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Formal Financial Access of the FPOs/FPCs at Different Stage of Business Cycle

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SUMMARY

The aggregation of the marginal and small farmers into business group i.e FPO/FPC is getting more acceptance in the country. As the pace of the formation of these type of institution is increasing, the requirement of the fund is increasing simultaneously. Now, the government, non- Government and other organizations are coming to the forefront for financial support to these institutions. Now, there is necessity to classify the requirement of the fund at the different stage of the business life cycle of the organization, and facilitate accordingly. As the business pass through three stage i.e introduction, growth and maturity, the requirement of the fund in form of quality and quantity varies. The government has mandated the different financial institutions to support these institutions for the benefits of large number of the marginal and small farmers. This paper talks about the requirement of the fund at different level and the concerned organizations, whom FPOs/FPCs can approach to continue their business activities.

INTRODUCTION

India is the land of the farmers, where more marginal and small farmers constitute of 86% of the total farmers in the country, and have operation land holding less than 2 hectares.[1] Although they are large in numbers, but their share in the total area operated in the country is just around 47.3%. This two factors make their agricultural activities a costly affair, and do not provide them remunerative source of income from agriculture (Monika Khanna et.al.2015). As per government estimate, the people depend on the agriculture has reduced by 31% from 1951 to 2011. Further number of the farmers from 2001 to 2011 has decreased by around 85 lakh, whereas 3.75 crore farm labourers has increased in the same period (Richa Kumar et.al. 2020). Moreover, every year around 1.5 to 2.0 millions new marginal and small farmers are coming in this large chunk of farmers and aggravating the land fragmentation issue. The dependence on the nature for the cultivation, lack of investment capacity are the two major key problem of these groups of the farmers. The viscous circle of this group of the farmers does not end here. They don't have access to market to sale their produce to the processors, consumers. The problem of access to market is compounded by other factors also as low amount of produce, lack of transportation system, immediate requirement of money to fund their basic requirement of the household. (Monika Khanna et. al.2015). All these factors, translate into low profit margin to the marginal and small farmers from farm activities. Owing to several factors, which are not in their control, this group of farmers is very not able to integrate itself in the agricultural value chain, mitigate the risk and uncertainty in the commodity prices during bumper crop and crop failure situation in large extent. (Monika Khanna et al.2015).

Material and Methods

The secondary data sources are used for the study purposes.

Objectives

Key objectives of the study are-

- To assess the financial problem faced by the FPOs/FPCs during their business life cycle
- To know the fund providing organization mandated by the government to support these institutions

Formation of the FPOs/FPCs to help the marginal farmers

To overcome these problems and provide a good profit margin, government has initiated to aggregate the small and marginal farmers into one group, so that, they can be integrated into agricultural value chain and can get more margin in the final price paid by the consumer for their produce.This integrated form of farmers, help them to increase their access to the organized high value market, which provide a better price of their

produce, compared to the agents, or intermediaries, who quote less price of their produce and enumerate several reasons to justify their low price quotation. As the FPO formation is increasing in the country, one major problem related to finance is being realize in the large context. The regular access to finance from reliable government sources is one of the key problem in the initial days of the FPO. To overcome this issue, government implemented "Equity Grant and Credit Guarantee Fund Scheme" for FPOs in January 2014. Under this scheme, the government provides financial grants up to 15 lacs per FPC/FPO. (http://sfacindia.com/Equity_grant.aspx)

Financial problems faced by the FPOs/FPCs

As the FPOs are growing from introduction state to growth, and growth to maturity, different type of issues related to access of finance is coming into light. The key issues related to this sector are access to reliable source of finance i.e government banks is major problem now a days. Since, every FPO has its owns growth strategy based on their locality, farmers expectation, financial support of the farmers members. The requirement of fund to the FPO varies as per the stage of stage of the FPO in the life cycle i.e. introduction, growth and maturity stage of the F.P.O. (Monika Khanna et al.2015). Fund requirement of the FPO/FPC varies from one phase to another phase. In every phase, requirement of the fund, its quantity and nature of support varies. At the introduction phase of the FPO requirement of the fund varies compared to need of money at the promotion from one phase to another phase. In the introduction phase the main requirement of fund is for the training of the resource persons, exposure visit and proper system development of the organization. In the second phase, when the FPO start its business in a little bit formal and organized way, equity financing and working capital is required on urgent and continuous basis, whereas in the maturity phase the debt capital and term loans are required to cater the increasing short and medium term financial obligation. (Monika Khanna et. al.2015)

The details of the fund requirement and sources at different business life cycle of FPOs/FPCs-

S.No	Introduction	Growth	Maturity
1.	Mobilization of the farmers	Requirement of large amount working capital to install machineries and increase the area of operation.	As the FPOs/FPCs move towards third stage of the business life cycle, they need money to improve the quality of the services they deliver to buyers and sellers for their products/services. The requirement of fund is very huge at this level to improve the quality of the product/service as well as value addition of the produce. (Monika Khanna et. al.2015)
2.	Registration of farmers	In this phase FPO should be exposed for equity financing, credit capital, debt financing	Additionally, at this time, investment in infrastructure development is required to get more value of their produce through value addition. The infrastructure development includes processing units, pre cooling room/grading/processing/ sorting yards, storage godowns, cold units and others, which help to get more value of the product or services. At this position, term loan is required to cater this need. (Monika Khanna et. al.2015)

3.	Operation and management cost	As the promotional grants from different organization ends, the organizations face problems to meet their operational expenses.	
4.	Training and exposure of the farmers, personnel	Several organization don't achieve the break-even point, and find hard to get fund in the form of equity financing, credit capital, debt financing	
5.		Several FPOs in this stage are engaged in the aggregation of the produce at large scale, and need heavy amount of working capital on daily basis to run their operations.	
6.		Three ways are proposed to get fund at this juncture, which are - equity financing, credit capital and debt capital. (Monika Khanna et. al.2015)	
Key problems of the FPO related to finance			
7.	Limitation of the fund support is to 24 to 36 month only. This period is too short for any business organization to get proper exposure of the market. There is more need to handholding and mentoring and less amount of fund at the said period. The proper requirement of mentoring and fund support should spanned around five to seven years.	After the expiry of the incubation period of the FPO/FPC, when the financial grant from the promoting institutions dried up after three years, requirement of large amount of the money to support the ever increasing business grow continuously.	Requirement of the term loans at low rate for the development of the infrastructure to get more value of the produce or services.
Government support at different stage of the FPOs/FPCs			
8.	NABARD- NABARD is assisting at this stage	To cater the **equity financing** need of the farmers "Equity Grant Funds" has been set up by the government in 2013-14. It is known by the Equity Grant Fund, managed	Now, the formal financial institutions as government banks and other are recognizing the increasing requirement of the fund by these emerging institutions and

	under Producer Organization Development Fund(PODF). 12.	by the SFAC. Presently, Farmer Producer Companies are eligible for the same. The Equity Grant Fund helps the FPCs to receive a financial help as grant, which is equal to amount as equity contributed by the shareholders of the FPCs. This scheme helps the FPOs, who have capital not exceeding 30 Lakh rupees. (Monika Khanna et. al.2015)	providing a helping hand to these institutions. Now, RBI, has introduced new policy to help the emerging FPOs/FPCs. As per its latest notification 04.09.2020, it has mandated to the banks for farm credit at different slab i.e 50 lakh, 2 crore, 5 crore and upto 100 crore so, that FPOs/FPCs can get better value of their produce or services. https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11959&Mode=0
9.		Another way to get fund at the, growth stage of the FPO/FPCs is **working capital financing**. To meet the credit requirement of the FPOs/FPCs the LAMP(Livelihood and Micro Finance Promotion Fund) was set up in 2001. Indian Grameen Services, a BASIX group of company, provide this services. Additionally, other players who provide credit at this juncture are FWWB, NABFINS, Ananya Finance, Samunnati, and others. (Monika Khanna et. al.2015)	

CONCLUSION

As the marginal and small farmers are being organized in the FPOs/FPCs to get more price share of the final price paid by the consumers, the demand of the fund is increasing for their handholding, expansion and growth of their business. The lending institutions, FPOs/FPCs should recognize the requirement of the fund at the different level of the business life cycle and approach the concerned organization, who has the capacity to fund their requirement at low cost. This will help them to prosper in the sustainable way for the benefits of all stakeholders, who are directly or indirectly related to the FPOs/FPCs.

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