

# FPO and delivery of Financial Services : A key input for sustainability

**(Draft)**

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# CBOs working in Agri-allied and Artisan Cluster Development:

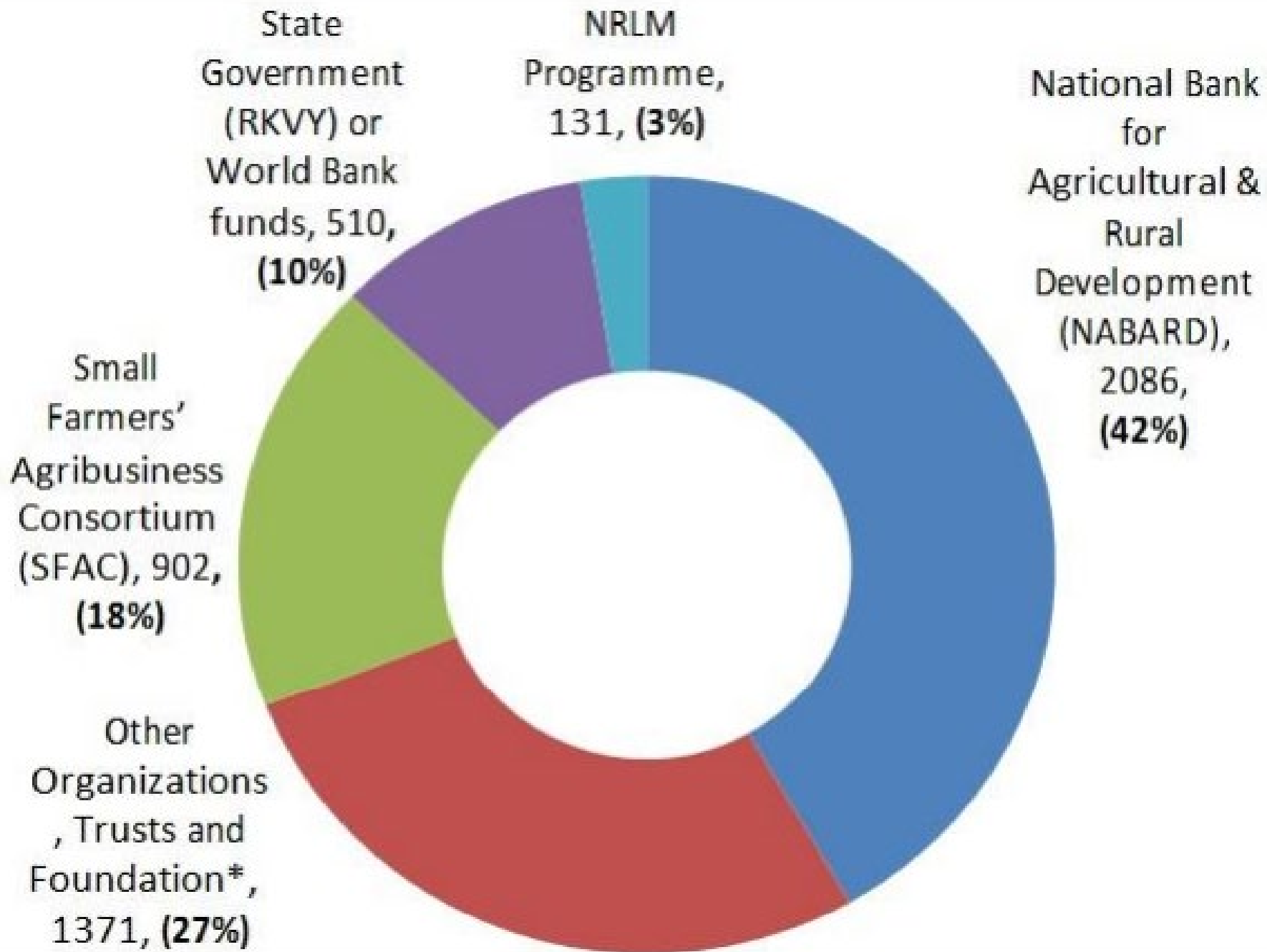
FPO promoting Agencies and their coverage for both Farm and non-farm (artisan) sector development (Mar 2023).

SL	Name of Institution/ CBOs	Programme	Promoting/ Funding Agency	Implementi ng Agency	Coverage (in No)	Wome n %	Presences (State/ Pan India)	Main Objective
1	Farm-FPO- SFAC	FPO Promotion	SFAC	NGO/ TSA	1000+	20%	Pan India	Farm sector development
2	Farm-FPO-SRLM	NRETP	SRLM	SRLM/TSA	1000+	100%	13 NRTP	Economy transformation
3	Farm-FPO- NABARD	FPO Promotion	NABARD	NGO/ TSA	2000+	30%	Pan India	Farm sector development
4	Farm-FPO Spl Project/ CSR	Livelihoods	Spl. Projects and CSR	NGO/ TSA	200+	50%	Selected states	Value chain development
5	Non-Farm-FPO NABARD	OFPO- Promotion	NABARD	NGO/ TSA	60+	50%	Pan India	Non-Farm Enterprise
6	Non-Farm Custer/ACBO	SFURTI	KVIC/MSME	NGO/ TSA	498+	40%	Pan India	Traditional production cluster

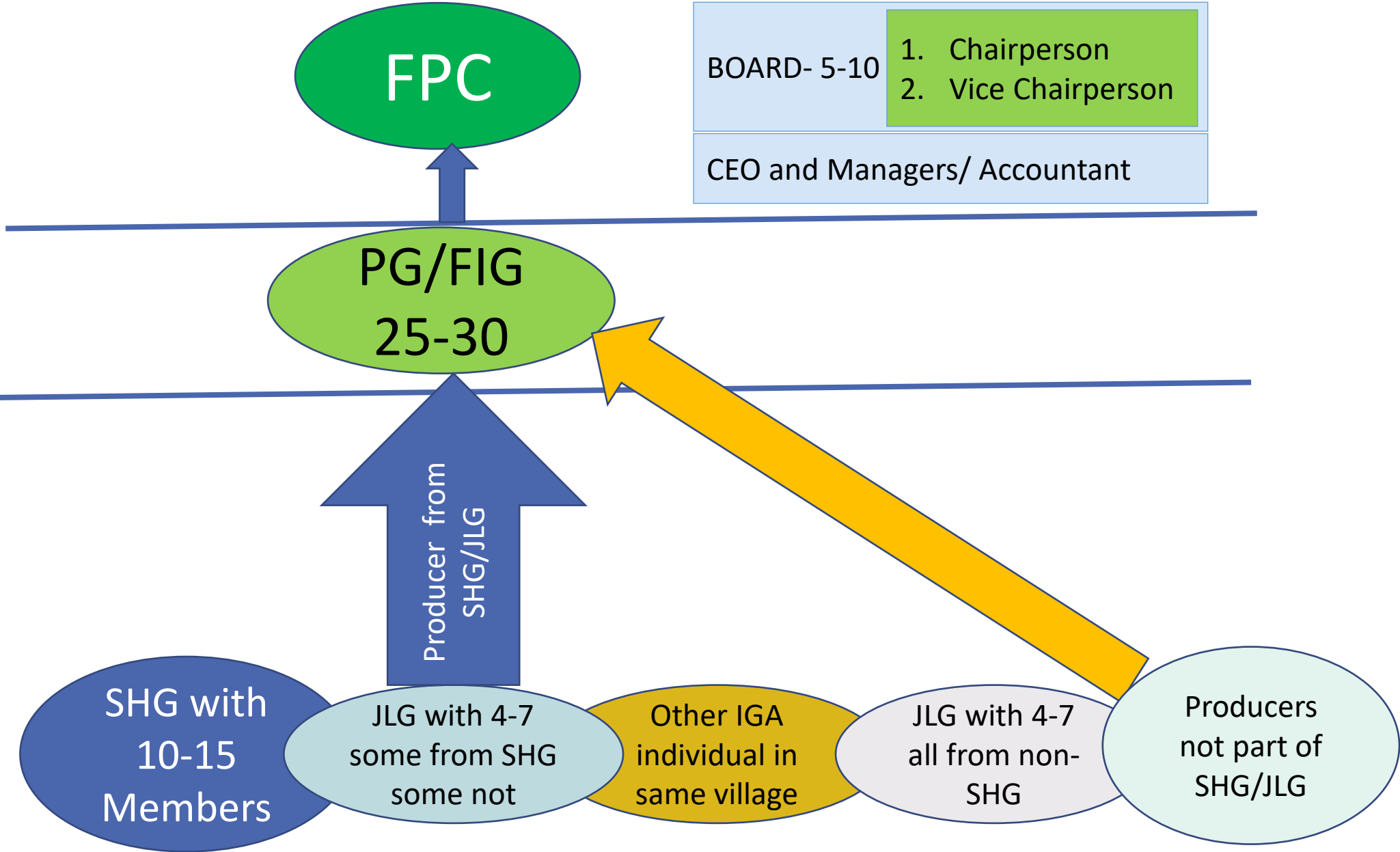
# Central Sector/Gol New Initiatives on FPOs...

- **Central Sector Scheme “Formation and Promotion of 10,000 new Farmer Producer Organizations (FPOs)” of Rs. 6865 crore**
- **Total 4 Departments involved in promoting FPOs**
  1. Small Farmers Agri-Business Consortium (SFAC),
  2. National Cooperative Development Corporation (NCDC),
  3. National Bank for Agriculture and Rural Development (NABARD),
  4. National Agricultural Cooperative Marketing Federation of India (NAFED),
- **Financial assistance upto Rs 18 lakh per FPO for a period of 03 years to meet initial establishment and operational cost in addition to Rs 25 lakh promotion cost to CBBO (NGO/ TSA) per FPO for 5 years.**
- **Provision made for matching equity grant upto Rs. 15 lakh per FPO.**
- **Credit guarantee facility upto Rs. 2 crore of project loan per FPO from eligible lending institution to ensure institutional credit accessibility to FPOs.**

**NABARD is major Promotor.....**



# FPC – Structure / Governance



# FPC Formation

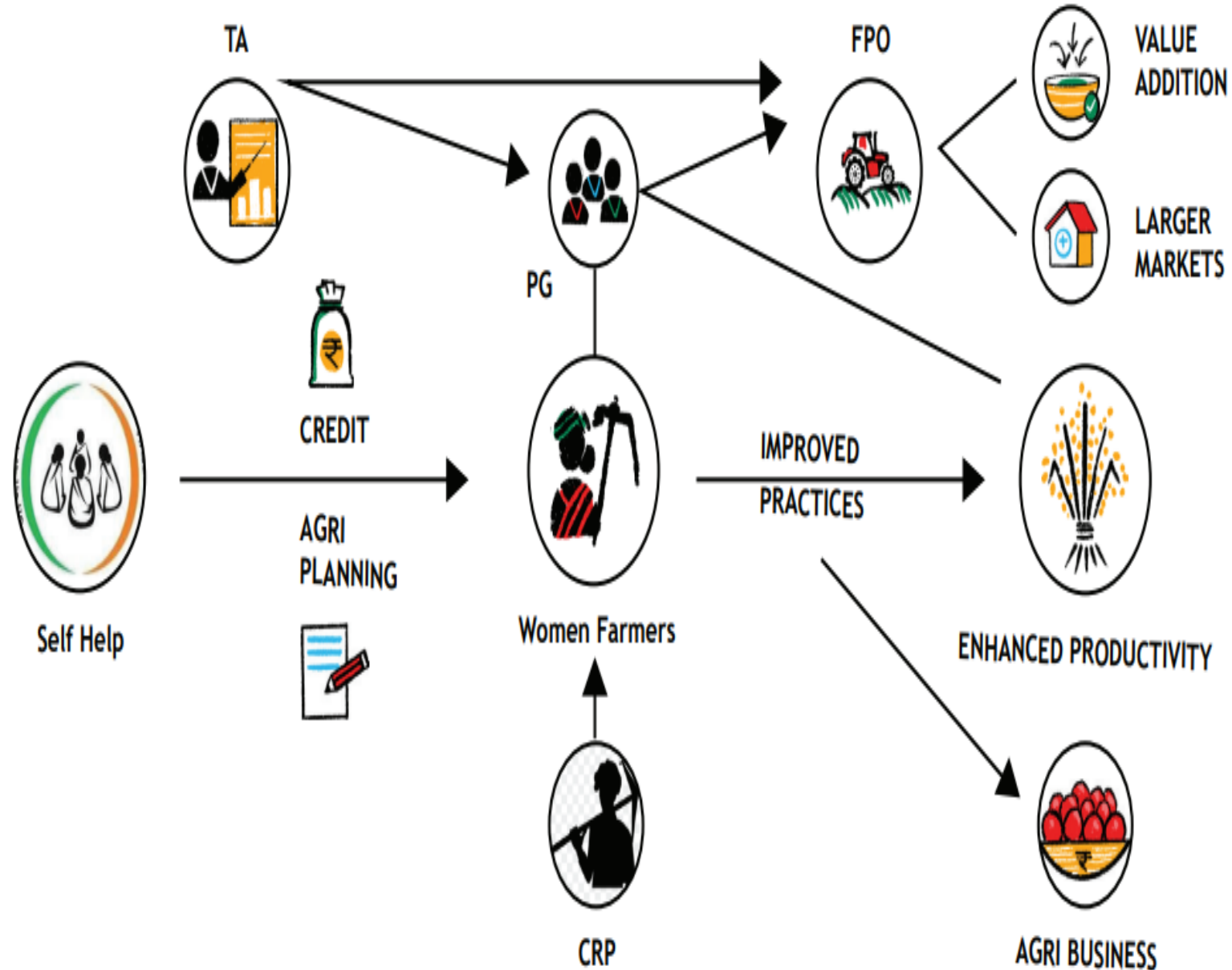
Indicator	SFAC <a href="http://sfacindia.com/FPOS.aspx">http://sfacindia.com/FPOS.aspx</a>	NABARD	SRLM
Formation	Started in year 2013-14 under RKVY Programme <a href="http://sfacindia.com/PDFs/Tenders/SFAC%20FO%20ProcessGuidelines%20Final.pdf">http://sfacindia.com/PDFs/Tenders/SFAC%20FO%20ProcessGuidelines%20Final.pdf</a>	FPO formation programme July 2014 <a href="https://birdlucknow.nabard.org/wp-content/uploads/2021/02/Guide-Book-FPO-schemes.pdf">https://birdlucknow.nabard.org/wp-content/uploads/2021/02/Guide-Book-FPO-schemes.pdf</a>	Adopted from SFAC and NABARD and stated in Year 2018-19
Shareholding	500 to 1000 Producer	300 to 1000 Producer	500 to 1500 Producer
Formation Cost	Initially 18 lakh for two year increase in year 2017-18 Rs 25 Lakh for three year	Initially 9-10 lakh for two year increase in year 2017-18 Rs 25 Lakh for three year	By own team and TSA support
Seed Money	Equity Grant Max up to Rs 15 Lakh	Maximum up to 5 Lakh	CIF/ Infrastructure support
Linkage with Next level Federation	State level Federations in states-9 <a href="http://sfacindia.com/UploadFile/Statistics/SLPC.pdf?65878741_8974568">http://sfacindia.com/UploadFile/Statistics/SLPC.pdf?65878741_8974568</a> Also –National level <a href="https://www.nafpo.in/">https://www.nafpo.in/</a>	No federation formed under NABARD	Cluster federation at block level and district level planned
Bank Linkage	Mainly financed by MFIs/ NBFC at initial stage and later bank also finance – 3 lakh to Rs 500 Cr loan majority of financing by NABKISAN . As on date, NABKISAN has sanctioned loan of Rs 278.8 crore to 926 FPOs. <a href="https://www.bankofbaroda.in/business-banking/rural-and-agri/loans-and-advances/financing-farmer-producer-companies">https://www.bankofbaroda.in/business-banking/rural-and-agri/loans-and-advances/financing-farmer-producer-companies</a> <a href="https://pib.gov.in/PressReleasePage.aspx?PRID=1739593">https://pib.gov.in/PressReleasePage.aspx?PRID=1739593</a>		
RBI Guideline	<a href="https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11604">https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11604</a>		

# FPC and Cooperatives basic difference

PARAMETER	COOPERATIVE SOCIETY (as per State Cooperative Act)	PRODUCER COMPANY (Reference Section 465(1) of the Companies Act, 2013) <a href="https://www.mca.gov.in/Ministry/pdf/Producer_Company.pdf">https://www.mca.gov.in/Ministry/pdf/Producer_Company.pdf</a>
<b>Registration</b>	Cooperative Societies Act	FPOs registered under the special provisions of the Companies Act, 1956 (amended in 2002), now Companies Act, 2013
<b>Objectives</b>	Single object	Multi-object
<b>Area of Operation</b>	Restricted, discretionary as per state	Entire Union of India
<b>Membership</b>	Individuals and cooperatives	Any individual, group, association, producer of goods or services
<b>Share</b>	Non tradable	Not tradable but transferable; limited to members at par value
<b>Profit sharing</b>	Limited dividends on shares	Proportionate with volume of business in addition to dividends
<b>Voting rights</b>	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One shareholder, one vote. Members not having shareholding with the company cannot vote.
<b>Government control</b>	Highly patronized to the extent of interference	Minimal, limited to statutory requirements.
<b>Extent of Autonomy</b>	Limited in “real world scenario”	Fully autonomous, self-ruled within the provisions of Act
<b>Reserves</b>	Created if there are profits	Mandatory to create every year
<b>Borrowing power</b>	Restricted as per bye-law. Any amendment to bye-law needs to be approved by Registrar	Borrowing limit fixed by Special Resolution in general meeting. Companies have more freedom to raise borrowing
<b>Relationship with other corporate</b>	Transaction based	Producers and corporate entity can together float a producer company.

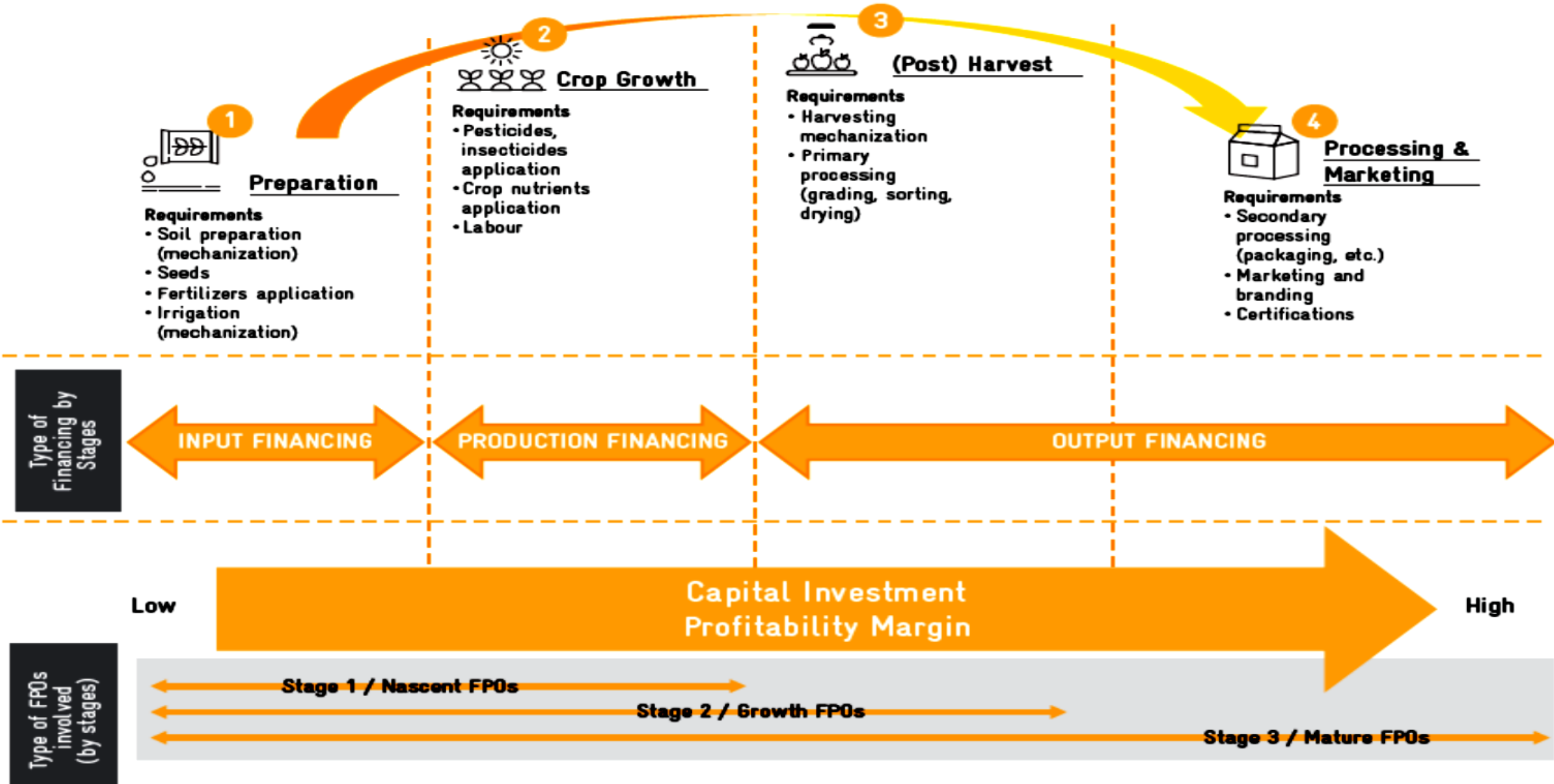
# FPC in SRLM under NRETP

- ✓ Formation stated in 13 NRETP states from 2019 onwards
- ✓ FPCs are formed at Block level covering 25-50 Villages
- ✓ Shareholder 500 to 1000 per FPC
- ✓ Producer Group (PG) comprises of 10-20 producer
- ✓ Follow the guideline – SFAC, GoI/ NABARD
- ✓ Focus on Agriculture allied sector - Value addition and marketing
- ✓ FPCs are primarily registered in Producer Company Act. 2013
- ✓ Funds for business-own share money, CIF, SFAC Equity Grant, banks/ MFI loan.





# FPC - Financing Opportunity and stages:



# FPO Financing : RBI Guideline

## Farmer Producer Organisations (FPOs)/(FPC) Companies engaged in Agriculture and Allied Activities

**(a)** Loans for the following activities will be subject to an aggregate limit of ₹2 crore per borrowing entity:

- ✓ Crop loans to farmers which will include traditional/non-traditional plantations and horticulture and loans for allied activities.
- ✓ Medium and long-term loans for agriculture and allied activities (e.g. purchase of agricultural implements and machinery and developmental loans for allied activities).
- ✓ Loans for pre and post-harvest activities viz. spraying, harvesting, grading and transporting of their own farm produce.

**(b)** Loans up to ₹75 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months against NWRs and up to ₹50 lakh against warehouse receipts other than NWRs/eNWRs.

**(c)** Loans up to ₹5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11959&Mode=0>

# Financing Products- NBFCs

Name	NABKISAN (NABARD subsidiary)	Ananya (Pioneers in FPO Lending in private NBFC space <sup>TM</sup> )	Samunnati (Innovators in FPO Lending)
Legal Form	NBFC	NBFC	NBFC
Lends to	<ul style="list-style-type: none"> <li>FPOs</li> <li>Agri value chain players</li> <li>FPO lending intermediaries</li> </ul>	<ul style="list-style-type: none"> <li>FPOs</li> <li>Agri value chain players</li> </ul>	<ul style="list-style-type: none"> <li>FPOs</li> <li>Agri value chain players</li> <li>Individual Farmers</li> </ul>
Typical product	<ul style="list-style-type: none"> <li>Working Capital Loans</li> <li>Term Loans</li> <li>Working Capital Term Loans</li> </ul>	<ul style="list-style-type: none"> <li>Working Capital Loans</li> </ul>	<ul style="list-style-type: none"> <li>Working Capital Loans (PO financing and invoice discounting)</li> <li>Term Loans</li> </ul>
Areas of the value chain	<ul style="list-style-type: none"> <li>Pre-production (Input)</li> <li>Post Production (output activities: harvest, marketing)</li> <li>FPOs involved in On-lending to members</li> <li>Pre-production (Input) Production</li> <li>Post production (output activities: harvest, marketing)</li> </ul>	<ul style="list-style-type: none"> <li>Pre-production (Input)</li> <li>Post Production (output activities: harvest, marketing)</li> <li>FPOs involved in On-lending to members</li> </ul>	<ul style="list-style-type: none"> <li>Pre-production (Input)</li> <li>Post production (output activities: harvest, marketing)</li> <li>FPOs involved in On-lending to members</li> </ul>
Operational data	<ul style="list-style-type: none"> <li>Total loans: 250+ (directly), 150+ indirectly</li> <li>Total disbursed: ₹ 200 crore</li> <li>Total outstanding: ₹ -75 crores</li> </ul>	<ul style="list-style-type: none"> <li>Total loans: 150 to 45 FPOs</li> <li>Disbursed to: 80 FPOs</li> <li>Total disbursed: ₹ 100 crore</li> <li>Total outstanding: ₹ 30 crore</li> </ul>	<ul style="list-style-type: none"> <li>Total loans: 250+ FPOs</li> <li>Total disbursed: Over ₹ 250 crore</li> <li>Total outstanding: ₹ -50 crore</li> </ul>
Ticket Size	₹ 3 lacs to 5 crores (Mostly limited to ₹ 1 crore)	₹ 20 lacs to 1 crore	₹ 3 lacs to 2 crore
Interest Rate	10.5%- 12.5%	13.5%-16.5%	14%-21%
Tenor	4 - 18 months	3 - 36 months	4 - 18 months

# Financing Products- Banks

Indicator	SBI	BOB
Type of Loan	Agri Term Loan Cash Credit/OD Demand Loan	Agri Term Loan Cash Credit/OD Demand Loan
Quantum of Loan and Margin	No maximum loan limits 20% of project cost	Maximum Loan upto Rs 500 Cr
Repayment	Repayable in 10 years, unless otherwise prescribed in the scheme for which activity /the loan is solicited.	As per Project up to 10 years
Security/Collateral Credit Guarantee by SFAC:	No collateral security is to be obtained other than charge on other movable / immovable assets of the Company where Guarantee cover from SFAC (Small Farmer's Agri Consortium) is obtained to the extent of 85% of eligible sanctioned limit.	Credit Guarantee is available for collateral free loans to FPCs/FPOs by various agencies like SFAC/NABARD/NCDC/ CGTMSE etc.
Interest Rate	Interest rate is linked to One Year MCLR + spread as determined by Bank from time to time. <a href="https://sbi.co.in/web/agri-rural/finance-to-farmer-producer-companies">https://sbi.co.in/web/agri-rural/finance-to-farmer-producer-companies</a>	<a href="https://www.bankofbaroda.in/business-banking/rural-and-agri/loans-and-advances/financing-farmer-producer-companies">https://www.bankofbaroda.in/business-banking/rural-and-agri/loans-and-advances/financing-farmer-producer-companies</a>
Processing Fee & Other Charges	<ul style="list-style-type: none"> <li>Processing Fee : 0.30 % of the loan amount + GST</li> <li>SFAC Fee : One time Guarantee Fee @0.85% of the sanctioned Credit Facility, subject to a maximum of Rs.85,000/-.; plus an annual Service Fee of 0.25%</li> </ul>	Nil Processing Charges for aggregate loan up-to Rs 3.00 Lakhs

# Some Example: best performing FPCs

SL	Name	Business TO (in RS Cr)	Link / Reference
1	Sahyadri Farmers Producer Company Limited, Maharashtra	Close to 250.00 (2021)	<a href="https://www.icra.in/Rationale/ShowRationaleReport?Id=108008">https://www.icra.in/Rationale/ShowRationaleReport?Id=108008</a>
2	Velliangiri farmer producers' organization, Tamilnagu	12.00 (2020)	<a href="https://tnscm.co.in/mips/velliangiri-uzhavan-producer-co/">https://tnscm.co.in/mips/velliangiri-uzhavan-producer-co/</a>
3	Madhya Pradesh Woman Poultry Producers Company Private Limited, Madhya Pradesh	297 crores in FY 2018-19	<a href="https://mpwpcl.org/financial-performance/">https://mpwpcl.org/financial-performance/</a>
4	Nachalur Farmers Producer Company Limited's, TamilNadu	15 Cr. In Year 2019-20	<a href="https://nfpcl.in/about.html">https://nfpcl.in/about.html</a>

# FPC – Factors affecting performance

1. Widely depend on Promoter (profile / interest) and locations (business potential).
2. Governance and leadership – Youth and professionally educated personal
3. Business orientation across all level
4. Transparency and management system – trust among farmers
5. TSA support/ local staff and long terms mentoring / backup
6. Infrastructure support as part of Government grant / subsidy
7. Access to customised financial products as per need
8. FPO performance indicators exist, however financial ratios suffer from lack of standardisation and this also affects FPOs' ability to raise money from banks and other financial institutions...

[https://www.iima.ac.in/c/document\\_library/Producer%20Companies%20-%20Final%20Report.pdf](https://www.iima.ac.in/c/document_library/Producer%20Companies%20-%20Final%20Report.pdf)

[https://www.pphouse.org/upload\\_article/43711084\\_8\\_IJBSM\\_June\\_2021\\_13\(3\)\\_Amitha\\_et\\_al.pdf](https://www.pphouse.org/upload_article/43711084_8_IJBSM_June_2021_13(3)_Amitha_et_al.pdf)

<https://www.manage.gov.in/publications/eBooks/Impact%20Assessment%20of%20FPC.pdf>

<https://www.3ieimpact.org/sites/default/files/2019-11/FPOs-India-Literature-review-web.pdf>

# Challenges in FPOs

1. Project mode of support – after three year NGO/ TSA withdrawal from support.
2. FPO leaders lacking in business orientation-Grant and subsidy orientation
3. Many FPOs are inadequate access to institutional credit due to low capital base, absence of credit history and non-availability of collateral.
4. Many FPOs lack the capacity to manage the supply-chain operations and store the unsold produce, besides faltering in procurement, logistics and price negotiations.
5. Many FPOs are Still in exploratory stage for E-retailing and e-marketing possibilities for FPOs.
6. Finding the right markets bypassing the present system of intermediaries is critical for the success of the FPOs.
7. Currently, only a few FPOs have developed mobile phone based extension guidance to help reduce cost of cultivation and access information about market prices of commodities.
8. Limited to input supply and procurement of produce and value added products manufacturing is still concert due land of TA and institutional credit.