



**International Training Programme under Indian Technical and Economic Cooperation (ITEC) of Ministry of External Affairs (MEA), Govt. of India**

**On  
Issues and Challenges in the Promotion of  
Farmer Producer Organizations (FPOs)**

**13-27 February, 2023**

## **Training Manual**

**Compiled By**

**K C Gummagolmath**

**Shridevi V**

**Bammidi Ujjwala**



**Organised by:**

**National Institute of Agricultural Extension Management**

(An Autonomous Organization of Ministry of Agriculture & Farmers Welfare, Govt. of India)

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This book is the Training Manual of a fifteen days international ITEC Training program was conducted on Issues and Challenges in the Promotion of FPOs by MANAGE. This was a forum to bring together researchers, scientists, and extensionists to discuss innovative ideas on diverse topics and generate pool of knowledge FPOs. Twenty seven participants from sixteen different ITEC partner countries were participated in the training program. Neither the publisher nor the contributors, authors and editors assume any liability for any damage or injury to persons or property from any use of methods, instructions, or ideas contained in the book. No part of this publication may be reproduced or transmitted without prior permission of the publisher/editor/authors. Publisher and editor do not give warranty for any error or omissions regarding the materials in this Training Manual.

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## ABOUT MANAGE

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MANAGE was established in 1987, as the National Centre for Management of Agricultural Extension at Hyderabad, by the Ministry of Agriculture & Farmers Welfare, Government of India as an autonomous Institute, from which its acronym 'MANAGE' is derived. In recognition of its importance and expansion of activities all over the country, its status was elevated to that of a National Institute in 1992 and rechristened to its present name i.e., National Institute of Agricultural Extension Management. MANAGE is the Indian response to challenges of agricultural extension in a rapidly growing and diverse agriculture sector. The policies of liberalization and globalization of the economy and the level of agricultural technology becoming more sophisticated and complex, called for major initiatives towards reorientation and modernization of the agricultural extension system. Effective ways of managing the extension system needed to be evolved and extension organizations enabled to transform the existing set up through professional guidance and training of critical manpower. MANAGE is the response to this imperative need.

### **Professional Services**

MANAGE offers its services in the following five streams viz.,

- Management Training
- Consultancy
- Management Education
- Research
- Information Services

## MANDATE

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The mandate of MANAGE vests the institute with the responsibility to work in the following directions:

- Developing linkages between prominent state, regional, national and international institutions concerned with agricultural extension management
- Gaining insight into agricultural extension management systems and policies
- Forging collaborative linkages with national and international institutions for sharing faculty resource
- Developing and promoting application of modern management tools for improving the effectiveness of agricultural extension organizations

- Organizing need based training for senior and middle level agricultural extension functionaries
- Conducting problem oriented studies on agricultural extension management
- Serving as an international documentation center for collecting, storing, processing and disseminating information on subjects related to agricultural management.

### **Core Values**

1. User friendliness
2. Client-centred process consultancy
3. Farmer-focused approach in all our professional services
4. Interactive and experiential learning methodology
5. Faculty development and networking with facilitators
6. Determination to achieve financial self-reliance

## ABOUT THIS INTERNATIONAL TRAINING PROGRAMME

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The International Training Programme on “**Issues and Challenges in Promotion of Farmers Producer Organizations (FPOs)**” is being organized under Indian Technical and Economic Cooperation (ITEC) program- an initiative of Ministry of External Affairs, Government of India during **13-27<sup>th</sup> February 2023** at National Institute of Agricultural Extension Management (MANAGE), Hyderabad, with the overarching goal of establish mutual concern and cooperation with different countries. The main role of the training program is to equip policy makers, administrators, researchers and field level officials from different countries and strengthening their technical and economic capacity regarding the concerned theme.

Owing to the importance of FPO in sustainable agriculture, this training program is being conducted with the following aims and learning objectives:

- To make them understand extension strategies and techniques for Mobilization of farmers into group and to make them understand the social dynamics involved in the same.
- To create awareness about the concept and importance of Farmer Producer Organizations in India and across the globe in the present scenario
- To impart skill and knowledge on formation of Farmer Producer Organizations (FPOs) and also on legal issues, National Policies for the Promotion of FPOs in India and other countries.
- To sensitize the participants on different aspects of operation and management of FPOs
- To sensitize the participants on Latest trends in Agribusiness sector facilitating core development of Business areas for FPOs and emerging business models

### **Expected learning outcomes from the training**

- ❖ Participants will acquire Improved practical knowledge of on promotion of FPOs/FPC to improve farmers income
- ❖ Participants will be equipped with the knowledge of operation and management of FPOs/FPCs
- ❖ Participants will be able to prepare agribusiness plan for sustainable FPOs
- ❖ The participants will have an opportunity to visit successful FPOs and also they will be exposed to knowledge repository of National and International organizations working on FPOs here in India.

Besides sharing the India’s experiences and competence through this ITEC programme, on application of formation, promotion, issues and challenges in Promotion of Farmers Producer Organizations, this training program strives to attain

mutual cooperation with other countries and participants in terms of cross learning and good will.

Thirty (30) executives representing Ministry of Agriculture and Allied Departments, Agricultural Universities from 16 countries (Niger, Sudan, South Sudan, Uganda, Nepal, Tajikistan, Kazakhstan, Tanzania, Uzbekistan, Mozambique, Azerbaijan, Bangladesh, Ghana, Ethiopia, South Africa, Zambia ) are participating in the training program at MANAGE.

## FOREWORD



The ITEC Program, fully funded by the Government of India, has evolved and grown over the years. Under ITEC, 161 countries in Asia, Africa, East Europe, Latin America, the Caribbean as well as Pacific and Small Island countries are invited to share in the Indian developmental experience acquired over seven decades of India's existence as a free nation. The present international training programme under Indian Technical and Economic Cooperation (ITEC) on 'Issues and Challenges in Promotion of Farmers Producer Organizations (FPOs)' scheduled during 13-27<sup>th</sup> February 2023 is one such initiative. I express my gratitude to Ministry of External Affairs, Govt. of India for entrusting us with such a noble responsibility.

MANAGE has been successfully bringing together various stakeholders of the Agrarian society for years and creating an environment of mutual learning and growth both in India and across the globe. Over the years it has touched various issues of significance in the field of Agriculture through various events. One such significant development in Indian agriculture is the recent tool of aggregation in the form Farmer Producer Organization registered under the Companies Act, the journey of which began during 2002. By and large, the experience of this farmer collectives has been good in view of the fact that it provides for profit, reduces the transaction cost and inculcate business acumen among the farmer groups. The benefits of aggregation experienced by India needs to be extended to the developing nations in the African and Asian Continents. Against this backdrop, the present training programme was organized at MANAGE. It's my pleasure to welcome you all for yet another training where dissection and enrichment of ideas by the trainers and participants from across the globe will help us to identify possibilities, deficiencies and opportunities linked with the role of computers in the various processes in Agricultural Extension.

This document is a compilation of reading note contributed by the experienced resource persons who are practitioners themselves. It will help the readers in getting acquainted with the concept and transform the same into action.

I congratulate the organising team M&E at MANAGE for their tireless efforts for making this event a success and the participants who have taken this effort to add value to the event.

A handwritten signature in black ink, appearing to read 'P. Chandra Shekara'.

**P. Chandra Shekara**  
**Director General, MANAGE**



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## **UNIT I - FORMATION AND IMPLEMENTATION OF FPOs**





## Topic - 1

### Strategic Management of SHG/JLG/FIG Principles and Practices of Collectives

Dr Renuka Rani

#### Objectives:

After going through this unit, the learners will be able to know about the:

- Need and importance of farmers organisations
- Formation of farmers interest groups
- Formation and management of federations at different levels
- Principles and Practices of Collectives

#### 1. Introduction:

Farmers' Organizations are seen as a useful organizational mechanism for mobilizing farmers' collective self-help action aimed at improving their own economic and social situation and that of their communities. Such organizations were perceived to have an ability to generate resources from their members. They could operate at different levels from the local to the national.

Many governmental and non-governmental organizations have been trying to organize farmers into groups and integrate them into the development process by actively involving them in transfer of technology, production and marketing, planning, implementing and monitoring of different projects on rural development, agriculture and allied sector development, natural resource management etc.

Farmers' organizations build group cohesiveness, solidarity and promotes mutual support. They can be the platform for building a sense of community, a social support system, increasing self-confidence, learning together and providing a sense of equality.

Everywhere in the world, a limited number of farmers are collaborating with each other in some way or the other and forming groups for sharing information and working together. Under the right circumstances, farmers' groups can make a very positive difference to the lives of those working to improve their livelihood options as well as to the sustainable development of agriculture. Working together can take



many forms, and a variety of terms are used to cover the scope of this idea – collective action, farmers’ organizations, women’s’ groups, unions, co-operatives, self-help groups, networks, alliances, associations, committees, clubs, partnerships etc. These terms imply a range of methods for joining forces, at different levels, in a variety of sizes and scopes, with different aims or with different legal status.

### **Part –I: Promotion of SHG/JLG/Farmers’ Interest Groups**

Groups of farmers, who come together to meet their own felt needs. Their cohesion and motivation often lie in material and financial considerations. Spontaneous and voluntary formations of social groups involve a high degree of trust, which cannot be manufactured. There is an important difference between farmers or communities that organize themselves to work together, and farmers being organized in groups by external actors, who see this as a vital step and entry point for community development. External agencies often view the creation of organizations as a positive intervention, a way of increasing impact and sustainability of activities. Farmers and communities often do benefit from participating in such projects through gaining access to trainings, information, resources and further linkages. However, groups formed in this way are typically more prone to difficulties at the start and there is a risk that they will not continue if or when the initiating institution withdraws from the project. A key challenge for facilitating agencies is to act as catalysts and bring out the self-organizing capacities of farmers in the most locally relevant and useful way.

#### **1. 1.1 Stages of group formation:**

Broadly there are five stages in organization of group as indicated below:

- Forming → When the group members enroll themselves and conduct 1-2 initial meetings
- Storming → When the group members start discussing and reacting to the various issues / conflicts
- Norming → When the groups start framing norms to run it successfully
- Developing → Provide capacity building to the group members on different areas
- Performing → When the group starts performing by involving in planning the commodity converge with developmental programs, management of inputs and output, value addition, packaging, grading, transportation, marketing etc.



### 1.1.2. Guidelines for formation of Farmers Interest Groups (FIGs):

#### a) The core functions of FIG are

- Acting as collateral through group pressure
- Ensuring optimal production planning, meeting the market and household food security needs
- Maintaining common infrastructure –farm machinery, farm ponds, bore wells, tractors, storage godowns, drying platforms, primary processing units etc. and equipment which cannot be afforded by one farmer but can be owned by 20 farmers together
- Linking with the local government at panchayat level to obtain access to governmental programmes like agriculture and allied sector development programmes/funds etc.

#### b) Characteristics of the FIG

- Number of members in a FIG is 15 to 20. This is keeping in view the experiences of SHGs' promotion in the country.
- Age – above 18 years
- Practicing farmer of the village
- While promoting FIGs, different other community institutions promoted in the area under various government and non-government programmes have to be kept in view. The details of such institutions, lessons learnt etc. have to be kept in view while promoting FIGs. Such institutions may include the following:
  - Self Help Groups (SHGs)
  - Village Organisations (VOs) (Federations of SHGs at village level.)
  - User Groups– Groups of farmers in compact areas promoted to use the benefits of a common structure erected under watershed programme, such as Watershed Committee, or any other such livelihood groups, Groups of wage labour promoted under NREGS Groups of farmers formed on compact lands assigned to SC, ST farmers – compact land blocks developed under programmes like NREGS, CLDP, NABARD etc., Farmers groups, Cooperatives, Tank



management committee, VSS/ FPC, Community networks etc. If such groups exist then it is advisable to select appropriate groups keeping in view the objective of the project and then treat them as FIGs. The advantage will be that you will get the benefit of an existing and organisationally stronger group.

The following specific steps may be taken for organization of FIGs:

- Organize informal meetings with prospective group members to discuss the purpose, methods of operation and benefits of groups as well as possible enterprises/activities.
- Farmers' groups may be formed once the participants have identified viable income-raising activities
- They decide on criteria for group membership: for example, whether members should belong to a specific category on the basis of common needs, common problems, common interest, similarity in commodity, small holders, social affinity, homogeneity in socio-economic status and neighbourhood etc.
- FIGs will get informal recognition from agriculture and horticulture departments. FIG is not a legal body.
- Only one member from one household may be considered for FIG and no person can be a member in more than one FIG for all financial matters. From the perspective of equity this is important. If there is a joint family, multiple memberships are possible on the basis of one member per 'chula'.
- FIGs should choose their leaders and co-leaders. No designations like Chairperson, Treasurer, and Secretary etc., need to be given to the leaders. Instead, the designation of Representative can be used. Thus, this does not take on significance of a hierarchy and they are perceived as Representatives.
- It is always better that the leadership is rotational. However, the periodicity of rotation etc., should be left to the group. It is also to be remembered that there should be sufficient time for the leadership to work before they are changed in order to give all members leadership experience.



- In a village, apart from compact area of group members of each FIG, the area under all FIGs also has to be compact. Keeping the functions of the FIG in view, farmers will be covered in a contiguous land patch of 20 farmers and these 20 farmers will form a potential FIG. This is so that it becomes easy to access watershed funds and also plan for common infrastructure for a particular commodity.
- As far as possible, the village saturation (i.e. coverage of all farmers cultivating the entire cultivable area of village) approach has to be adopted.
- Due attention has to be given to farmers cultivating lands in ridge areas, rain fed lands, assigned lands etc.
- Confidence and clarity of key persons (*Sarpanch*, elders, opinion makers, key informants etc) has to be taken while mobilisation and organisation of farmers.
- Periodic meetings and consultations at the village level is a must to keep the community informed about the interventions that the project is making. Often this is forgotten leading to isolation of the project in the villages. At least one meeting a month and minimum 12 meetings per year must be conducted at FIG level. Transparency and democratic functioning must be emphasized through example. Questions must be encouraged and fully answered.
- Each farmer may have a common fund in the group
- The FIGs must maintain a set of records relating to their financial transactions, membership register, minutes book etc. This will vary in accordance to the nature of the groups. It is suggested that the Group promoters to be in touch with the organisations that have been promoting such primary groups and take their help in developing the record system at the groups.
- For different activities (like formation of FIGs, election of group leaders, group meetings etc), decisions/resolutions have to be recorded in Minutes Book with required signatures.
- Members will seek primary membership in FIGs. Services to the members will primarily be provided at savings, credit, insurance, procurement, marketing, trading, storage, processing, land, soil & water resource management, etc.



- Admission/Removal/Resignation of members can formally be done at FIG level; norms to be established for this component.
- Organize farmers group with the help of locally-available/ identified community organizers/group promoter.
- Group promoters make a list of potential group members and leaders, possible group activities and required inputs.
- Assess their productive resources, including capital, skills and experience.
- During the initial period of 6-9 months, the members may be encouraged to take small amount of loan at a reasonable rate of interest as decided by the group. This shall help them in developing a habit of repaying the borrowed amount in different installments. This type of modality shall help in developing solidarity in the group, planning for their commodity till it reaches markets.
- Ranking/grading of the above FIGs may be done after 6-9 months. At that stage, only mature FIGs may be given external or project benefit, revolving fund, etc. The remaining FIGs may be further strengthened with the help of group promoter and may be given project benefits, revolving fund etc., as and when they get maturity. Proper transparent criteria may be used for assessing the maturity of FIGs. Provide capacity building on each and every stage of the group. At this stage, special care may be taken not to break any of the existing group, just because of availability of certain small financial incentives to FIGs. The formation of viable and stable groups requires patience and, in most cases, a period of two to six months. Both overly rapid formation and overly long delays, which may dampen the interest of potential group members, are avoided. The process of group formation may face formidable obstacles. In most of the cases, the rural poor are economically dependent on landowners, traders and middlemen and may fear intimidation if they are involved in independent peasant organizations. Local leaders who may see the groups as a threat to patron-client relationships pose other constraints. At local level, project staff can help to overcome this antagonism by calling meetings to sensitize leaders to the objectives of the project/programs and, above all, to illustrate the benefits of its activities to the area as a whole.



### 1.1.3 Office bearers in FIG:

The group members should sit together and nominate the following office bearers unanimously; the selection of officer bearers can be done through sociometry method. Who should have the responsibilities as mentioned below;

**Group leader:** The leader of the group should be wise, have leadership qualities, good communication skills, capability of keeping the group active, intact and can help/*facilitate* the group members to take the decisions. Details are given in 1.2.4.

**Co-leader/ Secretary:** The Secretary of the group should also be a literate person with following responsibilities:

- If the leader is not available the co-leader will organize the meetings.
- Writing the proceedings of the group meetings;
- Undertaking necessary communication with other local agencies;
- Signing documents on behalf of the group if the leader is not available.

**Treasurer/ cashier:** The Cashier of the group should be literate and maintain accounts. The duties of the cashier would include:

- Involvement in preparation of group action plan
- Maintenance of member wise commodity transaction register.
- Input and output register
- Maintenance of savings in a group;
- Opening and maintaining group member accounts, individual pass books issued by group to the members.
- Maintaining joint account of the group in the bank;
- Operating the account and undertaking the bank transactions;
- Maintaining account of loans/ internal lending and re-payments.
- Maintaining cashbook, ledgers, resolution book & other records in the group.
- If there is no literate person in the group, the group can hire a book keeper/ community organizer for maintenance of the group accounts /records/ registers.



### 1.1.3.1 Selection of a Group Leader:

The selection of a leader is very important. The leader should be a **democratic leader** and share information with the group members, take decisions and the planning of activities. The participation of all members should be encouraged. He/she should work to develop a feeling of responsibility on the part of every member of the group. He/she attempts to understand the position and feelings of the members. Leadership involves overseeing and monitoring the groups' activities.

Initially, the vocal, we feeling, broad minded, literate members from the group can be chosen by the members of FIG as a group leader. However, building strong leadership is a challenging, require more time and energy. The leader should rotate normally once in a year. Some people are natural leaders. Others have skills that remain hidden because they never had the opportunity to develop themselves. Gradual rotation of leadership positions among all the members is desirable.

### Leadership Responsibilities

It is apt to realize that **leadership in a FIG is a Verb and not a Noun**. The range of leadership responsibilities includes the following;

- Providing guidance for group activities
- Assisting information sharing among group members
- Helping define problems and identify solutions
- Facilitating appraisal of group performance
- Encouraging members to offer ideas and opinions
- Resolving conflicts and disputes between group members
- Conducting meetings and facilitating group decisions
- Organizing, implementing and coordinating agriculture technology, credit and marketing issues
- Facilitating Commodity oriented discussions during group meetings
- Developing working plan with participation of other group members
- Developing coordinating networks with other groups



- Developing linkages with other institutions, government departments, marketing agencies, credit institutions, etc. for the augmentation of commodity.
- Maintaining and keeping books of accounts
- Maintaining a bank account on behalf of the group
- Representing the groups interest to outside bodies
- Conducting negotiations and doing business/ marketing of a specified commodity with other organizations
- Rendering truthful and correct accounts to members
- Monitor group progress and achievements of objectives
- Ensure that group norms are observed
- Encourage participation by all members in discussions, decision making and work
- Introduce new ideas in the group
- Report the work of individual members and the group as a whole; and
- Represent the group on special occasions considering the wide-ranging responsibilities of leaders in FIGs, a responsibility-sharing mechanism by assigning different leadership roles to several members must be worked out. This entails:
  - Grouping of leadership responsibilities and identifying leader positions ex. Marketing leader, crop management leader, group management leader etc.
  - Providing clarity in roles and responsibilities of different leadership positions
  - Selecting leaders for discharging expected leadership roles on consensual basis
  - Developing systems and procedures where members are required to assist leaders in discharge of routine functions
  - Must provide inbuilt mechanisms for **rotation of leadership** at least once in a year with clear succession plans for smooth changeover of leadership.

Adopting a methodology for changing leaders in case of non-fulfilment of expected roles



### 1.1.3.2 Rights and Obligations of Members:

- Every member has a right to determine goals, objectives and vision of the group
- Every member has a right to participate in every activity of the group
- Every member has a right to participate in group meetings and decision making
- Every member has a right to participate in leadership function
- Every member has a right to share in the group's wealth
- Every member has a right to scrutinize groups records
- Every member is under obligation to develop their own commodity
- Every member is under obligation to involve in transfer of technology, market interface for the development of their commodity
- Every member is under obligation to motivate other on sustainable development of agriculture
- Every member is under obligation to disseminate the information known by him or her to other group members on development of their commodity.
- Every member has a right to withdraw from membership in genuine circumstances
- Every member is under obligation to accept goals, objectives, and vision of the group
- Every member is under obligation to participate in all group activities particularly of agriculture and allied sector developmental activities
- Every member is under obligation to make oneself aware and abide by the group norms and rules
- Every member is under obligation to participate in group meetings and decision making
- Every member is under obligation to contribute minimum agreed common fund to the group
- Every member has a right to access loans from the pooled common fund of the group
- Every member is under obligation to act with diligence in discharge of group responsibilities
- Every member is under obligation to participate in supervision of group business and finances
- Every member is under obligation to promote Agri. Business activities within the group



It is to be noted that the rights and obligations of members are almost convergent mainly on account of FIGs being a member owned, managed and controlled institution. Every member is also a part of management. Hence, **transparency is the watch and word.**

#### 1.1.4. Governance in FIGs

A group needs a competent and committed facilitator, strong cadre of leaders, and enlightened and alert members. Hence, the governance of FIGs that promotes democratic traditions is crucial for its success. Evolution of norms or rules and regulations for self-governance, participatory decision making, diligence and self-discipline among group members coupled with strong enforcement mechanism are sufficient conditions for transparency in group operations. These rules and regulations are not mere statements but reflect the understanding of group norms by members through their conduct in group activities. Rules and regulations of the group, therefore, need to apprehend conflict situation in day-to-day functioning of the group and provide ready solutions. These could broadly cover:

- Groups to have unique name to give it a distinct identity
- Goals and objectives of FIG
- Develop a vision of FIG and discuss within the group
- Membership issues – optimal size, entry norms, exit policy
- Extraordinary issues concerning membership – expulsion and co-option of members
- Leadership structure – positions, roles and responsibilities
- Positioning leaders – tenure, selection and change process
- Financial services – savings and credit products
- Fund management – cash management, interest rates, expenditure
- Decision making – decision making methodology, styles and record keeping
- Enforcement of decisions made by the group
- Enforcement of group norms – discipline procedures
- Relationship management with service agencies – Agriculture Research, Extension, Marketing, Banks, input agencies, *etc.*



### 1.1.2.7 Meetings:

Group meetings include time when members gather either periodically or at short notice to discuss the activities of the group and decide on its future actions. All activities in FIGs revolve around the development of commodity and their livelihood, sharing experiences, learning from each other and also receiving education and training on a particular commodity.

- Meeting is a forum for group action and facilitates information sharing among the members
- Meetings are to be convened at regular intervals as per the convenience of the members
- Meetings must be held at a mutually decided place, date and time. In other words, meetings are conducted at the same place, on the same day and at same time each time they are held.
- In the absence of a common meetings place, meetings could be held at the house of each member by rotation.
- Active participation in the deliberations by all members must be encouraged with expressions of free and frank views. However, involvement of non-members in the decision-making process should be strictly objected to.
- Structured agenda for FIG meetings with definite sequence of activities needs to be pursued and will make meetings more effective
- Sharing of various responsibilities among the members during the meeting process
- Attendance of members taken before commencement of deliberations at the meeting enables effective member participation.
- Meetings should have near-full attendance of members; any absence of members must be viewed.
- Penal provisions like fines, penalties, etc can be enforced for late coming/ leaving without prior intimation/ absence in meetings *etc.*

### 1.2.8 Group Vigilance:



The common fund of a group is entirely contributed by its members and hence they alone must ensure that the fund is managed and controlled by them without any outside interference. There is no alternative to alertness of members and their participation in-group meetings. Some of the best practices discussed earlier also go in strengthening the group vigilance and control mechanism. These include:

- Responsibility sharing mechanism where members assist the leader in conduct of meeting
- Practice of leadership rotation coupled with clearly laid succession plan.
- Preventing outsiders from handling cash, even for training purposes
- Prepare detailed annual or seasonal wise action plan of the group and also for a particular commodity.
- Transparent management in direct procurement of inputs from the agro based companies
- Transparency in transactions
- Responsibility in collection of output and marketing of the output by the allotted responsible members of the group.
- Regular review in group activities for the development and management of commodity
- Periodic grading of groups and display in the notice board in a common place
- Enforcement of group discipline through fines and penalties system in a transparent manner
- Practice of rotating members accompanying leader for training and review sessions

#### **1.2.10 Maintenance of Records and Registers:**

While the process of group formation is very informal in the beginning, however, it becomes formal and cumbersome when the group starts different activities. In order to maintain transparency and good working relationship amongst members and for further linkages with governmental and non-governmental agencies, it is essential to maintain following records:

- **Commodity Register:** Details of a particular commodity to be given in this register. Member wise action plan, crop details, management practices, input management, collection of outputs, output management, etc.



- **Attendance Register:** This register is required to record the attendance of all members of the group during the group meetings. The members may sign in this register.
- **Proceedings/Record Register/Resolution Book:** *Agenda items* & proceedings of all the group meetings along with the important decisions taken in each meeting are recorded in this register for the purpose of record keeping reference and future planning.
- **Saving Register:** This register shall have details of the total/individual savings made by the group members.
- **Ledger cum cashbook:** Total group transactions to be maintained here.
- **Individual passbook:** Individual passbooks should be in the hands of individual members of the group. They should bring these passbooks during meetings.
- Group accounts should be transparent. Each member should have clear understanding of the need and importance of maintaining group accounts on day-to-day basis:
- The rules, principles and norms of group formation must be understood clearly, and one copy of norms kept in first page of resolution book for ready reference.
- The group should be informed of all transactions
- Resolutions and signatures should be taken by group members for regular transactions/ internal lending.
- The chairperson of the group or the office bearer of NGO/GO should be immediately informed in case of any irregularity.
- Outside members who maintain records should not take any decisions of the group.

**c) Services FIG will provide:**

1. Trading, 2. Insurance, 3. Credit Linkages, 4. Storage / Ware housing 5. ICT-Market Information, Price information, Technology, 6. Processing, 7. Input



Linkages- Fertilizers, Manure, Irrigation, Equipment and Pesticides, 8. Water shed activities, water budgeting and water audit, 9. Capacity building, 10. Seed processing and seed bank, 11. Technical support, 12. Fund mobilization  
13. Government linkages, 14. Short, Medium, and long-term credits, 16. Seed banking and processing, 17. Marketing, Exporting, etc.

**d) Functions of FIG:**

1. Demand estimation, 2. Distribution, 3. Soil testing, 4. Book Keeping, 5. Thrift and credit management, 6. Crop plan group wise, 7. Group Management, 8. Processing units, 9. Grading, 10. Farmer Field School (FFS), 11. Loan Guarantee, 13. Knowledge Sharing, 14. Managing common Infrastructure etc

**e) Grading of FIGs:**

Based on the maturity criteria, the groups are graded into A, B, C and D categories  
Maturity criteria

- Regularity in meeting
- Good attendance (> 80%)
- Good recovery (> 90%)
- Proper maintenance of records and accounts
- Fine for absentees, late comers or those who delay in payment of dues
- Involvement in development of agriculture, allied sector and rural development activities.

Once a group fulfils all the above criteria, it will be considered under group - "A Grade" and such matured groups, placed in "A" grade, are eligible for involvement in developmental programmes. The B, C and D grade groups need capacity building to become "A" grade group.

**1.5. Group promoters**

The group promoter (GP) is a key agent in the success of any participatory project. He or she works with the farmer, building up their confidence in their own abilities and



promoting their self-reliance. As this work must be done without creating dependency, the GP's task is essentially that of an intermediary, with three basic roles:

- Group adviser, strengthening the FIG leadership, organizational and planning capacity.
- Participatory trainer, teaching groups basic developmental skills, technology dissemination for a particular commodity, participatory planning of action plans, (input and output planning), market led extension, etc.
- "Link person", facilitating communication between the groups and Government departments/NGO for promotion of agriculture and allied sectors, for forward and backward linkages, technology dissemination, etc. to FIGs.

In-depth capacity building to group promoters on preparation of action plan, backward and forward linkages, marketing of produce, market led extension, group management, etc. to be provided by the project.

Once groups have established a sound economic, technical and management base, project can promote their consolidation into local-level inter-group federations. These federations promote solidarity and economies of scale both in group activities and delivery of developmental services. Development of local and, eventually, regional and national structures also stimulate formation of more groups. An inter-group federation must be accountable to all group members. It has a facilitating; coordinating and educational role as a source of technical assistance, economies of scale and guidance. For instance, a federation can offer training to new groups, financial help to their activities from savings and perform some of the functions of group promoters by providing technical and marketing support to the farmer groups etc.

#### **1.6. Capacity building for FIGs:**

Group promoter can organize training programmes to improve the understanding of various aspects to improve FIG members' skills. A training session can be organized on General aspects of group functioning, special training, Awareness programs, etc.



## **Precautions:**

The formation of viable and stable groups requires patience and, in most cases, a period of two to six months. Both rapid formation and long delays may dampen the interest of potential group members, and are best avoided. The process of group formation may face formidable obstacles. In most of the cases, the rural poor are economically dependent on landowners, traders and middlemen and may fear intimidation if they are involved in independent farmers organizations. At local level, project staff can help to overcome this antagonism by calling meetings to sensitize leaders to the objectives of the project and, above all, to illustrate the benefits of its activities to the area as a whole.

## **PART – II: Formation and Management of Federations**

When we use the term “federation”, we mean an organisation of organizations; a federation can be created for different purposes. It could help to access credit, or help in procurement of inputs, marketing of produce brought in by the members of the FIGs, or, it could engage in policy advocacy. It could also engage in a mix of all these or other developmental activities.

### **2.1. Organizational forms**

FIGs can promote several types of federations. Some are registered, some not. Registration is necessary if the federation expects to hold properties, financial transactions and for legal identification. In the case of land, buildings, office equipment, and so on, it would be best if these were in the name of the federation, rather than in the name of individuals. For that, the federation needs to have its own identity as a registered organisation.

The four laws providing body corporate status to organisations are:

- a. The Companies Act – for organisations whose aim is to provide a service to the larger community; profit and control are proportionate to the investment made by the owners.
- b. The Trade Union Act – for organisations whose aim is to help workers in a specific industry or work place improve their working conditions including wages; organisational profit is not the aim; members have equal voting rights.



- c. The Societies Registration Act – for organisations whose aim is to help members scientifically, culturally, politically, etc., or, to undertake charitable work for the larger public; profit is not the aim but where profit is earned, it cannot be shared by members; members have equal voting rights.
- d. The Cooperatives Act – for organisations whose aim is the social and economic betterment of members through the use of services provided by the cooperative; profit is shared among members in proportion to the use of services by members; responsible and active members have equal voting rights.

As can be seen from above, if a federation's primary aim is to provide financial and/or marketing services to its members, registering as a cooperative may be the most sensible thing to do. If the main aim is the social and political empowerment of the people, to do charity and the federation does not undertake any business, then registering under society may be more useful.

As it is unlikely that our members have a lot of money to invest, and members would like to continue to control their federations, registering a company at this stage may not be useful. The companies as of now have a chapter on producer companies, which are like cooperatives for all practical purposes.

## **2.2. Organization of federation of farmers' groups.**

At the initial stage, major attention needs to be paid towards organization of sustainable farmers' groups. After about 1 year or so, the groups can be graded. If more groups are in 'A' grade, then the farmers' groups can be federated at different levels namely, village, block, district, state, national and international levels etc.

### **Village level federation:**

It is appropriate to recognize that undue hurry should not be made in organizing higher-level federations of farmers' groups. It may be better if a step wise approach is adopted in which higher level federations are organized only after the stabilization of lower-level federations. The higher-level federations may be encouraged to become autonomous bodies through registration under Cooperative societies Act. These federations may sustain themselves through contribution from farmers' groups and village level farmers' organizations against satisfactory delivery of services. If needed,



more than one federation may be organized at higher level so that farmers' groups may have flexibility in approaching those, which provide better quality services.

### **Block and District level federations:**

Block level federation may be a registered body under any Act. It can be a mutually aided cooperative society, Producers Company or cooperative society depends on the state's decision. Two members may be nominated by each farmers' group/VLF at village level to these block level federations. These members will form Executive committee. All members of the FIGs are the general body members of BLF. General body meeting can be held once in six months or once in a year. The same process can be adopted for the formation of district level federation also.

### **State and National level federations:**

- The state level federations can articulate policy advocacy
- They can develop institutional mechanism to identify partners for marketing/processing/exports
- Provide capacity building for these federations on management of federations, linkage with other institutions, management of forward and backward linkages, market linkages, market extension, etc.
- Assist in policy advocacy at National level
- Taxes and incentives
- Interstate coordination and interstate marketing, etc.

### **2.3. Principles of federations**

Each type of federation, in each area, has its special characteristics. However, there are some basic principles of federating groups to keep in mind at all times. These are relevant regardless of the type of federation or its location. These principles are valid only for federations which are democratically structured, and which aim at being member-controlled and member-sensitive. Let us look at these principles.

1. Principle: Farmers create FIGs and FIGs create federations.

FIGs are agents of their members. Federations are agents of FIGs.

Actions which we may consider taking:

Form federations after promotion of enough strong FIGs.

Federations can help to form some more FIGs in the area.

The villages to be included for new FIGs must be decided by leaders from all the existing FIGs in the area.

The formation of new FIGs by the federation may be taken up only if the development, business or advocacy agenda of the federation requires more numbers of FIGs.

New FIGs may not be formed in order to create enough development, business “in order to meet the wages of staff”. Federations are not formed to meet staff salaries. They are formed to serve the ultimate members i.e., farmers.

2. Principle: The services that a federation provides to its member-FIGs must be such that a majority of members will stand to benefit from them.

Explanation: Federation may take up several activities on behalf of member-FIGs. However, some may benefit, and some may not. Federation sometimes earns profit on some activities and loss on others. If federation earns profit and everyone gets a share, then no one complains. If, however, the business results in loss, then members who did not participate in the business get annoyed, asking why they should bear the loss. Also, for many activities, federation needs to invest money. Why money, which has come for all, should be invested in activities, which might benefit only some members?

Actions which federation may consider taking:

Review the activities that federation undertakes. Identify those that can benefit the majority of members, if managed well.

Retain only those activities.

3. Principle: The federation exists for its members, that is, the FIGs. FIGs do not exist for their federation.

Explanation: The federation exists for member-FIGs. Its business is not more important than that of the FIGs. It ought not to destroy the business of its member-FIGs. Therefore, a federation may upscale the activities undertaken by FIGs.

Actions which we may consider taking:

Review the activities of the federation.

Identify the problems and needs of the groups, based on this technical information. Input requirement and marketing management can be done through federation. (Refer case study on onion growers’ federation).

If there is any activity that most of the members of FIGs already manage well, upscale the activity.

d. Examine if help in some other form is required for FIGs from the federation. Reorganize the service accordingly.

4. Principle: A service best provided at a point nearest to the member, ought to be provided at that level, and not at the more distant federation.

Explanation: The more distance that a federation representative has to travel to service its members, the greater its costs. Therefore, not only should a federation's area be compact, it should have large numbers of small and marginal farmers participating from that small area, for it to be vibrant, and have impact on the development- local, social, political, and economic scene. Apart from this, the more distant a federation from the ultimate member, the less interest in it. Just as farmers believe the FIGs to be theirs, so, farmers should feel that the federation too is theirs.

5. Principle: Active and responsible FIGs alone should have right to make decisions and vote in federation meetings.

Explanation: In our FIGs, if a defaulter becomes a leader, do we not have problems? In the same way, in our federation, let us give the right of vote only to such member-FIGs, which regularly fulfil their obligations to the federation. This way, federation will have a responsible membership and, therefore, a responsible leadership.

6. Principle: Leadership of federation should mean responsibility and accountability, not privilege.

Explanation: Most leaders think that to be elected means to be privileged. True leadership is about accountability and about taking responsibility. Therefore, we need to design our federations in such a way that only responsible members take up leadership positions.

7. Principle: Staff of the federation, including the chief executive, must be 'working farmers' drawn from the membership. The federation leaders may recruit them and FIGs may decide wages from the earnings of the federation.

8. Principle: Federations should set and maintain high standards of financial discipline.

9. Principle: Where a federation expects to monitor and supervise the accounts of its member-FIGs, there, it ought not to take responsibility for writing of the books of accounts.

10. Principle: For a federation to succeed, its member-constituents must be successful. For its sustainability, its member-FIGs must be sustainable. Just as an FIG has no life outside its members, so too, a federation has no life outside of its member-FIGs

As already mentioned, regardless of the type of federation that is promoted, the above principles are needed and to be discussed by federations and FIGs, which are planning to promote federations. The principles need to be fine-tuned and must be converted



to practice, if federations are to have a long successful life. A true federation, however, cannot be strong if its very foundation, the FIG, is weak.

#### **2.4. Modality for development of agriculture and allied enterprises through Farmer groups:**

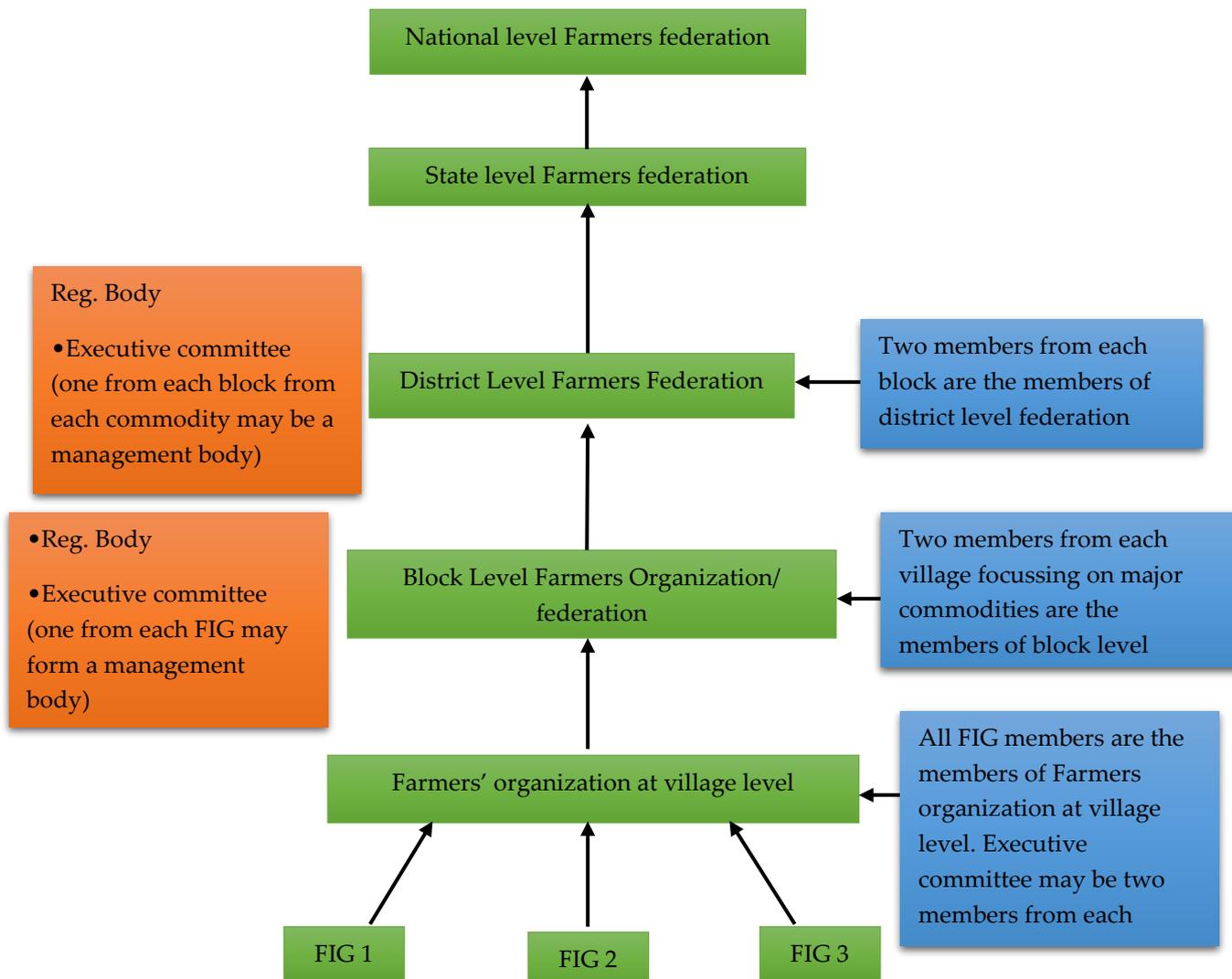
One of the major objectives behind the organization of farmers groups is to speed up the process of development in agriculture and allied enterprises through an effective interface between farmers and development departments. The Department of Agriculture as well as other departments may implement their own developmental schemes through the farmers groups.

The following specific steps may however be followed for development of agriculture and allied enterprises through farmers groups:

1. Identify a particular commodity (agricultural crop, horticultural crop, livestock product etc.) which needs to be improved
2. Identify the component(s) within a particular commodity, which requires priority attention (namely enhancement of productivity, post-harvest processing, collective marketing *etc.*).
3. Carry out technological discussion in the farmers groups. Provide technological input through resource persons at village level, exposure visit to success stories etc on a particular commodity.
4. Provide credit support as revolving fund (wherever available) to concerned farmers groups as per the micro plan prepared by the concerned groups. Wherever feasible, the fund flow may be facilitated through the federation of farmers groups at village level
5. Involve federations of farmers groups at different levels for providing linkage with not only credit institution but also input agencies, marketing agencies etc.
6. Utilize the above farmers groups for implementing various schemes available with development departments. It may be useful if the financial assistance available in the developmental schemes is utilized as a revolving fund through mature farmers groups for converting it into the group corpus, so that number

of participants could be enhanced with pass of time; and partiality / subjectivity in selection of participants could be minimized.

**Diagram- 1 Organizational Setup of Farmers Federations**



### 2.5. Developing Linkage with Farmers' groups/ farmers Organizations with developmental departments

What is called is strengthening of linkages between farmers' organization, agricultural research, extension and marketing institutions/ departments, at all level. This means that when an individual farmer, or a farmers' group, faces problems which cannot be solved through local contacts with research and extension, they can take up this issue with their representative organization at higher level. Equally, this also means that farmers have the possibility, through their representative organizations, to take up



initiatives at any level, whether it is at grassroots, local, block, national and even international levels. Farmers do not always have to wait for research and extension to take the lead.

Adequate investment on capacity building of FIGs While carrying out the above activities, the groups may be properly oriented with the concept of FIG, management of Common fund, group dynamics and facilitation of group pressure, besides maintenance of records and preparation of proceedings. Needless to mention that the capacity building requirements of the group shall change as they mature and start assuming additional responsibilities. Hence, it would be essential to continue to invest on the capacity building of group members on an incremental basis.

## **2.6 Limitations and difficulties in Farmers' Organisations:**

There are other difficulties, which must be overcome if groups are to develop and flourish in the long term. Often these are problems of day-to-day management such as farmers not having enough time to participate as fully as they would like or having difficulty in finding fees or other contributions required. Farmers will weigh these investments against benefits, but often these and other pressing practical concerns can become a difficulty for farmers' groups.

According to the circumstances in which specific organizations are formed, each group will need different types of support, resources and information. Access to this can affect how groups perform. In larger groups or networks, difficulty in reaching decisions and resulting internal conflict is more common. If objectives are not achieved or results do not come up to expectations, members may lose interest. Groups also have to deal with external pressure or influence, and always have to operate within the local political and economic environment. Challenges faced by groups include ensuring that everyone is involved, avoiding self-interest and dominant voices.

Although working together is beneficial in many situations, it must be recognized that organizing for the sake of organizing, or organizing because it is requested by outside projects will not necessarily bring the results expected. Successful groups take some planning, thought and careful consideration of what form they should take in order to reach their goals. Would a co-operative work in the local economic climate? Local



or traditional institutions already exist that can be built on or formalized? Members should also look at why it is beneficial to be in a group, and consider all their options.

## **2.7 Successful groupings**

By looking at examples of success, we can begin to draw out some common characteristics of effective groups. Research and experience with groups shows that the most successful are often small, informal groups, formed by people of similar backgrounds or concerns, who have a clear objective and vision, are responding to commonly felt needs, and share a high degree of trust. Members of successful groups also realize that the benefits of organizing outweigh the costs. They are able to secure adequate support, clear rules and responsibilities, hold meetings regularly and communicate effectively by fulfilling the needs of the members. These groups often have focus on income generation, and many have on savings or emergency fund.

Legal status is also usually needed for an organization to be recognized by public authorities or to access public services. It can also be useful when finding partners and institutionalizing into more formal structures – developments which can help an organization to progress and move forward. Supportive local policies and an institutional environment are of critical importance. Power relationships at the local and district level are often complex; those strengthening farmers' voices and making sure they are listened to, are crucial elements of sustainable agriculture.

## **2.8 Let us sum up**

Many groups organize themselves as a response to a felt need. If this need is resolved, members may feel that working as a group is no longer necessary, or that they need to change their objectives to suit the new situation. As such, some groups are not meant to last forever and it is valid for them to achieve their objectives and move on. What is important is that a group has a clear vision of where it is going and what it wants to achieve – this vision can be adapted over time. In most circumstances, farmers' organizations are beneficial to those involved, although choosing the most appropriate type of organization and its internal management need careful thought in relation to achieving objectives.

Finally, farmer's organization is critical and central for sustainable agriculture. This works at every level, from farmers experimenting together to locally improve



techniques to jointly representing their interests at an international level. Given the difficulties faced by farmers, every effort is needed in order to achieve the improvements needed in their various circumstances. Farmers' Interest groups, networks or federations can all make a huge contribution to raising awareness and campaigning for change. In majority of cases, strong local organizations are, and will continue to be, key to building sustainable development of agriculture.

## 2.9 Suggested Books for Further Reading

LEISA Magazine • 23.1 • March 2007

**Samar K. Datta (2004)**, State of Indian Farmer, Co-operatives in Agriculture, series 24

UNDP, Human Development Report 2005, New York, Oxford University Press.

**Van den Ban, A.W. (1997)**. Successful agricultural extension agencies are learning organizations, in: R.K. Samanta and S.K. Arora, eds., Management of agricultural extension in global perspectives, Delhi: B.R. Publishing Corporation.

**Van den Ban, A.W. (1998)**. Supporting farmers' decision-making by agricultural extension. Journal of Extension Systems, vol. 14: pp. 55-67.

**CIRAD:** <http://www.cirad.fr/presentation/programmes/agri-fam/org.shtml>

**ODI:** [www.oneworld.org/odi/rpeg](http://www.oneworld.org/odi/rpeg)

**World Bank:** <http://wbln0018.worldbank.org/essd/essd.nsf/producer/casestudies>

**IFAP:** [www.ifap.org](http://www.ifap.org)

The International Federation of Agricultural Producers

**Inter-Réseaux:** [www.rio.net/Inter-Reseaux](http://www.rio.net/Inter-Reseaux)

**ISNAR:** [www.isnar.org/publications](http://www.isnar.org/publications)

APMAS: [apmas.org/publications](http://apmas.org/publications)

**World Resources Institute:** [www.igc.org/wri/sustag/npsa-hom.html](http://www.igc.org/wri/sustag/npsa-hom.html)

Publications of research on farmer empowerment and expansion of partnerships between farmers, communities,

[www.leisaindia.org](http://www.leisaindia.org)

[www.alcindia.org](http://www.alcindia.org)

[www.nraa.org](http://www.nraa.org)



## Topic - 2

### An Overview and different modules of Aggregations in India

Dr. K C Gummagolmath

#### 1. Introduction

The major constraint of Indian agriculture is diminishing size of land holding. As per the 2011 census, the proportion of small and marginal farmers is more than 85 per cent of total land holdings in the agricultural economy of India. These small holders, with just 44 per cent of the total land, are producing 70 per cent of vegetables, 55 per cent of fruits and 52 per cent of cereals. Thus, given the importance of the smallholders, their problems are of prime concern for the sector. The concern is even more pronounced on the marketing front, as an assurance of remunerative price to the smallholder is a daunting challenge due to typical factors prevailing in the agricultural marketing scenario of the sector.

Hence, there is a need to aggregate these small holders to have a level playing field with large farms in terms of accessing land, water, inputs, credit, technology and markets and to attain economies of scale. In the past, various aggregation tools were tried by extension agencies by both, public and private in the form of Cooperatives, Commodities Interest Group (CIG), Farmer Interest Group (FIG), Self Help Groups (SHGs) etc. One such pioneering attempt was promotion of cooperatives performing various activities in agriculture including input supply. By and large, the experience of performance of cooperatives has been poor with an exception of co-operative sugar factories and dairy co-operatives.

In the recent past, the instrument of farmer producer organization, registered under Companies Act 2013, is emerging as one of the most effective tool, of aggregation. These producer companies are designed in such a manner that they are professionally managed and are able to take care of total supply chain in general and marketing problem in particular. A producer company is basically a corporate body registered as a producer company under Companies Act, 1956, now 2013 (As amended in 2002). An amendments in Company's Act 2002 was done on the basis recommendation of Prof. Y.K. Alagh Committee (1998) to add a corporate muscle to cooperatives so that it can bring effective management and good governance. The same provisions have been retained for FPC after re-visiting the Companies Act, in 2013(FPO policy and process guidelines, 2013).



## 2. What is 'Producer Company?'

An expert committee led by noted economist, Y. K. Alagh recommended, setting up of producer companies in 2002 by incorporating a new Part IXA into the Companies Act of 1956. The objective of the committee was to frame a legislation that would enable incorporation of cooperatives in agriculture as producer companies and conversion of existing cooperatives into producer companies. The committee recommendation took care of ensuring the unique elements of cooperative business with a regulatory framework similar to that of companies.

As per section 581A(i) of the Companies Act, a "Producer Company" means a body corporate having objects or activities specified in section 581B and registered as Producer Company under Companies Act, 2013 (previously under the companies act 1956).

## 3. Objectives of Farmer Producer Company

- a) Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of members or import of goods or services for their benefit;
- b) Processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its members;
- c) Rendering technical services, consultancy services, training, education, research and development and all other activities for the promotion of the interests of its Members
- d) Generation, transmission and distribution of power, revitalization of land and water resources, their use, conservation and communications relatable to primary produce;
- e) Manufacture, sale or supply of machinery, equipment or consumables mainly to its members.
- f) Promoting mutual assistance, welfare measures, financial services, insurance of producers or their primary produce;

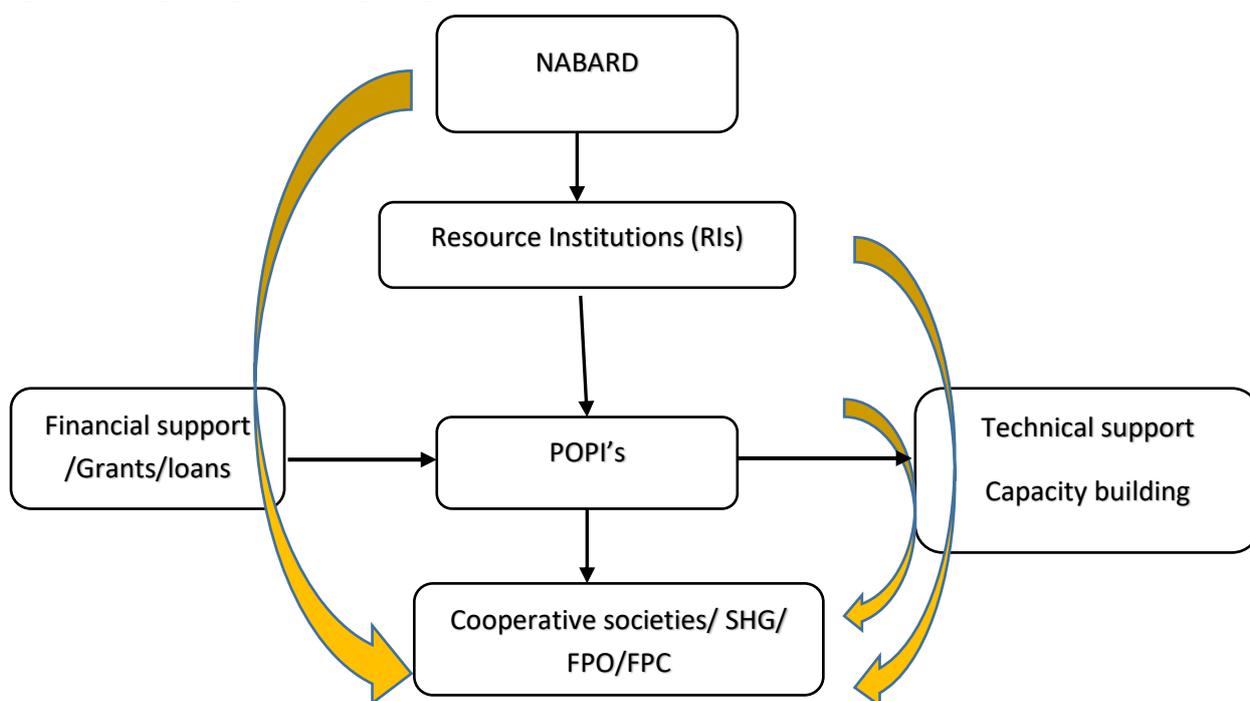
## 4. Benefits of incorporating a producer company?

- Collective inputs purchase which reduces transaction cost

- Collective marketing for enhancing bargaining power and thus leading to scientific price discovery
- Benefit of vertical integration in the value chain
- Increasing productivity through better inputs
- Increasing knowledge of farmers

## 5. Status of Farmer Producer Organization in India

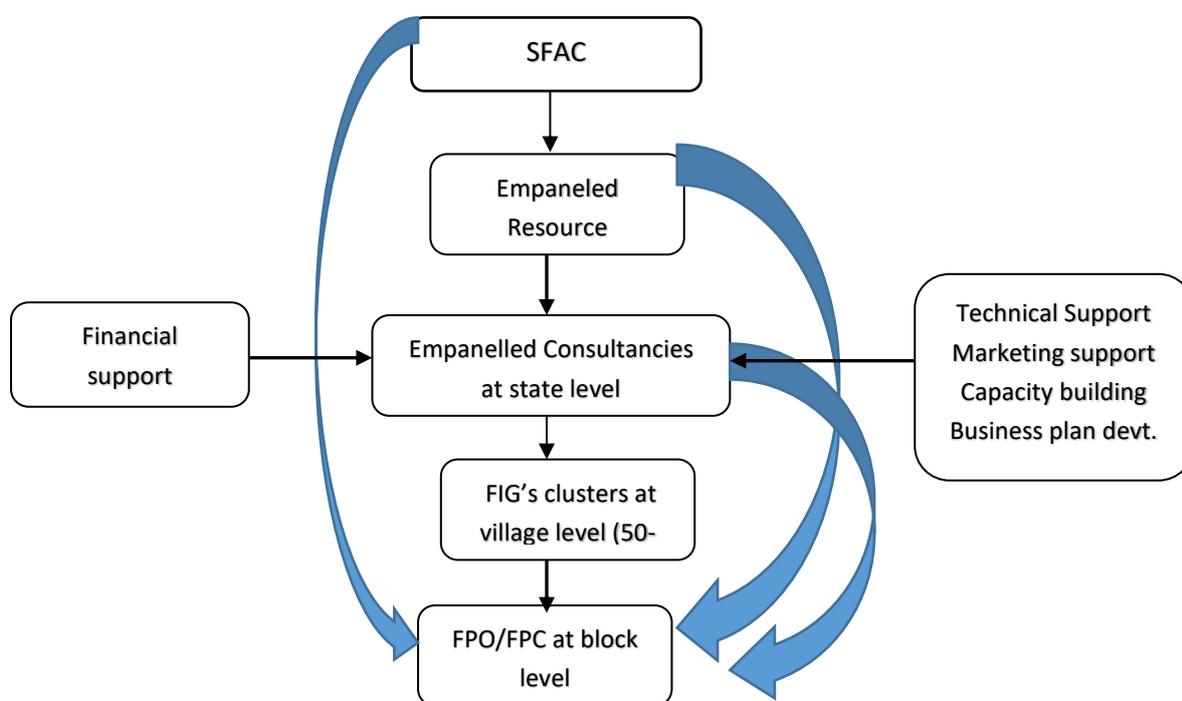
FPOs in India are mainly promoted by two apex agencies viz., SFAC and NABARD. Besides, by non-government agencies and state Govt. agencies are also promoting FPOs. However, there is no harmony among the models being implemented by these agencies for promotion of FPOs. For Example, NABARD is promoting several kinds of aggregation models such as cooperative groups, farmers clubs, Self- Help Groups and FPOs registered under companies Act. While, SFAC is promoting group of farmers consisting of 15-20 members at village level, which are federated at block/district level and the federation is registered as a producer company under the provisions of Companies Act, 2013. Extension agencies like ATMAs are promoting Common Interest Groups (CIGs) and Farmers Interest Groups formally registered under Department of Agriculture & Cooperation. NCDC and other agencies are promoting cooperative groups, farmers club etc.



**Diagram-1 NABARD Model for promotion of FPOs**

For promotion of FPOs, NABARD identifies the experienced Resource Institutes and Producers Organizations Promoting Institutions (POPIs) and supports these institutions in delivering the designated responsibilities for formation and effective implementation of the FPOs.

The FPOs promoted by SFAC are having federated structure. SFAC has empaneled qualified and experienced Resource Institutes (RIs) which includes, NGOs and State govt. agencies. These RIs, identify and mobilize farmers in to group (FIGs) of 15- 20 members at village levels and these groups are federated at a desired level (block/ district) depending upon the type of activities and scale of operations. These federations are registered as FPCs.



**Diagram-2: SFAC Implementing Model for promotion of FPO**

Presently, around 7300 FPOs (including FPCs) are in existence in the country, which were formed under various initiatives of the Govt. of India (including SFAC), State Governments, NABARD and other organizations over the last 8-10 years.

Majority of these FPOs are in the nascent stage of their operations with shareholder membership ranging from 100 to over 1000 farmers and require not only technical handholding support but also adequate capital and infrastructure facilities including market linkages for sustaining their business operations.



The comparative analysis of the FPOs promoted by different agencies, revealed that NABARD, along with FPCs is promoting other forms of aggregation such as farmers club, cooperatives, watershed groups and SHGs. On the other hand, SFAC is exclusively promoting FPCs since initiation of the scheme. Due to presence of country wide network, NABARD is able to promote more number of FPOs compared to SFAC.

The very first producer company registered in India was Farmers Honey Bee India Producer Company Ltd. In the first financial year after notification of the amendment, namely financial year (FY) 2004 (April 1, 2003 to March 31, 2004), a total of five producer companies were registered (Table 1). In the first 10 years after notification of the act (FY 2004 through FY 2013), a total of only 445 companies were registered. The pace of registration accelerated during FY 2014, when 497 producer companies were registered, a number that exceeded all previous 10 years combined. The number of companies registered crossed 1,000 for the first time in FY 2016. In the most recent three financial years (FY 2017, FY 2018, FY 2019), 4,190 producer companies were registered, amounting to an average of almost four companies per day. Most such schemes for the promotion and support of FPOs in general, and FPCs in particular, came into effect in FY 2013, FY 2014, and FY 2015. There was an observable drop in producer company registrations in FY 2018, which appears to be correlated with the completion of the term of NABARD's PRODUCE program. Later it picked up due to launching of a scheme by Government of India i.e., "Promotion of 10,000 FPOs".

Financial year (FY)	Number
FY 2011	52
FY 2012	78
FY 2013	151
FY 2014	497
FY 2015	551
FY 2016	1691
FY 2017	1477
FY 2018	909
FY 2019	1804
FY 2020	8500

FY 2021	9500
Total	25210

## 6. Legal Framework for formation of Farmer Producer Organizations (FPOs)

### Types of FPOs based on the legal status

Parameters	Section 8 Company	Society	Trust
Objectives	Non-Profit activities	Charitable, Literary, Scientific, etc.	Charitable, Socially beneficial
Statute/Law	Indian Companies Act, 1956	Societies Registration Act 1860	Indian Trust Act, 1882 or Bombay Public Trusts Act
Alternations of objectives	Complex legal procedures	Simple procedure	Normally only settlor can modify
Formation	Complex procedure, 3-6 months	Simple procedure	Simple and easy
Management	Formalities of Company law have to be observed	Few restrictions imposed under the Act	Very few restrictions under the Act
Meetings	To be held as per provisions of law which are quite extensive	Annual Meeting as per law and Rules of the society	No provisions laid down
Penalties	Various offences and lapses attract serves penalties	Few offences and penalties have been prescribed	Very negligible
Legal status	Full legal status	Legal status with certain limitation	Legal status with limitation
Statutory regulation	Exhaustive but mature	Very limited	Nominal
Removal of members	Not possible without consent	Possible without consent	Not applicable
Dissolution or takeover by state	Very difficult	Possible	Possible

Farmer Producer Company (FPC) is a legal form of the company. These FPCs promoted by the farmers, will be run by farmers and for the benefit of the farmers. Paid staff can be employed to assist in the management of the company. The share capital of Producer Company shall consist of equity shares contributed by members



only and member's equity cannot be publicly traded but can be transferred. The profits generated from the business of the company would be shared among the farmer members only in terms of dividends. Producer company is to have at least 10 members of which minimum five board of directors and a full time Chief Executive should be appointed by the Board of Directors who shall be entrusted with substantial responsibilities of running the FPCs professionally. The main aim of the formation of FPC is to establish basic business principles within farming communities, to bring industry and agriculture closer together, and to boost rural development by collectivization of the farmer's especially small and marginal farmers. The collectivization of farmers also aims at capacity building, access to investments, technology, inputs, and markets and address many other challenges faced by farming community.

## **6.1 Legal Provisions Governing the Producer Companies in the Companies Act**

### **i. Memorandum of Association (MOA)**

Helps to understand the nature of company and its relationship with external environment

MOA consists of the following information.

- Name Clause – Should end with “Producer Company Limited”
- Situation Clause
- Object Clause
- Liability Clause
- Capital Clause
- Subscriber Clause
- Subscriber who shall act as Directors
- Territories of the operation and objectives extended.

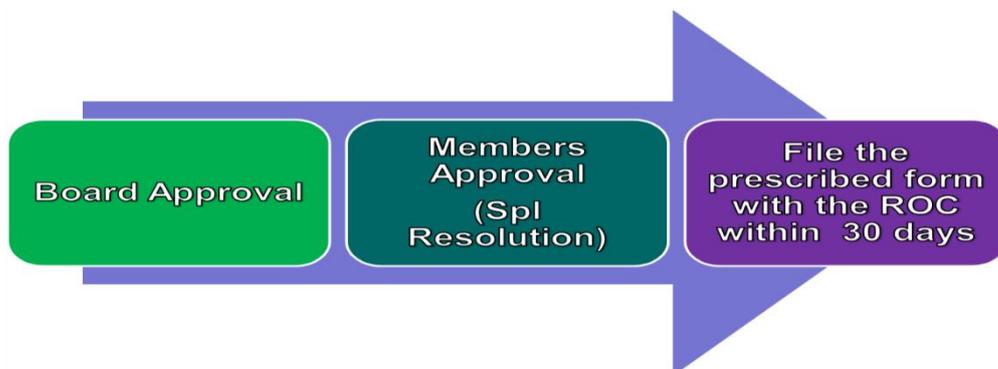
### **ii. Articles of Association (AOA)**

AOA will provide the information regarding, who can be a member, their voting rights, appointment of Directors, CEO and chairman their duties and responsibilities, tenure in office and rotation and reappointment, usage of surplus funds in the company, relationship with other producer companies and institutions.

The AOA also has the procedure for transferability of shares, cancellation of membership; ascertain who is an active member, allotment of shares, the credit, loans or advances which may be granted to a Member and the conditions for the grant of the same. The members can also include any other condition by passing a special resolution.

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**iii. Amendment of MOA & AOA**

**iv. Membership and Voting Rights**

- There shall be only a single vote for every Member irrespective of his shareholding
- If the member is an institution, then the voting will be based on their participation in the business.
- Any Producer Company may, if so authorized by its articles, restrict the voting rights to active Members, in any special or general meeting.



- v. Patronage bonus**
- Every member can receive in the form of cash or shares from the company for the products they provide to the company.
  - The company can Issue patronage bonus to the members who have participated actively in the company other than normal dividends usually paid.
  - Patronage bonus can be either in way to cash or Shares.
- vi. Loans to members, directors and their relatives:**
- Loan to members shall be given only after the board approves. If the loan is given to a member for business purpose, it should not be for a period exceeding 6 months. Secured loans to a member shall be for a minimum of 3 months and maximum of 7 years.
  - Loans to any Director or his relative shall be given only after the members approve in a general meeting.
- vii. Option to inter-state co-operative societies to become producer companies**
- Any inter-State co-operative society with objects not confined to one State may make an application to the Registrar for registration as Producer Company.
  - On conversion the society name will be removed from the books of society registrar and will be registered as a producer company under the companies Act.
  - All the rights, benefits, receivables, liabilities, legal proceedings, grants, concessions, licenses etc will deem to be the rights, benefits, receivables, liabilities, legal proceedings, grants, concessions, licenses etc of the producer company.
  - All the employees remain same including benefits.
- viii. Investment in other companies**
- A producer company can invest any other company after the members approve such investment through a special resolution.
  - However when a producer company invest in a non-producer company, it can only invest up to 30% of its paid-up and free reserves, further investment in such non-producer companies will require central government approval.
- ix. Annual Compliance**



Every year the company has to file,

- Annual accounts – With the Registrar of Companies (ROC) within 30 days from the conclusion of the Annual General Meeting (AGM)
- Annual Return – With the ROC within 60 days from the conclusion of the AGM
- Event Based filing with ROC.
- The company is also required to maintain all records including its statutory register and Minutes book up to date to avoid penalty.

**x. Charges**

- Whenever the company borrows funds from NABARD or any financial institution by giving security, it is required to create a charge on the movable or immovable property which are given as security.
- Intimation Within 30 days to ROC in Form CHG 1.
- Charge can/has to be modified in case of any increase or decrease in limits.
- Once the charge is satisfied the company has to intimate it to the ROC within 30 days in the form CHG 4.

**xi. Dispute Settlement**

As per section 581ZO of the Companies Act, any dispute between the Directors or members or a combination of both or another stakeholder of the company with such producer company shall be resolved only through conciliation or by arbitration as provided under the Arbitration and Conciliation Act, 1996 (26 of 1996)

**xii. Management of Producer Company**

**Number of Directors**

- Min – 5 and Max – 15
- Exception – Interstate co-op can have more than 15 directors for a period of one year from incorporation.

**Appointment**

- First Directors – members signing the MoA and AoA

Elections to be conducted within 90 days of registration for electing new Board of Directors and within 365 days in case of Interstate co-op



## Vacation of Office of Directors

### Personal criteria

- Convicted by Court for moral turpitude **and** sentenced to imprisonment for not less than 6 months
- Defaults in payment of loan taken from PC in which he is Director

### Official capacity

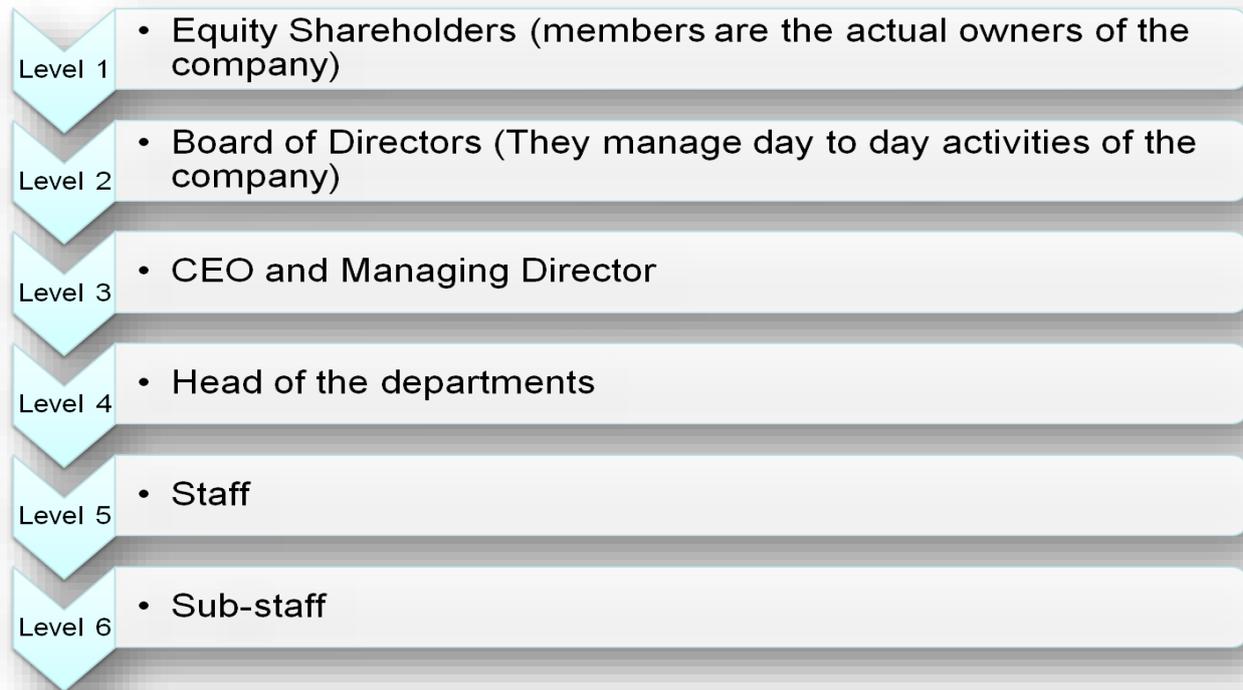
The PC in which he is director:

- Defaults in repayment of loans and default continues for more than 90 days
- Not filed annual accounts / returns – continuous 3 FY
- Failed to repay deposits / withheld price or patronage bonus / interest / pay dividend – continues for 1 year
- Defaults in holding election for the office of director
- AGM / EGM not called according to provisions of the Act – exceptions of natural calamity or other reason.

### xiii. Powers & Functions of Board

- Board can limit – Act & AoA
1. Board can decide extent of dividend payable
  2. It can take a decision on inclusion of new members
  3. Formulating objectives and strategies
  4. Appointment / superintendence / control of CEO & other officers
  5. Make sure the books of accounts are maintained properly; Prepare annual accounts (present in AGM with Auditor's report & reply to qualifications)
  6. Buy and sell properties in the ordinary course of business
  7. Investment of funds in the ordinary course of business
  8. Sanction loans to members not being the directors or his relatives.
  9. Other such acts – in discharge of its functions/exercise its powers
  10. Approval of budget and adoption of annual accounts
  11. Approval of patronage bonus
  12. Issue of bonus shares
  13. Declaration of limited return & distribution of patronage
  14. Conditions and limits of loans to Directors

## 15. Matters specified by AoA



### xiv. Liability of Directors

- Any act done in contravention of Act / law / AoA – jointly & severally liable
- Producer Company can recover from Director
  - i. Profit made as result of above mentioned contravention
  - ii. Loss incurred by PC as a result of such contravention
  - iii. Additional liability

### xv. Committee of Directors

- Purpose – assist the Board
- No delegation of Board's powers or assign CEO's powers
- Member can be included with permission of Board
- Should include CEO / Director
- Under control of Board for period determined by the Board
- Fee / allowance – determined by the Board
- Minutes placed before the Board

### xvi. Meetings of Board

- **Frequency**

Once in every three months and at least four meetings should be conducted every year



Illustration:

Date of Meetings

Jan-Mar : 27th March

Apr-June : 08th April

July-Sept : 02nd Sept

Oct-Dec : 04th Oct

- **Notice** in writing – given by CEO – 7 days in advance – to Directors in India at address in India
- **Quorum** – 1/3 of total strength – min of 3
- Fees / allowance for attending meeting – decided by Members in GM

**xvii. Chief Executive Officer – governed by section 581W**

- Appointment is mandatory and on full time basis
- CEO will be other than Members
- Ex officio Director and not retire by rotation
- Qualification / experience / terms & conditions of appointment – determined by Board
- Entrusted with substantial powers of management
- Under general superintendence, direction and control of Board
- Accountable for performance of the PC

**POWERS OF CEO**

- Manage affairs of Producer Company
- Operate / authorize to operate bank account
- Safe custody of cash / assets
- Sign docs as authorized by the Board
- Maintain books of accounts, prepare annual accounts, present audited accounts to Board & Members in AGM
- Inform Members about operations & functioning of PC
- Make appointments subject to delegated powers
- Assist Board in formulation of policies / objectives / strategies
- Advise Board on legal & regulatory matters

- Exercise powers required in ordinary course of business
- Any other functions / powers as delegated by the Board

#### **DIRECTOR Vs CEO comparison**

<b>Nature</b>	<b>Director</b>	<b>CEO</b>
Appointment	By members	By Board
Tenure	Not less than 1 year and not more than 5 years	Determined by Board
Retirement	By rotation in AGM & eligible for re-appointment	Does not retire by rotation. Tenure determined by the Board
Scope	Limited by AoA & Act	Limited by terms and conditions specified by Board
Vacation of office	Contravention to provisions of the Act / AoA	As provided in terms of appointment
Accountability	Representative of interest of Members.	Entrusted with substantial management powers

#### **xviii. General Meetings**

- Mandatory every year and gap of not more than 15 months between two AGMs subject extension given by ROC (except for 1<sup>st</sup> AGM) – not more than 3 months
- First AGM – within 90 days from incorporation
- Resolution – Ordinary and Special

Ordinary – simple majority

Special – 3 /4<sup>th</sup> of the Members present and voting

#### **Notice for AGM**

- Not less than 14 days prior notice



- During business hours on a day other than public holiday – at registered office or any place in city / town / village where registered office is situated
  - Contents of notice should include date, time and place
  - Addressed to – every member & auditor
  - Annexures to notice
1. Agenda of AGM
  2. Minutes of previous AGM / EGM
  3. Details of candidates for office of Director
  4. Audited balance sheet and statement of P&L (including of subsidiaries) with report of BOD Matters to be stated in report of BOD
  5. state of affairs of the Company
  6. Amount proposed to be carried as reserves
  7. Amount paid as limited return on share capital
  8. Patronage bonus
  9. Material changes (from date of annual accounts to date of report)
  10. Energy conservation, environmental protection and Forex income & expenditure
  11. Any other matter as required.
  12. Draft resolution for appointment of auditors.
  13. Draft resolution for amendment of MoA.
  14. Quorum for AGM – 1/4 of the total number of members
  15. Voting Rights – one member one vote. Casting vote by Chairman.
  16. However, if members are all producer institution – voting based on participation (as specified in Articles)
  17. Annual return, proceedings of AGM along with Directors' report, Balance sheet and Statement of Profit & Loss filed with ROC within 60 days of AGM.
- 7. Capacity Building of Members of FPOs/FPCs**

Gradual growth inducing sustainability in functioning growth of the FPOs/FPCs should be the approach of the promoters rather than expecting the quick results. Capacity Building of any form of farmer organization assumes greater importance to



enhance the efficiency and bring peer group pressure among members of the group effective functioning. The role of promoters is crucial in orienting and capacity building of these organizations. Just introducing the aggregation of members or formation of groups will not serve the purpose. Capacity building for promotion of leadership and motivation among the elected Board of Directors is crucial. The members of the Executive Committee should be given training in Leadership, federation concept, federation Management, financial Management, linkages, input and output management etc. It is also equally important to build the capacity of grass root functionaries i.e. members of FPCs/FPOs. Capacity building of members on issues such as attendance of at least 80-85% members, transparency in accounts, accountable behavior, regular internal auditing, quality management, development of business plan including access to local and international market, etc. The entire philosophy of human capacity building is to encourage rural communities to understand their personal and group styles of managing themselves and to improve their planning, implementation, and monitoring skills. Capacity Building is also given in (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.

## **8. Policy Support for Capacity Building**

SFAC is supporting these FPOs through empaneled 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 years. SFAC is also monitoring the project on behalf of DAC and the states and reporting on its progress.

Credit Support by NABARD is also available for capacity building & market interventions. Capacity building should broadly cover any activity relating to functioning of a producer organization. Broadly the various types of capacity building initiatives which can be supported under the fund are as follows:

- i. Skill development in order to enable the members produce goods both in farm and non-farm sector,
- ii. Business planning



- iii. Technological extension through classroom training,
- iv. Exposure visits, agricultural university tie ups, expert meetings, etc.
- v. Any other capacity building initiative which directly benefits the P.O.

### **9.1 Strategy Paper for promotion of 10,000 Farmer Producer Organizations**

#### **Aims and Objectives of the Scheme:**

- a) To provide holistic and broad based supportive ecosystem to form new 10,000 FPOs to facilitate development of vibrant and sustainable income oriented farming and for overall socio-economic development and wellbeing of agrarian communities.
- b) To enhance productivity through efficient, cost-effective and sustainable resource use and realize higher returns through better liquidity and market linkages for their produce and become sustainable through collective action.
- c) To provide handholding and support to new FPOs up to 5 years from the year of creation in all aspects of management of FPO, inputs, production, processing and value addition, market linkages, credit linkages and use of technology etc.
- d) To provide effective capacity building to FPOs to develop agriculture entrepreneurship skills to become economically viable and self-sustaining beyond the period of support from government.

### **9.2 Strategy for Formation of FPO and Identification of Cluster Area**

Formation and promotion of FPO is based on Produce Cluster Area, which is broadly defined as: "Produce Cluster area" for purpose of FPO formation and management herein means a geographical area wherein agricultural and allied produce is grown / cultivated; therefore, an FPO can be formed for leveraging economies of scale in production and marketing. This will also cover Organic Produce and Natural Farming. Produce cluster area is to be identified with the input of District Level Monitoring Committee (D-MC), State Level Consultative Committee (SLCC), other Ministries/Departments of Government of India and the States as well as with recommendations of Implementing Agencies with input from Cluster- Based Business



Organization (CBBO) and suggestions of relevant Government of India Organizations.

The following are some selected success stories which can act as inspiration for the promotion of PFOs in the country.

**References;**

<https://www.nabard.org/news-article.aspx?id=25&cid=552&NID=414>



### Topic - 3

## FPOs - Sustainability, Membership Drive, Equity Mobilization and Company Registration

Dr Shridevi V

### Objectives

*After going through this unit, the learners will be able to:*

Understand

- What is sustainability of FPO and what works to make it operationally and financially sustainable community owned business organization?
- What should be the key strategies to mobilize farmers into FPC shareholding and make it an inclusive approach?
- What is the critical importance of equity in FPO and how to mobilize the potential equity for the FPO?
- How the FPC is registered and what are the pre-requisites for the registration of the FPO as Company?

### 1. Introduction

*We tried to find out what ChatGPT will say about FPO and here is the answer*

*FPO is organization of small and marginal farmers that aim to improve their economic status through collective action in India. FPOs are becoming increasingly popular as means to empower farmers and increase their bargaining power.*

It is a hard reality that our agriculture land holdings are very small and cannot compete with the global markets with the existing scale in efficiency. The only way forward in such socio economic reality is to collectivize the value chain development activities of our agriculturists, to the extent possible. Collectivization of value chain development activities need a strong institutional frame work and our policy makers have realized this critical need to provide enabling statutory and regulatory environment for the small and marginal farmers to operate to scale without pooling their land resources, but collectivizing the value chain development activities.

### 2. Sustainability

Sustainable business organization fully owned by the farmers is pre-requisite to achieve market ready agriculture operations.



## 2.1 What is sustainability?

Sustainability is long term functional existence of an organization meeting the foundational objectives of it. Sustainability is having two dimensions viz. operational sustainability and financial sustainability.

Operational sustainability means the institutional capacities of the FPO to deliver expected services and goods to the shareholders. Financial sustainability means the capacity of the organization to generate sufficient financial resources to run its operations and deliver required goods and services to its members, without depending upon external support. While the operational sustainability comes through institution building and organization development, financial sustainability comes through its business operations.

The two are interlinked and act like two sides of a coin. We cannot have an FPO which is operationally sustainable but not financially or otherwise can't have an FPO which is financially sustainable but not operationally. After our extensive field study and research, we found out that unless an FPO earns Rs. 6.00 Lakhs a year (nearly 7500 US\$) it cannot meet its operational expenses and has to depend upon grants and subsidies, which may not be available for long term.

## 3. Membership Drive and Mobilization

An FPO, as a company can not last long, unless it has strong membership base. It is a company rooted in its members' ownership. The membership should not only be optimal in no., but also should be inclusive with broad base of small farmers, tenant farmers, women farmers and government given land title holders. It should also accommodate the general farmers for the sake of sheer scale of operations.

Hence member mobilization should keep tab on concerns like

- Inclusivity
- Geographical
- Demographical
- Gender concerns
- local political issues

### 3.1 Mobilization of Farmers (Two or three Tier Approach, Single /Multi Commodity Approach) – strategies

1. Mobilising the producers - through direct campaign method
2. Identifying the existing community-based institutions i.e SHGs or Water User

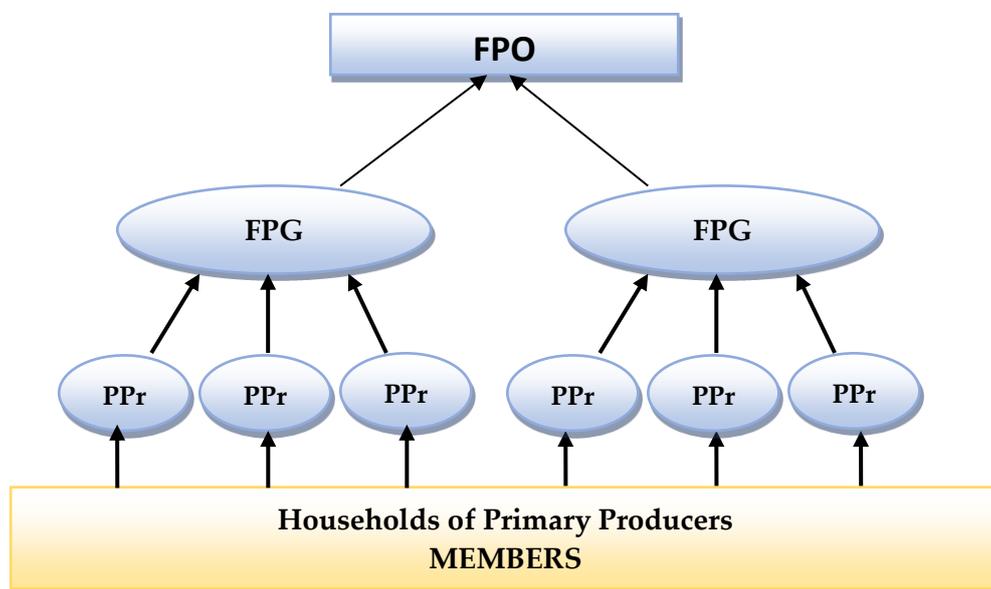
Associations (WUAs) and federating them

3. Organising the producers into Farmer Producer Groups into a secondary tier where there is no existing Community-Based Organisations (CBOs)

Our experience suggests that we follow the 2<sup>nd</sup> and 3<sup>rd</sup> approach, as our rural societies are already having excellent social infrastructure in the form of women SHG, Farmers’ Joint Liability Groups, youth groups and commodity interest groups. It is easy to leverage these existing groups to mobilize them into membership, rather than re-inventing and forming new groups which is a time taking laborious process.

In case there are no such groups available in the proposed villages where FPO wants to operate, new informal groups can be formed initially.

**Figure 1: Two tier architecture of FPO**



**3.2. Primary Producers**

Producers of agriculture, animal husbandry, horticulture, floriculture, Pisciculture, Viticulture, forestry, NTFP, forest products or any primary activity or service which promotes the interest of the farmers or consumers

- Producers engaged in handloom, handicraft and other cottage industries
- Producers who are engaged in any activity as a bi-product of the above activities (Ex : Rice milling, Dal Milling, Seed production and processing etc)
- Producers who are engaged in any ancillary activity that promote the above activities. (Ex : Rural artisans)

The two tier approach of informal groups at the bottom which are federated to become formal FPO is proving to be more successful for the following reasons.



- a. The informal groups have savings that can be converted to share capital easily
- b. It is easy to identify and nurture leadership through informal groups
- c. Two way information transmission is easy compared to a single tier big organization
- d. Government is providing lot of incentives to the informal small groups also
- e. Banks are now having inclination to lend to small groups also.
- f. The federation of Producer Company will mature faster if it is based on strength of the existing community based institution.
- g. Forming homogenous farmer producer groups will ease out the heterogeneity that exists normally in any village community.
- h. Building on the existing groups also utilises the investment made if any on natural resources development already so that the PCs have better control on production systems.

### **3.3. Membership mobilization is an iterative process**

Membership mobilization in any community based organization is an iterative process and FPO is not an exemption to this. But with the wide awareness about the benefits of joining FPO to find better remunerative prices to their crops, many farmers are now willing to join FPOs without much persuasion.

### **3.4. Process of Mobilization of Primary Producers**

There are three ways through which primary producers are mobilised. One is aggregating the producers in a village through direct campaign method. Second one is identifying the existing community based institutions such as SHGs or Water User Associations (WUAs) and federating them. Third one is organising the producers into Farmer Producer Groups into a secondary tier where there is no existing Community Based Institutions (CBOs). It is better to follow the second and third approaches though they take little longer time compared to the first approach because

- a) The federation of Producer Company will mature faster if it is based on strength of the existing community based institution.
- b) Forming homogenous farmer producer groups will ease out the heterogeneity that exists normally in any village community
- c) Building on the existing groups also utilizes the investment made if any on natural resources development already so that the PCs have better control on production systems.



Selection of area of operation for mobilization of farmers should be in contiguous area preferably Eg., in watershed approach in a cluster of 10-12 villages with a size of 500 member farmers. The size however depends on the area and the type of commodity. It is advised to map the ongoing activities initiated by government and non-government agencies in the area and convert it into an entry point activity for the promotion of FPGs and FPOs. In the case of NRLM supported SRLMs, the existing social infrastructure like SHGs and their federated networks can be molded into FPOs. Figure 3 below represents the process of member mobilization.



## **UNIT II- MANAGEMENT OF FPOs**





## Topic - 1

### Leadership Development in FPOs

Dr. G Jaya

#### Objectives:

The objectives of this unit are to help you to develop:

- An understanding of differences between leader and manager
- Familiarity with meaning, functions, and traits of leadership
- An appreciation of behavior and styles
- The capacity to know the difference between transactional and transformational leadership

#### 1. Concept, Meaning and Functions of Leadership

Leadership is an important role in extension organizations for achieving efficiency and excellence. Many of you may not know the difference between leaders and managers. An analysis of root meaning of the word 'lead' and 'manage' will help to understand differences between concept of leadership and management. It has been reported (Kouzes and Posner, 1997) that the word 'lead' means 'to go first' or 'to travel'. Thus, the leaders are pioneers or innovators. They are likely to go beyond the beaten path. There is always an urge in their hearts to innovate and to challenge the status quo.

The word 'manage' refers to "hand" which has the meaning of maintenance of order. Thus, a manager is greatly concerned with maintaining the present status quo through an established order and rules. He is obsessed with faithfully implementing a plan handed over to him. And his main focus will be not in creating a future vision or goal but attaining the existing goals or standards of performance. A manager is greatly concerned with organizational procedures and rules, while the leader's heart is after the people. Further, the management focuses in reaching the existing goals and standards of performance, while the leadership focuses on creating a future goal and providing a vision. The greatest asset of a leader is his capacity to persuade and inspire others, while the management tends to manipulate and control the employees. Based upon our discussion, leadership can be defined as follows: Leadership is an art and science of influencing, motivating and inspiring people towards the futuristic vision or goal through challenging the present status-quo and securing people's trust and confidence.



The role of leaders in making impact and influence on others has also been emphasized by Pareek (2004) who defined 'leadership as an act of making an impact on others in a desired direction'.

According to Drucker (2007), management is doing things right and leadership is doing right things. Finally, it can be said that leadership is concerned with doing 'the right things' while management is concerned with 'doing things right'. How does 'doing right things' differs from that of 'doing things right'? Do you see any difference between the above? There is a cardinal difference. Doing 'things right' is concerned with efficiency, which deals with ratio of inputs to the outputs. Doing 'right things' is concerned with effectiveness, which deals with making right decisions or plans under particular circumstance to achieve the objective. There is no use of making wrong decisions or plans and completing them efficiently. No doubt, we need both effectiveness and efficiency, but without effectiveness, efficiency will not help in obtaining the desired results.

What are all the functions of leadership? Leadership is mainly concerned with the following functions:

1. Providing a futuristic goal or vision
2. Motivating and inspiring
3. Coaching and guiding
4. Problem Solving
5. Providing innovative ideas

Leadership is defined as Achieving significant positive impact-by building an organization of people working together toward a common goal (Harvard Business Review Leader's Handbook 2019)

## 2. The Myths of Leadership

Some of the most common myths of the leadership are given below:

1. **Intelligence myth:** Often it is assumed that people who are clever with a higher level of intelligent and knowledge are leaders. It is not necessary that people with a higher level of intelligence and knowledge become leaders.
2. **The hereditary myth:** According to this myth, leaders are born with certain characteristics which help them to become effective leaders. Though people are born with different abilities and capacities, everyone becomes a potential leader through proper training and by taking responsibility.



3. **The job hierarchical myth:** One of the most common perception of the people is that the leadership position is based upon the position they hold. The position of a person in any organization does not necessarily make a person a leader. Most often, the people at the lower level position have provided needed vision, direction, influence and motivation for the employees of an organization. According to Stanley Huffty, “It is not the position that makes, it is the leader that makes the position.”
4. **The Pioneer myth:** Most often people believe that people who are pioneers or those who gave innovative ideas or developed products or established enterprise are all leaders. The pioneers, entrepreneurs and innovators need not have leadership potential and people may not follow them.

### 3. Attributes of Leaders

A survey conducted by Kouzes and Posner (1997) among thousands of employees in business and government organizations has shown that the top four important characteristics which are sought in leaders by the followers are as follows: 1.Honesty, 2.Forward Looking, 3.Inspiring and 4.Competent.

Being honest is the number one quality or attribute, which is sought in leaders by the followers. People follow you “whether it be into battle ground or into the board room, into the class room or into the back room, into the front office or to the front lines” if they perceive you to be of worthy their trust. Important components of honesty are as follows: I.Being truthful, II. Being ethical, III. Being principled.

Forward looking deals with challenging the status quo and having a focus on creating a future vision. The vision of a leader helps the followers to have clarity of purpose and direction. Ability to inspire refers to capacity of the leaders to motivate team members to believe in a common vision / mission and creating enthusiasm and passion towards realizing the same. Being competent refers to possessing necessary knowledge, skill and wisdom to make decisions and achieve results. We live in a time when the amount of knowledge gets doubled once in five years. In recent years education has been redefined “as the process of knowing the unknown”. We also live in an exciting world of technological changes. The above scenario points out that an effective leader has to be competent both in human relationship and technical skills. It does not mean that the leader should know the intricacies of technology and operations of a manufacturing factory. However, a leader should have sufficient technical skills,

which would help him to make strategic plan in the fast changing environment. The need of leaders to have technical competency varies from industry to industry. In hi-tech knowledge based industry, one cannot exercise effective leadership unless one has got enough technical skills to know what is happening in his organization. There is also a need for constant scanning of the environment to make necessary policy changes whenever required.

Apart from the above mentioned four most important attributes of leaders, studies have indicated different personal abilities which are needed for effective leadership functioning. The trait approach to leadership emphasizes that the leaders are endowed with some of these attributes, which makes them successful. Based upon examples and experiences of different leaders, it has been found that a person who is aspiring for leadership position should inoculate the following qualities in his life:

Courage	Willingness to work hard
Intelligence	Physical strength
Self-competence	Enthusiastic
Decisiveness	Ability to withstand failure
Ability to trust others	Fairness
Emotional stability	Innovativeness
Creativity	Guidance in spotting opportunities
Initiative	Friendliness
Communication skills, (a) Speaking, (b) Writing	Empathy and
Conceptual skills	Self-confidence & Flexibility

#### **4. Dimensions of Leadership Behaviour**

During late 1940's and early 1950s, researchers were interested in identifying the behaviour characteristics of effective leaders. The need, not only to know the traits of leaders which indicate 'what they are' but also to know the behaviour of leaders which indicate 'what they do' which make them effective. Leadership behaviour refers to behavioural styles of leaders in terms of their actions. For example, to what extent a leader organises the work, develops a schedule of work and maintains a standard of performance as well as takes care of welfare of employees? At Ohio State University, studies conducted under the direction of Ralph. M. Stogdill in late 40s revealed the following two important dimensions of leadership behaviour:



- a) Initiating structure (task oriented)
- b) Consideration (employee oriented)

Initiating structure refers to structuring subordinates so as to achieve the goal. This involves organizing and defining relationship in a group.

Examples of initiating structure includes the following:

- a) Assignment of specific task
- b) Development of specific plan of work
- c) Scheduling of work
- d) Maintaining specific standard of performance

A manager who is high in initiating structure helps the employees to have a higher understanding of role clarity, which eventually increases their job satisfaction. Further, in military type organizations, officers without a higher level of initiating structure are considered less effective. Consideration refers to leadership behavior, which is related to developing an environment of mutual trust, emotional support and two-way communication between the leaders and subordinates. Activities under this include the following:

- a) Treating subordinates as equal
- b) Listening to subordinates' problems and ideas.
- c) Taking interest in subordinate growth and interest.

Based upon the dimensions of consideration and initiating structure, we can classify the leaders into the following four types:

- a) One who shows low consideration but having a high structure
- b) One who shows high consideration and high structure
- c) One who shows high consideration and low structure
- d) One who shows low consideration and low structure

## **5. Effectiveness of Leadership Behavior**

Studies have shown that employees' satisfaction was higher under leaders who had a higher level of consideration. Employees were dissatisfied under the leaders who had a high level of initiating structure. What style of leadership behavior will be considered as effective? Studies at the university of Michigan have shown that the most productive work groups are likely to have employee centered managers, rather

than the production-oriented managers. However, the researchers at the Ohio State University found that the employees' perception of effectiveness of leaders depends not upon the styles or behaviors of leaders but upon the situations. For example, the military commanders who were high in consideration were considered less effective while the managers of commercial companies who were high in consideration were considered as effective. This means that authoritarian leadership would be needed under military environment while business, academic and research environment may need employee centered leaders (Stoner *et al.*, 1999). Thus, it is clear that there is a need to strike a balance between the two styles, depending upon the situations.

## **6. Importance of Leaders' Situation**

Effectiveness of leaders depends not just upon their attributes, attitudes but also on the situation or environment on which they function. According to Fiedler (1967), the leadership effectiveness depends upon the 'favorableness of the situation' which indicates the extent to which a leader can positively influence the members of a group. He identified the following three factors or dimensions which contribute towards 'favorableness of situation'. The situation of the leader will be considered favorable if these dimensions are found to be high in the environment.

- a) The leader-member relationship
- b) The tasks structure
- c) The leader's position power

### **6.1 The leader-member relationship**

It is one of the crucial factors, which decides the favorableness of the situation. It refers to the extent to which the leader and the members maintain good relationship. If for some reasons the members do not accept the leader whole-heartedly, the effectiveness of leader will be lowered. The leader-member relationship can be affected by various factors like their age, personality, attitude, and openness in communication, style of functioning, ability, and organizational policies. A leader who has a good relationship with members need not use his formal power to get the work done, while a leader who is opposed by the led, may have to exercise his power to get the task completed.

### **6.2. Task structure:**

Task structure refers to the extent to which the job is programmed and spelled out giving details of different steps. The degree of task structure has been reported to be the second most important factor contributing towards favorableness of the situation. If the task happens to be highly structured, it will be easy for the manager to get the



work done. However, if the task is unstructured, the roles of members may become ambiguous. Under this situation, getting the job done will be relatively difficult and the leader has to exercise a higher amount of creativity.

### **6.3. Leader's position power:**

It refers to the formal authority of the leader including his power to reward and punish the employees. This dimension seems to be the third most important factor contributing towards the favorableness of the situation.

## **7. Leadership Styles and Group Situations**

The leader's environment or situation is favorable if the leader-membership relationship is high, along with well-structured tasks and high formal authority of leader. The leader's environment will be unfavorable if the opposite situation prevails in the above three dimensions, i.e. lower level of level of acceptance by the members, poor task structure and poor leader power. What style of leadership will be effective under favorable and unfavorable situations?

According to the research findings, under favorable and unfavorable situation the task-oriented leaders are most effective. The reasons for success of leaders through tasks orientation under favorable conditions are quite obvious. Since the leader and the members maintain a good relationship the group is ready to take up the direction from the leader and follow his order. Further, if the tasks is well structured it will bring role clarity and reduce uncertainties. But why the task oriented leader is successful under highly unfavorable situation? Under this situation the leader and the group do not maintain a good relationship with each other. Thus, the disliked leader's efforts to involve members of the team in joint decision making may not result in fruitfulness. The best course of action would be to assign work and give firm directions to the members. What kind of leadership style will be effective in a situation which is neither highly favorable unfavorable? Studies have shown that employees or people-centered leadership style is effective in the above situation.

## **8. What is leadership style?**

Every leader has different ways of functioning to accomplish the goal. The term 'leadership style' refers to the method of functioning or influencing, which a leader exerts on the followers. There is no single style, which can be effectively used in all circumstances. However, the leadership styles of effective leaders are different from that of ineffective leaders. Each style of leadership has its own strengths and limitations. Often, managers use a combination of different styles to accomplish their objectives. Based upon the leadership styles, leaders can be classified as autocratic



leaders, democratic leaders and laissez-faire leaders.

### **8.1. Autocratic Leadership**

The most important component of autocratic leadership style is decision-making which is centered on the leader. Davar (1998) has further classified the autocratic leaders into:

- Hard-boiled autocrat
- Benevolent autocrat
- Manipulative autocrat

The hard-boiled autocrat expects that his orders should be followed without any questioning. In case of disobedience, he uses punishment. The benevolent autocrat uses techniques like rewards or praises so as to secure the commitment of people for his ideas. However, the manipulative autocrat makes the decisions himself even though he may seem to involve people in taking decisions. The hallmarks of autocratic leadership are as follows:

- Decision-making centered on the leader.
- Use of several techniques for rewards and punishments.
- Work / tasks dictated by the leader.
- Leader keeps himself away from group participation

An important advantage of autocratic leadership style is quick decision making. However, this style has got a number of limitations such as greater level of job dissatisfaction among employees; lack of enthusiasm and participation; poor employee morale and low motivation.

### **8.2. Democratic leadership**

A democratic leader encourages the people to participate in decision making. He believes in the capacity of people to make competent decisions. He also treats the people as responsible, talented and self-controlled. The hallmarks of democratic leadership are as follows:

- Participation of people in decision-making
- Division of the task as decided by the group
- Active involvement of leaders in group activities

### **8.3. Laissez-faire or free-rein leadership**



The laissez-faire leaders believe that there is no need for anyone to provide external motivation to the people. They themselves get motivated based upon their own needs. Under this style of leadership, a leader assumes the role of one of the members of the group and whenever, others request his help, he provides it. This means that the leader does not make any conscious efforts to make any interventions. The hallmarks of laissez-fair leadership are as follows:

- Provision of help when asked for
- Minimum influence from the leaders
- Non-participation of leaders in task determination and rewards

#### 9. Leadership style continuum

A critical analysis of leadership styles reveals that there are many more styles to leadership apart from the above-mentioned styles such as autocratic, democratic and free- rein. Tannenbaum and Schmidt (1958) have developed a continuum of leadership styles based upon the degree of control exercised over the people. Different styles of leadership according to this continuum are as follows:

1. **Telling:** This style is followed by those who fall into the extreme end of exercising higher level of control. Here, the leader does not consult the members for the decisions. But, he makes the decisions and tells to the people. He believes that it is the most effective way to get the work done quickly as making decisions through participatory mode consumes a lot of time and resources.
2. **Selling:** The second type of leader in the continuum of leadership style makes the decision but tries to sell it to the people. He would use all his wisdom and communication techniques to market his ideas so that the group accepts his decision. This style is better than telling.
3. **Presenting ideas and inviting questions:** Here, the leader calls for a meeting of the people to discuss the problems and arrive at decisions. However, the meeting mainly focuses on the ideas presented by him. No importance is given to the ideas of the people. The members are encouraged to discuss the ideas presented by the leader and the leader makes the decision, which may or may not reflect the discussion carried out by the people.
4. **Presenting tentative decisions:** Here, the leader makes the decisions that are tentative and subject to change. These decisions are presented to the group members. The discussion will be carried out about the soundness of the decisions. Ultimately, the leader is free to make the decision, which may reflect

the inputs given by the members of the team.

5. **Presenting problems and getting suggestions:** Under this continuum of leadership style, the leader presents the problem to the entire group. The members are allowed to discuss the problem and give as many suggestions as possible. The leader, based upon the inputs of the group, makes the final decision.
6. **Allowing the group to take decisions within fixed limits:** Under this style of leadership continuum, the leader allows the group members to make decisions but within certain fixed limits. Here, the leader believes that the members of the group can solve most of the problems.

### 10. Leadership styles based on Leadership Grid

According to the 'leadership orientation' questionnaire, a person can fall into one of the following leadership styles:

- a) Social (country) club leadership
- b) Impoverished leadership
- c) Team leadership
- d) Authoritarian or task oriented leadership

The above classification of leadership style is based on the work of Blake and Mouton (1985) who have developed the Leadership Grid (formerly known as Managerial Grid). According to the framework of Leadership Grid, a leader can operate under

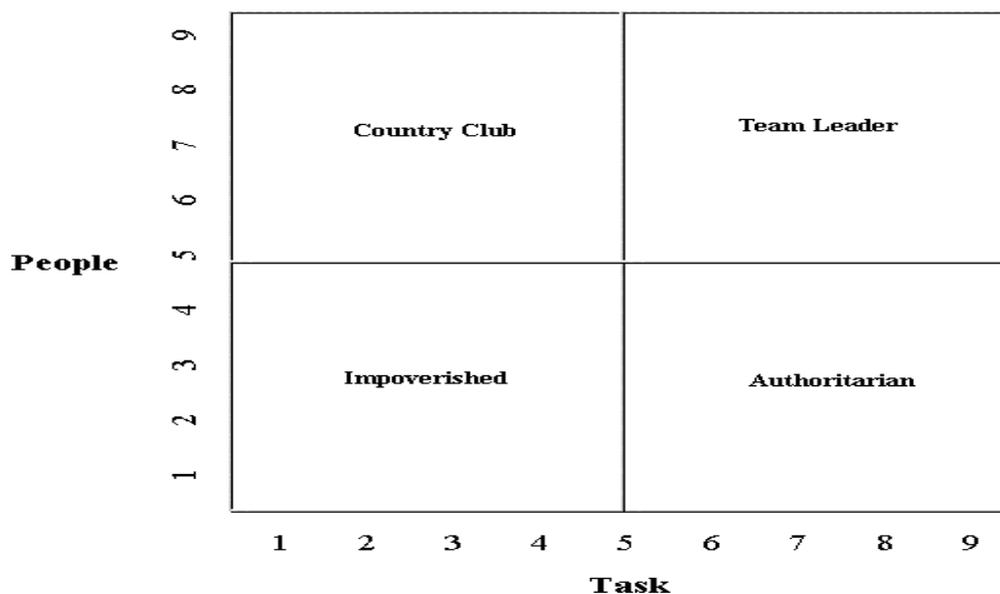


Diagram-1 Leadership Grid

either one of the following orientations: 'Concern for people' and 'Concern for task or production'. The above two interlocking dimensions are critical factors in deciding the performance of an organization. 'Concern for people' or 'people oriented' leader emphasizes on maintaining healthy relationship among the employees. In contrast, 'concern for production' or production-oriented leader emphasizes on getting the work done or completing the task in time. The above dimensions of leadership are comparable to the dimensions "consideration" and "initiating structure" reported under Ohio State studies.

Under Blake and Mouton leadership grid, the scores of leaders are plotted in assessing the leadership styles for which they have developed various tests. The test scores are plotted on vertical and horizontal axis in the matrix. The horizontal axis represents the 'concern for production' and the vertical axis represents the 'concern for people'. It should be noted that each axis is on a scale whose values vary from 1 to 9. The value one represents low concern and the value nine represents high concern. Even though, 81 possible combinations of leadership styles can be seen under managerial grid, a careful analysis will reveal that only 5 basic leadership styles which can be identified through the grid is enough for the purpose of discussion. Thus, the basic five styles, which can be identified in the grid, are as follows:

## **11. Situational Leadership**

The situational leadership model developed by Hersey and Blanchard (1988) is based on three variables such as task behavior, relationship behavior and readiness of the followers.

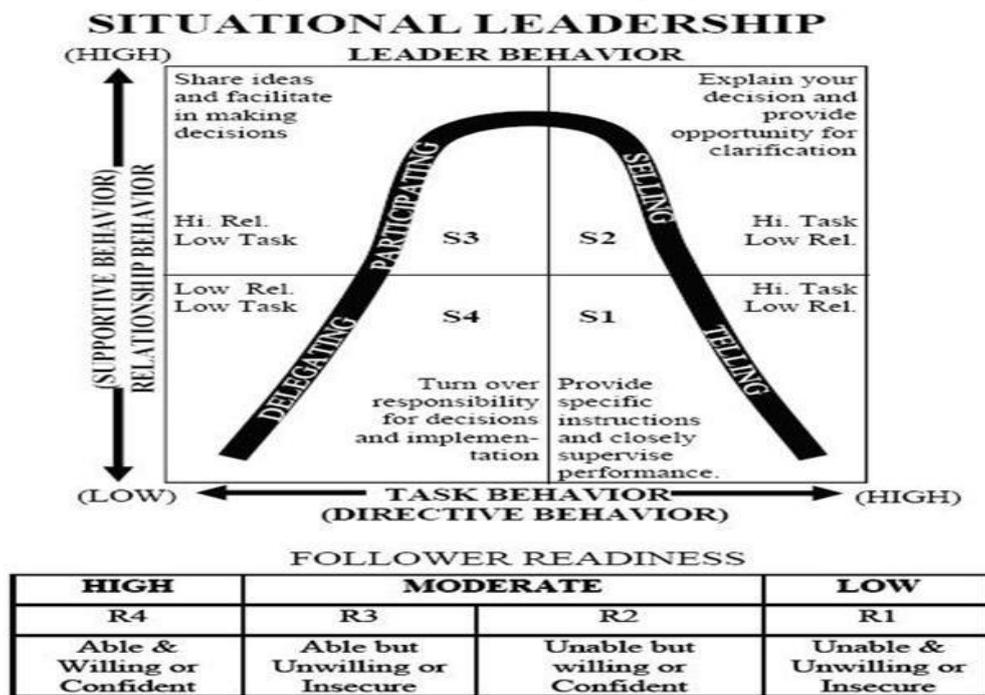
The task behavior of leader refers to extent of direction and guidance given by a leader. It is mostly a one-way communication which tells the followers what to do and what not to do and how to accomplish a task given. The relationship behavior is mostly two-way communication and it refers to socio-emotional support provided by a leader to help the employees to accomplish the task.

The readiness of the employees refers to the maturity of the followers in performing a given task. The readiness of the employees is a continuum which can be seen at four levels such as Low level readiness (R1), Low to moderate level (R2), Moderate to high level (R3) and High level (R4). The R1 level or low level refers to unwillingness to do a job as well as inability to do a job. The R2 level employees are willing to do a job but

they are unable to do it. The R3 level employees are unwilling to do a task but are able to do it .The R4 level the employees are able to do a job as well as willing to do it confidently

Source: Paul Hersey and Kenneth Blanchard (1988), *Management of Organization*

Figure 2: Situational Leadership Styles



*behavior: Utilizing Human Resources, Englewood Cliffs, and NJ: Prentice-Hall.*

The focus of situational leadership theory is on the followers or the employees. As per this theory, the success of leadership depends upon the selection of right leadership style according to the maturity or readiness of the employees. This model proposes four styles of leadership to be followed based upon the readiness level of the employees. These styles are as follows:

1. **Telling:** Here the employees are unwilling as well as not having the ability to do the job. Under this situation the leader has to follow a high level of task behaviour and low level of relationship behaviour. The leader has to give more specific and clear cut instructions and to provide a close supervision of performance.
2. **Selling:** Here the employees are not having the ability to do the job but are willing to do it. Here the leadership style involves a high level of task behaviour



and high level of relationship behaviour. The leader makes the decision and explains to the followers and provides opportunities and learns the skills needed to do a job.

3. **Participating:** Under this condition, the employees are able to do a job but not motivated or unwilling to do it. Here the leader has to provide high level of relationship behaviour and low level of task behaviour. The leader has to share ideas and facilitate the participation of employees in decision making which provides motivation for the employees.
4. **Delegating:** Here the employees have the ability to do a job and they are also willing to do it. This style involves low level of relationship behavior and low level of task behaviour. Here the leader makes the employees responsible for decision making as well as implementation.

## 12. Emerging leadership styles: transformational vs. Transactional leadership

James McGregor Burns developed the concept of transformational leadership in 1978. It was initially used in the context of political leadership. But in recent years, the idea of transformational leadership has been applied to business and developmental organizations. We all know, that organizations have followed a bureaucratic model in its development and continuance. A bureaucratic model plays a strong emphasis on formal structure, authority, clear-cut chain of command, detailed rules and regulations etc. The recent explosion in science and technology has resulted in increased growth in the development of knowledge workers, who need organizations which are less bureaucratic and having leaders who practice transformational leadership styles.

Before we understand the meaning of transformational leader, we should understand the meaning of transactional leadership.

Transactional leadership is based upon some kind of exchange or barter system. Under this approach, a leader controls the behaviour of the followers through rewards and punishment. The distinguishing features of transactional leadership are as follows:

- a) It involves exchanging one thing for another (Burns, 1978).

- b) It meets the lower level needs of people, such as physiological and safety needs.
- c) The leader indicates what is needed by him as well as what is expected level of performance from the followers. It involves contractual dimensions including agreed upon goals and minimum level of performance.
- d) Rules and regulations are formed about rewards and punishments.
- e) The leader intervenes only if the agreed upon level of performance is not met and the leader actively looks for deviation from rules and regulations. This is known as Management by Exception (Bass, 1985).
- f) Avoiding of responsibility and delaying decision-making.

### **12.1. Transformational leadership:**

Transformational leadership is much more powerful than transactional leadership and it occurs "when one or more persons engage with others in such a way that leaders and followers rise one another to higher levels of motivation and morality" (Burns, 1978).

The four components of transformational leadership are as follows (Bass, 1985):

- a. Charisma
- b. Inspirational motivation
- c. Intellectual stimulation
- d. Individual consideration

### **12.2. Servant Leadership:**

"Let the greatest among you, become as the least and the leader one who serves"

- Jesus Christ.

The heart of servant model of leadership is a genuine concern and care for others.

Unfortunately, most of the leaders practice a style, which is domineering, opportunistic and self-serving. But what is needed in this hour, is to enhance the growth of the people and the prosperity of the organization which is only possible through servant leadership. Today, all over the world, servant leadership style is gaining popularity. It is important to know that it can be practiced by Government,



business and non-Government organizations including universities, hospitals and profit and non-profit corporations. According to Robert Greenleaf who popularized this concept in recent years "the servant leader is servant first. It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead. The difference manifest itself in the care taken by the servant to make sense that other people's highest priority needs are being served. "The best test, though difficult to administer is: "do those served grow as persons; do they, while being served, become healthier, wiser, free, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society: will they benefit, or at least, not be further deprived?"

### **13. Let's Sum Up;**

Leadership is an art and science of influencing, motivating and inspiring people towards the futuristic vision or goal through challenging the present status-quo and securing people's trust and confidence. It is concerned with doing 'the right things' while management is concerned with 'doing things right'. Leadership is mainly concerned with functions such as providing a futuristic goal or vision, motivating and inspiring, coaching and guiding, problem solving, and providing innovative ideas. The top four important characteristics of which are sought in leaders by the followers are honesty, forward looking, inspiring and competency.

Leadership behaviour refers to behavioural styles of leaders in terms of their actions which shows to what extent a leader organizes the work, develops a schedule of work and maintains a standard of performance as well as takes care of welfare of employees. This unit discussed different leadership behaviour and styles. Transactional leadership is based upon some kind of exchange or barter system. Under this approach, a leader controls the behaviour of the followers through rewards and punishment. Transformational leadership is much more powerful than transactional leadership and it occurs "when one or more persons engage with others in such a way that leaders and followers rise one another to higher levels of motivation and morality. The four components of transformational leadership are; Charisma, Inspirational motivation, Intellectual stimulation, and Individual consideration



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## Topic - 2

### Problem Solving and Decision Making Skills for FPOs Functionaries

Dr. K. Anand Reddy

#### 1. Introduction

Effective problem solving is a key management skill and a major factor in determining individual and organizational success. People with good problem solving skills adapt more quickly in times of rapid change and are generally the high achievers, whether it is by putting things right when they go wrong, making the best use of resources, or creating and exploiting opportunities. Whatever our personal and professional ambitions, we can improve our chances of achieving what we want and exploiting opportunities. Whatever our personal and professional ambitions, we can improve our chances of achieving what we want by developing your problem solving skills. Each of us has an innate ability to solve problems. To develop this ability we need a clear understanding of the skills and techniques involved and practice in applying them in different situations.

In the broadest sense, problem solving consists of devising a course of action which will enable us to achieve a particular goal or objective. It plays a fundamental role in our day-to-day lives, both through our own actions and those of others which affect us. Solving problems effectively requires an understanding of the problem solving process and the ability to use the appropriate skills and techniques at the right time. To be a successful problem solver we must go through these stages:

- Recognizing and defining the problem
- Finding possible solutions
- Choosing the best solution
- Implementing the solution.

In this lesson the following objectives have been defined:

- Define problem-solving
- Differentiate between analytical and creative problem solving
- Recall various steps in the creative problem-solving process.



**2. Concept of Problem-Solving:** All of us face problems of some sort or the other every day. Shower failure, Power failure, Breakdowns etc. In fact, problems are so much part of life that one wonders what life would be like, if there were no problems. At work too, problems arise every day, day-after-day. So much so that you wonder-what you are? Merely a problem-solving machine. The truth, however, is that it is in the handling of problems that you show your real worth.

**2.1 Problems in - solutions out - is your job - everybody's job.** It helps improve your effectiveness. Each of us is a constant problem solver. Problems, as visualized by most of us, are irritants, impediments, hassles and a headache, in general are negative things.

**A PROBLEM IS A POSITIVE OPPORTUNITY REMEMBER**

**A PROBLEM IS A POSITIVE OPPORTUNITY**

In organizational situations - problems are actually, something to do, something

challenging, something positive, to show our worth, to improve our performance.

We see or note that there is problem, through its associated symptoms. The symptom by itself is not the problem. Through symptom we have to exercise to pin down the problem responsible for the symptoms we see. This process is known as gathering the facts to identify the specific problem.

Repeat - symptom is not the problem. Problem is the cause of symptoms we see.

You have to eliminate symptomatic causes till you are left with the essential problem.

The problem solving process has three steps:

- Define what needs to be done.
- Implement it.
- Check that it has worked.

This process is more like a circle rather than a straight line. Because, at the end of the 3<sup>rd</sup> step if you find the solution has not worked, you have to go back to the 1<sup>st</sup> step and repeat the 3-step process until you solve the problem.

There is no best solution to any problem. As, in reality, permanent elimination of problem through a solution is a myth. Problems are solved temporarily. Hence find an optimal solution (i.e. Best Possible Solution)

Ask Questions and do not offer solutions, remind, yourself of what Peter Drucker - the Father of Management said - "Most common source of mistakes in management decisions is that the emphasis is on finding the Right Answer rather than asking the Right Question."

Ask;

1. Why The Problem Has Arisen?
2. How The Problem Manifests Itself? And
3. Seek Additional Information If It Would Help Clarify The Situation.

This leads to confirmed identification of the specific problem. Now, you have to fix criteria to be met by the solution to be proposed for the

problem, such as -

- Fast solution,
- Minimize cost/additional investment,
- Maximize profits.

- 1) See that there is a problem
- 2) Define it
- 3) Specify the nature of the problem
- 4) Generate possible solutions
- 5) Define criteria for making a decision
- 6) Look for optimal solution

Make a Decision tree for clarity. A decision tree is a depiction, both visually and graphically of the different options, available for solving the problem.

Finally, reviewing the entire gamut of problem-solving process, remember that it involves the following steps. This in essence, is the heart of the approaches to

problem-solving.

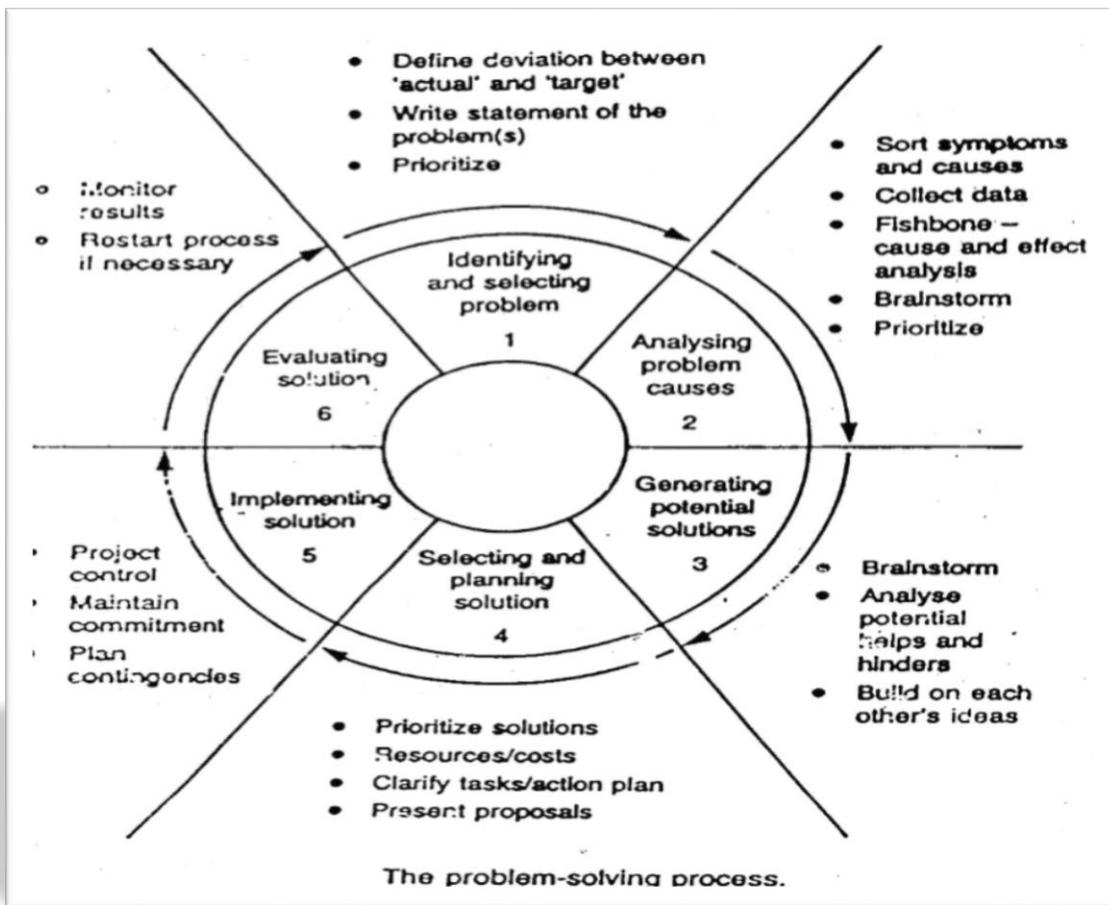
## 2.2. Types of Problem-Solving

Following classification of problems is presented:

- **Analytic Problem Solving:** It involves a situation in which there is only one correct Answer or result. In this situation,  
 $2 + 2 = X$   
 $2 + 2 = 4$
- **Judgmental Problem Solving:** Judgmental Problem solving frequently offers the problem solver a limited choice of alternatives.

- **Creative Problem Solving:** Creative problem solving is the type of problem solving people do 90 percent of the time. The range of alternatives is very broad, much more so than in judgmental problem solving.
- **Decision Making and Problem Solving:** Decision-making is part of the problem-solving process. Problem solving involves the consideration of a number of possible solutions for the situation.

Diagram 1: The Problem-Solving Process



### 2.3. Problem –Solving Skill

Problem Solving	Decision Making
Identify and try to understand the problem	identify the objectives (goals) of the decision
Collect relevant information and reflect on it	Find alternative ways of meeting these objectives
Generate some ideas	Determine evaluation
Develop solutions	Criteria/techniques
Select the best solution & implement it	Select best course of action & implement it

### 2.4. Solving and Problem Solving Vs. Decision Making

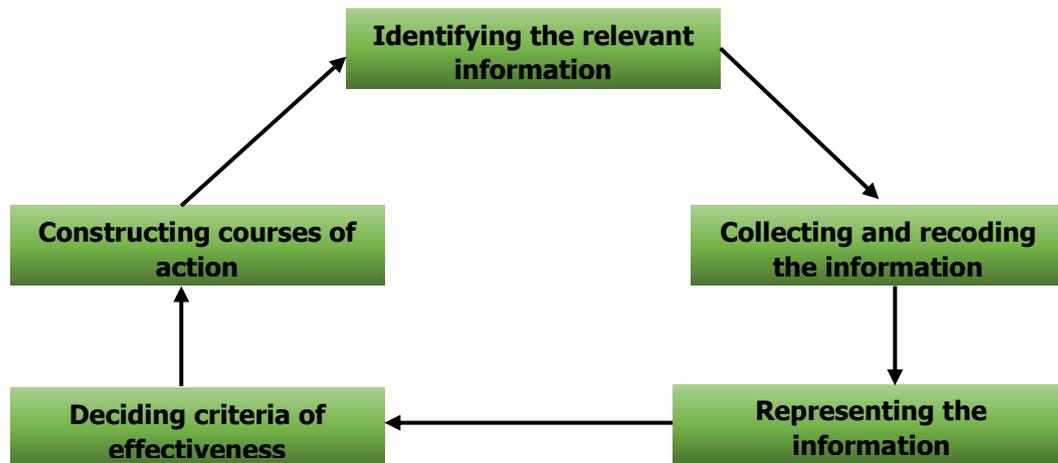
In literature below cited problem solving skills are quoted: -

- Recognize problems when and where they exist.
- Anticipate developing problems while they are still in an embryonic stage.
  - Evaluate the results of the solution and monitor for future problems.
  - Determine an objective or goal, that is, the results desired when the problem is solved.
  - Generate several possible solutions to the problem.
  - Evaluate systematically the possible solutions against a set of predetermined criteria, and thus lead to an effective, appropriate solution.
  - Plan for the implementation of the solution in an organized manner.

### 3. Resolving Problems

To resolve a problem is to select a course of action that yields an outcome that is good enough, that satisfies. This approach relies heavily on past experience and current trial and error for its inputs. It is qualitatively, not quantitatively, oriented; it is rooted deeply in common sense, and it makes extensive use of subjective judgments. To solve a problem is to select a course of action that is believed to yield the best possible outcome that optimizes. This approach is largely based on scientific methods, techniques and tools.

**Diagram 2: Model of Problem Solving**



It makes use of mathematical models and real or simulated experimentation; therefore, it relies heavily on observation and measurement and aspires to complete objectivity.

### 3.1. Identifying and Analyzing Problems

Dealing with Problems Effectively

The ability to deal with problems effectively is a major requirement of management. It involves a blend of knowledge, skills and judgement.

- Knowledge of people, tasks and organizational influences such as policy, objectives and procedures.
- Skills in identifying, analyzing and finding solutions to problems.
- Judgement to assist in making decisions throughout the problem-solving process.

### 3.2. Diagnosing problems

The first stage in the problem-solving process is recognizing that a problem exists. The effective manager will try, as far as possible, to anticipate problems or identify them when they first occur. Problems can be diagnosed through:

- Continuously monitoring performance to reveal when things are not going as planned;
- Listening to subordinates to detect concerns about their work, the organization and relationships with colleagues and management;



- Observing subordinates' behavior, looking for the unusual or inconsistent which may be a symptom of some underlying problem.

### **3.3 Understanding problems**

Once a problem has been diagnosed it must be clearly understood before a decision is made on what to do next. The alternatives are:

- To decide to do nothing;
- To keep the problem under surveillance and review at a later date;
- To contain the problem;
- To find a solution to the problem.

### **3.4 The Value of an Initial Analysis**

An initial analysis will help your understanding of the problem. Not all problems justify the same depth of analysis. Problems, which are routine or recurring often, need little or no additional clarification. These problems can be resolved efficiently through implementing company policy or a standard solution.

Experience and knowledge of the situation should enable you to identify non-routine problems for which an initial analysis offers the greatest potential gains. It will help you to understand the problem more clearly, establish its importance in relation to other problems and provide you with a basis for generating solutions at a later stage.

### **3.5 The Initial Analysis Involves:**

- Gathering information about the problem - distinguish between fact and opinion
- Defining the scope of the problem - who and what is involved
- Determining the consequences of the problem - do they justify further analysis
- Establishing the causes of the problem - distinguish between causes and symptoms.

### **3.6 Generating Solutions**

When faced with a problem many managers react with a decision, which provides an obvious or satisfactory answer to the problem. But there is generally more than one possible answer to any problem and the obvious solution is not necessarily the best solution.

Generating a variety of alternative solutions to problems involves thinking in a free-ranging or creative way.



Selecting the 'best' solution, which satisfies the objectives you are trying to achieve within the constraints of the problem situation, involves narrowing down or refining the alternatives to arrive at a feasible solution.

Finding solutions to problems should therefore involve two processes:

- Creative thinking to generate as many ideas as possible regardless of their feasibility.
- Analytical thinking to reduce these ideas to a smaller number eventually arriving at a feasible solution.

By combining these processes you can improve the quality of your decisions and resolve problems more imaginatively and effectively.

### 3.7 Encouraging creative thinking

Everybody has the potential to think creatively. It rarely involves inventing completely new ideas. Most creative solutions to problems incorporate existing ideas, which have been combined in a unique or imaginative way. There are four things you can do to establish the right conditions for generating more creative solutions.

**3.8 Approach the problem with an open mind:** Avoid the tendency to relate the problem to a similar problem which you have experienced and apply the same solution. Treat each non-routine problem as a new problem.

**3.9 Suspend judgment:** Avoid reacting to problems with an immediate and obvious solution. Allow time to generate as many ideas as possible around the problem before evaluating the ideas to select a feasible solution.

- **Be prepared to take risks:** Most of us try to conform by meeting the expectations and reflecting the views of those around us. We try not to appear foolish by suggesting what may appear to others as 'silly' ideas.
- **Involve others who don't own your problems:** Share problems with subordinates or others in your organization. Their non-ownership of a problem should enable them to produce ideas which are at the very least different from yours and could help you each a better solution.

## 4. Problem Solving Blocks

- Problem solving ticks are classified in 3 categories:

### 4.1 Perceptual Blocks

- Seeing only what you expect to see.



- Stereotyping.
- Not Recognizing Problems.
- Not seeing the problems in Perspective.
- Mistaking Cause and Effect.

#### **4.2 Emotional Blocks**

- Fear of Making Mistakes or Looking Foolish.
- Impatience.
- Avoiding Anxiety.
- Fear of Taking Risks.
- Need for Order.
- Lack of Challenge.

#### **4.3 Intellectual Blocks**

- Lack of Knowledge or skill in the problem solving process.
- Lack of creative thinking.
- Inflexible thinking.
- Not being methodical.
- Lack of knowledge or skill in using the 'language' of the problem.
- Using inadequate information.

#### **4.4 Failures to Solve Problems Effectively**

Following reasons are ascribed for failure to solve the problems effectively:

- Not being methodical.
- Lack of commitment to solving the problem.
- Misinterpreting the Problem.
- Lack of knowledge of the techniques and processes of problem solving.
- Inability to use the techniques effectively.
- Using a method inappropriate for the particular problem.
- Insufficient or inaccurate information.
- Inability to combine analytical and creative thinking.





## Topic - 3

### Focus Group Discussion and Managerial Skills for Extension Functionaries to facilitate sustainable FPOs

Dr. Shridevi V

#### Objectives

*After going through this unit, the learners will be able to:*

- Understand the significance of Focus Group Discussion
- Role of Group Discussion in Management of FPO
- Managerial Skills Extension functionaries
- Need of Managerial Skills of Extension functionaries to facilitate FPOs

#### 1.0 Introduction

There is growing interest in the concept of learning communities, communities which are empowered to chart their own pathways of change. Rather than 'development practitioners' 'treating' groups of people, and then measuring the effects, this realm of development practice is really about all agents fully participating in change creation. Participatory appraisal refers to an evaluation approach where all stakeholders and beneficiaries participate in determining the evaluation design, the data processes and use of information or all of the above. This has strong implications for sustainability. The same concept could be adopted to facilitate the growth and development of the farmers' organizations.

By placing the emphasis on participation, it is important, when utilizing this approach to be clear on the intention of the evaluation. As for any evaluation, the aim is to understand what the primary users of the valuation seek to know, and how information can be obtained which is useful to them.

In participatory evaluation, the principle is, only the primary users of the evaluation are also the evaluations beneficiaries. Thus, what you are effectively doing is listening, as your evaluation process aids organization members to develop systematic ways of thinking about how to effectively being about their own change, providing them with the appropriate participatory tools to define their version of 'FPOs Growth'. Participatory evaluation can use a number of methods, and the choice of methods will depend on the intentions as stated by the primary users.

#### 1.2. Focus Group Discussion

Focus Group Discussion is a useful PRA method that involves sensitive

interviewing & dialogue which are important elements of various participatory approaches (including PME). It involves gathering people from similar backgrounds or experiences together to discuss a specific topic of interest. It's a type of Group Discussion among farmers that enables extension functionaries to gain insights on various perceptions held by farmers and their free opinions regarding some issues, new technologies, livelihood options, enterprise progress of projects / prog. / etc..... The technique generally involves group interviewing in which a small group of usually 8 to 12 peoples are involved and by a moderator in a loosely structured discussion of various topics of interest and includes a note taker. The group's composition and the group discussion should be carefully planned to create a non-intimidating environment, so that participants feel free to talk openly and give honest opinions. Since participants are actively encouraged to not only express their own opinions, but also respond to other members and questions posed by the leader, focus groups offer a depth, nuance, and variety to the discussion that would not be available through surveys. Additionally, as FGDs are structured and directed, but also expressive, they can yield a lot of information in a relatively short time. Therefore, FGDs are a good way to gather in-depth information about a farmers' thoughts and opinions on a topic. The course of the discussion is usually planned in advance and most moderators rely on an outline, or guide, to ensure that all topics of interest are covered.

### 1.1. Features of FGD

- A FGD should be between 60 and 90 minutes. If the FGD is shorter than 60 minutes, it is often difficult to fully explore the discussion topic and if it is longer than 90 minutes, the discussion can become unproductive.
- FGD provides an opportunity to organisation to make empowered decentralised decisions, can that lead the organisation to achieve greater success
- It enables in depth discussions and involves a relatively small number of people
- It is focused on a specific area of interest that allows participants to discuss the topic in greater details



- Interaction is a unique feature of the FGD. Indeed, this characteristic distinguishes the method from the individual in depth interview
  - It is based on the idea that group processes assist people to explore and clarify their point of view
  - Moderator introduces the topic and assists the participants to discuss it by encouraging interaction and guiding the conversations
  - The moderator plays a major role in obtaining good and accurate information from the FGD
  - Participants usually have shared social and cultural experience and shared particular area of concern
- 1.2. Steps in Conducting FGDs:** While conducting the focus group discussion steps given in the (fig-2) should be followed. These steps could be modified as required.

**Fig-2: Steps in Conducting FGDs**

Step-1	•Decide whether focus group are appropriate
Step-2	•Decide whom to involve
Step-3	•Set a moderator
Step-4	•Develop facilitators guide and formate for recording responses
Step-5	•Conduct FGD in suitable and confortable environment
Step-6	•Listen to target audience and take notes
Step-7	•Transcribe, analyse and interprete responses of the group

### **1.3. Skills Required to Conduct FGDs**

Focus group discussion, like all other PRA techniques, it requires considerable skills, competencies and expertise such as:

- The moderator needs to be flexible and free of biasness and prejudices
- Before starting the discussion facilitator needs to have a good understanding of the subject, problem, or topic to be discussed but Appears like the participants
- Proficiency in the language in which discussions will be conducted. As it cannot be conducted through an interpreter or by third person, no matter what types of skills he/she has
- Facilitator of the group discussion should have known subtle group control;



Experts, Dominant talkers, Shy participants Ramblers, ensure that all the participants are able to share their views

- Training or experience in conducting group discussion to avoid the free flow of discussion and draw unjustifiable conclusions and findings.

#### 1.4. Advantages of FGDs

- Free and open discussion among respondents results in generation of new ideas and to find solutions to problems
- Investigate group attitudes and beliefs for the better organizational development
- Generate ideas at exploratory stage
- Easy to setup and relatively inexpensive
- To find the differences and commonalities
- To investigate complex ideas and behaviors

## 2. Managerial Skills and Soft Skills required for Extension Workers:

### Managerial Skills required for Extension Workers:

The role of extension worker while living among rural people is to bring necessary change in individual and collective behavior and motivating them. For this, extension worker is required to have knowledge about psychological factors, extension related training and technological knowledge. In performing his duties an extension worker has to perform work enumerated:

- 2.1. **To create motivation and feeling** - By motivating rural people for the development of programs so that they themselves may become anxious to improve their standard of living and make new programs and implement them for their upliftment.
- 2.2. **Knowledge of local felt need** - Development program should be based upon local felt needs. For this extension worker should be aware of requirements and problems of local people.
- 2.3. **Precedence of instant needs** - In preparing program, precedence should be given to those works which fulfil instant requirement of people.
- 2.4. **To create self-belief in rural people** - Till now rural people have no faith upon their own power. They still depend on government assistance for the development work. So, it is important to make them understand or convince them that they can do most of the work through mutual cooperation.
- 2.5. **Emphasis on self-dependence** - Our villages were self-dependent before British



rule. Their needs like food, clothing and housing, were fulfilled in villages itself, but now they have to go outside to fulfil their basic needs and still they are unable to earn enough for themselves. Therefore, it is necessary to bring change in this situation and to teach lesson of self-independence to the villagers.

**2.6. To develop the close relations between research centre and agricultural farm -**

A close coordination is to be developed between research centre and agricultural farm. So that scientific information can be given to the farmers and their problems can be addressed to the scientific institution for solution.

**2.7. Full use of present local resources -** In order to enhance the extension work and rural industries like agriculture and cottage industries, it is necessary to efficiently utilize the available local resources so that people can become self-dependent.

**2.8. Plan for all-round development -** Extension worker should organize social, economic and educational development programs for all round development of the society.

**2.9. Reconstruction of village -** Work should be done for the development of education, health, transportation, electricity, water *etc.* in villages, so as to encourage educated people to stay in villages. Arrangement should be made for providing security to the people in villages.

**2.10. Change in social attitude -** The rural environment in India is filled with jealousy, hatred, ill feeling and conflicts. Selfishness is increasing day by day and it is harmful for the society and the country. Extension worker should try to bring change in this mental attitude of people so that they can sacrifice their selfishness for the welfare of the society and country and may become partners in the reconstruction of the country.

**3. Soft Skills required for Extension Worker: -** Extension worker is like a teacher, philosopher, leader, guide and colleague for the community and on the basis of his special qualities he is able to carry on developmental program successfully. It is undoubtedly true to say that the success and failure of development programs depend upon the qualities of extension worker. Now we will do realistic study of those necessary qualities and capabilities of extension worker. By extension worker we mean a man who is the last chain of extension organization, who while living in the midst of the community, propagates his programs. Qualities of Extension Worker are:

**3.1. Sound knowledge of subject -** The work of extension worker is to introduce villagers to new ideas and to bring change in their behavior. But, he cannot be



successful in this work unless he himself is aware of new technologies. Only after having full and complete knowledge about latest techniques/technologies, he will be able to impress the people.

**3.2. Burning desire for new knowledge** - Extension worker should have burning desire to know his subject and problems and requirements of people, so that the research work of research institutions can be brought to the people and problem of the people could be brought to the research institutions for analysis and inspection and again their results can be brought to the people. It is correct to say that the extension worker should play the role of teacher as well as that of a student.

**3.3. Explicitness** - Extension worker lives alone in the village and he has to provide appropriate solution to the problems of the people. Therefore extension worker should be capable of taking prompt action and providing explicit solution. Opposite trait in extension worker will create disbelief and disappointment among people.

**3.4. Tactful** - Extension worker should be tactful and try to derive relevant benefits from the experiences, problems and resources of the people in order to gain their trust and become reliable person for them.

**3.5. Foresightedness** - Extension work is a continuous process, therefore, extension worker should have foresightedness to know which type of work will bring, what kind of result and what will be its impact on the people. He should also know which work should be given priority in order to achieve long lasting benefit.

**3.6. Sympathetic attitude** - Sympathetic attitude is the best quality in extension worker. If he / she is capable of listening to the problems of people sympathetically and able to solve them, then undoubtedly, people will respect and honour him. This is the first and last step for the success of the program.

**3.7. Service attitude** - The mentality of extension worker should be filled with servitude. As far as possible at every stage, he should perform his duties and should not exert his rights. Due to this mental attitude, other people will also take interest in social welfare program and new leadership will emerge and help voluntary in extension work.

**3.8. Attractive personality** - Extension worker's personality should be able to attract people easily. Therefore, the behavior of extension worker should be lively, polite and courteous so that people of all strata can come in contact with him without hesitation.

**3.9. Faith in program** - Strong faith enhances personality and increases respect among people, Due to strong faith in program, people get self-motivation to



participate in program and extension work achieve success.

**3.10. Enthusiasm** - An attempt without enthusiasm is bound to fail. Therefore, extension worker's heart should be filled with enthusiasm, zeal and affection. A body without enthusiasm is like a cadaver. Person who himself is not motivated, self-confident and aware cannot convince others to follow his path. Enthusiasm is sure way for success. It enhances personality of extension worker. It is also relevant here to mention that over-enthusiasm is harmful.

**3.11. Courage** - Extension worker should be courageous enough to tackle difficult conditions and situations.

**3.12. Tolerance** - The extension worker should develop his personality in such a way as not get easily hurt by opposition. There is no impact of anger on tolerant people.

**3.13. Honesty** - Wherever there is a question of behavior and policy, people should practice honesty and truthfulness. Extension work is a practical work in which definite policy is adopted through which new motivation emerge in the community.

**3.14. Simple living** - Behavior of an extension worker should be simple without any pomp and show. It means that extension worker's standard of living and his behavior should be like an educated villager.

**3.15. Friendly nature** - Behavior of extension worker should be amicable so that he can make friends easily. Feeling of friendship among people enhances cooperation and extension work.

**3.16. Firm determination** - Extension worker should have firm determination so that he can do his work in spite of all hurdles, which come in his way. If he lacks in determination then he will be unable to generate faith among people.

**3.17. Religious outlook** - Extension worker should be liberal and religious minded so that he can easily achieve respect in that particular society in which he has to work. But extension worker should not be conservative and fanatic in his religious outlook.

**3.18. Organizing capacity** - The success of extension work depends on two main factors: (i) Development of power of motivation. (ii) Capability to organize people. Power of motivation develops naturally but capability to organize people is very important for doing any kind of work. The proper utilization of money, labour and other resources of people is possible only when all these different factors are properly organized.

**3.19. Dignity of labour** - Extension worker should not hesitate to do social work and labour work of any kind. This way he himself will do less work but the environment



created is essential for the progress of development work in which development program will progress rapidly. In this way dignity of labour will be enhanced among people.

**3.20. Knowledge of rural social values** - In order to convince a person it is necessary to respect that person's social values. If the people of a particular area believe in Ramayana and Gita then extension worker of that area should start new programs along with Akhand Ramayana and recitation of Gita. This will develop strong respect for the work and people will easily adopt the extension work.

#### **4. Suggested Readings/ References:**

<https://tools4dev.org/skills/participatory-evaluation-definition-methods-advantages/>

## **UNIT III - LEGAL AND FINANCIAL MANAGEMENT OF FPOs**





## Topic - 1

### National Policy for the Promotion of FPOs/FPCs

Mr. Pavan Kumar

#### 1. Aims and Objectives of the Scheme

- I. To provide holistic and broad-based supportive ecosystem to form new 10,000 FPOs to facilitate development of vibrant and sustainable income-oriented farming and for overall socio-economic development and wellbeing of agrarian communities.
- II. To enhance productivity through efficient, cost-effective and sustainable resource use and realize higher returns through better liquidity and market linkages for their produce and become sustainable through collective action.
- III. To provide handholding and support to new FPOs up to 5 years from the year of creation in all aspects of management of FPO, inputs, production, processing and value addition, market linkages, credit linkages and use of technology etc.
- IV. To provide effective capacity building to FPOs to develop agriculture-entrepreneurship skills to become economically viable and self-sustaining beyond the period of support from government.

#### 2. Strategy for Formation of FPO and Identification of Cluster Area

- I. Formation and promotion of FPO is based on Produce Cluster Area, which is broadly defined as: **“Produce Cluster area”** for purpose of FPO formation and management herein means a geographical area wherein agricultural and allied produce such as its produce of similar or of almost similar nature is grown / cultivated; therefore, an FPO can be formed for leveraging economies of scale in production and marketing. This will also cover Organic Produce and Natural Farming.
- II. Produce cluster area is to be identified with the input of District Level Monitoring Committee (D-MC), State Level Consultative Committee (SLCC), other Ministries/Departments of Government of India and the States as well as with recommendations of Implementing Agencies with input from Cluster-Based Business Organization (CBBO) and suggestions of relevant Government of India Organizations.
- III. CBBOs will undertake Feasibility Study in assigned clusters which will include the following:



- i. **Diagnostic study including Baseline survey** to find out produce and socio-cultural similarity, existing gap and potential activity, interventions in terms of infrastructure, services, etc. required in the value chain of agricultural and horticultural produce including post-harvest management and marketing. Baseline survey should also identify current situation of farming, small, marginal and landless farmers for aggregation, to identify minimum geographical area for potential interventions etc.
  - ii. **Prospective Business Plan** in order to establish a fit case for formation of an economically sustainable FPO.
- IV.** FPO with a minimum farmer-members' size of 300 shall be eligible under the scheme in plains, while in North-Eastern and Hilly areas\* (including such other areas of UTs), size of 100 shall be eligible. Farmer-members cohesively located with almost same interest are to be mobilized to form a group of 15-20 Members, calling the group as Farmer Interest Group (FIG) or Self Help Group (SHG), Farmers Club (FC), Joint Liability Group (JLG), Rythu Mitra Group. Such 20 or more groups from a produce cluster area or a village/ cluster of neighboring villages based on certain commonalities are to be put together to form an FPO with a minimum farmer-members size of 300 to be eligible under this scheme in plains while in Hilly and North Eastern regions, 7-8 are to be put together to form an FPO with a minimum farmer-members size of 100. It may provide special focus to include small, marginal and women farmers/women SHGs, SC/ST farmers and other economically weaker categories etc. as members to make FPOs more effective and inclusive.
- V.** However, efforts will be made to achieve an average membership size of 500 farmers in plain areas and 200 farmers in Hilly and North-Eastern regions to make them sizable for economic sustainability and profitability. Based on experience/ need, Department of Agriculture, Cooperation and Farmers Welfare (DAC&FW) may revise the minimum membership norm per FPO, with the approval of Union Agriculture Minister. Efforts will be made to form on an average two FPOs in at least each of potential 5,000 blocks out of existing about 7,000 blocks. However, efforts will be made to cover all blocks in the country.
- VI.** The FPOs can federate at district level and State level based on their need of processing, branding and marketing of produce/trading of commodities, which are essential for scaling up for survivability and growth in an era of competition. Based on their need, success and product, they can federate at the National level also to promote packaging/branding and domestic/international trading of quality produce. Such Federation may avail advisory of National Project Management Agency (NPMA)



as well as will be eligible for Credit Guarantee facility under the Scheme to strengthen their activities relating to setting up of infrastructure and supply chain for value addition and marketing.

- VII.** While adopting cluster-based approach for produce or produce mix, formation of FPOs will also focus on “One District One Product” approach for development of product specialization, in case the focused agriculture produce has been declared for that district, whereby FPOs will be encouraged for promoting processing, branding, marketing and export of the product for better value realization. There may be more than one cluster for one product in one district and a cluster also may extend beyond a district. However, to be an FPO economically sustainable and diversify risk & enhance returns, the FPO will also have additional product and service mix; so that there are enough activities and engagements with the members throughout the year. Furthermore, FPOs can federate at district level, State level & National level for the product identified as per their requirement of processing, branding and marketing.
- VIII.** Concerted efforts will be made to prioritize formation of FPOs in aspirational districts through intense awareness programs and making FPOs economically sustainable through adequate support, handholding, training & skill development. However, intensive efforts will be made to form & promote at least 15% of the total targeted 10,000 FPOs (i.e. 1,500 FPOs) in next 5 years in aspirational districts with at least one FPO in each block of aspirational districts of the country for their development. In order to promote the forest and minor forest produce by the tribal communities, intensive efforts will be made by the implementing agencies to prioritize formation and promotion of FPOs in the notified tribal areas in the country. The benefits of quality input, technology, credit and value addition and processing as well as better market access should reach the tribal community and North-East Region through the Scheme in co-operation with Tribal Affairs Ministry, DONER and North Eastern Council (NEC).
- IX.** Existing FPOs will also be allowed to avail relevant benefits, if not earlier availed in any scheme of Government of India, such as Credit Guarantee Fund and advisory services from National Project Management Agency (NPMA) under the scheme. The FPOs which are already registered but have not been provided funds under any other schemes and have not yet started operation will also be covered under the Scheme.

### **3. National Project Management Agency (NPMA)**

At national level, a National Project Management Agency (NPMA) will be set up by SFAC through transparent manner for providing overall project guidance, data



maintenance through integrated portal and information management and monitoring. The NPMA will be equipped with the technical team with five categories of specialization in Agriculture / Horticulture, Marketing and Processing, Incubation Service Provider, IT/MIS and Law & Accounting to provide overall guidance at all India level.

#### **4. Implementing Agencies**

- I. In order to form and promote FPOs in uniform and effective manner so as to achieve the target of formation of 10,000 new FPOs in 5 years and to make the FPOs economically sustainable, there are three Implementing Agencies, namely, SFAC, NCDIC and NABARD, shall be responsible to form and promote FPOs.
- II. In addition to afore-stated three implementing agencies, if any State/Union Territory is desirous to have its own implementing agency, State/UT may approach DAC & FW with details about the State/UT, its agency, activities and experience of the agency etc., and DAC & FW will consider the proposal on experiences and existing manpower required for formation and promotion of FPOs in the region.
- III. DAC&FW may, in due course, identify and assign other additional Implementing Agencies to cover various sectors and geographical locations to form 10,000 FPOs as per the need of the programme.
- IV. The Initial Implementing Agencies as well as the State level or any other Implementing Agencies approved by DAC&FW shall also be supported.
- V. Year-wise indicative target for Implementing Agencies- Considering the Implementing Agencies' existence in the States/Regions/Districts/Produce Clusters, their human resource and also their area of specialization, targets are to be tentatively allocated by Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC) in consultation with the Implementing Agencies. In such case, the targets may be interchangeable on requirement basis.

#### **5. Cluster- Based Business Organizations (CBBOs)**

Implementing Agencies will set up Cluster- Based Business Organizations (CBBOs) at the State/Cluster level to form and promote FPOs as per their requirements; however, targets for produce clusters, full or part of the State or region will be allocated by Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC). The Implementing Agencies will apply due diligence to ensure that professionally competent CBBOs are transparently engaged & have experience in promotion and professional supports to FPOs.



- a) In a State, based on geography, produce clusters, cropping pattern, etc., there may be one or more than one CBBO. Even one CBBO may serve more than one State as per requirement. However, CBBOs should be given work according to available human resources with them, their past turnover and work experience etc.
- b) The CBBOs should be going concern with professional experience and exposure in formation of FPOs in agriculture and allied sector and providing handholding support to them.
- c) The CBBOs should be supported with five categories of specialists from the domain of (i) Crop husbandry; (ii) Agri. marketing / Value addition and processing; (iii) Social mobilization; (iv) Law & Accounts; and (v) IT/MIS in agriculture & agriculture marketing. The CBBOs with requisite number of other technical and supporting staff to be housed/operated from their own offices in respective States or from offices of respective Implementing Agencies, which have selected them.

## **6. Provision for Equity Grant**

Producer members' own equity supplemented by a matching Equity Grant from Government, which is required to strengthen financial base of FPOs and help them to get credit from financial institutions for their projects and working capital requirements for business development. Equity Grant shall be in the form of matching grant upto Rs. 2,000 per farmer member of FPO subject to maximum limit of Rs. 15.00 lakh fixed per FPO. This Equity Grant is not in the form of government participation in equity, but only as a matching grant to the FPOs as farmer members' equity. Therefore, Rs.1,500 crore with DAC&FW is proposed in the scheme to cover all the 10,000 FPOs, if maximum permissible equity is contributed to all 10,000 FPOs.

## **7. Credit Guarantee Facility**

In order to ensure access of FPOs to credit from mainstream Banks and Financial Institutions, there is a need to create a dedicated fund. The dedicated Credit Guarantee Fund (CGF) will provide suitable credit guarantee cover to accelerate flow of institutional credit to FPOs by minimizing the risk of financial institutions for granting loan to FPOs so as to improve their financial ability to execute better business plans leading increased profits.

## **8. Training and Capacity Building for Promotion of FPO**

Capacity building, training and skill development of CEOs/ BoDs and other stakeholders identified by Nodal training institution, in consultation with DAC&FW,

through transfer of technology, innovation is very essential for development of robust FPOs and for running the business activities successfully on self-sustainable basis. The transfer of technology and innovation, *inter alia*, includes entire vertical and horizontal aspects of agricultural value chain, managerial aspect including accounting with focus on value addition, processing, and marketing. The subject matter of training will cover topics ranging from Organizational management/behavior, crop husbandry, value addition, processing, marketing, trading, export, supply chain, grading, branding, packaging, accounting, auditing, compliance requirements, incubation, ICT & MIS as may be relevant for promotion of FPOs including case studies in best practices if any.

## **9. Implementation & Monitoring Mechanism**

Considering the significance of effective implementation and better monitoring mechanism for success of a scheme, there is a well-structured, institutionalized three tiered structure at National level, State level and District level for effective implementation and monitoring of formation and promotion of FPOs.

### **9.1 Evaluation of the Scheme**

- (i)** In order to evaluate the performance of the scheme with reference to its envisaged objectives, the mid-term (4th year) and end-term evaluation will be done in terms of (i) No. of FPOs formed and registered; (ii) No. of farmers mobilized category-wise ; (iii) Quantum of Equity Grant provided and No. of FPOs covered; (iv) Quantum of Credit Guarantee provided for credit linkages including volume of loan availed for working capital; (v) No. of training programs conducted for capacity building and No. of persons trained and (vi) Business turnover of the FPOs.
- (ii)** DAC&FW will hire third party appropriate Consultant / Agency transparently for undertaking the study as well as mid-term and end-term evaluation of the scheme. If it deems feasible and appropriate, DAC&FW may ask any of the Implementing Agencies to undertake the mid-term and end-term evaluation of the scheme and evaluation report will be shared with DAC&FW and also among the other Implementing Agencies. Based on the suggestions and findings in the report, DAC&FW may modify the Operational guidelines. If exigency arises in the interest of the scheme, DAC&FW may at any time suitably modify the scheme to achieve the objective as envisaged in it. The evaluation cost will be borne from the budget of the scheme itself.



## Topic - 2

### Legal Issues of FPOs/FPCs

Mr. Pavan Kumar

#### 1. Introduction

There are different forms of business organizations. The company form of business organization is one of them. A producer company is one of the said company form of business organization. These types of companies work like co-operative societies and are mainly registered in rural areas by the producers. These companies are incorporated to develop the rural economies and bridge the gap between industry and agriculture, rural and urban area and industry and labour, etc. These companies are basically for the promotion of rural economies.

After reading this lesson you will be able to understand the concept of Producer Companies introduced by the Companies (Amendment) Act, 2002. The provisions not only provide an opportunity to the co-operative sector to corporatize itself but also open up new avenues for them. You will also understand the provisions which enable the conversion of an existing co-operative society into a company as well as the incorporation of a Producer Company and the provisions relating to membership, management, meetings, share capital etc. of Producer Companies.

#### 2. Objects of Producer Company

In terms of Section 378B of the Companies Act, 2013, the objects of the Producer Company shall relate to all or any of the following matters, namely:

- Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit: Provided that the Producer Company may carry on any of the activities specified in this clause either by itself or through other institution;
- Processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its Members;
- Manufacture, sale or supply of machinery, equipment or consumables mainly to its Members;
- Providing education on the mutual assistance principles to its Members and others;



- Rendering technical services, consultancy services, training, research and development and all other activities for the promotion of the interests of its Members;
- Generation, transmission and distribution of power, revitalization of land and water resources, their use, conservation and communications relatable to primary produce;
- Insurance of producers or their primary produce;
- Promoting techniques of mutuality and mutual assistance;
- Welfare measures or facilities for the benefit of Members as may be decided by the Board;
- any other activity, ancillary or incidental to any of the activities referred to in Clauses (a) to (i) or other activities which may promote the principles of mutuality and mutual assistance amongst the Members in any other manner;
- Financing of procurement, processing, marketing or other activities specified in Clauses (a) to which include extending of credit facilities or any other financial services to its Members.

### **3. Membership and Voting Rights of Members of Producer Company**

Section 581D of the Act provides that unless the membership of the Producer Company consists of a Producer institution only, every member shall have a single vote irrespective of the number of shares held. In case, where the membership consists solely of Producer Institutions, the voting rights of such Producer institutions shall be determined on their previous year's participation in the business of the company.

However, during the first year of its regulation, the voting rights in a Producer Company shall be determined on the basis of shareholding by producer institutions.

Where the membership of Producer Company consists of a combination of individuals and Producer Institutions, every member shall exercise a single vote. The Articles may however, authorize the Producer Company to restrict the voting rights to active members only.

No person, who has any business interest which conflicts with the business of Producer Company, shall become a member of that Producer Company and if subsequently a member acquires any business interest which is in conflict with the business of the Producer Company, he shall cease to be a member.



#### **4. Benefits To Members**

Section 378E states that, initially every member shall receive only such value of the produce or products pooled and supplied as is determined by the Board of Producer Company and the withheld price may be disbursed later in cash or in kind or by allotment of equity shares. Every such member shall be entitled to receive a limited return and may be allotted bonus shares.

‘Withheld price ’for this purpose means part of the price due and payable for goods supplied by any member to the Producer Company, and as withheld by the Producer Company for payment on a subsequent date.

Patronage bonus may be disbursed proportionately, if any surplus remains after making provision for limited return and reserves. Patronage bonus refers to the payment by Producer Company out of its surplus income to the members in proportion to their respective patronage.

The approval of Board of directors is necessary for disbursing ‘withheld price ’ whereas for disbursing the ‘patronage bonus’, either in cash or by way of allotment of equity shares or both, the approval of members at the general meeting is required.

#### **5. Number of Directors**

Section 378 of the Act provides that, every Producer Company shall have minimum five and not more than fifteen directors.

#### **6. Appointment of Directors**

The subscribers of the Memorandum and Articles may designate or nominate therein, the Board of directors consisting of not less than five directors, who shall govern the affairs of Producer Company until directors are elected in accordance with the provisions of Section 378P(2).

A director shall hold office, as such, for not less than one year but not exceeding five years and every director who retires shall be eligible for re-appointment. The tenure of such directors shall not exceed such period as may be specified in the Articles.

##### **6.1. Powers and Functions of Board**

The Board of directors of a Producer Company shall exercise all such powers and do all such acts and things, as a Producer Company is authorized so to do.

- Determination of the quantum of withheld price and recommend patronage to be approved at general meeting;



- Admission of new Members;
- Pursue and formulate the organizational policy, objectives, establish specific long-term and annual objectives, and approve corporate strategies and financial plans;
- Appointment of a Chief Executive and such other officers of the Producer Company, as may be specified in the Articles;
- Exercise superintendence, direction and control over Chief Executive and other officers appointed by it;
- cause proper books of account to be maintained; prepare annual accounts to be placed before the annual general meeting with the auditor's report and the replies on qualifications, if any, made by the auditors;
- Acquisition or disposal of property of the Producer Company in its ordinary course of business;
- Investment of funds of the Producer Company in the ordinary course of its business;
- Sanction any loan or advance, in connection with the business activities of the Producer Company to any Member, not being a director or his relative;
- Take such other measures or do such other acts as may be required in the discharge of its functions or exercise of its powers.

#### **7. Liability of Directors**

Section 378T, provides that anything done by the directors, whether by way of voting on a resolution or approving by any other means, anything, in contravention of the provisions of this Act or any other law for the time being in force, or its Articles, shall make them jointly and severally liable towards the Producer Company to make good the loss or damage suffered by such company.

Where as a result of the above, such director has made any profit; the Producer Company shall have the right to recover an amount equal to said profits from such director. The liability so imposed shall be in addition to and not in derogation of a liability imposed under this Act or any other law for the time being in force.

#### **8. Committee of Directors**

Section 378U states that the Board may constitute such number of committees as it may deem fit for the purposes of assisting the Board in efficient discharge of its



functions. However, the Board of directors shall not delegate any of its powers or assign the powers of the Chief Executive, to any committee of directors.

The committee of the Board may, with the approval of the Board, co-opt such number of persons, as it deems fit, as the members of the committee. Provided that the Chief Executive appointed under Section 378W or a director of Producer Committee shall be a member of such committee. [Section 378U (2)]

Every such committee shall function under general superintendence, direction and control of the Board as may be specified. Further, the fees and allowances to be paid to the members of the committee and the tenure of the committee shall be such as may be determined by the Board. The minutes of every Committee meeting shall be placed before the next Board meeting.

## **9. Meetings of the Board and Quorum**

As per Section 378V, the Board meeting of a Producer Company shall be held at least once in every three months and at least four such meetings shall be held in every year. The Chief Executive shall give notice to every director for the time being in India, and at his usual address in India to every other director at least seven days prior to the date of meeting. However, a Board meeting may also be called at a shorter notice after recording reasons thereof in writing.

The quorum for the meeting shall be one-third of the total strength of directors, subject to a minimum of three.

Unless otherwise provided in the Articles, such sitting fees and allowances may be paid to the directors attending the meetings, as decided by the members.

## **10. Chief Executive and His Functions**

As per Section 378W, a full time Chief Executive shall be appointed by the Board by whatever name called who, shall not be a member of the company. He shall be the ex-officio director, and shall not retire by rotation. The qualifications, experience and the terms and conditions shall be such as may be determined by the Board. The Chief Executive, who shall be entrusted with substantial powers of the management, shall manage the affairs of the Producer Company but subject to the superintendence, direction and control of the Board and be accountable to the Board for the performance of the Producer Company.

The various functions that may be discharged by a chief executive may *inter alia* include managing the day-to-day affairs of the company, maintaining proper books of accounts, furnishing members with periodic information, assisting the Board



with respect to legal and regulatory matters making appointments and discharge of such other functions as may be delegated by the Board.

#### **11. Quorum of the General Meeting**

Section 378Y of the Act provides that unless Articles of Association require a larger number, one-fourth of the total membership shall constitute the quorum at a general meeting.

#### **12. Voting Rights**

Section 378Z states that except as provided in Section 378D(1) (regarding voting rights of individual members and Producer Institutions), and 378D(3) (regarding voting rights to active members), every member of the Producer Company shall have one vote irrespective of the number of shares held by him. In the case of equality of votes, the Chairman or the person presiding over the meeting shall have a casting vote, except in the matter of election of the Chairman.

#### **13. Annual General Meetings [SECTION 378ZA]**

Every Producer Company shall hold its first Annual General Meeting (AGM) within a period of ninety days from the date of its incorporation.

Not more than fifteen months shall elapse between the date of one AGM of the Producer Company and that of the next AGM. The Registrar may, for any special reason, permit the extension of time for holding of an AGM (not being the first AGM) by a period not exceeding three months. Notice in writing indicating date, time and place of the meeting shall be given at least fourteen days before the meeting.

The Annual General Meeting shall be held during business hours, on a day not being a public holiday at the registered office of the company or at any other place within the city, town or village where the registered office of the company is situated.

Unless the Articles provide for a larger number, the quorum of the general meeting shall be one-fourth of the total number of members.

#### **14. Share Capital**

As per Section 378ZB of the Act, a Producer Company's share capital shall consist of equity shares only and the shares held by members shall be in proportion to the patronage of that company.

However, in terms of Section 581ZC, the Producers who are active members may, if so provided in the articles, have special rights and the Producer Company may issue appropriate instruments to them in respect of such special rights.



## 15. Disputes

As per Section 378ZO, any dispute relating to the formation, management or business of a Producer Company shall be settled by conciliation or by arbitration as provided under the Arbitration and Conciliation Act, 1996.





## Topic - 3

### Institution, Finance and Risk Management in FPOs/FPCs

Mr. Pavan Kumar

#### 1. Introduction

Out of around 13 crore farmer households in India, over 85% are small and marginal farmers (SMF) with the average size of land holding being 1.33 ha/farmer. The major issue faced by the SMF is the viability of farming on account of various factors like shrinking of land holdings, difficulty in accessing critical inputs, poor transfer of technology, absence of bargaining power for fetching better price for their produce and lack of an effective risk mitigation framework. These factors are causing an increase in the per unit cost of cultivation and declining/negative profit due to which many SMF are resorting to subsistence farming or abandoning farming and migrating to cities in search of low skilled employment opportunities. To overcome these issues, SMF can co-operate with each other & form an association or farmers groups called Farmer Producer Organization (FPO).

It is the absence of collectivization that limits the bargaining power of farmers and increases input cost required for conducting any farm activity. The lack of collectivization also leads to adoption of poor agronomic practices and harvesting infrastructure, which affects the productivity/production adversely & ultimately the farm income. FPOs offer a mechanism that empower its members to leverage their collective strength and bargaining power to access financial and non-financial inputs and services on more equitable terms & also selling their produce at better prices. Several institutional models are available in India to organize farmers together & form a FPO e.g. Formation of Producer Company under Section XX1 A of Indian Companies Act, 2013. These organizations facilitate aggregation of inputs, enhance bargaining power, provide access to formal credit, reduce input costs, create opportunities for value-addition services and increase farm income.

#### 2. Producer Organization

A Producer Organisation (PO) is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen. A PO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits among the members. In some forms like producer companies, institutions of primary producers can also become member of PO. A PO formed by Farmers is called as Farmer Producer Organisation (FPO)



### **3. Aim/Objective of FPO**

The main aim of FPO is to earn better income & surplus for the producers/members of FPO. Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work non-transparently leading to the situation where the producer receives only a small part of the value as compared to the price, the ultimate consumer pays. With formation of a FPO, it can gain from the process of aggregation, the primary producers can avail the benefit of economies of scale on account of better bargaining power while procuring inputs as also selling their produce. Once basic activity of FPO is stabilized, it can expand vertically/horizontally for value addition by undertaking processing activity thereby extending further benefit to farmers.

### **4. Essential Features of an FPO**

The essential features of a FPO are:

- a) It is formed by a group of producers for farm activities.
- b) It is a registered body and a legal entity.
- c) Producers are shareholders in the organization.
- d) It deals with business activities related to the primary produce/product.
- e) It works for the benefit of the member producers.
- f) A part of the profit is shared amongst the producers.
- g) Rest of the surplus is added to its owned funds for business expansion.

#### **4.1 Important activities of a FPO**

The primary producers have skill and expertise in producing. However, they lack scale of operation and generally need support for marketing of their produce to fetch better price. Therefore, the FPO will engage itself in any one or more activities in the value chain of the produce right from procurement of raw material to delivery of the final product at the ultimate consumers' doorstep. Normally, the FPO undertakes the following activities:

- 1) Procurement & distribution of inputs
- 2) Disseminating market information to members
- 3) Dissemination of technology and innovations to its member
- 4) Facilitating finance for inputs procurement



- 5) Aggregation and storage of produce
- 6) Primary processing like drying, cleaning and grading
- 7) Brand building, Packaging, Labeling and Standardization
- 8) Quality control
- 9) Marketing of produce aggregated, to institutional buyers
- 10) Participation in commodity exchanges
- 11) Export

## **5. Governance of FPO**

Governance of FPO refers to the ways of conducting its activity by a FPO. It includes Board of Directors, allocation of authority & responsibility among the management, systems, processes & procedures, internal checks & controls, compliances & audit. Over a period of time, FPO should build/develop a strong governance to safeguard interest of shareholders, particularly farmers/members associated with a FPO.

To understand the governance of a FPO, it can be viewed at three levels as indicated below:

1. Members/shareholders
2. Board of Directors
3. CEO/Office bearers

### **5.1. Members/Shareholders**

A member is defined as a person or producer institution, whether incorporated or not, admitted as a member of a Producer Company and who retains the qualifications necessary for continuance as such. Being a membership-based entity, membership shall be voluntary and is available to all eligible members (in case of a Company, criteria of membership is defined in the Articles of Association of a company) who can participate and avail the facilities or services of the Producer Company. Shares in a Company can be held in more than one name, which is called 'Joint Membership'. Under the Companies Act, there is no ceiling on the number of persons holding shares jointly.

### **5.2. Board of Directors**

Every FPO should have a Board of Directors of not less than five and not more than fifteen members. The Board may act only in areas not reserved for the General



Body and may not exercise executive functions. In general, the Board has authority and is responsible for formulating, supervising, and monitoring of the performance of the FPO in respect of the day-to-day matters.

### **5.3. CEO/Office Bearers**

Individual appointed to look after the day-to-day affairs of the company, like CEO, accountant, godown keeper etc. have to adopt systems & procedure as has been stipulated by the management. They have to adhere to the policies approved by the Board & implement the decisions taken by the Board & Governing Body.

### **5.4. Chief Executive Officer (CEO)**

Board of Directors have to appoint a full time CEO amongst persons other than members. The qualification, experience and the terms and conditions of services shall be decided by the Board. The CEO shall be the ex-officio Director of the Board and shall not retire by rotation. The CEO shall be entrusted with substantial powers of management as may be determined by the Board. He/She is accountable for the performance of the FPO, both, to the Board of

Directors and to the Members.

### **5.5. Audit of Accounts**

It is compulsory to conduct Internal Audit in the case of FPO (registered under Companies Act) in terms of Part XX1 A of the Companies Act, 2013, Section No. 378ZF. Internal audit of its accounts should be carried out, at such interval and in such manner as may be specified in its article of association, by a chartered accountant.

### **5.6 Working capital requirements of FPC**

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

### **5.7 Operating Cycle**

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



## 5.8 Components of Working Capital

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

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





## Topic - 4

### Finance, Accounts and Audit of Producer Organizations/Companies

Mr. Pavan Kumar

#### 1. Introduction

FPOs are registered under Companies Act 2013. Therefore, they are required to comply with the certain requirements with regard to maintenance of accounts for their operations and preparation of financial statements. Besides, there is a need to assess the operational performance of these entities to know the benefits that have accrued to farmers due to their association with FPOs. Against this background, maintenance of proper books of accounts and other subsidiary registers assumes significance. While maintaining these records, the requirement of the statute, under which a FPO is registered would be taken care of. Each FPO should maintain the following records/books to facilitate legal compliance as also evaluation of its performance.

**Books of Accounts and Records are sub-divided into following two broad categories:**

##### A. Financial Books

1. Cash Book
2. Bank Book
3. Bank Reconciliation Statement
4. Journal
5. Ledger
6. Share Capital Register
7. Subsidiary Books
  - (i) Input (Purchase, Sale & Stock) Register
  - (ii) Produce (Purchase, Sale & Stock) Register

##### B. Non-Financial Books

1. Members' Profile Register
2. Members' Progress Register
3. Minutes Book/Register



## **Objectives of maintaining books of account and records:**

### **1. Financial Books**

- a) To know the position of cash and bank balances on a day-to-day basis and facilitate preparation of Bank reconciliation statements.
- b) To facilitate preparation of financial statements viz. P&L A/c, Balance Sheet and cash flow statement.
- c) To know profit earned or loss incurred by FPO. Book keeping keeps complete records of business transactions. Thus, profit or loss of business transactions can be easily ascertained/ known.
- d) Knowledge of assets and liabilities belonging to FPO – When a FPO keeps the books of different business assets and liabilities in a systematic manner, it can easily know the position of assets and liabilities as on a particular date.
- e) To facilitate audit of books of accounts.
- f) Compliance with legal requirements.
- g) Facilitate preparation of MIS required by the management and filing of different returns with government authorities.

### **2. Non-Financial Books and Records**

- a) To know the socio-economic status of members after joining the FPO.
- b) To track record of the improvement in socio-economic condition of the members.
- c) To monitor the effectiveness of governance system of FPO.
- d) To facilitate preparation of business plan with concrete steps in order to make the most optimal use of the available resources.

## **Different kinds of Financial and Non-Financial Books**

### **I. Cash Book**

- a) Cash receipts and cash payments, pertaining to FPO only, may be recorded in cash book against appropriate account heads (discussed in a separate chapter).
- b) All the items of cash receipts are recorded on the debit side (left hand side) and all the items of cash payments are recorded on credit side (right hand side) in order of date of the cash transaction.
- c) The difference between the total of two sides shows balance of cash in hand i.e. excess of summation on debit side over the summation on credit side.



- d) The entries made in cash book are posted to ledger.
- e) Cash Book may be balanced whenever there is a cash transaction and CEO may put his/her signature after it.

## **II. Bank Book**

All transactions related to receipt of money in Bank and payment made through bank are recorded in the bank book. The format of Bank book is similar to that of cash book. However, it is important to note that transactions routed through a Bank only (i.e. money received in Bank & payment made through Bank) be recorded in this book.

## **III. Preparation of Bank Reconciliation Statement (BRS)**

Normally, bank balance as per bank book of FPO and that as per pass book of Bank should be similar. However, on a particular day this balance may differ. Therefore, to know the reason for difference in balance as per these books, a reconciliation statement is prepared which is called Bank reconciliation statement.

## **IV. Journal**

Financial transaction which does not involve immediate receipt or payment through Cash/Bank is recorded in a journal e.g. Credit purchase or credit sale. Besides this, accounting entries pertaining to closing stock/ opening stock, provision for depreciation, provision for outstanding expenses and income, prepaid expenses, income received in advance, adjustment and rectification entries are passed through journal.

## **V Ledger**

Ledger is a summarized record of accounting entries for account heads debited or credited in Cash book, Bank book or Journal for the given period of time (i.e. year). Entries made in prime books (cash book, bank book, journal) are posted in ledger to know the cumulative position under each account head. A separate folio is maintained for each account head. On posting of transaction from prime book (cash/ bank book & journal) into ledger, a reference folio number of prime book is indicated in ledger.

### **V.I. Uses of Ledger**

- a) **Preparation of Trial Balance:** Once all transactions are posted in ledger and all ledger accounts are balanced, the next step is preparation of trial balance. A trial balance is summarized, position of each account head opened in ledger. The closing balance arrived at for each account in the ledger is carried to the trial balance.



b) Preparation of Receipts & Payment Statement: In case FPO is registered under Public Trust Act, it will prepare Receipts & Payment Statement instead of trial balance. The said statement can also be prepared from the Ledger. While preparing Receipts & Payment Statements, total of transactions posted for the year is to be considered i.e. opening balances are not to be factored while carrying balances to Receipt and Payment Statement.

## **VI Share Capital Register**

A Share Capital Register is a list of active owners of a FPO's shares, updated on an ongoing basis. The register contains details of each member's name, address and number of shares held by each member. In addition the register can have details of member's occupation/activity. The Share Capital Register is fundamental to the examination of the ownership of a FPO.

## **VII Subsidiary Books to record Purchase/Sale/Stock**

**FPO normally undertakes purchases at two levels:**

- a) Aggregation of input requirement of farmers & its purchase from the market for distribution among farmer members.
- b) Aggregation of produce from member farmers & its purchases from the members for selling in the market

In order to have proper control over purchases of input & produce made by FPO, distribution/sale of inputs/produce & proper accounting of closing stock, FPO needs to maintain following registers for recording purchase, sale & stock of input & purchase, sale & Stock of produce.

- a) Input (Purchase, Sale & Stock) Register
- b) Produce (Purchase, Sale & Stock) Register

Non –Financial Records/Books

## **VIII Members' Profile Register**

A FPO having farmers as its members, has to keep record in place for getting basic information about its members.

### **VIII.I Members' Progress Register**

The objective of FPO formation is to benefit from collectivization & reflect in the enhancement of income of farmers/members of FPO. Hence, this register is to be maintained to track progress of farmers due to their association with FPO. This



register is to be maintained year-wise to record progress made by the farmer on three fronts viz. input consumption, production of produce & income enhancement.

### **IX. Minutes Book/Register**

Meetings of shareholders/board of directors/AGM/Extra Ordinary General Body meeting etc. are meant for discussing agendas like:

1. Preparation of business plan
2. Reviewing progress of FPO in terms of activity expansion
3. Strategic decisions like which crop/breed of animal to be cultivated/adopted in next season/cycle.
4. Measures to enhance profitability of FPO & income of farmers
5. Share capital contribution (enhancement/reduction etc.)
6. Dividend payout
7. Borrowings from Bank
8. Deciding on rates to be charged to farmers for input supply & rate to be paid for produce procurement
9. Adoption of accounts
10. Appointment of auditors
11. Periodic review of business plan implementation
12. Review of FPO operations & benefit received by farmers

Deliberations in the meeting should be documented in the Minutes Book/Register.

### **X Closing of Books of accounts & preparation of Financial Statements**

In order to facilitate review of operations of FPO, books of accounts are closed periodically

**i.e., at the end of each quarter, besides annual closing of books of accounts. The following statements are prepared on closing of books of accounts:**

#### **A Trial Balance**

A trial balance is a bookkeeping or accounting report that lists the balances in each account of a FPO's ledger. The debit/credit balance of ledger accounts are listed in Trial Balance. The total of each of these two columns should be identical.



The debit balance in ledger will be written under Debit column while Credit balance appears in Credit column. Cash/Bank balances appearing in Cash/Bank Book will also be included in Trial Balance.

Based on Trial balance & other adjustments (provision for depreciation, expenses, income & closing stock, proposed dividend etc.), financial statements are prepared. While, for-profit organizations prepare Trading and Profit & Loss account, non-profit organizations (institutions registered under Public Trust Act) prepare Income & Expenditure account. FPOs registered under Companies Act are required to prepare following Financial Statements:

- a) **Trading and Profit & Loss Account**
- b) **Balance Sheet**

Besides above statement, it is advisable to prepare Cash Flow statement for the year to know the Cash Flow emanating from operational activities, investment activity & financing activity, for the FPO. Interconnection of Trail Balance, Profit & Loss Statement and Balance Sheets is depicted in the following figure:

- c) **Trading and Profit & Loss Account**

This statement reflects operational performance of FPO, while trading account shows gross profit earned, Profit & Loss account shows net profit earned after operational, administrative and selling expenses.

- d) **Balance Sheet/Asset Liability Statement**

The balance sheet is a statement that lists the values of a FPO's assets, liabilities and shareholder/members' equity at the end of an accounting period. In other words, the balance sheet provides an overview of the resources the FPO owns, the debts that it owes and the amount of the shareholder/members' equity & its application as on a particular date.

Recall the accounting equation:  $\text{Assets} = \text{Liabilities} + \text{shareholder/members' Equity}$ .

From the balance sheet one can determine a FPO's net worth as well as its working capital. Net worth is the amount by which total assets exceeds total liabilities. Working capital is current assets minus current liabilities. The level of working capital should be high enough to cover the time needed to convert raw materials into finished goods, finished goods into sales/debtors and realization of cash from Debtors.

## **UNIT IV - BUSINESS MANAGEMENT OF FPOs**





## Topic - 1

### Agribusiness Trends for FPOs

Dr T N Venkatarreddy

#### 1. Agribusiness and Agribusiness Management:

According to Prof. Ray Goldberg who first used the word “*Agribusiness*” refers to *the whole constellation of activities and supporting institutions that are involved in the world’s complex food and fiber system.*” The Agribusiness Council of Australia while adopting Prof. Goldberg’s definition of agribusiness further states that “Agribusiness is the world’s largest industry, it is complex, and so too are the variants of the word and its meaning in use. Thus, it is helpful to understand the word 'agribusiness' by also considering the meaning of other words involved in the root derivation or genesis of it. Some examples are:

- Agrarian (& Agrarianism)
- Agribusiness System
- Agriculture (& farming)
- Agricultural Industry
- Ag-Industry
- Farm Sector
- Food Security
- Food System

It is not unusual to infer “corporate agriculture or large scale or modern way of agriculture” as agribusiness.

Agribusiness Management can be:

- A management science about agribusiness
- About management of various agribusinesses
- About management of agri value chains
- Management of various business activities that form the agri-value chain which are not otherwise categorized into other businesses.
- Application of Management Principles and Practices to Agribusiness
- Management of various functions like Finance, Marketing, Human Resources, Operations etc. are usually referred to as functional management. Similarly Rural Management; Hospitality Management; Health Care Management;

Financial Services Management; International Trade Management are usually referred to as management of various businesses.

The farmers are expected to benefit by assessing the potential economic uses of their resources for profit. Farmers have to go in for optimum utilization of the land and other assets for such crops that have demand and market access ensuring good net income. Maintenance of records of receipts and payments helps the farmers to ascertain the gains/losses and assess performance during any season/year and also for any crop or land. This businesslike approach based on generally accepted managerial and commercial principles can help farmers in their investment and financing decisions; and thus not to get into unviable indebtedness. It may be fairly concluded that business perspectives in farming based on proper farm management principles shall go a long way towards viable, innovative and profitable farming.

## **2. Agribusiness in India**

In the developed countries, agribusiness is defined as the total output arising from farm production and product processing at both pre- and post-farm gate levels. However, in developing countries like India, the agribusiness sector encompasses four distinct sub-sectors, viz. agricultural inputs; agricultural production; agro-processing; and marketing and trade. All these add value or utility to the goods. Agribusiness is emerging as a specialized branch of knowledge in the field of management sciences. In this context, agribusiness can be defined as science and practice of activities, with backward and forward linkages, related to production, processing, marketing, trade, and distribution of raw and processed food, feed and fibre, including supply of inputs and services for these activities (Acharya, 2007).

## **3. Need for agribusiness in India**

The development of agribusiness provides an opportunity to create an environment required for investment in agricultural marketing and trade. The Indian economy and particularly agriculture sector is experiencing enormous changes creating lots of scope for development of agribusiness in the country. A few of the examples have been compiled by Bansal (2011) as below:

- (1) With varied agro-climatic conditions suitable to cultivate a wide range of agricultural produce, India is all set to expand its agribusiness sector
- (2) The focus on enhancing production is leading to growing demand for agricultural inputs like seeds, feed and fodder, inorganic fertilizers and bio-fertilizers.



- (3) The demand for extension services has also been felt and farmers are ready to pay for such services.
- (4) Majority of the farmers are operating on small land holdings which is limiting the application of mechanization. This has created scope for business of custom-hiring by organized commercial players.
- (5) Utilization of biotechnology in agriculture has ample scope in the production of seed and biocontrol agents, etc.
- (6) There is considerable untapped potential in northwestern region in respect of different exportable produce. The development of export channels involving private players along with proper education of farmers may help in harnessing the export potential of crops cultivated in such areas
- (7) The purchasing power of the consumers is improving with the increase in the per capita income. This will lead to increased demand for safe, processed and semi-processed food.
- (8) The vast coastal line and internal water resources provide enormous opportunity for production of marine and inland fish. Ornamental fish culture is also gaining popularity with increase in aesthetic value among the citizens of India.
- (9) The livestock wealth gives enormous scope for production of meat, milk and milk products, etc.
- (10) Development of marketing channels creates great scope for enterprises like Beekeeping and Mushroom production
- (11) With increasing awareness amongst the consumers about food safety, there will be rise in the demand for organic produce.
- (12) There is wide scope for production and promotion of bio-pesticides and bio-control agents for protection of crops.
- (13) Micro-irrigation systems and labour saving farm equipment have good potential in the years to come due to declining groundwater level and labor scarcity for agricultural operations like weeding, transplanting and harvesting.
- (14) Production of vegetables and flowers under greenhouse conditions can be taken up to harness the export potential and integrate with high-end domestic markets

- (15) The enhanced agricultural production throws open opportunities for employment in marketing, transport, cold storage and warehousing facilities, credit, insurance and logistic support services.

#### 4. Emerging areas of agribusiness in India

The agribusiness investment opportunities have broadly been categorized as follows (NAAS, 2006, Acharya, 2007):

<b>Production</b>	<b>Processing</b>	<b>Infrastructure</b>	<b>Trade and Others</b>
Production of certified seeds	Fruit and vegetable processing, including dehydration, canning, aseptic packaging, processing of underutilized fruits, and processing for other products like grape raisin, osmo air-dried fruits, fruit toffee, bleached dry ginger and spices' powders	Cool chain infrastructure, including cold stores	Procurement through contract arrangements, including contract farming
Production of high-quality planting material, including use of tissue culture methods of micro-propagation	Processing of maize for starch and feed through improved mini/ small mills and dry milling plants	Storage and warehousing	Retailing
Nurseries, including hardening nurseries	Processing of millets for various purposes, including malt from finger millets and RTE (Ready-to-Eat) products	Specialized transport services	Supply chain management
Organic farming	Processing of sugarcane for various jaggery products like spiced jaggery, powdered jaggery, and jaggery cubes	Packaging infrastructure, including pack houses	Capacity building, including human resource development in agribusiness
Production of microbial cultures and	Processing of herbal and medicinal plants	Agri-clinics and service centres	

vermicompost, and			
Floriculture	Processing of dairy products		
	Processing for poultry products, including poultry dressing		
	Processing of livestock products and livestock wastes		

### 5. Business perspectives amongst farmers – its importance

There are two aspects of this concept. The first is the managerial skill required to start and run a profitable farm business, while the other is to bring about changes in the way a farmer perceives farming. In this context, responsive market-driven extension system has to play its role to be a game-changer for the small and marginal farmers.

Thus, introduction of business perspective in farming has the potential to address the traditional ills of the Indian agricultural sector in the following manner:

- **Making small holdings viable** - Rapid growth in the number of operational holdings with the limited land base is clearly reflected by the declining average size of operational holdings in majority of the third world countries. Thus, agriculture is facing challenge of not only sustaining the desired growth rate in agriculture but also to make the small holdings viable. With increasing proportions of smallholder farmers in the country, there are growing concerns of linking them with input and output markets. The business perspective in farming through aggregation of farmers will help farmers develop plans with focus on including crops with market potential, better integration with the market, access to quality inputs and scheduling investment in technology. Some of the farmers in Jaipur districts have been observed to generate income of more than one lakhs rupees from one acre of land by shifting to tomato cultivation, through an integrated supply chain.
- **Enhancing productivity** - Stagnation in productivity is a nagging challenge for Indian agriculture and in other developing countries. The FAO Statistical Book 2014 reveals that average yield of many leading crops like cereals, oilseeds, pulses and vegetables is less than the world average; forget any comparison with leaders in the region like China. The leading cereals like wheat and paddy have witnessed decline in yield in the recent years. The stagnation in yield in recent years added with low level of productivity leads to decline in the income of the



farmers. There is need for innovation in agriculture with the use of quality inputs, prescribed package of practices and adoption of modern technology. This can only be achieved through efficient management of not only inputs, technology and finance but also by adopting appropriate management principles.

- **Ensuring economies of scale** - Economies of scale in farming means that farming on large scale is more profitable than farming on small scale as per unit cost comes down with increase in scale. The transaction costs are generally high for small holders. The scope of use of technology and investment is also limited due to operations on small farms. Cultivation on large scale helps in promoting mechanization with adoption of technology and capital investment bringing about unit-cost reduction due to operation of economies of scale. Its positive impact is more pronounced in marketing as the transaction costs come down if the produce is being marketed collectively by farmers. Spreading fixed cost, bulk purchase, mechanization, efficient marketing etc., are some of benefits of following economies of scale. Aggregation through instruments like Commodity Interest Groups (CIG), Self Help Groups (SHG), Farmer Producer Organizations (FPOs) and Cooperative helps in introducing economies of scale in farming. These formats of aggregation are tried in India and some benefit is percolated down to the basic stakeholders.
- **Enhancing income** - Income enhancement of farmers is the focus of the any government in developing countries owing to higher proportion of population depending on agriculture. Income from the cultivation of even horticultural crops is uncertain due to heavy investment and the high volatility in market. Agriculture in the present trade and socio-economic environment offers ample scope for enhanced income by producing quality produce for demand pull markets. The farmers have gear up themselves to grab the new market opportunities. The extension system has to measure up to their expectations.
- **Lowering cost of production** - Agriculture is facing challenge of increased cost due to number of factors. Costs of most of the inputs have increased substantially in recent past. The increase in input costs has increased the production cost which has not been appropriately adjusted by market prices making cultivation financially non-viable. The business perspective in farming will enable farmers to use appropriate dosages of inputs as per the schedule prescribed, avoid redundant functions and functionaries and, minimize post-harvest losses

helping farmers to bring down costs associated with the production and marketing of produce.

- **Improving access to technology and capital** - Adoption of technology may encourage optimal utilization of resources like land, water and other inputs. The rate of adoption of technology amongst smallholders, however, has been observed to be poor. A necessary condition to adopt advance technology is the availability of sufficient financial capital. Majority of farm households in India and other developing countries are operating on small and marginal holdings and face lack of capital. Better understanding of the economics of investment in technology and cost of availing financial resources will help farmers in having improved access to technology and capital.
- **Integrated Supply Chains** - Most of the farmers work in the production push supply chains driven by low cost commodities and characterized by poor availability of market infrastructure, limited value addition and restricted flow of information. There is need to consider the entire food production and distribution system in totality that is more integrated. The business-oriented farmers having better access to information, reduced post-harvest losses and producing for market will have better chances of having access to integrated supply chains ensuring balanced distribution of created value.
- **Reducing post-harvest losses and transaction costs** – Following prescribed package of practices during cultivation, harvesting and movement of commodity to the consumer along with steps to avoid superfluous activities will help in reducing not only post-harvest losses but also in bringing down the transaction costs.

Agriculture in India and globally is undergoing a transition, offering tremendous business opportunities. This calls for bringing in perspectives of business into farming and equipping farmers, mainly small and marginal, with requisite managerial skills to optimize resource use, take appropriate decisions, get integrated with the demand-pull supply chains to realize better prices and work in integrated manner with different participants.

Now, agriculture offers immense business opportunities. However, farmer has to equip himself with requisite business skills to avail these opportunities by bringing desired changes in his way of perceiving agriculture and by acquiring the skills required to manage his farm efficiently.





## Topic - 2

### Business Plan for FPOs

Dr T N Venkatareddy

#### Objectives

After going through this unit, the learners will be able to:

- To understand the process of preparing a business plan for FPOs.
- To identify the key components of a business plan
- To provide step-to-step guidance in preparing an effective business plan

#### 1. Introduction

A business plan is a written description of your business's future, a document that tells what you plan to do and how you plan to do. The business plan helps admitting a farmer's producer company to the investment process, effective business operations and sustainable stakeholder's linkage. Without a plan furnished in advance, many investor groups won't even grant an interview. And the plan must be outstanding if it is to win investment funds. A business helps managing the business operations efficiently and effectively. It also helps understanding the key stakeholders of FPOs and guide in creative sustainable linkage with them. A business plan is a document describing a business, its products or services, how it earns (or will earn) money, its leadership and staffing, its financing, its operations model, and many other details essential to its success.

#### 2. Structure of Business Plan

A business plan must be comprised of details of the company, market analysis, operations, resources, problem statements, solutions etc. As your business matures, you can adapt the plan to include additional detail. You can always take a professional help in later stages. You can create different iterations of it for different audiences. The bank will want more financial information, but a new employee might be more interested in your company's mission statement and your plan for selling the product or service. A typical business plan may be comprised of following sections:

#### 3. Executive Summary

An executive summary is a crucial part of any business plan. It should come first in your document. The executive summary gives the reader, who may be a very busy bank executive, a chance to understand your business in a quick, one-page read.

In no more than a short paragraph for each point, summarize the sections of your business plan:

- Briefly describe your company
- Summarize the market research you have done
- Present the problem you are aiming to solve
- Describe how your product or service solves the problem
- Introduce key management
- Provide a synopsis of your sales and marketing plan
- Explain your financial plan

Close your executive summary with a clear explanation of your project, why it is needed, and how it will benefit future customers and investors.

*Tip:* Write this section last, after you have written all of the other sections. It should summarize your entire business plan in about a page.

#### 4. About the Company

Describe what makes your company different. This section should convince readers that your business idea is important and that the product or service that you will offer is needed.

**Fig. 1: Strategy of FPOs**



- Present your company's name, location, type of business, ownership, and significant assets.
- Describe your company's mission: What is your reason for existence? Describe the values on which you are founding the company.
- List the company's goals and objectives and explain how you fit into the industry.

*Tip:* Keep this section brief. The remainder of the document allows space for you to go into more detail about your business.



## 5. Market Analysis

Before writing your business plan, you need to conduct research on the market and industry you are planning to enter. Based on that research, you should describe your industry, the opportunities it offers, and the growth it is experiencing.

Describe the key environmental trends in your industry. What are the barriers to entry (e.g., high production or marketing costs, tariff barriers, regulatory challenges, extensive training)? How is the industry progressing? What is changing?

You should also define your target customers. Who will buy your product or service?

Who are your major competitors? Identify and describe them.

Identify what defines your product or service in the marketplace. What distinctive competencies or offerings do you provide that other companies do not?

*Tip:* Note the key factors for success in this industry, and focus on proving that your company has them.

## 6. The Problem

Describe the need in the market that your business idea will fill. How did this need arise and why has it not been filled yet? Explain how you identified the need and how your product or service will meet it.

*Tip:* Keep this section short, as the focus should be on your solution, which you will describe in the next part of the business plan.

## 7. The Solution

Describe the products or services your business will provide. Include your value proposition - describe how your service/product is attractive to customers.

You should also include a description of the features and benefits of your product or service to your customer. Consider capturing this in a simple table like the one below.

Product/Service Feature	Benefit to the Customer



*Tip:* You can include photos or brochures of your products, but consider putting them in an appendix so that they do not interrupt the message in your narrative.

## 8. Organizational Structure

Since your company is just starting, it is likely that you do not have many people on your staff. Describe the key operations and management roles in your company, and provide brief biographical sketches of your leadership. The aim is to show to readers that your team has the skills and qualifications to implement what you have outlined in the business plan.

If you receive advice from a board of directors or any high-level external advisors, mention them in this section.

*Tip:* The biographical sketches should include the educational credentials, relevant experience, and related accomplishments of your leaders. Consider personalizing your plan by including headshots of your staff.

## 9. Sales and Marketing Strategy

In this section, you should describe how you will promote your new product or service. Begin by identifying challenges with entering the market and explain how you will overcome them.

You can use a table like the one below to outline the barriers and your solutions.

Market Barrier/Challenge	Our Solution

Justify the following choices you have made:

- Location – Does it bring cost savings? Is it close to your customer base?
- Pricing Strategy – How will it entice customers to buy your products or services? How will it lead to profits for your business and investors?
- Promotion Plan - Will you use print, radio, television, or social media? Will you hire a marketing manager?

Note the budget for your marketing strategy and tell the reader how you will obtain the funding for this important aspect of your business. If you plan to use consultants or an advertising agency, include these costs in your budget.



*Tip:* Consider including a few mockups of your company’s logos, branding, or marketing materials in an appendix.

## 10. Financial Plan

Describe the cost structure and financial aspects of the business. Explain the kind and amount of investment that you need, what you will use the money for, and how you envision your business becoming profitable.

To give readers a peek into your company’s projected financial future, you should include as much of the following financial information as possible. Remember, your business plan is a living document, so even if you do not have all of this information at the startup stage, you can add it as your business matures.

- Cash flow projection – An estimate of how much money you expect to flow in and out of your business.
- Capitalization plan – Lists the sources and uses of capital that your business plans to amass.
- Break-even analysis – A determination of what you need to sell in order to cover the costs of doing business.
- Income statement – Also known as a profit and loss statement (P&L), it shows the company’s revenues and expenses over a period of time.
- Balance sheet – A statement of the assets, liabilities, and capital of a business at a point in time.

Financial documentation is often long, so you should reference them here and include copies in an appendix.

*Tip:* Not everyone is an expert in finance, but it plays an important role in starting a business. Unless you have an accounting background, consider seeking assistance on this section of your plan.

## 11. Implementation Plan

Tell the reader how you will implement your business plan. Consider including a timeline like the one below to illustrate the steps in the process to getting your business up and running.

Customize it with your dates and the specific steps you will take.



*Tip:* Set reasonable deadlines that you are able to meet, but that show your initiative and eagerness to realize your new venture.

## 12. Conclusion

In a few sentences, summarize the main point that you would like the reader to understand about your business. This can vary based on the target audience. For example, if you are presenting your plan to a bank to ask for a loan, this section should focus on your financial viability and why the bank should choose to finance your business.

Describe the next steps, and provide detailed contact information so that the reader can get in touch with you easily.

*Tip:* Your conclusion should incite the reader to act. Make it easy for them by including all of the information they need to move forward.

## 13. Appendices

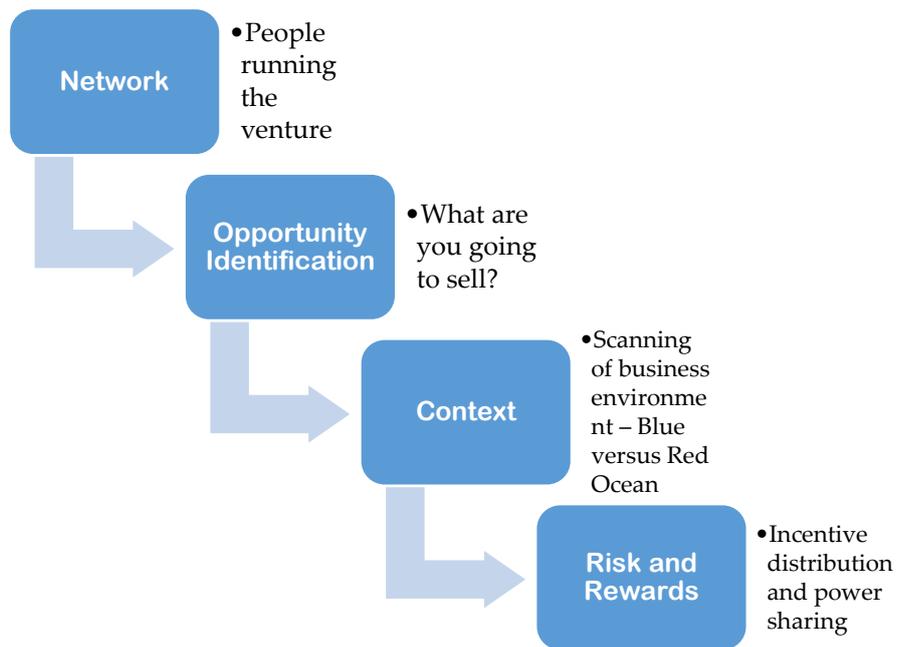
Want to provide additional detail but need to avoid making your business plan too long? You can insert documents in the Appendices and reference them in the text. In this way, you can provide more information without breaking up the flow of your business plan text.

*Tip:* Consider including examples of your marketing materials, a map of the business location, background research, images of your products, resumes of company leaders, or financial documents in the appendices of your business plan.

## 14. Key Attributes of an innovative Business Plan

A good business plan must highlight the team, identify the business opportunities, provide a context and strategic intent, and elaborate the risk and reward on the business

**Fig. 2: Key Attributes of an innovative Business Plan**







## Topic - 3

### Production and Supply Chain Management in FPOs

Mr. R Purushotham

#### Objectives:

The objectives of the Training Program on Production and Supply Chain Management for FPOs can include:

- To provide an overview of production and supply chain management concepts and best practices.
- To enhance the participants' knowledge and skills in the areas of planning, organizing, executing, and controlling production processes and supply chain operations.
- To enable participants to understand the importance of effective supply chain management for reducing costs, improving efficiency, and increasing competitiveness.
- To provide hands-on experience in using various tools and techniques to optimize production processes and manage supply chain operations.
- To encourage participants to implement what they have learned in their own organizations, leading to improved production and supply chain performance.
- To provide networking opportunities for participants to share their experiences and collaborate on best practices.
- To support the growth and development of FPOs through the provision of practical training and resources.

#### **1. Introduction**

Agriculture plays a vital role in the economy and ensuring its success is crucial for the well-being of the population. Farmer Producer Organizations (FPOs) play a critical role in improving the livelihoods of small and marginal farmers by creating economies of scale, enabling access to markets, and promoting sustainable agriculture practices. FPOs can improve the production and supply chain management of its members by implementing best practices and utilizing the latest technology.

FPOs can help its members in Production and Supply Chain Management by providing technical assistance and training in best practices in farming techniques. FPOs can also help farmers in accessing inputs such as seed, fertilizer, and pesticides at affordable prices. By pooling resources, FPOs can also provide its members with



access to mechanization services, such as tractors and threshers, which can increase efficiency and reduce costs.

Effective supply chain management is essential for FPOs to ensure that their members' produce reaches the market efficiently and at competitive prices. FPOs can help its members in transportation and logistics by pooling resources to purchase vehicles and refrigerated containers. This can reduce the costs of transportation and ensure that produce reaches the market in a timely manner and in good condition.

## **2. Production and Supply Chain Management:**

Production management deals with how farmers combine land, water, inputs, labor, and their management skills into practices and systems that produce food and fiber. To sustain production over time, full-time farmers must make a profit and preserve their resource and financial assets. Society wants a wide variety of food and fiber products that are low cost, safe to consume, nutritious, and appetizing.

Consumer of agricultural produce, demand that agricultural output to be produced using systems that preserve or even enhance the environment. These potentially competing goals are reflected not only in the inputs made available for production, but also in how the inputs are combined and managed at the farm level. Increasingly, world over farmers face economic incentives and environmental pressures to change from conventional systems to alternative ways of managing production.

Agricultural production management involves the combination of land, water, labor, and other inputs such as seeds, nutrients, pesticides, and machinery in the production of food and fiber. Farmers' objectives influence and complicate the process. These objectives include profit, income adequacy and stability, risk reduction, production sustainability, peer group acceptability, lifestyle maintenance, and environmental preservation or improvement.

The main task of production management in agricultural enterprises is to build management systems that ensure that the necessary actions and procedures are performed to obtain a market result from the operation of the enterprise's operating system. The problem of managing crop production is quite relevant today, since most agricultural enterprises, switching exclusively to the production of crop production only, do not comply with the recommended technologies for growing crops, violate the science based foundations of farming, which is associated with the lack of modern material technical base, and the difficult financial and economic situation of most farm and especially insufficient level of managerial work in the field of crop production.

Crop production is the basis for providing the livestock industry with feed, and the



population with food. Also, crop products are used in many industries as raw materials of plant origin, such as food, textile, pharmaceutical, fuel and others. This industry gives necessary food. Consumer goods manufacturing and food industries gets raw materials. Livestock industry, in turn, uses by-products such as straw, silage, and food industry waste.

In difficult conditions, domestic agricultural enterprises are forced to introduce innovations to improve the efficiency of organization of production. This is mainly explained by the fact that domestic producers produce environmentally friendly products, while the production of products uses a minimum amount of preservatives. These circumstances create a demand for agricultural products.

Thus, the transition to sustainable economic growth and further improvement of the organization of crop production is impossible without promoting the use of science, technology and innovations. For an individual choice of the necessary implementations, an in-depth study of the actual processes of production of the product, its nature, orientation and dynamics, is necessary.

**2.1. Production management** can be divided into various categories of decisions that farmers make to produce food and fiber. The major ones are:

**2.2. Soil and crop management:** Deciding what crops and varieties to grow and in what sequence to utilize the soil's productive capacity, and what tillage, cultivation, and soil conservation measures to undertake to physically till and preserve the soil and conserve moisture.

**2.3. Pest management:** Determining weed, insect, disease, and other threats to crop growth, yield, and quality and what preventive or remedial actions to take against those pests (including whether to plant genetically modified varieties with pest management qualities), mindful of food and worker safety and environmental impacts.

**2.4. Nutrient management:** Determining the additional nutrients the soil needs for crop growth, and applying animal manure, compost, or commercial fertilizer in forms, amounts, and ways that foster crop yields and farm profitability, while reducing nutrient loss to the environment.

**2.5. Water management:** Determining the water needed for crop growth and applying that water efficiently, considering water availability, drainage, and offsite water quantity/quality impacts.



## 2.6. Crop Production and Management Method

Production and management of crops is an important aspect to ensure optimal productivity in the fields. The major agricultural practices involved in crop production and management are listed below:

### 3. Preparation of Soil

The soil is loosened and tilled before the seeds are sown. Ploughs are used for the purpose. If the soil contains big lumps, they are broken with the help of a hoe. This process aerates the soil so that the roots breathe easily. The nutrients and minerals get properly mixed with the soil and come at the top. Thus, the fertility of the soil increases and is fit for plantation.

#### 3.1. Sowing of Seeds

The good quality, infection-free seeds are collected and sown on the prepared land. The seeds should be sown at proper depths and proper distances. Following are the various methods used to sow the seeds:

Traditional techniques

- Broadcasting
- Dibbling
- Seed dropping behind the plough
- Transplanting

#### 3.2. Manures and Fertilizers

The soil may not have the right nutrients to efficiently sustain plant growth. Hence, manures and fertilizers are added to the soil to increase its fertility and help plants grow better. Manure is prepared by using decomposing plant and animal matter in compost pits. Fertilizers, on the other hand, are chemicals prepared in factories which contain nutrients for a specific plant. They give faster results than manures. However, when excessively used, they turn the soil infertile.

#### 3.3. Irrigation

Crops require water at regular intervals for proper growth. The supply of water to the plants is known as irrigation. Well, rivers, lakes, tube-wells are different sources for irrigation. The traditional methods of agriculture involve the use of humans and animals.

The modern techniques of irrigation include the sprinkler system and the drip system.



Water is very important for the germination of seeds. It helps in the proper development of flowers, fruits, seeds, and plants. Therefore, it should be present in plants in large quantities.

### **3.4. Protection from Weeds**

The undesirable plants that grow along with the crops are called weeds. These weeds, feed on the nutrients provided to the crops and thus reduce the supply of nutrients to the crops, thereby, inhibiting their growth. The growth of these weeds needs to be prevented in order to enhance the growth of the plants.

The process of removal of weeds is called weeding. To achieve this, weedicides are employed, which essentially chemicals are specifically made to destroy weeds. They are usually sprayed before seeding and flowering.

### **3.5. Harvesting**

When the crop matures, it is cut for further processing. This process is known as harvesting. It is usually manual labour, done with the help of sickle. However, mechanical harvesting is used these days – machines such as combine harvesters are used where the crops are harvested and threshed in one go.

**3.6. Threshing-** Separation of grains from the harvested crops is called threshing. It is done either mechanically or by cattle.

**3.7. Winnowing-** The separation of grains and chaff is called winnowing. It is done either mechanically or manually.

## **4. Storage**

The grains should be properly stored if they are to be kept for longer periods. They need to be protected from pests and moisture. The freshly harvested seeds should be dried before they are stored. This prevents the attack from microorganisms and pests.

The harvested and separated grains are stored in airtight metallic bins or in the jute bags. Dried neem leaves are added to protect them from damage at home. Large amounts of grains are stored in granaries or silos with specific chemical treatments, to protect them from pests and insects.

## **5. Food from Animals**

Animals are an important source of food. The rearing of animals for food is known as animal husbandry. Some animals like cows and buffaloes are reared for milk, others for meat like goats and poultry. Some people consume fish as a part of their diet. Honey bees are reared for honey. Thus, animals are an integral source of food and

food products.

## 6. Supply Chain Management (SCM)

Supply Chain Management is an essential part of agricultural production processes. It involves the coordination of activities across the entire supply chain to ensure that a product is produced, distributed and consumed efficiently and effectively. SCM in agriculture helps producers to better manage resources, increase productivity, reduce costs, coordinate demand and supply within the market, and improve quality assurance throughout the system. Additionally, it enables farmers to take advantage of new technologies such as precision agriculture or vertical farming that can help improve crop yields while minimizing their environmental impact. Finally, SCM in agriculture reduces food waste by increasing visibility across all stages of production which allows for better forecasting of inventory levels resulting in more efficient use of resources.

### 6.1 Components of Supply chain management:

Supply Chain Management is essential for business growth as it manages the entire production flow of goods or services. It increases business productivity and profitability by delivering the right product time to the end consumer. There are various elements of the supply chain that work together that help the organization to gain a sustainable competitive advantage. SCM is a holistic ecosystem that plays a vital role in every facet of the major activities such as product development, sourcing, procurement, inventory management, logistics management and so on.

Supply Chain has become extremely important for businesses to integrate supply and demand management. Nowadays, organizations are investing in an effective supply chain management system to optimize the operation cost dynamically.

Components of supply chain management are:

- i. Planning
  - ii. Sourcing
  - iii. Information
  - iv. Inventory Management
  - v. Logistics and Transportation
- i. **Planning:**

Supply chain planning is the process of anticipating demand and planning materials and components to meet that demand, along with production, marketing, distribution



and sales. Supply Chain planning is to have a system that can accurately project demand, half of your job is done and supply chain planning becomes easy. The objective of planning is to balance supply and demand and ensure that sales revenue opportunities are fully exploited in a timely manner.

**ii. Sourcing:**

Sourcing in procurement is defined as a process to find, evaluate, and engage suppliers based on set criteria to achieve cost savings and best value for goods and services at a price point & terms that give the required margin to positively affect the company's bottom line. The sourcing process is carried out using a tendering process and is applied at tactical and strategic levels with the intent to create distinctive value by finding the most appropriate suppliers at the lowest cost to gain a competitive advantage.

**iii. Information:**

Information is a key supply chain driver because it serves as the glue that allows the other supply chain drivers to work together to create an integrated, coordinated supply chain. Information is crucial to supply chain performance because it provides the foundation on which supply chain processes execute transactions and managers make decisions. Without information, a manager cannot know what customers want, how much inventory is in stock, and when more products should be produced or shipped. In short, information provides supply chain visibility, allowing managers to make decisions to improve the supply chain's performance.

**vi. Inventory Management:**

Inventory is the goods or materials a business intends to sell to customers for profit. Inventory management, a critical element of the supply chain, is the tracking of inventory from manufacturers to warehouses and from these facilities to a point of sale. The goal of inventory management is to have the right products in the right place at the right time. This requires inventory visibility — knowing when to order, how much to order and where to store stock.

The basic steps of inventory management include:

- a. Purchasing inventory: Ready-to-sell goods are purchased and delivered to the warehouse or directly to the point of sale.
- b. Storing inventory: Inventory is stored until needed. Goods or materials are transferred across your fulfillment network until ready for shipment.



- c. Profiting from inventory: The amount of product for sale is controlled. Finished goods are pulled to fulfill orders. Products are shipped to customers

**v. Transportation and logistics management:**

Transportation and logistics management are two closely related business units that share a common objective. The primary goal is to transport inventory throughout a company's supply chain efficiently and effectively. While people use the terms interchangeably, transportation management is a subdivision of logistics. It's a symbiotic relationship that requires care and attention. Actively managing supply chain offers your company tremendous cost- and time-saving advantages. In other words, you can't afford to miss out on opportunities due to non-prioritization of this essential service function.

**7. Let us sum up**

FPOs are an essential part of the agricultural supply chain, and their role in improving the efficiency, competitiveness, and sustainability of the sector cannot be overstated. By supporting farmers and improving the overall performance of the supply chain, FPOs can play a critical role in ensuring the success of the agricultural sector and the well-being of farmers.

In recent years, the focus has shifted towards improving the efficiency of the supply chain and ensuring that farmers receive a fair price for their produce. One of the key benefits of FPOs is their ability to negotiate better prices for their produce. By aggregating the produce of multiple farmers, FPOs can negotiate better prices with buyers, which can result in higher returns for farmers. Additionally, FPOs can help farmer's access markets that were previously inaccessible to them, thereby increasing their market opportunities.

FPOs can also help improve the quality of produce, which is essential for success in today's global market. By providing training and technical assistance to farmers, FPOs can help farmers improve their farming practices and produce higher-quality produce. This, in turn, can result in higher prices and greater market opportunities for farmers.

Another important benefit of FPOs is the support they provide to farmers in managing risk. By pooling resources, FPOs can provide farmers with access to insurance, credit, and other financial services, which can help farmers manage risk and improve their financial stability. By providing training and technical assistance to farmers FPOs can help farmers adopt sustainable farming practices that are better for the environment and can lead to higher yields and higher income.



## Topic - 4

### Value Chain and Export Management in FPOs

Mr. R Purushotham

#### Objectives:

The objectives of the Training Program on Value Chain and Export Management in FPOs include:

- To introduce the concept of value chain and its application in FPOs (Farmer Producer Organizations).
- To develop the skills and knowledge of FPO members on export management, including compliance with international trade regulations, and quality control.
- To enhance the ability of FPOs to participate in the global market, increase their competitiveness and maximize returns.
- To promote the integration of FPOs into the value chain and link them with buyers, processors, and other relevant stakeholders.
- To support the development of sustainable and equitable value chain practices that benefit all members of the FPO.
- To provide hands-on training and practical examples to ensure that participants can apply the concepts learned in their daily operations.
- To foster a network of FPOs and other stakeholders to facilitate collaboration, knowledge sharing and continuous learning.

#### **1. Introduction:**

Agriculture plays a vital role in the economy and ensuring its success is crucial for the well-being of the population. Farmer Producer Organizations (FPOs) play a critical role in improving the livelihoods of small and marginal farmers by creating economies of scale, enabling access to markets, and promoting sustainable agriculture practices. FPOs can enhance the value chain with appropriate value chain interventions and implementing best practices and leveraging the latest technology.

The value chain and export management in Farmer Producer Organizations (FPOs) is a crucial aspect of ensuring sustainable and profitable agriculture practices. FPOs bring together small-scale farmers to collectively manage the various stages of production, processing, and marketing of their produce. By optimizing the value chain and effectively managing exports, FPOs can increase their bargaining power, reduce costs, and improve their competitiveness in the global market. Additionally, a well-managed value chain and export process can help to ensure food safety and



quality standards, improve traceability, and increase the chances of obtaining premium prices for the produce. Thus, effective value chain and export management in FPOs is critical to the success and sustainability of small-scale agriculture and rural development.

## **2. Value Chain and Export Management in FPOs:**

### **2.1. Value Chain:**

Value Chain encompass the full range of activities and services required to bring a product or service from its conception to its end use. The basic characteristic of a value chain is market-focused collaboration: different enterprises work together to produce and market products and services in an effective and efficient manner. Value chains allow businesses to respond to the marketplace by linking production, processing and marketing activities to market demands.

Agricultural value chain includes the full range of activities and participants involved in moving agricultural products from input suppliers to farmers' fields, and ultimately to consumers. Value chains play an important role in transforming agricultural commodities from raw material to end products demanded by the consumers. There are a number of stakeholders involved in the agricultural commodity value chains and the partitioning of gains among the stakeholders along the chain is analyzed to enhance value. Farmers, traders, wholesalers, processors, retailers and consumers are major actors in the value chain.

### **2.2. Value Chain Approach to Development:**

Value Chain approach to development is applied to drive economic growth with poverty reduction through the integration of large numbers of micro- and small enterprises into increasingly competitive value chains. Value chain approach to development is increasingly being used as conceptual and operational framework to help identify entry points to support resource-poor actors in the production, processing and marketing.

Value chain approach sets the rationale for implementing value chains as a development strategy, with emphasis on how to drive economic growth with poverty reduction through the integration of large numbers of micro- and small enterprises.

### **2.3. Value Chain Analysis (VCA)**

Value Chain Analysis is the process of breaking the value chain into its constituent parts in order to better understand its structure and functioning. Value chain Analysis provides an overview and a good understanding of the specific economic reality and set out a vision and upgrade strategies. The analysis is used to make decisions on

objectives and strategies to help identify and plan supportive actions as well as monitor the impact of interventions.

- Unravel the strengths and weaknesses of the Value Chain and helps identify potential improvements and possible corrective actions.
- Identifies the flow of goods, information and finance through the various stages of the chain
- Identifies chain actors at each stage and discerning their functions and relationships; determine the chain governance, to facilitate chain formation.
- Value chain analysis helps participating actors to develop a shared vision of how the chain should perform and to identify collaborative relationships which will allow them to keep improving chain performance.
- Identifies value adding activities in the chain and assign costs and added value to each of those activities.

#### 2.4. Value Chain Analysis Process:

- **Selecting and prioritizing value chains for promotion:**

This process is carried-out to identify the value chains that offer the most promising prospects for economic growth and poverty reduction. The choice of value chains can be further refined by applying priority criteria based on prospects for growth, contribution and sustainability.

- **Mapping the Value Chains:**

To obtain a clear understanding of the sequence of activities and the key actors and relationships involved in the value chain. This exercise is carried out in qualitative and quantitative terms through graphics presenting the various actors of the chain, their linkages and all operations of the chain from pre-production (supply of inputs) to processing and marketing. Depending on the level of detail needed, this exercise may focus also on factors such as the size and scale of main actors; production volume; number of jobs; sales and markets etc.

- **Analyzing the value chain technological capacities:**

This analysis is made in order to assess the value chain production system and tools; evaluate their technical performance; and determine the principal technical actions that need to be carried out to upgrade individual enterprises within the chain and to enhance their competitiveness. Among the elements that are assessed are the utilization of inputs, human resources and technical capacities; the technology and processes used; the production management methods.

- **Analyzing the value chain economic performance and competitiveness:**

This analysis entails the measuring of economic factors (production costs, margins, added-value, etc.) as well as benchmarking in order to position the chain vis-à-vis alternatives or competitors. It is an effective means of identifying strategic and non-strategic activities and of raising awareness among chain actors concerning cost drivers, margins for price negotiation and value addition possibilities. It also reveals leverage points for action at policy, institutional and enterprise level.

- **Formulating an upgrading strategy for the selected value chain:**

At this stage, upgrading plans are drawn up which describe the interventions required in the value chain, including policy and institutional recommendations. Specific interventions at enterprise level are also outlined, and so is the advocacy necessary to implement them. Roles and responsibilities are assigned to all actors and agencies involved.

## 2.5. Value Chain Improvement

Value chain improvement strategy should be systematically developed through a consultative process in which all actors participate. Promoting smallholder-based value chains must be anchored on the premise that a business case exists for supporting smallholders, Poverty reduction cannot be sustainable without economic growth and economic growth requires proliferation of enterprises and linking the poor to the growth opportunities.

**Value Chain improvement is most likely to succeed provided:**

- i. Secures the ownership and commitment of the chain actors;
- ii. Clearly defines the role of each concerned party, including chain operators and supporters;
- iii. Enables the achievement of objectives in ways that are acceptable to all actors and with the lowest usage of resources

**Building a value chain improvement strategy involves a sequence of steps:**

- Agreeing on a vision and strategy for value chain improvement
- Analyzing opportunities and constraints to chain improvement
- Setting operational objectives and preparing improvement action
- Identifying actors to implement the value chain improvement strategy
- Anticipating the impact of value chain improvement.

## 3. Setting up the vision and strategy:

The vision of an improved value chain describes the targeted change of the value chain; the desired future of the chain. The vision describes desired change and hence



provides strategic direction. It is the basis for consensus among stakeholders on the way forward. The vision refers to the overall goal of chain development and always refers to improving chain revenue (value creation) and the income of chain operators (value capturing).

#### **4. Analyzing opportunities and constraints**

When exploring ways of getting to the vision, an essential step is analyzing constraints and opportunities. Strategic objectives consider both the present situation and the targeted vision and try to show how the scenarios can be linked and the vision achieved. Such analysis of opportunities and constraints helps formulate broad strategies on how a chain will grow, increase value generation and incomes earned.

#### **5. Setting operational objectives and upgrading actions**

The analysis carried out will guide chain actors and developers to appropriate upgrading options, strategies and action points. The vision shows direction; the opportunities and constraints analysis shows what needs to be addressed.

#### **6. Identifying actors to implement the upgrading strategy**

For the strategy to be complete the implementers have to be identified who are responsible for the upgrading action. The chain actors should fully subscribe to the upgrading strategy including the expected benefit, and be able to contribute to improving the value chain

#### **7. Export Management for FPOs:**

The Farmer Producer Organization (FPO) is an Institutional business model that seeks to empower small and marginal farmers by aggregating them into organizations. Marketing strategies play an important role in the success of FPOs. It helps in increasing the market presence of FPOs, improving their visibility, and reaching out to potential buyers.

Export management involves conducting the export activity in an orderly, efficient and profitable manner. Because it needs to be managed efficiently so that the export should increase and exporter should get more profit and importer should get more satisfaction. Therefore, export management activity is growth oriented and dynamic in nature. Export marketing management and domestic marketing management are two aspects of the same coin i.e. total marketing management. Export management involves the study of foreign markets, requirements, of foreign buyers, potential marketing opportunities and using them tactfully for large-scale exporting.

Export management is basically planning, organizing, coordinating and controlling all activities relating to export of goods and services to other countries. It involves



various activities such as production of exportable good, collection of orders from foreign buyers and their execution, publicity in abroad, adoption of sales promotion techniques, price fixation and looking after various procedures and formalities relating to exporting of goods.

The fast-developing high value agricultural markets provide immense opportunity to India's FPOs. Dairy and poultry have been exemplary in delivering inclusive growth. Despite being a smallholder economy, India has become self-sufficient in food production and is a leading producer of a number of agricultural commodities. However, this record level of production has not been always accompanied by commensurate increase in farmers' income. Agricultural value chains in India are subject to high fragmentation and intermediation, resulting in substantial losses in quantity and quality of produce, limited processing capacities, and high price volatility. With a diversifying production basket, policies should be aimed at holistic development of value chains.

FPOs can effectively manage their export operations, increase their income, and enhance their competitiveness in the global market. Farmer Producer Organizations are collective groups of farmers that aim to improve their income and livelihood by pooling resources and collectively marketing their produce.

#### **8. Export management in FPOs involves the following key steps:**

- **Product selection:** Selecting the products that are suitable for export based on market demand and the FPO's production capabilities.
- **Quality control:** Establishing and implementing quality control measures to ensure that the products meet the required standards for export.
- **Documentation:** Ensuring that all the necessary documents such as certificates, licenses, and certifications are in place for exporting the products.
- **Logistics:** Arranging for the transportation and storage of the products from the FPOs to the port of export.
- **Marketing and sales:** Developing and implementing marketing and sales strategies to reach potential buyers in the international market.

By following these steps, FPOs can effectively manage their export operations, increase their income, and enhance their competitiveness in the global market.



## Topic - 5

### Market Research for FPOs

Dr. Jabir Ali

#### **Objectives:**

After going through this unit, the learners will be able to:

- The meaning and scope of marketing research
- The various types and processes of marketing research
- To understand the process of conducting a market survey for FPOs.
- To design and develop marketing research activities for FPOs

#### **1. Introduction:**

Data and information are the oil to effective decision-making. All functionaries of FPOs need timely information as per the requirement across the value chain. FPOs are expected to undertake profitable business activities in the food and agribusiness segment in a sustainable manner and need timely information on consumers, competitors, and trade and distribution systems. Marketing research is expected to collect such information and provide the same in customized manner to the decision-makers.

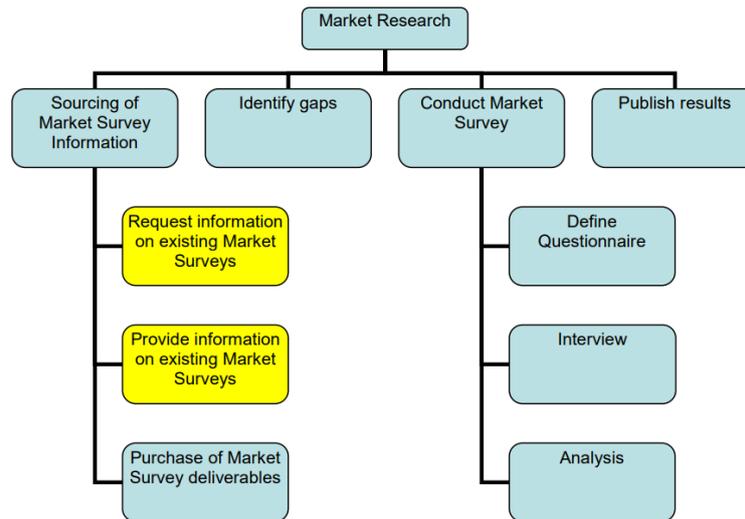
#### **2. Marketing Research:**

Marketing research is defined as the systematic collection and analysis of data relating to marketing goods and services for effective decision-making. The American Marketing Association (AMA, 1961) defines it as the systematic gathering, recording and analyzing of data relating to the marketing of goods and services. Similarly, Kotler (1999) defines marketing research as systematic problem analysis, model-building and fact-finding for improved decision-making and control in marketing goods and services.

All these definitions include:

- Systematic collection of data
- Objectivity and exhaustiveness
- Analysis of data
- Problem-solving and decision making

Market Research is a complex domain with several vital processes, some of which are illustrated in Figure 1. Market Research is typically initiated in a setting where the need for specific information is identified, either by an MR company, by a producer or marketer of goods or services, or by an official institution, university etc.



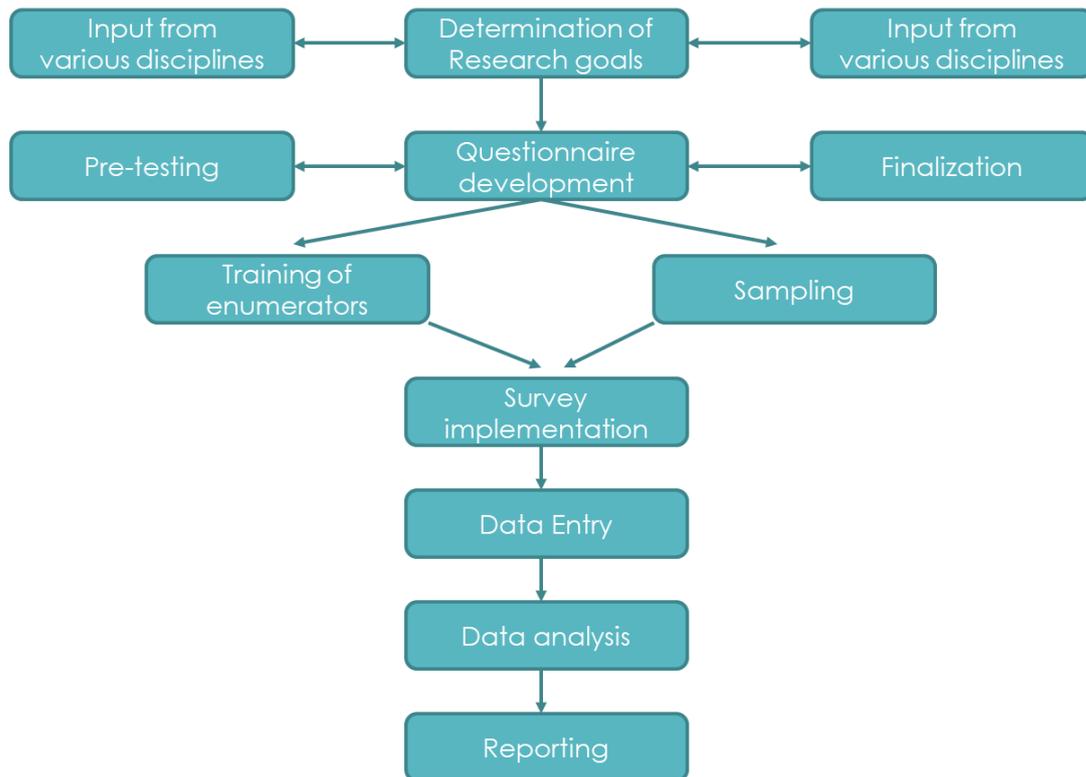
The stakeholders involved in the Sourcing of Market Survey Information will typically include - Market Research Organizations - Clients - Data Warehouses / Databases.

### 3. Market Survey

A market survey is a collection of data and information from a sample of customers and potential customers. The data and information are analysed, and inferences are made about the population at large. A market survey is one method of market research that is based on questioning an audience or segment of the market. Marketers develop new and exciting strategies for upcoming products/services to make their business successful. Therefore, marketers should determine the category and features of products/services based on the needs of the target audiences. The conceptualization and conduct of proper market research would ensure the success of a new avenue. Most marketing managers depend on market surveys to collect required information that would catalyse the market research process. Also, the feedback received from these surveys can contribute to product marketing and feature enhancement.

A market survey can describe any study that gathers information directly from consumers by asking those questions about their preferences, habits and experiences. The purpose of a market survey is to give business managers insight into their target customers, such as how much money they spend on certain types of products, whether they use competing products and the interest level for new products.

A variety of market surveys can be conducted to assist researchers in understanding the market and consumers. These include:



- **Customer Satisfaction Survey** – Evaluate customers' satisfaction with your product and services and how they are treated when they buy from you.
- **Product Research Survey** – Evaluate your consumers' reaction to a new product or product feature across every stage of the product development journey.
- **Brand Awareness Survey** – Track the level of brand awareness in your target market, including current and potential future customers.
- **Online Purchase Feedback Survey** – Find out how well your online shopping experience performs against customer needs and expectations.

#### 4. Type of research

Research can be grouped into three categories:

- **Exploratory:**

Exploratory research is defined as research used to investigate a problem which is not clearly defined. It focuses discovery of ideas and is normally based on secondary data. It is a preliminary study. It is often referred to as the grounded theory approach or interpretive research as it is used to answer questions like what, why and how.

	Causal research	Exploratory research	Descriptive research
<b>Amount of uncertainty characterising decision situation</b>	Clearly defined	Highly ambiguous	Partially defined
<b>Key research statement</b>	Research hypotheses	Research question	Research question
<b>When conducted?</b>	Later stages of decision making	Early stage of decision making	Later stages of decision making
<b>Usual research approach</b>	Highly structured	Unstructured	Structured
<b>Examples</b>	'Will consumers buy more products in a blue package?'  'Which of two advertising campaigns will be more effective?'	'Our sales are declining for no apparent reason'  'What kinds of new products are fast-food consumers interested in?'	'What kind of people patronize our stores compared to our primary competitor?'  'What product features are the most important to our customers?'

- **Descriptive:**

Descriptive research is a type of research method describing the characteristics of the population or phenomenon studied. The technique primarily focuses on describing the nature of a demographic segment without focusing on "why" a particular market phenomenon occurs. In other words, it "describes" the research subject without covering "why" it happens. Descriptive research is undertaken when a researcher wants to know the characteristics of certain groups, such as age, education, social status, income etc.

- **Causal:**

Causal research, also known as explanatory research or causal-comparative research, identifies the extent and nature of cause-and-effect relationships between two or more variables. Causal research enables market researchers to predict hypothetical occurrences & outcomes while improving existing strategies.

## 5. Sources of data

Once it has been decided to obtain primary data, the mode of collection needs to be decided. Two methods are available for data collection:

- Observational methods
- Survey methods

**Observational methods:** As the name itself suggests, the data are collected through observation. An observer observes and records the data faithfully and accurately. This may be suitable in the case of some studies but is not useful for observing attitudes, opinions, motivations and other intangible states of mind. Also, in this method, the data collected is non-reactive, as it does not involve the respondent.

**Surveys:** It is one of the most common methods of collecting data for primary marketing research.

## 5. Sampling techniques

Sampling is the process of selecting a small number of elements from a larger defined target group such that the information gathered from the small group will allow judgments to be made about the larger groups. A sampling plan is a very important part of the research process. The marketing researcher has to decide whether it will be a sample survey or a census. Definitely, a sample survey has its distinct merits. The population from which the sample has to be drawn has to be well-defined.

A broad choice is to be made between probability sampling and non-probability sampling. The sample design is then chosen depending on the suitability and availability of the sample frame. The size of the sample selected is based on statistical methods. This is well-defined and also reproduces the characteristics of the population. In practice, however, this objective is never wholly attained because of the occurrence of two types of errors – errors due to bias in the selection and sampling errors. The sampling can be divided into two categories:



a) Probability sampling

b) Non-probability sampling



## 7. Probability sampling

Probability sampling is a technique in which the researcher chooses samples from a larger population based on probability theory. This statistical method is used to select a sample from a population in such a way that each member of the population has a known, non-zero chance of being selected. The most critical requirement of probability sampling is that population is known and every sample has equal chance of getting selected.

Followings are the most effective types of probability sampling:

Simple random sampling is a method of probability sampling in which every unit has an equal nonzero chance of being selected systematic random sampling is a method of probability sampling in which the defined target population is ordered, and the sample is selected according to position using a skip interval

### Steps in Drawing a Systematic Random Sample:

- Obtain a list of units that contains an acceptable frame of the target population
- Determine the number of units in the list and the desired sample size
- Compute the skip interval
- Determine a random start point
- Beginning at the start point, select the units by choosing each unit that corresponds to the skip interval.

Stratified random sampling is a method of probability sampling in which the population is divided into different subgroups, and samples are selected from each.

## 8. Nonprobability Sampling Methods

Non-probability sampling is defined as a technique in which the researcher selects samples based on subjective judgment rather than random selection.

**Convenience sampling** relies upon convenience and access

**Judgment sampling** relies upon belief that participants fit characteristics

**Quota sampling** emphasizes representation of specific characteristics

**Snowball sampling** relies upon respondent referrals of others with like characteristics

This sampling method is less stringent and depends heavily on the expertise of the researchers. It is carried out by observation, and researchers use it widely for qualitative research.

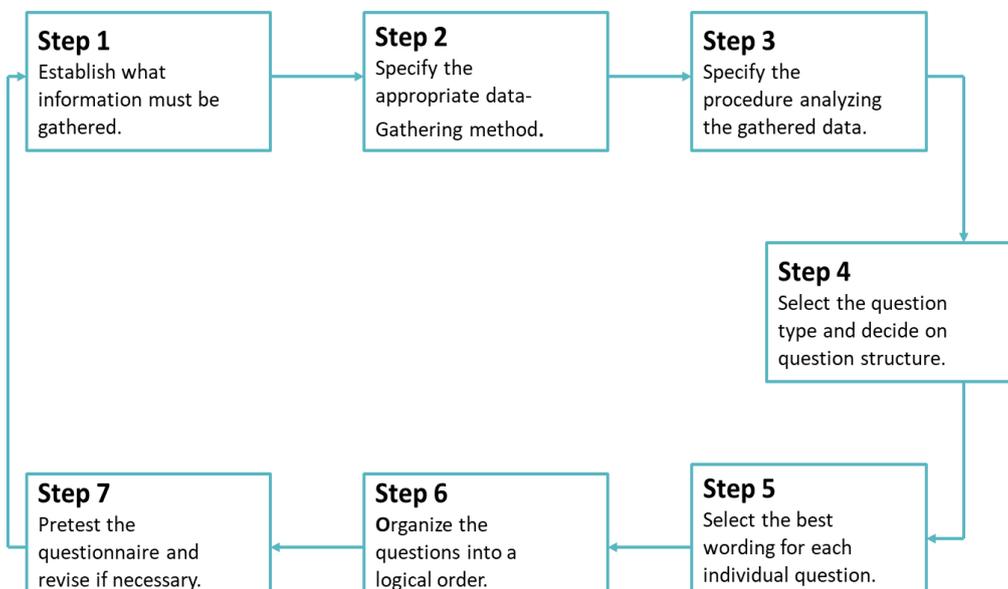
The followings are the most commonly used non-probability sampling techniques:

### 8.1. Designing of questionnaire

A questionnaire is a survey instrument consisting of a set of questions or other types of prompts to collect information from a respondent. A research questionnaire is typically a mix of close-ended questions and open-ended questions.

### 8.2. The Questionnaire Construction Procedure

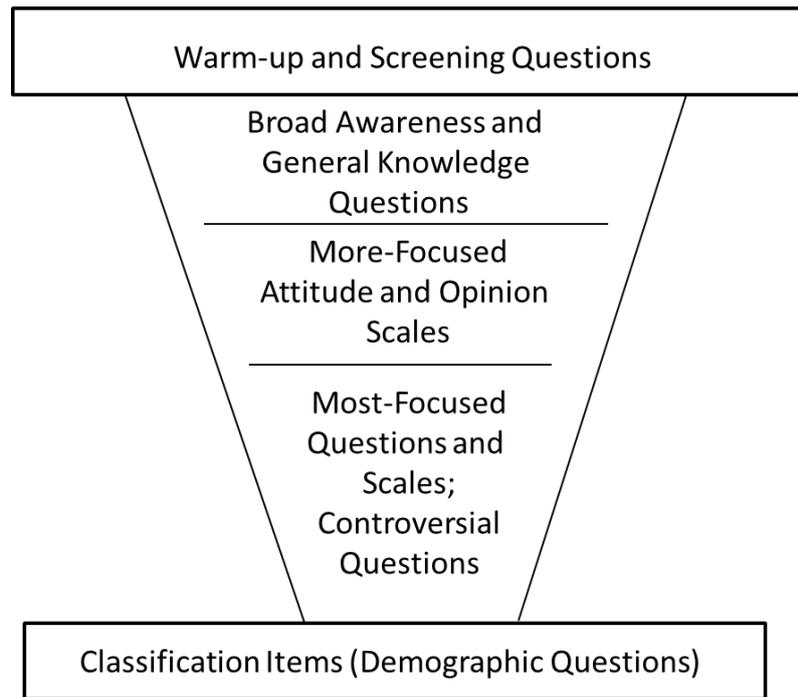
Questionnaire construction is the most important process for ensuring the collection of all required data as per the need of the study.



When it comes to the questionnaire construction process, it's not as simple as just putting a bunch of questions together without giving proper structure to it. There are more sophisticated and standardized procedures involved in the questionnaire construction process.

### 8.3. The Funnel Approach to Questionnaire

The funnel technique has been widely used in the process of questionnaire design. This technique involves asking broad, open-ended questions before gradually introducing more narrowly-scoped open-ended questions, as well as closed questions.



#### 8.4. Data analysis

Data Analysis is the process of systematically applying statistical techniques to describe and illustrate the surveyed data, condense, recap, and evaluate data for proper interpretation. According to Shamoo and Resnik (2003) the analytic procedures "provide a way of drawing inductive inferences from data and distinguishing the signal (the phenomenon of interest) from the noise (statistical fluctuations) present in the data".

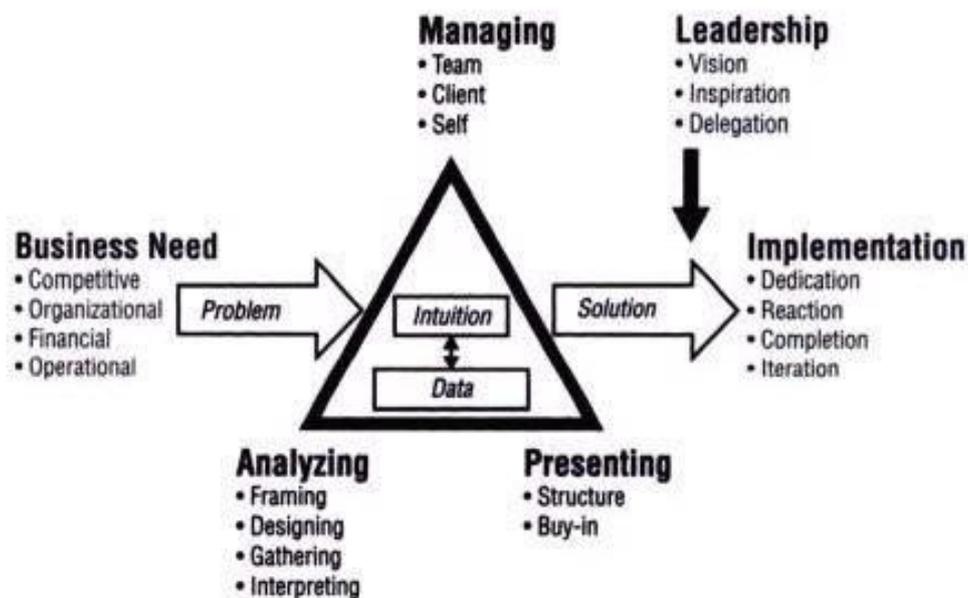
- Data analysis assists researchers in proper categorizing, manipulating, and summarizing data to answer critical questions.
- The form of the analysis is determined by the specific qualitative approach taken and the form of the data.
- There are a number of issues that researchers should be aware of with respect to data analysis. These include:
  - Having the necessary skills to analyze
  - Concurrently selecting data collection methods and appropriate analysis
  - Drawing unbiased inference
  - Inappropriate subgroup analysis
  - Following acceptable norms for disciplines
  - Determining statistical significance
  - Lack of clearly defined and objective outcome measurements
  - Providing honest and accurate analysis
  - Manner of presenting data

- Environmental/contextual issues
- Data recording method
- Partitioning 'text' when analyzing qualitative data
- Training of staff conducting analyses
- Reliability and Validity
- Extent of analysis

### 8.5. Interpretation and decision-making

Data interpretation is the process of reviewing data and arriving at relevant conclusions using various analytical methods.

In business terms, the interpretation of data is the execution of various processes and helping in strategic decision-making. This process analyzes and revises data to gain insights and recognize emerging patterns and behaviours. These conclusions will assist you as a manager in making an informed decision based on numbers while having all of the facts at your disposal.







## Topic - 6

### Success Stories of FPOs

Dr. Shridevi V

The following are some selected success stories which can act as inspiration for the promotion of FPOs in the country.

#### **1. OF THE FARMER, BY THE FARMER, FOR THE FARMER & CONSUMER: A Case of Sahyadri Farms, Maharashtra**

Sahyadri Farmer Producer Company Ltd. (SFPCL) formed in 2011 with around 10 farmers, now it is one of a leading farmer producer companies, “located in Mohadi village of Nasik district, Maharashtra. Sahyadri Farms focused on fruits and and rice. Sahyadri Farms is today, servicing over 18,000 farmers, covering more than 31,000 acres and 9 crops. It is one of the largest exporter of fresh grapes to Europe constituting 17 percent of the total export to these countries. It is also one of the largest producer of tomato puree which supplies to multinational companies such as Nestle, Kisan, *etc.* Sahyadri Farms brought farmers together for the value addition of agriculture produce and functions of Agri Value Chain (AVC) and is into processing of fruits and vegetables.

Sahyadri Farms Post Harvest Care Limited (SFPHCL), the subsidiary of Sahyadri Farmer Producer Company (FPC) has become India’s first FPC subsidiary to raise overseas growth capital of ₹s 310 crore during 2022. Total paid-up capital is INR 128 cr. The total net worth of the company is more than Rs. 120 crore and turnover is more than Rs. 700 crore.

Its Robust Supply chain, Participatory Approach, Leadership, Commitment of Employees and Professionalism helped the company to heights of the success.

#### **2. REAPING BENEFITS THROUGH COMMUNITY IN HILLY AREAS – DEVBHUMI NATURAL PRODUCTS PRODUCER COMPANY PVT. LTD.,**

DevBhumi Natural Products Producer Company Pvt. Ltd, (DNPPCL) is one of those first producer companies in the country and first in Uttarakhand. As of now, it engages over 8,000 primary producers in various livelihood activities and is operational in over 800 villages in Uttarakhand. They all are involved in the commercial cultivation of some of the products such as honey and minor forest



produce. The activities of the company are spread out over 450-odd remote villages in the five districts in Uttarakhand.

DNPPCL's pioneering efforts to develop infrastructure in all these areas have enabled the primary producers to involve actively in the value chain. Due to this company earned a post turnover of Rs. 100 million in 2017-18. It's a company limited by shares having an authorized capital of Rs 1.20 crore and a paid-up capital of Rs 1.05 crore. The business is aided by innovative steps like the setting up of primary processing facilities for organic spices, organic honey production, and sericulture. By creating a strong supply chain along with operational and managerial support, several small Farmer Producer Organizations (FPOs) create their strong presence in a highly competitive market.

### **3. SUCCESS THROUGH HANDICRAFT AND LIVESTOCKS: ADHIMALAI PAZHANAGUDIYINAR PRODUCER COMPANY LIMITED, TAMIL NADU**

Adhimalai Pazhanagudiyinar Producer Company Limited (APPCL) has been incorporated in the year 2013 and is owned by the indigenous communities of Nilgiri Biosphere Reserve (NBR). Adhimalai PC aims at providing a sustainable livelihood support and income generation through fair trade practices to the community while preserving their traditional way of life and conserving the environment. The producer company constitutes a total shareholder of 1609 covering around 209 villages of Six (06) regions in NBR. The members of the PC also include FPOs and other societies as members. Moreover, the company constitutes about 176 women farmers as members. During the year 2020-21, the company's revenue turned out to be Rs.1.09 crore as against Rs.83.5 Lakh during 2019-20.

The company is involved in production, processing and marketing of wide range of commodities both agriculture and forest produce from indigenous communities. The PC markets its products either under Adhimalai's own brand names or rebrands for its customers in the customer designed packaging. For the sale of forest honey, the company has established four retail outlets called "Honey Huts". Moreover, the company has established retail stores in various parts of the country and the consumer can locate the nearby store from the company's official website. As result of this intervention, there is an increase in income of the farmers by 30 percent in a span of eight years.



#### **4. JEEVIKA WOMEN AGRI. PRODUCER COMPANY LIMITED. (JWAPCL): A CASE STUDY FROM KHAGARIA, BIHAR**

Jeevika Women Agri Producer Company Limited (JWAPCL) Khagaria started in November 2009 under the Companies Act 1956 with an authorized capital of Rs 5.0 lakhs and a paid-up capital of Rs 3.03 lakh. JWAPCL has 1206 farmers and groups involved as members are 50. The company's total turnover of the company is Rs.10.86 cr. during 2019-20.

Initially the company was involved in seed production packaging, grading, Processing, sales, and input supply to help its member. After doing impactful work for associated farmers on backward linkages, company got into the field of marketing of farmers produce in 2016. In Year 2016 Company expend its business in maize value chain. The company has been proven to bring in the economies of scale by the way of building a unique Agri-value chain for better market linkages with corporates and NCDEX making the farmers realize higher incomes. The company has also strived hard in order to gain nutritional security of rural women by supplying kitchen garden kits and thus highlighting the importance of the nutrition. Thus, JWAPCL has become a role player in enhancing the livelihoods of rural women.

#### **5. GREEN VISION FARMERS PRODUCER COMPANY LTD., ONE STOP SHOP FOR INPUTS (MAHARASHTRA):**

Established in 2014, Green Vision Farmers Producer Company Ltd. was formed by Yuva Mitra, a reputed organization working in Nashik, Maharashtra. The FPC started its operations with 482 shareholders and has now grown to a 560 members company with 70% active members doing operations with the company. The company was started with an objective of establishing a one stop shop in the form of an agri-mall for the sale of agri-inputs. The company has undertaken procurement of fruits, vegetables and pulses from about 950 farmers. After receiving the licenses, the company has started a 2200 sq. ft. agri-input shop well stocked with pesticides and seeds. A grading and packing house of 2200 sq. ft. has also been constructed for procurement, sorting, grading and packing of onions apart from the agri-input shop at Wadangali, Nashik. The turnover of the company increased from R 3 lakh to R 300 lakh in a span of one year from 2014-15 to 2015-16. The company plans to undertake export business of pomegranate in future with an increased loan assistance.



## **6. NARSINGH FARMERS CROP PRODUCER COMPANY LTD., MADHYA PRADESH – AN APPROACH OF TOTAL SUPPLY CHAIN MANAGEMENT**

Established in 2006, Narsingh, Madhya Pradesh, FPCL is actively involved in agri-input sale, seed production, procurement and sale of agricultural produce. Narasinghpur district is well known for sugar cane production and production of jaggery from sugar cane. The company is also well equipped with the seed processing infrastructure and machinery and has seed processing grader with a capacity of 10 Qtl/hour. The company has 1800 shareholders spread over 35 villages in and around Narasinghpur and active shareholders of 700. Pulses are also the major produce of the farmers at Narsinghpur. On the backdrop of this production, FPC in the FY 2015-16 started the pulses procurement for the SFAC. It turned out to be a very successful programme for the FPC and the turnover increased from R 78 lakhs to R 9.79 Crore. The profits also increased by 140% and the FPC was able to benefit more than 1,000 member farmers in the process.

## **7. NISARG VIKAS PRODUCER COMPANY LTD. SILVER LINE IN ASPIRATIONAL DISTRICT, MAHARASHTRA**

Nisarg Vikas Producer Company Ltd. (NVPCL) is promoted under the PRODUCE fund of NABARD in Ambejogai block of Beed, Maharashtra. The FPC has envisaged to better the incomes of their farmer members by helping them adopt modern practices of farming, collective marketing of the agri-produce procured from their farmer members and promote a culture of entrepreneurship. To address this, the FPC has constructed a 2000 MT godown for storage, processing and value addition of the agriculture commodities. The promoters of the company have several years' experience of working on various schemes of Government of Maharashtra and with NABARD. The total number of shareholders grew from 831 in March 2016 to 1134 in February 2017. The company is actively involved in the procurement, marketing, trading and processing, of agricultural commodities like Soybean, Tur, Moong, Gram with the support and active involvement of 85% of the shareholders of the company. The turnover of the company has increased from R 8 Lakh in May 2016 to R 4 Cr in August 2017. The company plans to modernize their procurement and processing functions in the near future and gain a better understanding of the agricultural value chain.



## **8. SAFE FOOD FOR ALL - SAHAJA AHARAM PRODUCER COMPANY (SAPCO), HYDERABAD, TELANGANA**

Sahaja Aharam Retail is part of Sahaja Aharam Producer Company Ltd., (SAPCO) is a federation of 23 Farmer Producer Organisations (FPOs). It is an initiative to connect farmers with Consumers (F2C) and building their entrepreneurial skills and linking their institutions to markets (B2B). The federation also works on developing various food and non-food products which can be made with locally available material and build skills of the local communities to take up these products as livelihood options.

The company has a authorized share capital is Rs. 25 lakh and its paid up capital is Rs. 19.5. The Sahaja Aharam pricing both at farmers end and consumers end is based on fair and equity principles. At farmer's level, three price indicators are considered. a) Cost of cultivation plus 50%, b) local market price plus 15% and c) 50% of average consumer price in a year and whichever is highest is given to the farmer. Similarly, at consumer end the prices are normally fixed at 15-20% less over the local market price for conventional produce, d). 50% over the producer price and e) even out extreme prices of last year. Sahaja Aharam pays more than 50% of the consumer price to the members while many organic companies are unable to do the same.

## **9. GENDER MAINSTREAMING IN FPOS - SUSAG MILLETS PRODUCER COMPANY LTD., VISAKHAPATNAM, ANDHRA PRADESH**

SMPCCL was registered under Companies Act on 10-02-2016 and operating with 100% Millet Sisters i.e. women millet farmers from Pedabayalu and Anakapalli Mandals of Visakhapatnam District. It was incorporated with an authorized share capital of Rs.30 lakhs and a paid up capital of Rs. 12.30 lakh. About 960 (787 from tribal area) millet sisters from 53 villages have been enrolled as members (100 % women members) mobilizing a share capital of Rs.12.3 lakhs. Susag Millets Producer Company Limited aims to enhance livelihood among millet farmers through production, processing and marketing of millets, and conserve the ecological diversity of the area through conservation of natural resources viz., land, water and forest. The SMPCCL has been established with a vision to enhance organic millet cultivation in order to meet the food and nutrition security among people, as well as to increase the income and services to the millet sisters. The company has turnover of Rs. 43.25 lakh. The FPC is involved in procurement of raw produce from the members in different



villages and finally process the raw produce at FPC's processing unit. The processed millets are supplied to the final consumers.

#### **10. EXPLORING EXPORT MARKET - INDIAN ORGANIC FARMERS PRODUCER COMPANY LIMITED (IOFPCL)**

The company was established in 2004 and incorporated under the Companies Act of 1956 to address the obstacles faced by small and medium farmers through expanding their market access and competitiveness in the domestic and export markets, thus achieving economies of scale. IOFCL involves in producing and distributing Organic and Fairtrade certified products in domestic and international markets. With a future plans to attract environmental funds from farmer-friendly groups abroad who are interested in supporting fair trade, company provides all supports to fetch eco-sustainability through providing safe foods. The Company gives advice to farmers on mapping and assessing resources (mainly soil and water), sustainable resource utilization and scientific production methods.

The company serves more than 2500 primary producer members in Kerala, Karnataka and Tamil Nadu. The company follows the cooperative and fair trade principles. The company is governed by the Board of Directors elected from the member shareholders. The annual turnover of the company is Rs. 26 crore and paid up capital is Rs. 50 lakh.

# **ANNEXURES**



## ANNEXURE-I DETAILS OF PARTICIPANTS

Sl. No.	Participants Name	Country
1	Mr. Namig Gadirov	Azerbaijan
2	Mr. Md Abu Royhan	Bangladesh
3	Mr. Temesgen Senbeto	Ethiopia
4	Mr. Darasa Ali Mahamed	Ethiopia
5	Ms. Juliana Kpedekpo	Ghana
6	Mr. Eric Kwesi Djamson	Ghana
7	Ms. Shynar Akzholtayeva	Kazakhstan
8	Ms. Zhanar Botbayeva	Kazakhstan
9	Ms. Jose Luis Domingos	Mozambique
10	Ms. Amina Imam	Nigeria
11	Mr. Ravi Kiran Adhikari	Nepal
12	Mr. Sharad Pandey	Nepal
13	Mr. Dol Raj Pandey	Nepal
14	Mr. Sheikheldin Ahmed	Sudan
15	Mr. Murtada Mahdi	Sudan
16	Ms. Tawheed Mohammed Shareef	Sudan
17	Ms. Abraham Arop Ayuel Kiir	South Sudan
18	Mr. Martin Oliwai Andrea Lohufe	South Sudan
19	Ms. Sitora Bodurbekova	Tajikistan
20	Ms. Lola Sharipona	Tajikistan
21	Mr. Khamis Mohammed Khamis	Tanzania
22	Mr. Wilson Nadiope	Uganda
23	Mr. Shadad Mugabi	Uganda
24	Mr. Kazibwe Kakoto Stephen	Uganda
25	Mr. Khumoyun Avezov	Uzbekistan
26	Mr. Rudzani Khameli	South Africa
27	Mr. Criyl Sandong'u Luvweyi	Zambia



## ABOUT THE ORGANISERS OF THE TRAINING PROGRAM

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**Contact Details:** For more information or any clarifications you may contact  
Team M&E

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