ADVANCE MODULE-06

BANKERS INSTITUTE OF RURAL DEVELOPMENT, LUCKNOW
(Designated Nodal Training Institution at Central Level by GoI under the Central Sector Scheme on Formation & Promotion of 10000 FPOs)

FPOs are growth engine of Indian Agriculture

Resource Material

Financing of FPO

under
Central Sector Scheme on Formation & Promotion of 10000 FPOs

NABARD

german cooperation
DEUTSCHE ZUSAMMENARBEIT

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Advanced Module on Financing of FPOs

INTRODUCTION

The growth and viability of Farmers' Producer Organisations hinges on the availability of and access to external finance; they include reasonably priced-collateral free loans and grants to increase members' equity. The financial products that are tailor-made for FPOs in India are increasing by the day - with the Government, formal financial institutions and private players all contributing to this development. This Advanced Module on Financing of FPOs has been designed to specifically inform FPOs, Producer Organisation Promoting Institutions and financial institutions about the menu of funding options available and how to access them. The Module includes four sessions of field visits to FPOs and financial institutions. A guest speaker from a financial institution specialising in FPO lending will present and interact with the participants.

The area of financing FPOs is evolving quickly. Some parts of this Reading Material content are dynamic - such as scheme guidelines - and users are requested to refer to latest versions available online.

It is hoped that the Advanced Module on Financing of FPOs will fulfill its long-term purpose of financially leveraging FPOs and promote their growth.

Session I - Overview of FPOs

Summary of the Session:

Overview of FPOs including the concept, the need for, formation, registration, governance and management system

Operational guidelines of CSS on Formation and Promotion of 10000 FPOs and financing opportunities

A. Overview of Farmer Producer Organisations (FPOs)

The objective of the programme for the promotion and development of FPOs is to:

- Mobilise farmers in groups at the village level and to build their associations,
- Federate farmers to plan and implement product-specific clusters and commercial crop cycles,
- Strengthen the capacity of farmers through best practices in agriculture for enhanced productivity,
- Ensuring access to quality inputs and services for intensive and integrated agriculture,
- Facilitating access to fair and remunerative markets including linking producer groups to market aggregators.

1. Why do farmers need FPOs?

It is well understood that in both agriculture production and marketing, Indian farmers experience vulnerabilities due to:

- Smaller scale of operations,
- Information asymmetry,
- Communication constraint to link with the wider markets,
- Absent or limited participation in supply and value chains and consequent exploitation by intermediaries,
- Challenges in procuring inputs,
- Access to timely, adequate and reasonable-cost credit, etc.

Promoting collectives in the form of Farmer Producer Organisations (FPOs) would facilitate addressing the challenges faced by the small and marginal farmers (SMF), particularly with enhanced access to investments, technological advancements, and efficiency in inputs and produce management.

2. Concept of FPOs

An organisation will be classified as an FPO, if

- It is formed by a group of primary producers
- It is a registered body and a legal entity
- Producers are the primary shareholders in the organisation
- It deals with business activities related to primary produce/product/related inputs
- It works for the benefit of the member producers
- A part of the profit is shared amongst the producers and the balance is credited to the share capital or reserves of the organisation,

- It has at least 50 shareholding members at the time of registration. However, the shareholding membership needs to be increased over a period of 3 years to a sustainable level.

3. Formation and Registration of FPOs

3a. The FPO is a legal entity formed by primary producers. The various legal forms can be:

Cooperatives:
- Cooperative Societies under the Cooperative Societies Act/ Autonomous or Mutually Aided Cooperative Societies Act of the respective State,
- A cooperative society under the Multi-State Cooperative Society Act, 2002,

Companies:
- A Producer Company under Section 581(C) of the Indian Companies Act, 1956, as amended in 2013,
- A company under Section 25 Company of Indian Companies Act, 1956, as amended as Section 8 in 2013,
- A Society registered under the Society Registration Act, 1860,

Trusts:
- A Public Trust registered under the Indian Trusts Act, 1882.

It is possible for an FPO to migrate from one legal form to another legal form subject to adherence to the legal guidelines and provisions.

3b. Why should FPOs be Legally Registered?

FPOs perform a business activity on behalf of farmers and need to have legally registered status for several reasons .
- Commercial transactions with other business entities require a unique legal commercial identity- only a registered legal organisation can execute a valid contract.
- There may be concerns while transacting with an unregistered FPO, particularly for Taxation / GST registration for FPO's business.
- Weights and Measures Act, Fertiliser Control Act, Seed Act, Insecticide/pesticide act, Seed Certification, Trading License from APMC, etc., stipulate a legal status.
- Legal status facilitates access to finance from the formal sector.
- To create assets and infrastructure, the FPO would require a legal status.

4. Governance and Management

There are three major stakeholders of an FPO -

a. Members or Shareholders,
b. The Boards of Directors, and
c. the Management Team.

a. Members or Shareholders:

A member is defined as a "person or producer institution", whether incorporated or not, admitted as a member of a producer organisation and who qualifies as per the criterion. Membership is available to all eligible members (criteria of membership defined in the Articles of Association (AoA) or Bye-laws of an FPO) who can participate in the activities and simultaneously avail the facilities or services of the FPO.

b. Board of Directors (BoD):

An FPO should have an elected BoD with 5 to 15 Directors. The Board may act only in areas not reserved for the General body and may not exercise executive functions. In general, the Board has the authority for governance and is responsible for formulating policies and strategies, as also supervising and monitoring the performance of the Producer Company.

c. Management Team: They are salaried personnel of the company and are hired to manage the day to day affairs of the FPO. The team includes the CEO, accountant and others like a godown keeper, extension agent, computer operator, etc.

B. Operational Guidelines on CSS on Formation and Promotion of 10,000 FPOs

i. Background

Farmers, particularly the marginal and small farmers, face several challenges like the lack of market access and credit linkages, inadequate financial support, lack of managerial skill, poor access to production technologies, etc., With an objective of bringing more farmers, under the FPO fold and address the challenges faced by them, particularly the marginal and small farmers, the Government of India has launched a dedicated Central Sector Scheme for **'Formation and Promotion of 10,000 Farmer Producer Organisations (FPOs)'**. The Scheme is implemented by the Department of Agriculture, Cooperation and Farmers' Welfare (DAC&FW), of the the Ministry of Agriculture and Farmers' Welfare (MoA&FW).

ii. Aims and Objectives of the Scheme

- To provide a holistic and broad-based supportive ecosystem to form 10,000 new FPOs
- To enhance productivity through efficient, cost-effective and sustainable use of resources
- To provide handholding and support to new FPOs up to 5 years from the year of creation
- To provide effective capacity building to FPOs to develop agri-entrepreneurship skills to become economically viable and self-sustaining

iii. Key features of the scheme:

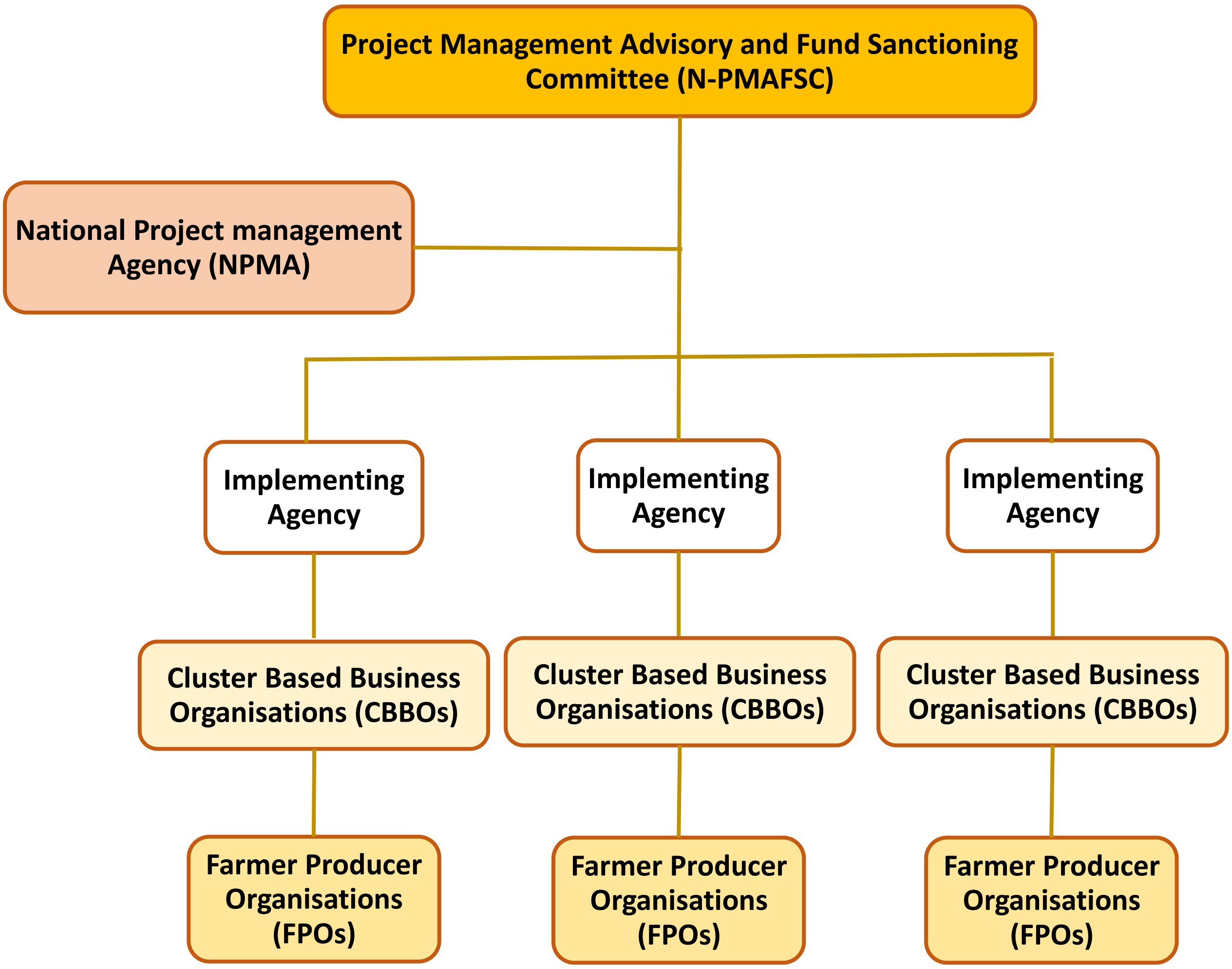
1. Target and Coverage:

- The scheme aims at the formation of 10,000 new FPOs by 2023-24.
- FPOs are to be formed with a minimum farmer-members base of 300 with an exception of 100 members in difficult areas like North-Eastern and hilly regions.
- The scheme envisages covering all blocks in the country with an average membership of 500 farmers in normal areas and 200 farmers in North-Eastern and hilly regions.
- A special focus is to be accorded to small and marginal farmers, women farmers, women SHGs, SC/ST farmers and other economically weaker categories.
- Promotion of at least 15% of FPOs in aspirational districts (as identified by the Scheme) - to promote at least one FPO in each block of aspirational districts of the country.
- FPOs will be promoted in the notified tribal areas through convergence with schemes of Tribal Affairs Ministry, DONER and North Eastern Council (NEC).

- Types of FPOs Covered: FPO can be incorporated/registered either under Part IX-A of the Companies Act or under the Co-operative Societies Act of the concerned State.
- Budgetary provision: Rs. 6,866.00 crore.

2. Stakeholders – Role and Responsibilities

The program will be implemented under the overall guidance of the **Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC)** constituted under the Chairmanship of Secretary, DAC&FW. The hierarchical structure under the scheme is as under:



The roles of stakeholders and implementation and monitoring mechanism are described below:

a) National Project Management Agency (NPMA):

The NPMA is set up by the SFAC for:

- Data Maintenance through an Integrated Portal and Information Management
- Transaction Advisory for selection of CBBOs and post transaction support for effective project/program implementation
- Providing Overall Project Guidance
- Monitoring

The NPMA is to be equipped with a technical team comprising five categories of specialists vis. Agriculture/Horticulture, Marketing and Processing, Incubation Service Provider, IT/MIS and Law and Accounting for providing overall guidance at All India level on:

- Identification of target value chains (value chain analysis)
- Detailed Standard Operating Procedures (SOPs) for each stakeholder in the value chain
- (Commodity) Clusters to be chosen for formation of FPOs
- Function as a National level Data Repository by maintaining an integrated portal
- Serve as a National Platform for FPOs
- The NPMA is to assist in facilitating and identifying National and State level institutes in the field of Agri-business
- Assist in linking/ undertaking MoUs with these institutions for long term engagement and development of FPOs

b) Implementing Agencies (IAs)

Three Implementing Agencies have been identified as Implementing Agencies for the Programme - NABARD, SFAC-the Small Farmers' Agribusiness Consortium and NCDC - the National Cooperative Development Corporation have been identified.

- NABARD to Promote FPOs registered under Part IX-A of Companies Act as also under Co-operative Societies Act of States
- SFAC to Promote FPOs registered only under Part IX-A of Companies Act
- NCDC to Promote FPOs registered under only Co-operative Societies Act of the States
- Targets for the number of FPOs to be promoted by them will be tentatively allocated by the Project Management Advisory and Fund Sanctioning Committee (N-PMAFSC).
- In addition to the aforementioned three implementing agencies, in case, if any State/Union Territory desires to have its own implementing agency, they can approach the DAC&FW for considering the same.

Role of Implementing Agencies

- Identifying CBBOs
- Providing funds to CBBOs and FPOs as envisaged in the Scheme
- Monitoring of CBBOs and undertaking regular desk and/or field monitoring of the FPOs formed under the scheme.
- Ensuring regular data entries on the integrated portal (Integrated National Level Data Repository through Portal managed through NPMA)
- NABARD and NCDC will also maintain and manage the Credit Guarantee Fund (CGF) for credit guarantee to banks for financing of FPOs
- Developing tools for FPOs to assess their level of activity, economic viability and sustainability, etc.
- Coordinating with the concerned Value-Chain Organisations for channelising their claims to the N-PMAFSC for payment of grants, etc.

c) Cluster Based Business Organisations (CBBOs)

- Implementing Agencies will identify CBBOs at the State/Cluster level to form and promote FPOs.

- In a State, there can be one or more CBBOs and a CBBO can serve in more than one State.
- CBBOs are to have professional expertise and requisite experience in the formation of FPOs and to have a panel of specialists in crop husbandry, Agri marketing/value addition and processing, social mobilisation, law and accounts and IT/MIS in Agri and Agri marketing.

Role of CBBOs

CBBOs are to undertake a Feasibility Study in the assigned clusters which will include:

- Identifying Clusters
- Preparing a prospective Business Plan to ensure economically sustainable FPOs
- Mobilising the community and members of the FPOs
- Registration of FPOs
- Executing the FPO's Business Plan
- Training and capacity buildings of FPOs/farmer groups (FPO management, marketing, financial management, compliance management, etc.)
- Monitoring and data submission
- Convergence with ongoing Government programmes/schemes andnetworking with various stakeholders
- Assist in federating FPOs

d) Formation of FPO by industries/corporates

- Concerned Industries (Value Chain Processing and Export Industries) can also form and promote FPOs directly through the cluster approach and will be eligible for assistance under the scheme, subject to the condition of ensuring buyback of at least 60% of the produce of members of such FPOs with appropriate processing and assured marketing linkages on sustainable basis.
- The FPOs promoted by them can avail of credit guarantee cover as also equity grants provided they comply with the norms and guidelines of respective schemes.

e) Thrust on the participation of FPOs in product value chains:

An FPO can better sustain itself by participating in supply and value chains. This way it will no longer remain merely a bulk commodity producer searching for markets during harvest time. The standard business model could include the following activities:

- Supply quality inputs (seed, fertiliser, pesticides, etc.) at reasonably lower prices
- Ensure pre and post-production machinery and equipment on custom hiring basis
- Make available value addition (cleaning, assaying, sorting, etc.) and farm level processing facilities on a user charge basis
- Develop storage and transportation facilities
- Undertake higher income-generating activities like seed production, bee-keeping, mushroom cultivation, etc
- Undertake aggregation of smaller lots of farmer-members produce; add value
- Facilitate market information for judicious decision in production and marketing
- Facilitate logistics services vis. storage, transportation, loading/unloading, etc. on shared cost basis
- Market the aggregated produce with better negotiation strength to the buyers and using marketing channels offering better and remunerative prices

Value Chain Approach: In order to leverage economies of scale in production and marketing, an FPO's business activities may be based on a Produce Cluster Area. The FPOs can also be formed around the *"One District One Product"* approach for the development of product specialisation. There may be more than one cluster for one product in one district and a cluster can also extend beyond a district. Further, the FPOs can federate at the district, state and national levels for the product as per their requirements for processing, branding and marketing of produce/trading of commodities.

f) Implementation and Monitoring Mechanism

The 10000 FPO Programme has a three-tier institutional structure (National, State and District level), as indicated below:

- National Level Project Management Advisory and Fund Sanctioning Committee(N-PMAFSC) – to allocate, coordinate and monitor the project and develop policies.
- State Level Consultative Committee (SLCC)- to monitor andreview project progress, identify produce clusters, facilitateconvergence, compliance mechanisms and infrastructure like shops, spaces and common facility centres.
- District Level Monitoring Committee (D-MC)- to monitor andreview project progress, identify produce clusters, facilitateconvergence, compliance mechanisms and infrastructure like shops, spaces and common facility centres.

g) Support available to stakeholders from various agencies

1) **SFAC and NCDC** - upfront payment of 3% of the estimated annual expenditure of an FPO in the form of supervision charges, plus 2% payment based on the assessment of their performance based on the stipulated criteria.

2) **Incentive to CBBOs:**The costs incurred by the CBBO towards the Formation and incubation of each FPO, limited to Rs. 25 lakh per FPO as support or actual expenses whichever is lesser, will be provided for five years from the year of formation of each FPO.

3) **FPO - Management Cost**: A financial support of Rs. 18 lakh per FPO or actual expenses, whichever is less, will be provided to FPOs for three years from the year of formation.The indicative financial support broadly covers salary of CEO/Manager/Accountant, office rent, cost of registration, utilities, minor equipment, travel cost, etc.

4) **Equity Grant for FPO**

   A. Support: In order to capitalise FPOs an Equity Grant in the form of a matching grant is available. The grants covers up to Rs. 2,000 per member/farmer of the FPO subject to a maximum limit of Rs. 15.00 lakh per FPO.

   B. Broad Eligibility Criteria for Equity Grants for FPOs

   - the FPO is a legal entity and has raised equity from Members as per Articles of Association (AoA)/ Bye-laws of the FPO
   - The FPO has a business plan and budget for the next 18 months
   - The number of shareholders in the FPO are in accordance with the Scheme

- A minimum of 50% of shareholders small and marginal farmers and landless tenants
- The FPO has constituted a Management Committee (MC)
- the BoD and General Body (GB) have at least one woman member
- The maximum shareholding per member should not to exceed 10% of total equity

    a. The sanctioned Equity Grant will be released to the FPO through the respective IA.

    b. **Post receipt follow-up action time frame**: Within 45 days of the receipt of the Equity Grant, the FPO will have to issue additional shares to shareholder members.

5) **Credit Guarantee Facility for Lending Institutions**

Since most FPOs do not have adequate collateral and their businesses are risky, the Scheme provides a Credit Guarantee Cover to Eligible Lending Institutions enabling them to provide collateral-free credit to FPOs.

- NABARD is to create and maintain a Rs. 1000 crore Credit Guarantee Fund. It would provide a credit guarantee for FPOs promoted and registered under both the Cooperative Societies Actsandthe Companies Act
- NCDC is to create and maintain a Rs. 500 crore Credit Guarantee Fund. It would provide a credit guarantee for FPOs promoted and registered under the Co-operative Societies Act.
- The Credit Guarantee Facility covers a wide range of credit facilities (term loan, working capital or composite loan) sanctioned within 6 months from the date of application for guarantee cover without any collateral security and/or third-party guarantees. However, the following categories are not covered under the schemes:
    - Credit facility against collateral security and/or third-party guarantee,
    - Risks additionally covered under any scheme operated by RBI/Government/General Insurer,
    - Overdue/ rescheduled/restructured loans on becoming overdue, etc.
- Credit guarantee cover per FPO is limited to a project loan of maximum of Rs. 2 crores.
    - For loans up to Rs. 1 crore, guarantee cover is for 85% of the project loan with a ceiling of Rs. 85 lakh (maximum guarantee fee 0.75% of credit facility).
    - For loans between Rs.1-2 crore, the guarantee cover would be 75% of the project loan with a maximum ceiling of Rs. 150 lakh (maximum fee 0.85% of credit facility)

BACKGROUND READING

1. BIRD. Guidebook FPO schemes. Online: https://birdlucknow.nabard.org/wp-content/uploads/2021/02/Guide-Book-FPO-schemes.pdf
2. Bankers Institute of Rural Development, Lucknow (2021). Session III. Salient Features of the Central Sector Scheme (CSS) on Formation & Promotion of 10000 FPOs. In, Resource Material: Capacity-Building of Cluster-Based Business Organisations (CBBOs) Under Central Sector Scheme on Promotion & Formation of 10000 FPOs Online: https://birdlucknow.nabard.org/fpo-resource-center/basic-modules/CBBOs/
3. Department of Agriculture, Co-operation & Farmers' Welfare, Ministry of Agriculture & Farmers' Welfare (2020). Formation and promotion of 10,000 Farmer Producer Organizations (FPOs): Operational guidelines. Online: https://agricoop.nic.in.

Session II - Business Models of FPOs

Summary of the Session:

Credit assessment for FPOs - Working Capital and Term Loan

Challenges faced by FPOs in accessing Institutional Credit

FPOs must be nurtured well to ensure their economic viabilityand sustainability. This helps them to take up viable business activities like the aggregation of produce, collective marketing, bulk procurement of inputs, primary processing, etc. All these activities must be funded through reasonably priced loans from the formal financial institutions.

Different Business activities associated with FPOs

- Input business- Seed, fertiliser, pesticide, farm equipment
- Value addition- Post-harvest management, processing – grading, sorting, milling,
- Output business - aggregation, marketing

Borrowing for large projects from banks inevitably requires awareness of the modalities and documentation involved. Preparing the documentation can help an FPO fine tune its project. The documentation also helps a bank make a realistic assessment by the FPO and its governance about the proposed scale of business and the credit facility – mode and quantum – which can best facilitate the process. The banks also need clarity on the concept of FPOs and the process of assessing credit requirements of FPO businesses. This would enable both the FPO and the Bank/Financial Institution to be realisticabout expectations of funding, better planning of projects and smooth processing of the credit application. These aspects would be addressed in the following sections.

C. Different financial requirements of an FPO

The capital requirement of an FPO will depend on the nature and volume of business and would vary from case to case. Finances are required for different uses at various stages of the FPO's growth.

1. **Incubation and Early Stage:** At this stage, the financial needs of the FPOs revolve around the cost of mobilising farmers, registration cost, cost of operations and management, training, exposure visits, etc.
2. **Emerging and Growing Stage:** Once FPOs are incubated with grant support from promoting institutions, there are three ways to raise funds to meet their working capital and investment need. They include – Equity Financing, Credit Capital and Debt Financing.
3. **Matured Stage (Business Expansion):** As the FPOs move towards expanding their businesses, they need finance for quality improvement in products/services. Here, finance is required for quality improvement along the value chain of the produce.

The succeeding paragraphs deal with this aspect in detail including the type of products which can be taken up.

- Loan Products with Collateral/Guarantee Cover
    - Loans to POs/FPOs that are eligible for assistance from SFAC/NABARD etc., towards equity/credit guarantee cover.
    - Loans to Promoting Institutions, for on-lending to FPOs.
- Loan Products without Collateral//Guarantee Cover
    - Loans to FPOs that are not in a position to provide collateral.
    - Loans to start-up FPOs with a small size of business activities.

The items eligible for assistance broadly include capital costs such as the cost of building, machinery and equipment for processing, vehicles including specialist vehicles for transportation etc., and working capital requirements for input supply, procurement, collective marketing, and other recurring costs connected with the project. The details are now taken up as below.

Block Capital

a. Block capital normally is a one-time expenditure - on office furniture, fixtures and other equipment like computers, printers, cupboards, and Internet/ telephone connections.

b. Infrastructure like warehouses, weighing machines, graders/ sorters, etc. is also classified as block capital. This infrastructure can be purchased or can be taken on rent/lease.

Term loans

Long term loans are required to meet the block capital requirement, like the acquisition of machinery or setting up infrastructure.

Assessment of Term loan requirement

A term loan is a loan granted for the purpose of acquisition of capital assets, such as the construction of factory buildings, purchase of machinery, modernisation, rationalisation of plant, etc., and is *repayable from the future earnings of the enterprise*, in phases/instalments, as per a pre-arranged schedule.

A Term Loan is sanctioned for a fixed term, normally for a period of more than 3 years, depending upon the cash flow generation from the business enterprise and the economic life of the assets created. The term loan is only one of the main sources to meet the total Project Cost. The total project cost is assessed on the basis of expenses to be incurred for:

- Land
- Factory building/shed/warehouses/administrative building
- Machinery
- Furniture and Fixtures
- Technical knowhow/research and development
- Preliminary and Pre-operative expenses
- Contingencies
- Margin Money for working capital

For the bank/financial institution to process the term loan, a borrower must provide appropriate documents (agreements, receipts, invoices, etc.) related to the following investments/expenses.

- Land

- Factory building/Shed/Warehouses/office
- Machinery
- Furniture
- Technical Knowhow/Research and Development
- Preliminary and Pre-operative expenses
- Contingencies

Working Capital

Working capital is required to fund recurring expenses during operations:

a. Procurement of raw material, storage cost, processing, transportation, etc.

b. Management and administration costs for day to day activities, including staff salary, (Manager/CEO, Production Officer, Accountant, Marketing Officer, etc.) travel, rent, electricity, water, phone, stationary, cleaning, meeting expenses of BoD /GB, training and exposure visits of BoDs and FPO functionaries, license fee, insurance and other statutory fee and other miscellaneous expenses.

Working capital loans

A short term loan, required for running the existing operations of the FPO; which can be used for buying raw materials (for example, seed, fertiliser, etc.) or building inventories. The working capital loan may be a part of a composite loan (term loan + working capital) or a separate limit. There are different methods of working out the working capital limit. Normally banks provide 20% of the annual turnover as a working capital loan.

Assessment of requirement of working capital

The quantum of working capital required depends on various unit-specific internal factors, like operating efficiency, technology employed and the level of quality control and external factors, like, the demand and supply gap, nature of the activity, availability of production inputs (raw material, labour, power and fuel) and availability of credit. Thus, the quantum of working capital would depend on the prevailing conditions, business levels and the type of business. It may change with time. The banks, therefore, review and reassess the working capital requirements of borrowing enterprises on a regular basis.

There are several methods to assess the working capital requirement used by Banks such as the Cash Budget System, Projected Annual Turnover Method, Maximum Permissible Bank Finance (MPBF) System, and Net Owned Funds System, depending on the type of activity. Two common methods are enumerated below.

A. Cash Budgeting Method: Cash budgeting is done for a year, and month to month cash flows are calculated. The information required from the borrower is as follows:

- Balance sheet for the previous financial year (in case of an existing FPO)
- Projected balance sheet for the budget year
- Projected profit and loss account for the budget year
- Estimate of monthly sales and purchases
- Estimate of monthly expenses and income other than from purchases and sales
- Seasonality factors in the business, if any

From this information, the cash flow is computed as follows.

1. **Cash inflow:** Opening cash/bank balance (+) amount of receivables at the beginning of the month (+) sales (–) amount of receivables at the close of the month
2. **Cash Outflow:** Payments made for raw materials/consumables (opening trade credits (+) purchases (-) trade credits at the end of the month); (+) payment made to fixed asset suppliers; payment of interest; payment of tax; payment towards other expenses such as labour, utilities, etc.
3. **Closing Cash Balance**: Total cash inflow (-) Total cash outflow for the month

   The difference between inflows and outflows of cash would indicate the period when the business is short of cash and to what extent it requires funding. There would be variations in the cash deficit from month to month. The peak level of cash deficit would be the outer limit of working capital requirements.

   A two-track working capital limit, one at the base level taking care of the normal requirements over the year and another additional limit to take care of increased seasonal demands, is worked out.

B. Projected Annual Turnover (PAT): Often working capital credit limits provided by the lending banks is at a minimum level of 20% of the Projected Annual Turnover (PAT).

- The lending norms presuppose that the working capital requirements of a unit may be considered as 25% of the value of output or PAT. Banks normally provide 80% of this amount, the residual portion to be brought in by the promoter by way of margin from long term sources. The working capital credit limit provided by banks is at a minimum level of 20% of the projected annual turnover.
- The total working capital requirement of a unit, pegged at 25% of PAT, assumes an average working capital cycle of 3 months. Different units with different activities have different working capital cycle patterns at levels higher and lower than the average cycle of 3 months. Therefore, it is necessary that the level of bank credit for working capital is also assessed through other methods of appraisal than the PAT method.

D. Different sources of finance available to an FPO

An FPO can arrange finance from the following sources.

1. Equity:

In the case of an FPO, the equity comes only from the members (shares) and no external financier can participate in the equity investment.

2. Own Resources:

The reserves and surpluses of previous years are the sources for personal financing. However, in the case of a new FPO, this opportunity will not be there.

3. Suppliers' Credit and Advance Payment from Buyers:

Suppliers' Credit can be obtained from credit companies or from potential buyers and sellers. The producers who sell their products to the FPO can sell on credit. FPO can get part payment in advance from prospective buyers. It can get agriculture inputs from the

Agro dealers on the conditions of payment after-sales. However, this type of finance is not always available for start-up businesses or new ventures.

4. **Grant support:**

   The FPO being a small holders' organisation may seek capital support and other assistance from the Government under various schemes.

5. **Debt financing (loans):**

   This is the most preferred way of financing a new business. Here it is a direct obligation to pay an interest on the money lent by the financier. The biggest advantage is that the financier does not have control over the business as opposed to equity financing. However, it is not easy to raise debt financing for a producer's company without collateral and margin; even more so for a new FPO.

E. Access to Finance from (rural) financial institutions/ banks by FPOs

The FPOs have to approach a bank with a financially viable business plan/Detailed Project Report. Banks in our country provide Short Term Loans to meet working capital requirements and Medium to Long Term loans for the acquisition of capital assets (Term Loans) for any business.

A composite loan to take care of both short and long term financial requirements loan is also sanctioned by banks. The finance will depend on the nature and volume of business which would vary from case to case. The banks generally require the following information/ data for sanction of loan:

- A business plan and Detailed Project Report (DPR)
- Margin money contribution (amount of borrower's contribution to the project)
- Details of project management (Executive team and Board of Directors with qualification and experience) of FPO
- Details of a dedicated team for execution and monitoring of the project
- Details of proposed business plan
- Financial requirements for executing the business plan
- Audited financial statements of the last 3 years (Balance Sheet and P/L statement) with notes on accounts and annexures. In case the FPO is yet to be formed or if it is less than three years old the projected financial statements may be submitted.
- Details of earlier/current loans/grants if any (sanction letters) availed from other Banks/Financial Institutions/Developmental Agencies/ Individuals
- Details of security/collaterals to be offered
- Copies of Registrations (Certificate of Incorporation/Commencement of business/Society Registration/FCRA/Trust Deeds etc.) and MoA/ AoA
- Copies of PAN/TAN/Sales Tax Registration
- Copies of approvals for relief in Taxation (I-T and Sales Tax)
- Copies of agreements entered into for Lease / Confirmed Orders - if any

- Details of associate companies (with audited financials for 3 years)

F. Options available for FPOs, if FIs do not provide credit facility

A newly formed FPO does not have enough share capital, reserves and credentials for doing successful business, therefore mobilising funds from banks is difficult in the initial phase. With all the costs included, the FPO may face a huge financial burden from the beginning and the idea of setting up an FPO may not even take off. To overcome the problem, the FPOs may adopt the following business model in the initial years before they generate reserves and establish credentials.

- Choose those activities in the initial years which require very less capital or no capital and which are risk-free.
- Take dealerships of seeds and fertilisers from the companies and work as commission agents. FPOs can earn good margins and build business relationships with those companies who may offer credit sales in the subsequent years.
- Enter into dealership with equipment manufacturing companies selling agriculture implements like water pump sets, mechanised plough, etc. The FPO can earn a commission on sales while making them available to members at lower costs.
- Procurement of agricultural produce – to identify prospective buyers and enter into buy-back guarantees from them. If crop sales are organised at the farm gate level, the FPO will not incur transportation and storage cost. FPO can earn some margin from the buyers.
- Many FPOs have taken advantage of the GoI scheme, which provides 80% of the value of products as loans against the pledge of Warehouse Receipts (WHR) without collateral. The successful demonstration of such a business would build their credentials among the members and other stakeholders.

The demonstration of fair trade practices is very important for the FPO. These small activities give FPOs the opportunity to demonstrate such practices. This can build the FPO's reputation among both its members and the market players it deals with.

G. Financial Appraisal of an FPO's Project

Banks study the viability of an FPO's project and credit needs with the help of the following measures calculated based on the assumptions made about the costs and earnings from the FPO's various businesses.

- Projected Financial Statements: The FPO's balance sheet, profit and loss statement, and fund/cash flow statements for the next five years (essentially covering the repayment period, could be a longer tenure too)
- Break-Even Point of the business activity
- Calculation of Internal Rate of Return (IRR) on the basis of the projected profitability

- Calculation of Debt Service Coverage Ratio (DSCR)
- Details of assumptions made to prepare the projected financials
- Sensitivity Analysis
- Year-wise Budget for capacity utilisation

The list of documents to be submitted with the project report

1. DPR along with an application for loan/grant required in duplicate
2. List of movable/immovable Assets of the organisation/promoters
3. List of tangible unencumbered security offered as collaterals. In case of landed property, a copy of the Sale Deed along with the extract of the latest Land record
4. Income Tax and Wealth Tax details of last three years
5. Certificate of reliefs given under statute. (IT, Sales Tax, etc.)
6. Copies of sanction letters from other institutions, Government Agencies,
7. Agencies sanctioning loans, grants or other support services relating to the activity
8. Provisional Registration Certificate from the concerned authority viz., Registrar of Companies, Registrar of Cooperative Societies, District Industries Centre, etc.
9. Certificate of Incorporation from a competent legal authority. In the case of corporates, certificate of commencement of business issued by Registrar of Companies
10. Memorandum and Articles of Association/ Bye-laws of Society
11. Permission/license from Competent Authority (for Textile, Foods and Drugs, Forest, etc.)
12. Certified copy of sale deed along with the extract of the latest land record in respect of land. (The land should be in the name of the company/society whichever is applicable); for rented premises, rent agreement for a minimum of eight years or covering the entire loan period
13. Three quotations in respect of each item of plant and machinery and raw material, proposed to be purchased
14. Import, Export Licenses
15. Details of power requirement and tie-up with State Electricity Board
16. Permission from Water and Pollution Control Board
17. Approved Building Plan from the Competent Authority with cost estimates from the Architect
18. Appropriate approvals such as the FSSAI etc.

The FPO must communicate with the bank/financial institution for the updated list of documents to be submitted with the loan application.

H. Credit Assessment – Working Capital and Term Loan

Three practical illustrations of credit assessment are given below.

1. Illustrative Model of working Capital Assessment - One time output procurement and sale

Name of the FPO	ABC FPC Ltd.
Purpose	Procurement of paddy from farmers at the time of harvest and sale after storage for 4-5 months
Loan Amount	Working Capital loan of ₹ 25.50 lakh
Margin	15 % of total funds₹ 4.50 lakh
Repayment	Bullet repayment at the end of 8th month

Costs / Expenses - Paddy procurement

Sl. No.	Commodity	Procurement Quantity (ton)	Rate/tonne (₹)	Total amount (₹)
1	Purchase price of Paddy	150	17,000	25,50,000
	Procurement expenses			
2	Cost Gunny bag	150	600	90,000
3	Transportation cost	150	250	37,500
4	Drying cost/drying loss	150	500	75,000
5	Loading/unloading	150	180	27,000
6	Warehouse rent- 7 months (Rs. 200/tonne/month)	150	1,400	2,10,000
7	Insurance for stock			5,000
8	Drying Yard - Rent			5,500
	Total Expenses			**30,00,000**

Sale of paddy

Sl No.	Commodity	Quantity (ton.)	Rate/ tonne (₹)	Total amount(₹)
1	Paddy	138*	25,000	34,50,000

*Likely loss due to drying/processing - 12 ton

Projected Profit/Loss

Sl. No	Particulars	Total amount (₹)
	Income	
1	Sale of paddy (138 tonnes @Rs.25000)	34,50,000
	Expenses	
1	Procurement of paddy	25,50,000
2	Procurement expenses	4,50,000
	Total expenses	30,00,000
	Gross Profit	**4,50,000**

2. Illustrative Model for Assessment of the Working Capital - Input and output trading round the year

Cash Flow Method

Name of the FPO	ABC FPC Ltd.
Loan Amount	Working Capital loan of Rs.33,00,000
Repayment	Bullet repayment after 13 months
Purpose	- Commodity trading - Agri-input trading (Seeds, fertilisers and Pesticides)

The FPC has planned to utilise the funds requested from the financial institution for trading in seeds, trading in commodities, trading in fertilisers and pesticides.

Business Plan:

Maize seeds shall be procured from the XYZ seeds which shall be supplied to the member and non-member farmers in the service area. The wheat shall be procured from the member farmers in the service area which shall be sold to the processors in the district and to the traders in the Mandi. Fertilisers shall be procured from MARKFED and sold to member farmers. Pesticides shall be procured from the distributors in the district which shall be sold to both member and non-member farmers

Procurement of Wheat		**Year 1**	**Year 2**	**Year 3**
Particulars	Unit			
Quantity	Qtl	300.00	315.00	330.80
Rate	Rs./Qtl	1,850.00	1,942.50	2,039.60
Total	(Rs.)	5,55,000.00	6,11,887.50	6,74,700.00

Procurement of Maize seeds		**Year 1**	**Year 2**	**Year 3**
Particulars	Unit			
Quantity	Qtl	180.00	189.00	198.50
Rate	Rs./Qtl	32,500.00	34,125.00	35,831.25
Total	(Rs.)	58,50,000.00	64,49,625.00	71,12,503.00

Agri-inputs (Fertilisers, Pesticides)	**Unit**	**Year 1**	**Year 2**	**Year 3**
Urea	Bags	200.00	210.00	220.50
DAP	Bags	200.00	210.00	220.50
Pesticides	Rs.	165,000.00	1,81,500.00	1,99,650.00

Average procurement cost of Fertilisers	Unit	Year 1	Year 2	Year 3
Urea	Rs./Bag	277.00	291.00	305.00
DAP	Rs./Bag	1,430.00	1,502.00	1,577.00
Procurement cost	Rs.	3,41,400.00	3,76,530.00	4,14,981.00

Average Selling Price	**Unit**	**Year 1**	**Year 2**	**Year 3**
Wheat	Rs./Qtl	2,100.00	2,205.00	2,315.30
Maize seeds	Rs./Qtl	37,000.00	38,850.00	40,792.50
Urea	Rs./Bag	285.00	299.30	314.20
DAP	Rs./Bag	1,450.00	1,522.50	1,598.60
Pesticides	Rs.	1,98,000.00	2,07,900.00	2,18,295.00

Revenue Streams	Unit	Year 1	Year 2	Year 3
Trading of Commodity -wheat	Rs.	6,30,000	6,94,575	7,65,768.90
Trading of seeds – Maize seeds	Rs.	66,60,000	73,42,650	80,95,271
Trading of fertilisers	Rs.	3,47,000	3,82,567.50	4,21,780
Trading of pesticides	Rs.	1,98,000	2,07,900	2,18,295
Total Revenue from the proposed activity	Rs.	78,35,000	86,27,692	95,01,116

Operating Cycle of Fertilisers and Pesticides
Start Dec 2019
Ends: January 2021

1st Operating Cycle of Maize Seeds
Start: December 2019 with the advance amount paid to the seed company
Ends: August 2020

2nd Operating Cycle of Maize seeds
Start: August 2020
Ends: December 2020 (Through the realisation of receivables)

Operating Cycle of wheat commodity trading
Start: April 2020
Ends: June 2020 (FPO will hold the wheat after procuring in April 2020 and will sell it in June 2020)

Total duration of the loan: 13 months

From the above-mentioned operating cycles and the detailed month-wise cash flow, a working capital loan with a repayment period of 13 months (bullet repayment) loan of Rs. 33 lakh is proposed.

Further, the FPC is expecting to generate a total turnover of Rs.78.35 lakh. After servicing the interest and other loan-related expenses, the FPC would be able to generate a surplus of Rs.1.14 lakh.

Other Expenses and Administrative Expenses: the costs related to the salary, transportation, storage, labour etc. have been added.

The detailed cash flow is given in Annexure I.

Annexure I - Detailed Cash Flow ABC FPC Ltd.

Cash Flow Analysis	**Dec 19**	**Jan 20**	**Feb 20**	**Mar 20**	**Apr 20**	**May 20**	**Jun 20**	**Jul 20**	**Aug 20**	**Sep 20**	**Oct 20**	**Nov 20**	**Dec 20**	**Jan 21**
Cash inflow (sales)														
Opening cash before financing	575000	56764	43729	30693	17657	44121	25586	637050	365314	751779	733243	714700	696171	4007636
Sale- Maize seeds									3330000				3330000	
Sale- Wheat Seeds							630000							
Sale- Fertilisers	24786	24786	24786	24786	24786	24786	24786	24786	24786	24786	24786	24786	24786	24786
Sale- Pesticides	14143	14143	14143	14143	14143	14143	14143	14143	14143	14143	14143	14143	14143	14143
Cash Outflow (Purchase)														
Wheat procurement					555000									
Maize seeds procurement	2925000								2925000					
Fertilisers trading	170700							170700						
Pesticides trading	82500							82500						
Operational expenses	2214	2214	2214	2214	2214	2214	2214	2214	2214	2214	2214	2214	2214	2214
Overheads (Office, salary,etc)	25000	25000	25000	25000	25000	25000	25000	25000	25000	25000	25000	25000	25000	25000
Closing cash before financing	**(-) 2591486**	**68479**	**55443**	**42407**	**(-)525629**	**55836**	**667300**	**395564**	**782029**	**763493**	**744957**	**726421**	**4037886**	**4019350**
Proposed loan from FI	2700000				600000									
Proposed repayment														3300000
O/S loan from FI	2700000	2700000	2700000	2700000	3300000	3300000	3300000	3300000	3300000	3300000	3300000	3300000	3300000	0
Interest to FI	51750	24750	24750	24750	30250	30250	30250	30250	30250	30250	30250	30250	30250	30250
Closing Cash after financing	**56764**	**43729**	**30693**	**17657**	**44121**	**25586**	**637050**	**365314**	**751779**	**733243**	**714700**	**696171**	**4007636**	**689100**

3. Illustrative Model for Assessment of the Term Loan

Name of FPO	ABC FPC Ltd
Loan Amount	• Total Project Cost- ₹ 67.09 lakh • Term Loan – ₹ 45 Lakh • Margin Money for FPO - ₹22.09 lakh
Repayment	• 14 quarterly instalments after a moratorium of 9 months • 1st instalment to be payable at the end of 12th month
Purpose	For the construction of dal mill for processing black gram

Black gram is being cultivated by almost all the members of the FPO. Presently, the FPO is selling unprocessed gram to traders. The FPC has decided to set up a dal mill for processing black gram, and its packaging and then supplying it to the nearest city markets.

The financial plan for establishing a Dal Mill:

Sl No	Particulars	Cost (in ₹)
I	**Fixed capital**	
1	**Land and Building**	
A	Construction of 2640 sq ft reinforced steel roofed shed	17,63,000
2	**Plant and machinery**	
A	Automatic dal mill of 1 tonne per hour capacity as per quotation including air drier, compressor, colour sorter, meter box, panel board, capacitor, cables and extension wirings installation and positioning charges	19,75,000
b.	EB deposit to acquire 65 HP low tension load + additional charges	11,00,000
c	Other contingencies	12,000
	A. Fixed Capital	**4850,000**
II	**Working capital capitalised for 15 days @ 3000 kg per day**	
1	**Raw material procurement**	
	Black gram 3 tons per day for 15 days @ ₹ 40000/ ton on average (1 cycle- 15 days, 2 cycles/ month)	18,00,000
2	**EB charges**	
	60 HP motor (60 HP x ₹ 8/MT/day x 3 MT x 15 days)	21,600
3	**Oil Requirement**	
	2 litre oil per ton processing @Rs 70/ lit oil	6,300
4	**Manpower**	
1	Supervisor @Rs 6100 per month x 2 months	12,200
2	Unskilled labour @160 per day x 2 months (20 days/ month)	19,200
	B. Working Capital	**18,59,300**
III	**Total cost of project (A+B)**	**67,09,300**
IV	**Promoter's contribution**	**22,09,300**
V	**Loan sought**	**45,00,000**
VI	**Loan to be sanctioned**	**45,00,000**

I. Challenges faced by FPOs in accessing institutional credit

FPOs face several challenges while accessing institutional credit.

- **Low capital base** -Inadequate capital base restricts the capacity of FPOs to raise credit for undertaking sustainable business operations based on the prevailing debt-equity norms of financial institutions. Consequently, the business level of FPOs becomes limited and often they incur losses. It may be noted that unless FPOs carry out relatively larger business operations and make adequate profits, they would find it difficult to attract new members; this is a vicious cycle. Further, as the business of the FPO grows, its share capital also needs to grow and its profits ploughed back into the business.
- **Absence of credit history** -The majority of FPOs, being new, do not have any credit history. Further, FPOs do not have collateral to offer as security for accessing credit from the financial institutions/banks. Hence, the formal financing institutions hesitate to come forward to lend them.
- **Inadequate capacity building:** Inadequate capacity building of Board members/ CEO and lack of professional handholding support by the promoting agencies often result in a lack of adequate participation by the board members in decision making, poor governance and absence of a sound business plan.
- **Member participation is low:** A low level of active member participation in business further limits the prospects of business growth due to which many FPOs are not able to achieve a break-even level.
- **Riskiness of agriculture:** Agriculture, being highly dependent on many external factors such as weather, Government policies, etc., its performance is erratic. Since FPOs undertake business in such an environment, it calls for very careful business planning to achieve commercial viability/ sustainability, particularly in terms of building adequate forward and backward linkages.
- **Several compliance requirements:** FPOs require various types of licences such as those for seeds, fertilisers, and pesticides apart from mandi licences and FSSAI licenses and generally they are not aware of the legal requirements and find it challenging to obtain these licences to carry out the business.
- **Dependence on external experts:** Since a majority of the FPOs are registered under the Companies Act, they have to file various returns with statutory authorities like the Registrar of Companies, Tax authorities etc. However, in the absence of adequate guidance in this regard from promoting institutions, they are largely dependent on external consultants, CA/CS for filing various returns. Due to oversight of these consultants, some of the FPOs have been slapped with hefty penalties which affect the already low capital base of the company apart from raising concerns about corporate governance.

BACKGROUND READING

1. State Bank of India, Local Head Office, Bangalore. Financing Farmer Producer Companies (FPCs). Online: http://coefpo.org/knowledge-services/info-desk/finanacing-fpcs-by-sbi.pdf
2. Alur, Ashok S, Dandin, Shankar B, Maheswar, DL. Chapter 8: Funding arrangements for farmer producer organizations. Bengaluru: Centre of Excellence for Farmer Producer Organizations (COE-FPO). Online: http://coefpo.org/fpo%20chapters/FPO_chapter_8.pdf

Sessions III & IV - Modalities for Financing FPOs

Session Summary:

Eligibility criteria for lending to FPOs

Rating Methodology

Appraisal Methodology

A. Eligibility Criteria - What do lenders look for while lending to an FPO?

Every financial institution has its own criteria for lending to FPOs. The following section is written from a banker's point of view. It is helpful for FPOs and CBBOs to see how a prudent banker thinks and acts.

a. Uniqueness of the credit proposal

Considering that the FPOs face a host of operational problems, the process of credit appraisal must factor in various limitations of an FPO in undertaking business operations. The business model of each FPO varies and is unique to its location, farming practices, infrastructure, socio-economic conditions, etc.

For example, the FPO can aggregate wheat in the following different ways:

- The FPO may purchase wheat from the members on credit, aggregate and sell in nearby markets in a short span of time. In this scenario, the working capital requirement will be limited.
- If the wheat is procured from members on a cash basis, stored for a short period of time and then sold, the working capital requirement will be substantially higher.
- When the FPO procures wheat and takes a position in the commodity markets, holding and storage costs will be added to the total working capital requirements.
- The FPO may also be in the seed processing business and may procure certified seeds from its members. In such a case, the working capital requirement and the cash flow will be very different.

As seen in the cases above, the cash flows of every FPO could be unique. Therefore, the banks have to appraise credit proposals, assess working capital and customise the repayment schedules. Further, where FPOs require a term loan to build storage facilities, logistics and/or set up of processing units, the standard tools for appraisal of term loan such as IRR, NPV, DSCR, etc., are to be used. In such cases, working capital requirements also need to be considered.

b. How much to lend?

In the case of seasonal agricultural produce, the commodity passes through the FPO and does not in most cases reside with the FPO; even if it does, the retention period is small. Therefore, the funds can be rotated several times, and thus the working capital requirement will be a fraction of the turnover. A good tool to use to get an understanding of the cycle of operations and the working capital gap is to use the Cash Flow method of working capital assessment discussed previously.

c. Credit Evaluation of an FPO

Some of the crucial aspects that bankers will consider during the appraisal of FPO loan proposals are:

Governance Aspects

- Meeting of Board of Directors and Annual General Meetings
- Involvement of Board of Directors in governing the FPO
- Domination by a few members/Directors (a negative aspect)
- Member's participation in AGM
- Competence and capacity of the CEO and staff
- Record keeping
- Compliance with the minimum regulatory prescriptions of various statutory authorities

Technical aspects

- If financing input purchase by the FPO - seasonality of the crops produced by the member farmers must be considered.
- If financing for procurement of output - formalities for loan-sanction need to be completed well before the harvesting season commences. The banks must collect and analyse the historic (past few years) price trends during the month of harvest and in the subsequent months before financing FPOs who intend to procure from the farmers and store the same before selling it.
- If financing commodity-specific FPOs - the bank needs to understand agricultural operations and harvesting seasons to correctly assess the needs of the FPO.
- The cash to cash cycle for perishable commodities which can be stored for longer periods in cold storage/controlled atmospheric storage like apples, grapes, potatoes, and carrots,or in other storage structures (e.g., onion) will be longer. This needs to be considered while assessing the working capital requirement.
- Working capital requirement for allied sectors like dairy, fisheries, poultry etc. has to be based on their cash generation cycle.
- Working capital requirements of FPOs, intending to process procured agricultural produce for sale as value-added produce- Information needs to be collected on the identified crops, the area under the crop, the availability of similar processing units in the district and their sources of raw material and its availability, availability of raw materials for round the year functioning of the processing unit, its cost and logistics etc.
- The bankability/viability of a project will be improved if subsidies available from various Government schemes/programmes for the creation of infrastructure can be accessed. Any technical assistance available from the Government Agencies to improve the technical feasibility or productivity also needs to be studied.

Business Aspects- Financial Analysis

- Cash flow Analysis - Month-wise cash inflow and outflow is used to assess the working capital requirements and also for fixing the repayment schedule.
- Quotations for capital investments - wherever capital investments are involved (purchase of plant, machinery, etc.) the proposals for term loans have to necessarily contain quotations to estimate the fixed costs required for the project.
- Stock Movements -Opening and closing stocks, as also the ageing of the stock must be analysed to assess whether the FPO is able to sell its products or not.
- Receivables and Payables - the movements in receivables and payables are also good indicators of the business, financial health and viability of the FPO. The current ratio may also be used to ascertain the liquidity position of the FPO.
- Margin Requirement - internal resources of FPO must be assessed.
- Price volatility- price trends of various commodities over the last 3-5 years, present Minimum Support Price (MSP), mandi rates, etc., are to be considered while analysing the viability of the FPO's loan proposal.

Other critical Aspects

Some other critical aspects are examined by bankers while appraising the FPO's loan proposal.

- Capital structure -debt to net worth after the proposed loan
- Credit history of the FPO (if any) and sources of finance for business
- Availability of credit guarantee cover and eligibility of FPO for such a guarantee
- Latest bank statement to analyse large credit or debit entries
- Profile of its Board Members/ CEO.
- Feedback of Board Members/other shareholders on the appropriateness of the business model and the credit proposal
- The technical and managerial capability of the FPO to professionally handle processing/other business activities and the scale of operation
- Presence of an overall ecosystem required for seamless business operations, backward and forward linkages
- Status of market linkages and role of other agencies like input suppliers, extension agencies, market service providers in the FPO's business.

d. Risk and risk mitigation

- Lending to FPOs by its very nature will remain relatively risky for bankers. Although in absolute terms, the size of the portfolio may be small, in the initial stages the banker will have to invest time and effort to ensure a sound proposal. This would also be a learning process for the FPO.
- Due diligence by bankers during the identification and selection process and proper credit underwriting would offset the risks of 'Adverse Selection' (or selecting a project that is bound to fail).

- The most effective risk mitigation will be through periodic monitoring of the FPO by way of off-site and on-site visits during the business season. The banker can take a lead role along with the CBBO and FPO Directors and Staff.
- It would be prudent to secure loans to the FPO through credit guarantees provided by SFAC or other agencies.

e. Other Aspects

In a majority of FPOs, the requirement of credit, especially in the initial stages, is for working capital. In such cases, while historical financial statements of P&L and Balance Sheet give the indicative past performance of the FPO, it does not guarantee the same performance in the upcoming year or more. Particularly, it does not give a true picture of what happens in between the year. The performance of the FPO depends on various factors such as the weather, type of crops, crop yield, if the crops can be stored, if they are perishable, the need for primary processing, participation of the members, market linkage, credit linkage, etc.

The FPO requires working capital for several uses - to purchase seeds, fertilisers, pesticides in bulk for its member farmers, to procure farm output from farmers for sale, for storing or processing the produce into value-added products and sale.

Timeliness of financing is the crux of meeting the working capital requirements of the FPOs as any financing after the demand is over is likely to be of little use to the FPO and its members.

During the year, there may be some period/months when there is no economic activity and therefore no cash inflows. Lenders need to design the loan product in a way that there is no loan repayment during such a period. The loan should be repaid during the months of high cash inflows. The timing and how much repayment to structure can be effectively analysed through a simple monthly cash flow projections statement.

It is important to extend 'responsible debt'-debt that has manageable interest rates and repayment terms- as it would enable optimal cash-flow management and ultimately helps both the lender and the FPOs to grow. Conversely, loans with unrealistic repayment terms erode cash flow and hinder early-stage survival and later growth of FPOs.

f. Margin and Security Norms

FPOs are often asset-light organisations and do not have anything substantial to provide as security or collateral. Although margin and security should be as per the guidelines of RBI and the bank's internal policies and procedures, by availing the Credit Guarantee support from SFAC and other institutions the loans become more secure for the bank. In order to build up the FPO sector lending agencies have adopted different norms for collateral security and these need to be studied by the FPO and its promoting institution before approaching banks.

g. Interest rates

The banks would have the discretion to decide on the interest rates applicable to loans sanctioned to FPOs.

Developing the Financial Ecosystem for FPOs

Capacity Building and Training
Banks have the best interests of the FPOs and may initiate suitable steps to internalise the FPOs linkage project and organise exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/sensitisation programmes may be conducted for their middle level controlling officers as well as senior officers.

Encourage FPO Linkage under Priority Sector Lending
Banks as a policy should incentivise branches lending to FPOs and make the procedures simple and easy.

As per the RBI's Master Directions on priority sector lending, loans to corporate farmers, FPOs, individual farmers, partnership firms and co-operatives of farmers directly engaged in agriculture and allied activities, up to an aggregate limit of Rs. 2 crore per borrower is included under its target for agriculture. The activities include crop farming, dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture.

Further, loans to FPOs of individual farmers where the membership of Small and Marginal Farmers is not less than 75 per cent by number and whose share in land-holding is also not less than 75 per cent of the total land-holding of the FPO's members, will form a part of achievement towards sub-target of small and marginal farmers.

FPOs play an important role in the aggregation of farm inputs and direct marketing of agricultural produce for better price realisation to the farmers, especially small and marginal farmers. Such community-based organisations provide an excellent platform for value addition, agro-processing, supply chain and value chain management in Agri and allied sectors.

Further, the FPO portfolio is an emerging business product for the financial institutions. This portfolio will enhance credit flow to Agri and allied sectors under priority sector lending. The credit risks can be minimised due to Credit Guarantee available under the centrally sponsored scheme.

B. Rating indicators/Norms for financing FPO

The lendability assessment tool for FPOs can be grouped under four broad parameters:
1. Governance and Management
2. Business and Operations
3. Processes and Systems
4. Financial performance

Across the four parameters, there are a total of 22 questions and each question can be scored between 1 and 4 (4 being the highest and 1 being the lowest score). Each of the four parameters has different weights assigned out of a total possible 100%. A score of 65% and above can be considered a good score as per the suggested weightage given below). The weights are indicative and can be modified based on the internal requirement or assessment of a financial institution.

Rating Summary	**Factors**	**Weightage (out of 100%)**	**Maximum score**	**Score obtained**	**Score(%)**
Governance & Management	8	30	120		
Business operations	3	20	80		
Processes & Systems	7	30	120		
Financial Performance	4	20	80		
Total	22	100	400		

Due Diligence Items	**Due Diligence Response**				**Company Score**
	1	**2**	**3**	**4**	
Management and Governance					
No. of Board Members	2	3-5	6-8	>8	
Quality of Board	No relevant experience of members	1-3 years of experience in farming	3-5 years of experience in farming, but in different commodity	>5 years of experience for the majority of board members especially in the same commodity	
Minutes & Records	Not maintained	Sketchy	Detailed and decisions taken are recorded; but not reported to the MCA	Detailed and decisions taken are recorded with proper compliance	
Quality, experience and track record of CEO	CEO with no previous experience/ relevanteducation	CEO with <3 years previous non–relevant experience, but has relevant educational qualification	CEO with <5 years of relevant experience and educational qualification	CEO with 5+ years of relevant experience and educational qualification	
Second line of management	No second line of management. Only CEO	No second line- CEO accompanied by accounts team	CEO accompanied by accounts team and at least one divisional manager (e.g. Marketing, sales, procurement)	Second line of management well defined and can take on a leadership role	
No. of members	Less than 300	300-500	500-1000	>1000	
Participation of members (transacting members)	<30%	30-50%	50-75%	>75%	
Role of Promoting	No promoting agency	Promoted by an agency, but the	Promoted by an agency, and the	Promoted by an agency, but	

Agency		agency doesn't play any role	agency plays an active role in finance, operations and governance	the FPO is self-sufficient. Agency works on a paid basis.	
Business Operations					
Type of FPO	Dealing in Inputs	Dealing in Market linkage of output	Dealing in input and market linkage of output	Dealing in inputs and/ or market linkage of output with primary/ secondary processing/ value addition	
Price risk of commodities (Not applicable to FPOs involved only in lending/ supplying inputs only)	FPOs dealing in highly price sensitive/ volatile commodities (oilseeds, grams, etc) and price risk borne by FPO	Commodities with MSP, but price risk on FPO	Part of the commodities hedged against price risk and/ or non- volatile commodities	Price risk covered through well defined hedging through NCDEX or other mediums **OR** Not applicable – FPO only in lending/ supplying inputs	
Other lenders	No external lender	External lender but not an institutional lender	At least one institutional lender	At least one institutional lender with repeat lending	
Processes and Systems					
Accounts & MIS	No MIS, Accounting done manually	Accounting managed by using basic MS Office tools but not on software packages	Accounting managed by Tally, no digitisation of the other operational records	Software for managing accounts and digitisation of MIS	
Insurance of stocks against fire and theft	No insurance cover	1. less than 50% of stock is insured against fire and theft or 2. insurance cover is either for fire or theft	50% or more stock is insured against fire and theft	100% stock is insured against fire and theft	
Credit record of FPO	Current and past record of delays/ No credit history	Current and past record of delays	Past record of delays or defaults	No record of delays or defaults	
Statutory Filings	Any delays in past 12 months that are not yet filed	Multiple delays (>5) over past 12 months but filed as on date	Few delays(<5) over past 12 months but filed as on date	No delays	
Are books &	Updated on	Updated on	Updated with a	current	

records up-to-date?	monthly or more basis	weekly basis	lag of 2-3 days		
Reconciliation of stocks	Absent/ annual	2-4 times a year	monthly	Regular	
Cash dealing as % of gross revenues	>70%	50-70%	20-50%	<20%	
Financial Performance					
Scale and profitability					
Total Revenue	<10 lakh	10-50 lakh	50-100 lakh	>100 lakh	
Gross profit margin	<0%	0-5%	5-10%	>10%	
Trends in Profitability	Loss making	Profitable in last one year	Profitable in last two years	Profitable for more than 2 years	
1. Capital Structure					
Debt to Net Worth after proposed loan	>10x	6-10x	3-6x	0-3x	

The above tool is indicative, and provides some idea of what metrics to include and how to assign scores and weights. It can be adapted suitably to the criteria set forth by each lending institution.

C. Pre-Sanction Visit to FPO by the Bank - what to observe?

A visit to the FPO and interacting with its members, board members, staff and clients is critical to making a decision regarding financing the FPO. The purpose of the visit should not be to point out deficiencies/shortcomings of the FPO but to ascertain whether the FPO is bankable and whether the risks, if any, are within acceptable levels. Prior to the visit, the banker must review records and documents of FPO, such as the **financial statements, MoA, AoA, etc.**

What should a banker observe during the visit?

- Relevance and usefulness of the FPO for its members
- Functioning of the board- whether Board members are informed and show interest
- Relationship with promoting institution (CBBO)
- Whether the Board and management are separate
- Competence of the CEO and staff
- Status of business of the FPO
- Bookkeeping in the FPO
- Status of the FPO’s financials
- Status of Statutory and Regulatory Compliances
- Stock/inventory accounting
- Marketing arrangements for the produce
- Infrastructure in place
- Irregularities/fraud if any

D. *Formats needed by financing agencies*

Every Financial Institution expects a borrower to present loan applications in prescribed format, which may change from time to time. Some common format include:

a. the Loan Application Format
b. the Loan Application Appraisal format
c. the Monitoring format

a. Loan Application Format

Name of Loan Proposal -	
Sl No	**Particulars**
1	Name of FPO
2	Address of FPO
3	Legal Status (Act under which registered)
4	Operational area of FPO
5	Crops grown and Crop wise production during last three seasons
6	No. of shareholders (category wise-S&MF, Women, SC, ST, etc.)
7	No. of non-members availing services of FPO
8	No. of BoDs (composition) - Names
9	No. of Board meetings in a year (details)
10	Details of CEO
11	Name of Producer Organisations Promoting Institutions - POPI, if any
12	Assistance provided by POPI
13	Compliances
14	Infrastructure available
15	Details of various certificates/ licences obtained by the FPO
16	Share Capital of FPO
17	Type of loan (Term Loan/Cash Credit)
18	Purpose of loan requested
19	Loan Amount requested
20	Present business activities (activities with turnover – in detail)
21	Business plan – in brief
22	Whether eligible for debt coverage from NABARD/ SFAC
23	Backward linkages
24	Forward linkages (marketing tie up, etc)
25	Financial Statement (for the last three years, if in existence for more than three years; otherwise for all years of existence)
26	Projection of financial statement in next three years
27	Whether taken any loan previously, if yes, then details (for which activity) and status
28	Collateral to offer
29	Documents to be submitted - MoA, AoA, Bye Laws, etc

b. Loan Application Appraisal Format

Name of Proposal-		
Sl No	**Particulars**	**Observations by the Lending Agency**
1	Name of the FPO	
2	Address of the FPO	

3	Legal Status (act under which registered)	
4	Operational area of the FPO	
5	No. of shareholders (category wise-S&MF, Women, SC, ST, etc)	
6	No. of non-members availing services from the FPO	
7	No. of BoDs (composition) – names	
8	No. of Board meetings in a year (details)	
9	Details of the CEO	
10	Name of POPI, if any	
11	Assistance provided by the POPI	
12	Compliances	
13	Infrastructure available	
14	Details of various certificates/ licences	
15	Observations of pre sanction visit by official of lending agency	
16	Type of loan (TL/CC)	
17	Purpose of loan	
18	Loan Amount requested	
19	Present business activities (activities with turnover)	
20	Business plan – in brief	
21	Whether debt coverage from NABARD/ SFAC	
22	Backward linkage	
23	Forward linkage (marketing tie up, etc)	
24	Financial Statement (Last three years, if in existence for more than three years; otherwise of all years of existence)	
25	Projection of financial statement in next three years	
26	Whether any loan has been accessed previously, if yes, then details and status- Credit History	
27	Credit rating, if available	
28	Score obtained by FPO in the Lendability matrix	
29	Financial Analysis by the Lending agency	
30	Loan recommendation with repayment schedule, security (if no debt coverage)	
31	No. of documents required from the FPO	
32	No. of documents for credit agreement	

c. Post Disbursement Monitoring Format

Name of Project-		**Date of Review:**
Sl No	**Particulars**	**Observations by Lending Agency**
1	Name of FPO	
2	Address of FPO	
3	Monthly / quarterly progress report – based on the purpose of disbursement (CC/ TL)	
4	Match with the projections – in the proposal- discrepancies/ deviations to be flagged	
5	Instalments wise Disbursement- utilisation	
6	Execution of security documents	
7	Desk Monitoring and Field Monitoring	

BACKGROUND READING

1. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (2020). Guidebook on lending to Farmer Producer Organisations. Online: https://birdlucknow.nabard.org/wp-content/uploads/2021/02/Guidebook-on-lending-to-FPOs.pdf.
2. Reserve Bank of India (2021). Master Directions – Priority Sector Lending (PSL) – Targets and Classification. Online: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959.
3. Bank of India. Farmer Producer Organization/Company (FPO/FPC). Online: https://www.bankofindia.co.in/FPO.

Sessions V to VIII - Field Visit to a Successful FPO and Financing Bank

Summary of the Session:

Points to observe during field visit to an FPO

Points to observe during a visit to a bank that has lent to FPOs

A. Field Visit to a Successful FPO

Seeing is believing! FPOs can learn a great deal during visits to other similar organisations. A well-organised visit to a successful FPO which has well organised operations and has accessed bank finance has great value. The participants will gain knowledge and a positive attitude towards working with banks. They will also build learning relationships with a more mature FPO. Here are a list of points to observe when visiting a successful FPO which has availed bank finance. The list is illustrative, not exhaustive.

Structure of the FPO:

- Year of incorporation
- Legal status (registered under which Act?)
- MoA/ AoA
- Number of Shareholder Members,
    - Composition (SF/MF/ Other farmers)
    - Composition (ST/SC/ Women)
- Number of non members availing the services of the FPO
- Number of Directors (age/ qualification, background - women, S&MF, SC/ST, etc.)

Geography and crops

- Operational area of FPO (district/ blocks/ villages)
- Crops grown by members

Business Activities

- Marketing arrangements - nearby mandi, APMC, others
- Business activities with turnover, growth, margins, surplus, diversification, viability of each product taken up, etc.
- Infrastructure available with the FPO- office, storage, processing unit, vehicles, etc (rented/ owned), CFC

Promoting Organisation

- Details of Producer Organisation Promoting Institution (POPI)/CBBO, if any
- Type of support being extended by the POPI
- Whether the FPO has availed promotional support under scheme of NABARD/ SFAC/ others, if yes, then details

Staff

- The CEO- Name/ qualification/ date of appointment
- The CEO's salary (how much – whether being paid by POPI or FPO)
- Other staff – details (technical staff/ supervisor/ field staff, etc)

Financial Management

- Financials of FPO (Share Capital, reserve, net surplus, borrowings, etc)
- Book keeping/ records being maintained and quality aspects
- Credit History – Name of bank/s, type/s of loan availed, amount availed, repayment, frequency of loan, etc, the quality of the relationship with the bank.
- Security/ collateral offered

Compliances

- Compliances/ licences and timeliness
- Software and MIS available with the FPO

Networking

- Networking with Government Agencies, traders, suppliers, market support agencies, software providers, universities, etc.

B. Visit to an FPO Friendly Bank Branch

FPO participants and bankers alike can learn a great deal from visiting an FPO Friendly Bank Branch. The visit can certainly inspire FPOs to approach a bank and for bankers to regard FPOs as good business. Here is a list of points to observe when visiting a bank branch, which has financed FPOs. The list is illustrative, not exhaustive.

Financial Products available:

- Type/s of credit products on offer for FPOs
- Type/s of credit lines extended to the FPO being studied

The Loan Appraisal Process:

- Process/steps followed during loan appraisal
- Documents required from FPO – pre-sanction (listed in the previous chapter)
- How the bank assesses the credit need of an FPO
- What to look for in the DPR submitted by the FPO- in brief
- Issues to take care – pre and post sanction

Terms and Conditions of Loans Granted:

- Security/collateral – requirement/valuation (if covered under SFAC scheme or not)
- Processing charges, if any
- Rate of Interest charged
- Third party guarantee
- Documents required by the bank- post-sanction

Others:

- Repayment history of the visited FPO
- Typical mistakes that FPOs make when applying for loans
- Best practices in FPOs that successfully get loans

Session IX- Debriefing of Field Visit

Summary of the Session:

Discussions from learnings from field visit and

Key issues in appraisal and financing of FPOs

This is a discussion session where participants reflect on their experience of field visits to FPOs and Banks. The facilitators assign the participants into three to four groups with a maximum of six participants. Each group selects a specific topic indicated in the list below and discusses their related experience. The learnings are presented to the plenary and new points gathered and doubts clarified. The facilitators communicate the duration for each tasks and manage the presentation and discussions that follow.

"What have we observed and learnt from our field trip?"

A. The management aspects of the FPO (including legal compliances, and marketing)

B. Business aspects of the FPO, including benefits recognised by the members.

C. Appraisal methodology adopted by the financing bank

D. Best practices adopted by the FPO and Bank

The major takeaways and learnings may be enumerated while discussing each topic.

Session X - Tips for Financing FPOs- Experience of Lending Agencies

Summary of the Session:

Experiences of NABKISAN and Samunnati

Tips for linking with financial institutions - for FPOs and Banks

Innovation in lending to FPOs is proceeding at great pace in India. Many agencies provide funds to FPOs. Here we study the experiences of two leading agencies - NABKISAN AND Samunnati. Both are Non Banking Financial Companies (NBFC). The session will be enhanced if representatives from these organisations can be guest speakers during the online or offline session.

A. NABKISAN Finance Limited (NKFL)

NABKISAN Finance Limited (NKFL) is a subsidiary of NABARD with equity participation from NABARD, Government of Tamil Nadu, Indian Bank, Indian Overseas Bank, Tamilnad Mercantile Bank, Canara Bank, ICICI Bank, Federal Bank, Lakshmi Vilas Bank and a few Corporates and Individuals. https://nabkisan.org

- The main objective of the company is to provide credit for the promotion, expansion and commercialisation of enterprises engaged in agriculture, and allied and rural non-farm activities.
- NKFL provides support for livelihood/ income-generating activities by extending credit to Panchayat Level Federations, Trusts, Societies and Section 25 companies/ MFIs for on-lending to its member SHGs/ JLGs.
- The present focus of the company is to support Producers Organisations for term loans and working capital requirements.

Loan Products of NKFL

1. Loan Products with Collateral/Guarantee Cover
2. Loan Products without Collateral/Guarantee Cover
3. Loan to Federations of SHGs
4. Activity-based lending for NGOs / Trusts
5. Funds for Section 8 Companies for onlending to groups/ individuals
6. Financial Assistance to NBFC-MFIs
7. Loans for registered farmers groups for eligible activities/components under Central Sector Government Sponsored Schemes through NABARD

B. Samunnati

Samunnati is an Agri value chain solutions provider through financial, non-financial and customised solutions. It initially started with providing retail loans in the dairy value chain. It started FPO financing in December 2015. Since then, more than 500 FPOs have received assistance from Samunnati. https://samunnati.com

Financial solutions

1. input procurement loan
2. Output procurement loan
3. Catalytic Infrastructure Loan
4. Customised Loan

Non-Financial Solutions

1. Business plan preparation
2. Financial Literacy
3. Leadership development
4. Market awareness
5. Advance farming technology, etc

C. *Tips for Financing FPOs*

Tips for FPOs: The business plans of FPOs must be realistic. FPOs' expectation of the quantum of credit should be reasonable.

- The mode of loan repayment and the risks to business must be discussed and examined in detail within the BoD.
- The BODs and CEO must ensure they are fully aware of the terms and conditions, norms and modalities that banks follow when they sanction and disburse loans.
- Organic growth: FPOs must aim for incremental growth so that they do not sink large amounts of capital in the early days.
- FPOs should maintain strong and effective relationships with Government Agencies to access whatever assistance available - technical or financial.
- FPO members should adequately contribute capital to their FPO (equity shares). Increased member equity means that members trust the FPO, the FPO is financially strong and it builds credibility with banks and other partners.
- Buyer beware: FPOs must be aware of all the financial institutions working in the area, including the NBFCs and the pros and cons of availing credit from each institution.

Tips for Financing Institutions: The field staff and bank branches are the outreach arms of financial institutions in direct contact with FPOs and their members. Best practices for the frontline staff of financial institutions include:

- To be fully aware of the concept of FPOs and the schemes and guidelines from the GoI, RBI and NABARD to fund them.
- To interact in the field with the FPO, the farmers, the BODs and the CEO and where needed guide them towards a realistic requirement of credit.
- To process, sanction and release lines of credit in a timely manner.
- Communicate any rejection or reduction in loan amounts must be conveyed early and with reasons so that modifications and alternative arrangements can be made.
- Encourage FPOs to explore reasonable/viable early-stage funding and participate in the value chain in due course.

Session XI - Specialised Financing for FPOs

Summary of the Session:

Schemes of SFAC - Credit Guarantee Scheme, Equity Grant Scheme

Schemes of NABARD

Centrally Sponsored Schemes

The viability of FPOs depends on the availability of well-designed financial products that not only provide funds but also hedge risks and overcome the lack of capitalisation in farmers' organisations. The ecosystem for supporting FPOs is evolving fast and some of the useful schemes and incentives are elaborated below.

1. *SFAC's Equity Grant & Credit Guarantee Fund Scheme (EGCGFS) for FPOs*

The Small Farmers Agribusiness Consortium is an autonomous society promoted by the Government of India to focus on increasing the incomes of small and marginal farmers through agribusiness. The SFAC has two major initiatives that are crucial for the viability of FPOs. The schemes try to solve two difficulties that FPOs face - the lack of equity capital to leverage finance and the lack of collateral to raise loans.

A new Central Sector Scheme, titled **"Equity Grant and Credit Guarantee Fund Scheme for Farmer Producer Companies"** was formulated by the SFAC in two parts -

Part A - **Equity Grant Fund**

Part B - **Credit Guarantee Fund**.

Part A. Equity Grant Fund

- The Equity Grant Fund is meant for nascent and emerging FPCs, having paid-up capital less than to Rs. 30.00 lakh.
- The Equity Grant Fund provides matching 'equity grants' up to Rs. 15.00 lakh per FPC in two tranches within a period of 3 years. This

a. Objectives of the Equity Grant Fund

- To enhance the FPO's viability, sustainability and credit worthiness ;
- To enhance shareholding of members and increase their ownership in their FPC.

b. Eligibility Criteria for FPCs to receive the Equity Grant Fund

The Farmer Producer Company seeking Equity Grant funds satisfies the following criteria:

- The FPC is duly registered with at least 50 shareholders.
- The FPO's paid-up equity does not exceed Rs.30 Lakh.
- A minimum of 33% of the FPC's shareholders are small, marginal and landless tenant farmers.
- The maximum shareholding by any individual member is not more than 5% of the FPC's equity.
- The maximum shareholding of an institutional member is not more than 10% of the FPC's equity.

- The FPC has duly elected BoD with a minimum of five members with adequate representation from member farmers and a minimum of one woman member.
- The FPC has a duly constituted Management Committee
- The FPC as a business plan and budget for the next 18 months based on a sustainable, revenue model as may be determined by the Implementing Agency.
- The FPC has an Account with a Bank.
- The accounts have been audited by a CA for at least one full financial year.

c. How is the Equity Grant Sanctioned?

- Equity Grant is a cash infusion equivalent to the amount of shareholder equity subject to a cap of Rs. 10 lakh per FPC.
- Equity Grant is directly transferred to the bank account of the FPC.
- The FPC will issue additional shares to its shareholder members, equivalent in value to the Grant received by it, within 45 days of receipt of the Equity Grant, provided that the maximum grant per category of a shareholder is as follows:
    - *Individual Shareholder - Rs 1000.00*
    - *Group of Individual Shareholders (e.g. SHG, FIG, JLG of Farmers) –Number of Members multiplied by Rs. 1,000.00, subject to a maximum of Rs. 20,000.00*
    - *Institutional Shareholders (FPCs) – Rs. 1 lakh*
- SFAC will have the right to recall Equity Grant amount from the FPC in case of
    - *Failure to issue additional shares to members within 45 days of receipt*
    - *Closure/Dissolution of FPC within three years of receipt*
    - *Instances of misuse/misappropriation of the Equity Grant.*

d. Application for Equity Grant Fund

Eligible FPCs can apply for the Equity Grant in the prescribed application form with mandatory documents, as listed below:

- Shareholder List and Share Capital contribution by each member
- Resolution of the FPC Board/Governing Council to seek Equity Grant
- Consent of shareholders for SFAC to transfer equity Grant to the FPC's Bank account
- Audited Financial Statements of FPC for all years if formed less than three years prior to application/for last 3 years for FPCs in existence for 3 years or more
- Bank Account Statement for the last six months
- Business Plan of FPC and budget for next 18 months

e. Institutional Due Diligence

SFAC will undertake a due diligence process covering the following aspects:

- *Governance;*
- *Business and Business Plan Viability;*
- *Management Capability;*
- *Financials.*

f. Sanction

- The Equity Grant Sanction Committee (EGSC) at SFAC takes the final decision.
- Sanction of Equity Grant is conveyed to the FPC within 7 working days.
- Once the FPC receives the Equity Grant amount, it should allot additional shares to its shareholder members within the 45-day timeline.

- FPC to enter into an Agreement with SFAC
- *In case of any transgression or non-compliance of the terms and conditions of the Agreement, SFAC shall recall the Equity Grant and the FPC shall be bound to comply with the same, failing which SFAC shall take recourse to legal action within the purview of the Scheme.*

g. Disbursement

- SFAC shall transfer sanctioned funds to the FPC Account.

Part B: Credit Guarantee Fund (CGF)

The Credit Guarantee Fund supports FPCs to obtain collateral free loans from financial institutions.

a. Objective

To provide Credit Guarantee Cover to eligible lending institutions (ELIs) to enable them to provide collateral-free credit to FPCs in respect of loans not exceeding Rs. 100.00 lakh.

b. Implementing Agency

The CGF shall be operated by SFAC through (ELIs), viz. Scheduled Commercial Bank, Regional Rural Banks, NCDC, NABARD and its subsidiaries, NEDFi, or any other institution(s) as may be decided by SFAC Board or as directed by the GoI.

c. Eligibility Criteria for FPC

An ELI can avail of Credit Guarantee for an FPC that fulfils the following criteria:

- A duly registered FPC, which has raised equity from members.
- The number of its individual shareholders shall not be lower than 500.
- Minimum 33% of its shareholders are small, marginal and landless tenant farmers.
- Maximum shareholding by an individual member is not more than 5% of total equity.
- Duly elected/nominated Board with a minimum of five Members and adequate representation from farmers and a minimum of one woman member.
- Duly elected Management Committee.
- Has a business plan and budget for 18 months.
- The ELI has sanctioned/given the in-principle sanction Credit Facility to the FPC without any collateral security or third party guarantee, within six months of the date of application for the Guarantee.

d. Ineligible Credit Facilities, which are

- Sanctioned against collateral security and/or third-party guarantee.
- additionally risk-covered under any scheme of insurance, guarantee or indemnity (this avoids duplication).
- not conforming to provisions of law or directives, issued by GoI or RBI.
- overdue/bad loans/NPA.
- rescheduled/restructured on becoming overdue.

e. Credit Guarantee Cover

- ELIs shall be eligible to seek Guarantee Cover for a credit facility sanctioned in respect of a single FPC borrower for a maximum of 2 times over a period of 5 years.

- Maximum Guarantee Cover shall be restricted to 85% of the sanctioned credit facility, or to Rs. 85 Lakh, whichever is lower.

f. Guarantee Fees

- The Fee payable to SFAC by ELI for Guarantee Cover is a one-time Guarantee Fee calculated @0.85% of the sanctioned Credit Facility, subject to a maximum of Rs. 85,000.

g. Annual Service Fee

- In addition to the one-time Guarantee Fee, an Annual Service Fee of 0.25% per annum or such other rate or limit as may be decided from time to time per loan account shall be charged from ELIs to keep the Guarantee of SFAC live.
- The decision of passing on the incidence of Guarantee Fee and Annual Service Fee to the Borrower is left to the discretion of the ELI.

h. Invocation of Guarantee

- The ELI may invoke the Guarantee in respect of the Credit Facility within a maximum period of one year from the date of NPA if the following conditions are satisfied:
    - The Guarantee in respect of the concerned Credit Facility is in force at the time of account turning NPA.
    - The Guarantee shall be effective if both SFAC and the ELI are convinced that the FPC has suffered genuine business losses, which may include crop/asset losses and the FPC is not in a position to repay dues under any circumstances including restructuring/rephasing/rescheduling the loan.

PART C: Project Development Facility (PDF) for EGFS and CGFS

Preparing business plans is challenging even for organisations with technical expertise. FPOs are unable to access useful funds without properly written business plans. In order to overcome this constraint:

- SFAC will provide financial support to FPCs for the preparation of Equity Grant Application and DPR through empanelled consultants/institutions. SFAC will cover the full cost of the preparation of DPR.
- The FPC may approach the nearest empanelled consultant or SFAC directly. The consultant will approach SFAC for prior approval before the preparation of bankable DPR.
- SFAC will release the cost of Application or DPR preparation directly to the empanelled consultant.

2. Schemes of NABARD

a) Producers Organisation Development Fund (PODF)

This is a capacity building fund to support producer organisations to build linkages with other resource organisations.

- The PODF is a dedicated fund to support POs on three levers i.e. credit facilitation, capacity building and market linkage support.
- Grant support is also made available for business incubation services, skill-building, documentation of successful models, ICT application in business management, etc.
- Any registered producer organisations like Producers Cooperatives, registered Farmer Federations, MACS (Mutually Aided Cooperative Society), industrial cooperative societies, other registered federations and PACS are eligible for the Fund.

Support under PODF is provided as

- Loan-linked grant support to FPOs for promotion, capacity building and market interventions.
- Grant assistance to eligible agencies for organising/conducting workshops, meetings, round table meetings, special studies, IT-based interventions, etc., without linking to availing institutional loan.

b) Producers' Organisation Development and Upliftment Corpus (PRODUCE) Fund

The PRODUCE Fund of Rs. 200 crores was created by the GoI in NABARD in 2014-15 for the building of 2,000 FPOs in the country.

- The aim of the PRODUCE Fund is to promote new FPOs and support their initial financial requirements, to make them creditworthy, commercially vibrant and sustainable business enterprises of farmers.
- Under PRODUCE Fund, grant assistance of Rs. 200 crore has been sanctioned to 792 Producer Organisation Promoting Institutions (POPIs) for the promotion and nurturing of 2,154 FPOs.

Considering the positive outcome of the PRODUCE Fund, NABARD has introduced **a scheme for promoting another 3000 FPOs** by adopting low-cost model and leveraging financial resources under its various promotional and developmental programmes and schemes.

c) Credit Guarantee Fund Trust for Farmers Producer Organisations (CGFTFPO)

NABSanrakshan Trustee Pvt Ltd (NTPL), a subsidiary of NABARD, and the Government of India have signed a trust deed for the Rs 1,000 crore of the Credit Guarantee Fund Trust for Farmers Producer Organisations (CGFTFPO). This credit guarantee fund is part of the Government's scheme for the 'Formation and Promotion of 10,000 Farmer Produce Organisations (FPOs)' across the country. This is the second such trust formed in the agriculture and allied sector for providing credit guarantees. The credit guarantee offered through the trust will enhance the creditworthiness of FPOs and their growth. The credit guarantee mechanism will minimise the risks in respect of loans provided by Eligible Lending Institutions and helps a credit constrained but viable business to receive loans. It promotes the flow of finance to the farm sector, which has limited ability to provide acceptable collaterals, by circumventing interest rate controls, and by mitigating other such risks.

3. *Schemes of the Government of India*

Several schemes are available to FPOs to invest in their businesses. A selection of these schemes are described below.

A. The PM Formalisation of Micro Food Processing Enterprises Scheme (PM FME Scheme)

The scheme was launched by the Ministry of Food Processing Industries (MoFPI), in partnership with the States, and provides financial, technical and business support to upgrade existing micro food processing enterprises.

a. Objectives:

- Support for capital investment to upgrade the enterprise and formalise it through registration with GST, FSSAI hygiene standards and Udyog Aadhar;
- Capacity building through skill training;
- Handholding support for DPR, availing bank loan and up-gradation;
- Support to FPOs, SHGs, Producers Cooperatives for capital investment, common infrastructure and support branding and marketing.
- ODOP - the Scheme adopts One District One Product (ODOP) approach. The States would identify food products for a district keeping in view the existing clusters and availability of raw materials. The ODOP could be a perishable agri-produce, cereal-based product or a food product widely produced in a district.

b. Upgradation of Individual Micro Food Processing Units

Individual micro food processing units can avail of credit-linked capital subsidy @35% of the eligible project cost with a maximum ceiling of Rs.10 lakh per unit. The beneficiary contribution should be a minimum of 10% and the balance should be loaned from a Bank. (The FPO can facilitate this support to its members).

c. Support to FPOs, SHGs and Cooperatives

The scheme supports FPOs, SHGs and Producer Cooperatives for capital investment along the entire value chain with credit linked grant @ 35%.

d. Seed Capital to SHG

Seed capital @ Rs. 40,000 per SHG member is available to those engaged in food processing; this can fund working capital and the purchase of small tools. Seed capital as a grant would be provided to the SHG federation which, in turn, would be extended to members as a loan through the SHGs.

e. Common Infrastructure

Credit linked grant @35% would be provided to FPOs, SHGs, cooperatives, State-owned agencies and private entrepreneurs for the development of common infrastructure including a common processing facility, lab, warehouse, cold storage, packaging and incubation centre.

f. Branding and Marketing Support
Marketing and branding support would be provided at State or regional level to FPOs, SHGs, Cooperatives or an SPV of micro food processing enterprises under the scheme. Support for branding and marketing would be limited to 50% of the total expenditure.

B. Agricultural Infrastructure Fund (AIF)

The AIF is a part of the Atmanirbhar Bharat Abhiyan Package and has set aside Rs 1 lakh crore to develop farm-gate infrastructure for farmers. The scheme is formulated by DAC&FW, MoA&FW, GoI to mobilise a medium and long-term debt financing facility for investment in viable projects relating to post-harvest management infrastructure and community farming assets through incentives and financial support.

a. Implementation Period
The AIF is operational from 2020-21 to 2029-30. Disbursement is to be done in four years starting with the sanction of Rs. 10,000 crore in the first year and Rs. 30,000 crore each in the next three years.

b. Eligible Projects
Post Harvest Management (PHM) projects and projects for building community farming assets - including farm-gate and aggregation point, affordable and financially viable PHM infrastructure

c. Eligible lenders
All Banks, SFBs, NBFCs and NCDC - after signing of MoU with NABARD /DAC&FW

d. Eligible beneficiaries
PACS, MCS, FPOs, SHG, Farmers, JLG, MPC, Agri-entrepreneurs, Startups and Central/State agency or Local Body sponsored PPP Projects.

C . Agri Marketing Infrastructure Fund (AMIF)

The AMIF was announced in the Union Budget of 2018-19 to improve the infrastruture for agri marketing. The fund aims to:

- develop and upgrade 22,000 Rural Haats into Gramin Agriculture Markets (GrAMs).
- Strengthen physical infrastructure in these GrAMs using MNREGA and other Government Schemes.
- Electronically link GrAMs to e-NAM. GrAMs will be exempted from regulations of APMCs, and provide the farmers with the facility to make bulk purchases and direct sales to consumers.

- An Agri-Market Infrastructure Fund with a corpus of Rs.2000 Crore will be set up in NABARD for developing and upgrading agricultural marketing infrastructure in the 10000 Gramin Agricultural Markets (GrAMs) and 585 APMCs.

NABARD formulated Operational Guidelines on AMIF

a. Objectives

- To develop and upgrade infrastructure in approximately 10,000 Gramin Haats as Gramin Agricultural Markets (GrAMs)
- To link GrAMs to the e-NAM portal to facilitate the farmers for aggregation and marketing of their produce and also to avail the benefit of online trading on e-NAM for remunerative prices through better price discovery
- To modernise marketing, processing, storage and ancillary infrastructure/logistics, including better assaying facilities, in 585 regulated markets (APMCs / Regulated Market Committees)
- To provide better farmer-consumer interface through the development of GrAMs as Farmer-Consumer Direct Markets and Collection/ Aggregation Platforms.
- To engage FPOs in providing the forward market linkages to its farmers/members and enhancing their net income.

b. Nodal Department and Eligible Entities

- Nodal Department – State Governments
- Beneficiaries – To be identified by State Governments and may include APMCs, FPOs, Cooperatives, State Level Agencies, PRIs, etc.
- Eligible beneficiaries to access the AMIF through State Government

c. Eligible Activities

- Upgradation of Rural Haats into GrAMs
- Developing and Upgradation of APMC

d. Priority and Investment Ceiling Limits

- States to have full flexibility to identify the type and size of the infrastructure.
- Investment in GrAMs is to be prioritised with more focus on the GrAMs located in aspirational districts.
- States to ensure that at least 40% of the total proposed investment be made towards the development of marketing infrastructure in GrAMs.

e. Sanction Mechanism

- Nodal Department of the State Government to submit proposals to DAC&FW, GoI with a copy to the NABARD RO,
- NABARD RO to forward to the NABARD HO together with recommendations for sanction.

f. Quantum of Loan: maximum of 95% of the project cost

g. Project Completion: within 24 months from the date of sanction by NABARD

The Government of India in the Union budget 2018-19, announced the following measures to promote FPOs for a prosperous and sustainable Agriculture sector that enable farmers to enhance productivity through efficient, cost-effective and sustainable resource use and realise higher returns of the produce;

Operation Greens: a value chain based programme for onion, potato and tomato crops on the lines of Operation Flood has an allocation of Rs. 500 crores. The initiative aims to address price fluctuation in vegetables for the benefit of farmers and consumers. It will promote FPOs, agri-logistics, processing facilities and professional management.

Tax rebates for FPOs: to promote an enabling environment for aggregation of farmers into FPOs and take advantage of economies of scale, the GoI announced a 100% tax deduction for FPOs with an annual turnover of up to Rs. 100 crores.

The GoI is driving the entire programme for FPOs through its institutions and the formal banking and financial sector. The programme is evolving and various announcements in the budget and otherwise may be referred to for more information.

BACKGROUND READING

- NABARD - https://nabard.org - Refer to projects under Farm Sector Development Department
- SFAC - http://sfacindia.com

Conclusion

Farmer Producer Organisations (FPOs) has been considered one of the main pathways to overcome the challenges faced by the small and marginal farmers. This approach could succeed in minimising the dependency of farmers on intermediaries, and enabling them to access better markets (inputs and output), financial services, input supply services, technology, market services, technical and networking services. The FPOs becomes the hub to reach these services to their members. In this connection, credit from Banks and Financial Institutions would be the main driver in facilitating sustainable growth, profitability and viability. For the financial institutions, it is also an opportunity to increase their priority sector advance portfolio with the possibility of a minimal default risk and also the support of a credit guarantee. Access to formal financial services will go a long way to double farmers' incomes and ensure the well-being of millions of farming families in India.

Bankers Institute of Rural Development (BIRD), Lucknow is an autonomous institute promoted by National Bank for Agriculture and Rural Development, the Development Bank of the country. It is a premier institute for providing training research and consultancy services in the field of agriculture and rural development banking in India and abroad. The Institute was established in 1983, for addressing the capacity building needs of stakeholders. BIRD, Lucknow is an ISO 9001: 2015 certified training Institute.

Clients

All Banks, Government agencies, MFIs, NBFCs, Financial Sector, NGOS and Civil Societies.

Coverage (Training, Consultancy, Research)

Project Lending-Agriculture and MSME, Climate Finance, Rural Banking, Farmer Producer Organization, Micro Finance, Human Resource, Financial Inclusion, Training of Trainers, Executive Development, Management Development Programme, IT based Banking, Green Finance, Responsible CSR, Group approach to Development, Women Empowerment, Organizational Development, Investment & Treasury Management, Risk Management.

Faculty

Faculty are drawn from NABARD, banks and scholars of respective fields and have pan-India level field experience. The faculty have specialization in Banking Finance, Financial Inclusion, Agriculture & Allied sector, Fisheries, Forestry and Human Resources, etc.

Infrastructure

43 acre green campus has world class infrastructure in terms of class rooms, simulation and AV Rooms, Board Room, Conference Hall, Auditorium, Library, Gym, Air-conditioned Hostel Rooms, Local and International cuisine.