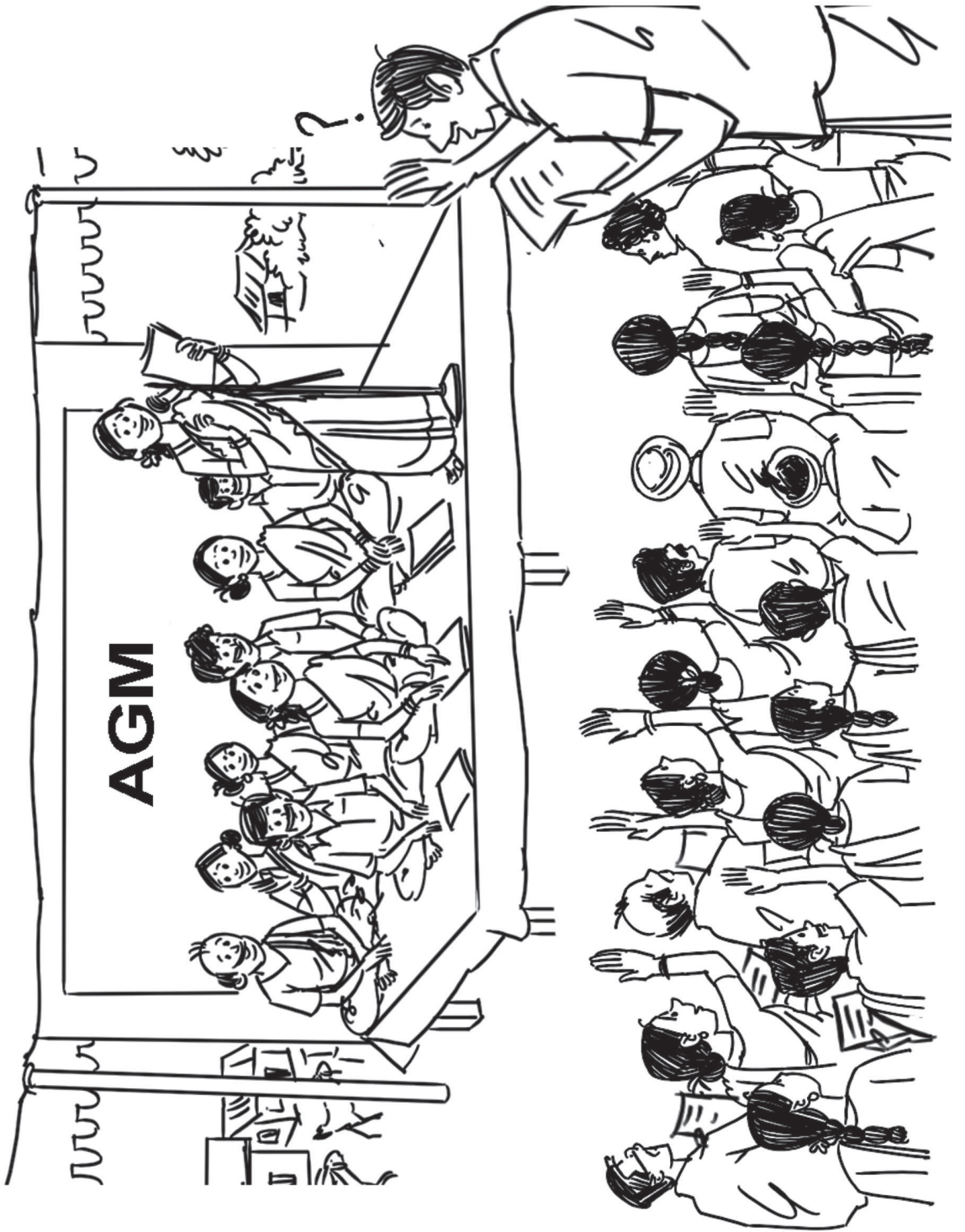


# PRERANA

# 4

## GOVERNANCE IN FARMER PRODUCERS ORGANIZATION





# 4

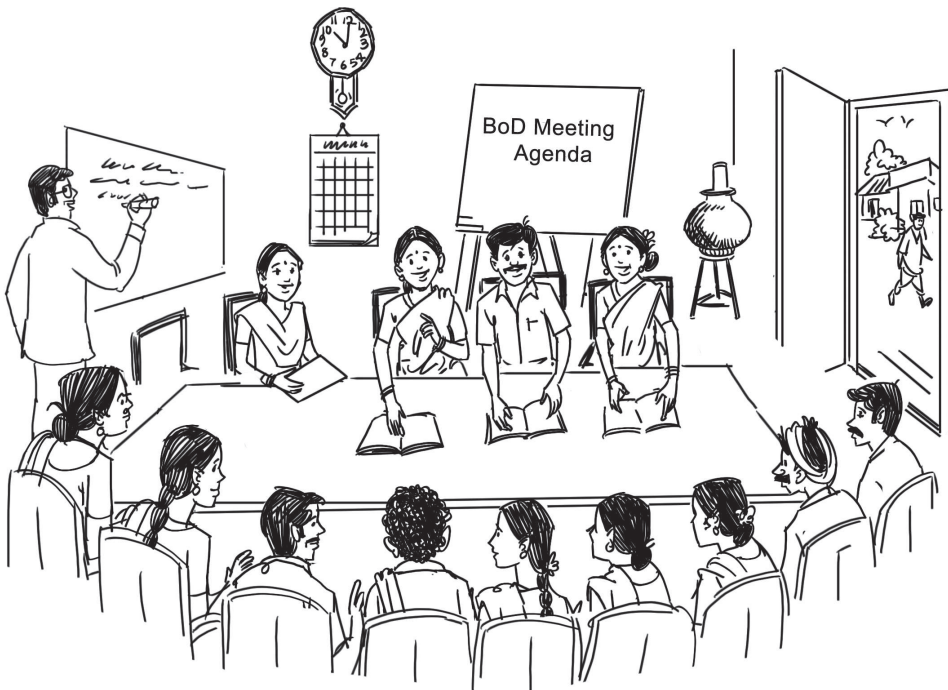
## Prerana

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# GOVERNANCE IN FARMER PRODUCERS ORGANIZATIONS

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Learning Module for  
Board Members of FPOs



# Prerana

## GOVERNANCE IN FARMER PRODUCERS ORGANIZATIONS

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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 FPO 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 – Governance in FPOs - is the fourth one in the series of self-learning modules for BoD members of FPOs. This module deals with Governance – the single most important function of BoD of FPOs. So this module equips the BoD members with necessary skills so that they can govern their FPO effectively.

### 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 module on Governances.

- To get known about the importance of governance and good governance practices in FPOs
- To get known about the Board, it's functions, Board meetings and General Meetings
- To appreciate the importance of having appropriate institutional systems, policies and being transparent and accountables



## Structure and Contents

After introducing the key function of governance, the module first starts with Board – their composition, terms and elections. Then it gets into conducting the crucial meetings in FPOs – Board meetings and General meetings. Then the need for institutional systems& policies, transparency& accountability are covered. The module ends with Good governance practices in FPOs – a summation of the so far modules indeed.

## 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.
- Annual General Body Meeting (AGM)** : Annual General Meeting or General Meeting is the annual meeting of the General Body of an FPO. AGMs are conducted to take key policy decisions of the FPO like audited financial statements, annual plans, investments & finance raising, auditor appointment, BoD election etc.
- Board/ Board of Directors (BoD)/ Directors** : 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.
- Board meeting** : The meeting conducted by Board of Directors of the FPO. Byelaws / AoA of an FPO shall specify the frequency of and manner in which board meeting shall be held. However, as per best practices the board shall meet at least once in every month.
- Cooperative Society** An FPO registered under a Cooperative Act (for eg, Andhra Pradesh Mutually Aided Cooperative Societies Act, 1995) is called a Cooperative Society.
- CEO/ Manager/ General Manager** : Every FPO need to have a full time Chief Executive Officer (CEO) or by whatever the designation may be (Manager, General Manager etc). The CEO shall manage the affairs of the FPO under the general superintendence, direction and control of the Board and be accountable for the performance of the FPO.
- 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.

- General Body meetings** : A meeting of the general body of an FPO
- Governance** : Governance refers to establishment of required policies & norms, and their proper implementation by required arrangements of systems, staff etc. in the organization. Governance also ensure compliance with rule of the law and accountability to concerned stakeholders.
- Independent / Expert Directors** : The Companies Act 2013 provided for having Independent/ Expert Directors on the Board of Producer Companies. As per the Act, the Board may co-opt expert directors not exceeding one-fifth of the total number of directors.
- Member** : “Member” means a person or Producer Institution admitted as a Member of an FPO and who retains the qualifications necessary for continuance as such. In FPOs, only eligible farmers or Producer Institutions in their operational area (as per their Byelaws/ AoA) can become members.
- MIS** : A management information system (MIS) is an information system used for decision-making, and for the coordination, control, analysis, and visualization of information in an organization.
- OB – Office Bearers** : Office Bearers are elected among the BoD members to oversee specific responsibilities. Office Bearers include Chairperson, Secretary, Treasurer etc.
- 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.

- Quorum** : The minimum number of persons whose presence is necessary for holding of a Meeting.
- Representative General Body (RGB)** : RGB means a smaller number of members representing all the members (General Body).
- Returns filing** : Annual returns are the details of the FPO to be filed to the concerned authority (Registrar of Cooperatives/ Registrar of Companies) every year. The details of annual returns include audited Financial statements of the FPO, key activities of the FPO etc.
- Sub-committees** : For each major function like marketing, finance, input supply etc, FPOs Board can form a sub-committee among them (2-3 member). Each sub-committee look after their concerned function and work under the overall supervision of the Board.

# Baseline

This module deals with topic “Governance in FPOs”. Given below are some basic questions on this topic for which we need to give answers. The purpose of this baseline is to assess our present understanding on these questions and thus get into learning more about “Governance in FPOs”.

1. What do you think the single most important function of the Board of Directors?

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

2. Are you performing your role as BoD member effectively?

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

3. How effectively your Board meetings are being conducted currently?

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

4. What will be the consequences if the required systems are not present in FPOs?

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



# 1

## GOVERNANCE IN FPOS: INTRODUCTION & IMPORTANCE

### Session Objective

---



To get introduced to governance and its importance in FPOs

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### *Content items*

1. Governance in FPOs, meaning
2. Importance of governance in FPOs

---

### Governance

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In the earlier Module, we have seen about the Membership of FPOs. Now, in this Module, we get into the other important functionary of FPOs i.e. Board and its key function of Governance.

Governance refers to establishment of required policies & norms, and their proper implementation by required arrangements of systems, staff etc. in the organization. Governance also ensure compliance with rule of the law and accountability to concerned stakeholders.

Good governance is vital to functioning of any organization, including FPO. And just like in any other organization, governance is the responsibility of the Board in FPOs. In fact, good governance is the single most important function of the Board.

In this module, different aspects of governance in FPOs are dealt with, as listed below.

- Board matters – composition, terms and election
- Governance arrangements in FPOs
- Conducting key meetings – Board and General Body (GB)
- Institutional systems and policies
- Transparency and accountability
- Good governance practices in FPOs

Now, let's see these aspects one by one.





## 2

# BOARD MATTERS: COMPOSITION, TERMS AND ELECTION

## Session Objective



To get required knowledge on Board composition, election and terms of Board members

## *Content items*

1. Board members eligibility, ineligibility criteria
2. Number of directors on the Board
3. Independent directors
4. Tenure and re-election of Board members
5. Vacation of office by Board members
6. Election of Board members

Before getting into the details of Governance, let's look into the details of Board of FPOs.

Board is the governing body of the FPO to take the policy decisions and ensure that the FPO works for its constituents i.e. members. In this section, let's look at various matters of the Board – its composition, terms of Board members, election etc.

## Board Composition

**Question:** How many members can we have on the Board of our FPO and what are the eligibility criteria to be a Board member?

The Board of a FPO is constituted by representatives elected by the General Body (GB) i.e. members of the FPO. It is required that the members who come on to the Board meet certain criteria

**Criteria for Directors:** The bylaws of our FPOs need to specify the required eligibility criteria for contesting for the Board and also ineligibility criteria to get into the Board. Such criteria are illustrated below.

### Box: Attributes of potential Directors

- Leadership
- Represent members (occupation, geographic, community etc)
- Best practitioner in concerned occupation
- Honesty and non-controversial
- Concern for small, marginal & women farmers



### Suggestive eligibility criteria:

- Age: 25-65 years
- Minimum education: 7th standard; Reading, Writing and Arithmetic skills
- Willingness to take required responsibilities and liabilities
- Willingness to give required time
- Shall be a member of the FPO for at least 2 years and eligible to continue.



- Before elections, shall have attended at least two general body meetings.
- Shall have no dues payable to the FPO.
- Can meet the BoD member continuation criteria

### Non eligibility criteria:

- A board member in other similar organisations in the same area
- Occupation for himself/ herself which is in conflict with that of the FPO
- Occupation for his/ her any family member which is in conflict with that of the FPO
- Public political affiliation
- Financial default



### Number of members of the Board:

- The Companies Act 2013 stipulates that the number of members on the Board of a Producer Company should not be less than 5 and more than 15.
- A MACS can decide on how many directors can be in its board. The number of Directors of the Board can be either odd number or even number, but it should be a multiple of the term of office of its Directors. For eg, if the tenure of BoD member is 3 years, then the number of BoD members can be 6 (3\*2), 9 (3\*3), 12 (3\*4), 15 (3\*5) etc.

### Independent/ Expert Directors:

- The Companies Act 2013 provided for having Independent/ Expert Directors on the Board of Producer Companies. As per the Act, the Board may co-opt expert directors not exceeding one-fifth of the total number of directors. The expert directors shall not have the right to vote in the election of the Chairman but shall be eligible to be elected as Chairman, if so provided by its articles.



## Board Members' Terms

Once the number of Directors, their criteria etc are seen, then different terms have to be set for Directors. These terms include tenure, retirement, vacation etc. The different terms for the Directors under the two Acts are furnished below.

### Companies Act 2013:

Each year, one third of the Board members have to retire and elections have to be held for these positions. The tenure of the Board members may be specified in the articles. However, it should not be less than one year and more than five years. Every director, who retires in accordance with the articles, shall be eligible for re-appointment as a director.

#### **581Q. VACATION OF OFFICE BY DIRECTORS (Companies Act 2013)**

The office of the director of a Producer Company shall become vacant if-

1. He is convicted by a Court of any offence;
2. The Producer Company, in which he is a director, has made a default in repayment of any advances or loans;
3. He has made a default in repayment of any advances or loans taken from the Producer Company in which he is a director;
4. The Producer Company, in which he is a director -
  - a. Has not filed the annual accounts and annual return for any continuous three financial years; or
  - b. Has failed to, repay its deposit or withheld price or patronage bonus or interest thereon on due date, or pay dividend and such failure continues for one year or more;
  - c. Default is made in holding election for the office of director;
  - d. The annual general meeting or extraordinary general meeting of the Producer Company is not called except due to natural calamity or such other reason

## **Mutually Aided Cooperative Societies Act, 1995**

Each year, one third of the Board members have to retire and elections have to be held for these positions. The tenure of the Board members may be specified in the articles. However, it should not be less than one year and more than five years. Every director, who retires in accordance with the articles, shall be eligible for re-appointment as a director.

### **Tenure**

The MACS Act stipulates that the period of holding office by the Directors of the Board shall not exceed 5 years. The period of holding office should be at least 3 years or maximum of 5 years.

### **Continuity**

Imagine, if the tenure of all Directors ends at the same time, what happens! It creates huge gap that those newly elected in their place will need more time to understand their functions and get into the work. There is a possibility of taking wrong decisions and consequently the business also may get affected. Therefore, it is obvious that the Board shall exist in such a way that the tenure of all Directors shall not come to an end at a time! Thus the vacancies created due to the end of the tenure of the Directors should be less than half of the total number of the Directors so as to ensure continuity in functioning.

### **Re-election**

On completion of the tenure as Director of the Board, anyone can contest in the elections to the Board. The general body may also re-elect them. However, if the byelaws of the Society do not provide for such re-election, they are not eligible for re-election.

### **Qualifications and disqualification of Board of Directors**

In the byelaws of the society, the qualifications of those to be elected as directors of the board, should be clearly mentioned. In the same way, it shall also be specified as to how a Director can be disqualified for the functions he failed to perform properly.

### **Qualifications:**

Those who wish to be elected as directors of the board, shall

- Be a member of the Co-operative society and have voting right and shall be eligible to continue in the society.
- Must be in the society working for more than two years as a member having voting right at least for two years before elections.
- Before elections, shall have attended at least two general body meetings.
- Director shall have no dues payable to the society. Though this is not stipulated in the Act, it shall be followed as a matter of convention.

### **Disqualifications**

In the following circumstances, the directors will become either ineligible to continue in the board or being re-elected to the Board, if the Board of Directors does not

- Conduct the annual general body meeting 6 months before the closure of the financial year.
- Does not conduct elections to the Board before the end of the due date
- Fails to get the annual accounts audited
- Fails to place before the annual general body meeting the audited accounts and audit reports for approval
- Absents her/himself three annual general body meetings without permission<sup>8</sup>
- Subjected to disciplinary action in accordance with Co-operative Societies Act.

Under the above circumstances, they will become ineligible to continue as Directors of the Board. In addition, they are ineligible for being elected to the Board of the Society for another 3 years.

From the provisions in the Acts, we can understand that FPOs need to ensure different terms such as tenure, retirement, vacation and criteria for continuation/ discontinuation for their BoD members.

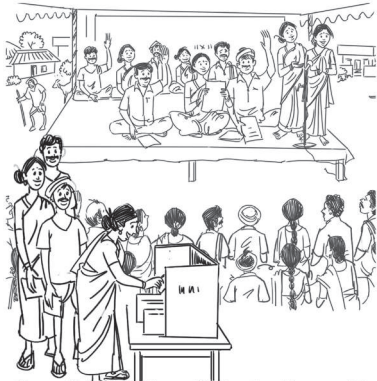
**Assignment:**

Please refer the byelaws/ Articles of your FPO and check for the following provisions. If any aspect is not mentioned, please discuss and arrive at what can be specified in the byelaws/ Articles regarding that aspect keeping in view the purview of the concerned Act.






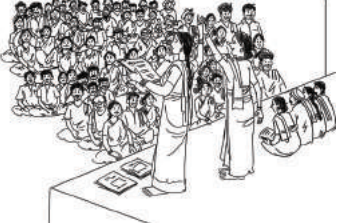

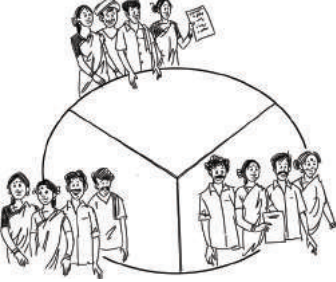

- a) What should be the eligibility criteria for a Board member?  
.....
- b) What should be the continuation criteria for a Board member?  
.....
- c) What should be the number of Directors on your Board?  
.....
- d) What should be the appropriate tenure of the Board member?  
.....
- e) How the re-election of BoD member can be done?  
.....
- f) Under what circumstances, a BoD member can be terminated?  
.....

**Election of Board Members**

We could elect that by show of hands – that, however, is not such a good idea as people tend not to forgive someone who has not voted for them! Rather ask people to ‘fight’ in the elections, and the following process could be adopted.



**Table: Board members election process**

<p>1. FPO operational area should be divided into 3 constituencies</p> 	<p>2. Senior /older member who will not contest in future will be nominated as election</p> 	<p>3. The eligible candidates from each constituency should sit together &amp; be given numbers</p> 
<p>4. Members will write the number of persons whom they want to select &amp; put in the box provided by election officers</p> 	<p>5. Election officers will count the votes</p> 	<p>6. Election Officers announces that the person who gets more than 50% votes will be the selected person.</p> 
<p>7. Repeat the election process from step 3 to 6 until the number of required persons elected / vacancies filled.</p> 	<p>8. From each area, we should have 4 Directors</p> 	<p>9. Selected members will take oath</p> 



After the election of Board of Directors they shall elect office bearers from among themselves. Once again, the same process of rounds of voting must take place, as in the BoD election. Here, too, elections should first be held for the post of President, then Vice-President, and so on, for all office bearers.

Once again, at the end of elections, the new President/Chairman must thank the election committee members for their help, and thank all previous committee members for the work that they have done. She/he should assure them that she/he will ensure that the Board of Directors will continue to work for the best interests of the organisation.

### Governance Arrangements

We as Board of Directors must manage our FPO well and forge good relationships with members. This is because we need help from the members, including their participation in the Annual General Meetings (AGMs), seek feedback on how well we are serving them, what things are working well and what needs improvement. In this connection, we required governance arrangements for smooth functioning of our FPO.

**Exercise:** We need to go through the following caselets of 3 different FPOs and identify the consequences of these situations. Also we need to come up with the required governance arrangements to deal with such situations.

**FPO1:** In this FPO, there are 1200 members and represented by a 15 member Board. However, to take some urgent decisions like raising the authorized share capital, finance raising, membership in the federation etc, which have to be taken by the GB, it has become difficult to get the quorum for Extraordinary General Meeting (EGM).

**FPO2:** An FPO is operating in a tribal, hilly area where the habitations are highly dispersed across vast geographic area. Thus the members of the FPO are sparsely spread across these habitations. Out of 40 habitations of FPO operational area, 10 habitations located contiguously are left without any representation in the Board. In view of this, the members in these habitations could not get required information about the service of the FPO. Also the Board could not get the required information about the needs and status of members of these habitations.

**FPO3:** This FPO takes up different activities like marketing, input supply, finance etc. However, all the Board members of the FPO have to look after all such major activities. There was no clarity among the Board members in this regard and thus no accountability for activities.

The above discussion takes us to the conclusion that some governance arrangements are required for smooth functioning of the FPOs. Following are some such governance arrangements required for FPOs. However, these vary as per the activities and specific needs of FPOs.

### **Representative General Body**

In FPOs where there are large number of members which makes it difficult to get EGM for any urgent decision making etc, the FPO can form a Representative General Body (RGB). RGB means a smaller number of members representing all the members – for example, if there are 100 Farmers Groups in an FPO, average 10 members per group, then each Group can nominate 1 and a total of 100 to the RGB. Thus, it makes easier for 100 members to meet than 1000 members. The modalities and powers of RGB have to be specified in the byelaws of the FPO.

### **Territorial responsibility**

FPOs can have territorial clusters like Gram Panchayats, group of villages etc. based on number of members and see that at least one member from each cluster comes on to the Board. Even if there is no Board member from any cluster, the FPO can allot some specific cluster/clusters to each Board member to look after.

The concerned Board member of a division is responsible for different activities and services of FPOs to members in that division. That Board member can also serve as interface between the members of that division and the FPO in information, communication etc.

Such specific responsibilities of the Board members and modalities of territorial governance arrangements have to be laid down in the byelaws.

### **Board sub-committees**

For each major function like marketing, finance, input supply etc, FPOs can have a Board sub-committee (2-3 member). Each sub-committee look after their concerned function and work under the overall supervision of the Board.

Assignment: Let's workout the required governance arrangements for our FPO. It can be presented for discussion and feedback



### Companies Act: 581U. Committee of directors

1. The Board may constitute such number of committees as it may deem fit for the purpose of assisting the Board in the efficient discharge of its functions:

Provided that the Board shall not delegate any of its powers or assign the powers of the Chief Executive, to any committee.

2. A committee constituted under sub-section (1) may, with the approval of the Board, co-opt such number of persons as it deems fit as members of the committee:

Provided that the Chief Executive or a director of the Producer Company shall be a member of such committee.

3. Every such committee shall function under the general superintendence, direction and control of the Board, for such duration, and in such manner as the Board may direct.
4. The fee and allowances to be paid to the members of the committee shall be such as may be determined by the Board.
5. The minutes of each meeting of the committee shall be placed before the Board at its next meeting



**Exercise: Board of Directors under Companies Act 2013**

#	Statement	True / False	Section No.
1	A company can have 13 Directors on its Board		
2	A company Board may co-opt a person as director in addition to 15 Directors on its Board		
3	After registration of the Producer Company, the election of directors shall be conducted within one year		
4	A Director whose terms has come to an end can stand for elections again		
5	A Board member has 5 year term at the most		
6	The term of the Directors can be 2 years		
7	The position of the Director of a Producer Company shall become vacant if has not filed the annual accounts for any continuous three financial years		
8	If there is a delay in repay its deposit or patronage bonus for more than a year, the Director of a Producer Company shall become vacant		
9	The co-opted / appointed director shall be eligible to be elected as Chairperson, if so provided by its articles		
10	If elections are not held on time, the Director of a Producer Company shall become vacant, in accordance with the articles		

# CONDUCTING BOARD OF DIRECTORS MEETING

## Session Objective



To realize the importance of meetings and know how to conduct Board meetings

## Content items

1. Importance of meetings
2. Different aspects of Board meeting – number, quorum, notice, decision making, agenda
3. Roles & responsibilities of OBs in Board meeting
4. Board meeting assessment

## Need and importance of meetings

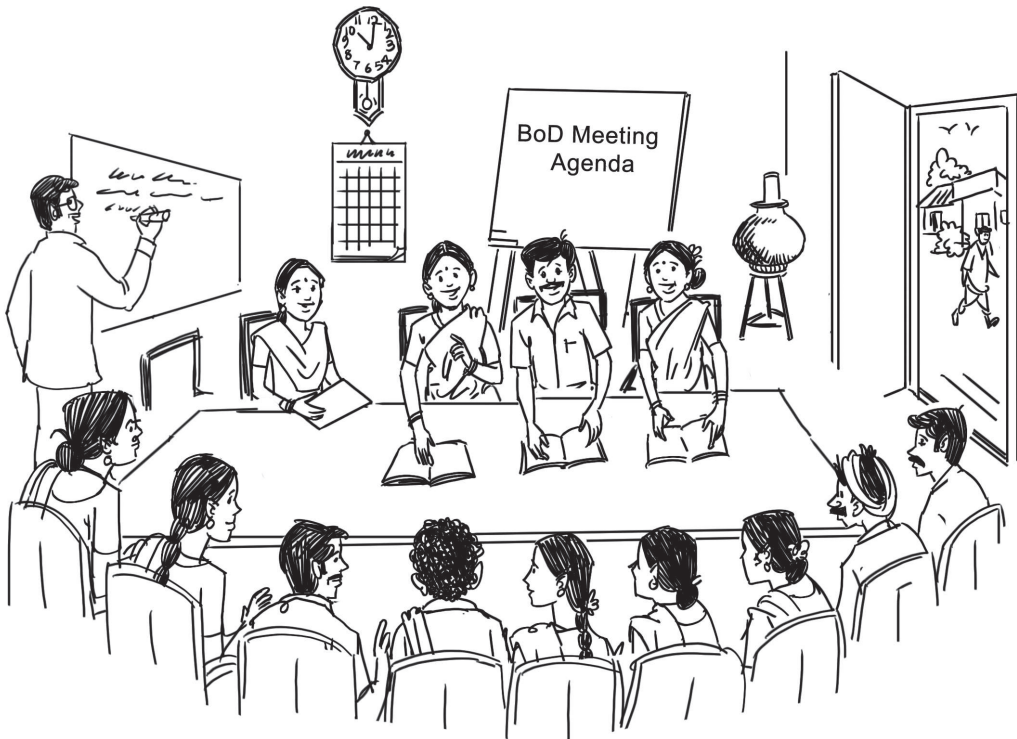
Meetings are key in building of community institutions like FPOs. In FPOs where every member have equal voting rights, meetings are important for collective decision making. Meetings provide a platform for participation of the members, Directors and staff in planning, decision making and thus executing their respective job in an effective manner. Also by participation in meetings, progress of FPO can be reviewed and can gain knowledge by necessary information.

There are two types of meetings conducted in FPOs:

- a. Board of Directors meeting and
- b. General Body meeting

It can be noted that the above meetings are key for not only effective governance of FPOs but also they have to be complied as per the law.

Thus, let's get into knowing about these meetings in detail. To start with, how to conduct Board meetings and different aspects of Board meeting are given below.



### Number of Meetings

As per Companies Act 2013, the Board shall meet not less than once in every three months and at least four such meetings shall be held in every year. However, the best practice is that the Board of FPO meet once in a month on a fixed date so as to discuss on key matters and review the activities of the FPO from time to time.

A sitting fee can be paid to the Board members for attending the Board meetings. However, the amount of the sitting fee shall be determined by the members in a general meeting from time to time.



Meeting Date



Attendance



Time



Agenda

### Quorum:

As per Companies Act 2013, the quorum (the minimum number of eligible members required to take any decision in a meeting) for a Board Meeting shall be one third of the total number of directors in the Board, subject to the minimum of three. But in Articles, something like half of the Directors as quorum for the meeting can be laid down.

The Chairperson shall preside over the meeting of the Board. In case of his/her absence, the directors present shall elect one of the elected directors as the Chairperson of the meeting.

### Illustration: Agenda items for Board meeting

1. Approval of the minutes of the last meeting
2. Review of the activities of last month
3. Business decisions (like quantity procurement, price, input supply etc)
4. Review budget vs expenditure
5. Checking the receipts and payment and financial statements of last quarter
6. Approval of activity plan and budget for next month/ quarter
7. Discussion on other issues



### Meeting notice:

In case of Producer Company, the Board meeting shall be called generally with seven days' notice (should be issued by CEO) in writing. But in case of emergencies, it can be called at a shorter notice and the reasons thereof shall be recorded in writing by the Board.



In case of MACS, notice will not be issued for board meetings except in the extraordinary event that a change in date or place or time becomes necessary. In such cases, it shall be the duty of the secretary, in consultation with the Chairperson, to inform all board members in person or through a representative, of the change.

### Decision making:

Each member of the Board shall have one vote. Decisions at the Board meeting shall be arrived at by majority votes of the directors present. In case of a tie, the Chairperson of the meeting shall have the casting vote in addition to his usual vote except in case of election of the Chairperson. Tie in case of election of chairman, the matter shall be decided by draw of lots.

No member shall be present at discussion or vote on any matter in which he/she has personal interest. The minutes of board meetings will be maintained in the minutes book. Members will wait till the minutes are drafted, after a board meeting, and sign the minutes book, if satisfied by the record of the proceedings.



## Roles & responsibilities of Office Bearers and Board members in board meetings

**Chairperson:** Preside over the meeting. He/ She must be ensured that the resolutions made and the decisions taken by the board are implemented.

**Secretary:** He/ She should present the progress made by the FPO to the members of the Board. With the support of the CEO/ GM, s/he should also present the financial statements. S/he should minute the resolutions in the minute book and responsible for circulating meeting minutes to all the Board members.

**Treasurer:** Every month internal auditing must be carried out. Findings of the internal audit should be present to the members of the Board in the meeting.

**CEO/ GM:** Present the progress on various activities – fund position, receivables, payments, business activities, service delivery, progress of the Board sub-committees etc; making available all required information. Has to ensure all necessary logistics and arrangements for conduct of the meetings.

### Assignment: Board Meeting Assessment

Given below are different aspects of Board Meeting in FPOs. Let's rate the Board meetings in our FPO for each of these aspects by using the following scale.

Y— Yes, this is not a problem.

U —I feel unsure about this and some improvement is needed on this.

N —No, need improvement on this.

**Farmer Producers Organizations**

#	Situation	Circle one		
1	The meeting notice and agenda notes are given to the Directors prior to the meeting	Y	U	N
2	Meetings conditions are adequate (seating, lighting etc)	Y	U	N
3	Time is maintained in meetings	Y	U	N
4	Agenda for the meeting is set by covering all required topics	Y	U	N
5	The chairman facilitates the discussion, encourages participation from all directors, and ensure fruitful discussion on the topics	Y	U	N
6	Minutes are recorded properly, duly signed by all BoD members and circulated	Y	U	N
7	Each director participates and contributes to discussions during board meetings; a minority of Directors does not control most discussion	Y	U	N
8	Decision making is done by internally only without control of external person/ agency	Y	U	N
9	All the decisions taken in Board meetings are complied with	Y	U	N
10	The attendance for the Board meeting is higher than the required quorum	Y	U	N

**Summarize ratings by completing the following:**

Items receiving Y ratings include: .....

Items receiving U ratings include: .....

Items receiving N ratings include: .....

Identify the items/areas in which you feel you need the most training/ improvement.

.....

.....

.....



**Exercise:** We need to take the case of our Board meeting, narrate the details of conducting the Board meeting. Then, detailed discussion has to take place to what extent our Board meeting is complying the guidelines, what corrections/ improvements required etc.



# 4

## CONDUCTING ANNUAL GENERAL BODY MEETING

### Session Objective



To get an understanding of various aspects of General Meeting in FPOs

### Content items

1. General Meetings in FPOs
2. AGM – time, quorum, notice, documents
3. Annual report
4. Returns filing
5. EGM

### General Meetings

General Meetings are the meeting of all shareholder members of a FPO.

There are two types of General Meetings –

Annual General Meeting (AGM) – which is held once a year

Extraordinary General Meeting (EGM) – which is called by the Board at any time to transact any urgent matters



It is the responsibility of Board to conduct Annual General Body Meetings at least once in a year before six months of the closure of the financial year. In addition, it is specified in the Act that the business activities of the FPO has to be submitted to the general body. The Board shall also be submitted to the general body, annual report, financial statements, annual audit reports and budget proposals.

### Annual General Meeting

FPO is an institution formed by its members to achieve their objectives. It is imperative for all to meet at least once in a year to chalk out plans and review the implementation.

The progress and activities of FPO need to be shared at the General Body and obtain its approval. Only General Body will have the powers to take all final decisions relating to the FPO.



**Decision on the date:** The date has to be convenient for all the members to attend. For example, if the meeting is held during agricultural season many members may not be able to attend. Therefore it should be held during off-season. But it should be conducted soon after the financial year ends.

**List of eligible members:** Those members who are irregular in paying the savings and loan amounts as and have not paid the membership fee as on date of the meeting, though attend the meeting, will not be eligible to vote or take part in the discussions. Similarly, those members who does not fulfil the minimal services with FPO may also be made ineligible. The names of the eligible and ineligible members for taking part in the discussions in the meeting have to be displayed on the notice board before the date of the general body meeting.



**Annual Report:** Annual report of the FPO is the most important document and it has to be prepared at the end of each financial year. Details of the functioning of the FPO during the previous year, the progress achieved must be incorporated in the report.

**Generally, the annual report contains the following contents.**

- Particulars of the Board members – number, names, position, term, their attendance for the Board meetings of previous year, the transactions and the honorarium drawn by them
- Particulars of members – number, members newly enrolled, those who have withdrawn their membership etc
- Progress of activities of the FPO during the year
- A detailed statement on the services and education provided to the members
- Statement of member wise business transactions with FPO during the year
- Staff details - names, their designations
- Financial details – audited balance sheet, profit& loss statement with auditor note
- Details of external support to the FPO
- A note of thanks must be added at the end of the report acknowledging the services taken by members, support extended by external agencies etc.

The annual report should be printed and a copy has to be circulated to each member. Also, the annual report has to be read loudly in full and members' approval for it has to be obtained.

## Annual General Meeting (AGM) related provisions in Companies Act 2013

A Producer Company should, in each year, hold an Annual General Meeting

### Notice and Documents:

Annual General Meeting shall be called by giving not less than fourteen days prior notice in writing. The notice of the general meeting indicating the date, time and place of the meeting shall be sent to every Member and auditor of the Producer Company



The notice calling the annual general meeting shall be accompanied by the following documents, namely:

- The agenda of the annual general meeting;
- The minutes of the previous annual general meeting or the extraordinary general meeting
- The names of candidates for election, if any, to the office of director, including a statement of qualifications in respect of each candidate
- The text of the draft resolution for appointment of auditors;
- The text of any draft resolution proposing amendment to the memorandum or articles to be considered at the general meeting, along with the recommendations of the Board.
- The audited balance-sheet and profit and loss accounts of the Producer Company together with a report of the Board of Directors of such Company with respect to:
  - The state of affairs of the Producer Company;
  - The amount proposed to be carried to reserve;
  - The amount to be paid as limited return on share capital;
  - The amount proposed to be disbursed as patronage bonus;
  - The material changes and commitments, if any, affecting the financial position of the Producer Company, which have occurred in between the date of the annual accounts of the Producer Company to which the balance sheet relates and the date of the report of the Board.
- Any other matter which is required to be, or may be, specified by the Board

**Quorum:**

Unless the articles of the Producer Company provide for a larger number, one-fourth of the total number of members of the Producer Company shall be the quorum for its annual general meeting.

In the case where a Producer Company is formed by producer institutions, such institutions shall be represented in the general body through their Chairman or the Chief Executives, who shall be competent to act on their behalf.



**Extraordinary General Meeting Convened By Board :**

Every general meeting, other than AGM, is an extraordinary general meeting. It is usually called by the BoD for transacting some urgent business for which has to be done before the next annual meeting. The Board of the Directors shall proceed to call an extraordinary general meeting in accordance with the provisions made in Companies Act.



**Exercise:** Let's narrate, in detail, the process and the way in which the previous AGM was conducted for our FPO. Let's discuss on this and check for consistency with Act, bylaws provisions and best practices for conduct of AGM.

**Annexure: Documents of Annual General Meeting**



**PRODUCER COMPANY LIMITED NOTICE**  
**FIRST GENERAL BODY MEETING**

**Date:** \_\_\_\_\_ (14 days before GB meeting)

Notice is hereby given to all members of the Company that the First General Body Meeting of the Company will be held on date \_\_\_\_\_ (specify day) (within 90 days of registration) at morning \_\_\_ a.m. at \_\_\_\_\_, \_\_\_\_\_. (give the address in detail along with landmarks).

Following is the Agenda of the meeting.

**ORDINARY BUSINESS**

1. Welcome by Chief Promoter
2. To consider the Financial Status of the Company
3. To intimate the progress so far of the Company
4. To consider Auditor appointment
5. To approve the annual plan and budget for next financial year

**SPECIAL BUSINESS**

6. To approve the Business Plan of the Company
7. To consider the financial aspects of the Company
  - a. To approve Borrowing Limits of the company and authorisation to the Board to borrow such approved limits
  - b. To approve Fund Raising through micro-lending
  - c. To consider Surplus / deficit management provisions
  - d. To set up various funds
  - e. To adopt Patronage Bonus computation and distribution plan
  - f. To adopt Transfer of Profit to Reserves Plan
8. Approval and adoption of Memorandum of Association and Articles of Association of the company
9. To approve Service Agreement with support institutions
10. Election of Board Members
11. Message by the Invitee
12. Vote of thanks

On behalf of the Company

(Chief Promoter)

## NOTES FOR THE GB MEETING CHECKLIST

### To consider the Financial Status of the Company

- Authorised share capital, share value
- Paid up share capital details – amount of share capital, number of shareholders

### Timeline for issue of shares

- Other income
- Expenditure details
- Bank account details
- Any other finance matters

### To intimate the progress so far of the Company

- Need, rationale and purpose of FPC; why it was formed
- Initiation, support agencies

### Registration details – as Producer Company under Companies Act, Ministry of Corporate Affairs, Government of India; date of registration

- Legal permits, licenses
- Input linkages
- Trainings
- Exposure visits
- Procurement
- Business plan
- Any other matter of progress

### To consider Auditor appointment

- One paragraph on the profile of the proposed Auditor  
To approve the annual plan and budget for next financial year  
\_\_\_\_\_ Farmer Services Producer Company Limited

**ANNUAL PLAN FOR YEAR \_\_\_\_\_ - \_\_\_\_ (Rs. Lakhs)**

#	Parameter	Details
<b>A</b>	<b>Scale</b>	
1	Number of members	
2	No. of staff	
3	No. of Board Members trained	
4	No. of GB Members trained	
<b>B</b>	<b>Business</b>	
1	Infrastructure	
1.a	Dal Mill (2.5 TPH)	
1.b	Warehouse (2000 MT)	
1.c	FSC	
2	Turnover	
2.a	Procurement	
2.b	Financial services	
2.c	FSC	
<b>C</b>	<b>Financial</b>	
1	Share capital	
2	Net profit	
3	Fund Requirement	
3.a	Investment	
i	Dal mill	
ii	Warehouse	
iii	FSC	
iv	Agricultural Machinery Hire Centre	
3.b	Working capital	
i	Procurement	
ii	Financial services	
iii	FSC	

The GB to authorise the Board for detailed annual plan and implementation.

**To approve the Business Plan of the Company**

- Service portfolio
- Summary of the Business Plan

# INSTITUTIONAL SYSTEMS AND POLICIES

## Session Objective



To get an awareness on the need for systems and policies in FPOs and identify the appropriate systems and policies for FPOs

### Content items

1. Systems and policies – need in FPOs
2. Required systems and policies for FPOs
3. Identification of appropriate systems and policies for FPOs

Setting up of effective institutional systems and policies and their efficient functioning is a key Governance features of FPOs. They can be of very simple and brief also but presence of systems and policies is very needful for effective functioning of FPOs. They are like norms without which any system can't run. For e.g. what happens to traffic in busy roads if traffic rules does not exist and there is no system of implementing the traffic rules?

As Board members we have responsibility to

- Protect the interests of members and other stakeholders and the organisation as a whole.
- Ensure the governance and the business are conducted properly
- Identification of gaps and deficiencies and thereby improving the quality and volumes of business and management.
- Increases the awareness and control on the affairs of the organisation

- Enable to take corrective actions, revision of plans, policies and programmes
- Fix accountability for all the concerned, with decision-making and implementation.

To ensure all above, we need to take up proper measures. Before that we need to understand the implications on the FPO due to lack of corrective measures.

### **SHANTI FARMERS PRODUCER COOPERATIVE**

In Shanti Farmers Producer Organisation, several field staff are checking through account registers to see which member have supplied produce, how much and who haven't.

Two management committee members are meeting with farmers. One farmer is complaining that he paid crop loan off months ago and is demanding to know why still his account has not been credited. The second farmer is complaining that even though the crop loan has been approved last month for purchasing inputs and cheque was issued by FPO, which he could not take due to lack of sufficient amount in FPO account. He now had to wait for more time for the crop loan amount from which he loses upcoming Rabi season.

In the FPO, stacks of papers are seen everywhere. Some field staff are working on reconciling produce and sale account balances with the stock ledger. The accountant is working to reconcile FPO accounts from months ago and trying to prepare a status of funds statement for the upcoming Board of Directors meeting – a task that unfortunately, will not be completed in time.

In the FPO office, the Board of Directors are holding their monthly Board meeting. The CEO announces that they have run their account down and she suggested Board of Directors to suspend procurement and sale of inputs for next three weeks due to shortage of funds. The Board of Directors asked accountant to provide information related to number of active farmers, produce and sale statement, portfolio performance report and financial statements. The accountant just shrugs her shoulders when asked to put together this information in a week time.

1. What are the underlying problems facing this FPO?
2. What measures can be taken up by Board to avoid this type of situation in the FPO?

Please use following space for your observations:

1 .....  
.....  
.....  
.....

2 .....  
.....  
.....  
.....

From the above case we realized that the importance of “availability of on time information” to make a variety of decisions in a coordinated manner so that:

- Decisions are taken quickly and timely
- Avoid unnecessary delays
- Monitor and control progress
- Take timely corrective actions
- Provide feedback to decisions

To make sure availability of information on time, extremely important for making decisions and carrying out day-to-day business operations of the following functions of the management:

- 1) Finances 2) Purchasing 3) Production 4) Marketing 5) Administration

Let’s consider the following cases of FPOs.

- An FPO into procurement of tomato and other vegetables – they have not set up the collection centre with grading table etc. Their grading (Grade 1, Grade 2, Grade 3) criteria are not clear and it was not well communicated to members. This necessitate procurement and quality system



- In another FPO, service fee is collected from some members. However, no receipt is given to those members and cash balance is more than the bank balance of the FPO. This required proper Accounting & Bookkeeping system.
- In FPOs, conflicts like payments, few people trying to take over etc may arise. So, there is need for suitable conflict management system.
- No monitoring system may result in issues like staff not performing well etc.

**Exercise:**

Please discuss on the above case. Can these kinds of instances happen in your FPO also? After discussion, please identify and list top 3 areas in which improvement is required for your FPO.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

From the above discussion, it is evident that FPOs need to have appropriate systems and policies for their smooth running.

Following are the different kinds of systems that FPOs need to have. However, the kind and extent of them depends on the stage, activity and scale of that particular FPO.

So as to take up different activities, there is need for some systems in any FPO. Effective organisational systems are very much important so as to deliver the required services to members in an efficient manner. The extent of systems again depends on the stage and business level of the FPO. The practice rules of the systems are approved by the Board and staff manages the systems. Based on the requirement, systems can be changed from time to time.

Generally following systems are required for FPOs.

<b>Institutional</b>	<b>Business</b>
Accounting& bookkeeping	Marketing
Human Resources	Storage
	Processing& value addition
Governance	Production& procurement
	Seed production, processing
MIS, Monitoring	Seed production, processing
	Input supply

Likewise, FPOs may have following policies based on their scale of business and activities.

- Human Resource policy
- Financial policy
- Membership policy
- Governance policy etc

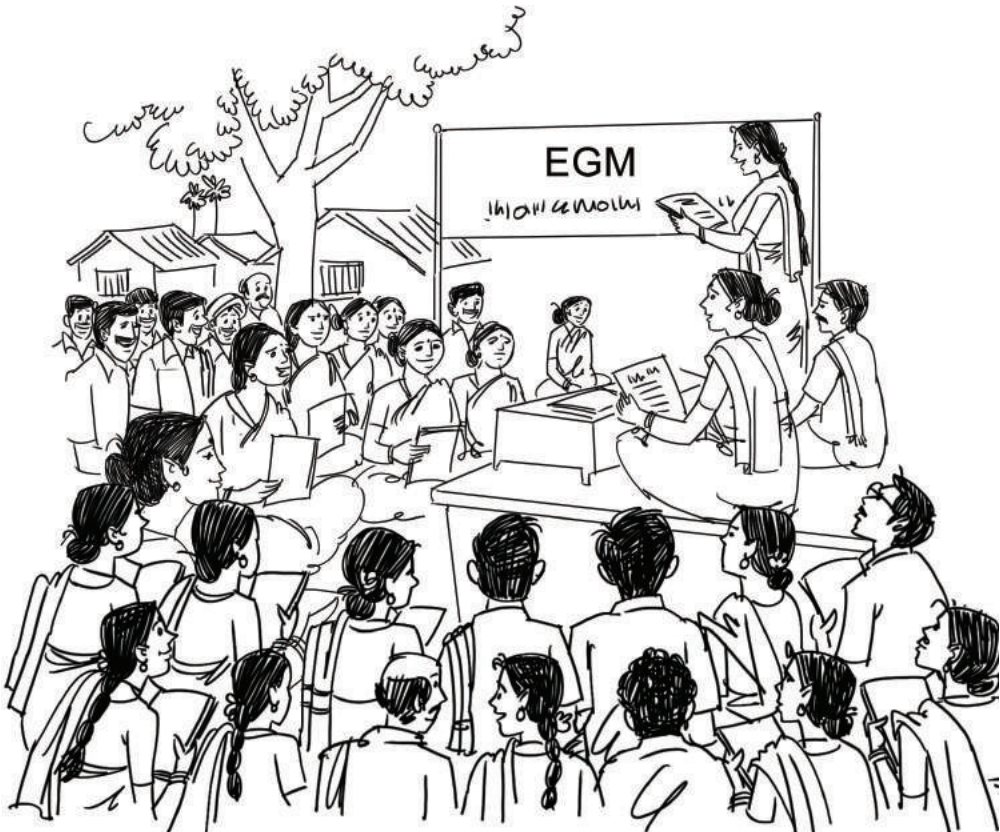
**Membership Policy**

Members are reason for being FPO. Hence, we must look for any prospective member who has the same needs as our FPO services, can use the FPO’s services and is willing to be a responsible member. If we don’t have clear policy on membership eligibility, process, membership responsibilities, ineligibility etc. Lack of clear membership policy could result in membership becoming available to persons who either have no interest in the FPO or whose interests are in conflict with those of the other members.



**Exercise:** Based on the activities, identify the required systems for our FPO.

S.No.	Function	Required system	Remarks
1	Accounts		
2	Staff management		
3	Marketing		
4	Procurement		
5	Input supply		
6	Trading		
7	Processing & Value addition		
8	Board functions		
9	Linkages		
10	Members management		
11	Finance		
12	Storage		



# TRANSPARENCY AND ACCOUNTABILITY

## Session Objective

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**To realize the importance of transparency and accountability so as to ensure them in FPOs**

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## *Content items*

1. Importance of Transparency and Accountability
2. Ways to ensure Transparency and Accountability

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## Introduction

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Transparency and Accountability are the pillars for proper functioning of any organization. In FPOs particular where large number of members and other stakeholders exist with diversity of operations and functions, it assumes high significance. The Board members have to primarily ensure Transparency (in operations) and Accountability (to members and external stakeholders) in their FPOs.

Transparency in operations can be ensured by proper systems, audits, business rules, efficient operations etc.

The BoD members can be accountable to their members by activities like providing needful services, taking members feedback and improving accordingly, GB meetings, presenting progress to members, distributing annual reports to members, making the necessary information available to members from time to time etc.

The BoD members are also accountable to external stakeholders like Bankers, supporting government departments, Networks/ Federations, legal authorities etc. They can be accountable to external stakeholders by giving

the necessary reports, meetings etc from time to time.

### **Focus areas for Transparency and Accountability**

Our General Body entrusted on our Board with the responsibility of running our FPO as decided by them. Hence, the responsibility of our Board is to ensure that the process of governance and management of FPO is transparent and accountable. For this, our Board should focus on following aspects:

#### **1. Establishment of Accounting System**

At the end of each financial year, PO needs to present its members, printed annual financial statements. These will include a receipts and payments statement for the financial year, an income and expenditure statement for the year, and a balance sheet showing the assets and liabilities of the FPO. These statements should be prepared by the Accountant, checked and approved by the Board. Then they should be given to the auditor appointed by the General Body to check them against the books of accounts of the FPO, and to certify that they are indeed a true summary of the actual transactions that took place in the FPO.

Hence, it is the responsibility of the Secretary / CEO to ensure that every month, FPO has up to date accounts and update monthly financial statements, then the annual statements can be prepared easily, and without stress or confusion.

#### **2. Establishment of Management Information System**

It is not enough to place sound accounting systems alone. It is also very important to review the performance of governance, business, management and financial aspects of FPO. For assessing the financial health of our FPO, we need to interpret the financial statements, and take appropriate action. We also need to ensure that at every level, these formats are filled on a regular basis and presented to the Board, and finally, that they are scrutinized at appropriate levels for assessment of problems and strengths, and appropriate action taken.

The management information system developed for the FPO should:

- Be in local language;
- Track member & FPO performance of financial and non-financial aspects and staff performance; and
- Help Directors in planning and review of progress at the meeting.

Through review, the Board members are able to identify early signs of functioning, and finally to take appropriate action regularly, and on time. The promoter staff, too, will look at the overall summary, for troubleshooting, facilitating corrective action role and for providing feedback to us, and implement appropriate strategies to control the anticipated risks. During the process we should get a deeper insight into the activities of our FPO, better understanding about our FPO performance.

### **3. Effective Internal Control of Management and Risk**

An internal control system comprises policies and procedures to monitor possible risks before and after operations and to protect the organisation against these risks. Our FPO should have following checks and balances:

#### **a. Delegated Authority**

Our Board delegates authority to the Secretary / CEO for the day to day running of the FPO. Our FPO should decide in advance who should do what in respect of finance. It is good practice to record what has been decided in a delegated authority document. The purpose is to get clarity on who has the authority to make decisions, commit expenditure and sign legal undertakings on behalf of our FPO so that there is no confusion about responsibilities.

#### **b. Separation of Duties**

In order to protect the operating procedures and to prevent any temptation to misuse funds, there must be a separation of the various duties within the framework of financial procedures. For example, the duties of ordering goods, receiving goods, authorizing the payment, keeping the accounting records and reconciling the accounts should not fall entirely on the shoulders of one person. Apart from weakening financial control, this puts too much responsibility on one person and if they should leave our FPO or are absent themselves for long periods, then the finances will come to a grinding halt.

#### **c. Reconciliation**

Reconciliation involves verifying account records to make sure that there are no errors or omissions that have so far gone undetected. Records that should be reconciled at regular intervals are:

- Bank book;
- Cash book; and
- Advances book.

#### **d. Cash Control**

- Minimise cash transactions and adopt non-cash transactions as much as possible;
- Always give receipts for money received;
- Always obtain receipts for money paid out;
- Pay surplus cash into the bank;
- Have properly laid down procedures for receiving cash;
- Restrict access to petty cash and the safe; and
- Keep cash transaction to an absolute minimum.

#### **e. Physical Controls**

- Have a safe;
- Safeguard Fixed Assets; and
- Deal with fraud and other irregularities.

#### **f. Internal and Statutory Audit of our FPO**

In addition to maintaining accounts, if every month our FPO has been regularly conducting internal audit of accounts and with the action to be taken on internal audit reports, then it will be easy for our FPO auditor to audit accounts, and give the audit certificate and audited statements at the earliest. Importantly, in this internal audit the transactions recoded in the books, receipts, vouchers, pass books will be verified to find out whether they are properly maintained, and acceptable or not.

Our FPO is registered body, and it is to be audited annually by a Chartered Accountant. It is not enough that our FPO prepare for and present to our members correct annual financial statements each year. Each member must take away a copy of the statements as they are the owners of our FPO. It is the responsibility of us and with support of auditor, to provide a detailed explanation of how the funds were managed by our Board. Regardless of whether or not a member can read, every member must receive a copy of the audited financial statements each year. It is also absolutely essential that the audited statements be presented at the earliest after the closing of the financial year. It makes little sense to present a report on something which happened a long time ago.

Apart from the annual financial statements, each year an annual budget for the next year should be presented to our general body, for its approval. Our Board should treat the approved budget as final, and if it wants any change during the year, it must refer back to the general body and take its prior approval.

#### 4. Legal Compliances

By ensuring timely legal compliance, our FPO is not only respecting the rights of members to control our FPO within the legal framework but also for our Board to prove that our FPO is democratic and legally governed. The following are the legal responsibilities of our FPO Board members:

- Our FPO should be audited as early as possible after the closure of the financial year, so that it can ensure that the audit report and the audited statements of accounts are printed along with annual report and presented at the General Body meeting.
- To ensure that the attendance of the responsible members in our FPO at the meetings, notice of the AGM should be served in advance to members along with proposed agenda and amendments if any for the byelaws. During the AGM, the progress of our FPO in the previous year, action plan and budget for the next year will be presented and approval of the General Body sought. Apart from this, all other important decisions pertaining to our FPO should be taken in the AGM.
- The byelaws/ AoA of our FPO should clearly mention timeline for elections, and how many BoD are to be elected and their term. In our byelaws/ AoA should also mention about the reservations for representation from different castes. The term of Office Bearers and election procedure should be also mentioned in our byelaws/AoA.
- Our FPO should file returns within the specified time as per the legal requirement. The minutes of the AGM detailing the discussions held in the meeting should be prepared and sent to all the members and invitees. The following documents/reports are submitted to the respective legal authority within 30 days of the AGM. They are:
  - The annual report;
  - Auditor's report along with the audited annual accounts;

- The list of the members who are on the rolls at the end of the year and the details of services provided to the members (only by institutions registered under cooperative law);
- Explanation on the distribution of surplus or allotment of depreciation (only by institutions registered under cooperative law); and
- The list containing the names of the Board of Directors, their addresses and terms

To ensure transparency and accountability our FPO, the following should be performed by us:

- Through internal audits we should understand the financial situation of our institutions;
- We should understand the importance of proper bookkeeping;
- As Board members, we should guard institutional funds, as we are accountable for the safe custody of funds;
- Minimize the cash transactions; and
- Promote transparency in all operations and transactions.

**Checklist questions for Transparency and Accountability**

Following is an indicative questions to check the Transparency and Accountability. Let’s assess our FPO based on this checklist.

1. Does the member of the FPO obtain a receipt specifying transaction details as soon as the transaction is done?

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.....

2. Is there a mechanism which communicates members about their total regular transactions annually with the FPO?

.....  
.....



3. Is there a clear defined standards based on the quality of produce is procured with differential price?

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4. Do the members have opportunity to question and understand the pricing mechanism of services?

.....  
.....

5. Do meetings and decision making process happen based on predefined terms – including place, time and quorum?

.....  
.....

6. Does each individual member receive a copy of annual report and progress?

.....  
.....

7. Is there a strong internal audit of the process, accounts and transactions of members and directors conducted by ordinary members on regular basis?

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.....

8. Does the election have eligibility, nomination, contest, and secret ballot as process?

.....  
.....





9. Is there a performance evaluation system for BoD members and staff?

.....  
.....

10. Does the books of accounts and financial transactions available for view by a concerned stakeholder?

.....  
.....

11. Does the transactions of BoD members with FPO are recorded separately and made available for information of concerned stakeholder?

.....  
.....

12. Is the Annual Report shared with some of the important external support agencies – Banks, Legal authorities etc?

.....  
.....



# 7

## GOOD GOVERNANCE PRACTICES IN FPOS

### Session Objective



To appreciate the importance of good governance and know various good governance practices in FPOs

### Content items

1. Characteristics of good governance
2. Good governance practices in FPOs
3. Director's self-assessment

**Question for thought:** What is the core function of Board of FPOs?

The answer, certainly, is **Governance** i.e. the norms and policies and their operationalization for effective functioning of the FPO. To understand this, let's look at the cases of following two FPOs.

FPO1	FPO2
In this FPO, the Board is sensitive to the needs of members and ensure required services to members. They have ensured required systems like accounting & bookkeeping, quality control, monitoring etc. and ensure transparency and accountability in their operations. They also comply with all statutory requirements from time to time.	This FPO is not adequately represented by the Board. In view of lack of proper systems, there is mismanagement of funds without the monitoring by the BoD. The legal compliances like Board meetings, AGM, audit and returns filing are not done regularly.

By the comparative analysis of the above two FPOs, which one is governed better and thus function better?

From the above analysis, it is evident that good governance is the key for effective management and functioning of FPOs. So as to ensure good governance, let's first look at different characteristics of good governance.

### Characteristics of Good Governance

Different characteristics of good governance are depicted below.

**Figure 1** Characteristics of good governance



It is evident that any FPO has to comply with all concerned laws without fail. The Board has to place robust institutional systems and policies for well-functioning of their FPO. The Board has to be patronize cohesive i.e. work for collective interests of their members and accountable to their members and other stakeholders. Good governance ensure that the organization is purpose driven with long term mission and clear strategies and activities to realize the mission.

**Good Governance Practices**

So as to ensure the above characteristics for FPOs, different good governance practices have to be taken up as depicted below. In a way, it is the summation of the so far sessions in this module!

**Figure: Good Governance Practices in FPOs**

<b>Legal compliances</b>	<ul style="list-style-type: none"> <li>• All and in time</li> <li>• Under the registered Act and also all other Acts concerning the activities of FPO</li> <li>• Required legal licenses/ permits</li> </ul>
<b>Focus on overall purpose</b>	<ul style="list-style-type: none"> <li>• Mission and strategies</li> <li>• Interests of members</li> <li>• Viability and sustainability of FPO</li> </ul>
<b>Board Meetings &amp; GB meetings</b>	<ul style="list-style-type: none"> <li>• Regular</li> <li>• Participation</li> <li>• Compliance to meeting decisions</li> </ul>
<b>Decision making</b>	<ul style="list-style-type: none"> <li>• Timeliness</li> <li>• Participation in decision making</li> <li>• Internal control</li> </ul>
<b>Audits</b>	<ul style="list-style-type: none"> <li>• Regular</li> <li>• Compliance to audit recommendations</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>• Transparency</li> <li>• Accountability</li> </ul>
<b>Systems&amp; Policies</b>	<ul style="list-style-type: none"> <li>• Robust systems&amp; policies in place</li> </ul>

**Exercise:** Please discuss and reflect on to what extent your FPO is following good governance practices.

### Exercise: Director's Self-Assessment

It is difficult to find persons with all the key qualities and skills required to perform the task of directors. However, for them to carry out their roles in most effective way, there may be need to build their capacities further.

Given below are the attributes that the Directors need to have for effective governance of their FPOs. Each Director has to rate herself/ himself on these attributes by using the following scale.

Y— Yes, this is not a problem.

U —I feel unsure about this and some improvement or training is needed on this.

N —No, I definitely need improvement or training on this.

So, are we ready to take this self-assessment!

**Table 2 Directors self-assessment**

#	Attribute	Circle one		
		Y	U	N
1	I fully understand my role and responsibilities as a director including the potential liabilities of being a director.	Y	U	N
2	I feel I am competent to fulfil the role and responsibilities of a director.	Y	U	N
3	I fully understand the collective needs of members and champion to meet their needs.	Y	U	N
4	I am able to attend board meetings regularly.	Y	U	N
5	I participate actively in decision making in Board meetings.	Y	U	N
6	I am fully aware of the mission, goals and key strategies of my FPO.	Y	U	N
7	I am able to contribute to conflict resolution, whenever required, in my FPO.	Y	U	N
8	I am able to contribute to resource (finance, technical, market) mobilization for my FPO.	Y	U	N
9	I am able to take up well any specific function that the Board assigns to me	Y	U	N

**Farmer Producers Organizations**

#	Attribute	Circle one		
10	I am able to meet the BoD member continuation criteria as stipulated in my byelaws	Y	U	N
11	I am familiar with the latest activities and progress in my FPO	Y	U	N
12	I am able to contribute actively to the formulation of policies and plans of my FPO	Y	U	N
13	I am able to review effectively my staff on the performance of my FPO	Y	U	N
14	I am able to give required time to discharge my responsibilities of Board member	Y	U	N
15	I am able to represent my FPO in any external forum like my Federation	Y	U	N
16	I am aware of the financial transactions of my FPO and confident of integrity in our financial transactions	Y	U	N
17	I am aware of the consequences of not following the legal compliances of my FPO	Y	U	N

Summarize the above ratings and identify the areas of improvement for yourselves.

Items receiving Y ratings include;.....

Items receiving U ratings include;.....

Items receiving N ratings include;.....

Identify the items/areas in which you feel you need the most training/improvement.

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**End line**

Now, we have come to the end of this module on Governance. Please recall that at the beginning of the module, we had Baseline in which we answered well some basic questions about Governance.

Now, an End line is given to assess our understanding after going through this learning module.

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

1. Are your AGMs being conducted as per legally set procedures and standards?

.....  
.....

2. Under what circumstances directors can be removed in an FPO?

.....  
.....

3. What are the benefits of having independent directors?

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.....

4. How important are the transparency and accountability in FPOs?

.....  
.....

5. To what extent your FPO is being governed well?

.....  
.....







## NOTES

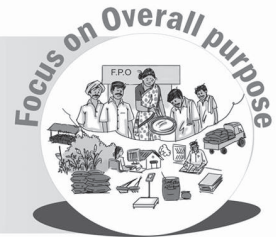
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## NOTES

A large rectangular area with rounded corners, containing 25 horizontal rows of dotted lines for writing notes.

# Good Governance Practices in FPOs

- Mission and strategies
- Interests of members
- Viability and sustainability of FPO



- Regular
- Participation
- Compliance to meeting decisions

- Timeliness
- Participation in decision making
- Internal control



- Robust systems & policies in place

- Transparency
- Accountability



- Regular
- Compliance to audit recommendations

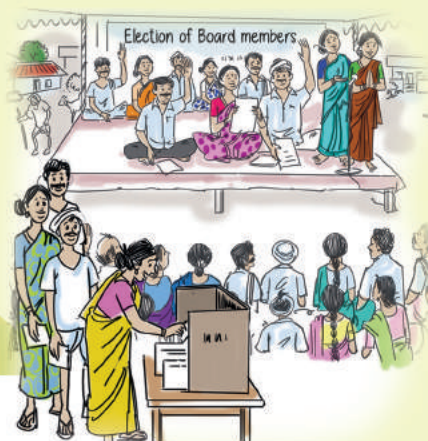
- All and in time
- Under the registered Act and also all other Acts concerning the activities of FPO
- Required legal licenses/ permits





## About APMAS

Mahila Abhivruddhi Society, Andhra Pradesh (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, Farmer Producer Organizations (FPOs) and other Community Based Organizations (CBOs) who believe in and practice self-help, mutual benefit and self-responsibility as guiding values.



## PRERANA- GOVERNANCE IN FARMER PRODUCERS ORGANISATION

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

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