Farm Reform

How farmer collectives can raise funds

Farmer producer companies get support from SFAC, but awareness is low

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An average India farmer has 1-2 hectares of farm land. His produce is so little that assaying or spending on value addition doesn't make any economic sense. Most of the time, the poor farmer doesn't even take the produce to the *mandi*, but sells it to the *arhitya* (commission agent) in the village.

Can small farmers get better prices for their produce? Yes, if they could aggregate their produce.

When farmers become part of a collective, they will have better bargaining power. Member farmers can also benefit from lower prices of inputs, including fertilisers, pesticides, etc, as these can be directly sourced wholesale from companies. A Farmer Producer Organisation (FPO) is a legal entity formed by farmers for such purposes.

But these organisations today face multiple challenges. Many still depend on micro-finance companies or banks, and borrow at high rates of interest.

With inputs from Small Farmers Agribusiness Consortium (SFAC - an autonomous society promoted by the Ministry of Agriculture Cooperation and Farmers' Welfare), which supports FPOs across the country, here, we throw some light on the various forms of funding and other support available to FPOs.

There are a total of 769 SFAC-supported FPOs in the country today.

Role of SFAC

In 2013, the Department of Agriculture Cooperation issued detailed policy and process guidelines for FPOs. SFAC was nominated as a single-window agency to support the State governments in the formation and development of FPOs. The society (SFAC) has empanelled public/private entities with experience in promoting self-help group (SHGs) and cooperatives that impart training and offer technical and other support required by FPOs.

An FPO can register as a company (Farmer Producer Company - FPC) under the Companies Act or as a cooperative under the Co-operative Societies Act. Funding support is also provided to FPCs. Under its Equity Grant Scheme, SFAC provides a grant of up to ₹10 lakh to each FPC to match the members' equity. Further, through its Credit Guarantee Fund, which has a corpus of ₹100 crore, the society stands as a guarantor and provides cover to financial institutions for lending to FPCs without collateral. Since 2014-15, SFAC has sanctioned equity grants totalling ₹18.16 crore to 301 FPCs across the country. Under the Credit Guarantee Fund scheme, a total of ₹14.38 crore has been sanctioned to 30 FPCs.

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SFAC Equity Grant Scheme

Year	Number of projects	Equity grant sanctioned (in ₹ lakh)
2014-15	22	114.83
2015-16	27	153.02
2016-17	52	290.69
2017-18	153	951.07
2018-19 (as of date)	47	306.82
Total	**301**	**1,816.43**

Funding support aside, SFAC also pays for office/administrative expenses and the CEO's salary of FPCs for three years (from the time of registration of the company).

Equity Grant Scheme

Through the Equity Grant Scheme, SFAC tries to enhance the equity base of the farmer companies and improve their creditworthiness. Getting working capital funding from banks and other financial institutions becomes easier for companies with a larger equity base. The equity grant will match the contribution of members of the farmer company with a cap of ₹10 lakh, given in two tranches.

Though, termed 'equity', SFAC doesn't become a shareholder sharing the profit of the company. Within 45 days of the receipt of the equity grant, the FPC has to issue additional shares to its shareholder members (equivalent in value to the amount of grant received).

Under this scheme, however, only an organisation registered as an FPC under the Companies Act, with paid-up capital not exceeding ₹30 lakh, will be given the grant. Also, the number of individual members should not be lower than 50. Importantly, a minimum of 33 per cent of shareholders of the company should be small, marginal and landless tenant farmers. The FPC should also have an elected board of directors with a minimum of five members with adequate representation from member farmers and at least a woman farmer. (To be eligible to receive the grant, there are more conditions, for which one can refer the SFAC website).

Credit Guarantee Fund

FPCs can get a collateral-free loan of up to ₹1 crore from financial institutions. Under the Credit Guarantee Fund Scheme, SFAC offers a cover of 85 per cent of the loan amount extended by a bank (or other eligible lending institution as decided by the SFAC board), up to a maximum of ₹1 crore.

To be eligible for the scheme, the number of individual members in the FPC should not be less than 500. A minimum of 33 per cent of shareholders of the company should be small, marginal and landless tenant farmers. To be eligible for the funding, there are also requirements on representation of farmer members in the board of directors and the maximum stake that can be held by institutional shareholders, among others.

Note that, it is the lending institution that needs to approach the SFAC, seeking guarantee cover for an FPC. The lending institution will be required to pay a one-time fee of 0.85 per cent of the sanctioned credit facility to SFAC. In addition, an annual service fee at 0.25 per cent per annum, or such other rate as may be decided from time to time per loan account shall be charged from the lending institution, to keep the guarantee of SFAC live.

For equity grant

- Should be an FPC registered under Companies Act
- A minimum of 50 individual members
- At least 33% of shareholders should be small farmers