

**Roundtable Discussion
On
Access to Credit: Financing Options for Farmer Producer Organisations (FPOs)
Held at IHC, New Delhi on 31st July 2012**

*Hosted by: Friends of WWB, India
Sponsored and Supported by: Small Farmers Agribusiness Consortium (SFAC)*

Background

As the number of Farmer Producer Organizations (FPO's) registered as Producer Companies (established under the Indian Companies Act 1956, added in 2002) 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 and other needs has assumed centre stage. Formal financial institutions (FIs) are wary of lending to these bodies, largely due to the latter's inability to provide adequate collateral to cover the lender's risk. Some NBFCs and new generation FIs have experimented with innovative financial products targeted at FPOs, but these are isolated examples which have not been mainstreamed.

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. SFAC's own venture capital fund in-principle remains open to financing FPOs but the condition of clubbing VC with a bank loan has resulted in zero disbursements to producer organizations in the last five years. New FPOs in particular face insurmountable hurdles in accessing start-up capital and suffer rapid member attrition within a year of registration, as no tangible benefits materialize to justify and sustain the effort of aggregation.

At the same time it is becoming increasingly apparent that many of the risks in agriculture can be significantly mitigated when producers (especially small and marginal producers) aggregate production and marketing efforts. The rapidly growing organized retail sector (while small at present, but doubling its market share every three years) seeks direct buying and selling opportunities with primary producers. Contract farming models are emerging across a wide range of commodities, ranging from fresh produce, spices to staples. Dealing with FPOs reduces both costs and transaction time for these market players. Is there scope for creating funding mechanisms to FPOs based on these contractual relationships? A new class of organized intermediaries has appeared on the agriculture marketing horizon in the form of collateral management service providers, offering finance against warehoused produce. Can FPO produce be leveraged with these agents to raise working and investment capital? Thus there are new avenues to be explored for FPO financing beyond the traditional FIs.

To address these issues FWWB and SFAC organized a Round Table Discussion (RTD) forum on July 31st, 2012. The RTD was very well represented by Academia, FPO promoting Organizations, FPOs, Financial Institutions, Donor Organizations, Others.

Key Note Address was given by Dr Prakash Bakshi, NABARD.

Discussion Highlights:

India is only country in the world where 600 million people are still dependent on agriculture. 83% of total agri household are small and marginal. Marginal farmers can't access the savvy and technical networks for financing and nor is the financial infrastructure resourced for meeting the investment requirements (credit and other financing requirements) of the agri households of the country.

Mandate of SFAC since last 18 months has been to draw attention of Planning Commission and Ministry of Agriculture towards need for aggregation at farmer level. There is now recognition at the highest level of policy making that there has to be institutional intermediation. SFAC has conducted 2 National level and 5 State level RTDs in the last 9 months focusing on understanding challenges increasing, nurturing and growing farmer organisations. These discussions have confirmed that while opportunities exist for small holders as

- There is increase in commercialization of agriculture- export opportunities, demand of cash crops and processing sector, demand of organised retail sector
- They are efficient and flexible
- But they can't leverage benefits as they suffer from constraints of access to credit, other financial services like insurance, collateralised banking services, access to quality inputs and problem of access to technology and markets.

Hence, establishing a clear need for leveraging benefits of aggregation through promoting Community Based Institutions and building them. Different types of aggregation have different issues and challenges. But most important issues to be focused on are ownership structure, governance structure, management structure, grievance mechanisms, etc.

Alongwith these issues, other major challenges are building equity capital, access to working capital and to markets which requires to be addressed. RBI recognizing the leveraging powers of these institutions has recently included Producer Co. and Co-operatives in priority sector lending (loans upto 5 millions) in the Priority Sector Guidelines for the first time.

Basic life cycle stages of promoting and nurturing an FPO that require financial support are:

- Identifying opportunity of creating an FPO
- Community Mobilization
- Establishing FPO
- Operational Management

NGOs / Nodal Agencies providing support for setting up FPOs will require grant support for the initial set-up stages and once established, handholding support to make the farmer producer organizations self managed and sustainable. There are many donor agencies playing an active role: international foundations, government schemes, NRLM, CSR – domestic foundations, business linked CSR. Challenges faced by NGOs establishing these institutions are:

- Most projects funded by one donor and are 1 – 3 years projects – need renewal
- Donors have high outreach/timeline expectations
- Start-up risks not budgeted for
- FPOs can't avail grants as it will be income in their hands
- In addition, FPOs can't access International Funds as they won't get FCRA exemption hence for sustained operations, NGOs continue playing a critical role for fund support

Once formed the FPO has the following sources of finance for meeting its expenses, risks, others:

- Producer equity: Small and marginal farmers can make limited contributions and trust and higher ownership hence increased equity contribution comes with time
- Accumulated profits: Management of the FPOs has to deal with distribution v/s retention dilemma i.e. distribution of profits leads to higher income and maybe loyalty; retention on profits on the other hand helps build better financial statements – thus philosophy of the FPO has to be well defined basis relevant socio – economic parameters.
- Credit service providers: There exist a slew of international and national financial institutions, apex organizations, venture capital funds for linked organizations, other financial products: collateral services, purchase advances, MFI loans to farmers, etc.

However, leveraging and providing credit services is challenging for all.

- Challenges faced by FPO's when trying to raise debt:
 - ≈ Most FI's require collaterals and 3 year balance sheets
 - ≈ FPO Management has limited skills to provide required documentation
 - ≈ FPO's Low equity limits debt raising capability (maximum ratio available is 1:10)
 - ≈ Agro business requires flexible time sensitive customized products
 - ≈ Male member based farmer interest groups (part of the FPOs) can't raise loans
 - ≈ In the initial 1-3 years accumulated losses could be high thus leading to a negative credit rating
- Challenges of FIs when appraising applications of FPOs
 - ≈ Many FPOs are on paper only and yet to start any business activity
 - ≈ To ensure loyalty to FPOs, financing is required for meeting credit needs at all levels: farmers, SHGs, FPOs
 - ≈ Agriculture has been deemed a high risk sector hence collaterals become a must
 - ≈ FPOs have limited / no business plans nor market linkages; in addition operational, marketing and financial plans usually not in sync

- ⌘ Pricing doesn't include all costs and hence leading to question of ability to pay back loans
- ⌘ Promoting NGOs have social mindsets thus lack commercial skills
- ⌘ FPOs approach FIs just in time for their requirements without planning for appraisal – due diligence time leading to delays and missing the business cycle
- ⌘ Language barriers: FPOs are owned by farmers who usually speak the local language (most can't read and write) and all important business records and documents are in either Hindi or English thus producer owners have limited knowledge of actual transactions.

The concerns of FIs results in questioning the viability / sustainability of project and hence risk assessment is high leading to small or no loans.

Recommendations for improving access to financial support and credit needs of NGO / Promoting organizations and FPOs are as follows:

Grant financing recommendations for donors:

- Donors should plan for 3-10 years support depending on organization needs as developing sustainable and viable FPOs is a complex and risky business and requires long term hand holding support.
- Grant computation to include realistic resource requirements and timelines (basis project plans, local environment, level of aggregation, support required)
- Clear guidelines / deliverables to be established for funding i.e. setting up relevant legal entity; establishing good governance framework; designing processes and systems; creating robust business plans; ensuring ownership by community; hiring required talent; establishing partnerships for technical knowledge skill building, productivity improvement; hiring

Producer equity recommendations for FPOs and Promoting Organizations:

- Producer Company can look at distributing profits as equity, to build up their capital.
- Encourage farmers to invest in equity –reflects increase in ownership, loyalty and accountability of community
- Engage CSR resources for asset creation equity grants given to farmers
- Entrepreneur led models to be promoted to increase farmer participation in the growth of the organization.

Credit recommendations

- The FIs can collaborate and create consortium for funding risky businesses this would distribute risk and create an environment for growth of FPOs
- FIs to give collateral free loans focusing on their Business model and not on the traditional parameters for lending
- FPOs should look at raising loans from SHG federations where these exist – this would also increase ownership and accountability of FPO towards its members as membership would overlap.

Policy recommendations:

- To create Incubation centre – funds to support the nascent stage of FPOs especially in business planning and forecasting
- Create Government- State guarantee funds for FIs
- Allow FPOs to leverage low cost ECB loans
- Allow international grants as equity grants for FPOs to create assets and set-up risk guarantee funds for credit providers
- Give tax holidays for FPOs in initial years to build surplus & reserves
- Agriculture subsidies can be given as grant for equity
- Sectorial approach is required for growth of FPOs
- FPOs can be extended loan at lower interest rates, much like industry, that has overtime received subsidized credit especially for development of backward areas.

Nodal investment required

- Need of infrastructure to be addressed: chillers, train transportation, spot exchanges to de-risk FPOs
- Accredited credit rating agencies, which formulate a conventional rating tool in context of the Producer Organization. This could give a fair sense of evaluation.
- Nodal support services; management support; access to markets; Capacity Building and others for overall growth and development of the organization.
- FPOs could look at collaborating with Federations and create a collective brand, explore Niche markets.

Other points that need to be deliberated / discussed over the next few RTDs should be

- What kind of services (scope of services) an FPO should be providing to its members. As Farmers grow and deal with multiple commodities and each value chain has its own complexities, the FPO management needs to understand, analyse and deal with them, assess which value chains it will support and FPO Management will require capacity building for this. Who will provide this?
- Handholding support for aggregation is very essential and critical- who could be the service provider including withdrawal process of promoting organisation from the producer organisations – timing, strategy, etc
- Potential of the new concept of PPPP – private entrepreneur + producer org + govt (public) partnership
- Can the existing producer org (co-op, pc, etc) be build upon or new producer org should be created
- Should FPOs become BCs for banks thus facilitating credit access to farmers
- Centers of Excellence for promoting FPO and helping with issues of farmers mobilization, Governance of FPOs, Business planning, Human resource development, Value chain assessments, Productivity enhancement etc are required both at the national and state level for scaling up and improving impact and effectiveness. Who will take up this mantle?

List of Participants with Contact Information:

| # | Name of the invitee | Name of the organization | Contact No. | Email |
|----|---------------------|-------------------------------|--------------|--|
| 1 | Vipin Sharma | Access Development Services | 9810441292 | vipin@accessdev.org |
| 2 | Monika Khanna | Access Development Services | 9650270424 | monika@accessdev.org |
| 3 | Sarat Kumar | Access Livelihood Consulting | 9440901793 | sarat@alcindia.org |
| 4 | Ashis Mondal | Action for Social Advancement | 9425010783 | asa@asabhupal.org |
| 5 | G Muralidhar | Akshara Network | 9394843008 | muralivan@yahoo.com |
| 6 | Yashashri Gurjar | Avantha Group | 9960203132 | y.gurjar@avanthagroup.com |
| 7 | Ramesh Rawal | BAIF | 9811193887 | rawal.ramesh@gmail.com |
| 8 | C S Ghose | Bandhan | 9830149724 | info@bandhanmf.com |
| 9 | Bipin Bihari | Basix | 9971203513 | bipin.b@basixindia.com |
| 10 | V Hyma | BASIX | 9880500104 | hymav@basixindia.com |
| 11 | G Senthil Kumar | CARE | 011 26566060 | senthil@careindia.org |
| 12 | Venkatraman Reddy | CASPIAN | 9959266566 | venkat@caspian.in |
| 13 | Leena Chakrabarti | CII FACE | 9818587999 | leena.chakrabarti@cii.in |
| 14 | Nishank | CSA / ASHA | 9015867930 | nishank.kisanswaraj@gmail.com |
| 15 | Siddharth Sanyal | Dakshinayan | 9932256477 | dakshinayan@gmail.com |
| 16 | Shailesh Panwar | Dev Bhumi (DNPPCL) | 8606407519 | sales@devbhumi.com |
| 17 | Ganesh | Dhan Foundation | 9047672054 | ganesh.dhanbds@gmail.com |
| 18 | S Bhaskar Reddy | FICCI | 9899599455 | baskar@ficci.com |
| 19 | Ajit Kanitkar | FORD | 9818369328 | a.kanitkar@fordfoundation.org |

| # | Name of the invitee | Name of the organization | Contact No. | Email |
|----|-----------------------|----------------------------|-------------|--|
| 20 | Anshu Bhartia | FWWB | 9099072799 | anshu.bhartia@fwwbindia.org |
| 21 | Puneet Jharjharia | Grassroots Business Fund | 9650567724 | pjhajharia@gbfund.org |
| 22 | Raveendra Sahni | HDFC | 9310390060 | raveendra.sahni@hdfcbank.com |
| 23 | Bishwadeep Ghose | Hivos | 9845891295 | b.ghose@hivos-india.org |
| 24 | Jitendra Joshi | IDBI | 9873566767 | jitendra.joshi@idbi.co.in |
| 25 | M B Kaul | IDBI | 01166083130 | mb.kaul@idbi.co.in |
| 26 | Shaheel Rafique | IFAD | 9654592192 | s.rafiq@ifad.org |
| 27 | Avishek Gupta | IFMR Trust | 9790992012 | avishek.gupta@ifmr.co.in |
| 28 | Mayuri Hazarika | IGS, Basix | 9717012424 | bazarikamayuri@gmail.com |
| 29 | Mihir Sahana | IGS, Basix | 9771493321 | mihir@basixindia.org |
| 30 | Prof Trilochan Sastry | IIM Bangalore | 08026993285 | trilochans@iimb.ernet.in |
| 31 | H K Mitra | INI FARMS | 9630538959 | hemant.mitra@inifarms.com |
| 32 | Sunil Khairnar | ISAP | 9818973733 | sunil@isapindia.org |
| 33 | Piyush Kumar Prasoon | MicroSave | 9956292759 | piyush@microsave.net |
| 34 | Prakash Bakshi | NABARD | 02226530113 | chairman@nabard.org |
| 35 | Venkatesh Tagat | NABARD | 02226539859 | vtagat@gmail.com |
| 36 | B Sathish Rao | NABFINS | 8861205537 | ho@nabfins.org |
| 37 | C P Mohan | NABFINS, Bangalore | 9448497807 | md@nabfins.org |
| 38 | Pradeep Mishra | National Spot Exchange Ltd | 9930267617 | pradeep.mishra@nationalspotexchange.com |
| 39 | Charanjiv Chawla | OBC | 8527288988 | charanjiv.chawla@obc.co.in |
| 40 | D Narendranath | PRADAN | 9868882025 | naren@pradan.net |

| # | Name of the invitee | Name of the organization | Contact No. | Email |
|----|---------------------|--|---------------------------|--|
| 41 | Ajay Kumar Mishra | RBI | 02222673998 | ajaykumarmisra@rbi.org.in |
| 42 | J K Shahani | SBI | 9560087733 | agmabu3.ihodel@sbi.co.in |
| 43 | Jaya Chatterji | SFAC | 01123019899 | jaya.chatterji@gmail.com |
| 44 | Pravesh Sharma | SFAC | 96507 22288 | pravesh.sharma@nic.in |
| 45 | Sanjeev Gupta | SFAC | 9810523350 | jeevsgupta@gmail.com |
| 46 | N Ganesh | Small and Marginal Agriculture India) Producer Co. Ltd. - Thottam | 9047672054 | n.ganesh@thottam.in |
| 47 | Malika Srivastava | SRTT | 9971145096 02266657792 | msrivastava@tata.com |
| 48 | Amith Agrawal | Star Agri Ltd | 9323893407 | amith@staragri.com |
| 49 | Balakrishnan | Vrutti Livelihood Research Center | 9343010870 | bala@vrutti.org |
| 50 | Prof Amar Nayak | XIMB / NABARD | 06746647706 | amar@ximb.ac.in |
| 51 | Girish Aivalli | Yes Bank | 9818141779 | girish.aivalli@yesbank.in |