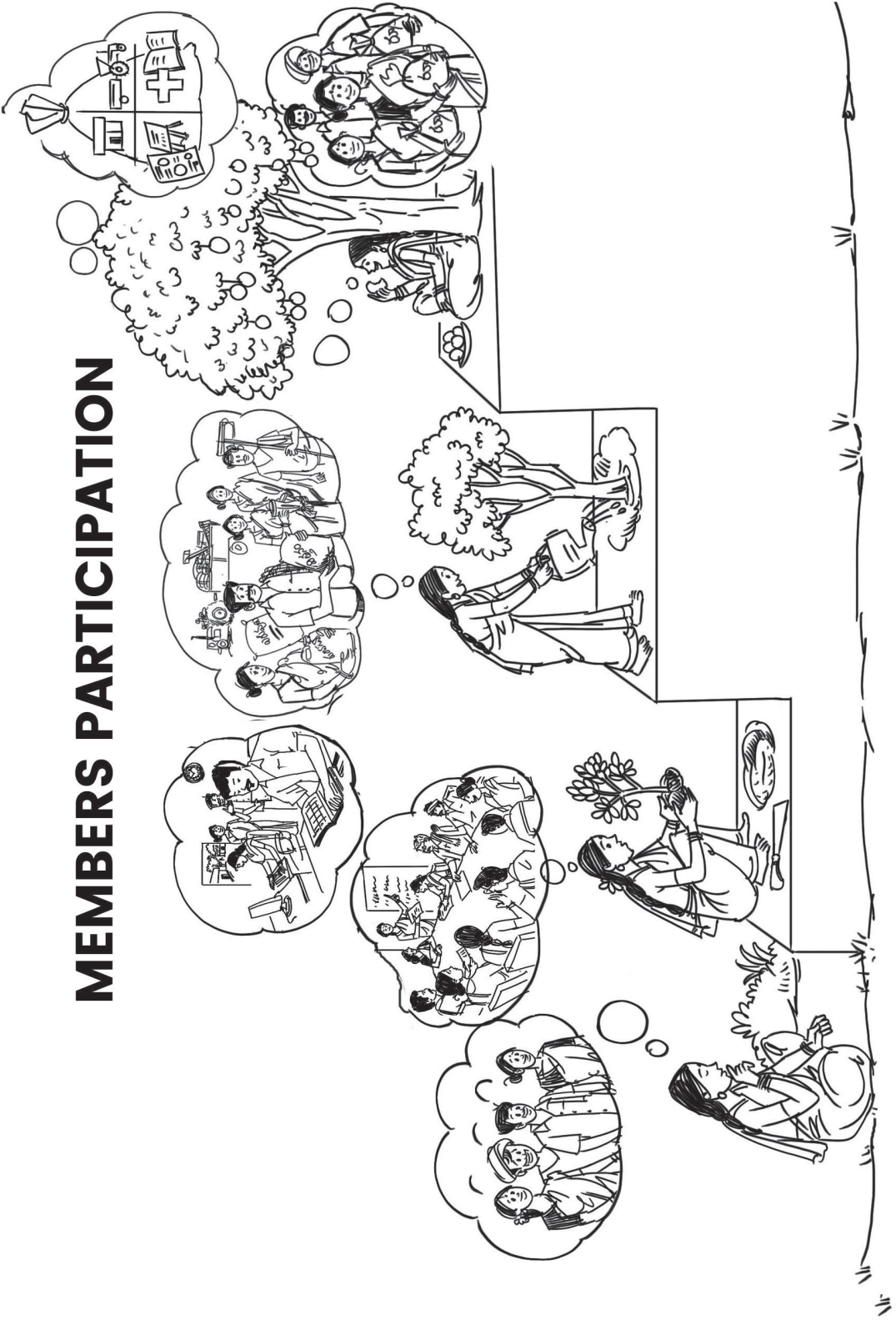


## MEMBERSHIP IN FARMER PRODUCERS ORGANIZATION



# MEMBERS PARTICIPATION

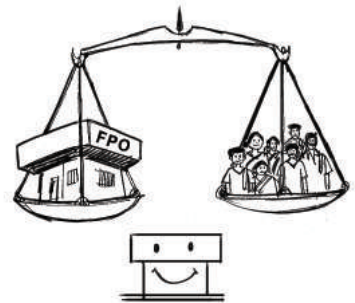


# 3

## Vinimaya

### MEMBERSHIP IN FPOS

Learning module for  
Board members of FPOs



# Vinimaya

## MEMBERSHIP IN FARMER PRODUCERS ORGANIZATIONS

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### Publication by

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

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

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

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

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

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

Best

**CS Reddy**

CEO of APMAS

# **CONTENTS**

About the Learning Manual.....	6
Glossary / Acronyms.....	8
Baseline.....	11
1. SIGNIFICANCE OF MEMBERS IN FPOS.....	12
2. OWNERSHIP & CONTROL OF MEMBERS.....	17
3. KEY FEATURES OF MEMBERSHIP.....	24
4. MEMBERSHIP IN THE FPO – WHO? HOW?.....	35
5. CAPITAL CONTRIBUTION – MEMBERSHIP IS OWNERSHIP.....	37
Annexure I: Membership Provisions as per MACS Act 1995.....	42
Annexure II: Membership Provisions as per Companies Act 2013.....	43
End line.....	46

## 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

Membership in FPOs is the third one in the series of self-learning modules for BoD members of FPOs. As members are the owners of FPO and the whole purpose of FPO is to serve the members, this module assumes high significance.

### 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 Membership.

- To get an appreciation of importance of members, their ownership and control
- To get known about different key features of membership in FPOs
- To understand the criteria for membership and need for member capital contribution



## Structure and Contents

The module starts with importance of members and deals with ownership and control of members. Then it deals with different key features of members and importance of capital contribution of members.

## How to Use

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

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

## Glossary / Acronyms

### **Articles of Association (AoA)**

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

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

### **Active Member**

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

For eg, if the Byelaws of a Dairy Cooperative Society stipulates that a member has to supply at least 180 litres of milk over a period of 180 days in a year, then only those members who fulfil this requirement are considered as Active Members.

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

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

### **Byelaws**

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

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

- 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.
- Dividend** : Dividend is the distribution of reward from a portion of FPO's earnings and is paid to its members.
- 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.
- Extraordinary General Meeting (EGM)** : An Extraordinary General Meeting is a Meeting of the General Body apart from AGM. It is conducted between AGMs to discuss on any particular/ urgent matters of the FPO, to take sudden resolutions etc.

- 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.
- Member centrality** : Member centrality refers how important/ relevant the services of an FPO to it's members needs. That is, if the services of the FPO are relevant/ central to the needs of members, then the members feel that FPO is significant for them.
- 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.
- Member patronage** : The use of services offered by the FPO to its Members by participation in its business activities.
- Producer Company** : An FPO registered under Companies Act 2013 is called a Producer Company. Producer Company means a body corporate having objects or activities specified in section 581B and registered as Producer Company under Companies Act 2013.
- Patronage** : The use of services offered by the FPO to its Members by participation in its business activities ;
- Participatory Guarantee System (PGS-India)** : Participatory Guarantee System (PGS-India) is a quality assurance system that is locally relevant, emphasize the participation of stakeholders.
- Share capital** : The money that shareholder members invest in FPO in order to take ownership.
- Withheld price** : Withheld price means part of the price due and payable for goods supplied by any Member to the FPO; and as withheld by the FPO for payment on a subsequent date.

**Baseline**

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

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

1. Who are the owners of an FPO?

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

2. Who can become members in an FPO?

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

3. What are the transactions between members and FPO?

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



# SIGNIFICANCE OF MEMBERS IN FPOS

## Session Objective



To get an appreciation of importance of members for FPO and working for members

### *Content items*

1. Members – importance
2. Members transactions with FPO

### Introduction

In the earlier Module of “Institutional Structure & Design of FPOs”, we noted that Members, BoD Members and Staff are the three key functionaries of FPOs. We also touched upon that Members are the foundation of the FPO and Board and Staff have to work for the welfare of Members. Thus, this Module deals with the most important functionaries of FPOs i.e. Members.

In this Module, we deal with aspects of importance of Members, their Ownership & Control, key features of Membership in FPOs i.e. Member Mobilization, Member Centrality, balancing benefits at Member level & FPO level and Member relations. We will also deal with importance of high financial stakes of members for FPOs.

### Members of FPOs

Before we get into our FPO business, we must understand, what type of business we will do and for whom FPO has to work and why?

The type of institution depends on

- Who owns the business?

- Who controls the business?
- Who uses the business?
- Who gets the profits?

In individually owned business, one person owns, controls, operates and get benefits/profits from the business. In partnerships, two or more people own, control, operate the business, business will have legal identity and share in risks and profit based on their investment. Our FPO is also type of partnership business.

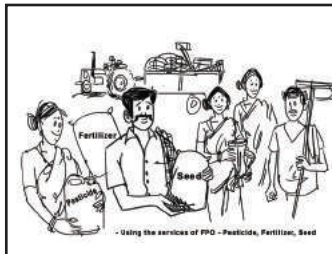
### Members are

- The owners of the FPO
- The users of FPO services
- The ones that control the FPO
- The reason for the FPOs existence

- We have multiple owners,
- We offer variety of goods and services needed by our members,
- Our members are investors, and most importantly,
- Members are not only owners of an FPO but also the users of services of an FPO.

It means our **members are foundation and reason for our FPO existence**. Thus, FPOs are meant to work for the economic and social betterment of their members.

**We are the owners, we are the users, we are the controllers, ours is the profit/loss**



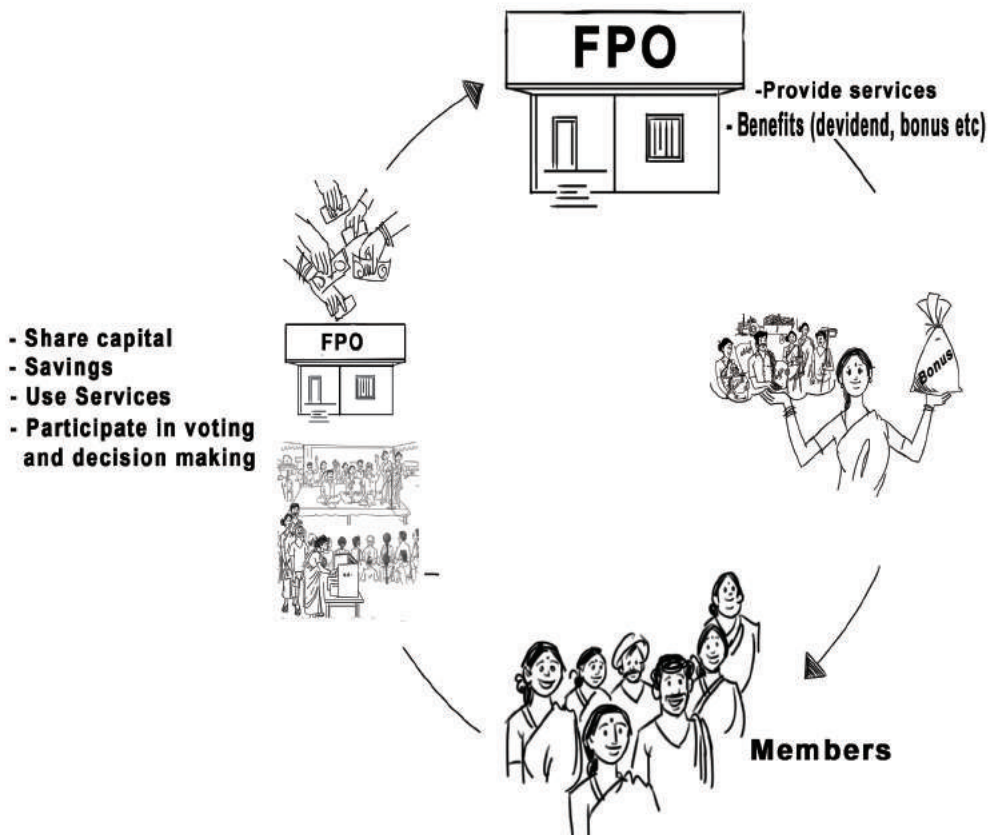
### Who are members?

“Subject to the byelaws, any person who wants to utilise the services of the FPO may express his/her willingness to accept the responsibilities of membership and fulfil such other conditions as may be specified in the byelaws of the FPO and who paid up the share capital.”

## Transactions between Member and FPO

The relations and transactions between Member and FPO are depicted below.

Diagram: Transactions between Members and FPO



As indicated in the above diagram, members are owners of the FPO by contributing to share capital and also use the services provided by the FPO. The purpose of the FPO is to offer required services to their members in a timely and cost-effective manner.



### Importance of members for business viability of FPO

BDoes the business of an auto rickshaw run without passengers for it?

Does the business of a vegetable shop run without customers buying the vegetables?

The answer in all such cases is clear No.

Thus the business of FPO also can't run without members as members themselves are the customers of FPO.

For example, an FPO makes an estimate of 10 quintals of seed requirement of their members for forthcoming agricultural season. The FPO takes loan and procures 10 quintals of seed for supply to their members. What happen if members actually take only 2 quintals of the seed?

So without ownership there is no institution and without customers there is no business. That means without members, there is no business and sustenance for the FPO.

Another illustration is given below.

Sadhikaratha FPO is operating in Sivapuram block of Karnataka state. Major crop in Sivapuram cluster is redgram. Sadhikaratha FPO plans to set up a redgram dal mill. The required capacity of the mill and number of members for the business are given below

S.No.	Particular	Unit	No. of Units
<b>Plant details</b>			
1	Total capacity of the mill per annum	Quintals	9,000
<b>Raw material details</b>			
2	Avg. land size per member	Acres	2
3	Avg. productivity	Quintal/acre	4
4	Total production per member	Quintal	8
5	Percentage of commodity provided to FPO by members	%	75%
6	Quantity of raw material supplied by a member	Quintal	6
7	Number of required members to meet the capacity utilisation	Number	1500

From the above illustration, it is clear that 1500 members are required for the viable running of the dal mill by the FPO.

Now we need to think about following questions related to Sadhikaratha FPO viability:

What will be the results if 1500 members are not mobilized by the FPO and only few members supply the required raw material?

What will be the results if 1500 members are mobilized only after few years after the se up of the mill?

From the above illustration, it is evident that adequate membership in the FPO and their full patronage by members are critical for the viability of FPO business. Full capacity utilization of the processing plant and also of the membership is required for the viability of any business of FPOs and the required members have to be mobilized for this.

# 2

## OWNERSHIP & CONTROL OF MEMBERS

### Session Objective



To get an awareness of the requirement of ownership and control of members  
To know about responsibilities of members

### Key content items

1. Ownership & control of members
2. Members responsibilities

From the meaning of FPO and members in earlier sessions, it can be known that FPOs are member based organizations owned and controlled by their members. Now, let's look at how FPOs can be owned and controlled by their members.

Following are the ways by which members can have ownership and control of FPO.

### Members exercise ownership by



Paying up the share capital



Contribution to capital of the FPO



Using the services of FPO

### Members exercise control by



Electing Board of Directors



Voting at meetings



Making decisions on major issues

**Members exercise ownership by:**

- Paying up the share capital
- Contribution to capital of the FPO
- Using the services of FPO

**Members exercise control by:**

- Voting at meetings
- Electing Board of Directors
- Making decisions on major issues

### Exercise:

Let's look at the following cases of two FPOs and discuss on the successful functioning of these FPOs.

**FPO1:** All the potential members on the operational area of this FPO became members of the FPO by paying the full authorized share capital (as laid down in the byelaws and approved by the Registrar). Members also do regular monthly savings with the FPO. During the procurement of produce, the FPO also deduct 10% of the price to members which was paid back to members after completion of the business cycle, after adjusting for all costs of doing the business.

**FPO2:** In this FPO, only few farmers joined the FPO and members contributed only small part of the authorized share capital. There is no practice of member savings and withheld price in the FPO.

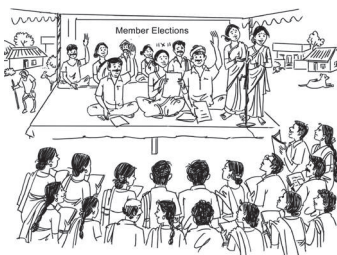
Use below space and write what extent ownership and control of the members are following on the above FPOs.

FPO 1	FPO 2

### Members Responsibilities

In FPOs, it is not that members have only rights but they also need to fulfil some responsibilities. The responsibilities of members are depicted below.

Commitment and use	Ownership and control	Finance
<ul style="list-style-type: none"> <li>• Commitment for services</li> <li>• Actual use of services</li> </ul>	<ul style="list-style-type: none"> <li>• Voting on major decisions</li> <li>• Nominating and electing directors</li> <li>• Participating on major decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Share capital</li> <li>• Savings</li> <li>• Capital finance</li> </ul>



As depicted above, members should not only commit (for example give indent for 10 quintals of seed for forthcoming agricultural season) but also use the services (take the committed 10 quintals of seed from the FPO). Members also need to attend the General Body meetings and participate actively in decision making (for e.g. which auditor to appoint). It is also very important that members contribute to the finance of the FPO in different forms.



### Exercise1: Kamalapur Farmers Producer Organisation

Raman and Syamu became members in Kamalapur FPO by contributing share capital for accessing different services. Raman took required quantity of seed and fertilizers from the FPO and supplied 25 quintals of vegetables to the FPO. He also accessed credit and insurance from the FPO. Syamu supplied 50 quintals of vegetables to the FPO but has not used other services. Both attend the Annual General Body Meeting (AGM) and participate in voting and decision making actively. They also receive annual report of the FPO. In the same FPO, Shanta supplies 25 quintals of vegetables and also avails all other services. But, she never attends the AGM. Similarly, Balaiah has taken membership by paying share capital. But he has never used any services of the FPO and also did not participate the AGM.

Before conducting the AGM, FPO has prepared the list of ineligible members to participate and vote in the meeting. In the list the names of Mr. Balaiah and few other members appeared. The reasons for ineligibility are mentioned as follows:

1. Members have not used the services of the FPO
2. Members have not participated in activities of the FPO
3. Members have not attended AGM since two years

In the recent AGM, Raman and Syamu along with other members used their voting right and also took a decision to pay 40% of profit to members on the basis of usage of services.

Please discuss on the following:

1. Why Balaiah and some other members became ineligible to participate and vote in the AGM?
2. Who is taking decisions in the FPO?
3. Based on the above case, list the relation between Members and FPO?
4. Would Balaiah still be eligible for getting the 40% of the profit share?

## Exercise 2:

Given below are some situations of membership in FPOs. Let's rate our FPO in the given scale. Also, let's indicate the actions to be taken to improve the membership situation where the rating is Average and less.

Very low (1) – Low (2) – Average (3) – High (4) – Very high (5)

1. 80% of the total potential members in the operational area of a FPO are covered as members of that FPO.

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

2. Shyamala is a member of Rampur Dairy Cooperative Society. She supplies milk to the Society and also avail the veterinary services of the Society. However, she never attends the GB meeting and vote. Can Shyamala continue as the member of the Cooperative?

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

3. Balaiah is a member of a cooperative engaging in procurement and processing of cashew. However Balaiah never supplies his cashew produce to the cooperative. Can he continue as the member of the cooperative?

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

4. Jaya Devi is a member of Rangapur Dairy Cooperative Society. She regularly supplies milk to the Society, avail different services of the Society and also attend the GB meeting and participate in voting and decision making. Can she be continued as the member of the cooperative?

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

5. Of the total 6000 members of a dairy FPO, 50% (i.e. 3000) supply the minimum stipulated quantity of 180 litres per annum to the plant.

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

6. In an FPO, generally, at least 80% of the members attend the GB meetings



regularly.

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

7. In another FPO, generally 20% of the Board members participate actively in decision making.

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

8. One third of members withdraw from membership of the FPO in 2 years of time.

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

9. After demand estimation for fertilizers based on the indents from members, an FPO brought 100 bags of fertilizers as per demand. However, actually the members have taken only 40 bags out of the 100 bags.

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

For 3 seasons in row, an FPO engaged in dairy activity has been procuring 60% of the total required milk for it's milk chilling centre from non-members located in faraway distance even if the required quantity is available from it's members.

Rating: \_\_\_\_\_

Action to be taken: \_\_\_\_\_

### Exercise 3:

Based on the parameters discussed above, let's assess to what extent our FPO is owned and controlled by our members?

.....

.....

.....

.....



# KEY FEATURES OF MEMBERSHIP

## Session Objective



To get known about different key features of membership in FPOs

### *Content items*

1. Member mobilization
2. Member centrality
3. Balancing benefits at FPO level& member level; short term& long term
4. Maintaining member relations

Having known about the importance of members and ownership& control of members in FPOs, now let's get into different key features of membership as listed below.

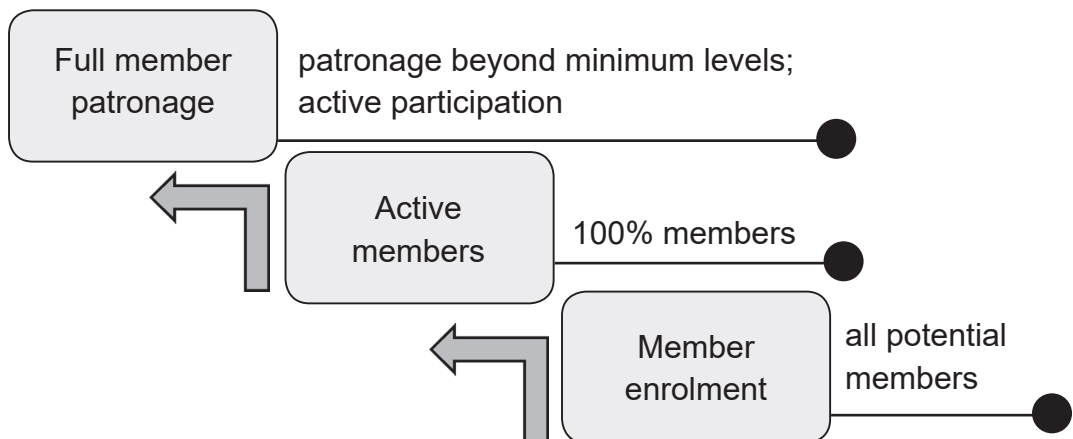
- Member mobilization
- Member centrality
- Balancing between benefits at FPO level and member level, short term and long term
- Maintaining member relations

Now, let's look at these features one by one.

## Member Mobilization

For the viability and sustainability of the FPO, it is very critical that we enrol members and retain them by offering the required services as members are the customers of FPOs. Membership in our FPO should be such that we are able to effectively serve them and at the same time we have mechanism for effective participation of the members in the governance and management of the FPO. Member mobilization in FPOs happen in three levels as depicted below.

**Figure 2 Member Mobilization**



- Member enrolment – all potential members in FPO operational area – as per membership eligibility criteria - share capital mobilization
- Active members – meeting minimum membership continuation criteria – 100% to be active members - retaining members
- Full member patronage – patronage i.e. use of all services by members – much beyond minimum membership continuation criteria – actively participating in meetings, voting, decision making

As depicted above, it is not enough to just enrol members in the FPO as shareholders. For functioning of the FPO, the members should be active

i.e. taking at least minimal stipulated services from FPO (for eg, 180 litres of milk over 180 days in a year in a Dairy Cooperative) as laid down in their byelaws. Also for sustainable functioning of the FPO, members have to actively participate in decision making and voting.

It is the key responsibility of BoD members to mobilize the members in all above three levels. For this, the BoD have to ensure provision of services beyond membership continuation for full patronage by members, regular & proper GB meetings, elections, decision making etc.

Also BoD have to ensure required member education from time to time through their staff or support agencies so that they can be mobilized at all three levels.

### Questions to introspect

1. Have majority of the potential/ eligible farmers in your operational area joined as members in your FPO?
2. Are majority of members of your FPO active members?
3. What proportion of your members use your services much beyond the active member criteria, participate actively in the affairs of your FPO?

### Member Centrality

Discussion question: What if an FPO is able to offer only limited services to their members all the times?

As members are the customers of FPOs, it is required that FPOs are more central to their members compared to other service providers. For e.g., an FPO into the service of procurement of groundnut from members has to procure more than that of any other buyer in the area.

That means if an FPO offers services to meet at least 50% (so as to be more than any other service provider) of the requirements of members in a consistent and quality way, then we can say that FPO is central to the members.

Member centrality refers how important/ relevant the services of an FPO to its members needs. That is, if the services of the FPO are relevant/ central to the needs of members, then the members feel that FPO is significant for them.

### Illustration of member centrality:

In Anantha FPO, Groundnut is the major crop for all members. Following are the average details of a member in that FPO.

Cost of inputs - Rs. 12,000 (including seed, fertiliser, pesticide) per acre

Value of the output – Rs. 24,000 (6 quintals per acre; @ price Rs.4000 per quintal)

Total value of services from FPO – Rs. 36,000/ acre

Of the total inputs, Rs. 8,000 (which are fertilisers and seed) is taken from the FPO.

Of the output, 4 quintals are sold to FPO – Rs.16,000

Thus, total value of services taken from FPO – Rs. 24,000 (Rs.8,000+Rs.16,000)

Thus, two-thirds that is 66% (Rs.24,000 out of Rs.36,000) of the total services required is being taken from FPO which is high member centrality.



**Exercise 2:**

Given below are some instances of centrality in FPOs. Based on the above discussion on centrality, we need to answer the each instance whether the concerned centrality is present or not (Yes/ No). Also explanation for the answer has to be given.

1. 1. A farmer raises cotton in 2 acres of his total landholding of 2.5 acres and cotton is the major source of income for his family. One FPO is coming up in the area to take up business of input supply, credit, procurement, value addition and marketing for cotton. Will the farmer be interested in joining as member in the FPO?

Answer: \_\_\_\_\_

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

2. 2. In the above case, for example, after 5 years, if soybean become the primary source of income than cotton, should the FPO change it's services for the requirement of soybean?

Answer: \_\_\_\_\_

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

3. In another case, paddy is the primary source of livelihood for majority of the farmers in the area whereas the milch animal holding is very less. However, it is proposed to promote a Dairy Cooperative in the area. Can this FPO be central to the members in the area?

Answer: \_\_\_\_\_

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



## Exercise 2:

Let's make an assessment of the services of our FPO to our members on following aspects.

S.No.	Particulars	Current Status
1	Number of members being served	
2	Value of services provided to members	
3	Cost of input supply per acre	
4	Value of the output per acre	
5	Total value of services	
6	Of the total, inputs take from the FPO	
7	Of the output, no of quintals are sold to FPO	
8	Total value of services taken from FPO	
9	Percentage of the total services required is being taken from FPO	
10	Centrality of the members (high / low)	

Let's assess whether our FPO is central to the members compared to other service providers. If not, what can be the action points to make our FPO more central to our members?

### 3.3 Balancing benefits at member level and FPO level

In this section, we look at the important requirement of balancing benefits at member level and FPO level; short term and long term. While the ultimate purpose of FPO is to benefit their members, it is important to ensure required benefits at FPO level also. No benefit for FPO - FPO can't run - can't provide required services – so no benefit for members also.

Now, let's have a look at the following two scenarios of two different FPOs.

**Scenario FPO1:** The FPO is engaged in procurement of vegetables from their members and selling to corporate buyers. To offer this service to members, the FPO incurred the cost of investment (collection centre, transport vehicle), staff, labour etc. However, the BoD of the FPO pass on the best price only, much above the market price, for all quality produce to the members. This has resulted in losses for the FPO and the costs of investment and working capital remained unmet.

**Scenario FPO2:** This FPO is also engaged in same service with similar costs incurred. However, this FPO offer competitive prices to members as per the market for the three different qualities and on fair terms of weighing, commission, transportation and wait time. In view of this, members get benefited in long term and also the FPO makes margins with which it can meet it's costs and keep on serving the members in a better way.

Please use below space and write the implications on the above two scenarios:

Scenario FPO1:	Scenario FPO2:



From the analysis, it is very evident to see that any service has to result in benefit not only at member level but also at FPO level. There should not be any activity which benefits only members but not the FPO or only FPO but not the members. It is the critical duty of BoD to balance the benefits at member level and FPO level. BoD has to take up necessary member education regarding this.

Now, let's look at other examples of conflicts between members expectations and FPO's viability.

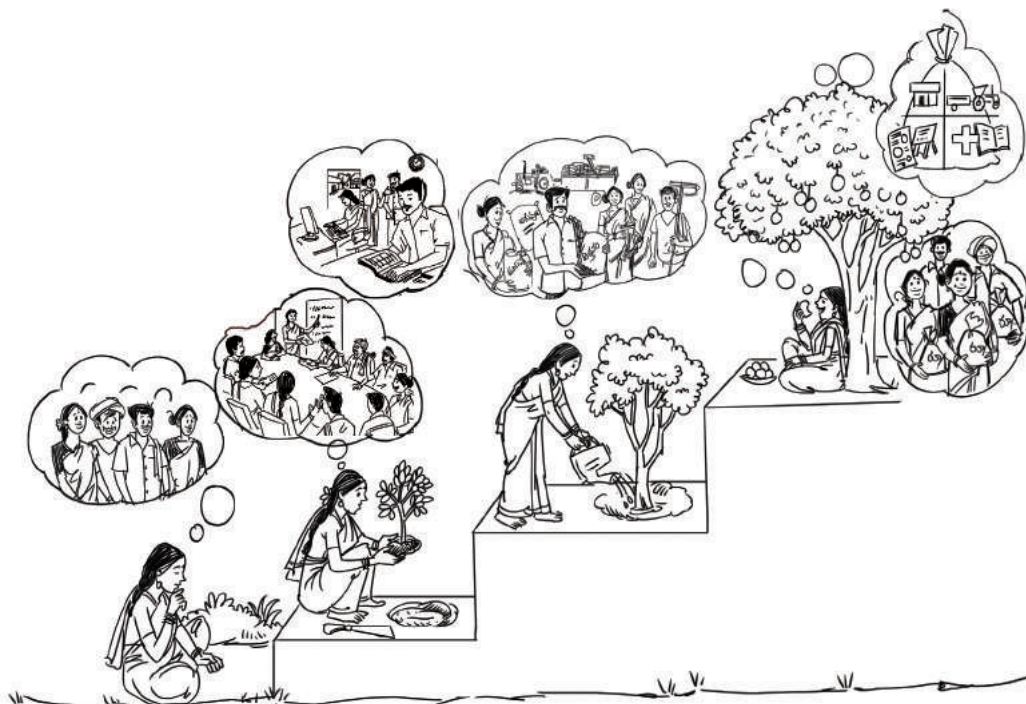
Service	Members expectation	FPO's viability
Fertilizers supply	Low cost, door delivery	Low margins in fertilizers business
Agricultural machinery	Wants for longer period and high load of work	Fast depreciation of machinery, high operation & maintenance costs
Procurement of vegetables	High price for poor quality; on spot payment	Risk of quality deterioration, market risk

From above examples, it can be known that sometimes there can be conflicts between members expectations and FPO's viability. If members expectations are very high compared to any other service provider, then it results in high costs for the FPO and FPO can't meet the costs through the income thus can't sustain it's services. Thus, it is the key duty of BoD members to balance the members' expectations and FPO viability at all times.



## Balancing short term and long term benefits

It is also very important to mobilize members by balancing between both short term benefits and long term benefits. Even in short term some competitors may try to attract members by offering temporary attractions, it is important to educate members on long term benefits also by being members in FPO.



For example, an FPO takes up procurement of tomato from its members and market the produce to buyers. In the rush of highly benefiting their members immediately, the FPO pays Rs.10 per kg whereas the prevailing market rate for the same quality was Rs.5 per kg. This results in situation of members getting attracted only for short term benefit, FPO not able to sell the produce at more than Rs.10 per kilo, thus incur losses and no more can extend the procurement service to members.

BoD has to take up necessary member education regarding need for viability at FPO level also as it is their own organization. Viability leads to more investment into FPO and thus can keep on offering quality services through which members will get benefited in long run. Otherwise, members may get benefit for short time but FPO will not be viable and thus can't continue giving services to members resulting in no benefit to members.

### 3.4 Member Relations

As members are owners and customers of FPO, it is important to maintain relations with them for the business viability and sustainability of FPO. Different ways for member relations are depicted below.

Information and Communication	<ul style="list-style-type: none"> <li>• Pamphlets</li> <li>• Annual report</li> <li>• Information board</li> </ul>
Feedback	<ul style="list-style-type: none"> <li>• On services</li> <li>• Grievance redressa</li> </ul>
Facilities	<ul style="list-style-type: none"> <li>• At FPO office</li> <li>• Member interaction areas like collection centre, input delivery centre</li> </ul>
Service delivery	<ul style="list-style-type: none"> <li>• Quality services, in time</li> <li>• Incentives/ awards for best performing members</li> </ul>
Need identification	<ul style="list-style-type: none"> <li>• Changing needs from time to time</li> </ul>
Member education	<ul style="list-style-type: none"> <li>• Training</li> <li>• Exposure visits</li> <li>• Awareness meetings</li> </ul>

As indicated above, FPOs can maintain relations with their members by different ways. Member education, Information & communication is very effective in this regard. Regular feedback has to be taken regarding services, needs, quality etc. so as to improve from time to time. It is also important to ensure required facilities for members, for e.g. – toilets, drinking water, seating etc.

### Grievance Redressal Mechanism

It is necessary to handle and dispose any member related grievances systematically and on time. FPO shall nominate Board members for handling grievances. They may appoint single or multiple committees depending on the nature of grievances – administrative, financial etc.

- Name of the committee and contact person should be clearly displayed on notice board & pamphlet;
- Process of addressing and approximate timeline too should be displayed;
- All grievances should be accepted in oral /writing with clear mention of name of person, type of grievance etc.
- The nearest Board meeting should take up the matter as on agenda item and address it;
- The committee members should meet in person to understand and clarify the issue on hand;
- Decision to be informed in writing and duly documented in minute book; and
- In case of a judicial matter, the case should be taken to the nearest court with help of legal counsel.



# 4

## MEMBERSHIP IN THE FPO – WHO? HOW?

### Session Objective



To understand the criteria for membership in FPOs  
To understand the procedures for acquiring membership in FPOs

### *Key content items*

1. Member admission
2. Member termination
3. Member cessation

In the bye laws / AoA of our FPO, according to the qualifications and disqualifications of the members, our FPO is having the responsibility to enrol the members.

### **Procedure for obtaining Membership**

- The person willing to take membership in FPO will submit their application to the Secretary of FPO, Secretary /CEO who in turn places it before the Board of Directors (BoD) for its consideration.
- The application for membership shall be made within 30 days from the date of application and the decision of the BoD together with reasons shall be communicated to the applicants.
- The applicant shall pay Rs. \_\_\_\_\_ as admission fee and Rs. \_\_\_\_\_ as share capital, and any other charges that may be in force, at the time of admission.
- FPO issues a receipt & Bond to member for the share capital paid by the

member and updates membership record.

The decision of the BoD in this matter is final and subject to the provisions of the Act, Byelaws and the rules of Business & Administration.

Cessation of Membership

### **Under what circumstances membership will be ceased?**

- On withdrawal of membership, followed by the approval of the BoD of the FPO.
- On attracting any of the disqualifications mentioned in the FPO Bylaw / Business rules
- Member has not participated for a year in any transaction or services rendered by the FPO
- On expulsion from membership for undertaking activities detrimental to the interests of the FPO

On such cessation of membership, the account of the member with FPO shall be settled in accordance with the rules of the FPO.



# 5

## CAPITAL CONTRIBUTION – MEMBERSHIP IS OWNERSHIP

### Session Objective



To get required understanding on the need for share capital in FPOs  
To appreciate the importance of building high member financial stakes in FPOs

### Content items

1. Share capital for FPO
2. Importance of high member financial stakes in FPO

### Introduction

In the earlier session, we have seen that the key way to maintain ownership in FPOs is by members' contribution to the capital of FPOs. If an FPO has to be a truly member owned organization and to be sustainable, it needs to have significant capital from its members. In this session, we look at this most important function of members.

### Discussion questions:

1. What are the sources of funds to initiate FPO business?
2. What do you mean by Share Capital?

FPO business requires capital, and they can generate capital from three main sources:

- a. Through the share capital of member-owners.



- b. From retained surplus generated by the FPO business
- c. From outsiders in the form of grants or loans

A member share capital has two essential goals: Member shares provide the FPO with an **adequate capital base**, and they create a sense of **ownership**.

Member **share capital** represents individual member commitment to the FPO. It also identifies the individual **member's financial stake**. It is withdrawn only when the member leaves the FPO.

### **“Why FPOs collect share capital from its members?”**

“Share Capital is one side of the ownership coin, and member benefits are the other side. The owners provide tangible support for the business with their equity investments, and in return the cooperative provides benefits to member-owners. The most important benefit for the member is the existence of the FPO itself. People invest in a FPO because they want to use its services. In addition, members receive benefit from being a part of the community, supporting the mission of the FPO as well as the community it serves”.

### **Discussion question: Which kinds of funds are best?**

FPO demonstrates the advantage of being community-based businesses, where a relatively small amount of investment from a large number of people can create a sizable base of funds from which it is possible to leverage larger amounts of capital. Member shares can be limiting and slow to accumulate, especially for FPOs that are looking to expand.

The share investments demonstrate member-owner commitment to banks and other lenders. However, the type and source of capital is important because they determine the terms and conditions attached.



### Case study

Dharani FPO is working with farmers from Kamalapur Block. It is registered under Cooperative Act. The farmers who are willing to use the services and abide by the provisions of the byelaws and other conditions prescribed by the FPO has paid share capital and admission fee and became members. FPO procures produce from members and also from non-members. However, FPO as per its business rules, is ensuring procurement from non-members not exceeding 20% of total procurement.

The FPO has realised that the member shares are limited and slow to accumulate, hence, the FPO has been mobilising loans from Banks and other development institutions for intensifying their activities.

Since three years, the General Body of FPO decided to allocate 40% of surplus based on the transactions made by each member with FPO. Members say that we trust our cooperative as it is not excessively profiting from their procurement, because surpluses are returned in proportion to those transactions. The board of the FPO says that they pay attention to patronage refunds because such refunds can create appropriate pressure for the cooperative to generate net income, which is one sign of a healthy business.

**Use below space and reflect on benefit of collecting share capital from members.**

### Member financial stakes

Now we will look at following two FPOs and try to analyse the relation between members' stake, ownership and sustainability of the FPOs:

**FPO1:** All the potential members on the operational area of this FPO became members of the FPO by paying the full authorized share capital. Members also do regular monthly savings with the FPO. For farm inputs and related expenses, FPO provides loans to member by mobilising deposits from the members and if needed members can avail 10 times of loan facility on their deposit amount. During the procurement of produce, the FPO also deduct 10% of the price to members which was paid back to members after completion of the business cycle.

**FPO2:** In other FPO, farmers joined the FPO and members contributed only small part of the authorized share capital. FPO is not offering any savings and loan services to its members. FPO borrowing funds from development financial institutions on market rate of interest. However, it is not sufficient for FPOs business. Hence, promoting agency provided interest free loan to FPO. For proper management of funds at FPO level, financial institutions suggested FPO to recruit CEO from open market. To ensure FPO financial sustainability, promoting agency paying salaries for the FPO staff.

Analyse the status of two FPOs in-terms of financial stake of the members and its impact on members' ownership, control and sustainability of the institutions. Use below space and write your observations:

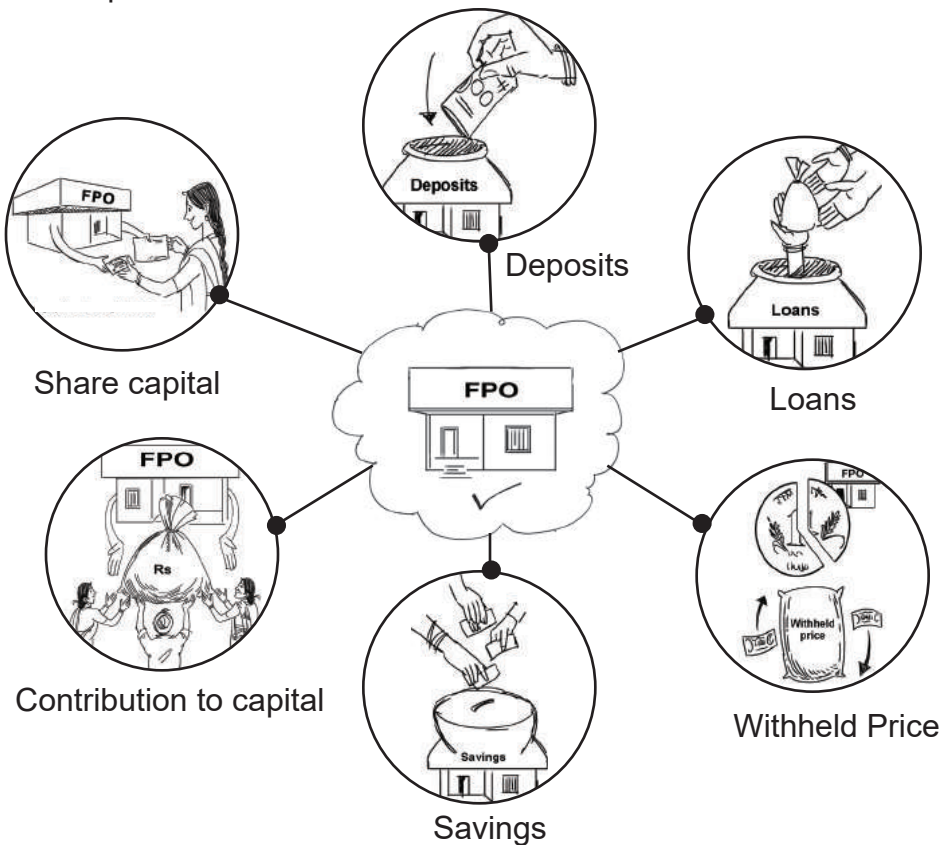
FPO1	FPO2

From the above cases, it can be realised that high financial stakes of members is very critical in ensuring the ownership and sustainability of FPOs. Without the minimum internal capital, it is not possible to attract the external capital. Without the significant internal capital, there will not be internal ownership and such FPOs are mostly controlled by external agencies.

If there is significant member financial stake, there will be required ownership and active participation of members in decision making and other activities of the FPO.

Following are the ways by which members have financial stakes in FPOs.

- Share capital
- Deposits
- Loans
- Contribution to capital requirements
- Savings
- Withheld price



## Annexure I

### Membership Provisions as per MACS Act 1995

**“Member”** means an individual producer or Producer Enterprise who meets the membership eligibility criteria as specified in the Bylaws of FPO and who paid up the share capital

1. Subject to the byelaws, any person who is desirous of utilising the services of the cooperative society may express his willingness to accept the responsibilities of membership and fulfil such other conditions as may be specified in the byelaws of the cooperative society and thereupon he may be admitted as a member, subject however to the condition that the cooperative society is in a position to extend its services to the applicant and that the applicant is not already a member of a cooperative society registered under this Act, providing the same or similar services.
2. Admission of members and removal from membership shall be made in accordance with the procedure specified in the byelaws, only by an elected board or by the general body where such an elected board does not exist for the time being.
3. A person admitted as a member may exercise the rights of membership, including the right to vote, only on fulfilment of such conditions as may be laid down from time to time in the byelaws; Provided that a person shall have been a member for at least one year before being eligible to exercise the right of vote; Provided further that the above proviso shall not apply to the promoter members in the first year of registration of a cooperative society.
4. The Act does not expect a person to be a member of more than one cooperative for the same services.

**Annexure II****Membership Provisions as per Companies Act 2013****Rights of Members**

When once a person becomes a member s/he is entitled to exercise all the rights of a member until s/he ceases to be a member in accordance with the provisions of the Act. The rights of a Member are:

- to transfer his shares;
- to vote on resolutions at meetings of the Company;
- to requisition an extraordinary general meeting of the Company or to be a joint requisitioners;
- to receive notice of a general meeting;
- to attend and speak in a general meeting;
- to move amendments to resolutions proposed at meetings;
- in case the Member is a corporate body, to appoint a representative to attend and vote at general meetings on its behalf;
- to require the Company to circulate its resolutions;
- to enjoy the profits of the Company in the share of dividends;
- to elect directors and to participate in the management of the Company through them;
- to apply to the Company Law Board for relief in case of oppression;
- to apply to the Company Law Board for relief in case of mismanagement;
- to apply to the Court for winding up of the Company;
- to share in the surplus on winding up; and
- to have a share certificate issued to him in respect of his shares.

## Voting Rights of a Member

- a) In a case where the membership consists only of an individual member, the voting right shall be based on single vote for every member, irrespective of his/her shareholding or patronage of the Producer Company.
- b) There shall be no allocation of additional votes to any Active Member at the end of each financial year, on the basis of their patronage.
- c) In a case where the membership is composed only of Producer institutions, the voting rights may be computed on the basis of the participation in the business dealings of the Company by the respective institutions in the previous year, save that for the first year of its registration, the voting rights shall be determined on the basis of the shareholding.
- d) In a case where the membership is composed of individuals as well as Producer institutions, the voting rights shall be computed on the basis of a single vote for every Member.
- e) Each Active Member shall have a minimum of one vote. However newly admitted Members shall have no voting rights for at least six months (or for a time period as specified by the Board).

## Cessation of Membership

In the following circumstances, membership is seized:

- by transferring his/her shares. In the case of a transfer, the person transferring will continue to be a Member until the shares are registered in the name of the transferee;
- by forfeiting his/her shares;
- by a valid surrender;
- by death, but until the shares are transmitted, his/her estate will be for any money due on the shares;
- by the Company selling his shares in exercise of its right under its Articles of Association;
- by order of a Court or any other competent authority attaching and selling the shares, in satisfaction of a decree or claim;

- by the official assignee disclaiming his shares, on his adjudication as an insolvent;
- by recession of contract of membership, on the grounds of misrepresentation or mistake.

### Conflict of interests

- No person, who has any business interest which is in conflict with business of the Producer Company, shall become a Member of that Company.
- A Member, who acquires any business interest which is in conflict with the business of the Producer Company, shall cease to be a Member of that Company and be removed as a Member in accordance with articles.



**End line**

Please recall that at the beginning of the module, we had Baseline in which we answered well some basic questions about Membership in FPOs.

Now, we have come to the end of this module. So, an End line is given to assess ourself regarding additional understanding after going through this learning module.

So, let's answer some more questions based on our learning on the module

**1. Who are active members in an FPO?**

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.....  
.....

**2. How patronage (use of services) of FPO is the most important function of members?**

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

**3. What are the different levels of member mobilization?**

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

**4. How to maintain member centrality in FPOs?**

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

**5. How do you balance the benefits at members' level and FPO level?**

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











- Provide services
- Benefits (dividend, bonus etc)

- Share capital
- Savings
- Use Services
- Participate in voting and decision making



**Members**

## About APMAS

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



## VINIMAYA- MEMBERSHIP IN FARMER PRODUCERS ORGANISATION

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

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