



Centre of Excellence for Farmer Producer Organizations

Workshop on Farmer Producer Organizations to Company Secretaries

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Centre of Excellence for Farmers Producer Organizations

**Unique Initiative by
Government of Karnataka
1st in the Country**

**Department of Horticulture &
University of Horticultural Sciences**



Inception

- **State budget of 2016-17- Commitment**
- **Government Order: 30.03.2017**
- **Registered as
'Centre of Excellence for Farmers Producer
Organizations' on 21.08.2017 under**
- **Karnataka Societies Registration Act 1960**



Vision

**Empower Farmer Producer
Organizations through
entrepreneurial development for
socio-economic advancement of
member-farmers**



Centre of Excellence for FPOs

MANDATE

GOVERNANCE

ORGANIZATION STRUCTURE



Definition of a “Farmers Producer Organization”

- FPO is one type of producer organization where **the members are farmers**.
- Producer organization is a generic name for an organization of producers of any produce, e.g., agriculture, horticulture, sericulture, non-farm products, artisan products, etc.



Important Features

- FPO is formed by a group of producers for either farm or non-farm activities
- It is a registered body and a legal entity and the producers are the shareholders in the organization
- It deals with business activities related to the primary produce/product and works for the benefit of the member producers.



Advantages

- The liability of the members is limited to the paid amount of the shares held by them. Hence, the private assets of the members are safe from company losses.
- The minimum paid-up Capital being Rs. 1 Lakh (May be revised) and minimum authorized capital being Rs. 5 lakh for a PC, it easy to mobilize the small amount.
- Minimum number of producers required to form a PC is 10 while there is no limit for maximum number of members and the membership can be increased as per feasibility and need. This helps even 10 individuals start a Producer Company which is easy



Advantages

- There cannot be any government or private equity stake in the FPO, which implies that PC cannot become a public or deemed public limited company. Hence, any Government or other corporate threat is non-existent in professional functioning of the company.
- The area of operation for a PC is the entire country giving flexibility to expand and do business in a free and professional manner.



Important Activities

- Quality control
- Marketing to institutional buyers
- Participation in commodity exchanges and export



Procurement of produce from non-member by FPOs

- The objective of FPO is to ensure better income to the member-producers through aggregation and value addition
- Procurement from non-members is usually not undertaken
- 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



Estimated cost for incorporation of a FPO

Particulars	Item of expenditure	Amount (Rs.)
Application for Name of PC	Fees	500
Digital signature	Fees	2,600
Stamp duty	MoA & AoA	1,500
Registration/Filing fees	MoA, AoA, Form-1, Form-18, Form-32	17,200
Fees of CA/CS	Consultancy charges	10,000
Stamps cancellation		300
Affidavit expenses	Fees of Notary	500
Share transfer fees and		5,000



Number of Members in a FPO

- 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(C) of Indian Companies Act 1956 (same provisions are retained in the 2013 Act)
- There is no restriction on the maximum number of membership



Producer Organization Promoting Institution (POPI) /Resource Organization (RI)

- An NGO,
- Development Department of Government,
- Farm Universities,
- Banks,
- Any Government Institutions,
- A Cooperative Society or,
- Any Association or Federation, can become a producer organization promoting institute/RI



Support from Government of India

- 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
- CAPART, Ministry of Rural Development also operates schemes through which support for some activities can be obtained by FPO's



Members and their position in a FPO

- In a FPO only primary producers or producer organizations can become members
- Membership is acquired by purchase of shares in a FPO
- A FPO can act only through its members
- Members create the company
- Members can also wind up the company
- Members act through their General Meetings



Preparatory Arrangements

- Identify a cluster where the producer organization can be formed
- Conduct Baseline and Feasibility Studies
- Meet the villagers (primary producers) and introduce the concept of Producer Company to them
- Explore the need for a Producer Company (PC) with the primary producers
- Take the interested primary producers on an exposure visit
- Create a critical group of primary producers, who are very enthusiastic about the idea of Producer Company



Preparatory Arrangements

- Use the critical group for canvassing among other eligible members about the need, urgency and benefits of a Producer Company
- Allow enough time to the prospective primary Producer Company members to understand the idea
- Have focused group meeting and motivate eligible members to become shareholders
- Hold a meeting with the prospective shareholders and discuss objectives and possible business ideas for the company
- Revise the business plan for the company taking into account the views of the prospective members



Preparatory Arrangements

- Identify Promoter Directors
- Prepare a draft Articles of Association (AoA)
- Prepare a draft Memorandum of Association (MoA). Hire the services of a consultant to get the AoA and MOA drafted, if necessary
- Call first informal meeting of the shareholders to approve
 - i. Articles of Association
 - ii. Memorandum of Association
 - iii. Selection of Promoter
 - iv. Authorized capital and cost of each share
 - v. Collect the capital and savings also if possible



Naming of FPO

- FPO name should be unique
- Producer Company name should end with “Producer Company Limited”
- FPO name should inspire the entire membership and creates a sense of ownership for its members
- Do not to use the name of POPI directly or indirectly in the FPO name
- Apply for the name online to MCA in e-form INC-1
- A fee of Rs. 1000/- is to be paid along with e-form INC-1
- Digital Signature of the applicant for the name is to be attached
- If the name is not available, RoC will inform about the same



Memorandum of Association (MoA)

MoA is a Charter document by which a FPO is registered.

It contains

- the name, state in which registered office of the company is situated,
- objects of FPO,
- authorized capital and
- capital subscribed by the shareholders of the Company.

Article of Association of a FPO

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



Memorandum of Association (MoA)

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



Legal Status of a FPO

- On incorporation & from the date mentioned in the Certificate of Commencement (CoC), FPO becomes a person in the eyes of law
- It has perpetual succession, meaning members may come and go, but it will go on until it is wound up by following the process of law
- It has a common seal, which is affixed on all the documents executed on behalf of FPO in the presence of a director and signed by the authorized signatory or signatories
- It is empowered to hold properties in its own name & has its own right



Legal Status of a FPO

- It can enter into contracts in its own name
- It can sue others and can be sued by others
- In simple terms it has contractual capacity in the eyes of law just like any other person who has contractual capacity



Board of Directors (BoD)

The time taken for registration of an FPO is anything between 2 to 6 months

Board of Directors (BoD)

- Board of Directors are elected by the members
- BoD may act collectively only through meetings
- FPO can have a minimum of 5 Directors and not more than 15 Directors.



Office Bearers

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

Availing membership of a FPO

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



Rights of the members

Members exert authority on the company only through General Meetings

General Body alone can do the following:

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



Rights of the members

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



Rights of the members

- to enjoy the profits of the company in the form of dividends
- to elect directors and to participate in the management of FPO
- to apply to the Company Law Board in case of oppression
- to apply to the Company Law Board in case of mismanagement
- to apply to the court for winding up of the company
- to share the surplus on winding up
- to have a share certificate issued to him/her in respect of his/her shares



Voting rights of a member

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



Ceasing of membership

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



Powers and functions of the Board

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



Matters, dealt by Board

Determination of

- the dividend payable
- recommended patronage to be approved at General Body Meeting;
- Admission of new members
- Appointment of CEO & other officers
- Sanction any loan or advance to members who are not directors or their relatives, in the course of its business
- Ensure proper books are maintained



Matters, dealt by Board

- Pursue and formulate the organizational policy, objectives, establish long term and annual objectives, and approve corporate strategies and financial plans;
- Acquire or dispose property of the company in the day-to-day affairs of the business
- Investment of the funds in the day to day business
- Ensure annual accounts are placed before the Annual General Meeting (AGM) with the auditor's report



Appointment of Board of Directors

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

Tenure for the Directors

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



Expert Director

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



Expert Director

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- Expert director can become a Chairman

Alternate Director

If a regular director is out of the State in which the meetings are held, for a period of 3 months or more, another person can be appointed as director in his place, who is called an alternate director



Qualification of a Director

- Only individuals can be directors of a company
- No educational qualification or minimum holding of shares is required

Procedure for removing directors

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



Procedure for resignation of Director/s

- Any Director can resign from his post by giving intimation to FPO in a manner indicated in the AoA
- If AoA do not indicate any procedure for resignation, then a Director can resign by giving reasonable notice
- In case of Chief Executive Officer or whole-time Director, mere notice of resignation will not be deemed as resignation. Their resignation will be governed by the terms and conditions of the appointment



Functions of a CEO

- Do administrative acts of routine nature including managing the day-to-day affairs of the Company
- Operate bank accounts or authorize any person
- Make arrangements for safe custody of cash and other assets
- Sign business related documents as may be 'authorized by the Board' for and on behalf of the FPO
- Maintain proper books of account, prepare annual accounts, place the audited accounts before the Board and in the Annual General Meeting of the Members



Functions of a CEO

- Furnish the members with periodic information to appraise them of the operation and functions of the Company
- Make appointments to posts in accordance with the powers delegated to him by the Board
- Assist the Board in the formation of goals, objectives, strategies, plans and policies;
- Advise the Board with respect to legal and regulatory matters concerning the proposed and ongoing activities and take necessary action in respect thereof;
- Exercise the powers as may be necessary in the ordinary course of business;



Qualification of a CEO

- As indicated in AoA, the qualifications, experience and the terms and conditions of service of the CEO shall be such as may be determined by the Board
- CEO of a FPO shall be a full time employee of the company.
- The CEO shall be appointed by the Board of Directors of the company amongst persons other than members.
- The CEO shall be ex-officio director of the Board and such director shall not retire by rotation.