

FPO Working Capital and Credit — Solving the Finance Gap

The working capital cycle for an agricultural FPO is specific and predictable. During harvest season, the FPO needs to pay member farmers for their produce at procurement — before the FPO has received payment from its buyers. The lag between paying farmers and receiving buyer pay...

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For a 500-member FPO aggregating paddy from member farmers at kharif harvest, the numbers look like this: average holding per member family is 0.5–1 hectare; average yield is 2–3 tonnes per hectare; surplus sale per family after home consumption might be 500–800 kg; at ₹21 per kg (MSP), that is ₹10,500–16,800 per family. For 500 families, the FPO needs ₹52–84 lakh of working capital for one crop season. Without this capital available before harvest begins, the FPO cannot procure — and farmers sell to the same traders they always did.

The equity that member farmers contribute as share capital is typically ₹1,000–2,000 per member — ₹5–10 lakh for a 500-member FPO. That covers the registration costs. It does not cover a single season of procurement.

This gap — between the FPO's equity base and the working capital needed to actually trade — is what the government finance ecosystem is designed to fill. Most FPOs don't access it because: they don't know it exists; they don't have the governance documentation required to apply; or they haven't built the one-year operational history that most credit products require before the first loan.

The Finance Ecosystem: What Is Available

1. NABARD Equity Grant (up to ₹15 lakh per FPO)

What it is: NABARD provides a matching equity grant to registered FPOs through its Producer Organisation Development Fund (PODF) and through the 10,000 FPO scheme. The grant builds the FPO's equity base — which then serves as collateral for credit.

How it works: For every rupee of share capital contributed by member farmers, NABARD provides a matching grant — up to ₹15 lakh total. This grant is not a loan. It is equity contributed on behalf of member farmers in exchange for additional shares issued to those members. The FPO's total equity rises; the farmer members' shareholding increases.

Why it matters: An FPO with ₹15 lakh equity can approach a bank for a credit line of ₹50–75 lakh (using equity as collateral and the SFAC credit guarantee as credit enhancement). Without the equity grant, the same FPO would struggle to borrow more than its own share capital.

How to access: The NGO promoting the FPO (as CBBO under the 10,000 FPO scheme, or as a NABARD partner organisation) submits the equity grant application to NABARD's regional office. Required documents: FPO registration certificate; share register certified by a Chartered Accountant; board resolution authorising the application; shareholder consent forms; bank account details. NABARD conducts due diligence and, if satisfied, transfers the grant to the FPO's bank account.

Timing: Apply in year one of FPO operations, once registration, bank account, and share register are complete. Do not wait — every season without equity is a season without working capital.

Current status note: The SFAC equity grant scheme (a parallel programme) was discontinued from online applications as of recent policy updates — verify current status with NABARD's Odisha Regional Office in Bhubaneswar before application.

2. SFAC Credit Guarantee Scheme

What it is: The Small Farmers' Agribusiness Consortium (SFAC) provides credit guarantee cover to FPOs — enabling banks to lend to FPOs without requiring physical collateral, with the government guaranteeing 75–85% of the loan amount in case of default.

Coverage: Loans up to ₹1 crore. Guarantee covers 75% (general) to 85% (smaller FPOs and those in tribal areas) of the sanctioned amount. Loan tenure up to 5 years. Eligible lenders include scheduled commercial banks, RRBs, NABARD affiliates, and cooperative banks.

Why it matters: Without the credit guarantee, banks require FPOs to provide land or other physical collateral — which FPOs, as member-owned collectives, typically cannot. The guarantee effectively makes the government the co-borrower, reducing the bank's risk and making FPO lending commercially viable for banks.

For tribal area FPOs in Odisha: The 85% guarantee coverage for smaller FPOs is particularly relevant. A ₹50 lakh working capital loan with 85% guarantee means the bank's effective risk is only ₹7.5 lakh — a level of risk most rural banks are comfortable with for a functioning FPO with documented trading history.

Access pathway: The FPO applies for a working capital loan from a bank (SBI Kisan branches, Bank of India rural branches, and NABARD-linked cooperative banks are typically most accessible for rural FPOs). The bank simultaneously files for credit guarantee with SFAC. The guarantee is issued before the loan is disbursed.

Prerequisite: At least one year of operational history with documented accounts. This is why starting small in year one — even if trading volumes are modest — matters: it builds the documented track record that makes year-two credit access possible.

3. NABKISAN Finance Limited

What it is: NABARD's subsidiary NABKISAN Finance Limited specifically provides term loans and working capital credit to FPOs that cannot access commercial bank credit. It

has supported over 550 FPOs with cumulative assistance of more than ₹225 crore.

For early-stage tribal FPOs: NABKISAN is particularly relevant for FPOs in tribal areas where commercial banks are hesitant and documentation challenges are significant. NABKISAN conducts its own due diligence and can be more flexible than commercial banks in assessing FPO creditworthiness on the basis of community trust and governance quality, not just audited financials.

Access pathway: Contact NABARD's Odisha Regional Office (Bhubaneswar) — they can facilitate the introduction to NABKISAN and guide the application process.

4. Kisan Credit Card (KCC) Extended to FPOs

Under recent policy changes, Kisan Credit Card facilities — traditionally available to individual farmers — can now in principle be extended to FPO members as a group, providing a revolving credit facility for agricultural inputs. This is an emerging instrument still being operationalised in most states. Monitor the Odisha NABARD regional office guidance as implementation details are clarified.

5. State-Level Instruments (Odisha)

DMF (District Mineral Fund): In Odisha's mining-affected districts, DMF funds are available for livelihood and agricultural development. Several FPOs in mineral-rich tribal districts (Keonjhar, Sundargarh, Koraput) have accessed DMF funds for infrastructure investment — cold storage, processing equipment, seed banks — that the standard government FPO support doesn't cover. Access requires the district collector's support and a specific project proposal.

OMBADC (Odisha Mineral Bearing Areas Development Corporation): Similar to DMF in purpose — infrastructure and livelihood investment in mineral-affected areas. FPOs in these geographies should actively explore OMBADC as a funding source for fixed assets.

The NGO's Role in Credit Facilitation

NGOs do not lend to FPOs — that is not their function, and substituting NGO funds for institutional credit creates dependency rather than sustainability. The NGO's role in credit facilitation is specific:

Governance preparation: The most common reason FPO credit applications fail is non-compliance — missing ROC filings, unaudited accounts, incomplete board meeting minutes. The NGO helps the FPO maintain the governance documentation that banks require. This is not a once-off activity; it is ongoing support through the FPO's compliance calendar.

Bank relationship building: The first bank visit — when the FPO CEO and board president walk into a branch to discuss a working capital facility — often determines whether the relationship proceeds or stalls. An NGO staff member with prior bank relationships, who can make the introduction and frame the FPO's creditworthiness in terms the loan officer understands, dramatically improves the probability of a productive first meeting.

Application preparation: The equity grant application, the credit guarantee application, the loan documentation — these require financial literacy and bureaucratic navigation that most early-stage FPO boards do not have. The NGO helps prepare, review, and submit applications. This is facilitation work, not doing it for the FPO.

Monitoring the credit cycle: Once credit is accessed, the NGO monitors that the FPO is using it for the purpose stated (procurement, not other expenses), that repayment is happening on schedule, and that the bank relationship is being maintained. A missed repayment in year one damages the credit relationship for years two and three. Preventing it through close monitoring and early intervention when the FPO faces a cash flow crunch is high-value NGO work.

The Sequencing That Works

Based on the evidence from FPOs that have successfully accessed institutional credit, the right sequencing is:

Year 1: Register the FPO; open the bank account; build the share register; conduct two to three small trading operations (even modest volume); have accounts audited at year-end. Apply for NABARD equity grant at the six-month mark.

Year 2: With equity grant received and first-year accounts audited, approach a bank for a working capital credit line using the SFAC guarantee. Start with a smaller loan (₹10–25 lakh) and repay fully within the season. Build the track record.

Year 3: With demonstrated repayment history, approach for a larger working capital facility appropriate to the trading volume the FPO wants to achieve in season three.

This three-year sequencing matches the institutional timeline for credit access and produces sustainable credit relationships rather than one-time loan events.

What to Do When Credit Is Denied

If an FPO's credit application is denied, understand specifically why before trying again. The common reasons for denial:

- Accounts not audited: fix this and reapply after the next audit
- Missing ROC compliance filings: complete them and reapply
- No operational history: trade at whatever scale is possible for six months, then reapply
- Bank unfamiliarity with FPO lending: approach a different bank or approach NABKISAN directly
- Poor credit history of individual board members: this is difficult to resolve quickly; work with the FPO to document that its operations are collective and not dependent on individual creditworthiness

One denial is not the end. Most successful FPOs required multiple applications before accessing their first substantial credit line. Document each attempt, understand what was lacking, address it specifically, and reapply.

*Related Knowledge Commons content: Agriculture & Markets Sector Primer (Sector 09)
· Practice Note: FPO Building — Building Them to Last · Practice Note: Millet Value Chains — The OMM Model*

Evidence Grade: B — Multi-study. This Practice Note draws on NABARD's PODF and NABKISAN documentation, SFAC equity grant and credit guarantee scheme guidelines, the Eclectic Legal FPO funding analysis (2025), Syngenta Foundation India NABARD-MP FPO project documentation (2024), and NABARD Odisha State Focus Paper. Last reviewed: April 2026.

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