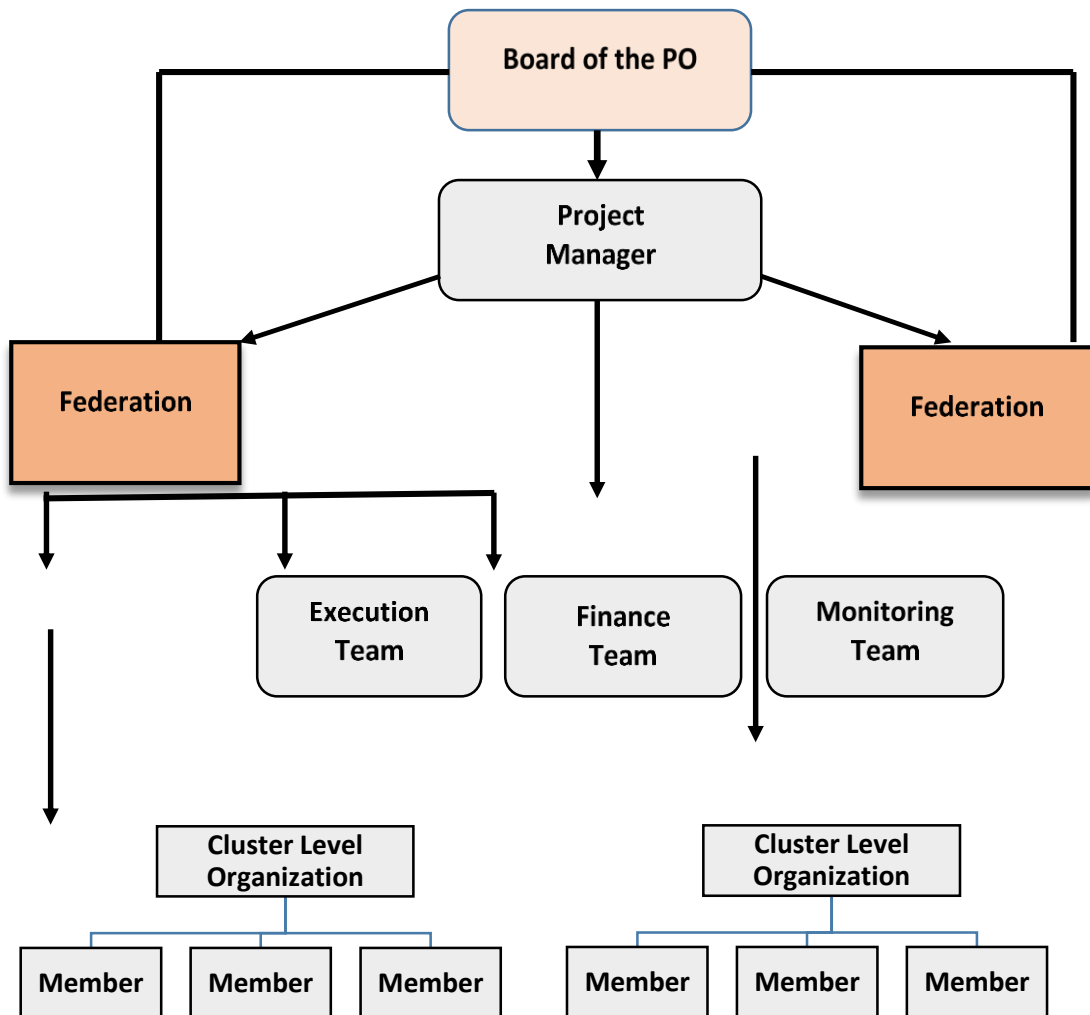
Project Execution Team - It is the unit which is responsible for the complete execution, operation, maintenance, finance, and monitoring of the project. It is responsible for the implementation of the project and work allocation to various departments like execution, finance and monitoring. The Project Execution Team headed by a Project Manager will be supported by the following three units:

Design and Execution Unit: Procurement of works, milestones and reconciliation with design programme, tendering procedures and procurement programme. Safety and Environment, Progress Reporting, Definition of standards, Quality Management, Site Controls and Inspections, Defects Rectification. Commissioning, Operation and Maintenance. Set time lines for the implementation of the project. Machinery procurement installation, operation and maintenance.

Cost Consultant- CA and Auditors: Financial and cost & expenditure control. Costing, tendering, taxes, Insurances, risk assessment and developing control mechanisms and fund management.

Monitoring Team – Monitoring the implementation of the project and also the outcomes / impact of the projects from time to time and reporting to the system for information and necessary action.

9.32 Provide a typical Organogram of a PO?



CHAPTER 10

Monitoring by the PO, POPI and Funding Agencies

10.1 What is 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/PO.

10.2 What is efficiency?

Efficiency speaks about whether the output in terms of benefits exceed the expenditure. It is the ratio of output and input. Funding agency will monitor how efficient the POPI and PO has been in implementing the project. Similarly, the PO will monitor the same at the farmers 'producers' level. Certain parameters like the amount spent per farmer vis-a-vis the increase in income could be one indicator of efficiency. Higher the increase in income for the same amount spent, higher is the efficiency.

10.3 What is effectiveness?

Effectiveness is a measure of the extent to which the project achieved the specific objectives it set. For example, if the objective of a project is to increase the income levels of all the farmers 'producers' engaged with the PO, we have to measure the extent of increase in income. Similarly, if one of the objective is to increase the volume of the produce, we shall measure the extent of increase. These assessments will indicate how effective the program has been. Higher the increase in income levels, higher would be the effectiveness of the project.

10.4 Who will monitor the Project?

The project is to be monitored by the PO, POPI and funding agency.

10.5 What is to be monitored by the PO?

The PO has to satisfy itself that it is able to function in a sound manner for meeting the expectations of all the stakeholders. It also needs to monitor work execution at the producer level. The PO has to prepare a work schedule/time line in consultation with the POPI for procurement of inputs, execution of works, marketing of produce. Accordingly, at each stage, review and monitoring has to be done by the PO. The PO has to evolve suitable formats for collecting data for the purpose of review and monitoring.

10.6 What is to be monitored by the POPI?

The POPI has to monitor the work of the PO as well as ground level achievements. It has to assess the extent of progress of the work from time to time and if required suggest suitable measures. It has to arrange to design specific formats and provide to the PO. The PO will collect data in the specified formats and submit to the POPI and to funding agency. Besides the progress, the POPI should also monitor staff availability for the project, data on individual producer, cost involved, availability of inputs, volume of produce, income, verification of the

books of the PO etc., and submit detailed report to the funding agency on the agreed intervals, say monthly, bi-monthly or quarterly.

10.7 What is to be monitored by the Funding Agency: The funding agency has to evolve suitable formats for the submission of returns by PO/POPI. The funding agency has to monitor the targets vis-a-vis achievements, quality of implementation, participation of members and adequacy of training programmes. Monitoring enables the funding agency to determine whether the resources available are adequate and capacity of the human resources to implement the project is adequate. Monitoring could be at desk level (office) or field level.

10.8 What is desk monitoring?

Desk monitoring includes internal review of the project by the project funding agency. It is difficult for the funding agency or the POPI to conduct field visits at frequent intervals, hence based on the returns submitted by the agency, desk review of the progress could be done. The findings could be discussed in a forum where POs and POPIs can participate. Based on the discussions, bottlenecks in the implementation could be identified, discussed and remedial measures initiated.

The POPI will undertake review based on both the reports submitted by the PO and its own staff involved in the field. The review may involve the participation of PO at agreed intervals, so as to improve the implementation of the project.

At every level, i.e., at the level of funding agency, POPI and PO, suitable formats for submission of data and suitable templates for presentations need to be evolved. The returns to be submitted by the PO should include:

- a. Business projections/ assumptions submitted in proposal and comparison with actual progress
- b. Disbursements – Targets and achievements
- c. Repayments – Dues and their repayment and overdue amount
- d. Operations of Designated Account; and Up-to-date correspondence with borrower
- e. Stock statements, annual report, latest balance sheet and P&L statements (If the review is after annual closing)
- f. Any pending compliance with terms and conditions

After obtaining the returns POPI and funding agency should:

- a. Review progress
- b. Identify problems in planning and/or implementation
- c. If required make adjustments in release of funds to producers organization

10.9 Whether the desk level monitoring gives any ‘Early Warning Signals’? What are they?

One of the objectives of desk monitoring is to identify the ‘Early Warning Signals’. There could be deviation in the implementation plan, violation of terms and conditions, shortfall in achievement, overdue amounts at the level of PO, operation of designated accounts, inadequacy of suitable field staff, reduced participation of PO or POPI or the producers, which are to be closely monitored and if required, an immediate field level monitoring needs to be taken up.

10.10 What is Field Level Monitoring?

Field level monitoring involves collection of actual data at the field level. It involves collection of 'elaborate' data from the field level by interacting with the farmers/producers and other stake holders. Specific proforma on the pattern of the format suggested in Chapter 9 could be evolved for collection of data or depending upon the requirement suitable proforma need to be designed for collection of data.

Often, field level monitoring data on the following aspects is also important as these factors provide leads to the success or failure of the project:

- a. Availability of inputs to members – timeliness
- b. Technical support available to members – targeted Vs. actual frequency
- c. Storage and processing arrangement – planned Vs. achievement
- d. Marketing tie-up – planned benefits Vs. actual benefits
- e. Targeted Productivity / Income growth Vs. Actual achievements
- f. Members views regarding the services provided by PO and its efficacy

10.11 How to Plan Monitoring of Projects?

Monitoring should be a part of planning process. It is desirable to frame monitoring parameters in the beginning of planning process itself. These parameters should be in line with the objectives of the project. Therefore, the funding agency, POPI and the PO have to begin gathering information about performance in relation to targets from the beginning itself. In fact, the first information gathering should take place when the project is planned.

10.12 What indicators can we suggest?

Indicators are measurable or tangible signs that the project or the PO has to achieve. For example, some indicators are increase in productivity, production, income at the level of producers, improvement in the economy of the area leading to establishment of micro enterprises, increase in employment opportunities, community empowerment in terms of arresting migration, improvement in health and hygiene, infrastructure, women participation, women empowerment etc. Through the indicators one can ask and answer questions such as:

Who? – Who are befitting from the project?

How many? - Number of people benefitted.

How much? - What is the extent of benefit?

Some examples of Indicators could be as follows:

Please note that these are illustrative and are related to agriculture projects – they may or may not suit the needs of other Non-farm based projects.

Economic Development Indicators

- a. Average size of land holding
- b. Average size of irrigated area
- c. Major crops with area and yield
- d. Items of investment
- e. Market price of the produce
- f. Marketing facility

- g. Rural Connectivity- connectivity with marketing centers
- h. Power availability in hours per day
- i. Average annual household income
- j. Increase in the income level
- k. New micro enterprises / Small businesses
- l. Increase in number of people employed
- m. Average weekly/monthly wages
- n. Employment / Unemployment, by age group, occupation, season and gender
- o. Default rates on loans
- p. Percentage of people below the poverty line

Social Development Indicators

- a. Participation of women in the project, federations/ PO
- b. Infant mortality rates
- c. Literacy rates, by age and gender
- d. Retention rate in school
- e. School completion rates
- f. Number and causes of farmer's/producer's suicides
- g. Housing, Drinking Water, Sanitation and Dwellings with electricity
- h. Number of homeless

Institutional/ Organisational Development Indicators

- a. Number of Producers actively participating in the project
- b. Attendance in the meetings
- c. Attendance in the trainings
- d. No of SHGs / SHGs linked to credit
- e. Primary Agri-Co-operative Society, Other cooperatives, like weavers, fishermen, SC and ST Cooperative Societies, Other institutions available in the project area
- f. Structure of different institutions
- g. Participation rate in elections, by age and gender
- h. Participation in public meetings, by age and gender

10.13 How to develop indicators?

Indicators are developed based on the objectives / impact assessment of the project. For example, in an agriculture based project, the following might be the objectives:

- a. To improve the producer's income
- b. To develop the area under agriculture
- c. To arrest migration
- d. To improve marketing facilities
- e. To bring change in the quality of lives of the people
- f. To create awareness on sustainability of natural resources
- g. To improve the participation of women in the developmental process to address gender issues
- h. To bring awareness on savings, investment and credit availability
- i. To bring awareness on social situation (housing, health, education etc.)

- j. To improve the organizational situation (local governance, community participation in the projects, women participation, etc.)
- k. To improve Infrastructure facilities like storage, marketing and input availability

For Example, in an agriculture project, some of the direct benefits are:

- Increase in income due to increase in productivity
- Saving on transportation
- Savings of own labour in human days on account of village level delivery of inputs, collective marketing etc.

Similarly, there are indirect benefits like

- Immediate realization of sale proceeds
- Easy availability of credit

These benefits need to be assessed and calculated in terms of money. Finally, the incremental income will determine the success or otherwise of the intervention of the PO. The incremental income can be determined as shown below:

Before PO's intervention

S No	Name of farmer's/producer's	Crop	Cropped Area (ha)	Yield/ha	Total Yield (quintals)	Price/ qtl	Total income

- Qtl= Quintal; ha = hectare;

After PO's intervention

S No	Name of farmer's / producer's	Crop	Cropped Area (ha)	Yield /ha	Total Yield (quintals)	Price / qtl	Any other Income / Dividend / Bonus	Total income	Net Incremental Income

10.14 How to design monitoring system?

As an example, a step-by-step process is given to design a monitoring system for the organization or project.

- Step 1:** The funding agency may organize a workshop with appropriate staff or a consultant of PO/POPI/ Producer's Federations' /cluster level committee and producers.
- a. Explain the project objectives, as a monitoring system needs to cover them.
 - b. Generate a list of **indicators** for each of the objectives.
 - c. Clarify what variables need to be linked.
 - d. Clarify what information the project or Producers organization is already collecting and what more needs to be collected.

Step 2: Develop a monitoring format to collect the information from primary and secondary sources. The workshop may also help to know what is to be

monitored. The indicators of efficiency, effectiveness and impact need to be prioritised.

Step 3: Decide how the data will be collected. Whether it will be collected manually or on the computers. Accordingly develop suitable formats. These format models should be amenable to analysis.

Step 4: Decide how often the data are required to be analyzed, whether season wise or yearly. Crop wise, varieties wise and analyze the information – this means putting it together and trying to answer the questions which are important to the success of the project.

Step 5: Collect, analyze and report.

10.15 What is the Methodology for monitoring?

Primary data collection - It is done at the farmer's/producer's level

- a. Through a survey; or
- b. Through Focused Group Discussion

Secondary Data - The returns submitted by the PO, data available from the Government Departments and also published data from other projects.

10.16 What are the methods of sampling?

There are 3 sampling techniques: random sampling, stratified sampling and cluster sampling

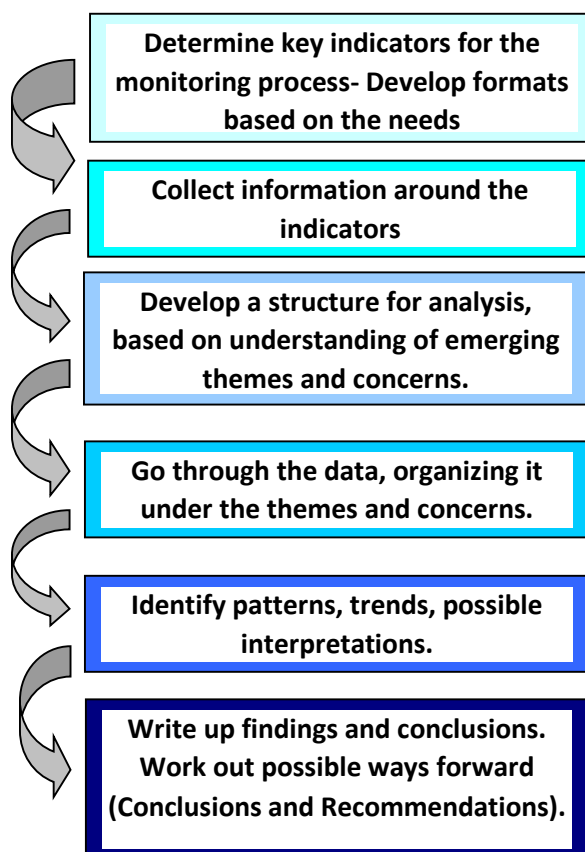
Random sampling: Sampling of households on random basis

Stratified sampling: The producers are categorized into different strata like big, medium and small. Data are collected from each strata in a specified proportion i.e., say, every fifth producer's household data from the big producers, every third producer's household data from small producers every second household data from the very small producers' category

Cluster sampling: In this case, data of only those producers households will be collected who are in the cluster for a specified period

10.17 How to analyze the data?

Analysis is the process of turning the detailed data into an understanding of patterns, trends and interpretations. The step by step process involved in monitoring analysis is enumerated below:



Attachment 1: Producer Company Act Provisions

Reference Section 465(1) of the Companies Act, 2013

PART IXA of Companies Act 1956: PRODUCER COMPANIES

CHAPTER I: PRODUCER COMPANIES

581A. Definitions

CHAPTER II: INCORPORATION OF PRODUCER COMPANIES AND OTHER MATTERS

581B. Objects of Producer Company

581C. Formation of Producer Company and its registration

581D. Membership and voting rights of Members of Producer Company

581E. Benefits to Members

581F. Memorandum of Producer Company

581G. Articles of association

581H. Amendment of memorandum

581-I. Amendment of articles

581J. Option to inter-State co-operative societies to become Producer Companies

581K. Effect of incorporation of Producer Company

581L. Vesting of undertaking in Producer Company

581M. Concession, etc., to be deemed to have been granted to Producer Company

581N. Provisions in respect of officers and other employees of inter-State co-operative society

CHAPTER III: MANAGEMENT OF PRODUCER COMPANY

581O. Number of directors

581P. Appointment of directors

581Q. Vacation of office by directors

581R. Powers and functions of Board

581S. Matters to be transacted at general meeting

581T. Liability of directors

581U. Committee of directors

581V. Meetings of Board and quorum

581W. Chief Executive and his function

581X. Secretary of Producer Company

581Y. Quorum

581Z. Voting rights

CHAPTER IV: GENERAL MEETINGS

581ZA. Annual general meetings

CHAPTER V: SHARE CAPITAL AND MEMBERS RIGHTS

581ZB. Share capital

581ZC. Special user rights

581ZD. Transferability of shares and attendant rights

CHAPTER VI: FINANCE, ACCOUNTS AND AUDIT

581ZE. Books of account

581ZF. Internal audit

581ZG. Duties of auditor under this Part

581ZH. Donations or subscription by Producer Company

581ZI. General and other reserves

581ZJ. Issue of bonus shares

CHAPTER VII: LOANS TO MEMBERS AND INVESTMENTS

581ZK. Loan, etc., to members

581ZL. Investment in other companies, formation of subsidiaries, etc.

CHAPTER I: PRODUCER COMPANIES

581A. DEFINITIONS

In this Part, unless the context otherwise requires, -

(a) *"active Member" means a member who fulfils the quantum and period of patronage of the Producer Company as may be required by the articles;*

(b) *"Chief Executive" means an individual appointed as such under sub-section (1) of section 581W;*

(c) *"limited return" means the maximum dividend as may be specified by the articles;*

(d) *"Member" means a person or Producer institution (whether incorporated or not) admitted as a Member of a Producer Company and who retains the qualifications necessary for continuance as such;*

(e) *"inter-State co-operative society" means a multi-State co-operative society as defined in clause (k) of section 3 of the Multi-State Co-operative Societies Act, 1984 (51 of 1984) and includes any co-operative society registered under any other law for the time being in force, which has, subsequent to its formation, extended any of its objects to more than one State by enlisting the participation of persons or by extending any of its activities outside the State, whether directly or indirectly or through an institution of which it is a constituent;*

(f) *"mutual assistance principles" means the principles set out in sub-section (2) of section 581G;*

(g) *"officer" includes any director or Chief Executive or Secretary or any person in accordance with whose directions or instructions part or whole of the business of the Producer Company is carried on;*

(h) *"patronage" means the use of services offered by the Producer Company to its Members by participation in its business activities;*

(i) *"patronage bonus" means payments made by a Producer Company out of its surplus income to the Members in proportion to their respective patronage;* (j) *"primary produce" means -*

(i) *produce of farmers, arising from agriculture (including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising*

- and farming plantation products), or from any other primary activity or service which promotes the interest of the farmers or consumers; or*
- (ii) produce of persons engaged in handloom, handicraft and other cottage industries;*
 - (iii) any product resulting from any of the above activities, including by-products of such products;*
 - (iv) any product resulting from an ancillary activity that would assist or promote any of the aforesaid activities or anything ancillary thereto;*
 - (v) any activity which is intended to increase the production of anything referred to in sub-clauses (i) to (iv) or improve the quality thereof;*
 - (k) "producer" means any person engaged in any activity connected with or relatable to any primary produce; (l) "Producer Company" means a body corporate having objects or activities specified in section 581B and registered as Producer Company under this Act;*
 - (m) "Producer institution" means a Producer Company or any other institution having only producer or producers or Producer Company or Producer Companies as its member whether incorporated or not having any of the objects referred to in section 581B and which agrees to make use of the services of the Producer Company or Producer Companies as provided in its articles.*
 - (n) "withheld price" means part of the price due and payable for goods supplied by any Member to the Producer Company; and as withheld by the Producer Company for payment on a subsequent date.*

CHAPTER II: INCORPORATION OF PRODUCER COMPANIES AND OTHER MATTERS

581B. OBJECTS OF PRODUCER COMPANY

- (1) The objects of the Producer Company shall relate to all or any of the following matters, namely:-*
- (a) production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit: Provided that the Producer Company may carry on any of the activities specified in this clause either by itself or through other institution;*
 - (b) processing including preserving, drying, distilling, brewing, vinting, canning and packaging of produce of its Members;*
 - (c) manufacture, sale or supply of machinery, equipment or consumables mainly to its Members; (d) providing education on the mutual assistance principles to its Members and others;*
 - (e) rendering technical services, consultancy services, training, research and development and all other activities for the promotion of the interests of its Members;*
 - (f) generation, transmission and distribution of power, revitalisation of land and water resources, their use, conservation and communications relatable to primary produce;*
 - (g) insurance of producers or their primary produce;*
 - (h) promoting techniques of mutuality and mutual assistance;*
 - (i) welfare measures or facilities for the benefit of Members as may be decided by the Board;*
 - (j) any other activity, ancillary or incidental to any of the activities referred to in clauses (a) to (i) or other activities which may promote the principles of mutuality and mutual assistance amongst the Members in any other manner; (k) financing of procurement,*

processing, marketing or other activities specified in clauses (a) to (j) which include extending of credit facilities or any other financial services to its Members.

(2) Every Producer Company shall deal primarily with the produce of its active Members for carrying out any of its objects specified in this section.

581C. FORMATION OF PRODUCER COMPANY AND ITS REGISTRATION

(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 581B and otherwise complying with the requirements of this Part and the provisions of this Act in respect of registration, may form an incorporated Company as a Producer Company under this Act.

(2) If the Registrar is satisfied that all the requirements of this Act have been complied with in respect of registration and matters precedent and incidental thereto, he shall, within thirty days of the receipt of the documents required for registration, register the memorandum, the articles and other documents, if any, and issue a certificate of incorporation under this Act.

(3) A Producer Company so formed shall have the liability of its Members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them and be termed a company limited by shares.

(4) The Producer Company may reimburse to its promoters all other direct costs associated with the promotion and registration of the company including registration, legal fees, printing of a memorandum and articles and the payment thereof shall be subject to the approval at its first general meeting of the Members.

(5) On registration under sub-section (1), the Producer Company shall become a body corporate as if it is a private limited company to which the provisions contained in this Part apply, without, however, any limit to the number of Members thereof, and the Producer Company shall not, under any circumstance, whatsoever, become or be deemed to become a public limited company under this Act.

581D. MEMBERSHIP AND VOTING RIGHTS OF MEMBERS OF PRODUCER COMPANY

(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.

(b) In a case where the membership consists of Producer institutions only, the voting rights of such Producer institutions shall be determined on the basis of their participation in the business of the Producer Company in the previous year, as may be specified by articles:

Provided that during the first year of registration of a Producer Company, the voting rights shall be determined on the basis of the shareholding by such Producer institutions.

(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.

(2) The articles of any Producer Company may 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.

(3) Notwithstanding anything contained in sub-section (7) or sub-section(2), any Producer Company may, if so authorised by its articles, restrict the voting rights to active Members, in any special or general meeting.

(4) *No person, who has any business interest which is in conflict with business of the Producer Company, shall become a Member of that Company.*

(5) *A Member, who acquires any business interest which is in conflict with the business of the Producer Company, shall cease to be a Member of that Company and be removed as a Member in accordance with articles.*

581E. BENEFITS TO MEMBERS

(1) *Subject to provisions made in articles, every Member shall initially receive only such value for the produce or products pooled and supplied as the Board of Producer Company 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 Producer Company during the financial year to such extent and in such manner and subject to such conditions as may be decided by the Board.*

(2) *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 581ZJ.

(3) *The surplus if any, remaining after making provision for payment of limited return and reserves referred to in section 581ZI, may be disbursed as patronage bonus, amongst the Members, in proportion to their participation in the business of the Producer Company, either in cash or by way of allotment of equity shares, or both, as may be decided by the Members at the general meeting.*

581F. MEMORANDUM OF PRODUCER COMPANY

The memorandum of association of every Producer Company shall state:-

(a) *the name of the company with "Producer Company Limited" as the last words of the name of such Company;* (b) *the State in which the registered office of the Producer*

Company is to situate;

(c) *the main objects of the Producer Company shall be one or more of the objects specified in section 581B;*

(d) *the names and addresses of the persons who have subscribed to the memorandum;*

(e) *the amount of share capital with which the Producer Company is to be registered and division thereof into shares of a fixed amount;*

(f) *the names, addresses and occupations of the subscribers being producers, who shall act as the first directors in accordance with sub-section (2) of section 581J;* (g) *that the liability of its members is limited;*

(h) *opposite to the subscriber's name the number of shares each subscriber takes:*

Provided that no subscriber shall take less than one share;

(i) *in case the objects of the Producer Company are not confined to one State, the States to whose territories the objects extend.*

581G. ARTICLES OF ASSOCIATION

(1) *There shall be presented, for registration to the Registrar of the State to which the registered office of the Producer Company is, stated by the memorandum of association, to be situate:-*

(a) *memorandum of the Producer Company;*

- (b) *its articles duly signed by the subscribers to the memorandum.*
- (2) *The articles shall contain the following mutual assistance principles, namely:-*
- (a) *the membership shall be voluntary and available, to all eligible persons who, can participate or avail of the facilities or services of the Producer Company, and are willing to accept the duties of membership;*
 - (b) *each Member shall, save as otherwise provided in this Part, have only a single vote irrespective of the share holding;*
 - (c) *the Producer Company shall be administered by a Board consisting of persons elected or appointed as directors in the manner consistent with the provisions of this Part and the Board shall be accountable to the Members;* (d) *save as provided in this Part, there shall be limited return on share capital;*
 - (e) *the surplus arising out of the operations of the Producer Company shall be distributed in an equitable manner by:*
 - (i) *providing for the development of the business of the Producer Company;*
 - (ii) *providing for common facilities; and*
 - (iii) *distributing amongst the Members, as may be admissible in proportion to their respective participation in the business;*
 - (f) *provision shall be made for the education of Members, employees and others, on the principles of mutuality and techniques of mutual assistance;*
 - (g) *the Producer Company shall actively co-operate with other Producer Companies (and other organisations following similar principles) at local, national or international level so as to best serve the interest of their Members and the communities it purports to serve.*
- (3) *Without prejudice to the generality of the foregoing provisions of sub-sections (1) and (2), the articles shall contain the following provisions, namely:-*
- (a) *the qualifications for membership, the conditions for continuance or cancellation of membership and the terms, conditions and procedure for transfer of shares;*
 - (b) *the manner of ascertaining the patronage and voting right based on patronage;*
 - (c) *subject to the provisions contained in sub-section (1) of section 581N, the manner of constitution of the Board, its powers and duties, the minimum and maximum number of directors, manner of election and appointment of directors and retirement by rotation, qualifications for being elected or continuance as such and the terms of office of the said directors, their powers and duties, conditions for election or co-option of directors, method of removal of directors and the filling up of vacancies on the Board, and the manner and the terms of appointment of the Chief Executive;*
 - (d) *the election of the Chairman, term of office of directors and the Chairman, manner of voting at the general or special meetings of Members, procedure for voting, by directors at meetings of the Board, powers of the Chairman and the circumstances under which the Chairman may exercise a casting vote;*
 - (e) *the circumstances under which, and the manner in which, the withheld price is to be determined and distributed;* (f) *the manner of disbursement of patronage bonus in cash or by issue of equity shares, or both;*
 - (g) *the contribution to be shared and related matters referred to in subsection (2) of section 581ZI;*
 - (h) *the matters relating to issue of bonus shares out of general reserves as set out in section 581ZJ;*

- (i) *the 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;*
- (j) *the 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;*
- (k) *the credit, loans or advances which may be granted to a Member and the conditions for the grant of the same;* (l) *the right of any Member to obtain information relating to general business of the company;*
- (m) *the basis and manner of distribution and disposal of funds available after meeting liabilities in the event of dissolution or liquidation of the Producer Company;*
- (n) *the authorisation for division, amalgamation, merger, creation of subsidiaries and the entering into joint ventures and other matters connected therewith;*
- (o) *laying of the memorandum and articles of the Producer Company before a special general meeting to be held within ninety days of its registration;*
- (p) *any other provision, which the Members may, by special resolution recommend to be included in articles.*

581H. AMENDMENT OF MEMORANDUM

- (1) *A Producer Company shall not alter the conditions contained in its memorandum except in the cases, by the mode and to the extent for which express provision is made in this Act.*
- (2) *A Producer Company may, by special resolution, not inconsistent with section 581B, alter its objects specified in its memorandum.*
- (3) *A copy of the amended memorandum, together with a copy of the special resolution duly certified by two directors, shall be filed with the Registrar within thirty days from the date of adoption of any resolution referred to in sub-section*
- (2) *Provided that in the case of transfer of the registered office of a Producer Company from the jurisdiction of one Registrar to another, certified copies of the special resolution certified by two directors shall be filed with both the Registrars within thirty days, and each Registrar shall record the same, and thereupon the Registrar from whose jurisdiction the office is transferred, shall forthwith forward to the other Registrar all documents relating to the Producer Company.*
- (4) *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 confirmed by the¹Company Law Board on petition.*

581-I. AMENDMENT OF ARTICLES

- (1) *Any amendment of the articles shall be proposed by not less than two-third of the elected directors or by not less than one-third of the Members of the Producer Company, and adopted by the Members by a special resolution.*
- (2) *A copy of the amended articles together with the copy of the special resolution, both duly certified by two directors, shall be filed with the Registrar within thirty days from the date of its adoption.*

¹ To be read as 'National Company Law Tribunal'.

581J. OPTION TO INTER-STATE CO-OPERATIVE SOCIETIES TO BECOME PRODUCER COMPANIES

(1) *Notwithstanding anything contained in sub-section (1) of section 581C, any inter-State co-operative society with objects not confined to one State may make an application to the Registrar for registration as Producer Company under this Part.*

(2) *Every application under sub-section (1) shall be accompanied by -*

(a) *a copy of the special resolution, of not less than two-third of total members of inter-State co-operative society, for its incorporation as a Producer Company under this Act;*

(b) *a statement showing -*

(i) *names and addresses or the occupation of the directors and Chief Executive, if any, by whatever name called, of such co-operative; and*

(ii) *list of members of such inter-State co-operative society;*

(c) *a statement indicating that the inter-State co-operative society is engaged in any one or more of the objects specified in section 581B;*

(d) *a declaration by two or more directors of the inter-State co-operative society certifying that particulars given in clauses (a) to (c) are correct.*

(3) *When an inter-State co-operative society is registered as a Producer Company, the words "Producer Company Limited" shall form part of its name with any word or expression to show its identity preceding it.*

(4) *On compliance with the requirements of sub-sections (1) to (3), the Registrar shall, within a period of thirty days of the receipt of application, certify under his hand that the inter-State co-operative society applying for registration is registered and thereby incorporated as a Producer Company under this Part.*

(5) *A co-operative society formed by producers, by Federation or Union of co-operative societies of producers or co-operatives of producers, registered under any law for the time being in force which has extended its objects outside the State, either directly or through a union or federation of co-operatives of which it is a constituent, as the case may be, and any Federation or Unions of such co-operatives, which has so extended any of its objects or activities outside the State, shall be eligible to make an application under sub-section (1) and to obtain registration as a Producer Company under this Part.*

(6) *The inter-State co-operative society shall, upon registration under sub-section (1), stand transformed into a Producer Company, and there-after shall be governed by the provisions of this Part to the exclusion of the law by which it was earlier governed, save insofar as anything done or omitted to be done before its registration as a Producer Company, and notwithstanding anything contained in any other law for the time being in force, no person shall have any claim against the co-operative institution or the company by reason of such conversion or transformation.*

(7) *Upon registration as a Producer Company, the Registrar of Companies who registers the company shall forthwith intimate the Registrar with whom the erstwhile inter-State co-operative society was earlier registered for appropriate deletion of the society from its register.*

581K. EFFECT OF INCORPORATION OF PRODUCER COMPANY

Every shareholder of the inter-State co-operative society immediately before the date of registration of Producer Company (hereafter referred to as the transformation date) shall

be deemed to be registered on and from that date as a shareholder of the Producer Company to the extent of the face value of the shares held by such shareholder.

581L. VESTING OF UNDERTAKING IN PRODUCER COMPANY

(1) All properties and assets, movable and immovable, of, or belonging to, the inter-State co-operative society as on the transformation date, shall vest in the Producer Company.

(2) All the rights, debts, liabilities, interests, privileges and obligations of the inter-State co-operative society as on the transformation date shall stand transferred to, and be the rights, debts, liabilities, interests, privileges and obligations of, the Producer Company.

(3) Without prejudice to the provisions contained in sub-section (2), all debts, liabilities and obligations incurred, all contracts entered into and all matters and things engaged to be done by, with or for, the society as on the transformation date for or in connection with their purposes, shall be deemed to have been incurred, entered into, or engaged to be done by, with or for, the Producer Company.

(4) All sums of money due to the inter-State co-operative society immediately before the transformation date, shall be deemed to be due to the Producer Company.

(5) Every organisation, which was being managed immediately before the transformation date by the inter-State co-operative society shall be managed by the Producer Company for such period, to such extent and in such manner as the circumstances may require.

(6) Every organisation which was getting financial, managerial or technical assistance from the inter-State co-operative society, immediately before the transformation date, may continue to be given financial, managerial or technical assistance, as the case may be, by the Producer Company, for such period, to such extent and in such manner as that company may deem fit.

(7) The amount representing the capital of the erstwhile inter-State co-operative society shall form part of the capital of the Producer Company.

(8) Any reference to the inter-State co-operative society in any law other than this Act or in any contract or other instrument, shall be deemed to be reference to the Producer Company.

(9) If, on the transformation date, there is pending any suit, arbitration, appeal or other legal proceeding of whatever nature by or against the inter-State co-operative society, the same shall not abate, be discontinued or be in any way prejudicially affected by reason of the incorporation of the Producer Company under section 581C or transformation of the inter-State co-operative society as a Producer Company under section 581J, as the case may be, but the suit, arbitration, appeal or other proceeding, may be continued, prosecuted and enforced by or against the Producer Company in the same manner and to the same extent as it would have, or may have been continued, prosecuted and enforced by or against the inter-State co-operative society as if the provisions contained in this Part had not come into force.

581M. CONCESSION, ETC., TO BE DEEMED TO HAVE BEEN GRANTED TO PRODUCER COMPANY

With effect from the transformation date, all fiscal and other concessions, licences, benefits, privileges and exemptions granted to the inter-State co-operative society in connection with the affairs and business of the inter-State cooperative society under any law for the time being in force shall be deemed to have been granted to the Producer Company.

581N. PROVISIONS IN RESPECT OF OFFICERS AND OTHER EMPLOYEES OF INTER-STATE CO-OPERATIVE SOCIETY

(1) Notwithstanding anything contained in section 581-O, all the directors in the inter-State co-operative society before the incorporation of the Producer Company shall continue in office for a period of one year from the transformation date and in accordance with the provisions of this Act.

(2) Every officer or other employee of the inter-State co-operative society (except a director of the Board, Chairman or Managing Director) serving in its employment immediately before the transformation date shall, insofar as such officer or other employee is employed in connection with the inter-State co-operative society which has vested in the Producer Company by virtue of this Act, become, as from the transformation date, an officer or, as the case may be, other employee of the Producer Company and shall hold his office or service therein by the same tenure, at the same remuneration, upon the same terms and conditions, with the same obligations and with the same rights and privileges as to leave, leave travel concession, welfare scheme, medical benefit scheme, insurance, provident fund, other funds, retirement, voluntary retirement, gratuity and other benefits as he would have held under the erstwhile inter-State cooperative society if its undertaking had not vested in the Producer Company and shall continue to do so as an officer or, as the case may be, other employee of the Producer Company.

(3) Where an officer or other employee of the inter-State co-operative society opts under sub-section (2) not to be in employment or service of the Producer Company, such officer or other employee shall be deemed to have resigned.

(4) Notwithstanding anything contained in the Industrial Disputes Act, 1947 or in any other law for the time being in force, the transfer of the services of any officer or other employee of the inter-State co-operative society to the Producer Company shall not entitle such officer or other employee to any compensation under this Act or under any other law for the time being in force and no such claim shall be entertained by any court, tribunal or other authority.

(5) The officers and other employees who have retired before the transformation date from the service of the interstate co-operative society and are entitled to any benefits, rights or privileges, shall be entitled to receive the same benefits, rights or privileges from the Producer Company.

(6) The trusts of the provident fund or the gratuity fund of the inter-State cooperative society and any other bodies created for the welfare of officers or employees shall continue to discharge functions in the Producer Company as was being done hitherto in the inter-State co-operative society and any tax exemption granted to the provident fund or the gratuity fund would continue to be applied to the Producer Company.

(7) Notwithstanding anything contained in this Act or in any other law for the time being in force or in the regulations of the inter-State co-operative society, no director of the Board, Chairman, Managing Director or any other person entitled to manage the whole or substantial part of the business and affairs of the inter-State co-operative society shall be entitled to any compensation against the inter-State co-operative society or the Producer Company for the loss of office or for the premature termination of any contract of management entered into by him with the inter-State cooperative society.

CHAPTER III: MANAGEMENT OF PRODUCER COMPANY

581-O. NUMBER OF DIRECTORS

Every Producer Company shall have at least five and not more than fifteen directors: Provided that 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.

581P. APPOINTMENT OF DIRECTORS

(1) Save as provided in section 581N, 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.

(2) The election of directors shall be conducted within a period of ninety days of the registration of the Producer Company:

Provided that in the case of an inter-State co-operative society which has been registered as a Producer Company under sub-section (4) of section 581J in which at least five directors [including the directors continuing in office under sub-section (1) of section 581N] hold office as such on the date of registration of such company, the provisions of this sub-section shall have effect as if for the words "ninety days", the words "three hundred and sixty five days" had been substituted.

(3) Every person shall hold office of a director for a period not less than one year but not exceeding five years as may be specified in the articles.

(4) Every director, who retires in accordance with the articles, shall be eligible for re-appointment as a director.

(5) Save as provided in sub-section (2), the directors of the Board shall be elected or appointed by the Members in the annual general meeting.

(6) The Board may co-opt one or more expert directors or an additional director not exceeding one-fifth of the total number of directors or appoint any other person as additional director for such period as the Board may deem fit: Provided that the 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: Provided further that the 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.

581Q. VACATION OF OFFICE BY DIRECTORS

(1) The office of the director of a Producer Company shall become vacant if-

(a) he is convicted by a Court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months;

(b) the Producer Company, in which he 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 ninety days;

(c) he has made a default in repayment of any advances or loans taken from the Producer Company in which he is a director;

(d) the Producer Company, in which he is a director -

(i) *has not filed the annual accounts and annual return for any continuous three financial years commencing on or after the 1st day of April, 2002; or*
(ii) *has failed to, repay its deposit or withheld price or patronage bonus or interest thereon on due date, or pay dividend and such failure continues for one year or more;*
(e) *default is made in holding election for the office of director, in the Producer Company in which he is a director, in accordance with the provisions of this Act and articles;*
(f) *the annual general meeting or extraordinary general meeting of the Producer Company, in which he is a director, is not called in accordance with the provisions of this Act except due to natural calamity or such other reason. (2) The provisions of sub-section (1) shall, as far as may be, apply to the director of a Producer institution which is a member of a Producer Company.*

581R. POWERS AND FUNCTIONS OF BOARD

(1) *Subject to the provisions of this Act and articles, the Board of directors of a Producer Company shall exercise all such powers and to do all such acts and things, as that company is authorised so to do.*

(2) *In particular and without prejudice to the generality of the foregoing powers, such powers may include all or any of the following matters, namely:-*

(a) *determination of the dividend payable;*

(b) *determination of the quantum of withheld price and recommend patronage to be approved at general meeting;* (c) *admission of new Members;*

(d) *pursue and formulate the organisational policy, objectives, establish specific long-term and annual objectives, and approve corporate strategies and financial plans;*

(e) *appointment of a Chief Executive and such other officers of the Producer Company, as may be specified in the articles;*

(f) *exercise superintendence, direction and control over Chief Executive and other officers appointed by it;*

(g) *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;*

(h) *acquisition or disposal of property of the Producer Company in its ordinary course of business;*

(i) *investment of the funds of the Producer Company in the ordinary course of its business;*

(j) *sanction any loan or advance, in connection with the business activities of the Producer Company to any Member, not being a director or his relative;*

(k) *take such other measures or do such other acts as may be required in the discharge of its functions or exercise of its powers.*

(3) *All the powers specified in sub-sections (1) and (2) shall be exercised by the Board, by means of resolution passed at its meeting on behalf of the Producer Company.*

Explanation. - For the removal of doubts, it is hereby declared that a director or a group of directors, who do not constitute the Board, shall not exercise any of the powers exercisable by it.

581S. MATTERS TO BE TRANSACTED AT GENERAL MEETING

(1) The Board of directors of a Producer Company shall exercise the following powers on behalf of that company, and it shall do so only by means of resolutions passed at the annual general meeting of its Members, namely:- (a) approval of budget and adoption of annual accounts of the Producer Company;
(b) approval of patronage bonus; (c) issue of bonus shares;
(d) declaration of limited return and decision on the distribution of patronage;
(e) specify the conditions and limits of loans that may be given by the Board to any director; and
(f) approval of any transaction of the nature as is to be reserved in the articles for approval by the Members.

581T. LIABILITY OF DIRECTORS

(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 Producer Company.
(2) Without prejudice to the provisions contained in sub-section (1), the Producer Company shall have the right to recover from its director -
(a) where such director has made any profit as a result of the contravention specified in sub-section (1), an amount equal to the profit so made;
(b) where the Producer Company incurred a loss or damage as a result of the contravention specified in sub-section (1), an amount equal to that loss or damage;
(3) The liability imposed under this section 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.

581U. COMMITTEE OF DIRECTORS

(1) 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:
Provided that the Board shall not delegate any of its powers or assign the powers of the Chief Executive, to any committee.
(2) A committee constituted under sub-section (1) may, with the approval of the Board, co-opt such number of persons as it deems fit as members of the committee:
Provided that the Chief Executive appointed under section 581W or a director of the Producer Company shall be a member of such committee.
(3) 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.
(4) The fee and allowances to be paid to the members of the committee shall be such as may be determined by the Board.
(5) The minutes of each meeting of the committee shall be placed before the Board at its next meeting.

581V. MEETINGS OF BOARD AND QUORUM

(1) A meeting of the Board shall be held not less than once in every three months and at least four such meetings shall be held in every year.

- (2) *Notice of every meeting of the Board of directors shall be given in writing to every director for the time being in India, and at his usual address in India to every other director.*
- (3) *The Chief Executive shall give notice as aforesaid not less than seven days prior to the date of the meeting of the Board and if he fails to do so, he shall be punishable with fine which may extend to one thousand rupees: Provided that a meeting of the Board may be called at shorter notice and the reasons thereof shall be recorded in writing by the Board.*
- (4) *The quorum for a meeting of the Board shall be one-third of the total strength of directors, subject to a minimum of three.*
- (5) *Save as provided in the articles, directors including the co-opted director, may be paid such fees and allowances for attendance at the meetings of the Board, as may be decided by the Members in the general meeting.*

581W. CHIEF EXECUTIVE AND HIS FUNCTIONS

- (1) *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.*
- (2) *The Chief Executive shall be ex officio director of the Board and such director shall not retire by rotation.*
- (3) *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.*
- (4) *The Chief Executive shall be entrusted with substantial powers of management as the Board may determine.*
- (5) *Without prejudice to the generality of sub-section (4), the Chief Executive may exercise the powers and discharge the functions, namely:-*
- (a) *do administrative acts of a routine nature including managing the day-to-day affairs of the Producer Company;*
 - (b) *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;*
 - (c) *make arrangements for safe custody of cash and other assets of the Producer Company;*
 - (d) *sign such documents as may be authorised by the Board, for and on behalf of the company;*
 - (e) *maintain proper books of account; prepare annual accounts and audit thereof; place the audited accounts before the Board and in the annual general meeting of the Members;*
 - (f) *furnish Members with periodic information to appraise them of the operation and functions of the Producer Company;*
 - (g) *make appointments to posts in accordance with the powers delegated to him by the Board;*
 - (h) *assist the Board in the formulation of goals, objectives, strategies, plans and policies;*
 - (i) *advise the Board with respect to legal and regulatory matters concerning the proposed and ongoing activities and take necessary action in respect thereof;*
 - (j) *exercise the powers as may be necessary in the ordinary course of business;*
 - (k) *discharge such other functions, and exercise such other powers, as may be delegated by the Board.*
- (6) *The Chief Executive shall manage the affairs of the Producer Company under the general superintendence, direction and control of the Board and be accountable for the performance of the Producer Company.*

581X. SECRETARY OF PRODUCER COMPANY

(1) Every Producer Company having an average annual turnover exceeding five crore rupees in each of three consecutive financial years shall have a whole-time secretary.

(2) 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.

(3) If a Producer Company fails to comply with the provisions of sub-section (1), the company and every officer of the company who is in default, shall be punishable with fine which may extend to five hundred rupees for every day during which the default continues:

Provided that in any proceedings against a person in respect of an offence under this sub-section, it shall be a defence to prove that all reasonable efforts to comply with the provisions of sub-section (1) were taken or that the financial position of the company was such that it was beyond its capacity to engage a whole-time secretary.

581Y. QUORUM

Unless the articles require a larger number, one-fourth of the total membership shall constitute the quorum at a general meeting.

581Z. VOTING RIGHTS

Save as otherwise provided in sub-sections (1) and (3) of section 581D, 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.

CHAPTER IV: GENERAL MEETINGS

581ZA. ANNUAL GENERAL MEETINGS

(1) Every Producer Company shall in each year, hold, in addition to any other meetings, a general meeting, as its annual general meeting and shall specify the meeting as such in the notices calling it, and not more than fifteen months shall elapse between the date of one annual general meeting of a Producer Company and that of the next: Provided that the Registrar may, for any special reason, permit extension of the time for holding any annual general meeting (not being the first annual general meeting) by a period not exceeding three months.

(2) A Producer Company shall hold its first annual general meeting within a period of ninety days from the date of its incorporation.

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

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

- (a) *the agenda of the annual general meeting;*
 - (b) *the minutes of the previous annual general meeting 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 of the Producer Company and its subsidiary, if any, together with a report of the Board of directors of such Company with respect to -*
 - (i) *the state of affairs of the Producer Company;*
 - (ii) *the amount proposed to be carried to reserve;*
 - (iii) *the amount to be paid as limited return on share capital;*
 - (iv) *the amount proposed to be disbursed as patronage bonus;*
 - (v) *the material changes and commitments, if any, affecting the financial position of the Producer Company and its subsidiary, which have occurred in between the date of the annual accounts of the Producer Company to which the balance sheet relates and the date of the report of the Board;*
 - (vi) *any other matter of importance relating to energy conservation, environmental protection, expenditure or earnings in foreign exchanges;*
 - (vii) *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.*
- (4) *The Board of directors shall, on the requisition made in writing, duly signed and setting out the matters for the consideration, made by one-third of the Members entitled to vote in any general meeting, proceed to call an extraordinary general meeting in accordance with the provisions contained in sections 169 to 186 of this Act.*
- (5) *Every annual general meeting shall be called, for a time during business hours, on a day that is not a public holiday and shall be held at the registered office of the Producer Company or at some other place within the city, town or village in which the registered office of the Company is situate.*
- (6) *A general meeting of the Producer Company shall be called by giving not less than fourteen days prior notice in writing.*
- (7) *The notice of the general meeting indicating the date, time and place of the meeting shall be sent to every Member and auditor of the Producer Company.*
- (8) *Unless the articles of the Producer Company provide for a larger number, one-fourth of the total number of members of the Producer Company shall be the quorum for its annual general meeting.*
- (9) *The proceedings of every annual general meeting along with the Directors' Report, the audited balance sheet and the profit and loss account shall be filed with the Registrar within sixty days of the date on which the annual general meeting is held, with an annual return along with the filing fees as applicable under the Act.*
- (10) *In the case where a Producer Company is formed by Producer institutions, such institutions shall be represented in the general body through the Chairman or the Chief*

Executive thereof who shall be competent to act on its behalf: Provided that a Producer institution shall not be represented if such institution makes a default or failure referred to in clauses (d) to (f) of sub-section (1) of section 581Q.

CHAPTER V: SHARE CAPITAL AND MEMBERS RIGHTS

581ZB. SHARE CAPITAL

- (1) The share capital of a Producer Company shall consist of equity shares only.*
- (2) The shares held by a Member in a Producer Company, shall as far as may be, be in proportion to the patronage of that company.*

581ZC. SPECIAL USER RIGHTS

- (1) The producers, who are active Members may, if so provided in the articles, have special rights and the Producer Company may issue appropriate instruments to them in respect of such special rights.*
- (2) The instruments of the Producer Company issued under sub-section (1) shall, after obtaining approval of the Board in that behalf, be transferable to any other active Member of that Producer Company. Explanation. - For the purposes of this section, the expression "special right" means any right relating to supply of additional produce by the active Member or any other right relating to his produce which may be conferred upon him by the Board.*

581ZD. TRANSFERABILITY OF SHARES AND ATTENDANT RIGHTS

- (1) Save as otherwise provided in sub-sections (2) to (4), the shares of a Member of a Producer Company shall not be transferable.*
- (2) A Member of a Producer Company 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.*
- (3) Every Member shall, within three months of his becoming a Member in the Producer Company, nominate, in the manner specified in articles, a person to whom his shares in the Producer Company shall vest in the event of his death.*
- (4) The nominee shall, on the death of the Member, become entitled to all the rights in the shares of the Producer Company and the Board of that Company shall transfer the shares of the deceased Member to his nominee: Provided that 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 Producer Company at par value or such other value as may be determined by the Board.*
- (5) Where the Board of a Producer Company is satisfied that –*
 - (a) any Member has ceased to be a primary producer; or*
 - (b) any Member has failed to retain his qualifications to be a Member as specified in articles, the Board shall direct the surrender of shares together with special rights, if any, to the Producer Company at par value or such other value as may be determined by the Board:**Provided that the Board shall not direct such surrender of shares unless the Member has been served with a written notice and given an opportunity of being heard.*

CHAPTER VI: FINANCE, ACCOUNTS AND AUDIT

581ZE. BOOKS OF ACCOUNT

(1) Every Producer Company shall keep at its registered office proper books of account with respect to -

- (a) all sums of money received and expended by the Producer Company and the matters in respect of which the receipts and expenditure take place;*
- (b) all sales and purchase of goods by the Producer Company;*
- (c) the instruments of liability executed by or on behalf of the Producer Company;*
- (d) the assets and liabilities of the Producer Company;*
- (e) in case of a Producer Company engaged in production, processing and manufacturing, the particulars relating to utilisation of materials or labour or other items of costs.*

(2) The balance sheet and profit and loss accounts of the Producer Company shall be prepared, as far as may be, in accordance with the provisions contained in section 211.

581ZF. INTERNAL AUDIT

Every Producer Company shall have internal audit of its accounts carried out, at such interval and in such manner as may be specified in articles, by a chartered accountant as defined in clause (b) of sub-section (1) of section 2 of the Institute of Chartered Accountants Act, 1949 (38 of 1949).

581ZG. DUTIES OF AUDITOR UNDER THIS PART

Without prejudice to the provisions contained in section 227, the auditor shall report on the following additional matters relating to the Producer Company, namely:-

- (a) the amount of debts due along with particulars of bad debts if any;*
- (b) the verification of cash balance and securities;*
- (c) the details of assets and liabilities;*
- (d) all transactions which appear to be contrary to the provisions of this Part;*
- (e) the loans given by the Producer Company to the directors;*
- (f) the donations or subscriptions given by the Producer Company;*
- (g) any other matter as may be considered necessary by the auditor.*

581ZH. DONATIONS OR SUBSCRIPTION BY PRODUCER COMPANY

A Producer Company may, by special resolution, make donation or subscription to any institution or individual for the purposes of -

- (a) promoting the social and economic welfare of Producer Members or producers or general public; or*
- (b) promoting the mutual assistance principles:*

Provided that the aggregate amount of all such donation and subscription in any financial year shall not exceed three per cent of the net profit of the Producer Company in the financial year immediately preceding the financial year in which the donation or subscription was made: Provided further that no Producer Company shall make directly or indirectly to any political party or for any political purpose to any person any contribution or subscription or make available any facilities including personnel or material.

581ZI. GENERAL AND OTHER RESERVES

(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.*

581ZJ. ISSUE OF BONUS SHARES

Any 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 581ZI in proportion to the shares held by the Members on the date of the issue of such shares.

CHAPTER VII: LOANS TO MEMBERS AND INVESTMENTS

581ZK. LOAN, ETC., TO MEMBERS

The Board may, subject to the provisions made in articles, provide financial assistance to the Members of the Producer Company by way of -

- (a) *credit facility, to any Member, in connection with the business of the Producer Company, for a period not exceeding six months;*
- (b) *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.*

581ZL. INVESTMENT IN OTHER COMPANIES, FORMATION OF SUBSIDIARIES, ETC

- (1) *The general reserves of any Producer Company 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 Producer Company may, for promotion of its objectives acquire the shares of another Producer Company.*
- (3) *Any Producer Company 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 any body corporate, for the purpose of promoting the objects of the Producer Company by special resolution in this behalf.*
- (4) *Any Producer Company, either by itself or together with its subsidiaries, may invest, by way of subscription, purchase or otherwise, shares in any other company, other than a Producer Company, specified under sub-section (2), or subscription of capital under sub-section (3), for an amount not exceeding thirty per cent of the aggregate of its paid-up capital and free reserves: Provided that a Producer Company may, by special resolution passed in its general meeting and with prior approval of the Central Government, invest in excess of the limits specified in this section.*
- (5) *All investments by a Producer Company may be made if such investments are consistent with the objects of the Producer Company.*
- (6) *The Board of a Producer Company may, with the previous approval of Members by a special resolution, dispose of any of its investments referred to in sub-sections (3) and (4).*

- (7) *Every Producer Company 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.*
- (8) *The register referred to in sub-section (7) shall be kept at the registered office of the Producer Company and the same shall be open to inspection by any Member who may take extracts therefrom.*

Attachment 2: PRODUCE Fund Operational Guidelines

NB.FSPD/ 619 /FSPD- Policy/2014-15 dated 15 January 2015

FSPD-Circular No. dated 15 January 2015

The Chief General Manager /Officer-in-Charge
All Regional Offices/Sub-offices and Training Establishments
NABARD

Dear Sir

Scheme for promotion of Farmer Producer Organizations: Operational Guidelines

Hon'ble Union Finance Minister while presenting Union Budget for 2014-15, has announced setting up of "Producers Organization Development and Upliftment Corpus (PRODUCE) Fund of Rs. 200 crore in NABARD to be utilized for the building and promotion of 2000 Farmer Producer Organizations (FPOs) in next two years. This initiative will address the initial requirements of the emerging Farmer Producer Organizations which, in turn, will provide new business opportunities for financing institutions, to support them with credit.

2. The operational guidelines for promotion of Farmer Producer Organizations by using the PRODUCE Fund is given as **Annexure-I**. It has been decided to initiate works relating to promotion of Farmer Producer Organization as per the above operational guidelines by using the funds available under Producer Organization Development Fund (PODF), WDF (Rs.10 crore) and TDF (Rs.5 crore). The above mentioned funds available under WDF and TDF are to be utilized strictly for promotion of FPOs in the command area of watershed and wadi projects respectively.

3. Grant assistance to POPs/FPOs for undertaking various promotional interventions may be sanctioned by the CGM/OIC of the RO based on the recommendations of PSC constituted at RO for the purpose. The item-wise outlay indicated in **Appendix-I** are the maximum eligible amount. Therefore, while considering the proposal of POPs, utmost care may be taken to assess the actual financial needs in individual cases without compromising on the effectiveness of the FPO. The grant amount sanctioned may be released by the ROs as per the schedule indicated in **Appendix-II**.

4. For the purpose of reporting the physical progress in formation of FPOs under our scheme, the date of submitting application for registration may be construed as the date of FPO formation. In case of existing farmers organizations which have evolved as FPO without financial assistance from any agency and already registered in some legal form, these FPOs may also be considered under our scheme for extending promotional grant assistance to ensure their upliftment as sustainable business enterprise. However, in such cases ROs have to exercise due diligence to ensure their credibility, potential and future prospects to be able to function as business entity.

5. The contents of the circular may be brought to the notice of all concerned.

(Dr. B G Mukhopadhyay)
Chief General Manager

Encls: As above

Annexure-I

Scheme for promotion of Farmer Producer Organizations: Operational Guidelines

Background

The Union Finance Minister while presenting Union Budget for 2014-15, has announced setting up of “Producers Organization Development and Upliftment Corpus (PRODUCE) Fund of Rs. 200 crore in NABARD to be utilized for the building and promotion of 2000 Farmer Producer Organizations (FPOs) in two years. This initiative will address the initial requirements of the emerging Farmer Producer Organizations which, in turn, will provide new business opportunities for financing institutions, to support them with credit.

2.0 Objectives of “PRODUCE Fund”

The broad objective of the Fund is to build, promote and nurture Farmer Producer Organizations (FPOs) by way of extending the required financial & non-financial support during the nascent/formative stage. It is critical to support FPOs in terms of awareness creation, capacity building, technical support, professional management, market access, regulatory requirements, etc. and provide handholding support for a minimum period of 3 years and the same is met as grant under the Fund. The requirement of the FPOs for their business has to be met out of their own funds, equity, credit, profit generated, etc.

3.0 Characteristics of Farmer Producer Organization

An Organization will be called a Farmer Producer Organization, if

- it is formed by a group of primary producers
- it is a registered body and a legal entity
- producers are primary shareholders in the organization
- it deals with business activities related to the primary produce/product/ related inputs
- it works for the benefit of the member producers
- portions of profit are shared amongst the producers and the balance goes to the share capital or reserves.
- It has minimum shareholding members numbering 50 at the time of registration. However, the shareholding membership will have to be increased over a period of 3 years to a sustainable level.

4.0 Guiding Principles for Assistance

The guiding principles for assistance under the Fund will be broadly as indicated below:

- i. The FPO registered under any statute / legal form will be supported
- ii. The FPO will act for the benefit of the producers
- iii. There is active community participation (ownership/ management/ empowerment)
- iv. Activities of FPO to be eligible for support under the Fund may fall within the domain of agriculture / activities allied to agriculture including dairy, poultry, fisheries, etc. and cover the entire value chain.
- v. The support under the scheme will broadly cover the cost towards promotion of FPOs including capacity building, business planning, registration, MIS development, market linkages and linkage to value chain, administrative expenses of promoting agency, deliberations/ interaction meets, documentation, research, publicity, monitoring of progress and such other items of expenditure required for promotion of FPOs.
- vi. There is integrated approach in implementation of projects(need-based and flexible, convergence with other schemes / programmes)

5.0 Strategy for Promoting Farmer Producer Organizations

- i. Identification of potential FPOs among successful Watershed Development projects, Wadi Projects and their Federations.
- ii. Identification of natural clusters of farmers groups to facilitate formation of FPOs
- iii. Close involvement of stakeholders such as NGOs, Banks, Govt. line departments, commodity Boards, Corporations, Corporate, functional Universities, cooperatives, Federations, Trade bodies, etc. for identification, promotion, nurturing, development, capacity building, evaluation etc. of FPOs
- iv. Development of Best Practices, Pilot Projects and Success Stories for wider publicity and field level replication
- v. Adoption of mission mode with periodic qualitative and quantitative milestones with timelines
- vi. Wide publicity to the FPO Scheme through print, electronic media and adopting other Mass Communication Strategies
- vii. Conventional/non-conventional publicity and awareness creation methods
- viii. Launching of pilot projects, action research projects, experimental projects, field trials etc. to learn and understand various models of FPOs and successful strategies for wider replication

6.0 Process involved:

6.1 Identification of Resource Support Agencies (RSA):

NABARD RO will identify one state level Resource Support Agencies (RSAs) having adequate experience in successful promotion of FPOs. An agreement between NABARD, RO and the RSAs will be executed for implementing the scheme in the State.

6.1.1 Role of Resource Support Agencies (RSA):

The Resource Support Agencies will be involved in organising capacity building of the Producer Organization Promoting Institutions (POPIs), providing necessary training and handholding support to POPIs for undertaking the promotion of FPOs in the State. Also, the RSAs will be required to guide/oversee the overall implementation of the scheme and facilitate value addition, marketing, storage and other services required by the FPOs. The RSAs identified should have the technical expertise and field experience to provide the above mentioned services to the POPIs.

6.2 Identification of Producer Organization Promoting Institutions (POPIs):

NABARD RO will identify in consultation with RSAs required number of POPIs in the state based on the following minimum eligibility criteria.

- i. Registered under the relevant Acts as legal entities
- ii. Minimum 3 years audited balance sheets/ P&L accounts
- iii. Good track record/relevant experience in the field of implementing NABARD programmes
- iv. It has requisite dedicated and professionally competent staff and adequate infrastructure facilities for carrying out the developmental works
- v. It has not been blacklisted by any funding Agency/Banks/ Govt./ Other Agency
- vi. It has no negative net worth and no default to any financial institution
- vii. It has adequate expertise in organising technical help
- viii. It has demonstrated the facilitating of businesses or large scale livelihood activities with market linkage

6.2.1 Role of Producer Organization Promoting Institutions (POPIs):

The POPI will identify potential FPOs from successful Watershed Development projects, Wadi Projects and their Federations, existing Farmers Clubs, Farmers' Cooperatives, Self Help Groups, Joint Liability Groups, Rythu Mitra Groups, Farmers Interest Groups or their federations, etc. As far as possible VWC, Wadi clusters, Self Help Groups, Joint Liability Groups, Rythu Mitra Groups, Farmers Interest Groups, etc., financed by a bank branch may be considered for federating under one FPO. Thereafter, the POPI will focus on awareness creation among farmers and motivate them to form FPOs. The POPI will thereafter undertake training need assessments (TNAs) of the producers and also assess infrastructure requirements, market intervention and other support facilities/ linkages necessary for the success of FPOs. This will be followed by designing and organising capacity building programmes, preparation of business development plan for the FPOs, establishment and registration under appropriate Act, facilitation in credit and market linkage. The POPIs will have to develop organization chart, business plans, nurture the POs and provide handholding support towards maturity for a minimum period of 3 years. These Agencies could be Non-Governmental Organizations, Trusts, Corporates, State Govt. Departments, NABARD-promoted subsidiaries, KVK, Big Farmer Producer Companies, Farmers Federations, Commodity Board/ Federations/ Exchanges, Co-op Milk Unions and other experienced Institutions meeting the eligibility criteria prescribed.

6.2.3. Assistance Available to POPIs

Taking into consideration various efforts required for creation of awareness, organization and capacity building and other requirements of FPOs, the POPIs will be eligible for grant support to undertake the following activities. A MOU in this regard will be entered into between the RO and POPIs.

6.2.3.1 Mobilization of Farmers

A base line survey may be undertaken by the POPI and the farmers around a particular cluster, commodity, market, processing, storage unit, etc. may be mobilized into FPOs in consultation with State Govt. Departments, NABARD, Commodity Boards, etc. Existing Farmer Clubs, SHGs, JLGs, Village Watershed Committees, Wadi Clusters, etc., could be considered for organizing them into FPOs. To cover the initial expenses on such awareness/ mobilization activities, a maximum budget of Rs.30000/ per FPO will be provided.

6.2.3.2 Capacity building/ training and exposure visits of Farmers

Training/ capacity building/ skill development interventions including conduct of exposure visits for the member farmers will be undertaken by the POPIs in the areas of farm production, input/ output management, productivity enhancement, process improvement, agribusiness operation/management, book keeping, regulatory compliance, internal organizational structure, good governance, etc. For this, the POPIs will be adopting the module developed by XIMB/ other agencies with suitable modification to suit the local requirements. Two trainings each year during the first three years will be organized by the POPI with a total grant support of Rs 75,000.

6.2.3.3 Establishment & Registration of Farmer Producer Organization

The FPOs will be required to be suitably organized into business entity and registered under the relevant statute of Law. The cost of establishing appropriate management, registration fee (as a legal

entity) including compliance to all legal formalities, etc., will be provided under the Fund subject to a maximum of Rs 30,000 per FPO/FPC.

6.2.3.4 Training to Board of Directors of FPO

Board of Directors of the FPO will be required to be sensitized at least once in a year for three consecutive years covering areas like functioning of FPOs, organizational structure, business operation and management, market linkages, legal aspects of FPO, regulatory compliance, good governance practices, transparency & accountability, vision building, leadership development, communication skills and MIS. Three training programmes i.e. one programme every year for three years will be organised by the POPI with a total grant support of Rs.75,000/-.

6.2.3.5 Training to Chief Executive Officer of FPO

The day to day operation and management of the business of FPO is the responsibility of its Chief Executive Officer under the guidance of the Board of FPO. The Chief Executive Officer of the FPO will be trained during the initial two years for which a grant support of Rs.20,000 will be provided to POPI @ Rs. 10,000 per programme for two programmes.

6.2.3.6 Administrative cost of POPI

This will include the expenses towards compensation for one local resource person and other administrative expenses to be incurred by the POPI including handholding support. A total of Rs.1,50,000 @ Rs.50,000 per year for three years will be provided.

6.2.3.7 Other Expenditure-Preparation of DPR, MIS and conduct of Audit, etc.

The POPI will be required to facilitate preparation of a 3 year sustainable business plan by the FPO, development of a proper MIS and reporting system and system of book keeping, preparation of annual balance-sheet and profit & loss account of the FPO and ensuring their timely audit. The Business plan will be prepared through a participatory process and may, among other things, include items like input needs assessment, creation of small infrastructure for value addition, market linkages, market intelligence, interface with buyers (market facilitation & aggregation); cost estimate for each activity, means of finance, implementing strategy and monitoring of progress. The POPI will be sanctioned a grant assistance of Rs.50,000/- for the above activities.

7.0 Assistance Available to Farmer Producer Organizations (FPOs)

The promotional support to Farmer Producer Organizations out of the PRODUCE Fund will be extended for the following activities:

7.1 Administrative Expenses

The Board of FPO will appoint a Chief Executive Officer (CEO) on a full term basis for running its day to day business. NABARD will provide grant assistance to the FPO towards meeting the compensation of CEO for three years on a tapering basis. Grant assistance towards compensation of the CEO will be Rs.1,20,000/- during the first year @ Rs.10,000 per month and Rs.84,000 (i.e. 70% of the first year grant) and Rs.72,000, (i.e. 60% of the first year grant) during 2nd and 3rd years respectively. In addition, grant support @ Rs.50,000 per year for three years will be provided towards meeting the office expenses including purchase of small furniture and payment of electricity, postage, etc.

7.2 Revolving Fund Assistance

With a view to enabling the FPOs during their formative stage to access market for their produce and for facilitating primary processing/value addition/aggregation to improve marketability of the farm produce, a one-time revolving fund assistance of Rs.50,000/ will be made available.

7.3 Capacity Building of POPI

The capacity building programme of POPIs will be organised by the RSA/Expert Agency identified by the RO. The overall capacity building programme of POPIs will be coordinated by RSA/RO.

The details of item-wise maximum support available to POPIs &FPOs under the Fund, are enclosed as **Appendix-I**.

8.0 Constitution of National and State level Committees:

At National Level, an Advisory Committee will be constituted consisting of 15-20 members / experts from reputed academic institutions / NGOs / representatives of GOI, State Govt, SFAC, Corporates, Value Chain Players and Banks. Similarly State Level Consultative Committee will be constituted with 7-10 members consisting of CGM NABRD, SLBC Convenor, Director Agriculture, Director Horticulture, Resource Support Agency/POPI, Banks, etc.

9.0 Review/ Monitoring:

The progress in the utilization of Fund and promotion of FPOs will be monitored by the Board of Directors of NABARD which has representation from the Govt. of India, State Govt., RBI. In addition, Project Monitoring Units will be set up by NABARD to monitor the progress at the field level with the help of State Level Resource agencies/ PMUs. The overall physical and financial progress will be monitored and mapped by developing a suitable software with the help of Consulting Organisation.

10.0 State-wise Physical Allocation:

Based on the number of existing Farmer Clubs, commodity clusters, watershed development projects, Wadi projects, farmer collectives formed under other promotional schemes of NABARD, initiatives of various State Govt./SFAC in promoting FPOs and our own assessment of the available potential, State-wise physical allocation has been made. The details of the same are presented in **Appendix-II**.

11.0 Bank finance for FPOs:

11.1. Banks may be encouraged to extend need based financial assistance to FPOs. ROs may organise meets at the State /District level to create awareness and to promote the scheme among all the stakeholders.

Appendix-I

Break up of expenditure for Promotion of Producer Organizations (POs)

S No	Eligible Activity for Support	Maximum amount of assistance per PO (Rs. lakh)			
		Yr 1	Yr 2	Yr 3	Total
I	Support to Producer Organizations(POs)				
1	Salary expenses of CEO @	1.20	0.84	0.72	2.76
2	PO office expense towards small furniture, postage, electricity, etc.	0.50	0.50	0.50	1.50
3	Revolving fund assistance- primary processing / value addition/ aggregation to improve marketability	0.50	-	-	0.50
4	Establishment / Registration (New FPOs only)	0.30	-	-	0.30
	Sub-total for PO (I)	2.50	1.34	1.22	5.06
II	Support to PO Promoting Institutions (POPIs) on behalf of one PO				
1	Mobilizing of Farmers (New FPOs only)	0.10	0.10	0.10	0.30
2	Training & Exposure visits for farmers- Cost of two trainings & exposure visits for farmers	0.25	0.25	0.25	0.75
3	Training to PO Directors- one programme per year	0.25	0.25	0.25	0.75
4	Training to CEO of PO- one programme in first two years	0.10	0.10	-	0.20
5	Salary of POPI Resource person	0.50	0.50	0.50	1.50
6	Other expenses - MIS, audit, DPR, etc. (LS)	0.50	-	-	0.50
7	Sub-total for POPI for promoting one PO (II)	1.70	1.20	1.10	4.00
8	Total (I+II)	4.20	2.54	2.32	9.06

Appendix-II

Pattern of fund release & Deliverables

Instalment	Timelines	Deliverables	Release Amount
I	Approval of concept note & signing of MOU with POPI		25% of 1st year's cost
II	3 months from signing MOU	Cluster identified, baseline done, farmers data base computerized & awareness meeting and exposure visit conducted	25% of 1st year's cost & satisfactory utilization of earlier release
III	6 months from signing MOU	Constitution of BOD, training of BOD, completions of statutory processes & application for registration.	25% of 1st year's cost & satisfactory utilization of earlier release
IV	12 months from signing MOU	CEO appointed, training of CEO, Business plan & MIS prepared	Balance of 1st year's cost & satisfactory utilization of earlier release
V	18 months from signing MOU	Applied for licenses for input, access to credit as per plan, buyer-seller meet, list of shareholders prepared with crop details, annual report finalized.	50% of 2 nd year's cost & satisfactory utilization of earlier release
VI	24 months from signing MOU	Aggregation of produce, creation of basic infrastructure, market linkage, training of CEO/BOD & farmers	Balance of 2 nd year's cost & satisfactory utilization of earlier release
VII	30 months from signing MOU	Equity mobilization, statutory compliances, implementation of business plan, institutionalizing market linkage & credit access.	50% of 3 rd year's cost & satisfactory utilization of earlier release
VIII	36 months from signing MOU	Approvals of FPO activities, business expansion, Audit & preparation of B/S, P/L a/c, PC Report	Balance of 3 rd year's cost & satisfactory utilization of earlier release

Attachment 3: SCHEMES OF SMALL FARMERS AGRIBUSINESS CONSORTIUM (SFAC)

(A) Equity Grant Fund (EGF) Scheme for Farmer Producer Companies (FPC)

1. What is the Period of Implementation of the scheme?

It shall be implemented from the Financial Year (FY) 2013-14 onwards.

2. Who is the Implementing Agency?

The EGF shall be operated by Small Farmers Agri Business Consortium (SFAC).

3. What is Equity?

Equity means the amount of share capital contributed by the Shareholder Members (farmer producers/ institutions of farmer producers) of FPC;

4. What is a shareholder?

Shareholder is a shareholder member of FPC on the date of its application for Equity Grant under the EGCGFS

5. Who is Eligible for Equity Grant under the Scheme?

A Farmer Producer Company fulfilling the following criteria shall be eligible to apply:

- a. A duly registered FPC {(Farmer Producer Companies (FPC) means a company of Farmer Producer Members as defined in section IXA of the Indian Companies Act, 1956 (including any amendments thereto or re-enactment thereof) and incorporated with the Registrar of Companies (RoC)}.
- b. It has raised equity from its Members as laid down in its Articles of Association/ Bye laws.
- c. The number of its Individual Shareholders is not lower than 50.
- d. Its paid up equity does not exceed Rs.30 Lakh.
- e. Minimum 33% of its shareholders are small, marginal and landless tenant farmers as defined by the Agriculture Census, by the Ministry of Agriculture, GoI.
- f. Maximum shareholding by any one member other than an institutional member is not more than 5% and institutional member is not more than 10% of total equity of the FPC.
- g. 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.
- h. It has a duly constituted Management Committee responsible for the business of the FPC.
- i. 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.
- j. The FPC has an Account with a "Bank".
- k. It has a Statement of Accounts audited by a Chartered Accountant (CA) for at least one full financial year.

6. What is Equity Grant Fund?

The Equity Grant Fund enables eligible FPCs to receive a grant equivalent in amount to the equity contribution of their shareholder members in the FPC. It enhances the overall capital base of the FPC. The Scheme shall address new and emerging FPCs, which have paid up capital not exceeding Rs. 30 lakh as on the date of application.

7. What is maximum equity grant under Equity Grant Fund?

Equity Grant shall be a cash infusion equivalent to the amount of shareholder equity in the FPC subject to a cap of Rs. 10 lakh per FPC. Equity Grant sanctioned shall be directly transferred to the bank account of the FPC.

8. How to apply for Equity Grant Fund?

Eligible FPCs that meet the eligibility criteria shall apply in the prescribed Application Form only (Annexure) to SFAC.

9. What are the mandatory documents required along with the Application?

- Shareholder List and Share Capital contribution by each member verified and certified by a Chartered Accountant (CA) prior to submission.
- Resolution of the FPC Board/Governing Council to seek Equity Grant for members.
- Consent of shareholders, stating name of shareholder, gender, number of shares held,
- face value of shares, land holding, signifying consent for SFAC to directly transfer the equity Grant sanctioned to the FPC on their behalf, to FPC Bank account, against the consideration of additional shares of equivalent value to be issued to them by FPC and on exit- transfer of the shares as per rules.
- Audited Financial Statements of FPC for a minimum 1 year /for all years of existence of the FPC if formed less than three years prior to application/ for the last 3 years for FPCs in existence for 3 years or more, verified and certified by a Chartered Accountant (CA) prior to submission.
- Photocopy of Bank Account Statement for last six months authenticated by the Branch Manager of the "Bank".
- Business Plan of FPC and budget for next 18 months.
- Names, photographs, and identity proof (any one from among ration card, Aadhaar card, election identification card, passport) of Representatives/ Directors authorised by the Board for executing and signing all documents under the Scheme.
- Each page of the Application Form and accompanying documents shall be signed by a minimum of two Board Member /Authorised Representatives of the FPC.

10. What are the major factors looked into for considering a proposal for sanction?

The Implementing Agency shall undertake a due diligence process to establish the credibility, sustainability and viability of the FPC through Desk Appraisal on the basis of documents received and a Field Visit to the FPC and its Promoter Organisation, before taking a decision. The important aspect looked into are:

- a) Governance;
- b) Business and Business Plan Viability;
- c) Management Capability;
- d) Financials.

11. Who is the Sanctioning authority?

- a. An Equity Grant Sanction Committee (EGSC) will evaluate the applications. SFAC, shall have full authority to decide on the applications and its decision in this regard shall be final.
- b. Sanction will be conveyed to the FPC through a Sanction Letter issued within 7 working days of the decision of the EGSC,

12. What are the major terms and condition of sanction?

- i. On receipt of the Equity Grant amount, the FPC shall allot additional shares to its shareholder members equivalent in value to the amount of the Grant received by it, on the basis specified in the Scheme within the 45 day time-line and communicate the details to SFAC.
- ii. The maximum grant per category of shareholder is as follows:
 - a. Individual Shareholder – Rs. 1000.00
 - b. Group of Individual Shareholders (e.g. SHG, Farmer Interest Group, JLG of Farmers) –Number of Members multiplied by Rs. 1,000.00, subject to a maximum of Rs. 20,000.00
 - c. Institutional Shareholders (Farmer Producer Companies) – Rs. 1, 00,000.00
- iii. SFAC shall be authorised to examine the accounts and supporting documents at any time during the period of its Agreement with FPC. The recipient agrees to provide all relevant information or explanations that SFAC may reasonably request.
- iv. The FPC shall enter into an Agreement with SFAC before the Equity Grant can be disbursed.
- v. The criteria for calculation of Equity Grant (rounded off to the Share Unit Value (subject to point (iii)) to each shareholder member of the FPC (as per authenticated copy of the Shareholders Register maintained by the Producers Company as per the applicable provisions of the relevant Act) is as follows:
 - a) Allocation of shares shall be on matching/ pro-rata basis of the shareholders' current shareholding, subject to the maximum specified above and ensuring that each shareholder member receives minimum one equity share.
 - b) If the Grant sanctioned to the FPC is not sufficient to ensure a minimum one share to all its shareholder members, allocation of grant shall be based on the shareholders' current landholding, starting with shareholder with the least land holding / the smallest producer in case of allied activities/ or by transparent draw of lots where such identification is not possible.
- vi. The FPC shall be allowed to draw the Equity Grant in a maximum of two tranches (within a period of 2 years of the first application) subject to the cap of Rs. 10.00 lakh per FPC, provided and to the extent that it is able to raise additional Member Equity to qualify for an additional matching grant within the overall ceiling of Rs. 10.00 lakh. The request for the second tranche shall be treated as a fresh application and the full process of due diligence shall be repeated.
- vii. In the event that a shareholder, who receives additional shares issued by the FPC against Equity Grant sanctioned by the Implementing Agency, exits the FPC at any point after receiving the shares, the additional shares received by him/her in lieu of the Equity Grant and standing in his/her name must be transferred to another shareholder or new shareholder within 90 days of his/her exiting the FPC, through an

open and transparent draw of lots. In such cases, the original shareholder cannot receive the value of the additional shares transferred to other/ new members.

13. What is the procedure for Disbursement of sanctioned amount?

After accepting the terms of sanction, the FPC shall enter into Agreement with SFAC, and SFAC shall transfer sanctioned funds to the FPC Account.

14. Under which conditions the Equity Grant amount from the FPC can be recalled cancelled?

In case of any transgression or noncompliance by the FPC of the Terms and Conditions of the Agreement, SFAC shall have the right to recall the Equity Grant amount:

- a) Failure to issue additional shares to members against the Equity Grant within 45 days
- b) Closure/Dissolution of FPC within three years of the receipt of the Equity Grant.
- c) Instances of misuse / misappropriation of the Equity Grant (viz. use of funds for activity other than mentioned in Memorandum of Association/Articles of Association/ Business plan of the FPC) of the Equity Grant

15. What is dispute redressal measure?

The Agreement between SFAC and the FPC is governed and construed according to the laws of India. Controversies and claims arising out of/ relating to this Agreement, or the breach thereof, shall be settled through Legal process or Arbitration at Delhi. The parties shall endeavour to mobilise all efforts and to enter into discussions in order to find a mutually acceptable settlement by direct negotiation before taking any legal action.

(B) CREDIT GUARANTEE FUND (CGF)

1. What is the Objectives of the Credit Guarantee Fund?

The objective of the Fund is providing a Credit Guarantee Cover to ELI to enable them to provide collateral free credit to FPCs by minimising their lending risks in respect of loans not exceeding Rs. 100.00 lakhs.

2. What is Tenure of Guarantee Cover?

The maximum period of Guarantee Cover from the Guarantee start-up shall run through the agreed tenure of the term credit, and where working capital facilities alone are extended and/or continuing working capital arrangements granted along with the Term Loan, for a period of 5 years or block of 5 years and/or loan / working capital credit or other facilities' termination date, whichever is earlier or such period as may be specified by the SFAC;

3. Who is the Implementing Agency?

The scheme shall be operated by Small Farmers Agri Business Consortium (SFAC) through lending institutions. The decision of SFAC shall be final in regard to the interpretation of any of the provisions of the Scheme or of any directions or instructions or clarifications given in connection therewith.

4. What is Eligibility Criteria for FPC for coverage under the scheme?

An ELI can avail Credit Guarantee for the following FPC:

- i. It is a duly registered FPC as defined in Section 3{(Farmer Producer Companies (FPC) means a company of Farmer Producer Members as defined in section IXA of the Indian Companies Act, 1956 (including any amendments thereto or re-enactment thereof) and incorporated with the Registrar of Companies (RoC)}.
- ii. It has raised equity from its Members as laid down in its Articles of Association/ Bye laws.
- iii. The number of its individual shareholders shall not be lower than 500
- iv. Minimum 33% of its shareholders are small, marginal and landless tenant farmers
- v. Maximum shareholding by any one member other than an Institutional member is not more than 5% of total equity of the FPC.
- vi. It has a duly elected/nominated Board with a minimum of five Members and having adequate representation from farmers and minimum one woman member.
- vii. It has a duly elected Management Committee.
- viii. It has a business plan and budget for 18 months.
- ix. The Bank ELI has extended / sanctioned within six months of the date of application for the Guarantee or /in principle agreed in writing / has expressed willingness in writing to sanction Term Loan/ Working Capital/ Composite Credit Facility without any collateral security or third party guarantee including personal guarantee of Board Members.

5. Who are the Eligible Lending Institution (ELI):

A Scheduled Commercial Bank included in the second Schedule to the Reserve Bank of India Act, 1934, and Regional Rural Banks, NCDC, NABARD and its subsidiaries, NEDFi, or any other institution (s) as may be decided by the SFAC Board or as directed by the Government of India from time to time

6. What type of Credit Facilities are Eligible under CGF SFAC?

- a. Credit Facility extended without any collateral security and/or third party guarantees.
- b. Credit facilities (Fund based and/or Non fund based) already sanctioned / extended within six months from the date of the application for the Guarantee Cover or intended to be extended singly or jointly by one or more than one Eligible Lending Institution(s) to a single eligible FPC borrower by way of term loan and/or working capital/composite credit facilities.
- c. The ELI can extend credit without any limit; however, the Guarantee Cover shall be limited to the maximum guarantee cover specified under the Scheme.

7. What type of Credit Facilities are not eligible under CGF SFAC?

- a. Credit facility sanctioned against collateral security and/ or third party guarantee.
- b. Any credit facility in respect of which risks are additionally covered under any scheme operated/administered by RBI/or by the Government/or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity.
- c. Any credit facility, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which is, for the time being, in force.

- d. Any credit facility granted to any borrower, who has himself availed of any other credit facility covered under this scheme or under the schemes mentioned in clause (i), (ii) and (iii) above at any point in time.
- e. Any credit facility that is overdue for repayment/NPA taken over by the ELI from any other lender or any other default converted into a credit facility.
- f. Any credit facility which is overdue for repayment.
- g. Any credit facility which has been rescheduled or restructured on becoming overdue.

8. What is the Credit Guarantee Cover?

- a. ELI shall be eligible to seek Guarantee Cover for a credit facility sanctioned in respect of a single FPC borrower for a maximum 2 times over a period of 5 years.
- b. Maximum Guarantee Cover shall be restricted to the extent of 85% of the eligible sanctioned credit facility or up to Rs. 85 Lakh, whichever is lower.
- c. In case of default, claims shall be settled up to 85% of the amount in default subject to maximum cover as specified above. Other charges such as penal interest, commitment charge, service charge, or any other levies/ expenses, or any costs whatsoever debited to the account of FPC by the ELI other than the contracted interest shall not qualify for Guarantee Cover.
- d. The Cover shall only be granted after the ELI enters into an agreement with SFAC, and shall be granted in accordance with the Terms and Conditions from time to time.

9. What is procedure for Application for Guarantee Cover?

The ELI shall be required to apply to SFAC for Guarantee Cover in the specified form only (Annexure 3) for credit proposals sanctioned by them during any quarter prior to expiry of the following quarter viz., application w.r.t. credit facility sanctioned in April–June Quarter must be submitted in the ensuing quarter, i.e. July-September to qualify for consideration under the Scheme.

10. What is procedure for Sanction?

SFAC shall

- a. Scrutinize the proposal as per the Terms and Conditions of the Scheme.
- b. Inspect or call for copies of the Books of Account and other records (including any Book of Instructions or Manual or Circulars covering general instructions regarding Conduct of Advances) of the Lending Institution or of the Borrower from the Lending Institution.
- c. Inspection shall be carried out through the officers of SFAC or any other agency appointed by SFAC.
- d. The Investment and Claims Settlement Committee (I&CSC) shall sanction the Guarantee Cover.
- e. The ELI shall enter into an Agreement with SFAC (Bank Branch Manager level)

11. What is the Guarantee Fees?

- a. The Fee payable to SFAC by the ELI is a onetime Guarantee Fee calculated @ 0.85% of the sanctioned Credit Facility, subject to a maximum of Rs. 85,000/- (Rs. Eighty Five Thousand only).

- b. The Fee shall be paid upfront to SFAC by ELI for each loan account. The payment is to be made within 30 days from date of approval of the Guarantee or such date as is specified by SFAC.

12. What is the Annual Service Fee?

- a. In addition to onetime Guarantee Fee, an Annual Service Fee of 0.25% per annum or such other rate or limit as may be decided from time to time per loan account shall be charged from ELIs to keep the Guarantee of SFAC live.
- b. The decision of passing on the incidence of Guarantee Fee and Annual Service Fee to the Borrower is left to the discretion of the ELI.
- c. The Annual Service Fee shall be paid by ELI to SFAC by the 31 May each year. The fee for the last year shall be paid on pro rata basis for the period till the date of expiry of guarantee.
- d. In the event of non-payment of Annual Service Fee by the due date, the Guarantee under the Scheme shall cease to be available to the ELI unless SFAC agrees for continuance of Guarantee and the ELI pays penal interest on the Annual Service Fee due at a rate of Interest of 1% higher than the Rate of Interest at which the Credit Facility has been sanctioned by the ELI to the Borrower or as specified by SFAC from time to time, for the period of delay. The Guarantee shall stand restored on receipt of such payment and shall be deemed to have been in continuance without break.
- e. Provided further that in the event of non-payment of Annual Service Fee within the stipulated time or such extended time as may be requested for by the ELI and allowed on such terms that may be agreed to by SFAC, liability of SFAC to guarantee such credit facility shall lapse in respect of the credit facility against which the annual sample fee is due and not paid.
- f. Provided further that, SFAC may consider renewal of Guarantee Cover for such credit facility upon such terms and conditions as it may decide.
- g. In the event of any error or discrepancy being found in the computation of the amounts or in the calculation of the Guarantee Fee / Annual Service Fee, or any shortfall in payment by the ELI, if subsequently identified, such deficiency/ shortfall shall be paid by the Eligible Lending Institution to SFAC. Any amount found to have been paid in excess by the ELI to SFAC shall be refunded by SFAC. In the event of any representation made by the lending institution in this regard, SFAC shall take a decision based on the available information with it and the clarifications received from the lending institution, and its decision shall be final and binding on the lending institution.
- h. The Guarantee Fee and/or Annual Service Fee once paid to SFAC are non-refundable except where Guarantee Cover for which Guarantee Fee is paid has not been approved.

13. What is responsibilities of Lending Institutions under the Scheme?

- a. Appraise each loan proposal for selecting commercially viable projects. ELI's Appraisal Note shall accompany the Application for Guarantee Cover under the Scheme.
- b. Carry out processing, legal work and documentation for sanction of the loan in accordance with the requirements of the ELI and the terms and conditions of SFAC.

- c. Furnish such statements, information, documents, receipts, certificates etc. as SFAC may require in connection with any credit facility under this Scheme.
- d. Certify that /be deemed to have affirmed that the contents of such documents, receipts, certificates and other written documents are true, provided that no claim shall be rejected and no liability shall attach to the lending institution or any officer thereof for anything done in good faith.
- e. Monitor the Borrower account and maintain records of periodical monitoring and actions initiated on observations, if any.
- f. Safeguard the Primary Securities taken over by it, if any, from the Borrower in respect of the credit facility in good and enforceable condition.
- g. Ensure that the Guarantee Claim in respect of the credit facility to the FPC Borrower is lodged with SFAC in the form and manner and within such time as may be specified by SFAC in this behalf. Further, there shall not be any delay on its part to notify SFAC of the default in the Borrower's Account, as a result of which delay, SFAC shall face higher Guarantee Claims.
- h. The payment of Guarantee Claim by SFAC to the lending institution does not in any way absolve the lending institution of the responsibility of recovering the entire outstanding amount of the credit from the borrower. The lending institution shall exercise all necessary precaution and take recourse to all measures to recover from the borrower the entire amount of credit facility that is owed to it by the borrower and safeguarding the interest of SFAC as it shall exercise in the normal course if no guarantee had been furnished by SFAC.
- i. The lending institution shall be bound to comply with such directions as SFAC may deem fit to issue from time to time, for facilitating recoveries of the guaranteed account, or safeguarding its interest as a guarantor.
- j. The lending institution shall, in particular, refrain from any act either before or subsequent to invocation of guarantee, which may adversely affect the interest of SFAC as the guarantor.
- k. The lending institution shall be bound under the Scheme to intimate in advance to SFAC its intention to enter into any compromise or arrangement, which may have effect of discharge or waiver of primary security.
- l. The lending institution shall also ensure through an Agreement with the Borrower that the borrower shall not create any charge on the assets held as primary security for the credit facilities covered by the Guarantee with itself, or in favour of any other creditor(s) without seeking prior permission of SFAC.
- m. Further, the lending institution shall secure for SFAC or its appointed agency, through a stipulation in an Agreement with the Borrower or otherwise, the right to list the defaulted Borrowers' names and particulars on the Website of SFAC.

14. What is the procedure for Invocation of Guarantee?

The ELI may invoke the Guarantee in respect of Credit Facility within a maximum period of one year from the date of NPA, if the following conditions are satisfied:

- a. The Claim is forwarded to SFAC through the Zonal Office / authorised office/ person of the ELI as communicated to SFAC.
- b. The Guarantee in respect of the concerned Credit Facility is in force at the time of account turning NPA.

- c. The amount due and payable to the ELI in respect of the Credit Facility has not been paid by the Borrower and the dues have been classified by the lending institution as NPA.
- d. The Guarantee shall be effective
 - i. If the SFAC and ELI are convinced that the FPC has suffered genuine business losses, which may include crop/ asset losses by the members, and the gravity and impact of such losses is assessed jointly or by independent assessment or by the ELI as may be mutually agreed between SFAC and ELI on a case by case basis, and the FPC is not in a position to repay dues under any circumstances including restructuring/rephasing/ rescheduling the loan.
 - ii. For such amounts as may be written off or interest waived from the credit facility by the ELI with intimation to SFAC as a result of the business failure of the FPC in all other cases
 - iii. Only when proceedings for recovery have been initiated by the ELI. The responsibility of recovery of the dues, including takeover of assets, sale of assets etc. shall rest with the ELI.

15. What is the procedure for Claim Settlement?

- a. Only such Claim as is submitted by the ELI within a maximum period of one year from date of NPA or as specified by SFAC from time to time, shall be considered by SFAC.
- b. On receiving a claim, the I&CSC shall review in detail the reasons for the Default. The Committee reserves the right to reject any proposal where the Guidelines have not been strictly followed or if any misrepresentation or concealment of facts is found leading to undue favour to the concerned FPC.
- c. SFAC shall honour 75 per cent of the Guaranteed Amount in Default subject to a maximum of 75 per cent of the guaranteed cap amount, on submission of claim by the ELI where appropriate action for recovery has been initiated. The balance 25 per cent of the default or guaranteed cap amount, as the case may be, shall be paid on conclusion of recovery proceedings by ELI.
- d. SFAC shall pay claims found in order and complete in all respects, within 90 days.
- e. The outstanding dues of the FPC to ELI shall be reduced to the extent of the claim amount settled by SFAC.
- f. The ELI shall continue to make efforts to realise the balance amount due from the
- g. defaulting FPC even after settlement of the Guarantee.
- h. SFAC has the right to claim from the ELI any amount that is realised by the ELI from the defaulting FPC even after settlement of the guarantee amount.
- i. Any amount realized by the ELI from the FPC shall be shared in the ratio of 85%:15% between SFAC & ELI. Such payment shall be made as and when any such amount is realised subject to the relaxation that any payments below the sum of Rs.1 Lakh may be made on a quarterly basis on or before the last day of the quarter.
- j. Once the Claim is paid, SFAC shall be deemed to have been discharged from all its liabilities on account of the Guarantee in force in respect of the Credit Facility concerned.
- k. The ELI shall be liable to refund the Claim released by SFAC together with the penal interest at a rate which shall be 1% higher than the rate of interest at which the Credit Facility was sanctioned by it, for the period for which the Claim has been

released, if recalled by SFAC for any reason whatsoever. Erroneous/duplicate payment of claim by SFAC shall not be construed as recall. However, any duplicate claim by the ELI and the settlement there against by SFAC shall be recalled and SFAC reserves the right to recall the entire payment released to the ELI against the Credit Facility under reference.

16. Subrogation of Rights and Recoveries On Account Of Claims Paid

- a. Details of efforts for recovery, realization and such other information as may be demanded by SFAC from time to time shall be furnished to SFAC by the ELI.
- b. On its own behalf and on behalf of SFAC, the lending institution shall hold lien on assets created out of the Credit Facility extended by the ELI to the Borrower.
- c. The responsibility for the recovery of dues including takeover of assets, sale of assets, etc., shall rest with the lending institution.
- d. Payments made by a borrower towards any one or more of several distinct and separate debts owed to the lending institution, shall be deemed to have been appropriated by the lending institution to the debt covered by the guarantee and in respect of which a claim has been preferred and paid, irrespective of the manner of appropriation indicated by such borrower or the manner in which such payments are actually appropriated.

17. Residual Recovery

SFAC shall have the first claim to Appropriation of the Amount realized by the ELI before making the final settlement of the claim in the ratio of 85:15.

18. Termination of SFAC's Liability in Certain Cases

- a. The Guarantee in respect of the Credit Facility extended by an ELI to an FPC under the Scheme shall be deemed to be terminated, if the liabilities of a borrower to the lending institution on account of any eligible Credit Facility guaranteed under this Scheme are transferred or assigned to any other borrower without the consent of SFAC which shall be sought by the ELI or the Borrower in writing stating the reasons for the transfer/assignment and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any, subject to which the credit facility can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, from the date of the said transfer or assignment.
- b. The liability of SFAC in respect of any Credit Facilities granted to a Borrower by a lending institution under the Scheme shall be limited to the liability of the Borrower to the lending institution as on the date on which the Borrower becomes ineligible for being granted any Credit
- c. Facilities under the Scheme, by reason of cessation of his activity or his activity / his undertaking ceasing to come within the definition of a FPC unit, subject, however, to the limits on the liability of SFAC fixed under this Scheme.

19. What is the assistance provided by SFAC for Equity Grant and Credit Guarantee Fund Scheme?

- a. SFAC will provide financial support to Farmer Producer Companies (FPCs) for the preparation of Equity Grant Application and Detailed Project Reports (DPR) through

empanelled consultants/institutions. SFAC will cover the full cost of preparation of DPR.

- b. The FPC can approach the nearest empanelled consultant or SFAC directly. The consultant will approach SFAC for prior approval before preparation of bankable DPR.
- c. Cost of Application or DPR preparation shall be paid directly to the empanelled consultant.

Attachment 4: A Case Study on Transformation of Farmers Clubs to Producer Organization in Bilaspur district, Chhattisgarh State

Introduction

1.1 Chhattisgarh is among the few states in India that have recorded impressive growth in agriculture in recent years. Development of farmers own institutions catering to their various needs, has kept pace with the agricultural growth. As on 30 September 2014, the state had 3,679 farmers clubs (FCs). There were eight federations of farmer clubs in the state, five in Mahasamund, two in Bilaspur and one in Mungeli district. In Bilaspur and Mungeli districts (the study area), 300 FCs were formed, of which 201 were active. Majority of the farmer clubs (129 clubs) were formed by the Regional Rural Bank (Gramin Bank). Other promoting institutions include Chhattisgarh Agricon Samiti (30), CARMDAKSH (12), SBI (12), ARDB (8) and IFFDC (5). While all the clubs were active in the initial three years, many slipped into dormancy through inaction and non-availability of hand-holding support. These clubs did not have any vision or roadmap for the future.

1.2 The Chhattisgarh RO and DDM Bilaspur were keen to make the farmer clubs a sustainable entity and felt the need to federate the clubs to a higher tier so as to make the entire farmer clubs programme sustainable and the organization a viable model. With this in view, the farmer clubs were federated into four farmer club federations and were registered under 'Chhattisgarh Society Registrickaran Adhiniyam, 1973' in the year 2012.

Financial Literacy through Farmers Clubs

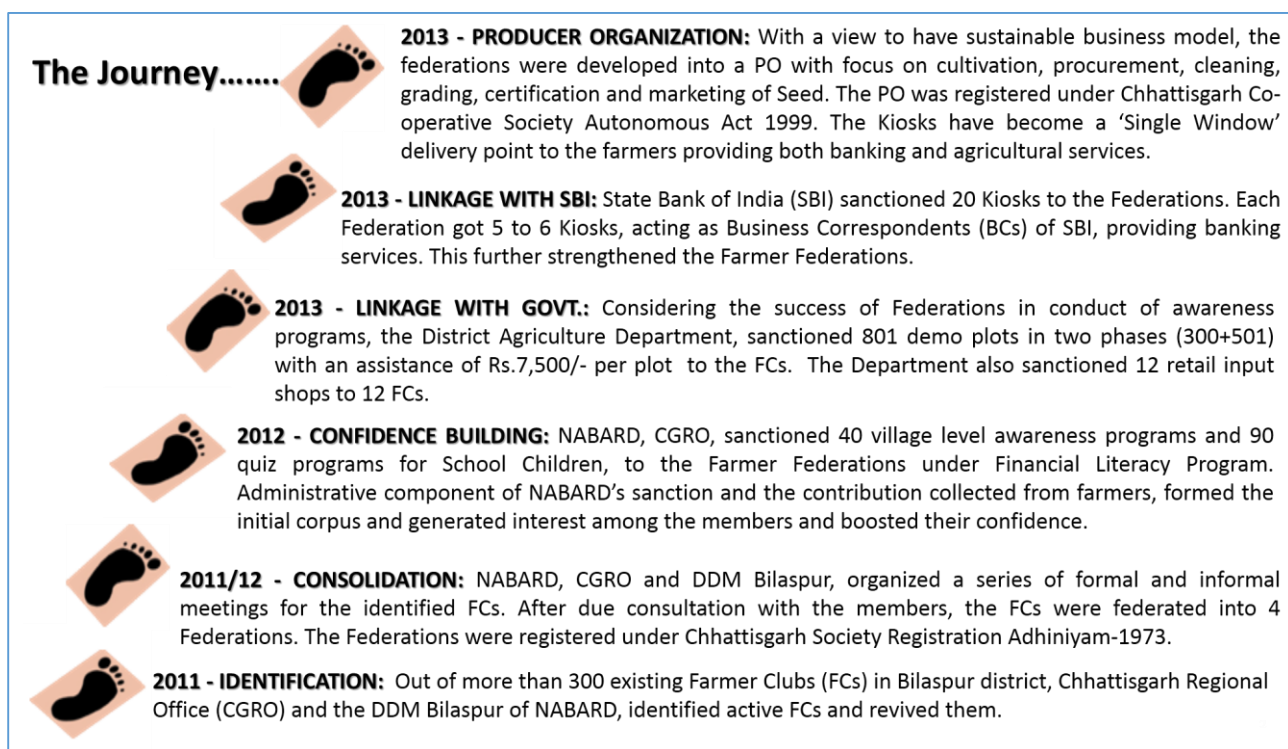
1.3 To promote financial literacy among the farmers and school children, NABARD Chhattisgarh RO engaged the Farmers Club Federations and provided financial assistance. Initially 10 awareness programmes and 20 quiz programmes were sanctioned for Bilaspur and Mungeli districts and organized by the Farmer Club Federations (FCF). As the federations and farmer clubs are village level bodies and have local presence and acceptance, they could mobilize children and their parents in good numbers. Looking at the encouraging results, the RO sanctioned more awareness and quiz programmes at different times thereafter. This provided much needed scope for interaction between the DDM, Farmer Federations, bank officials and the Government officials which paved way for making the federations financially sustainable entities.

Agricultural extension

1.4 With active support of the District Agriculture Department, the federations were involved in establishing field demonstration plots for cultivation of paddy (300 ha), chana (500 ha) and green gram (500 ha). Similarly, the agriculture department also encouraged the federations to establish retail outlets for selling inputs like seeds, pesticides and fertilizers by providing them with retail licenses.

Time line

1.5 The various events that occurred in the transformation of farmer clubs could be depicted in a graphic as under:



Business Correspondent

1.6 Due to greater acceptability of the federations in the villages, State Bank of India (SBI) approved opening of Kiosks under BC model through federations to achieve financial inclusion. As on September 2014, 16 kiosks were working through three farmer club federations. SBI was in the process of establishing 14 more Kiosks at other village centres in the next one year in the district. The Kiosks were attached to the nearest branch and worked under the guidance of the concerned Branch Manager. The Branch Manager supervises and monitors the work of the Kiosks (BC).

1.7 At present, the Kiosks are mainly involved in providing banking services like, opening of savings bank accounts, recurring deposit accounts, acceptance of deposits and payment towards withdrawal. The kiosks are also dispensing old age pensions, student scholarships, MNREGA payments and other social sector payments, routed by the Government. The present monthly income (Rs. 8000 to Rs. 14,000) of the Kiosk is mainly from banking services. The expenditure involved was salary to the operator, rent of the premises, interest on the initial investment etc., which is about Rs. 8000 to Rs. 10,000 (Salary of the operator-Rs.4000 to Rs. 5000, Premises rent-about Rs. 2000 to Rs. 3000).

Kisan Beej Producer Organisation

1.8 Many of the leaders of the Farmer Club Federations (FCFs) got registered individually with Agriculture Department as seed farmers. The FCFs realized that there may be some business sense in establishing their own seed processing facility. This would be a step forward in the seed value chain, besides serving the needs of its famer members.

1.9 This breakthrough came in the form of 'Kisaan Beej' a 'Producer Organization' formed by a group of farmers from Arpanchal Farmers Club Federation. The PO was registered under 'Chhattisgarh Autonomous Cooperative Act, 1999', which allows the farmer groups to work as a business entity and earn profits. The PO is anchoring the programme of producing and marketing of certified seeds of paddy (five varieties), wheat, soybean, mustard, gram, arhar, mung and horse garm (tiwda).

1.10 During 2013-14, 39 members of the PO were registered with the Seed Certifying Authority of the State Govt. to produce certified seed (25 farmers in 153 ha. during Khariff and 14 farmers in 106 ha. during Rabi). The total production of certified seed by these members during the year was 656 MT in Khariff and 394 MT in Rabi. Total seed produced by these farmers were procured by the PO at a cost of Rs. 73.32 lakh. Subsidy is provided to seed farmers to encourage them to sell the seed to seed procurement institutions (and not in the mandis). Similarly, to encourage farmers to use certified seeds, the Government provides subsidy to seed processing institutions so that quality seed can be made available to farmers at a reasonable rate. For the year 2014-15, the PO has a programme to procure certified seed of about 2700 MT from its members. It has so far contracted seed-growing farmers for 380 ha. paddy for Khariff and 195 ha. paddy for Rabi.

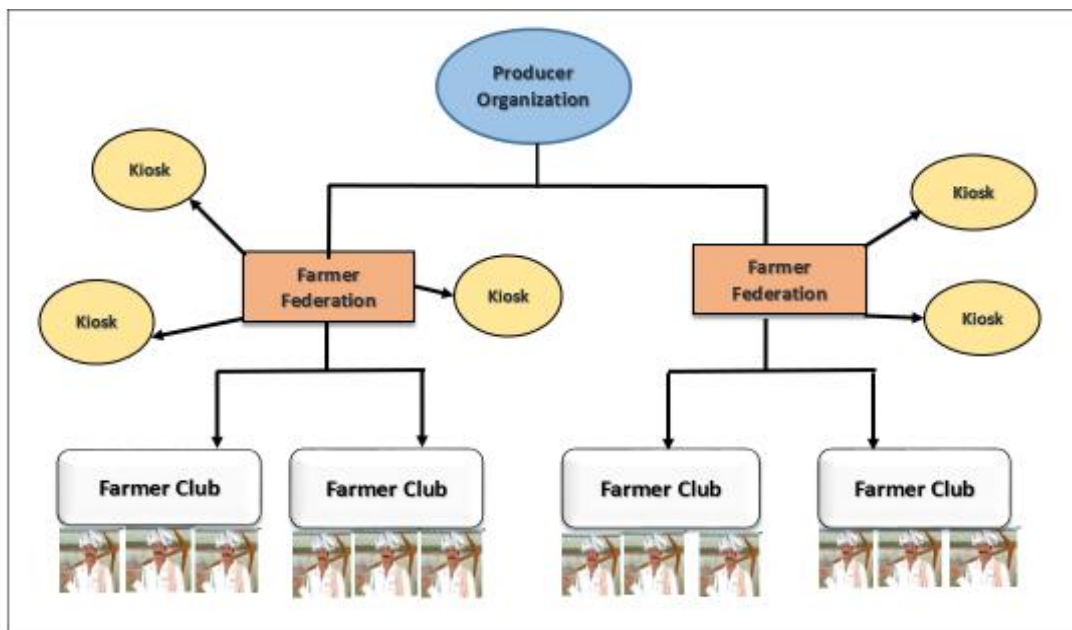
1.11 The PO has established infrastructure facilities for cleaning, grading, packaging, certification and storage of certified seed. The seed is sold through the outlets of farmer federations, set up adjoining the BC Kiosks. The PO has found a niche market for its services among the farmers. The PO could capture the seed market to the extent of 30%. Still there exists large scope for expansion for the PO in the district.

Table 3.5: Scale of Operations of BC Kiosks

S No	Particulars	Baigababa & Arpanchal Krishak Mahasangh		Maa Narmada Krishak Mahasangh	Jai Mitan Krishak Mahasangh
1	Kiosks Visited during the study.	Kenda	Kota	Pendra	Lormi
2	No of Accounts	SB a/c - 3500 RD - 25	SBa/c - 5300 RD - 98	SB a/cs - 2956 RD- a/cs - 105	SB a/cs - 4038 RD a/cs - 148
3	Deposits/day	Rs 30,000 to 40,000	Rs.60,000 to 70,000	Rs 75,000 to 80,000	Rs 45,000 to 50,000
4	Withdrawals/day	Rs 50000 to 60000	Rs 55,000 to 70000	Rs 70,000 to 85,000	Rs 40,000 to 50,000
5	Charges	Withdrawal - Rs 0.85 for each withdrawal Deposit - Rs 1.00 - for each deposit Opening of R D account - Rs 20 Opening of SB account - Rs 20			
6	Schemes where money is routed through Kiosk	1. Indira Gandhi Vishesh Vridha Pension 2. Vridha Pension 3. Vidhwa Pension 4. Samajik Suraksha Pension 5. Sukhad Sahara 6. MNREGS 7. Scholarships			
7	Other Business activities of the Kiosk	Sale of Seeds not yet started; Planning to start seed, fertilizer and pesticide sales.	Sale of Seeds not yet started; Planning to start seed, fertilizer and pesticide sales.	1. Seeds - Sold 5207 bags at a cost of Rs.23,98,330; Planning to start fertilizer and pesticide sales.	1. Seeds - Sold 800 bags at a cost of Rs.3,68,500; Planning to start fertilizer, general shop & pesticide sales.
8	Commission Received from seeds sale	Nil	Nil	Rs. 96,000	Rs.12,000
9	Average Monthly income from Banking Services	Rs. 8,000	Rs. 10,000	Rs. 14,000	Rs. 12,000

1.12 As the farmers need an assurance from the PO for procurement of seeds and similarly the PO also has to have assured supply of seeds, PO provides advance to the farmers for inputs and consumption. NABARD provided financial assistance of Rs.1.943 crore (Rs. 1.85 crore as loan & Rs.9.43 lakh as grant) on 23 Sep 2013 to support the PO for on-lending to farmers. The loan assistance was for procurement of seeds, creation of infrastructure for cleaning, grading, packaging and storage, holding costs till seed is sold. The grant support was extended for capacity building and training, etc. As at the end of May 2014, loan amount of Rs. 1.74 crore was disbursed. Discussions with the office bearers of PO revealed that they plan to seek higher sanctions from NABARD for the enhanced business programme during 2014-15.

Organogram of the Farmer Producer Organization



Registration for Seed Production

1.13 The Certification Agency, Dept. of Agriculture, Government of Chhattisgarh (GoCG), registers the farmers cultivating seeds. The farmers have to submit application to the department with land documents and register themselves by paying fee of Rs. 300 per ha. The farmers clubs, federation and PO help the farmers in registration. The Department provides foundation seed to the farmers and also conducts field monitoring of the plots from time to time to ensure scrupulous adherence to package of practices for producing seed. Representatives of the certifying agency visit the field at least three times during a crop cycle; at the time of planting, at the flowering stage and at the time of harvest. This ensures that good quality seeds are produced.

Seed Certification

1.14 After approval and certification, the PO packages the seed in 30 kg. bags, duly sealed. The seed is being marketed under the brand name “Kisan Beej”. The PO has the option to sell the certified seed directly to the farmers, Agriculture Department, PACS or Seed Corporation. In case the seed is not approved, it is sent to PACS for Government procurement, where the PO gets the amount as per the MSP. If the seed is approved, farmers get Rs. 2,090 per quintal (consisting of Rs. 1,310 MSP plus Rs. 450 production charges and Rs. 330 as bonus) for seed cultivation. Seed production subsidy and bonus to the farmers is routed through the PO. Similarly, for handling seed, the PO gets Government subsidy of Rs. 740 per quintal of seed (Rs. 50 for production, Rs. 500 for processing and distribution and Rs. 190 for storage). The expenditure involved by the PO was Rs.100 for transportation, Rs.450 for cleaning, grading, packaging and storage and interest on loan Rs.90, thus, the total was Rs. 650 per quintal. The net profit per quintal was Rs. 90 for the PO which is available for administration and other overheads.

1.15 The PO was using the Kiosks opened by the farmer federations as outlet points for selling seed. A commission of 4% was given by the PO to the federations on the sales. Transportation charges are presently borne by the PO. For the farmer federations which are operating Kiosks, it was an additional source of income, making kiosks financial viable. The PO is providing certified seeds to the farmers of farmer clubs at their door step and extending the much needed banking services to them.

Replication of the model

1.16 The model of the PO with federations and farmer clubs at the ground level with Kiosks/outlets for inputs and services can be considered as sustainable for the following reasons:

- a. It is a farmer organization from top to bottom, providing essential services to the farming community. Hence, the acceptance level in the farming community is high.
- b. With renewed focus on financial inclusion, farmer clubs can act as BCs of banks, facilitated through their federations. This will ensure that farmers get both banking services and agricultural inputs and related information at one place.
- c. Production, processing and consumption of certified seed is carried out to meet the requirement of the farmers, creating readymade market locally. The benefits to the farmers include timely availability of high quality seed at a reasonable cost.
- d. The State Government is channelizing its payments/subsidies under 7-8 schemes through these kiosks making them more popular among the farmers.
- e. The operating margin at the PO level is quite satisfactory. In its first year, it has surpassed the break-even level, even earning a little surplus. The State Government supported the farmers for cultivating seed and the PO for processing the seed. The demand for quality seed is more than what the farmers could produce at present. Therefore, there is scope for growth. There is potential for the activity to become viable, even without subsidy.
- f. For the State Government, there is a farmer organization which is able to take care of the input needs of the farmers. State Government can converge some of its agricultural schemes through the PO/ farmer federation and reach the unreached. Agricultural extension services can be provided using this institutional arrangement at a lower cost to a large number of farmers.

Attachment 5: Indicative framework of the process of forming a Producer Organization

The following framework is created by Prof. Amar KJR Nayak of Lal Bahadur Shastri National Academy of Administration, Mussoorie keeping in view the sustainability of a Producer Organisation.

#	Activities	Y1	Y2	Y3	Y4	Y5	Y6	Y7
1	<p>Identify the Community/Cluster & undertake Baseline Survey Identify the cluster of villages / community/ GP. Seek optimal size of farmer/producer members for greater participation with optimal geographic base for technical and commercial viability.</p> <p>Baseline Survey: Producer-Family Mapping and Village Resource Mapping (Mapping of local farming, collection, Quality Assurance practices, etc.). Map the local institutions in the cluster.</p>							
2	<p>Convergence of Basic Services: Converge basic social and community health services of the government with the poor and needy in the selected cluster/GP.</p>							
3	<p>Develop Local Organizational and Institutional Structures Seek membership/ownership by the farmer/producer members. Identify potential local people for professional on-the-job training for operating the Producer Organization. Identify the Facilitators, Directors, and volunteers and initiate, form and register the Producer Organization as a Producer Cooperative or as a Producer Company. Develop the terms of reference for their engagements.</p>							
4	<p>Build Trust, Cooperation, and Community Spirit by organizing of people at the Village level & Cluster Level. Identify people as social glue that can develop the communitarian feelings among the people in the community.</p>							

	<p>Identify village volunteers, potential community leaders, retired teachers, etc. for deeper engagements.</p> <p>Build awareness on the virtues of communitarian spirit for sustainability of the community. Share the idea of community identity and togetherness to solve the common problems of the community like community health, education, agricultural production, marketing, common resources or external resources. Share all issues and develop plans for the community through participation. Gradually build trust and cooperation among the small farmers/producers in the villages and the whole cluster/community. Share the idea of forming a single institutional platform at the cluster level or the CES for resolving the various production, value addition, marketing issues and for better net income realization for the labour of the producers.</p> <p>Create a platform for dialogue between different social groups and interest groups in the cluster/GP/community.</p>									
5	<p>Facilitate Community Health and Primary Education</p> <p>Develop a network of midwives in every village and link them through the PO to a network of doctors for consultation and advice.</p> <p>Converge with local government support for a mobile van, paying fuel expenses to cater to the health needs of the community.</p> <p>Network with doctors and pharmaceutical companies for medicine.</p> <p>Develop a holistic healthcare facility for the community.</p> <p>Identify qualified youth at village level to guide and teach children after school time in respective villages.</p> <p>Offer services for adult education through professionals of PO.</p>									
6	<p>Build Physical Infrastructure</p>									

	<p>Meeting hall & Drying yards for the farmers/producers at the village level. Village level facility for tutorials for children and for community health, improved cattle, kitchen gardens, fodder growth.</p> <p>Make the following provisions at the cluster/GP level:</p> <p>Small Office with basic record keeping facility.</p> <p>Storage facility of agricultural produce.</p> <p>Basic transport (1 pick-up van, 2 motor cycles, 2 cycles)</p> <p>Facility for local value addition.</p> <p>Small Nursery & Seed Bank</p>						
7	<p>Develop Sustainable Market Networks</p> <p>Begin with marketing of the surplus produce.</p> <p>Select a mix of produce and not one produce.</p> <p>The selection will be based on economical volume and shelf life of the produce.</p> <p>Discover the price, intermediaries and the final set of buyers.</p> <p>Set up retail outlets in nearby towns and a marketing setup in the district/ state capital.</p> <p>Create organized marketing platforms at the village and local weekly haats.</p> <p>Develop a calendar for sales through various exhibitions organized by the state departments and district administration.</p>						
8	<p>Tie-up for Working Capital</p> <p>Seek working capital from the government with lower rate of interest.</p> <p>Seek capital from the open market, banks, etc.</p>						
9	<p>Provide Micro-credit Security and Community Banking Services</p> <p>Provide credit for emergencies arising out of sickness, education, etc.</p> <p>Provide production credit for agricultural and allied activities.</p> <p>Provide limited credit as consumption credit for children’s wedding, festival,</p>						

	<p>etc. Develop a community banking service. On behalf of the community, the PO can transact with the formal banking system.</p>						
10	<p>Create and Support Local Retail to cater for Local Consumption Needs Identify a family/SHG from each village to put up a village retail shop; wherever necessary. Provide financial credit to set up a retail shop in each village in the cluster, if necessary. Arrange for bulk supplies of items to the retail outlets established in the villages.</p>						
11	<p>Develop Local Value Addition for: Agricultural produce Horticultural produce Livestock/fisheries Forest produce Local art and craft products.</p>						
12	<p>Introduce the System of Integrated Agriculture Integrated agricultural system adopting low-cost agricultural practices. Train farmers about on-farm inputs. Enhance farm biomass generation. Identify successful local farmers to train them to be the trainers/experts to the community of producers.</p>						
13	<p>Integrate Farm Activities with Other Economic Activities Integrate farm activities with the various non-farm and allied activities in the community to realize maximum value for the labor put in by the marginal & small producers.</p>						
14	<p>Converge Resources from the State and Central Government schemes for an integrated and holistic development Converge livelihood schemes like NRLM, IAP and MGNREGS at the cluster level and PO. Converge health and education</p>						

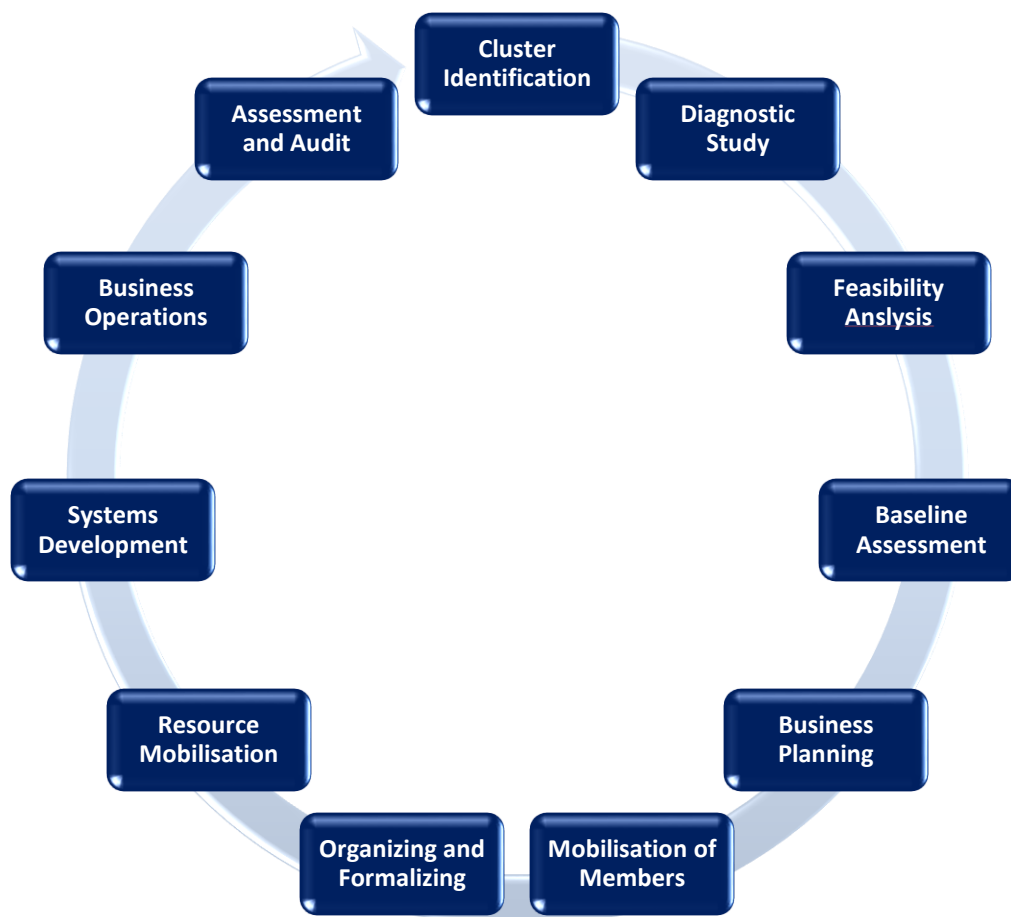
	<p>programmes like NRHM and SSA to the PO.</p> <p>Improve the natural resources like forest, soil and water of the community by converging forest and watershed development at the cluster level and PO.</p> <p>Activate joint forest management practices and stop forest burning and excessive felling of trees.</p> <p>Converge the rural infrastructure such as road, bridges, electricity, public transport and telecommunication services at the cluster level.</p> <p>Activities of the various extension services of the government, PDS, horticulture, livestock, etc. can be converged at the PO for a cluster (GP).</p>							
15	<p>Withdrawal Process of the External Champion</p> <p>As the sustainable community enterprise system (Producer Organization) takes root in the community, the external champion needs to gradually withdraw from Year 5 and completely by Year 7. The external institutional champion shall animate the cooperative movement in the community during the first 2 years and then gradually replace itself with the local facilitators of the PO</p>							

Risk factors and indicators /measures for verification in the above flow chart

#	Activities	Indicators for Verification of Activities	Risk Factors
1	Identify the Community/Cluster & Undertake Baseline Survey	Survey Records like questionnaires etc.	Unrealistic assumptions in baseline survey
2	Convergence of Basic Services	Arrangements made for basic services	Quality of service
3	Develop Local Organizational and Institutional Structures	How many people are Involved in various activities	Non participation from local people
4	Build Trust, Cooperation, and Community Spirit by organizing of people at the Village level & Cluster Level.	Availability of a platform for community interactions	Lack of trust among various people in the community
5	Facilitate Community Health and Primary Education	How many doctors, midwives, health workers are available for service? How many children are going to primary school?	Non availability of health and education services
6	Build Physical Infrastructure	Available infrastructure like small office, drying yard etc.	Lack of capital and Govt. Support
7	Develop Sustainable Market Networks	Contact persons / markets with their addresses and phone numbers	Non-availability of suitable market conditions
8	Tie-up for Working Capital	Name of the Financing agency and sanction letter for working capital	Delays in getting working capital or non-availability
9	Provide Micro-credit Security and Community Banking Services	Amount of saving collected and micro credit provided with number of members	Lack of communitarian spirit and willingness to save
10	Create and Support Local Retail to cater for Local Consumption Needs	How many retail shops are operating in the area?	Lack of local entrepreneurs or capital for them
11	Develop Local Value Addition for: Agricultural produce Horticultural produce Livestock/fisheries Forest produce Local art and craft products	No. of activities taken up for value addition and how many people are involved and how much benefit is garnered by the members.	Lack of understanding or trust on the market information to proceed for value addition
12	Introduce the System of Integrated Agriculture	Number of farmer members Implementing integrated agriculture.	Lack of understanding and trust on the integrated farming
13	Integrate Farm Activities with Other Economic Activities	Activities that are integrated, people involved in and benefits derived by them	Lack of market or confidence for other economic activities

14	Converge Resources from the State and Central Government schemes for an integrated and holistic development	How many schemes are converged, additional benefits derived and names of the members who derived the benefits	Lack of networking skills / abilities to convince various Govt. departments / developmental agencies
15	Withdrawal Process of the External Champion	Development of local youth to take over PO functions	Unwillingness of the external champion to withdraw or overdependence of PO on the POPI

FPO Promotion and Development Process as indicated in the Policy and Process Guidelines for Farmer Producer Organisations published by Department of Agriculture and Cooperation, GoI is provided below.



Attachment 6 - References

1. Manual for Producer Company, Volume I & II, ASA
2. Implementing Community Enterprise System for Sustainability of Agricultural Communities – A Manual by Dr. Amar KJR Nayak
3. Road Map for Farmer Producer Organisations for NABARD by Dr. Venkatesh Tagat
4. Operational Guidelines of Equity Grant and Credit Guarantee Fund Scheme for Farmer Producer Organisation – SFAC, New Delhi
5. Manual for Producer Organisation Development Fund, NABARD

(On stamp paper of appropriate value as per the respective State law)

Memorandum of Agreement

THIS MEMORANDUM OF AGREEMENT entered into on this the ___ day of ___ 2015.

Between

National Bank for Agriculture and Rural Development, is a body corporate established under an Act of Parliament, viz. the National Bank for Agriculture and Rural Development Act, 1981 and having its Head Office at C-24, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai: 400 051 hereinafter referred to as “**NABARD**” (which expression shall, unless repugnant to the context or meaning thereof, include its successors and assigns).

And

_____, a body corporate, society, partnership firm, Association, Non-Governmental Organisations/Trust/ etc., established/ incorporated/registered by/under _____ Act and having its Registered Office/ headquarter at _____ hereinafter referred to as **Producer Organization Promoting Institution or _____** “ (which expression shall, unless repugnant to the context or meaning thereof, include its successors and assigns).

(NABARD and Producer Organization Promoting Institution or _____ hereinafter collectively referred as “**the parties**”)

WHEREAS

1. NABARD, under Section 38 of NABARD Act, 1981, is authorised, inter-alias, to provide facilities for training, dissemination of information and the promotion of research including undertaking of studies, researches, techno-economic and other surveys in the field of rural banking, agriculture and rural development and to provide financial assistance to any person engaged in agriculture and rural development activities.

2. NABARD, with an objective of building and promotion of Farmer Producer Organisations had issued Operational Guidelines for implementation of “**Scheme for Promotion of Farmer Producer Organisations**” (hereinafter referred to “**Operational guidelines**”). A copy of the guidelines is annexed as Annexure I herewith and to be read as part and parcel of this Agreement.

3. _____, is a _____ (company/society/partnership firm/ ___) registered under _____ Act and identified as “**Resource Support Agency**” for capacity building and overall development of Farmers Producer Organizations (FPOs)

4. _____, is a _____ (company/society/partnership firm/ ___) registered under _____ Act is an institution engaged in promotion of farmer producer organisations and satisfy the eligibility conditions of “Operational Guidelines” for being a “Producer Organization Promoting Institution”.

5. “_____”, vide its application dated _____ approached NABARD seeking financial assistance for formation and nurturing of ___ number of FPOs in ___ number of Districts in the State of _____.

6. NABARD in consultation with RSA has, vide its Sanction Letter No _____ dated _____ (hereinafter referred to as “**Sanction Letter**”), identified _____ as the Producer Organization Promoting Institution or POPI for the work of Promotion and nurturing of Farmers Producer Organizations (FPOs) for implementing the project for the following identified activities/ areas in the State of _____;

Sr. No	Name of District	Area/ Block	Major Activity Cluster	No. of FPOs to be formed and promoted /promoted

A copy of the Sanction Letter is annexed as Annexure II herewith and to be read as part and parcel of this Agreement.

7. The parties have decided to deduce the terms and conditions for grant of financial assistance being these presents: -

I. Role of Producer Organization Promoting Institutions (POPIs)

(a) Overall requirement

The POPI will identify potential groups/ farmer clusters such as successful watersheds, wadi projects and their Federations, Farmers Clubs, Farmers' Cooperatives, Self Help Groups, Joint Liability Groups, Farmers Interest Groups or their federations, etc. and define appropriate geographies to form FPOs. As far as possible the interest groups which have already been financed by a bank branch, may be considered for federating into one FPO. Thereafter, the POPI will focus on social mobilisation, awareness creation and motivating them to form FPO. A baseline survey will be conducted by POPI for bench marking, Training Need Assessment of the producers, assessing infrastructure requirements, market intervention and other support facilities/linkages necessary for the success of FPO. This will be followed by designing and organising capacity building programmes, preparation of business development plan for the FPOs, establishment and registration under appropriate Act, facilitation in credit and market linkages and extending hand-holding support towards maturity for a minimum period of 03 years.

(b) Specific Role

- i. POPI will work under the overall supervision and guidance of NABARD and RSA and shall perform such activities as mentioned in the Annexure to the Operational Guidelines.
- ii. POPI will mobilize at least 50 farmer membership under each FPO initially required for economy of scale as envisaged in the proposal for formation/ registration of Farmer Producers Organizations (FPOs). POPI will facilitate gradually increasing the membership over 3 years period to an optimal size (say, 500-1000 members) required for sustaining the business of FPO.
- iii. POPI will select blocks and villages for FPO promotion in consultation with the local administration, State Govt., NABARD Regional Office and RSA.
- iv. POPI will ensure that the FPO promotion work is undertaken within the broad objectives/ framework of the operational guidelines issued by NABARD/ process guidelines issued by the Ministry of Agriculture, Govt. of India.
- v. POPI will deploy experienced and qualified manpower for the said task, which may be supervised and guided by a dedicated staff of POPI.
- vi. All staff engaged during the project period will be contracted by POPI and will not have any claim whatsoever on NABARD.
- vii. POPI will ensure timely completion of all the activities with required quality deliverables within the overall approved budget for each intervention. Where the assistance received from NABARD has not been utilized for the purposes, for which it was sanctioned/released and no satisfactory explanation is forthcoming, NABARD will recall the entire amount of grant at once along with applicable interest rate from the date of non-utilisation /mis-utilisation till the date of payment.
- viii. POPI will ensure that detailed stage-wise completion report is submitted along with each release request.
- ix. Financial assistance will be released to FPO or POPI as it may relate, after completion of each stage of activity as indicated in Annexures to NABARD Sanction Letter No. _____ dated _____
- x. POPI will be required to submit a Utilization Certificate as per Annexure II, in respect of funds released earlier, for processing of release proposal from second instalment onwards.

- xi. POPI will maintain detailed account of expenditure of all approved items in respect of each FPO separately and retain all original vouchers and receipts for verification by NABARD and RSA.
- xii. POPI shall submit monthly progress report to NABARD Regional Office before 5th of the succeeding month as per **Annexure III**
- xiii. POPI shall constitute a "Project Monitoring Committee (PMC) consisting of representative of POPI, RSA, DDM of NABARD, Lead District Manager, ATMA, Agriculture department and a Board member of FPO(to be promoted). The PMC shall meet quarterly to review the progress, guide the project execution and make recommendation for release of grant to POPI/FPO.
- xiv. POPI will submit all such information and data as required for the periodic monitoring of the project by NABARD/its representatives. POPI shall not publish the reports/research findings/results without a written permission from NABARD. Further, NABARD shall have the right to use the same for its internal use, training, publicity, etc., after duly acknowledging the source(s).
- xv. POPI may undertake to document its experience during the course of implementation of the project and submit to NABARD Regional Office for information/record.
- xvi. The assistance of NABARD shall be duly acknowledged by displaying suitable sign board containing "**Project supported under NABARD assistance**" at the FPO Office and also while organising training programmes and printing of publicity/documentation material in respect of the project.
- xvii. POPI shall not sub-contract the work assigned to it to any other institution/entity.
- xviii. In the event of POPI availing assistance from any other agency for any activity of the same project, NABARD's assistance will be reduced to that extent. Further, prior permission from NABARD is to be obtained for the same.
- xix. POPI shall ensure registration of FPO in the relevant Act within 6 months from the date of sanction of grant assistance.
- xx. POPI shall explore convergence of interventions with the existing scheme of State/ Central Govt./ other stakeholders and bring required synergy through effective coordination.
- xxi. POPI shall have to comply with any specific term and condition that NABARD may prescribe apart from those stated above, as may be considered necessary.

II. Role of NABARD

- i. The overall cost of the project is Rs. _____ (Rupees _____ only) for the promotion and nurturing of _____ (no.) of FPOs. NABARD will release funds within the overall sanction as per the pattern of fund release and deliverables as agreed to (ref Annexure I & III of Sanction Letter).
- ii. NABARD will monitor the progress through specific returns. It will have exclusive right to inspect books of accounts of POPI/FPO and seek any information/ clarification relating to the status and progress of the FPO covered under the sanction.
- iii. NABARD through RSA will facilitate capacity building/ training of POPI to the extent considered necessary.
- iv. NABARD reserves the right to terminate this agreement at any stage if, the performance of POPI fails to meet the key indicators of progress as listed above or in the event of financial irregularity / breach of trust.
- v. NABARD reserves its right to recall the grant in case of non-compliance of any of the terms and conditions of sanction or this agreement or operational guidelines.
- vi. NABARD reserves its right to recall the financial assistance:
 - (a) If it appears to NABARD that false or misleading information in any material particulars was given in the application for the financial assistance; Or
 - (b) If the financial assistance is not utilized or mutualised for any purposes other than for which the financial assistance is granted.

- (c) If the _____/POPI has failed to comply with any of the terms of contract or arrangement with NABARD in the matter of loan or other financial assistance, including grants; Or
- (d) If for any reasons, it is necessary so to do, to protect the interests of the NABARD.
8. This Memorandum of Agreement (MoA) will become effective immediately on the date of its signing.
9. The parties shall use their best efforts to settle amicably all disputes arising out of or in connection with the MoA, or in respect of any defined legal relationship associated therewith or derived there-from. If the dispute has not resolved amicably within fifteen days (15 days) after one Party has served written notice on the other Party requesting the commencement of such discussions, either party may in writing demand that the dispute be finally settled by the arbitration in accordance with Arbitration and Conciliation Act, 1996. The sole arbitrator shall be appointed by NABARD in case of dispute raised by NABARD, from the panel of three persons nominated by POPI. Similarly, the sole arbitrator shall be appointed by POPI if dispute is raised by POPI from the panel of three persons nominated by NABARD. The language of the Arbitration shall be English and the arbitrator shall be fluent in English. The arbitrator should be person of repute and integrity and place of arbitration shall be Mumbai.”
10. NABARD shall have the right to enter into similar agreements with any other POPI/Institution.
11. Any notice required to be given under this Agreement shall be served on the party at their respective address given below by hand delivery or by registered post :

For NABARD	For POPI

In witness thereof the parties hereto have signed this MoA on the date, month and year first above mentioned against their respective signatures.

Signature :	Signature :
Name :	Name :
Designation :	Designation:
NABARD :	Name of POPI:
Date :	Date :
Witness	Witness
1.	1.
2.	2.

(On stamp paper of appropriate value as per the respective State law)

Memorandum of Understanding

THIS MEMORANDUM OF UNDERSTANDING entered into on this the ___ day of ___ 2015.

Between

National Bank for Agriculture and Rural Development, is a body corporate established under an Act of Parliament, viz. the National Bank for Agriculture and Rural Development Act, 1981 and having its Head Office at C-24, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai : 400 051 hereinafter referred to as “**NABARD**” (which expression shall, unless repugnant to the context or meaning thereof, include its successors and assigns).

And

_____, a body corporate, society, partnership firm, Association, Non-Governmental Organisations/Trust/etc established/ incorporated registered by/under _____ Act and having its headquarters at _____ hereinafter referred to as **Resource Supporting Agency “RSA”** (which expression shall, unless repugnant to the context or meaning thereof, include its successors and assigns).

WHEREAS

1. NABARD, under Section 38 of NABARD Act, 1981, is authorised, inter-alias, to provide facilities for training, dissemination of information and the promotion of research including, undertaking of studies, researches, techno-economic and other surveys in the field of rural banking, agriculture and rural development and to provide financial assistance to any person engaged in agriculture and rural development activities.

2. NABARD, with an objective of building and promotion of Farmer Producer Organisation had issued Operational Guidelines for implementation of “**Scheme for Promotion of Farmer Producer Organisations**” (hereinafter referred to “**Operational guidelines**”). A copy of the guidelines is annexed as Annexure I herewith and to be read as part and parcel of this Agreement.

3. _____, is a _____ (company/society/partnership firm/ ___) registered under _____ Act is an institution engaged in promotion of farmer producer organisations.

4. “_____”, vide its application dated _____ approached NABARD seeking applying to select it as a “**Resource Support Agency**” for a lumpsum consideration of Rs. _____(Rupees _____only).

5. NABARD has, on being found _____ suitable, identified _____ as Resource Supporting Agency or RSA for organizing and implementing capacity building of POPIs and supervising overall development of Farmers Producer Organizations (FPOs)

6. The parties have decided to deduce the terms and conditions as indicated below:-

I. Specific Role of RSA

- i. Soon after executing MoU, the RSA will be required to submit detailed activity-wise action plan for the calendar year to NABARD, RO indicating, inter alia the number of training/capacity building programmes to be conducted for POPI, FPOs etc. nature and duration of training and other support activities required for successful implementation of the scheme.
- ii. The Resource Support Agency will be designing and organising capacity building of the Producer Organization Promoting Institutions (POPIs), providing necessary training and handholding support to POPIs for undertaking the promotion of FPOs in the State. RSA jointly with POPI will arrange for training and capacity building of FPO Directors, Lead Farmers and CEO of FPO as per requirement.
- iii. The RSAs will be required to guide/ oversee the overall implementation of the scheme and assist POPI / FPOs in value addition, market linkage, accessing storage facilities and other support services required by the FPOs for effective value chain development.
- iv. RSA will work under the overall supervision and guidance of NABARD and organize various training programmes on a group approach, as per the guidelines. Each training/capacity building programme to be organized by RSA shall require prior approval of NABARD for extending financial support.

II. Role of NABARD

- i. NABARD will monitor the progress through specific returns. It will have exclusive right to inspect books of accounts of RSA and seek any information/ clarification relating to the status and progress.
- ii. NABARD reserves the right to terminate this MoU at any stage if, the performance of RSA fails to meet the minimum requirement or in the event of financial irregularity / breach of trust.
- iii. NABARD reserves its right to recall the financial assistance:
 - (a) If it appears to NABARD that false or misleading information in any material particulars was given in the application for the financial assistance; Or
 - (b) If the financial assistance is not utilized or mis-utilized for any purposes other than for which the financial assistance is granted.

(c) If the _____/RSA has failed to comply with any of the terms of MoU with NABARD in the matter of financial assistance, including grants; Or

(d) If for any reasons, it is necessary so to do, to protect the interests of NABARD.

7. This Memorandum of Understanding (MoU) will become effective immediately on the date of its signing.
8. The parties shall use their best efforts to settle amicably all disputes arising out of or in connection with the MoU, or in respect of any defined legal relationship associated therewith or derived there-from. If dispute is not resolved, the same shall be resolved by consultation. If the dispute has not resolved through consultations within fifteen days (15 days) after one Party has served written notice on the other Party requesting the commencement of such discussions, either party may in writing demand that the dispute be finally settled by the arbitration in accordance with Arbitration and Conciliation Act, 1996. The sole arbitrator shall be appointed by NABARD in case of dispute raised by NABARD, from the panel of three persons nominated by RSA. Similarly, the sole arbitrator shall be appointed by RSA if dispute is raised by RSA from the panel of three persons nominated by NABARD. The language of the Arbitration shall be English and the arbitrator shall be fluent in English. The arbitrator should be person of repute and integrity and place of arbitration shall be Mumbai.”
9. NABARD shall have the right to enter into similar MoU/agreements with any other RSA/Institution.
10. Any notice required to be given under this MoU/Agreement shall be served on the party at their respective address given below by hand delivery or by registered post :

For NABARD	For RSA
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In witness thereof the parties hereto have signed this MoU on the date, month and year first above mentioned against their respective signatures.

Signature	:	Signature	:
Name	:	Name	:
Designation	:	Designation:	
NABARD:		Name of RSA:	
Date	:	Date	:
Witness		Witness	
1.		1.	
2.		2.	

Attachment 7 – Abbreviations

Abbreviation	Full Form of the Abbreviation
AA	Articles of Association
AGM	Annual General Meeting
AoA	Articles of Association
APEDA	Agricultural and Processed Food Products Export Development Authority
ARDB	Agricultural Rural Development Bank
ASA	Action for Social Advancement
BC	Business Correspondent
BEP	Break Even Point
BIRD	Bankers Institute of Rural Development
BIS	Bureau of Indian Standards
BoD	Board of Directors
CA	Chartered Accountant
CEO	Chief Executive Officer
CFTRI	Central Food Technological Research Institute
CGF	Credit Guarantee Fund
CoB	Commencement of Business
CoC	Certificate of Commencement
CoI	Certificate of Incorporation
DDM	District Development Manager
DEDS	Dairy Entrepreneur Development Scheme
DIN	Director Identification Number
DPR	Detailed Project Report
DSC	Digital Signature Certificate
DSCR	Debt-Service Coverage Ratio
EGCGFS	Equity Grant and Credit Guarantee Fund Scheme
EGSC	Equity Grant Sanction Committee
ELI	Eligible Lending Institution
FC	Farmers' Club
FCF	Farmers' Club Federation
FCRA	Foreign Contribution (Regulation) Act 2010
FIG	Farmer Interest Group
FPC	Farmers Producer Company
FPO	Farmer Producer Organisation
FPO Mark	Fruit Products Order Mark
FS	Farm Sector
FSPF	Farm Sector Promotion Fund
FSS Act	Food Safety Standards Act

Abbreviation	Full Form of the Abbreviation
FSSAI	Food Safety and Standards Authority of India
FY	Financial Year
GAP	Good Agricultural Practices
GB	General Body
GP	Gram Panchayat
ha	hectare
HACCP	Hazard Analysis Critical Control Point
I&CSC	Investment and Claims Settlement Committee
IAP	Integrated Action Plan
ICAR	Indian Council of Agricultural Research
IEM	Industrial Entrepreneurs' Memorandum
IFFDC	Indian Farm Forestry Development Co-operative Ltd.
IRR	Internal Rate of Return
IT	Income Tax
IUCN	International Union for Conservation of Nature
JLG	Joint Liability Group
KVK	Krishi Vigyan Kendra
MA	Memorandum of Association
MCA	Ministry of Company Affairs
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MoA	Memorandum of Association
MSC	Multi Service Centre
MSP	Minimum Support Price
MT	Metric Ton
NABARD	National Bank for Agriculture and Rural Development
NABL	National Accreditation Board for Testing and Calibration Laboratories
NCDC	National Cooperative Development Corporation
NEDFi	The North Eastern Development Finance Corporation Ltd
NFS	Non Farm Sector
NGO	Non-Governmental Organizations
NHM	National Horticulture Mission
NPA	Non-Performing Asset
NRHM	National Rural Health Mission
NRLM	National Rural Livelihood Mission
OFS	Off Farm Sector
P&L A/c	Profit and Loss Account
PACS	Primary Agricultural Credit Societies
PAN	Permanent Account Number
PAT	Projected Annual Turnover

Abbreviation	Full Form of the Abbreviation
PC	Producer Company
PO	Producer Organization
POPI	Producer Organization Promoting Institution
PSU	Public Sector Undertaking
Qtl	Quintal
R&D	Research and Development
RBI	Reserve Bank of India
RO	Regional Office
RoC	Registrar of Companies
SBI	State Bank of India
SFAC	Small Farmers' Agribusiness Consortium
SHG	Self Help Group
SSA	Sarva Siksha Abhiyan
TAN	Tax Deduction Account Number
VWDC	Village Watershed Development Committee

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

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