

Guidelines for Support to Producers Organizations

National Bank for Agriculture and Rural Development (NABARD) has created “Producers Organization Development Fund” to comprehensively support Producer Organizations in different forms across the country.

Producers Organizations:

An organization will be called a producer organization if

- It is formed by a group of producers for either farm or non-farm activities
- It is a registered body, and a legal entity
- Producers are shareholders in the organization
- It deals with business activities related to the primary produce/product (either of the activities or in combination of these activities, viz. sorting, grading, processing, packaging, marketing etc.)
- It works for the benefit of the member producers
- Portions of profit are shared amongst the producers and the balance goes to the share capital or reserves.

Eligible Organizations:

Any registered Producer organizations i.e., Producer Company, Producer Cooperatives, registered Farmer Federations, MACS (Mutually aided cooperative society), industrial cooperative societies, other registered federations, PACS, etc. Public or private limited company setup by producers are also eligible provided they meet the requirements listed above.

NABARD's interventions:

NABARD will undertake the following interventions:

1. **Financial Intervention**– NABARD will directly lend to Producer Organizations for term loans or composite loans comprising of both working capital and term loan requirements.
2. **Capacity Building** – NABARD will provide funds to promote organization and skill building exercises, and guide business planning and support technological extension. Through classroom training, exposure visits, agricultural university tie ups, expert meetings, etc., NABARD will support capacity building needs in a structured way. Support for capacity

building could be in the form of grant, loans, or a combination of these based on the need of the situation.

3. **Market Linkages** – For marketing efforts of the Producer Organization, NABARD will provide credit and/ or grant support for setting up of marketing infrastructure facilities for sale of produce.

Producer Organizations can approach NABARD directly or through promoting/ implementing organization, which should also be a registered organization. In case Producer Organization approaches directly to NABARD, it should be in existence for a period of minimum three years. In case it approaches through promoting/ implementing organization, the promoting/ implementing organization should be in existence for a minimum period of three years. In such circumstance, the condition of three years existence of Producers Organization can be relaxed.

Process:

I) Submission of Concept Note by Producer Organization/ Implementing Agency for business plan of Producer Organization:

A concept note is a summary document that introduces the Producer Organization, and briefly describes the business plan which requires the credit support. The Concept Note should contain:

1. **Details of Producer Organization** including number of producers, type of producers,/ producer groups, producers share, activity/ produce, current status of income, profits, etc.
2. **Profile of the promoting/ implementing organization**, and its role in the development of the Producer Organization.
3. **Description of additional benefits provided to producers** (income enhancement & livelihood generation) through formation of Producer Organization.
4. **Details of project management** (Executive team and board of directors with qualification and experience) of Producer Organization & Promoting/ Implementing agency.
5. **Brief details of proposed business plan.**
6. **Brief details of financial requirements** for executing the business plan.
7. **Last 3 years audited financial statements** (Balance Sheet & P/L statement) of Producer Organization &/ or Promoting/ Implementing agency with notes on accounts & annexure.
8. **Details of earlier/ current loans and grants** if any (sanction letters) availed from NABARD and other Banks/ Fls.

9. **Details of security / collaterals** to be offered. Please note collateral offered has an impact on the interest rate.

Please note that the concept note is not a document on the basis of which a decision on accepting a proposal will be made. It just serves as a draft of the business plan (Annexure -I) and will help in analyzing the status of the Producers Organization. This is a stage to get the basic understanding of the project and to decide as to whether one can go ahead with preparation of Detailed Project Report (DPR) for appraisal. Please note that the structure for concept note given above should be adhered to.

II) Submission of Detailed Project Report by Producer Organization/ Implementing Agency :

After the approval of Concept Note by NABARD, the Producer Organization or Promoting/ Implementing agency will be advised to submit the Detailed Project Report indicating the business plan. The format for preparation of DPR is given at Annexure-II.

ANNEXURE – I

Model Business Plan

What is a business plan?

A business plan is essentially a written description of a business's future. It provides an in depth report on the environment in which the company functions, what the company plans to do in the near future and predictions on its performance. A business plan conveys your business goals, the strategies you'll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business (including titles and responsibilities), and finally, the amount of capital required to finance your venture and keep it going until it breaks even.

Characteristics of good business plan:

1. A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan.
 - a) The first is the business concept, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.
 - b) The second is the *marketplace product*, in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you'll position yourself to beat it.
 - c) Finally, the financial section contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from accountant and a good spreadsheet software program.
2. Breaking these three major sections down even further, a business plan consists of six key components:
 - I. Executive summary
 - II. Business description
 - III. Marketing Plan
 - IV. Production Plan
 - V. Operation and Management Plan
 - VI. Financial Analysis

I Executive Summary:

Within the overall outline of the business plan, the Executive Summary will follow the title page. The Executive Summary should be to the point and in a nutshell convey the value of your proposition.

Key elements that should be included are:

3. ***Business Concept, the business and market.*** Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the business will hold a competitive advantage.
4. ***The management team.*** A brief summary of the business team composition, special skills required to operate the proposed business successfully should be provided in the executive summary of the business plan. The nature and type of deployment of the key personnel and in case of specialized needs who would support the key business proposition.
5. ***Business rationale - why the proposal is different.*** A statement of business rationale establishing how and why the proposal is different than other businesses of the same nature in the prevailing industry. This will prompt the financial institutions and others watching and planning to support the business.
6. ***The proposal.*** State clearly the intent of the proposal and what precisely you are planning to do and achieve the intended output.
7. ***Basis for its success.*** State your logic as to why you think the proposed business would succeed in the present circumstances and how it will meet the intended outputs. Strength - Opportunity matrix may help summarize the logic.
8. ***Profitability and financial feature.*** Highlights the important financial points of the business including sales, profits, cash flows and return on investment.
9. ***Financial requirements.*** Clearly state the capital needed to start the business and to expand. It should detail how the capital will be used, and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.
10. ***Risk assessment and mitigation strategies.*** The executive summary may also include a brief sketch of the potential and killer risks assessed while analyzing the business proposition vis-a-vis industry and the potential competitors. How the risks would be mitigated should form the body of the risk mitigation or aversion strategy.
11. ***Current business position and prospects.*** Provides an overview of the market in which the startup is to function. In brief, it focuses on the proposed strategy to beat the competition.
12. ***Future Prediction*** as to the targeted market share, profitability and return on investment
13. ***Key conclusions.*** Based on above the key conclusions may be drawn for a quick snap shot vision of the whole business plan.

II Business Description:

1. **The business background:** The business description is an extended version of the Executive Summary, where you must convey the crux of your proposition and provide some depth of knowledge regarding the plan.
2. **Location and operational area:** The business description usually begins with a short description of the industry. When describing the industry, discuss the present outlook as well as future possibilities. You should also provide information on all the various markets within the industry, including any new products or developments that will benefit or adversely affect your business. Base all of your observations on reliable data and be sure to footnote sources of information as appropriate.
3. **Method of operation:** When describing your business, the first thing you need to concentrate on is its structure, i.e., wholesale, retail, food service, manufacturing or service oriented. Also state whether the business is new or already established. A very major part of the Business Description is detailed information about the team.
4. **Defining the prospective market and the customers:** You should also mention, who you will sell to, how the product will be distributed, and the business's support systems. Support may come in the form of advertising, promotions and customer services.
5. **Type of business and services offered:** Once you've described the business, you need to describe the products or services you intended to market. The product description statement should be computed enough to give the reader a clean idea of your identification. You may want to emphasize any unique features or variations from concept that can typically be found in the industry. Be specific in showing how you will give your business a competitive edge. The revenue model you propose must also be touched upon in the business description.
6. **Statement of viability:** This section deals with financial analysis of the proposal and depicts the viability of the business which enables the resource institutions, shareholders and others assess and allocate resources.

III Marketing plan:

1. The marketing plan is the result of the meticulous analysis of the market analysis. A market analysis forces the business entity to become familiar with all aspects of the market so that the target market can be defined and the company can position its product and or services in order to garner its share of market.
2. The market analysis also helps to understand market dynamics, enables to work out pricing, packaging, promotion and positioning strategy vis-a-vis its potential competitors. It helps understand and apprise competitive environment and competitive advantage it could have or generate through strategic business decisions.
3. Begin your market analysis by defining the potential target market, its size, structure, growth prospects, trends and the potential for foreseeable future. The aggregate business

volume of the competitors may provide a fairly accurate estimate of the potential market and shall help precisely define the proposed market share.

4. The target market narrows down the total market by concentrating on the segmentation factor that will determine the total addressable market – the total number of users within the sphere of the business' influence. The segmentation factor can be geographic, customer-attribute or product oriented.

IV Competition Analysis

1. The competition analysis is a statement of the business strategy and how it relates to the competition. The purpose of the competitive analysis is to determine the strength and the weaknesses of the competitors within the proposed market, the strategies that will provide the proposed business a distinct advantage the barriers that can be developed in order to prevent competition from entering your market, and any weakness that can be exploited within the product development cycle.
2. The first step in a competitor's analysis is to identify the current and potential competition. There are essentially two ways you can identify your competitors. The first is to look at the market from the customer' view point and the group all your competitors by the degree to which they contend for buyers' perception value in terms of money or satisfaction by its use. The second method is to group competitors according to their various competitive strategies so you understand what motivates them.
3. Once you have grouped your competitors, you can start to analyze their strategies and identify the areas where they're most vulnerable. The aim is to get a competitive advantage over them. The analysis could be carried out on the parameters like (1) reasons behind their success or failure; (2) prime customer motivator; (3) major component costs and (4) industry mobility barriers.
4. The strategy for negotiating the proposed market share may focus on (1) product (2) distribution (3) pricing (4) promotion and (5) advertisement. Arriving at a projection of the market share for a business plan is very much a subjective estimate. It is based on not only an analysis of the market share but on highly targeted and competitive distribution, pricing and promotional strategy. The market share should have a time horizon. To estimate this, factors like industry growth which will increase the total number of users and conversion of users from the total feasible market needs to be considered.
5. This section of business plan should include strategies for successful positioning of the business in the competitive business environment. The strategic issues like how the competitors are positioning themselves, what specific attribute your product have that competitors' do not and what customers needs does your product fulfill.
6. The success of the business significantly depends on pricing policy. To keep the pricing policy competitive any of the of the following methods could be used:
 - a) Cost-plus pricing- it assures that all costs both fixed and recurring or variable are attained with desired percentage of profit;

- b) Demand pricing- the pricing based on demand;
 - c) Competitive pricing – this strategy is implied by the companies that are entering in to the market where there are already established pricing exists and it is difficult to differentiate one product from another;
 - d) Mark-up pricing – used mainly by retailers, mark-up pricing is calculated by adding your desired profit to the cost of the products. Each method listed above has several strength as well as weakness.
7. Distribution includes the entire process of moving the product from the place of manufacturing to the end users. The type of distribution network chosen will depend upon the industry and the size of the market. A good way to make your decision is to analyze your competitors to determine the channels they are using, and then decide whether to use the same type of the channel or an alternative that may provide you with a strategic advantage. Some of the more common distribution channels include direct sales, retailers, wholesalers, etc.
 8. The promotion strategy in its most basic form is the controlled distribution of the communication designed to sell your product or services. In order to accomplish this, the promotion strategy encompasses every marketing tool utilized in the communication efforts. This includes advertising, packaging, public relations, sales promotion, etc.

IV Production plan

1. The purpose of the production plan section is to provide a detailed overview of how the actual production will be carried out in the case of a manufacturing concern, or the service performed in the case of service industry.
2. The production plan is very crucial for a manufacturing concern. In the case of a service company, it may be done away with and the relevant issues would be covered in the operation and management plan. The production plan should include – production process adopted, capacity planning and task scheduling and cost estimation.

V Operation and management plan

1. The operation and management plan is designed to describe just how the business functions on a continuing basis. The operation and management plan will highlight the logistics of the organization such as the various responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operation and management of the business.
2. There are two areas that need to be accounted for when planning the operations of your company. The first area is the organizational structure of the company, and the second is the expense and capital requirement associated with its operation.
3. Organizational structure: The organization structure of the company is an essential element within a business plan. It should include the personnel deployed by the producer organization like Chief Executive Officer, Accountant, Service Providers, the personnel

from the supporting agency for the technical skills like agriculture technologies and marketing. Details of the key personnel should be appended with the business plan to foster confidence in the financial agencies.

4. Depending upon the organization structure, the personnel requirement at various levels of the organization is estimated. In addition to this, the costs of support services required for the functioning of the organization are estimated. These costs are then used to compute the overhead costs which, in turn, are used in the calculations involved for the financial statements.

VI Financial Management plan and analysis

1. The financial analysis is extremely important, in most cases it is the decisive factor. The most significant analysis is the profitability promised by the proposed business; similarly cash flow statement provides insight in to the sustainability of the proposed business. The business plan should contain income statement, balance sheet and the cash flow statement.
2. The financial statement should accompany financial analysis like break even analysis, return on investment, return on assets, return on equity, profit margin analysis, debt equity ratio, etc.
3. Typical Profitability Analysis Ratios to be included

Return on Investment (RoI) = Net Income / Average Total Assets

Average Total Assets = Total asset in the beginning + Total asset at the end / 2

Return on Equity = Net Income / Average Stockholder' Equity

Average Stockholder Equity = total stockholder' equity in the beginning + End Equity / 2

Profit Margin = Net Income / Sales

Earnings per share = Net Income / Number of common share outstanding

ANNEXURE- II

Sample Format for Preparation of DPR and Checklist

The project report is an essential building block for completion of a project. Hence, it must be prepared carefully and with sufficient details to ensure appraisal, approval and finally funding from the financial institution. The project report must be accompanied by executive summary.

POINTS TO BE COVERED IN THE PROJECT REPORT

EXECUTIVE SUMMARY

Executive summary is an important and necessary part of a project report. It includes all the details which will become part of a detailed project report but in summary form. It covers:

- ◆ Location
- ◆ Layout of Factory / plant
- ◆ Plant and Machinery
- ◆ Technological arrangement
- ◆ Proposed capacity
- ◆ Product mix
- ◆ Raw material requirement, storage and handling
- ◆ Present and Future demand of end product
- ◆ Pollution Control equipments
- ◆ Power and water supply
- ◆ Capital Costing including one cycle of working capital margins
- ◆ Other subsidiary requirements and ancillary facilities like marketing, etc.
- ◆ Capacity building assessment

INTRODUCTION

The part of project constitutes of:

- ◆ Preamble
- ◆ Brief background of company
- ◆ Background of entrepreneurs
- ◆ Location details of the project

ENTERPRENEUR/ MANAGEMENT DETAILS

- ◆ Qualification
- ◆ Work experience in detail
- ◆ Role pay of Management Team

SITE DESCRIPTION

Site Details

- ◆ Location & Title of land
- ◆ Meteorological data
- ◆ Connectivity through road, train, air, etc.
- ◆ Proximity of raw material sources and other vital facilities
- ◆ Reason to choose the site.

PLANT LAYOUT

- ◆ This part of the project report will include the complete layout, structure and various facilities to cater with the production.
- ◆ This part must cover the layout map.

TECHNOLOGICAL CONSIDERATIONS

- ◆ Technology generally used by other similar companies to produce the end product
- ◆ Merits and demerits of various technologies used
- ◆ Technology proposed to be used in the project with reasons
- ◆ Details of complete process cycle with process chart

PRODUCT MIX

Complete details of the following may be given:

- ◆ End product
- ◆ Proposed production
- ◆ Manufacturing process

RAW MATERIAL

- ◆ Details of raw material and chemical configuration, if any
- ◆ Physical Requirements
- ◆ Chemical Requirements
- ◆ Availability in the market

RECEIPT, STORAGE & HANDLING OF RAW MATERIAL

- ◆ Handling system
- ◆ Feed system
- ◆ Storage arrangements (capacity)
 - ☒ At godowns
 - ☒ At plant
- ◆ Transportation arrangements

APPLICATION OF END PRODUCT

- ◆ Whether it will be used in own plant
- ◆ Target market
 - ☒ Domestic
 - ☒ Export
- ◆ Industry details, where it is used

ENVIRONMENTAL ASPECTS

- ◆ Whether all environmental clearance certificates required for the specific industry has been taken and details of the same.
- ◆ Arrangements to avoid pollution from the government specified limits.

WATER, POWER AND AUXILLARY SERVICES

- ◆ Requirement
- ◆ Arrangement through government or private sources
- ◆ Alternative arrangements

QUALITY CONTROL

- ◆ Sampling
- ◆ Laboratory setup including R & D

SUPPLEMENTARY FACILITIES

- ◆ Repairs and Maintenance facilities
- ◆ Ventilation and air conditioning system
- ◆ Instrumentation & telecommunication
- ◆ Automation and Computer Control
- ◆ Safety and fire protection arrangement
- ◆ Hydrant System

MARKET ARRANGEMENTS

This part of project report covers complete market analysis of your end product.

- ✍ in present
- ✍ In future

It also covers the marketing strategy which the organization is going to adopt in future, to sell its products.

POLLUTION CONTROL

- ◆ Arrangements to avoid
 - ✍ Air Pollution
 - ✍ Water Pollution
 - ✍ Noise Pollution
- ◆ Arrangements for effluent disposal

MANPOWER PLANNING

Category wise break up needs to be given alongwith the responsibilities of each cadre:

- ◆ Manpower Requirement:
 - ✍ Senior Management
 - ✍ Technical staff
 - ✍ Marketing Staff
 - ✍ Maintenance Staff
 - ✍ Production staff
 - ✍ Quality Control Staff
- ◆ Cost Involved
- ◆ Training arrangement
- ◆ Employee welfare arrangements

CONSTRUCTION PLANNING

Month wise target is to be given for

- ◆ Each construction phase
- ◆ Erection of plant and machinery
- ◆ Commencement of commercial production

CAPITAL COST

Estimated cost is to be given for each capital expenditure planned up.

- ◆ Land

- ✍ Cost of land
- ✍ Cost of site development
- ◆ Building
 - ✍ construction cost
 - ✍ Internal designing cost
- ◆ Plant and Machinery
 - ✍ Cost of purchase
 - ✍ Erection and Commissioning charges
- ◆ Other cost
 - ✍ Furniture and Fixtures
 - ✍ Office Equipments
 - ✍ Vehicles and Mobile equipments
 - ✍ Technical Know how
 - ✍ Pre-operative expenditure
 - ✍ Interest during construction
 - ✍ Margin for contingencies, etc.

MEANS OF FINANCE

- ◆ Equity Contribution
 - ✍ Existing
 - ✍ Proposed
- ◆ Borrowed Funds
 - ✍ Existing
 - ✍ Proposed
- ◆ Grant & Subsidies Contribution
 - ✍ Existing
 - ✍ Proposed

FINANCIAL APPRAISAL

- ◆ Need to provide 3 to 5 years'
 - ✍ Audited Balance Sheet with auditor's notes (with 3 CD Annexures for corporates)
 - ✍ Profit and Loss Account
 - ✍ Cash Flow Statement
 - ✍ Capacity Utilisation
 - ✍ Projected balance sheet, Profit & loss, fund / cash flow statements for the next six years (covering the repayment period)
- ◆ Break Even Point (BEP that means no profit no loss)
- ◆ Calculation of Internal Rate of Return (IRR) on the basis of projected profitability
- ◆ Calculation of Debt Service Coverage Ratio (DSCR)
- ◆ Details of assumptions made to prepare projected financials
- ◆ Sensitivity Analysis – It is done to check the profitability if any projected targets not achieved.
- ◆ Year-wise Budget for capacity utilisation

LIST OF DOCUMENTS NEED TO BE SUBMITTED WITH PROJECT REPORT

- ◆ Detailed Project Report along with application for loan/ grant required in Duplicate
- ◆ List of total movable and immovable Assets of the organisation/promoters/ implementing agency.
- ◆ List of tangible unencumbered security offered as collaterals. In case of landed property, copy of Sale Deed alongwith extract of latest Land record.
- ◆ Income Tax and Wealth Tax details of last three years, with copies of Assessment / Return if applicable.
- ◆ Certificate of reliefs given under statute. (IT, Sales Tax, etc.)
- ◆ Copies of sanction letters from other insitutions, Government Agencies, Overseas Agencies sanctioning loan, grant or other support services relating to the activity.
- ◆ Provisional Registration Certificate from the concerned authority viz., Registrar of Companies, Registrar of Cooperative Societies, District Industries Centre, etc.
- ◆ Certificate of Incorporation from competent legal authority. In case of corporates, certificate of commencement of business issued by Registrar of Companies.
- ◆ Memorandum & Articles of Association/ Bye laws of Society.
- ◆ Permission/license from Competent Authority (in case of Textile, Foods & Drugs, Forest, etc.).
- ◆ Certified copy of sale deed along with extract of latest Land record in respect of land. (The land should be in the name of company/ society whichever applicable)

OR

- ◆ Rent agreement in case of rented premises for minimum eight years or covering loan period.
- ◆ Three quotation in respect of each item of plant and machinery and raw material, proposed to be purchased.
- ◆ Import, Export Licences (IEM)
- ◆ Details of power requirement and tie-up with State Electricity Board.
- ◆ Permission from Water & Pollution Control Board.
- ◆ Approved Building plan from Competent Authority with cost estimates from the Architect.