BUILDING OPERATIONALLY SUSTAINABLE
FARMER PRODUCER ORGANIZATION

PRACTITIONERS' GUIDE FOR BUSINESS DEVELOPMENT PLANNING IN FPOs

Centre for Agrarian Studies

National Institute of Rural Development and Panchayati Raj

Ministry of Rural Development, Government of India

Rajendranagar, Hyderabardpr.org.in

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FOREWORD

It is evident that FPO is a proven strategy to help small producers rise to emerging markets. Both Central and State governments are taking-up multiple initiatives to promote and strengthen 'Farmers Producers Organizations (FPOs) as a strategy to enhance farmers' prosperity in the country. The structure of FPO is believed to provide not only the technical know-how to farmers but also connect both input and output markets, lessening the intermediation of middlemen. Variety of approaches including Cooperatives and Farmer Producers Companies have been initiated for formal networking of the primary producers, which also helps improve their bargaining power.

During our interface with divergent stake holders of producer organizations we found that preparation of bankable business plans is still a challenge for them. Many a time the business plans are prepared by external consultants without much involvement of Board of Directors or even CEO of FPO and as a result the business plans are not translated into doable businesses for the FPOs.

Centre for Agrarian Studies, NIRDPR has been providing much needed capacity building and mentoring support to FPOs, their promoters and stake holders across the country. Towards this endeavour the Centre has brought out practical hands-on manual on 'Business Plan Preparation in FPOs', to help the stake holders build robust FPOs with holistic business plans. This operational manual is a practical and hands-on guide covering all facets of business plan preparation right from indexing the selected value chain development activities to the final accounts. It also contains model templates and tools to help prepare industry standard market ready 'Bankable Business Plans'. The manual also included key metrics to measure the efficacy of the financial statements through ratios and efficiency tests. This business plan manual is field tested with several rounds of training programs to stakeholders like managers and BOD members, in the process, fine tuning and standardizing the manual in every aspect. Some of the best experts with vast field experience and technical competency have been involved in bringing up this Operational Manual on Business Planning for FPOs.

There is also demand for building capacities of NRLM groups in the preparation of business plans for their fast-emerging Producer Enterprise Collectives. The Manual is also designed to address this critical demand from NRLM groups and their cluster level federations in the preparation of hands on business plans. NABARD AP is our strategic partner in building capacities of the FPOs and it is very supportive in adapting the business plan manual for the FPOs promoted under their flagship program viz. Producer Organization Development Fund.

We hope this market ready 'Business Plan Manual for FPOs' will prove to be a valuable operational guide for a wide range of stake holders involved in FPO and NRLM activities.

Smt. Alka Upadhyaya IAS
Additional Secretary, MoRD
Director General I/c, NIRDPR

PREFACE

A Good Business Plan acts as a compass to the FPO – showing the right direction needed from time to time. Several FPOs prepare business plans for the sake of preparation and it remains a statement of intention rather than a tool for direction. However, a good Business Plan (BP) is the engine that drives the FPO to the destination it has envisioned.

A business plan is an important document to be submitted to the funding agency, post registration. The entire plan of activities of an FPO is mentioned in the business plan. Any individual activity within a business plan of an FPO that needs to be promoted as a micro enterprise, requires a bankable business plan for the funding support of a bank. The consolidation of individual activities/micro enterprises becomes a Business Plan or detailed project report for an FPO. Along with the bankable business plan of the micro enterprise, the business plan of an FPO can be submitted as a supporting document.

As the members of an FPO are farmers, when an FPO as a representative of farmer members is doing business with the farmers, caution must be ensured that it should be a win – win for both the farmer members as well as the FPO. So, each FPO should come out with a policy of its own with respect to the benefit to its farmer members.

This manual is prepared from the lens of a CEO of an FPO. A good business plan helps the CEO to put their efforts in proper perspective and directs the plan of activities for the next five years. While preparing a business plan, the CEO should have the information of all the farmer members with respect to their area under crops, the yield and income levels, the status of value addition of the crops and the pain points in cropping, as well as past harvest stages. This helps designing a bottom up micro plan starting from the last mile producer and eventually federates into a realistic Business Plan for FPOs.

The key philosophy for a business plan - it should be micro plan based. The ensuing chapters will guide on preparing a comprehensive business plan for FPOs – maintaining this philosophy as the core principle.

ACKNOWLEDGEMENTS

FPO as a business model is an emerging trend in the agri-business markets in the country. A good business plan for an FPO should handle the financial affairs and simultaneously address the concerns regarding the burden of agriculture in terms of input logistics, quality parameters, technology and satisfactory returns to the efforts and investments in FPOs. The present manual has its content derived from Write Shop conducted at NIRDPR, involving pan India professionals. It is fine-tuned further using the insights gained through the series of FPO training programs conducted at NIRDPR headquarters and at SIRD&PRs spread across all the states. The biggest contribution for this manual is from the FPOs of North Coastal Andhra Pradesh that are mentored and technically supported by CAS , NIRDPR in partnership with NABARD, RO.

We express our deep gratitude to Dr WR Reddy IAS (Retd), former DG, NIRDPR, whose steadfast support to CAS helped in promoting the visibility of the centre with respect to FPO ecosystem in the country. We are also grateful to the support of Smt. Alka Upadhyaya IAS, Additional Secretary, MoRD and DG I/c NIRDPR and Smt. Radhika Rastogi, IAS, DDG, NIRDPR. Working with grass root FPOs and their PoPIs helped us to reorient our knowledge on FPO systems that has transpired to this manual. We are grateful to NABARD RO AP, in this context, for having faith in us and for entrusting us the role of Resource Support Agency. The support extended by NABARD AP officials - CGM NABARD AP, Mr. Sudhir Kumar Jannawar, Former CGM Mr. Selvaraj, GM Mr. Behra, DGM Mr. Nagesh, AGM Ms. Ramalakshmi, AGM Mr. D.P. Dash, and AGM Mr. Ranganath, is very helpful. The contribution of resource persons of CAS, NIRDPR, Mr. Purushotham, Mr. Gopala Krishna, Mr. RV Prasad and Ms. Arifa, has been eminent this manual. In addition, we have convened a series of web based technical sessions with FPO experts, SFAC, NABARD, Bankers, Agri entrepreneurs, Corporate agribusiness houses and with third generation retailers like Sahajaahaar of Centre for Sustainable Agriculture, who have provided suggestions that enriched this manual to a great extent. Their personal experiences and generous willingness to share their models made this guide a rich source for planning and project preparation. The vetting of financial concepts in the manual was done by Mr. Ramakrishna Rao, Company Secretary, to whom we are immensely grateful.

We are grateful to Ms. Bala Sahithi Karavadi, former OSD to DG, NIRDPR, for her design contributions, technical editing and adding value to the manual to make it reader and business model centric. We are thankful to Mr. Venu Gopal Bhatt, Artist, CDC, NIRDPR, for enriching the appearance of this manual with his artistic interpretations and sketches. We thank immensely Mr. Krishnaraj and Mr. Victor Paul, Assistant Editors, CDC, NIRDPR, for making the manual reader friendly with their finest editing strokes. We are always grateful to the support of Ms. Padmasree, Stenographer Grade I of the Centre and Mr. Ganesh MTS, whose support behind the screen is invaluable.

Dr. Ch. Radhika Rani

CONTENTS

LIST OF ABBREVIATIONS

AGM	Annual General Body Meeting
AoA	Articles of Association
AP	Andhra Pradesh
APMC	Agricultural Produce Marketing Committee
BODs	Board of Directors
CAS	Centre for Agrarian Studies
CDC	Centre for Development Documentation and Communication
CEO	Chief Executive Officer
CIN	Company Identification Number
CVP	Customer Value Proposition
DDG	Deputy Director General
DDM	District Development Manager
DFID	The Department for International Development
DG	Director General
FMCG	Fast-Moving Consumer Goods
FPC	Farmer Producer Company
FPG	Farmer Producer Group
FPO	Farmer Producer Organization
FSSAI	Food Safety and Standards Authority of India
GB	General Body
GoI	Government of India
GST	Goods and Services Tax
IFFCO	Indian Farmers Fertiliser Cooperative
JLG	Joint Liability Group
KVK	Krishi Vignyan Kendra
MACS	Mutual Aided Cooperative Society
MAT	Minimum Alternate Tax
MoA	Memorandum of Association
MoRD	Ministry of Rural Development
MTS	Multi-Tasking Staff
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organization
NIRDPR	National Institute of Rural Development &PanchayatiRaj
OD	Overdraft
P&L	Profit & Loss
PAN	Permanent Account Number
PC	Producer's Company
PO	Producer Organisation
POPIs	Producer Organisation Promoting Institutions
PPE	Property, Plant and Equipment
PRA	Participatory Rural Appraisal
RO	Regional Office
RRB	Regional Rural Bank
SFAC	Small Farmers' Agri-Business Consortium
SHG	Self Help Group
SIRD&PR	State Institute of Rural Developments & Panchayat Raj
VC	Value Chain
VCA	Value Chain Analysis
VCI	Value Chain Index

INTRODUCTION

Understanding the Concept of Business

Business is defined as an activity or set of activities involving production and services or purchase of inputs or marketing the product with the objective of earning a profit.

In the context of an FPO: Business is any one or more of the activities undertaken by an FPO i.e., production, trading or providing services for earning profit.

Business development can include product development, quality control, cost control, organizational development, marketing, and sector specific skills. It includes strategic as well as operational aspects.

Key features of a business

- A recurring economic activity
- Selling of goods and/or services
- Investment of resources
- Focus on profits
- Risk Management

Duration of a Business Plan

Normally, the FPOs which have strong root in the community, prepare a 5-year Business Plans taking into consideration ground level brass tracks in a precise way.

Some FPOs prepare 3-year plans but ideally it is advised to prepare a 5-year plan with structural adjustments and customization as per the progress and needs of the FPO, on a year on year basis.

Key benefits of a good and practical Business Plan

A Good Business plan:

- provides the needed direction to the FPO in carrying out business for the benefit of its shareholders on a sustainable basis
- gives bankability to the FPO as bankers will be agreeable to finance doable and achievable business plans
- gives eligibility for the FPO to get government sponsored programs
- prepared in a realistic way, gives operational and financial sustainability to FPO - recognizing the scope for income and areas of expenditure in a precise way
- gives confidence to the shareholders that the FPO is doing business in a known direction

The Businesses the FPO can undertake are classified into three main categories

- Trading – "buying and then selling" businesses such as a procurement of crops
- Production – FPO in the business of primary processing of the goods of their farmer members
- Service – FPO in the business of providing services such as technology and doorstep delivery of input services

Business plan of an FPO is consolidation of all activities including its production, trading and services. All three types of businesses (production, services and trading) of an FPO are seasonal in nature. For seasonal businesses, we must pay special attention to the raw material supply and the customer. The customer here is the wholesaler/retailer in case of product business and farmer member in case of input business.

It is statutorily required to prepare a business plan and place before the AGM for the approval of shareholders

In comparison to other businesses, the business of an FPO fluctuates more often for two reasons:

- Customers want products or services during a certain period (For instance, during certain festivals, flowers are in demand or the farmer members demand input supply at a reasonable price with the onset of monsoon)
- Raw material is available only during a certain period (For Example, mangoes are available only during early summer for a mango pickle business)

Key Points

- ***Every business must have specific and realistic objectives***
- ***The objective of a business is to earn profits for its shareholders***
- ***It is important for the business to be ethical while trying to meet the primary objective***

Business Viability

The viability of a business depends on:

- Customers & Competition
- Capabilities
- Cashflow Management
- Capital
- Economic environment

There is an easy way to remember them – "4C+E". These factors are applicable for production, trading and services

The Key Components of a Business Plan

- Executive Summary
- Overview and Background of the Company
- Customer Value Proposition or Value Chain analysis
- Market Plan and Risk Analysis
- Financial Plan
- Annexures

A detailed template of a Business Plan is placed at **Annexure I**

CHAPTER ONE

Executive Summary of a Business Plan

Executive summary reflects the entire business plan of an FPO in a concise form as a quick read. It is the first chapter of the business plan but ideally it should be written after the completion of entire business plan report. It should be a quick read with one or two pages covering all the important highlights of the business plan document. It functions as an initial funding pitch to grasp the attention of the funding agency to proceed further.

Following are the Critical Components of an Executive Summary:

1. **Main Objective of the FPO**: It should be "SMART" (Simple, Measurable, Achievable, Replicable and Time tested) enough and reflects the essence of the business of an FPO

   For Ex: "The Krishiphala Farmers' Producer Company (FPC) will improve the income of its farmer members from an average of Rs. 75,000 per annum per household by 15 percent in three years starting from 2020"

2. **Profile of the FPO**: Profile reflects the number of shareholder members, number of BoDs, number of internal committees, equity capital collected, number of villages, major commodities being handled by the FPO, asset structure and any goodwill (in terms of competent expert director or any well-known progressive farmer on the board, commendation/appreciation received for any other activity of the BoD members/farmer members/CEO etc.)

3. **Pain points of the farmer members**: In one or two sentences, the pain points of the farmer members with regards to their livelihoods are to be summarized

4. **Generation of Business Ideas or Value Chain Proposition**: The choice of selection of major crops and major activities for the crops is to be given, based on Value Chain Index and Market Conditions

5. **Market Strategy**: Strategies to manage the target market, customers and likely competition are mentioned here
6. **Financial Summary**: Overview in terms of revenue generation, likely profits to the organization, estimated financial ratios indicating the financial viability plan and the funding requirement to execute the business as per the plan, are to be indicated here
7. **Management Team**: A good business plan requires a good team to execute it. The members of the management team and their short profiles are to be noted in this section

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CHAPTER TWO

Overview and Background of the Company

This segment of the Business Plan gives a thumbnail sketch of the FPO, its promoters, constituents, and the business it is operating in. It should begin explaining the context of the Business Plan. It should not be forgotten that the Business Plan is strategic and will be contextualized and customized from time to time based on emerging needs of the farmers and the FPOs.

It should also consist of a brief reference to the vision, mission, and overall objectives of the producer organization. There can also be a mention about specific measurable outcomes of the business plan. In this context, vision is the end picture envisioned by its founders. More often in a professional vision statement, verb is not used, and it should be a dream statement. *For Ex: "The Vision of the Krishiphala Farmers' Producer Company is to ensure welfare of its farmer members"*

Mission is the task the FPC is planning to achieve over the business plan period. Objectives should be SMART i.e., specific, measurable, achievable, realistic and time bound.

This segment should also briefly address the Promoting Agency, its main activities, achievements and what prompted the promoting agency to conceive the idea of promoting the FPO in that specific geographical location.

A location map well pictured and subtly denoting the area of operation and the location of the FPO office can be incorporated in the plan, in this section. An overview of the project area can help the reader better understand the area of operations and the intended impact. The agro-climatic conditions, soils, natural resources, human resources and market avenues can be succinctly described here.

Overview of the operating area for the business also indicates other institutions operating in the area, some of which can operate as potential partners in the long run. The institutions may include banks, research organizations, other NGOs and community-based organizations. It can also briefly describe the women groups in the villages and their activities, exploring for a potential partnership that may emerge with them.

Further, description of the overall agribusiness ecosystem of the operational area can be included. It can describe the potentiality of the crops, their markets, processing options and straddle through value chain to reach end consumers and markets. While describing the agribusiness prospects of the area, an emphasis can be made on existing gaps in production, value addition and marketing, and how the FPO can bridge these gaps through the operationalization of the business plan.

The overview should include the governance structure of the FPC, constitution of its governing body, committees within the framework and decision-making process by the BODs. The strength of the board members and their socio economic and gender mix can be described here.

Management team of the FPC must be briefly described, drawing the profile of all the key members and their achievements in the past. Care must be taken that the management team is rooted to the community it is operating with and their abilities are to be indicated to ensure they are trained to achieve their tasks. An organogram can be placed indicating the flow of governance and management responsibilities with clear mention of the division of duties. A good organogram will not be multi linear and flows with clear description of the delegation of responsibilities from governance to management.

The selection and hiring process of the managers of the FPC, their induction process and incentives based on their achievements can be described here. A brief job chart of each line functionary of FPO can help the reader of your plan to understand how the plan is going to be operationalized to its full potentiality.

Finally, a brief on the capacity building needs assessment and plan for execution of the training programs for building capacities of the line functionaries and governing body can be included as per the needs of the FPO.

CHAPTER THREE

Customer Value Proposition or Value Chain Analysis

A successful Business Plan is one that has found a way to create value for customers – i.e., a way to address a need of customers. The customers in an FPO can be farmer members or retailers or wholesalers depending on the type of product or service the FPO chooses to operate with. The "need" here is a fundamental problem in a situation, that needs a solution. As the need is understood with all its dimensions included – its environment, nature of operation, possible areas of improvement et al., the offering can be designed accordingly. Here, the better the offering, the better the Customer Value Proposition (CVP). In addition, CVP is higher when a higher level of customer satisfaction is achieved through addressing the need of the customer better than other similar offerings and at an attractive price point.

Understanding Customers

- ***Customers are those who pay money directly to the business for its products or services***
- ***Identification of potential customers is key to understanding and addressing their needs***
- ***Businesses must aim to achieve high levels of customer satisfaction***
- ***The needs of the customers of an FPO are most often seasonal in nature***
- ***Retention of an active member is one of the biggest challenges of an FPO. The farmer members who are the main customers or active members of an FPO also tend to switch to an offering that is more attractive, in the next season***

The most important attribute of a customer value proposition is its precision - how perfectly it understands the needs of the customer and addresses those needs. As easy as that may appear, most often than not, such a precision is the most difficult thing to achieve. FPOs often neglect to focus on this one aspect and dilute their efforts by attempting too many things, setting up themselves for an easy failure in achieving their objectives.

The very foundational objective of an FPO is adding value to the produce as against selling the raw product directly in the market.

"Value Chain Development" in the context of FPO

The concept of value chain was originally taken from the discipline of Business Management and was first described by **Michael Porter** in his best seller, ***Competitive Advantage - Creating and sustaining superior performance*.**

Though the concept of Value Chain came into existence in the context of business management, nothing fits into this concept better than our own agricultural activities from Plough to Fork.

So, let us give a simple definition of value chain development activities of an FPO, for easy understanding of our share holder farmer members.

"The full range of activities that is required to bring a product or service from conception, through the different phases of production to the final customers. It involves combination of physical transformation and the input of various producer services."

Though simple in definition, the concept of value chain holds tremendous meaning to it. Farmers start their agricultural activities from pre-sowing and end up with marketing of their produce, during which, the initial produce will transform into a consumer good. A full range of value chain prism is to be visualized from pre sowing to marketing for describing this value chain.

A habit of looking at any agricultural produce through its value chain prism must be cultivated for understanding the business elements of operation of the produce. *For Ex*: If bread and omelette was part of your breakfast today, try to mentally comprehend how bread has taken shape from its original form of wheat and what all processes has it undergone to finally reach your table. Similarly, try to picture how the egg has travelled across different activities and actors to transform and reach your breakfast table. Habituating this continuous analysis of each of the products seen in the markets, malls or shops will go a long way to help one become a value chain development professional.

Value Chain Analyst?

Now can you quote some of the examples of value chain in your daily life? Try to be value chain critical observer and make it a life habit

Micro Plan

Micro Plan is the foundation block of value chain development plan. It should be bottom up from shareholder household to their FPG/JLG and eventually to the FPO. The tool for making household micro plan is provided at **Annexure III**.

In preparing micro plan of each farmer household, we will be gathering information about how many acres are under cultivation, their requirement of seeds, fertilizers, chemicals and other input services like tractor or sprayer etc. The information regarding expected crop wise yield, amount of yield set aside for domestic consumption and the amount the household can supply to the FPO pool for marketing collectively will be collected for the micro plan. This way, each household's critical data in terms of input requirements and output to be marketed are aggregated at group or village level and eventually at the FPO level.

Bottom up micro plan-based approach of this sort is realistic and is rooted to the actual field situation. Some of the FPOs tend to do top down planning with assumed figures which most often is far from realistic situation at the field level. Such plans are bound to give less than expected results. Hence micro plan should be the foundation block of any Value Chain Development Plan.

Key Points:

Some perceive any processing related activity alone to be value chain development. However, in the context of agriculture, value chain is a continuum of activities ranging from pre-production, soil preparation, sowing of seeds and up to packing for consumer outlets.

Value Chain – Conceptualization

Understanding a value chain process requires a clear understanding regarding the difference between value chain and supply chain. In simple terms, **supply chain** is managing the total flow of goods from suppliers (Producers) to the ultimate users (Consumers). Whereas **value chain** is adding value at every stage in the transfer of goods from producer to customer.

Supply Chain is Logistics Management

The key difference between supply chain and value chain is the utility of end products. Supply chain integrates all the functions that start from the manufacturing of raw material into the finished product and ends when the product reaches the final consumer. Although value chain follows the same skeletal process, in addition, at every step of the process it considers the utilization of the goods and services, and this key factor enhances customer value.

In supply chain, flow of the process is unidirectional in nature - goods are produced, procured, and sold without any consideration for market requirements. In value chain, at each step of the process, there is a collaboration between the producers, intermediaries, and customers. The goods and services are provided keeping in mind the demand and market requirements.

In short, a value chain effectively:

- traces product flows and shows value addition at different stages
- identifies key actors and their relationships in the chain
- identifies enterprises that contribute to production, services and required financial support
- identifies bottlenecks preventing progress
- provides a framework for sector specific action
- identifies strategies to help local enterprises to compete and to improve earning opportunities
- identifies relevant stakeholders for program planning

Value Chain Thinking in Practice

Value chain thinking begins from the farmer's point of view as well as from the consumer's point of view. Farmer's point of view refers to the scope of developing the value chains based on existing gaps in processes or activities/products of the farmers. As this is planned from the viewpoint of farmers this can be called as supply driven value chain.

Farmers buy in retail and sell in wholesale losing at both the ends

So, an FPO should learn to buy in wholesale (Inward logistics) and sell in retail or up markets (Outward logistics), for its farmer members.

Alternatively, consumers' points of view may mean the scope of identifying the consumer preferences and working backwards to the farmers, which is a demand driven value chain. An ideal Value chain is a combination of both. However, it is advisable for an FPO to begin looking into supply driven value chain i.e., from the producer to the consumer as it is a low hanging fruit and easily implementable. Once an FPO reaches an advanced stage, it can start working on its VCA backwards.

It is to be observed that the focus of this manual is mainly on Supply driven Value Chain. Let us see the figure below where value chain approach can be followed at different stages of a commodity flow. The integral elements of all these stages are quality control and cost control.

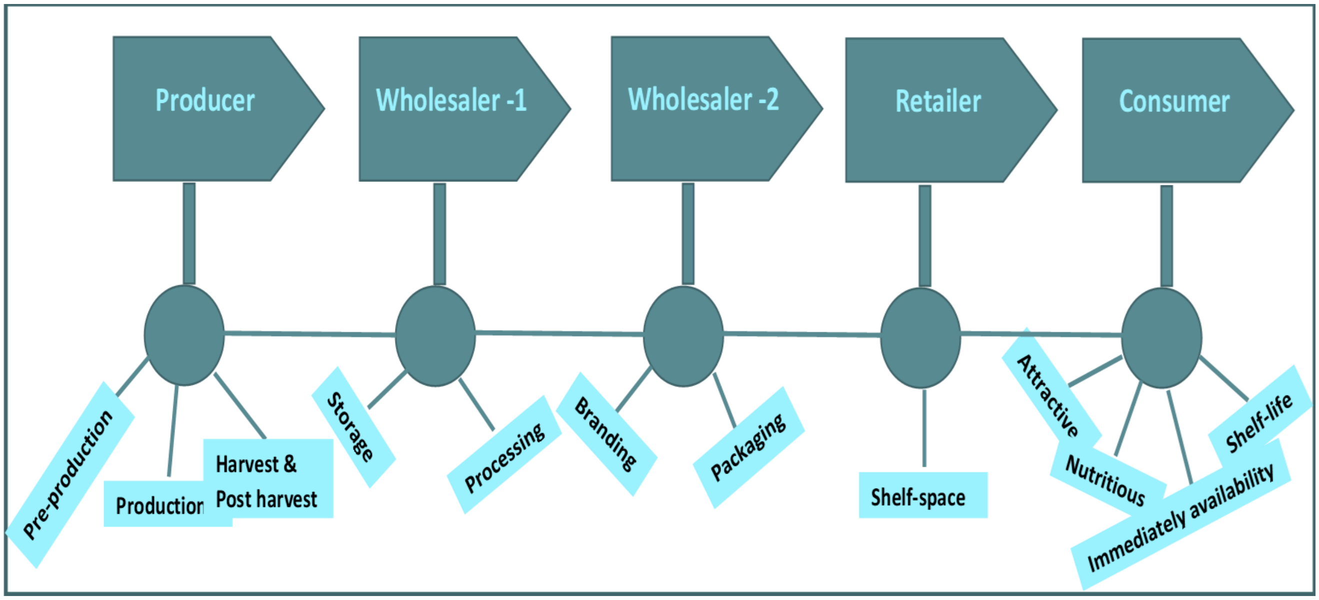


Fig 1: Value addition at different stages of value chain

The purpose of mapping the value chain should result in an understanding of the gaps or redundancies, opportunities for value addition or expansion of existing activities. Breaking down the core processes into specific detailed activities is only useful when we turn to analyzing costs, revenues and margins.

DFID has developed three core tools to be applied at every stage and for every actor of a value chain.

- Value Chain Identification with Value Chain Index - at this stage you are methodically zeroing down to the most prioritized commodity that needs value chain development interventions
- Mapping of a VC - at this stage you are listing out the critical activities at each node of the chain that will have bearing on the whole process of value chain development
- Margin/Cost - at this point you are arriving at the specific costs involved for each intervention and the marginal incremental return it can result in

All the above tools can be applied at all the stages of a product from the prec-production stage to the final stage of reaching the consumer. The following sections will discuss these tools in detail.

How to Identify Value Chains of Interest?

The fundamental base for the identification of a Value Chain of Interest is to understand the Consumer. Since consumers determine the final price of the product, it is essential to understand what they want from a particular product. This may include asking the questions like:

- What product characteristics will induce them to buy?
- How much do they buy?
- How frequently do they buy?
- How many of them buy?
- Where do they buy?
- How much are they willing to pay for it?

While asking these questions, it is critical to recognize that all consumers are not the same, and they do not want the same product. So, a value chain needs to understand specific consumer needs and how they can work together to deliver those needs. Only then can the chain 'grow' by selling more, ideally at a reasonably higher price, to those specific customers. This involves deciding the priorities for the resources at every stage of a product life cycle and for every actor, which is called a market - oriented approach.

Exploring the market opportunities, include:

- Displacing existing suppliers whose customers are finding them unreliable
- Import substitution
- New products
- Opportunities currently being missed such as reaching to the FMCG base of a product

Anecdotes are not evidence: It is critical to distinguish between adding values based on personal preferences or assumptions about customers and value creation based on market research.

Understanding the consumers' piece of the value chain thinking puzzle should lead farmers to ask:

- What products, and what characteristics of those products, are consumers looking for?
- Which crops and how much should I grow and how should I grow them?
- Can I process those crops to make them more attractive/valuable to the consumers?
- How can I improve my share, in the overall process leading to the crop reaching the consumer?

For identifying value chains of interest, the key relevant questions are:

i. What are the feasible criteria based on which the selection of value chains is to be analyzed?
ii. What potential value chains could be prioritized and analyzed based on the chosen criteria?

The prioritization process follows the following steps:

Step 1: Prioritizing Crops for taking up Value Chain Analysis

FPO could identify 2-3 crops or products based on the following parameters:

- Area under crop of all the farmer members
- Production of the crop
- No. of primary producers involved with the commodity

- Opportunities for reducing the cost of cultivation/production
- Opportunities for increasing the yield
- Opportunities for marketability of the produce with better quality
- Opportunities to sell the produce in a manner or form to enhance the net earnings to the farmer member
- Sustainability of the business activities related to such crops for the FPO
- Ease of obtaining necessary licenses or approvals.
- Investment required - both as fixed capital and working capital and expected marginal incremental returns on the investment.
- Any others that may be relevant and specific to a given crop and in the area of operation of the FPO

Step 2: Determine and Prioritize Criteria

VCA starts with the selection of a value chain. The decision about which value chain to analyze depends on the criteria applied to select the value chain. The choice of criteria is strongly related to the main purpose of the VCA - to improve the yield levels and income of the farmer members, in the context of the FPO.

To the extent possible, the determination of selection criteria and their ranking can be taken up by the CEO of the FPO with key stakeholders such as progressive farmers in the village, FPO board members, KVK scientists, NGO members in the village etc. It is unlikely that all the criteria selected will be considered of equal importance in the decisions of what value chains to analyze. Some criteria will be considered to have a higher level of importance in the decision-making process and therefore should have a greater influence on the ranking of value chains. The way to achieve this is through a system of weightage, where different criteria are assigned a different numeric value to be utilized during the ranking process. The differing numeric values assigned reflect the relative importance of the criteria. Regardless of which weightage system is utilized, a general rule of thumb to note would be - the more ‘Sustainable Income Generation’ we wish the selection of value chain to be, the higher the weightage that is to be allotted to the criteria that emphasizes these income generation characteristics.

Table: Value Chain Index for Maize Crop

GREEN BIRD FARMERS PRODUCER COMPANY LIMITED					
MAIZE CROP					
S. No	**Parameter**	**Rating**	**Weightage**	**Rating**	**Commodity Index**
1	Area under the crop	1 - Less than 100 acres	10	2	6.67
		2 - 100-500 acres			
		3 - More than 500 acres			
2	Yield	3 - Less than 20 Q acre	10	2	6.67
		2 - 20-30 Q/acre			
		1 - More than 30 Q/acre			
3	No. of primary producers	1 - Less than 100 members	10	2	6.67
		2 - 100-200 members			
		3 - More than 200 members			
4	Input availability	3 - Supplied by Govt.	10	2	6.67
		2 - Available with farmer			
		1 - Available at market			
5	Status of grading & processing for sale	3 - No processing & grading	10	2	6.67
		2 - Minimal processing			
		1 - Advanced processing			
6	Avg. expenditure per acre	3 - Less than 10K	10	2	6.67
		2 - 10K to 20 K			
		3 - 20 K to 30 K			
7	Avg. income per acre	1 - Less than Rs.10,000/acre	10	3	10.00
		2 - Rs.10,000-20,000/acre			
		3 - More than Rs.20,000/acre			
8	Source of marketing	1 - Sale in the village	10	3	10.00
		2 - Govt procurement			
		3 - Established trader network			
9	Availability of storage facilities / transport	1 – Available within 10 Km	10	3	10.00
		2 - Available within 10 to 20 Km			
		3 – Available at more than 20 Km			
10	Perishability	1 - Highly Perishable	10	3	10.00
		2 - Mild Perishable			
		3 - Low Perishable			
	Total		**100**	**24**	**80**

Step 3: Short listing of Crops based on Selected Criteria

Crops could be shortlisted by giving a specific score (1-5, 1 is least favourable and 5 highly favourable) to each of the parameter and the crops, which get the higher scores, could be further shortlisted:

GREEN BIRD FARMERS PRODUCER COMPANY LIMITED					
S. No.	**Parameter**	**Paddy Commodity Index**	**Maize Commodity Index**	**Pulses Commodity Index**	**Cashew Commodity Index**
1	Area under the crop	10.0	6.7	6.7	3.3
2	Yield	6.7	6.7	6.7	6.7
3	No of primary producers	10.0	6.7	3.3	10.0
4	Input availability	3.3	6.7	3.3	3.3
5	Status of grading & processing for sale	6.7	6.7	6.7	10.0
6	Avg. expenditure per acre	6.7	6.7	10.0	6.7
7	Avg. income per acre	6.7	10.0	6.7	6.7
8	Source of marketing	6.7	10.0	10.0	10.0
9	Availability of storage facilities/transport	3.3	10.0	10.0	10.0
10	Perishability	10.0	10.0	10.0	10.0
Total		**70.0**	**80.0**	**73.3**	**76.7**

As we can see from the above table, the overall score is more for maize followed by cashew and pulses. This overall score is a broad compass for a value chain analyst or a CEO of an FPO for the selection of a crop or the order of priority in the selection of a crop.

Among the three commodities, the FPO could identify the most important commodity and take up the Value Chain Analysis of the same. The flow of value chain of a primary product traverses through various stages before it reaches market. Attempt should be made to analyze the gaps at each stage so that required interventions could be planned to overcome the same.

The activity which needs immediate attention for improving the value chain within a crop can also be noted from the above table. For instance, the average expenditure per acre is highest for pulses compared to other commodities with a VCI of 10.0 which needs the attention. However, in terms of number of primary producers, this crop's VCI is lowest with 3.3. So, it is at the discretion of the CEO and BoD members of the FPO to decide whether to proceed with the activity of reducing of average expenditure of pulses or prioritize the VCI with regards to the number of primary producers. With this method the CEO and BoD members can understand the priorities, both crop wise and intervention wise for each crop.

Step 4: Mapping the Value Chain

We have identified Value Chain of priority for our FPOs. Now let us proceed with the next step of mapping of each value chain.

Mapping the value chain has three main objectives

- Visualize networks to get a better understanding of connections between actors and processes in a value chain
- Demonstrate interdependency between actors and processes in a value chain
- Create awareness of stakeholders to look beyond their own involvement in the value chain

Key Questions

Once the core crops and the core activities for a crop are identified based on Value Chain Index, value chain analyst should map the processes along with actors, cost structures and timelines.
The following questions can guide the analyst to map the dimensions:

- Which are the input supply activities to begin within a value chain?
- Who are the actors involved in these processes and what do they do?
- What are the flows of products/service, the number of actors and the number of jobs involved?
- Where does the product/service originate from and where does it culminate?
- Which are the core processes for marketing the commodity?
- Who are the actors involved in these processes and what do they do?

An FPO can become sustainable if 50 % of its activities are focused on input supply for the 3-4 core crops identified, 30% on marketing of one core commodity and 20% on technology and services.

The activities of farming most often are not standalone. Different activities overlap with each other bringing out a common goal. Once the overlapping activities are identified, all these are clubbed together for mapping out the actors involved. While finalizing the activities for which the Value Chain Index is very high, we must also think of the four most common barriers from getting jobs done, i.e., insufficient capital, access to markets, adequate skillset and time management.

CHAPTER FOUR

Market Plan and Risk Analysis

Customer Value Proposition discussed in the previous chapter is nothing but identifying Business Opportunity for an FPO. Once the Business Opportunities are identified, analysis should be made on markets. i.e., market for selling the inputs to its members and non-members and market for selling its products.

Many FPOs struggle to find potential markets for their produce. Sometimes even the availability of potential markets is enough as they lack professional approach to markets. Due to this, they prefer to restrict themselves to input businesses with their share holder farmers and non-shareholders as it is a low hanging fruit and risk free.

Marketing is not something that can be derived from books, but it is a road on which one must walk over and gain experience. However, to begin with, an FPO can get the information from secondary sources. The role of marketing gets very important as an FPO matures from selling the primary products to secondary and tertiary products or processed goods. To sustain in the business, it is advised to cater to the needs of both members as well as non-members albeit with an advantageous treatment towards members to encourage their presence and growth with the FPO.

Assessment of Market Opportunities

Assessment should begin with analyzing the strengths and weaknesses of an FPO in terms of its product/service, access to consumers and the capability to reach different segments of the market. This can be done by

- **Understanding the markets** - Complete information about the market - its coordinates like distance, climate, seasons, traders etc. It is good to target more than one market so that one can hedge the other in times of eventualities
- **Profiling the customers** - Profiling is about understanding the type of consumers, their needs, and their attitude towards the product/service of the FPO. Complete information buyers or consumers - their age group, ethnicity, sex, behaviour, preferences, occasions of buying, frequency of buying, education levels and cultural demographics among others

Type of product	Type of customer targeted

- **An understanding about the quality of the product** - Quality is the extent to which a product or service meet the needs, from the customers' point of view. Quality includes functionality, attractiveness, and safety with respect to certification requirements. Profile the product/service to be marketed. Its uniqueness is an important aspect. Ask yourself the question "why market should buy our product instead of the other competitor's product?" Profile the product in terms of its shelf life, quality, consumer preference, Price advantage, competitiveness in processing and other special features such as organic or residue free among others
- **Understanding the Competitors** - To the extent possible an FPO should match if not exceed to the "essential needs" offered by the competitors
- **Understanding the pricing of the product** - Pricing depends on transportation charges in addition to cost of production, processing, value addition, packaging etc. In certain instances it may not be workable to handle a customer at a faraway place, if the transportation charges are included or its shelf life doesn't support for the duration of its transport or for any other factors affecting its viability
- **Understanding features of your product** – Based on the markets it is catering to, appealing features such women produced products made from natural ingredients, product with unique features like tribal products etc. can be marketed by emphasizing this value proposition

Robust Supply Chain Model

Supply Chain and Market are closely existing entities. FPO should have a robust supply chain model in place before attempting to approach markets. The key informants about of a robust supply chain model are

a. Total saleable quantity in the given season/week/sale period
b. Specifications about packing/labelling/branding etc.
c. Grading and quality specifications meeting the market best standards of that commodity
d. Weekly/daily/monthly volume of saleable quantity out of total saleable quantity

e. Point or place of delivery (Ex-delivery point)

f. Transport details

g. Sample circulation norms

h. Expected Price

i. Payment terms

j. Tax related information

Without the above informants firmly in place, any attempt by an FPO to approach markets, may sometimes be a less remunerative exercise and on occasions may even result in a failure.

Designing the Strategies for Marketing

Strategies for marketing in most cases are for increased sales. Sales is about contacting potential customers and convincing them to buy the product or service of the FPO. An FPO handles the products that are seasonal in nature. Planning for marketing requires logistics such as a warehouse, cold storage etc. In the absence of strong initial capital, it can sometimes be difficult for an FPO to survive without a down payment by the customers. However, this may not always be possible keeping in view the market standards and sales policy of the competitors. In such cases setting a credit policy is also plays a major role. However, the credit policy should clearly state:

- The customers for whom the credit will be extended
- Credit amount limits for each customer type
- Duration of the credit
- Penalties and consequences of default or delayed payment
- Maximum quantity of sales that should be allowed in credit

As customers' needs will constantly change, it is important to constantly monitor these changes

Post Sales Service that an FPO can offer

- Terms of replacement of goods
- Compensation for damaged goods
- Insurance in transit
- Risk free transport without damage

Customer Communication

Communication is a process of business ("Sender") giving "information" related to products and services to the customer (receiver). The receivers here can be:

i. Farmer members for the input sales and product procurement requirement
ii. Suppliers of services such as seed and fertilizer business dealers, mulching, drip equipment dealers etc.
iii. Retailers, wholesalers, and the final consumers, about the products/services of the FPO

While an FPO can do the business with both members and non-members, to sustain its business, preferential treatment can be given to the members as a privilege feature for being associated with the FPO. As this communication strongly reaches out to across, there is a possibility of increasing the membership of the FPO leading to its growth. It is the responsibility of the FPO to identify the robust suppliers of services in the market and communicate them about the potentiality of their FPO. Similar is the case with retailers, wholesalers and customers of the product market. Considerable time must be spent on communication which becomes the key factor to achieve the desirable growth of the FPO. Hence, planning for communication involves,

- Deciding the objective
- Understanding the target audience
- Designing and executing the plan of reaching the target audience

It is better to discuss and finalize the credit policy in the FPO board meeting which should be ratified in AGM

Risk Management

Identification of risks and setting possible safeguards to manage them is an integral part of the risk analysis. Though in an ideal world all risks can be envisaged to be eliminated, it is an impossible proposition. So, risk management must involve the process of identifying risks and assessing whether they can be eliminated entirely or mitigated to manageable proportion through operational resilience. If the risks seem unmanageable to the extent of affecting the very existence of the business, then one may discard the business idea all together. As risks may continue to remain in the business environment both internally and externally, even after starting the business, it is extremely important to develop a risk assessment mechanism and risk mitigation strategy. Some of them can be:

- **Identifying and mapping the processes/factors** that would have the biggest impact on earnings, if disrupted. *For Example,* a bad monsoon may severely affect crop production in rain-fed areas thus reducing earning of the FPO considerably
- **Identifying critical infrastructure** - including processes, relationships, people, regulations, plant, and equipment - that supports the FPO's ability to generate earnings. *For instance*, the break-down in the Bulk Milk Chilling unit, could lead to the whole stock of milk to be spoilt and go waste, besides adversely affecting the supply chain.
- **Identifying the main vulnerabilities** - Vulnerability is the inability to cope with the adverse effects of an event or risk. *For Ex*ample, storage, processing, and trading of commodities can come under new regulation, imposing conditions which the FPO may find difficult to comply with, at a short notice.
- **Identifying the weakest links** - the elements on which all the others depend. For instance, a single buyer for all produces, is the weakest link in this scenario
- **Developing planned response to mitigate the risks**. Consider an enterprise creating some critical infrastructure like a spare refrigerated van for ferrying chilled milk as part of its contingency plan

Support from Government departments and Corporates for market linkages

State and Central Governments have schemes for preferential procurement of produce from FPOs. *For Ex*: procurement of certified seeds through FPOs has been implemented by the Government of Chhattisgarh. The facilitating agency should be able to get the relevant information from the respective Governments.

The corporates need continuous supply of desired quality produce for processing and value addition. Therefore, they prefer to enter a contract with few FPOs who will meet their requirements.

Usually the following mechanisms are adopted:

a) Retail chains tie up with FPOs for procurement, especially for continuous supply of vegetables & fruits and processed staples

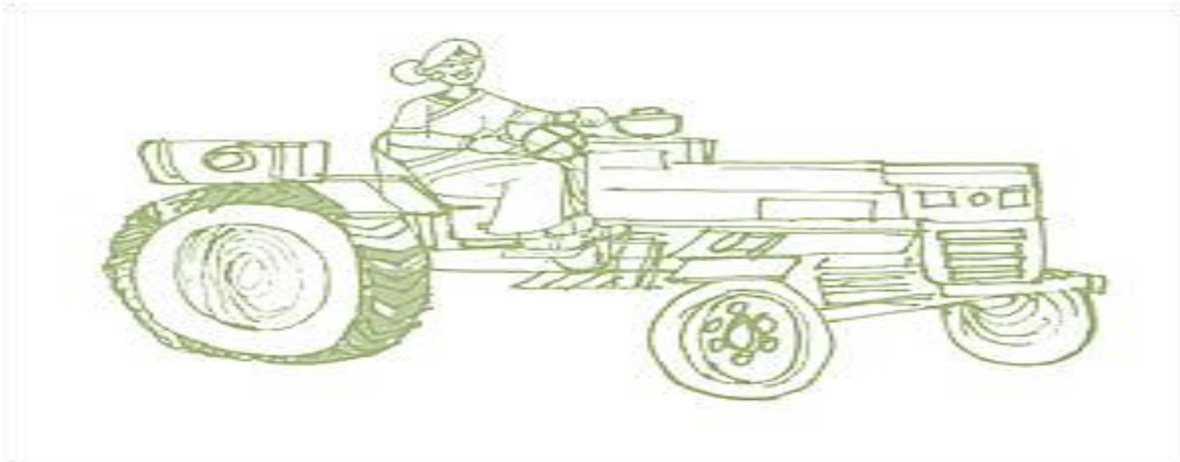
b) Corporates extend dealership for farm machinery and inputs to FPOs

c) Corporates provide primary processing machinery to an FPO with a buy-back arrangement for the produce

d) Corporates can initiate contract farming with buy back arrangement of assured markets

Post Sales Service an FPO can offer

- *Terms of replacement of goods*
- *Compensation for damaged goods*
- *Insurance in transit*
- *Risk Free transport without damage*



Emerging Opportunities in Marketing

i. Good FPOs also do analysis of internal markets

It is a good practice to do market PRA and map the products that are being bought by villagers from outside and that are being sold by villagers to outside markets. The internal markets are most potential which most FPOs ignore

ii. Targeting the Peri-urban markets

India's burgeoning peri urban markets could be potential target markets for the FPOs digital marketing. Today villagers are buying goods from ecommerce websites such as Amazon and Flipkart. It should also not be ignored that villagers are prudent consumers demanding niche products at reasonably lower price

iii. Brand Equity

FPOs should try to develop their own brand with good brand management plan. This helps in long term for business growth.

iv. Mounting products through Retail Chains

Currently there does not seem to be any product range that is not covered by online retailers. A long-term partnership with retail chains could be a good marketing strategy

v. Reverse Logistics

When the FPO products are reaching distant up markets, the transportation burden can be reduced through reverse logistics

vi. Kisan Rail

Indian Railways have introduced Kisan Rail, a unique opportunity for farmers to sell their produce in distant markets and the cost of tonnage is considerably lesser through these trains. There is also a provision for FPO market team to travel in the same train along with their goods

vii. Marketing model

With all the above information in place the FPO can design its own contextualized marketing model which shall be customized as per the needs based on changing market demand, new market opportunities and policies.

CHAPTER FIVE

Financial Plan

The financial plan translates all the other parts of the business - the value chain proposition, opportunity, the operating plan, the marketing plan into anticipated financial results. It contains the status and the future projection of financial performance of the business with the selection, evaluation, and interpretation of financial data along with other relevant information in financial decision making. It represents the best estimates of the risks involved and the return on investment.

Three financial areas are generally discussed in the financial plan:

A. Capital requirement and financing pattern
B. Financial projections indicated in the form of statements
C. Financial returns indicated in the form of financial ratios

A. Capital Requirement and Financing Pattern

Any FPO will have financial requirement to start and run the business. The capital requirement will depend on the nature and volume of business which would vary from one business to another. Both fixed costs and variable costs determine the capital requirement of an FPO.

Estimating Costs and Margins for an FPO

Measuring costs and margins enables the FPO to determine the priority with which the activities are to be taken up among the core processes identified. It compares profit potential of one value chain with that of another, to assess whether it may be worthwhile to switch from one chain to another.

Margins for FPO may not always be the top priority. If farmer members' margins are increased because of the FPO activities, they remain loyal to the organization. Loyalty pays off in terms of patronage-based business and equity payment.

Micro plan which we have discussed earlier will play a key role in this aspect as well. **One basic question that can be derived from micro plan is** "What are each actor's revenues in the value chain?"e i.e., what are each actor's sales volumes and selling prices?

Variable Costs

These are costs that are dependent on the production output. While calculating some of the variable costs such as transport costs, they may change based on volume as well as distance to be transported. Cost of transit losses are also to be accounted while calculating transport costs, storage costs etc.

Examples of Variable Costs of an FPO:

- Procurement of raw material, storage cost, processing, transportation, insurance, etc.
- Management and administration cost for day to day activities, which may include staff salary, (Manager/CEO, Production Officer, Accountant, Marketing officer, etc.) travel, electricity, water, meeting expenses of BoD/GB, insurance & other statutory fee and other miscellaneous expenses
- Training and Capacity Building of BoDs and PC functionaries: Training on subjects as provisions in the act, rules and regulations, statutory compliances, roles and responsibilities of BoD/General Body, banking operations and also by exposure visits to successful FPOs.

Fixed Costs

These are the costs, for the expenses paid out regularly that do not fluctuate with the sales level. Examples include general office expenses, rent, depreciation, utilities, telephone, property tax etc. We should be very clear on what comes as fixed costs. *For Ex*: If a farmer decides to cultivate an acre of land that they already possess and own, there is no fixed cost on the land. If there is no need any additional equipment either as the equipment owned by them is already underutilized now, there is no fixed cost on the equipment either. If they continue to pay land tenant charges, an amortization, depreciation, capital costs (interest on long term loans) then it should be counted as fixed costs.

These Costs are also part of business:

- *Money spent on repaying loans*
- *Money spent on buying productive assets (e.g. machinery, land etc.)*

Key Point:* *Cost in business is the money spent on making and selling its products or services and paying interest on loans

As fixed costs do not change proportionally with the production size, there is a risk that actors in a value chain do not acknowledge certain costs. Also, certain costs apply to more than one product. For instance, the farmer may cultivate different crops on the same land that is taken on tenancy. The tenant costs should therefore be divided by crop.

Other types of costs

- Direct costs - Money spent specifically for production of goods or providing services. The examples are raw material cost and labor cost
- Indirect Costs are money spent on running the business but on activities not directly related to production of goods or services. For Ex: interest on loans

Understanding Revenue

Revenue is the money that a business earns by selling its products or services

Following are NOT accounted as revenues

- Borrowing money for running the business
- Capital investment by the owner
- Money received through selling of productive assets (like building, machinery)

Key Point: ***Revenue is only money earned by the business - by selling its products or services***

Understanding Profitability

- Profitability, as a percentage number, tells us how many rupees out of 100 rupees revenue is the profit
- Profitability % = (Profit/Revenue) x100

Understanding Capital

- Capital is the total amount of money needed by the business to perform business operations
- Capital in business consists of Fixed Capital and Working Capital
- Fixed Capital is necessary for buying productive things (assets) such as machinery, land, buildings, storage etc. Working Capital is used for the day-to-day tasks such as buying materials, paying wages, paying salaries, etc.

Sources of Capital: Equity capital, Reserves and Short-Term Loans

Opportunity Cost

It is defined as the foregone benefit that would have been derived by the option not chosen. *For Ex*: an FPO has a working capital of Rs.2 Lakhs. It has two choices for doing business. One is supplying high quality seed and the other is supplying fertilizers at wholesale price to the farmer members. Only one business can be done with its limited working capital availability. The business the FPO will forego to undertake the other business is the opportunity cost.

B. Financial Statements

Discussion: **How will you decide? Which option to choose?**

Working on Variables (Assumptions)

The CEO of an FPO along with key office bearers and board members should collect the basic financial data regarding the FPO. Profiling on basic business aspects of FPO including its present position in terms of members, share capital collected, asset position and costs will help in working out the financial statements. The assumptions regarding the yield, procurement cost, transportation cost, storage costs etc., should also be considered based on the current year's data by discussing with experts. An example sheet for Basic Assumptions is placed in **Annexure IV**.

Financial Statements Include

- Trading and Profit & Loss Account (Expenses & Losses and Incomes & Gains)
- Cash Flow Statements (How cash flows through operations, investing and financial activities)
- Balance Sheet (Assets, Liabilities and Capital)

Types of Accounts

There are three types of accounts. Real Accounts are for Assets, Personal Accounts and Nominal Accounts for expenditure and losses.

The journal entries, ledger accounts and trial balances will be made as per accounting rules. Some of the accounting equations and accounting terminology are as follows:

- Assets = Liabilities + Equity
- Capital = Share Capital + Reserves + Surplus
- Assets = Cash + Inventory + Accounts Receivable + Fixed Assets – PPE

- Liability = Accounts Payable + Short Term Liability + Long Term Debt
- Liability (Capital) =Owners Fund (Capital issued, authorized capital, paid up capital, Reserves)
- Current Liabilities = Accounts Payable + Short Term borrowing (<less than one year) + Current portion of long-term debt (i.e., principal)
- Non-current liability = Long term financing activities
- Assets = Current Assets (Cash and Cash equivalent, Accounts receivable, Inventory, Marketable securities)
- Fixed Assets = (Land, Plant and Machinery, Building, Fixture, Goodwill)
- Total Annual Sales = Turnover of the FPO (as given in the income statement). Net sales give the income generated by the company selling its products and/or services post subtracting any sales returns, refunds, or allowances
- Gross Margin = Income from sales – Direct Cost. The gross margin indicates how much profit the company makes after paying its cost of goods sold which are variable in nature. The efficiency of the company depends upon the higher gross margin ratio.
- Net profit = Net margin indicates how much profit the company makes after deducting the expenses such as administration expenses, selling and distribution expenses. It is the final profit left for the business after subtracting all costs. Higher net profit indicates an efficient management by the organization

Trading Account

This is from trial balance. Trading account reflects the purchase & sale and gross profit. It can be taken at any time in a year but preferably at the year end.

In a Trading Account, the Debit is mentioned in the left side column with "To" and Credit is mentioned in the right-side column with "by".

- Purchase returns are to be mentioned, if there is any return of the stock due to quality or any other issues. This should be mentioned in both inner column (Qty) and outer column (Rs)
- If the right side (Credit) total is more, then the Gross Profit is to be noted on the left side (Debit) as "to". Similarly, if the Debit side total is more, then the Gross Loss is to be noted at Credit side as "by"

- These Gross Profit or Gross Loss are to be transferred to Profit and Loss Account
- The value of closing stock should be same as that of the value of opening stock. In case any loss in closing stock, it should be mentioned in the inner column i.e., Quantity and the outer column (Rs) of credit side. This loss of stock in closing stock should be taken to debit side of P&L account

Particulars (In Qty)	Amount (Rs)	Particulars (In Qty)	Amount (Rs)
To Opening Stock		By Sales	
To Purchases Less: Purchase Returns		Less: Sales Returns	
a) Input purchases Less: Purchase Returns		a) Input Sales Less: Sales Returns	
b) Product purchase Less: Purchase Returns		b) Product Purchase Less: Sales Returns	
To Direct Expenses Ex: 1. Expenses on purchases 2. Wages paid for purchases 3. Transportation on purchases 4. Insurance paid during Transit etc.		Closing Stock	
To: Gross Profit/Trading Profit			

Profit and Loss Account

The Profit and Loss ("P&L") Account or Income statement are same in financial statements parlance. The Expenditure & losses are reflected on the debit side and income & profits are reflected on the credit side of P&L account.

- Profit & Loss Statement shows how much profit or loss a business has made over a specific period
- Typically, this period is three months or one year
- For creating a Profit & Loss Statement, we need to have data on the revenues and the costs in the business

Profit and Loss Account of FPO for the Year ending 31st March 2020

Particulars (Expenses and Losses)	Amount (Rs)	Particulars (Income and Gains)	Amount (Rs)
To Operating Expenses To Salary To Printing and Stationery To Rent To meeting charges To Training expenses To Depreciation	1,00,000	By Gross Profit(T/d)	**3,00,000**
To Interest Expenses (Both Short Term and Long Term) and Taxes if any	20,000		**2,00,000**
To Reserves (10%)	18,000		
To Net Profit Before Interest	1,80,000		
Earnings per share (1000 shares) *	1,62,000 /1000=162		
*** Cost of goods sold = (Opening stock + purchases – Closing stock)**			

Key Point:* *Direct Expenses related to purchase of goods should be added on the debit side of trading account. Whereas direct expenses related to sales are to be added on the debit side of P&L account

Direct expenses in P&L A/C or Income A/C are related to only those expenses that are incurred for sale of goods.

Appreciation or Depreciation

Appreciation on land of the FPO should be accounted on the income side of the P&L account. Similarly accounting for depreciation is of two types

- Fixed Value Method – in which same amount is deducted every year till the value of asset becomes zero
- Diminishing Value Method – in which a percentage of value will be deducted every year.

Though the amount under depreciation will be deducted under operational expenses of P&L account, it lies with the FPO. Therefore, it will be accounted under Cash Inflows of Cash Flow Statement which is presented below

a. Business Turnover or net sales revenue are same (Rs.5 lakhs in the above example)

b. Gross Profit = Cost of Goods Sold + Direct Expenses

c. Net Profit before Tax = Gross Profit – Operating Expenses/Indirect Expenses

d. Reserves are mandatory in a producer organization; it is advised to allocate a portion of net profits after interest and taxes to Reserves (this should be decided and finalized in AGM). It is better to work out "Earnings per Share" after the allocation of mandatory reserves.

e. Net Profits should be shared equitably and not equally.

f. Earnings per share can be given either as cash dividend or bonus shares. With bonus shares, equity will be increased which will have a positive effect on maximum borrowing power. However, it should be decided in AGM of the FPO. The bonus shares are to be endorsed on the backside of share certificates.

g. Profit or loss accounted in Profit & Loss Statement are to be carried forward to Cash Flow Statement

Cash Flow Statement

A typical cash flow statement starts with the amount of cash the business has on hand then adds new cash received through cash sales, paid invoices and then subtracts cash that has been paid out as bills, loans, taxes etc. are paid off. This will then give the total cash flow (cash in minus cash out) and the ending cash (starting cash + cash in – cash out = ending cash). Cash flow statement of the business will show, when the business might be low on cash and when it might be the best time to buy new equipment. Above all, a cash flow statement will help figure out how much money might be needed to be raised or borrowed to grow the business/FPO. Since an operating business cannot run out of cash without having to close its doors, a cash flow statement helps figure out the low cash points and to consider options to bring in additional cash.

Uses of Cash flow

- *To evaluate the current position*
- *To know the future cash flow*
- *To take financial loans*
- *To know short term financial position*
- *To know why cash is low*

In short, a Cash Flow Statement includes:

- Opening Cash Balance
- Cash Inflows for the period
- Cash Outflows for the period
- Closing Cash Balance

Key Point: ***Closing Cash Balance = Opening Cash Balance +Inflows – Outflows***

Inflows and Outflows of Cash	
Inflows (Sources)	**Outflows (Uses)**
Decrease in any Asset	Increase in any Asset
Increase in any Liability	Decrease in any Liability
Net Profits after Taxes	Net Loss
Depreciation and other non-cash charges	Dividend Paid
Sale of Stock	Repurchase or retirement of Stock

Clarifications on Income Tax and GST to FPOs

- Income tax is to be deducted for turn over i.e., sales revenue
- Income tax up to Rs.100 Crores is exempted to FPOs from 2018-19 to 2022-23 (for five years) on sales revenue. The Income Tax Act, 1961 under section 10(1) exempts the agricultural income. However, the exemption provided under section 10(1) for the agricultural income sometimes varies based on the agricultural activity carried out

The Income Tax Act does not specify any specific tax benefit which essentially provides special tax benefits or exemptions to producer companies by its definition. But subject to the agricultural activity carried out by the producer organization, certain tax benefits and exemptions can be availed. *For Ex:* Income derived from selling the grown green tea leaves is an agricultural income under the Income Tax Act and it is 100 % tax-free. However, if the tea leaves are further processed for the manufacturing of tea, only 60% of such income will be considered as agricultural income and 40% of such income will be taxed.

What is "MAT" and Taxability of an FPC?

Any Company must pay minimum alternate tax based on their book profits. There is no exemption for FPCs. It is now 15% of book profits plus the surcharge and cess applicable. FPCs at national level are representing the Ministry of Finance and Ministry of Corporate Affairs to waive the MAT for FPCs. It depends on how the Auditor recognizes the book profits and applies certain exemptions under The Income Tax Act, 1961 under section 10(1)

GST up to Rs.40 Lakhs turnover is exempted to FPOs provided they sell the primary produce without any change in its form directly to the consumers.

Balance Sheet

- A balance sheet shows the balance amount of various types of transactions in the business such as cash balance, accounts payable, accounts receivable, etc.
- Money owed to the business is accounts receivables. This is typically the money that customers have not yet paid for the products or services they have bought.
- Money owed by business to others is accounts payable. This is typically the money that the business has not yet paid to its raw material and other input suppliers.
- A Balance Sheet is a summary of everything that a business owns (assets) and all that it owes to others (liabilities). In other words, A Balance Sheet is a statement of assets and liabilities at a point in time. The balance sheet always balances the liabilities and assets.

Key Points

- ***Depreciation of fixed assets** - The funding agencies will be expecting a business plan for three or five years from FPOs. In such cases the depreciation of fixed assets is to be shown every year in both P&L account and balance sheet*
- ***Capitalizing the Intangible Assets** - Assets are of two types. Tangible and Intangible assets. Tangible assets are those which can be seen with naked eye. Intangible assets are brand equity, promoters good will, patents or copy rights etc. An FPO can lay the foundation for valuation of intangible assets, over a period with the support of Company Auditors who know the methods of valuation of intangible assets.*
- ***Amortization of Assets** - Amortization is the process of reducing initial cost of an asset through debt payment it is related to, with regular payments. Amortization is done for both tangible assets (building, machinery etc.) and intangible assets (organic certification investment, patents etc.). With the process of amortization, the asset is shifted*

from the balance sheet to the income statement. Amortization is calculated through loan repayment schedule. The period (duration of time) to pay off the debt on an asset is called amortization period.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity Capital	**10,00,000**	Fixed Assets:	
Add: Net Profit/Surplus Less: Net Loss Add: Reserves	**50,000**	Building Less: Depreciation	**8,00,000**
Long term Liabilities:		Machinery Less: Depreciation	
Long term loans	**5,00,000**	Furniture	**1,00,000**
Current Liabilities:		Land	
Creditors	**50,000**	Current Assets:	
Short term loans/ working capital loans	**10,000**	Cash Bank balance	**1,00,000 +** **2,00,000**
Outstanding expenses	**-**	Stock	**4,10,000**
Income received in Advance	**-**	Loans and Advances	**-**
		Prepaid expenses/other current assets	**-**
Total	**16,10,000**	Total	**16,10,000**

Accounting for Grant Assistance Schemes of GoI

- Any grant assistance that comes with a specific purpose will be accounted on liability side and assets side of the balance sheet and any grant assistance that comes without any specific purpose, should be accounted in P&L account on the income side.
- In case of an Equity Grant Scheme of SFAC, the equity grant will be transferred to the shareholder's account initially, which later is to be transferred to the farmers' account. In such cases, the equity grant added will be shown on the liability side under equity capital. The same will be accounted on the cash side of assets as well.

How to Account for Loan given by the Promoters?

Similar to any other loan, loans from anyone including promoters should be included on the liabilities side of the balance sheet and interest on loan to be included on the debit side of the P&L Account

C. Indicators of Financial Performance of an Organization

The financial health of an FPO can be gauged with financial indicators. Supporting the financial statements with financial indicators increases the credit worthiness of an FPO. Similarly, it helps to promote the goodwill among the suppliers of the FPO. There are several financial indicators to assess the financial strength of an organization. Of these, some of the important indicators for an FPO are discussed below.

1. Net Sales: Turnover of the FPO
2. Gross Profit Ratio: The Gross Profit indicates the profit the company makes after paying its cost of goods sold. A higher gross profit ratio indicates higher efficiency of the organization.
3. Gross Profit Ratio = Gross Profit/Net Sales x100
4. Net Profit Ratio: The net profit indicates how much profit the company makes after deducting the administration/operational expenses etc.
5. Net Profit Ratio = Net Profit/Net Sales x100
6. Current Ratio: It measures the ability of the organization to meet its short-term obligations

   Current Ratio = Current assets/Current liabilities
   A good business shall have a current ratio between 1.20 to 2.00 meaning, the business has 1.2 to 2 times more current assets than liabilities to cover its debts. Similarly, a current ratio below 1 indicates that the company does not have enough liquid assets to cover its short-term liabilities. To know whether the FPO is making a profit or loss in its day to day operations, one should continuously monitor the current assets at a particular point in time and the liabilities outstanding at that point of time so that one can assess the profit or loss at that particular point of time. It is always advised for FPOs to monitor the current ratio at least on fortnightly basis initially and on daily basis once the volume of financial transactions related to sales and purchases grow.

   If a FPO follows regular fortnightly monitoring of the current assts and current liabilities, the excess of current assets over current liabilities shall be profit for that day and on the next day if there is excess of current liabilities over current assets, the difference is termed as loss for that particular day. Thus, the net result for a fortnight shall be the cumulative profits and losses for a period of fifteen days. This is only a trend indicator for a period and should be like the same compared to the final year-end figures.

As the business cycles of FPO are very well rotated, the FPO management will be looking to the day's result by a specific time the next day. It would be a matter of experience to arrive at the current assets and current liabilities on a day to day basis.

7. Working Capital = Current Assets – Current Liabilities

   A working capital ratio of less than one indicates that the company has less working capital and vice versa. A ratio of more than one is considered satisfactory. Ideal Current Ratio preferred by the banks is 1.33:1. However, it also depends on the nature of business. Loan for the working capital is normally based on current assets. The working capital loan is required for a better liquidity position.

Maximum Borrowing Limit to an FPO as per bankers is normally 20 times the paid-up capital. However, it is to be decided in the AGM and mentioned in AoA

***Key Point:** **The working capital loan can be taken as cash credit loan in Secured Overdraft Account. The interest will be charged as per the amount drawn in the OD Account. This overdraft should be added in current liabilities and should be tallied with the bank registers. Bank reconciliation statement in this context is important for validation**.*

8. Debt Equity Ratio**:** It is a measure of the organization's financial leverage. It indicates the portion of equity and long-term debt the organization is using to finance its assets.

   Debt Equity Ratio = Total liabilities/shareholders' equity.

   A high debt/equity ratio could indicate that the entity has been aggressive in financing its growth with debt.

   A ratio of 1 indicates investors and creditors have an equal stake in the business assets. Lower the ratio, the better it is considered.

9. Break Even Sales: Fixed Expenses/Contribution margin x100

   Contribution margin = 100 - % of Sales (for Ex: 100-80=20). Contribution margin varies depending on the sales percentage.

   It is the situation where the organization covers its variable and fixed costs, such as rent, administrative salaries and advertising. Organizations incur some level of fixed costs regardless of the sales volume.

10. Inventory Turn Over Ratio (%): Cost of Goods Sold/Average Inventory Cost of Goods Sold = Opening Stock+ Purchase – Closing Stock.

    Average Inventory = Opening stock + Closing stock /2

    Inventory Turn Over Ratio is a good indication of production and purchasing efficiency. A high ratio indicates inventory being sold quickly while low ratio indicates overstocking/obsolete inventory/sale issues.

11. Operational Self-sufficiency (%): Business Revenue/Total expenses

    Business Revenue should exclude any non-operating revenue or contributions. Total Expenses should include all expenses (Operating and Non-operating)

    Operating Self Sufficiency measures the degree to which the organizations expenses are covered by its core businesses and can function independent of grant support. A ratio of one indicates less dependency on grant revenue or other funding.

12. Financial Self Sufficiency (%): Operating Income (Loans + Investments) /Operating Costs +Loan loss provisions+ financial Costs + Adjusted Costs of Capital

    Adjusted Cost of Capital = (Inflation rate * (average equity – average fixed assets) + (average funding liabilities * market rate of debt) actual financing costs)

    Financial self-sufficiency indicates whether enough revenue has been earned to cover both, direct costs - including financing costs, provisions for loan losses and operating expenses - and indirect costs - including the adjusted cost of capital. The adjusted cost of capital is the cost of maintaining the value of the equity relative to inflation (or the market rate of equity), and the cost of accessing commercial rate liabilities rather than concessional loans. Unless 100 percent financial self-sufficiency is reached, the long-term provision of credit services will ultimately be undermined by the impact of inflation and the continued necessity to rely on donor funds.

13. Debt Service Coverage Ratio: Net Operating Income/Total Debt service

Net operating income= Company's Revenue - Operating Expenses

Total Debt Service = Current debt obligations

This means any interest, principal, sinking fund and lease payments that are due in the coming year. On a balance sheet, this will include short term debt and the current portion of long-term debt.

The debt-service coverage ratio (DSCR) is a measure of the cash flow available to pay current debt obligations. The ratio states net operating income as a multiple of debt obligations due within one year, including interest, principal, sinking fund and lease payments.

(Source: Policy and process guidelines for Farmer Producer Companies, Department of Agriculture, GOI

Annexure I

Business Plan Template

__________________ Producer Company Limited,

____________________________________,_________________district CIN No. of the Company

____

Submitted TO

, ______________

BY______________________(CEO)

___________________ Producer Company Limited.

Address_________________________________

Logo of FPC

____

This is a micro plan-based business plan of FPC developed for govt. financial Assistance and bank loans

Contents of the Detailed Project Report

	Support from Government and Corporates	
V	Legal Planning	
	Legal Laws applicability	
	Taxation	
VI	Financial Plan	
	Estimating Costs and Margins	
	Working on Variables (Assumptions)	
	Trading Account and Cash Flow Statements	
	Profit and Loss Account Statement	
	Balance Sheet	
	Analyzing the Strength of Financial Statements - Working on Financial Ratios	
VII	**Annexures:** Registration Copy, Copies of Licenses (GST, PAN, FSSAI, Shop, Seeds, Fertilizers, Pesticides), Organogram, Board structure, Audited/Unaudited Financials, List of FPGs, List of working committees, Area Map, Copies of MoA and AoA, Copies of Business Rules if any, Copies of service conditions if any, Bank Statement, Subsidy sanction letters, Merit certificates/testimonials, Case studies/success stories if any, Photographs of Activities	

Annexure II

Farmer Producer Organization (FPO) at a Glance

S. No	Particulars	Details
1.	Name of the FPO	
2.	Legal status	**Company (as applicable)**
3.	Registration act	**Companies Act / MACS Act/ Coop Societies Act**
4.	Registration number and date	
5.	Place of registration	
6.	Address of registration	
7.	Contact details Address Phone/Fax Email Website	
8.	Board of Directors No of directors Women directors	
9.	Name of the CEO & contact number	
10.	Key contact person of POPI and their coordinates	
11.	Number of employees on payroll	
12.	Share capital (Rs. lakh) as on ……. Authorized Paid up	
13.	Number of shareholders Farmer members Institutional members SHGs JLGs Farmer clubs MACS Others Non shareholder client farmers Total	

14.	Bank account Bank and branch Account number IFSC	
15.	Funding agency Name Sanction date	
16.	Area of operation Districts Blocks Panchayats Villages Markets	(Enclose as Annexure with names and distance from FPO office)
17.	Sectors in which the FPO is working	Agriculture Horticulture Forestry Animal husbandry Fisheries Others (Retain whichever is applicable)
18.	Key commodities and core Activities	(Enclose Annexure if necessary)
19.	Proposed commodity(s) and value chain activities	
20.	Licenses obtained Fertilizer Pesticide Seed APMC FSSAI Shop License Others	(Please indicated license number and date)
21.	Infrastructure available with FPO	(Enclose Annexure if necessary) Godowns Office building Retail outlets Others
22.	Business turnover achieved	Rs. Year
23.	Profit	Rs. Year

24.	Major risks faced	
25.	Good practices promoted by the FPO	
26.	Major markets and distances	
27.	Major banks and distances	Indicate name of branch and distance from FPO under 26-30
28.	RRB Branches	
29.	Cooperative Bank and Society	
30.	Commercial Bank Branches	
31.	Important institutions and contact numbers (It is important for you!!!)	Please give name and number if possible, under 31-39
32.	DDM NABARD	
33.	POPI	
34.	Agriculture Department (ADO/DAO etc.)	
35.	AH Department (AVO/DVO)	
36.	Fisheries Department (AFO/BFO)	
37.	IFFCO/any fertilizer Dealer	
38.	Seed Dealer	
39.	Other Contacts	

Annexure III

Micro Plan - Farmers Producer Group

Name of the FPG/FPO

Village:

Panchayat

Mandal:

Leaders

1.

2.

Main commodity(s)

S. No	Name of shareholder/ Primary producer	Extent of cultivation in acres	Inputs required (Q/Rs.)			Expected Output (in Q)	Self-consumption	Suppliable qty to FPG/FPO (in Q)
			Seed/nursery	Org. pest controllers	Organic nutrients			

No. of Members yet to join as Shareholders in FPO:

Enterprise Activity of FPG – Investment

Custom Hiring Activity of FPG – Investment

Date:

Prepared By

Annexure IV

1. Area, Yield and Production of the shareholders of major three crops (based on micro plan aggregation)

Crops or Commodities	No of Shareholders	Total Area under shareholder members (Acres)	Average yield of the Crop (Q/Acre)	Total Production of the Crop (in Q)	Total Production market Surplus available for FPOs (in Q)	Estimated Unit rate for FPO (Rs./Quintal)	Total Procurement Cost (Rs.)
1	2	3	4	5	6	7	(6X7)
Crop 1							
Crop 2							
Crop 3							
Other Commodities							
NTFP Produce							
Please specify any other commodities							

2. Input requirement of the crops based on area (in Tonnes) - based on micro plan aggregation

Crops or Comm-odities	No. of Sha-reh-old-ers	Total Area under share-holder membe-rs(Acres)	Se-e-ds (in Q)	App-ro-xi-ma-te cost (Rs.)	Ure-a (To-n-es)	Appr-oxim-ate cost (Rs.)	DAP (Ton-nes)	Appr-oxim-ate cost (Rs.)	Po-ta-sh (T-on-nes)	Appr-oxim-ate cost (Rs.)	Bio Fert-ilizer s (in Q)	App-roxi-mat-e cost (Rs.)	Total Cost on input require-ment (Rs)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**(5+7+9+ 11+13)**
Crop 1													
Crop 2													
Crop 3													

3. Estimated Input Sales based on area (in Tonnes) - based on micro plan aggregation

Crops or Comm-odities	Sales of seeds (in Q)	Appr-oxim-ate sales (Rs.)	Sales of Urea (Ton-nes)	Appr-oximate Sales (Rs.)	Sales of DAP (To-nnes)	Appr-oxim-ate Sales (Rs.)	Sales of Potash (Tonn-es)	Appro-ximate Sales (Rs)	Sales of Bio Fertil-izers (in Q)	Approx-imate Sales (Rs.)	Total Volume of Sales
1	2	3	4	5	6	7	8	9	10	11	(3+5+7+9+11)
Crop 1											
Crop 2											
Crop 3											

4. Overall Projected Trading Account

Particulars	Purchase			Sales			Closing		
	Unit cost Rs.	No. of Units	Total value Rs.	Unit cost Rs.	No. of Units	Total value Rs.	Unit cost Rs.	No. of Units	Total value Rs.

Provide descriptive assumptions wherever necessary

5. Revenue from Agro-processing, custom hiring, and other Agri-Business services

Particulars (1)	Revenue per month-week/day Rs. (2)	No. of months/weeks/days (3)	Total gross (4) revenue Rs. 4 = (2*3)	Expenditure if any for services (5) Rs.	Net Revenue (5-4) Rs (6)

Provide descriptive assumptions wherever necessary

6. Staff costs

Cadre	Monthly salary Rs.	Travel and other Allowances per month Rs.	Total monthly Rs.	Total for FY Rs.
CEO				
Marketing Officer				
Procurement Officer				
Accounts officer				

7. Training and Meeting

Member	No. of Trainings per Year	Estimated Cost Rs.	No. of Meetings per Year	Estimated Cost Rs.	Total Cost Rs.
Staff					
Committees					
Board of Directors					
Any others					

8. Admin costs in Rs.

Types of costs	Monthly	Total per year	Remarks
Rents			
Electricity & water			
Repairs & maintenance			
Stationery			
Telephone, internet & postal charges			
(TA/DA)			
Office expenses			
Other miscellaneous overheads			

9. Loans taken if any

S. No.	Source	Original adv Rs.	Outstanding loan Principal Rs.	Interest Rs.	Total Rs.
Total					

10. Projected Cashflows in Rs.

Source	Cash inflows	Cash outflows	Remarks

11. Projected P&L in Rs.

Source	Income	Expenditure	Remarks

"Agriculture is the foundation of manufactures, since the productions of nature are the materials of art"

Cover Design: Bala Sahithi K

राग्राविपंरासं
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