

Why FPO Borrows from a Bank or Financial Institutions?

Emmanuel Murray & C.S. Reddy

Introduction

This FPO Financing series developed by APMAS, with the support of Emmanuel Murray, has the objective of explaining in a simple and practical way, how borrowing works, the Rights and Responsibilities that come with borrowing, and the DOs and Don'ts to ensure that the loans are obtained only when necessary & utilized optimally. This Handbook on FPO financing is for general use, with a deliberate focus (bias) on building awareness, understanding and capability of FPO Board of Directors, FPO CEO and other Staff to borrow loans responsibly and utilize effectively.

It is hoped that as we release this knowledge series in a modular fashion, it will evolve into a Handbook for FPOs that is widely available and regularly referred to.



**Does Your FPO really need a loan?
BORROW ONLY IF YOU REALLY NEED A LOAN**

Getting started

Congratulations!

Your FPO has been formed, registered, obtained required licenses, hired staff and doing some business, maybe started with input and/or output business. Your FPO has got some capital from farmer-members and support from the promoting institution. What next?

THINKING TO TAKE A LOAN? IS THERE PRESSURE ON YOUR FPO TO BORROW?



WAIT! THINK TWICE BEFORE PROCEEDING

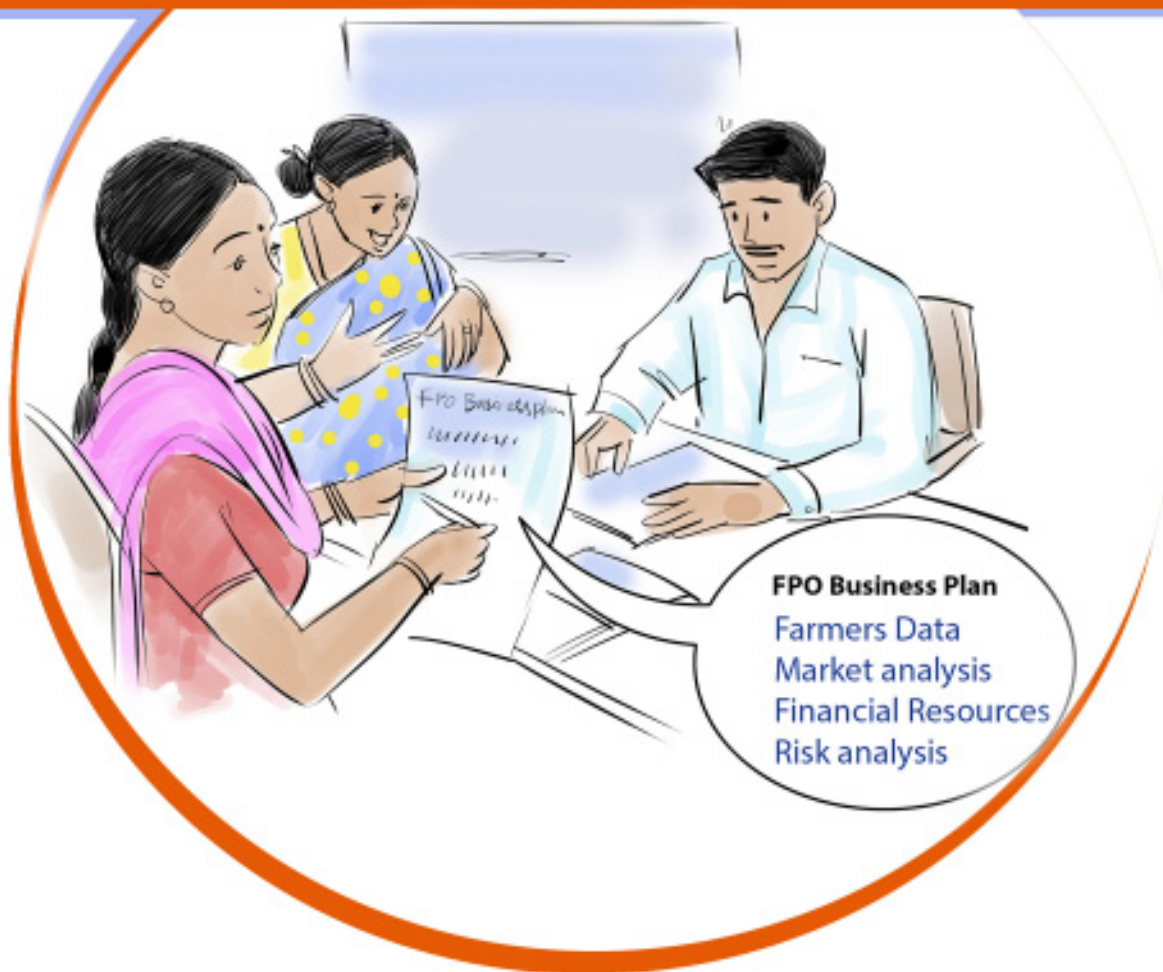
No FPO will be debt (loan) ready immediately after establishment. The capital your FPO has mobilized from farmer-members in the form of share capital and the matching / equity grant (Business Development Assistance) you received may be adequate to leverage debt/loan.



But is loan really necessary for your business needs?

Or does your FPO want to borrow as there is pressure from promoters / outsiders?

Do you have a well-thought-out business plan based on an analysis of the data related to your farmers and markets? Is the time, right?



Debt has a cost (interest & processing fee); it is repayable, with interest. It also has a time window in which to repay. You need to think hard & seriously!!!

BEST OPTION – FIRST USE OWN FUNDS AVAILABLE WITH YOUR FPO

Money is money, whether it is from share capital or matching/equity grant or by borrowing. It has to be put to best use. So before borrowing from a lending institution, utilize available internal resources optimally based on your business plan. Irrespective of what you are doing or planning to do, input sales or output marketing, first put these funds to use.

Do you know that your own funds don't have any direct costs (interest or penalties)!!!

Optimum use of your funds will increase your FPO Board of Directors' (BoD) involvement & ownership. Using FPO own funds has lesser risk and your FPO can learn business from that experience. If your FPO has say Rs.10 lakhs of own funds, you can do business turnover of Rs.50 lakhs in a year by rotating the same funds for buying seeds, fertilizers, pesticides, etc. That will increase your FPO BoDs' confidence in doing business and also your own capacity. In the process your FPO will also establish business linkages with companies and gain reputation among the important stakeholders.

LESSON – YOUR FPO MUST UTILIZE AVAILABLE FPO OWN FUNDS BEFORE BORROWING

SOME OTHER WAYS TO RAISE FUNDS FOR YOUR FPO ARE...

GRANT / SUBSIDIES FROM GOVERNMENT

There are grants available from various Government schemes like RKVY / MIDH / PMFME for the Farmers Groups and FPOs. Please don't access such grants / subsidies from the Government if you really don't need those assets (transport vehicle, collection centre, processing unit, custom hiring centre, etc). If you have done your homework and have come up with a clear business plan, then consider applying for a Govt., Scheme. Also, be aware that accessing such schemes also have associated risks of some control on your FPO by the Government and vested interest may creep in.

If you would need a transport vehicle or a collection center or a processing unit, you can access Government schemes that have upto 75% grant for the FPOs. In such cases, the remaining 25% can easily be accessed as loan from a local bank, as this loan is linked to a Government Scheme. Always opt to borrow for such investment from the FPO instead of by a member of the FPO.

GRANTS FROM INDIVIDUALS / CORPORATE SOCIAL RESPONSIBILITY (CSR) FOUNDATIONS

You have done a great job in effectively utilizing FPO own funds. Now you need some capital for investment or working capital purposes, you could approach High Networth Individuals (HNIs) from your area or some companies who can provide their CSR funds as grants. Again, be careful not to fall into a trap of accessing grants / funds simply because the funds are available. Any grants given to your FPO may have strings attached!!! There might be indirect influence on what to do with those funds!!! Which may reduce your autonomy and independence.

ARE YOU ELIGIBLE FOR A LOAN?

Every lender (Bank or other Financial Institution) will have a eligibility criteria for you to obtain a loan. Be aware of the criteria, involving your FPO Board of Directors, undertake "self-assessment" of the eligibility of your FPO for a loan. The performance of your FPO must be good. The Board of Directors Conduct regular meetings? The Office Bearers & other Board Members of the FPO have a good understanding about the performance of the FPO and have developed ownership? FPO has clear vision & business plan? Has at least 300 shareholders? FPO has good book keeping system? FPO in providing need-based services to member-farmers? FPO is ensuring all legal & statutory compliances? Members of the FPO are satisfied with the services of the FPO?



LESSON LEARNT

Access Grants / Subsidies from Government / CSR / HNIs after you have done your due-diligence and at no time your FPO should compromise your autonomy & independence for short-term gains!!!

LOAN FROM DIRECTORS

The companies / cooperative acts allows for borrowings from Directors / Board Members. It can be with reasonable interest. Borrowing from members/shareholders is prohibited.

SELLER CREDIT

If your FPO is procuring inputs in bulk & the seller to FPO is ready to be paid after some time, that can be a source of finance. Large farmers may be able to wait and get paid. Explore this option before saying it is difficult.

ADVANCE FROM BUYERS

Similarly, if the member-buyers of goods and services from the FPO pay in part or whole in advance, that is also a source of finance.

LOAN FROM SHG FEDERATIONS / MACS

In case there are SHG federations / MACS in the vicinity of FPO with overlapping membership, they can also be approached for a loan. It will be quicker, more convenient than other options and the SHG federation / MACS will take interest in the success of your business.

After all these options are exhausted and still do not adequately meet the business needs of your FPO, borrowing from a formal lending institution (Bank / NBFC) is certainly an option and must be used by your FPO!!!

DON'T HESITATE TO BORROW WHEN YOU REALLY NEED A LOAN!!!

There are mainly two types of lenders to FPOs; NBFCs and Banks. Each has its own advantages and disadvantages. While borrowing from an NBFC like Samunnati or NABKISAN may be quicker and easier than from a bank, the costs (interest, processing fee, etc.) may be higher. Similarly, Banks can offer Cash Credit (CC) limit where the flexibility to withdraw as much as you need, when you need and repay when you want is possible. NBFCs cannot offer that.

We will be explaining each aspect in greater detail as we go along.

If you have any questions or any topics you need help with understanding, please ask and we will answer or find the answer for you if we do not have them.

The next topic will be: Is our FPO eligible for a loan?

For any queries/clarifications/ comments : write to fpofinance@apmas.org



apmas

Plot 11 & 12, HIG, HUDA Colony, Tanesha Nagar, Near Dream Valley,
Manikonda, Hyderabad - 500089, Telangana.

Phone: +91 - 8413 - 403118

Website: <http://apmas.org>