

Financing and supporting Producer Organizations

NABARD has taken an initiative for supporting producer organizations, adopting a flexible approach to meet the needs of producers. In order to give a special focus, the “Producers Organization Development Fund”(PODF) has been set up wef 01 April 2011, with an initial corpus of Rs 50 crore . Any registered Producers Organization viz, Producers Company(as defined under Sec 581 A in part IXA of Company’s Act 1956), Producers Cooperatives, registered Farmer Federations, MACS (Mutually aided cooperative society), industrial cooperative societies, other registered federations, PACS, etc. set up by producers are eligible under the fund. Support under PODF is provided as under:

Credit Support is provided for financial intervention. Support in the form of grant, loans, or a combination of these is also available for capacity building & market interventions.

Since most of the Producers Organisations are having low capital base, scope for NABARD's intervention under PODF has been enhanced to support Producers Organisations for contribution to share capital.

1. Introduction

- A. Indian producers are unable to realize optimal value from their produce and progress further due to fragmentation of land holdings and lack of organization. India has over 12.5 crore farmer households of which over 85% are small and marginal farmers with land holdings of less than 2 hectares. The average size of land holding is 1.33 hectare/ farmer household. Due to this fragmentation and disorganization, it is not economically viable for the farmers not only to adopt latest technology but also to use high yielding varieties of inputs like seeds and fertilizers. They are also unable to realize good value from their marketable surplus by individually selling their produce.
- B. On the other hand in case of non-farm sector activities, the handloom weavers & artisans are not able to compete with their products in the market due to poor quality & obsolete designs.
- C. Through better organization, producers can utilize scale to procure inputs at a lower price, and gain more selling power for their produce/product. Forming a producer organization can also provide access to timely and adequate finance, build capacity and provide linkages to markets.
- D. NABARD has, therefore, decided to set up a separate fund titled "Producers Organization Development Fund" (PODF) to tackle the issues of non availability of timely credit, capacity building of producers & strengthening of the Producers Organizations and market tie-ups. The Fund has been created in NABARD with an initial corpus of Rs.50 crores from out of its operating surplus for the year 2010-11.

• Title and Commencement

A separate Fund titled “Producers Organization Development Fund (PODF)” has been created with an initial corpus of Rs.50 crore with a sanctioning limit of Rs.100 crore out of NABARD’s

profits as at the end of the financial year 2010-11 and it will be operational with effect from 1st April 2011.

- **Producers Organization – Definition**

- An organization will be called a Producers Organization if
- It is formed by a group of producers for either farm or non-farm activities
- It is a registered body, and a legal entity
- Producers are shareholders in the organization
- It deals with business activities related to the primary produce/product
- It works for the benefit of the member producers
- Portions of profit are shared amongst the producers and the balance goes to the share capital or reserves.

- **Objectives of the Fund**

Producers Organization Development Fund (PODF) will be used to support Producers Organizations across three levers, viz. credit support, capacity building & market linkage. The objective of the fund is to meet end to end requirements of Producers Organization as well as to ensure their sustainability & economic viability.

- **Guiding Principle**

The guiding principles for the operation of PODF are broadly as indicated below:

- a. Producers Organization registered under any Statute of Law are eligible.
- b. The activities may fall within the domain of agriculture, allied sectors & Non Farm Sector only.
- c. Producers Organization should be formed by the primary producers of agriculture & NFS activities.
- d. The activities eligible to be funded should relate to production and/or other related activities like harvesting, storage, processing, packaging and/ or marketing of the produce/ product or in combination of the above activities.
- e. The fund will be used for providing loan to carry out the economic activity and mix of grant and loan for capacity building market linkages.
- f. The Fund could also be used for developing producers organization through necessary capacity building
- g. The activity should result in product improvement and/ or increase in production.
- h. The proposals should lead to creation of sustainable employment opportunities (direct/ indirect). Policy goal is to improve rural livelihoods through community based and sustainable interventions
- i. The Producers Organization will act for the benefit of the producers.
- j. The shares of the producers cannot be sold to non producers at any time. If existing member desire to leave the organisation, his shares can only be purchased either by existing producers or by enrolling a new primary producer.

- k. Pro-poor (improves employment, reduces poverty, improves access to credit, information, entitlements)
- l. Community participation (ownership/ management/empowerment)
- m. Integrated approach (need-based and flexible, convergence with other schemes / programmes)

Eligible Activities

The following interventions will be undertaken out of the fund:

A. Financial

Producers Organization would be eligible for the following types of loans:

- i. Direct lending to Producers Organization for term loans or
- ii. Composite loans comprising of both working capital and term loan requirements, or
- iii. Working Capital as composite loan
- iv. Subordinated Debt as tier II capital based on the requirements of the PO and provided the Memorandum and Articles of Association/byelaws permit them to accept such a debt.

B. Capacity Building

Capacity building should broadly cover any activity relating to functioning of a producer organization. Broadly the various types of capacity building initiatives which can be supported under the fund are as follows:

- i. Skill development in order to enable the members produce goods both in farm and non-farm sector,
- ii. Business planning
- iii. Technological extension through classroom training,
- iv. Exposure visits, agricultural university tie ups, expert meetings, etc.
- v. Any other capacity building initiative which directly benefits the P.O.

Support for capacity building could be in the form of grant, loans, or a combination of the two based on the need of the situation. Capacity building support will not be given in isolation in general. It would essentially be a part of the overall project having loan component.

C. Market Linkages

- i. Credit and/or grant support for setting up of marketing infrastructure facilities for sale of produce.
- ii. Support could even be in the lines of rural haat and rural mart if the situation so desires or it could be structured differently based on the need.
- iii. NABARD will explore tie ups with buyers for Producers Organization's produce.

- iv. NABARD shall help form partnerships between Producers Organizations and local and large companies.
- v. Through existing schemes of MoRD and NHM, NABARD will promote creation of infrastructure wherever possible.

The overall grant inclusive of all components would not exceed 20% of the loan amount.

D. Other Areas

Other than the three broad categories stated above, support would be available for

- i. Support for preparation of DPR up to 0.5% of the project cost or Rs.1 lakh whichever is lower. This support will be given subject to the fact that the project is sanctioned by NABARD. The grant amount would be within the overall cap of 20% stated above.
- ii. Exclusive grant support for taking forward SHGs/farmers' clubs/producer groups to the stage of having a Producers Organization. Separate scheme would be formulated for this purpose when need arises for such a support.
- iii. Any other support felt necessary for enabling a Producers Organization function in a better and profitable manner subject to the recommendation of ED Committee and with the approval of Chairman/MD.

7. Eligible Institutions

The following institutions will be eligible for assistance from PODF:

- I. Loan Component: Loans will be given to Registered Producers Organizations under any statute of law.
- II. Grant Component: It would be a part of the overall project. However, money can be given to either the registered PO or the implementing agency or both depending on the situation. The PO has to be a Registered Producers Organization under any Statute of Law. Others could be
 - i. Non-Government Organisations, registered Community Based Organisations (CBOs) providing different support services to Agricultural and allied sector activities/ Non Farm Sector activities.
 - ii. Other institutions/ organisations whose objectives/ activities are in conformity with the overall objectives of PODF and are approved by NABARD in this regard.

8. Selection Criteria

- a. Producers Organization :

ROs may ensure that the Producers Organization is registered and is working for the benefit of the producer members. In case, the Producers Organization is in existence for more than one year, the Audited Balance Sheets/ P&L Account with

audited notes for completed financial year (Max. 3 years) of the Producers Organization has to be analysed while assessing the performance of the organization.

b. NGOs/ CBOs:

ROs may ensure that they are registered under relevant Acts, have minimum three years' Audited Balance Sheets/ P&L Account with audited notes, have good track record/ relevant experience in the field and they will have requisite staff, particularly Technical staff, to look after and monitor the project. In any case, agencies, which are less than three years in existence, normally should not be considered for assistance under the Fund, though exception could be made based on the credentials of the key persons

9. Project Duration:

Generally Projects having duration of around 7 years would be considered under the Fund. Projects can have a moratorium up to 1-2 years under the Fund. However, in exceptional cases, subject to genuineness of the requirement, and due to unavoidable exigencies which may arise during the implementation of the project, the duration may be extended up to a maximum of 10 years inclusive of moratorium based on cash flow and viability of the project.

10. Eligible items of Expenditures

Items eligible for assistance broadly include cost of building, machinery, equipments, specially designed vehicles for transportation etc. and/or working capital requirements including administrative and other recurring costs connected with the project as composite loan. Capital expenditures like purchase of land, vehicles for general transportation & personal use, etc., will not be considered for support under the Fund. However, support for hiring premises, etc., wherever necessary, may be considered on a selective basis.

11. Quantum of Assistance

NABARD's assistance will be limited to a maximum of 90% of the total project outlay. However, the quantum of assistance and the Organization contribution may vary from project to project depending on the project size, outlay, means of financing and the resource support available from various agencies/sources, etc. The approach should be to get maximum involvement from the borrower rather than committing 90% from our side from the beginning.

12. Mode of Assistance

The Fund will be utilised to extend support in the form of loan for taking up the economic activity along with grant or loan or a blend of both, as may be decided by

NABARD on the merits of each case for capacity building and marketing. It can be used for grant assistance alone for development of PO if felt necessary.

13. Rate of Interest for Loan

The rate of interest for the loan will be decided by ALCO from time to time. Actual rate would be based on risk analysis using risk tool and collaterals provided.

14. Security

The financial assistance by way of loan will be secured by hypothecation/ mortgage of assets created out of the assistance (both loan & grant) from the Fund, mortgage of other immovable property, hypothecation of other movable property, personal and/ or corporate guarantee and/ or any other security which may be prescribed by NABARD.

15. Repayment Period

The period of repayment for the loan assistance will be a maximum of 7 to 10 years with a moratorium of 1-2 years as the case may be depending on case to case basis.

16. Submission of proposals

The Producers Organizations/ NGOs eligible to avail assistance (loan & grant) under the Fund are required to submit concept note indicating the brief details of the organization & the proposal. Format for the contents of Concept Note is given in Annexure-II of the PODF Manual. After the concept note is approved by HO/ RO, the Organisation will submit Detailed Project Report along with all the required statements. Structure for DPR is given in Annexure-IV of the PODF Manual.

17. Appraisal and sanction of proposals

- a. Concept note from Producers Organization will be sent to RO. The outline for submission of the concept note is given in Annexure-II of the PODF Manual. Implementing Agency/ NGO can help by preparing the same on behalf of the Producer Organisation.
- b. The concept note will be appraised by RO & HO, in case of powers vested with HO and by RO where the proposal is within delegated powers of RO.
- c. After the approval of concept note by HO/RO, the agency will be advised to submit Detailed Project Report, provided the proposal is found to be a feasible one based on the concept note.
- d. RO will scrutinize and undertake desk appraisal of the DPR and based on its scrutiny/appraisal recommend the same for consideration of PMG at HO where the proposal is not within the delegated powers of RO.
- e. On receipt of proposal and based on preliminary scrutiny, if the proposal is found to be suitable, a joint field visit will be undertaken. In case of proposal within delegated powers of RO, visit will be undertaken by RO.

- f. RO along with HO or RO as per the delegated powers will undertake pre-sanction appraisal and due diligence of Producers Organization and promoting organization. The team will comment on technical, economic and financial details of the project, Producers Organization and promoting organization.
- g. On completion of due diligence, and techno-economic appraisal, the working capital and Term Loan assessment has to be undertaken.
- h. Risk rating and appraisal tools especially developed to assess the proposals may be used along with the existing tools like Risk Master for appraisal of the proposals.
- i. After the project is found feasible and viable for lending, until internal risk management skills are developed, external appraisal will be done by external experts which could be institutions (CRISIL, CARE, IL&FS, SBI Capital, etc.) or individuals (Specialists) or Risk Officer appointed by NABARD.
- j. After getting these reports, RO team will prepare the draft sanction memorandum for sanction from the competent authority and forward the same to HO.

18. Release of Assistance

Release of funds and collection of repayments will be managed by RO according to the guidelines of the fund. RO will ensure proportionate contribution of margins by the borrowers/ company while disbursement. Absolute care needs to be taken by the RO for looking into the special terms and conditions if any, in the sanction letter before the first release of funds. Wherever necessary, a pre-disbursement visit should be undertaken for the purpose. Detailed guidelines for post-sanction procedures given in Annexure-X of the PODF Manual may be followed.

All releases under the fund shall invariably be made by Regional Offices concerned after obtaining due approval from the CGM/OIC concerned, based on HO/RO sanction letter/s. ROs will debit the releases from the Producers Organisation Development Fund (PODF) Account. The assistance shall also be disbursed in suitable instalments as arrived at on the basis of a mutual consultation/ understanding with the Organisation.

19. Monitoring and Submission of Progress Reports

a. Monitoring by NABARD:

Monitoring on a regular basis has to be done by the RO and DDM.. Copies of monitoring reports of Nodal Officers have to be sent to HO while reports by the DDMs may be reviewed by RO.

b. Monitoring by Organization:

The organization will undertake to monitor the projects closely with a view to achieving and realising the objectives and goals and keep NABARD informed of the same through constitution of a Project Monitoring Committee (PMC) depending on the size and nature of project by nominating NABARD representative on the same.

The organization seeking assistance under the Fund, may also submit Half Yearly Progress Reports to NABARD, RO and HO in the format, to be prescribed for the purpose at the time of sanction of proposal. This may be obtained by ROs and submitted to HO before 15th of the month succeeding to the half year to which it relates.

20. Utilisation of Assistance :

Eligible institutions availing of financial assistance would be required to give an undertaking for proper utilisation of assistance received from NABARD. Where the assistance received from NABARD has not been utilised for the purpose for which it was released and no satisfactory explanation is forthcoming, NABARD will recall the entire amount of grant/loan at once, along with interest or any other penal charge, to be levied on the same.

NABARD shall have the right to access the books of accounts of the institutions/ organizations to be provided with assistance under the Fund.