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BUSINESS PLAN FOR ROYAL SEEDS

**DIMBULAGALA SEED PADDY ENTERPRISE
IN POLONNARUWA**

By

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BUSINESS PLAN FOR ROYAL SEEDS

DIMBULAGALA SEED PADDY ENTERPRISE IN POLONNARUWA

1. INTRODUCTION

1.1 RATIONAL BEHIND USE OF QUALITY SEEDS

A major factor contributing to decreasing incomes in the paddy sub sector is the low yield per unit area of land obtained by the farmers. This is due to their failure to use available technology. The best technological package that farmers could adopt is the use of quality seed combined with complementary inputs. This can increase yields substantially. And maintaining high levels of yield depends on the existence of a quality seed production system geared to meeting farmers needs at the correct time and in the required quantity.

Farmers often save seed from their own fields for use in the following season. The effective demand for seed from formal seed suppliers is therefore lower than the "total seed requirement", which is simply the total amount of seed needed to plant a given extent of land. This can also be thought of as the potential demand for seed. Since in the case of paddy, the majority of farmers generally use their own seed or obtain seed from their neighbors, the effective demand for seed is estimated at about 3-10 percent of potential demand.

Effective demand for seed is strongly influenced by its quality. If seed produced through a specialized, formal system offers important quality attributes that the farmer's own seed lacks and these attributes translate into increased yield or other important advantages (shorter age, disease resistance, better quality product etc.) that benefit the farmer, then the effective demand for such seed will be high. In other words the greater the quality improvements of purchased seed over the farmer's own seed, and the greater the impact of these quality attributes on yield or other aspects of the crop, the higher will be the demand for this seed.

The benefit to the farmer of using high quality seed can be readily estimated by applying the following formula:

$$\text{VALUE OF NEW SEED} = \frac{(\text{YLD2-YLD1}) * (\text{PR1} - \text{PHH}) + (\text{OWNSEED} * \text{PR2})}{\text{NEWSEED}}$$

Where YLD2 represents the yield when high quality seed is used, and YLD1 is the farmer's normal yield when he uses his own seed or that obtained from another farmer. The difference is the increased yield obtained by using high quality seed. The value placed on this increase in yield is its market price (PR1) net of handling costs, which should also include cost of harvesting (PHH). If then the farm-gate price of paddy is Rs.160 per bushel, and Rs.50 represents the cost of harvesting and handling, the net value to the farmer from an increase in yield would be Rs.110 per bushel.

When the farmer purchases seed from a formal supplier, he also has no need to retain seed from his own crop from one season to the next and can sell this amount as grain. OWNSEED refers to the amount of seed he would use per acre, and this is valued at the farm-gate price (PR2). Adding the value of the increased yield to the value of saved seed that can now be sold for consumption gives the total benefit per acre. If we divide this amount by the quantity of purchased seed (NEWSEED) required to plant an acre then we obtain the net benefit per bushel of seed paddy purchased.

As an example, suppose a farmer obtains an average yield of 75 bushels and this yield would increase to about 90 bushels per acre if he used high quality seed. Then YLD2-YLD1 is 15 bushels, which might be valued at Rs.110 per bushel. And if the paddy he would use for planting is valued at Rs.160/bushel, then the benefit he would obtain from each bushel of high quality seed purchased would be:

$$\text{VALUE OF NEW SEED} = \frac{(15 * 110) + (2 * 160)}{2}$$

or Rs.985 per bushel, or 6.1 times the value of paddy.

On the other hand if the increase in yield from using quality seed is only 10 bushels per acre, using the same values above, the benefit would be Rs.710 for every bushel of seed purchased, or 4.4 times the price of seed paddy. And if the projected impact of quality seed is an increase of only 5 bushel per acre, the value would be Rs.435/bushel, or 2.7 times the value of the seed paddy.

It is clear that the quality of seed, and the increase it can have on yields, will have a very significant impact on both its value in the market and on the effective demand for such seed. Offering the very highest possible quality seed to the farmer is therefore the best means of expanding the market. Efforts in promotion and distribution will also lead to increased effective demand. The motto of any seed enterprise must be **QUALITY PROMOTION**.

It is also relevant to note that the current price of Rs.225 per bushel of Certified Seed Paddy charged by the Department of Agriculture(DOA) is only 1.6 times the market price of consumption paddy. This is well below the value of good quality seed. Full costs of production, including fixed costs of facilities and financing, are not recovered at this price level.

1.2 SEED MULTIPLICATION SYSTEM

1.2.1 Generation System

The production of Certified Seed Paddy follows a generation system beginning with a small quantity of Breeders' seed produced under the supervision of the Plant Breeder. This seed is multiplied further and the generations that follow are Foundation seed, Registered seed and Certified seed. Foundation and Registered seed are produced by the DOA on its farms under the supervision of the technical staff to preserve seed purity and quality.

A limited quantity of Certified Seed Paddy which is used for production of consumption paddy is produced on DOA farms. It is also produced by a large number of private growers under contract with the DOA in order to produce the large quantities required to satisfy the national demand.

1.2.2 Certified Seed Paddy Production

The major fraction of Certified Seed Paddy, processed and marketed by the DOA is therefore grown by registered private seed paddy growers scattered in the major rice producing areas of the country.

The Seed & Planting Material (S&PM), Technology Transfer(TT), and Plant Protection & Seed Certification (SC&PP) divisions of the DOA are responsible for the Certified Seed Paddy production programme.

Registration of private seed farmers, issue of Registered Seed Paddy, provision of technical guidance, field inspection, sampling and testing, purchase and payment of a premium price, processing, bagging, labelling, pricing, distribution and final sale are some of the functions carried out by these divisions.

1.2.3 Limitations of the Current Programme

In practice, however, Certified Seed Paddy is not generally available as and when it is required. Consequently the only option available to most farmers is to use their own seed or seed from neighbors.

1.2.4 Existing Institutional Capacity

The contract seed paddy growers who are registered with the DOA are scattered among the major rice producing areas. They possess the land, technical skills and the experience required for the production of Certified Seed Paddy.

The Multi-Purpose Co-operative Societies, Farmer Organizations and Private Investors procuring, consumption paddy are additional assets available in these areas. Some of them are not only possess the storage, transport and drying facilities but also have established marketing channels that reach the majority of the farmers.

If the existing institutions could be persuaded to organize contract farmers to produce Certified Seed Paddy and process and market it, this will not only guarantee dividends for the firms involved but also fulfil the aim of the state to meet the potential demand for Certified Seed Paddy. If such organizations could supply the total quantity of Certified Seed Paddy required, then the DOA could withdraw from the processing and marketing of Certified Seed Paddy and concentrate on the production of basic, foundation and registered seed.

The DOA should, however, supply Registered Seed Paddy to such enterprises and be responsible for farmer training, quality control, transfer of seed processing technology and related fields. Initially DOA should also help these organizations to prepare business plans and provide technical guidance for implementing their Certified Seed Paddy production programmes.

1.3 PROGRESS TO DATE

The DOA has already taken definite steps to encourage farmer organizations, co-operative societies, private companies and individuals to undertake the business of Certified Seed Paddy production. Residential training programmes to encourage entrepreneurs to take to the seed business, loaning or leasing of DOA seed processing equipment and storage facilities, are some of the progressive steps already taken.

1.4 PURPOSE OF THE REPORT

This report has a dual purpose. Firstly, to persuade business organizations such as Multi-Purpose Co-operative Societies in the major rice producing areas to invest in seed paddy production. Secondly to produce a replicable business plan for Multi-Purpose Co-operative Societies to utilize existing resources & experience effectively in the business of Certified Seed Paddy production. Such a business plan is being implemented by the Dimbulagala Multi-Purpose Co-operative Society (DMPCS) at Manampitiya, Polonnaruwa. It is expected that this model will be duplicated by the Multi-Purpose Co-operative Societies in other areas.

1.5 STRUCTURE OF THE REPORT

Chapter 1 of the report deals with the economics and advantages of farmers using quality seed rather than their own or neighbors seed. It also explains the seed multiplication system, the changing role of the DOA and the structure of the report. The seed paddy market, the Certified Seed Paddy production programme in Polonnaruwa with special reference to the DMPCS is discussed in chapter 2. The capacity of the DMPCS to be a prospective producer of Certified Seed Paddy is reviewed in chapter 3. Chapter 4, introduces the proposed seed enterprise. Chapter 5 outlines the manager's responsibility and the steps in the operation of the seed enterprise. Chapter 6 sets out the proposed production plan for the seed enterprise. Chapter 7 gives an account of the investment required for the enterprise. Chapter 8 discusses the operational plan. The sales, operating costs and credit schemes are dealt with in chapter 9. Chapter 10 summarizes the cash flow and capital requirements while the rate of return is discussed in chapter 11. Chapter 12 deals with the source and use of finance.

2. NATIONAL REQUIREMENT AND EFFECTIVE DEMAND FOR SEED PADDY

On the basis of preliminary estimates for 1992, the total island wide extent under paddy was about 977,955 hectares. Of this extent 622,910 hectares was cultivated in the Maha 1991/92 season and 355,045 hectares in the Yala 1992¹ season. The volume of seed required to plant this area would be about 100,240 metric tonnes. However, most farmers use seed from their previous harvest to plant the following season's crop while others obtain seed by trading with neighbors. According to past records only about 5 percent of the paddy farmers use seed paddy purchased from formal sources, such as the Department of Agriculture, Agrarian Service Centres, seed dealers, or co-operatives. The current effective national demand for Certified Seed Paddy is therefore, in the range of 5,000 metric tonnes.

¹ Agricultural Implementation Programme 1991-1992, Ministry of Agricultural Development and Research, Getambe, Peradeniya.

3. DEMAND FOR SEED PADDY IN POLONNARUWA DISTRICT

3.1 EXTENT OF PADDY CULTIVATED

An assured supply of irrigation water in the major irrigation schemes permits paddy cultivation in both the Yala and Maha seasons. Paddy dominates the cropping pattern of the Polonnaruwa district since ninety four per cent (94%) of the paddy area is under the major irrigation schemes of Parakrama Samudraya, Minneriya, Giritale, Kaudulla and Mahaweli. The rest is cultivated in minor irrigation schemes and under rainfed conditions. The difference of land area cultivated between the Maha and Yala seasons is around 23 percent.

On the average 45,000 to 50,000 hectares of paddy is cultivated, including both the Yala and Maha seasons. The major paddy producing centres of the district are Tamankaduwa, Madirigiriya, Lankapura, Elahera, Hingurakgodka, and Mahaweli B, C, & G, zones.²

3.2 SEED REQUIREMENT AND EFFECTIVE DEMAND IN THE DISTRICT

The total requirement of Certified Seed Paddy for the district for 1992 is estimated at around 4,868 metric tonnes. However, most farmers use their own seed or seed obtained from neighbors or other informal sources. The estimated current effective demand for seed paddy is around 5 percent of the total requirement, or about 244 metric tonnes.

3.3 POLONNARUWA AS SEED PADDY PRODUCING CENTRE

The DOA implements seed paddy production programme centred around its Polonnaruwa and Hingurakgodka farms and the area coming under Polonnaruwa Assistant Director of Agriculture/Seed and Planting Material (AD/S&PM). This programme includes the production, processing, quality control, and sale of Foundation, Registered and Certified Seed Paddy.

² Polonnaruwa District Agricultural Implementation Plan, 1991/92 Maha 1992 Yala, Development Unit, Kacheheri, Polonnaruwa.

3.4 VARIETIES CULTIVATED

Both short-term (3 to 3 1/2 months) and long-term (4 to 4 1/2 months) varieties are cultivated in the Polonnaruwa District. The varieties preferred by the farmer are BG 34/8, BG 276/5, BG 300 (3 months); BG 94/1, BG 350, BG 379/2 (3 1/2 Months); BG 450, BG 34/6, BG 400/1 BG 380 (4 to 4 1/2 months).

3.5 CURRENT POSITION OF SEED PADDY PRODUCTION IN POLONNARUWA

The Polonnaruwa and Hingurakgoda farms produce Foundation, Registered, and Certified Seed Paddy to supply various parts of the country. During the Maha 1991/92 and Yala 1992 seasons, 356 metric tonnes of Foundation, Registered and Certified Seed Paddy were issued to the districts of Colombo, Matara, Kurunagala, Anuradhapura, Vavuniya, and Ampara. The DOA also produces Certified Seed Paddy in the district through contract farmers.

3.6 DOA CONTRACT GROWER PROGRAMME

At the present time the AD/S&PM and the Seed Certification Service (SCS) are collectively responsible for the Contract Seed Paddy Production Programme (CSPPP). The functions of the AD/S&PM are to:

- 1) select and train contract farmers,
- 2) choose locations and decide on the extent of land,
- 3) choose varieties to be cultivated,
- 4) issue Registered Seed Paddy on payment,
- 5) co-ordinate SCS activities,
- 6) provide field supervision,
- 7) supply packaging materials,
- 8) purchase Certified Seed Paddy,
- 9) transport to the processing unit,
- 10) process and bag,
- 11) arrange for storage and distribution.

Field supervision, drawing samples, testing for quality, labelling and sealing of bags are functions of the SCS. Directions for the issue of seed paddy are obtained from the Seed and Planting Material Division (S&PMD) of the DOA.

3.7 POLONNARUWA CONTRACT GROWER PROGRAMME

The Polonnaruwa contract grower programme includes 50-60 farmers, 100-150 hectares of land and produces 300 metric tonnes of Certified Seed Paddy per year. The varieties cultivated for the Yala season are: BG 300, 450, 379/2 and 34/8. In the Maha season farmers grow BG 34/8, BG 300, BG 350, BG 351, BG 276/5, BG 94/1, BG 450, BG 400/1.

3.8 DIMBULAGALA CONTRACT SEED PADDY PRODUCTION PROGRAMME

The Dimbulagala contract farming programme was undertaken as a result of the efforts of the DMPCS and S&PMD of the DOA in the 1983/84 Maha season. The programme began with 16 farmers around Pimburattawa and Aralaganwila cultivating 36 acres of paddy. Results in terms of both quantity and quality of seed produced were, however, disappointing.

Since then, the contract farming programme has continued to show mixed results. During the period 1984 to 1991, the number of farmers enrolled in the programme increased from 16 to 22 and the extent cultivated from 36 to 44 acres. The quantity produced for certification declined from 11.7 to 7.2 metric tonnes. Seed Certification Service approval was received for the lots supplied by only 8 farmers in 1991³. Rejection was basically due to excessive moisture content. When the DMPCS does not purchase the seed because it fails to meet the standards set by the SCS, farmers often sell it to private traders as seed paddy. This is a clear indication that the demand for seed paddy exceeds the current supply of Certified Seed in Polonnaruwa.

The prevailing operating mechanism of the DMPCS does not provide adequate impetus to the programme due to lack of:

³ Source: Dimbulagala Multi-Purpose Co-operative Society, Manampitiya.

- (a) Trained manpower in the field,
- (b) Technology and equipment for processing & packaging,
- (c) Commitment of the contract grower,
- (d) Well conceived marketing programmes, and
- (e) Financial resources.

4. DORMANT CAPACITY OF DIMBULAGALA MULTI-PURPOSE CO-OPERATIVE SOCIETY

The DMPCS can develop a viable Certified Seed Paddy enterprise for the betterment of the seed paddy growers, if existing resources can be mobilized using sound business practices.

4.1 TRAINED FARMER CLIENTELE

The DMPCS has the experience in Certified Seed Paddy production gained by working with a well trained group of 50-100 farmers since 1984. Some of the members are no longer with the DMPCS programmes but could be brought back into it.

4.2 CO-OPERATIVE BRANCHES (PRADESHIKAYA)

The DMPCS has 45 village-level branches (Pradeshikaya) linked to its head office. All of the branches trade in consumer items, such as food and clothing. Thirty-six (36) of them trade in paddy. Seven (7) have been directly involved in Certified Seed Paddy production.

The Pradeshikaya must play a vital role in the Certified Seed Paddy production programme. The infrastructural facilities in the Pradeshikaya and their linkage with the farmer community place them in a favourable position to deliver inputs such as Registered Seed Paddy, fertilizer, implements and agro-chemicals to growers. Furthermore, the role of the Pradeshikaya will be critical in purchasing Certified Seed from growers. Each branch also has facilities for the storage of consumption paddy which can be modified for the storage of Certified Seed Paddy.

4.3 RURAL BANKING FACILITIES

Paddy farmers in Polonnaruwa currently obtain loans from the DMPCS Rural Bank located at Manampitiya and its branches at Aralaganwila and Divulgama. The network of rural banks can be used for dispensing and recovering loans and making payments for purchases of Certified Seed Paddy.

4.4 DRYING, STORAGE, AND SALES FACILITIES

The DMPCS owns a large paddy store, a drying floor and can therefore handle large quantities of paddy. At the moment these facilities are used in connection with its trading in consumption paddy. Part of this store may need to be modified for seed paddy storage. The drying floor can be used for sun drying seed paddy and a building for housing a seed processing plant could be constructed in the space available between the store and the drying floor.

4.5 EXPERIENCE IN PADDY PRODUCTION AND SALES

The Certified Seed Paddy production programme is managed by the General Manager and Credit Manager of the DMPCS, both of whom are knowledgeable in handling contract seed paddy production. The President of the DMPCS has, himself, been a contract seed paddy grower. The DMPCS already has experience in working with the Seed Development Unit and the SCS of the DOA. In addition it is a distributor of agro-chemicals, fertilizer and implements and is linked with other Multi-Purpose Co-operative Societies through the co-operative movement. The end result will be the linking of the DMPCS with the island-wide distribution network of village-level co-operative branches which can facilitate sales.

4.6 TRANSPORT FACILITIES

The existing transport fleet of 4 lorries and 1 tractor of the DMPCS could be used for the transport of seed within and outside the district.

5. PROPOSED ENTERPRISE

It is proposed to form a separate unit to handle the seed paddy enterprise within the management of the DMPCS. This seed enterprise will be directly under the General Manager and managed by a Seed Enterprise Manager assisted by adequate staff. A separate set of accounts will be maintained for the enterprise to evaluate performance, take timely decisions and for financial transactions with banks.

5.1 LEGAL IDENTITY

The DMPCS is empowered to handle agribusiness under "commodity groups" of its by-laws⁴ of the DMPCS. The proposed seed enterprise will be governed under the by-laws of the Dimbulagala Multi-Purpose Co-operative Society approved by the Deputy Commissioner of Co-operatives, Polonnaruwa on December 2nd 1986. Provision will be made to represent the seed paddy growers on the Board of Directors of the branches and also on the general body of the Dimbulagala Co-operative Society. The By-laws of the DMPCS will need to be amended and the amendments approved by the general body and the Commissioner of Co-operatives for North Central Province.

The by-laws of the Dimbulagala Co-operative Society under 41(2) with the proposed amendment⁵ 41 (a) will be sufficient to provide legal recognition for the proposed seed enterprise. The proposed amendments are as follows:

- a) Provisions for membership eligibility,
- b) Formation of commodity groups,
- c) Election of group leader,
- d) Group meetings,
- e) Voting rights,

⁴ By-laws of the Dimbulagala Co-op is in Annex 2.

⁵ Amended by-laws are in annex 3.

- f) Credit facilities,
- g) Transfer of technology,
- h) Production and marketing of seed,
- i) Unsold stocks,
- j) Payments for produce,
- k) Maintenance of accounts,
- l) Dividends.

5.2 NAME OF THE CO-OPERATIVE ENTERPRISE

The seed production unit will be identified as ROYAL SEEDS of the Dimbulagala Multi-Purpose Co-operative Society Ltd.

5.3 PURPOSE

The purpose of the ROYAL SEEDS is to organize member farmers for the purpose of producing, processing and marketing high quality Certified Seed Paddy. The enterprise will provide contract farmers with a complete package of inputs and services consisting of credit for input purchases and working capital, as well as the technical know-how of cultivation, pre-and-post harvest operations, processing, and management of seed quality. The supply of registered seed paddy to growers, transfer of technology, processing, and marketing of Certified Seed Paddy will be the responsibility of the DMPCS.

The main purpose of the enterprise is to resuscitate the Dimbulagala Certified Seed Paddy production programme and motivate members growers through the supply of high quality Certified Seed Paddy in the market place.

5.4 SCOPE

ROYAL SEEDS will carry on the business of production, processing, and marketing of quality seed within and outside the Polonnaruwa District. The authority of the enterprise will be extended to initiate, promote, develop and carry out scientific and economic research in

connection with crop varieties. The enterprise can also engage in production, processing, quality control, distribution, sales, and use of seeds for the purpose of economic benefits to the members.

5.5 MEMBERSHIP

Membership in ROYAL SEEDS will be limited to bona fide farmers registered as Certified Seed Paddy producers of the DMPCS. Every member of the DMPCS, resident in Polonnaruwa District, except committee members nominated by the Commissioner of Co-operatives to serve as a director of the board, can be a seed producer. He/she should not be a member of any other society with similar objectives. The membership shall be terminated by death or by resignation or by expulsion in accordance with by-laws (see Annex 2.). In the case of resignation, a member should furnish one-month advance notice in writing of such intention. The number of members can be limited to ensure the economic viability of the enterprise.

5.6 THE DIRECTOR BOARD (COMMITTEE OF MANAGEMENT)

There will be a Board of Directors (committee of management). Members of the enterprise are eligible to be appointed as members of the Board of Directors (committee of management) under the proposed amendment 41-A-1-f. The members of the committee of management may be elected, suspended, or removed in accordance with Section V of the By-laws of the DMPCS⁶.

5.7 CAPITAL FORMATION

The DMPCS will provide the initial capital and facilities for the operation of ROYAL SEEDS.

⁶ See annexes the by-laws of the Dimbulagala Co-operative Society and the amendments.

Member-growers are largely responsible for financing the enterprise. A major portion of all capital will come from members rather than outside investors. Capital can be obtained by way of membership fees, direct contributions, sale of stock, or by grower members agreeing in writing to the retention of a portion of net income or through assessment on services obtained from the society.

ROYAL SEEDS may, like any other business organization, use borrowed capital. Thus the seed enterprise will use the above sources of capital formation to finance its operations. The membership fee will be Rupees 100 and the stocks are valued at Rs.100.00 each.

5.8 PLACE OF BUSINESS

The head office of ROYAL SEEDS will be located at the Dimbulagala Multi-Purpose Co-operative Society Ltd., Manampitiya. Its business address will be ROYAL SEEDS, Manampitiya, Polonnaruwa. All documents (legal, financial and others) concerning the operation of the enterprise will be maintained in this office.

5.9 MANAGEMENT

ROYAL SEEDS will employ a Manager who will be responsible for the operation, administration and financial control of the enterprise. He will operate on an annual plan approved by the General Manager, DMPCS and will also take investment decisions in consultation with the latter. The Manager will, however, have autonomy over production, processing and marketing decisions.

The Manager of ROYAL SEEDS will be assisted by the following staff:

- (i) Two Fieldsmen experienced in the production of seed paddy. The operation will commence with one Fieldsmen and the other will be recruited when the expanded field activities demand it.

- (ii) One Account Assistant whose responsibilities will be primarily maintaining the accounts and assisting the Manager in the financial management of the enterprise.
- (iii) One Secretary to assist the Manager in office work.
- (iv) One Machine Operator and one Watcher to the processing plant and stores, and
- (v) Adequate casual labor as and when they are required.

6. ROLE OF THE SEED ENTERPRISE

6.1 FIELD OPERATIONS

6.1.1 Contract Farmer Selection

The Manager of ROYAL SEEDS will be responsible for the selection of contract growers in consultation with the Assistant Director of Agriculture/S&PM of the DOA.

6.1.2 Preparation of Cultivation Plan

Once the list of growers enrolled in the programme has been finalized, the Manager will convene a meeting of growers, officers of the AD/S&PM, SCS, Irrigation Department or Mahaweli Authority, Manager Rural Bank and managers of the branches of the Dimbulagala Co-operative Society. The purpose of the meeting is to prepare a comprehensive plan of field operations to achieve the overall sales targets set by ROYAL SEEDS. The agenda of the meeting should pivot around : a) variety, b) extent, c) dates of cultivation, e) credit (amount, interest, recovery dates), f) inputs, g) issues of water, h) farmer training, i) dates of field inspection, j) harvesting, k) drying, l) initial payments (grain) and final payments (seeds).

The Manager will be responsible for implementing the plan of operation once it has been approved by the general body and the Committee of Management.

6.2 IMPLEMENTATION OF FIELD PROGRAMME

6.2.1 Farmer Training

The purpose of farmer training is to ensure that seed paddy growers are familiar with the techniques of producing high quality seed. During the training farmers should be informed among other things, that the proposed cultivation practices and the methods to be used in processing are to ensure genetic purity and high standards of seed quality.

The training of contract growers should be arranged with the assistance of the SCS and should be conducted well in advance of the cultivation season. Emphasis should be given to the crop management, pre-cleaning and drying aspects. The enterprise will issue a hand bill prepared with the assistance of the DOA giving the steps to be followed in the production of high quality Certified Seed Paddy. The training programme should be conducted in a school building or any other location convenient to farmers.

6.2.2 Purchases and Issues of Registered Seed

The Manager should purchase the required quantity of Registered Seed Paddy from the DOA, store it if necessary, and deliver it to the branches before sowing. The branch managers should be told to issue Registered Seed Paddy only to member farmers enrolled in the programme. At the time of issue, farmers should be reminded to retain the labels of seeds used for production to the Seed Certification Service as proof of origin.

6.2.3 Credit and Cash Advances to Farmers

Immediately after farmers have been enrolled in the production programme, the Manager and his staff should prepare all the documents required by the rural banks related to the issue of credit, i.e. cash advances to meet the working capital and the purchase of inputs. The

nearest rural bank branch should be ready for the timely issue of cash advances and invoices for the delivery of inputs to the branches. The issues should be made on the recommendation of the field representative, or the Manager himself. The banks should make arrangement to send copies of the invoices or issue orders to the appropriate co-operative branch manager in advance.

6.2.4 Input Issues

The Manager should purchase and store the total quantity of recommended fertilizers and agro-chemicals required for the programmes in advance. These inputs should be distributed to the branches for delivery to farmer members on request. The Manager is responsible for providing a copy of the list of member farmers to the branch managers prior to commencement of the cultivation season. The forms should be filled and ready with the branch managers with a stamp affixed so that all that is required is to obtain the signature of the farmer at the time that inputs are issued. The manager should personally inspect the issues at several branches to ensure that farmers are served on time.

6.2.5 Separation of Different Paddy Varieties

Farmers enrolled in the programmes should be told that they should maintain a clear barrier of at least one meter between fields in order to prevent possible physical mixing of varieties during harvesting and any other operation.

6.2.6 Registration of Fields

The Manager should distribute the applications for field inspection to the growers and send the applications duly filled in by member farmers to the Seed Certification Inspector. These forms are available with the Agricultural Instructor, Seed Certification, Polonnaruwa.

6.2.7 Field Supervision for Quality Seed Production

The Manager is responsible for arranging inspection of farmers' fields to ensure that the crop

is free of disease, pest infestation, weeds and mixture with other varieties. The inspecting officer should together with the grower make at least two field inspections at appropriate stages of the growth of the crop. These inspections are to be arranged through the AD/S&PM, TTD and SCS of the DOA.

6.2.8 Harvesting

The moisture content of paddy at physiological maturity is around 30-33% paddy. Harvesting maturity is the time that the crop is dry enough to be cut and dried for threshing and bagging. The period between physiological maturity and harvesting maturity is critical because high humidity, temperature, and rainfall could reduce seed quality.

Special attention should therefore be given to fields that are ready for harvesting. And if climatic conditions are not favourable farmers should be instructed to harvest the seed crop at its highest manageable moisture content (around 22%) and rapidly reduce the moisture content to a safe level for storage.

It is also important to ensure that the seed from one field is not mixed with that from other fields. The threshing floor and/or threshing machines should be thoroughly cleaned before commencing threshing. If possible, a different threshing floor should be used if different varieties are threshed. An efficient mode of threshing will assure less damage to seeds. Clean bags should be used at all stages of handling.

6.2.9 Seed Drying

Seed drying is important and needs training and the use of the right equipment to preserve the viability and quality of seed. Seed Paddy is very impermeable to moisture movement and must be dried slowly. Proper instructions should be given to the contract grower if drying is performed by him.

Natural air drying is possible on a sunny day if the relative humidity is 60% percent or less. Sufficient periods of sunlight are required for this purpose. If sun drying is practised, all

precautions should be taken to avoid exposure of the seed to wetting by possible occasional showers which could use in deterioration of seed quality. Seed paddy should be dried to a moisture content about 13 percent (13%).

6.2.10 Holding for Collection

The seed harvested from an approved field should be placed in a clean store. Seed lots should be clearly marked to avoid mixing with other seed lots. The identity of different seed lots should be carefully maintained if seed is transported for processing. Doubtful identity will cause rejection by SCS. Seed stores should be well ventilated, have acceptable dunnage, a non-leaking roof, be free of pests, etc.

6.3 PROCESSING

Paddy received at the seed cleaning plant is generally mixed with varying amounts of impurities such as dust, chaff, straw, soil, stones, weed seeds, broken seeds, empty seeds, insect damaged seeds, leaf particles, dead insects, mouse dropping etc. Seed must, therefore, be dried, cleaned and graded to be ready for the market or for storage. Sometimes it may be treated with chemicals as well. This mechanism is known as seed processing.

6.3.1 Drying at the Processing Plant

Seed received from the field may sometimes contain a high moisture content. Such seed lots should be kept separately and dried quickly. Drying can be done by different methods: batch drying, column drying, or floor drying. In all these methods of drying, warm air is forced through the seed for about 5 to 8 hours to reduce the moisture content to a level of about 12 to 13 percent. ROYAL SEEDS should invest in a dryer and pay farmers a price adjusted for moisture content when purchasing seed paddy with a high moisture content. The investment and the running cost is justified by the improved storability and better quality of such seed.

6.3.2 Pre-Cleaning

Equipment, machines, and floors should be thoroughly cleaned before processing operations begin. Seed lots received from the field with excessive quantities of straw and other foreign matter must be pre-cleaned to avoid clogging of the seed cleaning equipment. A seed pre-cleaner is used for this purpose and consists of passing the seed through an air stream which removes the larger particles of straw, clots, sand and dust. Pre-cleaning will be easier, and possibly not required at all, if improved methods of harvesting and threshing are practised by farmers.

6.3.3 Seed Cleaning

The pre-cleaned seed is then passed through a seed cleaning machine. This consists essentially of moving the seed over a series of vibrating sieves when a large fraction of foreign matter such as sand, stones, dirt, chaff etc is removed. The seed is thereafter passed through an airstream and finally allowed to fall through a revolving cylinder devised to complete the isolation of the good seed from any residual foreign matter and deliver it into bags.

6.3.4 Bagging

The bagging units measure and deliver a pre determined quantity of seed into gunnies or polyethylene bags. Each bag should contain a uniform quantity of seed (normally 2 bushels or 42 kg).

6.4 QUALITY CONTROL

6.4.1 Sampling, Labelling and Sealing

Immediately after the weighing is complete the manager should inform the SCS that the seed lots are ready for sampling. If a seed lot passes the visual inspection a label will be placed

inside as well as outside the bag. A notice will also be fixed to the seed lot stating "do not release seeds until B test result is known". Thereafter a sample (known as a B sample) will be drawn for laboratory tests and the seed lot affixed with a sealed rope.

6.4.2 Rejection at the Time of Inspection

SCS will not take a B sample for laboratory testing if a seed lot submitted for inspection; a) is not homogenous, 2) has a high moisture content, 3) contains a high percentage of admixtures, 4) is poor in appearance or 5) is not properly identified. If moisture content is the only problem the grower will be advised to further dry the lot. The Manager of the seed enterprise should visit farms and inspect seed lots to avoid the above situations. The excess moisture problem can be avoided by the field operator using a pocket moisture tester. Adequate internal quality control could avoid the above situations.

6.4.3 Laboratory Tests

The samples taken will be tested at the Seed Testing Laboratory, Maha Illuppallama. Inclusive of postal delays the laboratory report will take approximately 3 to 4 weeks. Until then the Co-operative Society cannot sell the seed. Once laboratory tests are completed seed lots that pass the test will be sealed by officers of the regional SCS.

6.4.4 Seed that does not Meet Standards

Seed that does not meet the standard required for seed certification should be disposed of as consumption paddy and not stored together with seed paddy. Growers are not entitled to the premium payment for seed lots that do not pass the laboratory test.

6.5 DISTRIBUTION AND MARKETING

6.5.1 Bagging, Issues of Tested Seed Paddy

The seed lots that are tested and approved should be repacked in quantities preferred by the

regions, generally one or two bushel bags. Initially a small quantity of 1/2 bushel bags may also be prepared to cater to smaller farmers. The final sealing and labelling described earlier could be performed at this stage with the assistance of the Inspectors of the regional SCS.

6.5.2 Storage of Seed Paddy

Certified Seed Paddy must be stored under suitable conditions to avoid quality deterioration.

6.5.3 Distribution to Point of Sale

The Certified Seed Paddy, bagged and labelled, should be delivered by rail or DMPCS lorries to the various destinations from which requests have been received. If transported by lorries use must be made of the dates when DMPCS lorries go empty to purchase consumer items from Colombo or other destinations. Local deliveries could be done through the co-operative branches.

6.5.4 Pricing

Customers will be willing to pay a premium price for seed of high quality and a realistic pricing of Certified Seed Paddy is important. The DOA currently sells Certified Seed at Rs.12.50 per kg. This is inadequate to cover costs. The cost plus a fair margin is the one formula. In order to provide an attractive surplus to the co-operatives the price should be set at Rs.14.60 per kg of Certified Seed Paddy. However, the seed quality, value and demand will ultimately determine the price. Further, it is well below the value of high quality seed.

6.5.5 Sales Commission

When seed paddy is sold through the DMPCS branches, a sales promotion incentive may be paid to the Manager. In the case of wholesale disposal to other districts, a 10 to 20 per cent margin is suggested.

6.5.6 Sales Promotion

A sales promotion programme should be undertaken to establish a recognized name for the DMPCS Certified Seed Paddy within and outside the district. The promotion programme should include demonstration of both the field and processing operations. The buyers/consumers should be given a field demonstration before harvesting to acquaint them at first hand on how quality seed is produced and also show them the steps in processing seed in order to emphasize the effort necessary to ensure quality. The packing material used (with a unique label i.e. "ROYAL SEED") and the certification tag attached are themselves promotional modes. In the final analysis the response of the users will be the best advertisement for the seed enterprise.

6.5.7 Follow up with Users

Close contact should be maintained with buyers and through them the users in order to monitor field performance and understand growers reactions. If any seed fails, the entire lot should be replaced and timely damages (if any) paid after proper inquiry. These inquiries should be made by the Manager himself as soon as a complaint is received. An authenticated sample should be taken from each of the seed lots at the time of issue. These samples should be kept by the Manager for reference against claims that may be made regarding the quality of the Certified Seed.

6.6 PAYMENTS TO CONTRACT FARMERS

Growers should be paid the prevailing market price of consumption paddy soon after samples are drawn and the bags sealed by the SCS. The price difference between consumption paddy and Certified Seed Paddy should be paid to the grower on receipt of the laboratory report, known as the B report. This report, which gives the standards and quality of the seed tested, should be shown and explained to farmer to avoid any mis-understanding. Rural banks or Co-operative branches could be made use of for recovering outstanding loans and making payments for purchases of Certified Seed Paddy.

7. PRODUCTION STRATEGY OF ROYAL SEEDS

7.1 PERIOD OF OPERATION

ROYAL SEEDS will commence operations in the 1992-1993 Maha season. The production programme will cover a period of 9 years from 1993 to 2001 (see Table 1).

7.2 SALES TARGETS

The sales target is fixed at 200 metric tonnes for the year 1993. Sales are projected to increase by 50 metric tonnes per year until production reaches 500 metric tonnes in 1999.

TABLE 1. PROPOSED PROGRAMME

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Target Sales of Seed (mt)	200	250	300	350	400	450	500	500	500
Area Harvested Annually (ha)	80	100	118	137	157	176	190	190	190
Farmers participating each Season	58	72	84	98	105	118	119	119	119
Area Harvested/Area Planted	69%	69%	70%	70%	75%	75%	80%	80%	80%
Seed Purchased/Hectare Harvested(kg)	3,333	3,333	3,400	3,400	3,400	3,400	3,500	3,500	3,500

7.3 CONTRACT GROWER PROGRAMME

ROYAL SEEDS contract growing programme is designed to attain the sales targets after taking into account the several foreseeable eventualities such as drop outs from the programme, sales of paddy to outsiders, failure of some lots to meet the required quality standards etc.

The programmes will start in the Maha 1992/93 season with 58 contract growers each cultivating 1 hectare for seed production. It is anticipated that this number will increase progressively and reach 119 per season in 1999 and remain constant thereafter till year 2001.

7.4 AREA PLANTED AND HARVESTED

The total area planted will not be harvested for seed purposes for various reasons such as farmers dropping out of the programme, adverse weather conditions, unacceptable quality, etc. Thus it is anticipated that in the first two years the area harvested will be 69 percent of the extent planted. This ratio will gradually improve to about 80 per cent in 1999 and remain at that level thereafter. This means that in the first two years the area harvested will be 80 against 116 hectares planted. Similarly the area harvested in 1991 and beyond will be 190 against 238 hectares planted.

7.5 EFFICIENCY OF SEED PRODUCTION

Initially the quantity of seed purchased from a grower is expected to be 3.3 metric tonnes. This amount will increase to 3.4 metric tonnes in 1995 and remain at that level until 1998. There will be a further increase to 3.5 from 1999 until year 2001 (See Table 1.).

8. OPERATIONAL MECHANISM

The operation of the seed enterprise which is recapitulated in Figure 1. is designed to give a realistic estimate of the programme.

8.1 FARMERS ENROLED FOR SEED PADDY PRODUCTION

It is anticipated that all farmers registered as contract seed growers will not continue throughout the programme. Drop outs are expected at all stages of the project. Not all the remaining growers will produce good quality seed. Three groups of growers can, therefore, be expected in the contract farming programme. They are (1) growers who produce good quality seed, (2) those who produce poor quality seed and (3) voluntary drop outs.

The total quantity of seed produced by the first group will, if available, be purchased for processing as Certified Seed. These growers will initially be paid the prevailing market price of consumption paddy and a premium payment made on the basis of seed test reports. Farmers supplying seed lots of poor quality will not receive the premium. The drop outs will dispose of their produce as they wish.

8.2 SEED PROCESSING PLANT

The seed purchased from farmers will generally need further drying, cleaning, grading and testing to qualify as good quality seed. These functions are performed at the seed processing plant. The loss on processing due to impurities, brokens, insect damage or immature seed is expected to be in the region of 20 per cent.

8.2.1 Good Quality Seeds

About 80 per cent of the paddy purchased from farmers should therefore, meet the standards that ROYAL SEEDS requires for the "Certified Seed Paddy" it proposes to sell. Though 80 percent of the farmers produce should qualify as good quality seed, it is anticipated that only 75 per cent will be sold. The balance 5 percent will be disposed of as consumption paddy.

8.2.2 Discards, Weight Losses and Rejects

Of the 20 percent not accepted as good quality seed, 10 per cent will be discards and weight losses. This quantity is regarded as having no value for the enterprise and is not considered in the income analysis.

The balance 10 per cent is treated as rejects because it failed to meet the standard of Certified Seed but has value as grain. Thus this 10 percent will be added to the consumption paddy sales.

In summary, of the total quantity purchased, 75 per cent will be sold as Certified Seed and 15 per cent sold as grain. The quantity lost as discards and weight loss will be 10 percent.

9. IMPLEMENTATION PROGRAMME OF ROYAL SEEDS

9.1 FIRST YEAR OPERATION

The implementation programme for the first year (1993) (Table 1.) is defined in order to provide a picture of the total implementation programme (Table 2.) of the enterprise. The annual implementation programme is simply the summation of the Maha & Yala seasons for the year. In areas where adequate irrigation water is available, it is expected that the cultivation programme for the two seasons will be similar.

9.1.1 Sales Targets

Anticipated sales in the first year (1993) is 200 metric tonnes of Certified Paddy Seed. The target per season is 100 metric tonnes. The quantity produced for sale however will be 107 mt for a season and 214 mt per year.

9.1.2 Grain Sales

Since sales of Certified Seed Paddy is estimated at 200 mt, the balance 13 mt will be sold as consumption paddy. In addition the 27 mt rejected during processing (paddy that did not qualify as Certified Seed) will also be available for sale as consumption paddy. Altogether 40 mt of paddy will be available for sale as grain.

9.1.3 Primary Product Purchase

The enterprise will purchase 266 mt of paddy as raw material and produce 213 mt of Certified Seed Paddy in the first year. The purchases per season will be 134 mt.

Table 2. FIRST YEAR STRATEGY

	Annual	Per Season
Target Sales (mt)	200	100
Seed Produced (mt)	214	107
Grain Sales-rejects (mt)	40	20
Primary Product Purchased (mt)	266	133
Extent Harvested	80	40
Extent Planted	116	58
Number of Contract Farmers	116	58

9.1.4 The Extent Planted and Harvested

In order to purchase 267 mt of the primary product, it is necessary to harvest 80 ha of paddy. To harvest 80 ha for seed an extent of 116 hectares should be cultivated with registered seed paddy. The balance area may not qualify for seed production due to the several reasons outlined at 6.4 of this report.

9.1.5 Contract Growers

Farmers who enrol in the Certified Seed Paddy production programme will cultivate one hectare of irrigated paddy land. The extent cultivated and the number of growers will therefore, be identical. The programme will start with 58 farmers (see Annex 5.) in the 1993 Maha season and 116 farmers will participate in the programme for the year (two seasons).

9.2 OVERALL PROGRAMME

The sequence outlined above is followed in the overall annual operational plan at Table 3., where the seasonal targets have been aggregated and given as the annual operational plan. The operational plan covers the period starting form 1993 to year 2001. Sales will

commence with 200 mt in 1993 and increase to 500 metric tonnes in 1998. Sales beyond 1998 will be maintained at 500 metric tonnes.

TABLE 3. OPERATIONAL PLAN FOR THE SEED ENTERPRISE

(Implementation Programme for the First Year)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
SEED SALES	200	250	300	350	400	450	500	500	500
GRAIN SALES	40	50	60	70	80	90	100	100	100
PRIMARY PRODUCT PURCHASED	267	333	400	467	533	600	667	667	667
AREA HARVESTED	80	100	118	137	157	176	190	190	190
AREA PLANTED	116	144	168	196	210	236	238	238	238
FARMERS PER SEASON	58	72	84	98	105	118	119	119	119

10. INVESTMENTS

The operational plan recapitulated above requires substantial investments in the initial year. The major area of investment is the seed processing equipment and stores. In addition a substantial amount of working capital is required to purchase the primary product for the first seven years. The details of the major components of the investment plan is described below (see Table 4).

TABLE 4. INVESTMENTS

		1993	1994	1995	1996	1997	1998	1999	2000	2001
TOTAL	Rs	3,114,984	332,367	343,280	332,297	439,701	352,157	341,756	0	0
SEED TESTING MINI KIT	Rs	25,000	0	0	0	0	0	0	0	0
MOTORCYCLE	Rs	55,000	0	0	0	60,000	0	0	0	0
STORES & CLEANER ROOM	Rs	700,000	0	0	0	0	0	0	0	0
Dryer	Rs	150,000	0	0	0	0	0	0	0	0
SEED CLEANER	Rs	600,000	0	0	0	0	0	0	0	0
BAG FASTENER	Rs	12,000	0	0	0	0	0	0	0	0
WOODEN STACKS	Rs	60,000	0	0	0	0	20,000	0	0	0
ADDITIONAL WORKING CAPITAL	Rs	1,512,984	332,367	343,280	332,297	319,701	332,157	341,756	0	0

10.1 SEED TESTING MINI KIT

The seed enterprise requires a Seed Testing Mini Kit to enable the manager to determine the quality of seed that is purchased and processed.

10.2 SEED CLEANER

The revenue earned by the enterprise will depend on the quality of seeds produced and marketed. Quality seed requires not only a good field programme but post harvesting cleaning and grading as well. The enterprise therefore requires a seed cleaner. The specifications of the Seed Cleaner is given in Annex 4.

10.3 STORES AND SEED PROCESSING ROOM

The processed seed will be stored until the total stocks are sold. Proper storage facility will preserve quality. Thus a separate building is required to house the seed cleaner and for storage. Wooden slats (dunnage) are required to keep the seed bags on.

10.4 DRYER

The popular practice in Polonnaruwa is sun drying. Purchase of a dryer for the seed enterprise is recommended, however, not only to assure quality, but also to prevent the enterprise losing money due to the eventuality of losing seed due to wet conditions.

10.5 MOTOR CYCLE (2 NOS)

Mobility of the fieldsman is essential for the success of the field programme. Initially the enterprise will have one fieldsman and he must be provided with a Motor Cycle. The second fieldsman will be recruited in the fifth year to manage the increased production programme.

10.6 BAG FASTENER

A mechanical device is suggested for fastening seed bags for the market or storage. Uniformity, strength and quality maintenance are basic characteristic of bag affixing. Consumer confidence of the product is assured by these qualities.

10.7 ADDITIONAL WORKING CAPITAL REQUIREMENT

The cost of seasonal paddy purchases and operational costs are included in the requirement of additional working capital. The additional working capital required in the first year is assessed at Rs.1,512,984. This amount will be reduced to Rs.3,32,367 in the following year and continue in that range until 1999. Thereafter the seed enterprise does not require injection of additional working capital.

11. OPERATIONAL EXPENDITURE

The main components of operational expenditure are salaries, social benefits, staff transport allowances,(see section 4.9) transport, seed certification and processing costs, and service charges. Operational costs will increase as the volume of production increases. Expenditure in the first year amounts to Rs.8,67,001 with sales amounting to 200 mt. The volume of sales will increase to 500 metric tonnes and the operational expenditure will rise to Rs.1,662,843 in year 2001. The break-down of the operational expenditure is given in Table 5.

11.1 SALARIES WAGES AND SOCIAL BENEFITS

The total amount assigned for salaries, wages and social benefits is around Rs.3,32,500 in the first year. This includes the salaries of the manager, fieldsman, secretary, accounts assistant, machine operator, watcher and casual labor. Salaries will be raised progressively as the work-load increases to match the volume of seed produced and marketed.

11.2 FIELD OPERATION

The cost of farmer training, seed certification, field inspection and transport will increase as the extent under crop expands. The area cultivated will increase from 116 ha in the first year to 238 ha in the year 1999 and thereafter.

TABLE 5. OPERATIONAL EXPENDITURE

		1993	1994	1995	1996	1997	1998	1999	2000	2001
OPERATIONAL COST	(subtotal)	Rs 867,001	984,871	1,131,169	1,248,945	1,398,738	1,522,327	1,659,093	1,662,843	1,662,843
	ENTERPRISE MANAGER	Rs 60,000	60,000	66,000	66,000	72,000	72,000	78,000	78,000	78,000
	FIELDMEN	Rs 48,000	48,000	52,800	52,800	57,600	57,600	62,400	62,400	62,400
	ACCOUNTING ASSISTANT	Rs 46,800	46,800	51,480	51,480	56,160	56,160	60,840	60,840	60,840
	SECRETARIAL ASSISTANCE	Rs 36,000	36,000	39,000	39,000	39,000	40,800	40,800	40,800	40,800
	MACHINE OPERATOR/SEED CLEANER	Rs 30,000	30,000	33,000	33,000	33,000	36,000	36,000	39,000	39,000
	WATCHER	Rs 24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000
	SOCIAL BENEFITS	Rs 21,600	21,600	23,760	23,760	25,920	25,920	28,080	28,080	28,080
	PER DIEMS	Rs 61,200	61,200	66,570	66,570	70,440	71,640	75,510	76,260	76,260
	CASUAL LABOUR	Rs 4,000	5,000	6,000	7,000	8,000	9,000	10,000	10,000	10,000
	MOTORCYCLE OPERATION	Rs 12,000	12,000	12,000	12,000	24,000	24,000	24,000	24,000	24,000
	FARMER TRAINING	Rs 11,600	14,494	16,807	19,608	20,915	23,529	23,810	23,810	23,810
	SEED CERTIFICATION FEES	Rs 46,400	46,400	46,400	46,400	46,400	46,400	46,400	46,400	46,400
	PROCESSING COST	Rs 51,000	63,750	76,500	89,250	102,000	114,750	127,500	127,500	127,500
	FUMIGATION OF STORES	Rs 2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
	TRANSPORT COST	Rs 53,068	66,335	79,602	92,869	106,136	119,403	132,670	132,670	132,670
	ELECTRICITY	Rs 6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
	POST AND TELECOM CHARGES	Rs 1,000	1,250	1,500	1,750	2,000	2,250	2,500	2,500	2,500
	BANK CHARGES	Rs 1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
	INCIDENTAL EXPENDITURE	Rs 10,000	12,500	15,000	17,500	20,000	22,500	25,000	25,000	25,000
	BAGS	Rs 70,833	88,542	106,250	123,958	141,667	159,375	177,083	177,033	177,083
	SALES CHARGES	Rs 270,000	337,500	405,000	472,500	540,000	607,500	675,000	675,000	675,000
	TAXES	Rs 32,000	40,000	48,000	56,000	64,000	72,000	80,000	80,000	80,000

11.3 PROCESSING AND SERVICES

The processing, fumigation, bagging material costs, service charges and incidental expenses are included in this category. This expenditure will increase as the quantity of primary product purchased increases.

11.4 SALES COMMISSION

Seed dealers will be paid 10 per cent of the value of total sales as a sales commission. On this basis the sales commission of Rs. 2,90,000 will increase to Rs 7,25,000 in year 1999 and beyond. If all sales are handled through the existing network of branches the amount apportioned as sales commission will be revenue to the DMPCS.

12. CREDIT OPERATION

A credit package of Rs.10,000 per season will be given to a contract seed paddy grower. Loan repayment is estimated as 89.6 per cent. The credit package will be administered through the Rural Bank branches of the DMPCS. The summary of the credit operation is given in Table 6. The programme will be administered so that the DMPCS does not incur any losses.

13. FARMER RECEIPTS

Farmers registered as contract seed paddy growers will receive tangible as well as intangible benefits by participating in the programme. The details of farmers receipts per season are given in the Table 7.

TABLE 6. CREDIT OPERATION

		1993	1994	1995	1996	1997	1998	1999	2000	2001
ADVANCES TO FARMERS	Rs	522,000	652,239	756,303	882,353	941,176	1,058,824	1,071,429	1,071,429	1,071,429
NUMBER OF FARMERS		52	65	76	88	94	106	107	107	107
CASH ADVANCES PER FARMER PER SEASON	Rs	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
REIMBURSEMENT OF ADVANCES	Rs	516,730	645,717	748,739	873,529	931,765	1,048,235	1,060,714	1,060,714	1,060,714
INTEREST ON ADVANCES	Rs	41,342	51,657	59,899	69,882	74,541	83,859	84,857	84,857	84,857
RECEIPT FROM CREDIT OPERATION	Rs	558,122	697,374	808,639	943,412	1,006,306	1,132,094	1,145,571	1,145,571	1,145,571

TABLE 7. FARMER RECEIPTS (PER HECTARE/PER SEASON)

MONTH 1-3	
Seed, Fertilizers, Agro-Chemicals & Cash Advances	Rs. 10,000
Seed Certification Fees @ Rs.400	Rs. 1,000
Free Technical Advise & Field Supervision	
MONTH 4	
Payment for Primary Product (4300kg @ Rs. 7.00)	
Less Advance Payments	Rs. 19,834
MONTH 4	
Premium for Quality Seeds (Rs 1.40*75% of Primary Product)	Rs. 4,515
Income Received from Seed Enterprise	Rs. 35,349
Additional 800kg Paddy Saved for Consumption	Rs. 5,600
Total Receipts	Rs. 40,949

13.1 INPUT AND CASH ADVANCES

The tangible benefits will consist of an advance of Rs.10,000 per hectare to meet the initial costs of operation of the seed paddy production programme. This will include the cost of Registered Seed Paddy, recommended fertilizers & agro-chemicals and cash to meet part of the cost of operation. The advance will be recovered at the time payments are made for primary products and will include a nominal interest charge.

13.2 TECHNICAL TRAINING

These farmers will also be given a training on the techniques of seed paddy production. The training will be conducted prior to the commencement of the cultivation season. Field inspection and on the spot technical advice will be provided free of charge to farmers until their produce reaches the seed processing plant.

13.3 SEED CERTIFICATION FEES

ROYAL SEEDS will pay Rs.1,000 as a seed certification fee for each hectare of seed paddy cultivated. This amount will have to be paid by the farmer if he wishes to sell his seed paddy under the DOA Certified Seed Paddy label.

13.4 PAYMENT FOR PRIMARY PRODUCT

ROYAL SEEDS will pay the contract grower Rs.7 per kilogram for the total quantity of the seed sold to the enterprise. The advance of Rs. 10,000 received by him will be deducted from this payment.

13.5 PREMIUM FOR QUALITY SEED

An additional payment of Rs.1.40 per Kg will be made to the farmer once his seed passes the laboratory test. The amount to be paid has been calculated on the basis of 75 per cent of the total quantity purchased as seeds.

13.6 VALUE OF PADDY RETAINED FOR CONSUMPTION

It is estimated that farmers will retain at least 800 kgs of paddy for consumption. This quantity is valued at the grain price.

13.7 TOTAL RECEIPTS

As a participant of the Certified Seed Paddy Production Programme of ROYAL SEEDS, the farmer who cultivates one hectare will receive Rs.40,949.00 in cash. This compares with one hectare for a farmer producing consumption paddy.

14. CASH FLOW PROJECTIONS

The cash flow projections of ROYAL SEEDS for 9 years from 1993 to 2001 are given in Table 8.

14.1 CASH INFLOW

The revenue earned by the enterprise from the sale of seed paddy and grain (consumption paddy) is treated as cash inflow, i.e Rs.3,200,000 and Rs.8,000,000 in 1993 and 2001. The total sales indicate the revenue earned from both operations.

14.2 CASH OUTFLOW

Purchase of the primary product, operational cost and taxes are the major components of the cash outflow of the enterprise.

TABLE 8. CASH FLOW PROJECTIONS AND FINANCIAL ANALYSIS OF THE PROPOSED SEED ENTERPRISE ATTACHED TO DIMBULAGALA MULTI-PURPOSE CO-OPERATIVE SOCIETY (MPCS)

	UNIT	1993	1994	1995	1996	1997	1998	1999	2000	2001
1. CASH INFLOW										
1.1 Total Sales	Rs	3,200,000	4,000,000	4,800,000	5,600,000	6,400,000	7,200,000	8,000,000	8,000,000	8,000,000
1.1.1 Value of Seed Sales	Rs	2,900,000	3,625,000	4,350,000	5,075,000	5,800,000	6,525,000	7,250,000	7,250,000	7,250,000
1.1.2 Value of Grain Sales	Rs	300,000	375,000	450,000	525,000	600,000	675,000	750,000	750,000	750,000
2. CASH OUTFLOW										
2.1 PURCHASE OF PRIMARY PRODUCTS	Rs	2,146,667	2,683,333	3,220,000	3,756,657	4,293,333	4,830,000	5,366,667	5,366,667	5,366,667
2.2 INVESTMENTS	Rs	3,108,834	327,268	341,482	327,222	403,230	350,128	336,716	1,875	0
2.3 OPERATIONAL COST	Rs	867,001	984,871	1,131,169	1,248,945	1,398,738	1,522,327	1,659,093	1,662,843	1,662,843
2.4 Taxes	Rs	32,000	40,000	48,000	56,000	64,000	72,000	80,000	80,000	80,000
3. GROSS MARGIN (Total Sales - Purchase of Primary product)	Rs	1,053,333	1,316,667	1,580,000	1,843,333	2,106,667	2,370,000	2,633,333	2,633,333	2,633,333
4. NET MARGIN (Gross Margin - Investment + Operating Cost + Taxes)										
	Rs	(2,954,502)	(35,472)	59,349	211,167	240,699	425,544	557,524	888,615	890,490
5. SALVAGE VALUE OF THE FIXED INVESTMENT	Rs									650,000
6. ACCUMULATED WORKING CAPITAL	Rs									3,514,755
7. NET CASH FLOW (before financing)										
	Rs	(2,954,502)	(35,472)	59,349	211,167	240,699	425,544	557,524	888,615	5,055,245
8. INTERNAL RATE OF RETURN (IRR)	12.75%									

14.2.1 Investments

One major component of the cash outflow is the investments to be incurred in the first year of operation. The investment allocation and the additional working capital requirement (Table 4.) together consist the total investment expenditure.

14.2.2 Purchase of Primary Products

The second largest component of the cash outflow is the cash payments to be made to farmers at the time of purchase of their unprocessed paddy. This quantity will increase as the quantity purchased increases. The quantum initially required is the amount to be paid for the volume purchased in the first season. Thereafter sales proceeds will recover the expenses.

14.2.3 Operational Cost

The third component of the cash outflow is the annual operational cost outlined in the Table 5.

14.2.4 Taxes

One percent of sales is taken as tax payable by the enterprise. This is the smallest item of cash outflow, but will increase as the total volume of sales increases.

14.3 FINANCIAL ANALYSIS

The gross margin, net margin of operation and the internal rate of return (IRR) are given as criteria of the financial profitability of the proposed seed enterprise.

14.3.1 Gross Margin

The gross margin is calculated by deducting the cost of primary purchases from the revenue earned from total sales. The gross margin of Rs.1,053,333 earned in the first year will increase to Rs.2,633,333 in the year 1999 and beyond.

14.3.2 Net Margin

The difference between the gross margin and the expenditure incurred for investments, operational costs and taxes is the net margin. Due to the heavy investment and operational costs during the first year (1993) and the year after (1994) the net margin is negative (Rs.2,954,502 & Rs.35,472) for this period. At the end of the third year the cash flow registers a positive sum of Rs.59,349 as the net margin and this increases to Rs.890,490 in the final year of operation.

14.3.3 Net Cash Flow

The net cash flow is calculated by adding the salvage value of the fixed investment of Rs.6,50,000 and the accumulated working capital of Rs.3,514,755 as cash receipts in the final year of operation. Consequently the first 8 years net cash flow remains unchanged and identical to the net margin but records a net cash flow of Rs. 5,055,245 in year 2001.

14.4 INTERNAL RATE OF RETURN

The internal rate of return is calculated on the stream of net cash flow from year 1993 to 2001. The project will have an Internal Rate of Return of 12.75 per cent.

14.4.1 Inflation Ratio

An inflation rate of fourteen per cent (14%) is assumed for the financial analysis. The net cash flow is discounted at eight per cent (8%) to obtain the real values for financial analysis.

This will imply twenty two per cent ($8\% + 14\% = 22\%$) market rate of interest earned by the cash flow. Both the interest earned and paid out for the proceeds are discounted using the real rate of interest of eight per cent (8%).

15. SOURCE AND USE OF FINANCING

The net cash flow indicates the need for the injection of investment capital at the beginning of the first year and a continuous flow of working capital every year for the smooth operation of the project. The capital sources available and required before financing and after financing is analyzed in this section. The analysis is summarized in Table 9.

15.1 CAPITAL REQUIREMENT BEFORE FINANCING

The investment needs and annual working capital requirement are the main components of the use of capital before financing. The accumulated annual total capital requirement is given in the Table 9. The requirement in the first year amounts to Rs.3,124,834. This will increase to Rs.5,236,755 in the final year.

15.2 SOURCES OF CAPITAL BEFORE FINANCING

This will include the remittance of membership fees, value of shares issued to farmers, initial capital of Rs.1,000,000 from the cooperative society and the retained earnings from sales.

15.3 SOURCES OF FINANCING REQUIRED

The difference between the funding available and required is the amount to be financed by external source of financing. The quantum required in 1993 is Rs.2,072,634. This will progressively increase to Rs.2,279,826 in 1995 and reduce gradually thereafter. In the year 2001 a positive sum of Rs. 460,068 will be earned.

TABLE 9. SOURCE AND USE OF FINANCING

		1993	1994	1995	1996	1997	1998	1999	2000	2001
CAPITAL REQUIREMENTS BEFORE FINANCING										
INVESTMENTS	Rs	1,602,000	1,602,000	1,602,000	1,602,000	1,662,000	1,682,000	1,682,000	1,682,000	1,682,000
WORKING CAPITAL	Rs	1,522,834	1,854,102	2,199,584	2,530,806	2,878,036	3,212,164	3,552,880	3,554,755	3,554,755
TOTAL	Rs	3,124,834	3,456,102	3,801,584	4,132,806	4,540,036	4,894,164	5,234,880	5,236,755	5,236,755
CAPITAL SOURCES BEFORE FINANCING										
MEMBERSHIP FEES	Rs	5,800	7,247	8,403	9,804	10,458	11,765	11,905	11,905	11,905
VALUE OF SHARES ISSUED TO FARMERS	Rs	46,400	57,977	67,227	78,431	83,660	94,118	95,238	95,238	95,238
INITIAL CAPITAL FROM COOPERATIVE	Rs	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
RETAINED EARNINGS	Rs	0	154,332	446,128	846,959	1,385,347	2,029,276	2,804,949	3,699,189	4,589,680
TOTAL	Rs	1,052,200	1,219,556	1,521,758	1,935,194	2,479,465	3,135,159	3,912,092	4,806,332	5,696,823
SOURCES-REQS	Rs	(2,072,634)	(2,236,546)	(2,279,826)	(2,197,612)	(2,060,571)	(1,759,005)	(1,322,788)	(430,423)	460,068
FINANCING										
LONG-TERM LOAN	Rs	1,200,000	1,080,000	960,000	840,000	720,000	600,000	480,000	360,000	240,000
COST OF CAPITAL	Rs	96,000	86,400	76,800	67,200	57,600	48,000	38,400	28,800	19,200
LOAN INSTALMENT	Rs	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
SHORT-TERM LOAN	Rs	1,200,000	1,400,000	1,650,000	1,900,000	2,200,000	2,400,000	2,650,000	2,650,000	2,650,000
COST OF CAPITAL	Rs	96,000	112,000	132,000	152,000	176,000	192,000	212,000	212,000	212,000
NET FROM FINANCING	Rs	2,400,000	2,288,000	2,411,600	2,531,200	2,700,600	2,766,400	2,890,000	2,759,600	2,649,200
OVERALL NET	Rs	327,366	51,454	131,774	333,588	640,229	1,007,395	1,567,212	2,329,177	3,109,268
Value of Paddy Purchases	Rs	2,146,667	2,683,333	3,220,000	3,756,667	4,293,333	4,830,000	5,366,667	5,366,667	5,366,667
OPERATIONAL COST (subtotal)	Rs	867,001	984,871	1,131,169	1,248,945	1,398,738	1,522,327	1,659,093	1,662,843	1,662,843
Taxes	Rs	32,000	40,000	48,000	56,000	64,000	72,000	80,000	80,000	80,000
OPERATING MARGIN	Rs	154,332	291,796	400,831	538,388	643,929	775,673	894,240	890,490	890,490
MEMBERSHIP FEES	Rs	5,800	1,447	1,156	1,401	654	1,307	140	0	0
VALUE OF SHARES ISSUED TO FARMERS	Rs	46,400	11,577	9,250	11,204	5,229	10,458	1,120	0	0
NET CASH FLOW B/F	Rs	(2,072,634)	(163,912)	(43,280)	82,215	137,041	301,565	436,217	892,365	890,490

15.4 FINANCING

It is proposed to procure a long term loan to bridge the gap between the capital sources available and required to finance the investment.

A short term loan is to be procured to meet the annual requirement of working capital. Procurement of Rs.1,200,000 each for the long and short term loan is therefore suggested.

15.5 NET FROM FINANCING

The cash flow will give a positive stream of benefits once the two loan schemes are in operation. The overall net balance after settling the loans will be Rs 327,366 in the first year and 3,109,268 in the final year of operation. This will make it possible to withdraw the capital provided by the DMPCS in the year 2000.

ANNEX 1.

Legal Provisions of the Seed Paddy Enterprise of the Polonnaruwa District

*Preamble relating to the framing of By-laws under item 6 of the project plan
for the Seed Paddy Enterprise of Dimbulagala in the Polonnaruwa District.*

The above project is intended to be set up in the area of operation of Dimbulagala Multi-Purpose Co-operative Society Limited. This society which is an institution legally entitled and registered on 22.02.1971 under P.231 as a Co-operative Society under the co-operative law. It has a set of by-laws for its constitution, operation and management. The by-law provides for;

- Qualification for membership, enrolment, rights
- Constitution of general body, powers
- Constitution of the committee (Board of Directors)
- Ways and means of raising funds
- Business activities and distribution of dividends

These matters are embodied effectively with legal safeguards very clearly. Hence, this seed paddy enterprise intended to operate with the financial assistance and the blessing of the co-operative society, as its branch need not have a set of separate by-laws. All legal requirements of section 06 of the project plan are embodied in these by-laws. Embodying these provisions would suffice for the smooth and safety operation of the seed paddy producing project. The provisions relating to the seed paddy producing project would be embodied in the provisions of "Marketing of produce of members" under section 41 of Part-14, business of by-laws of the Dimbulagala Multi-Purpose Co-operative Society Limited. According to the provisions set out below could be framed as a new by-law under 41(2) (a) after by-law 41(2).

Legal recognition under the co-operative law could be obtained once this section is approved by the general body as a by-law amendment and registered by the Registrar of Co-operative Societies.

This enterprise could be benefitted in the following manner:

Object: The object of the project is to improve the economy of the membership by support of members engaged in the production of seed paddy on the basis of a hard and produce high breed seed paddy and provide marketing facilities.

Membership: The members shall be the persons holding membership of Dimbulagala Multi-Purpose Co-operative Society (MPCS) engaged in the production of seed paddy in the area and willing to join the seed paddy producing unit on the basis of a branch.

Constitution and Management:

The constitution and operation of the legal body and the board of directors is governed by the existing registered by-law of the society. Members of the seed paddy producing unit is entitled to be elected to branch committee, general body and the board of directors respectively.

Funds: Funds for this project could be raised for other institutions within the limits of the provisions of by-laws set out for raising funds for the activities of the unity.

Dividends: Dividends of this project should be equally distributed among the members engaged in the project and to create a fund for their welfare.

ANNEX 2.

The By-laws of the Dimbulagala Multi-Purpose Co-operative Society Limited

Part I

Objectives, Powers and Membership

01. Name

Name of the society mentioned herein after shall be Dimbulagala Multi-Purpose Co-operative Society, Limited.

02. Address and Head-office

Address of the society shall be the address of the head office of this society. The head office of the society shall be established by the board of directors with the approval of the general body within the area of operation of the membership so explained hereafter. Any change of address shall be notified to the membership and the Commissioner of Co-operative Development.

03. Objects

- (1) Main object of the society shall be the promotion of economic, social and cultural interests of its members in accordance with the co-operative principles and the encouragement in members of the spirit and practice of thrift, mutual help and self-help.
- (2) Special objects of the society shall be:-
 - (a) supply the requirements of members for domestic, agricultural and industrial purposes in the interest efficiency;
 - (b) store, process or dispose of agricultural and technical products;

- (c) formulate ways and means of improving the savings and deposits of members in a manner creating self reliance in them and provide credit facilities;
- (d) develop co-ordination among co-operative societies;
- (e) develop co-operative education.

04. Powers

In pursuance of its objects the society shall have power in accordance with these by-law to :

- (a) supply the requirement of members for domestic, agricultural and industrial purposes;
- (b) collect, store, process and dispose of the produce of agriculture and the products of cottage industry;
- (c) formulate ways and means of encouraging thrift and savings in a manner creating self-reliance among members and providing credit facilities to members;
- (d) acquire, purchase, sell, hire, rent, let lease or mortgage land, buildings, plant or machinery, erect buildings, demolish, repairs, renovate or take any other action in respect of buildings that may be necessary to accomplish the objects of the society and
- (e) taking any other course of legal action that may be necessary to accomplish one or more objectives mentioned in above by-law 3(2)(b).

05. Membership

Subject to provisions made hereinafter the membership shall consist of:

- (a) persons who, being qualified for admission to membership in terms of by-law 7, have signed the application for registration, have purchased at least one share or persons who were members of the Multi-Purpose Co-operative Society Limited which was published in the Government Gazette No.14949\10 and dated 16.03.1971, holding memberships by virtue of the said Multi-Purpose Co-operative Society Limited being divided under the co-operative law;

- (b) persons admitted to membership under the by-laws and
- (c) all persons who are eligible for membership by virtue of another registered co-operative society being amalgamated with the society under the co-operative law.

06. Qualification for Membership

Any person resident carries occupation, owns immovable property in the area of operation of the society and not less than 18 years of age who requires the services of the society and are capable of awaiting such services and are willing to accept responsibilities of the membership are eligible to be a member of the society.

07. Admission to Membership

- (1) Any person who being qualified, applies for membership to the manager of the branch providing services to the area in which he resides or is employed or owns immovable properties as specified herein after, shall be admitted as a member of the society inform purchasing at least one share.
- (2) Every application should be submitted in duplicate signed by the applicant on a form prescribed by the board of directors.
- (3) The branch manager shall report the names of such member to the branch committee meeting next following and the branch committee shall either approve or cancel the membership.
- (4) Any person whose membership has been so canceled by the branch committee by the right to appeal first to the board of directors and subsequently to the general meeting. The board of directors have right to approve or reject the decision of the branch committee. The general body of the society has the right at its discretion to reject the decisions of the branch committee, or the board of directors or both.
- (5) At a time when a duly elected branch committee is not existent, the board of directors shall exercise the power of approving or canceling the membership, granted on presenting the application to the branch, subject to the powers of the general meeting as mentioned in sub section 4 above.

- (6) The branch committee shall allot a member for each person so enrolled. The membership number of the person shall be this number connected with the number allotted to the branch committee with the number allotted to the branch. (eg. 2/13 - 13th member of the branch no.2)

08. Membership Register

- (1) Original applications of persons so enrolled as members shall be filed in Head office of the society giving serial numbers for each application. This file of original application shall be the membership register of the society.
- (2) The duplicates of these applications shall be kept in the branch office, filed with serial numbers, which shall be treated as the membership register of the branch.
- (3) Although the members whose name appear in a membership register of a certain branch has no right to include his name in the membership register of another branch, he can avail the services of any branch of the society.

09. Rights and obligations of Members

All members shall have the rights and obligations mentioned in these by-laws and the co-operative law, but they have no rights to enjoy the membership rights, in terms of this by-law until the membership is confirmed.

10. Liability of Members

The liability of a member for the debts of the society shall be limited to the face value of shares subscribed by him and such liability shall remain in force for a period of two years after he ceases to be a member provided that a past member's liability shall be for the debts of the society as they existed on the date of his ceasing to be a member or the period decided upon under the co-operate law.

11. Set-off

Any money due on any account from the society to a member, past member or persons claiming through a member or past member may be set-off towards the payment of any sum due from such member or past member on any account to the society.

12. Termination of Membership

Membership shall terminate upon -

- (a) death
- (b) being declared insane
- (c) registration after giving the society one month's notice in writing
- (d) ceasing to hold at-least one share
- (e) cancellation of admission to membership in terms of these by-laws
- (f) expulsion
- (g) loss of qualification for membership

13. Suspension of Membership

- (1) In terms of by-law 7(6) the branch committee has the right to report to the board of directors to suspend. The membership of a member for a period of not more than six months on passing a resolution at the general meeting of the branch by more than 2/3 of the members present at such meeting on the ground that the particular member acts in a manner prejudicial to the interests of the society. It is necessary, in order to regularize the regulation of suspension. Such resolution should have been included in the agenda published for the general meeting and the opportunity provided for the member to give his explanation at the general meeting. However, the general body of the branch has the power to suspend the office of the branch held by such a member until the decision of the board of directors is made available.
- (2) The board of directors shall have the power to suspend the membership as recommended after an inquiry. The member whose membership has been suspended may submit an appeal against such decision to the general body through the general secretary within a period of one month from the date of such suspension. A board of directors shall make a report to the general body of one month from the date of the appeal.

The general body should take decision on the appeal within six months from a date of suspension. If the suspension is not approved at the appeal, such suspension is not effective from the date of suspension.

14. Expulsion

The general body of the branch shall report to the board of directors to expel any member from membership. In such an event, the board of directors shall report the facts to the next general meeting after an inquiry.

The next general meeting or a subsequent general meeting held within 3 months thereafter has the power to expel such member by a resolution passed by a majority of not less than two-thirds of the members present at such meeting. In order to validate the expulsion such resolution should be included in the agenda of the general meeting and reasonable opportunity provided for the member to present his explanation at such meeting.

Further, the board of directors have the power to suspend such member from office or the post until the decision of the general body is received.

15. Nominees of Members

Every member shall nominate a person to whom on his death his shares and other interests shall be transferred. No member shall nominate more than one person males he holds more than one share. He should mentioned as to how his shares and other interests should be distributed among his nominees in the case of nomination of more than one person. A member shall have power to cancel any nomination and to make a fresh nomination at any time. A nomination shall be made in writing witnessed by two members an filed of records at the main office of the society. The register of members shall show the names of such nominees.

Part II

16. Capital

The capital of the society shall be composed of:

- (1) Money realized by the sale of shares
- (2) Deposits
- (3) Money borrowed and deposits from non-member
- (4) Profits realized
- (5) Money received or realized by any other means in terms of these by-laws.

17. Shares

- (1) Any person qualified to be a member in terms of by-law 6 shall purchase shares at Rs.10/= per share.
- (2) Full value of shares shall be paid in full at the time of purchase.
- (3) No limit shall be fixed to the number of shares.
- (4) Each member shall purchase at least one share in the society. The general meeting shall from time to time decide on the ratio between number of shares held and the maximum credit limit of each member.
- (5) No member shall hold more than one fifth of the total share capital of the society. If any member becomes possessed of more than the maximum holding permitted by this by-law, the board of directors shall have the power to sell the excess number of shares and hold the proceeds at his disposal or purchase it at a value not exceeding the face value by paying out of the share transfer fund on behalf of the society.
- (6) Share shall not be withdrawable. However, the board of directors may at its discretion pay from share transfer fund to any member whose membership terminated previous to such financial year-end a sum not exceeding the face value of any shares held by him. The board of directors shall have the power to refuse the refund of shares depending on the financial situation of the society.

- (7) The board of directors shall have the power to pay the sum not exceeding the face value of shares held by deceased members to their nominees, from the share transfer fund or to transfer such shares to nominees who have applied for membership and are qualified for membership.
- (8) Any member shall have the power to transfer shares to qualified persons who have applied for membership with the prior approval of the board of directors. However, the transfer beneficiary shall not have power to exercise membership right unless he has been legitimately enrolled as a member.

18. Share Transfer Fund

The society may out of its net profits after allocation to the reserve fund and other funds provided for hereinafter allocate money to a share transfer fund and may out of such fund purchase shares of past members and deceased members at rates not exceeding their face value.

19. Deposits

- (1) The society shall have the power to receive any deposits of money from members and non-members subject to the provisions of by-law 20.
- (2) All deposits of money shall be subjected to the taxes and conditions laid down by the board of directors.
- (3) The interest payable for money deposited by members and non-members shall not exceed 5% of the interest rates of the Central Bank of Sri Lanka.

20. Maximum Liability of Society

The board of directors shall not incur any liability in respect of loans and deposits from non-member in excess of the limits, prescribed by the general meeting from time to time.

21. Set-off (write off)

Society shall not without the approval of the general meeting waive or write off any debt or any claim of the society or any part of such debt or claim. However, the board of directors shall have the power to waive or write off amounts not exceeding Rupees one hundred.

22. Disbursement of Funds

- (1) The funds of the society may be utilized to the object of the society and to the purposes set forth in these by-laws.
- (2) Money received as security from employees shall be separately deposited in a bank account and all interest derived therefrom shall be credited to security deposit accounts of respective employee.
- (3) Cheques of the society and any forms of withdrawal of funds belonging to the society shall be signed by the general manager and accountant in accordance with the procedure limitations laid down by the board of directors. Any other officer of the executive grade authorized by the board of directors may sign in the absence of any one of the officers mentioned above.

23. Create Funds

The general meeting may create general funds and special funds out of profits of the society or the donations received by the society as provided for by-law 43(2)(c) and from regulations governing these funds.

24. Reserve Fund

- (1) The society shall have a reserve fund, either one fourth of the net profits determined by an audit or the amount specified by law, whichever ever is more shall be allocated for this reserve fund.
- (2) The Reserve fund shall be indivisible.
- (3) It shall be invested in a bank or utilized in the business of the society as may be permitted by law.

25. Financial Year

The financial year of the society shall be from 1st of January to 31st of December each year.

Part III

Branches

26. Branches of the Society

- (1) Society may create a member of branches as determined by the general meeting.
- (2) The general meeting shall demarcate membership areas of operation for each branch and amend such areas from time to time as may be necessary.
- (3) Any member whose resident or carries occupation or owns invaluable property in an area of operation of branch specified by the general meeting shall be treated as a member attached to such branch. A member who is qualified to be a member of more than one branch, has the right to choose the branch he wishes to be attached and his name shall be included in the membership register of such branch.
- (4) Every branch shall have an office.
- (5) Every branch office shall maintain a register of members attached to such branch in terms of the provisions of by-law relating to the enrollment to the society.
- (6) The board of directors shall have power to set up new branches or close-down existing branches in a manner not exceeding the number of branches decided upon by the general meeting. Further, the board of directors shall have the power to amend the areas of operation of branches subject to the approval of general meeting.
- (7) In terms of by-law 7(6), the branch general meeting shall have the power to select members for item groups or other groups with common objectives and
- (8) To select a committee for the development of women's activities from the members attached to the branch. The board of directors shall have the power to frame regulations for the functioning of women's committees and other item groups mentioned above.

27. Branch General Meeting

- (1) The secretary of the branch shall summon a general meeting of members whose names appear in the membership register of the branch as on the date of summoning, at least six weeks before the annual general meeting of the society under by-law 33. Following business could be transacted at such general meeting.
 - (a) Consider the report presented by the board of directors on the functioning of the society and the branch concerned.
 - (b) Consider the report presented by the branch committee on the functioning of the branch.
 - (c) Election of branch committee in terms of by-law 28(2).
 - (d) Expressing the views of members and passing resolution relating to the improvement of the working of branch and/or the society and the improvement of socio-economic conditions of members.
 - (e) Consider special reports referred to the branch general meeting by the board of directors or the general meeting of the society.
 - (f) Approve or amend maximum credit limits recommended by the branch committee for members who have the need and willingness to obtain credit facilities from society in keeping with the objectives of the society.
 - (g) Selection of members for item groups and other groups with common objectives.
 - (h) Selection of committee for women's affairs.
- (2) Matters not considered by the annual general meeting if any, may be presented for a subsequent special general meeting.
- (3) Special general meeting of the branch may be held if the general meeting of the society, board of directors or the branch committee deems it necessary or on receipt of a written request signed by twenty five members or one fourth of the membership which even is less.

- (4) It shall be the duty of the branch secretary to summon an annual general meeting or a special meeting of the branch when he is called upon to do so in terms of the above sub-section.
- (5) The requisition submitted to the branch for convening a branch general meeting shall contain the matters due to be considered at the general meeting.
- (6) The notice convening the branch general meeting shall state the date, time and place and the business to be transacted at such meeting. Such notice shall be issued at least two weeks before the date of the proposed meeting. However, the notice convening the annual general meeting shall be issued at least three weeks before the date of the meeting.
- (7) Any member desirous of moving any resolution at the branch general meeting may so notify to the branch secretary 2 weeks before the annual general meeting of the branch or one week before the special general meeting. All such resolutions shall be included in the agenda of the general meeting and issued to members at least ten days before an annual general meeting and five days before a special general meeting of the branch.
- (8) In order to transact the business of the branch general meeting at least 100 members or one fourth of members attended to the branch whichever number is less should be present at the meeting.
- (9) Any matter before a general meeting may be decided only by a resolution. A resolution shall be deemed to have been adopted only when more than half the number of members present have voted in its favour at a general meeting of a branch.
- (10) Each member shall have one vote. No proxy shall be allowed. Voting shall be by ballot or by show of hands in accordance with the general wish of members present.
- (11) No president or in his vice president or if both are not available, any other member chosen by common consent shall preside over a branch general meeting.
- (12) Minutes of all branch general meetings shall be recorded in the minutes book maintained at the branch office. The branch secretary shall forward a certified copy of such minutes signed by the branch president, to the secretary of the board of directors.

- (13) A member whose membership has not been duly approved or not holding number of shares shall have no right to attend a branch general meeting, cast his vote at such meeting or to get elected as a delegate of the branch to attend the general meeting of the society.

28. Branch Committee

- (1) There shall be a committee of nine members for each branch of whom six members shall be elected from members attached to each branch. Item group or other groups with common objectives shall select one committee member and two members shall be selected by the women's committees.
- (2) The branch committee shall be elected at the annual general meeting of the branch. Branch committee shall be elected in terms of the regulations mentioned in the schedule annexed to this by-law.
- (3) Under mentioned members shall not have the right to be elected to the branch committee:
- (a) who is less than 21 years age;
 - (b) has filed a declaration of insolvency is adjudicated insolvent;
 - (c) declared by a competent authority to be insane;
 - (d) has been within the three immediately preceding years and been convicted of an offence involving moral turpitude or under gone a term of imprisonment exceeding three months;
 - (e) defaulted settlement of any loan or any other payment due to the society, any other registered co-operative society or a liquidator for a period of over three months;
 - (f) not holding the shares required in terms of these by-laws;
 - (g) failure to purchase goods to the value of an Rs.1500/= from the society or the failure to sell their produce valued over Rs.3000/= to the society during the last financial year;

- (h) in the opinion of the general meeting, if it is directly or indirectly interested, except as a member, or purchase made by the society, or in any contrast or termination of the society which serve the finances of the society;
 - (i) is directly or indirectly engaged in any activity which in the opinion of the general meeting conflicts with the interests of the society;
 - (j) is a paid employee of the society or of a society of which this society is a member;
 - (k) is an unsuitable person under the law.
- (4) Cease to hold membership of the branch committee as a result of:
- (a) suspension of membership in terms of these by-laws;
 - (b) disqualification sub-section 3 above;
 - (c) removal from the branch committee membership by a resolution passed by the general meeting of the branch;
 - (d) removal from the branch committee membership by a resolution passed at a branch committee meeting as a result of his failure to attend three consecutive meetings of the branch committee without adequate reason therefore. Such resolution should be notified to the member concerned under registered cover at least seven days before such meeting;
 - (e) has resigned after giving one month's notice in writing;
 - (f) cease of membership of the society.
- (5) Period of office of the branch committee shall be three years. Notwithstanding, the branch general meeting shall have the power to remove the entire committee or a member and elect a new branch committee or to fill the vacancy by a resolution passed at a general meeting, provided that such resolution has been included in the notice of the agenda of such meeting. Out going members are eligible for re-election.

- (6) The branch committee shall elect a president, vice president and a secretary for a period of three years from among themselves. Such elected officers shall hold office until the next committee is elected unless he ceases to be a member under sub-section 4 above or resign or expelled.
- (7) The branch committee shall exercise the following additional powers and duties:
 - (a) function as a board to safeguard the interest of members of the branch;
 - (b) taking action on complaints received from members on the services provided by the branch;
 - (c) advising the manager on business activities of the branch in terms of powers vested in the branch committee by the approved working rules of the society and the directions of the board of directors;
 - (d) forwarding recommendations to the board of directors on following matters relating to branch or the society;
 - (e) fixing maximum credit limits of members, who require credit facilities from the society, subject to the approval by the branch general meeting;
 - (f) assisting the manager in the recovery of loans;
 - (g) implementation of programmes relating to enhance memberships, member education on co-operative principles, welcome of memberships and any other matters relating to the development of the co-operative movement;
 - (h) approving or canceling the enrolment of members;
 - (i) presenting the views and recommendations of the branch committee and the branch general meeting to the board of directors and the general meeting and forwarding views and recommendations on matters referred to the branch committee by the board of directors or the general meeting of the society.
- (8) Branch meeting shall attend to the secretarial functions of the branch and the branch committee.

29. Vacancies of the Branch Committee

- (1) In the event of a vacancy created in the branch committee, the branch committee shall convene a special general meeting of the branch within a period of three months to elect a committee member to fill the vacancy from the membership. The branch committee shall have the power to co-opt a member temporarily to fill the vacancy.
- (2) The period of office of such person so co-opted shall be the balance period of the person who created the vacancy.
- (3) Meetings of branch committees, decisions taken at such meetings or any other action taken by the branch committee shall not be invalid for the reason of existing one or more vacancies in the branch committee or an irregularity in the election of branch committee members.

30. Branch Committee Meetings

- (1) Secretary of the branch committee shall convene the meeting of the branch committee at least once a month. Meeting of the branch committee shall also be summoned at the request of the branch president or three committee members or the general secretary on the instructions of directors or any other legally authorized officers.
- (2) The attendance of more than half the number of members shall be necessary to conduct a branch committee meeting.
- (3) The president of the branch committee or in his absence the vice president, or in the absence of both, one of the members chosen by those present shall preside over the meeting.
- (4) Decisions of the branch committee meeting shall be recorded in a minutes book. All committee members attended and the secretary, if he was not present, the person who was acting for him, shall sign the minutes. A copy of such minutes shall be sent to the general secretary for the information of its board of directors.

Part IV

General Meeting

31. General Body

- (1) The society shall have a general body. It shall be comprised of as mentioned hereinafter, elected delegates of branches and the board of directors.
- (2) Every branch shall have power to send one delegate for the general meeting. Further, a branch shall also have powers to send additional delegates worked out on the basis of chart given below:-

Number of additional delegates -

Number of members attached to the branch x 100

Total membership of the society

If the answer received when worked out is more than decimal five, it may be treated as the next full figure.

- (3) The general secretary of the society shall notify the branch secretary of the number of delegates to be elected from each branch in terms of the above sub-section, at least eight weeks before the general meeting.
- (4) Every branch shall elect from the membership attached to the branch the number of delegates determined by the general society under sub section 2 above. A list of names and specimen signatures of delegates so elected shall be certified by the branch president and secretary and sent to the general secretary.
- (5) Letters authorizing the delegates signed by the president and secretary of the branch shall be issued to all delegates to attend every general meeting of the society.
- (6) No person who has no qualification for election to the branch committee under by-law 28(3) shall be elected as a delegate for the general meeting.

- (7) No branch committee shall have the power to elect another delegate in case any delegate selected has ceased to be a member. Any such deviation shall be notified to the general secretary by the branch secretary. No general secretary shall note such deviations in the list of delegates at the main office.

32. General Meeting of the Society

- (1) The supreme authority of the society shall vest in the general meeting as mentioned in by-laws. The general meeting of the society shall comprise of the delegates of branches and the directors elected under these by-laws.
- (2) The general meeting of the society shall have power to:
 - (a) elect the board of directors, suspend and remove them from office;
 - (b) cancel the admission of persons to the society on consider appeals made under by-law 7(4);
 - (c) consider appeals made under by-law 13 against suspension of membership of the society;
 - (d) suspension or expulsion of members in terms of these by-laws;
 - (e) fix the ratio between a member's shares and his maximum credit limit in terms of by-law 17(4);
 - (f) take policy decisions on purposes for which member loans and advances to be granted for the welfare of employees;
 - (g) grant authority to the board of directors to acquire, purchase, sell, hire rent, let lease or mortgage land, buildings, plant or a machinery, erect buildings, dismantle, repair, renovate or any other action with regard to buildings;
 - (h) fix the maximum liability to be incurred by the society in loans and deposits from non-members;
 - (i) amend the by-laws in accordance with the law and by-laws;
 - (j) consider the reports of the board of directors;

- (k) consider the report of the auditors;
 - (l) waive or write-off any debt or claim of the society or any part of such debt or claim in terms of by-law 21;
 - (m) dispose of the profits of the society in accordance with the law and by-laws;
 - (n) frame regulations for the administration of special or general funds created under by-law 23;
 - (o) appoint special committees for conducting investigations on specific business activity or carrying out any particular work where necessary;
 - (p) frame regulations for the administration of the functioning of women's welfare committees, item groups and other item groups with common objectives set up in terms of by law 26(7);
 - (q) consider the proposals presented by the board of directors and branch committees through branch delegates on business activities of the society;
 - (r) frame regulations authorizing the branch committee to manage the branch and pay incentives to employees and members of the branch;
 - (s) take any action that is necessary for, or incidental or conducive to allotment of the society's objects. However, the general meeting has no right to exercise the specially reserved powers for the committee makes cancellation or changing the decisions of the board of directors when necessary;
- (3) As each item of the agenda of a general meeting is disposed of, the proceedings in relation to it shall be recorded in brief in a minutes book and such minutes shall be read out to the house and signed by the president and the secretary of the meeting before the next item is taken up. The minutes of every general meeting shall be tabled by the society's secretary at the first meeting of the board of directors after such general meeting.

- (4) Quorum of a general meeting of the society shall be one-fourth of the total membership or fifty members whichever member is less.
- (5) Unless any other arrangement made by this by-laws, no person other than a delegate or a director shall have the right to attend or speak at a general meeting. However, the auditor shall be informed of the general meeting at which his audit report is due for consideration and he shall have the right to speak at such meeting.
- (6) Only the persons comprising the general meeting shall have the right to vote. No persons shall be allowed. Voting shall be by ballot or show of hands in accordance with the general wish as ascertained by the chairman before the consideration of such item. Voting shall be done only by ballot in instances where in these by-laws specially mentioned to do so, any resolution, other than the election of a director, receiving equal number of votes in favour and against, such resolution shall be treated to have been rejected. Any resolution tabled for the election of a director receiving equal number of votes in favour and against such resolution shall be decided by drawing lots.
- (7) Any matter before a general meeting may be decided only by a resolution. Unless otherwise provided in these by-laws, a resolution shall be deemed to have been adopted only when more than half the number of members present have voted in its favour at a general meeting at which the required quorum is present. A decision taken at a general meeting shall be changed within a period of six months therefrom only by a resolution passed by a two thirds of majority of the total number of members.
- (8) Every notice convening a general meeting shall contain the agenda of the meeting and text of all resolutions to be tabled.
- (9) The president or in his absence the vice-president or if both are not available, any other member chosen by common consent shall preside over a general meeting.

33. Annual General Meeting

- (1) The board of directors shall summon an annual general meeting within three months after the end of each financial year.

- (2) Annual General Meeting shall have all the powers of the general meeting in terms of by-law 32. Special business to be transacted at an annual general meeting are as follows:-
- (a) consider the annual report of the board of directors and the audited statement of accounts and the balance sheet relating to the last financial year;
 - (b) consider the auditor's report;
 - (c) election of a board of directors, at the expiry of a period of three after the election of the board of directors or when the board of directors have been removed before the expiry of three year period;
 - (d) dispose of the net-profit earned during the financial year in accordance with the law and this by-laws;
 - (e) consider the resolution tabled by the board of directors delegates of the general meeting, or the branch committee.
- (3) The general secretary of the society with the concurrence of the board of directors shall send, the notice of the annual general meeting with copies of documents mentioned in sub section 2(a) and (b) above, to the members of the general body and branch secretaries at least 21 days before the meeting. The last date of receiving draft resolutions to be tabled at the meeting shall be stated in such notice. Such date shall not be more than 2 weeks before the meeting. Such draft resolutions received shall be notified to the delegates at least seven days before the general meeting.
- (4) Annual general meeting shall be conducted in terms of sub-section 1 to consider the matters mentioned in sub-sections 2(a)(c)(e) above even though the audit report and the general report of the auditors have not been received. If the audit report and the general report of the auditors have not been tabled at the annual general meeting, the general secretary shall with the concurrence of the board of directors summon a special general meeting, within three weeks from the date of receipt of such reports, to consider such reports and dispose the net profit.

34. Special General Meeting

- (1) Notice of every special general meeting shall be issued to members at least two weeks before such meeting.
- (2) The general secretary shall convene a special general meeting when requisition made by the board of directors or the president or vice president in the absence of president or vice president or by not less than one fourth of the delegates. Such requisition of the delegates shall state the resolutions which the signatories wish to move at such general meeting with the agenda. The general secretary shall summon a general meeting within six weeks on receipt of such requisition.
- (3) Every special general meeting shall have the powers of the general meeting of the society in terms of the by-laws.

Part V

Management

35. Board of Directors

- (1) There shall be a board of directors to manage the affairs of the society. It shall consist of nine members of the society. Seven directors shall be elected by the annual or special general meeting. Two directors shall be elected at a meeting of branch committee members on women's affairs specially summoned by the president. In order to elect the required member of directors, names of candidates duly proposed and seconded shall be presented to the general meeting. When the number of candidates exceeds seven, each delegate shall have seven votes and shall cast their votes on the basis of one vote for one candidate and seven candidates who have received highest number of votes shall be declared elected. Election of directors shall only be by secret ballot.
- (2) As mentioned hereinafter, the period of office of the directors shall be three years unless ceases to be a director or removed by the general meeting.
- (3) In terms of by-law 28 (3) no person, who is not qualified to be elected to the branch committee, shall be elected as a director or co-opted to the board of directors. Such person cannot hold the office of directors.
- (4) Directors shall cease to hold office due to the following reasons:
 - (a) loss of membership of the society;
 - (b) resignation - resignation shall be valid at the expiry of thirty days from the date of receipt of the registration letter by the general secretary or in his absence the general manager;
 - (c) disqualification under the law;
 - (d) removal from office by a resolution passed at a general meeting after giving an hearing and a vote of no confidence moved at the general meeting;

- (e) removal from the board of directors by a resolution passed at a board of directors as a result of his failure to attend three consecutive meetings of the board of directors without adequate reason. therefore, such resolution should be notified to the director concerned at least seven days before such meeting;
- (5) Board of directors shall summon a special general meeting to elect a member to fill the vacancy in the board of directors, when such a vacancy occurs in terms of sub-section 1 above. Board of directors shall select a member who does not have any disqualification, until a permanent director is elected. However, the period of office of such a selected member lapses at the end of three months if the approval of the general meeting is not obtained.
- (6) The board of directors shall have the under mentioned powers and duties:
 - (a) elect from among the members of the board of directors persons to be the president and vice president;
 - (b) enrolment of members in terms of by-law 7(5) and consider appeals under by-law 7(4);
 - (c) decide on a form of application for the enrolment of members in terms of by-law 7(2);
 - (d) convene the annual general meeting and special general meetings of the society whenever necessary in terms of this by-law;
 - (e) conduct inquiries on reports presented by the branch general meetings on the expulsion of members and report to the general meeting in terms by-law 14;
 - (f) appoint general manager, general secretary, branch managers and other employees required to maintain the society and its business activities effectively subject to the provisions of the law;
 - (g) collect and bank the money belonging to the society, take all necessary precautions for the safe custody, insurance and security of cash and other property belonging to the society and all produce and stocks in its charge, take policy decisions relating to financial, commercial and administrative matters of the society, frame standing orders subject to see that they are enforced effectively;

- (h) issue necessary instructions to grant loans to members and advances to employees in accordance with the decisions taken by the general meeting in order by-law 32(2)(e) and (f);
- (i) prepare and approve programmes to enhance thrift in members;
- (j) establish new branches and close-down existing ones in terms of by-law 26(6);
- (k) present to a general meeting at least two months before the beginning of every financial year the estimates of income and expenditure for the coming year;
- (l) prepare a report and present to the general meeting before the expiry of three months after the end of the financial year on the financial situation and the performance of the society during the last financial year. Copy of such report shall be sent to all branch committees;
- (m) obtain monthly cash account and other performance reports of the society and compare with the approved estimates, examine the account of the society at least once a month. Approval of expenditure and supervise the maintenance of the prescribed books, registers and other documents, arrange for the custody of books and documents of the society;
- (n) take suitable steps to organize member education and welfare activities and improve member participation in the activities of the society;
- (o) take action to acquire property, machinery and equipment etc and construction of buildings wherever necessary for the achievement of objects of the society and members subject to the approval of the general meeting;
- (p) sell or mortgage properties, buildings and other fixed assets of the society with the approval of the general meeting;
- (q) allot shares to members and sanction the transfer of shares;
- (r) acquire on behalf of the society shares in other registered co-operative societies with the approval of the general meeting;

- (s) appoint persons among members to represent at meetings of any other society of which the society is a member;
- (t) institute, conduct, defend, compromise or abandon legal proceedings through any officer or employee of the society;
- (u) write-off debt or other claims of the society not exceeding rupees or hundred;
- (v) appoint advisory committees to advise the board of directors;
- (w) decide on the repayment period of each category of loans;
- (x) extend the repayment period of a specific loan when necessary;
- (y) co-opt members to fill vacancies occurring in the board of directors, subject to the approval of the general meeting in terms of sub-section 5 above;
- (z) contract loans subject to the maximum credit limit and nay restriction imposed by the general meeting in terms of by-law 20.
 - (ab) to enter into contracts on behalf of the society and to authorize the president and the general secretary or the general manager to sign such contracts on the society's behalf;
 - (ac) pledges of society's securities, subject to the approval of the general meeting;
 - (ad) decide the terms on which deposits may be received and withdrawals permit;
 - (ae) refer to disputes of the society for arbitration under the co-operative law;
 - (af) exercise the prudence and diligence of ordinary men of business in the conduct of the affairs of the society;
 - (ag) appoint sub committees among directors and employees and assign specific responsibilities as and when required subject to the approval of the general meeting;

- (ah) carry on the business of the society and implement the provisions of these by-laws and the law governing co-operative societies;
 - (ai) frame regulations for the performance of item groups and women's committees under by-law 26(7);
 - (aj) draw-up regulations required for the delegation of powers to conduct managerial activities of the branch and to pay incentives to the employees of the branch and members who transact business with the branch, from its income;
 - (ak) do every thing deem to be necessary to accomplish the objectives of the society subject to the approval of the general meeting.
- (7) The members of the board of directors shall be jointly and severally responsible for any loss sustained through acts contrary to the law and these by-law. However, any body who could prove that they were not aware of such acts and that they have taken reasonable steps to avoid such acts, this responsibility is not applicable to such persons.

36. Meetings of Board of Directors

- (1) Meetings of board of directors shall be held whenever necessary. The attendance of at least five members of the board of directors shall be necessary to for the disposal of any business.
- (2) Meeting of the board of directors shall be held at least once a month. Such meetings shall be summoned by the general secretary, or the president or majority of members of the board of directors in accordance with the standing orders framed for the purpose.
- (3) The president or in his absence the vice president, or, in the absence of both, one other member chosen by those present, shall presides over the meeting of the board of directors.
- (4) Each director shall have one vote. The chairman shall have a casting vote, when a resolution receives equal number of votes in favour and against.

- (5) The decision or actions of the board of directors shall not be invalid for the reason of existence of a vacancy or a fault in the election of a director.
- (6) All business discussed or decided at a meeting of the board of directors shall be recorded in a minute book which shall be signed by the directors present at the end of the meeting.

37. President and Vice President

- (1) The board of directors shall elect a president and a vice president from among themselves. They shall hold office for a period of three years unless terminated earlier.
- (2) The president and the vice president of the society shall be the president and vice president of the board of directors respectively. In the absence of both, any other director chosen by those present shall preside over the meeting.

38. General Manager

The board of directors shall appoint a general manager. He shall be responsible to the board of directors for the efficient management of the affairs of the society. He shall carry out his functions to accomplish the objectives of the society in accordance with the principles and working rules decided upon by the board of directors, general law of the country, co-operative law and these by-laws. He shall be responsible for the following functions:-

- (a) prepare all business activities efficiently in accordance with the law;
- (b) ascertain that books and documents relating to the assets and liabilities and all business activities of the society are properly maintained, safety of such documents and the production of the statements of accounts and the balance sheet to the board of directors and auditors within three months from the end of the financial year;
- (c) entrust the custody of the keys, books and documents of the society shall be entrusted to a selected employee or employees in his direction and the receipt of such documents handed over shall be left in his custody;

- (d) advise the board of directors on policies and plans of the society in consultation with other officers of the executive grade;
- (e) ascertain that approved plans and policies are implemented effectively;
- (f) raise funds required for the implementation of such plans with the approval of the board of directors and ascertain that such funds are properly utilized.
- (g) submit progress reports to the board of directors after comparing the progress of business activities with approved targets, to review the business activities by the board of directors;
- (h) prepare and present to the board of directors the feasibility reports on the expansion of existing business activities and preferred business activities with the estimates of capital expenditure required. Disbursement of capital may be done on the directions of the board of directors;
- (i) prepare and present to the board of directors the programme and the budget for the coming year at least three months before the commencement of the financial year;
- (j) take necessary action to present the budget prepared for the coming year for the approval of the general meeting;
- (k) undertake the planning of activities of each business section of the society, organization, supervision, coordinate management and providing necessary guidance to the staff;
- (l) entrust powers and responsibilities to the managers incharge of units subject to proper control;
- (m) advise the board of directors on cadre requirements of the society;
- (n) maintain friendly coordination with apex organizations, delegates and members of the society;
- (o) arrange for the security of the assets of the society;
- (p) approve loans to members in accordance with the previous by-law 40 and working rules;

- (q) organize member education and welfare programmes for branch committee members on the directions of the board of directors;
- (r) ascertain the preparation and dispatch of reports in time as requested by the commissioner on business activities of the society in terms of by-laws and the co-operative law.

39. General Secretary

Although the general secretary of the society is the secretary of the board of directors, he shall not be a director. If the responsibilities of two parts could be handled efficiently by a single employee, any officer of the executive grade may be appointed as general secretary in addition to his normal duties.

The duties of the general secretary shall be as follows:-

- (a) convene meetings of the general body and the board of directors by when suggested by a person or persons authorized to do so;
- (b) attend meetings of the general body and the board of directors and record the proceedings of such meetings and any other functions assigned by the board of directors;
- (c) prepare the annual report of the board of directors to be presented to the annual general meeting of the society on the directions of the board of directors;
- (d) maintain a register of delegates representing each branch at the general meeting;
- (e) certify copies of entries in books under the provisions of the law;
- (f) hold the seal of the society in safe custody;
- (g) maintain a register of directors of the society and record the date of election and co-operative and termination against their names.
- (h) hold in safe custody the copies of the co-operative ordinance, rules framed under the co-operative law, registered by-law, register of members and the register of delegates and arrange for reference free of charge at any reasonable time at the registered address of the society;

- (i) perform any other function assigned by the board of directors;
- (j) ascertain that the preparation of reports as required by the commissioner or the by-laws or the co-operative law on activities other than business activities of the society and despatch them to the commissioner on time.

ANNEX 3.

PROPOSED BY-LAW AMENDMENT

- 41 a. 1. This produce unit shall initiate in the following manner.
- (a) Members engaged in the production of seed paddy shall include in the produce unit set out in by-law 28(1).
 - (b) Only the members of the unity attended to the respective branches shall be included in the produce unit and they should be genuine seed paddy cultivators.
 - (c) Separate produce units consisting of members attached to each branch mentioned in the above by-law should be organized at the rate of one for each branch. This unit shall hereinafter be known as "Seed Paddy Produce Unit".
 - (d) This seed paddy produce unit shall meet and select a leader to represent the unit by mutual consent. The seed paddy produce unit shall have the right to remove this leader and elect another at any time. The decision taken at such a meeting attended by less than half the unit is not valid. This leader shall present the views of unit to the authorities concerned and be shall also function as the spokesman of the unit.
 - (e) A general group consisting of leader of seed paddy produce units at branch level, could be set up and they could represent the entire seed paddy produce units.
 - (f) Members of seed paddy produce unit shall have the right to be elected in terms of by-law 28(1) as Branch Committee members, 31(4) as delegates of the general body and the Board of Directors in terms of by-law 35(1).
 - (g) Memberships of the seed paddy producing group shall be terminated as a result of termination of the membership of the unity, failure to repay the loans obtained, keeping away from seed paddy cultivation or the violation of by-laws relating to seed paddy production.

2. The funds for the seed paddy producing unit from the society or other institution could be obtained either in cash or in kind. But it should be in accordance with the by-law.
3. Following credit facilities shall be provided to members of the seed paddy producing unit.
 - (a) Credit facilities could be obtained from the society up to a maximum of Rs.10,000/= for seed paddy cultivation.
 - (b) But the loans should be granted only in terms of the provisions of by-law 40.
 - (c) Only the members of the seed paddy produce unit are eligible to sign as surety for such loans. One member cannot stand surety for more than one such loans.
 - (d) Irrespective of whatever mentioned in these by-laws in addition to the loans obtained on personal security, additional loans shall be granted by holding a security deposit of 10% of the value of the loan.
 - (e) Rate of interest payable for savings deposits shall be paid for the security deposits as well. The depositor shall have the right to withdraw his security deposits with interest once the loan is repaid with interest.
 - (f) The board of directors shall have power to set off the deposits and interest against the loan in the event of the borrower defaulting repayments.
 - (g) Loans obtained by the member for the production of seed paddy shall be repaid with interest immediately after the disposal of his produce. The repayment period of such loans shall not exceed six months.
 - (h) The society shall have the power to recover the loan with interest from the money payable to the borrower on seed paddy sold to the society by him.
4. The society shall provide the necessary knowledge, technical advise, training and other assistance for the production of seed paddy and the society shall channel such services from other institutions as well.

5. Production and sale of seed paddy shall be handled in the following manner:
 - (a) The members of the seed paddy item group are collectively and jointly responsible for the production of high yielding seed paddy free from immature material with high guarantee period.
 - (b) It is important to exchange techniques and experiences among members of the group as well as many teams.
 - (c) All facilities, assistance, advice and other requirements for the preparation of seed paddy nurseries, packing, storing, preserving, transport and marketing shall be obtained only from the society or under the guidance of the society.
 - (d) Every member of the seed paddy item group shall dispose of their produce only to the society, or through the society. Acting contrary to this arrangement would be a violation of by-law.
 - (e) The society has the right to return the seed paddy not up to the prefer standards, or to buy at reduced rates and process rice. However, the item group retains the right to call for reasons.

6. Marketing and the payment for seed paddy shall be handled in the following manner:
 - (a) It shall be the responsibility of the society to pay a reasonable competitive price for seed paddy purchased from item groups.
 - (b) Immediate payment shall be made for the seed paddy purchased. This clause shall not be a hindrance for the recovery of loans and interest.
 - (c) Society shall arrange for market facilities for seed paddy damage caused as a result of failure to disburse shall not be a burden on the member.
 - (d) The society shall have power to process rice out of unsold seed paddy and disburse.

- (e) Basic accounts relating to the seed paddy production may be maintained separately.
- (f) Profit and loss accounting respect of the purchase and the sale of seed paddy may be prepared at the end of every season and make a second payment of at least 50% of the profit to members of the item group based on the quantity of seed paddy sold to the society or sold through the society by a member.
- (g) A percentage of balance profits fixed by the board of directors shall be credited to a welfare fund of the seed paddy production item group. The board of directors and the auditors shall from regulations governing the handling of cash of the welfare fund.

ANNEX 4.

SPECIFICATION FOR A SEED CLEANER

1. General : Dust free, low noise minimum vibration, tow screen with 1 No. pre cleaner screen model. Upper screen for scalping should be provided with tappers on top. Bottom screen for grading should have ball type screen cleaning mechanism. Independent head and tail air screening should be fan assisted. Should preferably be provided with an inlet-hopper of approximate cubic capacity of 0.5 M³ located at top of machine. Feeding should be by gravity with facility to control flow rate. Quick action bag off attachments for discards should be located on the side opposite the bag off attachments for cleaned seed. The bag off height should be approximately 700 mm from floor level. Where possible all moving parts should be guarded.
2. Dimension : Approximate screen size:
850 mm length x 1100 mm width

Approximate overall size:
1200 mm width x 3000 mm length x 2000 mm high
3. Crops : Rough rice, Soy Bean, Mung Bean, Cowpea, Maize etc.
4. Capacity : Average cleaning capacity of pre cleaned seed should be 800-1000 kg/hr.
5. Adjustments : Feed rate, Air flow rate and preferably frequency of vibration of screen shoe to be variable.
6. Electrical Specification : Operation electrical supply should be 400 V + 5% VAC H_z. 3 phase.

A motor suitable for dust conditions and of adequate power should be provided. The motor starter with protective devices such as thermal overload, phase failure, over voltage under voltage etc., should be mounted on the machine body.

7. **Screen** : All sizes in mm.
1. Round - 02 sets
3.0, 3.5, 4.0, 4.5, 5.0, 5.5, 6.0, 6.5, 7.0, 7.5, 8.0
 2. Oblong - 02 sets
1.Ox12, 1.5x12, 2.Ox12, 2.5x12
3.Ox12, 3.5x12, 4.Ox12, 4.5x12,
5.Ox12, 5.5x12, 6.Ox20, 6.5x20,
7.Ox20, 7.5x20 8.Ox20
8. **Spares** :
1. Screen cleaning balls - 100 Nos.
 2. V-belts - 02 sets.
 3. Bearing - 02 sets.
 4. Wooden Spring for shoe
vibration if relevant - 02 sets.
 5. Screen for head and
tail aspiration - 04 sets.
 6. Screen tapper - 02 sets.
9. **Manual** : Operator Manual
Spare parts catalogues
10. **Warranty** : One year

OR

Nearest to the above specifications

ANNEX 5.

DIMBULAGALA MULTI-PURPOSE COOPERATIVE SOCIETY LIMITED, MANAMPITIYA

LIST OF FARMERS REGISTERED UNDER SEED PADDY PROGRAMME FOR MAHA SEASON 1992/93

Name of Cooperatives	Name with Initials	Address
1. ALUTHWEWA	AMARA KOON, L	ALUTHWEWA, NELUMWEWA
2. ALUTHWEWA	ARON SINGHO, AG	ALUTHWEWA, NELUMWEWA
3. ALUTHWEWA	GUNADASA, SD	ALUTHWEWA, NELUMWEWA
4. ALUTHWEWA	KULARATHNA, WDG	ALUTHWEWA, NELUMWEWA
5. ALUTHWEWA	MIRLI WIJESIRI, EM	ALUTHWEWA, NELUMWEWA
6. ALUTHWEWA	PIYADASA, KP	ALUTHWEWA, NELUMWEWA
7. ALUTHWEWA	PUNYARATHNA BANDA, WM	ALUTHWEWA, NELUMWEWA
8. ALUTHWEWA	RAMBANDA, PP	ALUTHWEWA, NELUMWEWA
9. ALUTHWEWA	TENUWARA, WG	ALUTHWEWA, NELUMWEWA
10. IHALA ELLEWEWA	ARIYADASA, DG	IHALA ELLEWEWA
11. IHALA ELLEWEWA	HINNIAPPUHAMY, WP	IHALA ELLEWEWA
12. IHALA ELLEWEWA	JAYARATHNA, YM	IHALA ELLEWEWA
13. IHALA ELLEWEWA	PELIS, EP	IHALA ELLEWEWA
14. IHALA ELLEWEWA	PUNCHI BANDA, HM	IHALA ELLEWEWA
15. IHALA ELLEWEWA	PUNCHIAPPUHAMY, KW	IHALA ELLEWEWA
16. IHALA ELLEWEWA	PUNCHIRALA, Y	IHALA ELLEWEWA
17. IHALA ELLEWEWA	RAJASINGHE, HR	ELLEWEWA
18. IHALA ELLEWEWA	RAMBANDA, KP	IHALA ELLEWEWA
19. IHALA ELLEWEWA	RAMBANDA, HP	IHALA ELLEWEWA
20. IHALA ELLEWEWA	SUMANADASA, S	IHALA ELLEWEWA
21. IHALA ELLEWEWA	UKKUBANDA, MGP	IHALA ELLEWEWA
22. IHALAWEWA	CHANRAPALA, DP	IHALAWEWA, DAMMINNA
23. IHALAWEWA	EKANAYAKE, EMT	IHALAWEWA, DAMMINNA
24. IHALAWEWA	JAYATHILAKE BANDA, DR	IHALAWEWA, DAMMINNA
25. IHALAWEWA	MAHANAMA, SUGATH. S	IHALAWEWA, DAMMINNA
26. IHALAWEWA	NANDASENA, PP	IHALAWEWA, DAMMINNA
27. IHALAWEWA	RANATUNGA BANDA, EM	IHALAWEWA, DAMMINNA
28. IHALAWEWA	SENERATH BANDARA, AM	IHALAWEWA, DAMMINNA
29. IHALAWEWA	SIRISENA, RUG	IHALAWEWA, DAMMINNA
30. IHALAWEWA	TIKIRIBANDA, AV	DIVULDAMANA, DAMMINNA
31. IHALAWEWA	WILFRED, DP	IHALAWEWA, DAMMINNA
32. JAYAPURA	DINGIRIBANDA, UG	GALTALAWA, DALUKANA
33. JAYAPURA	KUDAHENAYA, NH	GALTALAWA
34. JAYAPURA	MUDIYANSE, AA	GALTALAWA
35. JAYAPURA	NANAYAKKARA, T	GALTALAWA, DALUKANA
36. JAYAPURA	PERERA, SADS	DALUKANA
37. JAYAPURA	PERERA, GSN	YAYA 9, GALTALAWA
38. JAYAPURA	PREMARATHNA, SP	GALTALAWA
39. JAYAPURA	PREMAWATHIE, RP	GALTALAWA
40. JAYAPURA	PUNCHIBANDA, OP	GALTALAWA, DALUKANA
41. JAYAPURA	RANBANDA, DA	GALTALAWA, DALUKANA
42. JAYAPURA	SOMARATHNA, KM	GALTALAWA, DALUKANA
43. JAYAPURA	WANIGARATNA, BDH	GALTALAWA, DALUKANA
44. JAYAPURA	WICKRAMAPALA, RB	GALTALAWA, DALUKANA
45. MAGULDAMANA	KARUNASINGHE BANDARA, PR	MAGULDAMANA
46. MAGULDAMANA	KEERTHIRATHNA, KM	MAGULDAMANA
47. MAGULDAMANA	PUNCHIBANDA, GR	MAGULDAMANA
48. MAGULDAMANA	SUGATHAPALA, MG	MAGULDAMANA
49. TISSAPURA	BERLJNHAMY, GP	YAYA 6, ARALAGANWILA
50. TISSAPURA	CARLIS APPUHAMY, EW	YAYA 6, ARALAGANWILA
51. TISSAPURA	CHANDRALATHA, KG	YAYA 6, ARALAGANWILA
52. TISSAPURA	HEENBANDA, KB	YAYA 6, ARALAGANWILA
53. TISSAPURA	PIYASENA, G	YAYA 6, ARALAGANWILA
54. TISSAPURA	PUNCHIMENIKE, AG	YAYA 6, ARALAGANWILA
55. TISSAPURA	RAMMALHAMY, PG	YAYA 6, ARALAGANWILA
56. TISSAPURA	SALAMAN APPUHAMY, RM	YAYA 6, ARALAGANWILA
57. TISSAPURA	WERAPITIYA, W	YAYA 6, ARALAGANWILA
58. TISSAPURA	WIJEDASA, W	YAYA 6, ARALAGANWILA