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Effect of Credit and Financing support on the Farmer Producer Organization (FPO)

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Being small farmer (small landholder), farmers mostly suffer from some inherent problems like access to the price, information, networking, connectivity, business linkages, discovery mechanism,technical aspects,credits,and other financial requirements. The major challenge under these conditions would be to integrate these small land holders with the agricultural markets to benefit them from trade environment, growing economy and transforming agriculture. This may lead to help farmers in realizing higher income to small and marginal farmers which lead to more inclusive growth. In order to alleviate the risk of the farmers and reinforce the marginal farmer Ministry of Agriculture, Govt. of India introduced Farmer Produce Organization(FPO).By understanding the potential of the FPO's, our article focuses on analyzing the financial requirement for both fixed and running costs of FPO's. The document analysis is based on the secondary data of few FPO's. The study constitutes with the focus on understanding and then forecasting the major importance of financial requirements to the FPO's.

Keywords: Financial requirements, FPO's, FPC, Credit, Financing Producer organization

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Introduction

After independence, economic reform prioritized more on the industry, investment, banking, tax reforms and foreign trade and capital markets without any specific focus on agriculture. Despite of impressive growth in GDP development in all sectors of population has not taken place. We still confront with the problems of unemployment, poverty, inequalities in access to education and health and making agriculture a booming sector. Agriculture contributes only one sixth (approx.) of GDP. Approximately half of the working population are engaged in the agriculture of the country because Indian agriculture is the home of small and marginal farmers. As per the last Agriculture Census done in 2010-11 approximately 115million of land holdings were small and marginal out of total 140 million. Thus, livelihoods of a maximum population depend on the sustainable agriculture growth and performance of small and marginal farmers.

After 1960, GDP of the country declined significantly but only marginal decline was noticed in the agriculture dependency. The flexibility of the farming community made agriculture the only sector to have consistent growth of 3.4 per cent with constant prices in 2020-21,where in other sectors showed tremendous downfall.

Agriculture GDP increased to 19.9 per cent in the year 2020-21as compared to 2019-20 which was marked as 17.8 per cent. GDP of agriculture sector was approximately 20percentinthe year 2003-04.

Still there are lots of lacuna and rural crisis in the agrarian sector. Lots of factor leads to the rural crisis and one of them is the price issue, farmers don't get competitive price of their produce which lead to indebtedness of the farmers; hence they are not able to meet even their necessity. This is the major reason of disappointment of the agrarian sector. In order to overcome the issue Gov. has taken number of steps and the steps has come up in terms of schemes, policies to help the rural sector, especially the farmers. To achieve this impossible task Gov. has setup an ambitious task of doubling the farmer's income by the year 2022. In the background of all these, organizing farmers into POs has been considered as blessing in disguise to mitigate the challenges faced by the marginal farmers. This approach is proving great success and is breaking the farmer's dependency on arbitrator and empowering them to access better opportunity in terms of input and out markets. In past few years, efforts have been made towards creating and strengthening Pos which will support in strengthening their position in the mainstream value chain. Over a decade's number of Gov. and non-government financial institutions such as NABARD and like many others are focusing in facilitating the growth of FPO's and supporting the budding entrepreneurs and encouraging towards farming and food processing.

It has become a focused and prime task to promote the FPO's as this will help the farmer to get the better pricing for their produce.

This will not only support farmers to increase their revenue but will also encourage the young entrepreneurs to add value towards the agriculture and food sector and above all, it will add a sustainable growth towards the GDP of India, which is farm producer country.

In recent years, SFAC (Society promoted by the Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India) and NABARD, have come up with lots of agreements for supporting FPOs. Even, number of bilateral agreements have happened as well as many international organizations and financial institutions are taking interest in developing the ecosystem for growth of the FPOs/POs.

FPO

FPO stands for **Farmers Producers Organisation**. It is created to benefit and support majorly to small farmers with end-to-end services covering almost all aspects of their earnings right from cultivation inputs, technical ways of farming, technical ways of processing and marketing.

It is a type of Producers Organisation, where the members of the organisation are the farmers, and those are majorly known as farmers' producer companies (FPC).

These are the rural producers coming together based onthemembership, to pursue specific common interests of their members and developing technical and economic activities that benefit their members and maintaining relations with partners operating in their economic an institution a environment.

FPOs are formed under various guidelines and initiatives of Govt. of India, State Governments, NABARD and other organizations since last few years. As per the recorded data (2021), currently there are 6000 FPOs (including Farmer produce Company (FPC's)) are registered. Of these, around 3200 FPOs are registered as Producer Companies and the remaining are registered as the Cooperatives/ Societies, etc. Majority of these FPOs are in the nascent stage of their operations with shareholder membership ranging from 100 to over 1000 farmers while many only exist in papers. These FPOs require not only technical handholding support but also adequate capital and infrastructure facilitiesincludingmarketlinkagesforsustainingtheirbusinessoperations.

The main aim of FPO is to ensure better income for the producers through an organized way.

Traditionally, FPOs/POs were organised mostly under the cooperative structure. Since recent past, due to various legal obstacles and low efficiency, the government support to the cooperatives has diminished over year on years and gave birth to producer companies with strong regulatory framework and retaining the unique elements of cooperative businesses. Though FPOs/POs include producer companies and cooperatives, this paper attempts to examine the issues relating to financing the FPOs, particularly the producer companies, and offers some recommendations to initiate discussion and debate by the policymakers, financiers and practitioners to evolve consensus to design appropriate policies, financial products, and governance and management practices.

Benefits of Farmers 'Collectives:

Some of the important benefits of organizing farmers into collectives, as demonstrated through various pilots, areas under:

- Optimizes cost of production by procuring all necessary inputs inbulk at wholes alerates
- Reduces marketing cost through aggregation of produce and bulk transportand

thus, enhance net income of the producers.

- Produce aggregation enables to take advantage ofeconomies of scale and attracts traders to collect produce at farm gate

- ➢ Facilitate access to modern technologies, capacity building, extension and training on production technologies and ensuring traceability of agricultural produce.

- ➢ Minimize post-harvestlosses through value addition and efficientmanagementof valuechain
- ➢ Enable regular supplyof produce and its quality through proper planning and management
- ➢ Manage price fluctuation with practices like contract farming, marketing agreements, etc.
- ➢ Provide access to information about price,volume andotherfarmingrelatedadvisories
- ➢ Access tofinancial resources against the stock
- ➢ EasyaccessoffundsandothersupportservicesextendedbytheGovernment/donors/service providers
- ➢ Help to improve bargaining power and social capital building.

Current Status of FPOs: Producer Organizations (FPOs)arethe collections of farmers.Themembership comprisesof mostly marginal farmers. As per the current record (2021), approximately6000 FPOs (including FPCs) are in existence within the country. These recorded FPO's were formed under variousinitiatives of the Govt. of India (including Small Farmers' Agribusiness Consortium (SFAC)),State Governments, NABARD and other organizations over one (1) decade. Out of 6000 FPO's, 3200 areregistered as Producer Companies and the remaining are registered as a cooperatives and societies,and many more.Most of the registeredFPOsareintheinitialstageoftheiroperationswiththeir shareholdermembership ranging from 100 to 1000 farmers andare require not only technical handholdingsupport but alsoadequate capital andinfrastructure facilities,includingmarketlinkages forsustainingtheirbusiness operations.

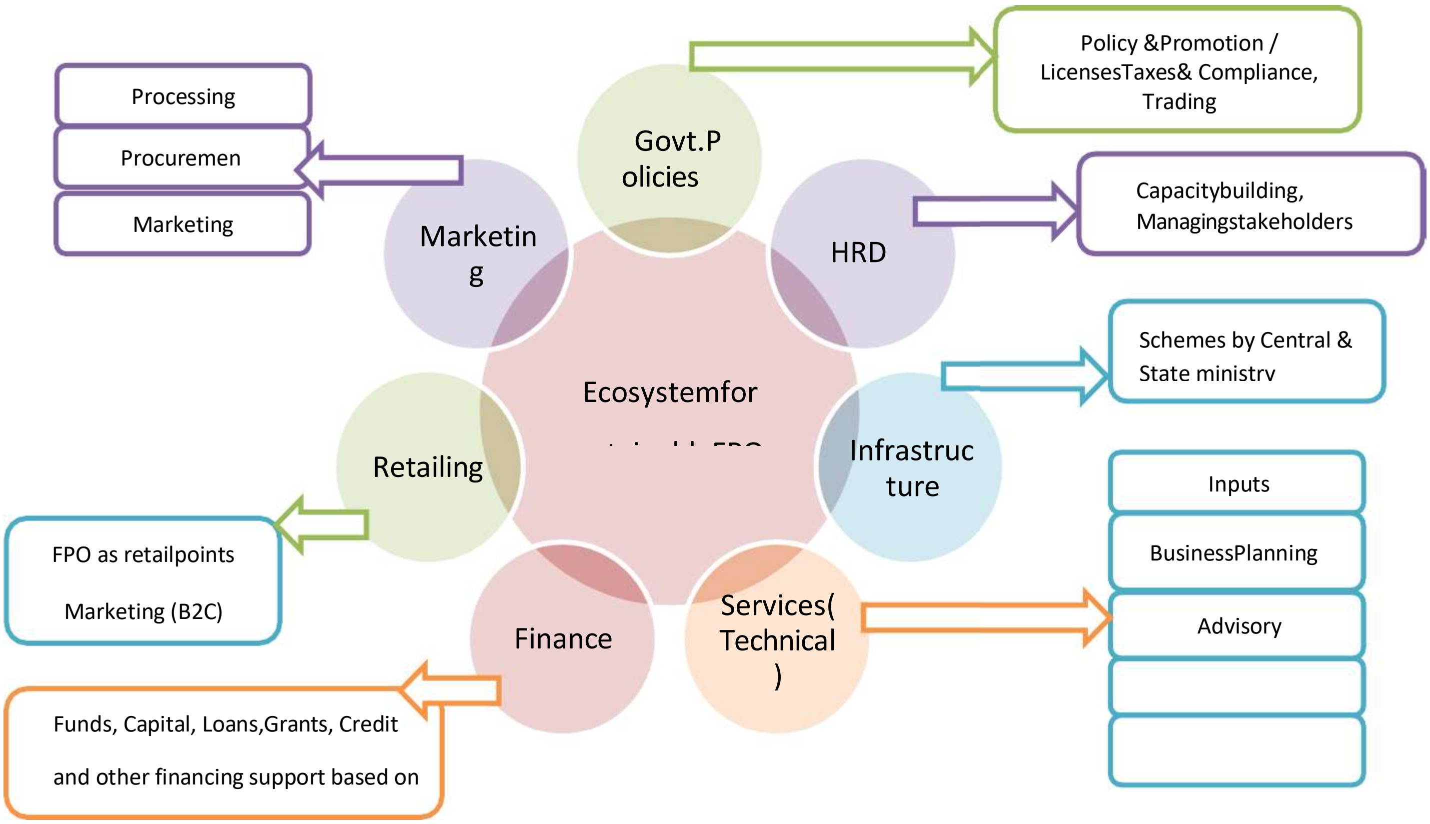
Membership is of three types of producer's companies-
- ✓ Companies with individual producers
- ✓ Institutional members (where collective at village or panchayat level)
- ✓ Both individual and institutional members.

EcosystemforFPOs: Acompanionableecosystemisamustforthe enhancement and developmentofProducerOrganizations (POs), because they have to deal with the weakest part of agri-value chain,which initiate from the farm and end with not only processing but also marketing the same at the appropriate place with appealing price. The pivotalecosystemservicesincludecredit system (emergency, consumption and production),retail agriculture services and other agricultural production services which is required by the smalland marginal farmers. Unless these services are provided by a PO, it is slightly impossible to divert the surplusproduce from the local trader to the producer organization. In addition, a PO can take up otherservices related to facilitating linkage with the banks and line departments for ensuring access to the required infrastructure for the business.

In order to build a sustainable FPO afavourable ecosystem is needed, besides certain policy reforms specially in the agricultural marketing systems. Some of the critical ecosystem sinclude:

- Policy environment-production, market and price risk mitigation, licensing, agri-logistics,infrastructure arrangements,contractfarming,compliances,etc.
- Technologysupport-Extensionandadvisoryservices,value addition,processing&marketing,etc.
- Consumption/production/postproduction creditsupport-Banks/financialinstitutions, NBFCs, Governmentinstitutions,Developmental Agencies,Corporates,etc.
- Retailservices/Markets-Qualityinputs,retailmarketing,spotmarkets(eNAM,APMC),future'strading, linkages with agricorporates,exporters, direct marketing,etc.

Graphical presentation of the Ecosystem requirement is given below:



Financial Support toExisting POs

Producers Organization Development Fund (PODF) was formed by NABARD for supporting the existing POs which including Primary agriculture credit society (PACS). Focus of the PACS is to create innovative financing models for banking system. The broad objective of the Fund is to provide financial/ non-financial supporttoFPOs.This support will help them in the capacity building, market linkages, requirement-based handholding services, credit access and many other support to enhance their current situation which willhelp them tomeettheirend-to-endrequirements and to ensure sustainability and economic viability. NABKISAN Finance Ltd a fully owned subsidiary of NABARD was created. The main focus of creating this subsidiary was to support in market linkages, help to fulfill the credit requirement, fundamental approach based on life cycle need, promotional support towards capacity building and also supporting incubation services toFPOs. This initiative helped FPOs/PACS in terms of improved access better pricerealization by members by building scale and enhanced skill development of the farmers and many more.Considering the success of NABKISAN Finance Ltd this Fund has been further enhanced during 2018-19 toprovide need-based grant assistance to those FPOs, who are financed by the RegionalRuralBanks, CommercialBanks andCooperativeBanks.

VALUES:

- FPO are formed and promoted through CBBOs a cluster-based business organization. CBBOs and are engaged at the state and the cluster level by the implementing agencies,
- CBBO will provide initial training and handholding to FPO's
- Thesecluster will help to promote specialization and better processing, branding, marketing and exports.
- FPO's are promoted under "One District One Product".
- National Project Management Agency (NPMA) at SFAC support in providing data compilation, project guidance. These are maintained and managed through the integrated portal and Information management and monitoring.
- FPOs are based on the values of self-responsibility, democracy, self-help and equality.
- FPO members should believe in ethical values of honesty, openness, social responsibility.
- FPO members should believe in sharing and caring for others.

FPO Promotion and Development Process:

Fig1.FPO Promotion and development process

ObjectiveofthePaper:

To achieve the objective of doubling farmers' incomes, it may beconsideredas under-

- AnalyzingthedifferentstageofCreditandFinancing
- Understanding the importance of financing to FPO's
- Scrutinizing the different sources of Financing from various rural financial institutions for the FPO's

To justify the objective of the paper, the secondary data is collected from different data sourceslike newspaper, internet, agriculture articles, white paper, research papers and other secondary mode of data search.

Number of producer companies registered inINDIA

Year	FPOregistered	Percent ofTotal
FY13	445	6%
FY14	497	7%
FY15	551	7%
FY16	1691	23%
FY17	1477	20%
FY18	909	12%
FY19	1804	24%
Total	7374	100%

Source:https://thewire.in/economy/nobody-knows-how-many-farmer-producer-companies-there-are-in-india

Percentagesdo not add upto 100%duetorounding

The Ministry of Corporate Affairs are in the process of striking-off more than 400 producer companies. The reason behind striking is the failure to commence or maintain business operations and act according tothe principles of mutual assistance as was specified in the Companies Act. This leads to decrease in the status of the registered companies in the activestatuses.

Out of these, 6391 producer companies are working on agriculture and allied activities, such as cultivation, plantations, dairie,non-timber forest produce,fish, poultry,etc.

Of these 210 are milk producer companies (dairies). Only 75 companies are engaged in non-farmactivities: weaving and apparel-making (30 PCs), handicraft production (19 PCs), the rest in food processing (making juices,jams,etc.),making incense sticks,footwear,etc.

Finance Minister, Nirmala Sitharaman, in her maiden Budget speech for the year 2019–20,mentioned the government's intent to create 10,000 more Farmer Producer Organisations (FPOs)by2022.

Literature Review:

Number of studies and research have been done to find the bottle neck and lacuna of the system. As the result of the studies and research, lots of schemes have been incorporated to boost FPOs. Among the major one of the popular scheme is "Oneproduct one district" which is also the buzz word during this budget (2021-22). Numbers of statements are given andare discussed for the successful implementation at the real time for the benefit of FPO's. Few of the statements areas follows:

Ms. Kiran Shawindustry barons and entrepreneurs like have articulated the need for FPOs as part of anew deal for rural India and recommended the formation of entrepreneurship clusters.

Mr. Yogesh Thorat (MD) of MAHA FPC stated that the numbers of small and marginal farmersare rising in the country. To support such farmers, FPOs could be useful. But merely establishingthe FPOs will not work, as it requires a good ecosystem to operate. These organizations face challenges suchas funding, capacity building and value chain investments.

Mr. Pravesh Sharma, (MD), Small Farmers Agri-business Consortium (SFAC) said, "We willidentify the institutions who will have expertise to form the farmer producer organisations. TheFPOs will help demonstrate that the integration of value chain can benefit both farmers andconsumers."

Mr. YK Alagh (Economist) (2011), recommended formation of FPC, a combination of the co-operative form and the company form.

Prof. G Ramesh, Chairman, Centre for Public Policy, IIM Bangalore (2014) started the newdemands emerging in the agriculture and agribusiness sectors and a weak, skeptical responsefrombanksinprovidinglendingsupporttoFPOs.

Prof.Trilochan Sastry,IIM Bangalore (2014),informed from his experiences that working capital requirements of FPOs are very high, particularly when they expand into postharvest processing and otherd own streama ctivities.

Credit and Financing the FPO:

Given this rapid growth of the FPOs, the issue of access to credit - linking the FPOs to reliableand affordable sources of financing to meet their working capital, infrastructure development andother needs – has assumed center stage. As the FPOs strive to achieve sustainability, there is anurgent need to reorient the funding ecosystem to support the newly formed FPOs based on thestages in their life cycles. The life-cycle stages are broadly categorized into three phases and ineachofthese phases, the needs are found tobe very different as showed in the figure.

Incubation and Early Stage: This is considered as the early stage of the financial need for the FPOs. This supports in revolving costin:

- Mobilizefarmers
- Registrationcost,
- Costofoperationsandmanagement,
- Training,
- Exposure visits and many more.

According to the requirements, agencies are engagedin promotion of the FPOs who required grantto set up FPOs. Agency take them through various process &systems, and above all they support in self- management. In past few NGOs were promoting FPOs to leverage scattered donor funding.Recently Small Farmers' Agribusiness Consortium (SFAC's) were addressed to face the challengesin terms of marketing, technology, access to investment and to act as a nodal agency to coordinate with the financial institutions,civilsociety,StateGovernment, private sector,resourceful personsandrange of other stakeholders to enhance production, productivity and profitability to the smallfarmers.There have also been tremendous efforts made by apex government institutions, bilateral &multilateralorganizations and other players. NABARD has been financing FPOs since 2011under the Producer Organization Development Fund (PODF). Prior to the setting up of PODF,NABARD was funding producer collectives under the Umbrella Program for Natural ResourcesManagement (UPNRM), bilaterally funded by NABARD. World bank is also on of the other donors in thisspace.They support the District Poverty Initiative Program (DPIP), Rabobank Foundation,Sir Ratan Tata Trust, Ford Foundation and many others. Despite the above said initiatives interms of grant support to incubate FPOs, many promoting institutions face the challenges instrengtheninthe FPOs already setup.

Emerging and Growing Stage: There are 3 ways to raise the fund to meet their working capital and investment need for the incubated FPO's. Theyinclude–

- EquityFinancing
- CreditCapital
- DebtFinancing

Equity Financing: Given the limited investment capacity of the small and marginal farmers, limited contributions are made by individual farmers to raise the FPOs' equity which oftencannot sustain the operations of theFPOs. In order to augment the equity base of the FPOs, every Union Budget, announces major initiatives by providing matching equity grants.

Working Capital: Operational expenses of the FPOs are majorly dependent on the promotional grant.As soon as the grant support ends, institutions start facesthe challenges to meet up their operational expenses. In most the cases it has been observed that the FPOs hardly reach the breakeven point to achieve commercial viability. At the early stage of the business FPOs need more working capital for their initial business activities. Though the FPOs, at the early stage, are expected to generate their own funds still it takes anywhere between 4-5yearsof time horizon for them to stabilize their activities.

The FPOs dealing with agriculture commodities. Among agriculture commodities suchasmaze, rice, pulses,oilseeds and many more-which can bestored- stabilize faster as compared to those that deal with perishables such as fresh vegetables andfruits. It is said that credit capital can also be obtained from potential buyers who give a grace period before the amount is due or interest is charged. Even, the producers who sell their produceto the FPCs do not hesitate in giving credit period to the FPC.Most FPOs struggle to get credit facilities in their initial stage. Without access to credit, the FPOs cannot realize their full potential. As FPO progressesfrom start-up to a more mature organization, they start building themselves as a trader and start building goodtrack record to attract financial institutions.The other examples to get working capital are Friends of Women's World Banking (FWWB), Maanviya Holding (Oikocredit), NABFINS, Ananya Finance etc. Some commercialbanks also offer similar financial assistance to FPOs is ICICI Bank, Union Bank of India, Canara Bank etc.

Matured Stage (Business Expansion): Business expansion is the second and critical stage of any business. At this stage FPOs has the biggest challenge towards business expansion.FPOs need finance for their quality improvement in products/services quality along with thevalue chain of the produce. Finance is also required for moving their business from old traditional way to technical innovations, forexample,dealing with pulses wouldrequireloan forsmall dal mill, cotton ginningunits in cotton growing areas, decorticators in ground nut and many more. This will serve to incentivize innovation in the value chain from the FPOs and their farmermembers.Term loans are required to build the business infrastructure so that they can develop, when they feel theneed to create the facilities of their own in order to build the value chain. Term loans aretypically needed to set up processing units, processing/grading/ sorting yards, storage (cold &gowdown),transport facilities, etc. At present, most formal financial institutions provide short-term loans in the form of crop loans to the farmers and working capital limits for marketing ofcrops. In addition, a few banks have been providing term loans for investment in agriculture. Inthe case of the FPOs, it is necessary that the banks recognize the need for mixture of short termworking capital and term loans to enable FPOs plan to enhance their business activities. Some of thecommercial banks are also funding agribusiness companies forprocurement of raw material.

WhyFinancing

Nurturing plays a pivotal role in sustainability and economic viability of FPOs.Iimportant rolein taking up viable business activities is like bulkprocurement of inputs, primary processing, aggregation of produce, collective marketing and many more It plays a catalytic role in strengthening thefarmbusiness andaugmentingtheproductivityofresources.

Thebroadtermsoffinancing wouldbeasunder

- Limitsandsub-limits
- (Security) Primary&collateral
- Marginrequirement
- RateofInterest
- Commissionandotherfee
- Drawingpower
- SubmissionofStockstatementandFinancialStatements
- StockAudit
- Insurance

SourceofCredit&Financing

Thefinancecanbearrangedfromthefollowingsources:

- Own Resources: The reserve and surpluses are the source for personalfinancing.
- Suppliers' Credit and Advance Payment from Buyers: Suppliers' Credit can be obtainedfrom credit companies or from potential buyers and sellers. The producers, who sell theirproducts tothePO,cansell on credit. PO cangetpartpaymentinadvancefromprospective buyers. It can get agriculture inputs from the Agro dealers on the conditionsof paymentaftersales.Butmostly this type of financeis notavailableforstart-upbusinessesoranewventure.
- Equity: In case of a PC the equity comes from the members and no external financier canparticipate intheequityinvestment.
- Grant support: The PC being a small holders' organization may seek capital support andother assistance from the Government under certain government schemes. Two majorinitiativestosupportFarmerProducerOrganizations(FPOs)

✓ Support to th eequity base of FPOs by providing matching equity grants,and

- ✓ setting up of a Credit Guarantee Fund to provide cover to banks which advanceloans to FPOs without collateral has been announced by GoI. The Schemes will bei mplemented by Small Farmers'Agribusiness Consortium(SFAC).

Funding may also be available from the Department of Rural Development and Panchayats,Ministries of Agriculture and Cooperation or Horticulture or Food Processing GoI and or state Government sunder various schemes like National and State Horticulture Mission, Small Agribusiness Consortium.WorldBank,bilateral/multilateral donor agencies and corporate under CSR may be other possible source of funds/grants from Producer organizations. The Pos will have todevelopafinanciallyviablebusinessplansforthe purpose

- **Debt financing:** This is the most preferred way of financing a new business. Here it is adirectobligation topay theintereston themoneylentby thefinancier.Thebiggestadvantage is that the financier does not have control over the business as opposed to equityfinancing. The important point to be noted in this is the rate of interest charged. However, it is not easy to raise debt financing for a producers company without collateral and margin.

Accessing finances from various rural financial institutions

For the acquisition of capital assets (Term Loan) for any business banks is the prime source. They provide Short Term loan to meet the working capital requirements with Medium to LongTerm Loan. A composite loan willtake care of both short- and long-term financial requirements.This kind of loan is also sanctioned by Banks.The finance will depend on the nature and volume of business which would vary from case tocase. The FPOs will have to approach the bank with a financially viable business plan/DetailedProject Report. The banks will generally require the following information for sanction ofthe loan;

- A business plan and Detailed Project Report (DPR) as a formal application for availingthe creditsupport

- Margin moneycontribution
- Detailsofprojectmanagement(ExecutiveteamandBoardofDirectorsw ith qualificationandexperience)ofPO
- Detailsofdedicatedteamforexecutionandmonitoring oftheproject
- Detailsofproposed businessplan
- Financialrequirements forexecutingthebusinessplan
- Last 3 years audited financial statements (Balance Sheet & P/L statement) with notes onaccounts & annexure. In case the PO is to be formed or in case it is less than three yearsoldthe projectedfinancialstatementsmaybesubmitted
- Details of earlier/ current loans/ grants if any (sanction letters) availed from other Banks/FIs/Dev.Agencies/Individuals
- Detailsofsecurity/ collateralstobeoffered
- Copiesof Registrations(CertificateofIncorporation/Commencementofbusiness /SocietyRegistration/FCRA/TrustDeeds etc.)&MA/AAs
- CopiesofPAN/TAN/Sales TaxRegistration
- Copies of approvals for reliefs in Taxation(I-T&SalesTax)
- Copies of agreements, ifany, enteredintofor Lease/ConfirmedOrders
- Details of Associate companies (withauditedfinancials for3years)

Conclusion & Recommendation:

Advocacy with Banks: Despite RBI's directive to banks on financing of FPOs, their responseis not on a very positive node. It can best be described as lukewarm in meeting credit needs of the FPOs. Lots of bank branches are not aware of the policies regarding FPOs. Loan policy, circular and training is must to the bank. It is recommended that NABARD and SFAC may take lead in educating the banks for financing the FPOs.The awareness should startfrom district then to statelevel.Forums suchas State Level Bankers Committee(SLBC)and District Consultative Committee(DCC) meetings held bybanks.Applications from FPOs to the banks could be reviewed at these meetings to assess the progress and implementation methodology to be introduced.

Role of Regional Rural Banks (RRBs) on financing FPOs: Most of the FPOs are located in the ruralareas and lots of financing requirements are going to be required for the working capital. RRBs could play a pivotal role in financing the FPOs. The RRBs could provide working capital such as cash credit facility, crop loans to farmers, SHGs loans to FIGs/SHGs for raising crops and many such agricultural needs.They have location advantage being close to the FPOs. It will begood if NABARDmakes attractivepoliciesfor RRBs to extend working capital finance and termloans to FPOs.

Agri-Business Bank in India: There is no specified bank dedicated to do the agriculture lending in India.Suchspecializedbanksexistinmost of the countries inth eworld (includingotherAsiancountries like China, Philippines etc). Agriculture lending by banks is seen as a part of thepriority sector lending to be met as a statutory obligation rather than a business opportunity. This is because the opportunity in contrast to manufacturing and service ssector,agriculture is characterized by high seasonality, price volatility, long lead times and complex value chains.As a consequence, loan products for this sector needs to be designed appropriately otherwise theagribusiness sector will not take off (which justifies why some countries have specialized bankscatering to the sector). RBI and NABARD could jointly take a view on the creation of newbankingentity.

Corporate Social Responsibility:

To work with Ministry of Corporate Affairs to include funding of FPOs as a legitimate CSR activity

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