

FARMER PRODUCER ORGANIZATIONS

AN INNOVATIVE INSTITUTIONAL APPROACH
FOR COLLECTIVE ACTION

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SIDDARAMAIAH
CHIEF MINISTER

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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.

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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

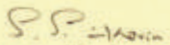
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the cooperatives. In this regard the Government of India enacted the Producer companies Act by incorporating a new section IXA in Indian Companies Act.1956 through an amendment, which enables the registration of the producer companies.

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)



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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)

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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

CONTENTS

Chapter	Title	Page No
1	Introduction	1
2	Registering Farmer Producer Organization under different laws	31
3	Registering Farmer Producer Organization Under Cooperative Society's Act	43
4	Registering of Producer Organization As Non-Profit Society	52
5	Incorporation of a farmer producer organization as a company	61
6	Business planning for farmer producer organization	98
7	Financial Management of Farmer Producer Organization	139
8	Funding arrangements for Farmer Producer Organization	157
9	Monitoring of Farmer Producer Organization	184
10	Governance of Farmer Producer Organization	203
11	Book keeping In Farmer Producer Organization	224
12	Policy support to Farmer Producer Organization	228
13	References	237



CHAPTER - 3

REGISTERING FARMER PRODUCER ORGANIZATION AS A NONPROFIT SOCIETY

CHAPTER-3: REGISTERING OF PRODUCER ORGANIZATION AS A NON-PROFIT SOCIETY:

3.1. Introduction:

The producer organization can also be registered as a society under society's act. The society can be defined as an association of persons (generally unincorporated) united together by mutual consent to deliberate, determine and act jointly for a common objective and a collective purpose. As per the provisions of the Societies Registration Act, 1860, a society can be formed by minimum of seven persons. Individuals (excluding minors but including foreigners), partnership firms, companies and registered societies are eligible to form a society.

3.2. Purposes of a society:

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

- a. For grant of charitable assistance
- b. For the creation of military orphan fund
- c. For the promotion of literature and fine arts
- d. For the promotion of science
- e. Some states like Delhi and Gujarat also allow welfare and other purposes as eligible purpose.

3.3. Validity of registration:

The registration of the nonprofit society remains valid for the period prescribed by the Registrar of the society. 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. The period of validity varies from state to state.

3.4. Documents required for incorporation of the society:

The following documents are required for incorporating the society.

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

Memorandum of Association is the charter or the constitution of the society. It describes the objects of society's existence and mode of its operations. The memorandum of association shall contain the following items.

- a. name of the society;
- b. object of the society;
- c. 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 need to be filed with the memorandum of association.

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.

3.5. Rules and regulations of a society:

The rules and regulations of the society generally contain-

- a. The conditions of admission of new 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 for holding meetings and passing resolutions

- g. The investment of funds, keeping of accounts and for audit of accounts
- h. The manner of amending or 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.

3.6. Bye-laws of the society:

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. 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.

3.7. Membership of the society:

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

- is 21 years of age on the date of admission
- subscribes to the aims and objects of the society
- has deposited the membership fee as prescribed in the Bye-laws of the Society
- is not an insolvent or of unsound mind

3.8. Cancellation of membership:

A member loses his/her membership of the society under the following situations,

- Upon resigning and acceptance of his/her resignation by the society
- Upon death of the member
- On non - payment of dues (period as prescribed in different state Acts)

3.9. Functions of Governing body of Society:

The Governing body of the society is entrusted with the management of its affairs of the society as per the rules and regulations of the society.

3.10. Sources of funds for the societies:

The societies can mobilise funds through various means listed below,

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

3.11. Book keeping by the society:

The society has to maintain the following books,

- a. Cash Book
- b. General Ledger

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

Some Important Frequently Asked Questions and Answers:

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.

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.

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) 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.

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

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.

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.

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.

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.

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.

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

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)

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.

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

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.