



# Operation Manual of FPO- Adaptation in Bangladesh Context



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## **Acknowledgement**

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## Project Outcome

International professional exchange programs between **WAVE and DHAN Foundation** aimed at equipping personnel of partner countries (Bangladesh and India) with knowledge, skills and attitude to transform ‘**Small farming into a viable business**’ funded by **NOREC**, Coordinating Partner WAVE Foundation and Partner organization is DHAN Foundation. In round 2, participants of WAVE Foundation focus on attaining required knowledge, skill and experience, working closely with DHAN Foundation to understand Farmers’ Producers Organizations- FPOs model.

This manual is prepared by the participants from the WAVE Foundation based on their field visit experience and the training undergone with DHAN Foundation- India, for the use of livelihood implementation unit of WAVE foundation in the context of adaptation this model in Bangladesh. The purposes of preparing the manual are:

- To provide a training cum reference document for promotion of FPO.
- To introduce the concept and procedure of promoting and sustaining the FPO to the senior management and field implementation team of WAVE foundation.
- To provide step by step process for the promotion, governance and management, production enhancement, finance, marketing, business plan of FPO.
- To ensure the outcome of the intervention and impact on poverty reduction by ensuring timely and quality implementation.
- To support to establish a demonstration through a pilot initiative for wider scaling up.

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# Chapter One- Introduction

## **Farmer Producer Organization (FPO)**

FPO is an association, a society, a cooperative, a union a federation or even a firm that has been established to promote the interest of farmers. The main aim of an FPO is to provide services that support producers or farmers in their cultivation and post-harvest activities.

A Farmer producer organization is a legally recognized body of farmers or agriculturist that aim to improve the standard of their living and ensure a good status of their available support, income, and profitability. They can be organized and structured as associations, societies, cooperatives, farmers' groups, unions, federations, or even firms. They exist to promote the interests of farmers and to work for their economic and social benefit.

## **Why Farmer Producer Organizations?**

Agriculture plays a vital role in ensuring food and nutritional security. Even if we consider Sustainable Development Goals (SDGs) set by United Nation (UN) targeting 2030, Agriculture has a very fundamental role to play in achieving the SDGs by 2030.

The SDGs is directly linked to small farm production, eight other goals related to ending poverty, gender discrimination, inequality, environmental degradation, tackling climate change and promoting and ensuring healthy lives have small farm development and growth central to their success. A majority of the world's agricultural production takes place on small farms, and currently 90% of the 570 million farms globally are small (less than 2 hectares in size), cultivated by 1.5 billion of the world's poor. In Asia and Sub-Saharan Africa, where the problem of hunger and poverty are most severe, 80% of food supply comes from smallholders. Therefore, assuring the viability of small farms is crucial. Small farms face numerous challenges in production, especially in terms of access to essential factors of production such as credit, inputs (seeds, fertilizers, and pesticides), and information and production technologies in addition to poor access to output markets. Small farms are heterogeneous economic units of agricultural production. Their characteristics and challenges vary according to geography, influence of historical institutions, and the political and socio-economic conditions in which they are situated. Therefore, addressing concerns of small farm productivity and designing potential solutions to address them will vary

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within and across countries. Improving agricultural productivity and household level incomes is central to reducing poverty and nutritional challenges we face globally.

Marketing of agricultural produces has always been a complex process. Farmers do not have access to market, they are selling their produce to the intermediaries operate in the market. Because of intermediaries their profit margin is reduced and their farming business becomes a non-viable one. Two important aspects of the marketing of agricultural products are distribution process and prices. Physical distribution process transfer products from producers to consumers. Various activities are involved in doing this, such as planning, growing, harvesting, grading, packing, transport, storage, processing, distribution, advertising and sale. Agricultural marketing system plays an important role in determining the prices received by the farmers. Improvement in status of the farmer is possible only through diversification and commercialization of their agricultural activities. This is possible only through implementation of agricultural policy reforms, introducing sustainable agricultural practices, optimizing input efficiency, bringing about institutional change, developing human resources capital and through participation of the non-governmental sector in agriculture. There is a need to strengthen support services for small farmers by developing link between farmers and purchasers of agricultural produce. Currently such types of linkages are either not exist or very weak. It is well recognized that the commercialization of small-scale, resource-poor farmers is closely linked to higher productivity, greater specialization, and higher income.

There is need to develop suitable marketing system so as to give proper reward or return to the efforts of the farmers specially in case of south Asian region. Linking the farm gate with retail outlets is the surest way to reduce losses and marketing costs and thereby increase marketing efficiency. For this purpose, organized corporate management is the right model. Direct marketing help farmers to reduce on transportation costs and enables them to improve price realization. It is therefore important for producers to know when, where, and what amount of produce to sell, bearing in mind the market price. For which they must have access to information on different markets and prices in different markets. Agriculture marketing is a complex process. Because of which there is a big challenge for small farmers today and they are unable to earn good profits from their produce. Farmer Producer organization (FPO) can help farmers for successfully dealing with a range of need for aggregation of produce and producers in order to benefit from economies of scale in production and for firm mechanization and optimizing sourcing of farm inputs. Aggregation is also required for sharing services such as post-harvest, storage, processing, packing

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and transportation and to offer produce to the market directly in required volumes. Such FPOs also enable producers to progress into value adding and operation optimizing activities such as input supply, credit, custom hiring, seed production, primary and secondary processing and marketing. In addition, they lower transaction costs for processing stakeholders.

Farmer producers Organizations or collectives are being increasingly argued to be the means to enable small and marginal farmers to participate successfully in regional national and global value chains. Producers Organization also helps in evolving social capital and de-centralized governance framework amongst the rural populace.

### **The characteristics of a Farmer Producer Organization**

The farmer producer organization contains some key characteristics which are given below:

- The minimum numbers of members have to be ten.
- Producer Organization is formed with limited liabilities and limited only by share capital. The liability of the members is limited to the unpaid amount of the shares held by them
- The voting rights shall be based on a single vote for every member, irrespective of his shareholding or patronage
- The member would be the primary producers. The FPO will have a management team to conduct day to day operations and will be governed by a Board of Members
- The FPO would have a Board elected from among the members. The Board may co-opt one or more expert directors or an additional director not exceeding one- fifth of the total number of directors
- The surplus arising out of the operations of the Producer Organization shall be distributed in an equitable manner by providing for the development of the business, providing for common facilities and for distributing amongst the members in proportion to their participation in business.
- Members' equity cannot be publicly traded but be only transferred.

## **Objective of FPO**

The primary objective of FPO is to help small farmers to enhance agricultural production, productivity and profitability. It also aims to support to select appropriate crops which are suitable for their area and which are having market demand. FPO provides access to modern technology through community-based processes for improving productivity and quality of produce. Facilitate to access forward linkages for new technologies for improving productivity, for value addition of the produce and market tie-ups. Ensure access to use of quality inputs and services for improving agricultural production. FPO also assists farmers to strengthen their capacity for increasing productivity through use of best agricultural practices and link producers to market for getting fair prices for their produce and increase the income of the farmer through supply of quality, pest and disease resistant plant saplings, fertilizers and plant protection chemicals. Eventually it organizes the farmer collectively among the groups and also promotes collective marketing.

## **FPO Principles**

FPO has some principles which are given below:

Principle 1	Voluntary and Open Membership	FPOs are voluntary organizations, open to all persons who are able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
Principle 2	Democratic Farmer Member Control	FPOs are democratic organizations controlled by their farmer-members who actively participate in setting their policies and making decisions. FPOs farmer-members have equal voting rights (one member, one vote).



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Principle 3	Farmer-Member Economic Participation	Farmer-members contribute equitably to, and democratically control, the capital of their FPO. At least part of that capital is usually the common property of the FPO. Farmer-members usually receive limited compensation, if any, on capital subscribed as a condition of membership.
Principle 4	Autonomy and Independence	FPOs are autonomous, self-help organizations controlled by their farmer-members. If they enter into agreements with other organizations, including Governments, or raise capital from external sources, they do so on terms that ensure democratic control by their farmer-members and maintain their FPO's autonomy.
Principle 5	Education, Training and Information	FPO gives training to member farmers and provide them necessary market information & product information.
Principle 6	Co-operation among FPOs	FPO serves their members most effectively and strengthens the FPO movement by working together through local, national, regional and international structures.
Principle 7	Concern for the Community	FPOs work for the sustainable development of their communities through policies approved by their members which ultimately results Social, Financial, Civic, Livelihood intermediation.

## **Services provided by FPO**

The FPO will offer a variety of services to its members. The FPO will facilitate linkages between farmers, processors, traders, and retailers to coordinate supply and demand and to access key business development services such as market information, input supplies, and transport services. Based on the emerging needs, the FPO will keep on adding new services from time to time. The set of services include Financial, Business and Welfare services. An indicative list of services includes:

**Organizational services:** Organize farmers into informal groups (FIG), catalysing collective action, building their capacities and establishing internal monitoring systems.

**Production services:** Facilitation of (collective) production activities. Developing clusters for producing significant volume of marketable surplus.

**Input Supply Services:** The FPO provides low cost and quality inputs (fertilizers, pesticides, seeds, sprayers, pump sets, accessories, and pipelines) to member farmers.

**Marketing services:** FPO ensures direct marketing after procurement of agricultural produce. It also transports and storage, processing, weight losses, price fluctuations, market information and analysis, branding, certification. Market value-added products at maximum profits and thus generate funds.

**Financial services:** The FPO provides loans for crops, purchase of tractors, pump sets, construction of wells, laying of pipelines etc.

**Procurement and Packaging Services:** FPO procures produce from its member farmers and then help for standardization, grading, value addition and packaging of the produce. They help farmers for obtaining firm orders from market and government programs.

**Technology services:** FPO guides farmers for using best practices of farming, for obtaining market information, for gaining knowledge and skills in agricultural production, knowledge of post-harvest processing for adding value to products. Support farmers to ensure appropriate usage of quality inputs.

**Insurance Services:** Provides various insurance like Life Insurance, Crop Insurance, and Electric Motors Insurance etc.

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**Education services:** Identify training and extension needs for farmers. FPO provides training for members on good agricultural practices based on farming system approach and low-cost and environmental friendly inputs, Business skills, Production skills.

**Value addition services:** Adding value to the farm produces locally and thus adds to profitability of the company.

**Welfare services:** Provides welfare services for improving health and safety of member farmers.

**Management of resources:** Help to manage resources ex. water, pasture, fisheries, forests, soil conservation.

**Linking services:** Coordinate supply and demand of agri produce by facilitating linkages between farmers, processors, traders, and retailers. FPO also provides key business development services such as market information, input supplies, and transport services for enhancing profitability of the company and welfare of its members.

**Networking Services:** Help to get access of channels of information (e.g. about product specifications, market prices) and make other business services accessible to rural producers.

**Obtaining grants:** Help to obtain various grants from government for rural welfare.

### **Benefits to Farmers**

A Farmer Producer organization gives a robust framework for the small famers for organizing themselves for effective linkage with markets. It gives bargaining power to the small farmers, enable cost-effective delivery of extension services, and empower the members to influence the policies that affect their livelihoods. FPO helps to overcome the constraints imposed by the small size of individual farms, middlemen exploitation. FPO members are able to leverage collective strength and bargaining power to access financial and non-financial inputs, services and appropriate technologies, reduce transaction costs, tap high value markets and enter into partnerships with private entities on more equitable terms. Major activities of FPO are supply of inputs such as seed, fertilizer and machinery, market linkages, training & networking and financial & technical advice.

FPO offers a statutory and regulatory framework that creates the potential for producer-owned enterprises to compete with other enterprises on a competitive footing. It provides the possibility

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of small producers to form their own companies, without loss of control of their assets the format provides higher legitimacy and credibility in the immediate business environment

In the context of Bangladesh, there is a huge gap in market price that is earned by the middlemen and sold by the small farmers to the middlemen in the market. In this backdrop FPO can eradicate the existing abysmal condition of smallholder farmers by facilitating proper information related to supply chain and market linkage.

## Chapter Two- Organizing FPO

### Introduction

Organizing is the management function that usually follows after planning. And it involves the assignment of tasks, the grouping of tasks into departments and the assignment of authority with adequate responsibility and allocation of resources across the organization to achieve common goals. Organizing involves the establishment of an intentional structures of roles through determination and enumeration of the activities required to achieve the goals of an enterprise and each part of it, the grouping of these activities, the assignments of such groups of activities to managers, the delegation of authority to carry them out, and provision for coordination of authority and informal relationships, horizontally and vertically, in the organisation.

### **This chapter contains the following features**

Since the main objective of the FPO is to increase the income of the farmer through increasing the production and collective marketing, it is necessary to assess the following parameters in the selected area where the FPO is proposed to promote.

- Scope for sustainable production,
- Scale for sustainable marketing
- Availability of necessary inputs for production
- Availability of necessary infrastructure for marketing
- Acceptance of technology by the farmers

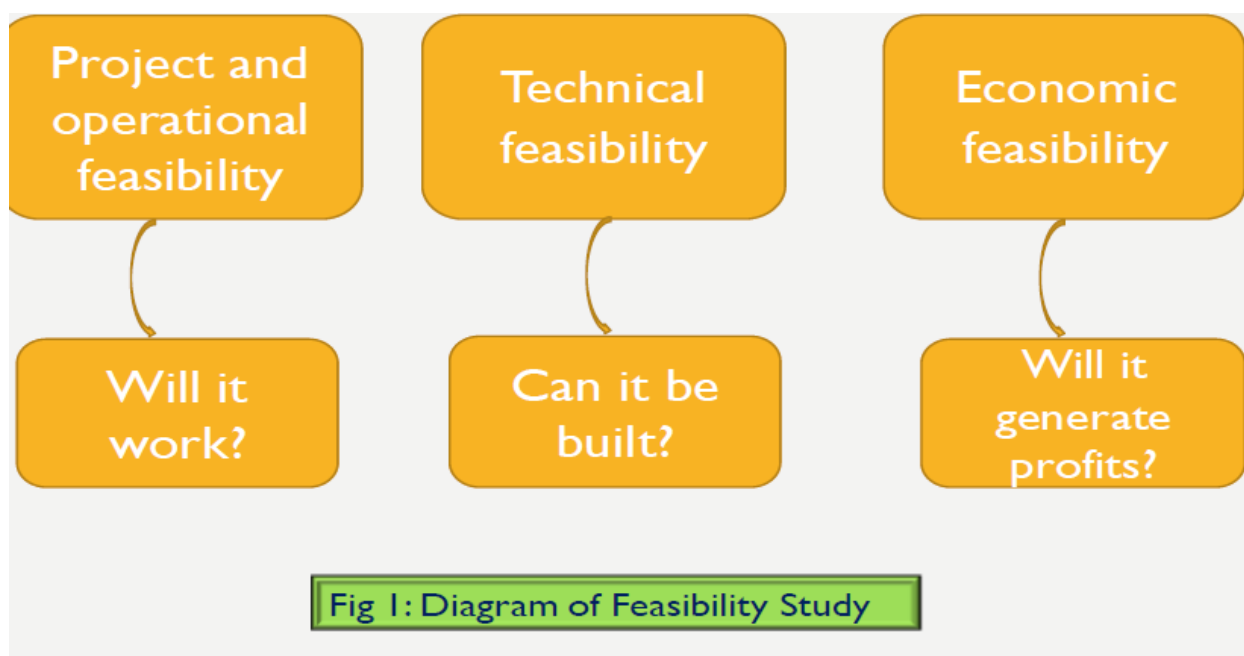
The above said assessment will be done through the feasibility study applying the participatory methodology to make the farmers to understand the issue and to make them to plan for their own development.

### Definition and need for feasibility study in FPO context

A feasibility study is an analysis that takes all of a project's relevant factors into account, including economic, technical, legal, and scheduling considerations—to ascertain the likelihood of completing the project successfully. Promoting organizations shall conduct feasibility studies to discern the pros and cons while initiating farmer producer organization in a particular region.

#### Types of feasibility study

In the FPO context the project/operational feasibility, technical feasibility, economic and financial feasibility needs to be studied as per the following flow chart:



#### Project and Operational Feasibility

Project feasibility analysis evaluates the project's potential for success; therefore, perceived objectivity is an essential factor in the credibility of the study for potential investors and lending institutions. Proper project and operational feasibility will ensure the product availability and its quality to the FPO. This will also help to have the scale available for aggregation of the product, the scope for expanding the project in future and the issues of the farmers and the intervention to be developed to create.

Technical Feasibility

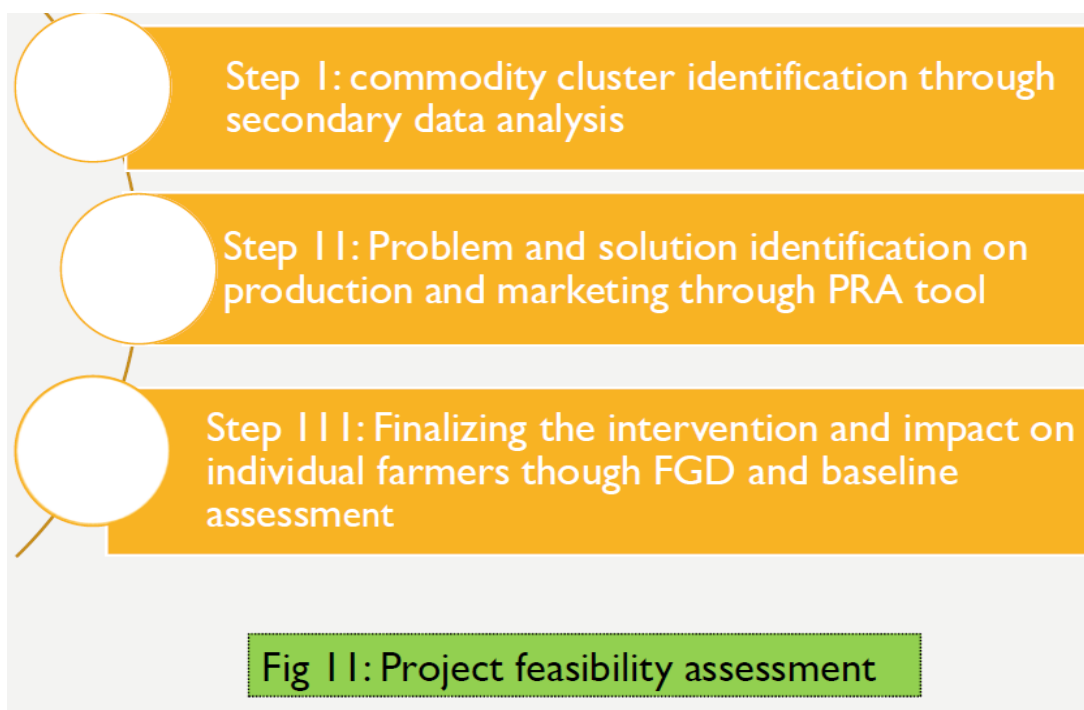
Technical feasibility will help us to select the crops for production enhancement. Good production leads to better marketing scope. For better technical feasibility study we need to ensure the technical resources that are available to the FPO and to the farmers. The technology needed for production enhancement, post-harvest technology needed for storage and marketing and eventually the organisation linkage to be established for generation of new technology and transfer of new technology.

Economic Feasibility

Economic feasibility typically involves a cost/ benefits analysis of the project, helping organizations determine the viability, cost, and benefits associated with a project before financial resources are allocated. It also serves as an independent project assessment and enhances project credibility and helping decision makers determine the positive economic benefits to the organization that the proposed project will provide.

Project Feasibility and Viability Assessment

To assess the project viability the following steps, need to be followed:



STEP 1: Commodity Cluster Identification

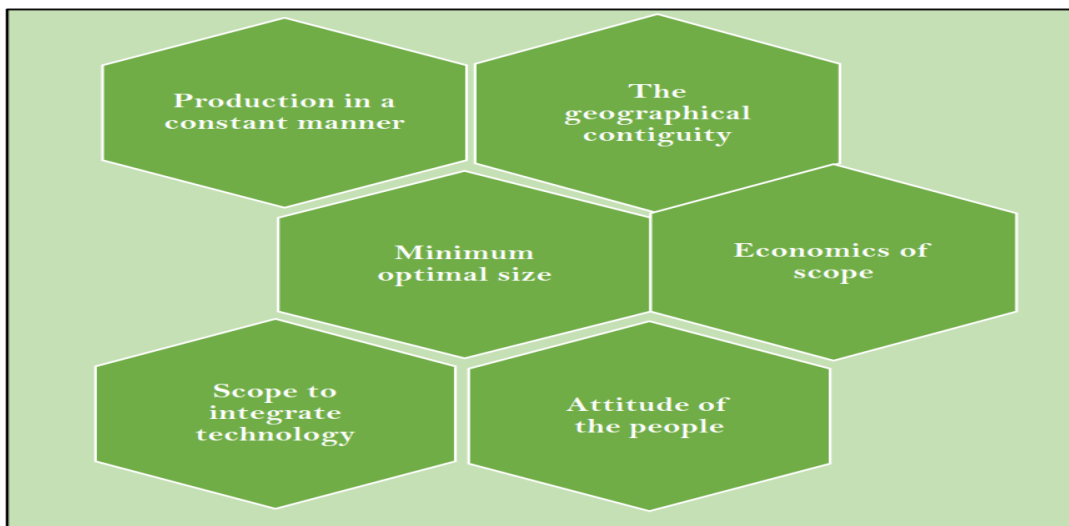
A simple definition of a cluster is “the geographical concentration of industries, activities or production which gains advantages through co-location”. The cluster needs to be optimal in size in terms of number of members and size of natural resource base of these members for commercial viability, and scope for surplus generation for marketing. In general, in agriculture the cluster approach helps to break the deprivation cycle of farmers and help to build Vertical relationships among suppliers of raw materials and production inputs, agricultural producers, processors and exporters, branded buyers and retailers;

- Horizontal relationships among producers, which take the form of collective marketing and value chain interventions.

- Support relationships between producers and facilitating organizations (e.g. local governments, business service providers, research institutes, universities and non-government service organizations) that reinforce the quality, efficiency and sustainability aspects of the production and marketing.

a) The basic criteria for selection of a cluster

The identified cluster could have minimum of 50-1000 members depending on the geographical context. For instance, in Bangladesh, the community consists of 50 to 70 farmers can considered as a cluster. The cluster could be either in combination of corps, livestock and fisheries or individual sector.





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1. The clusters of villages where the production of selected products/crops are produced in a constant manner have to be selected for the intervention. If the produces are cultivated/produced in the identified area once in few years or if the shift to the particular crop has been taken place recently the cluster should not be considered immediately for the intervention.
2. The optimal size for operation could also be worked out for each of the context/activity exclusively. But the final consideration should be on the quantum of production and the marketable surplus available.
3. Thirdly the geographic contiguity- nearness of villages, ease of communication among the producer members, transport facility available and logistics issues should be assessed. The clusters with this facility should only be considered for operation. Logically micro - watersheds or micro-ecological units need to be used as micro-units for intervention.
4. Another point to be considered while finalizing the commodity cluster is the economies of scope. Some of the produces though cultivated in large scale it will be largely stored for consumption rather marketing. In such clusters the focus should be only on the production increase to ensure the food security. From the beginning of the intervention the planning should be around production.
5. The cluster should have a scope to integrate the technology though not the high end, but at least the low input and low-cost technology. The attitude of the people and availability of the resources for technological integration needs to be identified.

### Analysis of secondary data

Secondary data analysis involves an organiser or field facilitator use the information that someone else has gathered for their research related purposes. Organiser or field facilitator leverage secondary data analysis in an attempt to answer a new research question, or to examine an alternative perspective on the original question of a previous study.

There are many ways to collect the secondary data such as map of the block, total area, total population, rainfall and soil type, cropping pattern/season, natural resources, land availability and utilization, nonfarm activities/ other source of income for the farmers, financial institutions and its reach and governmental organizations/programmes and its reach.

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### **I. The map of the block**

Map will have Location of villages, block or union details, natural resources, connectivity between villages and infrastructure details. This marking will help for further clustering the block based on the crop/activity.

#### **ii. Total Area vs. Population**

The ratio between total areas vs. population will give the population density. Population density can be considered as indicator for identifying the number poor people in an area or potential poor families / villages. But this has to be confirmed through primary data, since the issue of migration may not be captured in the secondary data.

#### **iii. Rainfall and soil type**

The rainfall trend analysis will give the details of frequency of occurrence of drought, flood and the frequency of getting rain in right time and right season which are useful for the planning the intervention on crop cultivation.

#### **iv. Seasonality and cropping pattern:**

Seasonality in agricultural operations would provide information on the availability of employment opportunities and crops grown in different seasons. Knowledge on this would be helpful in designing the loan products and for providing the recent and relevant technologies for the agricultural operations and production of identified livelihood. The analysis of change in cropping pattern at least for last five seasons will help to understand the production trend, market demand, and the nutrition content of the soil, labour demand and the availability of resources. We could also understand the influence of the seed companies, market and the department on the farmer's decision. This analysis will also help to relate the poverty with the cropping pattern. For instance, if the farmers have shifted from food crop to cash crop and that too the crops which need less labour naturally the wage earners i.e. poor people who depend only on agriculture would have lost their employment opportunity and shifted to other marginal works like construction labour. Many of them would have migrated because of this reason. The detailed analysis on this information is important for preparing the livelihood intervention design.

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### v. Land use pattern

The total cultivated area of each of the village and the wet, dry and garden land details could be assessed and marked in the map to understand the land use and cultivation practices. The details of waste land, grazing land and dry land availability could also be analysed which will enable to define the future interventions.

### vi. Natural resources

The information on forest cover, tanks, ponds, watershed, wasteland, hill, river, marine etc. will help to understand the opportunities available for the people in the location. This information will help to plan for the conservation and effective use of natural resources for the benefit of the farmers. Besides, we may come to know the exploitative usage of these resources which has severe implication on environment and livelihood opportunities and sustainability.

### vii. Infrastructure facilities

Under this the details of the length of national high way, approach roads between villages, telephone connections available, number of bank branches available and the distance between the villages and the branch, marketing cooperatives, PACS, transport facilities could be analysed and its sufficiency towards running the business could be assessed for finalising the cluster and the feasibility of running the business.

### viii. Market details

The distance of market both for input and output services from the production site is the very important information for assessing the cost of operation and the scope for marketing. Other than formal market systems like government cooperatives, informal intermediaries and vendors operate in the area. They decide the price for most of the commodities. Due to the vulnerable situation, the farmers are forced to accept the price offered to them. To understand this issue deeper the government market rates and the fair-trade mechanisms have to be collected through secondary sources and then through interaction with the community the reality should be assessed.

ix. Map the Commodity Cluster

The details of secondary data should be marked in a map of the selected working area, which will help to identify the cluster of nearby villages where the same occupation/ activities are happening. It will also give a general idea of that selected area about scale of production, scope of economics and size of farmers no availability which will help to finalize cluster for promotion of FPOs.

**x. Sample of Commodity Cluster Finalized Map**

The sample map of Chuadanga district of Bangladesh is given below



**Figure: Map of Chuadanga district of Bangladesh**

STEP 2: Problem identification and solution through PRA

Problem identification is one of the stages in problem-solving process. Participatory Rural Appraisal tools will help us to identify the problems at their community-level with respect to resources and facilities within the community by ensuring their participation.

**Participatory Rural Appraisal (PRA)**

Participatory Rural Appraisal (PRA) is a methodology used for interactive processes of social development: It is a way of learning from people, with the people and by the people. It is, therefore, a methodology for analyses, planning, monitoring and evaluation. PRA is an approach used by non-government organizations (NGOs) and other agencies involved in international development. The approach aims to incorporate the knowledge and opinions of rural people in the

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planning and management of development projects and programmes. Moreover, to establish priorities for development activities within the scope of monitoring and evaluation of projects PRA is used. Generally, some of the basic tools are conducted via scientific driven questionnaires.

### **Purpose of Using PRA Tools**

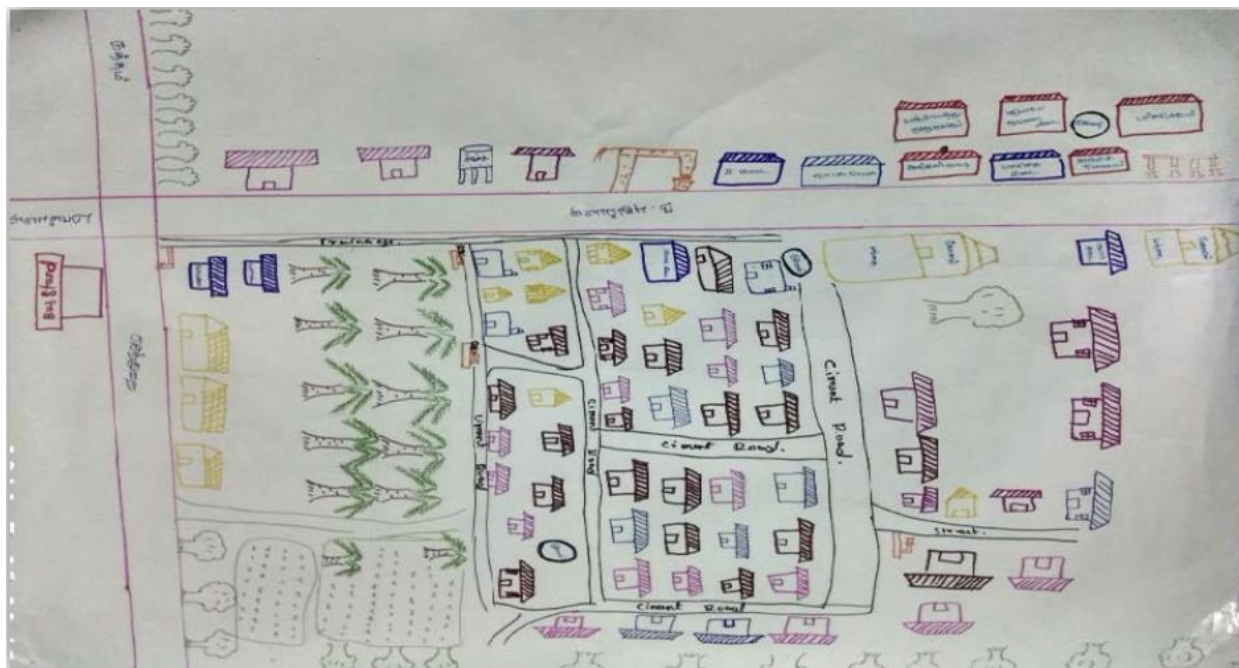
Generally, problems vary from community to community. Therefore, different tools and techniques need to be applied at corresponding community. The below tools can be followed:

- Understanding group dynamics, e.g. through learning contracts, role reversals, feedback sessions
- Surveying and sampling, e.g. transect walks, wealth ranking, social mapping
- Interviewing, e.g. focus group discussions, semi-structured interviews, triangulation
- Community mapping

The each following tools shall be followed by the field facilitators in the process of FPO promotion.

### **Sample Social Mapping**

Social mapping is a visual method of showing the relative location of households and the distribution of different types of people (such as male, female, adult, child, landed, landless, literate, and illiterate) together with the social structure and institutions of an area. While promoting the FPO, social mapping can help us to find out the ratio of genders and classification of small, marginal and large farmers.



**Fig: Sample of Social mapping**

### **Yield Ranking**

Participatory yield ranking is the tool similar to that of wealth ranking that captures differences in yield of a crop in the particular village context as perceived by the community themselves. Yield ranking is used to understand the people's perceptions of on the yield attributes, Critical yield attributes, the maximum expected yield of the area, the minimum yield of the area and the reason for the gap in yield. Yield ranking plays an important role in the crop selection and finding further marketing and business scope for the FPO.

### **Resource Mapping**

Resource mapping will help to assess the continuous availability of different resources for the sustainable production of existing livelihood and also the resources available for initiating the new business activities. This method is for collating, plotting the information, distribution, access and use of resources within the economic and cultural domain of specific community/activity from the perspective of community members and thus resource mapping has a very influential role in FPO promotion.

### **How to Do Resource Mapping?**

Two to three hours should be allowed to produce and analyse a community resource map and to ensure that a full discussion occurs with local community consists of people from different age group. Markers and large sheets of paper are required. Notebooks/paper and pens are needed to make a copy of the diagram and for the note-taker to record the discussion generated during the diagram development. The map can be drawn on the ground; if this is the case, then a large area will be needed as well as various objects such as sticks, stones, leaves, seeds, colour powder, and so on, which the participants can use to represent features on the map. The discussion group will include a facilitator, observer/note-taker and selected local volunteers. The facilitator and observer/note-taker should be experienced in the principles behind the use of participatory tools and methods as well as in their practical use. Knowledge of the social structure of the community is required by the facilitator because community members might consider resource distribution, use, and access to be sensitive issues.

### **Method of Resource Mapping**

Resource mapping can help for collating and plotting information on the occurrence, distribution, access and use of resources within the economic and cultural domain of a specific community. The promotional NGOs can apply the following strategies of resource mapping in the promotion stage of FPO:

#### **Selection of the Local Facilitator and Team**

The selection of the local facilitator and team would be categorised based on ethnicity, well-being category, or caste. The ratio of men and women in the community level shall be equally maintained. The groups of five to ten local members should be involved with one identified facilitator.

#### **Preparation Procedure of Community Resource Map**

With the help of local facilitator, suitable place and medium such as on the ground using objects such as stones, seeds, sticks, and colour powder; on the floor using chalk; or directly on a large sheet of paper, using pencils and pens are to be decided and collected.

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Then the outline or boundary of the map should be drawn first. It might be helpful for them start by placing a rock or leaf to represent a central and important landmark. Although it might take some time to get going, the process should not be rushed.

The facilitators can be asked to draw other landmarks on the map that is important to them. It is not necessary to develop an absolutely accurate map; the goal should be to get useful information about local perceptions of resources. The facilitator with the local team should develop the content of the map for finalising the viability of the identified livelihood activity and to identify the suitable livelihood activity for the area. The important information to be mapped are HH wise occupation and land details, HH wise livestock details, infrastructure and services such as roads, houses, bridges, schools, health clinics, water sites and sources, Agricultural lands (such as crop varieties and locations, Crops cultivated, Livestock available, Herbs available, Other livelihood activities of the area – construction works, carpentry, handicrafts shops, etc., Forest lands, and grazing areas; Soils, slopes, and elevations; Shops, markets, banks and its distance; Churches; and special places (such as sacred sites, cemeteries, and bus stops).

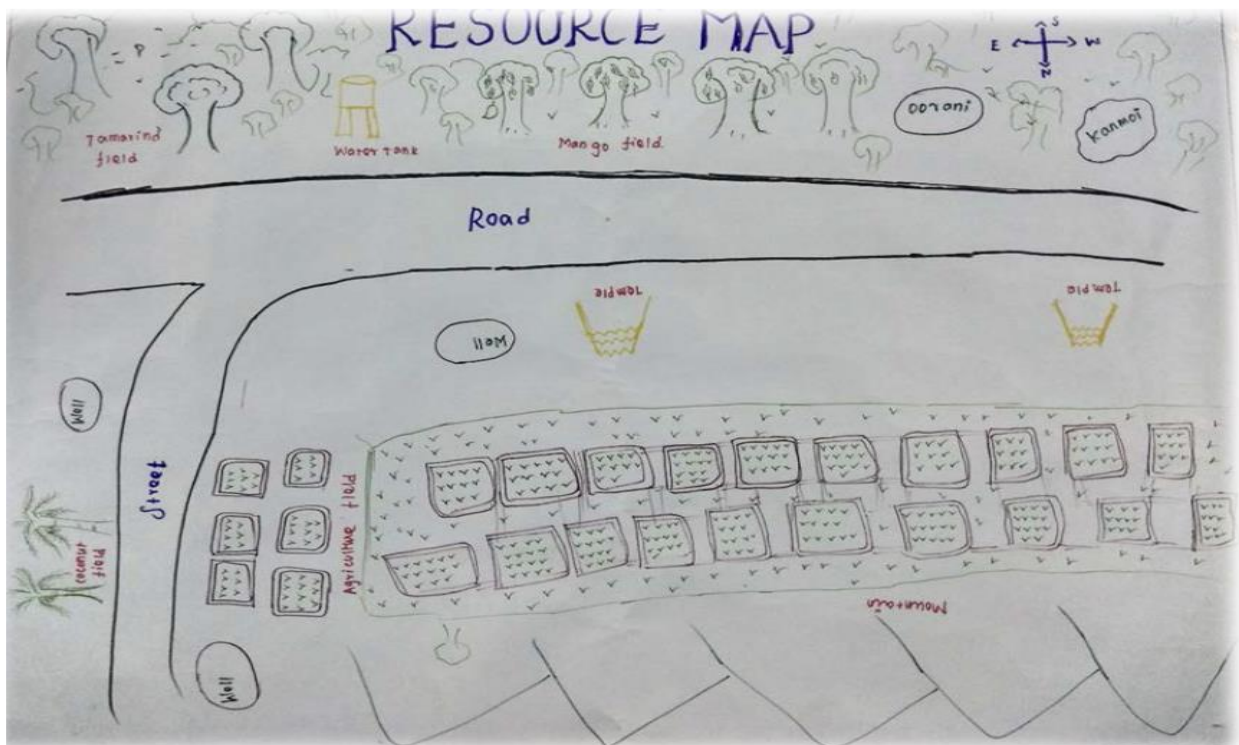


Figure: a sample resource map of community



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Once the map is prepared that should be verified by another team from the village those who are not involved in preparation of the map.

The analysis of the community resource map will give details on

- The dominant crop/ livelihood of the area
- Availability of the needed natural resources like land, water, trees etc.,
- Gaps in availability of natural resource and exploitation of natural resource
- The availability of the raw materials and inputs for production and gap
- Availability of labour within and outside the village
- The gap in technology and service availability
- The reasons for lower production

### **Focus Group Discussion (FGD)**

A focus group discussion involves gathering people from similar backgrounds or experiences together to discuss a specific topic of interest. It is a form of qualitative research where questions are asked about their perceptions attitudes, beliefs, opinion or ideas. In focus group discussion participants are free to talk with other group members; unlike other research methods it encourages discussions with other participants. It generally involves group interviewing in which a small group of usually 8 to 12 people. It is led by a moderator (interviewer) in a loosely structured discussion of various topics of interest. This discussion reveals core problems of a community, identify the causes of problem, identify the consequences of the problem, develop a solution and finally use the solution to finalize the intervention.

### **Identifying the Problem, Solution and Finalising the Intervention**

In the focus group discussion community members may raise different problems they encountered. But the field facilitator with the opinion of majority has to prioritise the problems based on their solution towards production, marketing and business scope. The core problem which is prioritised by the farmers should be taken as the intervention by the FPO.

### **Conclusion on Project and Operational Viability**

At the end of the above process the FPO promoting organisation will have the details such as the major product or crop in which the FPO has to start its work, the number of villages in which the produce is cultivated or produced, the commodity cluster boundary in which the FPO can be promoted, the possible quantum of production and sales, the speciality and quality of the product,

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the present status and issues in production and marketing, the gap in production and technology reach, the scope for future expansion, the risk in production and marketing, the urgent and possible intervention, the scope for promotion of FPO and the numbers of farmers to be covered.

After completion of project and technical viability assessment core problems of the community will be identified and based on those problems activities will be set towards better outcomes. A sample of this process is given below:

<b>Problem identification</b>	<b>Activities</b>	<b>Outcome (PPG/FIG)</b>
Low Crop Production	Introducing proper production technology, good agronomic practices, ensuring on time input supply and providing training facilities.	Ensure good crop production
Deprived from fair price	Exploit the intervention of middlemen, transparency in procurement from the FPO members, channelling with the retailers for product selling and value addition.	Ensure fair price and active participation in the supply chain.

After the study if the scale and scope is satisfactory the promoting organisation can go for promotion of primary groups and farmers' interest group (FIG).

In the promotion stage, 15-20 community members at village level will be considered as Primary Farmers Producer Group. However, in the context of Bangladesh this 15-20 members will be considered as an individual FPO.

### **Purpose of the Primary Producer Group (PPG)**

Primary producers are collective form of farmers who produce agricultural products. It, therefore, can work as a potential platform in mobilizing the FPO. It has some influential purposes which are given below:

#### **Increasing the Production**

The main purpose of this primary producer group is to increase the production through formalising/legitimising the indigenous systems of production and creating knowledge and access to suitable technologies in the following ways:

- To bring back the local best and successful practices this is not recorded or formalized.
- To popularize the indigenous practices through proper farmers research
- To arrest the leakages from irrational use of technologies
- To increase the efficiency and effectiveness of production

#### **Facilitating Farmers /Members in Resource Allocation**

The second main purpose of PPG is to plan for prudential allocation of land /resources for profitable production/business in the following ways:

- To establish a sound mechanism to regulate the cash flow
- To facilitate year-round production

#### **Providing the Members Financial Services**

The other purpose of PPG is to establish linkage with the service providers and banks in the following ways:

- To ensure the access to entitlements
- To create access to services on low cost
- To insulate investment credit
- To avoid advances and loans from the commission agents

## **Facilitating the Farmers in Collective Procurement and Marketing**

The other purpose of PPG is to increase the income of the farmers by facilitating collective purchase and marketing of inputs from the formal sources there by creating a win –win situation both for the buyer and seller in the following ways:

- To reduce the transaction cost of purchase and marketing
- To ensure the availability, adequacy and timeliness of quality inputs (Seeds, fertilizers, etc.)

### Basic principles of PPG

Primary Producer Group (PPG) has democratic practices and people governance and it is members owned and controlled organization. In PPG, members have active participation; working with all stake holders for sustaining the livelihood at family level. PPG also encourages cooperation in the community.

### The values of PPG are

- Regular participation of members.
- Unity of members.
- Responsibility towards members.
- Transparent
- Acknowledging
- Productive and Proficient
- Balanced
- Comprehensive and adopt

### **The Characteristics of PPG**

- Only one member from one household may be considered for PPG and no one person can be a member in more than one FIG. From the perspective of equity this is important.
- There will be 1 leader and 1 represent for each PPG. The PPG s should choose their leaders. No designations like Chairperson, Treasurer, and Secretary etc need to be given to the leaders. Instead, the designation of Representative can be used. Thus, this does not take on significance of a hierarchy and they are perceived as a Representative.

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- It is always better that the leadership is rotational. However, the periodicity of rotation, etc. should be left to the group. It is also to be remembered that there should be sufficient time for the leadership to work before they are changed.
- In a village apart from compact area of group members of each PPG, should be 20 members so that it becomes easy to access their common interest.
- As far as possible, the village saturation (i.e. coverage of all farmers cultivating the entire cultivable area of village) approach has to be adopted.
- Confidence and clarity of key persons has to be taken while mobilisation and organisation of farmers.
- Periodic meetings and consultations at the village level is a must to keep the community informed about the interventions that the project is making. Often this is forgotten leading to the isolation of the project in the villages. At least one meeting a month and minimum 12 meetings per year must be conducted at PPG level. Transparency and democratic functioning must be emphasized through example. Questions must be encouraged and fully answered.
- The PPG s must maintain a set of records relating to their financial transaction, membership register, minutes book, etc. This will vary in accordance to the nature of the groups.
- Election of group leaders, group meetings etc), decisions/ resolutions have to be recorded in Minutes Book with required signatures.
- Members will seek primary membership in FPO. Services to the members will primarily be provided at FPO Savings, credit, Insurance, procurement, marketing, trading, storage, processing, land, soil & water resource management.
- Admission/Removal/Resignation of members can formally be done at FPO level. These can be recommendations from FIG but final decision must be taken at FPO board level.
- The expected costs/ contribution/ role of PPG member vs. benefit that she/he gets by being member in PPG has to be clearly communicated in a convincing way. It is better to clarify on member disqualification criteria also at the time of member mobilisation itself.

## **Functions of PPG**

The main functions of PPGs are demand estimation, distribution, soil testing, book Keeping, thrift collection, crop plan PPG wise, group Management, processing units, grading, farmer Field School (FFS), selection of Representatives, loan Guarantee, knowledge Sharing, managing common Infra structure.

### The Institutional Structure of the PPG

Based on the purpose and principles defined for the intervention the institutional structure will be developed. In case of DHAN's intervention to ensure grassroots democracy with ownership the structure which ensures the people participation is evolved. The features of the promotion of producer institution are

- The producers will be organised into smaller groups as Primary Producer Groups (PPG) consists of 15-20 members at village level to facilitate local management and to empower all the participating farmers.
- The producer organisation at block level will be promoted by the basic groups called PPG which is promoted at village level.
- The PPG will perform as the smaller producer organisation by following all norms and procedures of the FPO, thereby learn the procedures and contribute back for the collective initiative.

### Steps for promotion of PPG

The steps and sequences of promotion of basic groups are critical for sustainable development of small and marginal producer families. To promote the PPG there are some steps that should be followed:

- Recruit livelihood facilitator
- Identify the potential members
- Build the trust and Community Spirit – concept seeding
- Promote the PPG

## **Operational Manual of FPO-Adaptation for Bangladesh Context**

- Evolve the bylaw of the group
- Collect the baseline data for members
- Quality check the group on third month
- Register with the FPO or with the federation as a formal entity
- Regularize the monthly meetings
- Share the need for share capital- economic participation

### Step 1: Recruitment of Livelihood Facilitator

As a first step of promotion of this promotional activity, the field staffs have to identified and placed from the local area. At least two field staff have to be placed for promoting 50 PPGs with 1000 members. The basic criteria for a field staff should be; a staff who have experienced in working with community, heaving knowledge and attitude of facilitating business or technology, heaving maturity to handle the farmers and procedures and heaving attitude & skill of learning of new technology and working in market.

### Step 2: Member identification

While preparing the project viability report, the potential cluster where the identified commodity is produced in a scale has been finalized using the secondary and primary data and with the help of resource mapping exercise the potential families growing the crop is listed with the name of the head of the HH. This has to be used as the reference. The trained LF's have to be involved in the promotional process.

### Criteria for member selection

1. The small and marginal farmer and poor members should only be considered -Marginal Farmer' means a farmer cultivating (as owner or tenant or share cropper) agricultural land up to 1 hectare (2.5 acres). 'Small Farmer' means a farmer cultivating (as owner or tenant or share cropper) agricultural land of 1-2 hectare.
2. If the identified members should have the willingness to join the PPG.

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3. The members should be in the productive age of 18-50. Beyond this age they may not be in a position or willingness to scale up the activity or adopt new technology for increasing the production. Getting larger loans for production is also difficult for them.
4. The members should have done the production activity for the last two to three years and having the willingness to continue the production or cultivation.
5. The members should not be included from the defunct and default groups.
6. Should have the belief on the mutuality.
7. Should have the willingness to pool the produces and resources.
8. Should have the willingness to adopt the technologies for increasing the production.
9. Only one member from one family should be included.

Using the above said criteria and with the potential members have to be identified and included in the PPG. They have to be invited for a meeting where the concept of the PPG will be shared.

### Step 3: Concept seeding/ content dissemination

To promote the concept seeding and dissemination the following areas should be taken under consideration:

- In each of the identified village, community champions should be identified either from the existing groups or from the lead farmers who will spearhead the promotional process in the village.
- The identified champions should be oriented on the content of the PPG.
- One of the key leaders who have the good communication skills from the federation should be invited to share the achievements of federation and the reason for the federation to promote the PPG and FPO as the collective organization. They should also share the benefit of mutuality and self-help.
- With the identified potential members, a meeting has to be organized at each of the village level or if the scale of 15-20 members is not there combining two villages.



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- The community champion, the federation leader and the Local Facilitator should visit the village together and organize the meeting with the identified producers.
- The purpose of the meeting is to build the trust and confidence of members rather evolving the activities. Hence the agenda should revolve around this.

### Step 4: Group promotion

For promoting the PPG group, the facilitators need to organize the group for further promotion. For example, in the context of Bangladesh, after the concept seeding the members who express their interest to join the group have to be brought together in each of the village and the formal process of membership enrolment, governance selection and framing of rules should be carried out by the field coordinator. The group should be promoted with 10-30 members. Apart from that, to promote the group following points shall be considered:

- Ask the group to nominate the leaders for executing the policies and decisions of members
- Introduce about the activities of the group – production increase and marketing for increasing the production.
- Identify the gaps in the production process in the first meeting itself and facilitate the group to plan for the activities. So that the leaders can allocate the time and the members can be available at the requisite time.

### Step 5: Registration

After the quality check the group has to be registered with the FPO as member in the enclosed format by paying an entrance fee. At time of registration the PPG has to submit the signed byelaw copy, registration format and the agreement on the roles of FPO and PPG. With this process the group promotion ends and the PPG is formalized for other interventions.

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### Step 6: The group meetings

After the promotion, from the first month onwards the group meetings have to be regularized on a monthly basis. The agenda of the meeting will be

- Prayer
- Minutes of last meeting
- Last month transaction, bank balances
- One-hour training on the production practices- every month one subject has to be taken for the discussion
- Discussion on the present problems
- Plan for the services needed for the month
- Information on the price of inputs and outputs
- Special lecture from lead farmer/ Farm school coordinator/from the department
- The agenda could be around the services planned by the PPG/FPO. The list of services could be trading, insurance, credit Linkages, storage / Ware housing, ICT- Market Information, Price information, Technology, processing, input Linkages- Fertilizers, Manure, Irrigation, Equipment's and, pesticides, water shed activities, capacity building, seed processing and seed bank, technical support, fund mobilization, government linkages, seed bank and marketing

### Step 7: Members' Contribution

Share Capital plays a very important role in the structure of a business. Each business, with share capital, has both authorised and issued shares, which can be used to raise finance, determine ownership and transfer ownership from one party to another. Share capital is important for the FPO members to fulfil the smooth supply of inputs (seed, fertilizers, training facilities etc.) and mobilize their marketing and business scope.

A FPO which is doing a business should have capital in order to finance its activities. It raises its capital by issue of shares. When the total capital needed for the business is divided among the members, it is called as share capital. It constitutes the basis of the capital structure of a company.

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In other words, the capital collected by a company for its business operation is known as share capital. Share capital is the total amount of capital collected from its shareholders for achieving the common goal of the company.

### **Conclusion**

Since organizing is an indispensable part for gathering the required resources to run the Farmer Producer Organization therefore the aforesaid information should be followed while forming the FPO by the promoting NGOs.

## Chapter Three

# Governance and Management

Governance management refers to establishing policies and continually monitoring proper implementation of them by the governing body of Farmer Producer Organization, which is usually the board of directors. Governance management encourages efficient use of resources and accountability for the stewardship over those resources for example finance, production & procurement and marketing. One of the key components of governance management is to align the interests of individuals, the organization, and society. Governance management encompasses setting goals and objectives, determining ethical standards, establishing the intended culture, ensuring compliance, and designing and implementing the governance framework. The structure of farmer producer organization has been developed in such a way that governance and management has become a crucial part to run this project very smoothly to achieve the optimum goal.

### Definition

It means the establishment of an appropriate legal, economic and institutional environment that allows companies to thrive as institutions for advancing long-term shareholders' value and maximum human-centred development while remaining conscious of their other responsibilities to stakeholders, the environment and the society in general.

### Components

There are some components that need to keep in mind for any operation such as

- Rule of law
- The management include the board and senior Management
- People, Roles, Structures, and Policies

### Characteristics of Governance

Good governance is responsive to the present and future needs of the organization, exercises prudence in policy-setting and decision-making, and that the best interests of all stakeholders are taken into account.

Good governance has 8 major characteristics.

- Participatory
- Consensus oriented
- Accountable
- Transparent
- Responsive
- Effective and efficient
- Equitable
- Inclusive, follows
- Following the rule of law

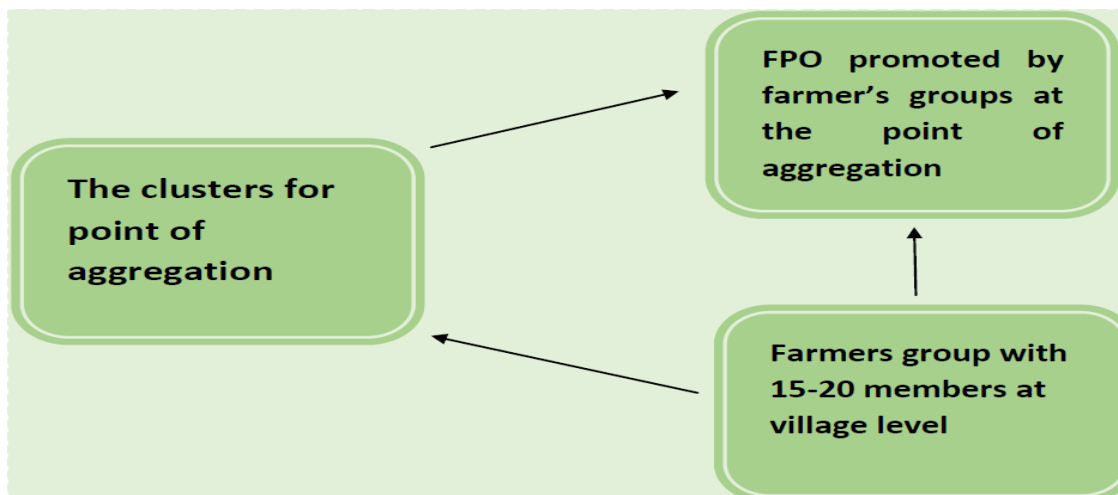
### **Outcomes of good governance**

The ultimate goal of good governance is to ensure the following outcomes:

- Trust
- Clear vision, mission, and direction
- Relevant values
- Connection to the stakeholders (farmers, financial institutions, buyers etc.)
- Sustainable financial stability

### **Structure of FPO**

This structure is a nested structure and should not be a tier structure rather flexible as per different regional and country context.



**Fig: Structure of FPO**

### **Structure of FPO Governance**

Farmer Producer Organisations perform various functions in order to achieve its target of enhancing farmers' income. To operate its functions smoothly it requires very good governance. The structure of the governance contains the following key points:

- Shareholders/members – ownership, participation and Contribution
- FIG – platform for mutuality, facilitating self-help, regulating the members, process of democracy – FIG leaders
- Cluster or constituency
- PC/FPO
- Relevant laws at each of the level

### **Role of Governance in FPO**

Governance is the action of governing an organisation by using and regulating influence to direct and control the actions and affairs of management and others. It is the exclusive responsibility of the board of director, the CEO, or group accountable for the performance and conformance of the FPO. In FPO governances' role is inevitable for managing the finance, marketing, procurement and productivity enhancement.

### **Financial services**

The governance and management have a big role to ensure the financial services to the members of the FPOs. Ensuring the financial services also depends on the capacity and the need credit to be facilitated.

- Agri. credit to groups by banks or financial institutions.
- Bulk loan for the FPOs – working capital.
- Credit guarantee from Bank or financial institutions.
- Venture capital Assistance from Bank or financial institutions.
- Advances from the Corporate
- Insurance to cope up with the risk

## **Productivity Enhancement**

In the context productivity enhancement, governance and management emphasis crucial role on the following decision-making process.

- Changing the attitude and building the skill to perform as the Agripreneur
- Facilitating Agriplus services – skill building, allied business promotion
- Focus should be on year-round income
- Eco friendly, regenerative cultivation
- Focusing on reducing the cost of cultivation
- Focus towards Organic Production

## **Marketing**

Marketing is important for the farmer producer organization to make the small farming as a viable business. Governance and management put forward a critical role to promote their marketing system. From developing a unique marketing model and strategy to enter in the mainstream market with the small farmer's produces, governing body of FPO play an important role. The scholars have critical suggestions for how to bring the right questions to the board table and for making a discussion of marketing as sophisticated as a discussion of strategy. The following key points give information about the overall marketing strategies undertaken by the FPO.

- Building market governance among the farmers to address exploitation by the middleman.
- Making them to enter in to the Value chain to understand and experience – cleaning, grading, sorting, packing etc.,
- Collectivization at local level first.
- Not creating the parallel market chain but coexisting and capitalizing the existing chain more effectively.

## **Governing Body-Power and Functions**

The board of directors of the company shall exercise all such power and functions, at its meeting, which is authorised by the Act and this article.

The board can exercise powers like-

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- Collect potential members
- Finalize vision and mission of FPO.
- Appoint field coordinator and field facilitators.
- Approve corporate strategies and financial plans.
- Financial management and prepare annual accounts report.
- To invest the funds of the company in its ordinary course of business.
- Decision making in utilizing different credit and grant support.

### **Roles and Responsibilities of the Field Coordinator**

The field facilitators appointed by governing body would be responsible for the following tasks.

- He/ she shall be the ex-officio Director of the Board
- Shall also be responsible for increasing membership of shareholders as per the policy of the company
- Shall be the part of procurement and marketing committee formed by the BOD
- Shall sign all business related documents on behalf of the company. He may exercise the powers as may be necessary in the ordinary course of business
- Shall also be responsible for providing timely information to the company's members and Board of Directors for scheduled company meetings or emergency or short notice meetings
- Furnishes company members with periodic information to appraise them of the operation and function of the producer company.
- Help the Board to raise the capital as required for FPO business
- Shall be responsible for maintaining proper books of account prepare annual accounts and thereof; place the audited accounts before the Board and in the annual general meeting of the members.
- Shall operate the bank accounts with joint signatory of a member of Board of Director. He / she shall make arrangements for safe custody of cash and other assets of the producer company.
- Any other task or responsibility as decided by the Board of Directors for the smooth functioning of the company.



### **Constitution of Working Groups**

The working groups are constituted for betterment of the FPO and also there are five groups with defined roles and responsibilities, each group members shall be selected from the lead members of FPO who have competitiveness in respective field.

1. Management committee
2. Finance committee
3. Purchase committee
4. Procurement and marketing committee
5. Auditing committee

### **Management /Administration/Technical Committee**

- Constitute and build the administration structure of the company and get the approval from the board for management.
- Review and monitor the work schedule of CEO, business associates and board of directors.
- Identifications of members, monitoring the activities of group promotion and group meeting regularly.
- Arrange capacity building and training given to new member and also finalize the working areas.
- Facilitated and conductance during annual general meeting.
- Get the approval from shareholders whatever resolutions passed in the annual general meeting and board meeting and taken into action.
- Consider all the working groups activities and the same has been approved.
- Terminate the defaulters in CEO, associates and board of directors with the approval of board meeting.

**Finance Committee**

- Mobilization of resources for the company business operation.
- Pass the resolution pool the capital funds for business execution.
- Give the approval for purchase of assets and machineries after the verification of all documents.
- Submissions of annual accounts and get the approval from shareholder in the annual general meeting after checking the annual accounts with the help of company auditor.
- Give the approval for procurement and marketing of the produces, by getting the plan and verify the respective committee members before approval.

**Purchase Committee**

- Execute the plan of action for procuring all the produces based on the members need.
- Fix the price of the produce with the procurement committee members.
- Consider and consult with all the board members for purchase of assets and machineries based on the need requirement.

**Procurement and Marketing Committee**

- Consult and procure the produces (for business) as per company law.
- Take necessary steps to procure produces in the harvesting season getting the approval from the board in advance.
- Take necessary steps to procure the quality inputs as per the members need based assessment before the cropping season and get the approval from the board in advance.
- Facilitate the marketing for the procured quality inputs and agricultural produces in time.
- Before starting the business, calculate the price of the products, net profit, and gross profit for the business and get the approval from board for execution.
- Equip the committee member and give them training on marketing and price behaviour and ensure the profit in business.

### **Auditing Committee**

- Maintenance and verification of all legal documents and accounts.
- Prepare the annual notes on accounts, audit report with the help of auditor and ensure the annual filing.
- Monitor and check the company monthly accounts with books of accounts and bank books.
- Ensure and facilitate the annual filing with register of companies and income tax department.
- Propose and give recommendations to fix the patronage bonus, withheld price, net dividend on shares and development activities with management and finance committee.

The working group members/directors should concentrate on the goals, mission and vision of the producer company so that the members of the working groups facilitate and ensure the effective functioning of all group activities then the producer company will reach and achieve the goal for the benefit of the farmer members.

### **Training and Capacity Building of BODs and FPO Functionaries**

This is an important aspect for the growth of the FPO and cannot be ignored. The estimation of cost should be based on the annual plan for capacity building including training and exposure visit events. The requirement of capacity building inputs is again contextual. However, there are two formal training and two exposure visits are required for the BoD in the first year. The training is conducted covering the subjects of provisions in the Act, rules and regulations, statutory compliances, roles and responsibilities of BoD and General body, banking operations, while the exposure visits are taken to the successful FPOs where an interactive learning is facilitated.

Apart from that it is also much crucial to equip farmers with the capacity to respond to the changing agricultural environment, through extension support, training on techniques and sharing of best practice. The presence of farmer groups formally organised into an extension structure, assists this process, and can increase group productivity.

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Capacity Building of any form of farmer organization assumes greater importance to enhance the efficiency and bring peer group pressure among members of the group for effective functioning. The role of promoters is crucial in orienting and capacity building of these organizations. Capacity building for promotion of leadership and motivation among the elected Board of Directors is crucial. The members of the Executive Committee should be given training in Leadership, federation concept, federation Management, Financial Management, linkages, input and output management etc. It is also equally important to build the capacity of grass root functionaries i.e. members of FPOs. Capacity building of members on issues such as attendance of at least 80-85% members, transparency in accounts, accountable behaviour, regular internal auditing, quality management, development of business plan including access to local and international market, etc. The idea of capacity building is to encourage rural communities to understand their personal and group styles of managing themselves and to improve their planning, implementation, and monitoring skills.

### **Conclusion**

In every step of forming and operating FPO, practicing good governance and management play a fundamental role. In FPO governances' role is inevitable for managing the finance, marketing, procurement, auditing, and selection of the Chief Executive Officer (CEO) and productivity enhancement. Most importantly, governance and management's role are to find out the potential business scope and make the Farmer producer organization sustainable for the poor community.

## Chapter Four-Production

### Overview of Production

The primary goal of producer companies is to link smallholders to markets. Therefore, they predominantly work on the downstream end of the production system. Producer companies are also implementing programs to upgrade farmers' production methods. In particular, production organization, production planning, and knowledge and technology transfers are critical aspects increasing the chances for farmers to work profitably, and, therefore, to enhance their livelihoods. This also involves the timely supply of production inputs, such as seeds and fertilizer. These inputs are procured centrally in bulk and can therefore be supplied to farmers at lower cost. This procurement and supply of inputs also includes the organization and facilitation of finance credits to farmers to allow such procurement. Producer companies cover much of the services which farmer organizations generally provide for their members.

This chapter will discuss about necessity of suitable crop selection, production enhancement by collective action through FPO and also, how FPO as an organization can play a vital role in ensuring higher productivity and proper business scope of the harvests.

### Selection of Crop

The very first step for the FPO to run a viable business within the community and beyond is the proper selection of suitable crop. It is not like that their members have to select an entirely new crop just for a good business scope but to select such crops which are suitable for their region and have strong scope to value addition to get a greater market entry to doing business. For example: In the drought area where, irrigation is a great concern, farmers can select drought resistant crops or start cultivating the crops which need less water to grow. Besides, they can choose the crops which have greater value addition options.

- Crops suitable for the specific agro ecological zone
- Crops which have greater value addition scope
- Crops which are not perishable in nature
- Whole year around productive crops
- Combination of livestock and crops to ensure the year-round business

### **Input Supply**

Once the crop selection is done the next step is finalizing the necessary inputs that would be needed for production and finally ensuring the input supply through FPO. For example: Seed, fertilizer, pesticides, training for adopting modern technologies etc.

In the Annual general meeting the aggregation of farmers' need will be raised such as raining, e.g. hands on training on modern technology, new seed variety, agronomic practices (intercropping, mulching, vermin-composting, drip irrigation, crop rotation etc.), procurement of seed, fertilizer and pesticides, e.g. (bulk quantity of quality seed, fertilizer and pesticides etc.),\_machineries for production purpose (tractor, harvester, reaper etc.), processing unit (oil refining unit, grain and pulse processing unit etc.), storage facility (warehouse, cold room etc.).

### **Crop Protection and Management**

The farmer producer organization can play a vital role in Crop Protection and Management by providing early detection of pest and disease of the crops and ensuring the proper pest and disease management system for their members. Some fundamental training related to detect threshold injury level of diseases would be provided to the members. However, in case of pest and disease infestation FPO will provide necessary management measures to the members.

### **Productivity Enhancement**

Smallholder farming community can enhance their productivity with the help of FPO and exposure field visit to different FPOs. Role of NGO is very important to mobilize and guide the FPO leaders into right directions. NGOs can help the FPOs offering the training needed for production, linkage the FPO with Government institutions, product grading and processing resulting high production.

Exposure field visits help FPOs' leaders to understand different production strategies of the same crop that the individual FPOs are cultivating or planning to cultivate. Any new techniques in terms of irrigation, pest and disease management, value addition can help the FPO leaders to implement in their respective FPOs.

**Conclusion**

Farmer producer organization provides hands on information in section of crops, pest and disease management, input supply, grading, value addition of the products to their members for higher production and ultimately ensures to avoid the crop loss.

## Chapter Five- Finance

In FPOs, financing is the process of providing funds for their activities, making purchases or investing. Here, finance is defined as the management of money and includes activities such as investing, borrowing, lending, budgeting, saving and forecasting. Finance can be collected from different sources which are used to mitigate the demand of the members of FPOs. There are four kinds of sources of finance to gather such as farmers' participations, different financial institutions, government subsidies, corporate social responsibilities and from different NGOs. These resources are used to fulfil the need at FPOs and their members' level.

### **The Role of Finance in Member's Need**

The primary role of finance is to ensure the basic needs of the members such as purchasing seeds, fertilizers, pesticides etc. On the other hand, members need training to enhance their capacity building in the sectors of productions, governance, marketing, packaging, storage, and processing their products. Members can fulfil some of their needs by contributing share capital, subsidies from the government, contribution from corporate social responsibilities and NGOs.

### **The Role of Finance in FPOs Need**

Financial need of the FPOs revolves around the cost of mobilizing farmers, registration cost, cost of operations and management, training, exposure visits etc. Mostly the need is met thorough the grant support. Later in the emerging and growing stage, FPOs need working capital to run their businesses.

In case of the members failed to ensure activities in finance, the FPOs will come forward to contribute their needs. In the following sectors FPOs can enable the members to access finance:

### **Input Supply**

The contribution of FPO in input purchase can improve members' productivity and reduce the risk in production. This will also help the members to avoid debt from the middle men they used to take prior to their cultivation. FPO can purchase bulk amount of quality inputs such as seeds, fertilizers, pesticides based on their members need.



### **Capacity Building**

To run the FPO, member's skills and capacity plays pivotal role. Therefore, to improve the members' skills and capacity the FPOs arrange seminar, workshop, training and field visit exposure. In arranging the above events and providing proper training to enhance their skills FPO helps in financing.

### **Logistic Support**

In doing the spot purchase from farmers doors' step logistic arrangement is needed in which is finance is involved. Apart from that FPO also supports in procurement, marketing and to explore different marketing scopes.

### **Processing, Storage and Packaging**

FPO supports members financially in product preservation, packaging and storage of their products during and after their harvest. For instance, for processing, members need separate processing units of their products. In case of groundnuts, oil processing unit can open a new scope of business for FPO and here financing from the FPOs' end can boost their business. On the other hand, to establish a warehouse for storing the members' products finance is required by FPO. Similarly, to promote their products into market packaging is important which can be done by the support of FPOs finance.

### **Marketing**

To explore different potential marketing channel for selling the members' products finance support from FPO is essential. For visiting big retailer's companies and convincing them by promoting members products finance is required by FPO.

### **Sources of Finance**

In simple terms, ways and means to raise the capital or money required to be invested in a business is called financing. There are four basic but different ways to raise capital or funds for running the FPO. These are:

#### **Contribution of Members**

This is the money that FPO has ready access to and on which the FPO does not have to pay any interest. It may be sourced from member's participation. This should be the fundamental way to finance the FPOs business.

### **Credit and Grant Support**

Many financial institutions may come forward to give credit support for a grace period with interest to the FPOs. The producers who sell their products to the FPO would not hesitate in giving credit period to the FPO if convinced about the soundness of the business scope. On the other hand, the FPO can get part payment in advance from prospective buyers of certain agriculture produce that FPO has made a deal to supply. It can get agriculture inputs from the agro dealers on the condition of payment after sale.

### **Equity financing**

Equity financing does not require the business to directly repay the money lent or invested by the investors. In case of FPO the equity comes from the members and no external financier can participate in the equity investment. Being a small FPO the equity contribution is generally less and therefore it cannot contribute significantly to the total fund required for establishing a FPO.

### **How Finance will be accumulated?**

To run the FPO successfully regular cash flow is highly required. It is also challenging for FPO's to manage and harness the finance to fulfill the purpose. In this context, active member's contributions, credit support from financial institutions, grant support from government and promotional NGOs, and Corporate Social Responsibilities (CSR) could contribute in finance. FPO members are one of the major stakeholders in financing; their active contribution in mobilizing the share capital will boost up the FPO's financial resources. And, FPOs governing body shall be actively involved in motivating the members to contribute in FPO financing so that they can potential handle their business for further extension. Furthermore, governing body can approach to the financial institutions, government, philanthropists and other big companies for credit and grant support with a vision to expedite the small farming business. And also, governing body shall be able to convince the financial institutions to grant the credit support against a good business turnover of the FPO rather following a conventional approach of loan sanctioning.

**Conclusion**

To make the FPO model sustainable finance plays a very crucial role. From promotional stage to post harvest support and marketing the role of finance is strongly required. Without proper financing and smooth financial management, a FPO cannot emerge as a potential player in the supply chain. Therefore, the aforesaid instructions and information needs to be followed by the field facilitators in the field level.

## Chapter Six-Marketing

Marketing is defined as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. From a sales process engineering perspective, marketing is a set of processes that are interconnected and interdependent with other functions of a business aimed at achieving customer interest and satisfaction. Potential marketing channel and strategies is deemed to make farmer producer organization's business as viable.

### Market Research

Market research is one of the main factors used in maintaining competitiveness over competitors. Market research is the process of gathering, analysing and interpreting information about a market, about a product or service to be offered for sale in that market, and about the past, present and potential customers for the product or service; research into the characteristics, spending habits, location and needs of your business's target market, the industry as a whole, and the particular competitors you face. A market research could be also carried out for this purpose to critically examine the business potential. A proper marketing plan helps FPOs to assess the overall market trend, changes in supply and demand, prices, consumer behaviours etc. Market research provides important information which helps farmer producer organization to identify and analyse the needs of the market, the market size and the competition. Market research techniques encompass both qualitative techniques such as focus groups, in-depth interviews, and ethnography, as well as quantitative techniques such as customer surveys, and analysis of secondary data.

Market research should cover the following details about:

- The overall market
- Changes in the market
- Market segments, their attractiveness, profitability
- Target market and customers
- Description of customers
- Competitors – Direct and indirect

### **Influence of FPO in Marketing System**

One of the conditions of an efficient agriculture marketing system is that there should not be any government interference in free market transactions. The methods of intervention include restrictions on food grain movements, restrictions on the quantity to be processed or on the construction of processing plant, price supports, rationing, price ceiling, and entry of persons in the trade etc. when these conditions are violated, the inefficiency in the marketing system creeps in and commodities pass into the black market. They are not then easily available at fair prices to the consumers.

The marketing system should operate on the basis of the independent, but systematic and orderly, decisions of the millions of the individual consumers and producers whose lives are affected by it. The marketing system should be capable of developing into an intricate and far-flung marketing system in view of the rapid development of the urban-industrial economy. The marketing system should bring demand and supply together and should establish equilibrium between the two. The marketing system is able to generate employment by ensuring the development of processing industries and convincing the people to consume more processed foods, consistent with their tastes, habits and income levels.

### **Importance of 4P's Analysis in FPO Marketing**

The 4Ps is a model of marketing for enhancing the marketing strategy by which FPO can create a new product positioning in the market. It helps them as a farmer's organization to explore different marketing options in terms of price, product, promotion, and place to meet a specific customer need or demand. As a small business organization like FPO, implementing the 4Ps analysis successfully gives them an advantage over the competition and helps them to assess the grassroots demand.

#### **Product**

FPO shall select their products based on the consumer's need; the unique features, physical appearance, and nature of perish ability and competitiveness of the products in the market. For instance, while FPO will start assessing the finalization of their products they should consider the indigenusness of their products in the particular regions; and should consider major crops of their regions which could be coconut, paddy, groundnut or millets.

### **Price**

Price is another major factor FPO must consider when launching a product. The basic way that FPO can determine a price is by taking into account the quality of its product and determining how much consumers are generally willing to pay for a product of its type and quality. For example, the governing body of FPO can finalize the price of their products after doing the nearby market survey as well as assessing their own products' quality. On the other hand, if the products are organic then the FPO can demand higher price since the cost of production and quality of organic products are superior to conventional products.

### **Promotion**

Promotion refers to all the methods that a FPO has, when it comes to communicating with consumers. FPO can apply some strategies for their brand promotion through wider networking, advertising and proper packaging such as community radio platform, FPO to FPO promotion and convincing big retailers with emotional and intellectual appeals. In addition, for better promotion FPO can establish an outlet of their products. For further promotional purpose digital marketing can also be a potential platform.

### **Place**

Place refers to a particular location at where the product will be sold to consumers. No matter how good the FPO's other strategy elements are, the product must be in the right place, at the right time in order to capitalise on its target market's attention. This involves making numerous approaches such as the procured products could be placed in the FPO's warehouse, FPO's outlet or directly to the retail markets.

### **Connecting the FPO in Agriculture Supply Chain and Marketing**

Supply chains are principally concerned with the flow of products, procurement of materials, transformation of materials into finished products, and distribution of those products to end customers. FPOs are enabling stakeholders engaged in the agricultural supply chain to reduce inventory and costs, add product value, extend resources, accelerate time to market, and retain customers. The real measure of supply chain success of FPO relies on how well activities coordinate across the supply chain to create value for consumers, while increasing the profitability of every link in the supply chain.

Farmer producer organization (FPO) role is inevitable for each and every step of agriculture supply chain's stakeholders such as members, governing body and promotional NGOs. Here members can be both producers and customers in supply chain and therefore the chances of exploitation by the middlemen and lower prices of their products can be reduced. Similarly, the governing body can provide the technical support to build market linkage and arrange skill set training for members to improve their negotiation skills in marketing. Finally, the promotional NGOs can facilitate FPO's members and governing body in finance, networking, capacity building and marketing for smooth supply chain and market connectivity. In addition, FPO can introduce ICT tools for leveraging the rural livelihood of small farmers (An ICT module for FPO in marketing and productivity enhancement is enclosed in the annexure).

### **Conclusion**

All in all, a better marketing system and supply chain connectivity may lead the FPO to their optimum goal. The overall active role of members, governing body and promotional NGOs can build a strong marketing network and positing in the existing marketing platform. Eventually to maintain the sustainability in FPO marketing, besides the above said, the product quality, reasonable price, branding of the products, based on the consumers' demand and supply of the products, ensuring to provide the skills set training to the members and available storage and outlet to sell the products shall be ensured.

## Chapter Seven-Business Plan

### **Business Plan**

A business plan is a formal written document containing business goals, the methods on how these goals can be attained, and the time frame within which these goals need to be achieved. It also describes the nature of the business, background information on the organization, the organization's financial projections, and the strategies it intends to implement to achieve the stated targets. In its entirety, this document serves as a road map that provides direction to the business.

### **Why Business Plan is needed for FPO?**

Since FPOs primarily functions at grassroots level and their members are not well advanced in operating the business successfully. This business plan will help them in capacity building, expanding their marketing scope, determining the viability of the market, obtaining the funding scope to make the business viable. A proper business plan will ensure the members to achieve their optimum goals in running the FPO business.

### **Process of a Business Plan**

To run the FPO the business plan should be clear and concise. It should contain all the key information about the product, money requires to build it. Here are the 11 key elements that should be included in every business plan:

### **Executive Summary**

This is a brief overview of the entire business plan. This section of the business plan will give clear guidelines to the stakeholders (FPO members, promotional NGOs, donor organizations, government) involved in FPO business. It includes a brief overview of the business idea, the offering, business goals, target market, competition, the team and the financial outlook for the business.

### **FPO Description & Synopsis**

This section of the business plan explains the FPOs' mission, vision, goals, business strategies, legal structure, and briefly but is more elaborate than the executive summary. The details are followed by the problem the FPO is solving for the customers and the solution which makes it stand out of the competition.



### **Market Overview**

This section explains the current market scenario of the industry such as the size of the market, market trends, success stories, what is working and what isn't, and what is being favoured and expected by the customers in the market. This section gives the readers a reason to believe why the company chose the market stated. Usually, everything in this section is supplemented with a bundle of facts, stats, and figures to prove that the entrepreneurs have done their research before choosing this as an apt market for their offering.

### **Customer Analysis**

The customer analysis sections include the prospective customer, which includes customers' demographics, geographic, psychographics, needs, wants, desires, buying habits, etc.

### **Business Model**

The business model is the conceptual structure that explains how the FPO works or will work. This section will answer the question of how it will provide the offering in the market and why is the offering viable. If the company is FPO, this section would include how it would partner with retailers and how would its business structure be viable for both the retailers and farmers avoiding the exploitation of middlemen.

### **Competitive Analysis**

This section is dedicated to explaining who the competitors in the market are, what are their strategies used by the business to tackle them.

### **Marketing Plan**

The marketing plan acts as an inference of all the details explained earlier. This section provides the details on how the FPO plans to use the information mentioned above in formulating and executing their marketing strategies. The marketing plan is an important section of the business plan as it explains how the FPO is planning to reach out to the customers and stand out of the competitors. That being said, the marketing plan isn't limited to the promotion of the offering. It includes a holistic strategy to market the offering right from production to post-sales.

## **Conclusion**

Business plan is necessity for farmer producer organizations to help members to present their vision and mission which includes sales forecasts, marketing strategies, competitive strategies, milestones, expense budget, partners and employees, and the short-term and long-term goals. The business plan is an important guide which forces the members into discipline thinking. It gives them a direction to move to and explains the step by step functions.

## Chapter Eight-Conclusion

Small and marginal farmers constitute a majority in agriculture but are integrated through traditional value networks which lack supportive environment with institutional and infrastructural system, inadequate resources and effective coordination within the value networks. Farmer Producer Organisations (FPOs) are formed to integrate the small farmers with agricultural marketing system and offer remunerative prices with low transaction cost. The formally active structures in agricultural marketing have taken the new shape under the FPO system which can be sustainable by ensuring proper production, finance, governance and management.

A feasibility analysis is an important tool to help field facilitators to assess the viability of starting a new value-added business, or re-organizing or expanding an existing business of FPO. It provides important information needed to make the critical decision of whether to go forward with a business venture in a particular region with small holder's farmers. The FPO members need to understand the demand for local crops in their region. This includes the demand for products and services from both wholesale buyers and farmers. Every business wants to increase their revenues, but it needs to go deeper and understand the volumes of specific items through the year and the price buyers are willing to pay. Based on this assessment, cluster selection for FPO at promotional stage need to be identified in making the establishment of FPO as a sustainable model in their region.

Production is an integral part of FPO's sustainability. From the beginning of FPO promotion stage production should be considered very carefully otherwise, later on each and every step of FPO would be affected. Good harvesting can be ensured through proper crops selection and for which FPO needs to arrange capacity building training for their members. Therefore, if the production is satisfactory FPO will be able to explore good marketing scope for their products. From our field visit experience, it can be recommended that for the sustainability of FPO in terms of productions the above information should be followed.

The role of governance and management is a crucial part in FPO model without which FPO cannot run in sustainable way. Active members' participation is inevitable in governance and management. This is a fundamental part of building the governing body of FPO from the members. In every monthly meeting FPO members have to take part actively in order to share opinion and

## **Operational Manual of FPO-Adaptation for Bangladesh Context**

discuss their need, existing problems and possible solutions. Similarly, governing body selection should be fair and free from nepotism which will ensure democratic practice among the members and ultimately create an environment for the members to contribute their prudence. However, biasness in members' selection in governing body can lead to several problems such as lack transparency in finance, inefficiency in marketing and exploring new business scope. In terms of maintaining sustainability in governance and management, FPO can offer patronage bonus to their active members, encourage them to attend in the regular monthly meeting and discarding biasness in the governing body selection process.

Finance is a very important part for the FPO model. Smooth financial management can make FPO as a sustainable model. Sufficient cash flow is required to run the FPO business. This cash flow may come from member's contribution, financial institution, corporate social responsibilities (CSR) and donor organizations. However, proper management of these financial resources is necessary for further business functions.

Marketing is the key part of FPO model. For sustainable FPO's business, without proper marketing plan is going to be declined. Here FPO will do the direct marketing after procurement of agricultural produce. This will enable members to save in terms of time, transaction costs, distress sales, price fluctuations, transportation, quality maintenance etc. Based on our field visits, we have experienced several drawbacks in the marketing for example lack of marketing skills, lack of cooperation with big retailers, access to local market, poor management, lack of good leadership, lack of promotion of brands, poor management and storage facilities and exploitation of middlemen in the supply chain. To establish the FPO as potential market player the above issues should be taken under consideration.