POLICY & PROCESS GUIDELINES FOR FARMER PRODUCER ORGANISATIONS

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GOVT. OF INDIA

MINISTRY OF AGRICULTURE

DEPT. OF AGRICULTURE AND COOPERATION

POLICY & PROCESS GUIDELINES FOR FARMER PRODUCER ORGANISATIONS

ISSUED BY

DEPT. OF AGRICULTURE AND COOPERATION
Ministry of Agriculture
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LIST OF ACRONYMS

1	AGM	Annual General Meeting
2	AoA	Articles of Association
3	APMC	Agricultural Produce Market Committee
4	ASA	Action for Social Advancement
5	BF	Business Facilitator
6	BoD	Board of Directors
7	CA	Chartered Accountant
8	CB	Capacity Building
9	CBO	Community Based Organization
10	CEO	Chief Executive Officer
11	CIG	Common Interest Group
12	CS	Company Secretaries
13	DAC	Department of Agriculture and Cooperation
14	DIN	Director Identification Number
15	DPR	Detailed Project Report
16	DSC	Digital Signature Certificate
17	DSCR	Debt Service Coverage Raito
18	EOY	End of Year
19	FAO	Food and Agriculture Organization
20	FCI	Food Corporation of India
21	FFB	Farmers Field Book
22	FG	Farmer Group
23	FIG	Farmer Interest Group
24	FPC	Farmer Producer Company
25	FPO	Farmer Producer Organization
26	GB	General Body
27	GoI	Government of India
28	GoMP	Government of Madhya Pradesh
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31	IFPRI	International Food Policy Research Institute
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33	IPM	Integrated Pest Management
34	IPP	Integrated Plant Protection
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67	S/W Analysis	Strengths and Weaknesses
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77	WHR	Warehouse Receipts
78	WUG	Water Users Groups

NATIONAL POLICY

for the Promotion of
Farmer Producer Organisations

NATIONAL POLICY

FOR THE PROMOTION OF FARMER PRODUCER ORGANISATIONS

PREAMBLE

Collectivization of producers, especially small and marginal farmers, into producer organisations has emerged as one of the most effective pathways to address the many challenges of agriculture but most importantly, improved access to investments, technology and inputs and markets. Department of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India has identified farmer producer organisation registered under the special provisions of the Companies Act, 1956 as the most appropriate institutional form around which to mobilize farmers and build their capacity to collectively leverage their production and marketing strength.

This policy document is meant to serve as a reference and guide to Central and State Government agencies which seek to promote and support Farmer Producer Organisations, especially producer companies and link them to benefits under various programmes and schemes of the Central and State Governments.

1. **VISION:** To build a prosperous and sustainable agriculture sector by promoting and supporting member-owned producer Organisations, that enable farmers to enhance productivity through efficient, cost-effective and sustainable resource use and realize higher returns for their produce, through collective action supported by the government, and fruitful collaboration with academia, research agencies, civil society and the private sector.

2. MISSION

2.1 To promote economically viable, democratic, and self governing Farmer Producer Organisations (FPOs)

2.2 To provide support for the promotion of such FPOs by qualified and experienced Resource Institutions (RIs).

2.3 To provide the required assistance and resources – policy action, inputs, technical knowledge, financial resources, and infrastructure – to strengthen these FPOs.

2.4 To remove hurdles in enabling farmers' access the markets through their FPOs, both as buyers and sellers.

2.5 To create an enabling policy environment for investments in FPOs to leverage their collective production and marketing power.

3. SCOPE AND COVERAGE

3.1 The provisions of this Policy will apply equally to FPOs already registered either under the Companies Act and under various central and state cooperative society laws and those FPOs which will be registered subsequent to the issue of this Policy.

3.2 The main qualifying criterion for an FPO to attract benefits under various schemes and programmes of the Central and State Government is that it must be a body registered and administered by farmers and the organisation must be focused on activities in the agriculture and allied

4. SUPPORT FOR PROMOTION OF FPOs

4.1 The formation and development of FPOs will be actively encouraged and supported by the Central and State Governments and their agencies, using financial resources from various Centrally-sponsored and State-funded schemes in the agriculture sector agencies. This goal will be achieved by creating a coalition of partners by the concerned promoter body, involving civil society institutions, research organisations, consultants, private sector players and any other entity which can contribute to the development of strong and viable producer owned FPOs.

4.2 Detailed guidelines for the promotion of FPOs, including methodology of selecting RIs, budgets and registration processes are annexed to this Policy. These are meant to guide the Central and State Government agencies engaged in FPO promotion and provide a detailed roadmap to achieve the vision of building FPOs, especially if funds under Central schemes are being used to promote FPOs. However, State Governments are free to develop their own independent guidelines to support FPOs if they are using. State budgetary funds for the same.

5. ROLE OF CENTRAL GOVERNMENT INSTITUTIONS IN SUPPORTING FPOs

5.1 Department of Agriculture and Cooperation (DAC), Ministry of Agriculture, Govt. of India will act as the nodal agency for the development and growth of FPOs.

5.2 Small Farmers' Agribusiness Consortium (SFAC), a Society under DAC, will be the designated agency of DAC to act as a single-window for technical support, training needs, research and knowledge management and to create linkages to investments, technology and markets. SFAC will provide all- round support to State Governments, FPOs and other entities engaged in promotion and development of FPOs. In particular, SFAC will create sustainable linkages between FPOs and inputs suppliers, technology providers, extension and research agencies and marketing and processing players, both in the public and private sectors.

5.3 The mandate of National Cooperative Development Corporation (NCDC) will be expanded to include FPOs in the list of eligible institutions which receive support under the various programmes of the Corporation.

5.4 NAFED will take steps to include FPOs in the list of eligible institutions which act on its behalf to undertake price support purchase operations.

5.5 DAC will work with Food Corporation of India (FCI) and State Governments to encourage them to include FPOs as procurement agencies under the Minimum Support Price (MSP) procurement operations for various crops.

5.6 DAC and its designated agencies will work with NABARD and other financial institutions to direct short and medium term credit for working capital and infrastructure investment needs of FPOs. DAC will also work with all relevant stakeholders to achieve 100% financial inclusion for members of FPOs and link them to Kisan Credit Cards.

5.7 DAC will work with Ministry of Corporate Affairs and other stakeholders to further clarify and strengthen provisions of the law relating to the registration, management and regulation of FPOs with a view to fostering fast paced growth of FPOs.

6. ROLE OF STATE GOVERNMENT INSTITUTIONS IN SUPPORTING FPOS

6.1 Besides encouraging State Governments to take up formation of FPOs on a large scale through Centrally-sponsored and State-financed programmes and schemes, DAC suggests the following steps to be taken by State Governments to support and strengthen FPOs:

6.1.1 By declaring FPOs at par with cooperatives registered under the relevant State legislation and self-help groups/federations for all benefits and facilities that are extended to member-owned institutions from time to time.

6.1.2 By making provisions for easy issue of licenses to FPOs to trade in inputs (seed, fertilizer, farm machinery, pesticides etc.) for use of their members as well as routing the supply of agricultural inputs through FPOs at par with cooperatives.

6.1.3 By using FPOs as producers of certified seed, saplings and other planting material and extending production and marketing subsidies on par with cooperatives.

6.1.4 By suitable amendments in the APMC Act to allow direct sale of farm produce by FPOs at the farmgate, through FPO owned procurement and marketing centres and for facilitating contract farming arrangements between FPOs and bulk buyers.

6.1.5 By appointing FPOs as procurement agents for MSP operations for various crops.

6.1.6 By using FPOs as implementing agencies for various agricultural development programmes, especially RKVY, NFSM, ATMA etc. and extending the benefits of Central and State funded programmes in agriculture to members of FPOs on a preferential basis.

6.1.7 By linking FPOs to financial institutions like cooperative banks, State Financial Corporations etc. for working capital, storage and processing infrastructure and other investments.

6.1.8 By promulgating state level policies to support and strengthen FPOs to make them vibrant, sustainable and self-governing bodies.

7. MISCELLANEOUS

7.1 DAC will issue updates to this Policy Statement and Guidelines from time to time as required.

7.2 Copies of this document will be placed on the DAC, SFAC, NCDC, NAFED and State Government websites and also translated into all official languages for wide publicity and information.

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PROCESS GUIDELINES

for Promotion of Farmer Producer Organisations

PROCESS GUIDELINES

FOR THE PROMOTION OF FARMER PRODUCER ORGANISATIONS

1. BACKGROUND

Department of Agriculture and Cooperation (DAC), Ministry of Agriculture, Government of India launched a pilot programme for promoting member-based Farmer Producer Organisations (FPOs) during 2011-12, in partnership with state governments, which was implemented through the Small Farmers' Agribusiness Consortium (SFAC). The pilot involved the mobilisation of approximately 2.50 lakh farmers into 250 FPOs (each with an average membership of 1000 farmers) across the country, under two sub-schemes of the Rashtriya Krishi VikasYojana (RKVY), namely National Vegetable Initiative for Urban Clusters and Programme for Pulses Development for 60,000 Rainfed Villages. The purpose of the project is to collectivise farmers, especially small producers, at various levels across several states, so as to foster technology penetration, improve productivity, enable improved access to inputs and services and increase farmer incomes, thereby strengthening their sustainable agriculture based livelihoods.

SFAC is supporting these FPOs through empanelled Resource Institutions (RIs), which provide various inputs of training and capacity-building, and linking these bodies to input suppliers, technology providers and market players. The investment in the capacity of FPOs will be spread over two years. SFAC is also monitoring the project on behalf of DAC and the states and reporting on its progress.

The pilot has already shown encouraging results and more than 3.00 lakh farmers are presently mobilised into village-level Farmer Interest Groups (FIGs), which are being federated into registered FPOs. Besides empowering farmers through collective action, these grassroots bodies are emerging as nodal points for the transmission of cultivation technology, inputs and credit and pooling their production to leverage the market for better prices.

To mainstream the process of institutional development of Farmer Producer Organisations, DAC is issuing these guidelines to encourage states to directly support FPO promotion as a regular activity under RKVY during the XII Plan. These guidelines are meant to help the states follow a standard methodology for FPO promotion, as well as to provide indicative costs and a monitoring framework. States may directly engage RIs (such as NGOs, private companies, research bodies, cooperatives, farmers' groups) to mobilise farmers (in which case they are advised to follow open bidding norms suggested in these guidelines). Alternatively, they can invite SFAC to empanel suitable RIs on their behalf. A third option would be to award the work directly to SFAC, to undertake FPO promotion on behalf of the State, by providing the necessary budget to SFAC from the RKVY head. States are free to choose their preferred option.

The following paragraphs delineate the project guidelines, stages of project development, key verifiable indicators and outcome.

2. PROJECT CONSIDERATIONS – OBJECTIVES

The primary objective of mobilising farmers into member-owned producer organisations, or FPOs, is to enhance production, productivity and profitability of agriculturists, especially small farmers in the country. The participant farmers will be given the necessary support to identify appropriate crops relevant to their context, provided access to modern technology through community-based processes including Farmer Field Schools; their capacities will be strengthened and they will be facilitated to access forward linkages with regard to technology for enhanced productivity, value addition of feasible products and market tie-ups. Farmers will be organised into small neighbourhood informal groups which would be supported under the programme to form associations/organisations relevant to their context including confederating them into FPOs for improved input and output market access as well as negotiating power.

PROJECT OBJECTIVES ARE:

Mobilising farmers into groups of between 15-20 members at the village level (called Farmer Interest Groups or FIGs) and building up their associations to an appropriate federating point i.e. Farmer Producer Organisations (FPOs) so as to plan and implement product-specific cluster/commercial crop cycles.

1.1. Strengthening farmer capacity through agricultural best practices for enhanced productivity.
1.2. Ensuring access to and usage of quality inputs and services for intensive agriculture production and enhancing cluster competitiveness.
1.3. Facilitating access to fair and remunerative markets including linking of producer groups to marketing opportunities through market aggregators.

A results framework for proposed activities, outputs and outcomes is provided in Annexure 1.

An overview of the suggested institutional arrangement to achieve these results is placed in Annexure 2.

3. GUIDING VALUES AND PRINCIPLES FOR SUSTAINING FARMER PRODUCER ORGANISATION DEVELOPMENT

VALUES: FPOs are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. FPO members must believe in the ethical values of honesty, openness, social responsibility and caring for others.

PRINCIPLES: FPO principles are the guidelines by which FPOs will put their values into practice.

1st Principle: Voluntary and Open Membership
FPOs are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Farmer Member Control
FPOs are democratic organisations controlled by their farmer-members who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the collective body of members. In primary FPOs farmer-members have equal voting rights (one member, one vote) and FPOs at other levels are also organised in a democratic manner.

3rd Principle: Farmer-Member Economic Participation
Farmer-members contribute equitably to, and democratically control, the capital of their FPO. At least part of that capital is usually the common property of the FPO. Farmer-members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Farmer-members allocate surpluses for any or all of the following purposes: developing their FPO, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the FPO; and supporting other activities approved by the members.

4th Principle: Autonomy and Independence
FPOs are autonomous, self-help organisations controlled by their farmer-members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their farmer- members and maintain their FPO's autonomy.

5th Principle: Education, Training and Information
FPOs operatives provide education and training for their farmer-members, elected representatives, managers, and employees so that they can contribute effectively to the development of their FPOs. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of FPOs.

6th Principle: Co-operation among FPOs
FPOs serve their members most effectively and strengthen the FPO movement by working together through local, national, regional and international structures.

7th Principle: Concern for the Community
FPOs work for the sustainable development of their communities through policies approved by their members.

4. SELECTION OF RESOURCE INSTITUTIONS (RIs)

In case a State Government wishes to appoint SFAC as its nodal agency for identification of RIs and/or the promotion of FPOs, then it is not necessary for it to follow the detailed empanelment of RI process provided in Annexure – 3. They may directly approach SFAC to submit a project proposal to take up FPO promotion and make available the necessary budget after SFAC submits a proposal and the same is approved by the SLSC.

However, if the State is undertaking direct appointment of RIs and promotion of FPOs, then the process in Annexure – 3 must be followed.

5. FPO PROMOTION AND DEVELOPMENT PROCESS

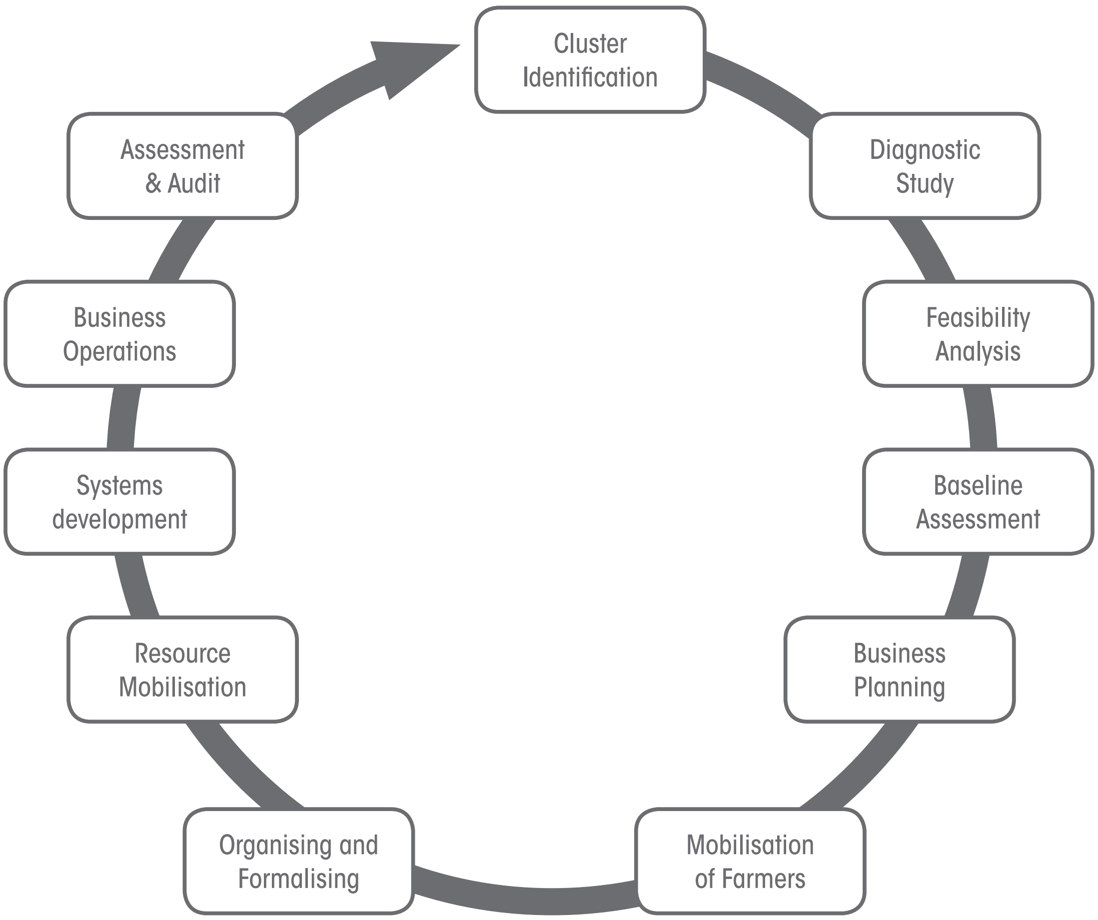

FIGURE 1: FPO PROMOTION AND DEVELOPMENT PROCESS

CLUSTER IDENTIFICATION – Cluster areas are to be selected by the RI in consultation with the respective State Government departments. However, it should be ensured that a cluster of 8,000-10,000 farmers should be formulated, within one or two blocks, identifying 80 to 120 contiguous villages of a particular district.

DIAGNOSTIC STUDY – A Diagnostic Study is to be conducted by the RI in the selected cluster area. The Diagnostic Study is conducted to assess the preliminary situation of the farmers and level of agriculture in the area. The study will also help in identifying the potential interventions required and understand the specific project implementation context. A detailed list of factors to be covered in the study is mentioned in Annexure – 4.

FEASIBILITY ANALYSIS – Feasibility Analysis for the formation of FPCs should be carried out by RIs and then appraised by hired external experts in various technical areas. A normal feasibility study should cover aspects such as financial, technical, legal, political, socio-cultural, environmental, economic and resource feasibility. The Feasibility Analysis will establish a case for promotion of FPCs in the prevailing specific regional environmental context of the FPOs.

BASELINE ASSESSMENT – Baseline Assessment, to be carried out by RI, will help in generating data related to the current prevailing situation of farming and small, marginal and tenant farmers. Baseline assessment will cover a variety of factors to identify the potential interventions, to plan development and business plans and to establish the base figures based on future outcome indicators that can be measured to understand the change contribution. The assessment shall be conducted using stratified random sampling through structured household-level interviews and open-ended focus group discussions with a variety of stakeholders. Refer to Annexure – 5 for a detailed checklist of factors to be studied in baseline surveys.

BUSINESS PLANNING – Business Planning will be carried out by RIs with the help of selected farmers' representatives. Business planning is a process through which the strategic and operational orientation of an emerging FPO is shaped. While baseline assessment figures will be important inputs to understand the level from which products and services for farmers' members should be developed, more important will be the collective visualisation of the future of the FPO. Using a variety of tools and systematic collective reflections, a business plan with proper projections on various aspects needs to be developed. The key is to develop business plans in detail with at least 10% of FPO farmer members to provide clear vision. A detailed list of content is provided in Annexure – 6.

MOBILISATION OF FARMERS – Once a strong case has been established by SHT with the help of a select group of farmers through the business planning process, it is time to mobilise farmers into FIGs and eventually as farmer-members of FPOs. Mobilisation of farmers should be done with a variety of communication aids like – pamphlets, documentary movies, posters, regular village-level meetings, proper vision development of promoter farmer-members. Promoter farmer-members are those who are eager to form a FPO on voluntary basis, having understood the importance and potential benefits of forming FPOs, obtained through training programmes and exposure provided by SHT of RIs.

ORGANISING AND FORMALISING – FIGs in an aggregated cluster together form FPOs. Typically, around 50-70 FIGs can come together to form a FPO. FPOs can be registered under the Producer Company provision under the Companies Act A separate manual on registration of FPOs is enclosed with these guidelines. See also Annexure – 7. However, it must be clarified that the purpose of mobilising farmers is not merely to achieve the target of registering a formal entity. The final form which the FPO assumes (i.e. cooperative, producer company, multi- state cooperative etc.) must be a decision taken by FIG members at an appropriate time. It is important to stress that the process must not be hurried in any manner and there is no "right time" by which the FPO must be registered. Any period between 18 months to 24 months may be necessary for the FIGs to settle down and understand the implications of aggregation. Only then should the FPO registration be attempted.

RESOURCE MOBILISATION – Before initiating the operations of a FPO all required resources should be mobilised by the RI with the help of FPO representatives and board of directors. Financial, human (staff), technical and physical resources should be developed during this particular step. Based on the business plan the RI should liaise with various financing agencies and mobilise resources for hiring/purchasing and developing various resources.

MANAGEMENT SYSTEMS DEVELOPMENT – RIs should facilitate the development of management systems in the FPO. Guidelines for management systems should be able to address all requirements related to financial services, input and output management services. Systems related to management of finance, human resources, stock and inventory, procurement and quality management, marketing, internal audit, internal conflict resolution and other important functional areas should be developed. Standard operating procedures for the same should be established.

BUSINESS OPERATIONS – Business operations is the commencement of procurement, production, processing, marketing and financial service activities of a FPO. RIs should carefully train both the governing and operational structures of the FPO in order to ensure smooth functioning of business operations. The entire value-chain related to various agriculture and allied products and commodities needs to be managed.

ASSESSMENT AND AUDIT – RIs should facilitate constant assessment of performance of various stakeholders like farmer members, governing board of directors and

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service providers. They should also help FPOs to reflect using Institutional Maturity Index to understand areas of improvement. Internal process and accounting audits will help maintain both transparency and accountability (Annexure-9). These are key institutional systems for FPO evolution.

6. FPO SERVICE MODEL

The FPO will offer a variety of services to its members as illustrated in the table. It can be noted that it is providing almost end-to-end services to its members, covering almost all aspects of cultivation (from inputs, technical services to processing and marketing). The FPO will facilitate linkages between farmers, processors, traders, and retailers to coordinate supply and demand and to access key business development services such as market information, input supplies, and transport services. Based on the emerging needs, the FPO will keep on adding new services from time to time.

The set of services include Financial, Business and Welfare services. An indicative list of services includes:

Financial Services: The FPO will provide loans for crops, purchase of tractors, pump sets, construction of wells, laying of pipelines.

Input Supply Services: The FPO will provide low cost and quality inputs to member farmers. It will supply fertilizers, pesticides, seeds, sprayers, pumpsets, accessories, pipelines.

Procurement and Packaging Services: The FPO will procure agriculture produce from its member farmers; will do the storage, value addition and packaging.

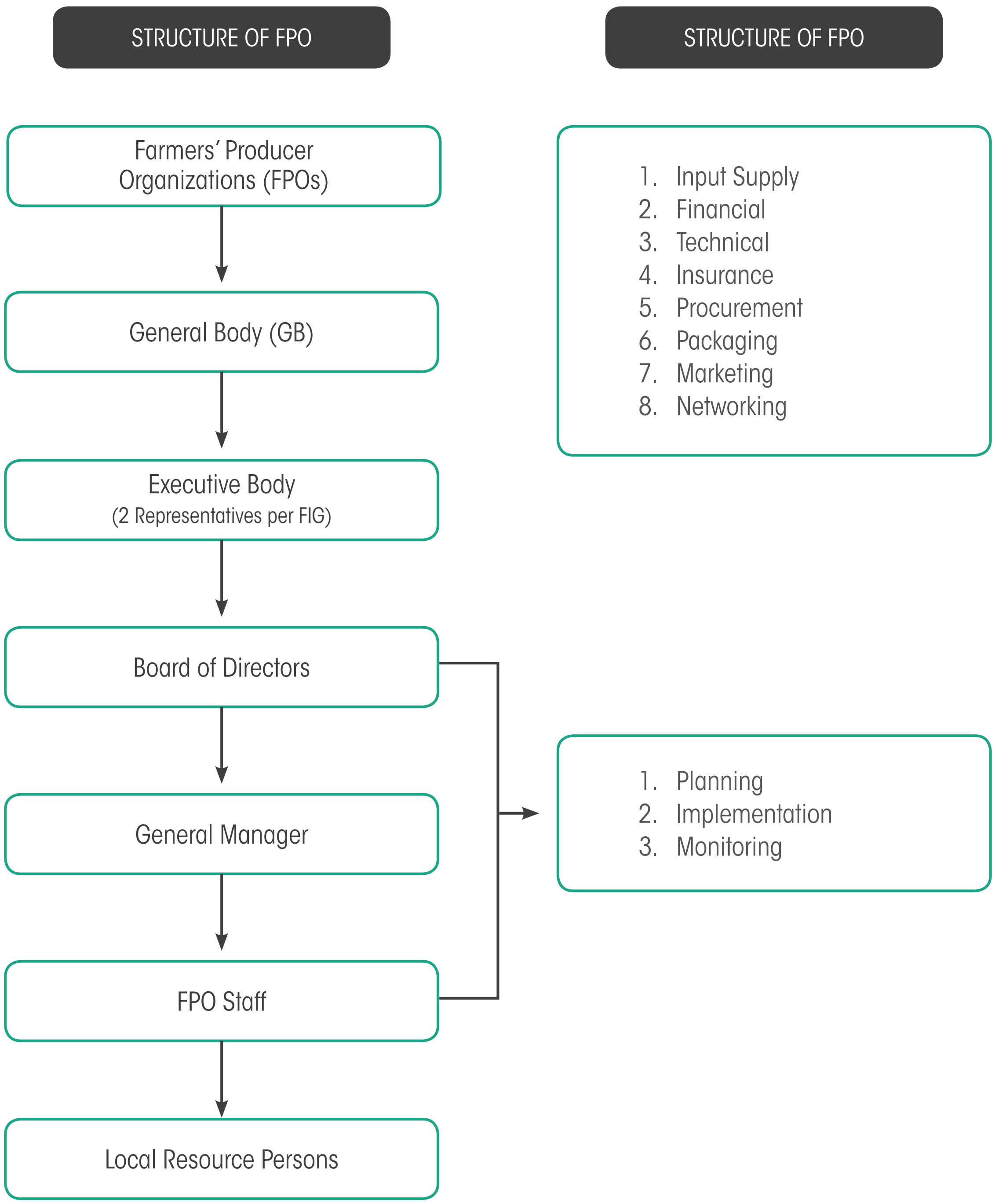
Marketing Services: The FPO will do the direct marketing after procurement of agricultural produce. This will enable members to save in terms of time, transaction costs, weighment losses, distress sales, price fluctuations, transportation, quality maintenance etc.

Insurance Services: The FPO will provide various insurance like Crop Insurance, Electric Motors Insurance and Life Insurance.

Technical Services: FPO will promote best practices of farming, maintain marketing information system, diversifying and raising levels of knowledge and skills in agricultural production and post-harvest processing that adds value to products.

Networking Services: Making channels of information (e.g. about product specifications, market prices) and other business services accessible to rural producers; facilitating linkages with financial institutions, building linkages of producers, processors, traders and consumers, facilitating linkages with government programmes.

FIGURE 2: FPO SERVICE MODEL



7. STAGES OF PROJECT DEVELOPMENT, TIMELINE, DELIVERABLE AND MEASURES OF VERIFICATION

TIMELINE	ACTIVITIES	DELIVERABLES	MEANS OF VERIFICATION	PAYMENT STRUCTURE % OF TOTAL FEES
3 month	**Stage One: Pre-project Implementation (Three months)** (i) Baseline on volume, value & market access, centrality analysis, (ii) Identification of Product specific clusters (iii) Feasibility Analysis -break-even estimates (iv) Project Implementation Plan procurement, inputs, storage and marketing,	**Detailed Project Report** **(Checklist Provided)** (i) List of Product specific clusters identified (ii) Database of farmers prepared, computerized and analysed (iii) Various interface table prepared	(i) Submitted DPR (ii) Meeting minutes and photographs of meetings (iii) Inception report	10%
6 month	**Stage Two: Enhancing Capacity &** **Implementation of Surplus Farm** **Production Plan (Mobilization Phase)** (i) Village meetings- identify potential farmers, identify opinion leaders (ii) Identification of potential farmers for FIG & FPOs, LRP/ BF/LF Identification (iii) Hand holding support for Productivity Increase, IPM/ INM/ IPP (iv) Identifying Value-proposition for setting FPO (logic of collectivization) (v) Exposure Visit of Farmers/ opinion leaders	(i) Farmers Organized into FIGs, LRP identified and training completed on improved agriculture practices (ii) FIG formed (min 50%) of target (iii) Trained LRP/BF ready for deployment in field (iv) Farmers Participated in Improved Agriculture/ vegetable/pulse based farming system (v) Farmers realized benefits in terms of increased yield and less expenditures	(i) List of FIGs/FIG registers (ii) List of LRP/ BF/LF trained and ready for deployment (iii) Training curriculum, training report & participant list (iv) List of farmers adopting package of practices (v) No. of farmers supported, areas of demonstration (vi) Six monthly report	10%

TIMELINE	ACTIVITIES	DELIVERABLES	MEANS OF VERIFICATION	PAYMENT STRUCTURE % OF TOTAL FEES
12 month	**Stage Three: Pre-formation Stage of FPO/Collective and preparation of FPOs business plan through FIG level exercise** (i) Demonstration conducted on improved agriculture practices (ii) Start up shareholders campaign (iii) Identification of training needs & imparting training to promoters farmers of FPO (iv) FIGs meeting & orientation started for FPO scoping, vision building exercise & exposure visit of promoters farmers (v) Generate crop-wise household information with surplus, deficit and gap exists (vi) FPO forming process initiated	(i) Min 5 village level agri business potential, gap analysis exercises done. (ii) Information documented and business plan drafted and shared with FIGs members (iii) 2 modulated trainings imparted to lead/promoters farmers on Business plan (iv) Share money from min 250 farmers collected (v) FIGs shown some trends/ indicators for collective action (vi) Business Case of FPO/Collective prepared (checklist provided) (vii) Farmers detailed information list prepared (viii) Share money from 500 farmers collected	(i) FIG meeting registers and shareholders list prepared (ii) Business Plan available at FPO level and known to min 10% promoters (iii) Farmers information list prepared (iv) FPC Accounts Statement (v) Yearly Report	20%
18 Month	**Stage Four: FPO formation Stage** (i) Identification of FPO promoters by FIGs (ii) Initiation of statutory process required for formation of FPO like attainment of PAN, DIN of Directors etc (iii) Stabilize New Surplus Production System & Farmers in 2nd Crop Cycle (iv) Finalizing list of FIG members willing to join FPOs and start share money collection (v) Membership drive continues and framing of Bye-laws/MoA / AoA, incorporation of FPO (vi) Training of FIG members & promoters on FPOs	(i) Demonstration of Farmer Patronage to Project Concept (70% repeat farmers) (ii) Collectivization arrangements (FPO) Instituted (iii) Share money from 750 farmers collected (iv) Institutional Arrangements for Market Access Placed (v) Training conducted for farmers	(i) Demo Farmers List (ii) Minutes of FG and associative tier meetings, photographs (iii) List of shareholders	10%

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TIMELINE	ACTIVITIES	DELIVERABLES	MEANS OF VERIFICATION	PAYMENT STRUCTURE % OF TOTAL FEES
24 Month	**Stage Five: (FPO establishment stage)** (i) Physical establishment of FPO (ii) CB & inputs need assessment (iii) Strengthening FPO – providing services for system development (Operating System, MIS, HR), (iv) Business Planning Exercise (v) Market Linkages for Produce (vi) Interface with buyers/ marketers (vii) Increasing FPO's equity though matching grants from SFAC	(i) FPOs established, office/ outlets opened (ii) FPO/Collective/ Aggregation Structure Placed (iii) FIG members deposited their share money (iv) Certificate of FPO incorporation awarded (v) 1st General Body Meeting conducted within 90 days of incorporation (vi) FPOs have formally applied to SFAC for equity matching grants (vii) FPOs successfully passed in due diligence report prepared by Chartered Accountants and submitted to SFAC	(i) Minutes of meeting FIG subscription to FPO/collective (ii) Registration & Compliances (iii) Business Plan with key business processes (iv) List of buyers consulted, meeting report & outcome (MoU on price, volume and grading) (v) Minutes of BoDs register (vi) Due diligence report submitted to SFAC and matching grant released to FPOs	20%
30 Month	**Stage Six:** (i) Implementation of business plan of FPO	**Business Plan** (i) Min 25% business activities executed as per plan (ii) Statutory Clearance obtained to carry out business activities (iii) Operating System grounded (iv) Minimum 10% target farmers accessed improved agriculture services including better access to market	(i) Business Plan – including financing plan (ii) Regulatory approvals for FPO activities (iii) Certificates from concerned deapartments obtained (iv) Farmers Field Book (FFB) (v) Increased business turnover of FPOs and reflected in MIS and Balance sheet (vi) Pre project ends report	10%
36 Months	**Stage Seven: Phase-out** **Systems for post-project sustainability**	(i) Agreement executed between RI & LPO for long-term support (ii) BoDs passed resolution for long term agreement (iii) FPCs & shareholders have started getting income from the business activities and showing growth track (iv) FPOs are regular in BoD meetings, AGM, internal Audits and Statutory Audits with minimum deviation	(i) Copy of Agreement (ii) Minutes of BoD Register (iii) FPCs balance sheet (iv) BoD, AGM registers and Satisfactory Reports of Auditors (v) Project ends report	20%

8. PROJECT OUTCOMES

ECONOMIC IMPACT	SOCIAL IMPACT
◊ Per hectare production improved by 10% by end of project period ◊ Increase in net return to farmer (Inflation +10%) ◊ Increase in sub-sector development for agriculture ◊ Gap in availability of inputs reduced by 20-25% ◊ Increased food and nutritional security ◊ Market linkage for the backward and forward integration will be ensured with competitive market ◊ Additional employment generated due to increased intensity of farming ◊ Benchmark minimum wage rate for labour ◊ Reduction in migration	◊ Social capital built in the form of FPOs ◊ Improved gender relations and decision making of women farmers enhanced in FIG & FPOs – by giving them board member positions ◊ Institutional viability ◊ Increased bargaining power for input purchase and output marketing ◊ Reduced social conflicts and risks and enhanced welfare at the household level ◊ Improved food and nutritional values ◊ Leadership role of producers in technology absorption ◊ Positive health and nutrition impact on consumers ◊ Environment- carbon credit

PART TWO

9. BUDGET AND PAYMENT STRUCTURE

A detailed cost sheet of FPO promotion is attached in the table below:

COST SHEET FOR ORGANISING SMALL FARMERS, AGRICULTURE TECHNOLOGY PROMOTION & DEVELOPMENT OF FPO (COST FOR THREE YEARS):		
Assumptions		
1	No. of farmers	1000
2	No. of Villages	15-20
3	No. of FIGs	50
4	No. of members per FIG	20
5	Years of intervention	3
8	No. of FPO	1
9	Objectives	(a) Organise small farmers into FIG & FPO; (b) Agri Technology promotion; (c) Market linkage.
10	Key Strategies	(a) maximum use of Local Resource Persons, (b) preferably selecting areas where land and water related investment (viz. watershed) is done in the past / ongoing for value addition (c) leveraging from other resources.

S.No.	ITEMS	UNIT DETAIL	UNIT COST	PHYSICAL TARGET			FINANCIAL TARGET			TOTAL COST	REMARKS
				Y1	Y2	Y3	Y1	Y2	Y3		
1	Organisational Development & Strengthening	No. of FIG		50	50	50					
1.2	Mobilization of farmers to form FIG and FPO	LS	1	1	1	1	1	1.0	0.0	2.0	Includes events like Rallies, Cluster level Consultation workshops, Seminars / Sangosthi and Sammelan, AV shows, etc.
1.3	Organising ToTs & Exposure visits for Lead Farmer	No. of ToT/ Exposure	0.15	3	3	2	0.45	0.45	0.3	1.2	LF (2 from each FIG) will be given ToT & one expo. visit.
1.4	Development & Distribution of Training Tool Kits for LF	No. of Kits	0.005	100	100		0.5	0.50		1.0	They will use this kit during training of their member farmers at on farm or off farm classroom sessions.
1.5	Management & Technical Training to Governing Body of FPO	No. of training	0.15	2	2	2	0.3	0	0	0.9	Training on OD issues, Training on conflicts management, basic training on book keeping & Accounts, Training on business management.
1.6	Exposure visit of Governing Body of FPO	No. of Exposure	0.36	1	1	1	3.6	3.6	3.6	10.8	The CEO is the person first recruited & deployed by the RI. S/he and 5 LRPs will start the process and all of them will be eventually recruited by the FPO as their staff at the end of yr-1. The RI will then transfer the budget of FPO staff cost, travel, office expenses to the FPO from 2nd year onwards.
1.6	Remuneration of Local Resource Persons (LRP)	cost/ person month	0.03	5	5	5	1.8	1.8	1.8	5.4	1 LRP per 200 farmers.
1.7	Travel & subsistence of LRPs	cost/ person month	0.01	5	5	5	0.6	0.6	0.6	1.8	
	Sub Total of 1						5.0	5.0	3.0	13.0	
2	Agriculture Technology Introduction & Validation										
2.1	Organising Agriculture Demonstrations	Cost/Demo	0.01	60	60	60	0.6	0.6	0.6	1.8	Demo on Good Agri. Practices. 4 demo/ vill/year.
	Sub Total of 2						0.6	0.6	0.6	1.8	
3	FPO Management Cost										
3.1	CEO of the FPO	Cost/month	0.3	1	1	1	3.6	3.6	3.6	10.8	The CEO is the person first recruited & deployed by the RI. S/he and 5 LRPs will start the process and all of them will be eventually recruited by the FPO as their staff at the end of yr-1. The RI will then transfer the budget of FPO staff cost, travel, office expenses to the FPO from 2nd year onwards.

S.No.	ITEMS	UNIT DETAIL	UNIT COST	PHYSICAL TARGET			FINANCIAL TARGET			TOTAL COST	REMARKS
3.2	Travel & subsistence of CEOs	Cost/month	0.04	1	1	1	0.48	0.48	0.48	1.4	
3.3	FPO office rent, electricity, communication, etc.	Cost/month	0.1	1	1	1	0.4	1.2	1.2	2.8	For year-1 it is for 4 months considering that existence of FPO as entity will not happen before completion of eight months.
3.4	FPO Registration cost	Cost/FPO	0.4	1			0.4	0	0	0.4	
3.5	Minor equipments for FPO office	Cost/FPO	1	1			1				One Desk Top PC, Printer and minor office furnitures.
3.6	FPO Equity support	Per FPO	5	1	1	1	3	2	0	5.0	Equity support is given as match in with the equity raised by the FPO, considered ₹ 5 lakh @₹ 500 per member for 1000 members.
	Sub-total of 3						8.88	7.28	5.28	20.4	
	Total of 1 to 3 (per FPO cost)						14.5	12.9	8.9	35.3	
4	Programme Management Cost at RI level for Block of 05 FPOs										
4.1	Project Coordinator	Cost/month	0.4	1	1	1	4.8	4.8	4.8	14.4	Full time. s/he should be with experience in institution building. (commercial) & agriculture/ marketing.
4.2	Travel of PC	Cost/month	0.1	1	1	1	1.2	1.2	1.2	3.6	
4.3	Training of Project Team	No. of training	0.9	1	1		0.9	0.45	0	1.35	6 days induction training is proposed to the FPO promotion team i.e. one CEO + 5 LRPs. In 2nd year there will be 3 days refresher course.
4.4	RI overheads	Cost/month	0.2	1	1	1	2.4	2.4	2.4	7.2	
	Sub-total						9.3	8.85	8.4	26.6	
5	Programme Management Cost at RI level for Block of 10 FPOs										
5.1	Project Coordinator	Cost/month	0.4	1	1	1	4.8	4.8	4.8	14.4	Full time. s/he should be with experience in institution bldg. (commercial) & agriculture/ agribusiness.
5.2	SMS	Cost/month	0.35	1	1	1	4.2	4.2	4.2	12.6	SMS - Agri business/ agriculture/ financial linkage
5.3	Accountant cum Admin. Asst.	Cost/month	0.15	1	1	1	1.8	1.8	1.8	5.4	
5.4	Travel of project staff	Cost/month	0.15	1	1	1	1.8	1.8	1.8	5.4	
5.5	Training of Project Team	No. of training	0.9	2	2		1.8	0.9	0	2.7	6 days induction training is proposed to the FPO promotion team i.e. one CEO + 5 LRPs. In 2n d. Year there will be 3 days refresher course.
5.6	RI overheads	Cost/Month	0.4	1	1	1	4.8	4.8	4.8	14.4	
	Sub-total						19.2	18.3	17.4	54.9	

COST ANALYSIS	
Total Cost of forming one FPO for three years	3526000
Cost / farmer / year	3526
Total Cost of forming 5 FPO for three years	17630000
RI Cost for three years	2655000
Cost / farmer / year	4057
Total Cost of forming 5 FPO for three years	35260000
RI Cost for three years	5490000
Cost / farmer / year	4075

SUPPORT TO FPOS

It is important to clarify here that FPOs mobilized and registered under the provisions of these Guidelines are purely member-owned farmer bodies, which are entitled to receive certain services and financial support as detailed above for a fixed period. They are not in any way to be equated with government-owned or government-promoted institutions. Grants provided in the budget above to invest in the equity of FPOs are one-time support measures designed to ensure the viability of FPOs, and cannot be used to acquire shares for any individual or institution connected with the Central or State Governments.

It is also clarified that no physical infrastructure or human resources created during the period of mobilization in Resource Institutions (RIs) and FPOs will be supported over and above the provisions of the budget and beyond the period specified. In other words, RKVY funds cannot be used to meet any recurring liability of any kind related to RIs and FPOs beyond the provisions of these Guidelines.

ANNEXURE 1

DETAILS OF PROJECT OBJECTIVE WISE ACTIVITIES, OUTPUTS AND OUTCOMES

ACTIVITIES	OUTPUTS	OUTCOMES
◇ Organise farmers into informal groups (FIG). ◇ Train members and leaders in matters relating to group functioning, group norms and systems. ◇ Form associations/FPOs of FIGs ◇ Train members and leaders of FPOs to nurture FIGs and mediate vis-à-vis external resource institutions such as government, financial institutions and markets.	◇ 3000-4000 farmers from 8-10 villages in close geographic cluster organised into FIGs, prepared for intensive agriculture livelihoods interventions. ◇ FIGs organised into FPOs/Informal associations supporting productivity, efficient access to input and output markets, linkages with agriculture programmes. ◇ 75% meet or exceed quality benchmarks on group functioning.	◇ Farmers in 80% FIGs confident and keen to positively change their current condition and have developed plans to synergise planning and market access on the cluster-identified products.
◇ Conduct exposure for selected men and women from project villages to villages/farms practicing modern farming methods, such as different crop mixes, modern techniques and intensive farming. ◇ Discuss alternate farming systems with groups of farmers suitable to their specific situations and generate household farming plans/"portfolios". ◇ Identify training and extension needs and potential LRPs to function as community-based extension agents. ◇ Train LRPs to provide extension support to farmers adopting new farming systems.	◇ 60% of all families interested to take up improved crops have access to quality inputs. ◇ 40 % of participant land brought into intensive farming. ◇ 80% families cultivate a diversified basket of locally suitable crops. ◇ LRP training modules being implemented in large number. ◇ Trained LRPs supporting implementation of the household and cluster-level farm plans.	◇ High adoption rates of new practices promoted under this project. ◇ 75% project families report over 50% increase in yields in preexisting crops. ◇ 75% project families have diversified their cropping pattern to cluster-identified crop. ◇ The expertise and services of a cadre of trained LRPs being utilised by the community effectively.
◇ Helping families access working capital from SHG/MFI, banking sector and other sources. ◇ Link/develop supply channels for inputs and services. ◇ On-field hand-holding support by LRPs to ensure appropriate usage of quality inputs. ◇ Demonstration of usage and effectiveness of relevant farm mechanisation practices.	◇ 70 % of participating families using quality inputs. ◇ FPOs/Producer Aggregations promoted. ◇ Participating families covered by these collectives. ◇ Gross Crop Output per hectare increase by 100% in rupee value terms.	◇ Participating families have assured supply of quality inputs and services. ◇ Network of input and services delivery mechanisms developed in the local area. ◇ Participating families feel confident to intensify their agriculture.
◇ Developing production clusters for producing significant volume of marketable surplus. ◇ Identifying and building aggregation/ disaggregation centres in production clusters wherever required. ◇ Linking these clusters with market players (e.g. traders, commission agents, retailers, etc.). ◇ Producer collectives taking output marketing. ◇ Formation of FPOs.	◇ Intensive, market oriented production clusters developed. ◇ Surplus produce marketed at remunerative prices. ◇ Participating families engaged in coordinated market-oriented production. ◇ Producers' collectives aggregate and market produce from members. ◇ Market aggregators/retail chains buy produce from producer collectives.	◇ Sustainable and competitive linkages for marketing created for their produce. ◇ Participating families in production clusters have multiple options to sell farm produce. ◇ The prevailing rates in the cluster are fair vis-à-vis large markets in the region.

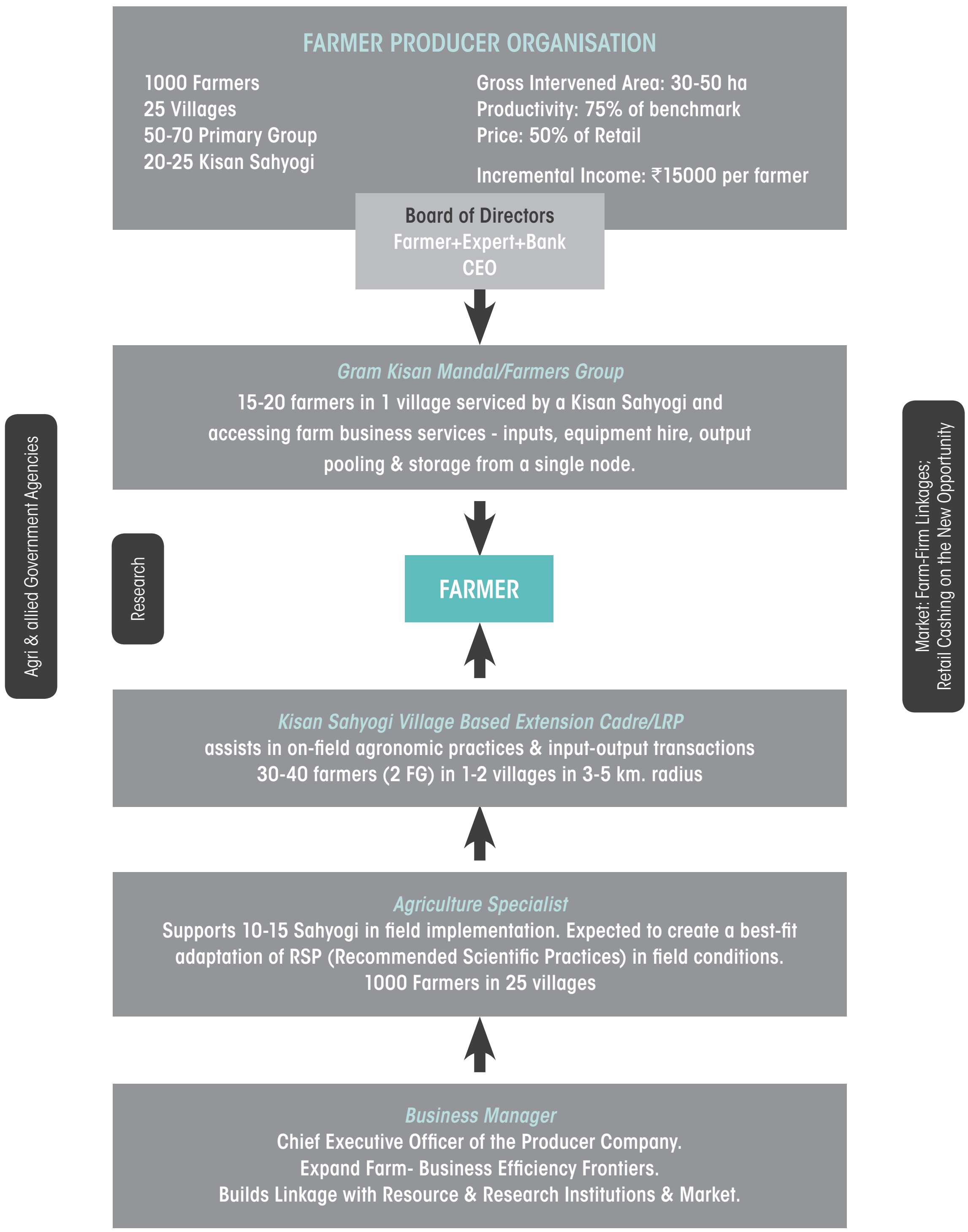
ANNEXURE 2

ENERGIZING FARM PRODUCTION SYSTEMS:

INSTITUTIONAL ARRANGEMENT FOR TRANSITION TO COORDINATED SURPLUS FARMER

Energising Farm Production Systems: Institutional Arrangement for Transition to Coordinated Surplus Farmer

(a socio-behavioural & techno-managerial model of Farmer Institution Building)



ANNEXURE 3

EMPANELMENT PROCESS

EMPANELMENT PROCESS OF RIs:

1. Finalising Criteria for Empanelment and preparation of the RFP document.
2. Publishing a Request for Proposal (RFP).
3. Shortlisting of agencies.
4. Presentation by shortlisted agencies.
5. Finalisation of agencies based on a pre-determined and pre-disclosed set of indicators as laid down in the RFP document.

DETAILS RELATED TO RI SELECTION

Empanelment of RIs must take into consideration the following:

a. Their past experience in promoting producers' institutions: Any resource institution which has promoted or in the process of promoting (even under the SFAC pilot on FPOs) with a minimum of 1000-1500 members should be eligible to apply.
b. Indicative List of Documents required to be submitted by the RI while responding to RFP.

DOCUMENTS RELATED TO RI
1. Documents evidencing legal existence of the entity
2. Full details of shareholders/members/trustees along with documentary evidence
3. Full details of the governing council members/board of directors/management team looking after day-today affairs of your entity(s) along with documentary evidence
4. Details of registration with tax/other authorities for the purpose of exemptions, if any
5. Address of the registered office/corporate/branch offices along with documentary evidence like copy of the registration certificate of the company, lease deeds, property papers etc.
6. Audited Financial Statements for the last 3 years
7. Details of legal compliances and an undertaking by the Chief Authority confirming compliance
8. Minutes of the last 3 years Annual Board Meetings
9. Details of all financial assistance availed
10. A consortium agreement, if applicable. (If not applicable, write N/A on the letter head duly certified)
DOCUMENTS RELATED TO FPO PROMOTED BY RI
11. Business Plan and Activity Plan of at least one FPO duly authorised by BoD
12. Details of Board of Directors and management team of the FPO
13. Details of Incorporation and Bye-laws
14. Documents related to business transaction (if the FPO is more than 2 years old)

BROAD CRITERIA FOR SELECTION OF RI

- ◊ Experience in working with Small and Marginal Farmers.
- ◊ Experience in promoting Producers' Organisations.
- ◊ Experience in the particular geographic area.
- ◊ Experience in working with Government.

PART TWO

ANNEXURE 4

OUTLINE FOR DIAGNOSTIC STUDY

1. **Study Abstract:** Objective and deliverables, methodology
2. **District Profile:** Geographic profile, socio-political background, major agricultural crops, agricultural productivity, farmers and land details, secondary data on production, major market yards, processing facilities
3. **Cluster Profile:** Rationale for cluster selection, agro-climatic conditions, cropping pattern, geographic profile, status of natural resources, villages' profile abstract
4. **Value-Chain Details:** Stakeholders involved, economics at different levels of stakeholders, service providers' profile, terms at which services are obtained
5. **Gaps Identified:** Inputs side, financial services, marketing services, insurance services, access to government programmes, watershed programmes
6. **Probable Farmer Services:**
7. **Conclusion:**
8. **Annexure:** Questionnaires, checklist, details about government programs

ANNEXURE 5

DETAILED CHECKLIST OF FACTORS FOR BASELINE STUDY

1. **General Information –** Demographics, household size, members and details of occupation
2. **Economics of Agriculture –** Costing, input and output ratios, yields and current productivity
3. **Production –** Quality and quantity of inputs, technological levels, input suppliers and vendors, seasonality of production, availability and tied sales
4. **Financial Aspects –** Sources, terms and conditions, interest and existing outstandings, access to government programmes
5. **Risk Aspects –** Historical risks, computation of losses due to risk, coping mechanisms
6. **Marketing Aspects –** Channels of marketing, margins and costs at various levels, quality aspects, price sensitivity, seasonality of markets, alternate market structure
7. **Best Practices**
8. **Constraints and Challenges**
9. **Prospects and Opportunities**

ANNEXURE 6

OUTLINE FOR DIAGNOSTIC STUDYGUIDELINES FOR BUSINESS PLANNING

1. **Executive Summary**
2. **Introduction**
3. **External Context –** Civil society, government services, market competition
4. **Strategic Orientation –** Mission, vision, objectives and goals, key measurable indicators
5. **Product and Service Model –** Products and services, terms and conditions
6. **Institutional Structure –** Membership, governance, operational staff, terms of engagement, performance measurement, remuneration and other important details
7. **Production Plan –** Key commodities, seasonality, production plan, quality norms, group production incentives
8. **Procurement Plan –** Procurement points, time, pricing mechanisms, viability of procurement points, staffing for procurement, storage and transportation
9. **Storage and Processing –** Processing facilities, machinery and plant erection, capacities, safeguards
10. **Financial Resources Plan –** Finances required, fixed investment and working capital requirements, sources, terms of borrowings, member own funds
11. **Marketing Plan –** Channels, brands, consumer feedback, key products, marketing strategy
12. **Benefits of FPO –** Member level benefits computation and projections
13. **Operational Plan and Activity Chart List**
14. **Product Costing**
15. **Risks and Risk Management Plan**
16. **Linkages and Convergence Plan**

ANNEXURE 7

GUIDELINES FOR BY-LAWS

1. Except on such specific matters which the Act has provided, the functioning of every FPO shall be regulated by its bye-laws. Subject to the provisions of the Act and the bye-laws, every FPO shall have regard to the principles in its functioning.
2. The by-laws of a FPO be specific on the following matters, namely,
   - a the name and address of the FPO;
   - b the object of the FPO explicitly stated as a common central need of the farmer members which the FPC aims at fulfilling;
   - c eligibility, ineligibility and procedure for obtaining and retaining membership;
   - d procedure for withdrawal, cessation and termination of membership;
   - e the services that it intends to give its members;
   - f fixation of minimum performance expected annually of each member vis-a-vis use of services, financial commitment and participation in meetings, in order to be eligible to exercise the rights of membership including the right to vote;
   - g the consequences of performing below the minimum level fixed;
   - h the consequences of default in payment of any sum due by a member;
   - i rights of members;
   - j the nature and extent of the liability of the members for the debts contracted by the FPO;
   - k the manner of making or amending bye-laws;
   - l the powers and functions of the general body, and the powers and functions and the manner of constitution of representative general body, if any, and subjects which must be dealt with by the general body, and by the representative general body, if any;
   - m the manner and frequency of convening general meetings and quorum required;
     - the manner of conducting elections and of filling casual vacancies;
     - the size and composition of the board of directors;
     - the term of office of the directors;
     - the manner of removal of directors;
     - the manner and frequency of convening board meetings and quorum;
     - the powers and duties of the board;
     - the powers and duties of the chairperson;
     - the terms on which the FPO may deal with non-members;
     - eligibility, ineligibility for becoming and continuing as director;
     - penalties for acting against the interests of the FPO and for non-fulfilment of duties by members, office-bearers, directors or staff;
     - the nature and extent of the liability of office-bearers, directors for debts contracted by the FPO;
     - the authorisation of an officer or officers to sign documents and to institute and defend suits and other legal proceedings on behalf of the FPO;
     - the manner of choosing delegates to secondary FPO Federation;
       - ◊ the rights, if any, which the FPO intends to confer on any other FPO or other federations and the circumstances under which these rights may be exercised by the society or federation;
       - ◊ the nature and amount of capital, if any, of the FPO;
       - ◊ the maximum capital which a single member can hold;
       - ◊ the maximum interest payable to members on paid-up share capital;
       - ◊ the sources, types and extent of funds to be raised by the FPO;
       - ◊ the purposes for which the funds may be applied;
       - ◊ the constitution of various funds and their purposes;
       - ◊ the manner of appointment of auditors and their powers and functions;
       - ◊ the manner of appointment of internal auditors and their powers and functions;
       - ◊ the manner of disposal of funds when the FPO is under liquidation; and
       - ◊ the manner of dissolution of the FPO.

ANNEXURE 8

OUTLINE FOR INCEPTION REPORT

1. Introduction
2. Project objectives, goals, indicators
3. Project timeline
4. Detailed activity plan
5. Project budget expenditure plan
6. Project team – spearhead team structure, payment terms, gender balance, functions and responsibilities
7. Organisational structure and responsibilities at various levels – project implementation structure and relations with organisational existing structure
8. Project monitoring mechanisms
9. Project capacity enhancement plans
10. Project risks and challenges
11. Project operational business rules and procedures
12. Project audit and process reviews

ANNEXURE 9

INSTITUTIONAL MATURITY INDEX

FPO INSTITUTIONAL MATURITY INDEX COMPUTATION			
	CATEGORY	INDICATOR	UNIT
1	Financial & Business Efficiency	Total annual sales	Lakhs
		Gross margin (Direct Income {income from direct sales} – Direct Costs)	Lakhs
		Net profit	Lakhs
		Current ratio (Current assets to Current liabilities)	Ratio
		Debt - equity Ratio	Ratio
		Ratio of grants to turnover	Ratio
		Break-even sales	Lakhs
		Operational margin (sale+ closing stock-opening stock purchases- direct cost)	Lakhs
		Inventory turnover ratio	Ratio
		Operational self sufficiency	%
		Financial self sufficiency	%
		Debt service coverage	Ratio
2	Members Economics	Ratio of member realisation (wages + purchase price + bonus, paid to members) to total turnover	Ratio
		Average per member realisation	Thousands
		Net profit per member	Lakh
		Per member turnover	Lakh
		Non-member procurement	%
		Income (realisation-cost at member level) from the enterprise to member to total income of member	%
		Total members to total potential members	%
		Average member procurement to average member production	Lakh or Qty
OPTIONAL INDICATORS FOR ALL ENTERPRISES			
3	Institutional	Membership of the enterprise	Number
		Active members to total members	%
		Attendance in board meeting	%
		Members attending General Body meeting	%
		Legal compliances met to total number of legal compliances prescribed	%
4	Sustainability	Renewable energy to total energy	%
		Recyclable material to total material	%
		Pollution control compliance	Yes/No
		Compliance with organic certification/fair trade	Yes/No
		Total reserves created	Lakhs
5	Social Indicators	Marginalised communities covered to total members of enterprise (caste)	%
		Number of leaders from marginalised communities	%
		Poor households to total members of enterprise (Economic marginalisation)	%
		Increased availability of disposable income with members	%
		Members covered with insurance - life/health/accident	%
		Income used for education/health	%

ANNEXURE 10

MEMORANDUM OF AGREEMENT BETWEEN PROMOTER ORGANIZATION (CONCERNED STATE DEPARTMENT/ SFAC) AND RESOURCE INSTITUTION (RI)

Memorandum of Agreement
Between
Promoter Organization
(Concerned State Department/SFAC)
and
Resource Institution (RI)

(Empanelled for promotion of Farmer Producer Organization)

This MOA is entered on this day of ……….....…(DD/MM/YY) between …......…………………………….
{Promoter Organization (Concerned State Department/ SFAC)} and Resource Institution (RI) empanelled for FPO Promotion…………………………..........(Name and Registered address of RI).

PREAMBLE

Whereas the Promoter Organization has decided to engage…………………….. (Name of RI) for the work of Promotion of FPOs (Farmers Producer Organizations) in the State of …………………. under ……………………………. (Name of Programme) covering ………………. numbers of farmers.

The Resource Institution will ensure that following key activities involved under FPO formation are duly followed :

- ◊ The selection of districts, blocks and villages will be done by the RI in consultation with the concerned State Department (Agriculture/Horticulture/ any other).
- ◊ The Cluster of Villages to be brought under the umbrella of FPO should be identified with in one or two blocks in such a way that the villages are contiguous and are within a radius of about 20 kms).The detailed mapping indicating the location of the clusters with distances should be made part of DPR.
- ◊ The staffing and expenditure on the specified activities should be strictly in conformity with the process guideline for FPOs.
- ◊ Qualified manpower should be deployed by the agency for the said task, which should be supervised and guided by technically qualified and experienced persons. A list of these persons with contact details will have to be submitted to the SFAC within 15 days of execution of this agreement.
- ◊ A detailed survey of selected villages will be conducted regarding the socio-economic conditions, prospects and problems in agriculture production.
- ◊ Selection of farmers will be in such a way that FIGs will be organized on the basis of homogeneity of crop production. Each FIG so formed will consist of 15-20 farmers with common interest.
- ◊ FIGs will be organized into FPOs in accordance with the provisions made in the institutional arrangement specified in Annexure-2 of the process guidelines.
- ◊ FIGs/FPOs will be organized keeping in view the project outcomes given at Part 2, Para 8 of the process guidelines.
- ◊ A formal registered organisation of farmers (either registered as a Producer Company under Ch. IXA of the Companies Act or as a registered cooperative under any of the state or central laws applicable to cooperatives) will be the final outcome of the FPO promotion process. Process to be followed to register a producer company will be the same as laid down in the Manual incorporated in the process guidelines.
- ◊ Funds will be released to the RI after completion of each stage of activity. Resource Institution will ensure that detailed stage wise completion report is submitted along with release proposal. The RI will also be required to submit Utilization Certificate of funds released earlier for processing of release proposals relating to second stage onwards.
- ◊ Costing: The costing of FPO Promotion activities is not on the basis of the number of FIGs/FPOs to be organized. Funds will be ear marked on the basis of the number of farmers assigned to the RIs who are to be organized into FIGs/FPOs. Cost per farmer will be Rs 3526 for 3 years including Service Tax and professional fee of the promoting organization. TDS will be deductable as per Income Tax Act.
- ◊ Promotion work will consist of the following stages of project development, timelines, key activities, deliverables, means of verification and fund requirement:

MEMORANDUM OF AGREEMENT BETWEEN PROMOTER ORGANIZATION (CONCERNED STATE DEPARTMENT/SFAC) AND RESOURCE INSTITUTION (RI)

Time-line	Key Activities	Deliverables	Means of Verification	Payment
3 month	**Stage One: Pre-project Implementation (Three months)** (i) Baseline on volume, value & market access, centrality analysis, (ii) Identification of Product specific clusters (iii) Feasibility Analysis -break-even estimates (iv) Project Implementation Plan procurement, inputs, storage and marketing,	Detailed Project Report (Checklist Provided) (i) List of Product specific clusters identified (ii) Database of farmers prepared, computerized and analysed (iii) Various interface table prepared	(i) Submitted DPR (ii) Meeting minutes and photographs of meetings (iii) Inception report	10%
6 month	**Stage Two: Enhancing Capacity & Implementation of Surplus Farm Production Plan (Mobilization Phase)** (i) Village meetings- identify potential farmers, identify opinion leaders (ii) Identification of potential farmers for FIG & FPOs, LRP/ BF/LF Identification (iii) Hand holding support for Productivity Increase, IPM/ INM/ IPP (iv) Identifying Value-proposition for setting FPO (logic of collectivization) (v) Exposure Visit of Farmers/ opinion leaders	(i) Farmers Organized into FIGs, LRP identified and training completed on improved agriculture practices (ii) FIG formed (min 50%) of target (iii) Trained LRP/BF ready for deployment in field (iv) Farmers Participated in Improved Agriculture/ vegetable/pulse based farming system (v) Farmers realized benefits in terms of increased yield and less expenditures	(i) List of FIGs/FIG registers (ii) List of LRP/ BF/LF trained and ready for deployment (iii) Training curriculum, training report & participant list (iv) List of farmers adopting package of practices (v) No. of farmers supported, areas of demonstration (vi) Six monthly report	10%
12 month	**Stage Three: Pre-formation Stage of FPO/Collective and preparation of FPOs business plan through FIG level exercise** (i) Demonstration conducted on improved agriculture practices (ii) Start up shareholders campaign (iii) Identification of training needs & imparting training to promoters and farmers of FPO (iv) FIGs meeting & orientation started for FPO scoping, vision building exercise & exposure visit of promoters farmers (v) Generate crop-wise household information with surplus, deficit and gap exists (vi) FPO forming process initiated	(i) Min 5 village level agri business potential, gap analysis exercises done. (ii) Information documented and business plan drafted and shared with FIGs members (iii) 2 modulated trainings imparted to lead/promoters farmers on Business plan (iv) Share money from min 250 farmers collected (v) FIGs shown some trends/ indicators for collective action (vi) Business Case of FPO/ Collective prepared (checklist provided) Farmers detailed information list prepared (vii) Share money from 500 farmers collected	(i) FIG meeting registers and shareholders list prepared (ii) Business Plan available at FPO level and known to min 10% promoters and (iii) Farmers information list prepared (iv) FPC Accounts Statement (v) Yearly Report	20%

PART TWO

Time-line	Key Activities	Deliverables	Means of Verification	Payment
18 Month	**Stage Four: FPO formation Stage** (i) Identification of FPO promoters by FIGs (ii) Initiation of statutory process required for formation of FPO like attainment of PAN, DIN of Directors etc (iii) Stabilize New Surplus Production System & Farmers in 2nd Crop Cycle (iv) Finalizing list of FIG members willing to join FPOs and start share money collection (v) Membership drive continues and framing of Bye-laws/MoA /AoA, incorporation of FPO (vi) Training of FIG members promoters on FPOs	(i) Demonstration of Farmer Patronage to Project Concept (70% repeat farmers (ii) Collectivization arrangements (FPO) Instituted (iii) Share money from 750 farmers collected (iv) Institutional Arrangements for Market Access Placed (v) Training conducted for farmers	(i) Demo Farmers List (ii) Minutes of FG and associative tier meetings, photographs (iii) List of shareholders	10%
24 Month	**Stage Five: (FPO establishment stage)** (i) Physical establishment of FPO (ii) CB & inputs need assessment (iii) Strengthening FPO – providing services for system development (Operating System, MIS, HR), (iv) Business Planning Exercise Market Linkages for Produce (v) Interface with buyers/ marketers (vi) Increasing FPO's equity though matching grants from SFAC	(i) FPOs established, office/outlets opened (ii) FPO/Collective/ Aggregation Structure Placed (iii) FIG members deposited their share money (iv) Certificate of FPO incorporation awarded (v) 1st General Body Meeting conducted within 90 days of incorporation (vi) FPOs have formally applied to SFAC for equity matching grants (vii) FPOs successfully passed in due diligence report prepared by Charter Accountants and submitted to SFAC	(i) Minutes of meeting FIG subscription to FPO/ collective (ii) Registration & Compliances (iii) Business Plan with key business processes (iv) List of buyers consulted, meeting report & outcome (MoU on price, volume and grading (v) Minutes of BoDs register (vi) Due diligence report submitted to SFAC and matching grant released to FPOs	10%
30 Month	**Stage Six:** (i) Implementation of business plan of FPO	Business Plan (i) Min 25% business activities executed as per plan (ii) Statutory Clearance obtained required to carry out business activities (iii) Operating System grounded (iv) Minimum 10% target farmers accessed improved agriculture services including better access to market	(i) Business Plan – including financing plan (ii) Regulatory approvals for FPO activities (iii) Certificates from concern apartments obtained (iv) Farmers Field Book (FFB) (v) Increased business turnover of FPOs and reflected in MIS and Balance sheet (vi) Pre project ends report)	20%
36 Months	**Stage Seven : Phase-out Systems for post-project sustainability**	(i) Agreement executed between RI & LPO for longterm support (ii) BoDs passed resolution for long term agreement (iii) FPCs & shareholders have started getting income from the business activities and showing growth track (iv) FPOs are regular in BoD meetings, AGM, internal Audits and Statutory Audits with minimum deviation	(i) Copy of Agreement (ii) Minutes of BoD Register (iii) FPCs balance sheet (iv) BoD, AGM registers and Satisfactory Reports of Auditors (v) Project ends report	20%

The Resource Institution will ensure that following key activities involved under FPO formation are duly followed :

FPOs mobilized and registered will be purely member-owned farmer bodies and will not be considered Government owned or Government promoted institutions. Hence grants provided in the equity of FPOs are one-time support measures designed to ensure the viability of FPOs.

Funding to the RIs is strictly for mobilization of FPOs and no further support for meeting recurring liability of any kind will be provided beyond the period specified for the project. All staff engaged during the project period will be contracted by the RI and will not have any claim whatsoever on the government.

The RI shall not be entitled to sublet the work assigned to it to any other agency.

This MOU will be deemed as complete only after the project end report is approved by State Government.

DISPUTE RESOLUTION

A Joint Committee comprising of MD SFAC or Secretary of the State Govt. (in case the work of FPO promotion has been directly contracted by a State Govt.) and CEO of RI will discuss disputes and resolve them amicably in the best interests of the project through consensus. In case they are not able to reach a consensus, then the procedure laid down under the Indian Arbitration Act will be followed for resolving the dispute.

In witness thereof the parties hereto have signed this MOA on the date, month and year mentioned against their respective signatures.

For Resource Institution **For Promoting Organisation**

Witness **Witness**

3

RESOURCE HANDBOOK

for Establishing a Producer Company

ACKNOWLEDGEMENT

This manual has been developed by Action for Social Advancement (ASA), Bhopal and the institution has kindly permitted its inclusion in this document for wider circulation.

INTRODUCTION

FOR THE PROMOTION OF FARMER PRODUCER ORGANISATIONS

The project of "Organic Production of Under utilized Medicinal, Aromatic and Natural Dye Plants Programme for Sustainable Livelihoods in South Asia" (MADP) is being implemented in India and Bhutan by the Food and Agriculture Organisation of the United Nations. The project is funded by a Technical Assistance Grant from the IFAD for conversion to organic farming systems incorporating MADPs (Medicinal, Aromatic and Natural Dyes) of the area; adding value on farm; processing for further value addition; establishing quality and traceability aspects of certification; formation of business platform of producers; marketing of the produce of all sites with primacy to meeting the needs of the community for nutrition, health, increased purchasing power and sustained livelihoods.

The FAO has sought the services of Action for Social Advancement (ASA), a non-governmental organisation, pioneer in setting up the Producer companies in India, to: prepare a resource book to guide the users on how to develop producer companies including financial and economic assessment before establishing a PC of small producers.

This resource book deals with the processes to be followed and preparations required to set up a producer company. The resource book is developed based on the experiences of ASA in developing a series of PCs in Madhya Pradesh and Bihar and from the lessons learnt during their feasibility assessment study of setting up a PC in a MADP project site at Karnataka.

As per the Terms of Reference (ToR) provides, the following aspects have been covered in this Resource book. The resource book contains four chapters. Chapter-1 deals with the generic issues in regard to need of farmers collectives, genesis of Producer Companies Act., key differences in characteristics between producer companies and cooperatives, Chapter-2 describes the processes need to be followed and the preparations required at the field level for the incorporation of the company. The chapter also focuses on the legal requirement for establishing a company and process involved in it. Chapter-3 assesses the working capital requirement and running costs for a producer company. Chapter-4 explains the process of developing business plan of producer companies taking into consideration of market and various financial assessment, and Chapter-5 provides some practical guidelines for the assessment of institutional health of the producer companies.

The whole idea behind this resource book is not to provide prescription, as the Producer Companies require context specific strategic interventions (like any other community institutions), which is best manoeuvred by the practitioners working in a given situation, but to provide a methodical guidelines in establishing a PC. Thus, this resource book should not be considered as a sole source of information. It is suggested that the interested users also seek details of legal compliances related with company affairs, available at the website of Ministry of Corporate Affairs (www.mca.gov.in).

CHAPTER 1

PRODUCER COMPANIES

CONCEPT AND PRACTICES

(The chapter deals with the generic issues in regard to need of farmer's collectives, genesis of Producer Companies Act., key differences in characteristics between producer companies and cooperatives and experience of ASA[1] in establishing producer companies)

1.1 BACKGROUND:

The growth rate of agriculture in India over the last decade has been stagnating and has gone down to 1.8% in 2006. On the other hand industrial growth has been buoyant at more than 9%. Such skewed growth rates are a matter of serious concern for planners and policy makers of the country at the highest level.

While growth in green revolution areas are stagnating, hardly any progress has been made in about 60% of the cultivable land, which is still under rain fed farming. The country finds itself in a difficult situation in meeting the food and nutrient security of its one billion plus population. Clearly Indian Agriculture is at the crossroads and only radical and innovative policies will help to pull the country out of an impending crisis of enormous proportions. A much discussed current topic in Indian agriculture is how to integrate the farmers, especially the small farmers with the value chain so that the net return at the farmers end is remunerative enough for the farmers to remain interested in agriculture.

India has over 92 million small holdings or nearly 21% of the world's small holdings of 450 million, the second largest after China (Oksana Nagayets, IFPRI, 2005)1. The challenge is therefore enormous for India to ensure that small holdings are truly productive and are the main source of livelihoods for millions of people dependent on it.

Several institutional models are being tried in India to integrate farmers with the value chain. The most common model is the producer's cooperatives, which enable farmers to organise themselves as collectives. The cooperatives are registered with the Registrar of Cooperative Societies. India has a large number of cooperative institutions in a vast range of enterprise sectors. The cooperative experience in India has not been a very pleasant one, as cooperatives have largely been state promoted, with a focus on welfare rather than to do business on commercial lines.

In 2002, through an amendment in the Indian Companies Act. 1956, the Government of India (GoI) enacted the Producer companies Act. by incorporating a new section IXA in the Indian Companies Act.1956 based on the recommendations of the Y.K. Alagh Committee set up for this purpose. The producer companies are incorporated with the Registrar of Company (RoC). The objective of the Government of India for such an initiative was to formulate a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring that the unique elements of the cooperative business remain intact in the new legislation.

A PC is formed with the equity contribution by the members. The day to day operation is expected to be managed by the professionals, hired from outside, under the direction of the Board of Directors (BoD) elected/ selected by the General body of the PC for a specific tenure.

Since farmers or the producers are the equity holders of the company, a PC as an organisation provides an appropriate framework for owning the company by the producers themselves. The need to organise farmers, especially the small holders, is a well established fact. The basic purpose of the PC is to collectivise small farmers or producers for (a) backward linkage for inputs like seeds, fertilisers, credit, insurance, knowledge and extension services and (b) forward linkages such as collective marketing, processing, market led

[1] Action for Social Advancement (ASA), an NGO based in Bhopal, M.P. is one of the pioneering organization in establishing PCs with small farmers for agribusiness in Madhya Pradesh and Bihar.

TABLE 1: KEY DIFFERENCES BETWEEN PRODUCER COMPANIES AND COOPERATIVES		
PARAMETERS	**COOPERATIVE**	**PRODUCER COMPANY**
Registration	Cooperative Societies Act.	Indian Companies Act
Objectives	Single object	Multi-object
Area of Operation	Restricted, discretionary	Entire Union of India
Membership	Individuals and 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 shares	Commensurate with volume of business
Voting rights	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One member, one vote. Members not having transactions with the company can not vote
Government control	Highly patronized to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in "real world scenario"	Fully autonomous, self ruled within the provisions of Act
Reserves	Created if here are profits	Mandatory to create every year
Borrowing power	Restricted	More freedom and alternatives
Relationship with other corporate/ business houses/NGOs	Transaction based	Producers and corporate entity can together float a producer company

agriculture production etc. At the heart of this effort is to gain collective bargaining power for small farmers/ producers.

The collectives of farmers in the form of producer companies is gaining popularity among the farmers/ producers and among the promoting agencies primarily due to several advantages it carries in comparison to the conventional model of producers cooperatives. The Producer Companies Act. enshrines the ethos and basic tenets of cooperatives and infuses a professional attitude into management.

Table -1 provides a comparative analysis of producer companies and producers cooperatives to understand the differences in the basic premises of these two Acts which enable incorporation of producers collectives. Apparently the producer companies have inherent advantages over the cooperatives in many areas. Specifically of the PC there is less government control whereas the cooperative institutions are state controlled. The overriding powers of the Registrar of Cooperative Societies to direct and regulate cooperatives, whenever the government deems necessary, has throttled the growth of the cooperative institutions. Majority of the cooperative institutions are currently facing severe financial crisis and at times are heavily dependent on the state subsidy for existence. The Mutually Aided Cooperative Societies Act (MACS) was introduced to overcome some of these limitations of the cooperatives, however, not many States have adopted the MACS and also not many commodity cooperatives have migrated to the MACS format.

1.2 KEY CHARACTERISTICS OF PRODUCER COMPANIES

- It is a corporate body registered under the Indian Companies (Amendment) Act 2002. Ownership and membership of such companies is held only by 'primary producers' or 'Producer Institution', and member's equity cannot be traded. However, it may be transferred, only with the approval of the Board of Directors of the producers companies

- The clauses of Private Limited Company shall be applicable to the producer companies except the clauses specified in Producer Company Act. from 581-A to 581-ZT which make it different from a normal private or limited company

(refer to the Producer Company Act for details)

- The liabilities of the PC is limited to the value of the share capital it has issued. Similarly the member's liability is limited to the value of share capital held by them. The minimum authorized capital at the time of incorporation of PC should be Rs.5 lakh. The authorised capital is such that a company has been authorized to raise by way of equity shares through the Articles of Association/Memorandum of Association of the PC. This is typically the capital at the time it has been incorporated

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

The area of operation for a PC is the entire country

1.3 EXPERIENCE OF ASA IN ESTABLISHING PCs

Since late 2004, ASA has been promoting the concept of Producer Companies in M.P. and Bihar. So far it has promoted 16 PCs with over 30000 small and marginal farmers in the resource poor regions of M.P. and Bihar, with an average membership of about 2000 farmers per PC.

There is a professional management team in each of these PCs which carries out the operations under the directions of the Board of Directors (BoD) of the respective PC. The responsibility of the Management Team also includes building the capacity of the BoD by providing hand holding support. These PCs are mainly into agribusiness and that too focused largely on the crop seed production, processing and marketing of agriculture produces, the activities which give higher return on investment and also ensure availability of quality seeds to its members. The average annual business turnover of each of these PCs is about ₹ 10 million. However, there are exceptions with a few which have reached a business turnover of around ₹ 25-35 million annually within 3-4 years of their operation after incorporation. The reasons for high growth in these PCs can be attributed to:

- energetic management team and the BoD;

- cooperation from banking institutions which provided hassle free loans to the PC for working capital; and

- a clearly identified business opportunity that gives a high RoI.

A tentative assessment suggests that the benefits to a member are multifarious and in the form of:

- timely and easily availability of fertilizers, seeds and other agriculture inputs at a reasonable rate;

- bulk selling of agriculture produce for better price;

- extension services received by the farmers which the PC had arranged with the agriculture department or from other service providers;

- receiving of cash dividends from the PC.

No detailed study has been conducted yet, to ascertain the benefits in monetary terms. However, the members are happy with the services of the PC and there is a tendency of increased participation in the affairs of the PC by the members.

The efforts of ASA have brought in several policy changes in favour of producers organisations in Madhya Pradesh (MP). Besides several tax related relaxations the most significant one being the decision of providing management cost support to a PC for a period of three years and a one time working capital support of ₹ 25 Lacs to the PC by the GoMP. Also the Government of Madhya Pradesh has agreed to provide them with land and machinery for business needs on merit basis. All these policy decisions are notified in the Government gazette.

The point worth mentioning here is that like any other institution the financial viability and the institutional sustainability are two core factors that determine the sustainability of the PC. Also the success of the producer's collectives would largely depend on the skill and commitment of the promoting agency. The real challenge in building such institution is how to connect the individual producer to the governing system of the producer's organisation. The agency promoting the producers organisation has to pursue both the social and economic objectives simultaneously. It is therefore a long drawn agenda irrespective of the legal format under which these institutions are formed. An enabling legal format can facilitate the process well but cannot ensure a profitable institution without a proper process followed.

CHAPTER 2

INCORPORATION OF A PRODUCER COMPANY

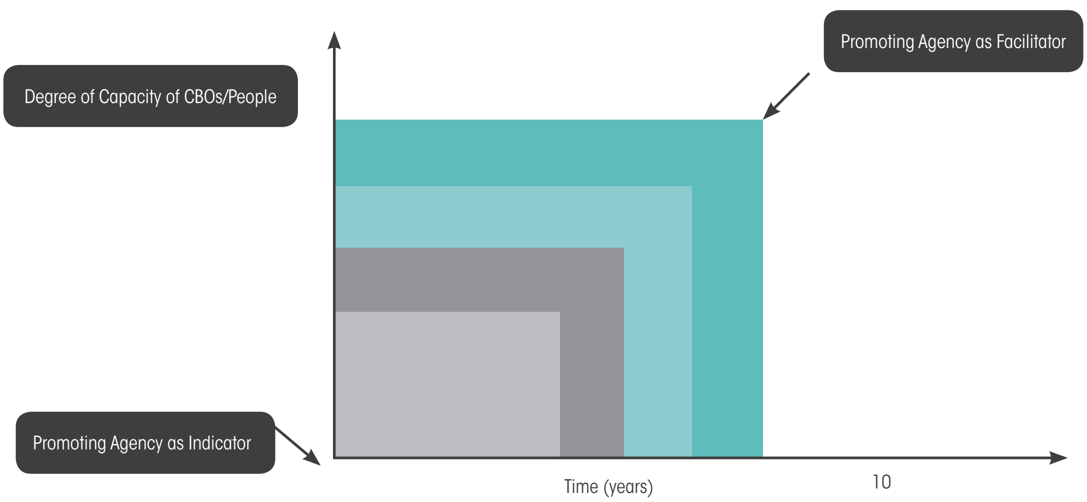
(This chapter is divided in two parts. The first part deals with process to be followed at field level and the preparations required for forming a PC. The second part of the chapter focuses on the legal requirements for establishing a PC and processes involved in it.)

The Producer Company Act. 2002 does not provide any guidelines or directions about the mobilization and social processes that need to be followed while forming PC. Also, there are not many literatures available capturing the hands on experience in establishing producer companies mainly due to the fact that there are limited initiatives currently going on in India on the PC. Hence, what is written in the following paragraphs about the social processes is largely drawn from ASA's experiences of establishing PC in M.P. and Bihar and that too primarily for the agriculture produces. Also these experiences are context specific and may vary with the change in context as it happens with any social processes. An attempt has been made here to write on those aspects related to social processes which normally come in the minds of practitioners before embarking on setting up a producer company.

2.1 HOW DIFFERENT SHOULD BE THE SOCIAL PROCESSES WHILE SETTING UP A PC VIS A VIS A COMMUNITY BASED ORGANISATION (CBO)?

The point to be kept in mind that PC is also a Community Based Organisation (CBO) with a shared objective, mutually agreed plan of actions, shared responsibilities and benefits and a mechanism of functioning where the decisions are taken by the opinions of majority. Hence, the processes of building organization can not be different in case of PC than what is generally followed for any CBOs. Generally the processes start with the conceptualization of the idea by the initiator about the objective and structure of the CBO that is intended to be formed in a given situation. It is the initiator, normally an external person or agency, takes the lead and in consultation with the potential members of the CBO forms the organization and continues to provide support till it is stable and growing. In this trajectory the role of initiator or promoting agency changes from Initiator to Facilitator. This is depicted in a diagram below.

FIGURE 1: CHANGE IN ROLE OF INITIATOR AS THE CBO MATURES



The diagram shows that as the capacity within the people and the CBO increases, the role of the promoting agency changes from one of initiator to that of a facilitator. As this takes place, the methods of participation for dialogue also change. This does not anyway suggest that the promoting agency has to continue to provide support all through the life of the PC. Depending upon the capacity of the PC the promoting agency can plan for exit strategy. However, this situation is so contextual that no specific time frame can be prescribed for the exit of the promoting agency. The bottom line for exit should be decided on the basis of PC's capacity to run the business without support from any external agency.

PART THREE

2.2 WHETHER PRIMARY CBOS (VIZ. SHGS, FOREST COLLECTORS GROUP, WATER USERS GROUP, COMMON INTEREST GROUP, ETC CAN BE TRANSFORMED INTO PC?

It is better to take such approach of organizing the primary groups on the basis of common interest, geographical locations and then federate them as PC to address the bigger issues of integration with the market, value chain development, etc. and that too when such need has been felt by the members of the primary groups. The benefits of taking such approach are:

- it builds further on the organization building efforts already made with the primary groups.
- since the primary groups are already strengthened therefore their participation in the process of PC formation will be effective resulting in better leadership and governance of the PC. No detailed study has been conducted yet, to ascertain the benefits in monetary terms. However, the members are happy with the services of the PC and there is a tendency of increased participation in the affairs of the PC by the members.

However, this approach takes little longer time than direct formation of PC through membership campaign. In the cases facilitated by ASA, PCs were formed with the common interest groups, SHGs and Water Users' Groups which were already existing and after formation of the PC the original identity of the CIGs/SHGs/ WUGs was not diluted, they continued to function as the primary groups as earlier.

2.3 WHETHER THE PROCESS OF ESTABLISHING PC IS SELF TRIGGERED BY THE MEMBERS THEMSELVES OR EXTERNALLY TRIGGERED?

Usually the process of PC formation is externally triggered by the promoting agency because often poor people do not realize the need to organize and use their organization as a means to fight poverty. Hence, the promoting agency leads the initiative in establishing the PC. This is also true for majority of the initiatives for community based organizations

2.3.1 Who can be the Initiator for establishing PC?

- An NGO working with the primary producers group and willing to introduce the concept of 'Producer Companies' for the economic enhancement of the producers.
- Any person or group of persons but not necessarily primary producer/s can be the initiator. This could be a socially motivated group of people having no interest for stakes in the PC. Already strengthened CBOs like SHG federation and Cooperative societies can also initiate the process of transforming them into PC. In this case it will be a self triggered initiative.
- Any Government organization or department can also promote Producer Companies. The Government can approach an NGO, administrative bodies like village panchayat, state departments etc. or any community organization for this purpose. The Government could provide financial and professional support to the implementing bodies.

2.4 PREPARATION FOR THE FORMATION OF PC

This stage precedes the process of legally registering the company. As mentioned earlier that the processes related to the mobilization of producers is purely context specific and would vary from case to case. The factors which contribute towards mobilization of producers are many and at times quite complex. However, it is experienced that existence of primary groups in the area, rapport of the external agency and their understanding about the local context and issues, play a significant role in effective mobilization of the producers. However, an attempt has been made to describe the broad general steps that an initiator should follow while taking the producers on board to form the PC. The steps are neither in chronological order nor are in the water tight compartment. The steps could overlap depending upon the situation. The steps are:

- Before setting off to establish PC the Initiator must be clear with the objective and the potential of the business. S/he must have done the homework well for the area of operation, type and number of producers, assessment of requirement of land, infrastructures, volume of business, working capital requirement, financial viability, procedures of incorporation etc. In short there should be a blue print or plan with the initiator before hand. Needless to mention that the initiator has to take a professional approach in completing these tasks and may need external support.

- ◊ Selection of area of operation on the basis of cluster approach means a cluster of 12-15 villages at least should be targeted. Normally about 800-1000 producers are a good size to form agriculture based PC, however this would change depending upon the products to be handled. Normally selection of the area and the members is done on the basis of the commonalities like produce, farmers' need and common problems they are facing in terms of production and marketing.

- ◊ The initiator starts the process through conducting a series of meetings with the potential producers, developing rapport with them and introducing the concept of PC. The potential socio-economic benefits of PC along with the possible risks and their implication on shareholding members has to be also shared.

- ◊ Once the concept is understood by the potential members, an exposure visit to successful producer companies may be organized to further strengthen the understanding of the identified group of producers. The exposure visit is found to be the better approach in clarifying concepts and methodologies to the potential members in comparison to the class room training. However, the exposure visit should be meticulously planned and facilitated by an experienced person who can explain things in right perspectives. At the later stage when the PC is incorporated the formal training would be required to the BoD members in the areas of (not limited to) for – (a) understanding the PC rules and regulations, (b) statutory requirements to the RoC, (c) business plan of the PC, (d) Government schemes, (e) leadership, (f) basic accounting and record keeping and several such aspects as the need is felt. It is suggested that a capacity building plan for BoDs including the event calendar is prepared every year and reviewed periodically by the promoting agency. The Membership process needs to be explained to the producers. Normally the share value is kept at ₹ 10 per share. The share capital contribution per member depends upon the economic condition of the producers. In the PCs developed by ASA, the number of shares per member ranges from 100 to 200. In some PCs equal number of shares has been distributed to the members, whereas in some cases it varies. There is no bar on the number of shares per member in the Act. However, it is suggested to have equal number of shares among the members to maintain a balance in the power structure of the PC. The norms for distribution of share should be mentioned in the Articles of Association of the PC.

- ◊ The eligible community members are required to apply through a membership application form (specified in the Act.) to the BoD. The General Body (GB) is the final authority to approve or reject the membership application.

- ◊ Once the concept is well accepted, based on the common understanding a business plan is developed in consultation with the members. The business proposal, its viability, market opportunity, size of business and possible benefits of the new enterprises must be shared properly with the potential members. In Chapter 4, the process of business plan development is discussed in detail.

- ◊ Simultaneously, the initiator in consultation and support from the members develops the draft 'Memorandum and Articles of Association' specifying the roles and responsibilities of each of the office bearers of PC. The shareholders have also to finalize the authorized capital[2] of the company and the cost of each share. While finalizing the cost of share and the number of shares per member, the paying capacity of the economically deprived shareholders should also be considered.

- ◊ Once these documents are in place, the first formal meeting of the shareholders should be organized. The basic agenda of this meeting is to get the approval on the Memorandum and Articles of Association as well as select/elect the Board of Directors of the company. However, it is advisable here for the initiator to avoid election at this stage as it can lead to drift amongst members. However, if the situation is conducive for election the Initiator can go for it as the process of election would

[2] The entire process might take two to six months (sometimes more), depending upon the motivation and inclination of the producers.

enhance the democratic process and transparency.

- ◊ After taking the consent of the members on the selected list of directors of the company and the Memorandum and Articles of Association, the initiator can go ahead with the registration process. The amount collected through shareholders could be used for registration fees and other processing related expenditures like fees for Company secretary, stationary, travel etc. In the books of accounts it can be shown as loan taken from the share capital. Once the company mobilises resources through business it can be repaid.

- ◊ After having registration of the company, the first General meeting of the shareholders should be conducted within the mandatory 90 days of the registration. Other than discussing the business plan, the General Body has to select/elect the Board of Directors for the next tenure. The proceedings of the meeting should be sent to the Registrar of Company (RoC) within 60 days of the meeting along with the list of finalized BoD.

The entire process might take two to six months (sometimes more), depending upon the motivation and inclination of the producers.

2.5 REGISTRATION OF PC

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

Step 1: Digital Signature Certificate (DSC)[3]:

The Information Technology Act, 2000 has the provision of use of Digital Signatures on the documents in order to ensure the security and authenticity of the documents filed electronically. It is now mandatory to have Digital Signature of minimum one Director or Chairman prior to enter the formal registration process. This is the only secure and authentic way that a document can be submitted electronically. As such, all filings done by the companies are required to be filed with the use of Digital Signatures. Thus, it is necessary for a company to authorize a person's signature who will sign the documents.

The prescribed application form for DSC is available at the website of Ministry of Corporate Affairs (henceforth website of MCA)[4]. After filling the required information, the form has to be submitted online to the 'Certification Agencies[5]'. The DSCs are typically issued with one to two year validity. These are renewable on expiry of the period of initial issue. The official fee for issuance of DSC is ₹ 1800/-. In addition, the Certification Agency charges a service fee which vary from agency to agency.

Step 2: Director Identification Number (DIN)

The DIN number can be obtained online only from the company affairs cell at Noida, UP without any fees by providing identification proof number (Only PAN Card, Voter Identity card, passport or driving license number is accepted). The prescribed form is available in the website of Ministry of Corporate Affairs and the application can be done online.

Step 3: Naming of a Producer Company[6]

A Producer Company should be named using the following suffix "…..Producer Company Limited" appropriately indicating its status of producer company. The word "private" is not used in the name and the absence of which does not indicate that the company is a "public".

The procedures for selecting and applying for the availability of name for a Producer Company are:

- ◊ Select,in order of preference, at least one suitable name up to 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 (http://www.mca.gov.in).

- ◊ Apply to the concerned Registrar of Companies to ascertain the availability of name in e-Form 1(A)7 by logging in to the portal (http://www.mca.gov.in). A fee of ₹ 500/-[8] 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 will be intimated by Registrar of Companies (RoC) and subsequently the applicant has to apply for a fresh name on the same application.

Moreover, there is further scope of changing the PC's name, if required. However it is not easy to do it frequently. As per the company Act 1956 section 21, an application to RoC with a supporting of a resolutions passed by 2/3 majority of BoD and 1/3 of General Body and fees of ₹ 500 is required to be submitted along with new proposed name and 4 other alternatives in order of preference.

Step 4: Memorandum & Articles of Association[9]
After ascertaining the name of the producer company, a memorandum and articles of association have to be prepared.

- ◊ Memorandum and Articles of Association should be printed (preferably a computer print out - printed on both side of the paper).
- ◊ Get the Memorandum and Articles of Association duly stamped, the Memorandum and Articles of Association subscribed/signed by the requisite number of 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 the RoC for the Incorporation of Producer Company[11]
File the following documents along with the fees payable[12] 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[13]
- ◊ Form 32 (in duplicate) regarding particulars of directors[14]
- ◊ Form 1 (on a stamp paper) declaring compliance of all and incidental matters regarding formation of companies[15]
- ◊ Form 29 – consent of the director
- ◊ An affidavit has to be submitted by subscribers, if the Memorandum of Association is submitted in Hindi by subscribers claiming the understanding of same.
- ◊ Power of Attorney.

Please note that all the information and forms are available on the website of MCA (http://www.mca.gov.in) and that the forms can be directly accessed and filled in on-line.

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, s/he 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)].
- ◊ The incorporation of Producer 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

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[4] http://www.mca.gov.in
[5] Certification Agencies are appointed by the office of the Controller of Certification Agencies (CCA) under the provisions of IT Act, 2000. There are a total of seven Certification Agencies authorised by the CCA to issue the Digital Signature Certificates (DSCs). The details of these Certification Agencies are available on the portal of the Ministry of Corporate Affairs www.mca.gov.in
[6] As per the Companies (Amendment) Act, 2002, Section No. 581B.
[7] Pursuant to Section 20 & 21 of the Companies Act 1956.
[8] Fees should be deposited in the regional bank authorised by the MCA.
[9] A small write-up on Memorandum of Association and Articles is given in Appendix 2.
[10] Stamping should be done in accordance with the requirement of the Indian Stamp Act, 1899 and the applicable rate depending on the State where the Registered Office of the company is to be situated.
[11] The applicant can apply for registration of the new company within six months of name approval.
[12] The amount of registration fees to be paid will depend upon t he authorised share capital kept by the company in the Article of Association.
[13] As per the Companies (Amendment) Act, 2002, Section No. 146.
[14] As per the Companies (Amendment) Act, 2002, Section No. 303.
[15] As per the Companies (Amendment) Act, 2002, Section No. 33 (2).
[16] CA and CS denotes Chartered Accounting and Company Secretary firms respectively.

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.

Power of Attorney: All the work required to incorporate the Producer Company can be done either by the BoD or alternatively, the General Body can authorize anyone of them or any other person to follow the matter with the RoC (in most cases the service of a Chartered Accounting firm or Company Secretary is acquired for the purpose). In the latter case, they have to execute a power of attorney in favour of the person, who is authorised to act on their behalf.

A power of attorney form duly stamped and executed by all the subscribers of directors have to be submitted to the RoC.

A power of attorney holder is, specifically, authorised to make corrections, as may be necessary in the Memorandum and Articles of Association and all other documents filed with the RoC and to attest the same on their behalf and to receive the Certificate of Incorporation.

Step 7: Tasks to be completed immediately after incorporation of the PC

The following tasks have to be completed immediately after incorporation:

- Open a Bank Account with minimum two officially nominated signatories in the name of the Company.
- Procure PAN number from the Income Tax and TIN number from the Commercial Tax Department to carry out business. Also, the company have to register itself for Service Tax from Commercial Tax Department and VAT from Excise department.
- Apply for the commercial connection of Power supply to related agency/board for the office of the PC.
- Establishment of company office means arrangement of furniture and fixture along with a visible signage board.

2.6 ESTIMATED COST FOR INCORPORATION OF A PRODUCER COMPANY

Table 2 below provides an estimated cost required for the incorporation of a producer company with minimum mandatory authorised capital of ₹ 5 lacs

TABLE 2: ESTIMATED COST FOR INCORPORATION OF A PRODUCER COMPANY

Particular	Heads	Amount (₹)
Application for name of PC	Fees	500.00
Digital Signature	Fees	2,600.00
Stamp duty	Memorandum of Association (MoA)	500.00
	Article of Association(AoA)	1,000.00
Registration/filing fees	MoA	16,000.00
	AoA	300.00
	Form-1	300.00
	Form-18	300.00
	Form-32	300.00
Fees of CA/CS17 firm*	Consultancy fees	10,000.00
Stamps cancellation	Charge	300.00
Affidavit expenses	Fees of Notary	450.00
Share transfer fees & processing charge		5,000.00
Total		37,550.00

Source: ASA

** Note: Fees for CA and CS is driven by market rates.*

CHAPTER 3

ASSESSING THE CAPITAL

REQUIREMENTS OF A PRODUCER COMPANY

(This Chapter elucidates the various factors to be considered and limitations faced while estimating the working capital requirement of a Producers Company. Detailed discussion on the methods of financial assessment is in the following chapter.)

The working capital is estimated on the basis of following costs which may be fixed or variable in nature:

- ◊ Raw materials, storage, processing, transportation, insurance etc. The estimate is determined by the nature and size of the business.
- ◊ Staff salary, travel, rent, electricity, telephone and other administrative expenses which can be termed as management and administration cost.
- ◊ Furniture, fixtures and other equipments like computer, printer etc.
- ◊ Infrastructures like warehouse, machineries etc. (if any) Capacity building cost for BoDs and the executives of the PC.

In the following paragraphs it has been attempted to describe the processes or steps to be followed and the factors to be considered for estimating the working capital requirement. It is not possible to estimate the requirement of working capital since it depends on the nature of business and its volume which would vary from case to case. However, the processes described here are based on the experiences of ASA while establishing several PCs.

3.1 ASSESSING THE CAPITAL REQUIRED FOR INITIAL BUSINESS ACTIVITY

This is the initial amount required for starting the basic activities of PC such as initial investment which is mainly required for procurement of raw produce from the producers, storage, transportation processing, insurance etc. The quantum of capital would depend on the nature and volume of the business of PC. This is part of the working capital of the PC.

While calculating the requirement of capital for the above mentioned items the following points are to be kept in view:

- ◊ Number of producers/acreage/number of products and its month wise availability.
- ◊ Total expected volume of raw produce to be procured (month wise).
- ◊ Time of the activity (no. of days from procurement to sale).
- ◊ Purchase price, selling price.
- ◊ Credit limit with the producers and to the buyers.
- ◊ Monthly
- ◊ Storage cash-in and cash-out projection, duration and costs.
- ◊ Transportation costs (producers to company and company store to buyers).
- ◊ Grading/processing,
- ◊ Insurance.
- ◊ Packaging costs, if any.
- ◊ Marketing costs, if any.
- ◊ Any other costs which is specific to the area (statutory requirement. For example, in some states buyers for agriculture produce outside the APMC has to pay certain levy to the APMC for making purchase from the farmers directly).

A critical evaluation of the above criteria should provide a reliable estimate of capital requirements.

The experience of ASA suggests that the real challenge for a PC is to mobilize initial working capital requirements.

This is due to the following reasons:

- ◊ For any financial institution PC is a commercial entity and therefore they require a margin money contribution in the credit application from PCs. This is difficult to be arranged by a PC, due to financial constraints.
- ◊ PCs are also required to provide collateral for the loan which is again a constraint for a new business entity like PC.
- ◊ Initially PCs do not have any credentials for doing successful business which also makes the financial institutions uncomfortable for financing.

However, to overcome these initial challenges the PCs promoted by ASA, have followed a different business model in the initial couple of years before they have generated reserves and credentials. They were:

- ◊ The PCs ventured into a business, which required less or no working capital. Four such examples are given here.
- ◊ The business of supplying agriculture inputs like seeds and fertilizers to its members and also non-members. The PCs in this case had taken dealership of seeds and fertilizers from the public and private companies and worked as commission agents on behalf of those companies in supplying materials to the members and also non-members on cash. Because of the large scale of business the PCs could make a good margin and not the least a business relationship with those companies which resulted in getting credit limit from those companies in the subsequent years.
  - ◊ Similar experience was in the case of procurement of agricultural produce as a business model, when the PCs identified the prospective buyers and arranged buy back guarantee from them. As the produce was sold at the farm gate level no transportation and storage cost were involved at the PC level. The PCs ensured a transparent transaction between the buyers and the sellers (members and non-members both) and by doing so they earned some margin from the buyers.
  - ◊ Many PCs took the advantage of GoI's scheme which provide loan against the pledging of Warehouse Receipts (WHR). As per the scheme, the bankers extend loan up to 80% of the value of the produce against the pledging of the WHR. This does not require any collateral. This was mainly used for the seed production activity when the PCs had to store the raw seeds for over six months. The seed was produced by the members and payments were made in two installments – a) 80% of the payment at the time of procurement and b) 20% after receiving the sales proceeds. Since this activity generates about 25-30% profit margin the PCs could declare in advance a good premium to the seed producers for which the producers agreed to receive late payment of balance 20%.
  - ◊ PCs took the dealership from various companies for agriculture implements like water pump sets, mechanized plough, tractor etc, which they sold to the members at a reasonable price and earned a good margin of profit/commission. There was no need to stock those materials. Implements were supplied on demand.

From the above examples the key learning that can be drawn are:

- ◊ Choose those business activities in the initial years which require very less capital or no capital and which are risk free. Normally in trading business activities such opportunity exists. The point to be noted that majority of the middlemen in the agribusiness invest very little capital of their own.
- ◊ It is important for the PCs to demonstrate success as quickly as possible to build credibility with the shareholders and other shareholders. It is imperative therefore for the PC to start with something small and undertake such activities which are low in risk and not so complicated from the management perspectives.
- ◊ Demonstration of fair trade practices is very important for the PC which is appreciated by both the members and the trade and industry with whom PC does the business.

3.2 MANAGEMENT AND OFFICE ADMINISTRATION COSTS

It is not compulsory for a PC to appoint a team of professional to look after its day to day business. They can do it themselves. However, from the experience it is seen that for the PC to emerge as a profit making entity the role of professional managers cannot be ignored. The most successful example is the dairy cooperatives in India where professional managers have contributed immensely to make it a success. There are many other successful examples of using professional management viz. ASA's producer companies, PRADAN promoted poultry and Tasar cooperatives etc. Not only for business development but the value of professionals is immense in democratising the farmer's organisation and strengthening its governing system.

However, how many professionals are required is completely a matter of context and discretionary.

[17] It is mandatory as per article 581W of Producer Companies Act.

The number of professional staff would depend on the volume of business, diversity of activities and geographical spread of the business operation.

Every PC should have a full time Chief Executive Officer (CEO)[17] who is ex-officio director of the board. The Act has listed key functions of the CEO in the areas of administration including bank account operation, programmatic functions and governance responsibilities. The CEO can be one among the directors or members of the PC or appointed by hiring, in such case s/he will part of the management team.

There is a management team of 2-3 professionals from agribusiness background, in each PCs promoted by the ASA. The senior most of the management team performs the duty of CEO while others look after the production, marketing and accounting functions. The management team works under the direction of the BoD and report to them on a day to day basis. The Chairman of the BoD also works as a full time member in the management team and is a co-signatory of the bank account of the PC.

Since there are number of variables therefore it is difficult for a precise estimation of the running cost of a producer company.

In the table below an illustration of running cost is given based on the experience of ASA. However the cost heads which are included in this illustration could provide crucial leads while planning to estimate the operational costs for any initiative to form a PC.

3.3 COST OF FURNITURE & FIXTURES

A PC will require a minimum office set-up with furniture and fixtures like Computer, printer, almiras, file cabinet, internet connection and telephone etc. Generally it requires minimum of ₹ 1 Lacs for setting up of a small office as experienced by ASA. This is once again context specific and no standard cost norm can be prescribed. However, what is important to note is that a PC needs

TABLE 3: ESTIMATED MANAGEMENT AND ADMINISTRATION COST OF A PRODUCER COMPANY (ILLUSTRATIVE)

Sl. No.	Expenditure Heads	No. of Units	Unit Rate (in ₹)	Total Month	Total Cost (₹)	Increment@ 10%/Year		
						Year -1	Year-2	Year-3
1	**Salary**	1						
i	Manager/CEO	1	20000	12	240000	240000	264000	290400
ii	Production Officer	1	15000	12	180000	180000	198000	217800
iii	Accountant	1	6000	12	72000	72000	79200	87120
iv	Marketing officer	1	15000	12	180000	180000	198000	217800
2	**Travel**					0	0	0
i	Salaries	3	1500	12	18000	18000	19800	21780
3	**Office expenses**	1			0	0	0	0
i	Office Rent	1	3000	12	36000	36000	39600	43560
ii	Electricity	1	1000	12	12000	12000	13200	14520
iii	Water	1	200	12	2400	2400	2640	2904
iv	Telecommunication (Phone/Fax)	1	2000	12	24000	24000	26400	29040
v	Stationary	-	1000	12	12000	12000	13200	14520
vi	Cleaning	1	500	12	6000	6000	6600	7260
4	**Meeting Expenses of BoD/GB**	6	1000	6	6000	6000	6600	7260
5	**License fees, insurance & other statutory fees**	Lump sum			10000	10000	11000	12100
6	**Other miscellaneous expenses**	1	500	12	6000	6000	6600	7260
	Total				804400	804400	884840	973324
	Grand Total for three years					2662564		

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a bare minimum office set up for its identity. An office set-up and a formal system contributes in building the identity of the PC, hence this should not be ignored.

3.4 COST OF INFRASTRUCTURE AND MACHINERY

For a PC involved in agribusiness the basic infrastructure required are like warehouse, weighing machine, graders, bag closure machines, etc. These infrastructure can be purchased or can be taken on rent depending upon the situations. In normal case, it is advisable to take them on rent to reduce the burden of fixed costs.

However, many a times such facilities are not available in the area or services are not up to the mark. Estimating cost for these infrastructures is difficult without a context. Therefore the estimation should be done in real time situation.

From the experience it is found that normally the PCs are engaged in the activities of procurement, aggregation and grading of raw produce before sell. Under such condition three basic infrastructures like go-down, grader and electricity are essential items.

3.5 TRAINING AND CAPACITY BUILDING OF BODS AND PC FUNCTIONARIES

This is an important aspect for the growth of the PC and cannot be ignored. The estimation of cost should be based on the annual plan for capacity building including training and exposure visit events.

The requirement of capacity building inputs is again contextual however, as per ASAs experience, two formal trainings and two exposure visits are required for the BoD in the first year which costs about rupees one Lac. The trainings are conducted on the provisions in the Act, rules and regulations, statutory compliances, roles and responsibilities of BoD and General body, banking operations, while the exposure visits are taken to the successful PCs where an interactive learning is facilitated.

Note: All the costs mentioned above are essential for managing the PC business. With all these costs included, the PC may face huge financial burden from the beginning and the idea of setting up PC may not even take off. Thus it is difficult to establish a PC without any initial grant support for at least three years. Except for the starting capital for the business the other cost heads are expected to be covered under grant support by the promoting agency at least for three years before the PC can start generating enough surplus to meet those expenses. The cases, where PCs have themselves borne their cost of establishment, is not known till date. The Government of M.P provides grant support to the PC for the running costs for three years and one time working capital support of ₹ 25 lacs. Support is also provided to the promoting agency for three years to meet their costs. All these support are subject to the performance assessment done by an expert committee.

17. It is mandatory as per article 581W of Producer Companies Act).

CHAPTER 4

ASSESSMENT OF THE FINANCIAL

VIABILITY OF THE BUSINESS OF PRODUCER COMPANIES

(This chapter discusses the various methods used for assessing the financial viability of the business of producer companies.)

4.1 INTRODUCTION

"My business is very small. Do I really need to develop a plan like this?" This is the question that is often asked by owners of small businesses. The answer is, "You need a plan, if you don't want to remain in a small business for ever." Every business, small or large needs a business plan, more so in the case of PC, where for first-time producers are supposed to act as businessmen.

An approach of business plan development has been suggested in this chapter and the methods of assessing financial viability is discussed in an integral manner with other key components of the business plan development like marketing plan etc.

The fundamentals of business plan have been explained in simple terms. Each of these terms is also explained with the help of examples and calculations. Effort has been made to keep the language and applications simple.

The following sections could help in writing the blueprint of the business plan of a PC.

4.2 THE BUSINESS PLANNING PROCESS

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

Business Planning Process

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Business Ideas Generation

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Short-list of Business Ideas

↓

Opportunities/Threats Analysis

↓

Business Opportunities Identification & Selection

↓

Market Plan

↓

Financial Plan

4.3 HOW TO GENERATE BUSINESS IDEAS?

The first step in business planning is to identify the business opportunity. In this case the area of business is already chosen, i.e. agri business for the small producers. Identification of specific business opportunity is largely a reactive process. In the following paragraphs a step by step approach is adopted to discuss various tools of generating business ideas.

Patterns of Creative Business Opportunity Identification

- Development of problem-solving products/services: The first step is to hit upon an idea that can be a solution to a problem experienced by farmers. For instance, collective sale of agricultural produce to the bigger market or collective purchase of agricultural inputs like seeds, fertilizers, pesticides, etc. and selling it to the producers is a creative idea since it reduces the role of middlemen and ensures quality products and services to the farmers.

- Exploitation of new technology or material to meet a widely felt need: Millions of Indian farmers use hand made implements for agriculture like bullock driven wooden plough, bullock cart, thrashing by hands, etc. Since they can not afford to own them. An idea of introducing the services of mechanized implements like tractor, thrasher, etc. on rental basis to the small farmers can change the way. Farming is done and it can be done in a cost-effective way

- Creating a demand for Agriculture extension services: With the poor quality of State's agriculture extension services the idea could be introduction of Agri-clinic where professional extension services can be provided to the farmers on a reasonable price. Similarly, introduction of products like crop insurance can serve the farmers in a big way.

- Vision: This is the ability to look into the future and relentlessly pursue the dream. For example Dr.Verghese Kurien of NDDB, saw the potential of linking millions of milk producing farmers with the market.

4.3.1 Brainstorming in small groups, is the technique that is generally used in generating ideas for new businesses. This process is done in two phases:

- In the first phase, the emphasis is on generating a large number of ideas, without commenting on the quality of the ideas. The group coordinator must ensure that ideas are not evaluated, but are only recorded in detail.
- In the next phase, ideas are evaluated and a short-list is prepared. The criteria for evaluation may even be subjective.

4.3.2 Opportunity and Threat – Analysis & Business Opportunity Identification

Once a shortlist of ideas is generated, it must be critically evaluated with respect to the external business environment for identifying the business opportunity and threats. This is also called Opportunities & Threats Analysis (O/T Analysis) and is used to evaluate whether a business idea is worth pursuing any further. For every idea short-listed, write down the Opportunities & Threats in terms of:

- Size of the market.
- Its stability i.e., the demand for the product/service long term or purely temporary?
- The extent to which the market is dissatisfied with the existing service/solution.
- Level
- Price of competition, high, medium or low. and quality sensitivity of the market.
- Degree
- Barriers of profitability to entry/exit.
- Changes in government's policies such as subsidy, availability of low cost funds, etc.

At the end of the exercise, the O/T analysis would look like Table 4.

TABLE 4: O/T ANALYSIS OF MARKETING OF COLLECTIVE PRODUCE OF SMALL FARMERS		
FACTORS	**OPPORTUNITIES**	**THREATS**
Size of the market.	Fairly large. The district APMC procures about 10% of the State's requirement of food gains.	
Its stability, i.e., is the demand for the product/service long term or purely temporary?	With increasing population and growing change in food habits this is unlikely to be affected in the next 20 years.	
The extent to which the market is dissatisfied with the existing service/ solution.	Due to unavailability of options, farmers are dependent on the middlemen and unhappy about their unscrupulous practices. The market is sensitive in favour of procuring directly from the farmers.	
Level of competition (high, medium or low)		Low, however, likely to be Medium with the competition from the middlemen as the business grows for the PC
Market sensitivity towards price and quality		Not very quality conscious, but price sensitive to a certain extent
Degree of profitability and Barriers to entry/exit		Medium in the short term. Barriers to entry and exit are very low.
Changes in government's policies such as subsidy, availability of low cost funds, etc.	Favourable policy towards small 'farmers' PC, likely to get subsidy and sympathy of the government.	Banks do not provide any relaxations for loans to PCs, it is hard to get loans from them. This can seriously affect the operations.

Based on the Opportunities & Threats analysis, one can identify an appropriate Business Opportunity which could be considered for developing a business plan. However, there could be possibility that the identified business opportunity fails to remain as a potential business opportunity following further analysis, as mentioned below.

4.3.3 Risk-mapping and management

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

1. Prioritize earnings drivers: The first step is to identify and then map a company's earnings drivers. These are the factors that would have the biggest impact on earnings if disrupted. For example, a PC would depend heavily on the monsoon as a bad monsoonal year might impact its earnings significantly.

2. Identify critical infrastructure: The next step is to identify the infrastructure —including processes, relationships, people, regulations, plant, and equipment—that supports the PC's ability to generate earnings.

3. Locate vulnerabilities: The next step is to identify the main vulnerabilities.

4. What are the weakest links, the elements on which all of the others depend? It could be a single buyer for all produces, an employee of the PC (say, CEO) on whom the whole operation of the PC is dependent, etc. Vulnerabilities are characterized by:
   - ◊ An element on which many others depend; a bottleneck.
   - ◊ Processes with no alternatives.
   - ◊ Association with high-risk geographic areas (e.g. flood zones), and products (e.g., perishable commodities like milk, vegetables).
   - ◊ Insecure access points to important

infrastructure.

5. Develop responses: After mapping risk profile, a company will have detailed knowledge of its operational vulnerabilities and how these relate to its strategic goals and earnings. Completing a risk profile will also bring to light opportunities to reduce risk or Risk mitigation plan.

6. Monitor the risk environment: For each vulnerability, there will be a number of potential responses. In order to evaluate which responses are most appropriate, it is necessary to look at the external environment. Some risks are beyond the control of the PC like sudden change in policy environment due to change of political parties in the power, etc. But most other risks are manageable. By gauging the likelihood of various events, the PC can evaluate how much to invest for each vulnerability. A company's risk profile is constantly changing — economic and market conditions change, consumer preference change, the regulatory environment changes, as will products and processes. It is essential that the company's risk map change in tandem, implementing an early warning system so contingency plans can be activated as soon as possible. Although a detailed development of a PC's risk management profile is a fairly elaborate process, a simple self-assessment can quickly identify the largest gaps.

4.4 MARKETING PLAN

Once the business opportunity has been selected, market analysis follows. The data for the analysis may be obtained from secondary sources such as procurement of the APMC, Policy Guidelines, specific studies conducted by others etc. A market research could be also carried out for this purpose to critically examine the business potential.

The market analysis should cover details about:

- ◊ The overall market.
- ◊ Changes in the market.
- ◊ Market segments, their attractiveness, profitability.
- ◊ Target market and customers.
- ◊ Description of customers.
- ◊ 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 PC as an organization should be carried out. It would focus on the following:

- ◊ The uniqueness of the products/services with respect to competitor's.
- ◊ Payment terms.
- ◊ Quality
- ◊ Pricing. of manpower in the PC and their experience.
- ◊ PC's standing in the market.

The Strengths & Weaknesses analysis (S/W Analysis) together with the O/T analysis is called the SWOT Analysis. The O/T analysis helps to analyze the external business environment, while the S/W analysis focuses on the internal business environment, i.e., PC's product, PC as organization, its competencies, risk bearing ability and policies. At the end of the exercise this is how the Strengths & Weaknesses analysis would look like Table 5.

4.4.1 Choosing a marketing strategy

After choosing the market segment that the PC 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 PC wants to project about the product and the organization, PC's sales objectives like whether the PC wants rapid penetration or is content with slow penetration of the market etc. The PC may choose one or more combinations of strategy, but needs to strategically plan a right mix of the 4 Ps (Product, Price, Place & Promotion – called the Marketing Mix) to develop an appropriate marketing strategy.

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 confirm to a complete list of strategies, but are certainly, the important ones.

TABLE 5: S/W ANALYSIS OF MARKETING OF COLLECTIVE PRODUCE OF SMALL FARMERS		
FACTORS	**STRENGTHS**	**WEAKNESSES**
The uniqueness of PC's product/ service with respect to competitor's	Small farmers' produce to which the market has positive sensitivity.	
Payment terms		No credit terms
Quality of manpower and their experience	Technically qualified and experienced in agribusiness	Not experienced in marketing.
Pricing	Same as competitor or less	
Standing in the market	Being a small producers PC there is a sympathy in the market	Not very well known

4.4.2 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:

- ◊ Identifying advantages of the product over the competitors.
- ◊ Selecting the right advantage(s) , and finally.
- ◊ Signalling the adopted position to the market.

4.4.3 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 PC's products in this case Agri-clinic services which it intends to provide to the farmers of a given area:

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

4.4.4 Strategies based on 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 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 P's 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 market plan.

4.4.5 The PC's Marketing Plan

This is the marketing plan of ____

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 We will be targeting customers by:
   a. Products & Target Customers

SL. NO.	PRODUCT LINE	TARGET CUSTOMER
1		
2		
3		

b. Geographic area

iii Expected sales in the coming year

SL. NO.	MONTHS	PRODUCT LINE 1	PRODUCT LINE 2	PRODUCT LINE 3
1	April			
2	May			
3	June			
4	July			
5	Aug			
6	Sep			
7	Oct			
8	Nov			
9	Dec			
10	Jan			
11	Feb			
12	March			
	Total			

2. Competition
   Who are our competitors?

NAME: ____

ADDRESS: ____

Years in business: ____

Market share: ____

Price/Strategy ____

PRODUCT/SERVICE

Features: ____

(Note: write two more competitors using same template)

How competitive is the market?

HIGH: ____

MEDIUM:____

LOW: ____

3. 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.

Environment

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

____

____

2. 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

____

____

3. 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.)

____

____

II. PRODUCT OR SERVICE ANALYSIS

A. Description

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

____

____

PART THREE

B. Comparison

1. 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.)?

____

____

2. What disadvantages does it have?

____

____

C. Some Considerations

1. Where will you get your materials and supplies?

____

2. List other considerations:

____

____

III. MARKETING STRATEGIES – MARKET MIX

A. Image

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

____

B. Features

1. List the features that we will emphasise:

a. ____

b. ____

C. Features

1. We will be using the following pricing strategy:

a. Markup on cost[18] ______________________________ What% mark up? ______________________________

b. Competitive[19] ____

c. Below competition ____

d. Other ____

2. Are our prices in line with our image?

YES________________________ NO________________________

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

____

D. Customer Services

1. List the customer services we provide:

a. ____

b. ____

2. These are our sales/credit terms:

a. ____

b. ____

3. The competition offers the following services:

a. ____

b. ____

E. Advertising/Promotion

1. These are the things we wish to say about the business:

____

____

2. We will use the following advertising/promotion sources:

a. ____

b. ____

PART THREE

4.5 FINANCIAL PLAN

The last part of the business planning process is the preparation of the financial plan. It is based on the marketing plan. The topics covered in this section are:

A. Concepts of finance

- ◊ Budget and its importance
- ◊ Fixed and variable costs
- ◊ Working capital

B. Financial Analysis

- ◊ Break-even sales and BE Analysis
- ◊ Interest rates calculations
- ◊ Net Present Value
- ◊ Internal rate of return
- ◊ Cash flow statement

C. Sensitivity analysis

- ◊ Acid test ratio
- ◊ Debt service coverage ratio

4.5.1 What is a 'Budget'?

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
- ◊ Costs and
- ◊ Profits

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 – one that changes with volumes of sales and other 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 atleast equal to the benchmarked Return on Investment.

4.5.2 What is working capital?

Working capital is the difference between business's 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:

- ◊ Cash
- ◊ Marketable securities
- ◊ Accounts receivables
- ◊ Inventories
- ◊ Accounts payable, and
- ◊ Wages/salaries and taxes

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

4.5.3 How to prepare a budget?

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 PC's 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.

4.5.4 Break-even analysis

The most commonly used budgeting statement is the 'break even analysis'. In simple terms, this means that one has to find out using the above three answers what should be the sales revenues so that all the costs incurred in the business are recovered. This volume of sales is called the break even sales or the break even point. The fixed costs that must be recovered from the sales revenues after the deduction of variable costs determines 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 break even 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 per unit
X = volume of output (in units)
P = price per unit

Let us take a simple example to illustrate the above concepts Producers company-A (PC-A henceforth) wants to sell agriculture produce Gram to a bigger market. The following would be the costs:

◊ Cost price of Gram = ₹ 3000 per quintal
◊ Fixed costs per year = ₹ 1,00,000 (including rentals, salaries, communication, promotion, etc.)
◊ Additional variable cost per quintal of produce to be sold = ₹ 250 per quintal (including transportation, waste, insurance, etc.)
◊ The sale price of Gram in open market = ₹ 3,600 per quintal

What would be the break-even sales for PC-A?
Assuming that the break-even sales is Vb
The break-even sales for PC-A would be:
3600x Vb – 100000 – (3000+250)x Vb = 0
350 Vb = 100000
Vb = 285.714

This means that PC-A will have to sell more than 285 quintals of Gram in one year to break even.

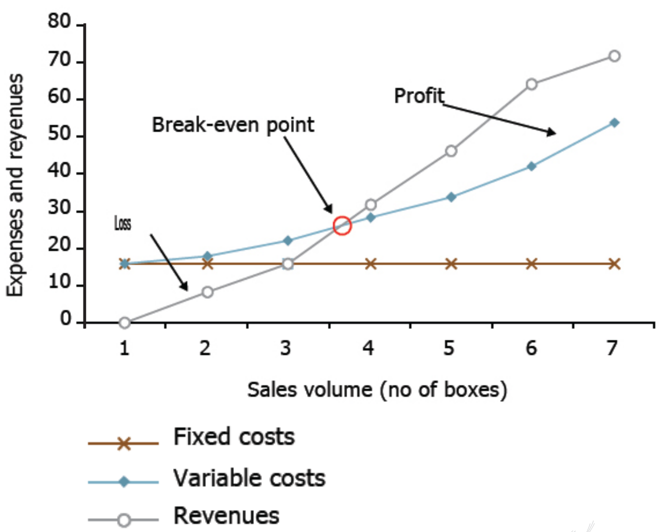
Now if PC-A also wants to recover the depreciation cost of its machinery (grading plant, generators, etc. of about ₹ 10,000 per month) and also make a profit of ₹ 140,000 per year, then the quantity of Gram it will have to sell will be calculated by this formula:

Total sales – total costs = (10,000 x 12) + 140,000 = ₹ 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 PC-A has to sell more than 571 quintals of Gram per year.

A typical break-even chart would look like this:



4.5.5 Sources of finance

In simple terms, ways and means to raise the capital or money required to be invested in a business is called `financing'. There are four basic but different ways to raise capital or funds for investing in any business. These are:

Personal financing: This is the money that PC has ready access to and on which the PC does not have to pay any interest. It may be sourced from the reserve and surpluses of previous years. This is the easiest (but not the best) way to finance the business. However, in case of a new PC this opportunity will not be there.

Credit capital: Credit capital can be obtained from credit companies or from potential buyers who give a grace period before the amount is due or interest is charged. The producers who sell their products to the PC would not hesitate in giving credit period to the PC if convinced about the soundness of the business idea. On the other hand the PC can get part payment in advance from prospective buyers of certain agriculture produce that PC has made a deal to supply. It can get agriculture inputs from the Agro dealers on the conditions of payment after sales. But mostly this type of finance is not available for start-up businesses or a new venture. Equity financing: Equity financing does not require the business to directly repay the money lent or invested by the investors. In case of PC the equity comes from the members and no external financier can participate in the equity investment. Being a small producers company the equity contribution is generally less and therefore it cannot contribute significantly to the total fund required for establishing a PC.

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

Grant support: The PC being a small holders organization may seek working capital support from the Government under certain government schemes (viz. GoMP has a policy for working capital support, SJSY special scheme can provide infrastructure grant to the PC) and from other development agencies.

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

4.5.6 What is interest? What are the various ways of calculating interest?

Interest is the cost or value of money. In debt financing, there are two main parties – the borrower and the lender. A borrower is the one who receives money from the lender. An interest rate is the amount, usually stated as a percentage, demanded by a lender (or an investor) to make an amount of money available to a borrower to use or invest in his business. Following are the examples of some interest calculations:

If PC-A borrowed ₹ 1,000 for 1 year at 12% interest then it has to repay ₹ 1,120, at the end of the year. Of this, ₹ 1,000 is the principal (abbreviated capital or lower case P) and ₹ 120 is interest (I or i). Together they are called Principal and Interest (abbreviated P & I or p + i).

Whereas, if PC-A were to borrow ₹ 1,000 for 1 year at 1% interest per month compounded (meaning paying interest on interest as well as principal) monthly, then he will have to repay ₹ 1,127 at the end of the year.

Similarly ₹ 1,000 borrowed by PC-A for 2 years at 12% per year, compounded, requires a payment of ₹ 1,254 at the end of 2 years.

An interest calculation based on borrowing ₹ 1,000 for 5 years at 12% interest per year compounded is as follows:

TABLE 6: CALCULATION OF INTEREST

Year 0	₹ 1000.00
Add: 12% for Year 1	₹ 120.00
End of Year 1	₹ 1,120.00
Add 12% for Year 2	₹ 134.40
EOY 2	₹ 1,254.40
Add 12% for Year 3	₹ 150.53
EOY 3	₹ 1,404.93
Add 12% for Year 4	₹ 168.59
EOY 4	₹ 1,573.52
Add 12% for Year 5	₹ 188.82
EOY 5	₹ 1,762.34

Hence if the loan is to be repaid after five years, the payment would be ₹ 1762.34 of which the principal returned is ₹ 1000, whereas the interest is ₹ 762.34.

There are three most common methods of loan repayment calculations. These are:

- ◊ **Interest only** – meaning only interests during the loan duration and the last instalment is paid along with the principal amount.
- ◊ **Equal payments** – here the interest and the principal to be repaid are spread evenly for the entire loan term.
- ◊ **Equal principal payment** – in this case, the principal amount is paid in equal instalments, while the interest decreases (based upon the balance principal amount).

Let us assume that the PC-A has managed to borrow ₹ 150000 from a commercial bank. The bank offers the PC-A about the three plans of repayment (interest only, equal payments and equal principal payments). Given the three options, which option the PC-A should opt for?

To answer the above question, the PC-A could take recourse to calculating Net present Value of the future cash outflows in all the three options.

TABLE 7: REPAYMENT PLAN

Year	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Interest Only	24000	24000	24000	24000	24000	24000	24000	24000	24000	174000	390000
Equal Payment	31035	31035	31035	31035	31035	31035	31035	31035	31035	31035	310350
Equal Principal	39000	36600	34200	31800	29400	27000	24600	22200	19800	17400	282000

4.5.7 What is Net Present Value (or NPV)?

Present Value or PV is a method to calculate what would be the value of a future cash flow if it were to happen today. Here a discount rate (similar to interest rate) is used to calculate the PV. An interest rate looks forward in time. It represents what someone expects to earn in the future. A discount rate serves the same function, except that it works backwards in time, taking a future cash flow and giving it a value today. The Present value is calculated in the following manner:

PV = A/(1 + D)T
Where A = Amount expected,
D = Discount rate, and
T = Time (in years)
If PC-A were to earn ₹ 10,000 in 1 year from today, its present value given a discount rate of 12% would be:
PV = ₹ 8928.57

This means that if PC-A were to earn ₹ 8928.57 today, it would be equivalent to getting (cash inflow) ₹ 1000 in the next year. Please note that it would also mean that if PC-A were to give ₹ 1000 next year (cash outflow), it would be equivalent to giving ₹ 8928.57 today.

Similarly, if PC-A were to give ₹ 1000 in two years time from now, its present value would be ₹ 7971.94.

The Net Present Value or NPV is the sum total of present values of such cash outflows or inflows over a period of time. This is used when calculating the present worth of future investments or cash inflows or instalment payments.

The formula is as follows:

NPV = A1/(1 + D/100)1 + A2/(1+D/100)2 + A3/(1 + D/100)3 + …….. + An/(1 + D/100)n

Where, A1, A2, A3, …., An are the cash flows expected in 1, 2, 3, and nth year respectively and D is the discount rate.

In our example earlier, given the three cash outflow scenarios for PC-A, the NPV for each one of them is given below:

TABLE 8: CALCULATION OF NPV

PAYMENT PLAN	NPV
Interest Only	₹ 150,000.00
Equal Payment	₹ 149,999.21
Equal Principal	₹ 150,000.00

As we can observe, the NPV for all the three payment plans is almost same. This means that for PC-A or for the Bank, the three plans are the same. However, depending upon the paying capacity of PC-A or the money requirement of the Bank, one of the options can be chosen. For example, in plan 1 – Interest Only, the maximum amount is payable only in the 10th year. This may not suit the Bank as it will get far less money during the initial years to service other loans. Also the risk is higher for the Bank. Most of the repayment plans prefer either plan 2 or 3.

Theoretically, the net present value of a future stream of cash flows (outgoing and incoming) must be positive to justify an investment. In other words, if a project is worth more than it costs (outflows are less than the inflows), its NPV will be positive.

In the example below the NPV has been calculated on three different marketing strategies generating three different cash flow although total cash flow is the same. In such case, a net present value analysis would help the PC-A to compare among the three choices.

Table 9: Cash Flow-1

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (at 12%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	₹ (9,338)
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	₹ 3,944
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	165000	₹ 6,467

Please note that the outgoing cash (in Year zero) is always shown as a negative, as it is an investment.

Looking at these three choices, only two strategies (B & C) have a positive NPV at a 12% discount rate while the third (Strategy A) is negative. This means that even if the three strategies would cost the same (the sum total of all the three cash flows is ₹ 1,65,000), the net present value of these is different and the Strategy with the best NPV (Strategy B in this case) should be normally selected over the other two.

Now if the discount rate changes, the NPV would also change. For example if the discount rate is lowered from 12% to 8%, the resulting NPV would be:

Table 10: Cash Flow - 2

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (at 8%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	₹ 61,704.20
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	₹ 81,460.35
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	165000	₹ 75,060.21

Now all the three strategies yield positive net present values.
Now if the discount rate changes to 16%, then NPV for the same streams of cash flow would yield the following result:

TABLE 11: CASH FLOW - 3

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (at 16%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	₹ (57,472.46)
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	₹ (32,732.80)
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	165000	₹ (40,633.59)

In this case all of the three strategies yield negative NPV and hence do not appear attractive.

This exercise demonstrates that in financial analysis, and especially in Net Present Value (NPV) analysis, the choice of discount rate is crucial. However for investments, analysis only on the basis of NPV may lead to faulty outcome and decision as its result hinges crucially on the discount rate adopted. Calculation of discount rate is complicated and requires expert advice.

Is there another, easier and a surer method to compare different cash flow streams? Yes, another technique called the Internal Rate of Return or IRR – is used for project analysis or the comparison of cash flow alternatives without having a specific discount rate.

4.5.8 WHAT IS AN INTERNAL RATE OF RETURN?

An internal rate of return calculation allows you to determine the interest rate that a business will earn on the original amount of capital invested and the expected future cash inflows. In other words it provides the discount rate that a business produces rather than applying a discount rate determined from outside the business. It is calculated by equating the present value of expected cash outflows with the present value of expected inflows.

Mathematically it may be represented as:

A0 = A1/(1 + R/100)1 + A2/(1 + R/100)2 + A3/(1 + R/100)3 + …….. + An/(1 + R/100)n

Where A0 is the initial investment and A1, A2, A3, …., A n are the cash flows expected in 1, 2, 3, and nth year respectively and R is the rate or Internal Rate of Return. The Internal Rate of Return – IRR – requires a computer for calculation.

On computer MS Excel programme
Enter cash flows in cells
Open f*
Choose Financial
Choose IRR
"OK"
Highlight values from Year 0 to Year n
"OK"

In our example of PC-A's expected cash inflows from the three strategies, the IRR as calculated with the help of computer is as follows:

TABLE 12: CALCULATION OF IRR

Strategy	IRR
Strategy A	7.74%
Strategy B	9.29%
Strategy C	8.73%

What do these values mean? Or what should be the acceptance criteria?

Here PC-A will have to compare the IRR from the three strategies with the required rate of return. If the IRR is more than the required rate of return, then the proposal would be accepted. For example, if the required rate of return is 12% then the IRR has to be equal to or more than 12% for consideration.

4.5.9 CASH FLOW STATEMENT

Cash flow statements show cash inflow and outflow over a period of time and are used for internal planning. If it is an established business, worksheets can be put together from the actual figures of income and expenses of previous years combined with projected changes for the next period. If it is a new venture, one will have to project the financial requirements and disbursements. The profit at the end of the year will depend on the proper balance between cash inflow and outflow.

The cash flow statement identifies

- ◊ When cash is expected to be received?
- ◊ How much cash will be received?
- ◊ When cash must be spent to pay bills and debts?
- ◊ How much cash will be needed to pay expenses?

It also allows the manager to identify the source of necessary cash, i.e., will it come from sales and services rendered or should it be borrowed? One has to make sure that the projections take into account receivables and how long it will take the customers to pay. The cash flow statement deals only with actual cash transactions and not with depreciation or other non-cash expense items.

A cash flow statement can be prepared for any period of time. It should be prepared on a monthly basis for the next year and revised not less than quarterly to reflect actual performance in the preceding three months of operations.

PREPARING CASH FLOW STATEMENT

The vertical columns of a cash flow statement represent the twelve months, preceded by a total column. Horizontal rows on the statement contain figures for the sources of cash and cash to be paid out copied from the two previous worksheets and from individual budgets.

The figures are projected for each month, reflecting the flow of cash in and out of the business for a one-year period. Begin with the first month of the business cycle and proceed as follows:

- ◊ Project the beginning cash balance. Enter under the first month of the business cycle.
- ◊ Project the cash receipts for the first month.
- ◊ Add beginning cash balance and cash receipts to determine total cash available.
- ◊ Project the direct, indirect and interest expenses for the first month.
- ◊ Project money due on taxes, long-term assets and loan repayments. Also project any amounts to be drawn by owners
- ◊ Total all expenses and draws. This is the total cash paid out.
- ◊ Subtract total cash paid out from total cash available. Enter the result under cash balance/deficiency. If the result is negative, be sure to bracket this figure.
- ◊ Project loans to be received and equity deposits to be made. Add to cash balance/deficiency to get ending cash balance
- ◊ Carry forward the ending cash balance for January as February's beginning cash balance.
- ◊ Repeat the process through the last month of the business cycle.

To complete the total column, proceed as follows:

- ◊ Enter the beginning cash balance for the first month in the first space of the total column.
- ◊ Add the monthly figures for each category horizontally and enter the result in the corresponding total category.

Compute the total column in the same manner as each of the individual months. If you have been accurate in your computations, the December ending cash balance will be exactly the same as the total ending cash balance.

An example of cash flow statement is given below.

CASH FLOW STATEMENT

Name of business & PC:________________________________ Projected/Actual Date:__________________

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
First of Month													
Beginning cash sales													
CASH IN													
Cash sales													
A/R collections													
Interest income													
Sale of fixed assets													
Loans received													
Other cash sources													
TOTAL CASH IN													
CASH OUT													
Inventory & raw mat.													
Salaries & wages													
General supplies													
Rep & maintenance													
Travel													
Shipping & delivery													
Legal & account. Fees													
Telephone, rent													
Utilities													
Interest charges													
Taxes													
Other operating expenditure													
Loan repayments													
Fixed asset payments													
Capital expenditures													
TOTAL CASH OUT													

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
End of Month													
CASH FLOW													
CASH Balance													
Operating data													
Sales volume													
Accounts receivables													
Bad debts													
Inventory on hand													
Accounts payable													
Depreciation													

4.5.10 SENSITIVITY ANALYSIS

After having learnt all these concepts, how can we evaluate the performance of PC-A's business? One of the measurements of the financial condition and performance of a business venture is a ratio or index, which relates two pieces of financial data from the business. There are several indices which can be used, here we would be discussing only two of the most commonly used ones, namely, acid test ratio and debt service ratio.

Acid test ratio

Acid test ratio or Quick ratio is the measure of the ability of the firm to be able to meet short-term obligations. This is a ratio of the current assets of the firm to its current liabilities. The current assets include cash and bank balance, short-term marketable securities and debtors/receivables. It may be noted that the inventories already lying with the firm are not included in the current assets. This ratio is the best available measures of the liquidity position of a firm. Usually an acid test ratio of 1:1 is considered satisfactory as a firm can quickly meet all its current or short-term liabilities.

Debt service coverage

While acid test ratio is a measure of the ability of a firm to pay off its current liabilities, 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.

If PC-A's income is ₹ 100,000 and its operating expenses are ₹ 50,000 it has ₹ 50,000 available to pay principal and interest on loans (debt service). If the PC borrows ₹ 1,50,000 for 10 years at 16% interest with equal payments every year, its obligation is ₹ 31,035. When compared to the ₹ 50,000 available for debt service the project has what is called a 1.6 times debt service coverage or debt service coverage ratio or DSCR (arrived at by dividing ₹ 50,000 by ₹ 31,035).

In real life however, the projects do not have such uniform debt service coverage calculations. For this reason we must look at what is called Average Debt Service Coverage (the sum of all the year's available amounts divided by the sum of all the debt service payments) and examine the coverage ratios of each year. We should then focus on the years when the debt service coverage is the lowest as well as the average DSCR.

Why is the debt service coverage ratio important and how are they used?

DSCR is important because they tell a lender what excess funds exists in the event revenues or expenses are less or greater than estimated in a project. Most lenders have a specific cut-off ratio that must be met for both average and lowest year debt service coverage. If a business cannot meet these tests then the options with the borrower could be:

Lowering the amount to be borrowed (and increasing the amount of equity that needs to be put in a project).
Setting up reserves or credit agreements to pay the shortfall amount in the specific year.

Essentially debt service coverage calculations determine how much debt a project can afford. Combined with IRR, these two tools assist the entrepreneur to determine the business viability.

PART THREE

4.6 WRITING A BUSINESS PLAN

Now that we have completed our marketing and financial plans, we are now ready to write out the business plan.

4.6.1 WHAT IS A BUSINESS PLAN?

The 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 you develop a new venture or launch a major new initiative. The business plan serves several important purposes:

- ◊ It helps determine the viability of the venture in a designated markets.
- ◊ It provides guidance to the entrepreneur in organising his or her planning activities.
- ◊ It serves as an important tool in helping to obtain financing/funding.

A well-written business plan also will provide broad parameters upon which progress toward goals can be assessed and control decisions made at a later time.

4.6.2 WHAT ARE THE ELEMENTS OF A BUSINESS PLAN?

Introduction & Executive Summary: A typical business plan begins with a brief introduction followed by an executive summary. The executive summary is prepared after the total plan has been written. Its purpose is to communicate the plan in a convincing way to important audiences, such as potential investors, so they will read further.

Industry Analysis: An industry analysis usually follows the executive summary. This section communicates key information – the collection of which was discussed earlier – that puts the venture or plan into the proper context.

Marketing Plan: The marketing plan is the first step in developing any new strategy. It is developed within the context of the PC's goals and should be based on a realistic assessment of the external environment, as discussed earlier. The marketing plan is written first because marketing decisions typically determine resource needs in other areas. Obviously, a decision to seek a large share of a market will require a significant commitment of resources of various kinds. How you choose to promote and distribute your product or service will have clear ramifications for your organizational, production, human resource and financial plans.

Financial Plan: The financial plan underpins this entire system of plans. Three financial areas are generally discussed.

- ◊ Financing pattern
- ◊ Cash flow statement
- ◊ Three year income statement

Usually an appendix is included in a business plan. This generally contains supporting information, documents and details that would interfere with clear communication in the body of the plan. Examples of this type of information include price lists, economic forecasts, demographic data and market analyses.

4.6.3 TIPS ON WRITING A BUSINESS PLAN

The text of a business plan must be concise and yet must contain as much information as possible. This sounds like a contradiction, but you can solve this dilemma by using the Key Word approach. Write the following key words on a card and keep it in front of you while writing:

Who/What/Where/When/Why/How/How Much

Answer all these questions (asked by the key words) in one paragraph at the beginning of each section of the business plan. Then expand on that statement by telling more about each item in the text that follows.

There is no set length to a business plan. The average length seems to be 30 to 40 pages, including the supporting documents section. Break the plan down into sections. It takes discipline, time and privacy to write an effective business plan.

You will save time by compiling your list of supporting documents while writing the text. For example, while writing about the legal structure of your business, you will realize the need to include a copy of your partnership agreement. Write partnership agreement on your list of supporting documents. When compiling that section of your plan, you will already have a list of necessary

documents. As you go along, request any information that
you do not have, such as credit reports.

With the previous considerations in mind, you are ready to begin formulating your plan. Read through this entire publication to get an overall view of the business planning process.

4.6.4 SUGGESTED OUTLINE OF A BUSINESS PLAN

I. Cover Sheet

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

- ◊ Name of the Producer Company.
- ◊ Company address
- ◊ Company phone number (include area code).
- ◊ Logo (if any).
- ◊ Names, titles, addresses, phone numbers (include area code) of CEO/Board of Directors.
- ◊ Month and year of the plan was issued.
- ◊ Name of the person/organisation who prepared it.

II. Brief Description of the Business

This gives a brief description of the business idea. What is the propose? Why it will be successful?

III. Table of Contents

A page listing the major topics and references.

IV. 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 suggests the means to rightly position and supply the products or services to them.

- ◊ ***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

- ◊ ***Competition:*** Evaluate indirect and direct competition. Show how one can compete. Evaluate competition in terms of location, market and business history.

- ◊ ***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

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

- ◊ ***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.

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

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

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

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

V. Financial Documents

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.

- ◊ ***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.

- ◊ ***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.

◊ ***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.

◊ ***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.

VI. Supporting Documents

◊ Brief profile of the PC and resumes of the key Director/CEO
◊ Copies of leases, if any
◊ Letters of reference
◊ Contracts/work order/MoU for selling produces etc.
◊ Legal documents (registration, business license, etc.

CHAPTER 5

ASSESSING INSTITUTIONAL

PERFORMANCE OF PRODUCER COMPANY

(The Chapter describes a practical tool that can be used to measure the health of the producer companies)

A method of institutional assessment of producer company, namely, Framework of Participatory Assessment of Institutional Performance of PC, has been discussed in the following section. This method is used frequently by ASA to assess the institutional performance of the PC time to time. Based on the findings of the assessment capacity building strategy for the PC, it is developed or modified.

5.1 FRAMEWORK OF PARTICIPATORY ASSESSMENT OF INSTITUTIONAL PERFORMANCE OF PC

The framework is comprised of a set of Criteria and Institutional Maturity Indicators, considered important for quality checks to ensure that the formation process and functioning of PC is such that it contributes towards strengthening of the governing system of the PC. A suggestive set of criteria and IMIs are given below.

TABLE 13: CRITERIA AND INDICATORS FOR ASSESSING PC FORMATION PROCESS AND FUNCTIONING

CRITERIA	INDICATORS
Characteristics	◇ Size: good enough to be viable and socially cohesive ◇ Social homogeneity: kinship or other social ties, absence of dependency on relations. ◇ Not dominated by politically/economically powerful members ◇ Poor and women are included (if mandated)
2. Identity & structure	◇ Members know the purpose of forming PC ◇ Members represent their households. ◇ There is continuity in household representatives. ◇ All members can give an account of all the PC's activities. ◇ All members can give an account (General) of the PC's finances
3. Leadership	◇ Leadership roles change, fixed tenure ◇ Leaders have been elected/selected by the members. ◇ Selection/election of leader based on desired characteristics
4. Functioning	◇ PC has a set of rules (by-laws) which have been discussed and agreed upon as well as sanctions for rule breakers ◇ Regular BOD meeting and AGM take place with significant attendance ◇ The majority of members (X%) contribute to BOD/AGM discussion and decision making ◇ Up to date maintenance of records and statutory compliances
5. Independence (in proportional to the age of the PC)	◇ X% meetings of BOD/AGM regularly take place in the absence of promoting institution or with diminishing support ◇ Records are maintained without or with little support from the Promoting Agency (PA) ◇ X% decisions are taken independent of the PA
6. Resource mobilisation	◇ PC raises funds to carry out business ◇ Overheads expenditure met with the own resources ◇ Reserve funds builds up to X% ◇ PC mobilises specialist skills or services from the government and private sources ◇ PC obtains govt. scheme to meet identified needs (convergence with other schemes)
7. Resource management	◇ PC develops business plan and implementation is as per the plan ◇ PC has shown ability to negotiate with the various stakeholders ◇ PC effectively oversees/manages the work of executives working as salaried persons ◇ Budget control ◇ Transparency
8. Skill acquisition & use	◇ X% of BOD members have attended training programmes (including specialised training) ◇ BOD has used planning skills to identify and solve operational problems.
9. Distribution of benefits	◇ Equitable distribution of benefits (dividends and services) ◇ Mechanism of benefits-sharing developed and adhered to

Against each of these criteria and associated indicators the institutional performance of the PC can be assessed in different time frame. The timing of the assessment is context specific and therefore difficult to prescribe. However, it is suggestive that it can be used for some criteria in the beginning and repeat exercise can be conducted once in a year.

It is desirable that the assessment is done in a participatory manner, especially involving the members of the BoD, so that they get the maximum benefits by this assessment in the form of discussion on the spot analysis, etc. This analysis would help the BoD to identify their strength and limitations for course correction. Hence, the process of facilitation is crucial.

Since the assessment is qualitative in nature therefore the facilitator for this assessment may choose to use different scales viz. 1 to 10 or attributes like very good, good, satisfactory, poor, etc. to bring in some amount of objectivity to the exercise.

ADDITIONAL RESOURCES

Tool Kit for Financial Analysis

For the convenience of the practitioners and others an Excel programme based software has been developed for the financial analysis. This will be useful for appraising different variables while doing the financial analysis. The softcopy of the Tool kit can be downloaded for free from the SFAC website (www.sfacindia.com).

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