

Nabard working on ways to boost funding for farmer-producer organisations

Subordinate debt, guarantee provision among routes under consideration

K RAM KUMAR

Mumbai, July 15

In a bid to bolster the resources of farmer-producer organisations (FPOs), the National Bank for Agriculture and Rural Development (Nabard) is looking to help them take the subordinated debt route. It is also working to facilitate guarantees so that banks are encouraged to lend to them.

Given that banks' credit exposure to the sector is not much now, subordinated debt, which is a secondary form of equity, will help FPOs garner resources better, said Nabard Chairman Harsh Kumar Bhanwala.

Referring to Nabard guaranteeing the credit offtake from its own subsidiaries, Bhanwala said his institu-

tion is working on the concept of guarantee, which can be availed of by lenders providing credit to FPOs.

"So, we are looking at what kind of fee we should charge, what is the loss possibility, and so on. We will be able to offer more products to such entities in future, including credit enhancement," he added.

Primary producers

FPOs are legal entities formed by primary producers such as farmers, milk producers and fishermen. Through aggregation under the aegis of FPOs, the producers can utilise economies of scale. They also have better bargaining power *vis-à-vis* bulk buyers of produce and bulk suppliers of inputs. As



HK Bhanwala, Nabard Chairman

of March-end, Nabard had supported around 4,000 FPOs across the country, of which over 2,000 are registered entities actively into agricultural activities.

Pointing out that FPOs are typically less than three years old, Bhanwala said banks will finance them only when they stabilise their cash flows. "So, initially, (the funding happens via) equity contributions, members' own contributions, or some

revolving fund assistance given by one of our subsidiaries," said Bhanwala.

"Other entities — banks, NBFCs and microfinance institutions — have also pitched in with funds. Nabard Financial Services Ltd has also provided funding," he added.

Nabard has developed a portal where information on FPOs — membership details, registration, capacity formation and economic activity — is made available.

"This portal will be of great use to entities which are going to promote FPOs as well as to banks," said Bhanwala, adding that banks will have more confidence in lending when they get granular details about the FPOs, their activities and history.

"We see a huge potential for bank financing of FPOs. It is a big opportunity," he said.