Roundtable Discussion
On
Financing of Farmer Producer Companies

Organised by

College of Agricultural Banking (CAB)

In collaboration with

Small Farmers' Agribusiness Consortium (SFAC)
Pune, Maharashtra, 18th March, 2014

Introduction to Roundtable

The roundtable workshop opened with a short welcome address by Shri R.N. Panigrahi of CAB. While welcoming the participants, Shri Panigrahi observed that the Credit Guarantee Fund approved by the Government of India for Farmer Producer Companies offered a unique opportunity to bankers to increase their investment support to the agriculture sector with risk covering. Shri Pravesh Sharma, Managing Director, SFAC provided a brief background to the roundtable and the importance of supporting Farmer Producer Organizations (FPOs) to achieve inclusive agricultural growth in the country. He said that while the agriculture sector had performed in a robust manner in the past five years, large sections of the farming community were not able to participate in the rapidly developing value chains due to their inability to invest appropriately in productive assets, such as land, farm machinery, high yielding inputs etc. The focus on building FPOs was an attempt to overcome the constraints of small holding size, which form more than three fourths of the total holdings. However, FPOs by themselves cannot help farmers to integrate in high value agriculture systems and there was a need to fill the gap of both equity and working capital. The Equity Grant and Credit Guarantee Fund Scheme was a concrete step taken by Govt. of India to plug these twin gaps and incentivise the banking sector to look at FPO as an attractive class of borrowers. Shri Sharma said that SFAC was willing to support the banks in designing innovative financial products which could meet the financing requirements of FPOs.

Objectives of the Roundtable

- ✓ Focusing on understanding the constraints of access to credit, other financial services like collateralised banking services, access to quality inputs and problem of access to technology and markets

- ✓ To sensitize bankers and other stake holders how institutionalization can bring out ways to address issues of input supply, technology, credit supply etc. to FPOs.
- ✓ To build awareness and understanding in the banking sector about the provisions of the Equity Grant and Credit Guarantee Fund Scheme (EGCGF) and also develop innovative financial products for Farmer Producer Companies which can be covered under the CGF.
- ✓ To bring Bankers and other stakeholders (NGOs, Civil societies,FIs) closer to understand each other's point of view while preparing plans/products for FPOs.

Discussion Highlights:

- ✓ As the number of FPOs registered as Farmer Producer Companies and interest in this form of institution grows across the country, the issue of access to credit – linking FPOs to reliable and affordable sources of financing for working capital, infrastructure investment has assumed centre stage.
- ✓ New FPOs in particular face insurmountable hurdles in accessing startup capital and sustain the effort of aggregation.
- ✓ Formal Financial Institutions are wary of lending to these bodies, largely due to the latter's inability to provide adequate collateral to cover the lender's risk.
- ✓ NABARD has created a dedicated corpus to provide loans to producer organizations but it seeks proposals from mature FPOs with a credit history of at least three years.
- ✓ It is observed that no FPC is seen viable for investment by Banks for initial 3-4 years. Stakeholders need to focus upon making such products so as to make FPOs self dependent and bring them out of investment, technology, input and market deficit.

Suggestions:

- ✓ Apart from EGCGF, grants for initial 3-5 years is necessary to stabilize nascent FPCs.
- ✓ FPO's viability in 3-4 years is doubtful.
- ✓ Instead of balance sheet stipulation, 2 years experience of FPCs and its management should be the parameter for bankers to sanction loans to FPCs.
- ✓ Bankers need to align their existing/new schemes to conform to FPO norms.
- ✓ Agreement for EGCGF should be at branch level.
- ✓ Banks should fix targets of FPC lending like the way in case of agri/ priority sector lending.
- ✓ Putting burden on branches will not serve the purpose, controllers will have to ensure diversification of products.
- ✓ Present scale of finance of banks is very low, norms are very old, needs revision

Major Recommendations:

Recommendations for improving access to financial support and credit needs of FPCs are as follows:

- ✓ Products to be designed should be simpler, understandable, time sensitive and relevant to FPCs
- ✓ A working capital loan (short term) product is required- Initial working capital loan for atleast two cycles (5-10 lacs at the time of sowing and 5-10 lakhs at the time of procurement) against investment/term loan.
- ✓ The product should be designed in such a way that the banks should not have any doubt of double financing/ short or under financing.
- ✓ Tool/Checklist on rating of FPCs needs to be developed.
- ✓ FPCs to be made aware about the time that would be taken up for the due diligence to enable them to apply well in advance so that timely funding is ensured.
- ✓ Active engagement of BoDs is needed in all the activities/decisions.
- ✓ Encouraging farmers to invest in equity reflects increase in ownership, loyalty and accountability of community building financial discipline in them.
- ✓ It is also needed to find out that how already existing norms could be diluted to make lending easier.
- ✓ Profitability at farmer level needs to be checked by distributing profits as equity.
- ✓ Once formed, FPOs have to deal with the problem of sourcing finance for meeting its expenses from various sources. As far as producer's equity is concerned, small and marginal farmers can make limited contributions, hence increased equity contribution comes with time. In order to leverage the services of financial institutions easily, FPC should have a viable business (operational, financial and marketing) plan to convince the lending institution about the viability and sustainability of the project leading to reduction in risk assessment which is generally high in case small and marginal farmers.
- ✓ EGCGF should be used as a vehicle for enhancing fund flow to FPCs and investment in this sector.
- ✓ Financial Institutions to give loans focusing on their business model and not on the traditional parameters for lending.
- ✓ Awareness on FPCs among Bankers is required as most of the bankers still do not know that what the FPCs are. Training/ Capacity building of Bank staff (Manager level) in this regard may be imparted by SFAC. SFAC can put their local partners and arrange exposure visits etc.
- ✓ Banks may identify few branches in each State to begin with, putting a nodal person for the purpose of dealing with FPO related schemes/lending.

<u>Views of participants on State Level Associations</u>.

Aloysious Fernandez, NABFINS- Once large corporates come into retail (not necessarily foreign but also local), the small farmers with marketable commodities will not be able to bargain for a good price unless they get together in collectives/producer companies"...This is the bottom that needs to be strengthened.

Ajit Kanitkar, FORD Foundation- We need to wait for atleast 3-4 years so that the entities who have registered recently become more stable.

ICICI- SLAs will provide lobbying power to FPOs, will enable them to deal with bigger players on slightly better terms.

IDBI- SLAs could be multiple in numbers within a state and should be open for both merger as well as demerger.

List of Participants

Sr. No.	Name & Designation	Bank/Organisation's Name, Address, Phone and Fax No.	E-mail ID
1.	**Shri Ashok Vyas** Sr. Manager	**Agakhan Rural Support Program(India)** Representing –Gujarat Krishak Manch, SLA of Gujarat, 9th Floor, Corporate House, Ashram Road, Ahmedabad – 380009 (M) 9925239313	ashokvyas@akrspi.org
2.	**Shri Jitendra Parmar** CEO	**Bijawar Producer Company Ltd.** Bijawar, Dist. Chhatarpur (MP) (M) 7869957632	jitensingh44@rediffmail.com
3.	**Shri S.S. Bhat** General Manager	**Canara Bank** PCEFI Wing, H.O., 112, J.C. Road Bangalore – 560 002 Ph 080-22236069 Fax 22293517 (M) 9686625411	bhatss@canarabank.com
4.	**Shri Raveendranath Hebbar** Dy.General Manager	**Corporation Bank** H.O., Mangalore – 575 001 Ph & Fax 0824-2420798 (M) 9591995997	rhebbar@corpbank.co.in
5.	**Shri Ashok Patnaik** Sr. Consultant	**Ctran Consulting Ltd.** A1/A2, Lewis Plaza, Lewis Road, BJB Nagar Bhubaneswar – Odisha – 751 014 Ph 0674-2430041 Fax 2432695 (M) 9668866988	ashok.patnaik@ctranconsulting.com
6.	**Shri Amrish Khurana** General Manager	**Dev Bhumi Natural Products Producers Co.Ltd.** (M) 9650559951	amrish.khurana@gmail.com
7.	**Shri Ajit Kanitkar** Programme Officer	**Ford Foundation** 55, Lodi Estate, New Delhi – 110 003	a.kanitkar@fordfoundation.org
8.	**Shri Michael Andrade** Sr. V.P.	**HDFC Bank** Kamila Mills Compd, Lower Parel Mumbai – 400 054 Ph 022-24988484 Fax 249665235 (M) 9323395345	michael.andrade@hdfcbank.com
9.	**Ms. Swati Chowdhary** Chief Manager	**ICICI Bank Ltd.** Videocon Towers, Jhandewalan Extension New Delhi – 110 055 Ph 011-30597181 (M) 9650964281	swati.ch@icicibank.com
10.	**Shri D. Chattanathan** Joint General Manager	**ICICI Bank Ltd.** Bandra Kurla Complex, Mumbai Ph 022-26538767 (M) 9000127727	chattanathan.d@icicibank.com
11.	**Shri Niranjan Janardan Mathure** General Manager	**IDBI Bank Ltd** WTC, Cuffe Parade, Mumbai – 400 005 Ph 022-66552162 (M) 9869443373	niranjan.mathure@idbi.co.in

Sr. No	Name & Designation	Bank/Organisation's Name, Address, Phone and Fax No.	E-mail ID
12.	**Shri Anshu Bhartia** Advisor	**Independent Consultant** 271/2 Forest Ln, New Delhi – 110 068 (M) 9999910300	abhartia2013@gmail.com
13.	**Shri Sriram Waghamare** State Head Maharashtra, IGS	**Indian Grameen Services** 19, Ramjidas Lane, Gorakshan Road, Sahakar Nagar, Akola – 444 001 (M) 8888882797	shriram@igsindia.org.in
14.	**Shri Santosh Hanmantrao Ranjane** Director	**Jawali Agro Producers Company** At Sayghar Tal. Jawali, Dist Satara (M) 9822275004	santoshranjane@yahoo.co.in
15.	**Dr. Ravindra Pastor** Commissioner	**MPSEGL** (M) 9425166766	raviogo@gmail.com
16.	**Dr. Abdul Rahman Khan** Dy. General Manager	**NABARD** H.O., BKC, Mumbai Ph.022-26539530 Fax 26530067 (M) 9967028899	ar.khan@nabard.org
17.	**Shri Venkatesh Tagat** Chief General Manager	**NABARD** H.O., Mumbai – 400 051 Ph 022-26530174 Fax 26530067 (M) 9820892803	vtagat@gmail.com
18.	**Shri Aloysius P. Fernandez** Chairman	**NABARD Financial Services** 190, R.V. Road, Jayanagar, Bengaluru – 560 004	fernandez@myrada.org
19.	**Dr. Rakesh Gupta** General Manager	**Punjab National Bank** 1 Tolostoy Marg, New Delhi – 110 001 Ph 011-23316165 Fax 23320889 (M) 882643226	rakeshgupta2@pnb.co.in
20.	**Shri Arindom Datta** Senior Director	**Rabo Bank** Gurgaon – 122 002 Ph 0124-2713000 (M) 9810708811	arindom.datta@rabobank.com
21.	**Shri Pravesh Sharma** Managing Director	**SFAC** Hauz Khas, New Delhi (M) 9650722288	pravesh.sharma@nic.in
22.	**Shri B.R. Gupta** Consultant	**SFAC** Hauz Khas, New Delhi (M) 9560720620	brgupta.sbi@hotmail.com
23.	**Shri Binay Kumar** Consultant	**SFAC** New Delhi Ph 011-26566372 (M) 9999813270	binay.kumar@sfac.in
24.	**Ms. Saloni Taneja** Field Officer	**SFAC** NCUI Auditorium Bldg., 5th Floor, August Kranti Marg, Hauz Khas, New Delhi – 110 016 (M) 8527028366	msg.fpo@sfac.in

Sr. No	Name & Designation	Bank/Organisation's Name, Address, Phone and Fax No.	E-mail ID
25.	**Shri Y. Vijay Kumar** General Manager & Principal	**State Bank of India** State Bank Institute of Rural Development Hyderabad Ph 040-23463301 Fax 23463353 (M) 9000127727	principal.sbird@sbi.co.in
26.	**Shri Gadhave Shriram** President	**Vegetable Growers Asso. Of India** (M) 7588031777, 9860208029	shriramg20@yahoo.co.in vgai04@gmail.com