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Working capital and the POs: A case study of Punjab POs to address the challenge

Nalin Rai, Ph. D Scholar, Department of Economics, Jain University, Bangalore, India

Dr. V.K. Xavier, Professor of Economics, CMS Business School, Bangalore, India

Abstract: It has been more than a decade since the concept of Farmers Collective or the Farmers Producers Organization was launched. During the decadal journey that the concept has traversed, non-availability of working capital fund has been cited as one of the key areas which is hampering the growth of the POs in the desired way as it was envisaged. An innovative approach to address the requirement of Working capital fund has been undertaken by a Producer Organization Promoting Institution (POPI) in Punjab to adopt the model of Joint Liability Groups (JLGs) to address challenges of working capital fund. This model has the potential to be adopted on a Pan-India basis to facilitate dynamism in the POs.

INTRODUCTION

As a concept, the idea of POs or the Farmers Collectives is slowly but surely emerging as a platform which has the potential to help the Small Holding Farmers enhance their quotient of profitability from the agricultural practices they are associated with for ages. The desired growth has not been achieved on account of two major reasons- lack of financial and managerial skills like negotiation and leadership. These skills are of vital importance for an entity as it can help the POs to address the requirements of working capital in an efficient manner. Series of studies have pointed out that the biggest constraint an PO faces in enhancing their economic growth is on account of non-availability of the required capital at the opportune time. The constraints can be addressed to a large extent if the POs have the skill sets in financial negotiations via effective leadership.

For an PO, apart from the farmers' members' equity, there is no other facilitating tool to leverage borrowings from the financial institutions for working capital. As the equity base is narrow the financing institutions are not able to provide capital in larger amounts for business enhancement and diversification. From the financial institution perspective, lack of tangible security and physical assets as a collateral guarantee becomes a challenge in enhancing the quantum of financial assistance.

Literature Review:

Kevin et al (2023) undertook a study of 60 POs in Tamil Nadu to identify the factors influencing performance of the POs focusing on POs dealing in value added products. In case of value-added products, the study found that the key factors of influence were the innovation in product development, its introduction with E-commerce, pricing of the product in a strategic manner, setting up collaborative partnerships, distinctive branding and product packaging etc. The study pointed out that the lack of working capital has a moderate influence in the growth. As the scope of study is limited to the value added products based POs, it cannot be generalized that the lack of working capital would have a moderate value of influence.

Kumar et al (2023) conducted a study by surveying 125 POs in Andhra Pradesh, Madhya Pradesh, Telangana, Maharashtra and Uttar Pradesh during April-August 2022. The study found that the working capital requirements were determined by the number of members in an PO, size of the Board of Directors and the

years of existence of the PO. Study found out that the paid-up capital was a significant predictor of turnover for the PO. It recommended extending capital loan and working capital loan on easy terms. It is the membership size of an PO which is a determining factor in obtaining paid-up capital for the PO, which in its own turn affects turnover of the POs. So member mobilisation and their hand-holding is the key determinant in obtaining working capital for an PO.

Srinivasan (2023) conducted a study of 75 women POs in 16 states promoted by 40 resource agencies who had graduated from SHGs to federate themselves as Producer Organizations. The study found out that the quotient of lenders' comfort in financing POs emerging out of SHGs was quite high. The share capital mobilisation by women POs has been reasonable compared to the comparable all-India data available for 31 March 2021 which found that the average paid-up capital of all 'active' producer companies was `0.8 million, the median was `0.1 million, and 57% of PCs had a paid-up capital of `0.1 million or less. Compared to that, the women POs studied had an average share capital of `0.89 million and the median is 0.5 million. POs, under the guidance of resource agencies, are looking into alternate mechanisms to bolster working capital; sale proceeds, being one of the methods to facilitate it. However, sale proceeds as a quantum are substantial when the group is in existence for quite some time (which is a logical corollary in case of the SHGs). One practice being adopted is to shore up share capital out of sale proceeds. Besides, as SHGs are provided a grant for working capital during their growing phase, a part of that grant is available as surplus which addresses the requirements of working capital for the POs.

Singh et al, (2022) in a study conducted in Gurdaspur district of Punjab found out that the members of POs were not able to experience economic benefits by associating with the platform of POs as they lacked business skills and were not exposed to formal financial systems and were not aware about the contract based business transactions. The study has underlined that there has been an enhancement in the income but it can be further enhanced if the skill sets pertaining to financial acumen and leadership is improved for the members of the POs.

Rai (2022), has underlined that for the POs the Credit Guarantee Funds are a viable mechanism to address the challenges of working capital funds. Credit Guarantee Funds take care of the challenges of providing collateral security. However, ease of access to Credit Guarantee Funds hinges on the share capital contribution of the POs as also the sector in which the PO is operating. Besides, the nature of credit guarantee is related to the quantum of working capital available with the POs.

Gorai et al (2022) through a study of POs promoted in West Bengal found that the lack of government support and credit facility as the major constraints in functioning of the POs. The study further highlighted the lack of working capital as a major impediment in expansion by the POPI and the implementing agencies.

Nandini et al (2022) after studying the POs in drylands of Northern Karnataka found out that 86% or the POs studied had paid-up capital less than Rs. 10 lakhs. The study pointed out that the loan processing through the Non-Banking Financial Companies (NBFCs) was not taking off as the physical verification and associated documentation processes could not be completed within time by the members of POs owing to their restricted ability to travel.

Prasad et al, (2020) made distinction in working capital requirement and underlined that the POs should be eligible to take working capital loans from banks under the priority sector quota. It is also important to distinguish between primary POs and secondary POs. Primary will work from input procurement, production, equipment management for production, harvesting, primary processing including quality control, weighing, packaging, grading till the PO gate; typically, in B2B mode for distant and B2C local markets. Secondary PO (market facing) will require high value capital equipment and sophisticated manufacturing processes. These could engage in B2C for distant markets

Kujur et al (2019) undertook a study of 130 POs in Chattisgarh promoted by different stakeholders. The study found out that owing to the low share values and the low equity base of the POs, they were not able to generate required working capital and the problem was compounded by the lack of credit guarantee either from the Central or the State governments.

Kadam et al (2018) through their study of the loan mechanism adopted for PO financing, questioned the method adopted by the bank branches to change the business plan repeatedly. It becomes a deterrent for the PO members to approach the bank again and again for the same proposal as it entails vital manday losses in agricultural operations. Readymade templates for financing for working capital need to be devised and customised for all the bank branches all across the country.

Dhillon et al (2018) did A study of agriculture finance and PO and found that presently there are only a few players actively supporting POs, within the sector, other than SFAC and NABARD. Financial entities providing working capital such as Caspian Impact Investment, Ananya Finance etc., provide working capital loans between Rs.5 lakhs up to Rs 2 to 3 Crores, depending upon the strength of the PO. Some of the commercial banks who have offered similar financial assistance to Producer Organizations are ICICI Bank, Union Bank of India Canara Bank etc. The PO members are organised into Farmer Interest Groups (FIGs).

Need for Working Funds: In the initial stages at the PO level the working capital fund is required for meeting operational expenses of the POs, for financing aggregation of produce from the members, to bring about qualitative improvements in the value chain including some primary processing, for building up for building infrastructure like simple processing, grading, sorting, machinery, storage godown, transport etc.

The fund requirements of POs can be categorised into three phases: broadly

- Incubation and Early Stage
- Emerging and Growing Stage
- Matured Stage (Business Expansion)

In each of the stages of the PO, the financial needs were found to be different. In incubation stages, the financial needs of the POs are for mobilising farmers, registration cost, cost of operations and management, training, exposure visits etc. This requirement is mostly met through the grant support. In the emerging and growing stage, working capital is required by the POs to run their business. In the third stage, which is the Matured Stage and the Business Expansion stage, a PO requires term loans for setting up processing units, processing/ grading/ sorting yards, storage godowns, cold storage, transport facilities, etc. But when the requirements in the desired quantum are not obtained in the first stage, it becomes difficult to reach the third stage with conviction.

Case Study: SARDS is a POPI which is working in the border districts of Punjab in Amritsar, Batala, Jallandhar and in Gurdaspur. The POPI was associated with forming the Farmers Clubs in the areas of operation and subsequently these clubs were converted into POs. At the base of the promotion of the concept of Farmers Clubs is the close association with a bank, the basic idea being to provide exposure to the members of the Clubs about different extension exposure programmes, creating awareness about various policy decisions and circulars issued by various funding agencies for the benefit of the farmers. As the concerned bank branches work in close coordination with the members of the Farmers Clubs, they develop an affinity with the members and have a comfort quotient for providing additional finance requirements to the members of the erstwhile Farmers Clubs when they federated as PO.

This was the mechanism adopted in the case of three POs promoted by SARDS.viz.,Jagriti PO, Village Makowal, Tehsil Ajnala, Distt. Amritsar (formed in 2015 having a member base of 50 at the time of formation, and present member base is 504), Young Innovative PO, Gurdaspur, (Punjab (formed in 2014 having a member base of 45 at the time of formation, and present member base is 504) and Shubhkarman PO formed in Gurdaspur in 2015 (having a member base of 72 at the time of formation, and present member base is 451). .All the members of these three POs belong to the smallholding farmers category (SHF).

While the Bhogpur PO deals in production and sale of Organic-Jaggery, Shakkar, Tukri Gur, Barfi Gur, Turmeric, Wheat, Paddy and Vegetables, the Young Innovative PO in Gurdaspur deals in input supply and aggregation of milk products (has its own sale outlet of processed milk products) and Shubh Karman PO is working as aggregator of commodities and seller of vermicompost to the apple growers in Himachal Pradesh. As it can be seen from the business profile of these three POs, there area of business activities require short-term working capital and they could obtain the same through the banks which were the sponsor banks for the Farmers Clubs programmes.

Members of all these POs were federated into Joint Liability Groups (JLGs). As a group mode activity as the JLG is one the approved activities for financing by the banks and is a part of the priority sector lending, the bank branches adopted an innovative JLG funding model for these POs to address the working capital requirement.

Name of the PO	No of JLGs	Amount Disbursed (Rs. in Lakh)	Financing Bank/Branch
Young Innovative PO, Gurdaspur	18	36	Punjab Gramin Bank Wasola and Gurdaspur
Shubh Karman PO, Gurdaspur	25	50	Punjab Gramin Bank, Batala
Jagriti PO	5	10	PGB Ajnala

As can be seen from above, the sanctioned amounts through the JLG mode was able to meet the working capital requirements of the POs in the initial stages and the concerned POs were able to sustain themselves on their own and without collateral security have been able to expand the business. JLG is a credit-oriented group that is primarily formed to avail loan from banks or formal credit institutions. By its very nomenclature the groups formed as a sub-group within the PO was able to do away with the collateral requirements as the group members themselves mutually provide collateral security for each other. At present each JLG member can avail a loan of Rs. 1 lakh, while as a group, it can avail loan of Rs. 10 lakhs.

So the JLG based loaning model has the potential to address the need for working capital in the first phase of PO formation and it has the potential to strengthen the PO financially and catalyse it to grow faster. In financing through the JLG mode, the role of POPI-SARDS has been quite important, and it underlines the fact that POPI has to provide the handholding and be innovative in its approach to nurture the POs.

Conclusion: Access to working capital without the ability to provide a collateral security is an impediment in growth of the POs in the initial stages. Lending through the JLG model, as has been shown by the POs promoted by SARDS in Punjab, is a model worth emulating. As the formal financing institutions are shy in lending to the POs without a collateral security, which a PO does have, as most of the members are SHFs, the mutual security for each other that they provide, can be catalysed through the JLG approach to address the imperative needs of working capital. Besides, as JLG forms a part of the priority sector lending, and if the members of the PO have been associated through a previous group based activity (in the instant case it was through the farmers clubs), it enhances the comfort quotient of the formal financial system to provide financial help without a collateral security. JLG based financing in the initial stages of PO growth also does away with the hassle of paper work for both stakeholders i.e. the lender as well as the borrower.

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