I. Differences between a co-operative and a PC in India

<table>
<thead>
<tr>
<th>Feature</th>
<th>Co-operative</th>
<th>PC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration under</td>
<td>Co-op societies Act</td>
<td>Companies Act</td>
</tr>
<tr>
<td>Membership</td>
<td>Open to any individual or co-operative</td>
<td>Only to producer members and their agencies</td>
</tr>
<tr>
<td>Professionals on Board</td>
<td>Not provided</td>
<td>Can be co-opted</td>
</tr>
<tr>
<td>Area of operation</td>
<td>Restricted</td>
<td>Throughout India</td>
</tr>
<tr>
<td>Relation with other entities</td>
<td>Only transaction based</td>
<td>Can form joint ventures and alliances</td>
</tr>
<tr>
<td>Shares</td>
<td>Not tradable</td>
<td>Tradable within membership only</td>
</tr>
<tr>
<td>Member stakes</td>
<td>No linkage with no. of shares held</td>
<td>Articles of association can provide for linking shares and delivery rights</td>
</tr>
<tr>
<td>Voting rights</td>
<td>One person one vote but RoC and government have veto power</td>
<td>Only one member one vote and non-producer can’t vote</td>
</tr>
<tr>
<td>Reserves</td>
<td>Can be created if made profit</td>
<td>Mandatory to create reserves</td>
</tr>
<tr>
<td>Profit sharing</td>
<td>Limited dividend on capital</td>
<td>Based on patronage but reserves must and limit on dividend</td>
</tr>
<tr>
<td>Role of government</td>
<td>Significant</td>
<td>Minimal</td>
</tr>
<tr>
<td>Disclosure and audit requirements</td>
<td>Annual report to regulator</td>
<td>Very strict as per the Companies Act</td>
</tr>
<tr>
<td>Administrative control</td>
<td>Excessive</td>
<td>None</td>
</tr>
<tr>
<td>External equity</td>
<td>No provision</td>
<td>No provision</td>
</tr>
<tr>
<td>Borrowing power</td>
<td>Restricted</td>
<td>Many options</td>
</tr>
<tr>
<td>Dispute settlement</td>
<td>Through co-op system</td>
<td>Through arbitration</td>
</tr>
</tbody>
</table>

II. Comparison of diff options for registration under the companies Act

<table>
<thead>
<tr>
<th>Type of company&gt; Parameter</th>
<th>Private limited Company</th>
<th>Limited Company</th>
<th>PC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum No. of Directors required</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Number of Members</td>
<td>Minimum 2; Maximum 50</td>
<td>Minimum 7</td>
<td>Minimum 10 primary producer members or two producer institutional members</td>
</tr>
<tr>
<td>Membership eligibility</td>
<td>Any one</td>
<td>Any one</td>
<td>Only primary producer or producer institutions can be member.</td>
</tr>
<tr>
<td>Type of shares</td>
<td>Equity and Preference</td>
<td>Equity and Preference</td>
<td>Only Equity</td>
</tr>
</tbody>
</table>
III. FPO Premise

The co-operative movement was accelerated with Anand model or AMUL as we are familiar with. The growing interference of government and political nexus was not allowing the established co-operatives to work autonomously. Dr Kurien kept up his search for a better way to free cooperatives from the yoke of the bureaucratic-political nexus. With this in view, he persuaded the Government of India to constitute a High Powered Committee. Dr Yogendra Alagh, a noted economist from Gujarat was appointed the Chair and its main terms of reference were to:

- Examine and make recommendations with regard to framing legislation which would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies; and
- Ensure that the proposed legislation accommodates the unique elements of co-operative businesses within a regulatory framework similar to that of a private limited company.

Recommendations of the Alagh Committee led to the Producer Companies legislation coming into force on 6th February 2003 as Chapter IX A of the Companies Act, 1956. Earlier to this, the Companies Act, 1956, recognised only three types of companies, namely, companies

| Voting rights | based on number of equity shares held | based on number of equity shares held | Only one vote irrespective of number of shares held. |
| Share transferability | can be transferred to any other person on price consideration | can be transferred to any other person on price consideration | can be transferred only to primary producer on price consideration |
| Share allocation | open to investors and FIs | open to investors and FIs | not open to investors and FIs |
| Conversion clause | Conversion of Private Limited to Limited is possible, but conversion to PC is not possible | Conversion of Limited to Private Limited is possible, but conversion to PC is not possible. | No conversion is possible, but registered multi state cooperatives/cooperatives can be converted to FPCs and vice versa. |
| Internal audit | conditional subject to financial limit | conditional subject financial limit | Compulsory |
| Donations | no bar on donations made | no bar on donations made | Can be made only up to 3% of the net profit. |
| Investor friendliness | Investor friendly | Investor friendly but more procedural than private limited. | Not investor friendly and more procedural than private limited and limited companies. |
limited by shares (sub-divided into public limited and private limited companies), companies limited by guarantees and unlimited companies. The more about the provision of this law is available in the legislation giving idea of what can be registered as Producer Company.

http://www.mca.gov.in/Ministry/pdf/Producer_Company.pdf

IV. FPO over Co-operative

Functioning of Producer Company is similar to that of co-operatives in terms of managing day to day activities just that there is no third party say in FPOs operation and whole entity is solely run by the farmer members themselves. The interference in co-operative is come through

- The registrar post appointed by the government who has say in the management and his power vary from state to state (some state have IAS appointed as registrar whereas some have political leaders).
- Another way of interference comes through the mandatory periodical elections for chairman or other such representative position. So such election actually welcomes too much of politics involving political manipulation tactics by major political organization/parties.

V. How FPOs are established

Although the provision for Producer Company was enacted in early 2000 not many FPOs were formed in the initial years due to lack of synergy or awareness among the farmers. The first few producer companies were made by developmental NGOs, led by ASA and PRADAN in Madhya Pradesh, where the state government’s District Poverty Initiatives Program took up the formation of nearly a score of FPCs with the help of NGOs. In Gujarat, DSC and AKRSP formed FPCs of farmers they were working with. BAIF also established a producer company of mango and cashew growers in Vansda in south Gujarat. In a few case, such as Vishakhpapatnam in Andhra Pradesh, an existing dairy farmers’ cooperative converted itself into an FPC. Rangasutra was organised around the craft groups of URMUL in Rajasthan.

Basically these agencies normally called as Promoting Agencies or Resource Institution mobilize the group of people through various initiatives.

- First they form small Farmers Interest Group(FIG) of 15-20 farmer members
- Develop the capacity among these to take few group leader to work as board of directors of company to be formed give them exploration visit to successful FPOs/Co-operatives.
- The members of all FIG are called members and those who contribute to equity capital by purchasing the shares are called shareholders.

The PA/RI remains with FPO for 2 to 3 years helping them to groom their business activity. Some organizations also extend this support for more years.
VI. How it functions

Its functioning is usual as with any normal pvt ltd company with hierarchy of Board of Directors, CEO, Staff member and highest authority being general body. The four key functions of FPCs are –

- bulk purchase of inputs for supply to members;
- facilitation of credit, insurance and extension services;
- aggregation of produce for collective marketing; and
- The processing of produce for value added outputs.

VII. Various supporting organization/ schemes to support them

Through SFAC the NGOs were paid to hire staff and carry out the organising and hand-holding activity over a period of two years. An Equity Grant Scheme and a separate Credit Guarantee Fund been started by SFAC. Under the former, an FPC which has raised Rs.10 lakh of share capital from its members can get up to Rs.10 lakh as a matching grant to double its equity capital. Under the second scheme, the SFAC offer an 85% guarantee for a bank loan of up to Rs.1 crore to the FPC. Both of these schemes are poised to take off.

Among non-government agencies, the Rabo Bank Foundation, Ananya Finance and the IGS LAMP Fund of the Basix Social Enterprise Group have been supporting FPCs with loans. NABARD has recently announced its intent to support FPCs with a combination of capacity building funds as well as loans and refinance to banks who lend to FPCs.

As of now there are 1000+ FPOs have been incorporated till the date with these kind of support but 70% of them in last 3-4 years. Although the spread is now each district of the country but the working is not up to the mark as expected from them and many of them are fighting for their survival as a viable entity.
Some Cooperative Basics

I. Cooperative Principles

1. Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6. Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.
7. Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

II. Frequently Asked Questions - Cooperation / Cooperative Societies

1. What is ‘Cooperation’?

According to economic historian, Charles Guide "Cooperation is self-help and each for all (mutual-aid)". Self-help means the pride of supplying one's own needs by one's own resources, of being one's own merchant banker, money lender and employer. "Each for all", means to seek liberation, not only for oneself but for and through others”. The International Cooperative Alliance (ICA), at its Manchester Congress held in September, 1995 adopted a Statement on Cooperative Identity. The Statement included the definition of Cooperatives, a list of "Cooperative Values and a set of "Cooperative Principles”. According to ICA, "a cooperative is an autonomous association of persons united voluntarily to meet their common, economic, social and cultural needs and aspirations through a jointly owned and democratically -controlled enterprise".

2. What are the origins of cooperative movement in India?

During the British Rule in India, Nicholson a British Officer in India suggested 'Find Raiffersen in India', i.e. introduce Raiffersen model of German agricultural credit Cooperatives in India. As a follow-up of that recommendation, the first Cooperative Society Act of 1904 was enacted to enable formation of "agricultural credit cooperatives" in villages in India under Government sponsorship. With the enactment of 1904 Act, Cooperatives were to get a direct legal identity as every agricultural Cooperative was to be registered under that Act only. The 1904 Cooperative Societies Act, was repealed by 1912 Cooperative Societies Act which provided for formation of Cooperative societies other than credit. Under 1919 Administrative Reforms, Cooperatives was made a provincial subject making each province responsible for Cooperative development.

In 1942, the Government of India enacted the Multi-Unit Cooperative Societies Act, 1942 with an object to cover societies whose operations are extended to more than one state. Armed with an experience of 42 years in the working of Multi Unit Cooperative Societies and the Multi-Unit Cooperative Societies Act, 1942, the Central Government enacted a comprehensive Act known as Multi State Cooperative Societies Act, 1984, repealing the Act of 1942.

Based on the recommendation of the Mirdha Committee and the "Model Cooperative Societies Act", this Government of India enacted the Multi State Cooperative Societies Act, 2002 which provided for democratic and autonomous working of the Cooperatives. The Multi State Cooperative Societies Act, 2002 came into force with effect from August 19, 2002.
3. Which are the institutions working for the development of cooperative movement in India?

National Cooperative Union of India (NCUI) and National Cooperative Development Corporation (NCDC) are the important agencies working for promotion of cooperative movement in India.

4. Who can become members of a cooperative society in India?

Persons who may become members of a Cooperative society at State level (as per the State Act)
(a) An individual competent to Contract, attained majority and is of sound mind and belongs to a class of persons if any for whom the society is formed as per its bye-laws;
(b) A society registered or deemed to be registered under the Cooperative Societies Act;
(c) The Government;
No individual shall be eligible for admission as a member of a federal society

Persons who may become members of a Multi-State Cooperative Society: (As per Multi-State Cooperative Societies Act, 2002).
(a) An individual, competent to contract under section 11 of the Indian contract Act, 1972.
(b) Any multi-state Cooperative society or any Cooperative society.
(c) The Central Government
(d) A State Government
(e) National Cooperative Development Corporation (NCDC)
(f) Any other Corporation armed or controlled by the Government.

No individual person shall be eligible for admission as a member of a national Cooperative society or a federal Cooperative

6. Which are the laws that regulate cooperative societies in India?

Laws regulating Cooperative Societies in India are:

(a) State Cooperative Societies Acts of individual states

(b) Multi-State Cooperative Societies Act, 2002 for the multi-state Cooperative societies with Area of operation in more than one State.

7. What is 'Multi-state Cooperative Act'?

A multi-state Cooperative Society means a society registered or deemed to be registered under the Multi-State Cooperative Societies Act, 2002 and includes a national Cooperative society or a Federal Cooperative.

8. DEFINITION of 'Patronage Dividend'

A dividend or distribution that a co-operative pays to its members or investors. Patronage dividends are given based on a proportion of profit made by the business. Once this amount is figured out the dividend is calculated according to how much each member has used the co-
op's services. Tax rules view these profits essentially as an overcharge, which can be returned to patrons and deducted from the co-op's taxable income.

III. Wiki on Agriculture Cooperatives

An agricultural cooperative, also known as a farmers' co-op, is a cooperative where farmers pool their resources in certain areas of activity. A broad typology of agricultural cooperatives distinguishes between agricultural service cooperatives, which provide various services to their individually farming members, and agricultural production cooperatives, where production resources (land, machinery) are pooled and members farm jointly.

There are two primary types of agricultural service cooperatives: Supply cooperative & Marketing cooperative. Supply cooperatives supply their members with inputs for agricultural production, including seeds, fertilizers, fuel, and machinery services. Marketing cooperatives are established by farmers to undertake transportation, packaging, distribution, and marketing of farm products (both crop and livestock). Farmers also widely rely on credit cooperatives as a source of financing for both working capital and investments.

Membership: Open and voluntary with some membership fees. (Rules and norms are followed according to the bye-laws framed during the inception of those cooperatives). Major challenge for the cooperatives today is their financial viability; they are dependent on government for funds. But undoubtedly there are good performing cooperatives also.