

# JAGRITI

# 1

## FARMER PRODUCERS ORGANIZATION INTRODUCTION & RATIONALE



# Cooperative Principles

Voluntary and Open Membership



Democratic Member Control



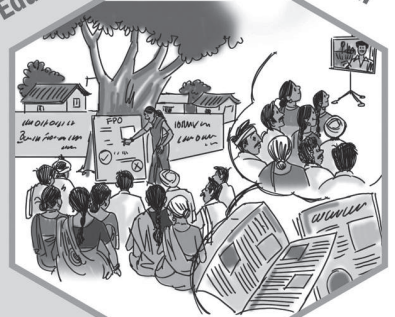
Member Economic Participation



Autonomy and Independence



Education, Training and Information



Cooperation among Cooperatives



Concern for Community



# 1

## Jagriti

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### FARMER PRODUCERS ORGANIZATION - INTRODUCTION & RATIONALE

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Learning module for Board members of FPOs



# Jagriti

## FARMER PRODUCERS ORGANIZATION - INTRODUCTION & RATIONALE

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### Publication by

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## **Why Self-Learning Module Kit for FPO Board of Directors?**

Though Indian farmers are facing a number of challenges, agriculture sector has achieved significant momentum in the past decade. Mobilizing farmers into their collectives, as Farmer Producer Organizations (FPOs), has emerged as the most preferred institutional mechanism for farmer prosperity by policy makers & practitioners. FPO is the lynchpin strategy for Doubling Farmers' Income in India over the next five years. Almost 5,000 FPOs have been promoted by different agencies in India and many more FPOs are being formed. Telugu States of Andhra Pradesh & Telangana have around 700 FPOs. The FPO movement is still at a nascent stage with FPO Board of Directors being dependent on their promoters as their own vision, business orientation & capacities being limited as very limited training provided to them. FPOs continue to face the challenge of not able to have a strong, well-trained and committed CEO. FPOs face several other challenges such as good governance, management of business, effective systems, access to finance & markets and government schemes. The ability to influence the agri-value chain development in a significant manner remains far-fetched for the FPOs.

Building the capacities and capabilities of the Board of Directors of FPOs is fundamental & a prerequisite to the success of the FPOs and their ability to emerge as business organizations providing a range of need-based services to member-farmers to increase their profits from agriculture. Continuous training and mentoring of the FPO Board of Directors, staff and wider membership is the top most priority for APMAS, through its FPO incubation centre, as we have been engaged in promoting a large number of FPOs and in mentoring FPOs promoted by others to engage in appropriate agriculture value-chain development initiatives.

Having reviewed existing training manuals and modules on FPOs, we found a major gap of not having high-quality, practical and user-friendly self-learning modules for FPO Board of Directors. Building on our tremendous experience of developing self-learning modules on self-regulation of SHG institutions and 18 years of experience in institution building trainings, APMAS team led by Mr. Madhu Murthy & Mrs. Ramalakshmi, worked for more than a year in collaboration with resource organizations, partner NGOs, training

institutions and FPO representatives to develop a series of 12 easy-to-use self-learning modules kit (booklets) for FPO Board of Directors covering Need & Importance of FPO, Institutional Design, Membership, Leadership & Governance, Management, Registration & Legal Compliance, Business Planning, Productivity Enhancement, Collective Marketing (input & output), managing Farm Service Centre, Accounting & Financial Management.

FPOs being democratic autonomous business entities in perpetuity, there will always be need for capacity building of the FPO Board of Directors and Office Bearers as there will be period election and change of Board of Directors. We are certain that these easy-to-use self-learning module kits will be of immense use for the FPOs to become viable organizations serving their membership. FPO promoters have to systematically support FPO BoDs to learn from these self-learning module kits. The PFO promoters and other Stakeholders will also be able to use FPO BoD Self-Learning Module Kit to effectively mentor and work towards FPOs becoming self-managed and viable business organizations. While APMAS has taken responsibility for producing these self-learning module kits in Telugu & English, based on the demand, these modules can be appropriately adapted into other Indian languages by Resource Organizations, State Governments, NABARD and training agencies. APMAS will surely support such an endeavour. Very much look forward to feedback!

Best

**CS Reddy**

CEO of APMAS

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## About the Learning Manual

### BOD LEARNING MODULE

#### 1. Jagriti - FPOs: Introduction & Rationale

2. Parikalpana - Institutional Structure & Design of FPOs
3. Vinimaya - Membership in FPOs
4. Prerana - Governance in FPOs
5. Samarthana - Management of FPOs
6. Sudharma - Legal Compliances of FPOs
7. Business Plan
8. Accounting & Finance
9. Post Harvest, Supply Chain Management
10. Marketing
11. Farm Productivity Enhancement Services
12. Leadership

This Module – FPOs: Introduction and Rationale” - is the first one in the series of self-learning modules for BoD members of FPOs. As this is the first Module, it lays the foundation for learning about the effective running of FPOs.

#### Purpose

The purpose of this module is to enable the BoD members of FPOs equip with necessary understanding and orientation so that they can play their role effectively and lead their FPOs into vibrant entities benefiting their members.

**Target group:** This module is aimed for Members of the Board of Directors of Farmers Producer Organisations. Members of the BoDs shall have at least one year of experience in governing their FPO.

#### Learning Objectives

Following are the key learning objectives of this introductory Module on FPOs

- To understand the need for collective action and meaning and key features of FPO
- To get an understanding on need for registration and different legal forms for registration
- To get sensitized about the values and principles of cooperation/ Mutual Assistance Principles for FPOs



## Structure and Contents

The Module starts with constraints in farming, need for collective action to overcome the constraints, the appropriate institutional form for collective action i.e. FPOs. Then it deals with the meaning and key features of FPOs. This Module also deals with the most important aspect i.e. Values and Principles of Cooperation that FPOs have to adopt.

## How to Use

The BoD members can use these modules on their own or they can also have an external resource persons to facilitate the learning from these modules. Along with this module, there are posters related to this module which the BoD members can display at relevant places for learning.

We wish you enjoy the learning from this module and govern your FPO in more effective and efficient manner

## Glossary / Acronyms

**Articles of Association (AoA)**

: Just like the Byelaws for a cooperative society, Articles of Association (AoA) are for a Producer Company. AoA specifies the regulations for a company's operations and defines the company's purpose and ways and means of achieving the purpose.

The Board has to get the AoA prepared and they have to be approved by the Registrar of Companies. Any amendment to the AoA can be made by the General Body only and has to be approved by the Registrar of Companies.

**Active Member**

: A member who fulfils the member responsibility criteria of the FPO as may be required by the Articles/Byelaws.

**Board/ Board of Directors (BoD)**

: Board is the governing body of the FPO to take the policy decisions and ensure that the FPO works for it's members. The Board of a FPO is constituted by representatives elected by the General Body (GB) i.e. members of the FPO.

**Byelaws**

: Byelaws are the set of regulations to enable the functioning of a cooperative society. Each cooperative society has their own Byelaws and all affairs of the cooperative society have to be taken place under the purview of it's byelaws.

The Board has to get the byelaws prepared and they have to be approved by the Registrar of Cooperatives. Any amendment to the byelaws can be made by the General Body only and has to be approved by the Registrar of Cooperatives.

- Body Corporate** : A Body Corporate is a formal, recognized entity which is entitled to acquire, hold and dispose of property, to enter into contracts, to sue and be sued and to do all other things necessary to achieve its objectives. An FPO, upon registration, will become a Body Corporate.
- Cooperative Society** : An FPO registered under a Cooperative Act (for e.g. Andhra Pradesh Mutually Aided Cooperative Societies Act, 1995) is called a Cooperative Society.
- Equity** : The total own funds including assets of an FPO is considered as Equity. It is evident that for good financial health of the FPO, high equity has to be maintained.
- FPO (Farmer Producers Organization)** : A Farmer Producers Organization (FPO) is a registered organization owned and controlled by their farmer members. The purpose of FPO is to meet the common needs of it's members by providing required services to them. FPOs are engaged in different activities in Agriculture and allied sectors. As FPOs are formal organizations, they need to have their office/ infrastructure, staff, systems and governed by the Board of Directors.
- General Body** : All the members of an FPO is termed as General Body of that FPO. General Body is the supreme authority in an FPO.
- GST** : Goods & Services Tax (GST) is the comprehensive tax on goods and services that is brought out uniformly in India.

**Limited return** : “Limited return” means the maximum dividend as may be specified by the articles of a Producer Company.

Dividend / interest should be less or equal to interest rates offered by nationalised banks on one year fixed deposits.

**Multi State Cooperative Societies Act 2002** : The Act facilitate cooperative not confined to one State and serving the interests of members in more than one State, to facilitate the voluntary formation and democratic functioning of co-operatives as people’s institutions based on self-help and mutual aid and to enable them to promote their economic and social betterment and to provide functional autonomy.

This Act is regulated by Ministry of Agriculture & Farmers Welfare, Govt. of India.

**Mutual Assistance Principles (MAPs)** : The principles set out in Sub-section (2) of Section 581G of the Companies Act, 2013 and to be adopted by a Producer Company through their Articles of Association.

**NGO (Non Government Organization)** : An NGO is a voluntary Development Organization engaged in formation, strengthening and sustaining of FPOs.

**PAN** : Permanent Account Number (PAN) is the unique number issued by the Income Tax Department to individuals and registered organizations to regulate the income tax.

**Producer Company** : An FPO registered under Companies Act 2013 is called a Producer Company. Producer Company means a body corporate having objects or activities specified in section 581B and registered as Producer Company under Companies Act 2013.

**Patronage** : The use of services offered by the FPO to its Members by participation in its business activities.



**Baseline**

As given in the earlier section of “About the Learning Module”, this module deals with topic “FPOs-Introduction and Rationale”.

Given below are some basic questions for us on this topic. Let’s answer our self these questions. The purpose of this baseline is to assess our present understanding on these questions and thus get into learning more about “FPOs-Introduction and Rationale”.

1. What is the need for collective action by farmers?

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.....

2. What is a Farmer Producers Organization (FPO)?

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.....

3. An FPO is owned by whom?

.....  
.....

4. What is the meaning of byelaws?

.....  
.....



# 1

## FARMING SITUATION & NEED FOR COLLECTIVE ACTION

### Session Objective



To appreciate the need and benefits of collective action

### Content items

1. Farming constraints and need for collective action
2. Activities at collective level
3. Institutional form for collectivization

Shyam is a small farmer in Narsapur village. He owns 2 acres of land and one buffalo. He has two school going children. Both Shyam and his wife Lakshmi are farmers and also work as wage labourers in others farms. As there is no irrigation facility for Shyam's land, they have been dependent on rainfed farming. With suggestion from one of the seed suppliers, last Kharif season Shyam has opted for Redgram, of the high yield variety by paying higher cost.

But hardly there was 50% of seed germination. Also in view of his own inadequate awareness and influence of fellow farmers, Shyam applied high dosage of chemical fertilizers which lead to high expenditure. In view



of lack of access to machinery and workload on others farms, they could not take up timely weeding resulting in yield loss. Adding to the woes, when he tried to market his produce, there was a price fall in view of glut in the market. Shyam is now in a dilemma for the upcoming Kharif season.

Are we also facing similar constraints in farming? What can we do about it?

Let us see how Shyam is trying to overcome his farming constraints.



One day Vikasa, an NGO came to the village and initiated discussions with farmers about existing farming situation and constraints faced by them. Representatives from Vikasa NGO conducted the promotional meetings with the potential farmers. Ramaiah is one of Shyam's friends. He requested Shyam to attend a promotional meeting along with him. Shyam also attended the meeting. Let us see the kind of discussions that happened during the meeting.

Around 55 farmers from Narsapur village and nearby hamlets gathered at the Gram Panchayat office. Smt. Saraswati, a representative of the Vikasa NGO and a well-known development worker in the area, welcomed all the farmers. After the introductions, Saraswati started saying that “We as a farmer work in our farms day and night for feeding our family and also feed others. Even though we do not have enough food for ourselves, we take care of the crop. We always do everything carefully when it comes to our crop. The farming we are doing is not only a source of livelihood for our family. It is also the main source of food, fodder and fuel. Farming is the backbone of our country. Hence we are one of the most important people in this world”.

Later Smt. Saraswati said, though we are slowly moving towards building resilience against merely depending on rainfall for a successful harvest, we

are still facing many constraints. She asked them to list the constraints faced in farming by in our village/block and also asked farmers to enlist three key successful/ well done instances of farming in the village/block:

<b>Farming constraints in our area</b>	<b>Successful instances of farming in our area</b>
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From the discussion, it is evident that individual farmers are beset with many constraints in farming. However, there are also few success stories and opportunities to address such constraints.

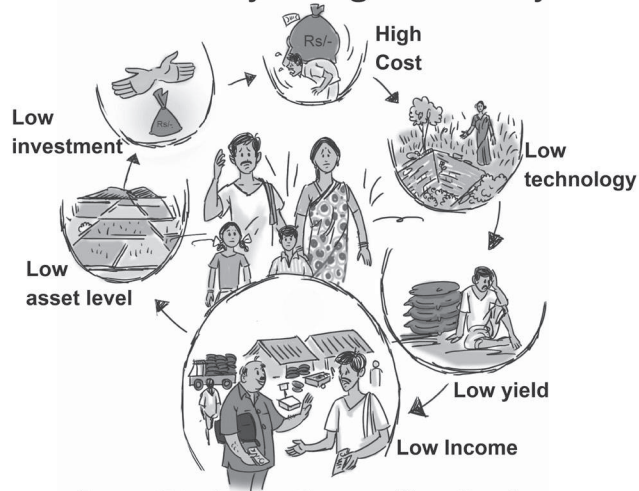
Then Smt. Saraswati asked: “Is it possible to overcome the farming constraints by acting at individual farmer level itself?” Almost all farmers at once said “No, not possible” for this. Thus Smt. Saraswati conveyed to the farmers the need for collective action by them to overcome the farming constraints by showing the following poster.



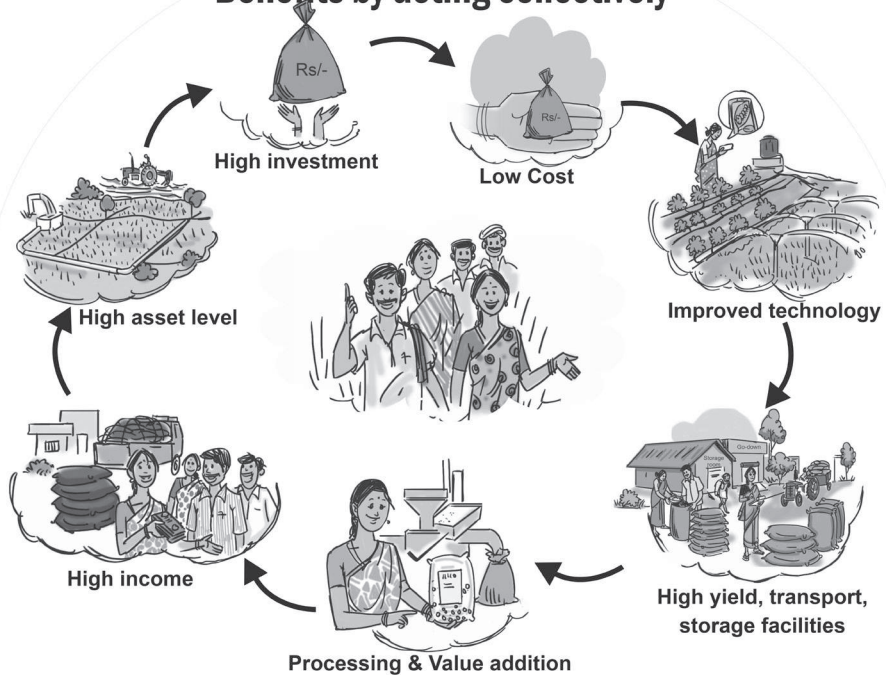


# Situation of farmer Individually and Collectively

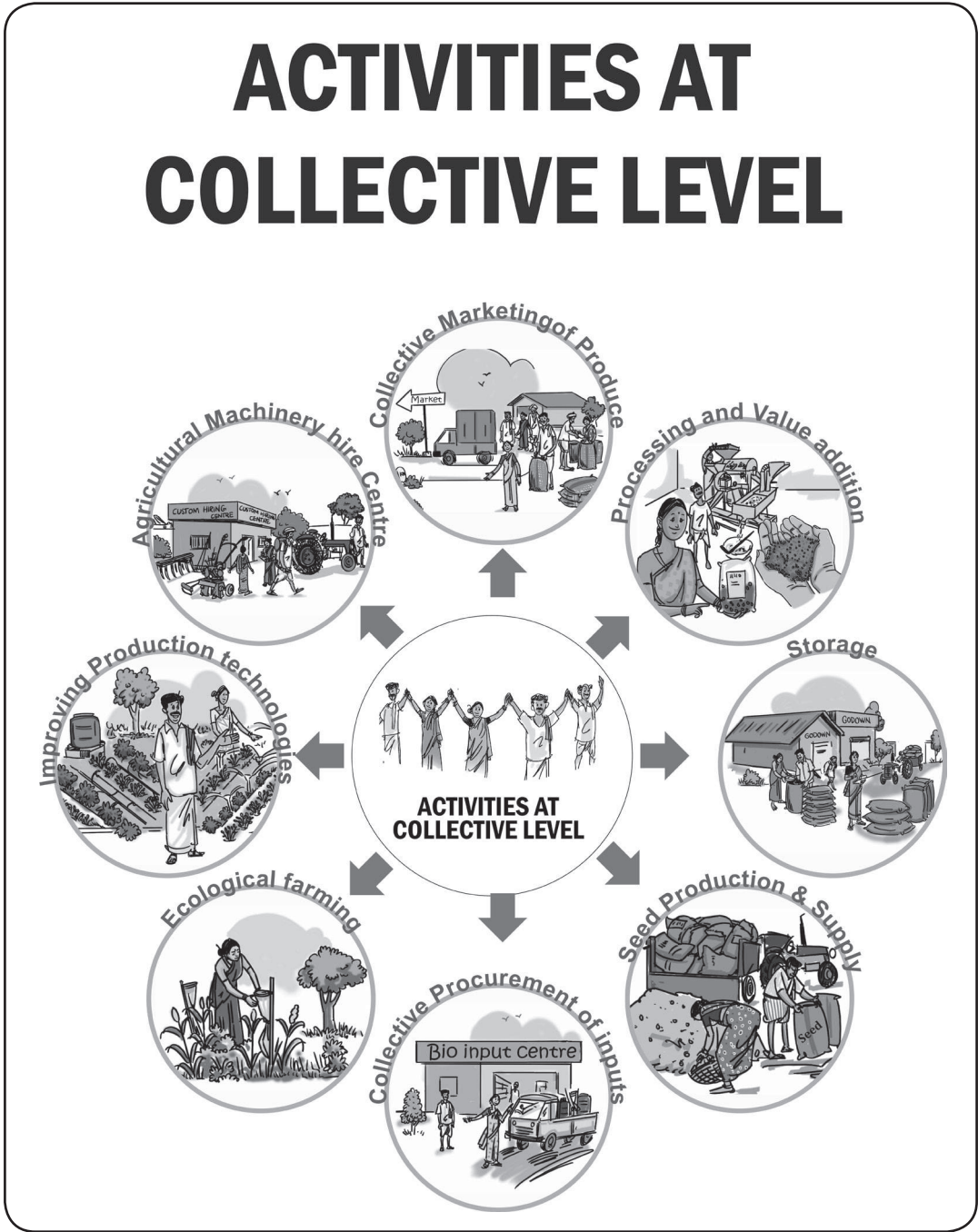
## Constraints by acting individually



## Benefits by acting collectively



From the discussion, farmers ascertained that following kinds of activities can be taken up at collective level.



Then Smt. Saraswati requested farmers to list the benefits, those can be availed through taking up of activities collectively.

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Our collective will help us in getting access to more services at a lower cost, bringing down the input costs, better bargaining power and magnifies our voices as collective voice.

### **Farmer Producers Organization (FPO) – the institutional form of collective action**

Sudarshan, a farmer keenly listening in the meeting asked, what is the way/arrangement to take up the collective action?

Mrs. Saraswati replied with bright face: “it’s a very important and good question”.

To take up different activities at collective level as listed before, you need to have a formal, legal entity. A Farmer Producers Organization (FPO) is the very appropriate and effective entity for collective action.

Mrs. Saraswati went on saying, “Farmer Producers Organization (FPO) is your own organization – owned, controlled and managed by their member farmers themselves. FPOs can offer a variety of services – starting from seed till harvest, to their member farmers. FPOs should be based on cooperative principles and business approach. The focus of FPOs is on provision of quality inputs, access to improved production technologies, processing, marketing

etc so as to enhance the welfare of their member farmers.”

At the end Mrs. Saraswati asked farmers, what they have decided? Do they want to establish their FPO or not?

Out of 55 farmers, around 30 farmers agreed to form into FPO and the remaining farmers mentioned that they need some time to make up their mind. Later Mrs. Saraswati, suggested that the farmers who are willing to form FPO, will meet again to discuss on what is a FPO, key features of FPO and membership in the FPOs. Meeting ended with vote of thanks by Mrs. Saraswati.

The excited farmers came forward to the FPO and motivate other farmers join as members in the FPO. With support of Vikasa, they organized habitation wise awareness meetings and distributed the following pamphlets to farmers.

Motivated by fellow farmers, Shyam also joined the FPO.

## ***An appeal to farmer brothers & sisters for promotion of Farmer Producers Organization (FPO)***

### **Background**

It is commonly known that farmers are beset with many inherent constraints at each level of farming. These constraints include inadequate access to improved technology, processing & value addition and storage facilities, steep increase in cost of cultivation, no remunerative price, youth not preferring to get into farming etc. These constraints results in consistently low productivity, reduced income and low share in the consumer value for the producers.

On the other hand, there has been raising demand for all food and farm products with steeply raising prices at consumer level. Demand for high quality, safe products etc. has been on steep hike.

To effectively address such constraints in farming and tap opportunities, many activities have to be taken up by farmers at collective level.

### **Farmers Producer Organizations (FPOs)**

In the above background, there is need to promote Farmers Producer Organizations (FPOs). FPOs are the very effective institutional form for the collectivization of farmers. FPOs help in taking up of different activities like processing, value addition, storage, marketing, finance, input supply, seed production etc. collectively on their own.

FPOs are autonomous enterprises in which only farmer producers in your area can be members. Thus, FPOs are owned and controlled by farmer members only who came voluntarily as members of the FPO.

FPOs are legally registered with the government.

### **Benefits of FPOs to farmers**

- Procurement service of produce of farmers
- Competitive price for produce
- Reduction of marketing expenditure
- Dividend and bonus
- Reduction of expenditure on inputs
- Improved availability of quality seed and organic inputs
- Access to storage, processing facilities and agricultural machinery of the FPO
- Access to production technology and trainings through FPO

After joining a member in the FPO, you need to regularly attend the General Body meeting of the FPO (to be held once in 6 months), any trainings/ awareness meetings and do at least the minimum transaction with the FPO (as set in their bylaws) every year.

### **Way forward**

Farmer brothers & sisters, in view of the above, come and join as members in your FPO by paying the share capital and membership fee. Take part actively in the affairs of FPO, take control over your farming and thus make your farming very remunerative for your households.

# 2

## FARMER PRODUCERS ORGANIZATIONS MEANING, VALUES & PRINCIPLES

### Session Objective



To get an understanding on the meaning and key features of FPO

### Content items

1. Meaning of FPO
2. Values and Principles

Vikasa NGO organised an orientation program for few interested promoter farmers of all villages in the Block headquarters. Ramaiah and Sudarshan from Narsapur also attended the orientation program. Even if they still have some dilemma, they are excited to see other promoter farmers from many other villages and eager to listen to the proceedings of the program.

The facilitators from Vikasa initiated the discussions on the aspects came up in village level awareness meetings – farming constraints and opportunities, need for collective action to overcome the constraints and FPO as a formal entity to take up different activities collectively. They then deliberated the meaning and key features of FPOs. The facilitators used the case of Bhoomatha FPO that they promoted in another Block of the same district for discussion.

### Bhoomatha Farmer Producers Organization

Bhoomatha FPO is registered nine months ago with it's registered office in Block headquarters. About 500 farmers, mostly small& marginal, joined as

members in the FPO by paying the share capital of Rs.1000 each. Thus, the ownership of the FPO is with this 500 members. Of 500 members, an overwhelming 400 members participated in their first General Meeting, actively elected their Board of Directors in a democratic manner, ratified the byelaws and set the plan for next one year. In the plan, the services of supply of quality seed to members and collective marketing of produce of members are prioritized as they are the most pressing needs of almost all members.

They were required set up in their office – books for accounting& bookkeeping, a computer, telephone and some furniture. The FPO also recruited a Manager to run their operations. The FPO also took Permanent Account Number (PAN) card for income tax and Goods and Services Tax (GST) number for commercial taxes on their name.

### **Farmer Producers Organization (FPO) – Meaning**

After presenting the above case, Vikasa NGO Representative asked the farmers that “what do you think is the purpose of the Bhoomatha FPO”?

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From the above case, it can be understood that a Farmer Producers Organization (FPO) is a formal, registered organization owned, controlled and managed by their members. The purpose of FPO is to meet the common needs of it’s members.

After receiving answers from farmers, the Representative summarized the meaning of FPO as follows.

A Farmer Producers Organisation is an autonomous association of producers united voluntarily to meet their common economic needs through a jointly owned and democratically controlled enterprise. FPOs serve common interests of members for mutual benefit.



He also mentioned that, in summary, the uniqueness of our FPO is

- **Members** are **Owners**
- **Members** are **Users**
- **Users** are **Controllers**
- **Users** are **Benefiters**

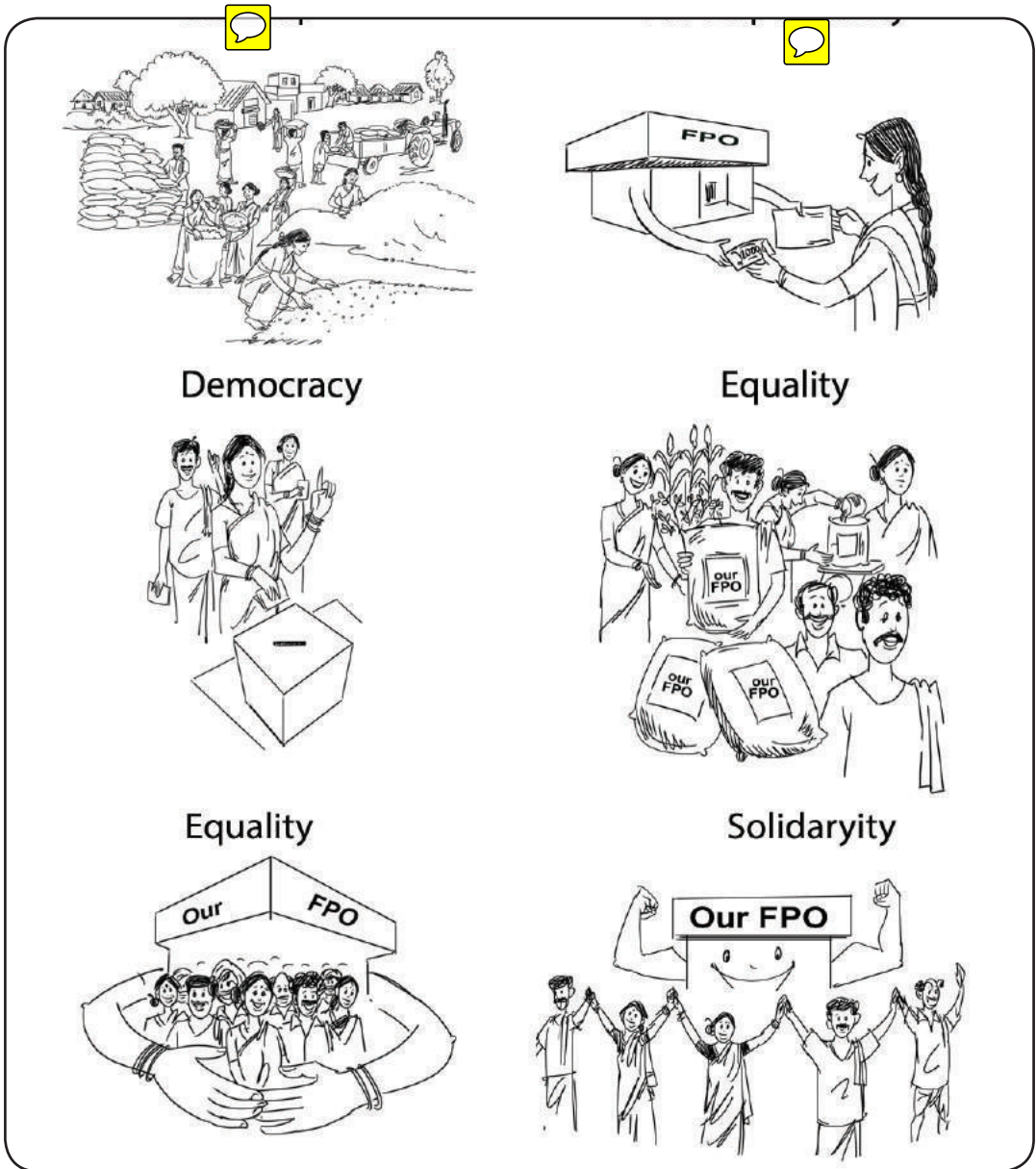
## Values and Principles of FPOs

The training of FPO promoters, in which Ramaiah and Sudarshan are present, is continuing! This is a very important session, in which Cooperative Values and Cooperative Principles are dealt with. Now, given the FPO is formed, they need to adhere by Cooperative Values and Cooperative Principles. Now, shall we get into the details of Cooperative Values and Cooperative Principles?

### Cooperative Values

The following are the values that have to be inculcated by any FPO.

Figure: Cooperative Values



### **Self-help**

We as members, shall join together and try to make a difference at our family, our village, our block and even at our local community level.

### **Self-responsibility**

Our FPO expects that its members must fulfil minimum responsibilities as stipulated in its bye-laws and business rules. For making our FPO successful we need to fulfil that responsibility by supporting its activities and use its services. We should also encourage other members to support it too.

### **Democracy**

Usually in any business organisation, voting power is based on the investment. But in our FPO, all members are equal. Voting power cannot be bought. It is one member, one vote.

### **Equality**

In our FPO all members have an equal opportunity to get involved, like campaigning for fair trade.

### **Equity**

Our FPO should commit to fairness in all aspects. We will put in resources necessary for running the organization, in cash or kind.

### **Solidarity**

Together we're stronger, so we join together to help our FPO become stronger.

Value	Demonstrating Yes / No / Don't know	What are the practices you can identify
Self-help		
Self-responsibility		
Democracy		
Equality		
Equity		
Solidarity		

### Cooperative Principles

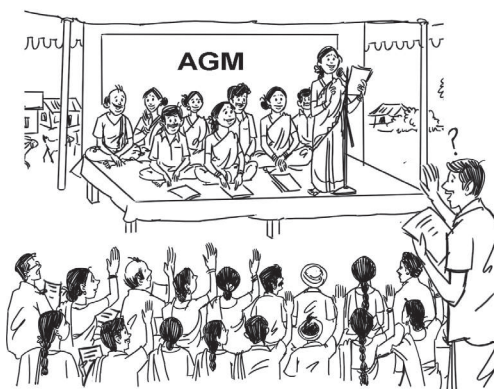
FPOs, whether a Co-operative or a Company, need to adhere to certain Cooperative Principles, which are well laid down and adopted all over the world. Many Cooperative Acts also stipulates that Cooperatives have to be guided by the Cooperative Principles. These Principles are depicted below.

**Figure 4 Cooperative Principles****Principle 1: Voluntary and Open Membership**

Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

**Principle 2: Democratic Member Control**

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Board is accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.



**Principle 3: Member Economic Participation**

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.



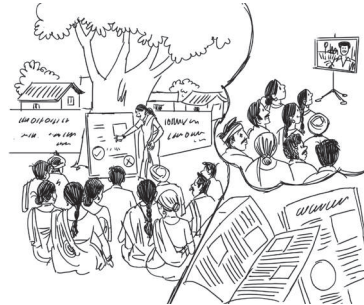
**Principle 4: Autonomy and Independence**

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.



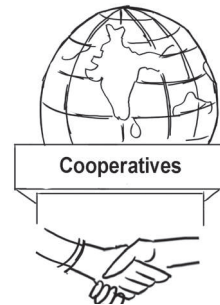
**Principle 5: Education, Training and Information**

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their enterprise.



**Principle 6: Cooperation among Cooperatives**

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.



**Principle 7: Concern for Community**

Cooperatives work for the sustainable development of their communities through policies approved by their members.



The elaboration of the Cooperative Principles is given in Annexure. Now, having seen the meaning of Cooperative Principles, we need to ensure that these Principles have to be put in practice in our FPOs. The following table depicts the ways and means of putting the Cooperative Principles in practice. It also gives a checklist to assess to what extent the Cooperative Principles are being practiced.

**Table 1 Practice of Cooperative Principles in FPOs**

#	Cooperative Principle	Practices	Checklist for practices
<b>1</b>	<b>Voluntary and Open Membership</b>		
	Membership norms	<ul style="list-style-type: none"> <li>- Eligibility criteria for membership</li> <li>- Procedure for membership</li> <li>- Member exit procedure</li> </ul>	<ul style="list-style-type: none"> <li>i. Bye-laws &amp; Business rules</li> <li>ii. Application, Membership Register, Receipt &amp; Ledger book, share certificate</li> <li>iii. Withdrawal register &amp; application</li> </ul>
	Use of services	<ul style="list-style-type: none"> <li>- Services offered by FPO</li> <li>- Use of services</li> </ul>	<ul style="list-style-type: none"> <li>i. Business registers for each service</li> <li>ii. Member passbook and ledgers (service wise)</li> </ul>



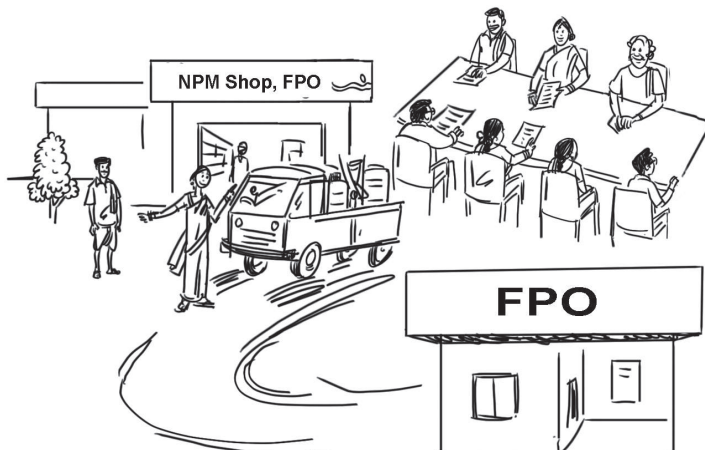
	Adherent to membership responsibilities	<ul style="list-style-type: none"> <li>- Fixation of minimum business transactions from the member/ Member continuation criteria</li> <li>- Attendance in GB meetings</li> <li>- Criteria for members eligible to Vote</li> <li>- Criteria for content in elections</li> <li>- Default details of the members: Payment of share capital, Membership fee, Service fee, Member contribution, Savings, Loans</li> </ul>	<ul style="list-style-type: none"> <li>i. Bye-laws &amp; Business Rules</li> <li>ii. Annual General Body Meeting minutes book</li> <li>iii. Voters list</li> <li>iv. Member ledger/ cash book</li> </ul>
<b>2</b>	<b>Democratic Member Control</b>		
	Democratic organisation	<ul style="list-style-type: none"> <li>- Composition of Board – only from members</li> <li>- Term of Board</li> <li>- Election process</li> <li>- Representation – Geographical, category, gender etc</li> <li>- If it is Federation representation based the size, geographical coverage, gender etc.</li> </ul>	<ul style="list-style-type: none"> <li>i. Bye-laws &amp; Business Rules</li> <li>ii. Policies &amp; procedures</li> <li>iii. AGM minutes book</li> </ul>

	Elected representatives accountable to members	<ul style="list-style-type: none"> <li>- Transparency in operations</li> <li>- Member feedback &amp; grievance redressal system</li> <li>- Regular elections</li> <li>- BoD member eligibility and continuation criteria</li> <li>- Recall, dismissal of elected Representatives</li> <li>- Internal controls</li> </ul>	<ul style="list-style-type: none"> <li>i. Updated standard accounting in practice</li> <li>ii. AGM and EGM minutes book</li> <li>iii. Audit reports</li> <li>iv. Action taken report on Audits</li> <li>v. Annual report with all details</li> <li>vi. Board performance report</li> </ul>
<b>3 Member Economic Participation</b>			
	Own fund of the FPO	Member's contribution to FPO <ul style="list-style-type: none"> <li>- Share capital</li> <li>- Savings</li> <li>- Member contribution</li> <li>- Member deposits</li> </ul>	<ul style="list-style-type: none"> <li>i. General ledger &amp; Financial Statements</li> </ul>
	Democratic control of capital	General Body taking decision during AGM on: <ul style="list-style-type: none"> <li>- Interest on share capital</li> <li>- Patronage rebate</li> <li>- Creation of / allocation to reserves</li> <li>- Deficit management</li> </ul>	<ul style="list-style-type: none"> <li>i. General ledger</li> <li>ii. Member ledgers</li> <li>iii. AGM minutes</li> </ul>

<b>4 Autonomy and Independence</b>			
	Decision making process	<ul style="list-style-type: none"> <li>- Ultimate decision making by the Board</li> <li>- Board should discuss about terms and conditions of Agreements before signing</li> <li>- Ensuring no control of other organisations in Agreements – especially deputing staff, directly paying salaries to staff, funding in the form of loans or grants for capacity building not for operations, clear roles &amp; responsibilities of two parties</li> </ul>	i. General ledger & Financial Statements
	Self-Reliance	<ul style="list-style-type: none"> <li>- Generating income from operations to meet operational &amp; financial expenditures</li> <li>- Creating local Resource pool – best practitioners, youth, (Community Resource Persons (CRPs) etc</li> <li>- Membership in higher level institutions and Networks –no control over governance of the FPO</li> </ul>	<ul style="list-style-type: none"> <li>i. Operational self-sufficiency</li> <li>ii. Financial self-sufficiency</li> <li>iii. Policies related to fund mobilisation, governance</li> <li>iv. Trainings reports</li> <li>v. CRP Register</li> </ul>

<b>5 Education, Training and Information</b>			
	Member Education	<ul style="list-style-type: none"> <li>- Creating members awareness</li> <li>- Best member awards</li> <li>- Information to members</li> <li>- Organising trainings, exposures</li> <li>- Use of Information and Communication Technology (ICT)</li> <li>- Technology demonstrations, FFS</li> </ul>	<ul style="list-style-type: none"> <li>i. Pamphlets, posters, videos etc</li> <li>ii. Allocation of funds for trainings</li> <li>iii. Training reports</li> <li>iv. Notice Board display</li> <li>v. Agreements with Technical Agencies</li> </ul>
<b>6 Co-operation among co-operatives</b>			
	Relation with Federation	<ul style="list-style-type: none"> <li>- Suitable services mobilising and utilisation from Federation</li> <li>- Sharing information with Federation</li> <li>- Participating in Federation meetings</li> <li>- Fulfilment of membership responsibility in Federation</li> </ul>	Membership in Federation review in Board meetings & Annual General Body Meeting
	Relation with other FPOs – Experience sharing & learning	<ul style="list-style-type: none"> <li>- Visiting other FPOs, sharing &amp; learning from them</li> <li>- Taking up joint business activities and trade with other FPOs</li> <li>- Taking services of other agencies jointly with other FPOs</li> <li>- Working with other FPOs on any advocacy matters</li> </ul>	<ul style="list-style-type: none"> <li>i. Exposure visits for Board/staff</li> <li>ii. Agreements with other FPOs</li> </ul>

7 Concern for Community			
	<p>Providing services to local community</p>	<ul style="list-style-type: none"> <li>- Allocate funds for socio-economic development activities for the community members</li> <li>- Policies on creating local jobs</li> <li>- Providing services at affordable price after making cost benefit analysis</li> <li>- Accessing development schemes for the community</li> <li>- Review impact of services on sustainable development of local &amp; natural resources, environment etc.</li> </ul>	<ul style="list-style-type: none"> <li>i. Pamphlets, posters, videos etc</li> <li>ii. Allocation of funds for trainings</li> <li>iii. Training reports</li> <li>iv. Notice Board display</li> <li>v. Agreements with Technical Agencies</li> </ul>



## Mutual Assistance Principles

Producer Companies are to be guided by Mutual Assistance Principles (MAPs) as spelled out in Sub-section (2) of Section 581G of the Companies Act, 2013. The Act specifies that these principles should be part of the Articles of the Producer Company. As we see, these Mutual Assistance Principles are almost in similar line with Cooperative Principles discussed above. These principles are elaborated in the following table.

**Table: Mutual Assistance Principles**

<b>Principle 1</b>	<b>Voluntary Membership</b>
The membership shall be voluntary and available, to all eligible persons who, can participate or avail of the facilities or services of the Producer Company, and are willing to accept the duties of membership.	
<b>Principle 2</b>	<b>Democratic Member Control</b>
Producer Companies are democratic organisations controlled by their members, who actively participate in voting and decision making. In primary enterprises, each member have only single vote (one member, one vote) irrespective of the shareholding.	
<b>Principle 3</b>	<b>Governance by elected Board</b>
The Producer Company shall be administered by a Board consisting of persons elected as directors and the Board shall be accountable to the Members.	
<b>Principle 4</b>	<b>Limited Return</b>
There shall be limited return (maximum dividend as specified in the Articles) on share capital to members.	

**Principle 5 Member Economic Participation**

The surplus arising out of the operations of the Producer Company shall be distributed in an equitable manner by : - (i) providing for the development of the business of the Producer.

Company ;

(ii) providing for common facilities ; and

(iii) distributing amongst the Members, as may be admissible in proportion to their respective participation in the business.

**Principle 6 Education, Training and Information**

In Producer Company, provision shall be made for education of Members, employees and others, on the principles of mutuality and techniques of mutual assistance.

**Principle 7 Cooperation among Producer Organisations**

The Producer Company shall actively co-operate with other Producer Companies (and other organisations following similar principles) at local, national or international level so as to best serve the interest of their Members and the communities it purports to serve.

## Exercise

Given below are some illustrations for each of the above principle in FPOs. Let's answer whether each illustration followed or not followed that principle. Also let's give explanation (for compliance or defiance).

### Principle 1: Voluntary Membership

In a dairy cooperative, all members are women.

**Answer:**                      Followed      Not followed

**Explanation:** \_\_\_\_\_

\_\_\_\_\_

The Board members of an FPO takes up membership campaigns using different communication material and enrol eligible, potential farmers in the operational area as members in their FPO.

**Answer:**                      Followed      Not followed

**Explanation:** \_\_\_\_\_

\_\_\_\_\_

In another FPO, farmers were enrolled as members without properly educating on patronizing services of FPO and duties of membership. This led to many members becoming inactive in the FPO.

**Answer:**                      Followed      Not followed

**Explanation:** \_\_\_\_\_

\_\_\_\_\_

### Principle 2: Democratic Member Control

In a cooperative, half of the members contributed double to the share capital than that of other half of members. Thus, those members demanded that they should have voting rights double than that of other members.

**Answer:**                      Followed      Not followed

**Explanation:** \_\_\_\_\_





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In the above cooperative, the first half of members also use the services of the cooperative two times of the use by remaining half members. Thus, in this case also, they demanded that they should have double voting power.

**Answer:**                      Followed      Not followed

**Explanation:** \_\_\_\_\_

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**Principle 3: Governance by elected Board**

In an FPO, general body meeting is convened in which members much more than quorum are present, all members attending the meeting actively take part in voting and elect their Board members.

**Answer:**                      Followed      Not followed

**Explanation:** \_\_\_\_\_

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In the above FPO, the Board goes by the decisions of the General Body and regularly submit the annual reports with all necessary information to members.

**Answer:**                      Followed      Not followed

**Explanation:** \_\_\_\_\_

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In another FPO, mostly the promoting organization nominates the members to the Board and influences that ineligible, powerful members come on to the Board.

**Answer:**                      Followed      Not followed

**Explanation:** \_\_\_\_\_

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**Principle 4: Limited Return**

In an FPO, the Board passes on the entire profit as dividend (in more amount than specified in their byelaws) to their members even without allotting to required reserves of the FPO.

**Answer:**                      Followed          Not followed

**Explanation:** \_\_\_\_\_

**Principle 5: Member Economic Participation**

In an FPO, the Board decides to distribute surplus to members only after making all allocations like development of the FPO, reserves etc and ensuring that they are left with sufficient surplus to distribute.

**Answer:**                      Followed          Not followed

**Explanation:** \_\_\_\_\_

In a cooperative, the Board decided to distribute the surplus equally to all their members even though the use of the services by members varied among members.

**Answer:**                      Followed          Not followed

**Explanation:** \_\_\_\_\_

In another FPO, part of the profit is shared among the members in proportion to the business/ transaction they did with the FPO.

**Answer:**                      Followed          Not followed

**Explanation:** \_\_\_\_\_



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**Principle 6: Education, Training and Information**

In an FPO, no adequate training was given to BoD members, members and staff on Mutual Assistance Principles and mutuality. This led to issues like no accountability by the Board, no member patronage etc.

**Answer:**                      Followed          Not followed

**Explanation:** \_\_\_\_\_

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**Principle 7: Cooperation among Producer Organisations**

An FPO is offering the service of procurement of produce from their members. Another FPO in nearby area is not able to take up procurement in view of lack of infrastructure and finance. After ensuring procurement from their members, the first FPO came forward to extend the support of procurement of produce from second FPO and the members of second FPO also got benefited.

**Answer:**                      Followed          Not followed

**Explanation:** \_\_\_\_\_

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Exercise: Please discuss and come out to what extent your FPO adhere to the Principles stated above?

# FARMER PRODUCER ORGANIZATIONS KEY FEATURES

## Session Objective



To get sensitized about the key features of FPOs

## Content items

1. Key features of FPOs

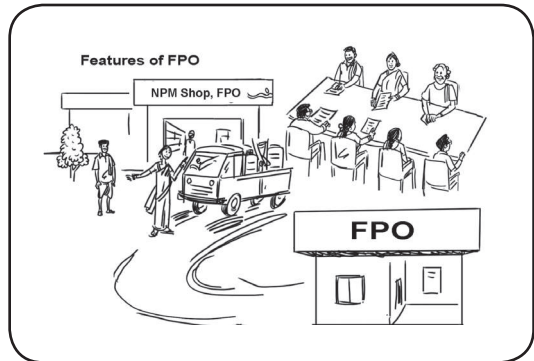
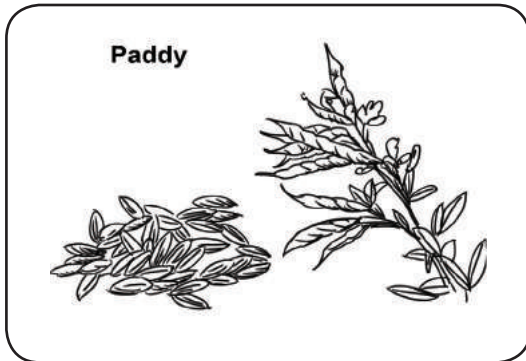
### Key features of FPOs

Whenever we recognize something, we use some conditions. For example, when we call these roundish seeds, soybean, we ascribe some characteristics to it. But if the seeds become long, we do not call them soybean any more, we know then as Paddy. So, for us to recognize some grains as Paddy, it must have some characteristics, such as long seeds. Similarly, to recognize an FPO, there are certain characteristics.

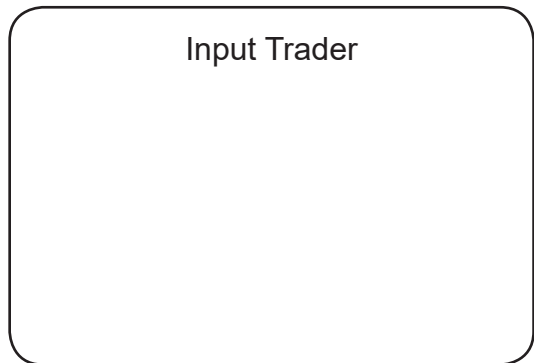


Paddy



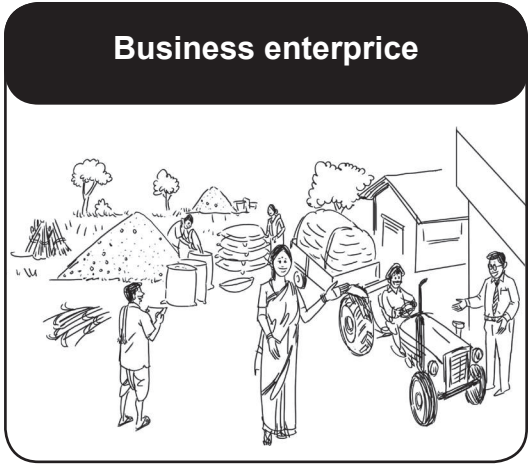


For e.g. if an FPO is into the service of input supply to their members, how can it be different from a private input trader with an input shop? What do you think are characteristics that an FPO must have.



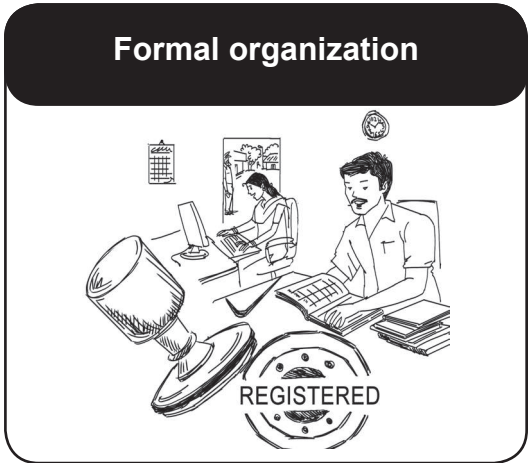
The above discussion takes us to the key features of FPOs as depicted below.

Figure: Key Features of FPOs



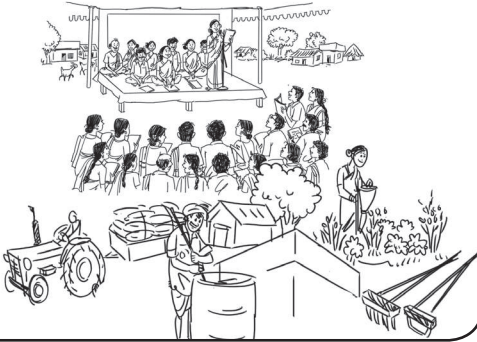
- Provide pre-production, production, post production services

- Farmers own enterprise, Private in nature



- Registered, legal entity with staff and systems

### Member owned



- Owned, used and controlled by members
- Provide required services to members

- Members contribute to capital

### Equity from members



- Governed by board of directors elected by and from members

### Self-governance



- One member, one vote

### Democratic control



## Farmer Producers Organization

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As indicated above, a Farmer Producers Organization (FPO) is a registered, formal entity. It has their Board for governance, staff for management and systems for operations. It is a legal entity complying with all laws of land. It is a private business enterprise owned by farmer members. They take up different activities like input supply, seed production, finance for members, services for productivity enhancement, procurement, processing & value addition and marketing.



# FARMER PRODUCERS ORGANIZATION: REGISTRATION – NEED AND IMPORTANCE

## Session Objective



To get an understanding on need and importance of registration  
To get known different legal forms for FPOs

## Content items

1. Need and importance of registration
2. Different legal forms for FPOs

Vikasa NGO Representative continued from earlier session as follows. As seen in earlier sessions, FPOs need to take up different business activities to serve their members. For this, they also need to enter into Agreements with different agencies, take finance and raise other required resources. To take up these, FPO needs to be a legal entity and thus requires registration.

Then he asked participants, “what do we mean by registration”? Let’s say, if our FPO is formed to deal with issues related to forest produce; we register our FPO with Forest department. We also register our FPO as cooperative. What is the difference between these two registrations?

After receiving few answers, the NGO Representative mentioned as follows.

Registering with Forest department means that the FPO is informing the department that they exist and work in the forest department operational area. Whereas registered as cooperative means that the FPO gains “**Body corporate status**”. It means, if an organization is registered it will have rights which are applicable to individuals. It can buy. It can sell. It can own property. It can do business.

For example, if our family owns one-acre land, why do we register our land?

Write your response in the space below.

.....

.....

.....

After receiving answers, he consolidated points as follows.

By registering land, we gain legal rights, such as mortgage or lease or sale rights for that land on our name. We can do joint cropping, we can also access loan from bank or other financial institutions on our name. In case any person encroaches into our land we can file a case against on him/her and similarly if we encroach somebodies land, they can file a case on us. Another important thing is we can transfer our land to our next generations i.e. our daughter / son, our grand-daughter / son etc.

Similarly, if we register our FPO, our FPO gains legal rights. It means like an individual, FPO on its name

- can have an agreement with external organisations/agencies,
- can own assets and involve in transactions as such as purchases, sale and mortgage of assets in the name of the organization.
- It can take legal action on any individual or institution or it can be take sued by others
- Members can join and withdraw, FPO on its name, shall continue to provide services to future generations

**APPROPRIATE LEGAL FORMS FOR FPOs**

Following are the appropriate legal forms for FPOs.

1. Producer Company under Companies Act 2013, Ministry of Corporate Affairs, Government of India
2. Cooperative under Multi State Cooperative Societies Act, Ministry of



Agriculture and Farmers Welfare, Government of India

3. Under Cooperative Acts of concerned States. For example, Mutually Aided Cooperative Societies (MACS) Act 1995, Andhra Pradesh.

Producer Companies are guided by the Articles of Association (AoA) as laid down by the Producer Company and approved by Registrar of Companies.

Cooperatives are guided by the Byelaws as laid down by the Cooperative and approved by Registrar of Cooperatives.

Articles of Association/ Byelaws detail out the objects of the FPO, different aspects of their activities and serve as guiding document for functioning of FPOs.

With this, the Vikasa NGO concluded this discussion saying that we will discuss about Cooperative Principles/ Mutual Assistance Principles in next program.

With this, the orientation program for FPO promoters concluded! In this module, the very fundamentals of need for collective action to overcome constraints in farming, formal entity for collective action, the meaning, key features, values and principles of FPOs are covered.

Even though Ramaiah and Sudarshan are aware of and seen farmers groups before, this type and approach looked different for them. They are now very much excited, looking for early registration of their FPO and made a firm plan to mobilize fellow farmers to join as members in their FPO. Though the entire roadmap is not clear to them, Ramaiah and Sudarshan see a ray of hope in the form of their FPO and started back to their village.

## Sample Registration Certificate



GOVERNMENT OF INDIA  
MINISTRY OF CORPORATE AFFAIRS

Central Registration Centre

### Certificate of Incorporation

[Pursuant to sub-section (2) of section 7 of the Companies Act, 2013 (18 of 2013) and rule 18 of the Companies (Incorporation) Rules, 2014]

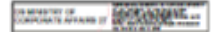
I hereby certify that SRI NALLAREDDY SWAMY FARMERS PRODUCER COMPANY LIMITED is incorporated on this Twenty fourth day of May Two thousand nineteen under the Companies Act, 2013 (18 of 2013) and that the company is limited by shares.

The Corporate Identity Number of the company is U01100AP2019PTC111980.

The Permanent Account Number (PAN) of the company is ABCCS1151N \*/@

The Tax Deduction and Collection Account Number (TAN) of the company is VPNS16430B \*/@

Given under my hand at Manesar this Twenty fourth day of May Two thousand nineteen .



Digital Signature Certificate

ALOK TANDON

Deputy Registrar Of Companies

For and on behalf of the Jurisdictional Registrar of Companies

Registrar of Companies

Central Registration Centre

Disclaimer: This certificate only evidences incorporation of the company on the basis of documents and declarations of the applicant(s). This certificate is neither a license nor permission to conduct business or solicit deposits or funds from public. Permission of sector regulator is necessary wherever required. Registration status and other details of the company can be verified on [www.mca.gov.in](http://www.mca.gov.in)

Mailing Address as per record available in Registrar of Companies office:

SRI NALLAREDDY SWAMY FARMERS PRODUCER COMPANY  
LIMITED

3-105, Handri Khairawadi, Gonegandla, KURNOOL, Kurnool, Andhra  
Pradesh, India, 518463



\* as issued by the Income Tax Department

File No.DCOATP-NC0MACS(REG)24/2019-JA(2)-DCO-ATP



**GOVERNMENT OF ANDHRA PRADESH  
DEPARTMENT OF COOPERATION  
CERTIFICATE**

*(Certificate of Registration under section 5 of the Andhra Pradesh  
Mutually Aided Cooperative Societies Act, 1995)*

*Under the powers vested in terms of Go.Ms.No.118  
Agriculture & Cooperation (Coop.IV) Department, Dated: 02-04-1996,  
31 the Registrar of Mutually Aided Cooperative Societies/District  
Cooperative Officer, Ananthapuramu do hereby register Peddavaduguru  
Mahila Raitthu Utpathidarula Paraspara Sahayaka Sahakara Sangham Ltd.,  
Ravuludiki Village, Peddavaduguru Mandal, Ananthapuramu District with  
Registration Number AMC/ATP/DCO/2019/4878 together with its bye-  
laws.*

Given under my hand and seal on this 3<sup>rd</sup> day of May-2019,

**P.Narayanaswamy,  
Registrar of Mutually Aided Cooperative Societies/  
District Cooperative Officer,  
Ananthapuramu.**



**Signature valid**

Digitally signed by P.NARAYANA  
SWAMY PATHIRAJU  
Date: 2019.05.03 12:28:21 IST  
Reason: I am the author

## Annexure1: Cooperative Principles in detail

### Principle 1 Voluntary and Open Membership

In the FPO operational area, only those who can make use of the services of the FPO and are willing to accept member responsibilities should be admitted as members. However, it is not enough that a person is “able” to use the services, the person should actually make use of the services in order to stay as a member.

Even though, formation of an FPO is facilitated by an external Development Agency, farmers take membership voluntarily only and not by force.

### Principle 2 Democratic Member Control

In FPOs, all members have equal voting rights. At Federation level also, FPOs are organized in a democratic manner.

Members control the FPO in a democratic way by electing the Board of Directors, participating actively in decision making and setting policies and direction. Openness, Transparency and Accountability are the three key aspects of Democratic Governance.

### Principle 3 Member Economic Participation

The principle says that FPO should follow fair practices such as

- If FPO gets profit, everyone feels happy and gets a stake in it. In case of loss also FPO should protect the member interest by taking risk mitigation measures to reduce the burden on the members. Hence, this principle says that, at least a part of the surplus of our FPO is usually the common property of the FPO, and that a part of the surplus could be set aside as reserves for protecting business of our FPO, a part of which would be indivisible.
- Part of surplus can be used for two ways.
- (1) Our FPO gets profit because of services used by our members. Hence, in addition to interest on their share capital and deposits,

members who obey membership norms and use services of FPO more effectively can get benefit in proportion to their transactions with FPO. For eg, in a Dairy FPO, one member supplies 300 litres of milk per annum and also uses other backward and forward technical services; whereas another member also supplies 300 litres per annum but does not use the other services. Should they get equal benefit from FPO? No, FPO gets a profit from the members who availed more services. The first member should get more benefit than that of the second member.

- (2) other activities approved by the membership. It is also possible to contribute to the setting up of educational institutions, health services, etc. which should benefit all the members since they have all contributed to the generation of the surplus, or that such contribution “should avoid one member gaining at the expense of another”.

#### **Principle 4      Autonomy and Independence**

Cooperatives have the freedom to act independently to govern themselves, control their own affairs and set their own rules of operation. The agreements with government, financial institutions, market players, technical institutions etc have to be made and executed in a manner ensuring the autonomy and independence of the cooperatives.

#### **Principle 5      Education, Training and Information**

Cooperatives should ensure their members, Board of Directors, staff and others who are working with them to be aware of their purpose and activities. This required continuous education by conducting trainings, sharing information through pamphlets, brochures, posters, videos and other communication channels. This principle also expects cooperatives to educate the general public, especially young people and opinion leaders, about the nature and benefits of cooperatives. To ensure cooperatives have a rightful place in the market, the contribution they are making in the form of business should be made understood by policy makers and others.

## **Principle 6**      **Cooperation among Cooperatives**

Cooperatives can cooperate with other cooperatives to create wealth for the many rather than personal wealth for the few through unhealthy market competition. Members benefit not only from the actions of their own cooperative but from the impact of its cooperative engagement and trade with other cooperatives.

By working together, cooperatives gain the expertise, scale, and support necessary to heighten awareness, sustainability, and impact, especially where fixed costs and resources can be shared.

One cooperative alone may not be able to meet all needs of their members. In such cases the cooperatives can work with other FPOs at block, state, national and internal level. For example, a cooperative having surplus finance can lend to other cooperative which is in need; a cooperative produces enough paddy seed and can supply to other cooperative whose members are in high need of paddy seed.

## **Principle 7**      **Concern for Community**

Cooperatives are not expected to work in a manner that harms interests of their communities. This principle suggests that cooperatives have responsibility to work for ecological balance, social justice and economic security. For example, if a cooperative engages in bulk procurement of pesticides and supplying to farmers in excessive manner, it will have negative impact on the environment. Similarly, cooperative provides loan for borewell for majority of members even when the groundwater level is alarmingly low, it affects the members. Hence, cooperatives should maintain this principle by having policies approved by them.



**End line**

Please recall that at the beginning of the module, we had Baseline in which we answered well some basic questions about “FPOs-Introduction and Rationale”.

Now, we have come to the end of this module on the above topic and an End line is given here. The purpose of this End line is to assess ourself regarding additional understanding after going through this learning module.

So, shall we answer some more questions based on our learning on the module?

**1. What is the main purpose of an FPO?**

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 .....  
 .....

**2. What are the benefits of FPOs?**

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 .....  
 .....

**3. What are the key features of FPOs?**

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 .....  
 .....

**4. How FPOs can maintain their autonomy and independence?**

.....  
 .....  
 .....

**5. How democratic control is exercised in FPOs?**

.....  
 .....  
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# KEY ACTION POINTS FROM THE MODULE

## FPOs: Introduction & Rationale

Let's list what can be the key action points for our FPO from this Module "Introduction & Rationale of FPOs"

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## NOTES

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**NOTES**

Dotted lines for note-taking.



## NOTES

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### NOTES

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## Business Enterprise

Provide Pre-production, Production & Post production Services



## Autonomous & Independent

Farmers own enterprise, private in nature



## Formal Organization

Registered, legal entity with staff and systems



# Key Features of FPO



## Member owned

Owned, used and controlled by members



## Equity from members

Members contribute to equity



## Self-governance

Governed by board of directors elected by and from members



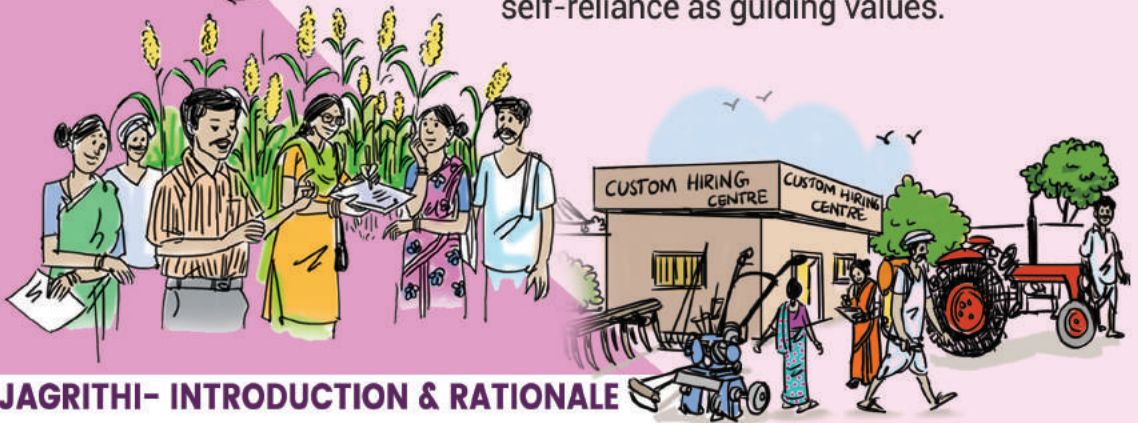
## Democratic control

One member, one vote



## About APMAS

APMAS is a not-for-profit national level resource organization working for the empowerment of people's institutions such as women's Self Help Groups (SHGs), SHG Federations, Cooperatives, Farmer Producer Organizations (FPOs) & other Community Based Organizations (CBOs) who believe in and practice self-help, mutual benefit, self-responsibility and self-reliance as guiding values.



## JAGRITHI- INTRODUCTION & RATIONALE FARMER PRODUCERS ORGANIZATION

**FPO Incubation Centre** promoted by APMAS is a one-stop-centre to provide incubation and nurturing support to FPOs to develop these institutions into viable and sustainable enterprises in partnership with FPOs and FPO promoting and supporting agencies. It provides institution development services such as visioning, statutory compliances, management, governance and capacity building to strengthen these institutions. It also provides business development services such as business planning, financial linkages, marketing and technical assistance to develop business potential of FPOs.

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