

# Concept of Producer Organization

## 1.1 What is a Producer Organization (PO)?

A Producer Organization (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.

## 1.2 What is the need for PO?

The main aim of PO is to ensure better income for the producers through an organization of their own. 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 that the ultimate consumer pays. Through aggregation, the primary producers can avail the benefit of economies of scale. They will also have better bargaining power vis-à-vis the bulk buyers of produce and bulk suppliers of inputs.

## 1.3 What is a “Farmers Producer Organization” (FPO)?

It is one type of PO where the members are farmers. Small Farmers’ Agribusiness Consortium (SFAC) is providing support for promotion of FPOs. PO is a generic name for an organization of producers of any produce, e.g., agricultural, non-farm products, artisan products, etc.

## 1.4 Can there be a PO for non-farmers?

Yes. The PO is an organization of the primary producers. If the produce in question is a nonfarm item (for example, handloom or handicraft), then the PO will be that of non-farmers. The objective of the PO is to ensure better income realization to its members (who are producers) through aggregation and, if feasible, value addition.

## 1.5 What are the essential features of a PO?

a. It is formed by a group of producers for either farm or non-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.

#### 1.6 Who owns the PO?

The ownership of the PO is with its members. It is an organization of the producers, by the producers and for the producers. One or more institutions and/or individuals may have promoted the PO by way of assisting in mobilization, registration, business planning and operations. However, ownership control is always with members and management is through the representatives of the members.

#### 1.7 Who can promote a PO?

Any individual or institution can promote a PO. Individual persons or institutions may promote PO using their own resources out of goodwill or with the noble objective of socioeconomic development of producers. If, however, the facilitating agency wishes to seek financial and other support, then they have to meet the requirements of the donor/financing agency.

#### 1.8 Who provides support for promotion of PO?

NABARD, SFAC, Government Departments (Central and State both), Corporate and Domestic & International Aid Agencies provide financial and/or technical support to the Producer Organization Promoting Institution (POPI) for promotion and hand-holding of the PO. Each agency has its own criteria for selecting the project/promoting institution to support.

#### 1.9 Can an NGO promote PO?

Yes, it can. The NGO may be a non-profit organization, but not the PO. The NGO can promote PO which will provide better income to the members. Sharing of profit among members is an important objective of the PO.

#### 1.10 What are the different legal forms of PO?

Producer Organization can be registered under any of the following legal provisions: a. Cooperative Societies Act/ Autonomous or Mutually Aided Cooperative Societies Act of the respective State b. Multi-State Cooperative Society Act, 2002 c.

Producer Company under Section 581(C) of Indian Companies Act, 1956, as amended in 2013 d. Section 25 Company of Indian Companies Act, 1956, as amended as Section 8 in 2013 e. Societies registered under Society Registration Act, 1860 f. Public Trusts registered under Indian Trusts Act, 1882.

#### 1.11 Which legal form is preferable for a PO?

Institutions registered as cooperative societies and producer companies have legal provisions for sharing of profit earned by the PO by way of dividend. Other legal forms do not explicitly provide for profit sharing. However, the PO can offer better price for the produce it procures from the members, thus, benefiting the latter. Similarly, it can procure inputs/raw material in bulk and sell to members with low margin. Such activities are permissible for POs under all legal forms. A comparative chart of important features of Cooperative Society and Producer Company is given below:

PARAMETER	COOPERATIVE SOCIETY	PRODUCER COMPANY
Registration	Cooperative Societies Act	Indian Companies Act
Objectives	Single object	Multi-object
Area of Operation	Restricted, discretionary	Entire Union of India
Membership	Individuals and cooperatives	Any individual, group, association, producer of goods or services
Share	Non tradable	Not tradable but transferable; limited to members at par value
Profit sharing	Limited dividends on shares	Commensurate with volume of business
Voting rights	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One member, one vote. Members not having transactions with the company cannot vote
Government control	Highly patronized to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in "real world scenario"	Fully autonomous, self-ruled within the provisions of Act
Reserves	Created if there are profits	Mandatory to create every year
Borrowing power	Restricted as per bye-law. Any amendment to bye-law needs to be approved by the Registrar and time consuming.	Borrowing limit fixed by Special Resolution in general meeting. Companies have more freedom to raise borrowing power.
Relationship with other corporate / business houses / NGOs	Transaction based	Producers and corporate entity can together float a producer company.

#### 1.12 Can a PO be registered under Acts governing non-profit institutions?

Yes. Institutions can be built for promoting common interests of members/producers. The limitation is that surplus generated by such a PO cannot be

divided among members by way of dividend etc. The PO can re-invest the surplus to grow the business. Comparison of PO registered under different Acts governing non-profit institutions is given below:

PARAMETER	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
Alternation of objects	Complex legal procedure	Simple procedure	Normally only Settlor can modify	Formation	Complex procedure, 3-6 months
Simple and easy	Simple and easy	Simple and easy	Management	Formalities of Company law	have to be observed
Few restrictions imposed under the Act	Very few restrictions imposed under the Act	4	PARAMETER	SECTION 8 COMPANY	SOCIETY
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 severe penalties.
Few offences and penalties have been prescribed	Very negligible	Legal Status	Full legal status	Legal status with certain limitations	Legal status with limitations
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.	

### 1.13 Is registration mandatory for a PO?

It is preferable for the PO to work as a legal entity. Only such an entity can enter into legally valid contracts including mobilization of funds from other institutions. There are specific Acts under which the PO could be registered. It is also possible for a PO to migrate from one legal form to another. While choosing a legal form, the following factors may be kept in view: a. Primary producers should benefit from the surplus generated by the PO. b. Process of Registration should not be too demanding in terms of time and resources. c. The legal form needs to fit into its business needs, organizational priorities, social capital and management capacity.

### 1.14 What are the important activities of a PO?

The primary producers have skill and expertise in producing. However, they generally need support for marketing of what they produce. The PO will basically bridge this gap. The PO will take over the responsibility of 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. In brief, the PO could undertake the following activities: a. Procurement of inputs b. Disseminating market

information c. Dissemination of technology and innovations d. Facilitating finance for inputs e. Aggregation and storage of produce f. Primary processing like drying, cleaning and grading g. Brand building, Packaging, Labeling and Standardization h. Quality control i. Marketing to institutional buyers j. Participation in commodity exchanges k. Export.

#### 1.15 How would a PO help the members?

A PO will support the members in getting more income by undertaking any/many/all of the activities listed under point 1.14 above. By aggregating the demand for inputs, the PO can buy in bulk, thus procuring at cheaper price compared to individual purchase. Besides, by transporting in bulk, cost of transportation is reduced. Thus reducing the overall cost of production. Similarly, the PO may aggregate the produce of all members and market in bulk, thus, fetching better price per unit of produce. The PO can also provide market information to the producers to enable them hold on to their produce till the market price become favorable. All these interventions will result in more income to the primary producers.

#### 1.16 What are other benefits for the members of a PO (other than better income)?

A PO is a collective of farmers (and non-farmers) who are the primary producers of a product (an agricultural produce or a manufactured product). It, therefore, can work as a platform to facilitate better access to government services, like PDS, MNREGA, Scholarships and Pensions, etc. It can liaison with the Government Departments for convergence of programmes, like drinking water, sanitation, health and hygiene.

#### 1.17 Who can become member of a PO?

PO is an organization of the producers, specifically the primary producers. All primary producers residing in the relevant geography, and producing the same or similar produce, for which the PO has been formed, can become member of the PO. Membership is voluntary. The procedure for obtaining PO membership depends on the bye-laws of the PO. The founder-members are those who were there at the time of formation of the PO. Other members join the PO later. However, all members enjoy equal rights. A primary producer can become member of a PO by submitting an application and a nominal membership fee. Some POs also charge annual membership renewal fee. Although primary producers obtain membership of PO

voluntarily, the promoting institution should make efforts to bring all producers into the PO, especially the small producers.

#### 1.18 Who is a primary producer?

Any person engaged in any activity connected with or related to any primary produce will be treated as producer. Primary produce means the produce of farmers from agriculture and allied activities or produce of persons engaged in handloom, handicrafts and other cottage industries, including any by-product and product resulting from ancillary activities thereof. Primary produce also includes any activity intended to increase the production or quality of aforementioned products or activities. Persons engaged in agriculture, horticulture, animal husbandry, fishery, sericulture, apiary, handloom, handicrafts, etc., can become members of appropriate PO. Persons engaged in collection of minor forest produce are also eligible for membership of PO although they gather these from forests and strictly are not producers.

#### 1.19 Can a person become member of more than one PO?

Family is the unit of production in rural areas. Benefits from the PO will accrue to members in proportion to the volume/value of produce given to the PO. Therefore, one person from a family can provide the whole produce of the family to the PO and get the same amount of benefit as multiple members providing the same volume/value. If however there are two different POs in the vicinity, each for a different type of produce, say vegetables and milk, one person can become member of both these POs, if the family produces both milk and vegetables.

#### 1.20 Who will manage the PO?

Each PO will have an elected Board of Management / Board of Directors as per the bye-laws. The Board can engage professionals to manage its affairs. In the initial years, professional and managerial assistance is usually extended by the POPI. As the leaders of the PO gain experience, they should take over the affairs of the PO completely.

#### 1.21 Can a PO engage professionals to manage its business?

All legal forms provide for engaging professional and other employees by the PO. Such persons should be paid out of the income of the PO. As far as possible, the income should come from value addition to the produce and not from price paid to

members. If members get price less than the market, they will gradually move away from the PO. The professionals and other employees should be paid at par with the prevailing market to ensure that they remain for long with the PO. Compensation will also depend upon the business plan, ensuring a positive surplus.

#### 1.22 Can a PO procure produce from non-members?

The objective of the PO is to ensure better income to the member-producers through aggregation and value addition. Therefore, procurement from non-members is usually not undertaken. However, market exigencies at times may necessitate such procurement. There should be provision in the by-laws of a PO to enable procurement from non-members during such exigencies.

#### 1.23 Can a PO sell the produce in the commodity exchanges?

Yes, it can. The PO can aggregate the produce of its members, and sell it using the commodity exchanges. The produce needs to meet the quality standards specified by the commodity exchanges, and be stored scientifically in approved warehouses. The PO can become a member of the Commodity Exchanges to do trading directly, or else it can sell through the exchange-approved brokers.

#### 1.24 Can a PO export the produce of its members?

Yes, it can. For exporting agricultural produce, all the members will have to follow Good Agricultural Practices (GAP). There are also other specific quality parameters that the importing countries impose for different produce which need to be complied with. For non-farm produce (handloom, handicrafts etc.), there are other quality specifications and other stipulations against using child labour, etc.

#### 1.25 How much expenses will be incurred for registration of a PO?

Expenditure towards registration fee, stamp duty, preparation of documents and facilitation charges etc., will depend on the legal structure of the PO. In general, establishment of a producer company is more expensive than other legal forms. The estimated cost of incorporating a producer company is given below:

Particulars	Item of expenditure	Amount (Rs.)
Application for Name of PC	Fees	500
Digital signature	Fees	2600
Stamp duty		
Memorandum of Association and Articles of Association		1500
Registration/Filing fees		
MoA, AoA, Form-1, Form-18, Form-32		17200
Fees of Chartered Accountant or Company Secretary		
Consultancy charges		10000
Stamps	cancellation	300
Affidavit		

expenses Fees of Notary 500 Share transfer fees and processing 5000 Miscellaneous expenses 2000 Total 39600.

1.26 What important factors should be kept in view while facilitating formation of PO?

Aggregating producers into collectives is one of the best mechanisms to improve access of small producers to investment, technology and market. The facilitating agency should however keep the following factors in view: a. Types of small scale producers in the target area, volume of production, socioeconomic status, marketing arrangement b. Sufficient demand in the existing market to absorb the additional production without significantly affecting the prices c. Willingness of producers to invest and adopt new technology, if identified, to increase productivity or quality of produce d. Challenges in the market chain and market environment e. Vulnerability of the market to shocks, trends and seasonality f. Previous experience of collective action (of any kind) in the community g. Key commodities, processed products or semi-finished goods demanded by major retailers or processing companies in the surrounding areas/districts h. Support from Government Departments, NGOs, specialist support agencies and private companies for enterprise development. Incentives for members (also disincentives) for joining the PO Keeping in view the sustainability of a Producer Organization, a flow chart of activities along with timeline, verifiable indicators and risk factors is provided at Attachment-5.

1.27 At what stage of PO, should the member-producers be actively involved?

POs that are formed primarily in response to external initiative often struggle to develop into sustainable businesses. Therefore, the members should be actively involved from the very beginning. The facilitating agency should facilitate a process that results in producers taking the initiative to set up the PO and let the members drive the process. Activities like awareness creation, identification of potential members should precede the actual formation formalities.

1.28 What is the optimal size of a Producer Organization (PO) and what are the parameters?

a. It is desirable to have a Farmer Producer Organization (FPO) for farmers having their lands in contiguous micro-watersheds to address the issues relating to sustainability. b. The productive land under an FPO may be around 4000 ha. c. The PO may cover generally one or two contiguous Gram Panchayats for ease of



management. d. The number of farmer producers that need to be covered may be around 700 to 1000. e. The cost of managing a Producer Organization of the above nature may be around Rs. 2 lakh per month or Rs. 24 lakh per annum. f. The total value of the produce of the farmers/non-farmers handled by the Producer Organization may be around Rs. 2.5 crore, assuming that approximately 10% of the total turnover of the PO may be reasonably spent towards cost of management. g. Further, the markets selected for the Producer Organisation for selling their produce may be within 200 KM to make their marketing activities viable.

1.29 What are the design variables / factors governing the size of optimal size of a PO ensuring that the PO will be sustainable?

a. A Farmers Producer Organization is to be designed in such a way to cover all the lands that fall in one or two micro watersheds. b. The sustainability of the farmers of the micro watersheds is already in existence with various types of productive activities of the farmers to take care of risk factors, like variations in the market prices of various produce, continuity of income etc. which include sustainable agricultural practices. c. The secret to sustainability of a PO depends on comprehensive engagement of the PO with their members throughout the year. d. The design variables for a PO are mainly size, scope, technology, ownership of resources, management and purpose. These variables need to be aligned to meet the sustainability requirements indicated in the earlier two points. e. The size of the PO should be small to be able to be managed by the local talent available in the area of the PO. f. The scope of the PO should be defined in such a way that there shall be good number of crops to be grown to maintain the soil health, support for allied activities like dairy, nutritional security of the local people and to mitigate risk. g. The technology adopted by the PO should be such that majority of the local people or members of the families of the PO should be able to adopt to it and work with it with minimal training, effectively. h. The management of the PO should take into account the incubation of the local youth in such a way that in a few years' time, say in 3-7 years, local youth should be able to take over and manage the PO effectively. i. The purpose of the PO at all times must be to serve the larger needs of the community and the ownership of the PO always should rest with all its members.

1.30 What should be the minimum and maximum number of members in a PO?

The minimum number of membership depends on the legal form of the PO. For example, 10 or more primary producers can incorporate a Producer Company under

Section 581(C) of Indian Companies Act 1956 (same provisions are retained in the 2013 Act). There is no restriction on the maximum number of membership. Generally, the PO will require certain minimum scale of operation to remain in business. This operation scale/volume is known as break-even level. Studies have shown that a PO will require about 700 to 1000 active producers as members for sustainable operation.

### 1.31 Who can become a Producer Organization Promoting Institution (POPI)?

An NGO, a bank branch, a Government Department, a Cooperative Society or any Association or Federation can become a POPI. Basically, the POPI needs to be a legal entity so that it can enter into legally valid contracts with other institutions including the PO which they seek to promote. Support is available for POPIs from SFAC and NABARD for meeting part of the recurring cost incurred for promotion of the PO based on individual project considerations. Details are available in the website of NABARD, SFAC and Ministry of Agriculture, Government of India.

### 1.32 What are the roles and responsibilities of POPI?

The primary responsibility of the POPI is to see that the PO reaches sustainable level of business and the staff of the PO acquire technical and managerial capability to run the business successfully when the POPI withdraws its support. The principal role of the POPI is, therefore, to build the capabilities of the Staff and Management of the PO through training and continuous hand-holding. The broad responsibilities of a POPI are indicated below: a. Cluster identification b. Diagnostic and Feasibility Studies c. Business Planning d. Mobilization of Producers and Registration/Incorporation of PO e. Resource Mobilization f. Development of Management Systems and Procedures g. Business Operations h. Assessment and Audit.

### 1.33 What critical interventions could be covered under Grant and credit support for POPIs?

Activities involved in promoting and running a PO by POPI

Sr. no.	Activity	Grant or Credit	Duration
1	Survey of area for identification of existing economic activity and social groups which can serve as primary blocks for PO	Grant	1 month
2	Interaction and awareness creation about PO	Exploratory interactions	Grant 3-4 months
10	Sr. no. Activity	Grant or Credit	Duration
	Meetings	Exposure Visits	3
	Training and		

capacity building of members on running the POs Grant 1 month 4 Formalizing management structure and registration of PO Grant 1-2 months 5 Engagement of Professionals and preparation of business plan Grant - salary expenses on tapering basis for 3 years One time consultancy charges for preparation of business plan Salary expenses of professionals/ and consultancy charges for preparation of business plan 6 Production activity by members Credit support 7 Primary processing – grading sorting and storage Credit support 8 Separate storage structure is required Credit support 9 Separate quality control structure is required Grant cum credit support 10 Market survey, exhibition, grant For first two – three years 11 New technology adoption Visits• Machines• Grant As and when required (Subject to certain limit) 12 Exports – expenses for completing necessary formalities Grant As and when required (Subject to certain limit).

#### 1.34 What are the taxation systems / laws governing the POs?

Whether any tax benefit is available to FPOs? Immediately after incorporation, a PO has to procure PAN number from the Income Tax Department and TIN number from the Commercial Tax Department to carry out business. Also, the company has to register itself for Service Tax from Commercial Tax Department and VAT from Excise department. Currently, all FPOs are not eligible for tax exemption on par with cooperatives. The Producer Companies are taxable on par with the Private Limited Companies and Public Limited 11 Companies. However, the following are some of the various tax incentives available to the Producer Companies: a. The Income derived by a Producer Company through agricultural activities as defined in Income Tax Act, 1961 as amended from time to time, is treated as agricultural income and is exempted from taxation. b. The Government of India has vide the Finance Act, 2012, reduced the customs duty on the import of agricultural equipment and their parts which would benefit the Producer Companies engaged in agricultural activities to a great extent. c. Producer Companies engaged in the business of growing and manufacturing tea or coffee or rubber are eligible for deduction in respect of deposit of any amount with a Nationalized Bank or any other bank in accordance with scheme as approved between the Company and the respective Board.

#### 1.35 What critical areas could be covered during training/ capacity building of BOD of POs/ other staff?

The critical areas to be covered under training /capacity building of Board of Directors of a PO and staff of PO are as under:

- a. Vision and Mission: The vision and mission of the PO is very important for the Board Directors as well as other staff. Creating value to the members by solving existing problems in the value chain, marketing and reasonable share of price realization in the rupee spent by the consumer on the members' produce, should be the focus. All other activities / services should be to engage the members comprehensively throughout the year and to reduce their expenditures and increase their welfare.
- b. Good Governance: Governance which is responsible, transparent and keeping the interest of the members of the PO above all the considerations is a must for the success of a PO. Various aspects of good governance to be covered.
- c. Sustainability: Another most important aspect to be covered in the training is that the PO should not venture into unsustainable ventures which may create short term profits and harm the long term interests / welfare of the community.
- d. Networking: The success of a PO depends on the networking and continuous interactions with various stakeholders. The BODs and staff should have the understanding and importance of networking to obtain maximum benefits to their members under convergence mode.
- e. Social Capital: The training should concentrate on making the PO relevant to the members at all times, which creates social capital and trust.
- f. Statutory Requirements: The BoD and staff should have an understanding of the constitution of the PO, statutory provisions under which it is formed, various other requirements under the statute and compliance thereof.
- g. Business Planning: The training should cover aspects of business planning to maximize benefits as well as to reduce the business risks. The aspects like DPR preparation, Balance Sheet Analysis, simple financial ratios for profitability, ratios that are seen by banks for financing, need to be covered.
- h. Financial Management: The training also should cover management of the finances like maintenance of books of account, Management Information System, share capital, borrowings, savings, loans, cash flow, funds flow, receivables management, payables management, investments etc.
- i. Monitoring: The BOD module should have various aspects of monitoring to ensure that the business goals are achieved and the business is carried out in a professional manner.