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Government of India
Ministry of Rural Development
Department of Rural Development
(RL Division)

7th Floor, NDCC – II Building,
Jai Sing Marg, New Delhi
Pin – 110001

24rd May, 2019

To,

The Principal Secretaries of all States/UTs,

Subject: **Guidelines for Financing of Producers' Collectives under DAY-NRLM**

Madam /Sir,

I am directed to say that under the value chain development initiatives of DAY-NRLM, the primary producers are being organised into livelihoods collectives around specific livelihood activities like agriculture, livestock, NTFP collection etc. Producers' Collectives, viz. Producers' Groups (PG) and Producers' Enterprises (PE), are being promoted as member-based organizations under various components of DAY-NRLM such as Mahila Kisan Sashaktikaran Pariyojana (MKSP), NRLP and SRLM AAP. The World Bank funded NRETP also has value chain development for farm produce as one it's core components with substantial outlay for promotion of PG and PE.

To bring clarity on the financing these institutions a guideline for financing of Producers Collectives has been approved under DAY-NRLM. The guideline of "Financing of Producers' Collectives under DAY-NRLM" is attached herewith for kind information.

Yours faithfully,

(H. R. Meena)
Deputy Secretary to the Govt. of India
Tel:.011-23461747

Encl.: As above.

Copy to: CEOs/ SMDs of all States/UTs

Guidelines for Financing of Producers' Collectives under DAY-NRLM

Ensuring sustainable access to markets and remunerative prices for the produce of smallholder and marginal farmers is an essential part of the Livelihoods promotion strategy under DAY-NRLM. DAY-NRLM has been organizing the primary producers into livelihoods collectives around specific livelihood activities like agriculture, livestock, NTFP collection etc. As these livelihoods collectives are basically the collectives of primary producers they would be more appropriately called producers' collectives. Producers' Collectives are important means of linking producers with markets, as well as sourcing inputs, technology, information, and services. The promotion of producers' collectives is taken up under DAY-NRLM to benefit the small and marginal women farmers through –

1. Economies of scale
2. Improved market reach
3. Improved access to extension services
4. Reduction in transaction costs

Producers' Collectives, viz. producers' groups and producers' enterprises, are being promoted as member based organizations under various interventions of Farm Livelihoods under DAY-NRLM such as Mahila Kisan Sashaktikaran Pariyojana (MKSP), MKSP Annual Action Plan, World Bank Dedicated Fund for value chain development and other Farm Livelihoods initiatives. As on January 2019, there are more than 86000 producers' groups and 131 Producers' Enterprises promoted under DAY-NRLM. Producers' Enterprises (PEs) can be defined as registered, formal organizations of primary producers as member owners including co-operatives and Farmer Producer' Companies whereas the producer groups are the informal entity of the primary producers.

Building on the experiences of earlier projects, the National Rural Economic Transformation Project has been designed to continue to strengthen women led producer organizations to increase market access and value addition for farm produce. Higher order value chain interventions would be taken up to leverage the economies of scale and reduction in transaction cost and necessary investments will be made to support promotion of producer groups and formal producer enterprises. Therefore, farm value chain interventions would focus on the promotion of producers' collectives, viz. producers' groups and producers' enterprises to enable the small and marginal women farmers to access markets for their produce at a remunerative price.

Therefore, as more women SHG members are being organized into producers' collectives under various value chain interventions and a strong demand is being felt to engage in promotion of marketing activities with SHG members, there is a need to define the financing arrangements under DAY-NRLM for producers' collectives more clearly.

In this context, this comprehensive guideline for financing of Producers' Collectives under DAY-NRLM has been developed.

1. Attributes of Producers' Collectives

The table below defines the key attributes of the producers' collectives under DAY-NRLM:

Criteria	Attributes of Producer Collectives	
	Producer Group	**Producer Enterprise**
Membership criteria	Women SHG members who are primary producers	Women SHG members who are primary producers as shareholders
Nature of organization	Un-registered, informal entities who take up a common activity for backward and forward linkages,	Registered entity (as cooperative, FPC etc.)
Ownership issues	Infrastructure would be owned by Cluster Level Federation (CLF)/ GPLF	PE is owned by the members and infrastructure and other assets are owned by the PE
Key objective	Better price realization through reduction in costs (overheads) by aggregation, farm gate value addition (sorting, grading etc.), linkage to nearby large markets	Better price realization through value addition, market linkage, economies of scale, higher bargaining power etc.
Area of operation	Limited to a village or cluster of villages	Preferably large scale covering large areas except in NTFP / tribal areas or areas with niche products
Promoting organization	SRLM / CLF / GPLF	SRLM
Scale of operation	**Low** Village / cluster level activities	**High** Large scale entities covering large area with value addition, market linkage to big markets
Business Model	Simple business model with limited need for infrastructure and working capital	Robust model and taken up in a project mode
Accountability towards	Members	Shareholder members
Management structure	One to two of the PG members would ensure that proper records of transactions are maintained and would manage the operation (aggregation, sorting, grading, transport to market etc.). Volunteerism is ensured	Professional management structure as defined in the Producers' Enterprise Guidelines
Governance	Informal governance mechanism to be decided by the members	Board of Directors

2. General guidelines

2.1. DAY-NRLM would promote producers' collectives with the primary producers, for livelihoods promotion through deriving economies of scale, backward and forward linkages, and access to information, credit, technology, markets etc. The Livelihoods collectives would enable the poor to optimize their limited resources. DAY-NRLM would extend all necessary support to these producer collectives to make them sustainable, economically viable member controlled organizations in a time bound manner. The details guidelines of promoting PE are covered under the **Guidelines for Promotion of Producers' Enterprises**[1] of DAY-NRLM and adherence to this guideline would be ensured while promoting PE.

2.2. DAY-NRLM would encourage value chain approach for developing forward linkage, so that the livelihoods collectives focus on a critical part of the value-chain and seek linkages with market and partnerships with other business entities where appropriate.

2.3. DAY-NRLM would also provide support for marketing to the institutions of the poor. Rural Haats would also be encouraged to directly link producer groups (SHGs) and individual producers with urban and peri-urban markets through a well-developed system of continuous identification and rotation of beneficiaries.

3. **Financing of Producers' Groups under Day-NRLM -** The following guidelines would apply for financing of Producers' Groups (PGs) under DAY-NRLM:

3.1. Allocation of fund by SRLM for promotion of PGs

3.1.1. SRLMs may plan for formation of PGs under SRLM Annual Action Plan, MKSP Annual Action Plan, NRETP or any other sub-components under DAY-NRLM.

3.1.2. The primary criteria for formation of PGs would be availability of marketable surplus for leveraging economies of scale resulting in better price realization for the farmers.

3.1.3. The SRLMs would assist the CLF/GPLF and PGs in preparation of the business plans for the PGs. Fund would be allocated to the CLF only against a business plan.

3.1.4. The fund to the PG would be released by the CLF/GPLF directly. Though SRLM has to ensure that PGs receive the required amount from CLF/GPLF on time to take up the marketing activity.

3.2. Funding mechanism

3.2.1. CLF/GPLFs would be provided a dedicated **value chain development fund** against the business plan submitted for all the PGs to be covered under the respective CLF/GPLFs. The PG would be provided the following funds through the CLF/GPLF under the value chain development component :

i. One time infrastructure fund *(grant to CLF/GPLF under CIF)*
ii. Working capital *(loan to PG from CLF/GPLF)*

The details of each of the fund components are given in section 3.4 below.

3.2.2. The funds allocated under this fund would not be used for any other purpose by the CLF/GPLF. The operating expenditure for the activities which are variable in nature linked to volume of transaction will not be part of the fund and would be taken up by the Producers' Groups through the operating profits generated from the activity.

3.2.3. It is envisaged that over the time SRLM would take initiative to promote Producer Enterprises (PE) by bringing the participants of such PGs together as members of the PE wherever such opportunities emerge. Once a Producer Enterprise has been formed in the region, the PE would take up the aggregation, value addition and marketing of those commodities in the same region. The role of PG would

[1]http://www.aajeevika.gov.in/content/guidelines-promotion-producers-enterprises-under-day-nrlm

shift from developing forward linkages to providing extension services. Wherever possible, the working capital component of the value chain development fund provided to the CLF/GPLF for the Producers' Groups would be transferred to the PEs promoted under DAY-NRLM. This clause would be incorporated as part of the financing MoU between CLF and SRLM. The details on the role of the PGs, in the framework of the PE, are provided in the Guidelines for Promotion of Producers' Enterprises.

3.2.4. In the case of PGs promoted under SRLM Annual Action Plan, up to 20% of the NRLM funds may be allocated under the marketing & infrastructure support component for creating marketing infrastructure for PGs (25% in case of North East states & Sikkim), as per DAY-NRLM guidelines.

3.2.5. In the case of MKSP Annual Action Plan or Innovation Fund or any other fund source, the budget is examined and sanctioned by the Empowered Committee chaired by Secretary, RD. Therefore, in this case the quantum of funds would be approved by Empowered Committee.

3.3. Criteria for providing funds to Producer Groups: The criteria of for the transfer of funds are given below:

i. Producer Group should have a very clear business plan with very clear profit margin projections
ii. The proposed business model should not be based on a speculative model.
iii. The relation between quality and price of the produce should be analyzed in the business plan.
iv. Clear costing of the operations and the transparent, quality based pricing mechanism should be defined.
v. The commodity risk would be borne by the members as the working capital fund is a loan product. So very prudent business model should be established with low risk element.
vi. A membership fee would be collected from the members by the Producer Group.
vii. Though in the initial cycles, the cost of the CRP (Udyog Mitra) may be borne by the CLF/GPLF/VO from the IBCB budget, provision should be made in the business plan when the Udyog Mitra would be paid by the PG from the profit earned.
viii. No credit based sales should be encouraged.
ix. Proper books of records, like cash book, stock book and farmer-wise ledger should be maintained.
x. Producer Group has to settle its account with the CLF/GPLF on a season by season basis. The Producer Group will not be eligible for any further loans until the account has been settled for the previous season.
xi. In case of business loss, the producer group members should repay working capital loan in proportion to their patronage. In exceptional cases the CLF may write-off the interest component and only consider the repayment of the principle.

3.4. Types of fund to Producer Groups

3.4.1. ***One time infrastructure grant*** – would be provided by the CLF/GPLF to the PG for purchase of village level infrastructure for aggregation and primary value addition such as weighing scale, crate, plastic sheets, sieving screens, moisture meters etc.

i. The infrastructure grant should not exceed INR 1.5 lakhs. As the activities undertaken by the PGs would be village level aggregation, the investment in fixed assets should be limited to equipment for procurement (weighing scale, crates, plastic sheets, moisture meter etc.) and minimal processing (sorting, grading, drying etc.). No consumables or rentals should be provisioned under this fund. The indicative list of items that are permissible are –
   a. Weighing scale (electronic / mechanical)
   b. Moisture meter
   c. Plastic sheets / tarpaulin sheets
   d. Plastic Crates
   e. Sieves for cleaning / grading
   f. Low cost primary processing machines, for example – solar dryer, de-seeder, rice hullers, packing machine, grinder, dal mill.
   g. Mobile tablet (one only)
   h. Storage shelf
   i. Solar lighting

ii. Items not allowed to be set-up under this infrastructure grant to PG are:
   a. Milk chilling centers / bulk milk coolers
   b. Pre-cooling units / chillers
   c. Integrated pack-houses
   d. Civil construction works
   e. Consumables items like Stationery
   f. Fuel, consumables, spares and stores
   g. Transport vehicles

iii. The infrastructure created would be owned by the CLF/GPLF and should reflect in the asset register of the CLF/GPLF. The physical verification of these assets should be conducted in a periodic manner by the CLF/GPLF.

iv. In case a Custom Hiring Center has been planned in the village/cluster, the CLF/GPLF must ensure that there is no duplication of equipment purchased by the PGs.

v. Repair, maintenance and replacement: The responsibility for repair and maintenance would be mutually agreed between PG and CLF/GPLF. The primary repair and maintenance may be the responsibility of that PG, whereas the overall repair, maintenance and replacement of equipment purchased would be from the interest earned by the CLF/GPLF as mentioned in section 3.4.2 (vi).

3.4.2. *Working capital*

i. The working capital would be provided as a loan to the PG by the CLF/GPLF.

ii. Working capital loan should be released in stages as per the requirement defined in the business plan.

iii. Working capital should not exceed funds needed to cover
    a. Procurement activities of 3 days for perishables
    b. Procurement activities of 10 days for non-perishables
    c. This can be modified based on the experiences of the CLF/GPLF with the PG
iv. The interest charged would not be greater than 7% per annum and to be charged only for the period for which the loan was with PG
v. The working capital would not be held in perpetuity with the PG. The working capital borrowed by the PG would be repaid to the CLF/GPLF at the end of every season or production cycle or business cycle as per the business plan.
vi. The interest earned by the CLF/GPLF on the working capital loan would be utilized by the CLF/GPLF for expansion of activities (members and products) and repair, maintenance and replacement of equipment (section 3.4.1(v)).

3.4.3. Training and capacity building

i. Adequate provisions may be made by SRLMs under its IBCB budget component for training and capacity building.
ii. The CLF/GPLF may budget for training and capacity building activities of the farmers being covered under PG, Livelihoods Sub Committees of CLF/GPLF as well as Village Organizations
iii. The eligible items under this component will also include:
    a. Payment of honorarium to the trainers / Community Resource Persons taken to support the Value chain development work
    b. Cost of conducting the training of PG participants, CRPs, LH sub-committee members of CLF/GPLF and VO
    c. Printing of IEC material
    d. Cost of hiring resource persons for training
iv. Cost of dedicated Block staff engaged to support CLF/GPLFs in value chain development interventions
v. For initial 3-4 business cycles performance linked honorarium for the CRP (Udyog Mitra) may be budgeted under this component. After that cost of the same would be covered from the business profits or whatever found suitable by the PG.

4. **Financing of Producers' Enterprises under Day-NRLM:** DAY-NRLM would promote Producers Enterprise (PE) where size of operations would be extremely important for a self-sustained model. A strong business plan should be prepared by SRLMs for each PE before promoting producer enterprises. A producer enterprise would be promoted in a project mode with a project life cycle of 3-4 years within which the PE is expected to become self-sustained and economically viable, member controlled organizations. The SRLM would submit a detailed project proposal including the business plan of the proposed PE. This proposal would be appraised by DAY-NRLM and approved by the Empowered Committee of Ministry of Rural Development. The details guidelines of promoting PE are covered under the **Guidelines for Promotion of Producers' Enterprises** of DAY-NRLM and the SRLM would adhere to this guideline while promoting PE.

4.1. Funding support to the Producer Enterprise (PE): DAY-NRLM would provide grant support to establish the Producers' Enterprises. This grant support will be on the following components:

4.1.1. **Infrastructure for Value addition** –

i. One time support for setting-up infrastructure for value addition
ii. Processing facilities for value addition of agriculture, dairying or NTFP produce which may include facilities for weighing, cleaning, sorting, grading, packing, testing equipment, ripening chambers, oil extraction, specialized packaging etc.
iii. Facilities including pack-houses, pre-cooling units, bulk milk coolers etc. may be proposed
iv. Promotional costs for marketing, certifications costs (such as FSSAI, organic certifications) which add value or are part of legal compliances would be covered.
v. Any infrastructure set-up would be owned by the PEs. Asset for a single individual member will not be permissible under this component.

4.1.2. **IB/CB cost** – The following costs would be covered for a period not exceeding 3-4 years:

i. Includes costs of community mobilization into PE, social capital development (CRP – Udyog Mitra), training and capacity building of the PE staff and members.
ii. Honorarium for Udyog Mitra
iii. Remuneration for the block level staff of the PE

4.1.3. **Working Capital** – working capital required for procurement of produce from farmers for a period not exceeding 3 weeks.

4.1.4. **Human Resource and administrative costs** –

i. Support for hiring professionals for managing the PE for a period not exceeding 3-4 years. This includes the cost of key manpower such as CEO, commodity experts, accountant etc. of the PE. The PE must have a lean HR structure.
ii. One time cost of suitable accounting software, inventory management software, office furniture and fixtures and computers.
iii. The office rental and ancillary expenditure to set-up the office like electricity cost etc. would be supported for a period not exceeding 1-2 years.
iv. The human resource and administrative costs, this cost should not exceed 6% of the total funding support to the PE, as per the norms of DAY-NRLM.

4.1.5. **Support for transportation of goods procured from the members**: It is expected that at the initial stage of the operations, the PE may not able to generate sufficient volumes to recover the costs for transportation of goods procured in the first leg, i.e. from primary procurement centers to the aggregation centers. Therefore, the PE would be provided support for part of the cost of the transportation of the goods from the primary procurement centers to the aggregation centers for a period not exceeding 1-2 years. This fund should not be used for buying of vehicles.

4.2. Fund flow from SRLM to Producer Enterprise (PE)

4.2.1. SRLM would support the PE to prepare a detailed business plan for the proposed activities.

4.2.2. The PC must submit a Detailed Project Report to the SRLM.

4.2.3. The fund to the SRLM would be released by the SRLM directly to the account of the PE against the business plan and the DPR.

4.3. Criteria for fund release to Producer Enterprise (PE)

4.3.1. Fund release to Producer Enterprises will be made through electronic transfer systems, to the extent feasible.

4.3.2. The fund releases to the PE would be based on the business plan and the fund requirement projections approved by competent authority.

4.3.3. All releases to the PEs would be accounted for as advances in SRLM books of accounts except for working capital.

4.3.4. Actual expenditure reported to be booked as expenditures and the **unspent balances are to be refunded to the SRLM**.

i. The SRLM may periodically request for the audited reports of the PE accounts within the duration of the project period to verify actual expenditures.

ii. The expenditure reported by PE is to be included in the IUFR submitted by the SRLM.

iii. SRLM would ensure that the PEs promoted under DAY NRLM are audited as per the regulatory provisions of the appropriate laws (for example PEs registered as Producer Company should be audited as per the provisions of Company Act).

4.3.5. The working capital fund provided to a PE is a fund that is rotated multiple times during the project period as per the operational cycle of the Producer Companies (PC). This is a support from NRLM to the PE to become a viable business entity. The working capital released to the PC would be treated as expenditure in the SRLM books of accounts.

4.3.6. The following conditions would be applied for working capital release to the PE:

i. The working capital component releases would be as per the budget for the project approved by the competent authority (EC).

ii. The Producer Company would submit a working capital requirement plan against the approved working capital budget to the SRLM. SRLM would release the same to PE after due evaluation.

iii. The working capital should not be transferred as a lump-sum to the PE.

iv. Necessary care should be taken to avoid idle fund lying in the bank account.

v. The working capital should be placed in the current account of the PC and should not be placed as a Fixed Deposit. The basic principle is that working capital support is provided to a PE for running the business and not for earning interest.

4.4. **Procurement of equipment, machineries and services for value addition** –

4.4.1. In the Empowered Committee (EC) meeting held on 7th Nov 2017, the EC has taken a decision that the equipment and machineries required by the Producers’ Enterprises as per the approved proposals should be procured by the PE itself. *(Refer letter K-11060/10/2017/NRLM (Livelihoods)/Part2)*

4.4.2. As the PEs, having been promoted recently, may not have the technical and managerial capacity to undertake the procurement process, the SRLM may initially support the PE in developing a procurement manual and in taking up procurement of the equipment and the machineries. The funds budgeted in the approved proposals may be transferred to the PEs against a procurement plan, so that the PEs may undertake the procurement of the goods.