A qualitative study of producer organisations in select geographies in India

May 2018

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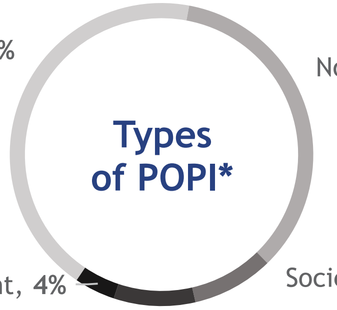
List of abbreviations

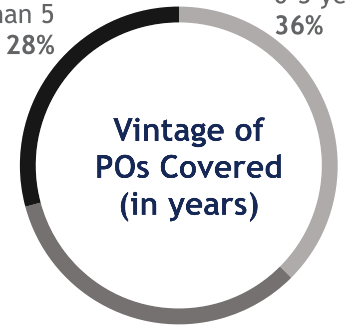
APMC	Agricultural Produce Market Committee
BOD	Board of Directors
CEO	Chief Executive Officer
FMCG	Fast-moving Consumer Goods
FPO	Farmer Producer Organisation
FSP	Financial Service Provider
KVK	Krishi Vigyan Kendra
MS	Microsoft
MSP	Minimum Support Price
NABARD	National Bank for Agriculture and Rural Development
NAFED	National Agricultural Cooperative Marketing Federation of India
NCDEX	National Commodity & Derivatives Exchange
NEFT	National Electronic Funds Transfer
NGO	Non-governmental Organisation
NPK	Nitrogen (N), Phosphorus (P), and Potassium (K)
PMFBY	Pradhan Mantri Fasal Bima Yojana
PO	Producer Organisation
POPI	Producer Organisation Promoting Institution
RTGS	Real Time Gross Settlement
SFAC	Small Farmers' Agri-Business Consortium

Note: USD to INR conversation rate is 67

Profile of producer organisations (POs) in our study - (1/2)

Geographical
coverage of the study





Farmer Producer Organisation (as a legal entity) can be registered in any of the following forms ^:

1. As a Cooperative (Under Cooperative Societies Act)
2. As a Producer Company (Under Companies Act, 2013)
3. As a Non-profit entity (Under Companies Act, 2013)
4. As a Trust (Under Indian Trusts Act, 1882)

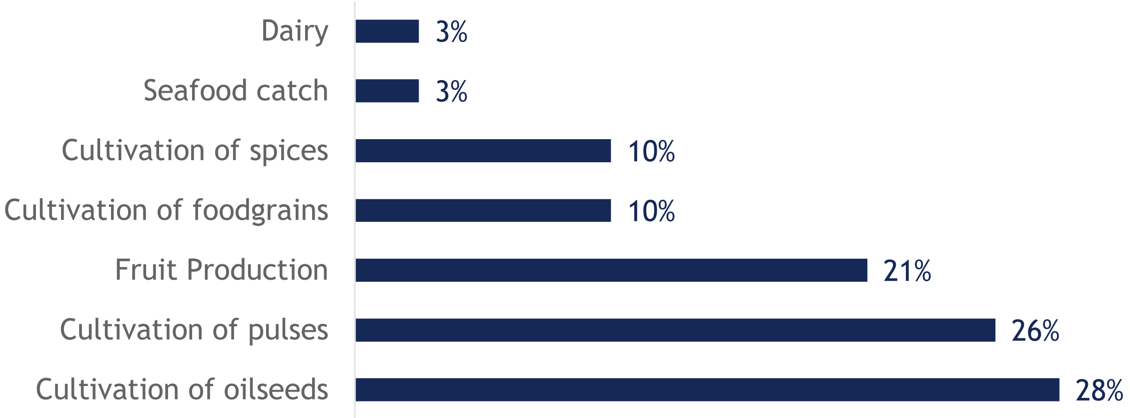
Additional randomly reviewed POs also showed a predominance of Producer Company as the legal form.

* POPI - Producer Organisation Promoting Institution.
^ Refer Annexure for more details on each form.

Our research sample covered POs that included any producer organisation registered either as a producer company, trust, cooperative or non-profit entity. They were also into farm or non-farm activities.

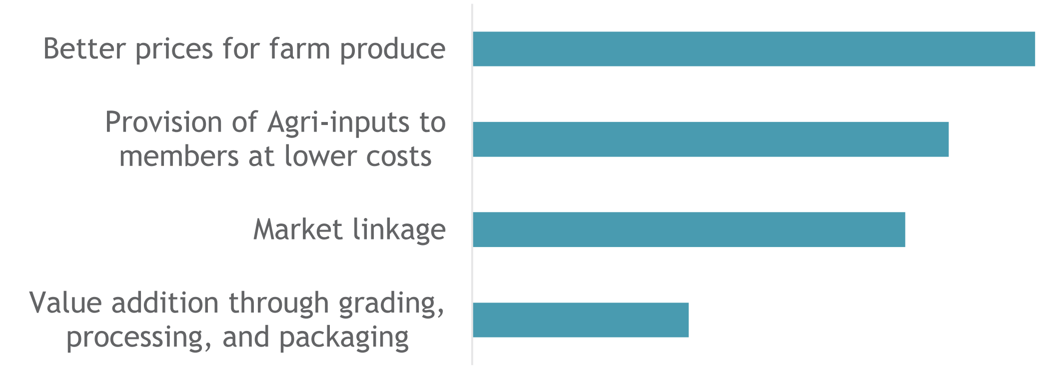
Profile of producer organisations (POs) in our study - (2/2)

The range of activities of members of POs



POs surveyed that are involved in farm-based activities.

Objectives for formation



POs surveyed that have small and marginal farmers as their major segment of beneficiaries

Supply of farm inputs and seeds are common business activities for most POs.

Major primary services	Major secondary services	Key aspirations
1 Supply of farm inputs (consumables)	Renting/lease of farm and/or irrigation equipment	Processing (for example, pulses mills, fruits/oil/fish processing, pickle making)
2 Procurement of commodities and seeds	Technical guidance, package of practices	Marketing - liaison with aggregators, agri mall, APMC trading, exports)
3 Enhancing linkages with buyers (including for MSP/markets/processors)		Other value adding activities – sorting, storage (warehouse or cold storage), packaging

- The supply of farm inputs mainly related to providing seeds, chemicals, and fertilisers (non-NPK) to members on cash or credit. POs have taken the licenses for the supply of farm inputs.
- The procurement of produce is done primarily for aggregators that procure under MSP (SFAC, NAFED, among others); for sale to local traders, retailers, or processors in the Mandis (APMCs) or through NCDEX.

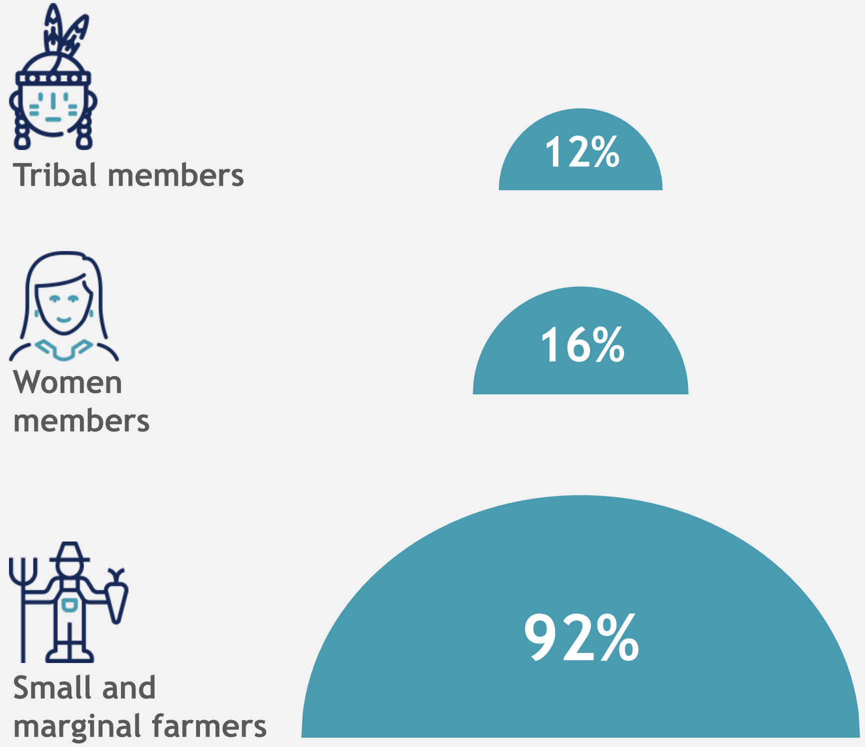
- Investing in farm and irrigation equipment, such as tractors, harvesters, and drip irrigation equipment. The POs then rent or lease it to members for a fee in terms of a rate per hour or per day.

- Most POs have high aspirations to get into activities that can add value while enhancing revenue and lowering risk. These include sorting, grading, packaging, basic or complex processing, marketing and even exports.

Most POs in our survey focus on small and marginal farmers.

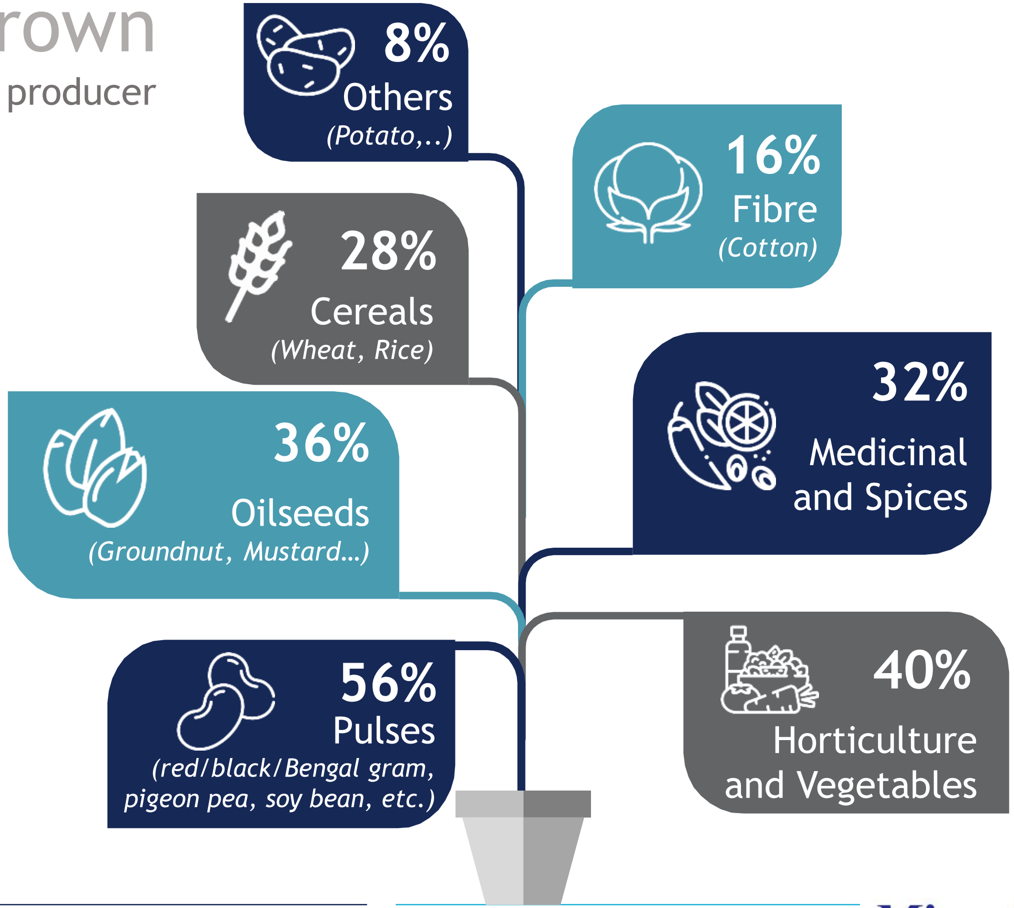
Profile of

PO members



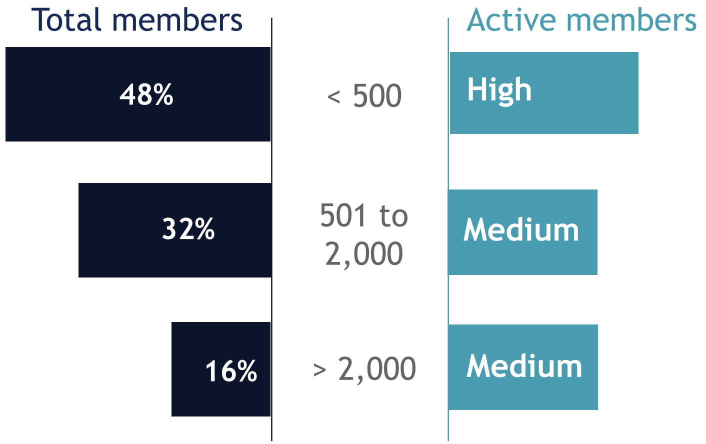
Crops grown

by members of producer organisations

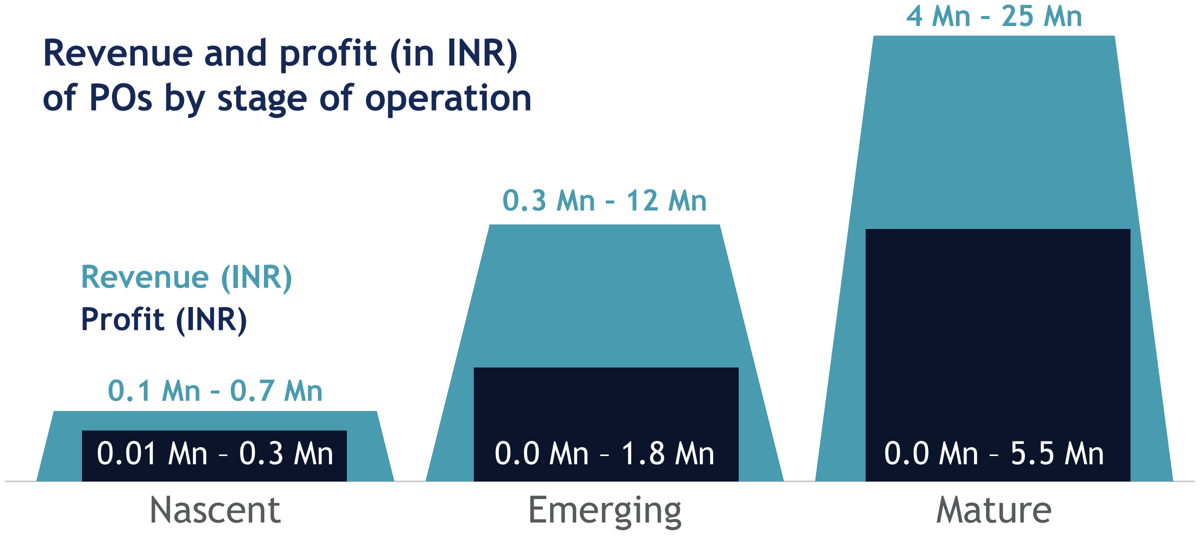


Membership profile and financial position of POs

Membership base of POs



Revenue and profit (in INR) of POs by stage of operation



- Of all members of sample POs, a significant proportion (48%) are associated with POs that have a membership base of 500 or less.
- The smaller size of POs in terms of membership base, makes it easier to have a sense of camaraderie among members. This induces members to actively get involved in PO operations. POs with a membership base of 500 or less seem to have a higher proportion of active members.
- As the size of a PO increases, it also becomes difficult to incorporate everybody's opinions and have a coherent plan of action. This adversely affects the level of engagement of the members in PO operations.

- POs are able to streamline their operations as they progress on the continuum from nascent to emerging to mature. This leads to more efficiency in operations as well as stability in the business model.
- Revenue and profits have wide variation across POs – year-on-year and across comparable peers.
- Intrinsic factors such as abilities and performance of CEO and BOD, standardisation of processes, efficiency of operations, extent of market linkages, effective governance, and extrinsic factors such as erratic climatic conditions, government policies, and volatility in the market and price affect the revenue and margins.

A summary of the major challenges that Producer Organisations face

Major Challenges

Management-related challenges

- Lack of a range of required technical and managerial skills and competencies
- and people management challenges related to governance
- Overdependence on POPIs

Challenges faced in access to inputs and credit

- Aggregating demand from members; diversity of needs.
- Product bundling by firms; competition from bigger brands
- An acute gap in the requirements of working capital

Challenges faced in market linkages

- Lack of skills for marketing and for undertaking complex processing or activities that add value
- Market demand and price uncertainty / volatility
- Impact of government policies (for instance *Bhavantar Yojna)*

Specific needs and aspirations across nascent, emerging, and mature Producer Organisations

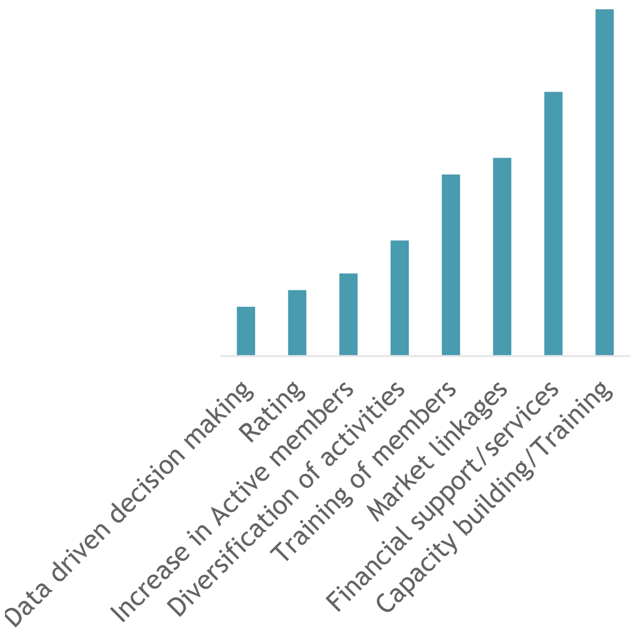
		Nascent	Emerging	Mature
Market linkages & value addition	Minor or major value addition	Low	High	High
	Diversification of revenue or business lines	Low	High	High
	Widening market linkages or reducing dependencies	Medium	Medium–High	High
	De-risking from price and market volatilities	Medium–High	High	Very high
Capacity-building	Entrepreneurship and business planning skills	Medium–High	High	High
	Project planning, execution, management skills	Very low	Medium	High
	Marketing, communication, and negotiation skills	High	Very high	Very high
	People and stakeholder management skills (including government)	High	High	Very high
	Inter-personal and other soft skills	High	Medium–High	Medium
	Awareness about subsidies or benefits, technical developments. Linkages with government departments or extension services, etc.	High	High	High
	Book-keeping, taxation, other statutory compliances	Very high	Medium	Low
Credit and resources	Working capital	Medium–High	High	High
	Term loans	Low	Medium	Medium–High
	Manpower requirements for business and operations	High	High	Medium–High

Relevance or Importance: Very low | Low | Medium | High | Very high

Areas of assistance and support articulated by POs

Key area	Priority of assistance needed	Existing level of assistance	Comments
Capacity-building/ Training	High	Low	• The existing support has been concentrated in areas like book-keeping, compliance, community mobilisation, and in availing benefits from government schemes. • **PO management seeks to build capacities in other areas like strategic business planning, accounting and financial management, marketing, process reengineering, audit, governance, negotiation and other soft skills.**
Financial support	High	Very low	• The most crucial need is for short-term working capital during procurement seasons. • **Most POs struggle to obtain financial support or credit from financial service providers.** • Support to POs in developing **high-quality financial proposals based on robust strategic business planning** will make lenders more comfortable in extending credit to POs.
Market linkages	High	Low	• BODs and CEOs of most POs have a **limited knowledge and capacity to enhance market linkages or to de-risk from market or price volatilities.** • Existing support in this area is insufficient.
Diversification	Medium	Low	• POs need support to increase the number of business lines to diversify their risk. Diversification is also needed in terms of potential buyers to reduce concentration risk. • POs need support in **business planning to evaluate diversification options** before investing capital.
Rating	Medium	Low	• **POs view rating as a mechanism that should also identify their shortcoming and weaknesses, so they can work towards improvement in those aspects.**

The gap in assistance or support as highlighted by POs



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Boards of POs lack independent directors and participation from women.

36 %

Boards with **11-15** members

44%

Boards with **six to ten** members

16 %

Boards with **five** members

Permissible size of board of directors: 5-15 *

A majority of POs have more than five directors on their boards. Board members are primarily drawn from members of the POs.

Independent directors or experts on boards

52%

Boards with no external experts or independent directors

36%

Boards with up to five experts or independent directors

- A majority of the POs are unable to take advantage of the expertise, knowledge, and counsel that independent directors and experts can provide.

Representation of women on boards

68%

Boards with no female directors

32 %

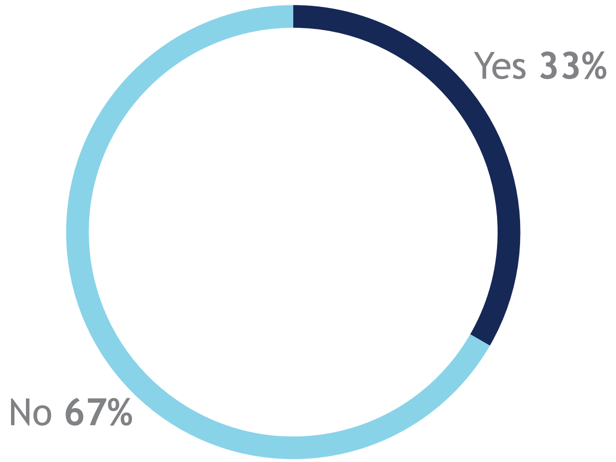
Boards with at least one female director

- Only about one-third of POs have female members on their boards. In a majority of cases, it is due to the land title being in the name of the female farmer, or inability of the male member to be on the board.
- Therefore, active participation by women members is negligible.

* As per Companies Act 2013

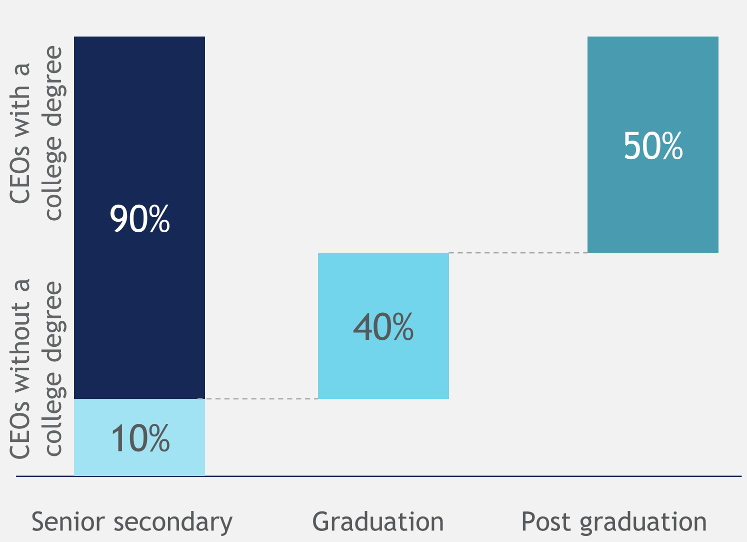
Other than CEOs, most POs face a severe lack of qualified and knowledgeable directors.

Availability of full-time CEO



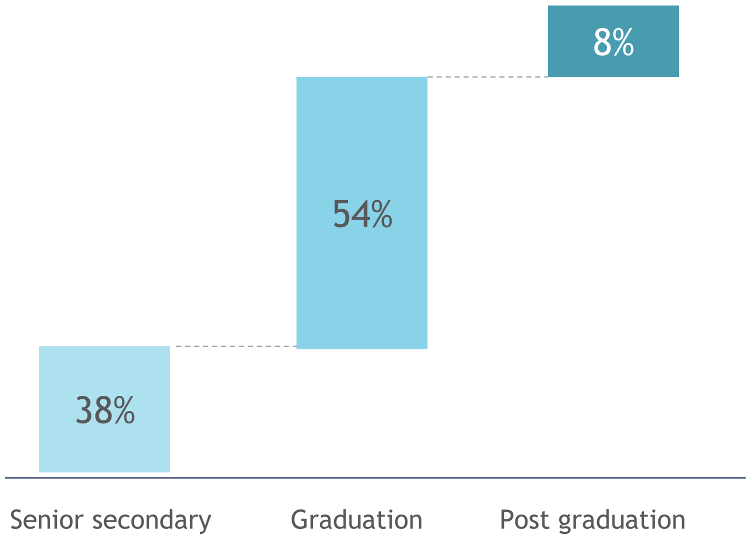
About one-third of POs did not even have a full-time CEO.

CEO qualifications



Most CEOs are local, with graduate or post-graduate qualifications, but limited work experience.

Qualifications of directors

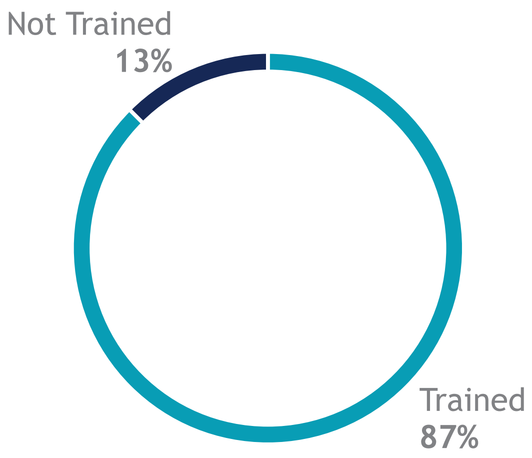


Directors of most POs are either graduates or have passed senior secondary, with limited experience outside of farming.

Not to scale

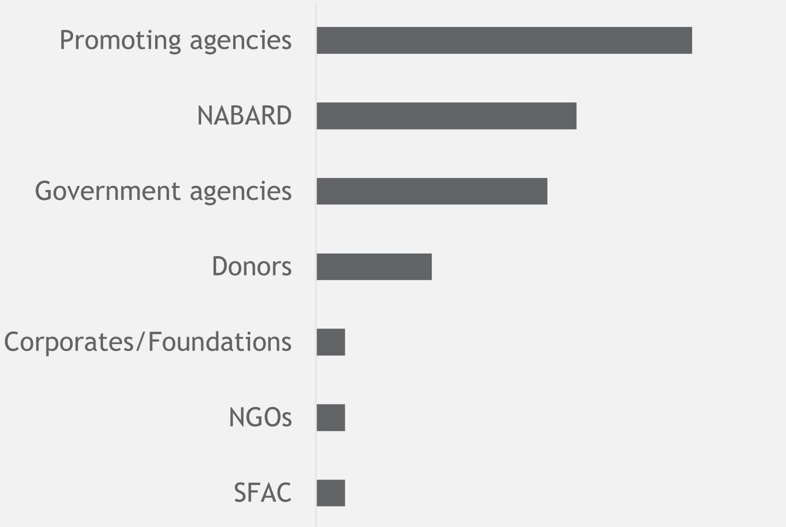
Significant gaps and unmet training-needs continue to exist, even for mature POs.

Status of BOD/CEO Training by POPIs



- Most CEOs or BODs have received training at least once.
- These training sessions have helped them gain basic skills required for running their POs.

Training providers



- Promoting agencies (POPI) have been the main training service provider for most POs.
- In most cases, they organise training sessions as a part of the capacity-building mandate received from donors or government.
- NABARD has been active in providing basic training to the POs it has promoted.

Training gaps (as identified by CEO/BODs)

- PO leadership (BODs and CEOs) highlight the need for additional training sessions in areas like marketing, governance, and business management.
- Prioritisation of training-needs on strategic areas over basic operational areas like accounts or book-keeping indicate the changing requirement of POs towards training-needs.

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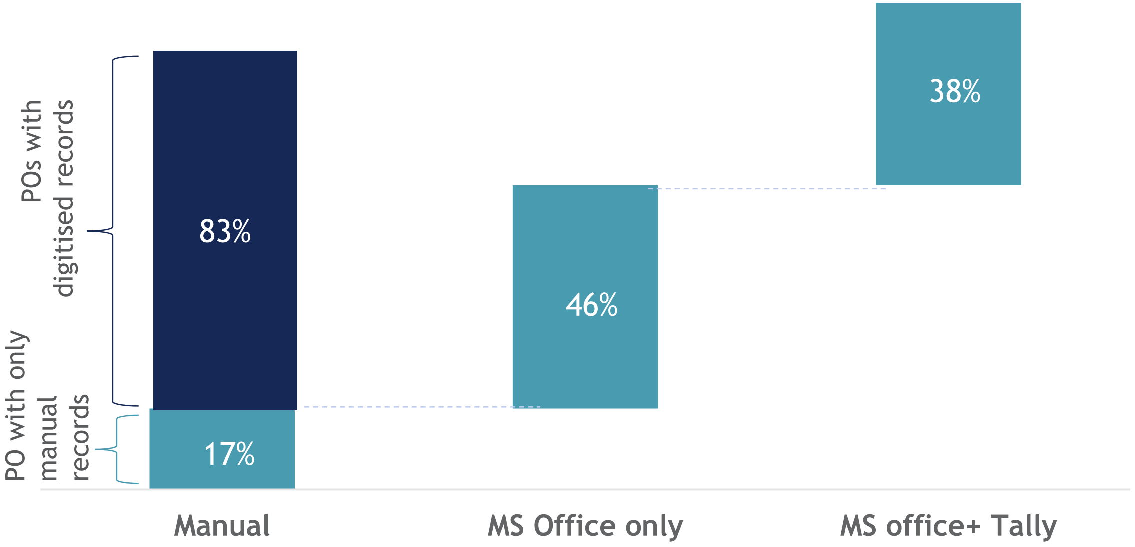
Most POs maintain digital records and books using MS Excel and Tally.

Digitisation of business records and books

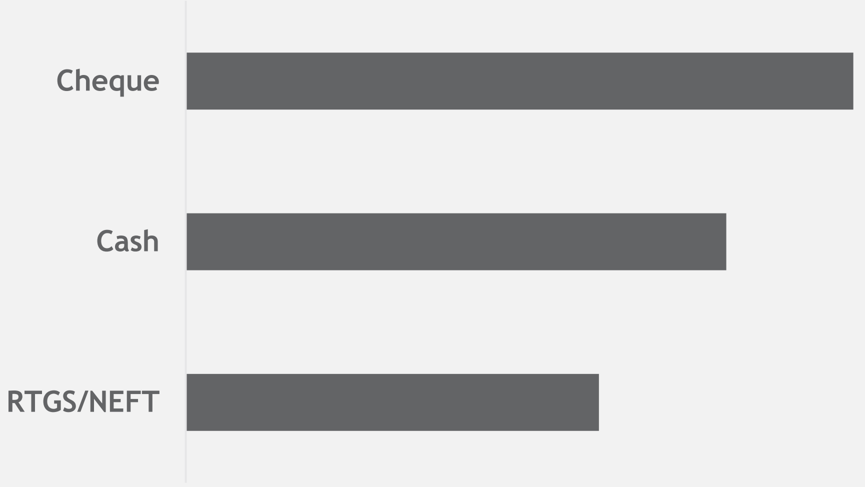


Digitisation of business records:

- A healthy 83% of the POs were found to be maintaining their records in digital format.
- Only 38% of the POs use Tally, an accounting software. Use of Tally depended on the availability of trained staff.
- Only 17% of the POs use manual methods for maintaining their transactions or records. Most of these were new FPOs, who either had no computers or no staff who are trained to use a computer.

The mandatory requirement by NABARD and tax compliance has been driving the digitisation of records and books.

Payment options used by POs



Current state of payment options:

- Cheque: Cheques continue to remain a preferred option for making payments to large numbers of farmers. It is an easy and quick option that is suited for the field.
- Cash: Cash is the preferred payment option for making small or petty expenses. It is not popular for making larger business payments.
- RTGS/NEFT: This is the preferred option for making large payments to other business. Despite lower count, the overall volume of transaction is likely to be higher due to a larger ticket size.

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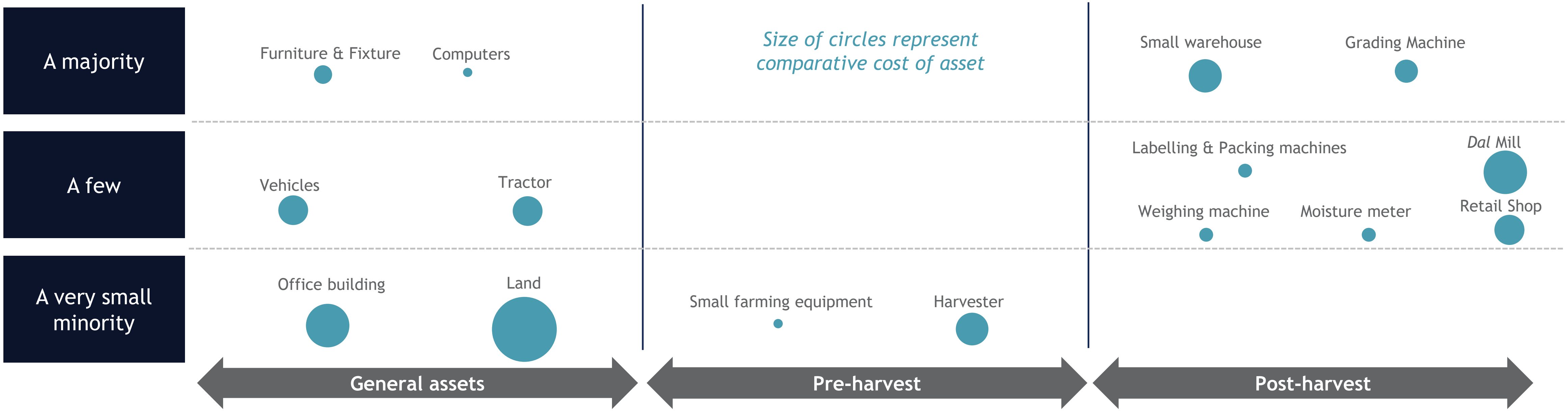
POs have forged or are trying to form key partnerships and associations, to ensure better prices. This is to ensure certainty of business, and to reduce risk and volatility.

Local retailers/ dealers/distributors	44%	Producer organisations face challenges in aggregating demand for various inputs. They therefore procure inputs in smaller quantities from multiple retailers, dealers, or distributors of agri-inputs available at a local level.
Companies (Input, FMCG…)	44%	The tie-up with large corporates (fertiliser companies, seed companies, irrigation companies) and FMCG players (Pepsi, Syngenta ….) help Producer Organisations in establishing better backward and forward market linkages.
NGOs/Trusts/ Federations	32%	Producer Organisations rely on these partners for initial support, capacity-building and training of members and management. They look for financial support in terms of grants, subsidies, and market linkages.
Government entities (NABARD, SFAC..)	28%	Government entities and state-level organisations provide initial support through subsidies and grants to nascent and emerging POs. For mature POs, these partners lend support in the diversification of business activities and in establishing market linkages.
NCDEX	20%	This partnership is mostly established by mature Producer Organisations to take advantage of market dynamics by hedging the prices of their commodities.
Agri-universities or KVKs	16%	This is an important partnership from the perspective of farmer members as Krishi Vigyan Kendras (KVK) and agri-universities provide know-how, technical knowledge of agronomic and innovative practices, exposure visits, and liquidity farming.
Others (FSPs, Donors, APMCs)	44%	Partnerships with financial service providers and markets, among others, help Producer Organisations grow their business by accessing multiple markets and provide better returns to their farmer members.

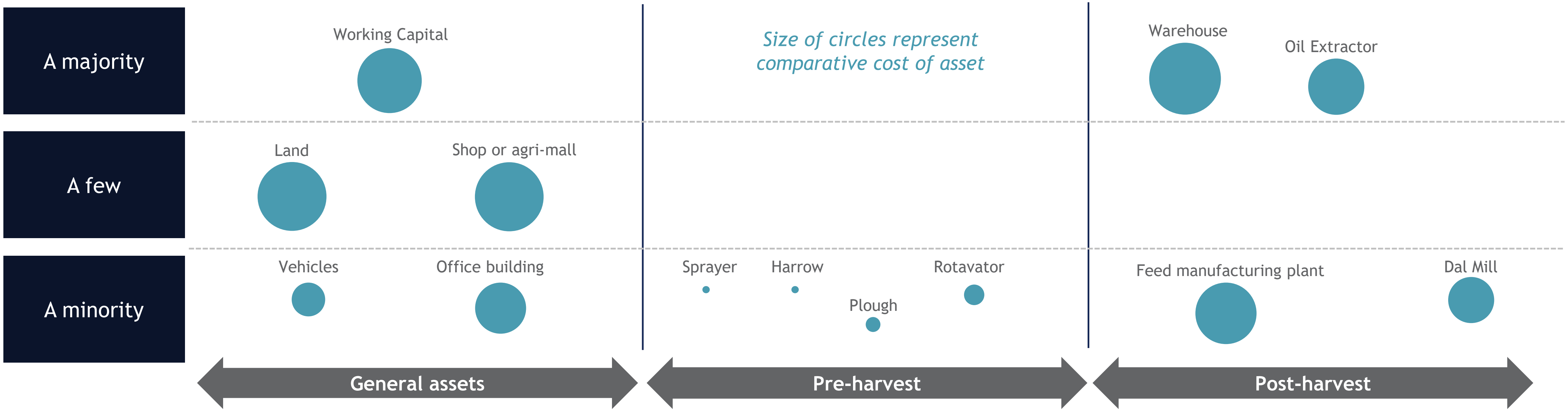
Depending on their maturity, POs own or can access basic assets and infrastructure.



- General assets like computers and furniture or fixtures are owned by most POs.
- Most FPOs also have access to small warehouses as a means of temporary storage. In many cases, they also own small grading machines, moisture meters, weighing machines, and other small equipment.
- Only a few POs own more expensive assets such as tractors, packaging machines or infrastructure, such as processing mills or retail shops.
- High-value equipment such as harvesters, or ownership of land and office building is limited to a minuscule minority.

* The size of circles indicate the market value of the particular asset

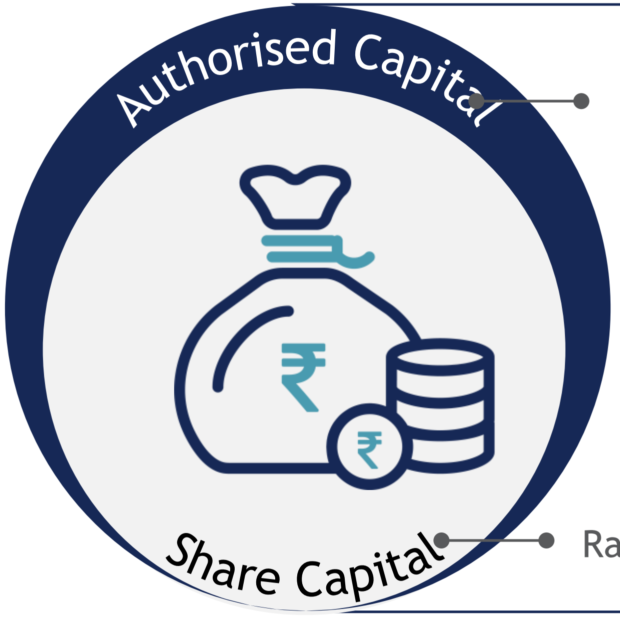
Working capital and key assets and infrastructure are the major needs of POs to meet goals.



- Working capital is the most ubiquitous need for all POs.
- Even though many POs have access to a small warehouses capacity; it is still seen as an important need and a crucial gap. The size or capacity of warehouses becomes a bottleneck for POs that are engaged in procurement, storage, and trading.
- POs in the oilseed regions have a need to own oil extraction units to maximise the value from oilseeds, instead of selling them raw.
- Many POs expressed a need to own assets post-harvest to improve their revenue and cash flows. These assets can be used for adding value in a number of ways. Many POs are also keen to set up a retail shop or have access to agri-malls to sell the produce of their members.

* The size of the circles indicate the market value of the particular asset

Equity contribution is a main source of capital for nascent and emerging POs.



Range Up to 5.0 Mn

Range INR 30,000 to 4.3 Mn

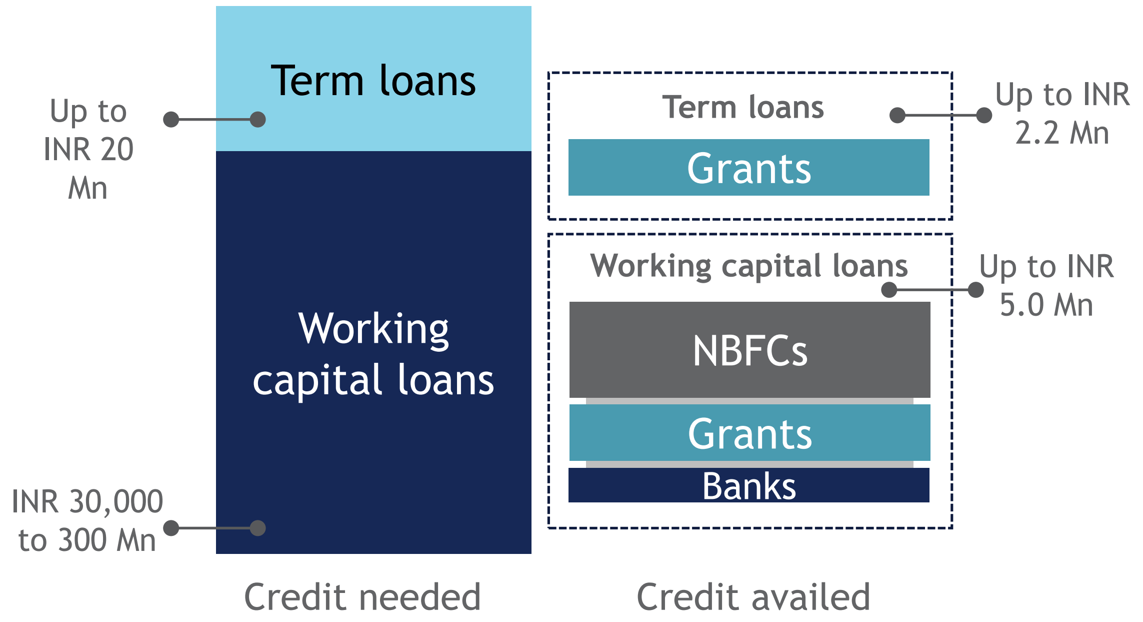
INR 10 per share	Mode/Mean: INR 500-1000 per share	INR 5,000 per share

Range of membership fees

Nascent and Emerging producer organisations face multiple barriers in accessing credit, subsidy, or grant support from formal financial service providers. Due to this, they initially rely on their share capital (and collect higher membership fees) to meet their credit needs.

Mature producer organisations have a larger equity base, established processes, and possess in-depth understanding of compliance and other requirements. However, they charge higher membership fees from new members or additional shares on account of providing better market access and established linkages with KVKs, NGOs, or state bodies, among others, on agronomic practices and innovative technologies.

Working capital is the major requirement for POs, which grants and loans from NBFCs meet for the most part.



Challenges faced in accessing credit from banks and subsidy or grants from organisations

- Less than 2% of the working capital requirements and 10% of the term loan requirements of POs are currently being met.
- A majority of the credit-needs are being met through grants from SFAC, World Bank, through large trusts, and by NBFCs.
- The requirements for term loans, though on a lower side, are currently largely met through grants.
- Bank credit is almost non-existent.

Financial support by POs to members is limited. It is largely in the form of sale of inputs on credit terms and offset on purchase of produce.

Due to the unavailability of funds with POs, **a majority decline their members' credit request**

Yes **30%** : **70%** No

- Members usually require credit to cultivate crops, adopt innovative practices like drip irrigation, purchase tools and cattle, and to meet consumption and emergency needs.
- In case of lack of support from POs, members approach traders, intermediaries, or big farmers for their working capital needs.

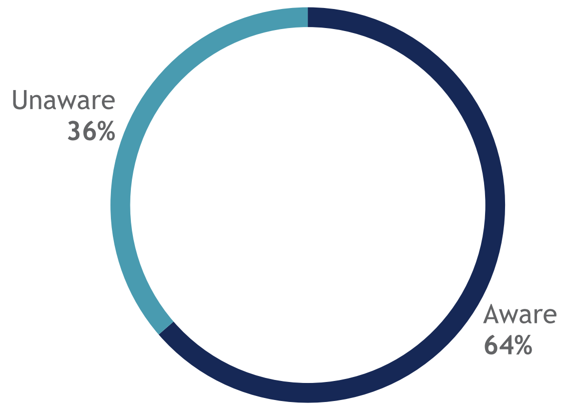
POs lack an adequate understanding of complex financial products hence they do not provide such services to members.

Yes **4%** : **92%** No

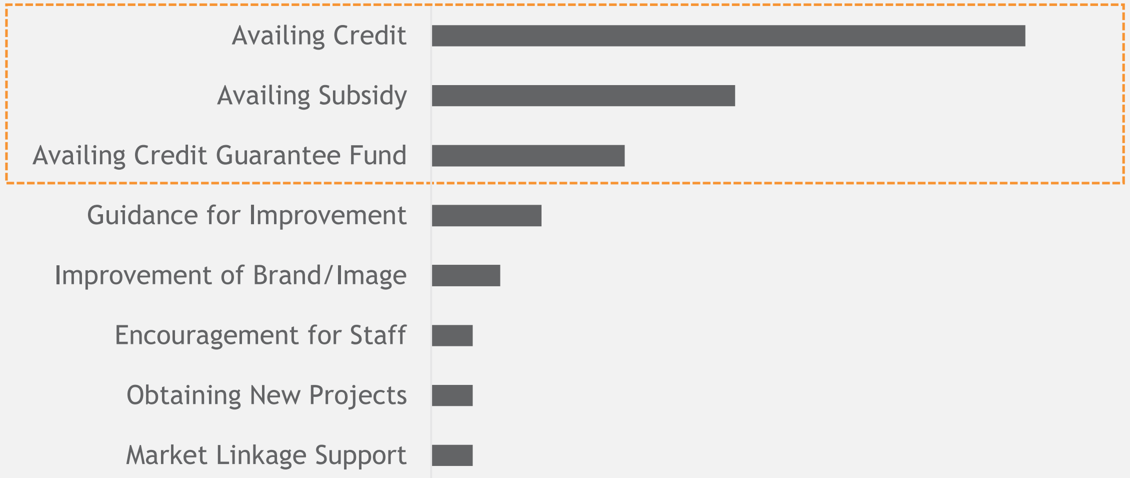
- POs lack an in-depth understanding of insurance and wealth products. Due to this, they are unable to guide their members on the benefits of government programmes like PMFBY, social security schemes, and state schemes.
- Capacity-building of POs can bridge the gap between government and smallholder farmers.

POs' understanding of the concept of ratings and its perceived benefits.

Awareness of the concept of ratings



Perceived benefits from ratings



- About two-thirds of the POs in this study seem to be aware of the concept of ratings. This is **partly driven by the periodic assessment that NABARD does using their assessment tool.**
- **Ease of accessing credit and government subsidies were perceived as the most common benefit** of ratings by POs.
- POs see **rating as an opportunity to project their creditworthiness and business strengths** to potential lenders and other value chain actors.
- POs view ratings as **a mechanism that can identify their shortcoming and weaknesses, so they can work towards improvement in those aspects.**
- Progressive POs also expect **ratings to benchmark them against better performing peers.** This will help them relate to other POs and be able to develop an actionable roadmap for improvement.
- Despite the benefits, most **POs are unwilling to pay for ratings**. This is due to their limited paying capacity **and uncertainty about benefits they can realise from the rating exercise.**

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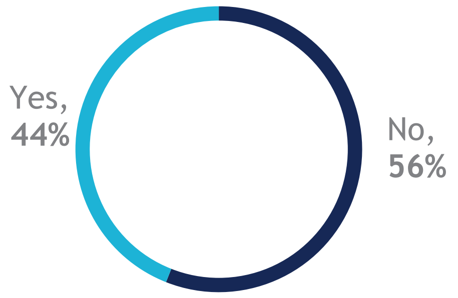
POs also face several socio-political challenges.

- Farmers fail to realise that coming together as a producer organisation will enhance their bargaining power and thereby benefit them mutually through better incomes from agriculture and allied activities.
- Hence, they do not see much merit in forming producer organisations. This makes it difficult to mobilise them around a common objective.

POs face socio-political challenges



Nature of socio-political conflicts

Board of Directors

- Directors with divergent and conflicting interests hamper the functioning of POs.
- Interpersonal dynamics between the board of directors plays a critical role in the functioning of POs. Adverse personal relationships between BoDs as well as their affiliation to different political parties make it difficult to have conducive environment for operations.

Consensus-building

Building consensus among a large number of members with diverse backgrounds and interests is a major challenge:

- POs are a new concept for farmers. Hence, it becomes difficult for them to understand how they will benefit from POs.
- It is also difficult to bring about consensus among members on various aspects of strategy, business, operations, and marketing.

* A zero-sum game is a situation where one person's gain amounts to other person's loss.

Many socio-political challenges are acute and can hamper growth and sustainability.

Nature of socio-political conflicts or challenges

Lack of trust

- At times, farmers do not have trust in terms of agriculture practices and in doing business. They doubt the intentions of other farmers when it comes to working together.
- Previous instances of poor experience or misgivings with other organisations also cause farmers to distrust POs.

Divides along class, caste, and religion

- Social divides based on class, caste, or religion prohibit farmers from varied backgrounds from coming together for mutual benefit through POs.
- Divides based on caste or religion is especially strong in rural areas. People from the ‘upper castes’ are hesitant to work alongside those from ‘lower castes’.
- Similarly, different religions have varying beliefs and hence people find it difficult to work together.
- It is difficult for people to get rid of these beliefs and biases and work together for mutual benefit.

POs for political mileage

Influential members view POs as a means of gaining political mileage.

- At times, influential members in the village become members of the PO with vested interests, specifically political and economic interests. Such vested interests, especially in part of the PO officials, hamper the functioning of PO and defeats the purpose of member welfare. Members with affiliations to different political use POs as a medium to gain political mileage.
- However, having influential members can help PO mobilise people around common issues. Some POs have specifically forbidden activities with any political objective to preserve the common goals of farmer welfare.

Government policies have an adverse impact on POs.

Government policies

Some of the government policies are not very conductive to PO operations:

A. Policies related to procurement

- Procurement of seeds by the government is done to distribute to the farmers under various welfare schemes. The government sometimes gives priority to state-owned seed companies over POs. This leads to a surplus stock of seeds with the POs that they are not able to sell at the open market.
- Cooperatives often have political affiliations or influence due to their composition and existing regulations. In some states, cooperatives receive preferential treatment over POs in aspects related to procurement under MSP.
- High-quality breeder seeds are not easily available to everybody. POs have been struggling to procure breeder seeds for distribution to member farmers. The certification process for seeds is very cumbersome and takes a lot of time, effort, and money.

B. Policies related to pricing

- Pricing of purchase of seeds as well as the sale of produce (under MSP) is dynamic and can be highly volatile. These dynamics introduce uncertainty and distort the profitability of POs.

C. Availing subsidies

- Compliance and documentation required in getting government subsidies discourage POs from availing subsidies. Due to the hassles involved, many POs are reluctant to even attempt accepting the benefit of various government subsidies or grants for their organisation.

Producer companies versus cooperatives

Parameters	Producer Companies	Cooperatives
Autonomy of management and operations	• Control of the government in the day-to-day operations is minimal and limited to statutory compliances. • Changes in the bye-laws can be effected through a resolution in general meetings and notifying the Registrar of Companies subsequently. • Shareholders have complete freedom over formation and operations of the company. • Management can be distinct from ownership, allowing non-member experts to be a part of the management and the board.	The government maintains a tight control over the operations through the Registrar of Cooperatives: • Any changes in the bye-laws need an approval from the Registrar. • The Registrar and the government hold a veto power in decision-making. The Registrar is empowered to determine if a member is an agriculturist or a non-agriculturist or of a member is a resident of the concerned town or village, among other issues. • The board members and management should also be members of the cooperative. Non-members cannot be office bearers.
Geographical coverage	Allows POs to operate within or outsides the state of registration and anywhere in India.	Can operate only within the specific states where the entity is registered.
Objectives	A company can be formed with multiple objectives and therefore have the flexibility of undertaking varied activities.	A cooperative can be formed with a single objective. Therefore activities undertaken by cooperative are limited.
Risk of politicisation	Limited risk of politicisation or political interference.	The mandatory periodic elections for official posts present a potential risk of politicisation.
Flexibility for member entry and exit	Shares are transferable, which allows easy options for additional membership and exit of existing members.	The addition of new members and exit of existing members needs to go through approvals of the general body. This is complex and time-consuming.
Registration process	The registration process is more complex and expensive. It might require the services of an expert.	The registration process is simpler and less expensive as compared to companies.

Sources: NABARD, MCA, MOFPI

Producer companies versus cooperatives (…continued)

Parameters	Producer Companies	Cooperatives
Raising capital	There is more freedom to raise capital in the form of loans. The borrowing limit is fixed by special resolution in a general meeting.	Borrowing limits are restricted by bye-laws, which can be amended only by approval of the Registrar.
Taxation	The Union Budget 2018-19 has exempted tax on profits of PCs with turnover less than INR 1.o billion.	Tax deduction in income is allowed for cooperatives that are engaged in agriculture and allied activities.
Audit	An audit can be done with help of an external auditor as per standards stipulated in the Companies Act. This provides more flexibility in conducting the audit.	Statutory audit is required to be done by an accountant who is appointed by the Registrar.
Growth and profitability	• Companies are for profit. Revenue growth and profitability are fundamental to companies. • This enables and motivates the management and the members to strive for profits.	• Cooperatives often do have an objective of maximising profits. Any surplus generated is often reinvested in operations. • This reduces the motivation for members to strive for growth and profitable operations and can lead to complacency.
Support and encouragement from the government	The focus of the government on promoting PCs is evident from the number of entities and schemes introduced by the government: • Small Farmers Agribusiness Consortium (SFAC) and its various schemes • NABARD (through Producer Organisations Promoting Institutions and alike) • Amendment to Companies Act (1956) to include specific regulations to support producer companies.	National Cooperative Development Corporation (NCDC) is an apex-level organisation that has been set up to promote and support cooperatives actively. National Cooperative Union of India (NCUI) is a federation of cooperative societies in India for advocating interests of cooperatives in the country.

PC – Producer Company

Sources: NABARD, MCA, MOFPI

FPO registered as cooperative society (state-wise and under Multi-State Cooperative Act)

Parameters	Pros and cons
Registration **process**	👍 Simple and less procedural
Registration fees	👍 Cost effective. Prescribed registration fees are nominal (for example, INR 1,250 as per the Maharashtra Cooperative Societies Act)
Time-bound registration	👍 Maximum of two months (dependent on respective state act)
Area of operation	👎 Restricted
Membership	👎 Open to any individual or cooperative that may not necessarily be primary producers. Having a professional member is not mandatory
Objective	👍 To make the goods and services available in the required quantity, at a better quality, at a reasonable price to its members
Certificate of incorporation	👎 Certificate issued by the Registrar of Societies or any other competent authority – valid for a particular period; needs renewal
Minimum authorised capital	👍 No minimum limit
Equality	👍 One member – one vote, irrespective of the number of shares held
Shares, reserves - lack of funds	👎 Shares are not tradable. Reserves are not mandatory. This leads to resource constraints as its own funds hardly make a sizeable portfolio of the working capital. With their weak fund base, the borrowings of cooperatives from the central financing agency are considerably conditioned.
Exploitation	👎 In the absence of proper marketing arrangements and functions at the level of Primary Agricultural Cooperative Societies, the rural poor fall prey to middlemen who exploit the situation.
Inadequate management	👎 Large farmers and landlords, with their superior economic and social power, manage to have a greater hold on these societies. As a result, cooperative suffer from nepotism, favouritism, and partiality.
Working and administration of the cooperative societies	👎 The government and Registrar of Cooperatives hold veto power. All bye-laws need to be approved by the Registrar, which delays the day-to-day functioning.
Tax exemption	👍 100% deduction is allowed in respect of the profit of cooperative societies that provide assistance to its members who are engaged in primary agricultural activities
Dispute settlement	👎 Through the cooperative system
Dissolution	👍 Simple, faster and cost-effective, unlike Producer Companies

Sources: NABARD, MCA, MOFPI

FPO registered as Producer Companies (Companies Act, 2013)

Parameters	Pros and cons
Registration process	Too procedural and cumbersome
Registration fees	Expensive; at INR 40,000 to 50,000
Time-bound registration	No time limit prescribed.
Area of operation	Single registration and operate throughout India
Membership	Only producer members
Operating cost	High, due to high staff cost – CEO and other professionals
Objective	Empower farmers through collective bargaining along with instilling an entrepreneurial quality to farming.
Certificate of incorporation	Certificate issued by the Registrar of Companies, valid for an unlimited period
Stamp duty	Not exempted from the payment of stamp duty while registration
Minimum authorised capital	INR 500,000
Minimum members	Minimum 10 primary producer members or two producer institutional members or any other formal farmer organisation.
Liability	PC Liability is limited to the value of the share capital. Members' liability is limited to the value of share capital held by them. Hence, the private assets of the members are safe from company losses.
Internal audit	Compulsory, not linkage to financial limit
Funding and reserves	Reserves are mandatory. Can form joint ventures, alliances, and also have subsidiaries, which is not the case for a society. Alliances and JVs enable the FPC to work at improving its supply chain, storage facilities and provide access to technology thereby enhancing the profitability. FPOs are allowed to raise capital from external sources. Producers and corporate or non-profit entities can float a producer company together.
Equity listing	Shares cannot be publicly listed and traded. They are only transferable among members.
Profit-sharing or utilisation of profits	Distribute its earnings back to members (need not plough back the profits unlike NPO or Section 8 companies) in the proportion of contribution and not necessarily as per the shareholding pattern.
Tax exemption	For FPO making turnover up to INR 1 billion
Dissolution	Cumbersome process as applicable to companies, complete closure or winding up takes around 1-2 years and involves compliance with various formalities. In certain cases, it requires the approval from the High Court
Dispute resolution	Through Arbitration
Penalties	Serious penalties for non-compliance

Sources: NABARD, MCA, MOFPI

FPO registered as Section 8 - not for profit (Companies Act, 2013)

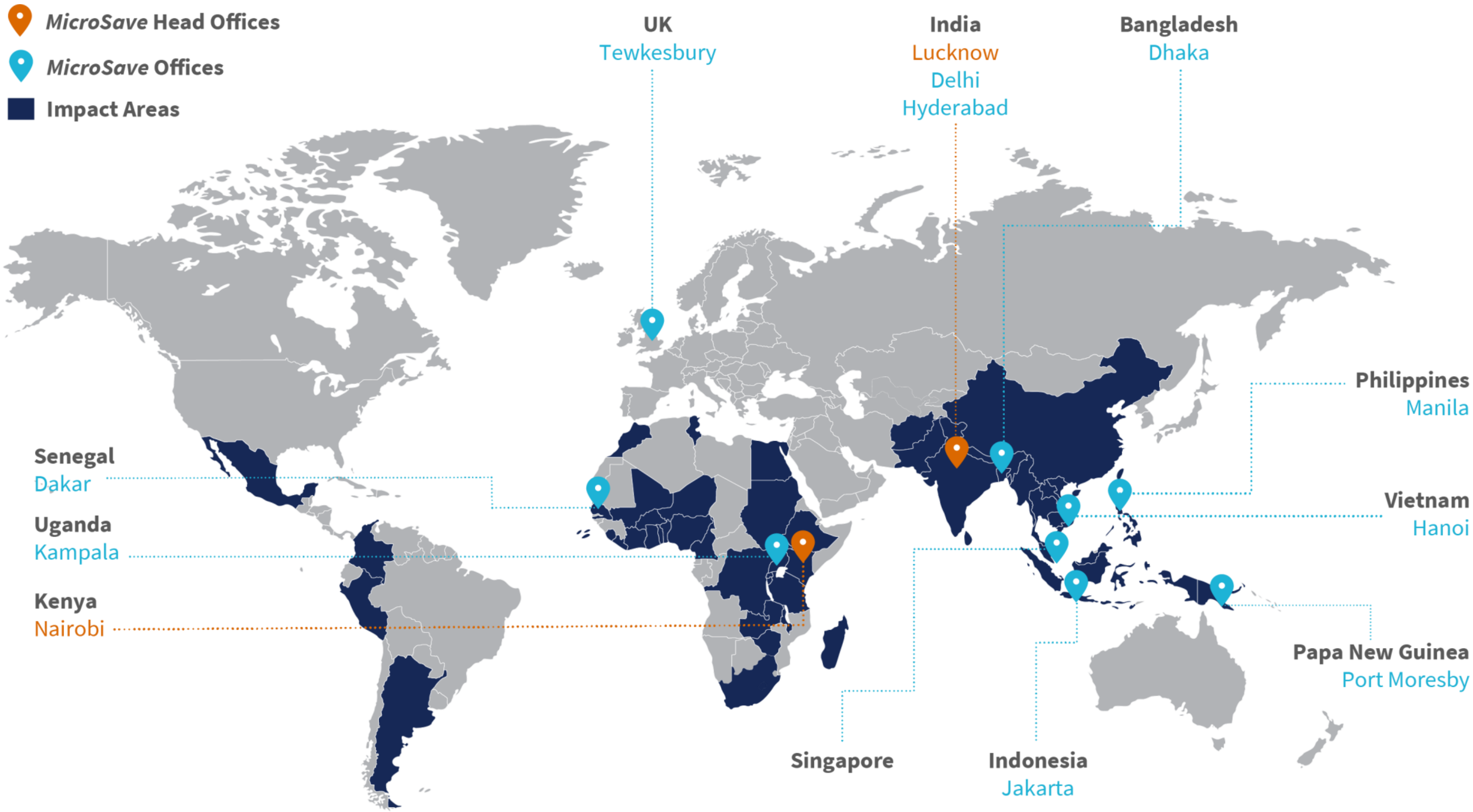
Parameters	Pros and cons
Registration process	Too procedural and cumbersome like FPO
Registration fees	Less Expensive then FPO-Min. INR 25,000 to 40,000
Time-bound registration	No time limit prescribed, generally takes 2-6 months
Title exemption	Exempted from using the word Private Limited or Limited (unlike FPO)
Area of operation	Single registration and operate throughout India
Membership	Open for all. Even a registered partnership firm can be a member in its own capacity
Operating cost	Medium (not as low as society or trust)
Objective	Elaborative (unlike FPO) - promote art, commerce, sports, safety, science, research, healthcare, social welfare, etc.
Certificate of incorporation	Certificate issued by the Registrar of Companies, valid for unlimited period
Stamp Duty	Exempted from the payment of stamp duty applicable for registration
Minimum authorised capital	No minimum
Minimum number of directors and shareholders	Minimum two; may be the same
Funding	Lucrative for foreign funding, to avoid stringent norms of Companies Act and Foreign Contribution Regulation Act.
Credibility	More credibility as compared to any other NPO be it a Trust or Society. As it is a licensed by the central government.
Promoted by **the g**overnment	The Central and State Governments have recognised Section 8 Companies in various schemes implemented by them
No incentive for **m**embers	The members could enjoy zero benefits or allowance or any other advantages as such. They could only be reimbursed for their pocket expenses that might have occurred in the course
Profit-sharing or utilisation	Profits cannot be distributed as dividends to members and it will be applied for promoting its objects only
Conditions by the government	The central government may impose conditions and regulations upon the company for granting a license
Tax **exemption (for income tax and GST)**	No tax exemption, unless registered as charitable organisation under Sec.12AA Income Tax, Act
Tax advantage to donors	Tax deductions to the donors of the company
Share transferability	Easily transferable, it is easier to become or leave the membership
Penalties	Various offences and lapses attract severe penalties.
Dissolution	Cumbersome process as applicable to companies, complete closure or winding up takes around 1-2 years and involves compliance with various formalities. In certain cases, it requires the approval from the high court.

Sources: NABARD, MCA, MOFPI

FPO registered as trust

Parameters	Pros and cons
Registration process	👍 Simple process of registration
Registration fees	👍 Low
Time-bound registration	👍 Takes less time due to the simplicity of the simple procedure and record-keeping
Legal status	👎 No law to regulate public trust (take guidance from Indian Trust Act, 1982)
Membership	👍 Open to all
Operating cost	👍 Low
Objective	👍 Elaborative (unlike FPO) - can be charitable or private
Stamp duty	👍 Nominal, upon registration of trust deed
Minimum authorised capital	👍 No minimum
Minimum number of directors and shareholders	👍 Minimum of two trustees; there is no upper limit to the number of trustees. The board of management comprises the trustees.
Funding	👎 Funding is through donations, gifts, grants, and loans. The FPO is not allowed to collect savings from general public. Section 45S of the RBI Act, 1934, no unincorporated bodies are allowed to accept deposits from the public
Financial substantiality	👎 Less
Investment	👎 No system of equity investment or ownership, which thereby makes it less attractive for commercial investors. Commercial investors generally regard the investments in such entities risky, primarily on account of their lack of professionalism and managerial practices. Investors are, therefore, reluctant to commit large volumes of funds to trusts
Tax **exemption (for income tax and GST)**	👎 Tax exemption extended to societies may apply to public trusts only to the extent the Income Tax Department accepts their activities as being charitable.
Removal of members	👎 Not regulated
Meetings	👍 No provisions laid down
Penalties	👍 Negligible
Statutory regulation	👍 Nominal
Dissolution	👍 Easy

Sources: NABARD, MCA, MOFPI



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