

# FARMER PRODUCER ORGANIZATIONS

AN INNOVATIVE INSTITUTIONAL APPROACH  
FOR COLLECTIVE ACTION

Ashok S. Alur  
Shankar B. Dandin  
D. L. Maheswar



CENTRE OF EXCELLENCE FOR  
FARMER PRODUCER ORGANIZATIONS (COE-FPO)  
UNIVERSITY OF HORTICULTURAL SCIENCES,  
BAGALKOT (UHS-B)  
&  
NATIONAL BANK FOR AGRICULTURE AND  
RURAL DEVELOPMENT (NABARD)

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SIDDARAMAIAH  
CHIEF MINISTER

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VIDHANA SOUDHA  
BENGALURU - 560 001

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#### FOREWORD

Farming continues to be the major source of income, employment, livelihood and a most important business option in rural India. The Indian economy is mainly dependent on agriculture which contributes significantly to the Gross Domestic Product and employment potential. The skewed agricultural growth rate is a matter of serious concern for the administrators, planners and policy makers of the nation. A closer look at the areas of green revolution indicates the stagnation in production levels. After utilizing all possible sources of irrigation, a greater portion continues to be under rainfed farming, which contributes about 60 per cent of the cultivable land in the country.

The youngsters in the country are losing interest in farming and are looking for alternative means to earn their livelihood, which has resulted in large migration from rural areas to cities. This grave area of concern requires innovative institutional models and approaches so that small scale land holders are supported through integrated efforts of related institutions with the value chain so that the net return at the farmers' end is remunerative to make them remain in farming. Another challenge for the country is making small holdings fully productive so that they become the main source of livelihood for millions, who are in the farming fraternity.

Co-operative Movement in the Farm Sector is the need of the hour. The Government of India has enacted the Companies Act - 1956, by incorporating a new section IXA, to give business and commercial angle to the co-operatives. This facilitates the registration of the producer companies. The objective of the Government for such an initiative was to formulate a legislation that would enable incorporation of co-operatives as companies and conversion of existing co-operatives into companies, while ensuring that the unique elements of the co-operative business remain intact in the new legislation. The farmers in the country have to take the advantage of this law.

The Government of Karnataka has brought out a unique support program for the promotion of Farmer Producer Organizations (FPO) under the Department of Horticulture and the Government has gone a step ahead to establish a Centre of Excellence for farmer producer Organizations to extend all-round support to FPOs so that these institutions grow as Best Institutional Models in the State for the sustainable development of farmers.

The book on "Farm Producer Organizations - An Innovative Institutional Approach for Collective Action" by Dr Ashok S. Alur, Dr Shankar B. Dandin and Dr D. L. Maheswar is a timely effort to support FPOs, Development Departments and other organizations working with farmers to promote FPOs.

*Siddaramaiah*  
(SIDDARAMAIAH)

The Special Officer,  
University of Horticultural Sciences,  
College of Horticulture Premises,  
Gandhi Krishi Vignana Kendra Post,  
BENGALURU - 560 065.



**S.S. Mallikarjun**  
Minister for Horticulture and  
Agricultural Marketing &  
Davanagere District Incharge Minister



Phone : 22253751  
Internal ph. No. : 3413  
Room No. 342  
Vidhana Soudha  
Bengaluru - 560 001

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**MESSAGE**

Since ancient time agriculture, horticulture and allied sectors have been the major source of livelihood option for the people in the rural areas. During the course of evolution of agriculture it has become a predominant rural business option for more than 50 per cent of people. The economy of our country also depends on farming as it contributes significantly to the country's capital GDP and employment potential. The stagnant agricultural growth is a matter of serious concern to all of us. There is a need for most radical and innovative ideas and policies to pull the nation out of an impending crisis. This requires integrated efforts of the policy makers and farm scientists with the full cooperation of the farming community.

There is a need to integrate the small scale farmers that have smaller holdings for greater benefit. Loss of interest in farming and migration of rural youth to cities is another grave area of concern that requires innovative institutional models and approaches so that small scale land holders are supported through integrated efforts of related institutions with the value chain so that the net return at the farmers end is remunerative enough for the farmers to remain interested in farming.

The continuous subdivision and fragmentation of holdings has posed another challenge of making small holdings truly productive and serve as the main source of livelihoods for millions of farmers dependent on them. In this regard several institutional models have been prevailing and various new models are also being tried in India to integrate farmers with the value chain. Among the prevailing institutions the most common one is Farmer's Cooperative. This institution has been able to bring farmers together for getting organized themselves as cooperative.

However, the cooperative experience in these institutions has not been a very successful except few cases in some states including Karnataka. The cooperatives in various sectors including agriculture have largely been promoted by the government with a focus on welfare of the members without much focus business principles. The central government has realized the need for giving the business and commercial touch to the cooperatives. In this regard the Government of India enacted the

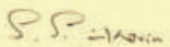
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the cooperatives. In this regard the Government of India enacted the Producer companies Act by incorporating a new section IXA in Indian Companies Act.1956 through an amendment, which enables the registration of the producer companies.

The objective of the government for such an initiative was to formulate a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring that the unique features of the cooperative business remain intact in the new legislation. The farmers in the country have to take the advantage of this law.

The Government of Karnataka through Department of Horticulture has formulated a special program to promote FPOs in Horticulture sector throughout the state and has extended various support initiatives to help these FPOs to grow into real business entities that benefit farmers. A Centre of Excellence for FPOs has been established by the Government at the University of Horticultural campus in Bengaluru to help these FPOs in the state and act as a resource institutions for sustaining them on long term basis.

In order to provide the details of the provisions of the law, the formation of FPO, financial, business and administrative management of FPOs, a book on "Farm Producer Organizations." is being brought out jointly by the Centre of Excellence for Farmer Producer Organizations under University of Horticultural Sciences, Bagalkot and NABARD. This is a unique effort of the university to help the farmers groups, Development Departments of the Government and the organizations working with farmers to promote farm producers companies. I am sure that farmers will make use of the information made available in the book for starting new companies and taking them towards prosperity of farmers.

  
(S.S.Mallikarjun)



ಕೃಷ್ಣ ಬೈರಗೌಡ  
Krishna Byre Gowda



ಕೃಷಿ ಸಚಿವರು ಹಾಗೂ  
ಬೆಂಗಳೂರು ಗ್ರಾಮಾಂತರ ಜಿಲ್ಲಾ ಉಸ್ತುವಾರಿ ಸಚಿವರು  
Minister for Agriculture &  
In charge - Bengaluru Rural District

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### MESSAGE

Agriculture has been the major livelihood option for most of the rural population. In spite of several efforts, the stagnant agricultural growth rate is a matter of serious concern. Highly radical and supportive policies can help in addressing this impending crisis. There is a need for special efforts of integrating farmers especially those with smaller holdings. This requires innovative institutional models and approaches so that small scale farmers are supported by the related institutions with the value chain so that the net return at the farmers end is remunerative enough for the farmers to remain interested in farming.

Another challenge for the country is making small holdings truly productive. In the Indian context different institutional models have been prevailing and various new models area are also being tried to integrate farmers and Farmer Producer Organization (FPO) is a promising model.

The important objective of organizing a FPO is to bring small holders together for ensuring forward and backward linkages, thus enabling the supply of quality inputs such as seeds, planting material, organic and inorganic sources of fertilizers, agricultural credit, crop insurance, technical knowhow and other essential extension services and also to ensure effective forward linkages such as bulking of the produce, collective marketing, processing, and market led agriculture production with an overall objective of ensuring a better collective bargaining power for the small farmers. The company's law provides opportunities to the farmers through formation of FPO. The FPO can offer a statutory and regulatory framework for the FPO which in turn creates potential for the producer-owned enterprises to compete with other enterprises.

The University of Horticultural Sciences, Bagalkot in collaboration with NABARD is bringing out a book on Farmer Producer Organizations for the benefit of farmers and the organizations that are involved with farmer's institutions. I hope that this book will serve as a manual for several extension workers, NGOs, Government Departments and Resource Institutions that are involved in promotion of FPOs.

  
(KRISHNA BYREGOWDA)

# 244/245, ವಿಕಾಸ ಸೌಧ, ಬೆಂಗಳೂರು - 560 001 | 244/245, Vikasa Soudha Bengaluru- 560001.  
☎ 080-22256093, 080-22034439 e-mail: min@krishnabyregowda.in

## ACKNOWLEDGEMENT

## ACRONYM

AGM	Annual General Meeting
AGMARK	Agriculture Certification Mark
APEDA	Agricultural Produce Export Development Agency
APMC	Agricultural Produce Market Committee
ATMA	Agricultural Technology Management Agency
AA	Articles of Association
AoA	Articles of Association
ARDB	Agricultural Rural Development Bank
ASA	Action for Social Advancement
BC	Backward community
BOD	Board of Directors
BIS	Bureau of Indian Standards
BEP	Break Even Point
BIRD	Bankers Institute of Rural Development
CA	Chartered Accountant
CBO	Community Based Organization
CEO	Chief Executive Officer
CFC	Certified Filing Centers
CFTRI	Central Food Technological Research Institute
CIG	Commodity Interest Groups
CS	Company Secretary
CSIR	Council for Scientific and Industrial Research
CSR	Corporate Social Responsibility
CGF	Credit Guarantee Fund
CoB	Commencement of Business
CoC	Certificate of Commencement

Col	Certificate of Incorporation
DAC	Department of Agriculture and Cooperation
DIN	Director Identification Number
DPN	Demand Promissory Note
DPR	Detailed Project Report
DSC	Digital Signature Certificate
DSCR	Debt Service Coverage Ratio
DDM	District Development Manager
DEDS	Dairy Entrepreneur Development Scheme
DSCR	Debt-Service Coverage Ratio
EGCGFS	Equity Grant and Credit Guarantee Fund Scheme
EGSC	Equity Grant Sanction Committee
ELI	Eligible Lending Institution
FCRA	Foreign Contribution Registration Act
FCI	Food Corporation of India
FIG	Farmers Interest Group
FSSAI	Food Safety and Standard Authority of India
FC	Farmers' Club
FCF	Farmers' Club Federation
FCRA	Foreign Contribution (Regulation) Act 2010
FPC	Farmers Producer Company
FPO	Farmer Producer Organisation
FPOM	Fruit Products Order Mark
FS	Farm Sector
FSPF	Farm Sector Promotion Fund
FSS Act	Food Safety Standards Act
FY	Financial Year

GB	General Body
GDP	Gross Domestic Product
GP	Gram Panchayat
GOI	Government of India
GAP	Good Agricultural Practices
HACCP	Hazard Analysis Critical Control Point
ha	hectare
ICAR	Indian council for Agricultural Research
IEM	Import Export Licenses
IFPRI	International Food Policy Research Institute
IRR	Internal Rate of Return
ISO	International Standard Organization
IT	Income Tax
I&CSC	Investment and Claims Settlement Committee
IAP	Integrated Action Plan
IFFDC	Indian Farm Forestry Development Co-operative Ltd.
IUCN	International Union for Conservation of Nature
JLG	Joint Liability Group
KVK	Krishi Vignana Kendra
MBPF	Maximum Permissible Bank Finance
MCA	Ministry of Corporate Affairs
MF	Marginal Farmers
MNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MOA	Memorandum of Association
MSP	Minimum Support Price
MA	Memorandum of Association

MSC	Multi Service Centre
MSP	Minimum Support Price
MT	Metric Ton
NABARD	National Bank for Agricultural Rural Development
NABL	National Accreditation Board for testing and calibration lab
NAFED	National Agricultural Cooperative Federation of India Limited
NCDC	National Cooperative Corporation
NGO	Non-Governmental Organization
NEDFCL	The North Eastern Development Finance Corporation Ltd
NFS	Non Farm Sector
NHM	National Horticulture Mission
NPA	Non Performing Asset
NRHM	National Rural Health Mission
NRLM	National Rural Livelihood Mission
OFS	Off Farm Sector
OC	Other Caste
PAN	Permanent Account Number
PAT	Projected Annual Turnover
PC	Producer Company
PDF	Project Development Facility
PODF	Producer Organization Development Fund
POPI	Producer Organization Promoting Institution
PPP-IHD	Public Private Partnership-Integrated Horticulture Development

P&L A/c	Profit and Loss Account
PACS	Primary Agricultural Credit Societies
PO	Producer Organisation
PSU	Public Sector Undertaking
Qtl	Quintal
RBI	Reserve Bank of India
R&D	Research and Development
RKVY	Rashtriya Krishi Vikas Yojana
ROC	Registrar of Companies
SF	Small Farmers
SC	Scheduled caste
SFAC	Small Farmers Agribusiness Consortium
SHG	Self Help Group
ST	Scheduled Tribes
SWOT	Strength-Weakness-Opportunity-Threat
SSA	Sarva Siksha Abhiyan
TAN	Tax Deduction Account Number
TP	TalukPanchayat
VWDC	Village Watershed Development Committee
WUG	Water Users Group
ZP	Zilla Panchayat

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## CHAPTER-1 INTRODUCTION

## CHAPTER-1:INTRODUCTION

### 1.1. Introduction:

Agriculture continues to be the major source of livelihood, income, employment and a predominant business option for the people in the rural areas in India as more than 50 per cent of people continue to depend on agriculture. The nation's economy is mainly dependent on farming which contributes a significant portion of the country's capital Gross Domestic Product (GDP) and employment potential. However, meeting the challenge of feeding ever increasing population through next millennium remains an uphill task. The problems of poverty, hunger and malnutrition continue even after several decades of independence and have their own implication to national food and nutritional security. The rural poor do not have proper access to food and non- food commodities due to poor employment and infrastructure facilities. There has been a skewed growth rate for agriculture which is a matter of serious concern for scientists, planners and policy makers. The nation has initiated several measures to ensure food security after the independence and the initiative of Green Revolution was a major initiative among them. A closer look at the areas of green revolution indicates the stagnation in production levels even in these areas. Even after utilizing all possible sources of irrigation in the country a significant land area under cultivation continues under rainfed farming. The attention given and the investments made in the rainfed areas is not sufficient and as a result hardly any significant progress has been made in the area under rainfed farming which contributes about 60 per cent of the cultivable land in the country. It is an area of great concern for the nation to address problems of food insecurity and malnutrition. Highly radical and innovative policies and mission mode approaches only can help the country to pull it out of an impending crisis of enormous proportion. This mainly

requires concerted efforts of integrating farmers that have fragmented small holdings. The youngsters in the rural areas are losing interest in agriculture and are looking for alternative means to earn their livelihoods. This has resulted in huge migration from rural areas to urban areas in the recent years. This grave area of concern can be addressed through innovative institutional models and approaches that support small scale land holders through integrated efforts by related institutions with the value chain so that the net return at the farmers end is remunerative enough for them to remain interested in farming.

India is the second largest country to have highest number of small holdings after China. (Oksana Nagayets, IFPRI, 2005). This indicates that India has the greatest challenge of making these small and marginal holdings truly productive and makes them serve as the main source of livelihoods for millions of farmers dependent on them. Historically various institutional models have been prevailing in India and various new models are also being tried in to integrate small farmers with the value chain. Among the prevailing models, the most common model is the producer's cooperative or farmer's cooperative. This model has been able to bring farmers together for getting themselves organized as a collective or a cooperative. The farmers' cooperative is registered with the Registrar of Cooperative Societies under the provisions of Cooperative Society's Act. India has a large number of cooperative institutions in a vast range of enterprise sectors apart from agriculture. However, the cooperative experience in Indian context has not been very successful except in few cases. The cooperatives in various sectors including agriculture have largely been promoted by the government departments or through some of the government programs with a focus on welfare of the members rather than doing the business on commercial lines and scales.

Realizing the need for giving the business and commercial outline to the cooperatives, the Government of India constituted a Committee under the Chairmanship of Dr. Y.K. Alagh. Based on the recommendations of the Committee in 2002, the Government of India enacted the Producer Companies Act by incorporating a new section IXA in the Indian Companies Act. 1956 through an amendment to the Indian Companies Act. 1956. This enables the registration of the FPOs or producer companies with the Registrar of Companies under amended Companies Act. The objective of the government for such an initiative was to formulate a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring that the unique elements of the cooperative business remain intact in the new legislation.

### **1.2. The concept of Farmer Producer Organization (FPO):**

The collective of farmers in the form of a FPO is gaining popularity due to several advantages it carries in comparison to the conventional model of farmers' cooperatives. The Producer Companies Act enshrines the ethos and basic tenets of cooperatives and infuses a greater professional approach and attitude into the management of FPO organizations. Usually the FPO's are formed with the equity contribution by the member farmers. The act provides a provision for the FPO with appropriate framework for owning the company collectively by the farmers or producers themselves. The day to day operation of the FPO is expected to be managed by a group of professionals, hired from outside, under the direction of the Board of Directors elected or selected by the General body of the FPO for a specific tenure. Since farmers or the producers are the equity holders of the FPO, a FPO as an organization provides an appropriate framework for owning the company by the farmers themselves. The state governments are making all efforts to promote and support

FPOs in their respective state Karnataka is not an exception to this. This book provides some basic guidelines to the farmers and the extension workers for promoting the FPOs.

### 1.3 Understanding a FPOs

**a) The need:** The need to organize farmers, especially the small holders, is a well established fact. The important objective of organizing a FPO is to bring small and marginal farmers together for ensuring forward and backward linkages, thus enabling the supply of quality inputs such as seeds, planting material, organic and inorganic sources of fertilizers, agricultural credit, crop insurance, technical knowhow and other essential extension services and also to ensure effective forward linkages such as bulking of the produce, collective marketing, processing, and market led agriculture production with an overall objective of ensuring a better collective bargaining power for the small farmers. The company's law provides following opportunities to the farmers through formation of company.

- A FPO can offer a statutory and regulatory framework for the farmer's collective which in turn creates potential for the producer-owned enterprises to compete with other enterprises.
- It provides an opportunity for the formation and registration of "FPO" based on the principles of cooperation and mutual help within the more liberal regulatory framework provided by the company's law with suitable adaptation.
- The law also provides an opportunity to the existing cooperatives/ institutions and societies, to voluntarily convert themselves into the new form of FPO or producer company (PC).

**b) Primary produce:** The primary produce can be defined as any produce from agriculture or horticulture or from any other allied farm based enterprises including their by-

products and products resulting from subsidiary activities thereof. Also, any activity intended to increase the production or quality of aforementioned products or activities.

**c) Producer:** A producer is one who is engaged in any activity connected with any primary produce. Any ten or more persons engaged in any activity connected with primary produce, or any two or more producer institutions or companies, or a combination of ten or more individuals and producer institutions can get a FPO or a producer organization incorporated under the company's Act.

**d) Producers institution:** A producer institution is one which is a FPO or an institution having only producer(s) or FPO as its member (may or may not be incorporated) having specified objects and agreeing to make use of the services of the FPO.

**e) Farmer producer organization or Producers Company:** A FPO is a collective or a corporate body of primary producers registered under the Companies Act, 1956; and having specified objectives and activities. The ownership and the membership of such bodies are held only by the primary producers' or 'producer institutions. The equity of the members of the company cannot be publicly traded but can be transferred with the approval of the board of directors of the FPO.

### f) Objects and Activities of FPO

The important objects and activities of FPO shall be production of various crops, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the members or import of goods or services for their benefit, processing of the farm produce, manufacture, sale or supply of inputs, machinery, consumables, etc to members, providing education and other welfare activities for members, generation, transmission and distribution and distribution of power, revitalization of land

and water resources, their use, conservation and communications relating to primary produce, insurance of produce, and other allied or ancillary activities including financing thereof.

#### 1.4. Major differences between cooperatives and FPO:

A FPO is formed by a group of primary agricultural or horticultural producers or the farmers. The FPO is formed with the equity contribution by the subscribing members. Thus the farmers or the producers who are the equity holders of a FPO own the FPO. The comparative analysis of FPO and farmers cooperatives shows significant differences between these two types of organizations and also provides deeper understanding of the major differences in the basic premises of cooperative act and the company act as both of these acts enable incorporation of collectives of farmers. It is also clear from the analysis that the FPO or producer companies apparently have inherent advantages over the producer cooperatives in many areas. Specifically, in case of FPO there is less government control whereas the cooperative institutions are almost state controlled. Usually the overriding powers of the Registrar of Cooperative Societies to direct and regulate cooperatives, whenever the government deems necessary, has throttled the growth of the cooperative institutions. Majority of the cooperative societies in the country are currently facing severe financial crisis and are heavily dependent on the government subsidy for their existence. In order to understand the advantages of FPO over that of the cooperatives it is essential to understand the major differences between these two institutions. Some of the important differences between Cooperatives and the FPO are listed below.

**Table-1: Major differences between farmers' cooperatives and FPOs**

Criteria	Farmers' Cooperative	FPO
Membership	Individuals and cooperatives can become members	Any individual, group, association, producer of the goods or services can become members
Operational area	The operational area in case of cooperatives is restricted and sometimes it is discretionary. Usually the cooperatives cover a village or a small cluster of villages	The operational area in case of FPO is not restricted and discretionary and it will have entire Union of India as area of operation
Objectives	The cooperative usually will have single objective	The FPO can have multiple objectives
Registration	The cooperatives are registered with Registrar of Cooperatives under cooperative societies act or mutually aided cooperative societies act	The FPO organization is registered with Registrar of Companies under section IXA of the Indian Companies Act. 1956
Share	The shares of the members are non-tradable	The shares of the members are not tradable but transferable limited to members on par value
Voting rights of the members	In case of cooperatives each member has voting power. The principle is "One member, one vote".	In case of FPO, each member has voting power. The principle is "One member, one vote". The members who do not have transactions with the FPO cannot vote
Voting power for the government	In case of cooperatives the Government and the Registrar of Cooperatives has the veto power	In case of FPO the Government and the Registrar of Company has no veto power
Profit sharing	The profit sharing in case of cooperatives is limited dividends on shares	The profit sharing in case of FPO is commensurate with volume of business done by the company
Extent of Autonomy	The extent of autonomy is limited in "real world scenario"	The FPO's are fully autonomous. They are self ruled within the provisions of the company's act.
Government control	The government control in case of cooperatives is highly patronized to the extent of interference	The control exercised by the government is minimum for FPO. It is mainly limited to statutory requirements as per the requirements of the act.
Reserves	The reserves are created only when the cooperative is in profit	Creation of reserves is mandatory every year
Borrowing power	The cooperatives have restricted borrowing power	The farmer producer organization has more freedom and alternatives as far as borrowing is concerned
Relationship with other corporate/business houses/NGOs	The relationships are mainly transaction based	Producers and a corporate entity can together float a FPO

### 1.5. Important characteristic features of Farmer producer organization:

The farmer producer organization possesses the following important key features.

- a) It is a corporate body.
- b) It is registered under the Indian Companies (Amendment) Act 2002.
- c) Its ownership and membership is held only by 'primary producers' or 'Producer Institution'
- d) The equity of each member cannot be traded
- e) The equity of the members may be transferred to other members
- f) The transfer of equity can be done only with the approval of the Board of Directors
- g) The clauses of Private Limited Company shall be applicable to the producer companies except the clauses specified in farmer producer organization Act, from 581-A to 581-ZT which make it different from a normal private or limited company (refer to the farmer producer organization Act for details).
- h) The liabilities of farmer producer organization are limited to the value of the share capital it has issued
- i) Similarly the liability of the members is limited to the value of share capital held by them.
- j) The minimum authorized capital at the time of incorporation of a farmer producer organization should be Rs.5 lakh. The authorized capital is such that a farmer producer organization has been authorized to raise by way of equity shares through the Articles of Association/ Memorandum of Association of the farmer producer organization. This is typically the capital at the time it has been incorporated.

- k) Minimum number of producers required to form a FPO is 10
- m) There is no limit for maximum number of members and it can be increased as per feasibility and need. However, based on the experience (not to be treated as prescribed) it is found that for agriculture based Farmer producer organization around 800-1000 farmers with about 1000-1500 acre of agriculture land is a good size for initial years to make it economically viable and increasing the number of farmers to up to 2000 as the Farmer producer organization grows.
- n) There cannot be any government or private equity stake in the Farmer producer organization, which implies that Farmer producer organization cannot become a public or deemed public limited company.
- o) The area of operation for a Farmer producer organization is the entire country

### 1.6. Key challenges for the success of a Farmer producer organization:

Success of a Farmer producer organization mainly depend on the following factors,

- a) Lack of active participation of members of the Farmer producer organization
- b) Identification of highly active and energetic management team
- c) Election of a dynamic Board of Directors
- d) Cooperation from collaborating institutions (Ex: such as banking institutions which provide hassle free loans to the Farmer producer organization for working capital)
- e) Clarity on scope and business opportunities available for the FPO
- f) Actions planned and implemented for financial viability

- g) Planning of actions for institutional sustainability
- h) The skill of the promoting organization
- i) Commitment of the promoting organization associated with the FPO
- j) Connecting the individual producer to the governing system of the FPO
- k) Lack of experience of the promoting organization
- m) Pursuing both social & economic objectives simultaneously while promoting FPO.
- n) Constitution of an enabling legal format that can facilitate the process well
- o) Planning and adoption of process oriented approach in initiating the FPO

### **Some Important Frequently Asked Questions and answers:**

#### **1) What are the different names given to FPO?**

The farmer producer organization is also known by different names such as Producer Organization, Producer Company, Farmers Company etc.

#### **2) What is a Producer Organization?**

A Producer Organization is a legal entity formed by primary producers (farmers, milk producers, fishermen, weavers, rural artisans, craftsmen) or a producer company. A producer organization can be a producer company, a cooperative society or any other legal form which has provision for sharing of profits/benefits among its members.

#### **3) What are the objectives of formation of a Producer Organization?**

The main objective of producer organization 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 a situation where the producer receives only a small part of the value that the ultimate consumer pays. Through bulking or 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.

#### **4) What is a “Farmers Producer Organization”?**

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

#### **5) Can there be a producer organization for non-farm producers?**

It is possible to have a producer organization for non-farm producers. The producer organization is an organization of the primary producers. Non-farm producers such as weavers, handy-craft makers, potters etc. can also form producer’s organization. If the produce in question is a non-farm item, then such producer organization will belong to the non-farmers. The objective of the producer organization is to ensure better income realization to its members through aggregation and, if feasible, value addition.

#### **6) What are the important features of a producer organization?**

The important and most essential features of a producer organization include, (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 and the producers are the shareholders in

the organization. (c) It deals with business activities related to the primary produce/product and works for the benefit of the member producers. (d) A part of the profit is shared amongst the producers and rest of the surplus is added to its owned funds for business expansion.

### **7) Who are the owners of producer organization?**

The ownership of the producer organization is with its members. One or more institutions and/or individuals may have promoted the producer organization 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.

### **8) Who can promote a producer organization?**

Any individual or institution can promote a producer organization 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.

### **9) Who provides support for promotion of producer organization in India?**

Various schemes of central and state governments, NABARD, SFAC, Development Departments, Corporate and Domestic & International Aid Agencies provide financial and/or technical support to the Producer Organization Promoting Institution (POPI) for promotion and hand-holding of the producer organization. Each agency has its own criteria for selecting the project/promoting institution to support.

### **10) Is it possible for an NGO to promote producer organization?**

An NGO can promote a FPO. The NGO may be a non-profit organization, but not the producer organization. The NGO can

promote producer organization which will provide better income to the members. Sharing of profit among members is an important objective of the producer organization.

### **11) What are the different legal forms of producer organization?**

Producer Organization can be registered under the provisions of different acts and 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

### **12) Which legal form is preferable for a producer organization?**

Institutions registered as cooperative societies and producer companies have legal provisions for sharing of profit earned by the producer organization by way of dividend. Other legal forms do not explicitly provide for profit sharing. However, the producer organization 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 producer organizations under all legal forms.

### **13) Can a producer organization be registered under Acts governing non-profit institutions?**

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



#### **14) Whether registration is mandatory for a producer organization?**

It is preferable for the producer organization 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 producer organization could be registered. It is also possible for a producer organization 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 producer organization.
- 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.

#### **15) What are the important activities of a producer organization?**

The primary producers have skill and expertise in producing. However, they generally need support for marketing of what they produce. The producer organization will basically bridge this gap. The producer organization 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 producer organization could undertake the activities such as Procurement of inputs; Disseminating market information; Dissemination of technology and innovations; Facilitating finance for inputs; Aggregation and storage of produce; Primary processing like drying, cleaning and grading ; Brand building, Packaging, Labeling and Standardization ; Quality control ;Marketing to institutional buyers ; Participation in commodity exchanges and export

#### **16) How would a producer organization help the members?**

A producer organization will support the members in getting more income by undertaking any/many/all of the activities. By aggregating the demand for inputs, the producer organization 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 producer organization may aggregate the produce of all members and market in bulk, thus, fetching better price per unit of produce. The producer organization can also provide market information to the producers to enable them hold on to their produce till the market price become favorable. All these interventions will result in more income to the primary producers.

#### **17) What are other benefits for the members of a producer organization?**

A producer organization 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.

#### **18) Who can become member of a producer organization?**

Producer organization 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 producer organization has been formed, can become member of the producer organization. Membership is voluntary. The procedure for obtaining producer organization membership depends on the bye-laws of the producer organization. The founder-members are those

who were there at the time of formation of producer organization. Other members join the producer organization later. However, all members enjoy equal rights. A primary producer can become member of a producer organization by submitting an application and a nominal membership fee. Some producer organization also charge annual membership renewal fee. Although primary producers obtain membership of producer organization voluntarily, the promoting institution should make efforts to bring all producers into the producer organization, especially the small producers.

### **19) Who is a primary producer?**

Any person engaged in any activity connected with or related to any primary produce can be called as a 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.

### **20) Give different examples of different primary producers**

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 producer organization. Persons engaged in collection of minor forest produce are also eligible for membership of producer organization although they gather these from forests and strictly are not producers.

### **21) Can a person become member of more than one producer organization?**

Family is the unit of production in rural areas. Benefits from the producer organization will accrue to members in proportion to the volume/value of produce given to the

producer organization. Therefore, one person from a family can provide the whole produce of the family to the producer organization and get the same amount of benefit as multiple members providing the same volume/value. If however there are two different producer organizations in the vicinity, each for a different type of produce, say vegetables and milk, one person can become member of both these producer organizations, if the family produces both milk and vegetables.

### **22) Who will manage the producer organization?**

Each producer organization 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 producer organization promoting institute. As the leaders of the producer organization gain experience, they should take over the affairs of the producer organization completely.

### **23) Can a producer organization engage professionals to manage its business?**

All legal forms provide for engaging professional and other employees by the producer organization. Such persons should be paid out of the income of the producer organization. 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 producer organization. The professionals and other employees should be paid at par with the prevailing market to ensure that they remain for long with the producer organization. Compensation will also depend upon the business plan, ensuring a positive surplus.

**24) Can a producer organization procure produce from non-members?**

The objective of the producer organization 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 producer organization to enable procurement from non-members during such exigencies.

**25) Can a producer organization sell the produce in the commodity exchanges?**

Yes, it can. The producer organization can aggregate the produce of its members, and sell it using the commodity exchanges.

**26) What are the conditions of sale of the produce in the commodity exchanges?**

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

**27) Can a producer organization export the produce of its members?**

Yes, a producer organization can export the produce of its members.

**28) What are the basic needs of exporting the produce?**

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 labor, etc.

**29) How much expenses will be incurred for registration of a producer organization?**

Expenditure towards registration fee, stamp duty, preparation of documents and facilitation charges etc., will depend on the legal structure of the producer organization. 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		5000

**30) What important factors should be kept in view while facilitating formation of producer organization?**

Aggregating producers into collectives is one of the best mechanisms 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 producer organization

**31) At what stage of producer organization, should the member-producers be actively involved?**

Producer organizations 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 producer organization and let the members drive the process. Activities like awareness creation, identification of potential members should precede the actual formation formalities.

**32) What is the optimal size of a Producer Organization & what are the parameters?**

- a) It is desirable to have a Farmer Producer Organization 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 producer organization 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 Organization 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 Organization may be around Rs. 2.5 crore, assuming that approximately 10% of the total turnover of the producer organization may be reasonably spent towards cost of management.
- g) Further, the markets selected for the Producer Organization for selling their produce may be within 200 KM to make their marketing activities viable.

**33) What are the design variables / factors governing the size of optimal size of a producer organization ensuring that the FPO will be sustainable?**

- a) A Farmers Producer Organization 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 producer organization depends on comprehensive engagement of the producer organization with their members throughout the year.
- d) The design variables for a producer organization are mainly size, scope, and 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 producer organization should be small to be able to be managed by the local talent available in the area of the producer organization.
- f) The scope of the producer organization 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 producer organization should be such that majority of the local people or members of the families of the producer organization should be able to adopt to it and work with it with minimal training, effectively.
- h) The management of the producer organization 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 producer organization effectively.
- i) The purpose of the producer organization at all times must be to serve the larger needs of the community and the ownership of the producer organization always should rest with all its members.

### **34) What should be the minimum and maximum number of members in a producer organization?**

The minimum number of membership depends on the legal form of the producer organization. For example, 10 or more primary producers can incorporate a Producer Company under Section 581© 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 producer organization 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 producer organization will require about 700 to 1000 active producers as members for sustainable operation.

### **35) Who can become a Producer Organization Promoting Institution (POPI)?**

An NGO, a bank branch, a Government Department, a Cooperative Society or any Association or Federation can become a producer organization promoting institute.

### **36) What are the basic requirements of POPI?**

Basically, the producer organization promoting institute needs to be a legal entity so that it can enter into legally valid contracts with other institutions including the producer organization which they seek to promote.

### **37) Who support POPI?**

Support is available for producer organization promoting institutes from SFAC, Government Departments, and NABARD for meeting part of the recurring cost incurred for promotion of the producer organization based on individual project considerations.

### **38) Where do we get details of the support available for POPI?**

Details are available in the website of NABARD, SFAC and Ministry of Agriculture, Government of India.

**39) What are the roles & responsibilities of producer organization promoting institute?**

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

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

**40) What critical interventions could be covered under Grant and credit support for producer organization promoting institutes?**

Activities involved in promoting and running a producer organization by producer organization promoting institute

Sl. 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 producer organization	Grant	1 month
2	Interaction and awareness creation about producer organization Exploratory interactions Meetings Exposure Visits	Grant	3-4 months
3	Training and capacity building of members on running the producer organizations	Grant	1 month
4	Formalizing management structure and registration of producer organization	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 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)

#### 41) What are the taxation systems governing the FPO Whether any tax benefit is available to FPO's?

Immediately after incorporation, a producer organization 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 Farmer producer organizations 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 Nationalized Bank or any other bank in accordance with scheme as approved between the Company and the respective Board.

#### 42) What critical areas could be covered during training/ capacity building of BOD of producer organizations/ other staff?

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

(a) **Vision and Mission:** The vision and mission of the producer organization 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 realization 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 producer organization above all the considerations is a must for the success of a producer organization. Various aspects of good governance to be covered

(c) **Sustainability:** Another most important aspect to be covered in the training is that the producer organization 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 producer organization 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 producer organization 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 producer organization, 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 maximize 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.

#### **43) What support is available for producer organization from SFAC?**

Mainly two types of support is available to the producer organizations from the Small Farmers Agribusiness Consortium (SFAC). Details are available at [www.sfacindia.com](http://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 producer organization) 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.

#### **44) What type of financial support is available for FPO from NABARD?**

Grant assistance was being provided by NABARD to the POPIs/FPOs for formation, infrastructure, registration, capacity building, training and various activities until they mature to the level of a business entity. Credit linkage and availing bank loan is a deliverable to be achieved as per terms of sanction. Thus the bankers have been urged to come forward in extending credit to the FPOs, extend credit facilities both for working capital as well as for investments.

As per the new strategy/guidelines for formation of FPOs during 2017-18, in clusters of minimum 5 FPOs, the total grant available under Formative Expenses and Management Cost together for a group of 5 FPOs is **Rs. 17.20 lakhs**. Activities covered under **Formative Expenses** include (i) Mobilization of farmers/awareness creation/exposure visit (ii) Training to Board members (2 trainings in first year and 1 in second year) (iii) Training of CEOs. While item (i) will be covered under the existing promotional programmes and no funds have been allocated, items (ii) and (iii) have to be met from the respective promotional funds. Rs. 5.370 lakhs and Rs. 2.70 lakhs have been allocated respectively for the same totalling Rs. 8.40 lakhs.

Expenses under **PO Management Cost** which includes CEO expenses/incentives. Preparation of Business Plan, MIS and Technical hand holding involving Rs. 8.80 lakhs will have to be borne by the FPOs. The details are given in Annexure - 1

NABARD extends credit support to FPOs through its subsidiary, **NABKISAN**, floated to take care of the loan requirements/facilitate credit linkage of FPOs. NABKISAN requires the FPOs to prepare realistic Business Plan for availing bank credit. The POPIs/FPOs have been explained the scheme guidelines of NABKISAN in respect of availing financial support.

Government of Karnataka has been requested to include the



registered FPOs promoted under NABARD PRODUCE Fund Scheme in the scheme introduced by them through their Horticulture department to provide initial seed capital to FPOs.

Infusing additional share capital by outside agencies up to 5% of the Authorised Share, capital facilitating equity supports from SFAC is another measure accessible by the FPOs as far as credit support is concerned.

#### **45) What is the other support available to the FPO from NABARD?**

In order to develop a cadre of local Professionals to manage FPOs business and ensure their long term sustainability, a Short Term Certificate Course (STCC) of 3 months duration was designed by NABARD in consultation with Bankers Institute of Rural Development, Lucknow to provide intensive training to CEOs/BoDs of FPOs formed under PRODUCE Fund. Lack of professionals has been one of the key limiting factors in the formation and promotion of viable FPOs. RSA-Vrutti has been identified as the anchor agency for Karnataka and Madhya Pradesh.

Capacity building training is imparted focussing on preparation of implementable Business Plans.

#### **46) How can NABARD help the FPO in marketing their produce?**

NABARD also provides support to the producer organizations 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.

#### **47) What support is available to the producer organization promoting institutes from NABARD?**

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

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

#### **48) What support is available from Government of India for FPO?**

Government of India provides budgetary support to SFAC for its Equity Grant and Credit Guarantee Fund Scheme for FPO. For creation of storage and other agricultural marketing infrastructure under the Integrated Scheme for Agricultural Marketing (Ministry of Agriculture, Government of India), FPO's are eligible to get higher subsidies. Details are available at [www.agmarknet.nic.in](http://www.agmarknet.nic.in). CAPART, Ministry of Rural Development also operates schemes through which support for some activities can be obtained by FPO's. Details are available at [www.capart.nic.in](http://www.capart.nic.in). Training institutions supported by the Ministry of Rural Development([www.rural.nic.in](http://www.rural.nic.in)).