BIRD

BANKERS INSTITUTE OF RURAL DEVELOPMENT, LUCKNOW
(Designated Nodal Training Institution at Central Level by GoI under the Central Sector Scheme on Formation & Promotion of 10000 FPOs)

FPOs are the Growth Engines of Indian Agriculture

Resource Material

Capacity-Building of Cluster-Based Business Organisations (CBBOs)

Under Central Sector Scheme on Promotion & Formation of 10000 FPOs

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Contents

Session I

Overview of Indian Agriculture – From Food Security to a Farmer-centric Approach

A. Status of Land Use in India

Statistics on the land use are collected by the Ministry of Statistics & Programme Implementation (MOSPI), Government of India in the form of a nine-fold classification (Annexure-1). Out of the total reported geographical area of 328.73 million hectares, statistics are available for 307.75 million hectares, the details of which are as under:

Table 1: Land by Use in India

(Area in Million Hectares)

S. No.	Classification	1950-51	1990-91	2000-01	2010-11	2015-16
I	**Geographical Area**	**328.73**	**328.73**	**328.73**	**328.73**	**328.73**
II	**Reported Area for Land Utilization Statistics**	**284.32**	**304.86**	**305.19**	**307.48**	**307.75**
I	Forests	40.48	67.81	69.84	71.59	71.87
II	Not available for cultivation	47.52	40.48	41.23	43.58	44.02
a	Area under non-agricultural uses	9.36	21.09	23.75	26.40	27.08
b	Barren & un-culturable Land	38.16	19.39	17.48	17.18	16.94
III	Other uncultivated land excluding fallow	49.45	30.22	27.74	26.15	25.64
a	Permanent pasture & other grazing Land	6.68	11.40	10.66	10.30	10.26
b	Land under miscellaneous tree crops & groves not included in net area sown	19.83	3.82	3.44	3.20	3.09
c	Culturable waste land	22.94	15.00	13.63	12.65	12.29
IV	Fallow land	28.12	23.37	25.04	24.60	26.72
a	Fallow lands other than current Fallows	17.45	9.66	10.27	10.32	11.31
b	Current fallows	10.68	13.70	14.78	14.28	15.41
V	Net Sown Area (NSA)	118.75	142.87	141.34	141.56	139.51
VI	Gross Cropped Area (GCA)	131.89	185.74	185.34	197.68	197.05
VII	Net Irrigated Area (NIA)	20.85	48.02	55.20	63.67	67.30
VIII	Gross Irrigated Area (GIA)	22.56	63.20	76.19	88.94	96.62
IX	Cropping Intensity (%)	111.07	130.01	131.13	139.64	141.25

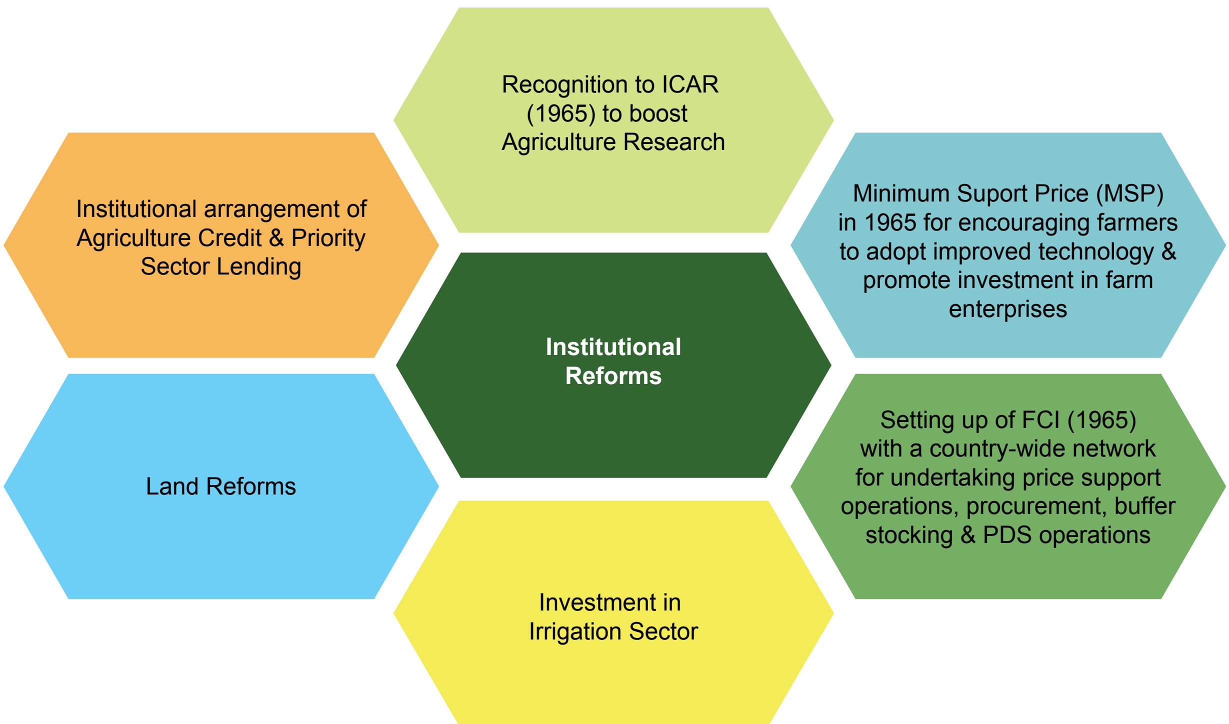
(Source : Agricultural Statistics at a Glance, 2019)

i. Important facts emerging from the table above:

- Only 23% of the reported area for land utilization is under forests which is well below the prescribed levels under National Forest Policy, 1988. The policy states that a minimum of $1/3^{rd}$ of the total land area of the country should be brought under forest or tree cover.
- Area not available for cultivation is about 14%, and the area under this category is increasing with time.
- Other uncultivated areas account for about 8% and fallow lands occupy about 9% of the reported area for land utilization.
- Net Sown Area is about 45% of the reported area for land utilization (which has almost reached stagnation), thereby indicating very limited practical scope for horizontal area expansion under agriculture.
- In spite of huge public sector investment in irrigation sector, the Net Irrigated Area is only 48% of Net Sown Area, highlighting the fact that assured irrigation facilitates are limited to only about half of the cultivated area. Therefore, about 52% area is still under continued dependence on monsoons for cultivation.
- The average cropping intensity is only about 141%. Thus, on an average, only 1.41 crops are being cultivated in a year per unit of net sown area despite prevailing diversified agro-climatic conditions in the country allowing at least three good crop seasons for cultivation viz. Kharif, Rabi & Zaid.

B. Agriculture – Historical Perspective

After Independence in 1947, agriculture in India was characterised by low productivity issues on account of use of primitive technologies with almost 3/4th of the population dependent on agriculture for employment. Thus, one of the biggest challenges the country faced at the timewas to ensure the nation's food security for which multipronged strategies were drawn to enhance the food crop production. Some important institutional reforms undertaken to ensure the nation's food security post-independence era were as follows:



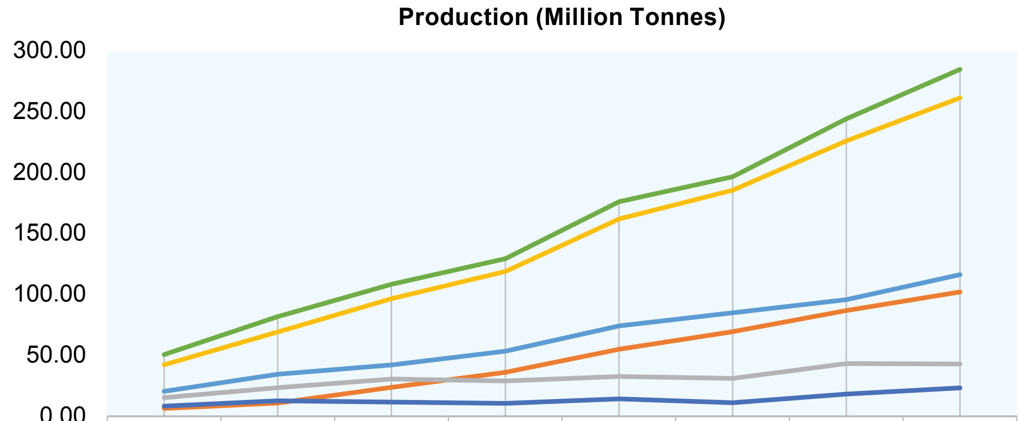
As a result, we as a nation not only attained self-sufficiency in food grains & became food secure but also transitioned from being a net importer to a net exporter of agriculture products. During this period (1950-51 to 2018-19), the total food grain production increased by about 4.61 times, cereal production increased by about 5.17 times, wheat production increased by 14.72 times and the rice production increased by almost 4.65 times.

Table 2: Percentage Increase in Production, Area & Productivity (In 2018-19 over 1950-51

Year	Rice	Wheat	Coarse Cereals	Total Cereals	Pulses	Total Food Grains
% increase in Production	465%	1472%	179%	517%	179%	461%
% increase in Area	42%	197%	-42%	25%	52%	27%
% increase in Productivity	297%	430%	378%	395%	83%	341%

i. The increase in production was in contrast to increase in acreage under the crops which only increased by about 27% under total food grains, 25% under total cereals, 197% under wheat and about 42% under rice cultivation. The year-wise details of food grain production and acreage are presented in Figure 1 & 2 below:

Figure 1: Production of food grains (1950-51 to 2018-19)

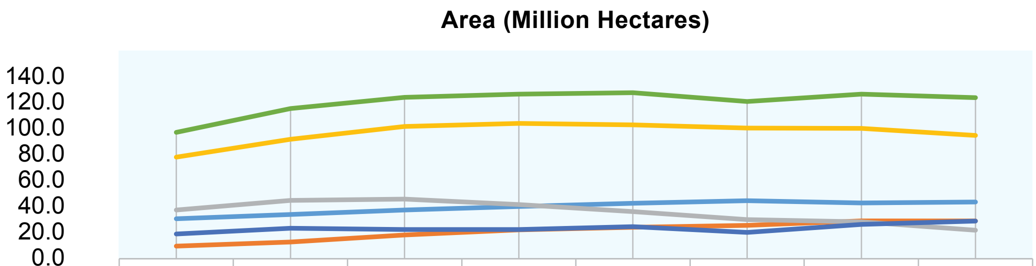


	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11	2018-19
Rice	20.60	34.60	42.20	53.60	74.30	85.00	96.00	116.40
Wheat	6.50	11.00	23.80	36.30	55.10	69.70	86.90	102.20
Coarse Cereals	15.40	23.70	30.60	29.00	32.70	31.10	43.40	43.00
Total Cereals	42.40	69.30	96.60	119.00	162.10	185.70	226.30	261.60
Pulses	8.40	12.70	11.80	10.60	14.30	11.10	18.20	23.40
Total Foodgrains	50.80	82.00	108.40	129.60	176.40	196.80	244.50	285.00

Rice — Wheat — Coarse Cereals — Total Cereals — Pulses — Total Foodgrains

i. Thus, the enhancement in food grain production was not in linear correlation with acreage, thereby indicating that the adoption of latest technologies complemented by an increase in assured irrigation facilities played an important role in productivity enhancement. This resulted in almost 297% increase in production per unit area in rice (668 Kg/ha in 1950-51 to 2659 Kg/ha in 2018-19) and about 430% increase in wheat (from 663 Kg/ha in 1950-51 to 3507 Kg/ha in 2018-19).

Figure 2: Area under food grains (1950-51 to 2018-19)

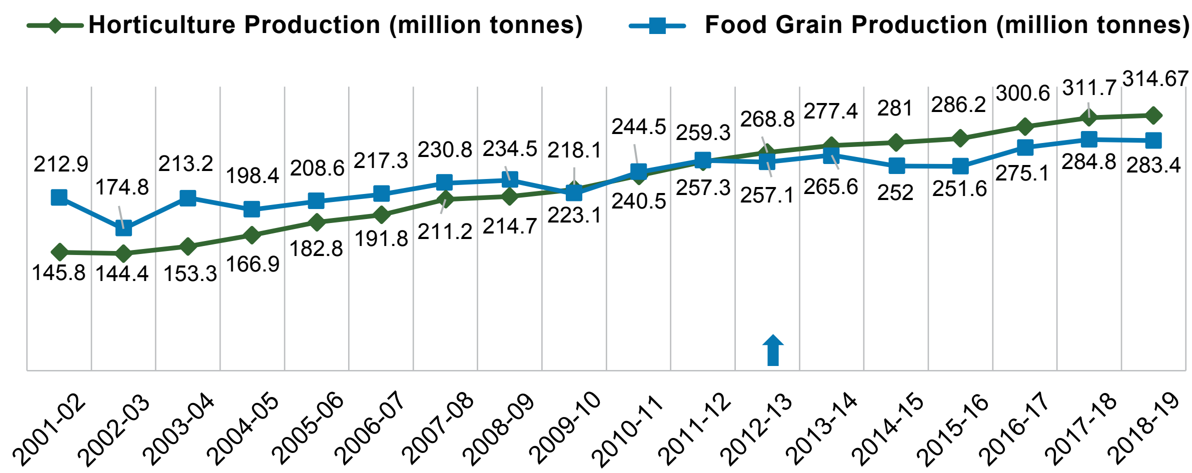


	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11	2018-19
Rice	30.8	34.1	37.6	40.2	42.7	44.7	42.9	43.8
Wheat	9.8	12.9	18.2	22.3	24.2	25.7	29.1	29.1
Coarse Cereals	37.7	45.0	46.0	41.8	36.3	30.3	28.3	22.0
Total Cereals	78.2	92.0	101.8	104.2	103.2	100.7	100.3	94.9
Pulses	19.1	23.6	22.5	22.5	24.7	20.4	26.4	29.0
Total Foodgrains	97.3	115.6	124.3	126.7	127.8	121.1	126.7	123.9

Rice — Wheat — Coarse Cereals — Total Cereals — Pulses — Total Foodgrains

Horticulture: With time, gradual diversification in cropping patterns was also observed specially in last few decades with horticulture coming up in a big way as cash crops.

Figure 3: Year-wise comparison of food grain & horticulture production



i. It was for the first time in the year 2012-13 that the horticulture production surpassed food grain production and the production gap between the two has been widening since then. Within the horticulture sector, the maximum share in terms of acreage is occupied by vegetables followed by fruit trees, plantation crops, spices, medicinal & aromatic plants and floriculture respectively. The percentage share is presented in Figure 4.

Agriculture Allied Sector: This sector comprises of allied activities undertaken by farmers along with production of food grains and horticulture crops like livestock farming (dairying, poultry, fisheries, piggery, goat & sheep rearing), sericulture, apiculture, mushroom farming, etc. As per Livestock Census (2019), the total Livestock population in our country is 535.78 million, an increase of 4.6 % is over Livestock Census (2012). The share of major species is presented in Figure 5.

Figure 4: Acreage under Different Horticulture Sub-Components (2018-19)

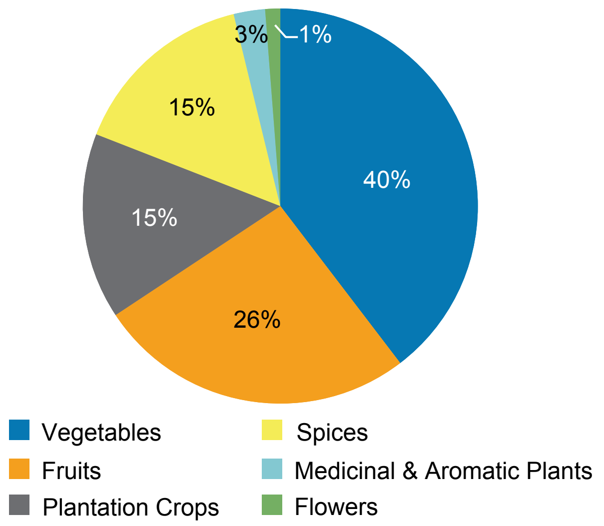
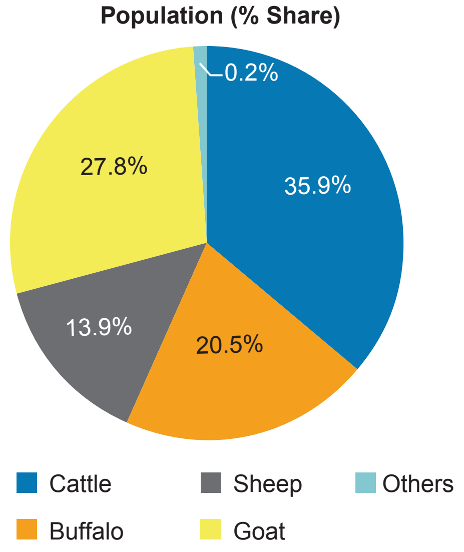


Figure 5: Share of Major Species as Per Livestock Census (2019)

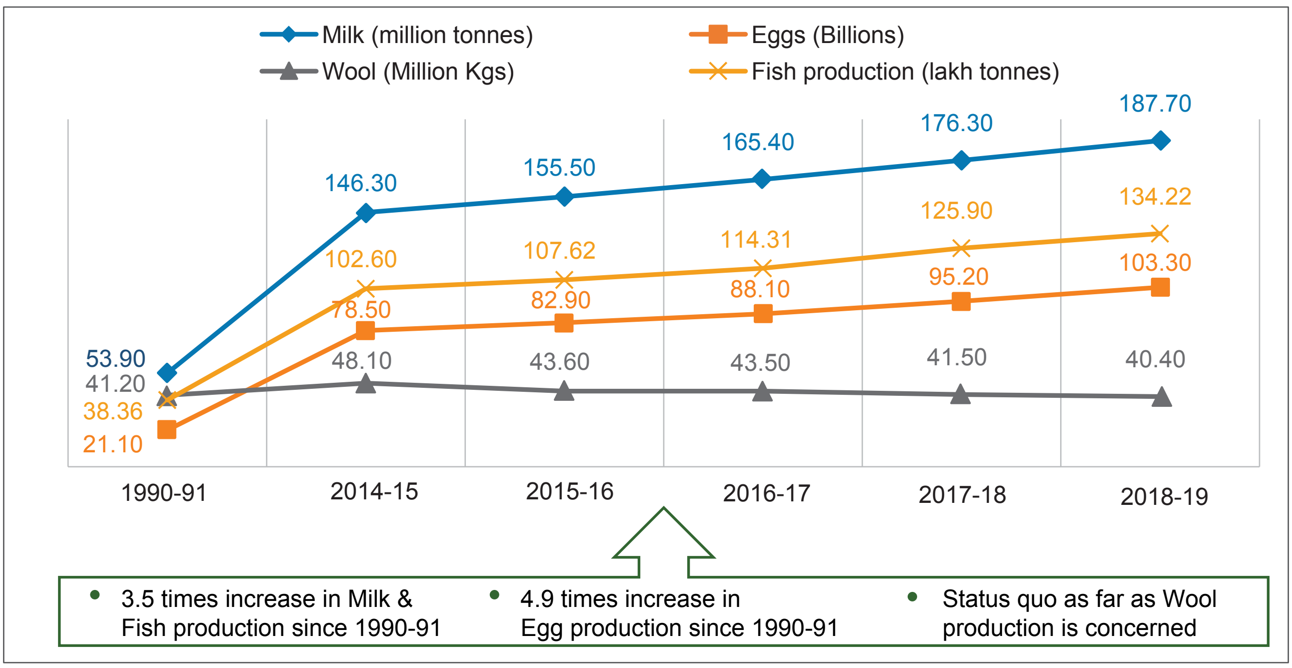


i. A few emerging facts from Livestock Census (2019)

- The female cattle population is 145.12 million and the total buffalo population in the country is 109.85 million showing an increase of 18% & 1% over the previous census (2012) respectively.
- The total sheep & goat population was 74.26 million & 148.88 million showing an increase of 14.1 % & 10.1% over the previous census (2012). The total pigs in the country were 9.06 million in 2019.
- Poultry in the country comprised of 851.81 million birds (an increase of 16.8% over previous census). The total Backyard Poultry in the country is 317.07 million (growth of 45.8%) and commercial poultry was 534.74 million (growth of 4.5%).

Trends in Pan-India Production – Allied Sector

Figure 6: Share of Major Species as per Livestock Census (2019)



(Source: Livestock census (2019), DAHD, GoI)

India's Position in World Agriculture: In terms of geographical area, India ranks 7th in the world whereas in terms of population, we are ranked 2nd i.e. next to China which is the most populated country in the world. As of 2018's FAOSTAT (Food and Agriculture Organization of the United Nations), India's global production rankings are as below.

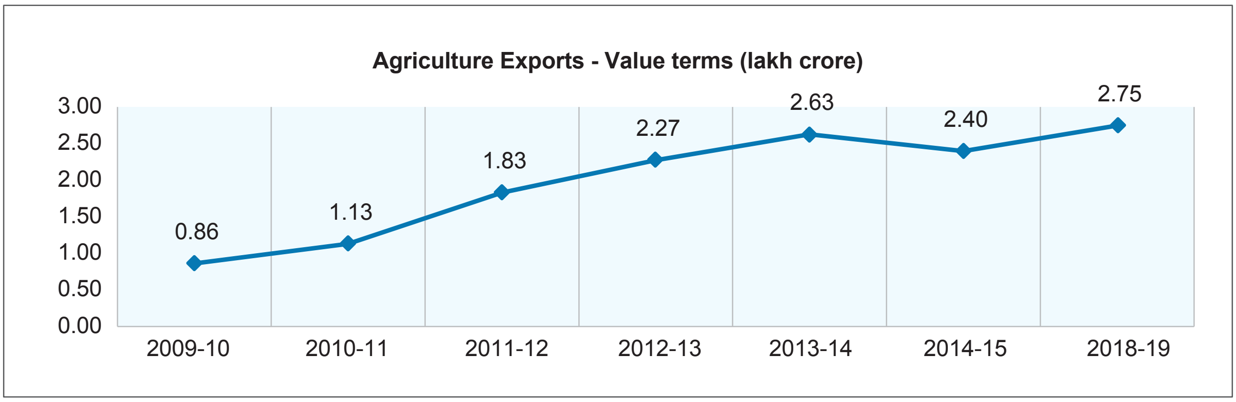
Table 3: India's Position in World Agriculture

Category	Largest Producer	2nd Largest Producer	3rd Largest Producer
Cereals, Pulses & Oilseeds	Millets, Pulses	Rice, Wheat, Lentil	Rapeseed, Sesame
Vegetables	Dry Beans, Chickpea, Okra	Lettuce & Chicory, Onion (dry), Cabbage, Cauliflower & Broccoli, Eggplant, Potato, Pumpkin, Squash & Gourd, Tomato	Green bean
Sugarcane	--	Sugarcane	--
Fruits	Banana, Mango, Guava, Lemons & Lime	Papaya	Oranges
Dairy	Buffalo Milk, Goat Milk	--	--
Spices	Chili pepper, ginger	Garlic	Nutmeg, Cardamoms
Fibres	Jute	Cotton, Silk	
Others	--	Cashew, Tea	Eggs

(Source: FAOSTAT-2018, FAO)

Agriculture Exports: Despite India's leading position in production of various agri-commodities as stated above, its agri-exports account for only a little over 2% of world agricultural trade. During 2018-19, the total agri-exports were valued at Rs. 2.75 lakh crore which constituted about 11.9% of the total country's exports. Thus, there exists a huge scope to tap this market. Though an increasing trend is observed as far as agri-exports are concerned (2009-10 to 2018-19), the pace remains slow.

Figure 7: Agriculture Exports in Value Terms



(Source: Agricultural Statistics at a Glance, 2019)

The share of different agri-commodities in exports are is presented in Figures 8 & 9.

Figure 8: Agriculture Exports in Quantitative Terms (2018-19)

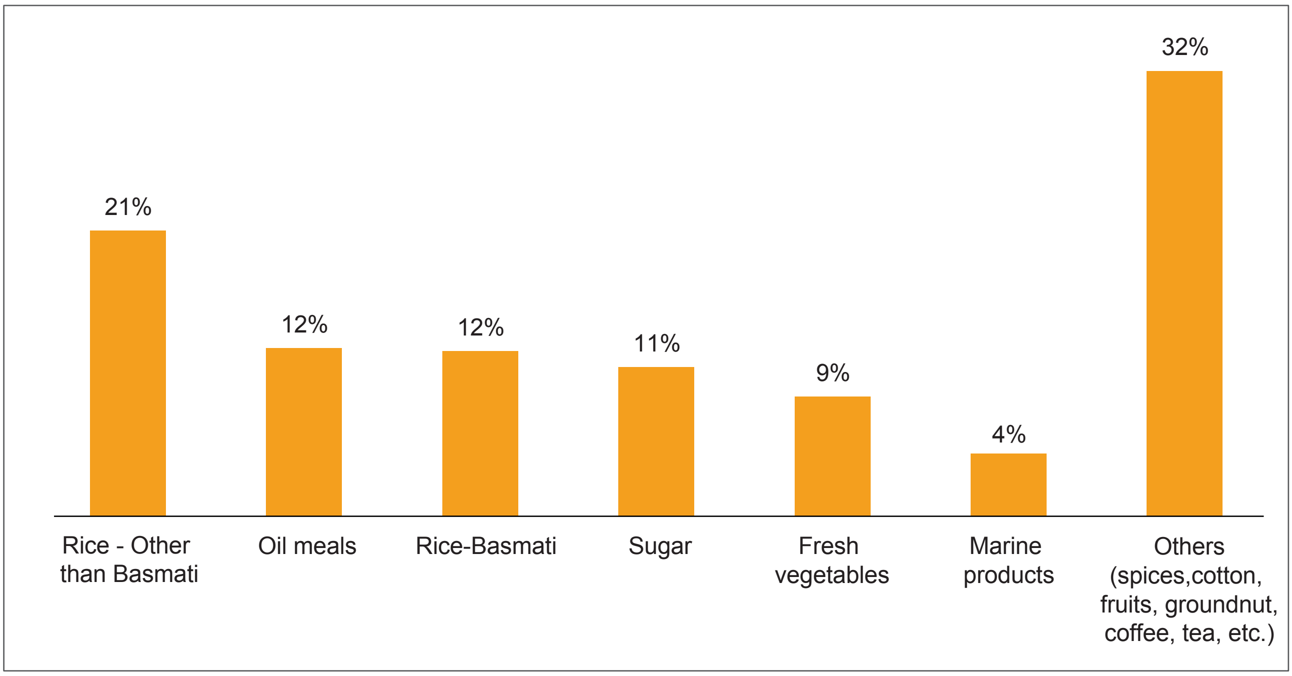
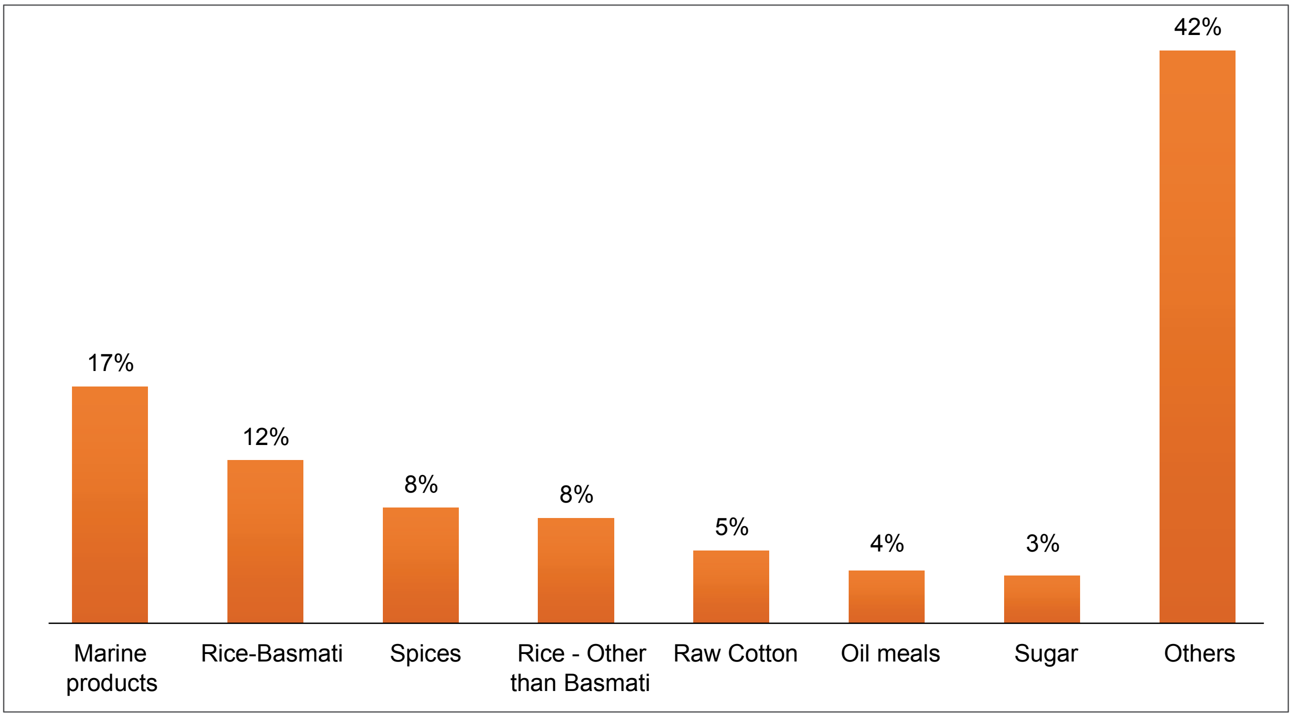


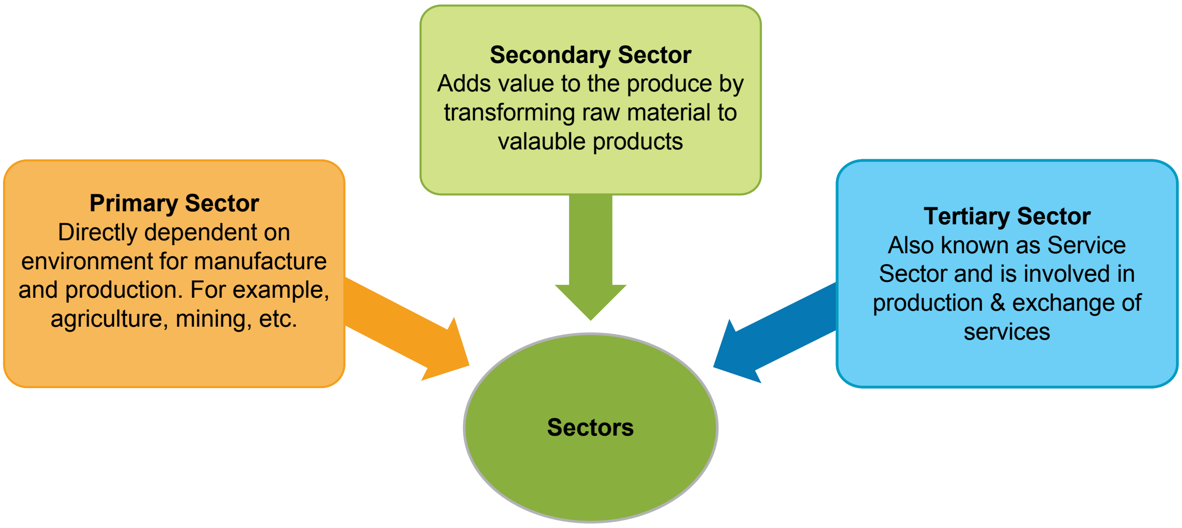
Figure 9: Agriculture Exports in Value Terms (2018-19)



Role of Agriculture & Allied Sector in Indian Economy

An economy is best understood through the study of its components or sectors which can be defined as large segments of the economy in which businesses share the same or a related product or service. Generally, an economy is categorized into three sectors viz. Primary, Secondary & Tertiary Sector.

Further, the economy is measured in terms of Gross Domestic Product (GDP) which is the value of all goods and services produced in it (all the three sectors) over a period of time. After following Gross Domestic Product (GDP) concept for many years in India, we have now switched over to the concept of Gross Value Added (GVA) to analyse the growth. While the GDP gives the picture from the consumers' side or demand perspective, the GVA gives a picture of the state of economic activity from the producers' side or supply side.



Gross Value Added (GVA)

It is used to measure the output or contribution of a particular sector. When such GVAs from all sectors (Σ GVA) are added together and adding taxes (product) and reducing subsidies (product), we can get the GDP (at market price). GVA, thus, shows the production contribution of a particular sector. Technically, GDP at Market Prices = Σ GVA at basic prices + product taxes – product subsidies. When GVA from all sectors are added together and necessary adjustment for taxes and subsidies are made, we get the GDP for the economy

Performance of Different Sectors in India

The performance of different sectors in Indian economic growth are presented in Table-4.

Table 4: GVA by Economic Activity at Constant (2011-12) basic prices

(₹ lakh crore)

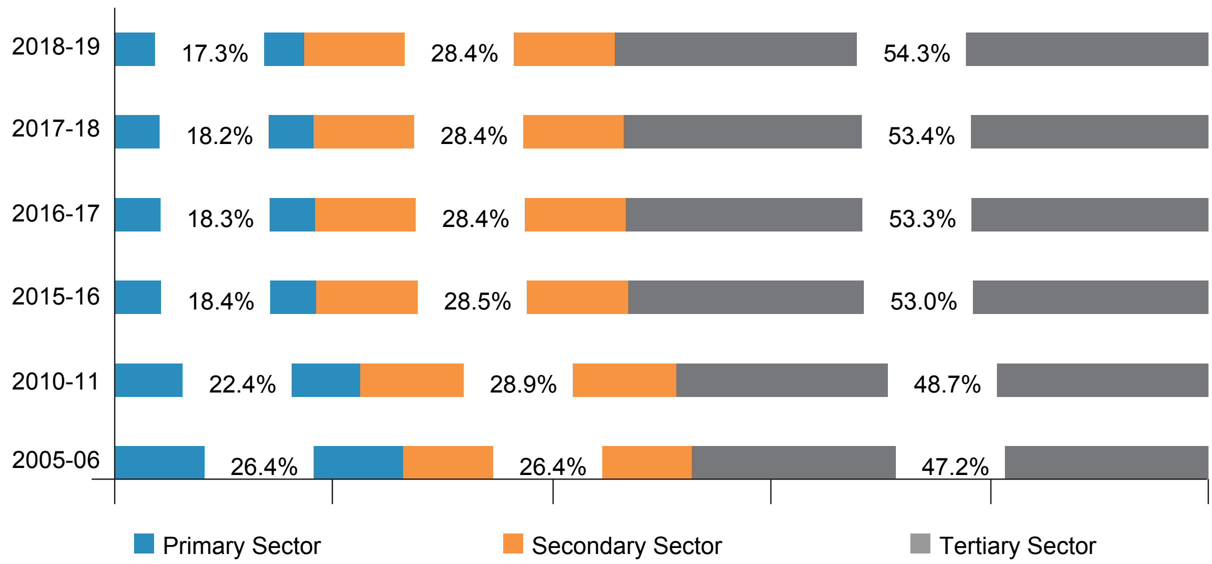
Sectors	2005-06	2010-11	2015-16	2016-17	2017-18	2018-19
Agri (Crops)	7.97	9.16	9.69	10.20	10.65	10.54
Agri Allied (Livestock)	2.24	3.04	4.20	4.62	4.96	5.36
Agri Allied (Forestry & logging)	1.37	1.26	1.37	1.45	1.53	1.54
Agri Allied (Fishing & Aquaculture)	0.50	0.65	0.90	1.00	1.14	1.28
Subtotal - Agri & Allied	12.08	14.12	16.16	17.26	18.28	18.72
Mining & Quarrying	2.46	3.17	3.18	3.49	3.66	3.45
Total - Primary Sector	**14.55**	**17.28**	**19.34**	**20.75**	**21.95**	**22.17**
Manufacturing	8.67	13.67	19.04	20.55	21.91	23.17

Electricity, Gas, Water Supply & Other Utility Services	1.23	1.72	2.24	2.46	2.74	2.97
Construction	4.65	6.87	8.65	9.16	9.62	10.20
Total - Secondary Sector	**14.56**	**22.26**	**29.93**	**32.18**	**34.27**	**36.34**
Trade, repair, hotels & restaurants	5.93	8.35	12.61	13.89	15.28	16.57
Transport, Storage communication & services related to Broad casting	3.40	4.94	7.31	7.57	7.82	8.31
Financial, Real State & professional Services	10.80	14.65	22.95	24.93	26.09	27.87
Public Administration, Defence & Other services	5.91	9.56	12.77	13.96	15.34	16.77
Total - Tertiary Sector	**26.04**	**37.50**	**55.64**	**60.35**	**64.53**	**69.52**
GVA at Basic Prices	**55.14**	**77.05**	**104.92**	**113.28**	**120.74**	**128.03**

(Source: Agricultural Statistics at a Glance, 2019)

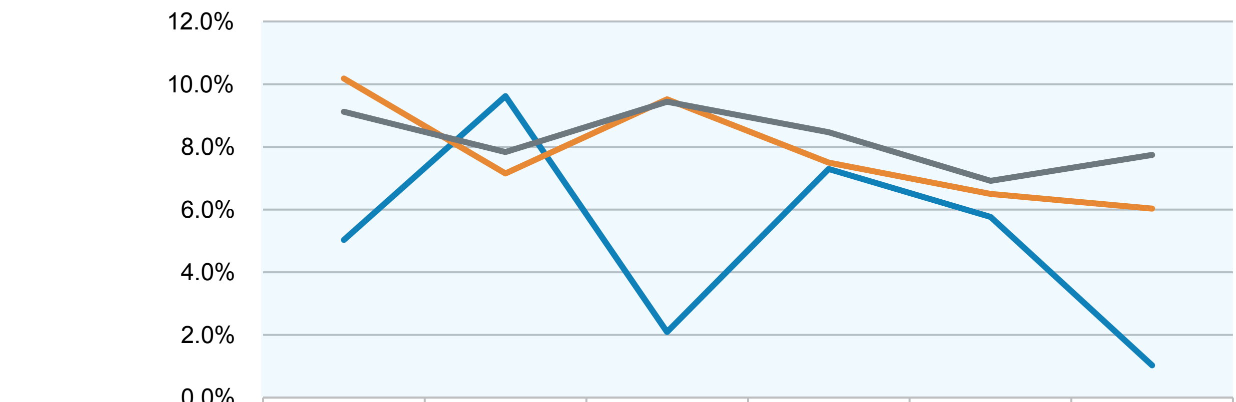
- We can observe that in absolute terms, the GVA shows an increasing trend and also the fact that all sectors including agriculture & allied activities exhibit a positive trend. However, it may be interesting to study the share of each sector and its growth pattern on a time series to get a more granular picture. The same is presented in Fig. 10 & 11.

Figure 10: Sectoral Share (%) in GVA



- From the above, it can be observed that only the share of primary sector in the GVA is showing a declining trend. This is in line with the normal course of the development path adopted during the movement from a developing to a developed economy, wherein with development, the secondary & tertiary sectors overtake the primary sector with their progression.
- With regard to growth rates among different sectors, a high variability in the growth rate of the primary sector can be observed (Agriculture & Allied Sector).

Figure 11 : Growth Rate of Different Sectors (%)



	2005-06	2010-11	2015-16	2016-17	2017-18	2018-19
Primary Sector	5.0%	9.6%	2.1%	7.3%	5.8%	1.0%
Secondry Sector	10.2%	7.1%	9.5%	7.5%	6.5%	6.0%
Tertiary Sector	9.1%	7.8%	9.4%	8.5%	6.9%	7.7%

Share of Agriculture & Allied Sector in the Indian Economy

Figure 12 : Agri & Allied sector - Share in GVA & Growth

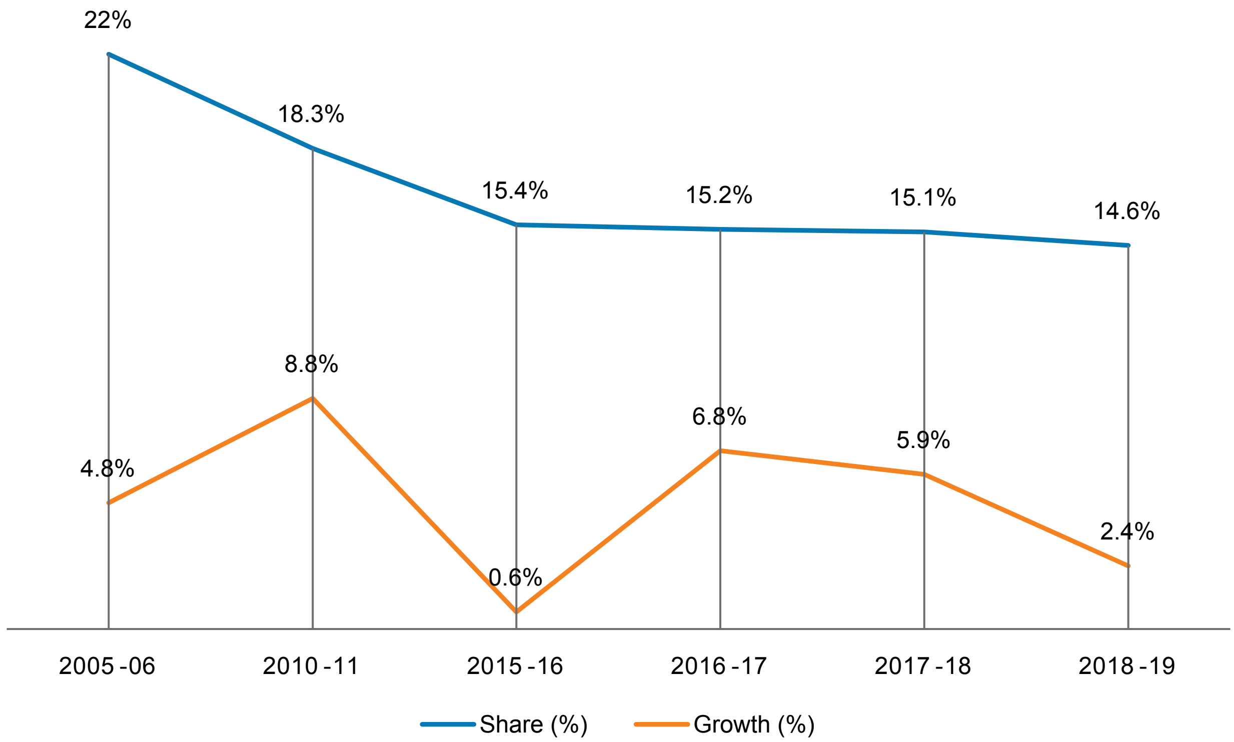


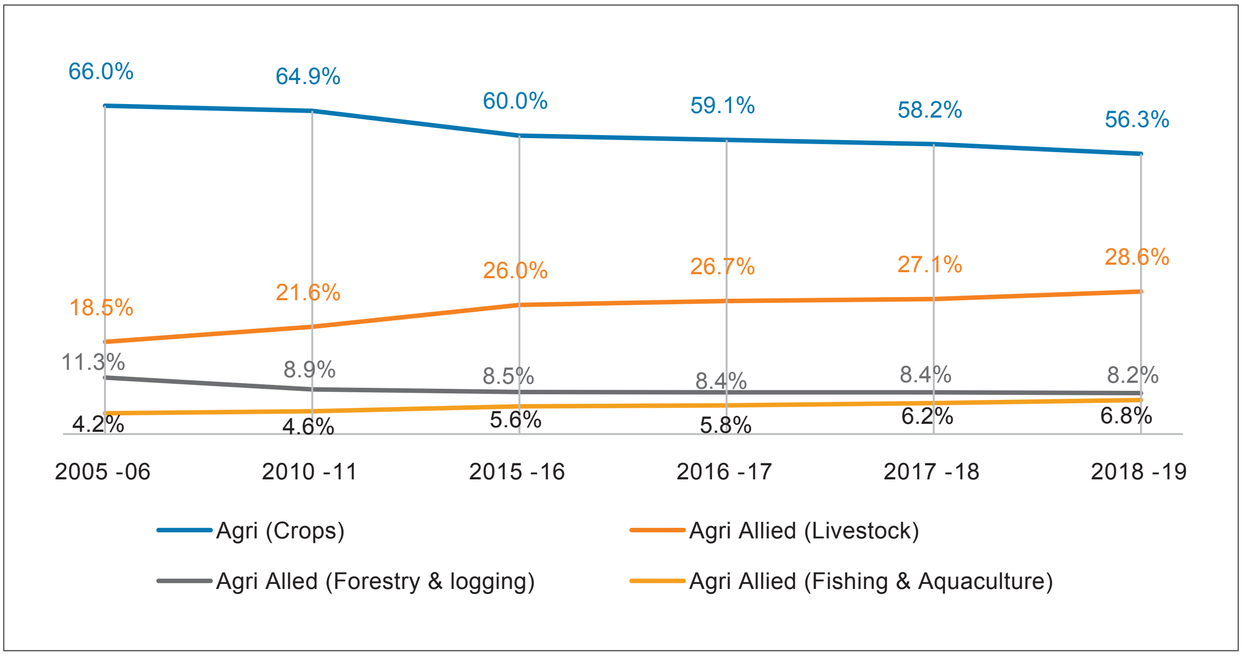
Table 5: GVA by Economic Activity at Constant (2011-12) Basic Prices

(₹ lakh crore)

Sectors	2005-06	2010-11	2015-16	2016-17	2017-18	2018-19
Agriculture	12.08	14.12	16.16	17.26	18.28	18.72
Agri (Crops)	7.97	9.16	9.69	10.20	10.65	10.54
Agri Allied (Livestock)	2.24	3.04	4.20	4.62	4.96	5.36
Agri Allied (Forestry & logging)	1.37	1.26	1.37	1.45	1.53	1.54
Agri Allied (Fishing & Aquaculture)	0.50	0.65	0.90	1.00	1.14	1.28
Industry	**17.02**	**25.43**	**33.11**	**35.67**	**37.93**	**39.79**
Services	**26.04**	**37.50**	**55.64**	**60.35**	**64.53**	**69.52**
GVA at Basic Prices	**55.14**	**77.05**	**104.92**	**113.28**	**120.74**	**128.03**

- Though the share of Agriculture & Allied Activities in total GVA is increasing in absolute terms, it shows a gradual decline in percentage terms (declined from more than 50% in 1950-51 to 14.6% in 2018-19.
- In the overall contribution of GVA by Agriculture & Allied Sector, the share of agriculture crops and forestry & logging is declining, whereas the share of livestock, fishing & aquaculture is increasing.

Figure 13 : Share of Sub-sectors within Agri & Allied Sector



Annexure-1

Nine-Fold Classification of Land Use

S. No.	Classification	Definitions
I	Forest area	Includes all land classified either as forest under any legal enactment, or administered as forest, whether state-owned or private, and whether wooded or maintained as potential forest land. The area of crops raised in the forest and grazing lands or areas open for grazing within the forests remain included under the "forest area".
II	Area under non-agricultural Use	Includes all land occupied by buildings, roads and railways or under water, e.g. rivers and canals, and other land put to uses other than agriculture.
III	Barren and un-culturable land	Includes all land covered by mountains, deserts, etc. Land which cannot be brought under cultivation except at an exorbitant cost is classified as un-culturable, whether it is in isolated blocks or within cultivated holdings.
IV	Permanent pasture and other grazing land	Includes all grazing land whether it is permanent pasture/meadows or not. Village common grazing land is included under this category.
V	Land under misc. tree crops, etc.	Includes all cultivable land which is not included in 'Net Area Sown' but is put to some agricultural use. Land under trees, thatching grasses, bamboo bushes and other groves for fuel, etc. which are not included under 'Orchards' is classified under this category.
VI	Culturable wasteland	Includes land available for cultivation, whether taken up or not taken up for cultivation once, but not cultivated during the last five years or more in succession including the current year for some reason or the other. Such land may be either fallow or covered with shrubs and jungles which are not put to any use. They may be accessible or inaccessible and may lie in isolated blocks or within cultivated holdings.
VII	Fallow lands other than current fallows	Includes all land which was taken up for cultivation but is temporarily out of cultivation for a period of not less than one year and not more than five years.
VIII	Current Fallows	Represents cropped area which is kept fallow during the current year.
IX	Net Area Sown	Represents the total area sown with crops and orchards. Area sown more than once in the same year is counted only once.

Some Concepts & Definitions for the terms used in text

S. No.	Particulars	Definition
I	Gross Cropped Area	Represents the total area sown once and/or more than once in a particular year, i.e. the area is counted as many times as there are sowings in a year. This total area is also known as total cropped area or total area sown.
II	Irrigated Area	The area is assumed to be irrigated for cultivation through such sources as canals (Govt. & Private), tanks, tube-wells, other wells and other sources. It is divided into two categories: Net Irrigated Area: It is the area irrigated through any source once in a year for a particular crop. i. Total Net Un-irrigated Area: It is the area arrived at by deducting the net irrigated area from net sown area. ii. Total/Gross Irrigated Area: It is the total area under crops, irrigated once and/or more than once in a year. It is counted as many times as the number of times the areas are cropped and irrigated in a year. iii. Total/Gross Un-Irrigated Area: It is the area arrived at by deducting the gross irrigated area from the gross sown area
III	Cropping Intensity:	It is the ratio of Net Area Sown to the Total Cropped Area.

Session II

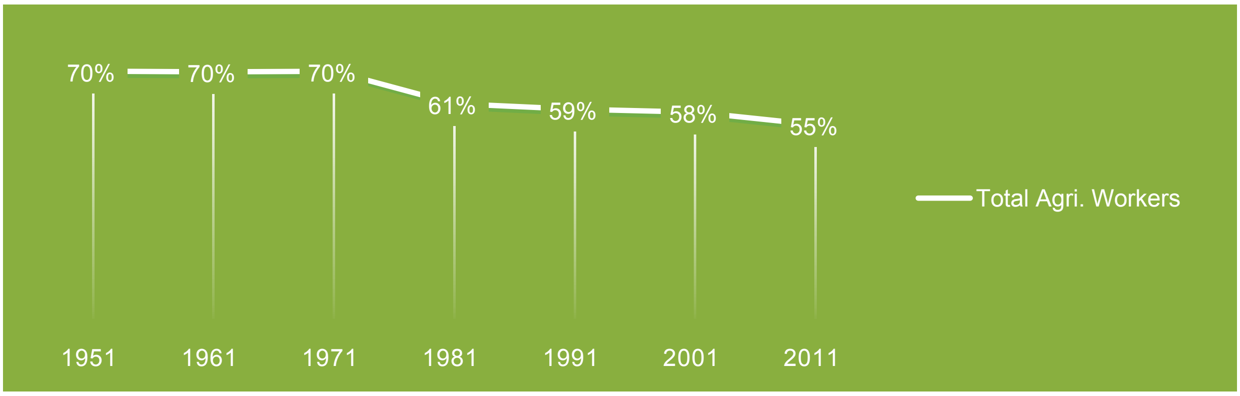
Making Smallholder Farming Viable in India – Concept of Aggregation and the Role of FPOs

The challenges faced by farmers, especially those in the marginal & small category are discussed below:

A. Issues related to high dependency for people for livelihood on Agri & Allied Sector

Table 6: GVA by Economic Activity at Constant (2011-12) basic prices

Year	1951	1961	1971	1981	1991	2001	2011
Total Workforce	139.5	188.4	180.4	244.6	314.1	402.2	481.9
Cultivators	69.9	99.5	78.2	92.5	110.7	127.3	118.8
Agri. Labours	27.3	31.5	47.5	55.5	74.6	106.8	144.3
Total Agri. Workers	97.2	131	125.7	148.0	185.3	234.1	263.1



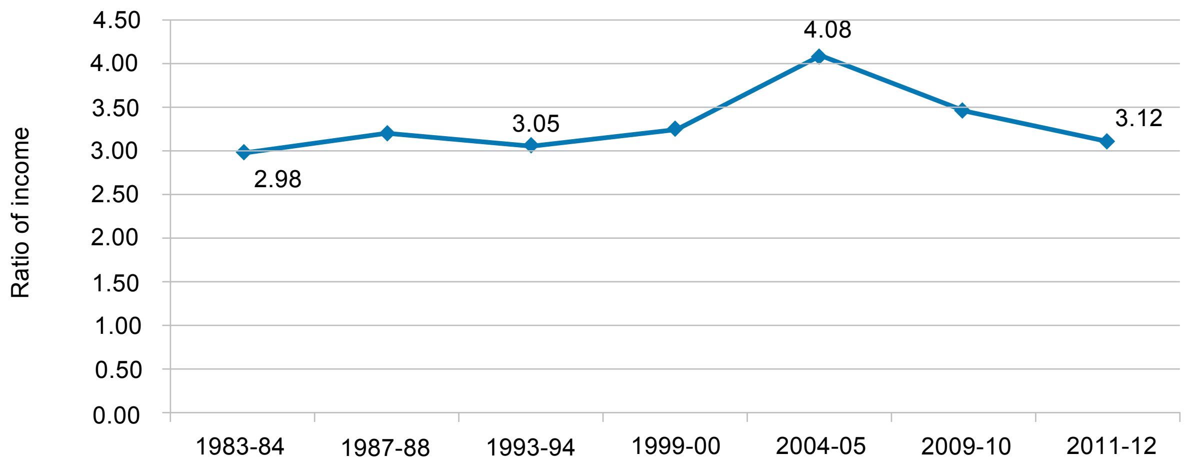
- A look at the scenario prevailing in the 1950s suggests that about 70% of the total workforce was dependent on agriculture and allied sector for their livelihood which now has reduced to about 55%.
- The share of Agriculture & Allied sector in GVA in 1950 was more than 50% which has now reduced to about 15%.
- Logically, with increasing share of manufacturing & service sector in GVA, there should have been a proportionate shift of workforce to these sectors as they are employment-generating sectors, but that has not taken place which has resulted in more dependency on this sector which has an adverse bearing on per capita income from this sector.

B. Income – Issue related to disparity in income as compared to Non-Agri-Worker

Past strategies for development of the agriculture sector in India have focused primarily on raising agricultural output and improving food security by strategizing production and productivity enhancement through better technologies & varieties, increased use of quality seeds, fertilizers, irrigation & agrochemicals and providing incentives in the form of remunerative prices on some crops and subsidies on farm inputs. Thus, the advocated policies in the past have supported production-oriented systems with focus on produce rather than the producer which created a disparity in the income of the farmers as compared to income of a non-agriculture worker.

- There was a more than 3-fold increase in the income of a non-agriculture worker as compared to a cultivator.
- This is causing an adverse impact on the interest in farming & farm investment, particularly in the minds of rural youth.

Figure 14: Ratio of income per non-agriculture worker to income per cultivator



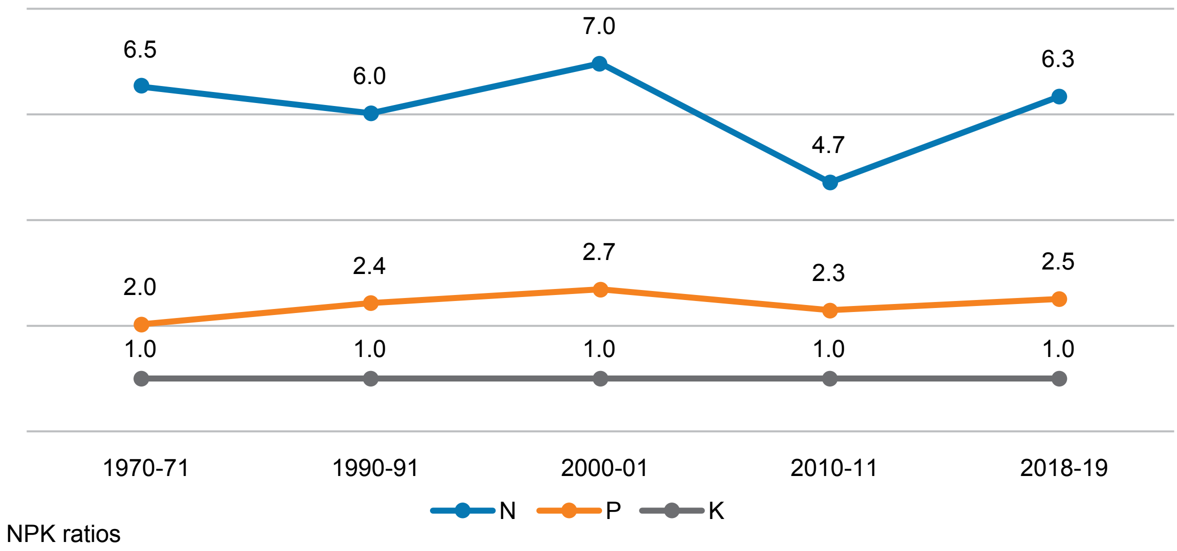
Source: Doubling farmers' Income – Rationale, Strategy, Prospects & Action Plan, Niti Ayog, 2017

C. Technology – Issues related to Transfer & Adoption of Technology

- Given that farmers are moving from subsistence to market-oriented farming, there is an increased requirement of information not only on production practices like new crop varieties & associated technology, but also on market-oriented information like trends in harvest season prices, quality of produce, and export markets. Several government schemes like crop insurance, subsidy on farm implements and electronic agricultural markets are knowledge-intensive, which need to be catered to through widespread dissemination of information. Thus, the right information at right time through appropriate channels is crucial for farmers to take informed decisions about what crops to grow, what quantity of fertilisers and pesticides to use and when, where to sell and what price to sell at.
- The ratio of extension workers to farmers is low at 1:1162 at national level (one agricultural officer serving 1162 farmers) as against the recommended ratio of 1:750. In spite of efforts by both public and private agencies, it has been found that the outreach of the agricultural officers as also extension agents from private agencies is limited *(Source: www.thehansindia.com - Reform-agri-extension-to-boost-ryots-income, 2018)*.
- As a result of the gap in technology transfer, the recommendations could not be adopted properly resulting in issues like:

  Indiscriminate Use of fertilizers: Resulting in not only worsening of human health but also soil degradation and loss of income to the farmers by impacting the production efficiency on account of higher cost of inputs.

Figure 15: NPK ratios related to fertilizer usage in agriculture



- The ideal ratio of NPK is 4:2:1 but average usage is more (6.3:2.5:1), resulting in not only wastage of fertilizer on account of atmospheric & leaching losses but also contamination of water aquifers, spoilage of soils and loss of income to the farmers (as fertilizers constitute about 10-15% of the cost of production).

D. Access to Inputs – Issues related to quality, timely availability & adequacy

- *'A smallholder farmer purchased maize seeds from a local input shop. The dealers' terms were that with a receipt, the seed would cost Rs.1500/-, but without a receipt the cost would fall to Rs.1400/-. Thinking that the receipt would be of no use to him, the farmer chose to pay Rs.1400/-. To his utter dismay, only around 20% of the seeds germinated. Upon reading the cover of the seed pocket, to his shock, he noticed that the seeds were for demonstration purposes and had expired three months ago. He took the empty pack back to the input shop and demanded compensation for loss of crop for that season. But without a receipt as proof of purchase, the farmer was powerless to obtain compensation.'*

- Farmers note that every cropping season, there is a dilemma in the village over whether they should buy inputs from a local shop or from a nearby town or city. Most farmers, particularly small and marginal farmers, buy the inputs they need (seeds, fertilizers or pesticides) using credit. The majority of the farmers we spoke with emphasized that close to fifty percent of their total crop production cost goes towards inputs. Thus, the quality of these inputs is very important. To ensure quality inputs, farmers can opt to buy from a retailer in the nearby town. However, they may not be able to obtain inputs on credit without a reference from the market intermediary. Those retailers who do provide inputs on credit to farmers then charge 2-3% interest rate per month till the harvest. There is also a requirement to sell the produce through the same trader (though there is no formal agreement). These restrictions and higher costs on purchases in the city, coupled with a one-day wage loss and transport costs for travel to the city (and delivery in the case of fertilizers), force most farmers to buy inputs from local unauthorized village shops. In the absence of insurance, if the crops fail due to poor quality inputs or for any other reason, farmers are then trapped in a vicious circle of debt *(Source: Does the small farmer have access to quality inputs?, ICRISAT, 2020)*.

- Further, apart from quality, the inputs are required at a particular time and in adequate quantities considering the seasonality concept which many a times is not the case.

E. Marketing Issues

- Based on recommendations of the Commission for Agricultural Costs and Prices (CACP), the Government of India (GOI) declares MSP for 22 commodities and FRP (Fair and Remunerative Price) for sugarcane. The 22 crops include 7 cereals (paddy, wheat, maize, sorghum, pearl millet, barley & ragi), 5 pulses (gram, tur, moong, urad & lentil), 7 oilseeds (groundnut, rapeseed-mustard, soyabean, sesamum, sunflower, safflower & nigerseed) and 4 commercial crops (copra, sugarcane, cotton & raw jute).
- During 2018-19, acreage under the crops for which MSP was declared was about 164.74 million hectares. With Gross Cropped Area (GCA) of around 198.36 million hectares, these crops roughly covered about 83% of the total GCA. Effectively, the coverage gets further extended, considering the fact that 4-5% of the total cropped area is under forage cultivation. Thus, the system has been devised in such a manner that theoretically, it leaves only a very small segment of producers outside the production and price mitigating mechanism. However, though the MSP is declared for 23 crops as on date, but effectively ensured through procurement only for few crops like wheat & paddy and thus, the effectiveness of the system at the ground level has been questioned from time to time.
- A comparison of the production and procurement data of rice and wheat for last 10 years (2009-10 to 2018-19) is presented in Table-7.

Table 7: All India Production & Procurement (Rice & Wheat) at MSP (2009-10 to 2018-19)

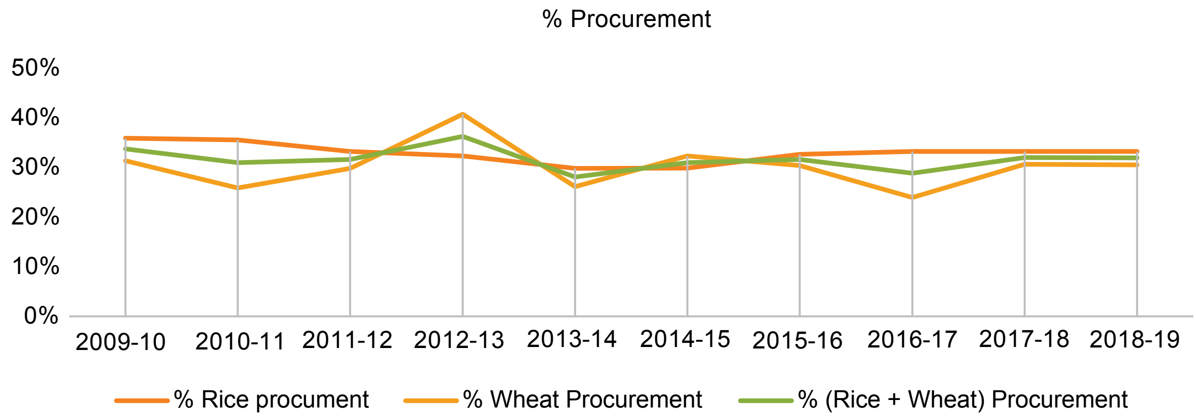
(million tonnes)

Year	Production			Procurement		
	Rice	Wheat	Total	Rice	Wheat	Total
2009-10	89.09	80.80	169.89	32.03	25.38	57.42
2010-11	95.98	86.87	182.85	34.20	22.51	56.71
2011-12	105.30	94.88	200.18	35.04	28.34	63.38
2012-13	105.24	93.51	198.75	34.04	38.15	72.19
2013-14	106.65	95.85	202.50	31.85	25.09	56.94
2014-15	105.48	86.53	192.01	31.55	28.02	59.57
2015-16	104.41	92.29	196.70	34.14	28.09	62.23
2016-17	109.70	98.51	208.21	36.48	23.63	60.11
2017-18	112.91	99.70	212.61	37.60	30.60	68.20
2018-19	116.40	102.20	218.60	42.70	35.00	77.70
Avg.	**10 5.12**	**93.11**	**198.23**	**34.96**	**28.48**	**63.45**

(Source: Statistics on Indian Economy 2018-19, RBI)

On an average basis, only 63.45 million tonnes of rice and wheat was procured against the average production of 198.23 million tonnes. In percentage terms, the average overall procurement was about 32% of the rice + wheat production put together. The procurement under rice was about 33% and in wheat was about 30% of total production.

Figure 16: Procurement (Rice & Wheat) to production under MSP (2009-10 to 2018-19)



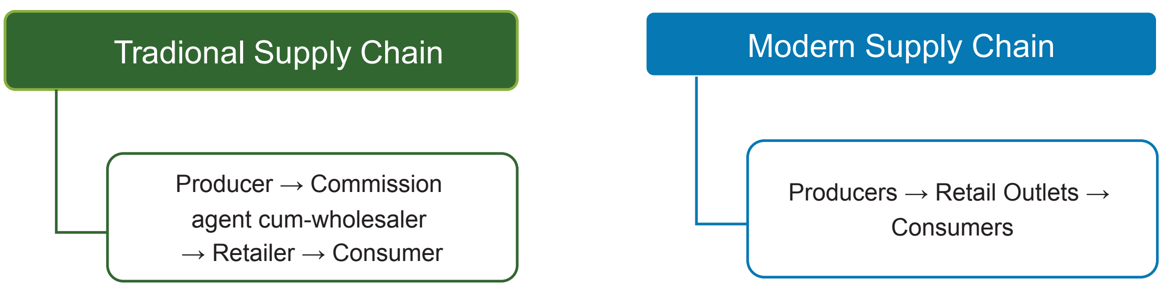
- Spatial disparity in terms of procurement being concentrated only in a few states also exists. The largest producer of rice is West Bengal and that of wheat is Uttar Pradesh whereas the average procurement during last 5 years (2014-15 to 2018-19) for these states were only 11.9% and 8.9% respectively.
- While it is true that now the MSP offered by the Government is 50% more than the A2+FL Cost as determined by the CACP, various farmer organizations are demanding 50% increase over the 'C2' cost and not over the 'A2+FL' cost.

I	A2	Actual paid out cost
II	A2+FL	Actual paid out cost plus imputed value of family labour
III	C2	Comprehensive cost i.e. including rental value of own land (Net of land revenue) and interest on value of own fixed capital assets (excluding land)

In this scenario, as a way forward for income enhancement, farmers would be required to undertake crop rotation planning based on demand & supply with active participation on different marketing platforms including the institutional setup like e-NAM, commodity exchanges & contract farming for risk hedging, participation in global markets through exports, contract farming, use of direct marketing channels to capture intermediaries' margins in supply & value chains, etc.

F. Less Producer Share in Consumer Price (Limited Participation in Supply & Value Chains)

The average share of farmers in the consumers' rupee is found to be in a range of 28% and 78% for different food items (RBI Bulletin, 2019). A majority of studies have reported that the producers associated with emerging marketing channels (organised retail chains) have been experiencing more advantages than those with the traditional supply chain.



The producers contracted by modern retail chains receive higher prices, higher net profits and incur lower transaction costs. Several studies have been conducted in different parts of India to compare the efficiency of the traditional as well as modern supply chain of vegetables and fruits. The net price received by the producers and producers' share in consumer's rupee was higher in supermarket channels than in traditional channels. The direct market models were found to be the best because they eliminated middlemen completely. Thus, the length of the supply chain has a negative impact on the efficiency of the marketing channel. **But the issue is that the marginal & small farmers are not able to participate and take advantage of it in individual capacities due to time constraints, not undertaking primary processing and requirement of quantities in bulk.**

> **"...... study was undertaken in Hisar & Karnal district of Haryana to compare the marketing efficiency of fruits and vegetables supply chain. The findings of the study revealed that the modern supply chain (MSC) for fruits and vegetables was more efficient than the traditional supply chain (TSC) for both the fruits and vegetables. The percentage of physical losses at TSC was found to be 20.6% while in the MSC, it was only 6.66 %. The share of the producer in consumer's rupee was found to be 52% and 43% in MSC and TSC respectively for vegetables. However, producers share in consumer's rupee was found to be 70% & 66% in MSC and TSC of fruits. The major factors contributing to the efficiency of MSC were found to be a short length of the supply chain, packaging and less physical loss in the MSC".**

Source: Marketing Efficiency between Traditional and Modern Supply Chains of Fruits and Vegetables by Jaiprakash Bisen, R. K. Patel, K.K. Kundu and Sanjay in Economic Affairs, Vol. 63, No. 2, pp. 441-447, June 2018

G. Reducing Landholding Size (Issue of economies of scale)

As at the end of 2015-16, the total operational landholdings in the country were 14.65 crores. Based on the size of land holdings, they can be divided into 5 categories viz. Marginal, Small, Semi-Medium, Medium and Large. The details of number of land holdings category wise are presented in Table 8.

Table 8: Number of Operational Landholding by Size

S. No.	Categories	Land Holding	Number of Holdings (crore)		
		(Area in Hectares)	2005-06	2010-11	2015-16
1	Marginal Farmers (MF)	< 1	8.37	9.28	10.03
2	Small Farmers (SF)	1 - 2	2.39	2.48	2.58
3	Semi-Medium Farmers (SEMEF)	2.1 - 4.0	1.41	1.39	1.40
4	Medium Farmers (MEF)	4.1 - 10	0.64	0.59	0.56
5	Large Farmers (LF)	> 10	0.11	0.10	0.08
Total Land Holdings			**12.92**	**13.83**	**14.65**

- The number of holdings in the marginal land category were about 68.5% (2015-16) and an increasing trend is observed with time most probably on account of division of land within the family.
- Similarly, the landholdings in other categories are showing a declining trend over a period of time.
- About 86.1% farmers (2015-16) belong to the category of small & marginal farmers i.e. have land holding of less than 2.0 hectares.

Figure 17: Category-wise change in number of landholdings with time

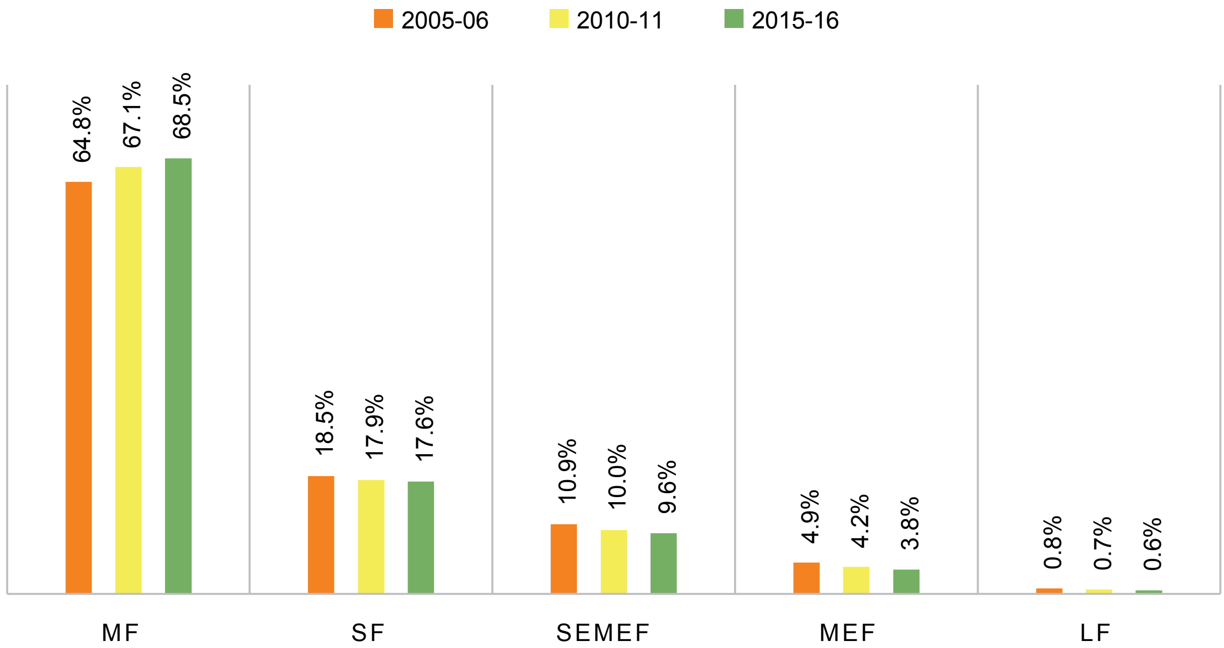
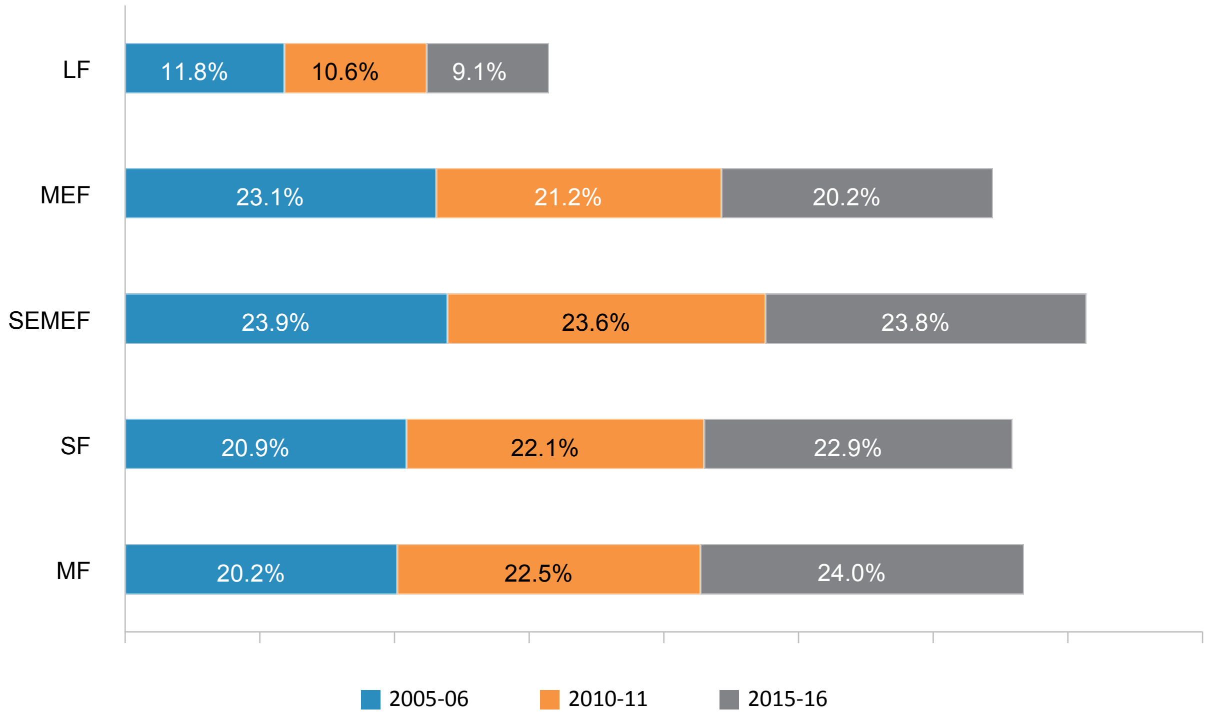


Figure 18: Area of Operational Landholdings by Category



- The area cultivated by farmers having marginal and small landholdings is increasing with time and the area being cultivated by medium & large farmers is declining with time.
- As on 2015-16, the area cultivated by small & marginal farmers constituted 46.9% of the total cultivated area.
- The all India average landholding is 1.08 hectares (2015-16) and showing a declining trend with time.
- The average landholding of marginal farmers is just 0.38 hectares (2015-16) and that of small farmers is just 1.40 hectares.

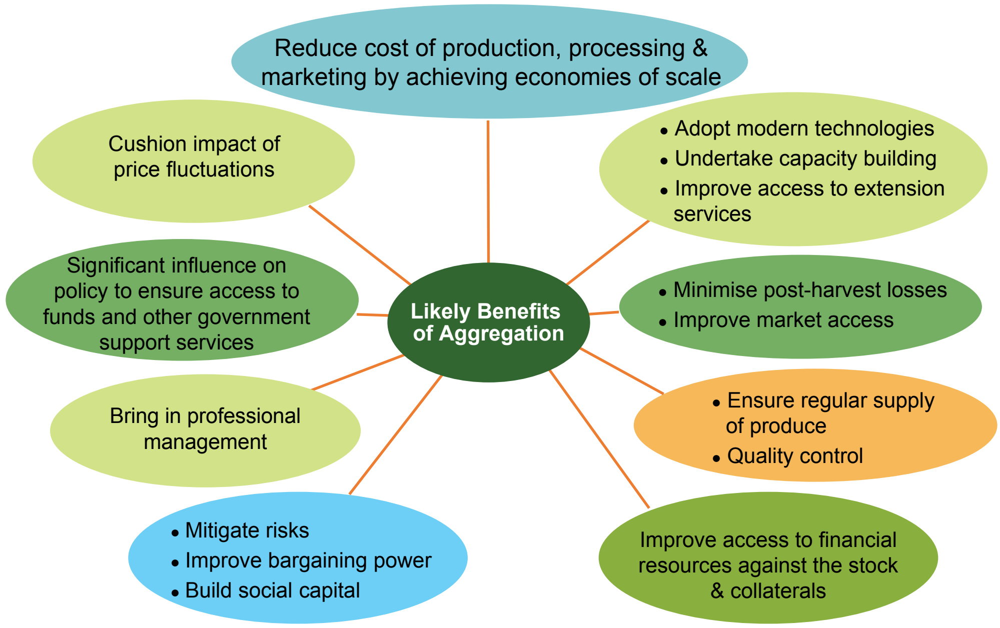
Figure 19: Average Landholding Size (Ha)

Let us look at these issues and try to find a way forward:

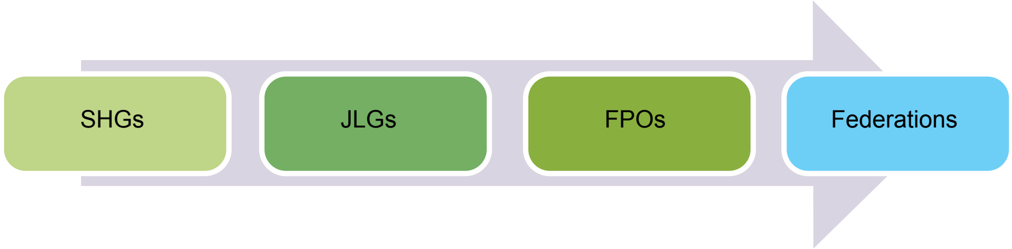
Let us start with the basic issue that the average landholding is only 1.08 hectare and the fact that with family divisions in future, this trend is likely to continue. As per the data available almost 86% of the landholdings are with farmers under the category of small and marginal landholdings i.e. less than 2.0 hectares of land. Within this category, almost 69% farmers are cultivating on an average about 0.38 hectare of land and about 17.6% farmers in India are cultivating on an average about 1.40 hectare of land which means they are producing agriculture commodities on a very limited scale on individual basis. As a result, they are likely to come across some of the following constraints:

May not be able to take advantage of economies of scale both on input side as well as output side	Have very limited bargaining power on account of low scale of production	Viability may be an issue for higher order mechanisation
May not be viable to create farm level storage infratructure which can facilitate taking advantage of price movement of commodities with time	May not be in a position to participate at advanced level of supply chain including global markets through exports	Would not be in a position to participate in value chain (processing) for increasing thier share in the consumer price
Appropriate & timely technical assistance and access to modern technology limited on account of distorted ratio of extension workers & farmers	Access to markets specially the modern marketing channels & contract farming for better price realisation will be challenge as they deal in bulk quantitites	Difficulty in participating in government programs on account of awareness and time constraints

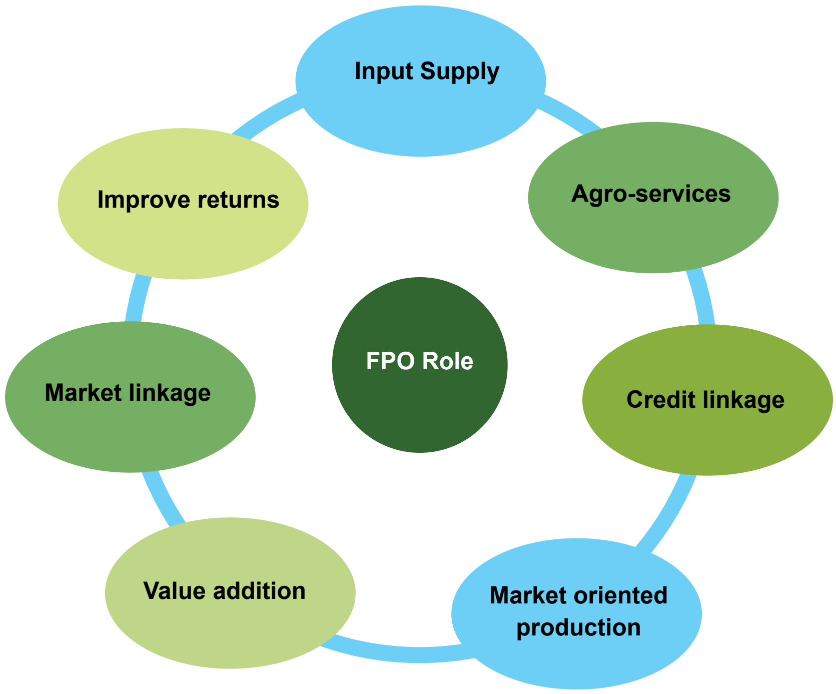
Could aggregation of these small and marginal farmers be a probable solution?



Mode of Aggregation



Role of Farmer Producers' Organisations (FPOs)



Session III & IV

Salient features of Central Sector Scheme on Formation & Promotion of 10000 FPOs **Role, Responsibilities, Key Performance** Indicators & Deliverables for CBBOs

A. Background

Realising the indispensable role of collectivisation of farmers, particularly small and marginal farmers into their groups for leveraging the economies of scale in production and marketing, Department of Agriculture, Cooperation & Farmers' Welfare (DAC&FW), Ministry of Agriculture & Farmers' Welfare (MoA&FW), Government of India, launched a pilot programme for promotion of Farmers Producer Organisations (FPOs) during 2011-12 under two sub-schemes of Rashtriya Krishi Vikas Yojna (RKVY) viz. National Vegetable Initiative for Urban Clusters and Programme for Pulses Development for 60,000 rainfed villages.

The initiative gained real momentum in 2013 with the formulation of National Policy and Process Guidelines for FPOs and with the introduction two schemes viz. Equity and Credit Guarantee Scheme for Farmer Producer Organizations (FPOs). This was followed by the setting up of a dedicated 'Producers Organization Development and Upliftment Corpus' (PRODUCE) Fund with NABARD in 2014 for formation of 2000 FPOs. Presently, more than 6500 FPOs are operating on the ground. With an objective of bringing more farmers, particularly the marginal & small farmers under the FPO fold for addressing the challenges being faced by them viz. lack of market access, credit linkages, inadequate financial support, lack of managerial skill, etc., the DAC&FW has launched a dedicated Central Sector Scheme on **'Formation and Promotion of 10,000 Farmer Producer Organisations (FPOs)'**.

B. Aims & Objectives of the Scheme

i. To provide a holistic and broad-based supportive ecosystem to form new 10,000 FPOs to facilitate development of vibrant and sustainable income-oriented farming and for overall socio-economic development and well-being of agrarian communities.

ii. To enhance productivity through efficient, cost-effective and sustainable resource use and realize higher returns through better liquidity and market linkages for their produce and become sustainable through collective action.

iii. To provide handholding and support to new FPOs for up to 5 years from the year of creation in all aspects of management of FPO, inputs, production, processing and value addition, market linkages, credit linkages and use of technology, etc.

iv. To provide effective capacity building to FPOs to develop agri-entrepreneurship skills to become economically viable and self-sustaining beyond the period of support from government

C. Key features of the scheme

1. Target & Coverage:

a. The scheme aims at providing a holistic & broad-based supportive ecosystem for formation of 10,000 new FPOs by 2023-24. For achieving economic viability & self-sustainability beyond support period, newly formed FPOs are to be initially provided handholding support in terms of capacity enhancement in areas of management, governance, business development and business diversification particularly through their participation in supply & value chains, market linkages, credit linkages and use of technology, etc.

b. FPOs are to be formed with a minimum farmer-members' base of 300 with an exception of 100 members in difficult areas like North-Eastern & Hilly regions ***(area at a height of 1000 metre or above MSL)***. For above, the farmer-members cohesively located with similar interests are to be mobilized to form a small informal group of 15-20 members (Farmer Interest Group (FIG)/ Self Help Group (SHG)/ Farmers Club (FC)/ Joint Liability Group (JLG)/ Rythu Mitra Group (RMG)) and with such groups forming an area-based producer cluster based on certain commonalities to be put together to form an FPO.

c. Special focus is to be accorded to small & marginal farmers, women farmers, women SHGs, SC/ST farmers and other economically weaker categories to make FPOs more effective and inclusive.

d. Concerted efforts to be made for prioritizing formation of FPOs in aspirational districts with a target of promoting at least 15% of the 10,000 FPOs i.e. 1,500 FPOs. The aim set is to promote at least one FPO in each block of every aspirational district of the country.

e. In addition to the above, priority is to be given to promotion of FPOs in the notified tribal areas in the country for undertaking business activities in forest and minor forest produce by the tribal communities through convergence with schemes of Tribal Affairs Ministry, DONER and North Eastern Council (NEC).

f. Overall, the scheme envisages covering all blocks in the country under and also achieve an average membership base of 500 farmers in normal areas and 200 farmers in hilly and North-Eastern regions to make them sizable for economic sustainability and profitability.

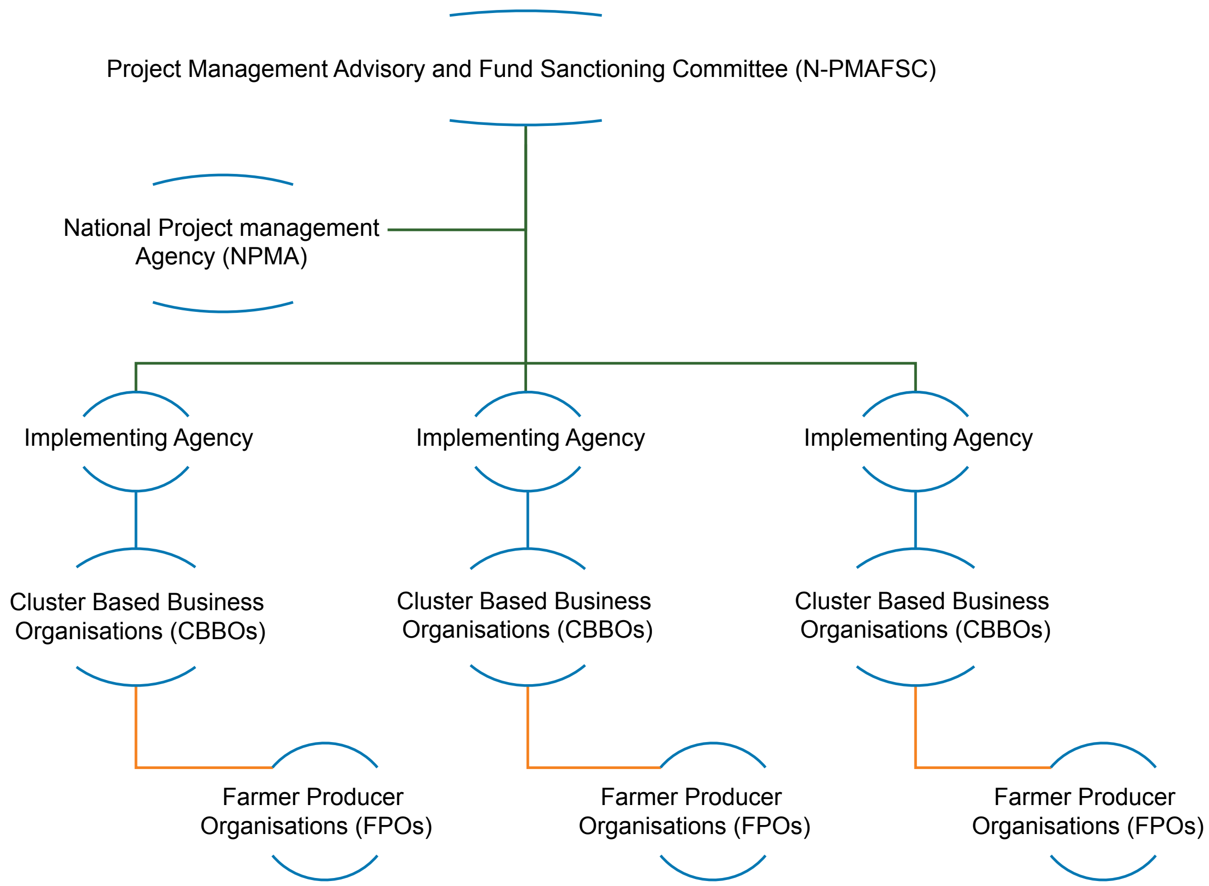
g. Types of FPOs Covered: FPO is a generic term, which means and includes farmer- producers' organizations incorporated/ registered either under Part IX A of the Companies Act or under Co-operative Societies Act of the concerned states, and formed for the purpose of leveraging collectives through economies of scale in production and marketing of agricultural and allied sector. **However, FPOs registered under Cooperative Societies Act of the State (including Mutually Aided or Self-reliant Cooperative Societies Act by whatever name it is called) for the purpose of this Scheme, are to be insulated from all kinds of interference including election process and day to day management through suitable provisioning in their Memorandum of Association and By-laws with a view to encourage healthy growth and development of FPO**

h. Budgetary provision: The scheme is to be implemented till 2023-24 with budgetary support of Rs. 4496.00 crore. Since financial support *(except management cost)* is to be extended for five years, FPOs formed will be required to be financially supported till 2027-28. Provision for this additional committed liability for period from 2024-25 till 2027-28 of Rs. 2369.00 crore will be made. Thus, the total budgetary requirement up to 2027-28 would be Rs. 6866.00 crore. The budget requirement will be met from overall allocations of DAC&FW.

2. Stakeholders – Role & Responsibilities

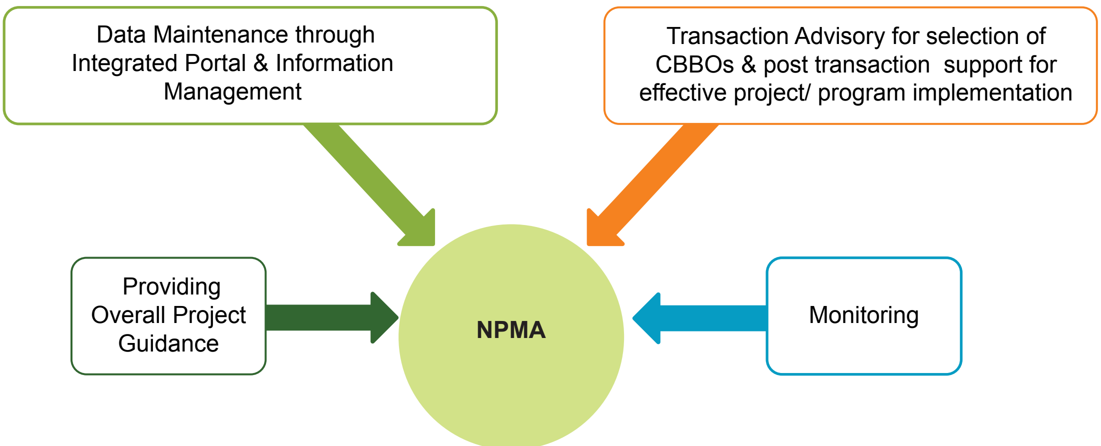
The program will be implemented under the overall guidance of **Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC)** constituted under the Chairmanship of Secretary, DAC&FW with Joint Secretary (Marketing), and DAC&FW as Member Secretary. The hierarchical structure under the scheme would be as under:

As per the scheme guidelines, the important stakeholders, their respective roles as also the implementation & monitoring mechanism prescribed are as under:



a. National Project Management Agency (NPMA):

NPMA shall be set up by SFAC for the following purpose:



NPMA is to be equipped with a technical team comprising five categories of specialists viz. Agriculture / Horticulture, Marketing & Processing, Incubation Service Provider, IT/MIS and Law & Accounting for providing overall guidance at All India level

- Identification of target value chains (value chain analysis)
- Detailed SOPs for each stakeholder in the value chain
- Clusters to be chosen for FPO formation

- Function as national level Data Repository through maintenance of an integrated portal
- Serve as National Platform for FPOs (MIS & digital platform for maintaining FPO related data

- NPMA will assist in facilitating and identifying National & State level institutes in the field of Agri-business
- Assist in linking/ undertaking MoUs with these institutions for long term engagement & development of FPOs

b. Implementing Agencies (IAs)

i. For promoting FPOs in uniform and effective manner, three implementing agencies viz. NABARD, SFAC & NCDC have been identified.

NABARD

Promote FPOs registered under Part IX A of Companies Act as also under Co-operative Societies Act of States

SFAC

Promote FPOs registered only under Part IX A of Companies Act

NCDC

Promote FPOs registered under only Co- operative Societies Act of the States

ii. Based on the implementing agencies' area of operation in a particular state/ region/district/produce cluster along with their human resource capital and area of specialization, targets for number of FPOs to be promoted by them will be tentatively allocated by Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC).

iii. In addition to the aforementioned three implementing agencies, in case any State/Union Territory desires to have its own implementing agency, they can approach DAC&FW for consideration of the same.

Role of Implementing Agencies

a) Identification of CBBOs

b) Provide funds to CBBOs & FPOs as envisaged in the Scheme

c) Monitoring of CBBOs & undertaking regular desk and/or field monitoring of the borrowing FPOs

d) Ensuring regular data entry on integrated portal (Integrated National Level Data Repository through Portal managed through NPMA)

e) NABARD and NCDC will also maintain and manage the Credit Guarantee Fund (CGF) for credit guarantee to banks for FPO financing

f) Developing tools for FPOs to assess their level of activity, economic viability and sustainability, etc.

g) Coordination with concerned Value-Chain Organization(s) for channelizing their claim to N-PMAFSC for payment

c. Cluster-Based Business Organisations (CBBOs):

i. Implementing Agencies will be identifying **Cluster-Based Business Organizations (CBBOs)** at the state/cluster level to form and promote FPOs. A Committee under Chairpersonship of MD, SFAC with representatives of Chairman, NABARD and MD, NCDC will finalise the eligibility criteria for selection of CBBOs for consideration of DAC&FW.

ii. In a given state, based on geography, produce clusters, cropping pattern, etc., there can be one or more CBBO and a CBBO can also serve more than one State.

iii. CBBOs should have professional expertise & requisite experience in formation of FPOs in agriculture & allied sector and should have a panel of specialists in the following domain areas :

- Crop husbandry
- Agri. marketing / value addition and processing
- Social mobilization
- Law & Accounts
- Information Technology/ Management Information System

Role of CBBOs

CBBOs will undertake a Feasibility Study in assigned clusters which will include the following:

a. Cluster Identification – Undertaking diagnostic study including baseline survey to:
   - Map the current situation of farming specially in respect of small, marginal and landless farmers for aggregation
   - Identify the geographical area for potential interventions
   - Based on socio-cultural similarity, identify the produce, existing gap (production know-how, supply & value chain, post-harvest management, marketing, etc.) and the scope of potential interventions
   - Shortlist interventions in terms of infrastructure, services, etc. required in the value chain development of identified agricultural/horticultural produce including post-harvest management and marketing

b. Preparation of Prospective Business Plan: Prepare a prospective business plan in order to establish a fit case for formation of an economically sustainable FPO

c. Undertake community mobilization as well as mobilization of members for FPO

d. Registration of FPO

e. Execution of FPO business plan

f. Training and capacity-building of FPOs/farmer groups (FPO management, marketing, financial management, compliance management, etc.)

g. Monitoring and data submission as required under the scheme

h. Assisting in regular interface with stakeholders

i. Convergence with ongoing government programs/schemes & networking

j. Assisting in Federating FPOs

i. Moreover, interested Central & State Government Agriculture Universities & KVKs promoting FPOs can also seek empanelment as CBBOs in consultation with N-PMAFSC on nomination basis.

d. Formation of FPO (Industry Concept)

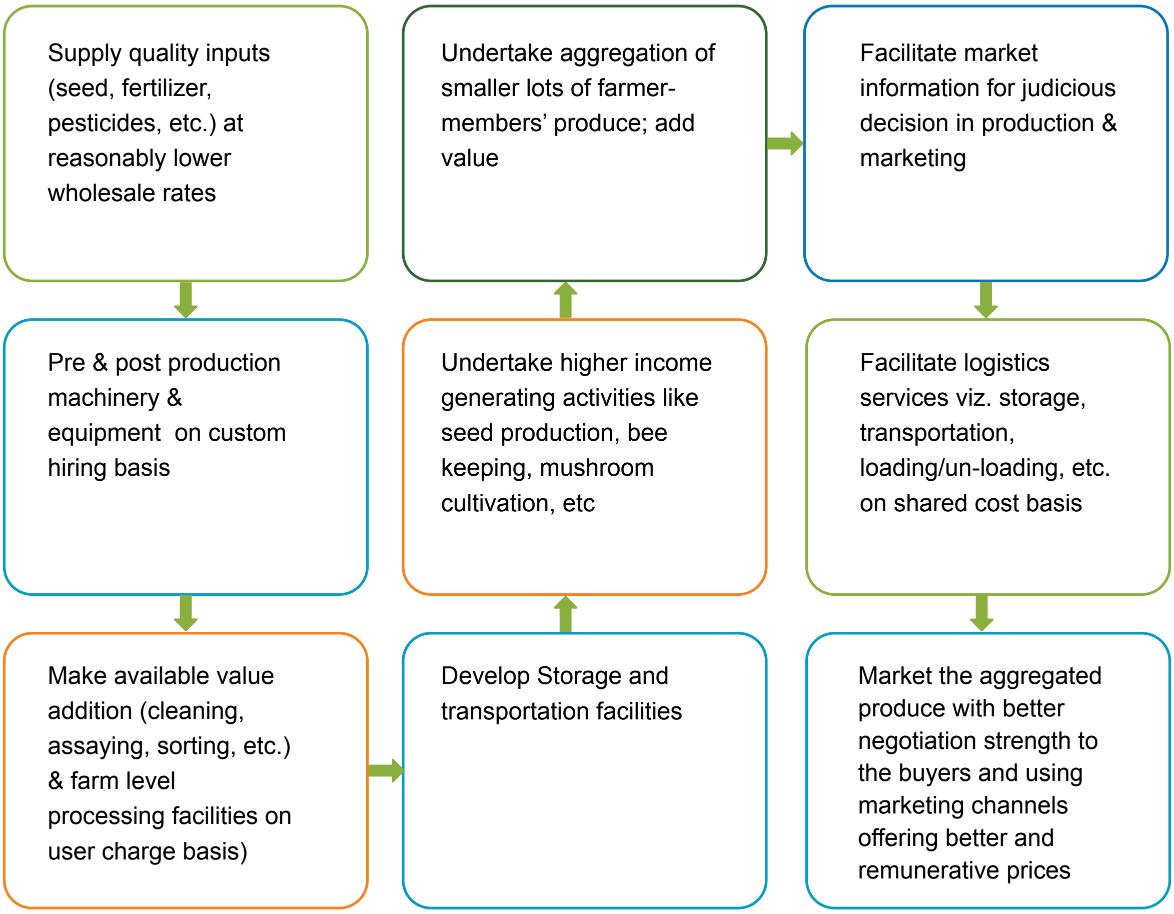
i. Concerned industries (Value Chain Processing & Export industries) can also form and promote FPOs directly through cluster approaches and will be eligible for assistance under the scheme. However, their eligibility is subject to the condition of ensuring buyback of at least 60% of the produce of members of such FPOs with appropriate processing & assured marketing linkages on sustainable basis for remunerative prices to improve the income of the members.

ii. The FPOs promoted by them can avail credit guarantee cover under Credit Guarantee Fund from banks as well as equity grant through implementing agencies and the advisory services rendered by NPMA provided they comply with the norms & guidelines of respective schemes.

iii. However, for participating in the program, these entities are required to submit detailed proposals in advance to N-PMAFSC along with year-wise action plans for consideration.

e. Thrust on FPO participation in product value chains:

For sustaining an FPO, in addition to business as usual (aggregation model), the focus under the scheme is to explore possibilities for FPOs' participation in the supply & value chain business. Thus, the business modelling should incorporate participation of FPOs in supply chain & value chains along with standard model to strike viability. The standard business model could be as under:



- For economical sustainability, diversification of risk and enhanced returns, the FPO can also have an additional product and service mix so as to have enough activities and engagements with the members throughout the year.

a. **Value Chain Approach:** The business activities should be based on Produce Cluster Area *(a geographical area wherein agricultural and allied produce of similar or of almost similar nature is grown/cultivated)* with a possibility of leveraging economies of scale in production and marketing. A cluster could also be for organic produce and natural farming. While adopting a cluster-based approach for produce or produce mix, formation of FPOs can also focus on *"One District One Product"* approach for development of product specialization. In case a focused agriculture produce has been declared for a district, FPOs can be encouraged for promoting processing, branding, marketing and export of that product for better value realization. There may be more than one cluster for one product in one district and a cluster can also extend beyond a district. Further, the FPOs can federate at district & state levels for the product identified as per their requirement of processing, branding and marketing of produce/trading of commodities. This is essential to scale-up for survivability and growth in an era of competition. Based on their need, success, and product, they can also federate at the national level to promote packaging, branding and domestic & international trading of quality produce.

Why Value Chain Business?

Presently, the participation of farmers in the value chain (producer to consumer) is limited to only farm gate for a majority of the farmers. The prices they receive for their raw goods is only a small fraction of the price paid by the consumer. On account of not getting involved in aggregation and processing (primary and/or secondary), where price margins are more on account of value addition, farmers operate on a very thin margin. Thus, there is a need for their participation beyond the harvesting of the produce in the value chain for increased margins/ profits. A typical value chain in agri-product comprises of the following:

Producer → Trader → Processor → Wholesale → Retailer → Consumer

The trader sells the farmers' produce to a processor, who supplies to a wholesaler and finally through a retailer, it reaches the consumer with transport and other links in between. Each player in this chain adds value, and in return receives an economic return, usually called "economic rent." The amount each actor in the chain receives varies with products and value addition, but the price received by the producer for his raw goods is only a small fraction of the price paid by the consumer. This is on account of the fact that individuals (especially in the bracket of small & marginal farmers who grow small quantities of produce) have limited bargaining power. Thus, they are neither in a position to influence the price which traders pay them for their produce, nor the purchase price of input suppliers for seeds, fertilizers, pesticides, etc. Moreover, individually they are also not in a position to participate in the value chain beyond the trader on account of the small lot sizes they produce (economies of scale) and high capital requirements. However, aggregation model though FPOs can resolve many of these issues related to their participation in the value chain for better share and more remuneration. An example of simple banana supply chain as business opportunity has been discussed below:

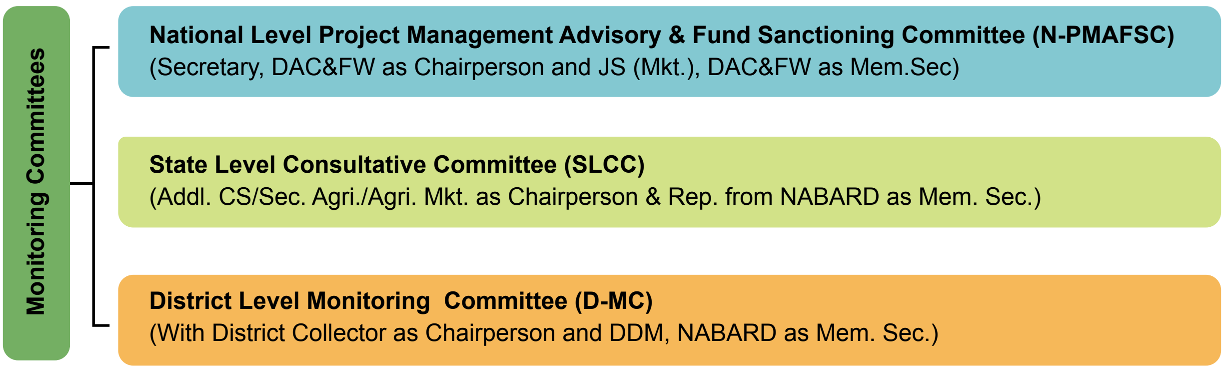
Particulars	Price Dist. (Rs)	Price Dist. (%)	Opportunity for FPO in existing Supply Chain	Tentative Margin as a FPO (%)
Farm Gate Price	13.00	52.00		
Commission Charges (PHC/aggregator)	0.50	2.00	As a Commission Agent	2.00
Labour & Transportation	1.50	6.00	Service Profit Margin	6.00
Wastage	1.50	6.00		
Trader Margin	1.50	6.00	As a Trader	6.00
Commission (Mandi)	1.50	6.00		
Wholesale Margin	2.00	8.00	As a Wholesaler	8.00
Secondary Transportation	1.00	4.00		
Retailer Margin	2.50	10.00		
Retail Price (Rs/kg) (7P)	25.00	100.00		22.00

Comparison of Banana Value chain with and without FPO

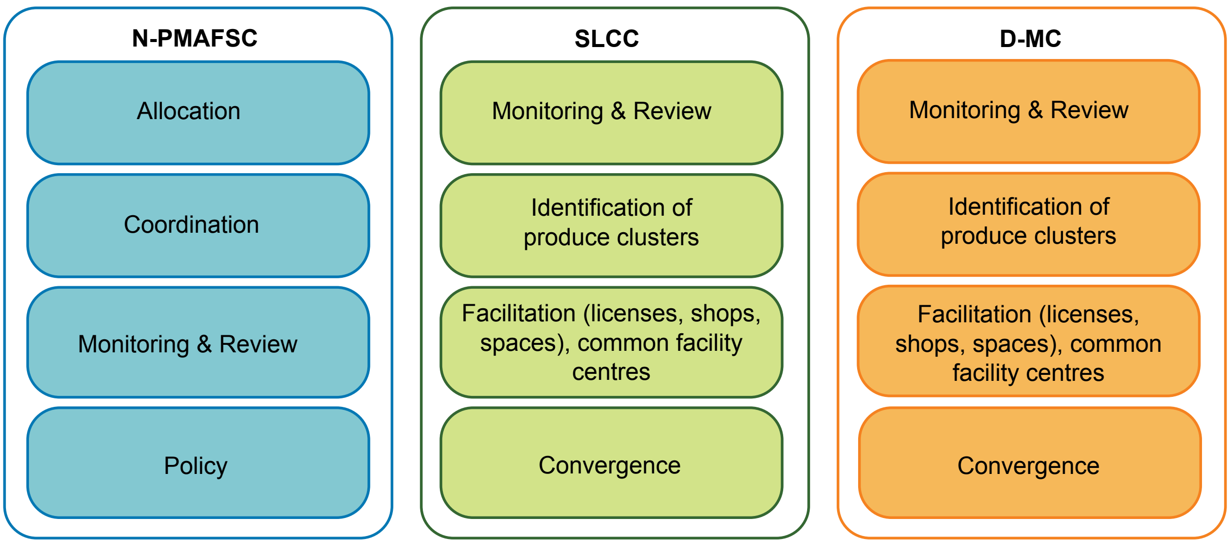
Price Dynamics in existing supply chain (Rs)		Price Dynamics in modified supply chain (Rs)	
Farm Gate Price	13.00	Farm Gate Price	13.00
Commission Charges (PHC)	**0.50**	**FPO (scope of participation)**	**5.50**
Labour and Transportation	**1.50**	Wastage	1.50
Wastage	1.50	Commission (APMC)	1.50
Trade Margin	**1.50**	Secondary Transportation	1.00
Commission (mandi)	1.50	Retailer Margin	2.50
Wholesale Margin	**2.00**		
Secondary Transportation	1.00		
Retailer Margin	2.50		
Total	**25.00**	**Total**	**25.00**

f. Implementation & Monitoring Mechanism

i. A three-tier institutionalized structure (National, State and District level) has been conceived under the scheme for effective implementation and monitoring.

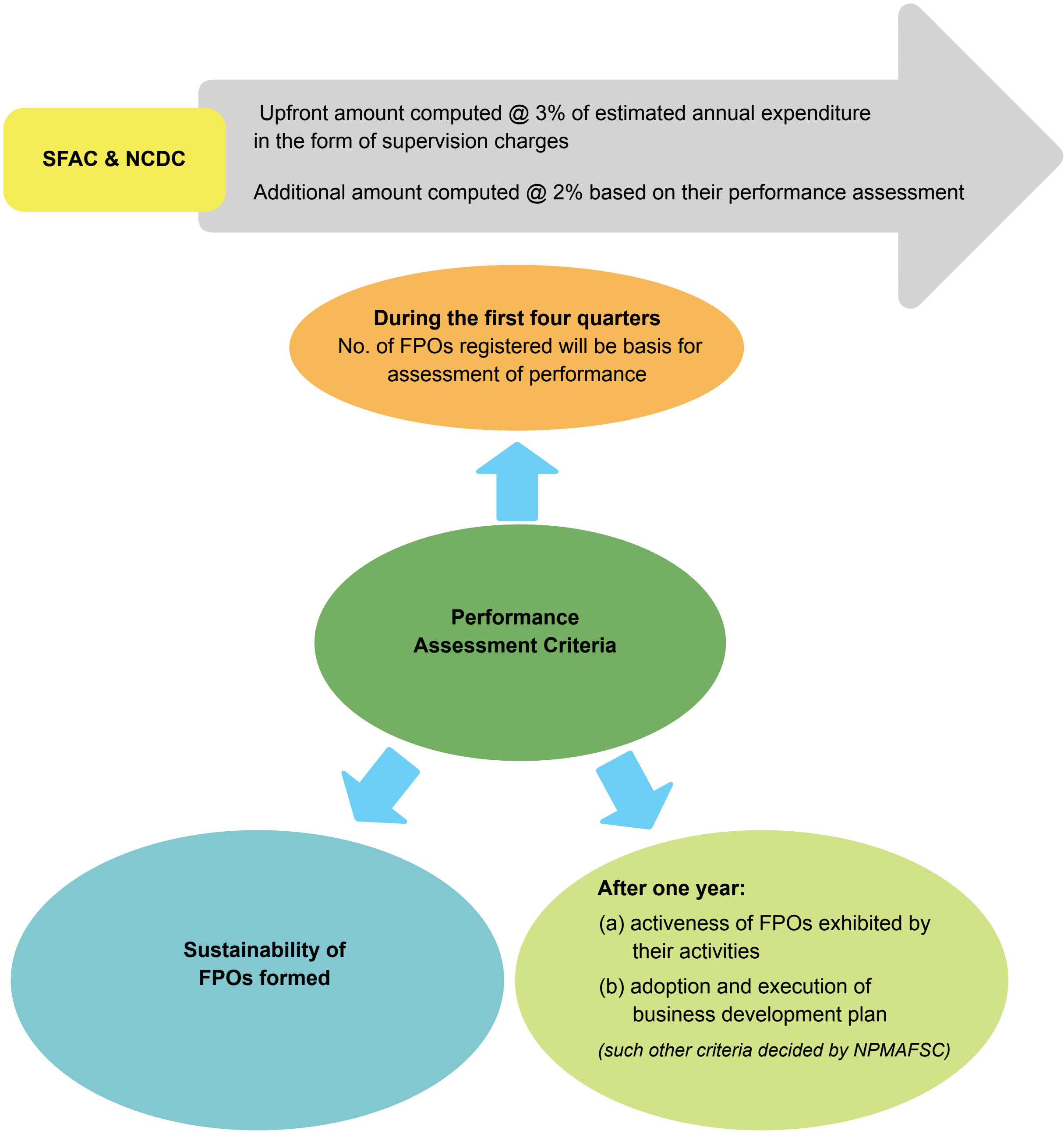


ii. Roles & Responsibilities of Committees



g. Support available under the scheme to different stakeholders

1. Incentive to Implementing Agency:



2. Incentive to Cluster-Based Business Organisations (CBBOs): The formation and incubation cost of CBBO, limited to maximum of **Rs. 25 lakh / FPO** of support or actual whichever is lesser, is to be provided **for five years** from the year of formation.

    a. It includes cost towards undertaking baseline survey, mobilization of farmers, organizing awareness programmes and conducting exposure visits, professional handholding, incubation, other overheads etc. Payment will be made to the CBBOs by implementing agencies and shall be released after receiving the utilization certificate of the previously released amount.

    b. The implementing agencies, after their due diligence, will satisfy themselves with the performance of the CBBOs as per the following criteria:

First 6 months

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

6 mths to 1 yr

- No. of FPOs formed in allocated aspirational districts in different blocks, if any
- Number of farmers mobilized to become members of FPOs (min. membership of 300 in plain areas & 100 members in NER & Hilly areas (including such other areas of UTs) as per prescribed minimum number;
- Registration of FPOs
- Formulation of business plans for FPOs

Yr-2

- First equity grant availed by the FPOs
- Statutory clearances obtained to carry out business activities
- Minimum 50% of business activities executed as per business plan
- Number of preliminary awareness programmes for members/BoDs and exposure visits of FPOs are undertaken
- First tranche of Equity Grant availed by FPOs, if any
- First tranche of Credit Guarantee facility availed by FPOs, if any
- Institutional training provided to CEOs/BoDs
- Registration of FPOs in e-NAM or other electronic platforms undertaken and trading activity thereon taken place

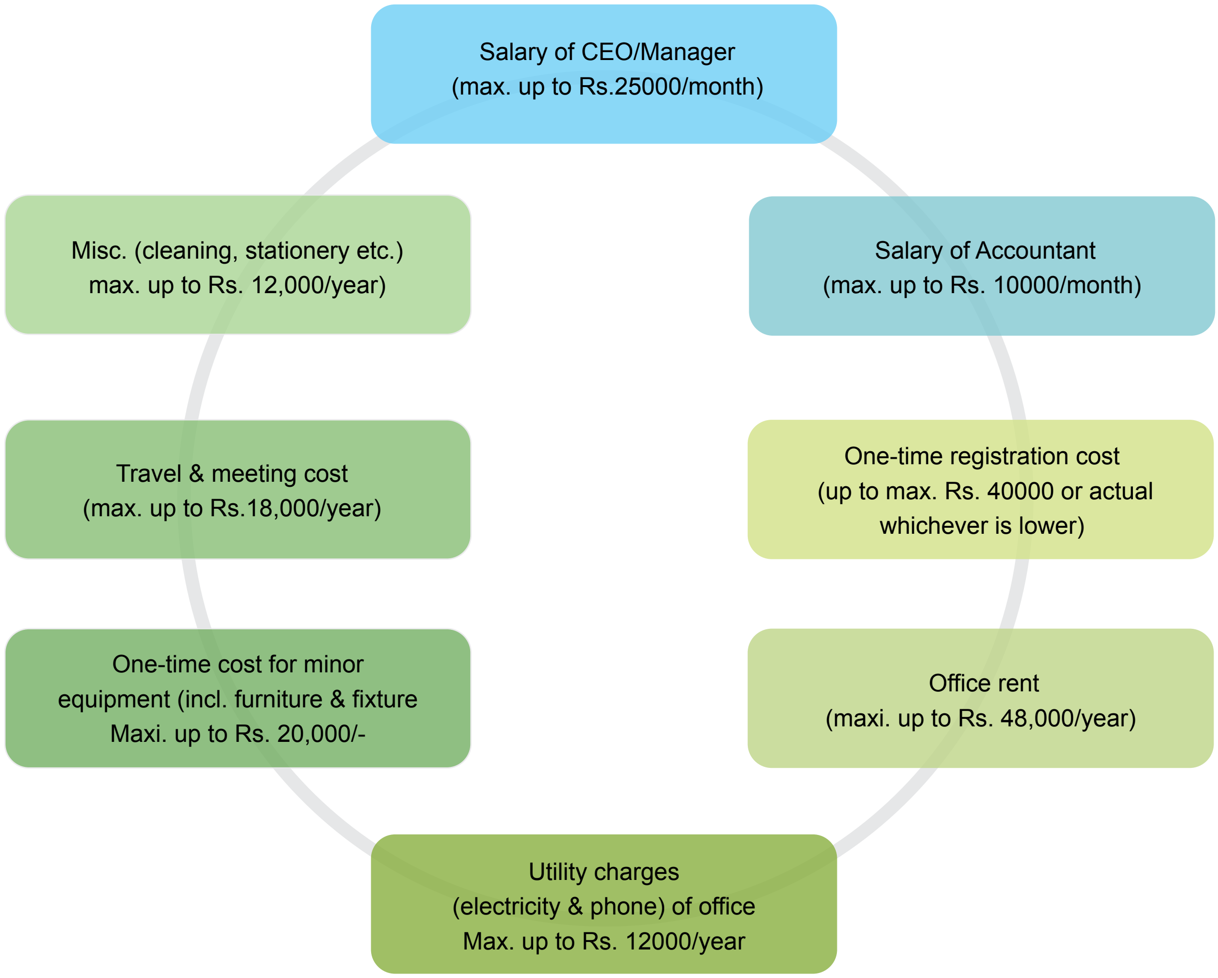
Yr-3 & 4

- Issuing share certificates to each member in third year, if any
- Audited Financial Statements for FPOs for second year and third year in due time and filing as required
- MoU and vendor registration as per business plan with marketing agencies/institutional buyers
- Trading/uploading of produce in e-NAM/other sources, if any
- Second tranche equity grant to FPOs, if any; and second tranche of credit guarantee facility, if any

Yr-5

- Audited Statements of accounts of FPO and filing it
- 100% of agri-business plan executed and value chain developed
- Revenue model showing financial growth in last 3 consecutive years
- Detailed project completion Report
- Third tranche of credit guarantee facility if any.

3. FPO Management Cost: Under the scheme, financial support up to maximum of **Rs. 18 lakh / FPO** or actuals, whichever is lesser is to be provided to FPOs for **three years** from the year of formation. From fourth year and onwards, the FPOs have to manage their own business activities. The indicative financial support broadly covers:



Note: *Any expenditure of operations, management, working capital requirement and infrastructure development etc., over and above this, is to be met by the FPOs from their financial resources.*

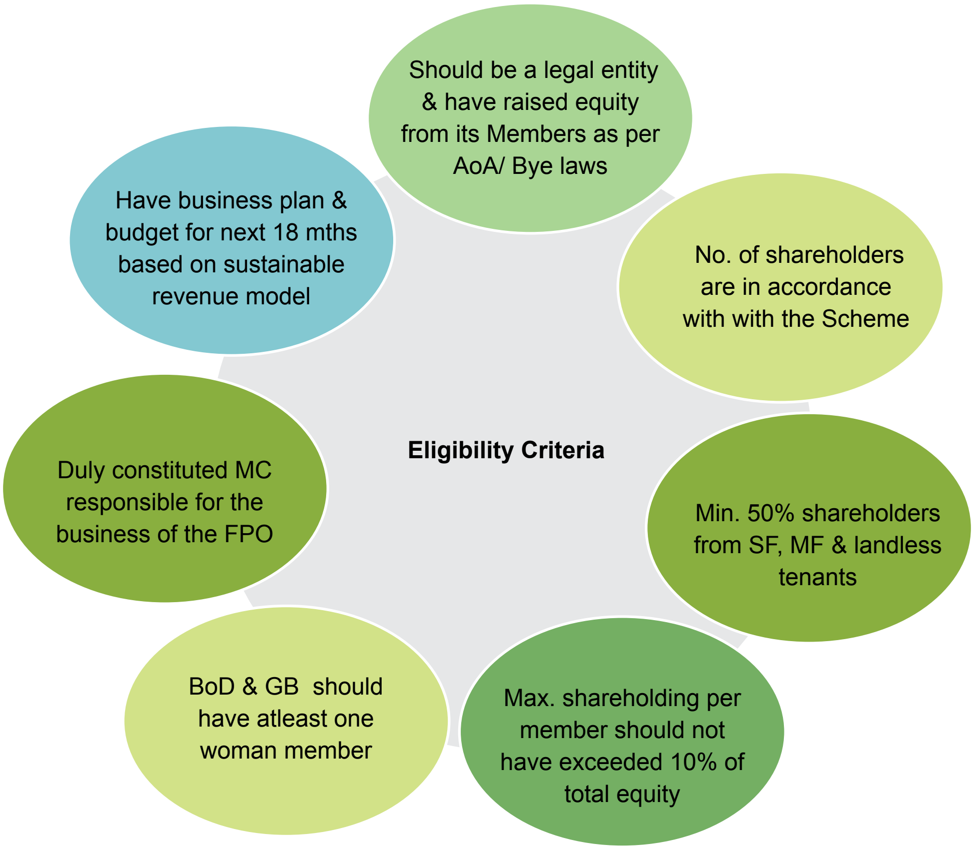
4. Equity Grant for FPOs

   a. Support: Equity Grants shall be in the form of matching grant up to **Rs. 2000 per farmer** member of FPO subject to a maximum limit of **Rs. 15.00 lakh per FPO**.

Objective		
Enhance viability & sustainability of FPOs	Increase credit worthiness of FPOs	Enhance shareholding of members to increase their ownership and participation in their FPO

   b. Broad Eligibility Criteria

   c. Equity Grant sanctioned will be released to the respective implementing agency for transferring to the bank account of the FPO.



d. Post receipt follow-up action time frame: Within 45 days of the receipt of the Equity Grant, the FPO will have to issue additional shares to shareholder members.

e. No. of times it can be drawn: The FPO can draw the Equity Grant in a maximum of 3 tranches (within a period of 4 years of the first application and within the handholding period of CBBO) subject to the cap and the extent it is able to raise additional member equity to qualify for an additional matching grant.

f. Recourse on Non-Compliance: In the event of violation of any of the terms and conditions, the implementing agency will have the right to demand and enforce forthwith, the repayment of the entire amount of Equity Grant sanctioned along with appropriate damages.

5. Credit Guarantee Facility for Lending Institutions

Objective
Providing a Credit Guarantee Cover to Eligible Lending Institution enabling them to provide collateral free credit to FPOs by minimising their lending risks

NABARD

Will create & maintain a Rs. 1000 crore Credit Guarantee Fund

Provide credit guarantee for FPOs promoted & registered under both Coop. Act & Companies Act

NCDC

Will create & maintain a Rs. 500 crore Credit Guarantee Fund

Provide credit guarantee for FPOs promoted & registered under Co-operative Societies Act only

Covered
Credit facility (term loan, working capital or composite loan) sanctioned within 6 mths from date of application for guarantee cover without any collateral security and/or third party guarantees

Not Covered
Credit facility against collateral security and/ or third party guarantee, risks additionally covered under any scheme operated by RBI/Govt/General Insurer, Overdue for repayment, Rescheduled or Restructured loans on becoming overdue for repayment, etc.

Credit Facilities

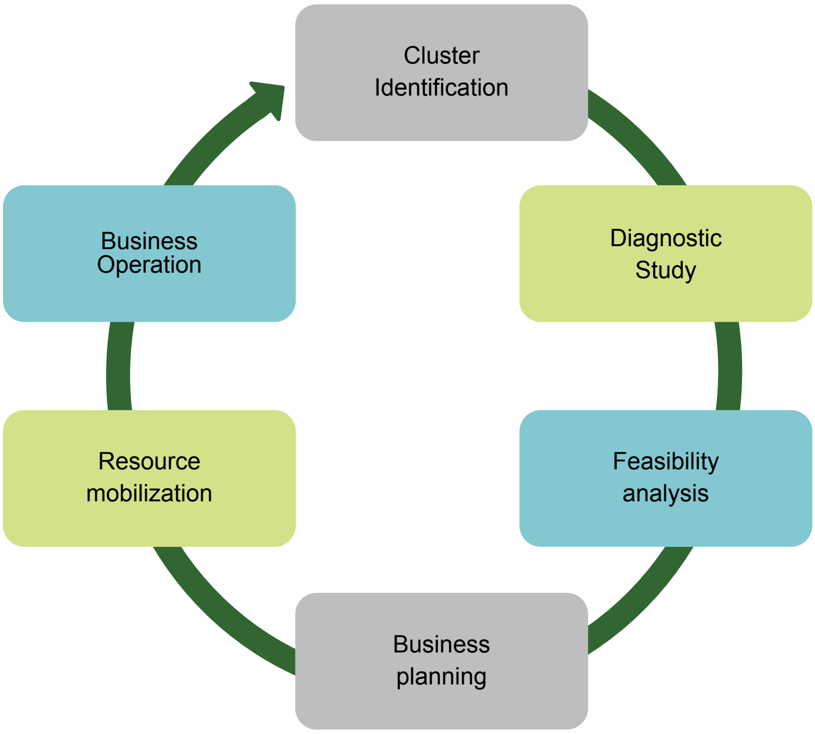
Credit guarantee cover per FPO limited to project loan of Rs. 2 crore

Loans up to Rs. 1 crore, guarantee cover 85% of project loan with ceiling of Rs. 85 lakh (Max. guarantee fee 0.75% of credit facilty)

For Rs.1 - 2 crore, guarantee cover to be 75% with a maximum ceiling of Rs. 150 lakh (Max. fee 0.85% of credit facility)

Scoping of Potential Opportunities – Cluster Identification, Baseline Survey, Feasibility study, Identification of Business Opportunities

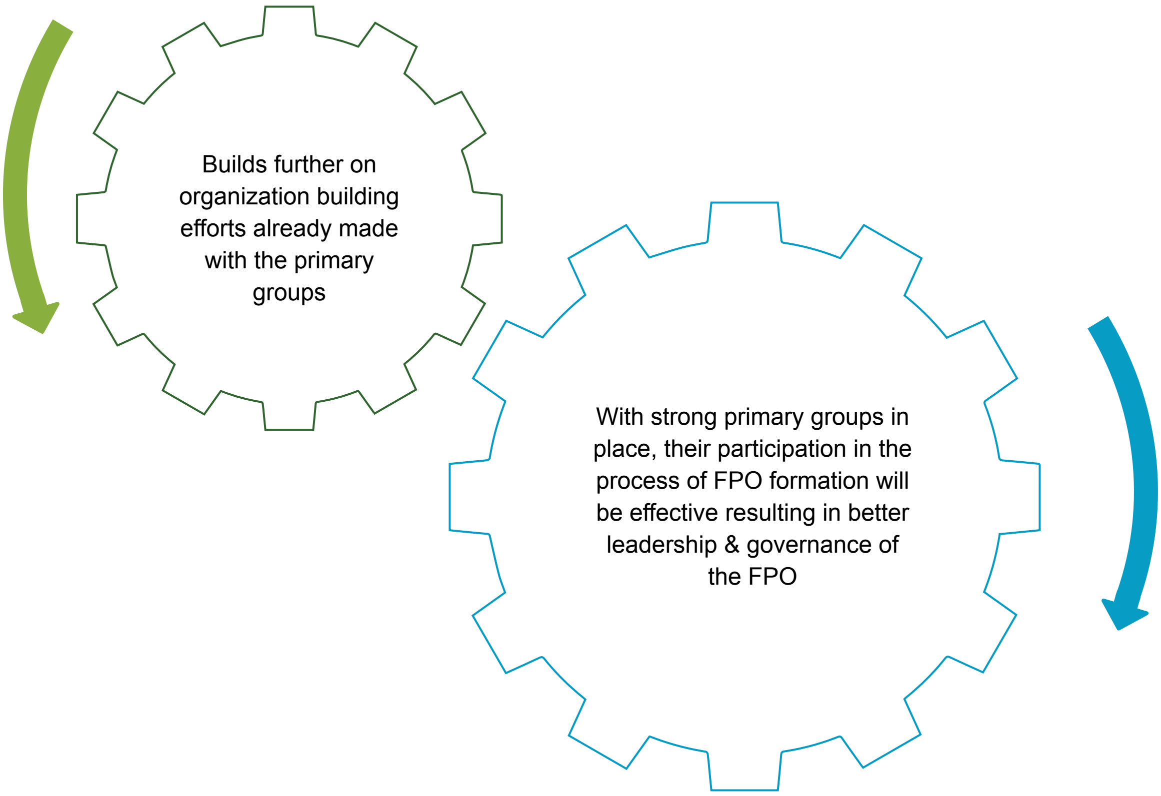
Cluster-Based Business Organisations (CBBOs) have been assigned the task of formation & promotion of vibrant FPOs. The broad approach to be adopted for the same can be as under:



Points to be considered for Cluster Identification

> **Step-1: Cluster identification**
>
> **Ideally, a cluster of more than 1000 farmers may be identified within one or two Blocks identifying 20-30 contiguous villages in a particular district to form agriculture -based Farmer Producers' Organisations (However, this may change depending upon the products to be handled by the FPO). Normally, selection of the cluster and the members is done on the basis of the commonalities like produce, farmers' need and common problems which they face in terms of inputs, production and marketing.**

- The strategy involves organizing the primary groups on the basis of common interests, geographies and then federating them as FPOs to address the larger issues of economies of scale in input management, integration with the market, participation in supply chain at higher order, value chain development, etc. based on felt need by the members of the primary groups. The benefits of adopting this approach:



- Past experiences have shown that FPOs mature faster in cases where primary groups like Common Interest Groups (CIGs), Self Help Groups (SHGs), Water Users' Groups (WUGs), etc. are converted into FPOs without altering & diluting their original identity i.e. they continue to function as primary groups as they did earlier.
- Further, areas where past project investment on land, water, agriculture had been undertaken ***(watershed, wadi, irrigation, land development projects, etc.)***, the FPOs are found to have better control over the production systems and better understanding of the market which works positively for them.

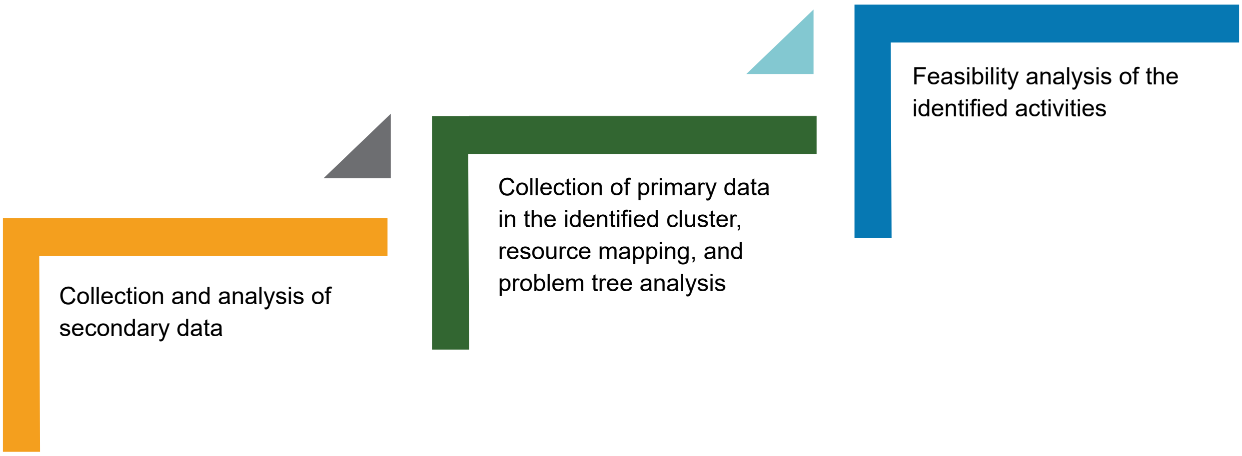
However, while identifying a cluster for promotion and nurturing of FPOs following points should be kept in consideration.

a	The cluster of villages where the production of selected products/crops are produced in a regular manner to be selected for the intervention.
b	The identified cluster should have minimum of 500-1000 members spread over 1000-1500 acres area in general. The optimal size for operations could also be worked out for each of the product/activity exclusively, but the final consideration should be on the quantum of production and availability of marketable surplus.
c	Geographic contiguity (nearness of villages), ease of communication among the producer members, etc. should be given preference. Logically, micro-ecological units need to be used as micro-units for intervention.
d	Another important point while finalizing the commodity cluster is the economics of scale. Some of the produce, though cultivated on large scale, is largely stored for consumption rather than marketing. In such clusters, the focus can be only on the production and the planning of interventions should be around the production aspect.
e	Good scope for integration of technology within the cluster should exist. The technologies selected necessarily should not be high-end technologies. The attitude of the people and availability of the resources for technological integration should be identified.

Step-2: Diagnostic Study

The diagnostic study in selected clusters is conducted to assess the preliminary situation of the farmers and the status of agriculture in that area. The study will also facilitate identifying the potential interventions required and understanding the specific context of project implementation. The objective of the study is to develop a planning as well as reference document defining the pre-development contours in the context of goals to be achieved. Hence, the facts and figures that are presented must be comprehensive and must lead to an action. The sustainability of any intervention depends on the impact of the intervention on the member families. The design variables for the intervention can include elements like size, scope, institutional structure, management and technology. The diagnostic study helps us to finalize the design variables using the primary and secondary data analysis and contextualize the interventions.

Process involved in conducting Diagnostic Study



i. **Collection of secondary data:** This involves collection and analysis of secondary data for identification of potential activities and assessment of resource availability to continue & sustain the activities to be undertaken by the FPO. Generally, most of the needed information is available in the official website of the concerned district (district.nic.in) However, the discussion with the concerned line department officials and concerned KVKs will be very useful. An indicative list of sources of secondary data is given below:

S. No.	Variables	Data to be collected	Source Office
1	Geographic features of the cluster	• Area of the cluster, map & boundaries • Political & developmental divisions (Villages, Hamlets, Panchayats) • Topography • Soil type • Land classification • Climate aspects like rainfall pattern, temperature, humidity, etc.	Block/ Mandal Office
2	Natural Resources	• Natural resources of the cluster/nearby areas • Area under forests • Water resources • Marine resources	DRDA, District / Block Agriculture office , Forest Department, etc.
3	Demographic features of the location	• Population (village wise) • Population density • Working force classification • Below poverty line population	DRDA, District information Centre, Census report, etc.

S. No.	Variables	Data to be collected	Source Office
4	Status of women and gender related issues	• Gender ratio • Literacy rate • Women workers • Women in agriculture	DRDA
5	Access to financial services & issues therein	• No. of banks (Com. Bks, RRBs, Co-op. Bks & Pvt. Bank), NBFC/MFIs • Deposit mobilization and credit advancement status of banks • Share of rural credit especially agri- credit (working capital and term loan) and non-farm credit	Lead bank
6	Access to common infrastructure facilities and issues therein	• Storage facilities (godowns, cold storage, etc.) • Irrigation facilities (canal/ tube wells/ dam/ community pond) • Tele-communication facilities • Transport facilities • Market yard	BDO Office/District Office
7	Livelihood status – farm based	• Land area under agriculture/ horticulture • Types of crops grown • Cropping seasons & crop patterns • Productivity of crops • Sources of irrigation • System of marketing • Skills of farmers • Status of livestock farming (dairy, poultry, goatery, fishery, etc.) • Status of other allied activities like bee keeping, mushroom, sericulture, etc. • Status of NTFP in the cluster area • Marketing points/ point of sale – Village/ Panchayat haat, mandi, etc.	Department of Agriculture, Horticulture, Animal Husbandry, Fisheries, etc.
8	Livelihood status – Non Farm Sector	• Non-farm activities prevalent in the cluster • Skill available • Quality of product • Point of sales (marketing)	KVIC / DIC
9	Developmental interventions by Government, NGOs and local institutions	• List of NGOs functioning in the location with their major focus area in relation to livelihood • List of Govt. schemes being implemented in the location with their major focus area	DRDA/DDM, NABARD

Analysis of secondary data: The analysis of the secondary data collected above will provide a bird's eye view about the cluster area and the livelihood opportunities available therein. Even though it does not give the full picture about the existing status and developmental issues related to livelihoods, it provides certain leads for further probing. The analysis can be done as follows:

Block Map:

The map of the block will provide information about the boundary and landscape of the cluster area. The details of panchayats and villages have to be marked in the map. The other details collected like transport facilities, communication facilities, location of banks, infrastructure facilities like godowns, collection centres, markets (both for inputs & outputs), availability of natural resources, crops grown, etc. to be marked in the map. These markings will help further clustering the block based on the crops/activities.

Occupational structure of cultivators:

The details of activities undertaken by farmers under agriculture and allied sectors and other livelihood activities in the area can be analysed. The proportion of cultivators vs marginal workers will provide details on the availability of the workers for the production function and also help to understand the availability of work for the labourer (If the proportion of marginal workers population is very high in the cluster, it can be inferred that majority of the land is owned by a few landlords and the remaining population is landless). This need to be further explored in a detailed manner during PRA exercises or the primary data collection stage.

Rainfall Pattern:

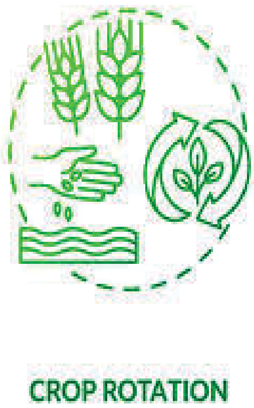
The analysis of the rainfall data for past 25-30 years will enable us to understand the trends in rainfall patterns and impact of climate change in the cluster. The analysis will also provide us with useful information like:

- Period of onset and withdrawal of monsoon
- Quantity of rainfall received per annum
- Frequency of occurrence of dry spells/drought/floods

The information above will help us to understand the trends in rainfall pattern during the year and the expected risk in the selected crop/activities.

Seasonality, cropping pattern and preparation of cropping calendar:

Seasonality in agricultural operations would provide information on the availability of employment opportunities and crops grown in different seasons. Knowledge on this aspect would also facilitate credit assessment & potential relevant technologies for the agricultural operations. The analysis of change in cropping pattern at least for last 5 seasons will help us to understand the production trend, market demand, soil health, labour demand and the availability of resources.



Land use patterns and productivity assessment:

The total cultivated area of each of the villages and the wet, dry and backyard land details could be assessed and marked on the map to understand the land use and cultivation practices. The details of wasteland, dry land & grazing land availability could also be analysed which will enable us to define the future interventions. Year-wise productivity assessment of the major crops grown in the block should also be considered to understand the trends in production and productivity in the cluster area and to find out the cropping intensity (area cropped more than once).

Natural Resources:

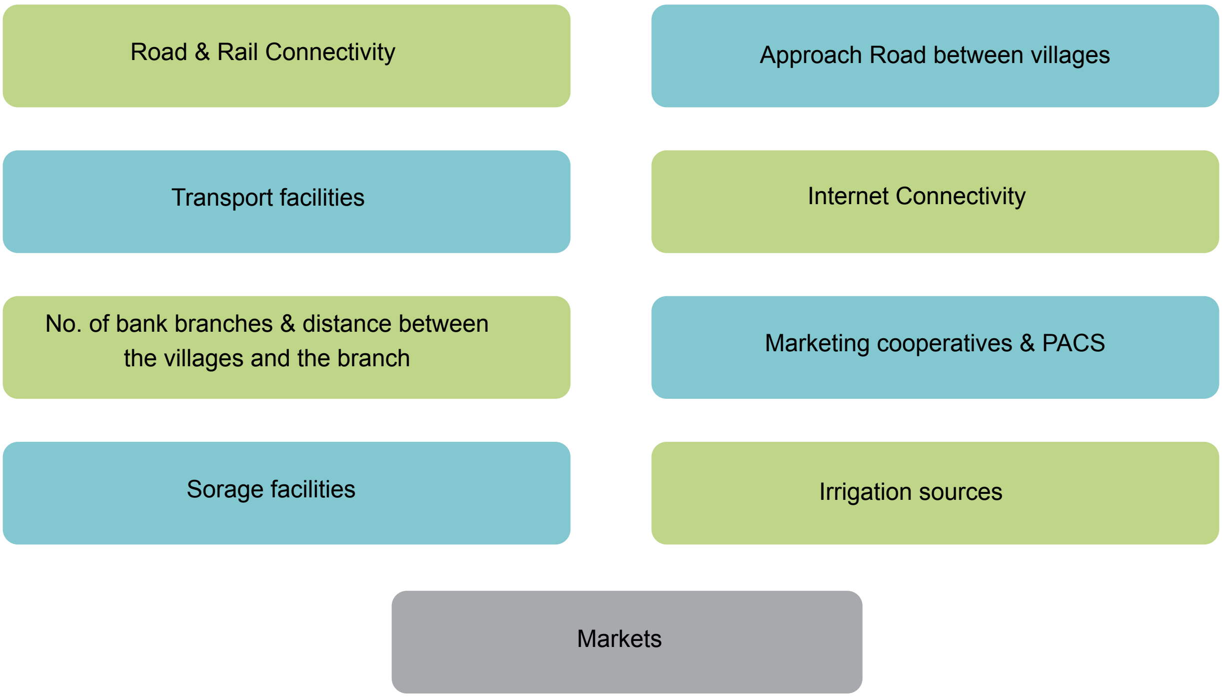
The information on forest cover, non-timber forest produce, tanks, watershed, wasteland, river, coastal area, etc. will help us to understand the potential economic opportunities available for the people in the cluster. This information will be handy while planning for the resource conservation through effective use of natural resources for the benefit of the farmers.

Irrigated area in the Block:

The information on sources of irrigation viz. canal, tank, tube well, open well, drip/sprinkler, etc. and also on aspects like net area irrigated, area irrigated more than once, irrigation intensity in each village under the cluster could be assessed and analysed which will enable decision-making on the interventions required to be undertaken.

Infrastructure facilities:

The above details could be analysed and their sufficiency towards running the business could be assessed for finalizing the cluster and the feasibility of running a business.



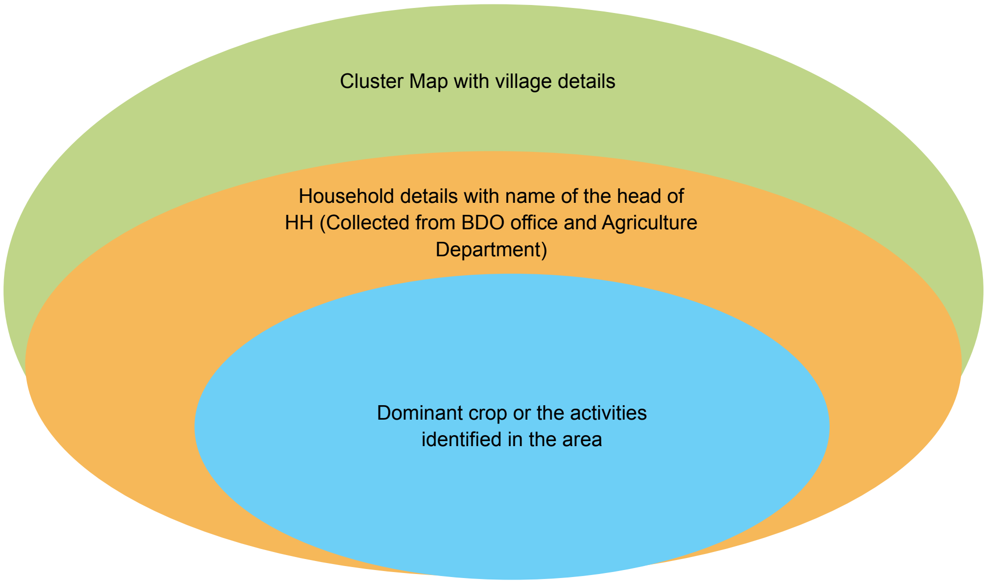
Market details:

The distance of the market both for input and output services from the production site is very important information for assessing the cost of operations and the scope for marketing. It should also be kept in mind that informal intermediaries other than formal market systems operate in the markets. They decide the prices for most of the commodities. Due to the vulnerable situation, the farmers are forced to accept the price offered by them. To understand this issue, government rates (MSP) and actual prevailing rates have to be collected through secondary sources and then through interaction with the community, the reality needs to be assessed.

Overall, the analysis of the secondary data will help us to understand the overall socio-economic scenario, availability & gaps in infrastructure, livelihoods patterns, land-use patterns, dominant crop of the area, availability of work force, market & marketing details, existing natural resources, etc. These details could be marked in a map which will help to identify the cluster of nearby villages based on commonalities.

ii. Primary data (Collection through baseline survey and PRA)

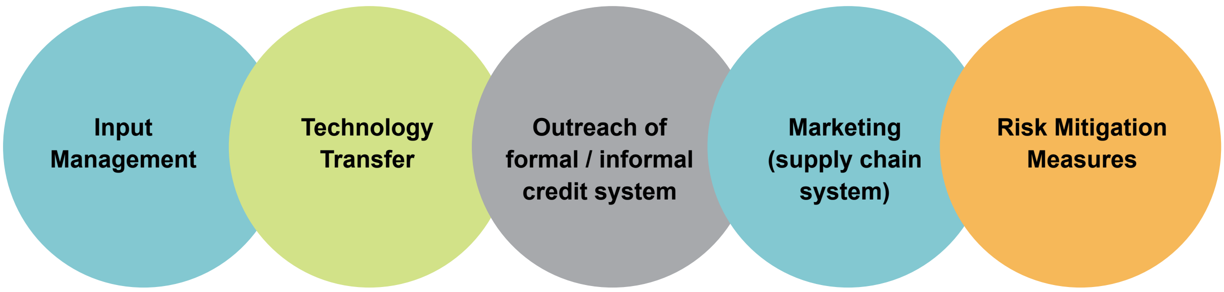
During the above exercises, the CBBO will generate the following information in addition to many others:



Using this information, a baseline survey may be conducted in the identified cluster villages for collection of primary data from each household for undertaking feasibility analysis.

Baseline survey and feasibility study in the identified cluster for promotion and formation of a FPO

To undertake a feasibility study of the FPO, primary data of the identified cluster is required which will help in formulating technically feasible and economically viable business plan. The required primary data for undertaking base line survey can be broadly categorized under five major heads:



Input Management	Technology Transfer
Cropping Pattern	Advocated Package of Practices for the crops grown in the area adopted
Land preparation : Method, season & cost	Present level of adoption of technologies
Seed : Availability, accessibility, variety & quantum per unit area	Institution involved in the area
Irrigation : Type of irrigation, infrastructure, frequency and scheduling of irrigation	Mode & efforts of the institutions for transfer of technologies
Fertilizer : Availability, accessibility, type and quantum required per unit area	Farmers and institutions view on the above

Pesticides : Availability, accessibility, type and quantum	Information on new/modern technologies suggest in the area by technical institution
Labour/workers availability workers and the prevailing rates	Issues involved in adoption of new technology
Assets ownership / custom hiring, level of mechanization and expenditure involved	Government schemes related to above along with incentives
Intercultural operations	
Pre and post-harvest management practices and available infrastructure support	
Input-wise expenditure per unit area	
Production and productivity	

Outreach of credit	Marketing	Risk Management
Types of financial resources available	Types of supply chain	Level of risk associated with production (drought, flood, pest and diseases, water scarcity etc.
Availability and extent of formal credit	Extent of business participation of the farmers in existing supply chain	Coverage of crop insurance
Gap in requisite credit needs	Distribution of economic rents among different stakeholder of supply chain	Diversification of crops
Cost of informal credit	Gaps in economic rent under formal and informal supply chains	Status of agriculture allied sector, expenditure, income / loss, input supply etc.
Issues / constraints in credit outreach	Possibility of alternative supply chains	Outreach of schemes, procurement on MSP

- An indicative baseline survey format could be as below *(information and parameters could be added or deleted as accordingly customised as per need & experience)*:

I. General Information					
Name of the Head of the Household:					
Father/ Husband's Name:				Village:	
Age	Caste[1]			Category[2]	
Contact No.	1		2		
Gender			Education		
Primary Occupation			Secondary Occupation		
Total Family Members		Adult Male		Adult Female	

[1]Caste – SC-1, ST-2, SEBC-3, General-4

[2]Category – MF – Marginal Farmer (< 1 Ha) - 1, SF – Small Farmer (1- 2 Ha) - 2, Med. F – Medium Farmer (2-4 Ha) - 3, and BF – Big Farmer (> 4 Ha) - 4

II. Land Use Pattern				
S No.	Land Particulars			
1	Total Land (Unit Area)			
2	Total Cultivated Land		Fragmented or consolidated (No)	
3	Types of land	Low Land	Medium	High Land
4	Of which, Irrigated Land			
5	Source of Irrigation			
6	Total Land cultivated	Kharif	Rabi	Zaid
7	Crops cultivated			
8	Land under perennial crop			

III. Cropping pattern, Area and Production (last three years)							
Season	**Name of the crop**	**2017-18**		**2018-19**		**2019-20**	
		Area (acres)	**Production (Qtls)**	**Area (acres)**	**Production (Qtls)**	**Area (acres)**	**Production (Qtls)**
Kharif							
Rabi							
Summer (Zaid)							

IV. Annual Agriculture Input Expenses										
Particulars	**Units**	**Crop I**			**Crop II**			**Crop III**		
		Qty	**Rate**	**Amt.**	**Qty**	**Rate**	**Amt.**	**Qty**	**Rate**	**Amt.**
Land preparation										
Material cost										
• Seed										
• Fertilizers										

• Pesticides										
Labour										
Sowing										
Inter cultural operation										
Weeding										
Harvesting										
Transportation										
Other (if any)										
CoC per unit area										

V. Uses of fertilizers and requirement during the year									
i	Uses of organic manure , Bio fertilizer (BF)	Indicate season wise requirement							
ii	Crop-wise requirement of fertilizers per annum (Kg)	Crop	N	P	K	DAP	Micro-nutrient	Vermi/ BF
		I						
		II						
		II						

VI. Information of sources of seeds, fertilizer & pesticides (annual basis)				
		Seed	**Pesticides**	**Fertilizers**
i	Source of procurement			
ii	Seed treatment (Y/N)		--	--
iii	Type of seed used (Hybrid/General)			

VII. Agricultural Infrastructure available with the farmer			
S. No.	**Particulars**	**Units**	**Annual Use (hr)**
1	Source of Irrigation (canal/tubewell/tank/etc.)		
2	Sprinkler / drip irrigation System		
3	Pumpsets (Diesel/ electric/ Solar)		
4	Tractor (with HP)		
5	Cultivator		
6	Rotavator		
7	Harrow		
8	Plough (MB Plough / Disc Plough)		
9	Seed cum fertilizer drill		

10	Trolley		
11	Laser land Leveller		
12	Seed Planter		
13	Weeder		
14	Sprayer		
15	Combine Harvester		
16	Power Tiller		
17	Picker		
18	Straw Bailer		
19	Thresher		
20	Fodder cutter		
21	Shredder		
22	Storage facility (godown, cold store, etc.)		
23	Processing equipment/machines		
24	Other (to be specified)		

VIII. Bank linkage		
1	Name of financial institutions operating in the area	
2	Name of the Bank/FI where you have an account	
3	Have you availed KCC loan? If yes , amount of KCC limit	
4	Have you availed any term loan? If yes , purpose and amount	
5	Your overall experience with the bank	
6	Have you taken any insurance policy? If yes indicate the insurance amount and name of the insurer	

IX. New technologies adopted by Farmers						
1	New technologies adopted for increase in production	Line sowing /SRI	DRIP/Sprinkler	Net House	Precision Farming	Others (specify)
2.	New technologies for harvesting & post harvesting					

X. Risks associated with production and marketing of crops					
1	In your opinion what are the risks associated with production of crops?	Rainfall	Irrigation	Pest & Disease	Climatic conditions
2.	What is your mechanism to cope up with fall in the price of the commodities produced by you?				

XI. Producer family earning chart						
Activity	**Item**	**Jan-March**	**April-June**	**July-Sept.**	**Oct.-Dec**	**Total earning**
On farm produce	Staple crop					
	Pulses					
	Oilseeds					
	Vegetables					
	Horticulture					
	Any other					
Animal husbandry	Cow					
	Goat					
	Poultry					
	Fishery					
	Any other					
Forest produce	Honey					
	Leaf making					
	Lac					
	NTFP					
	Any other					
Wages	Labour – MGNREGA					
	Labour – Other					
Art/craft/ other						

XII. Producer family Activity chart (Farming, Animal husbandry, Collection of forest produce, Trading, Wage earning, others)				
Producer member	**Jan-March**	**April-June**	**July-Sept.**	**Oct.-Dec**
Self				
Wife /Husband				
Father				
Mother				
Child 1				
Child 2				
Child 3				

XIII. Livestock details				
Name of the animal	**Number**	**Type of feed**	**Expenditure on feed / Month**	**Income per year**
Cow (Desi)				
Cow (CB)				

Ox				
Goat				
Poultry				
Pig				
Others				

XIV. Forest based products (NTFP)

S.N.	Name of the produce	Source area	Season for collection	No. of days engaged	Total quantity sold (Kg.)	Price earned (Rs.)

XV. Existing marketing channels (Please check the appropriate channel and provide the unit price of the item sold

Items	Village peddler	Weekly haat	City retail market	Trader/ Agent	Whole seller	Any other (Specify)	Farm Gate price
Paddy							
Wheat							
Maize							
Potato							
Onion							
Tomato							
Brinjal							
Cauliflower							
Chilli							
……..							

XVI. Family expenses

S.N.	Item	Qty (Kg)	Subsidized (Y/N)	Price per Kg.	Total Amount
1	Rice				
2	Dal				
3	Wheat				
4	Cooking oil				
5	Vegetables				
6	Meat/Fish				
7	Spices				

8	Tea/Sugar				
9	Soap/detergent				
10	Cosmetics				
11	Medicine				
12	Education				
13	Cloth				
14	Others				

Enabling parameters for conducting a baseline survey

- The unit of the baseline survey is the producer/farmer family. Hence, the survey has to focus on collection of family data.
- In the identified cluster/s, a team of at least 02 persons ***(preferably a social mobilizer & one with an agriculture background)*** along with a local person should visit the cluster villages to collect primary data from each household as also to understand the activities profile & other related issues.
- The team should also interact with progressive farmers and intermediaries operating in the area for an deeper insight on their functioning in the target area.
- The primary data from other stakeholders like banks, PRI members, KVK, line departments etc. could be collected though a questionnaire method.
- It is also better to undertake discussions with different strata (farmer groups) separately like small and marginal category, farmers having medium and larger land holding, etc. to have a better contextual understanding

Output of baseline survey

After the baseline survey, the following information would be generated for feasibility analysis:

• Cropping Season/ Crop Rotation	• Land preparation – Mode & Cost
• Varieties and seed rate	• Seed availability – Source & Cost
• Level of adoption of package of practices and gaps	• Cost of cultivation per unit area
• Access & availability of resources for cultivation (water, fertilisers, pesticides, credit and technology support)	• Quantity of input needed per acre and the cost of input
• Availability of labour/workers and prevailing wage rates	• Crop-wise/activity-wise production & productivity as also the gaps
• The risks associated with the production (rainfall, water, climatic condition, pest and diseases)	• Adoption of new technologies and issues involved
• Risk mitigation mechanism – schemes, coverage, tools	• Market price movements
• Marketing supply chains, level of farmers participation, gaps, scope of developing alternate supply chains	• Details of service providers and associated margins
• Formal & informal credit – Sources, cost, outreach, etc.	• Social & cultural setup

iii. Feasibility analysis

Using the above information from the collected primary & secondary data, the feasibility of the prospective business plan for the identified cluster can be assessed to achieve success of a proposed business venture. While undertaking feasibility analysis of the gathered information, the following parameters need to be considered-

General rules for elimination of unviable economic activities:

First Elimination

Eliminate the activities which are done on a lower scale and are not fit for undertaking on business lines

Second Elimination

Eliminate the products with low demand, margin constraints & limited potential for future upscaling, etc.

Thiird Elimination

Eliminate the activities/ products which have a negative impact on the environment

Potential gaps in input management

- Quantitative gap assessment in availability of quality seeds and distributor/retailer margin
- Quantitative gap assessment in availability of fertilizers/micronutrients/pesticides on time and distributor/retailer margin
- Status and utilization of farm mechanisation and gap in farm power
- Status of diversification in farm implements
- Assessment of the crop and input-wise cost of cultivation

Potential gaps in technology transfer

- Crop-wise gap in potential and realized yield
- Extent of adoption of scientific package of practices for different crops grown
- Extent of adoption of new/modern technologies suggested in the area by technical institution

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Potential gaps in input management

- Extent of market surplus of agriculture produce
- Mechanism of marketing
- Actors involved in the marketing
- Opportunity cost / farm gate price during the past 3 years under different supply chains
- Product-wise demand and supply gap in the nearest mandis
- Assessment of any product which is in demand in the market but not produced in the cluster
- Assessment of marketing cost and marketing margins
- Distribution of economic rent among different stakeholders in prevailing supply chain.

Potential gaps in technology transfer

- Crop-wise gap in potential and realized yield
- Extent of adoption of scientific package of practices for different crops grown
- Extent of adoption of new/modern technologies suggested in the area by technical institution

Potential gap in credit outreach

- Sources of funds for agricultural operations
- Assessment of formal and informal credit
- Gap in the availability of formal credit
- Extent of under-financing by the RFIs

Potential gap in risk management

- Extent of diversification of agriculture & potential thereof
- Extent of crop insurance coverage
- Extent of storage facility vis-a-vis requirement in the cluster
- Availability of weather forecasting services
- Level of access to market information/intelligence
- Level of convergence under various State/Centrally sponsored schemes

Determination of economically viable activities

Based on the above information, the identified activities can be grouped as under

- Aggregation of input
- Aggregate marketing
- Enhancement of production and productivity of identified crops
- Primary and secondary processing
- Trading business

Steps required for assessment of economic viability of identified activities

- **Step I** – Name of the economic activities to be undertaken
- **Step II** – Working out annual cost of operation incl. capital cost
- **Step III** – Estimate the benefit to be accrued
- **Step IV** – Financial appraisal of the identified activity
- **Step V** – Recommendation/ Decision for selection/rejection

Note – Repeat all the steps for all the identified activities

An illustrative example for aggregation of input model *(Custom and hiring services for mechanisation)*

Farm mechanization is a high capital-intensive activity, which is not found economically viable in general for small and marginal farmers. However, it can be a good business opportunity if undertaken in Ola-Uber Model on account of full utilization of the specified economic hours lowering annual fixed cost of the machines and implements. An illustrative custom and hiring business model comprising of 10 machines and implements has been analysed to understand the methodology of assessment of demand and supply of the particular machines/ implements in an identified cluster, estimation of hiring charges, hours for breakeven points (BEP) and annual profit and loss.

Machine / Implements	Annual Fixed Cost (Rs)	Variable Cost (Rs/ hr)	Hiring Cost (Rs/hr)	Annual Utilization (Hr)	BEP (Hr/yr)	Net Utilization against the BEP (hr)	Annual Profit / Loss (Rs)
Cultivator	4698	120	600	375	10	365	219134
Bed Preparation Machine	7802	390	1500	241	7	234	351000
Disc Plough	6576	169	1175	155	7	148	174446
Furrow Opener	6414	152	800	215	10	205	164078
Harrow	2682	103	600	108	5	103	61561
Leveller	1897	103	600	130	4	126	75709
Rotary Tiller	64238	136	700	50	114	-64	-44714
Rotavator	13551	152	850	651	19	632	536841
MB Plough	8130	136	850	202	11	191	162022
Trolley	19478	136	500	298	54	244	122000
Total							**1822077**

It is also pertinent to mention here that while identifying the opportunities available for the FPO in the identified cluster based on feasibility analysis, one should take due diligence as errors in opportunity selection are fairly common as mentioned below -

1. **"Copy-cat" syndrome:** There are FPOs who choose a given opportunity because others have taken it up and are seen to be doing well. They do not realize that there is no room for too many entrepreneurs in a particular product line.
2. **Fallacy of Numbers:** Many persons have a tendency to accept and rely upon income and profitability estimates. Other factors such as location, local competition, risks involved which may affect profitability are not considered.
3. **Mismatch** in hard/soft skill competencies of entrepreneurs
4. **Undifferentiated products/services:** A large number of small enterprises are not performing well or closing down because they are too identical. There are several similar products in the market. The competition rests on price and the price comes down to an unprofitabl**e label.**

The outcome of the feasibility analysis will give insight to FPOs to take decision on the following counts -

- Scope & scale of input business in the cluster
- Selection of products for aggregation and marketing

- Minimum acreage under crop/s for threshold scale for conducting business
- Quantum of produce required for facilitation of marketing by FPO to at least reach the breakeven point
- Scope for increasing the production base for future expansion procurement and marketing business
- Based on the marketing study, identification of scope for primary/ secondary processing in the cluster area
- Scoping for demand-based product/crop diversification
- Gap in the availability of the infrastructure, convergence linkage, credit, etc. in the cluster area

Using the above information, the plan for the intervention and coverage of members can be planned and incorporated in the business plan.

Participatory Rural Appraisal (PRA) technique

The Participatory Rural Appraisal (PRA) technique can be adopted for gathering the farmers' perspectives on various problems/issues encountered by them as well as the types of opportunities available. It provides scope for all involved to learn from each other and stimulates self-propelled initiatives.

Participatory Rural Appraisal – An Approach

Participatory Rural Appraisal (PRA) is an approach to collect data or to learn about situations and conditions in rural areas. PRA is a set of methods and techniques that development practitioners use in the field for information & data collection. It is fairly quick and easy to collect any data/information we need in a rural area or tribal village. The PRA process also enables us to get closer to the rural community, which makes way to plan in a participatory mode. Depending on the type and nature of data required for our purpose, we can choose appropriate PRA methods and tools for data collection in the given village/s. PRA is a growing combination of approaches and methods that facilitate the sharing, cross learning, analysis, evaluation and enhancement of livelihood experiences and life conditions among key actors or stakeholders within a specified setting.

Having determined the set of variables to be investigated, a major challenge is deciding on which participatory methodologies and techniques would facilitate capturing of the minimum set of data and information required. In this regard, there is a need for due diligence in determining the approach to the training and the set of tools that are best suited for the prescribed investigations. Each PRA team must schedule its respective activities and ensure compliance with the overall framework for the implementation of the PRA exercise, in order to guarantee achievement of the required outputs.

PRA Tools

Generally, the following PRA tools can be useful for capturing the information relating to the key areas pertaining to FPOs:

1. Brainstorming
2. Focus Group Meetings
3. Resource Mapping
4. Preparation of crop calendars
5. Constraints Analysis or Problem Tree analysis
6. Opportunity Matrix

7. Stakeholder Analysis
8. Trend Analysis
9. Crop budgeting

1. **Brainstorming:** The main purpose of brainstorming sessions is to enhance the creativity of a group, using their collective insight to derive timely solutions to a problem. It is important to comply with the following four basic ground rules of brainstorming in order to minimize participants' inhibitions and enrich the content of the group:

i. Focus on quantity - The greater the number of ideas generated, the greater the chance of producing a radical and effective solution.

ii. Withhold criticism -Rather than criticize or judge ideas, participants should focus on strengthening the validity of ideas generated by others. In doing so, all participants will feel free to share their ideas. All ideas should be given equal weight.

iii. Embrace unusual ideas - No idea, no matter how obscure it sounds, should be rejected. This will help generate a healthy variety of varying perspectives, as what may sound ridiculous at first, could prove to be an innovation later on. It may be remembered that new ways of thinking can provide better solutions.

iv. Consolidate/ build on ideas - By a process of association, ideas may be combined to form a single better idea, as suggested by the slogan "1+1=3". This can help in team building and reserved members of the group may feel encouraged to contribute.

Some of the disadvantages of brainstorming relate to the difficulty of accurately recording the points generated and if some members of the group are not familiar with the topic of discussion, it becomes difficult to brainstorm and stimulate a free flow of ideas. It is, therefore, critical to define or state the problem clearly, concisely and unambiguously before a brainstorming session.

2. **Focus Group:** A Focus Group is a relatively low-cost and quick qualitative research method to gain an understanding of local perceptions, opinions, beliefs and attitudes to the issue(s) being studied. One can get a great deal of information during a focus group session. Focus groups are dialogue sessions with less than 20 persons (preferably 6-10 persons) participating in the group and is quite similar to a brainstorming session. Focus groups can also be viewed as multiple interviews where questions are asked in an interactive group setting and where participants are free to converse with other group members.

3. **Resource Mapping:** Resource distribution, use and access is usually a sensitive issue for persons who control or have access to them. Consequently, knowledge of the social, economic and political structure of the targeted community is an important prerequisite for mapping the prescribed level of required detail. For example, wealth ranking can be useful information applied to the map. In fact, resource mapping requires the application of other tools, in particular transects which allow in-depth analysis of individual resources. The construction of resource maps in relation to different farm, household or enterprise types, socio-economic strata, livelihood modalities and agro-ecological zones, supports the ability to identify, locate and classify past and present resource occurrence, distribution, use, tenure and access. For example, critical locations such as fragile zones and areas predisposed to land degradation can be identified and mapped. The mapping process can also reveal the significance, participants attach to resources. Furthermore, there is the opportunity to gain a visual appreciation of relations between resources and issues and their spatial location (e.g. deforestation, land erosion, poor feeder roads, etc.).

4. **Crop Calendar:** Crop calendars present the pattern of activities related to the production, harvesting and marketing of specified crops. This participatory tool provides scope to explore changes with respect to gender-specific workloads, as well as the constraints and opportunities for increased productivity.

Steps in preparing a Crop Calendar

i. Draw a calendar which indicates the month of the years on the ground (in a large open space) or on a large sheet of paper.

ii. Begin by indicating the rainfall pattern in each month of the year. If in an open space, the group can use stones under each month of the calendar to denote the relative intensity of rainfall (more stones meaning more rainfall pattern in each month of the year.

iii. List the crop in an additional column to the left and indicate (with lines) when the various farm management activities are carried out, e.g. land preparation, pest management, fertilizing, planting, staking, weeding, mulching, harvesting and marketing.

iv. Activities may be denoted by the intensity of the task by varying the type of line. Indicate continuous activity by a solid line, intermittent activities by broken lines and a heavy black line may be used to show intense activity.

v. Indicate which activities are performed by both women and men, or either only by men/women. Use different symbols to indicate the legend for the crop calendar.

vi. After completing one crop, develop another calendar for another crop and repeat the steps. If there is any allied activity like livestock farming, use the calendar in a similar manner for each type of livestock e.g. poultry, pigs, goats, sheep, cattle etc. While the calendar is being created, encourage participants to probe and check information and encourage debate. On completion of the calendar, the group should further discuss what the calendar reveals to them. The group discussion can be facilitated through brainstorming and collective decision-making to identify and prioritize issues. Some of these include:

- Who is doing what type of work?
- Are women working harder than the men or vice versa?
- Is pest and weed control, fertilizer application, etc. being undertaken at the right time?
- Was the harvesting period too short?
- Is there a scope for other activities or can some activities be done differently?
- Are the resources available being used properly?
- Can improved technology be adopted?

An album of calendars addressing the range of commodities in a particular context, e.g. an agricultural region, will provide diagrammatic representations and a "temporal dimension" of the various activities, constraints and opportunities that influence the livelihoods of farm households. The categorization of production and marketing activities by season, month, frequency and gender also provides a useful reference guide for a gender- aware approach to project planning and output evaluation, as well as agricultural policy analysis and formulation.

5. **Constraints Analysis:** A constraint is a situation or a factor that determines what will not happen. These limitations, imposed by nature or by humankind, prevent the realization of goals and targets, by not permitting certain actions to be taken. Constraints occur at different levels:

- Farm
- Community
- Region
- District

- Nationally and
- Internationally

Some constraints have few causes and can be easily and quickly eliminated. These elastic types of constraints do not therefore preclude actions, alternatives, consequences, and objectives in the short term. Other constraints have many fundamental causes and a network of influences. These rigid types of constraints are usually more difficult to deal with and require a coherent set of actions in the medium to long term. It is useful to distinguish short, medium and long-term constraints. For example, poor drainage may be a constraint in the short term, however low yields may be a medium-term problem; while insecure land tenure and soil degradation could pose problems in the long term. Constraints analysis is a methodology for mapping critical path of actions required to create an enabling environment for sustainable livelihood systems.

The strategy to remove or circumvent the most critical or binding constraints and facilitate technological advancement and improved rural livelihood systems must clearly identify

i. Why does the problem exist?

ii. What and who is responsible for the problem?

iii. How, when and who needs to act to overcome the constraint(s)?

Once the constraints of a particular circumstance have been clearly identified, they need to be analysed in order to find solutions. Towards this end, problem-tree analysis is used to logically map the relationship among constraints in a hierarchy of cause-effect relationships.

Constructing a Problem Tree

- Brainstorm and research all existing negative conditions that can potentially be resolved. Do not list conditions with no solutions e.g. hurricanes or time.
- The group must discuss the constraints identified and attempt to fine-tune the listing by merging similar issues.
- Use a separate card to itemize each of the discrete constraints identified.
- Determine core constraint and place the card in the centre of the work area for the development of the tree.
- It is recommended that participants use the floor or wall with constraints concisely written, each on a separate small piece of paper.
- Identify which of the remaining constraints directly contribute to this focal problem and place these causes below the core constraint.
- Similarly, the direct and substantive effects of the core problem are identified and placed above it.
- Other contributing causes and effects are similarly identified and diagrammed.

The problem tree comprises various levels of cause and effect relationships which are all connected to the core problem. This process is debated until all participants concur with the mapping of the relationships among the constraints identified by the group. Once the problem tree has been constructed, its validity must be tested. To do this, each constraint is examined systematically to determine whether or not it can be resolved through the efforts of the individual farm household, the farming community or FPO-like organisations. The reformulation of the constraints into positive desirable conditions or opportunities, constitutes the transition to an Objectives Tree and the start of the formatting of an opportunity matrix.

6. **Opportunity Matrix**: Identifying constraints, their causes and effects, and the most appropriate and practical ways to overcome them initiates communication and builds trust among all key actors and stakeholders involved in the PRA process. Options for overcoming constraints should be as specific as possible and each solution suggested by the group must comply with the following ground rule:

   - Those involved are both willing and able to initiate and facilitate the change.
   - This approach fosters self-determination, diminishes apathy and emphasizes the creation of sustainable solutions and the exploitation of opportunities which are accessible and within one's sphere of control. In this way, development becomes self-propelled and sustainable.

The development of an opportunity matrix starts with rephrasing each identified constraint into positive desirable conditions and detailing the opportunities for innovation and change. The Opportunity Matrix can be further expanded to an overall strategy that translates constraints into a logical hierarchy of opportunities and actions. Each action proposed must be owned by an individual or agency with the commitment to guarantee its successful implementation in the stipulated time frame.

7. **Stakeholder Analysis**

Stakeholder analysis provides scope for the identification and assessment of the degree of influence which individuals, groups and institutions may have on a specified activity or project. This PRA tool can therefore be used to:

➲ Identify people, groups, and institutions that will influence the initiative (either positively or negatively).

➲ Anticipate the kind of influence, positive or negative, these groups will have on the initiative.

➲ Develop strategies to get the most effective support possible for the initiative and reduce any obstacles to successful implementation of the programme.

Developing a Stakeholder Analysis Matrix

➲ Organize group brainstorming to identify all the persons, groups, organizations and institutions that will impact or be impacted by the proposed interventions.

➲ Determine whether each stakeholder is likely to enable or sabotage the proposed intervention and using the following matrix, list each appropriately in the segregated column titled "stakeholder".

➲ Having assessed each stakeholder listed as an enabler or saboteur, consider:

   - The role the key stakeholder must play to guarantee the successful implementation of the intervention.
   - The likelihood that the stakeholder will commit to the prescribed role.
   - The consequences of a stakeholder's negative response to the project.

➲ Assign A for extremely important, B for fairly important, and C for not very important. Record these letters in the column entitled "Assessment of Impact".

➲ The final step is to determine what actions can be taken to ensure that all key actors and stakeholders add value to the proposed change process. What can be done to get stakeholder support and reduce opposition? Record proposed strategies for obtaining support or reducing opposition in the last column in the matrix.

Problems are very likely as long as there are people or interest groups. To understand the problem, stakeholders must be first understood. Stakeholder analysis is, therefore, critical to the process of problem solving. This participatory technique serves to discern the interest and expectations of persons and groups, in addition to how they can be impacted or can impact, positively or negatively on the intervention in question.

8. **Trend Analysis:** Trend analysis is employed to identify current and future movements of particular phenomena. This process may involve comparing past and current crop productivity levels, cost of production, soil fertility, rates of erosion, income levels, agricultural labour force and a host of other factors. If, for example, an estimate of the group's capacity to supply a commodity for the market is required; data and information will have to be captured on the level of production of that commodity by that group over a period of time. Record keeping and documentation are therefore a prerequisite for trend analysis.

Steps in conducting Trend Analysis

- Clearly establish the focus of the investigation.
- Determine what kind of information/data is needed.
- Review appropriate secondary data sources to collect the historical information required.
- By way of a participatory brainstorming session, determine key factors that may have led to the trend of performance for what is being investigated. The brainstorming exercise will allow for a rich and quick listing of those critical factors, based on the knowledge, perceptions, experiences and collective wisdom of the participants.
- Organize and present a diagrammatic representation to illustrate the pattern of the variable(s) over a specified time period. Commonly, a line graph or bar chart is used to illustrate variations over time.
- The representation of the historical information in the form of a graph or similar illustration is a good discussion aid.

After identifying past and present factors that are contributing to the current trend in performance, a priority grid and constraints analysis could be conducted to estimate the level of influence and impact of the various factors.

9. **Crop Budgeting:** Crop budgets indicate what returns particular crops could average over time and location. Individual farm or enterprise results will differ from prescribed technological packages because of variations in soil types, location to markets, accessibility of inputs and management capability among other considerations. With the trend towards an increasingly competitive agricultural trading environment, farm (household) enterprise systems must generate the information/ data for informed cropping decisions.

Crop budgeting inevitably assists in the examination of the relative profitability of the crops grown in a particular farming system. Participatory tools such as crop calendars, resource flows and time budgeting, as well as access and control profiles, are useful to the process of determining the cost and returns of a specific commodity or farm. A necessary prerequisite to this process is the keeping of records for different categories of farm (household) expenditure and income. Crop budget formats vary from area to area. Some are complex, others are relatively simple.

Crop budgeting gives a reflection of the level of technology employed and provides scope for an assessment of options that could inform the level of production and productivity. The use of a matrix allows comparisons of expenditure and income from various production and marketing activities as it relates to the cultivation of various crops. Crop budgets also allow for an assessment of the level of investment in improved commodity production and marketing technologies, for example: irrigation and packaging. In conjunction with the constraints / opportunity analyses tool, crop budgets reveal the level of efficiency and efficacy within the farming systems and the opportunities for sustainable farming systems and livelihood approaches.

Session VII

Effective Strategies for Mobilization of Farmers for Formation of FPOs

For the viability and sustainability of the FPO, it is important that the FPO has a reasonable membership base and that on the other side, the FPO is able to retain them by offering the required services as members are also the customers of the FPO. In community mobilisation for FPOs formation and sustainability, both the human and non-human resources together need to be put-forth in such a way that community priorities and needs are addressed substantially. For increasing the membership base of the FPO, it is pertinent to initiate the process of community mobilisation through following steps:

- Awareness creation in the identified cluster about the concept of FPO
- Discussion on the issues of farmers and their probable solutions with reference to the feasibility study conducted in the cluster area
- Involvement of PRI members, progressive farmers and other influential persons in the area
- Experience sharing by successful FPO members
- Exposure visit to a vibrant FPO in the nearby areas
- Capacity-building of core group of the identified farmers

Awareness creation

- The community mobilization process for increasing the membership base of the FPO should kick start with arranging a series of meetings with the potential producers for developing rapport with them and introducing the concept of Farmer Producer Organisation.
- In rural domain, a community level meeting is the best platform for setting goals and aims and also identification of objectives for the very cause of formation of FPOs.
- From these meetings, farmers can develop their road map and also dispel all kinds of confusion in the process of formation of FPOs.
- The potential socio-economic benefits of FPO along with the possible risks and their implication on shareholding members are to be shared with them.
- The mobilization team of the CBBO also needs to share the idea of community identity and togetherness to resolve various social and infra-structure problems of the community viz. improvement in community health, primary education, ownership and management of common resources, etc.

Discussion about the issues of farmers

- During such meetings, the specific issues faced by the farmers should be discussed in detail along with how the their coming together in the form of an FPO can address those issues i.e. the probable benefits they can get as member of an FPO should be highlighted in such meeting.
- In such meeting, the findings of feasibility study conducted in the cluster area should also be discussed with the farmers.

Involvement of PRI members, progressive farmers and other influential persons

- It should also be understood that all issues faced by the farmers cannot be resolved by the farmers alone and presence of other influential functionaries is essential in such meeting as it will help to resolve some issues those are beyond the control of farmers.
- Even the officials of CBBO may have to seek the help of other experts to solve the problems which arise in meetings. Say for example bank loan related issues where CBBO functionaries will have to consult and even ensure the presence of the bank representative in the meeting.
- Thus, for mobilising the farmers, the help of Panchayati Raj Institution members, progressive farmers of the area, SHGs operating in the area, local NGOs and other influential persons and line department officials including banks should also be ascertained as they are the persons who can pay a key role in motivating farmers to become the members of the FPO.

Experience sharing by successful FPO members

- It is always better to involve the members of a successful FPO from the nearby area in such meeting where the farmers can listen from the horse's mouth. In such meeting the members of the successful FPO can share their experience about their journey in the FPO. In general farmers will connect with him easily.

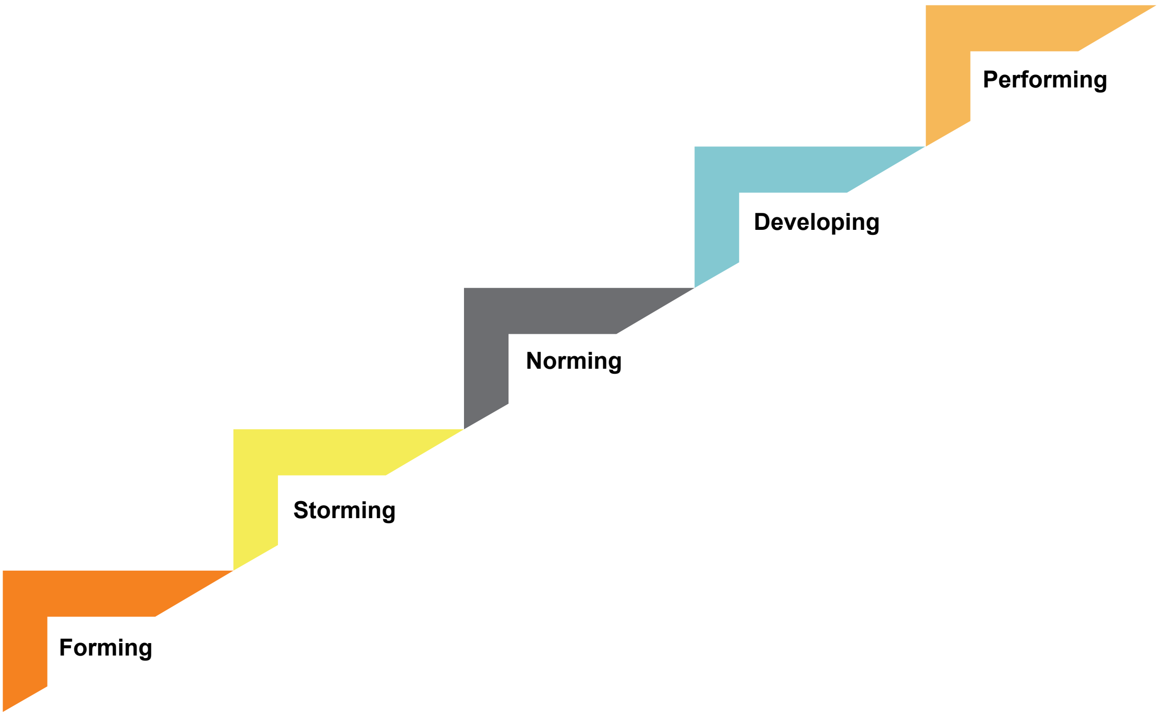
Exposure visit to a nearby successful FPO

- Once the concept is understood by the potential members, an exposure visit to a successful FPO may be organized to further strengthen the understanding of the identified group of producers.
- The exposure visit is found to be a good approach to help with clarifying concepts and methodologies to potential members as compared to classroom training.
- However, the exposure visit should be meticulously planned and facilitated by an experienced person who can explain things in the right perspective.

Capacity-building of core group of farmers

- During the community mobilisation process, identification of core group, who will shoulder responsibilities for FPOs is of paramount importance. The core group is the nucleus of an FPO.
- Whether this core group will be formed through selection or election should be the prerogative of the participating farmers. If the right persons are not placed or selected the very sustainability of the FPOs will be under question.
- Accordingly, training of the core group asd per the needs of FPOs is another important assignment for the CBBOs from the very beginning.

Generally, the group formation process passes through following 5 stages:



- **Forming -** When the group members enrol themselves and conduct 1-2 initial meetings.
- **Storming -** When the group members start discussing and reacting to the various issues. This is essentially the stage where conflict resolution among the members takes place.
- **Norming -** When the groups start framing norms to run the group successfully.
- **Developing -** Provide capacity-building support to the group members on different areas.
- **Performing -** When the group starts performing by involving themselves in the planning & execution process.

Session VIII

Comparative Features and Registration Modalities for FPOs under Companies & Cooperative Acts

Background

Despite the vast expansion of the formal credit system in the country, dependence of the rural poor on moneylenders has somehow continued in many areas, especially for meeting unforeseen requirements. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks. For various reasons, credit to these sections of the population could not been institutionalized to the desired extent. Studies conducted by NABARD, APRACA and ILO on the informal groups promoted by NGOs brought out that Self-Help Savings and Credit Groups had the potential to bring together the formal banking structure and the rural poor for mutual benefit.

Accordingly, NABARD launched a pilot project to cover Self-Help Groups (SHGs) promoted by NGOs, banks and other agencies and supported it by way of refinance. The quick studies conducted by NABARD in a few states to assess the impact of the linkage project brought out encouraging and positive features like increase in loan volume of the SHGs, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100% recovery performance, significant reduction in the transaction costs for both the banks and the borrowers, etc., besides leading to a gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project was that about 85% of the groups linked with banks were formed exclusively by women.

Based on the observations of various research studies, the model of 'SHG-BLP' evolved as a cost effective mechanism for providing financial services to the unreached and underserved poor households. What started as a pilot to link around 500 SHGs of poor to formal financial institutions during the year 1992-93, became the largest microfinance programme in the world, in terms of the client base and outreach. As on 31st March 2020, 102.43 Lakh SHGs are savings linked involving 12.4 crore poor households. Savings balance of SHGs with banks went up to Rs. 26.15 thousand crore. Similarly, SHGs have bank loan outstanding to the tune of Rs. 1.08 Lakh crore as on 31st March 2020.

Similarly, Joint Liability Groups (JLGs) are essentially credit groups of small/marginal/tenant farmers/asset less poor who do not have proper title of their farmland. These informal groups of 4-10 members are engaged in similar economic activities and are willing to jointly undertake to repay the loans taken by them from banks. Financing of JLGs was introduced as a pilot project in 2004-05 by NABARD in 8 States with the support of 13 RRBs. The scheme was later mainstreamed for the banking system in the year 2006. As on 31st March 2020, 41.80 lakh JLGs are financed by banks.

For transfer of agriculture technology to the farmers' field, orienting them to establish better relationship with banks, and enabling them to enjoy the benefits of collective bargaining power both for procuring inputs and output management, the Farmers' Club Programme was initiated by NABARD in late 1982's with a Mission ***"Development in rural areas through credit, technology transfer, awareness and capacity building".*** *All these Community-Based Organisations have stood the test of time and their success demonstrates that CBOs are a very good medium to address the challenges being faced by the rural people.*

India has over 14.65 crore farmer households with over 86% small and marginal farmers having landholdings of less than 2 hectares. The average size of landholding is 1.08 hectare per farmer household. Due to this fragmentation and disorganization, agriculture per se is not economically viable for farmers as they are unable to realize good value from their marketable surplus by individually selling their small quantities of produce. Collectivizing farmers into Producer Organizations (POs) has been considered as one of the ways to procure inputs at a lower price, and gain more selling power for their produce/product. As a matter of fact, the collectivisation of producers, especially small and marginal farmers, into producer organisations has globally emerged as one of the most effective pathways to address various challenges in agriculture, but most importantly to enable improved access to investments, technology, inputs, credit, and markets. This approach to evolve farmer- owned enterprises for enabling their effective participation in agri-value chain with better access to markets and thereby leveraging their collective strength for their economic betterment has become a cornerstone of all policy initiatives of the Government of India (GoI).

Advantages of FPOs: Numerous reports and studies have clearly captured and established the positive role of FPOs. Some of the important benefits ascribed to FPOs are as under:

a. Cost of production or cultivation may be reduced by procuring all necessary inputs in bulk at wholesale rates, as well as use of custom hiring services of farm equipment.

b. Aggregation of produce and bulk transport reduce marketing cost, therefore, enhancing the net value accruals to the producer.

c. Building scale through aggregation of commodities lends advantage of economies of scale and attracts traders, processors, and retailers to the farm gate.

d. Easy access to modern technology, extension services and joint training on Good Agricultural Practices (GAP) and ensuring traceability of agriculture produce.

e. Post-harvest losses can be minimised through joint storage and value addition facilities.

f. Adverse price fluctuations and distress sale can be managed or avoided; if good practices are imbibed. These include contract farming agreements, stocking in own common facilities or leased storage facilities with credit support, etc.

g. Ease in communication for dissemination of information about prices and volumes in different locations and other farming-related advisories thereby reducing in formation asymmetries.

h. Access to institutional credit against stock, without collateral by virtue of joint liability implicit in the FPO framework.

i. Movement up the value chain and graduation into primary and secondary processing will be possible as minimum scale economies are reaped.

j. Greater bargaining power to farmers and greater quality orientation in production and processing activities.

Note: *As a result of the above initiatives, farmer members of the FPOs are saving cost of production and commission, and there is reduced wastage of produce and value addition to output. Thus, the institution of FPO shall generally lead to augmentation in income levels of the member farmers and this must be highlighted by the Trainer*

A Farmer Producer Organisation entails the spirit of a cooperative society which has been operational on the ground for more than 100 years. However, for inculcating the principles of cooperation along with professional management, the Government of India (Ministry of Law, Justice and Company Affairs by its order No. 11/12/99-CL-V dated 01 November 1999) constituted a High Powered Committee to:

- *Examine and make recommendations with regard to framing legislation which would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies*
- *Ensure that the proposed legislation accommodates the unique elements of cooperative business within a regulatory framework similar to that of a private limited company*

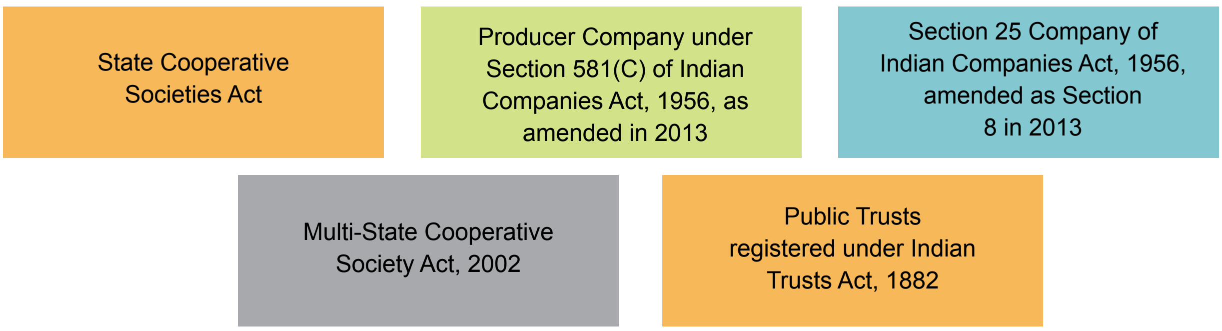
The Committee constituted under the chairmanship of Dr. Y K Alagh recommended that the GoI enact legislation to enable the registration and operation of producer companies, wholly owned and self-regulated by users, managed by professionals in the users' interest and in a manner consistent with the principles of mutual assistance. The committee evolved the legislation for the above purpose on the experience of producer organisations all over the country. The committee was of the opinion that keeping in view the importance to the survival of the producer organisations in a market economy, GoI should take up the matter of adoption of the legislation as early as possible.

The legislation will provide rural producers with an effective alternate organisational form which will both encourage professionalisation and a modern corporate culture while retaining and supporting the principles of mutual assistance.

The Ministry of Company Affairs introduced a Bill for amendment in the Companies Act, 1956 by inserting Part IX A, paving a way for the incorporation of Producer Companies. The Act has allowed primary producers to organize themselves to gain a maximum profit.

Legal Forms of PO

Producer organisations is a general concept and FPOs can be formed and registered under different prevailing Acts as under:



However, as per the Central Sector Scheme on Formation and Promotion of 10000 FPOs, the focus is on FPOs registered under the Cooperative Societies Act and Companies Act.

The CBBOs, start the entire process, through meeting with the producers, developing rapport with them and introducing the concept amongst them. Once the concept is understood by the group, and the potential members are convinced, it is followed by focused group meeting with them. The meetings generally focus on discussing the objectives as well as possible ideas for formulation and strengthening the venture. The first decision to be undertaken is whether to register the FPO under Cooperative Societies Act or under Companies Act by understanding the difference between the two forms.

Differences between Cooperatives verses Producer Company

Particulars	Cooperative Societies Act	Companies Act
Objectives	Single Object	Multi-object
Area of Operation	Restricted, Discretionary	Entire Union of India
Membership	Individuals & cooperatives	Any individual, Group, Association, Producer of the goods or services
Share	Non-tradable	Not tradable but transferable limited to members on par value
Profit sharing	Limited dividends on share	Commensurate with volume of business
Voting rights	One member one vote but Govt. and Registrar of Cooperatives hold veto power	One member one vote. Members not having transaction with the company cannot vote
Government. Control	Highly patronised to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in real world scenario	Fully autonomous within the provisions of the Act
Reserves	Created, if there are profits	Mandatory to create every year
Borrowing Power	Restricted	More freedom and alternatives
Relationship with other corporates/business houses/NGOs etc.	Transaction based	PCs may subscribe to the share capital of, or enter into any agreement or other arrangements, whether by way of formation of its subsidiary company, joint venture, or in any other manner with any body corporate for the purpose of promoting the objects of the PC by special resolution in this behalf

A. Key Features of a Co-operative Society

a. A Co-operative Society possesses the following characteristics:

➲ Open Membership:

When a minimum of 10 members with a common interest come together to form a society, then it is referred to as a Co-operative Society. Besides, the Co-operative Societies Act does not specify any maximum number of members, while the member may specify the maximum limit after the formation of the society.

➲ Voluntary Collaboration:

No Co-operative Society registration is possible without the volunteer efforts of members to build one. The members have access to enough freedom to join and leave the Co-operative Society at any time by providing a legal notice of the same.

➲ A Separate Legal Entity:

When an organisation registers under the Co-operative Societies Act, it becomes a separate legal entity. Thus, a Co-operative Society holds a limited liability of its members. Any instances like insolvency, death, or lunacy of a member will not affect the Co-operative Societies. Also, members have the power to enter into an agreement with others to sell or purchase properties under its name.

➲ Fosters Service Motive:

Unlike other types of organizations, Co-operative Societies do not emphasize upon maximizing the profit; instead, its main objective is to fulfil the common interest of the members.

- Democratic Management:

Every Co-operative Society follows "*All for each and each for all*" agenda which hinders dictatorship rule. Such societies conduct an *Annual General Meeting (AGM)* every year to select '*Board of Directors*' irrespective of how many shares a member holds, he only has a single vote.

b. A Co-operative Society has to conduct itself as per the following:

1. Co-operative Societies Act under which the same is registered whether it be under State Act or Central Act.
2. Co-operative Societies rules made thereunder whether it be Central or State rules.
3. Bye-laws approved by the Registrar at the time of registration and amendments made from time to time and approved by the Registrar, these bye-laws have to be formed by the concerned members themselves and present it to the registration authority for its approval.
4. Notification and Orders by the concerned Government.

c. List of required documents before / at the time of registration:

- Submit **PAN Card** of all the members of your proposed society with the registration application.
- Next, deposit the **valid residential proof** of all the members including bank statement, driving license, aadhaar card, utility bill, passport, etc.
- Prepare **Bye-Laws** that must contain information like**:**
  - a. The central objectives of your society for which it got established
  - b. All details of members forming the society
  - c. The address of the registered office of your society
  - d. The rules and regulations which will govern and maintain day to day activities of the proposed society. Moreover, it will contain the rules for taking the Membership of the Co-operative society.
  - e. The details about the meetings that will be held in future.
  - f. Information about the Auditors
  - g. Forms of Arbitration in case of disputes between the society's members.
  - h. Ways for the dissolution of the society
  - i. A **Cover Letter** which clearly mentions about the objective or the purpose of your society. Ensure that every founding member of the society has signed the cover letter.
  - j. A copy of the **Address Proof**, where the registered office of your society will get located along with a **NOC from the landlord** if any.
  - k. Give a **list of all the members** of the governing body with their signatures.
  - l. The last and most essential document which you need to submit with the application is a **declaration by the society's president**. He must confirm that he is willing and competent to hold the stated position.

d. Summary of Procedure for Co-operative Society Registration

If an FPO wants to register itself under Co-operative Societies Act, have a look at the step by step procedure for Co-operative Society registration (Indicative):

1st Step: To form a Co-operative Society, it's essential to find 10 individuals who share a common objective and desires to commence a Society. They need to convene meeting of all members and pass resolutions for the constitution, name of the society and opening of Bank accounts. The entire process needs to be done unanimously.

2nd Step: The next step is to constitute a Provisional Committee/Board/Management Committee and elect Office bearers. President, Secretary and Treasurers name should come in the resolution passed by the members in another/next meeting.

3rd Step: Then all the members must voluntarily select various committees like Audit committee, etc and pass resolution for the above. This may be done in the next meeting.

4th Step: Now you need to apply to the Registration Authority for name reservation of your Co-operative Society. You must obtain a confirmation letter for the name reservation. Also, understand that the reserved name shall be valid for 3 months.

5th Step: Further, collect the entrance fees and share capital from all the prospective members of your society.

6th Step: Thereby open a bank account in the name of your Co-operative Society and deposit the collected entrance fees and share money in that account. Also, procure a certificate in that respect.

7th Step: After the third meeting, the society may make a request for registration with all documents like KYC of all members/office bearers, fee receipt, certified copies of resolutions, affidavits, etc depending upon the state specific Cooperative Act's requirements. Now deposit the registration fees with the Reserve Bank of India/Treasury and thereof **obtain a receipt of challan**.

8th Step: Submit the application for registration to the **Registrar of Societies** of the **concerned jurisdiction** along with the necessary documents.

9th Step: Subsequent to your application, the Registrar will enter the particulars in his register in Form "B." Thereby he will give you serial number and issue a receipt in acknowledgement of the same.

10th Step: Lastly, the Registrar notifies you about the registration of the Co-operative Society in the **Official Gazette** and thus issues you the certificate of registration.

Formation of a Producers' Company

A Producers' company is a body corporate registered under the Companies Act, 1956 (Section 581C) and having specified objects and activities. Ownership and membership of such companies is held only by 'Primary Producers' or 'Producer Institution', and member equity shall not be publicly traded. However it may be transferred, only with the approval of the board of directors of the Producer Company.

In terms of the Act, Primary Produce has been defined as produce of farmers from agriculture and allied activities or produce of persons engaged in handloom, handicraft and other cottage industries, including any by -product and product resulting from ancillary activities thereof. Also, any activity intended to increase the production or quality of aforementioned products or activities.

➲ **Who can form a Producer company?**

Any one of the following can get a producer company incorporated under the Act:

a. Any ten or more persons engaged in any activity connected with primary produce, or

b. Any two or more producer institutions or companies, or

c. A combination of ten or more individuals and producer institutions

➲ Characteristics of a Producer Company

a. The registered producer company should be treated as a private limited company with the significant difference that a minimum of two persons cannot get them registered.

b. These companies are with limited liabilities and limited only by share capital.

c. The liability of the members is limited to the unpaid amount of the shares held by them.

d. Minimum paid-up authorized capital is of Rs. 5 lakh.

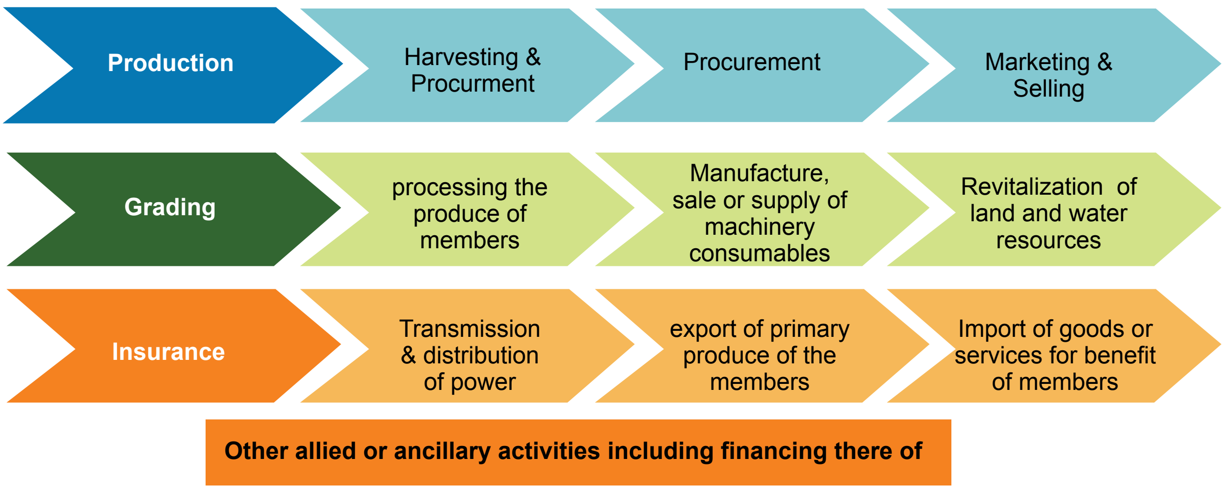
e. The maximum number of members can exceed 50.

f. It shall never become a public (or deemed public) limited company.

g. Members' equity cannot be publicly traded but be only transferred - As such, "producer companies would not be vulnerable to takeover by other companies or by Multi-national Companies (MNCs)."

➲ **Activities of a Producer Company**

As per the Companies (Amendment) Act, 2002 (Section 581B) following are the objectives of forming a Producer Company



Procedure for Incorporation of Producer Companies under Companies Act 2013

Once the concept is well accepted, a common understanding is developed and concrete business plan is developed, the initiator (CBBOs) with consultation and support from the group develops the draft 'Memorandum and Articles of Association' including the roles and responsibilities of each office bearer. The shareholders have also to finalize the authorized capital of the company and the cost of each share.

Box 1: Steps to be followed for incorporation of Company	
Step 1	Meeting with the villagers and introduce the concept
Step 2	Exposure visit to a Producer Company
Step 3	Motivating eligible members to become shareholders
Step 4	Meeting the shareholders and discuss objectives/possible business ideas
Step 5	Drafting of Memorandum and articles of association
	First informal meeting of shareholders for Approval of MoA & AoA
Step 6	Selection of Directors

Legal Formalities for Formation

- Obtain Digital Signature of the Nominated Director
- Choose four (04) names of the producer company in order of preference.
- Apply for name availability in FORM – 1A

After availability of name necessary documents are to be prepared like:

- Memorandum of Association
- Articles of Association
- FORM No – 18 for registered Office
- FORM No – 32 for Directors Appointment ⇨ Apply online for DIN for Proposed Directors (FORM –1)
- Affidavits by subscribers to Memorandum Of Association in case If they have signed in Hindi
- Power of Attorney in favour of consultant to authorise him to make necessary changes.

The process and stages are elaborated in subsequent paragraphs of this document.

A step-wise basic information for the formation of a 'Producer Company' is described as under:

Step 1: Digital Signature Certificate (DSC): The Information Technology Act, 2000 provides for use of Digital Signatures on the documents submitted in electronic form in order to ensure the security and authenticity of the documents filed electronically. This is the only secure and authentic way that a document can be submitted electronically. As such, all filings done by the companies under MCA21 e-Governance programme are required to be filed with the use of Digital Signatures. Thus, it is necessary for a company to authorize a person's (nominated) signature who will be approved to sign the documents. Form for DSC is available with the website of Ministry of Company Affairs (henceforth website of MCA). After filling the required information, the form (Form 13) has to be submitted online to the 'Certification Agencies'. The DSCs are typically issued with one to two year validity. These are renewable on expiry of the period of initial issue. A person who already has the specified DSC for any other application can use the same for filings under MCA21 and is not required to obtain a fresh DSC. The company representatives and professionals required to obtain DSCs are free to procure the same from any one of the approved Certification Agencies as per the web site. The issuance costs in respect of each Agency vary and are market driven.

Step 2: Director Identification Number (DIN): The DIN number can be obtained online from a company affairs cell office without any fees by only providing identification proof number (only PAN Card, Voter Identity card, passport or driving license number is accepted). DIN form is available in website of ministry of company affairs as and on line application can be made for the same.

Step 3: Naming of a Producer Company: A producer company should be named using the following suffix "Producer Company Limited" appropriately indicating its status as a producer company. The word "private" is not used in the naming process and the absence of which does not indicate that the company is a "public". The procedure involves selection and search for the availability of name for a Producer Company:

- Select, in order of preference, at least one suitable name upto a maximum of five names, indicative of the main objects of the company.
- Ensure that the name does not resemble the name of any other already registered company and also does not violate the provisions of emblems and names (Prevention of Improper Use Act, 1950) by availing the services of checking name availability on the portal
- Apply to the concerned Registrar of Companies to ascertain the availability of name in e-Form 1(A) by logging in to the portal. **A fee of Rs. 1000/-** has to be paid alongside and the digital signature of the applicant proposing the company has to be attached in the form. If all the proposed five names are not available, the applicant (promoters) will be intimated by RoC and subsequently the applicant has to apply for a fresh name on the same application.

Step 4: Memorandum & Articles of Association

After ascertaining the name of the producer company, a Memorandum and Articles of association has to be prepared.

- Memorandum and Articles of Association should be printed. The computer printout has to be on both side of the paper.
- Get the Memorandum and Articles of Association duly stamped.
- Get the Memorandum and Articles of Association subscribed/signed by the requisite subscribers/promoters in his/her own hand, his/her father's name, occupation, address and the number of shares subscribed for.
- Ensure that the Memorandum and Article is dated on a date after the date of stamping.

Step 5: Documents to be submitted to ROC for the Incorporation of Producer Company

It should be noted that all the information and forms are available on the website of MCA (http://www.mca.gov.in), and can be accessed and filled up easily.

File the following documents along with the fees payable with the Registrar of companies of the state, where the Registered Office of the company is to be situated:

- Copy of the letter of Registrar of Companies confirming the availability of name for formation of the company should be made;

- Memorandum and Articles of Association duly stamped and signed;
- Form 18 regarding situation (full address) of Registered Office
- Form 32 (in duplicate) regarding particulars of directors
- Form 1 (on a stamp paper) declaring compliance of all and incidental matters regarding formation of companies
- Form 29 – consent of the director
- An affidavit has to be submitted if the Memorandum of Association is submitted in Hindi by subscribers, claiming understanding of the same.
- Power of Attorney.

Step 6: Certificate of Incorporation

- The Registrar of the Companies, on being satisfied that all the documents for the incorporation of a company is submitted, is obliged to register the memorandum, the articles and other documents, if any, and issue a 'certificate of incorporation' within thirty days, which is a conclusive proof of its formation in terms of Part IX A. [Section 581C (2)].
- After obtaining consent of the members about the Directors of the company and the Memorandum and Articles of Association, the CBBO can go ahead with the registration process.
- After registration of the company, a bank account of the company has to be opened and money deposited in it. Simultaneously, application for PAN has to be initiated.
- The first Annual General Body meeting of the shareholders has to be held within the 90 days from the date of incorporation. Other than discussing the business plan, the Board of Directors are to be elected in the meeting. The proceedings of the meeting have to be sent to the ROC within sixty days along with the list of finalized director.
- The incorporation of Company is effective from the date mentioned in the certificate of registration granted by the Registrar of Company. On incorporation, a company becomes a juristic person, i.e. a person in the eyes of law.
- It has perpetual succession i.e. its members may come and go but the company goes on till 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 the company in the presence of a director and be signed by the authorized signatory or signatories.
- It is empowered to hold all properties in its own name and has its own right.
- It can sue others and can be sued by other and enter into contracts in its own name.

Responsibility of CBBO: To take steps for the incorporation of the FPO and get drafted the Bye-laws in case of FPOs for filing with 'Registrar of cooperative Societies' under Cooperative Act along with other documents and 'Memorandum and Articles of Association' for filing them with 'the Registrar of Companies' along with other documents and papers and finally and finally collect the 'Certificate of Incorporation'. The Initiator also has to mobilize as well as invite people to be shareholders of the company.

Session IX

Governance & Compliance Aspects in FPO – Role & Responsibilities of CEO & BoDs

Giving Shape to the Ideals of Corporate Governance

The principles of accountability, transparency, ethics and fairness are the basic principles in the context of corporate culture. These need to translate into real everyday practices and policies which business organisation must adopt.

The following aspects may be considered to understand the governance and management of a FPO:

1. Democratic functioning
2. Following proper / due process
3. Transparency
4. Social and gender justice
5. Maintaining confidentiality
6. Diversity
7. Collective responsibility for decisions
8. Ensuring continuous learning and improvement
9. Accountability
10. Being answerable to all stakeholders
11. Balancing business and social objectives

There can be several other practices that one can identify and add to the above list which is only illustrative and by no means exhaustive.

1. Democratic Functioning

FPO shareholders may be extremely diverse viz. gender, social, economic, etc. and this diversity may pose a huge challenge not only in bringing them all to a common platform but having an equal say in its management. Democratic functioning means that the organisation provides all of them with equal opportunities for participation in decision-making and handling the affairs of the FPO. Considering the diversity, it would be truly challenging to ensure the above, but rotation policies and conscious efforts, all can be taken together in the journey of a FPO.

It is essential that a democratic attitude must be inculcated in the normal administration and functioning and should be reflected in conduct of meetings, decision making (convincing members with reasons), etc. Very often members who are not convinced and silenced by a majority starts showing resentment and even leave the organisations later on). Due attention is also required to given to ensure that the meetings are organized at a time and location that is convenient to all / most of the members.

2. Following Proper / Due Process

Functioning and decision making must follow a due process which should be a written laid down procedure or system. A written and approved policy for key function like staff selection, purchase of assets, equipment, etc. should be in place and the process of taking a decision should be based on it.

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

3. Transparency

Transparency is important not only in terms of how the decision has been arrived at but also sharing the important and key decisions with all the stakeholders who are entitled to know this. Thus, there are two aspects viz. due process and transparency. Transparency in this context would mean that the criteria and the process by which the decision was made is shared and made known to all the concerned persons – in this case the shareholders. This will ensure that the shareholders will come to know about what decision has been taken, why it has been taken and also how it has been taken. This eliminates the doubt of bias & self-interest.

Let us suppose a FPO has been assigned the responsibility of distribution of free seeds to its members. To maintain transparency, the FPO should maintain clear documentation about the farmers to whom the seeds were distributed along with the quantities and submit a report as required by the department with details and photographs. A board may be placed at a prominent place in each village or near the fields displaying that the farmers are using seeds distributed by the department. It should also be prepared to arrange for field visits where the officials can see the actual places where the seeds have been distributed. The APC may charge a facilitation fee that can be collected from each of the beneficiary farmers also.

4. Social and Gender Justice

The functioning must ensure participation of all, irrespective of gender, caste, creed or economic status. There may be persons from different backgrounds who need to be equally accommodated and represented in the decision making bodies. The interest of all must be kept in mind and this should not only appear to be but translate in the functioning.

5. Maintaining Confidentiality

In the course of discharging duties for a producer company, a person may come in possession of information that is sensitive or confidential. For example:

- Decision about hiring of a candidate
- Decision about sale of agricultural produce and the prices at which they may be sold
- Purchase of land for the company

Maintaining confidentiality would mean that information should be shared / discussed only with the concerned persons as and when it is required ***(only on a need to know basis)*** but not shared with any other persons. Improper sharing of information may lead to legal problems and other issues.

6. Collective responsibility for decisions

Various management bodies existing in a FPO viz. General Body of Shareholders, Board of Directors, various committees, etc. must assume collective responsibility for decisions. In practice this would mean that while there may be difference of opinions and various options discussed in meetings, once a decision has been made, everybody should accept the decision and works towards its implementation. In general, the discussions between the members of a group (such as the Board of Directors) would remain confidential and not shared with others. The approach adopted should be:

- The leadership / chairperson must create an atmosphere so that whenever a matter is discussed all express their views freely.
- Differences of opinion are healthy and may be treated in positive manner
- Once a decision is made, it should accepted as a collective decision of the body and all members must cooperate fully in implementing the decision.

7. Ensuring continuous learning and improvement

The value of any individual/institution will improve continuously with experience, if one learns and performs accordingly. Though learning makes a difference, itdoes not take place "automatically". It requires special effort and analysis. Some possible methods could be –

- Performance analysis
- Analysis of procedures and continuous improvement through documentation and review.
- Benchmarking – the learning based on a comparative study of peer organizations specially who are performing better than us

Benchmarking is the process of comparing our business processes with processes & strategies adopted by other companies – usually those that are considered as the best in the field. Usually, this involves the following steps.

- A specific subject may be selected for study which may be a problem area. Ex. quality control
- Identify other industries which have similar processes
- Identify organizations that are leaders in this area
- Collect information about / visit these companies to identify leading practices
- Companies typically agree to exchange information beneficial to all parties in the benchmarking group and share the results within the group
- Implement the new and improved business practices and monitor the results

8. Accountability

Accountability is the obligation and willingness to accept responsibility and account for one's actions. For a producer company, being accountable means, demonstrating regularly that it uses its resources wisely & judiciously. Some of them could be:

- The basic information about the company, its activities and policies are readily available and accessible to all the members.
- This information is also available to potential new members as well as banking institutions and agencies who provide support to it.
- The FPO must be willing and open to accept suggestions that can help improve the performance or cut down costs.

9. Being Answerable to All Stakeholders

Who are the persons to whom FPOs have to relate to / report to or have a responsibility?

Some of them are:

- Shareholders

- Investors such as banks, who have provided loan or credit facility
- Stakeholders within the organization – employees, consultants, etc.
- Other companies with whom FPOs have dealings – Sub contractors, suppliers, etc.
- Customers who purchase their products and services
- General public/residents of the area where FPO works – office, processing plant, godown, etc.

In some of the above cases, the requirement is legal i.e. a company has to report to its shareholders as specified in the Companies Act, the company has responsibilities towards all employees as specified in the Act relating to the payment of minimum wages, etc. whereas some good practices may not be governed by statute.

10. Balancing social and business objectives

FPOs are meant to combine cooperative principles with professional management and government is supporting this movement through special facilities like giving financial support for formation, registration, CGF (Credit Guarantee Fund) and MEG (Matching Equity Grant), etc. These are the benefits that are available only to FPOs and not others private or public companies. This is because of the expectation and understanding that producer companies are also serving social objectives. Some of them are:

- Taking care of the interest of small and marginal farmers
- Taking care of the landless section among farmers
- Operating in an area that is backward and with poor infrastructure
- Having members who are from disadvantaged groups such as tribals

An understanding or comprehension of good practices is only a starting point of the journey. In order to translate them into practice and ensure that there is continuous review, feedback, learning and improvement, specific institutional processes need to be put in place. Such an effort has to begin at of the highest level of the organization i.e. the Board of Directors. **Putting in place appropriate practices through the tools of policies & procedures is the prime job of the BoD.** The defined role and responsibilities of board of Directors are as under:

Powers and functions of Board: The power includes all or any of the following:

a. Pursue and formulate the organizational policy, objectives, establish specific long term and annual objectives, and approve corporate strategies and financial plans.

b. Appointment of a Chief Executive and such other officers of the Producer Organisation, as may be specified in the articles.

c. Exercise superintendence, direction and control over Chief Executive and other officers appointed by it.

d. Cause proper books of account to be maintained; prepare annual accounts to be placed before the annual general meeting with the auditor's report and the replies on qualifications, if any, made by the auditors.

e. Determination of the dividend payable.

f. Determination of the quantum of withheld price and recommend patronage to be approved at general meeting.

g. Admission of new members.

h. Acquisition or disposal of property of the Producer Organisation in its ordinary course of business.

i. Investment of the funds of the Producer Organisation in the ordinary course of its business.

j. Sanction any loan or advance, in connection with the business activities of the Producer Organisation to any member, not being a director or his relative.

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

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

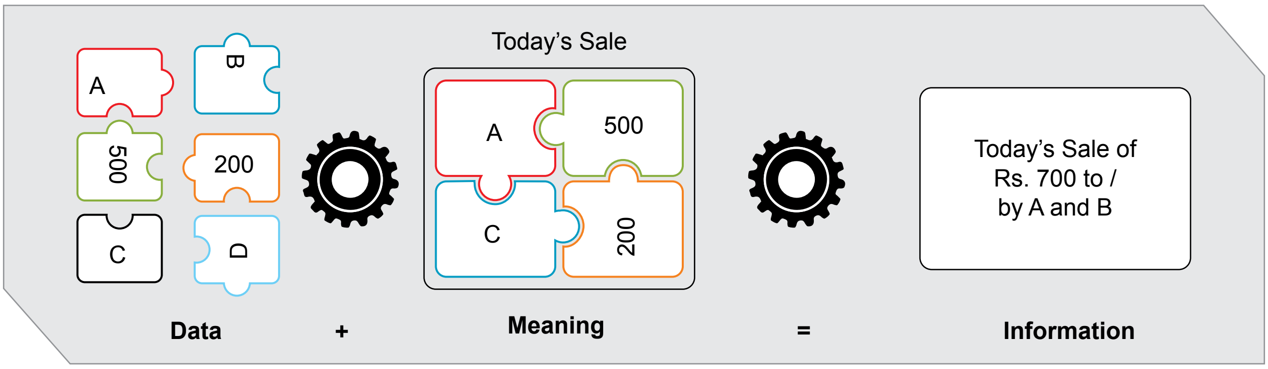
1. He shall be the ex-officio director of the board.
2. He shall work under direct guidance of BOD of the respective FPO
3. Chief executive shall be entrusted with substantial powers of management as the board may determine.
4. He shall operate the bank accounts with joint signatory of a member of board of director. He shall make arrangements for safe custody of cash and other assets of the producer company.
5. He shall sign all business related documents in behalf of the company. He may exercise the powers as may be necessary in the ordinary course of business.
6. He shall be also responsible for maintain proper books of account, prepare annual accounts and thereof; placed the audited accounts before the Board and in the annual general meeting of the members.
7. He furnishes company members with periodic information to appraise them of the operation and function of the producer company.
8. He shall also be responsible for providing timely information to the company's members and Board of directors for scheduled company meetings or emergency or short notice meetings.
9. They shall also be responsible for increasing membership in their FPOs.

To conclude, we can say that good practices should not be thought of as an afterthought. On the contrary it must be recognized as an essential part of the functioning of the organization and reflect its core values.

Session X

Management Information System (MIS) & Internal Performance Assessment Tool

Management Information System is the study of information system in business and management.



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

Why do we need Information?

Whether the FPO's operations are in conformity with its objective?

How much membership free to be collected and from whom?

Whether statutory dues/consumptionof fertilizer by members?

What is the amount of credti sales and receivable from whom?

What is the quatantity consumption of fertilizer by members?

Weather the overdraft account has been in excess of limit?

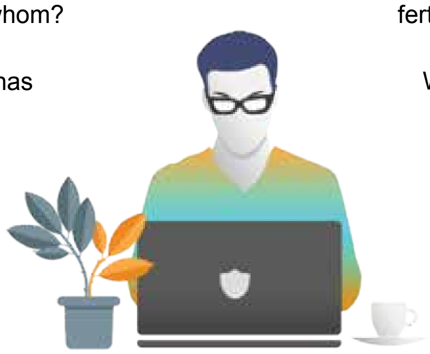
Whether FPO member's dues are paid in time

Whome we sold the maximum or minimum last quarter

What was our new vendor we added last month?

Which member produced what and quantity

What was the sales last Year?



An information system can be defined technically as a set of interrelated components that collect (or retrieve), process, store, and distribute information to support decision making and control in an organisation. In addition to support decision making, coordination and control also helps the CEO / Manager of FPO to analyse problems, visualize complex subjects and product development.

From data to Decision..........................business way

Credit Decision

Context/Goal

Processing

XYZ FPO - Sales A/c - FY 2019-20								
Date	**Name**	**Qty.**	**Rate**	**Gross Amount**	**Less**	**Net Amount**	**Pay Mode**	**O/s Sales**
23-Sep	Abdul	15	22	330		330	Credit	330
13-June	Abu	20	24	480	48	432	Cash	0
14-Aug	Abu	22	28	616		616	Credit	50
2-Sep	Peter	20	25	500	50	450	Cash	0
30-Sep	Peter	20	23	460		460	Credit	460
14-Apr	Ram	10	20	200	20	180	Cash	0
03-July	Ram	12	25	300		300	Credit	0
21-Sep	Ram	15	23	345		345	Credit	300
14-Apr	Shyam	15	20	300		300	Credit	50
Total		**149**	**23.33**	**3531**		**3413**		**1190**

In business, data represents the facts of transaction that occurs on daily basis. A transaction can be thought of as an event of consequence. Organizations attempt to capture the data (facts) associated with each transaction. For example in a sale transaction, we generally capture name of the party, quantity sold, unit rate, total cost, discount given (if any), net payable / paid etc. These data has no meaning until it is processed and interpreted.

Information is the interpretation of these data. An interpretation of data always has some goal and context. For example, for making a credit sales decision to Ram, the FPO would like to know quantity purchased earlier and credit history of Ram. Please note that data itself can be informative without any additional transformation, but other times we must do additional work to turn the data into information to answer important questions

A Management Information System uses information for collecting and communicating information an organisation uses to operate. Every function of the business produces its own data be it financial or operational and as a result, requires a separate information system of its own to keep a track of it all.

There are many types of information systems used to extract data, create reports and help managers in decision making. Uses of management information system differs based on requirement. Selecting the requited type of MIS is thus important.

MIS for Accounting and Finances:

Management information systems in accounting are designed to store and aggregate financial data. The resulting analyses are used both internally by managers and CFOs and externally by consultants, regulators, tax agencies and others. Reports generated by the accounting MIS include profit-and-loss statements, accounts receivable tracking and other financial statements. Because these reports enable management to analyse the company's financial health, it is imperative that the data input into to the system be complete, accurate and secure.

Financial MIS

- To know the position of cash and bank balances on a day-to-day basis and facilitate preparation of Bank reconciliation statements.
- Preparation of financial statements viz. Profit & Loss Account, Balance Sheet and cash flow statement.

- To know profit earned or loss incurred by FPO. Book-keeping keeps complete records of business transactions. Thus, profit or loss of business transactions can be easily ascertained/ known.
- Knowledge of assets and liabilities belonging to FPO
- To facilitate audit of books of accounts.
- Compliance with legal requirements.

MIS for Human Resource Management

Human resource information systems handle employee data such as basic personnel information, attendance and hours, performance review ratings and payroll tracking. Because the data can include private information (names, addresses and social security numbers), protecting privacy and maintaining security is paramount.

Non-Financial MIS

- To know the socio-economic status of members after joining the FPO.
- To track record of the improvement in socio-economic condition of the members.
- To monitor the effectiveness of governance system of FPO.

To facilitate preparation of business plans with concrete steps in order to make the most optimal use of the available resources.

Thus, on a daily basis, one tries to find an answer to these financial, non-financial, operational, business and strategic questions. These details are essential for operating the business of an FPOs. One is required to take decisions and one's decision is based on certain information. Now, some of the information required for decision-making may have been available to you out of your own knowledge and experience. For others, you may have to collect data from various books/ registers maintained by FPO or get information from other sources like internet. What is important is to have access to data from which meaningful information can be derived for decision making and over a period of time you acquire the knowledge to distinguish between relevant from the irrelevant information for decision making.

A decision, on the other hand is a choice or judgement that you make after thinking about various possibilities. Decision-making is the process of making choices by identifying a decisions and assessing alternative resolutions. A step-by-step decision-making process can help you make more deliberate, thoughtful decisions by organizing relevant information and deliberate alternative. Like in this example, relevant information about the credit history of Ram would help you in taking a credit decision.

In the organisational context, the FPO management needs to take numerous decisions on a daily basis. Do you think, without a systematic arrangement for flow of data and interpretation, would it be possible to get relevant information for decision making?

Probably, not; but with the help of MIS - Yes.

Monitoring

Monitoring can be defined as a systematic collection and analysis of information of an ongoing project or business activity. It is aimed at improving the **efficiency and effectiveness** of conducting the business so as to derive maximum benefits. Efficiency speaks about whether the output in terms of benefits exceed the expenditure. It is the ratio of output and input. The funding agency will monitor how efficient the CBBO and PO has been in implementing the project. Similarly, the PO will monitor itself in terms of its success in terms of the set targets. Certain parameters like the amount spent per farmer vis-a-vis the increase in income could be one indicator of efficiency. Higher the increase in income for the same amount spent, higher is the efficiency. Effectiveness on the other hand is a measure of the extent to which the project achieved the specific objectives it set. For example, if the objective of a project is to increase the income levels of all the farmers producers engaged with the PO, we have to measure the extent of increase in income. Similarly, if one of the objectives is to increase the volume of the produce, we shall measure the extent of increase. These assessments will indicate how effective the program has been. Higher the increase in income levels and production levels, the higher would be the effectiveness of the project.

Use of IT in compliances of FPOs

In general, **compliance** means conforming to a rule, such as a specification, policy, standard or law. **Regulatory compliance** describes the goal that organisations aspire to achieve in their efforts to ensure that they are aware of and take steps to comply with relevant laws and regulations. In most cases, a law comes to light only after its contravention, resulting in severe penalties. ***Compliance is a must in keeping you away from the long arm of the law!***

- **Classification of compliances**
  - a. One Time Compliance
  - b. Annual compliance
  - c. Event-Based Compliance
- **Pre-incorporation compliance**
  - i. Apply for digital signatures
  - ii. Apply for DIN
  - iii. Apply for TAN
  - iv. Approval of company name by MCA
  - v. Apply for GST
  - vi. Internet banking facility
- **Post-incorporation compliance**

  First meeting of the board of directors of the company
  - a. Printing of Share Certificate
  - b. Issue of Share Certificates

Obtain certificate of registration under various acts to begin business

1. **Apply for a Permanent Account Number (PAN):** Allotment of new PAN https://www.tinnsdl.com/download/pan/form49a.pdf.
2. **Apply for Tax Deduction and Collection Account Number TAN:** TAN is applied through "Form No. 49B". A completed form can be submitted online at the NSDL website or at the "Tax Information Network Facilitation Centre" (TIN-FC). Application form: https://www.tinnsdl. com/download/tan/form49b.pdf

3. **Apply for Registration for Shop License:** Shop license is required to be obtained from state/ municipal bodies. In most of the State, application process is online, for more details refer to the applicable law of the particular state.
4. **Apply for Registration under GST/VAT/CST:** Any entity engaged in trading of goods is required to register itself under the State VAT Tax Act. In most of the States, application process is online.
5. **Apply for Service Tax Registration:** Portal for tax registration: https://www.aces.gov.in/

Mandatory compliance / Annual compliance

1. **Filing of Annual Return (e-form MGT-7)** the audited balance sheet and the profit and loss account shall be filed with the Registrar within sixty days of the date on which the annual general meeting is held, with an annual return along with the filing fees as applicable under the Act.E-form MGT-7 can be downloade from the below link : http://www.mca.gov.in/MinistryV2/Download_eForm_choose.html.

   Annual Return will be for the period of 1st April to 31st March.
2. **Filing of Financial statements (e- form AOC-4)** Every company is required to file its Financial statements, Auditor report along with Director's report by uploading on MCA portal e-form AOC- 4 within 30 days of holding of Annual General Meeting. E- form AOC- 4 can be downloaded from the below link: http://www.mca.gov.in/MinistryV2/Download_eF orm_choose.html
3. **Filing Income Tax returns** Filing of Income Tax Returns is available online.
4. **Internal audit:** Every Producer Company shall have internal audit of its accounts carried out, at such interval and in such manner as may be specified in articles, by a Chartered Accountant

Event-based compliance

Besides Annual Filings, there are various other compliances which need to be done as and when any event takes place in the Company. Instances of such events are:

1. Change in Authorised or Paid-up Capital of the Company
2. Allotment of new shares or transfer of shares
3. Giving Loans to other Companies
4. Giving Loans to Directors
5. Appointment of Managing or whole time Director and payment of remuneration
6. Loans to Directors
7. Opening or closing of bank accounts or change in signatories of bank account

Management Audit for FPOs

A management audit is an analysis and assessment of the competencies and capabilities of an organisation's management in carrying out corporate objectives. The purpose of a management audit is not to appraise individual executive performance, but to evaluate the management team in its effectiveness at working in the interests of shareholders, maintaining good relations with employees, and upholding reputational standards.

A management audit might address such questions as the following:

- What organizational structure has been set up by the management? Are there clear lines of reporting, or is there confusion?

- What are the policies and procedures of the finance group, and is it always in compliance?
- How effective are current risk management measures?
- What is the state of relations among the employees of the organization?
- How does management put together its annual budget?
- Are the company's IT systems kept up-to-date?
- Is the management group responsive to shareholders?
- How effective is workforce recruitment and retention? Are there training programs to keep skills current among employees?
- Is the management doing its job to ensure the company is a "good corporate citizen"?
- Is the management strategically guiding the company toward its financial targets?

Example of some of the Performance Management Tools for FPOs

NABARD's FPO Performance Measurement (Grading) Tool

As on DD/MMMM/YYYY

Sr. No	Max Marks (Category wise)	Parameter	Max Marks	Obtained Marks
A	**5**	**Age profile FPO**		
I		> 5 Years	5	
II		4-5 Years	4	
III		2-3 Years	3	
IV		<1 Year	2	
B	**10**	**Governance**		
I		Composition of Board (no blood relatives /representation to women /SF/MF), Experience / professional qualifications of Board members / representative of Farmers' association, etc.) (Range 3 to 0)	3	
II		Extent of strategic support from promoter or promoting organisation to FPO (Range 2 to 0)	2	
III		Regular conduct of Board Meetings & quorum (Range 3 to 0)	3	
IV		Quality of agenda and discussion / decision making (Range 2 to 0)	2	
C	**10**	**Management**		
I		Availability of Full Time professional CEO -4 Marks , Part time CEO -3 marks, Non-professional, part time CEO from FPO Members -2 marks ; CEO below 10th std. - 1 mark.	4	
II		Availability of paid staff -2 marks, If not - Zero marks	2	
III		Training/Experience of staff (CEO & Staff trained -4 marks, only CEO or staff trained -2, No training -zero mark)	4	
D	**5**	**Infrastructure**		
I		Separate office Premises/own/rented (Range 3 to 1) - (0 marks for no office)	3	

Sr. No	Max Marks (Category wise)	Parameter	Max Marks	Obtained Marks
II		Other Infrastructure like computers, furniture, fixtures, etc. -2 marks; only furniture -1 mark, No infrastructure-0 mark)	2	
E	**10**	**Membership of FPO**		
I		More than 1000	10	
II		Between 501 to 1000	8	
III		Between 201 to 500	6	
IV		Between 101 to 200	4	
V		Between 50 to 100	2	
VI		Below 50	1	
F	**5**	**% of total members contributing to Share Capital**		
I		> 90%	5	
II		> 70%	4	
III		>60%	3	
IV		>50%	2	
V		<50 %	1	
G	**5**	**Total Share capital collected (Rs lakh)**		
I		>5 lakh	5	
II		3-5 lakh	3	
III		< 3 lakh	1	
H	**10**	**Training of Board members**		
I		All Board members trained	10	
II		> 80% of Board members trained	8	
III		> 70% of Board members trained	6	
IV		> 50% of Board members trained	4	
V		<10% of Board members trained	2	
VI		< 10 % of Board members trained	0	
I	**4**	**Business Plan**		
I		Business plan including financial plan prepared for 3 years	4	
II		Business plan including financial plan prepared for 1 year	2	
J	**2**	**Financial Aspects**		
I		Availed financial assistance from lending institutions - 2 Marks, If not zero mark	2	
K	**10**	**Turnover (Annual)(Rs lakh)**		

Sr. No	Max Marks (Category wise)	Parameter	Max Marks	Obtained Marks
I		Above 50 lakh	10	
II		Between 25 to 49 lakh	8	
III		Between 10 to 24	6	
IV		Less than 10 lakh	3	
V		No business	0	
L	**4**	**Market linkage**		
I		Market linkage established with corporate buyers/ processors etc.	4	
II		Dependent on local market/s	2	
M	**10**	**% of members availing services (Input supply/ Extension, other services to members)**		
I		Over 75 %	10	
II		Over 50 %	8	
III		Over 25%	5	
IV		Over 10%	3	
V		Less than 10 %	0	
N	**5**	**Convergence with Govt. Schemes / corporates etc.**		
I		SFAC equity support provided and convergence with Govt / other agencies achieved	5	
II		Either SFAC support or Govt. convergence achieved	3	
III		No convergence	0	
O	**5**	**MIS/Compliance / recod keeping**		
I		Regular submission of Audited Balance sheet & other legal compliances	3	
II		Only audited balance sheet regular & other compliances are irregular	2	
III		Balance sheet not audited and compliances not done	1	
IV		No balance sheet, No compliance	0	
V		Maintained all required registers (Range 2 to 1)	2	
VI		Register not maintained	0	
	100	**Total Marks**		
	Grade	**Marks obtained**	**Remarks**	
	A	**>75%**		
	B	**60-75%**		
	C	**50-60%**		
	D	**<50%**		

Source: NABARD FPO grading tool.

Parameters for Management Audit

1	Preliminaries (Total marks 1.0)	Max. Marks	Marks Obtained
1.1	Profile of FPO		
1.2	Office of the FPO	1	
2	**Core Management Elements**		
2.1	**FPO Management (Total Marks: 35.0)**		
I	Memorandum of Articles & Articles of Association	3	
II	Mandatory registers and common seal	5	
III	Share allotment, transfers and transmission	3	
IV	Annual general meeting	3	
V	Board of directors meeting	5	
VI	Abstract of balance sheet & profit and loss statement	2	
VII	RoC compliances and filings	10	
VIII	GST compliance	2	
2.2	**Finance management (Total marks 24)**		
I	Basics of bank accounts	2	
II	Accounting systems	10	
III	Loans and borrowings	3	
IV	Equity grant	5	
V	Credit guarantee find scheme	2	
VI	Venture capital assistance	2	
2.3	**Human resource management (Total marks 10)**		
I	Scheme benefits and services	5	
II	Professional trainings to CEOs and BoDs	3	
III	Exposure visits to BoDs and CEOs	2	
2.4	**Business management (Total marks 20)**		
I	Business activities	10	
II	e-NAM linkage and web marketing initiatives	6	
III	IE code and export status	2	
IV	Procurement for SFAC / department	1	
V	Contract seed production	1	
2.5	**General administration (Total marks 10)**		
I	Committees and function status	2	
II	Office records and registers	2	
III	Periodical technical reports	1	
IV	Linkage with FIG and joint ventures	2	
V	Process of fixed assets purchase for FPO	1	
VI	MoUs for any project	1	
VII	Court cases and legal issues	1	
	Ranking marks for FPO (Grand total of marks 100)		

Source: Tamilnadu consortium of farmer producer company ltd.

Session XI-XII

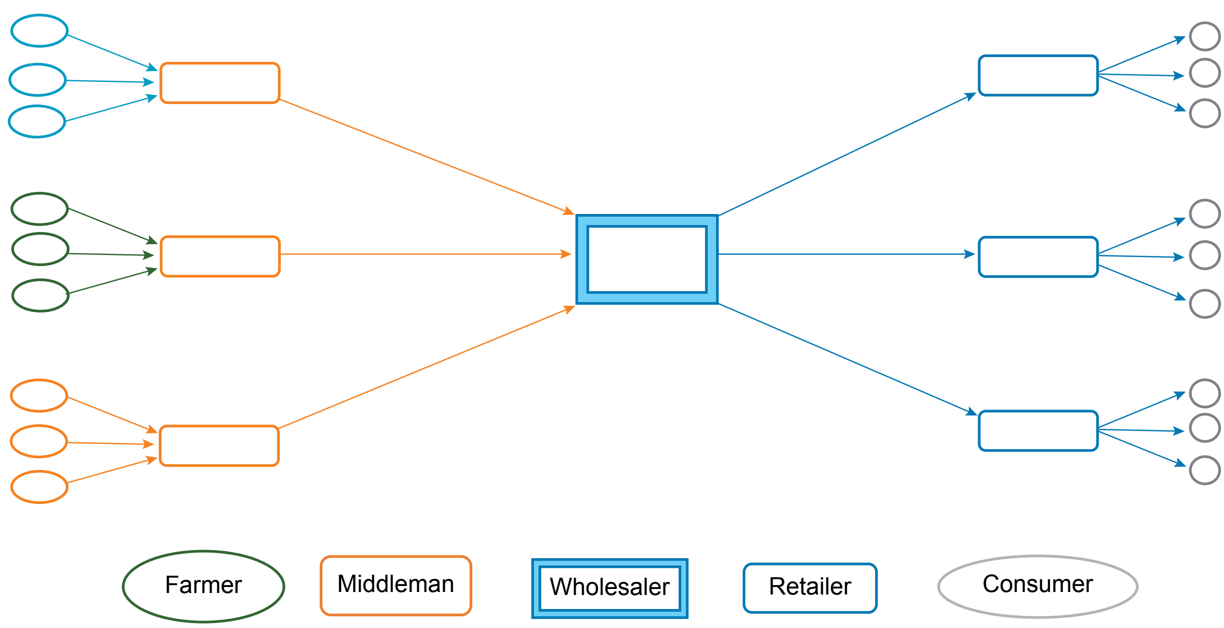
Identification of Business

Opportunities for FPOs – Demand and Supply Gap, Value Chain Based Opportunities and Business Mix Relating to Input Supply, Extension and Technology, Contract Farming, Processing and Marketing, Trading/ Export of Agri-Commodities, etc.

Agricultural Value Chains

- The first step in mapping the market is to delineate the value chain. The flow of inputs to farmers and produce to the market occurs along chains. These can be referred to as value chains because as the product moves from chain actor to chain actor e.g. from producer to intermediary to consumer, it gains value. A value chain can be defined as the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final customers, and final disposal after use.
- The chain actors who actually transact a particular product as it moves through the value chain include input (e.g. seed suppliers), farmers, traders, processors, transporters, wholesalers, retailers and final consumers. A simplified version of a value chain is shown in Figure 1.

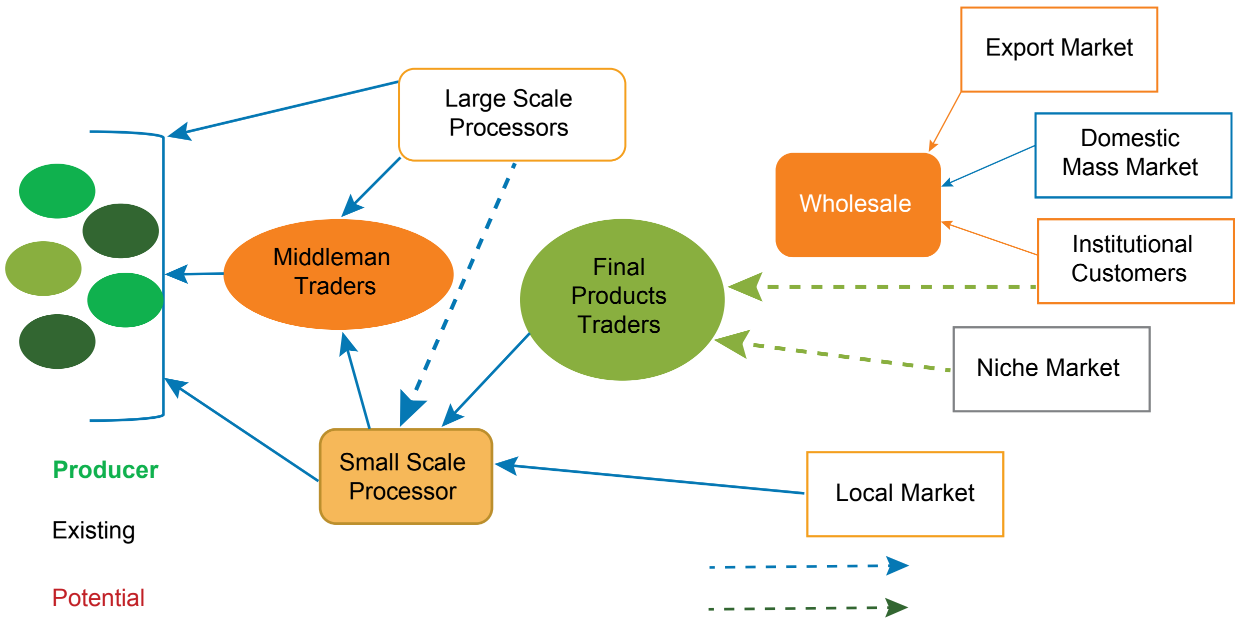
Figure 1: A simplified Value Chain of agricultural products



- Value chains may include a wide range of activities and an agricultural value chain might include: development and dissemination of plant and animal genetic material, input supply, farmer organization, farm production, post-harvest handling, processing, provision of technologies of production and handling, grading criteria and facilities, cooling and packing technologies, post-harvest local processing, industrial processing, storage, transport, finance, and feedback from markets.

Agriculture in developing countries often is characterized by dual value chains operating in parallel for the same product: one informal or traditional, and the other formal or modern. Smallholders are frequently involved in informal chains that deliver products to local intermediaries and then to small local stores. Formal value chains can deliver the same product, usually in better or more uniform quality, from larger farms or more organized groups of small farmers to more commercial wholesalers and from there to supermarkets or exporters. This duality has been accentuated by the explosive growth of supermarkets in developing countries. It can limit many small producers to markets characterized by low-quality products, and low prices and low returns for them — hence a frequent concern is to find ways to integrate small producers into more modern value chains, both domestic and export-oriented. In reality, value chains are more complex than the above example. In many cases, the input and output chains comprise more than one channel and these channels can also supply more than one final market. A comprehensive mapping therefore describes interacting and competing channels (including those that perhaps do not involve smallholder farmers at all) and the variety of final markets into which these connect (see Figure 2).

Figure 2: A Complex Value Chain of agricultural products



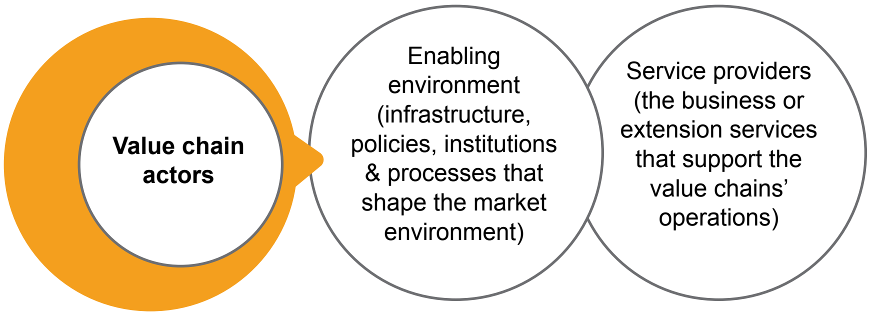
The Market Map

- If we want to understand more about the rationale behind farmers' decisions vis-à-vis the types of inputs that farmers purchase, then we also need to know about the extraneous factors that influence the way that the value chain works. This is where the market map is useful.

A market map is a conceptual and practical tool that helps us identify policy issues that may be hindering or enhancing the functioning of the chain and also the institutions and organizations providing the services (e.g. market information, quality standards) that the different chain actors need in order to make better

For example, a group of farmers may not know that a particular seed supplier has on offer a seed type that no other seed supplier has in stock. If the farmers do not know the seed is on offer, they may not buy it and, consequently, that particular variety will not be planted. Another example is that farmers might hear from the radio that there is an increasing demand for a particular type of maize. After hearing this on the radio, they may well then go and seek out seed of the maize type in question. In order to understand farmer decision-making vis-à-vis what seed they purchase, it is important to note where farmers do or do not get their information from.

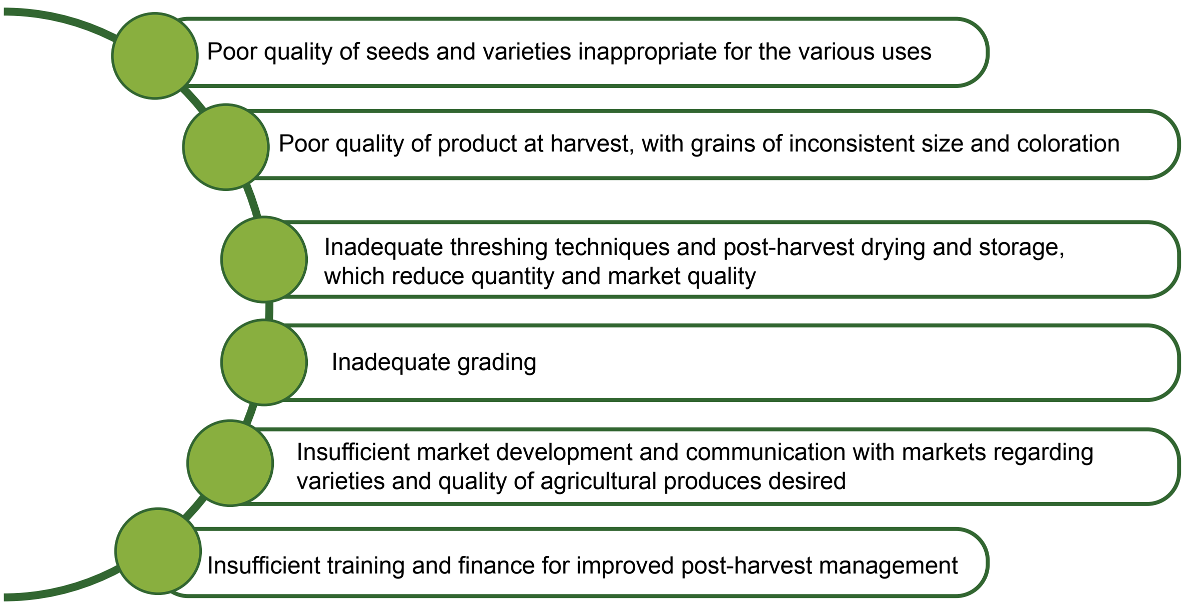
- The Market Map is made up of three inter-linked components



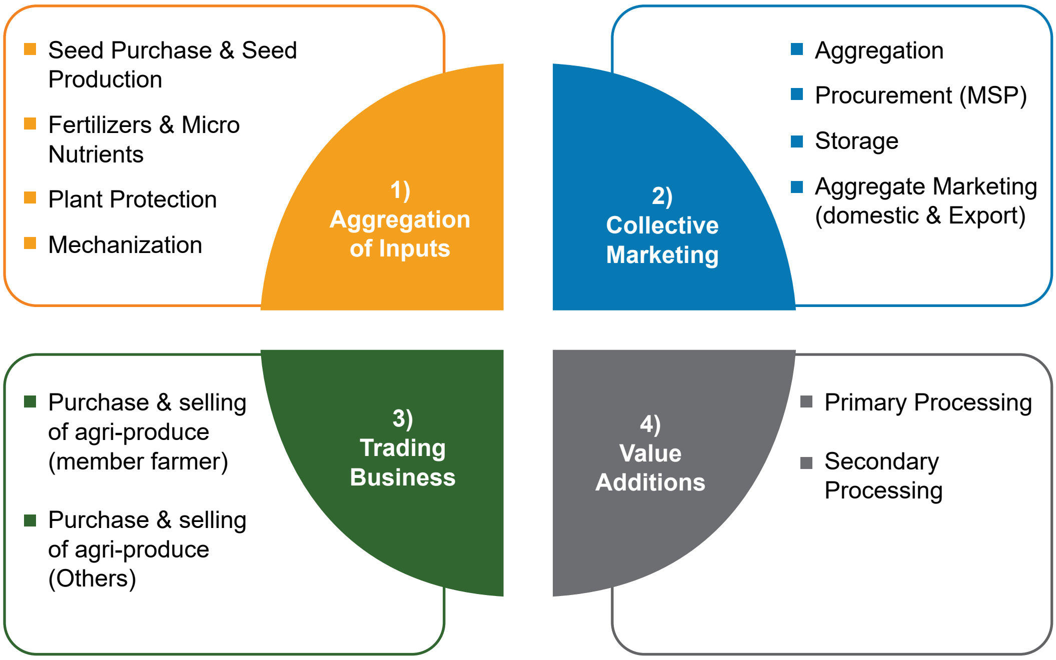
The enabling environment consists of the critical factors and trends that are shaping the value chain environment and operating conditions, but may be amenable to change. These "enabling environment" factors are generated by structures (national and local authorities, research agencies etc.), and institutions (policies, regulations and practices) that are beyond the direct control of economic actors in the value chain.

The purpose of charting this enabling environment is not simply to map the status quo, but to understand the trends that are affecting the entire value chain, and examine the powers and interests that are driving change. This knowledge can help determine avenues and opportunities for realistic action, lobbying and policy entrepreneurship.

- A value chain approach in agricultural development helps identify weak points in the chain and actions to add more value.
- Farmers could expand their profits from these multiple potential markets if solutions were found for value chain issues such as:

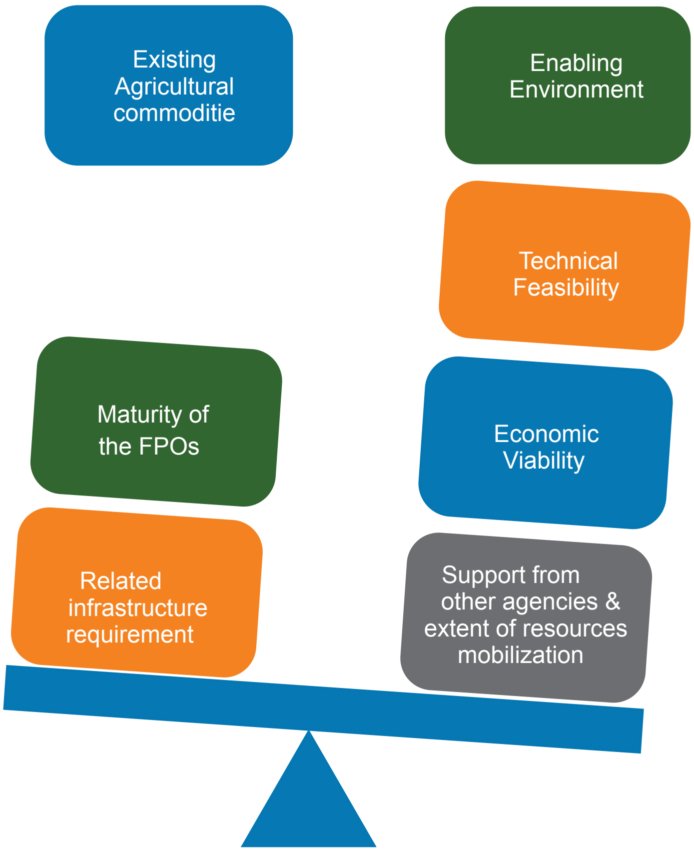


Principles of mapping agricultural value chain for Farmers Producer Organizations: There are four basic core principles which are required for mapping of existing agricultural value chains and assessment of the opportunity for FPOs to make business out of it.



Stepping business operations of FPOs

The business participation in the above identified activities would be undertaken by the FPOs in a phased manner depending upon:



- It is suggested that during the first 6 months (1st Phase) of the business operation, FPOs should focus on aggregation of input management.

6 to 12 months (2nd Phase)	Start collective marketing of agriculture produce/s which requires least primary processing for collective marketing.
3rd Phase	Secondary processing - for example, establishment of rice mill for processing of paddy and selling rice to FCI and byproducts (broken rice, rice bran and husk) in open markets / animal feed manufacturing companies. Similarly, primary and secondary processing of milk can be undertaken during this stage of FPOs. Establishment of animal feed and poultry feed units is one of the suggested activities which is requires 75-80% of ingredients raw material produce by the members.
On attaining maturity & stability in business operations	Trading business may b e undertaken wherein the FPO can purchase other produces from other farmers from local as well as from distant producing areas and sell purchased produce in a prospective market during the lean period of the agricultural operation.

Potential Farmer Activities/ Services required at intermediary level

Identification of the key areas required to be addressed by the intermediary (FPOs) is the prime important factor for the success of the FPOs. The step-wise process would be as below.

1. **Identify services needed by farmers**
2. **Undertake cost-benefit analyses to study intermediaries profitability**
3. **Infrastructure assessment & arrangement for providing services (e.g. sprayers, planters, sheller, dryers, etc.)**
4. **Training of Intermediaries in service**
5. **Build intermediary capacity in business skills and linkage to credit institutions**
6. **Marketing their services (field days, radio messages, IEC materials, e-extension animated films)**
7. **Increase the scope of service package to at least 4 - 5 services**

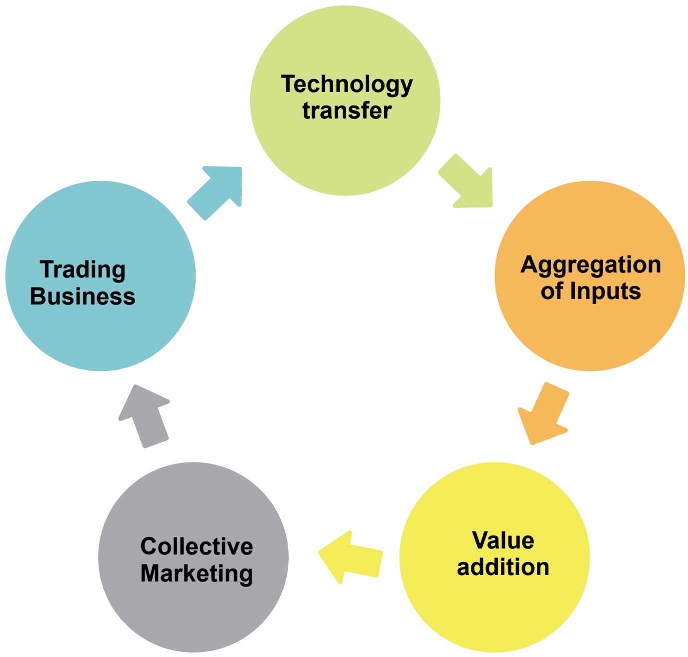
Some of the illustrative activities according the agricultural value chain have been given in box given below:

Pre-Production	Production
• Crop insurance agent • Soil testing agent • Crop monitoring agent (for banks, insurance companies) • Custom Hiring services • Digital profiling agent	• Input supply services • Planting services • Weeding services • Pesticide spraying services

Post-Harvest	Marketing
• Shelling services	• Bulking/aggregation services
• Grain cleaning services	• Rural sales agent, non-agricultural products
• Drying services	• Rural banking and Digital Financial Services (DFS) agent

Illustrative Agricultural Value Chain Model of Maize Crop

As we are aware that there are five key elements for the assessment and formulation of the prospective business plan for the FPOs.

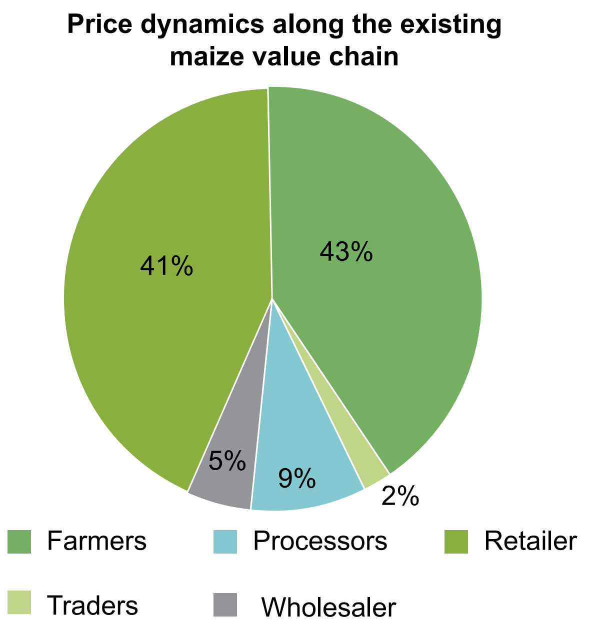


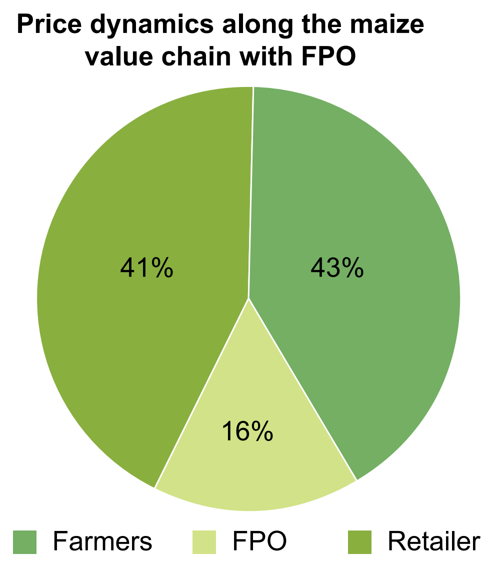
1. Assessment and management plan for ***technological gap***
2. Assessment and management plan for ***input management (Aggregation of Inputs)***
3. Assessment and management plan for ***Primary / secondary processing (Value Addition)***
4. Assessment and management plan for ***marketing (Collective Marketing)***
5. Assessment and management plan for ***trading business*** during the lean period of the agricultural operation of concern FPO's members

Based on price fluctuation trends, a value chain model has been formulated and discussed to understand the working of a value chain under maize crop. It shows how the dynamics of a value chain can be modified / strengthened through participation of the FPOs as an intermediary for better price realization for the farmers.

Price Spread of the Maize and major stakeholders

Actor	Value (Rs./Qtl.)	Value (%)	Gross Margin (%)	Actor	Value (Rs./Qtl.)	Gross Margin (%)
Farmers	1300	43	43	Farmers	1300	43
Traders	1360	45	2	FPO	1795	16
Processors	1632	53	9			
Wholesaler	1795	59	5			
Retailer	3051	100	41	Retailer	3051	41





The methodology of applications of the five elements for the cluster of the farmers cultivating maize crops is illustrated as under:

1. Assessment and management plan for technological gap

The potential yield of the maize crop in India is 4.52 MT/ha against the average realised yield of 3.26 MT/ha. Further, potential yield in Tamil Nadu State is 5.81 MT/ha against the realised yield of 5.04 MT /Ha. There is large productivity gap between average potential yield and average realised yield in India. i.e. 1.26 MT/ha. This can be enhanced by undertaking best practices. In terms of economic loss and opportunity of enhancing gross returns due to the productivity gaps can be worked out as under:

Particulars	No of Farmers	Area (ha)	Input Cost (Rs./ha)	Production (MT)	Productivity (MT/Ha)	Gross Return (Rs. in Lakh)	Gross Income (Rs. in Lakh)
Without FPO	300	180	39543.80	586.80	3.26	76.28	5.10
With FPO	300	180	39543.80	813.60	4.52	105.77	34.59
Change				226.80	1.26	29.49	29.49

The above table reveals that there is opportunity of enhancing gross margin of Rs. 29.49 lakh in 180 ha of maize crop cultivated by 300 farmers.

2. Assessment and management plan for input management (Aggregation of Inputs)

Particulars	No of Farmers	Area (ha)	Input Cost (Rs./ha)	Gross Margin (Rs. In Lakh)
Without FPO	300	180	39543.80	71.18
With FPO	300	180	38153.80	68.68
Change			1390	**2.50**

Similarly, there exists an opportunity of reduction in input cost of Rs.1390/ha through aggregation of inputs by FPO. Hence, there is gross margin of Rs. 2.50 Lakh for the FPO for input supply to 300 farmers who are under taking cultivation of maize crop under 180 ha.

3. Assessment and management plan for primary/secondary processing (Value Addition)

Particulars	No of Farmers	Area (ha)	Output Cost (Rs./qtl)	Gross Margin (Rs. In Lakh)
Without FPO	300	180	1300.00	
With FPO (as a trader)	300	180	1360.00	3.52
With FPO (as a processor)	300	180	1632.00	15.96
Change				19.48

There are different stakeholders in the existing value chain of the maize who are undertaking business of aggregator, processors, wholesaler and retailers. There is gross margin of Rs. 60/quintal and Rs. 272/quintal when product moves from farmers to trader and then trader to processor.

If the business model and role of the trader and processor is also taken over by FPO, this will result in enhancement of the gross margin of Rs. 19.48 lakh for a cluster of 300 farmers cultivating maize crop in 180 ha of area.

4. Assessment and management plan for Collective Marketing

Particulars	No of Farmers	Area (ha)	Output Cost (Rs./qtl)	Gross Margin (Rs. In Lakh)
With FPO (as a processor)	300	180	1632.00	
With FPO (as a Wholesaler)	300	180	1795.00	9.56
Change				9.56

If the FPO also takes on the role of wholesaler and undertakes collective marketing of finished product, there is a gross margin of Rs.163/quintal. If the business model and role of the wholesaler is taken over by the FPO, it will result in enhancement of the gross margin of Rs. 9.56 lakh for the 300 farmer' cultivating maize crop in 180 ha.

Gross enhancement of the business participation and gross margin of the FPO

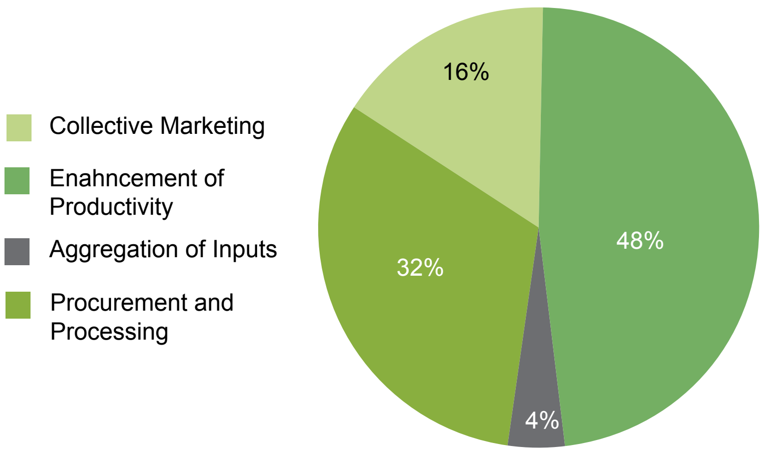
S. No.	Particulars	No of Farmers	Area (ha)	Gross Margin (Rs. In Lakh)
1	Enhancement of Productivity	300	180	29.49
2	Aggregation of Inputs	300	180	2.50
3	Procurement and Processing	300	180	19.48
4	Collective Marketing	300	180	9.56
	Total			**61.03**

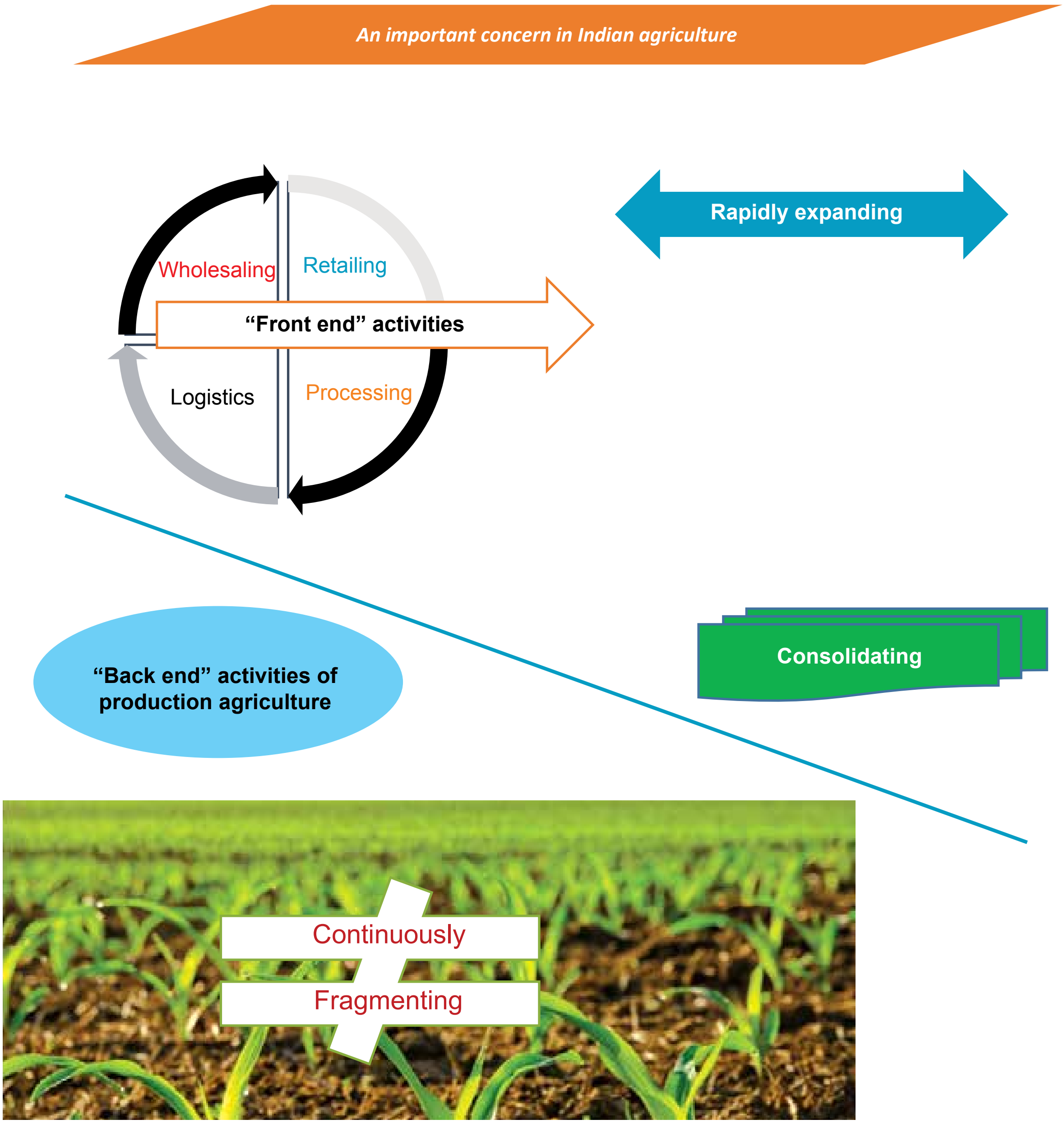
The above analysis reveals that there is an opportunity of enhancing business participation of the farmers in the existing value chain through FPO mode along with undertaking basic functions of the FPO i.e. technology transfer, aggregation of inputs, procurements, processing and collective marketing. The example reveals that there is an opportunity of enhancing gross margin of Rs. 61.03 lakh by promoting FPO for 300 farmers cultivating an area of 180 ha of maize crop. The contribution in total gross margin would come from enhancement of the productivity (48%), aggregation of input (4%), procurement and processing (32%) and collective marketing (16%).

Participation in value chains: One of the easier methods in participation in value chain for the FPOs could be through tie-up with corporates.

Importance of Corporate tie-ups for FPOs

An analysis of the agricultural growth trends so far brings out that the emphasis has largely been on the production segment, while the post-production has at best been on the periphery of policy formulation and scheme/programme roll out. In that sense, India has addressed only half the agriculture sector enterprise so far.





An important concern in Indian agriculture is that while "front end" activities – including wholesaling, processing, logistics, and retailing – are rapidly expanding and consolidating, the "back end" activities of production agriculture have been continuously fragmenting (Gulati, 2008).

The returns that the farmer-producer obtains on his produce impacts his income and influences his ability to invest in agriculture, as also his standard of living. The post-production segment of the agriculture enterprise encompasses a cafeteria of interventions including farm harvesting practices; storage and transportation (both dry and cold); processing and marketing. While marketing connects the producer and the consumer, other interventions including processing are essential to add value to the raw product and increase the food mile, so that the producer is able to benefit from maximum value.

Marketing efficiency is very important if the farmer is to garner optimal share in the consumer's rupee. Organized marketing of agricultural commodities in our country is through a network of regulated markets. Most of the States enacted Agricultural Produce Markets Regulation (APMR) Acts during sixties and seventies and brought all primary wholesale assembling markets under the ambit of these Acts. Market yards and sub-yards were constructed and for each market area, an Agricultural Produce Market Committee (APMC) was constituted to frame the rules and enforce them. Thus, organized agricultural marketing came into existence through regulated markets. The basic objective of setting up a network of physical markets is to ensure reasonable gain to the farmers by creating an environment in markets for fair play of supply and demand forces, regulate market practices and attain transparency in transactions.

With time to handle the increasing agricultural production, the number of regulated markets in the country have increased from 286 in 1950 to about 6630 (2332 Principal Market Yards & 4,298 Sub-Market Yards). Besides, the Country has more than 22,000 primary retain agricultural markets which are commonly known as 'Haats'.

While APMCs brought in a great improvement from the preceding village trader-dominated exploitative system, they failed to serve the full objective of price discovery in a fair and transparent manner

For addressing issues & inefficiencies originating from the structure, conduct and performance of APMCs, the Ministry of Agriculture identified the following 7 vital areas of market reforms to pursue with the States/Union Territories:

- Direct wholesale purchase from farmers outside the market yards at farm-gate by Processors/ Exporters/ Bulk Retailers/ End user, etc.
- Establishment of private market yards / private markets managed by a person other than a Market Committee
- Establishment of farmer / consumer market by a person other than Market Committee (Direct Sale by the producer to the consumers)
- Provision for Contract Farming
- Provision for unified single registration / license for trade transaction in the mandis across the State
- Provision for e- trading
- Provision for single point levy of market fee at first transaction

The Central Government brought in next-generation market reforms through promulgation a Model APMC Act in 2003 and following it up with sharing of Model APMC Rules in the year 2007.

'Agriculture Marketing' laws are regulated by the State Governments and thus were shared with the States/UTs requesting them to reform their marketing regulations and align these with the provisions in the Model Act.

THE MODEL ACT

THE_STATE AGRICULTURAL PRODUCE MARKETING{ DEVELOPMENT & REGULATION }ACT, 2003

An Act to provide for improved regulation in marketing of agricultural produce, development of efficient marketing system, promotion of agri-processing and agricultural export and the establishment and proper administration of markets for agricultural produce in the State of ________________ and whereas, it is expedient to put in place an effective infrastructure for marketing of agricultural produce and lay down procedures and systems thereto,

Be it enacted by the ________________ State Legislature in the fifty third year of the Republic of India as follows :-

CHAPTER - I

Preliminary

Short Title Extent and commencement

1. (1) This Act may be called "The ___________ State Agricultural Produce Marketing (Development and Regulation) Act, 2003

(2) It extends to the whole of ________________ (State)

(3) It shall come into force on such date as the State Government may, by notification, appoint.

Salient Features of the Model Act, 2003 on Agricultural Marketing

However, it was observed that many of States/UTs had not adopted the Model Act and even in cases where the Model Act was used to effect necessary amendments to their Acts, the reforms seemed patchy, sporadic and cosmetic.

1. Allowing direct sale of farm produce to contract farming sponsor from farmers' field
2. Separate provision made for notification of 'Special Markets' or 'Special Commodities Markets'
3. Allowing private persons, farmers and consumers to establish new markets outside the established APMC
4. Single levy of market fee on sale of any produce with in the notified area
5. Replacing license with registrations
6. Provision made for the establishment of consumers'/ farmers' market to facilitate direct sale of agricultural produce to consumers
7. Creation of market infrastructure from revenue earned by the APMC

The government launched National Agriculture Market (e-NAM), a pan-India online trading platform for agricultural commodities managed by Small Farmers' Agribusiness Consortium (SFAC) on April 14th 2016

In this journey of market reforms, another milestone was launching of eNAM *(Electronic National Agriculture Market)* by Central Government in 2016.

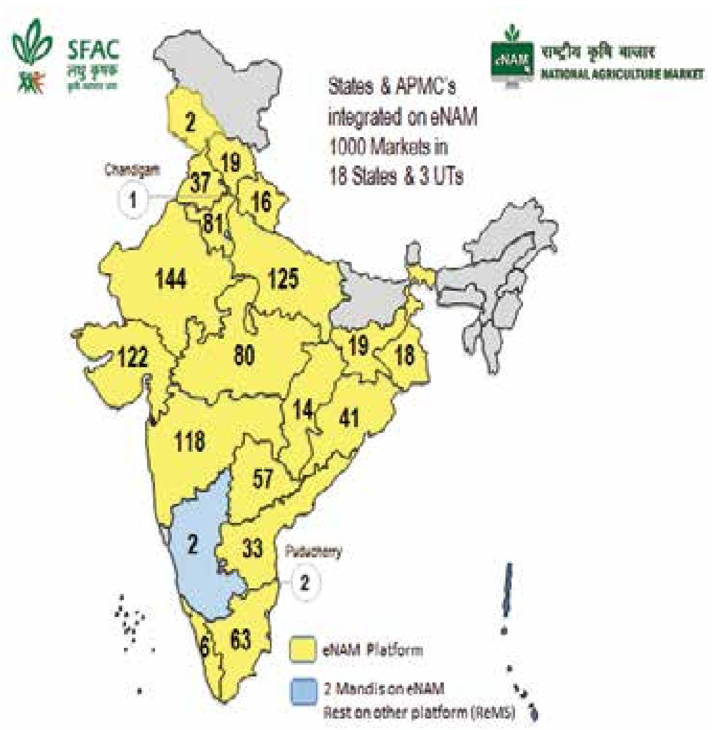
Vision

To promote uniformity in agriculture marketing by streamlining of procedures across the integrated markets, removing information asymmetry between buyers and sellers and promoting real time price discovery based on actual demand and supply

Mission

Integration of APMCs across the country through a common online market platform to facilitate pan-India trade in agriculture commodities, providing better price discovery through transparent auction process based on quality of produce along with timely online payment

The e-NAM platform seeks to network the existing physical regulated wholesale market through a virtual platform to create a unified national market for agricultural. The program started with a target of integrating **585 APMCs** and as on date, the coverage has been extended to **1000 APMCs** on the e-NAM platform.

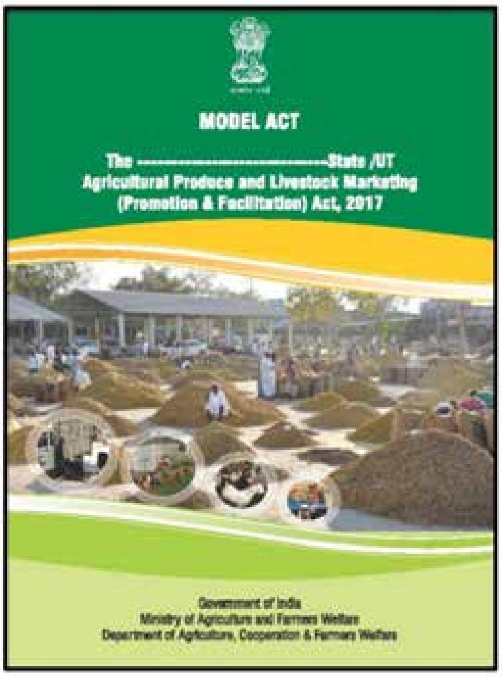


It was followed by a new Model Act *"The State/UT Agricultural Produce and Livestock Marketing (Promotion & Facilitation) Act, 2017"*.

Produce and Livestock Marketing (Promotion & Facilitation) Act, 2017

1. The entire State would be treated as a single market, doing away with the earlier notified area for an APMC
2. The Market Committee and State Agricultural Marketing Board would be fully democratized
3. Enhancing competition for the farmers produce by providing conditions for creation of private wholesale markets and farmer-consumer market yards
4. Reducing price spread by enabling direct contact between farmers and consumers or other end-user categories such as processors, exporters and so on

5. Freedom to the farmer to sell his produce to any person or agency at any place of his choice which may fetch him better returns
6. Declaration of warehouses, silos and other storage structures as markets or sub-market yards to enable direct linkage between the farmer and the buyer
7. Promoting e-trading to link markets across geographies and make trade process transparent
8. Single-point levy of market fee and single trading license across the State
9. Create conducive conditions such as inter-state trading license, grading, standardization, and quality certification for promoting a nation-wide, single agricultural market



The extent to which different states have adopted the 2017 model act is also different.

Sl. No	State/UT	Limiting regulation within APMC Yard	Separation of Powers between Dir(Mktg.) & MD, Mandi Board	Single unified trading license	Single Point levy of Market fee	Private Wholesale market	Direct marketing (Outside mandi)	Declaring warehouse, silos / cold storages, as deemed market	e- trading	De- regulation of marketing of Fruits & vegetables
1	Andhra Pradesh	✗	✗	✓	✓	✓	✓	✓	✓	✓
2	Arunanchal Pradesh	✓	✓	✓	✓	✓	✓	✓	✓	✓
3	Assam	✓	✓	✓	✓	✓	✓	✓	✓	✓
4	Bihar									
5	Chhattisgarh	✗	✓	✓	✓	✓	✓	✗	✓	✓
6	Goa	✓	✓	✓	✓	✓	✓	✓	✓	✓
7	Gujarat	✓	✓	✓	✓	✓	✓	✓	✓	✓
8	Haryana	✗	✓	✓	✓	✓	✓	✓	✓	✗
9	Himachal Pradesh	✓	✓	✓	✓	✓	✓	✓	✓	✓
10	Jharkhand	✗	✗	✓	✓	✓	✓	✓	✗	✓
11	Karnataka	✓	✓	✓	✓	✓	✓	✓	✓	✓
12	Kerala									
13	Madhya Pradesh	✗	✓	✓	✓	✓	✓	✗	✓	✓
14	Maharashtra	✗	✓	✓	✓	✓	✓	✗	✓	✓
15	Manipur									

16	Meghalaya	✔	✔	✔	✔	✔	✔	✔	✔	✔
17	Mizoram	✖	✖	✔	✔	✔	✔	✖	✔	✖
18	Nagaland	✔	✖	✔	✔	✔	✔	✔	✔	✔
19	Odisha	✔	✔	✔	✔	✔	✔	✔	✔	✔
20	Punjab	✖	✖	✔	✔	✔	✔	✖	✔	✖
21	Rajasthan	✖	✔	✔	✔	✔	✔	✖	✔	✔
22	Sikkim	✖	✖	✔	✔	✔	✔	✖	✔	✖
23	Tamil Nadu	✖	✔	✔	✔	✔	✔	✔	✔	✖
24	Telangana	✖	✖	✔	✔	✔	✔	✔	✔	✖
25	Tripura	✔	✔	✔	✔	✔	✔	✔	✔	✔
26	Uttar Pradesh	✖	✔	✔	✔	✔	✔	✔	✔	✔
27	Uttrakhand	✔	✔	✔	✔	✔	✔	✔	✔	✔
28	West Bengal	✖	✖	✔	✔	✔	✔	✔	✔	✔
29	Delhi	✖	✖	✖	✖	✖	✖	✖	✖	✔
30	Chandigarh	✖	✖	✔	✔	✔	✔	✖	✔	✖
31	Puducherry	✖	✖	✔	✔	✔	✔	✔	✔	✔
32	Jammu & Kashmir, Laddakh, A&N island, DNH, Daman & Diu, Lakshdeep									
✔ means yes ✖ means no										

However, the pace of reforms at State/UT level was far from satisfactory and the farmers continued to face the following problems:

- **Market Coverage:** APMC Act of the State divided the entire area into various notified Market Committee areas and assigned the regulatory responsibility of regulating agricultural marketing practices in such areas to the specific APMCs. The primary wholesale agricultural markets are situated at an average distance of 50 km from the farm gates. The variation in the density of regulated markets across the country ranged from 116 sq km in Punjab to 11,215 sq km in Meghalaya and the all-India average area served by a regulated market is about 496 sq km against the recommendation of the National Farmers' Commission (2004) of 5 km radius (corresponding market area of about 80 sq km) for providing easy market access to farmers. To achieve this norm, India needs 41,000 markets. Thus, the small and marginal farmers with small marketable surplus ratios (MSRs) are not benefitted much from these on account of scale and the cost of transportation involved.

- **Licensing:** The licensing of commission agents in the regulated markets has led to the monopoly of these licensed traders acting as a major entry barrier in existing APMCs for a new entrepreneur and thus, preventing competition. New licensing of commission agents requires space for shops within the market yards. As many of the market yards have been established long back and don't have adequate space for construction of shops, the issue of new licenses is not encouraged in many cases. The traders, commission agents, and other functionaries organize themselves into associations which generally do not allow easy entry of new persons, stifling the very spirit of competitive functioning. Further, multiple license requirements for trading in a state and levy of market fee at multiple points along with high incidence of fee and charges further have an incremental impact.

- **High Incidence of Market Fee/Charges:** Market Committee is authorized to collect market fees ranging 0.30% to 2.0%, from the buyers/traders on the sale of notified agricultural produce. In addition, commission charges are to be paid to commission agents which varies from 0.5% to 4.5% in food grains, and 3.0% to 7.0% in the case of fruit and vegetables. In addition to these, other charges such as various types of development cess, entry tax, purchase tax, weighment charges and hamal charges, etc. are also required to be paid resulting in higher transaction costs and low price realization by the farmers in a regulated market.
- **Market Information Asymmetry:** It is often not possible for the farmers to obtain information on exact market prices in different markets. So, they accept whatever price the traders offer them.
- **Inadequate Marketing Infrastructure:** The benefits available to the farmers from regulated markets depend on the facilities/amenities available therein. Studies indicate that covered and open auction platforms, drying yards, electronic weigh-bridges and cold storage units exist in all the markets. These APMC markets also fare poorly in banking and internet connectivity and civic infrastructure at most APMC markets is also in a very bad shape, causing inconvenience to farmers.

For aiming at:

a. Reduction in intermediation levels by providing alternative marketing channels (direct marketing, contract farming etc.)

b. Doing away with monopoly of Government-controlled markets

c. Paving way for more private sector investment

Three bills were passed by the Government of India, the gist of which is given below:

Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020

- Expands the scope of trade areas of farmers' produce from select areas to "any place of production, collection, aggregation".
- Allows electronic trading and e-commerce of scheduled farmers' produce.
- Prohibits state governments from levying any market fee, cess, or levy on farmers, traders, and electronic trading platforms for the trade of farmers' produce conducted in an 'outside trade area'.

Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020

- Provides a legal framework for farmers to enter into pre-arranged contracts with buyers including mention of pricing
- Defines a dispute resolution mechanism.

Essential Commodities (Amendment) Act 2020

- Removes foodstuff such as cereals, pulses, potato, onions, edible oilseeds, and oils, from the list of essential commodities, removing stockholding limits on such items except under "extraordinary circumstances"
- Requires that imposition of any stock limit on agricultural produce be based on price rise.

Feature	APMC Regime	Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020
Trade of Farmers' Produce	Farmers to only sell to licensed middlemen in these notified markets (Market Yard / Mandies)	Farmers free to sell in open markets (outside the trade area)
Alternative Trading Channels	Produce has been sold mainly in notified wholesale markets run by APMCs	Barrier-free inter-state and intra-state trade of primary agricultural commodities
Market Fee	Traders bind to obtain licensed and pay requisite tax to AMPC	Farmers and buyers of their produce to trade outside these tax-free markets
Electronic Trading	No such mechanism exists	It allows the electronic trading of scheduled farmers' produce (agricultural produce regulated under any state APMC Act) in the specified trade area. It will also facilitate direct and online buying and selling of the agricultural produce via electronic devices and the internet.

Thus, there are initiative taken by the GoI to address the operational and legal issues listed above by enforcement of three farmer's bills, 2020. There is a framework for contract farming through an agreement between a farmer and a buyer prior to the production or rearing of any farm produce. The Act links contract price to market price. A provision has also been made to ensure buying of entire agreed produce of the grower by the contracting agency. It provides for a three-level dispute settlement mechanism: the conciliation board, Sub-Divisional Magistrate and Appellate Authority.

Contract farming – FPOs

What is contract farming?

- Under contract farming, agricultural production (including agri-allied sector) can be carried out based on a pre-harvest agreement between buyers (such as food processing units and exporters) and producers (farmers or farmer organisations)
- The producer can sell the agricultural produce at a specific price in the future to the buyer as per the agreement and reduce the risk of fluctuating market price and demand.
- The buyer can reduce the risk of non-availability of quality produce

Types of contracts

Models	Sponsors	General Characteristics
Centralized	Corporates, Other private players & agencies	Generally the initiative is taken by the buyer; Popular in many developing countries for high-value crops; Commitment to provide material and management inputs to producer
Nucleus estate	State agencies, Corporates, other private players & agencies	Is a variation of the centralized model where the sponsor also manages a central estate or plantation; The central estate is usually used to guarantee throughput for the processing plant but is sometimes used only for research or breeding purposes; Is often used with resettlement or transmigration schemes; Involves a significant provision of material and management inputs

Models	Sponsors	General Characteristics
Multipartite	Sponsorship by various organizations, e.g. • State agencies • State marketing authorities • Private corporate sector • Landowners • Farmer cooperatives	Multiple sponsors for product/activity; Joint-venture approach; requires coordination between sponsors
Informal developer	Entrepreneurs Small companies Farmer cooperatives	Not usually directed farming; Common for short-term crops i.e. fresh vegetables to wholesalers or supermarkets; Normally minimal processing and few inputs to farmers; Contracts on an informal registration or verbal basis; Involves greater risk of extra-contractual marketing
Intermediary (tripartite)	Private corporate sector, State agencies	Involves sponsor in subcontracting linkages with farmers to intermediaries; Not a holistic approach; there is a danger that the sponsor loses control of production and quality as well as prices received by farmers as it depends on the market

With a view to integrate farmers with bulk purchasers including exporters, agro- industries etc. for better price realization through mitigation of market and price risks to the farmers and ensuring smooth agro raw material supply to industries, the Union Finance Minister in the budget for 2017-18 announced preparation of a "Model Contract Farming Act" and circulation of the same to the States for its adoption. Farmer Producers' organizations (FPOs) have a major role in promoting Contract Farming and Services Contract. On behalf of famers, they can enter into agreements with the sponsor. The final Model Act "The ….State/UT Agricultural Produce and Livestock Contract Farming and Services (Promotion & Facilitation) Act 2018" came into existence on 22 May 2018.

Salient features of Model Contract Farming Act, 2018

- The Act lays special emphasis on protecting the interests of the farmers, considering them as weaker of the two parties entering into a contract.
  - In addition to contract farming, service contracts all along the value chain including pre-production, production and post-production have been included.
  - "Registering and Agreement Recording Committee" or an "Officer" for the purpose at district/block/ taluka level for online registration of sponsor and recording of agreement provided.
  - Contracted produce is to be covered under crop / livestock insurance in operation.
  - Contract framing to be outside the ambit of APMC Act.
  - No permanent structure can be developed on farmers' land/premises
  - No right, title of interest of the land shall vest in the sponsor
- Promotion of Farmer Producer Organization (FPOs) / Farmer Producer Companies (FPCs) to mobilize small and marginal farmers has been provided
  - FPO/FPC can be a contracting party if so authorized by the farmers.

- No rights, title ownership or possession to be transferred or alienated or vested in the contract farming sponsor etc.
  - Ensuring buying of entire pre-agreed quantity of one or more of agricultural produce, livestock or its product of contract farming producer as per contract.
  - Contract Farming Facilitation Group (CFFG) for promoting contract farming and services at village / panchayat at level provided.
- Accessible and simple dispute settlement mechanism at the lowest level possible provided for quick disposal of disputes.
  - It is a promotional and facilitative Act and not regulatory in its structure

Nature of tie-ups with corporates

- Inputs Supply
- Training & Extension Services
- Advisory on weather
- Farm Mechanisation Hub
- Access to credit and funds
- Market Intelligence & Access
- Processing & value addition

Input supply

Farmers are the only business entities who purchase in retail and sell in bulk. Perhaps the activity of FPO which draws maximum membership is supply of quality and timely inputs at door-step. The relationship with corporates is not only restricted to the inputs but extends beyond it. For example Indian Farmers Fertiliser Cooperative Ltd (IFFCO) not only does business of inputs with the FPOs but through its wing Indian Farm Forestry Development Cooperative Limited (IFFDC), a separate Multi-State Cooperative Society which undertakes seed production programs on farmer's fields, provides soil testing facilities through its mobile soil testing units to the FPOs, conducts onsite & offsite training programs for associated FPOs covering various aspects of farming and balanced use of fertilizers. The implications of such tie-ups in addition to profits could be:

a. Increase in membership base of FPOs due to increased faith on account of delivery of adequate and timely inputs at the door step of the member

b. With increased share capital, FPO becomes eligible for matching grants

c. Record maintenance improved as officers from corporate tie-up agency involves in stock inspections from time to time and guide FPO in improving the MIS systems

Training and Extension Services

The last mile extension services are the biggest weak link in the farming sector. In our country, apart from front line agriculture workers of agriculture department, there are Krishi Vigyan Kendras (KVKs) in almost all districts acting as resource centres for agriculture technology and its dissemination. However, it is practically difficult for KVKs to touch each & every farmer effectively with more than 14 crore farming families with only 668 KVKs. Further, the farmers interested in cultivation of niche crops & requiring advanced information may not get all their needs fulfilled. Therefore, farmers need the extension services of corporates who will work with a well-defined group of farmers.

The example which can be quoted in this regard is could be corporates like ITC & BILT for undertaking forest plantation activities on farmer's fields by providing the specialised planting material as also building capacities of farmers in the technology adoption along with forward market-tie-us. Another example is Invictus FPC Ltd. (Ghaziabad, UP) promoting piggery after getting trained in IVRI, Barelli, National Research Centre on Meat, Hyderabad and National Research Centre on Piggery, Guwahati and is now supplying piglets to companies in Manipur and other NE states.

Advisory on weather

Reuter Market Light (RML) is providing personalised messages to the farmers in 09 local languages spread across 17 Indian states. RML services prepared for 450 crop varieties, 1300 markets and 3500 weather stations and are used by 13 lakh farmers across 50,000 villages. Enterprise Solution by RML provides data, insights and intelligence on farmers, farmer groups, and commodities to agri-enterprises to enable informed decisions.

An ICT-based Agriculture platform called Krishidoot has brought together farming communities and agribusinesses. Krishidoot is the largest aggregation of Farmer Producer Organisations in India.

Farm Mechanisation Hub

Mahindra Agri Solutions Ltd., a wholly owned subsidiary of Mahindra and Mahindra Ltd. is helping in the execution of a World Bank-aided project called Maharashtra Agriculture Competitiveness Project (MACP) to increase productivity, profitability and market access for the farming community in Maharashtra. Mahindra Agri Solutions Ltd through its digital platform MyAgriGuru is helping FPOs on crop advisory, weather forecasting, market information, price forecasting, etc. MACP has also established an in-house Centre for "Indian Agriculture Market Intelligence cell" for price forecasting of select agriculture commodities. This forecast report is disseminated through the MyAgriGuru App to FPOs, empowering them to take better decisions.

Similarly, Escort Crop Solutions operates almost 100 combine harvesters, a host of tractors, and other equipment on rental basis under franchisee model and has been assisting FPOs by supply of machinery, training of drivers and also providing other services. They are actively working with FPOs in these states.

Access to credit and funds

Whenever FPOs deal with niche products, especially those which are seasonal in nature, the working capital requirements increase. The problems become compounded when these products are to be processed or sent to distant markets as delays in realisation of funds are expected.

In many cases, the corporates dealing with such FPOs come forward in providing advance payments for seasonal procurements to facilitate FPOs in making immediate payments to the farmers from whom the procurements are done. This is important in the case of niche crops which are grown by farmers based on specific demand. The system eases out the working capital requirements of the FPO and becomes a win-win situation for all – the FPO and its members on one hand and for the corporate on the other.

Market Intelligence and Access

Market intelligence benefits a FPO in getting reliable information in advance on demand-supply situation, price discovery, location of markets, etc. NCDEX, the biggest technology based commodity market enables FPO to participate and hedge risk. Based on intelligence, farmers can plan for their crops based on the future price in the commodity market.

The FPOs can also link with corporates for maximisation of profit like:

- PepsiCo supplying seed and package of practices of tomato for their supply of raw material for processing
- Potato cultivation through contract by Balaji Wafers

Thus, there is an excellent opportunity for FPOs for profit maximization through adoption of B2B model of marketing of products which offers win-win situation both for FPOs and the corporates.

Ninja cart is India's largest fresh produce supply chain company that is using technology platform for connecting producers directly with retailers, restaurants, and service providers using in-house applications that drive end to end operations. Currently, their Supply Chain is equipped to move 1400 tonnes of perishables from farms to businesses, every day, in less than 12 hours. Benefits of the arrangement also includes receiving payment in 24 hours, employment generation, exposure to professional grading & packing operations at the village level, convenient mode of transportation, digital transaction process, etc.

The Reliance Foundation, the CSR wing of Reliance industries has formed 22 FPCs to empower farmers across 12 states. In 2018-19, these FPCs have transacted farm and non-farm products worth over 25.3 crore benefitting 19200 families, raising farmer's income significantly. (Business India, 24 Feb to 08 March 2020)

Some companies like Sewa Paper Mills-BILT and JK Paper Mills have formed exclusive FPOs for promotion of pulpwood plantations in their hinterland. Patneswari FPO in Jeypore-Koraput and Nagavali FPO by JK Paper Mills has access to mills for marketing of wood. Sewa Paper Mills has also been extending Bulk Supply Bonus where in each ton will be provided extra Rs 100 when supplier provides the materials in bulk.

Thus, the FPOs can enter into arrangements with corporates in accessing bulk markets for their products for increasing their profit margins.

Processing & Value Addition

The major challenge for any FPO is value addition through processing, storage and marketing of processed products. While challenges of finance would exist, there are also additional challenges related to technology and infrastructure. To a large extent, the association with corporates in this regard would facilitate in overcoming the same.

Disa Multipurpose Cooperative Society (DMCS) were novices in the seed sector when they first entered the sector. However, the discussions and training programmes conducted by NABARD for such agencies where the corporates like M/s Agrosaw have explained the nitty-gritties have helped them in establishing their own seed processing plants.

Gorakhnath FPC had a similar experience by aligning with agencies like National Seed Corporation and major seed dealers. Initially, they had only seed graders and their products were rejected. However, they later upgraded their machinery and now produce and market nearly 4000 q of seeds through a network of dealers across the state of Odisha.

Sahaja Aharam has established their own processing plants for food processing through tie ups with research institutes and also by employing tech-savvy staff.

Kishore Biyani's Future Group has signed a Memorandum of Understanding (MoU) with an FPC called Sahyadri Farms for direct sourcing of fruits and vegetables for its supermarket chain Big Bazaar, triggering hope among many policymakers that the FPC model may succeed where traditional solutions have failed in helping India overcome the agrarian case and doubling farmers' incomes. Sahyadri Farms, set up in 2011, has grown to become the largest FPC in the country, with a membership of 8,000 farmers and a turnover of Rs 300 crore. It is also India's largest grape exporting company.

Challenges in Corporate Tie-ups:

While many examples from the field demonstrate how the tie ups with corporates have helped FPOs in strengthening their business and achieving significant growth, certain operational and legal weaknesses were also observed over a period of time. Some of them are listed below:

- Most of the agreements between corporates were informal or loosely worded
- Corporates wanted continuous supply of good quality materials but FPOs in dealing with large number of farmers could not always guarantee uniform product qualit
- Companies used to pick up the best quality product and leave the rest. FPOs faced problems in marketing of the rejected lots
- Corporates were always enjoying the float by delaying payments to FPOs while FPOs had to make arrangements for funds for making immediate payments to farmers
- Companies sometimes create infrastructure in the premises of the FPOs and they insisted that same should not be used for other works even in idle time
- Companies per se may be having fair policies but the field level employees sometimes caused damage to FPOs through fraudulent practices
- Many a times competition was killed by corporates by not allowing FPOs to approach alternate markets even with surplus and vice a versa i.e.companies enjoyed freedom to choose alternate sourcing channel when they got raw material at cheap rates
- FPOs expectations from Companies to invest in extension was not fulfiled
- Sometimes agreements were wholly lopsided and FPOs faced issues in executing deals as per agreement terms

Session XIII

Formulating a Prospective Business Plan for FPOs

Business Plan

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

In short, the business plan must contain answers to the questions like:"Who/ What/ Where/ When/ Why/ How/ How Much".

Characteristics of a Good Business Plan:

A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan.

a. The first is the business concept, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.

b. The second is the market place for the product, in which you describe and analyse potential customers: *who and where they are, what makes them buy* and so on. Here, you also describe the competition and how you will position yourself to beat it.

c. Finally, the financials section contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from accountant and a good spreadsheet software program.

Process of Business Planning

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

Business Ideas Generation

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

a. The idea can be a solution to a problem experienced by primary producers. For instance, collective sale of agricultural produce to the bigger market will reduce the role of middlemen and ensure better price to producers. Collective purchase of agricultural inputs like seeds, fertilizers, pesticides, etc., and selling them to the producers reduces per unit cost while ensuring quality of the inputs.

b. It can be for use of new technology or material to meet a widely felt need. An idea of creating an agro service centre for hiring tractor, power-tiller, transplanter, harvester, thresher etc., on rental basis to the small farmers can reduce cost of production besides increasing productivity. Similarly, establishing a Bulk Milk Chilling Unit for milk producers can be a good business idea.

c. It can be for establishing an Agri-Clinic for providing fee-based extension services.

Opportunities and Threats Analysis

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

a. Size of the market

b. Its stability i.e., the demand for the product long term or purely temporary?

c. The extent to which the market is dissatisfied with the existing solution

d. Level of competition, high, medium or low

e. Price and quality sensitivity of the market

f. Barriers to entry/exit

g. Changes in government's policies such as subsidy, availability of low cost funds, etc.

Risk Identification and Safeguards:

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

There are five key steps in the development of this strategy.

a. The first step is to identify and map the processes/factors that would have the biggest impact on earnings, if disrupted. *For example, bad monsoon will severely affect crop production in rain-fed areas thus reducing earning of the PO considerably*.

b. The second step is to identify critical infrastructure —including processes, relationships, people, regulations, plants, and equipment—that supports the PO's ability to generate earnings. *For example, if there is break-down in the Bulk Milk Chilling Unit, the whole stock of milk will be get spoiled and go waste, besides adversely affecting the supply chain.*

c. The third step is to identify the main vulnerabilities. Vulnerability is inability to cope with the adverse effects of an event or risk. *For example, storage, processing and trading of commodities can come under new regulation, imposing conditions, which the PO may find difficult to comply with, at short notice.*

d. The fourth step is to identify the weakest links, the elements on which all the others depend. *For example, if there is a single buyer for all produces, this is the weakest link.*

e. The last step is to develop a planned response to mitigate the risks. *For example, the enterprise may build redundancies in some critical infrastructure like a spare refrigerated van for ferrying chilled milk.*

Marketing Plan

The marketing plan describes how the product will be sold, how the business will motivate the customer to buy. The purpose of developing and including the marketing plan in the business plan is twofold:

a. The process of designing a coherent marketing plan, that is an integral part of the overall business plan, will help the business to test ideas, explore options, and determine effective strategies for success.

b. The result of a well-conceived and coherent marketing plan will convince the business plan reader about the competence of the business.

Financial Plan

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

Need for Preparation of a Business Plan

Every business irrespective of size needs planning. Business planning is essential for growth and sustainability. It provides broad ideas to meet the expected and unexpected opportunities and obstacles the future holds. In case of a PO, it is all the more essential since most of the members will be acting as businessmen for the first time. A business plan helps the PO in the following ways:

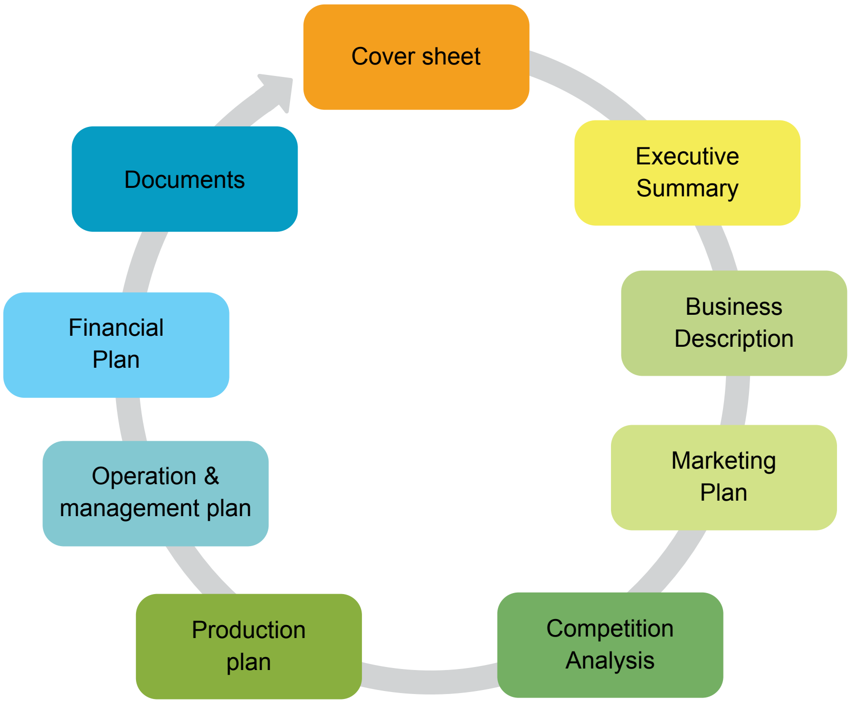
a. It helps in examining viability of the venture in a particular market.

b. It provides guidance to the PO for organising and planning activities.

c. It serves as an important tool in accessing finance/funding. If the financier is comfortable with the business plan, the PO will be asked to prepare a Detailed Project Report (DPR).

Suggested Outline of a Business Plan

A business plan is essentially a written description of a business's future. It provides an in depth report on the environment in which the company functions, what the company plans to do in the near future and predictions on its performance. A business plan conveys business goals, the strategies one uses to meet them, potential problems that may confront one's business and ways to resolve them, the organizational structure of business (including titles and responsibilities), and finally, the amount of capital required to finance your venture and keep it going until it breaks even.



A. Cover sheet

Serves as the title page of the business plan. It should contain the following:

a. Name of the Producer Company

b. Company address

c. Company phone number (include area code)

d. Logo (if any)

e. Names titles addresses phone numbers (include area code) of CEO/Board of Director

f. Month and year of the plan was issued

g. Name of the person/organisation who prepared it

B. Executive Summary:

Within the overall outline of the business plan, the Executive Summary will follow the title page. The Executive Summary should be to the point and in a nutshell convey the value of your proposition.

Key elements that should be included are:

a. **Business Concept, the business and market:** Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the bushiness will hold a competitive advantage.

b. **The management team:** A brief summary of the business team composition, special skills required to operate the proposed business successfully should be provided in the executive summary of the business plan. The nature and type of deployment of the key personnel and in case of specialized needs who would support the key business proposition.

c. **Business rationale -** why the proposal is different: A statement of business rationale establishing how and why the proposal is different than other businesses of the same nature in the prevailing industry. This will prompt the financial institutions and others watching and planning to support the business.

d. **The proposal:** State clearly the intent of the proposal and what precisely you are planning to do and achieve the intended output.

e. **Basis for its success:** State your logic as to why you think the proposed business would succeed in the present circumstances and how it will meet the intended outputs. Strength – Opportunity matrix may help summarize the logic.

f. **Profitability and financial feature:** Highlights the important financial points of the business including sales, profits, cash flows and return on investment.

g. **Financial requirements:** Clearly state the capital needed to start the business and to expand. It should detail how the capital will be used, and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.

h. **Risk assessment and mitigation strategies:** The executive summery may also include a brief sketch of the potential and killer risks assessed while analyzing the business proposition visa- vis industry and the potential competitors. How the risks would be mitigated should form the body of the risk mitigation or aversion strategy.

i. **Current business position and prospects:** Provides an overview of the market in which the start-up is to function. In brief, it focuses on the proposed strategy to beat the competition.

j. **Future Prediction** as to the targeted market share, profitability and return on investment

k. **Key conclusions:** Based on above the key conclusions may be drawn for a quick snap shot vision of the whole business plan.

C. Brief description of the business

Business Description:

a. **The business background:** The business description is an extended version of the Executive Summary, where you must convey the crux of your proposition and provide some depth of knowledge regarding the plan.

b. **Location and operational area:** The business description usually begins with a short description of the industry. When describing the industry, discuss the present outlook as well as future possibilities. You should also provide information on all the various Markets within the industry, including any new products or developments that will benefit or adversely affect your business. Base all of your observations on reliable data and be sure to footnote sources of information as appropriate.

c. **Method of operation:** When describing your business, the first thing you need to concentrate on is its structure, i.e., wholesale, retail, food service, manufacturing or service oriented. Also state whether the business is new or already established. A very major part of the Business Description is detailed information about the team.

d. **Defining the prospective market and the customers:** You should also mention, who you will sell to, how the product will be distributed, and the business's support systems. Support may come in the form of advertising, promotions and customer services.

e. **Type of business and services offered:** Once you've described the business, you need to describe the products or services you intended to market. The product description statement should be computed enough to give the reader a clean idea of your identification. You may want to emphasize any unique features or variations from concept that can typically be found in the industry. Be specific in showing how you will give your business a competitive edge. The revenue model you propose must also be touched upon in the business description.

f. **Statement of viability:** This section deals with financial analysis of the proposal and depicts the viability of the business which enables the resource institutions, Shareholders and others assess and allocate resources.

D. Marketing Plan

A marketing plan includes information about the total market with emphasis on the target market. It helps in identifying the target customers and suggest the means to rightly position and supply the products or services to them.

a. **Target market:** Identify characteristics of the customers. Tell how the results have been arrived. Back up information with demographics questionnaires and surveys. Estimate the market size.

b. **Competition:** Evaluate indirect and direct competition. Show how one can compete.

c. Evaluate competition in terms of location market and business history.

d. **Place:** Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports, rate sheets etc.

e. **Promotion:** How the advertising will be tailored to the target market? Include rate sheets, promotional material and time lines for advertising campaign.

f. **Pricing:** Pricing will be determined as a result of market research and costing of the product or service. Tell how the pricing structure has been arrived and back it up with materials from research.

g. **Product:** Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.

h. **Timing of market entry:** Decide when to enter the market and how this decision has been arrived at.

i. **Targeted sales:** State the sales targeted for the next 3 years. The first year's sales may be presented month-wise.

j. **Industry trends:** Give current trends about how the market may change and what is the plan to adjust with the changing scenario.

E. Competition Analysis

a. The competition analysis is a statement of the business strategy and how it relates to the competition. The purpose of the competitive analysis is to determine the strength and the weaknesses of the competitors within the proposed market, the strategies that will provide the proposed business a distinct advantage the barriers that can be developed in order to prevent competition from entering your market, and any weakness that can be exploited within the product development cycle.

b. The first step in a competitor's analysis is to identify the current and potential competition. There are essentially two ways you can identify your competitors. The first is to look at the market from the customer' view point and the group all your competitors by the degree to which they contend for buyers' perception value in terms of money or satisfaction by its use. The second method is to group competitors according to their various competitive strategies so you understand what motivates them.

c. Once you have grouped your competitors, you can start to analyze their strategies and identify the areas where they're most vulnerable. The aim is to get a competitive advantage over them. The analysis could be carried out on the parameters like (1) reasons behind their success or failure; (2) prime customer motivator; (3) major component costs and (4) industry mobility barriers.

d. The strategy for negotiating the proposed market share may focus on (1) product (2) distribution (3) pricing (4) promotion and (5) advertisement. Arriving at a projection of the market share for a business plan is very much a subjective estimate. It is based on not only an analysis of the market share but on highly targeted and competitive distribution, pricing and promotional strategy. The market share should have a time horizon. To estimate this, factors like industry growth which will increase the total number of users and conversion of users from the total feasible market needs to be considered.

e. This section of business plan should include strategies for successful positioning of the business in the competitive business environment. The strategic issues like how the competitors are positioning themselves, what specific attribute your product have that competitors' do not and what customers' needs does your product fulfil.

f. The success of the business significantly depends on pricing policy. To keep the pricing policy competitive any of the of the following methods could be used: Cost-plus pricing- it assures that all costs both fixed and recurring or variable are attained with desired percentage of profit; b) Demand pricing- the pricing based on demand; c) Competitive pricing – this strategy is implied by the companies that are entering in to the market where there are already established pricing exists and it is difficult to differentiate one product from another; d) Mark-up pricing – used mainly by retailers, mark-up pricing is calculated by adding your desired profit to the cost of the products. Each method listed above has several strength as well as weakness.

g. Distribution includes the entire process of moving the product from the place of manufacturing to the end users. The type of distribution network chosen will depend upon the industry and the size of the market. A good way to make your decision is to analyse your competitors to determine the channels they are using, and then decide whether to use the same type of the channel or an alternative that may provide you with a strategic advantage. Some of the more common distribution channels include direct sales, retailers, wholesalers, etc.

h. The promotion strategy in its most basic form is the controlled distribution of the communication designed to sell your product or services. In order to accomplish this, the promotion strategy encompasses every marketing tool utilized in the communication efforts. This includes advertising, packaging, public relations, sales promotion, etc.

F. Production plan

a. The purpose of the production plan section is to provide a detailed overview of how the actual production will be carried out in the case of a manufacturing concern, or the service performed in the case of service industry.

b. The production plan is very crucial for a manufacturing concern. In the case of a service company, it may be done away with and the relevant issues would be covered in the operation and management plan. The production plan should include – production process adopted, capacity planning and task scheduling and cost estimation.

G. Operation and management plan

a. The operation and management plan is designed to describe just how the business functions on a continuing basis. The operation and management plan will highlight the logistics of the organization such as the various responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operation and management of the business.

b. There are two areas that need to be accounted for when planning the operations of your company. The first area is the organizational structure of the company, and the second is the expense and capital requirement associated with its operation.

c. Organizational structure: The organization structure of the company is an essential element within a business plan. It should include the personnel deployed by the producer organization like Chief Executive Officer, Accountant, Service Providers, the personnel from the supporting agency for the technical skills like agriculture Technologies and marketing. Details of the key personnel should be appended with the business plan to foster confidence in the financial agencies.

d. Depending upon the organization structure, the personnel requirement at various levels of the organization is estimated. In addition to this, the costs of support services required for the functioning of the organization are estimated. These costs are then used to compute the overhead costs which, in turn, are used in the calculations involved for the financial statements.

H. Financial Plan

These are the records used to show past, current and projected finances. The following are the major documents that would be required to include in the business plan. The work is easier if these are done in the order presented.

a. **Cash flow statement (budget):** This document projects what your business plan means in terms of rupees. It shows cash inflow and outflow over a period of time and is used for internal planning. Cash flow statements show both how much and when cash must flow in and out of your business.

b. **Three year income projection:** A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.

c. **Break-even analysis:** The break-even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total rupees or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.

d. **Debt-service ratio:** The Debt Service coverage ratio is a measure of the firm's ability to meet long term obligations. This ratio is expressed as the amount a project pays (or proposes to pay) each year for principal and interest on the debt/loan; that is, the amount of debt service to be paid when compared with the funds available to pay that debt service.

I. Supporting documents

a. Brief profile of the PC and Resumes of the key Director/CEO

b. Copies of Leases, if any

c. Letters of Reference

d. Contracts / work order / MoU for selling produces etc.

e. Legal Documents (registration, business license, etc.)

FPO Business Planning

Vision of the company

To empower the weaker section / farmers of the society through economic and social progress by means of self-support and mutual cooperation through the profession of production, collection, processing and marketing of agriculture & horticultural produce..

Mission of the company

To create a platform for small and marginal farmers leading to a dignified life having economic independence and social reorganization.

Strategic objective of the company

- To ensure our services for at least 2,000 small and marginal farmers of -------- District by 2022.
- To responsibly utilize forest resources and products including NTFP for sustainable interdependence of the local population
- To ensure better health and sanitation for the members and their families
- To ensure better education & insurance coverage of all its members
- To intervene in market led intervention, brand promotion, quality control and technology up gradation
- To promote set up of processing unit of vegetables & mango.

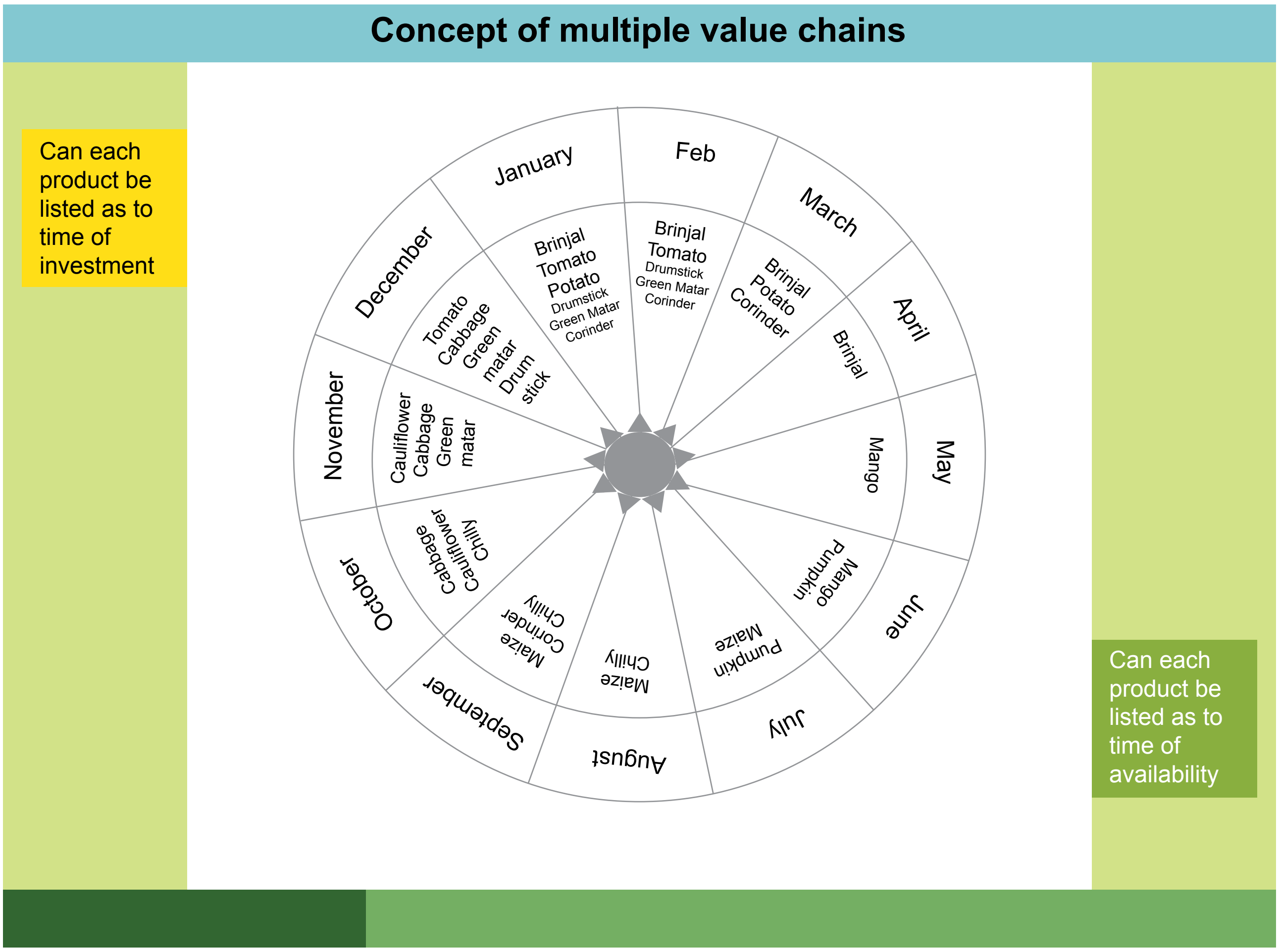
Business idea generation

Scope in the area for business

After the base line survey by the FPO, it has been identified that most of the people are doing vegetable cultivation along with horticultural activities like mango, sapota, litchi etc. as their income sources. Therefore the Producer Company has decided to do the agricultural & horticultural business along with some organic manure like vermin compost, bio compost. First the company has selected what are the products which can be easily available for start of the business. The selected items are given below with their time of availability.

Name of the product	Time of cultivation	Time of harvesting
Brinjal	June & Sept	Sept & Feb
Chilly	June & Sept	Sept & Feb
Cauliflower	Sept	Feb
Cabbage	Sept	Feb
Radish	Sept	Feb
Tomato	June & Sept	Sept & Feb
Mango	Jan	May-July
Mustard	Sept	Jan
Black gram	Aug	Jan
Green gram	Aug	Jan
Turmeric	May	Feb
Badi^^	Jan-June & Oct-Dec	
Agarbati^^	Throughout the year	Throughout the year
Vermi compost	Throughout the year	Throughout the year

^^ It is necessary that the FPO should take every activity possible in the area into their scope/fold so that there is continuous flow of business/income on one hand and employment generation/ higher income for the members.



Opportunity analysis (Guide for Filling the Diagram):

Inner-most Circle

Fill all the activities in the area that have potential for generating year-round activity. Generally, they are from animal husbandry, non-farm activities, processing etc. ***Examples can be milk, incense sticks (agarbatties), candle making, pickle making etc.***

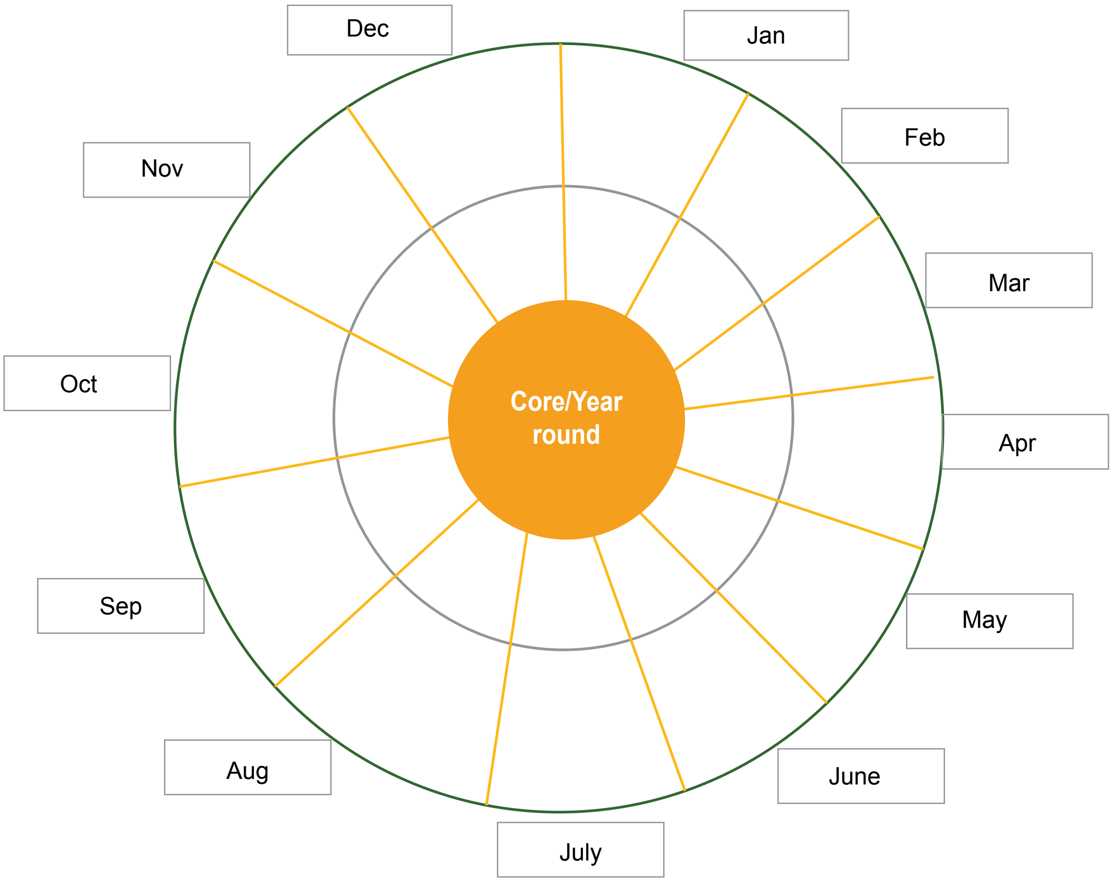
Central Circle

Fill all the activities in the area that have potential for generating input business for the FPO. Generally, they are from seasonal agricultural operations. ***For example, if paddy requires urea in June-July, Aug-Sept, then fill paddy from June to Sept.***

Outer Circle

Fill all the activities in the area that have potential for generating value-added business for the FPO in specific months. ***For example: In case your agency is involved in seed processing, the procurement from Kharif crop will start by end of Nov and will extend up to end of Jan, the processing will continue till mid-May and sales will happen during second fortnight of May onwards till first fortnight of July.*** Similarly for vegetable crops like potato (Rabi crop), the purchase of same can start from Feb and extend up to March, the sale can happen either within three months in case FPO does not have facilities for cold storage or even after six months in case there are cold storage facilities.

Business Cycle: Kaal-Chakra
Innermost Circle: Core Business; **Central Circle:** Input Business; **Outer Circle:** Marketing of produce/Value Addition/Storage



Threat Analysis (Problems)

After identification of scope & issues of the area the FPO has made the problem analysis report. The details are as under:

1. Input Level

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

2. Farmers' Level

- As per the baseline survey done by the FPO the younger generation are reluctant to continue in the agriculture.
- They need proper guidance from the line department about agriculture.
- They are not aware about the various schemes of the Government departments.

- There are no other farmers' institutions available in the blocks like FPO, Farmers Club etc.
- Institutional level access is one of the major problems for the farmers as per the baseline survey.

3. Production Level

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

4. Marketing

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

5. Storage

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

6. Pricing

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

7. Processing /Value Addition

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

Business opportunity analysis for products identified under SCOPE

Name of product	Issues	Solution Suggested
Brinjal	Pricing	Collective Marketing
Chilly	Pricing	Collective Marketing
Cauliflower	Pricing & storage	Collective Marketing and Limited Period Storage
Cabbage	Pricing & storage	Collective Marketing and Limited Period Storage
Radish	Pricing	Collective Marketing
Tomato	Pricing/storage/value addition	Collective Marketing and Grading/Sorting and Pre Processing unit for limited volume of product
Mango	Marketing/storage/value addition	Collective Marketing and Grading/Sorting and Pre Processing unit for limited volume of product
Vermi compost	Production/marketing	Technology Transfer and Collective Marketing
Mustard	Pricing & marketing	Collective Marketing with tie up arrangements
Black gram	Marketing	Collective Marketing with tie up arrangements
Green gram	Marketing	Collective Marketing with tie up arrangements
Turmeric	Production/marketing	Technology Transfer and Collective Marketing
Agarbatti	Marketing	Collective Marketing with tie up arrangements
Badi	Proper guidance /marketing/ making unit	Technology Transfer , Establishment of manufacturing unit and Collective Marketing

Selection of Products: Stage 1 (business opportunity)

Product	Months of investment	Months of return	Need for marketing only Y/N	Need for Processing Y/N	Need for Storage Y/N	Investment level High(H)/ Medium(M) /Low(L)	Technology Available(A)/ Feasible(F)/ High Cost(H)	Machinery Available Y/N	Product Selected Y/N
Brinjal	June & Sept	Sept & Feb	Y	N	N	L	A	N	Y
Chilly	June & Sept	Sept & Feb	Y	Y	Y	L	A	Y	Y
Cauli flower	Sept	Feb	Y	N	Y	M	A	N	Y
Cabbage	Sept	Feb	Y	N	Y	M	A	N	Y
Radish	Sept	Feb	Y	N	Y	M	A	N	Y
Tomato	June & Sept	Sept & Feb	Y	Y	Y	M	A	Y	Y
Mango	Jan	May-July	Y	Y	Y	M	A	Y	Y
Vermi compost	Throughout the year	Throughout the year	Y	N	Y	H	A	N	Y
Agarbati	Throughout the year	Throughout the year	Y	Y	Y	L	A	Y	Y

Mustard	Sept	Jan	Y	Y	Y	L	A	Y	Y
Black gram	Aug	Jan	Y	N	Y	M	A	N	Y
Green gram	Aug	Jan	Y	N	Y	M	A	N	Y
Turmeric	May	Feb	Y	Y	Y	M	A	Y	Y
Badi	Jan-June & Oct-Dec		Y	Y	Y	M	A	Y	Y

Selection of Products: Stage 2 (business opportunity)

Product	Is it new product for the Area	Is it existing product	No of Families Involved	Is there any existing agency working on product Is so give name	Have you got experience (Y/N)	Are you aware of technology (Y/N)	Major Issues (Pricing/ Marketing/ Production)	Major Opportunities (Value Addition/ Market Availability/ Any Other)	Selected Y/N
Brinjal	N	Y		N	Y	N	Pricing/ Mktg	Mkt Available	Y
Chilly	N	Y		N	Y	N	Pricing/ Mktg	Mkt Available	Y
Cauliflower	N	Y		N	Y	N	Pricing/ Mktg	Mkt Available	Y
Cabbage	N	Y		N	Y	N	Pricing/ Mktg	Mkt Available	Y
Radish	N	Y		N	Y	N	Pricing/ Mktg	Mkt Available	Y
Tomato	N	Y		N	Y	N	Pricing/ Mktg	Mkt Available	Y
Mango	N	Y		N	Y	Y	Pricing/ Mktg	Mkt Available	Y
Vermi compost	Y	N		N	Y	N	Mktg/ Prod	Mkt Available	N
Mustard	Y	N		N	Y	N	Mktg/ Prod	Mkt Available	N
Black gram	Y	N		N	Y	N	Mktg/ Prod	Mkt Available	N
Green gram	Y	N		N	Y	N	Mktg/ Prod	Mkt Available	N
Turmeric	Y	N		N	Y	N	Mktg/ Prod	Mkt Available	N
Badi	Y	N		N	Y	N	Mktg/ Prod	Mkt Available	N
Agarbati	Y	N		N	N	N	Mktg/ Prod		N

Shortlisting of business plan

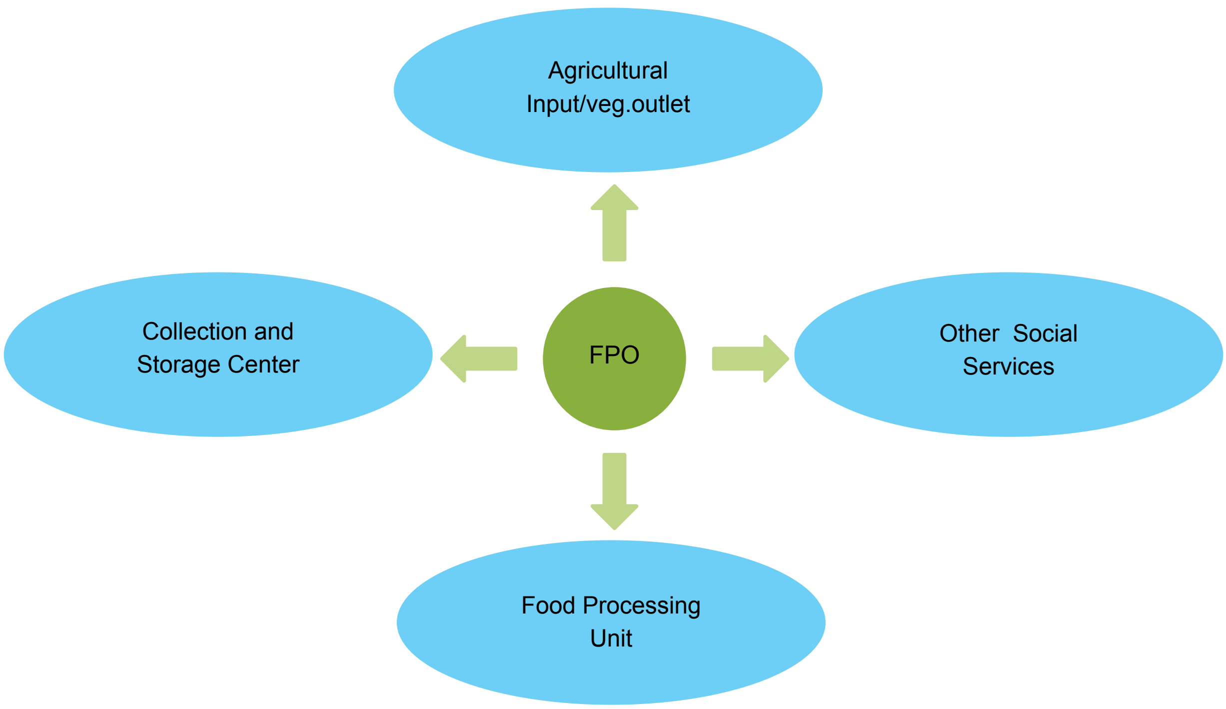
Interventions on Input Side: The FPO has conducted a study on the input supply situation in the area and realised that the farmers are procuring inputs for the agriculture / allied activities/ non-farm activities on retail basis and they are also not in a position to procure them on time and that further, many times the inputs are spurious. The summary of position is as indicated below.

Y: Available easily ***N: Not available easily***

Product	Seeds	Fertilizer	Bio Fertilizers	Pesticides	Bio Pesticides	Small equipment	Large Equip.	Irrigation	Tech Asst	Soil Testing	Other Equip. / Input	Product Selected Y/N
Brinjal	N	Y	N	Y	Y	Y	N	Y	Y	Y		Y
Chilly	N	Y	N	Y	Y	Y	N	Y	Y	Y		Y
Cauliflower	N	Y	N	Y	Y	Y	N	Y	Y	Y		Y
Cabbage	N	Y	N	Y	Y	Y	N	Y	Y	Y		Y
Radish	N	Y	N	Y	Y	Y	N	Y	Y	Y		Y
Tomato	Y	Y	N	Y	Y	Y	N	Y	Y	Y		Y
Mango	N	N	N	N	N	Y	N	N	Y	N		Y
Vermi compost	Y	N	N	N	N	Y	N	N	Y	N	Y	Y
Mustard	Y	Y	N	Y	Y	Y	N	Y	Y	Y		Y
Black gram	Y	Y		Y		Y	Y	N	Y	Y	Y	Y
Green gram	Y	Y	Y	Y		Y	Y	N	Y	Y	Y	Y
Turmeric	Y	Y	Y	N	Y	Y	N	Y	Y	Y	Y	Y
Badi									Y		Y	Y
Agarbati									Y		Y	Y

Finalisation of business plan

The FPO plans to undertake setting up of an agricultural outlet, collection & storage centre, food processing unit, other social services in the block.



Agricultural Input/ Vegetable Outlet

- FPO will market all inputs, particularly organic products like vermi-compost, biocompost and seeds, agricultural equipment through its outlet or sale centre which will help reduce farming expenses.
- It will provide information & facilitate getting subsidies, agricultural loans, agricultural insurance, etc.
- It is planning to set up an Agri-Mall in the block for smooth running of the business.

Collection & Storage Center

- A collection centre will be established by the FPO in selected clusters in the block.
- One storage centre will be established in the FPO premises for cleaning, sorting, grading of the products.
- The centre will be managed by the local level SHGs/ youth on commission basis for better functioning.
- In the initial stage, the FPO will take a storage house on rent. The farmers can store their produce in the storage house when market goes down, and take their produce to the market when the market is higher.
- The FPO will provide credit facilities to the farmers on their produce stored in the village.

Processing & Value Addition Unit

- Processing & value addition is the most important part since the price of the product increases when processed products goes to the market.
- Keeping this in mind, the FPO is planning to establish a processing & value addition unit for the produce in the block. The FPO will not start the processing unit in the first 3 years; it plans to think of setting up processing unit for locally available products like mango, tomato, etc.
- These processing units may come up in the form of small-scale grading/sorting, packaging units for primary level of value addition as well as fully mechanized processing units for large scale processing unit.
- Small-scale units with more manual operations could exist in the form of decentralized processing units managed by the village level groups.

Other Social Services

- The FPO will provide other social services like farmers' training about new practices in the field. It will provide the services of an Agronomist to increase production and for proper guidance on crop protection.
- It will introduce the concept of protected cultivation to farmers for increasing productivity in farming i.e.poly house, shade net house, etc.
- Soil testing services must be done for the farmers to suggest them about soil production capacity to choose proper crop for cultivation.
- The FPO will motivate the farmers to take up organic farming through training & exposur.

Transportation Facility

- One of the main drawbacks in agriculture is the mode of transportation in the area.
- The FPO will focus on the nearby market for the business because of the high transportation cost.
- It will undertake direct marketing initiatives wherein farmers can continue to sell their produce to institutions like hotels, schools, malls etc.
- In order to maximize the profits the FPO, it will buy/rent out a four wheeler for better transportation.

Marketing Plan

- The FPO has developed market linkages for input & seeds procurement from various reputed companies from ------ & ---------.
- This will help in ensuring timely supply of inputs and seeds of best quality which will further help them have an advantage over any ssimilarkind of business running in the area.
- It will also coordinate with various irrigation companies/ agencies (both Government & private sector) for laying wells / sprinklers etc. in farmers' fields to facilitatebetter production.
- It will employ a marketing/ agriculture expert to help the farmers.
- It will also help farmers sell some products directly to customers.
- There is a huge potential for fresh vegetables in the area, which can be marketed in the nearby town. The FPO will undertake promotion for the farmers' produce through advertising, conducting promotion camps, direct campaigns, etc.
- There will be differential pricing mechanisms to attract non-members into taking membership.
- The FPO will take its products to various trade fairs organized by govt. departments in the town.

Developing Demand –
Based Production and Marketing Plans

A marketing plan describes how the product will be sold, how the business will motivate the customer to buy. The purpose of developing and including the marketing plan in the business plan is twofold:

- The process of designing a coherent marketing plan, that is an integral part of the overall business plan, will help the business to test ideas, explore options, and determine effective strategies for success.
- The result of a well-conceived and coherent marketing plan will convince the business plan reader about the competence of the business.

Marketing Strategy

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

Market analysis

The market analysis should cover details about:

a. The overall market

b. Changes in the market

c. Market segments, their attractiveness, profitability

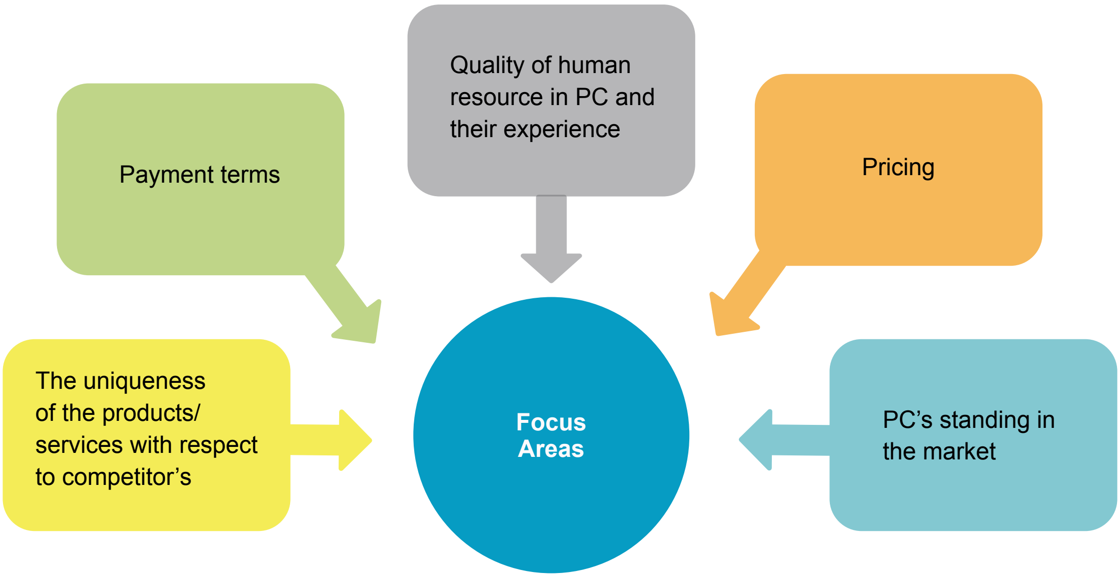
d. Target market and customers

e. Description of customers

f. Competitors – Direct and indirect

Assessment of market opportunities and threats/ risks

Following the market analysis, an analysis of the Strengths and Weaknesses (S/W Analysis) of the products to be handled and FPO as an organization should be carried out. It would focus on the following:



The Strengths and Weaknesses analysis (S/W Analysis) together with the O/T analysis is called the SWOT Analysis. The O/T analysis helps to analyse the external business environment, while the S/W analysis focuses on the internal business environment, i.e., FPO's product, FPO as an organization, its competencies, risk bearing ability and policies.

Choosing a Marketing Strategy

After choosing the market segments that the FPO management wishes to target and having carried out the SWOT analysis, the suitable marketing strategy should be chosen. The choice depends on a variety of factors including the image that the FPO wants to project about the product and the organization, FPO's sales objectives like whether the FPO wants rapid penetration or is content with slow penetration of the market, etc. The FPO may choose one or more combinations of strategy, but needs to strategically plan a right mix of the 4 Ps (Product, Price, Place and Promotion – called the Marketing Mix) to develop an appropriate marketing strategy. In the following sections, some of the tools and methodologies are discussed which could be referred to while developing a business strategy. These don't conform to a complete list of strategies, but are certainly the important ones.

Positioning Strategy

Once a market has been segmented and a particular segment chosen, the PC has to position the product in that market segment. This means the PC has to tell the customers about what it is offering and how it is different and better than the competitors. Positioning is done in three steps:

1. Identifying advantages of the product over the competitors
2. Selecting the right advantage(s)
3. Signalling the adopted position to the market

Basis of Positioning

It is clear that the same product can then be positioned differently, depending on the specific needs of the customer. To understand the basis of positioning, let us look at positioning in terms of a FPO's products - in this case Agri-clinic services which it intends to provide to the farmers of a given area:

Product Features: Problem diagnosis and solution, low cost solution, on-farm services, continuous follow up

Benefits, problem/solutions or needs
Services provided within 24 hours after registration, expert suggestions, supply of agro-chemicals which are genuine and at reasonable price,

Specific Usage Occasions	User Category	Against another services
On-farm services. The customer can call the experts to his/her field to discuss the problem and solution	The services are ideal for small farmers who have small holdings and cannot invest much on the farming.	The agri-clinic services are more reliable than the Government extension services

Price and Promotion

Price and level of promotional spending are very important tools in achieving market penetration objectives. For instance, if the objective is to quickly gain a large market share, the strategy could be a combination of low price and high decibel promotion, leading to a large volume of sales. The market strategies often have to decide on the level of quality and price that it can offer to a chosen market segment as compared to competitors.

Based on the strategies chosen, the Marketing Mix (4 Ps of Marketing) could be formulated and the marketing plan written. It should cover the following:

Target markets	Competition	Environment
Product /service	Price	Place
Promotion	Targeted sales in the coming year and projections for the next two years	

A suggested outline is provided here to write the marketing plan

FPO Marketing Plan

This is the marketing plan of "FPO... Name"

I. Market Analysis

1. Target Market

i. Who are the customers? Write a brief description of the target customers. (You may write about age, sex, education occupations, occasions of use, frequency of use, income levels, geographic location, etc.)

ii. Products and Target Customers

Sr. No.	Product line	Target

II. Competition

i. Who are our competitors?

Name..

Address..

Years in business..

Market share..

Price/Strategy..

Product/Service...

Features..

(Note: write two more competitors using same template)

ii. How competitive is the market?

High..

Medium..

Low...

iii. List below your strengths and weaknesses compared to your competitor's (consider such areas as location, size of resources, reputation, services, personnel, etc.):

Strengths	**Weaknesses**
1..	1..
2..	2..
3..	3..

III. Environment

i. The following are some important economic factors that will affect our product or service (such as natural calamity leading to failure of agriculture),

....

....

....

ii. The following are some important legal factors that will affect our market such as APMC imposes levies for purchase of agri-commodities outside the market yard):

....

....

....

iii. The following are some important government factors (such as, Govt. policies banning inter-state transfer of food commodities, Govt. provides subsidy to procure directly from the farmers etc.):

....

....

....

IV. Product or Service Analysis

i. Description

Describe here what the product/service is and what it does:

....

....

....

ii. Comparison

What advantages does our product/service have over those of the competitor's (consider such things as unique features, expertise, guaranteed services, on-farm services, etc.)?

....

....

What disadvantages does it have?

....

....

iii. Some Considerations

Where will you get your materials and supplies?

....

List other considerations:

....

....

V. Marketing Strategies - Market Mix

i. Image

First, what kind of image do we want to have (such as small producers' organization, quality service, professional management, low price, convenience)

....

ii. Features

List the features that we will emphasize:

a. ....

a. ....

VI. Pricing

i. We will be using the following pricing strategy:

a. Mark-up on cost: .... what % mark up?..

b. Competitive:..

c. Below competition:..

d. Other: ....

i. Are our prices in line with our image?

YES...NO..

ii. Do our prices cover costs and leave a margin of profit?

YES...NO..

VII. Customer Services

i. List the customer services we provide:

a. ....

b. ....

ii. These are our sales/credit terms:

a. ....

b. ....

iii. The competition offers the following services:

a. ....

b. ....

I Advertising/Promotion

- These are the things we wish to say about the business:
- We will use the following advertising/promotion sources:

Session XV

Financial Planning: Breakeven Analysis, Assessment of Investment and Working Capital Requirements, Sources of Funds – Equity Grant, Bank Loans, Credit-Linked Subsidy And Credit Guarantee

Finance concepts

The last part of the business planning process is the preparation of the financial plan. It is based on the marketing plan.

Budget preparation

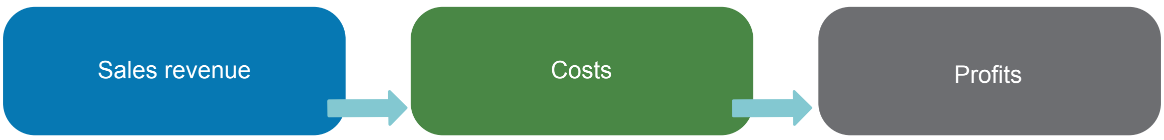
To prepare a good budget, the following three questions should be answered:

- How much net profit (i.e. sales minus costs) do I want the FPO business to make in the financial year?
- How much it will cost (both fixed and variable costs) to generate that profit?
- How much sales revenue is necessary to support both profit and costs?

Based upon the answers of the above three questions, the budget can be prepared.

> **For any entrepreneur or business, 'budget' is the ultimate tool with which to monitor and keep a control over the business. A budget is a forecast of all cash sources and expenditures. Budgets help to determine how much money you have, where to use it, and whether you can achieve your financial targets. It shows the flow of money into, through and out of the business**

The three basic elements of a budget are:



- **Sales revenue:** Sales revenues are the key figures in any budget. One has to estimate the sales revenues that would accrue to the business as accurately as possible. These should be based upon the past sales records or the industry averages. Once the sales targets have been fixed (as accurately as possible), then the necessary costs can be estimated which would help in realizing the sales revenues.
- **Costs:** Estimating costs in any business is a complicated procedure. Small changes in the assumptions on which the costs are estimated can render the whole budgeting exercise futile. Costs are of two types – ones that change with volumes of sales and ones that do not change. These are called variable costs and fixed costs, respectively.

- **Variable costs:** Variable costs are those that change directly with the sales volumes or with the size of the business. For example the cost of inventory or raw material is a variable cost. The more you sell, the more raw material you have to purchase and vice-versa. Suppose you are in the business of aggregating the agriculture produces and sell it in the bigger market. The more number of farmers you add to aggregate produce, the more you have to spend on procurement, grading, transportation, etc.
- **Fixed costs:** Fixed costs are those which remain unaffected by the sales volumes. This means that you have to incur them, no matter how much is the sales volume. Rent or certain number of staff hired for the business are good example of fixed costs.

➲ **Profits:** For any business to be viable in the long run, the sales revenues must always be greater than the costs. This difference in the sales and the costs is called profit.

Simply put, Sales – Costs = Profits *or in other words:*
Sales = Costs + Profits

This means that one should target the sales to be of such a volume that it covers all the costs and also have a reasonable amount of profits which is at least equal to the benchmarked Return on Investment.

Working capital

Working capital is the difference between a business' current assets and its current liabilities. In simple terms, working capital is the amount of money required by a business to cover its short term liabilities. Working capital includes:

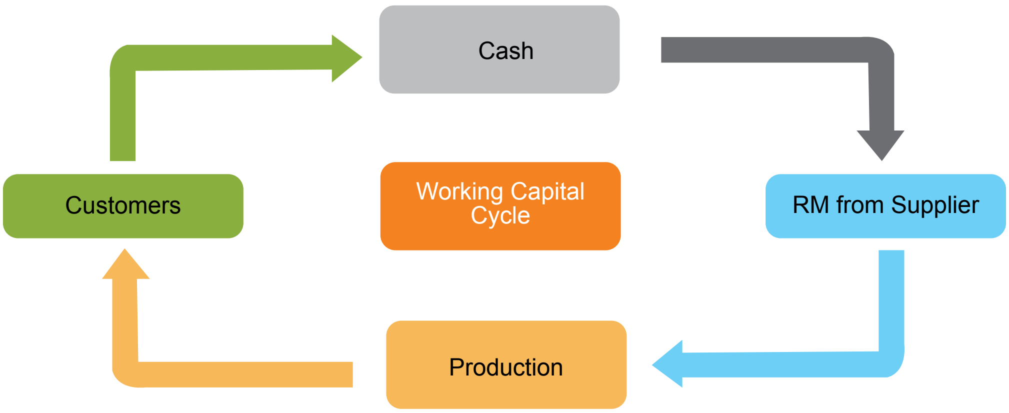
Marketable securities	Accounts receivables	Inventories
Accounts payable	Wages/ salaries & taxes	Cash

➲ Since any firm or business has about 40% of its capital tied up in current assets, decisions regarding working capital greatly impact business success.

➲ Working capital requirements depend upon the operating cycle of the company's business.

Operating Cycle

Operating cycle is the length of time required to convert items like raw material (RM), work in progress (WIP), finished goods (FG) and receivable into cash. If raw material/ agri-produce, etc., are to be held by FPO for a longer point before actually selling and getting cash then the operating cycle is longer. On the other hand, if the time gap between procurement and sale is less then, the operating cycle is shorter.



Components of Working Capital

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

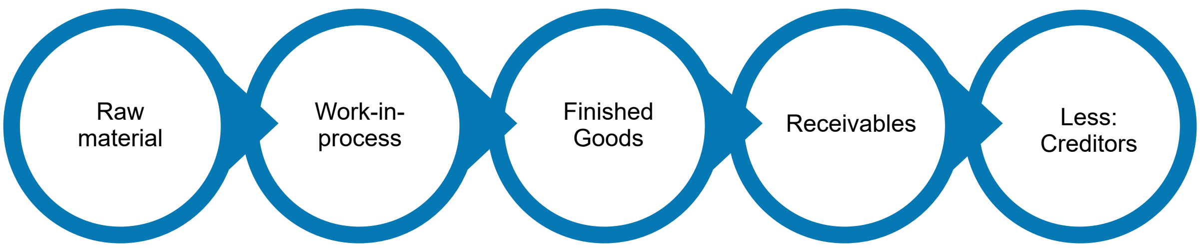
- Purchase of agri-inputs to be supplied to its members
- Purchase of raw materials in case of processing
- Purchase of agricultural produce in case of simple trading
- Storage of raw material/ finished goods/ agri-produce
- Processing (food processing/ seed processing, etc.)
- Transportation of raw material, agro produce, items for selling, etc.
- Staff salary, travel, rent, electricity, telephone, Insurance of goods and other administrative expenses which can be termed as management and administration cost

Methods for assessment of working capital

There are various ways by which the working capital of a FPO can be assessed based on the nature of business and other related factors. As per the RBI guidelines, banks have been advised to sanction limits after proper appraisal of the genuine working capital requirements of the borrowers keeping in mind their business cycle and short term credit requirement. For small units, operating cycle method and turnover method are used to assess the working capital requirements. FPOs on their part may learn the following simple methods for estimating their working capital requirements. These methods are used by the financing institutions for calculating working capital loan:

a. Operating Cycle Method

This method estimates the fund requirement for activities which begins with acquisition of raw materials and ends with collection of receivables. The stages are:



Example

i. Procurement of raw material : **30 days**

ii. Conversion/process time : **15 days**

iii. Average time of holding of finished goods: **15 days**

iv. Average collection period : **30 days**

v. Total operating cycle : **90 days**

vi. Operating cycle in a year : **(360/90) = 4**

vii. Total operating expenses per annum : **Rs. 60 lacs (say)**

viii. Working capital requirement : **60/4= 15 lacs**

b. Turnover Method:

The WC requirements may also be worked out on the basis of the Nayak Committee recommendations, popularly known as Turnover Method. Under this method, the working capital is assessed on the basis of 20% of the projected annual turnover. In such cases the borrower has to bring in minimum of 5% of turnover as margin. Based on the above, the working capital can be assessed as per following illustration.

Example

Projected sales	Rs. 10,00,000/-
Working capital requirements 25% of projected sales i.e	Rs. 2,50,000/-
Margin (contribution of owner) 5% of projected sales i.e	Rs. 50,000/-
Working capital to be funded by bank	Rs. 2,00,000/-

Term loan assessment

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

i. Land

ii. Factory building/ shed/ godown/ etc.

iii. Machinery

iv. Furniture and fixtures

v. Technical know-how/ research & development

vi. Pre-operative expenses and contingencies

vii. Margin money for working capital

Terms of financing Term Loan: The broad terms of financing Term Loan are as under:

a. Margins and sources of margins

b. Disbursements in phases

c. Security: Primary & collateral and guarantee

d. Rate of interest

e. Commission and other fee

f. Insurance

g. Repayment: Term loan is repayable in instalments (monthly, quarterly, half yearly or yearly or depending on the harvest seasons, mainly for crops and horticulture schemes), depending upon the activity supported and the cash flow generation from the project and economic life of the asset created.

h. Types of documents/ agreements

   i. Loan agreement

   ii. Hypothecation agreement (term loan/ working capital)

   iii. Mortgage (equitable / registered)

   iv. Demand Promissory Notes (DPN)

   v. Deed of guarantee (personal / bank / govt. guarantee)

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

a. **Land:** The business may be on existing land or on a leased land. Normally banks do not fund the purchase of land and the cost of land has to be borne by the organization and the amount may be treated as margin for the project.

b. **Factory building/Shed/godowns/etc.:** Plan, approved by the appropriate authority, for construction of the Factory Building/Shed/Godowns / Administrative Building. The estimate for construction of the above structure shall be from the Chartered Engineer/Architect along with time frame for construction in different phases. Clearances from different regulators.

c. **Machinery:** Quotations for purchase of requisite machinery with details of capacity of each of the machinery (including DG Sets & Electricity Poles & connection charges), the post sales services and the taxes and landing costs, if any, cost of erection/ grounding the machinery.

d. **Furniture:** Quotations for purchase of requisite furniture.

e. **Technical knowhow / Research & Development:** A copy of the Agreements entered into and the total cost involved shall be provided by the potential Borrower.

Cash Budgeting Method:

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

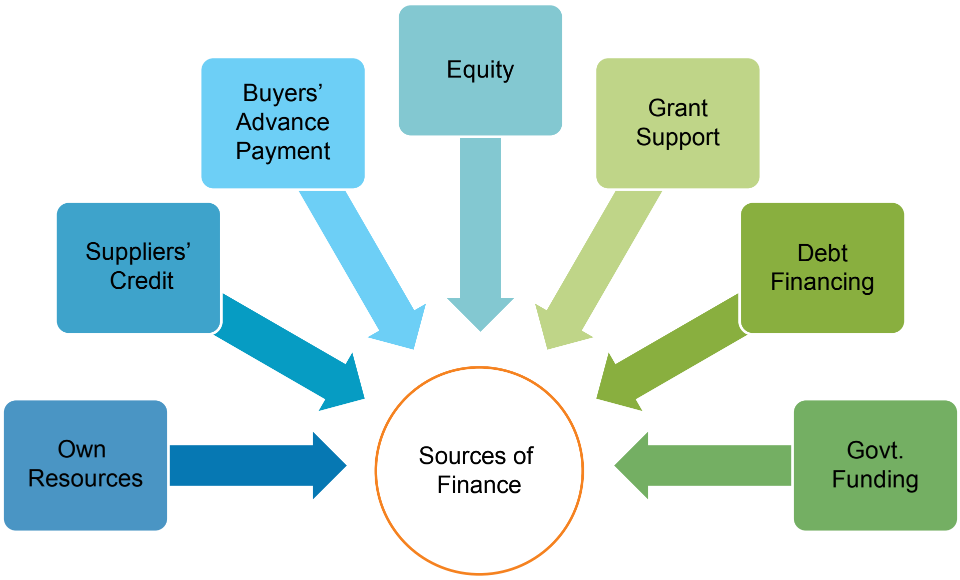
1. Balance sheet for the previous financial year (In case of existing FPO)
2. Projected balance sheet for the budget year
3. Projected profit and loss account for the budget year
4. Estimate of monthly sales and purchases
5. Estimate of monthly expenses and incomes other than from purchases and sales
6. Seasonality factors in the business, if any

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

A	**Cash inflow**	Opening cash/bank balance (+) amount of receivables at the beginning of the month (+) sales (-) amount of receivables at the close of the month
B	**Cash Outflow**	Payments made for raw materials /consumables (opening trade credits (+) purchases (-) trade credits at the end of the month); payment made to fixed asset suppliers, payment of interest; Payment of tax; payment towards other expenses such as labour, utilities, etc.; closing cash balance
A - B	**Difference**	Indicate period when the business is short of cash and to what extent it requires funding

Sources of Finance for FPOs

The finance can be arranged from the following sources.



i. **Own Resources:** The reserve and surpluses of previous years are the source for personal financing. However, in case of a new FPOs this opportunity will not exist.

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

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

iv. **Grant support:** The PC being a smallholders' organization may seek capital support and other assistance from the Government under certain government schemes. Two major initiatives to support FPOs are as below.

   i. Support for enhancing equity base of FPO by providing matching equity grants

   ii. Setting up of a Credit Guarantee Fund to provide guarantee cover to the banks advancing loans to FPOs without collateral securities

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

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

vii. **Debt financing:** This is the most preferred way of financing a new business. Here, it is a direct obligation to pay the interest on the money lent by the financier. The biggest advantage is that the financier does not have control over the business as opposed to equity financing. The important point to be noted in this is the rate of interest charged. However, it is not easy to raise debt financing for a Farmer Producers' company without collateral and margin.

Access of finance from various rural financial institutions

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

List of documents need to be submitted with project report

a. Detailed Project Report along with application for loan/grant required in Duplicate

b. List of movable/immovable assets of the organisation/promoters

c. List of tangible unencumbered security offered as collaterals. In case of land property, copy of sale deed along with extract of latest land record

d. Income Tax and Wealth Tax details for last 3 years with copies of Assessment/ Return, if applicable

e. Certificate of reliefs given under statute (IT, Sales Tax, etc.)

f. Copies of sanction letters from other institutions, Government Agencies, Overseas agencies sanctioning loan, grant or other support services relating to the activity

g. Provisional Registration Certificate from the concerned authority viz., Registrar of companies, Registrar of Cooperative Societies, District Industries Centre, etc.

h. Certificate of Incorporation from competent legal authority. In case of corporates, certificate of commencement of business issued by Registrar of Companies

i. Memorandum & Articles of Association/ Bye laws of Society

j. Permission/license from Competent Authority (for textile, foods & drugs, forest, etc.)

k. Certified copy of sale deed along with extract of latest land record in respect of land. (The land should be in the name of company/ society whichever applicable) OR if rented premises, rent agreement for a minimum of eight years or covering the entire loan period

l. Three quotations in respect of each item of plant and machinery and raw material, proposed to be purchased

m. Import, Export Licenses

n. Details of power requirement and tie-up with State Electricity Board

o. Permission from Water & Pollution Control Board

p. Approved Building plan from Competent Authority with cost estimates from the Architect

q. KYC of all directors

r. PAN card

s. CIBIL for all the directors

t. Company's Bank statement of 6 months

u. Three years audited balance sheet

v. IT return of previous year

w. Sales and purchases record as per GST

Other options for availing credit facility

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

a. Choose activities which require very less capital or no capital and which are risk free in the initial years.

b. Take dealership of seeds and fertilizers from the companies and work as commission agents. POs can earn good margin and build a business relationship with those companies which results in getting credit limit in the subsequent years.

c. Dealership from various companies for various agriculture implements like water pump sets, mechanized plough, etc., which they can sell to their members at a reasonable price and earn commission.

d. Procurement of agriculture produce - FPOs identify the prospective buyers and arrange buy-back guarantee sfrom them. Agreements can be framed in such a manner that sales can be arranged at the farm gate level, and therefore no transportation and storage cost would be involved at the FPO level. The FPO should ensure a transparent transaction between the buyers and sellers (members and non-members both) to build on relationships which can facilitate them in credit facilities.

e. Pledge financing through Warehouse Receipts is another option available for FPOs.

The successful demonstration of such business would build their credentials among the members and other stakeholders. Further, demonstration of fair trade practices is very important for the PO. These small activities give POs the opportunity to demonstrate such practices. Both the members and the trade and industry with whom PO does the business appreciate such fair practices and it builds reputation for the PO.

Networking and convergence plan

During the last couple of years, there has been a growing interest to promote FPOs. Several initiatives have been taken by the governments, developmental financial institutions such as NABARD, SFAC, bilateral and multilateral agencies, private organisations, financial institutions and others to support the growth of the FPOs and facilitate their emergence as successful business enterprises. NABARD has been financing FPOs since 2011 under the Producer Organisation Development Fund (PODF).

Prior to the setting up of PODF, NABARD funded producer collectives under the Umbrella Programme for Natural Resource Management (UPNRM), bilaterally supported by the Deutsche Gesellschaftfür Internationale Zusammenarbeit (GIZ) GmbH and KfW. World Bank and Asian Development Bank (ADB) are also supporting different state governments to promote FPOs. The other agencies in this space are Rabo Bank Foundation, Sir Ratan Tata Trust, and many others. SFAC has been mandated by the government to support the formation of FPOs. SFAC's initiative was started in 2011-12 under two Central Government Schemes (CGS) viz. The National Vegetable Initiative for Urban Clusters (NVIUC) and The Integrated Development of 600,000 pulses villages in rain fed areas. The set of schemes have since expanded their scope and include special FPO projects being taken up by some State Governments under the Rashtriya Krishi Vikas Yojana (RKVY) funds and the National Demonstration Projects under the National Food Security Mission (NFSM). Other schemes initiated in this direction are the Equity Grant and Credit Guarantee Fund Scheme and Venture Capital Assistance Scheme.

Under the mandate of GoI, promotion and strengthening of FPOs has been one of the key strategies to achieve inclusive agricultural growth. With large-scale promotion of FPOs, the GoI has initiated the following:

- Policies to create an enabling ecosystem to strengthen the FPOs: The Union budget of 2019-20, the Government of India has declared its intention to promote 10,000 FPOs in the next 5 years and the CSS on Formation & Promotion has been launched in June 2020.
- NABARD launched its Rs. 2,000 crore Food Processing Fund in November 2014 where FPOs can participate
- SFAC launched the Equity Grant and Credit Guarantee Fund Scheme (EGCGFS) for FPOs enabling the FPOs to access a grant up to Rs.15.00 lakh to double members'equity and seek collateral-free loan up to Rs. 1.00 crore from banks, which in turn can seek 85% cover from the Credit Guarantee Fund (CGF) (now merged with 10000 FPO scheme)
- SFAC has been designated as a central procurement agency to undertake price support operations under the Minimum Support Price (MSP) programmes for pulses and oil seeds and it will operate only through FPOs at the farm gate.
- All major centrally sponsored schemes of the Department of Agriculture and Cooperation (DAC) have incorporated special provisions for promotion and development of FPOs
- Many state governments have come up with their own schemes and policies to support formation and nurturing of FPOs in their state.
- Many donor organisations are focusing on the formation and strengthening of Producer Company (PC) as a key element of their development strategies.

Breakeven analysis

The most commonly used budgeting statement is the **'Breakeven Analysis'**. In simple terms, this means arriving at a sales or turnover figure which will break even all the costs incurred in the business. This volume of sales is called the break-even sales or the breakeven point. The fixed costs that must be recovered from the sales revenues after the deduction of variable costs determine the sales volume required to break even. This also means that any amount of sales after this would result in profits for the business. At breakeven point, the total variable costs plus the fixed costs is equal to the total sales revenue. This can be expressed as:

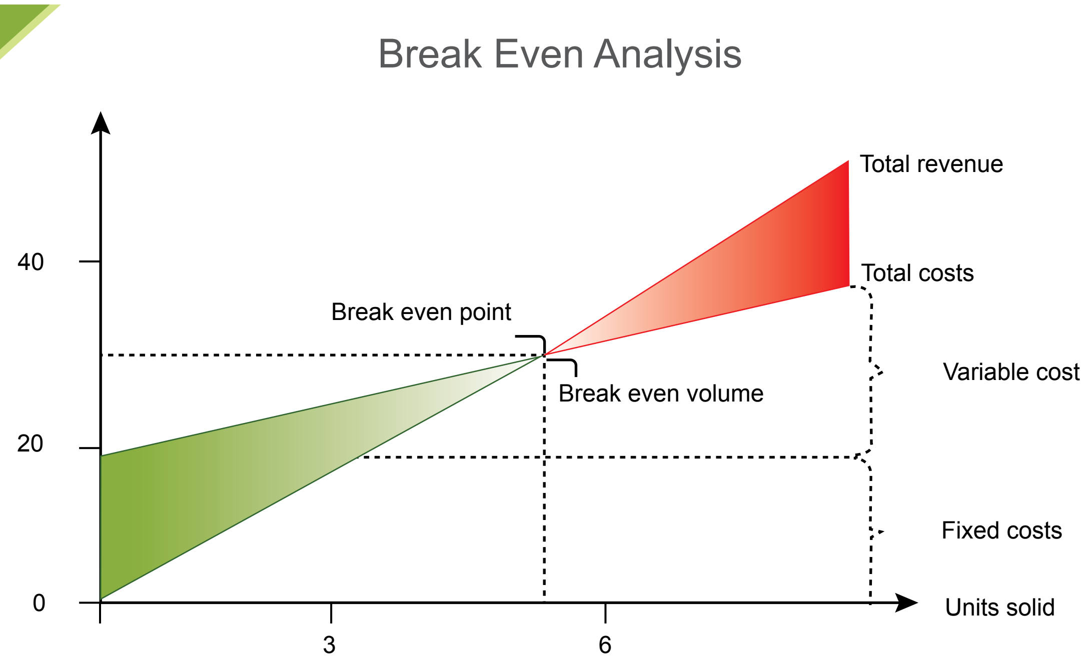
$F + V(X) = P(X)$

Where, F = Fixed costs,

V = Variable costs/ unit

X = Volume of output (in units)

P = Price per unit



Let us take a simple example to illustrate the above concepts.

> **A FPO wants to sell agriculture produce (gram). The purchase price of gram from the farmers is Rs. 3000/- per quintal. Its overall fixed costs per annum is Rs. 1,00,000/- (which includes rentals, salaries, communication, promotion, etc.). Additional variable cost per quintal of produce works out to Rs. 250/- per quintal (which including transportation, waste, insurance, etc.). The sale price of gram in open market is Rs. 3,600/Qtl. How much volume of business the FPO is required to do to break even?**

What would be the breakeven sales for FPO?

Assuming that the breakeven sales is Vb, the breakeven sales for FPO would be:

3600 x Vb – 100000 – (3000+250) x Vb = 0

350 Vb = 100000

Vb = 285.714

This means that FPO will have to sell more than 286 quintals of gram in one year to break even.

> **Now if the FPO also wants to recover the depreciation cost of its machinery (grading plant, generators, etc.) which works out to Rs. 10,000 per month and targets a profit of Rs. 140,000/-during the year, then what quantity of gram he should sell?**

Total sales – Total costs = (Rs.10,000 x 12) + Rs.140,000 =Rs 2,60,000

Applying the same formula:

3600 x Vb – 100000 – (3000+250) x Vb = 2,60,000

350 x Vb = 3,60,000

Vb = 1028.57

This indicates that in order to earn a profit and depreciation cost, the FPO has to sell more than 1029 quintals of gram during the year provided the assumption undertaken holds true during the entire year.

Preparation of Operational Plan

In operational planning, we are allotting our resources to our activities.

- Time
- Personnel
- Materials / Equipment
- Finance / Money

The purpose of Operational Planning

- Facilitating managerial control
- Mobilising resources (funds, personnel, equipment)
- Relating actions to items to funds
- Creating correct (realistic) expectations (internally and externally)
- Planning logistics (incl. manpower planning)
- Phasing (sequencing activities with regard to time and principles of logical order and feasibility)
- Establishing priorities (operationalising the interrelations of activities and sub-activities)
- Coordinating (internally and externally)
- Clarifying responsibilities and organising delegation
- Predicting cash flows (liquidity)
- Preparing a basis for monitoring activities and outputs

Preparation of an Activity schedule

STEP 1 : List Main Activities

STEP 2 : Break Activities Down into Manageable Tasks ('Sub-Activities')

STEP 3 : Clarify Sequence and Dependencies

STEP 4 : Define the Indicators and Sources of Verification

STEP 5 : Define Time: Estimate Start-up, Duration and Completion of Activity

STEP 6 : Define Milestones (for Monitoring)

STEP 7 : Define Responsibilities – Allocate Tasks among Team

STEP 8 : Define Manpower Needs / Expertise

STEP 9 : Define Material and Equipment Needs

STEP 10 : Define Costs

STEP 11 : Define Assumptions ('Risk Factors')

Various permissions and licenses required for business operations

Food Safety and Standards Authority of India (FSSAI)

The Food Safety and Standards Authority of India (FSSAI) has been established under Food Safety and Standards Act, 2006 which consolidates various acts & orders that have hitherto handled food related issues in various Ministries and Departments. FSSAI has been created for laying down science based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption.

The details of regulations may be accessed from their website www.fssai.gov.in Some of these regulations are listed below:

a. FSS (Licensing and Registration of Food Business) Regulation, 2011

b. FSS (Packaging and Labelling) Regulation, 2011

c. FSS (Food Product Standards and Food Additives) Regulation, 2011

d. FSS (Contaminants, Toxins and Residues) Regulation, 2011

e. FSS (Prohibition and Restriction on Sales) Regulation, 2011

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

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

a. Those standards ensure that the product or the raw materials used in the product were grown through organic farming, without the use of chemical fertilizers, pesticides, or induced hormones. The certification is issued by testing centres accredited by the Agricultural and Processed Food Products Export Development Authority (APEDA) under the National Program for Organic Production of the Government of India.

b. Even though the standards have been in effect since 2000, the certification scheme and hence the certification mark came into existence in 2002.

Food Safety and Standards (Packaging and Labelling) Act of 2006: Packaged food products sold in India are required to be labelled with a mandatory mark in order to be distinguished between vegetarian and non-vegetarian. The symbol is in effect following the Food Safety and Standards (Packaging And Labelling) Act of 2006, and got a mandatory status after the framing of the respective regulations (Food Safety and Standards (Packaging and Labelling) Regulation in 2011. According to the law, vegetarian food should be identified by a green symbol and non-vegetarian food with a brown symbol.

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

Hazard Analysis and Critical Control Point (HACCP): Hazard Analysis and Critical Control Point (HACCP) is a process control system designed to identify and prevent microbial and other hazards in food production. It includes steps designed to prevent problems before they occur and to correct deviations as soon as they are detected. Such preventive control systems with documentation and verification are widely recognized by scientific authorities and international organizations as the most effective approach available for producing safe food.

Session XVI

Way Forward for
Building Sustainable and Vibrant FPOs

- Production-end solutions instead of market solutions alone should be considered as a foundation stone of the FPOs. Hence, value chain-based analytical models need to be adopted to increase overall efficiency and effectiveness of the entire chain.
- Business models for aggregation of inputs, collective marketing, primary & secondary processing and trading businesses should be undertaken in a phased manner considering aspects like available resources, infrastructure support systems, services and acquired capabilities/skills with the progress of FPOs.
- FPOs are community-based organisations incorporated for the common benefit of their members. Considering the basic feature of the cooperative structure, the proposed institution needs to be designed, shared and enforced from the beginning for active involvement of all members and building ownership of the FPOs by the farmer members.
- No single business model would be universally applicable to all FPOs. Every identified cluster is different as per the socio-economic-geographical-agriculture background and the subsequent needs should be identified based on human capital and aspirations. Therefore, cluster-based needs and prevailing value chains need to be considered while undertaking the promotion and nurturing of any particular FPO.
- The identification of economic activities, products and services should be based on market demand, scalability and enabling environment in the region.
- Faith and ownership by communities is critical to the strength of any institution. A community-based organisation or a CBBO in which community has resided their faith is an enabler for nurturing and handholding support to FPOs during their establishment and maturation phase.
- Formation of FPOs should be aimed at ownership of the FPO by the community. This may not necessarily mean management of the FPO by the community, since running an FPO requires technical and professional management skills that may not be available within capacities of the local community.
- Continuous skill building, training and learning are the key parameters for making good entrepreneurs.
- Convergence with the state schemes, centrally sponsored schemes, and networking with corporates along with creation of an FPO grid would pave the way for business offtake and minimising market & operation risks.
- Continuous monitoring & evaluation of business performance is a prerequisite for effectiveness, efficiency and financial sustainability of the FPOs
- To overcome the fixed and operating costs of the FPO during the lean period of agricultural operation, trading the agricultural produce/product should be considered while formulating business models and marketing plans.

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Bankers Institute of Rural Development (BIRD), Lucknow is an autonomous institute promoted by National Bank for Agriculture and Rural Development, the Development Bank of the country. It is a premier institute for providing training research and consultancy services in the field of agriculture and rural development banking in India and abroad. The Institute was established in 1983, for addressing the capacity building needs of stakeholders. BIRD, Lucknow is an ISO 9001: 2015 certified training Institute.

Clients

All Banks, Government agencies, MFIs, NBFCs, Financial Sector, NGOS and Civil Societies.

Coverage (Training, Consultancy, Research)

Project Lending-Agriculture and MSME, Climate Finance, Rural Banking, Farmer Producer Organization, Micro Finance, Human Resource, Financial Inclusion, Training of Trainers, Executive Development, Management Development Programme, IT based Banking, Green Finance, Responsible CSR, Group approach to Development, Women Empowerment, Organizational Development, Investment & Treasury Management, Risk Management.

Faculty

Faculty are drawn from NABARD, banks and scholars of respective fields and have pan-India level field experience. The faculty have specialization in Banking Finance, Financial Inclusion, Agriculture & Allied sector, Fisheries, Forestry and Human Resources, etc.

Infrastructure

43 acre green campus has world class infrastructure in terms of class rooms, simulation and AV Rooms, Board Room, Conference Hall, Auditorium, Library, Gym, Air-conditioned Hostel Rooms, Local and International cuisine.