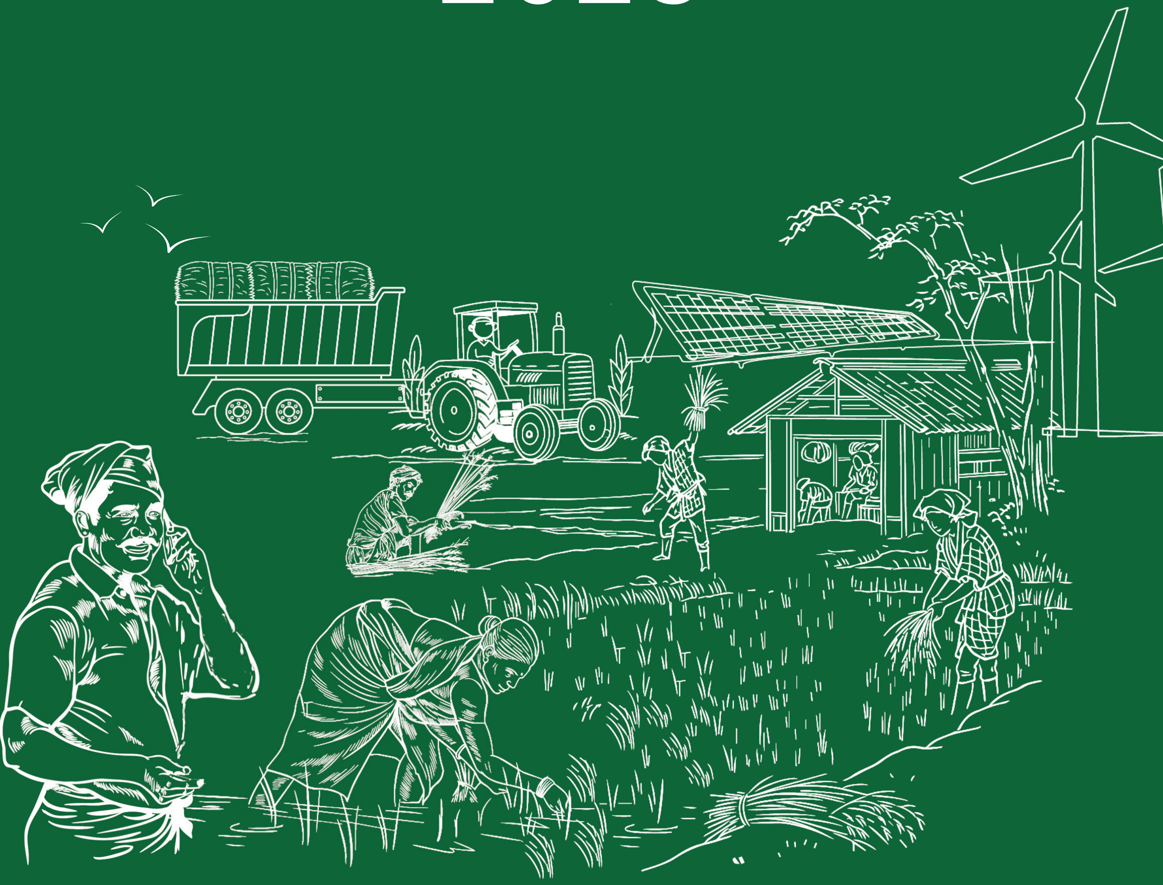
NAFPO
NATIONAL ASSOCIATION FOR FARMER PRODUCER ORGANISATIONS
REPRESENTATION | COLLABORATION | TRANSFORMATION
Samunnati

State of the SECTOR REPORT 2025



FARMER PRODUCER ORGANISATIONS IN INDIA

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Rabo Foundation

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Chapter 3

Credit Demand of FPOs – A Credit Market Estimation Exercise

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1. Introduction

Capital is among the four fundamental factors of production, playing a crucial role in facilitating the adoption of machinery and technology that enhance labour productivity and organisational efficiency. Regardless of size, all enterprises require capital not only for their establishment but more crucially for their growth. However, many enterprises find it challenging to meet their capital needs through internal resources fully and therefore rely on credit to drive expansion and modernisation.

Economists have long recognised the importance of accessible and affordable capital. The availability of low-cost credit is considered essential for promoting the uptake of technology and developing the necessary infrastructure. Our experience at National Association for Farmer Producer Organisations (NAFPO) further affirms this perspective.

Given that most FPOs start with a low paid-up capital, access to credit is not merely desirable but also essential. In the initial phase of the FPO, credit supports stabilisation. As FPOs grow, credit becomes vital for scaling operations and making strategic investments. For more mature FPOs, credit enables infrastructure development, technology adoption, and growth into Cluster-Based Business Organisations (CBBOs). Nevertheless, FPOs often face persistent challenges in accessing adequate and timely credit across all stages of their growth trajectory. This gap underscores the need for concerted interventions to support the long-term viability and success of FPOs.

Access to credit in the formative stages is particularly critical for the sustainability of FPOs. The inability to access timely credit in this phase can deplete paid-up capital and severely undermine their ability to establish themselves as viable enterprises. At later stages of development, restrictions in credit access can constrain FPOs from expanding operations, diversifying business activities or undertaking investments necessary for long-term sustainability. When the envisioned commercial returns to FPOs and their members are not realised, the broader social outcomes associated with collectivisation might also diminish over time. Although a range of financial organisations, from National Bank for Agriculture and Rural Development (NABARD) to scheduled commercial banks and Non-Banking Financial Companies (NBFCs), have developed credit products for FPOs, significant gaps remain. Notably, there is limited clarity on the overall credit demand or market size of credit for FPOs. This lack of sector-level data hinders lenders' ability to design suitable financial products for FPOs.

This article aims to provide a preliminary estimate of the credit requirements of FPOs, drawing on the experience of professionals who have been closely associated with FPOs for several years in their development and operations. The credit market size presented here reflects a snapshot of credit demand at any given point in time. While the estimate may be rudimentary, it is intended as a methodological starting point for further enquiry and sharper estimates in future.

2. Methodology

The market for FPO credit remains nascent and is expanding in tandem with the increasing number of FPOs across the country. Given the absence of comprehensive and reliable data on the number, scale and operational characteristics of FPOs, we rely on a set of assumptions derived through expert consultation. These assumptions serve as indicative estimates, grounded in the experiential knowledge of stakeholders who are deeply embedded in the FPO ecosystem.

In-depth interviews were conducted with ten experts who possess over a decade of direct experience with FPOs in diverse capacities. The respondents represent a range of institutions that have played a significant role in promoting and building the capacity of FPOs, including Andhra Pradesh Mahila Abhivruddhi Society (APMAS), ACCESS Development Services (AccessDev), Professional Assistance for Development Action (PRADAN), Reliance Foundation, Samunnati Foundation, and Self-Reliant Initiatives through Joint Action (SRIJAN).

The methodological approach combines qualitative primary data obtained through expert interviews with secondary data sourced from a select financial institution that significantly contributes to FPO lending in India. This hybrid method enables a grounded estimation of credit demand while acknowledging the limitations posed by the scarcity of granular data.

The following section outlines the core assumptions that underpin our analysis.

3. Assumptions

The first step in estimating the credit requirement of FPOs involved establishing certain foundational assumptions based on our observations and expert insights.

i. It is assumed that the credit requirement of FPOs is positively correlated with annual turnover, i.e., FPOs with higher turnover are likely to require a larger quantum of credit to support their scale of operations and manage their working capital cycles.

ii. Credit requirement is assumed to be shaped by the nature of business activities undertaken by FPOs. While some FPOs primarily engage in input sales, others focus on output aggregation, and some are involved in processing. Some operate across multiple verticals. Each of these business models would, therefore, vary in their credit requirement.

iii. It is assumed that not all FPOs with a notional need for credit would translate into effective demand. Variations in profitability, governance capacity, and strategic orientation mean that a proportion of FPOs may be unable to absorb or repay credit effectively, thereby constituting the non-addressable segment of the FPO credit market.

Invariably, these assumptions inherently introduce a degree of approximation to the final credit market size estimate. By acknowledging this, care has been taken to avoid overtly ambitious and optimistic assumptions that can inflate the estimate beyond general acceptance, or pessimistic assumptions could lead to estimates that are far below the sector's absorption capacity. The objective was to adopt as neutral and impartial a stance as possible, to carefully read the comments, opinions, and data provided by sector experts, and to make a useful and at least partially reliable estimate of the market size for FPO credit.

Based on these assumptions, we categorised FPOs into four categories based on their turnover. For each category, credit requirements were estimated based on their likely business models. The methodological details are presented in the following section.

3.1 Categorisation of FPOs: Turnover

As discussed above, the credit requirement of FPOs is closely tied to the scale of their operations, which is typically measured through annual turnover. Accordingly, for this estimation, FPOs were classified into four categories based on turnover. The four categories, along with the estimated proportion of FPOs in each category, are presented in Table 3.1 below.

Table 3.1: Categorisation of FPOs Based on Turnover

S. No.	Turnover (*in ₹ lakh*)	Percentage of FPOs in the Category
1	Up to 25	20%
2	25 to 50	40%
3	50 to 100	30%
4	>100	10%

Insights gathered from expert interviews suggest that most FPOs typically begin on a small scale, with an annual turnover of a few lakh. While some gradually scale up their operations, very few achieve annual turnovers of over ₹1 crore. Many FPOs were established under the government's 10,000 FPO program, and they have been operational for over five years. Assuming that these are still in the early stages, their turnover is assumed to be around ₹50 lakh. In contrast, FPOs that have been successfully operational for a longer period are presumed to have grown in scale and operations, thereby requiring a higher loan amount. However, data and conversations with lenders indicate that loans exceeding ₹50 lakh remain rare, suggesting that very few FPOs fall within this upper turnover category. Based on these insights, it is estimated that not more than 10% of all FPOs operate at this scale.

3.2 Categorisation of FPOs: Business Activities

For this estimation, FPOs have been classified into three principal business models: (i) input-focused, (ii) output aggregation or trading-focused, and (iii) processing-focused. Although there is significant overlap in the activities of FPOs, with many FPOs engaging in a combination of these activities, these were intentionally excluded from the analysis to maintain methodological clarity and avoid compounding assumptions. Accordingly, 80% of all FPOs are assumed to primarily operate within the input and trading segments, while the remaining 20% are engaged in processing to a degree sufficient to be classified as such.

Furthermore, it is also assumed that all categories of FPOs, regardless of their turnover or business model, would need working capital credit. However, the need for capital investment loan varies by turnover category and business model, reflecting differences in business maturity, scale of operations, and capital intensity. The estimated distribution of FPOs across turnover brackets and business activity categories, along with the estimated proportion requiring credit, is presented in Table 3.2.

Table 3.2: FPO Classification for Credit Based on Turnover and Business Activities

	Turnover (*in ₹ lakh*)	Percentage of FPOs having Credit Requirement
Percentage of FPOs in inputs or trading business		80%
Working Capital		100%
Capital Investment	Up to 25 25 to 50 50 to 100 >100	0% 2% 5% 10%
Percentage of FPOs in the processing business		20%
Working Capital		100%
Capital Investment	Up to 25 25 to 50 50 to 100 >100	5% 10% 15% 20%

To aid clarity, a portion of the above table is explained here. The first row beneath the column headings refers to the "Percentage of FPOs in inputs business", which is assigned a value of 80% as seen in the last column of the row. This indicates the assumption that 80% of all FPOs operate in either input supply or trading.

In the subsequent row titled "Working Capital," the corresponding figure of 100% indicates that all FPOs operating in input supply or trading require working capital. Within this segment, the demand for capital investment credit varies by turnover. For example, FPOs with a turnover of up to ₹20 lakh are assumed to have negligible or non-qualifying demand for capital investment loans. Consequently, the proportion shown is 0% either because such FPOs lack the capacity to productively absorb capital or because their credit demand does not fall within the addressable market.

Conversely, for FPOs with turnovers exceeding ₹1 crore, 10% would require capital investment loans. This reflects the greater scale of operations and likely infrastructure needs of such large FPOs.

Here, FPOs engaged in processing are treated in a distinct manner. Unlike input supply or trading-focused FPOs, processing-focused FPOs are assumed to exhibit demand for capital investment across all turnover categories, given the capital-intensive nature of processing operations.

3.3 Ticket Size of Loans

The average loan size for both capital investment loans and working capital loans was estimated in relation to the turnover brackets of FPOs. Here, no distinction is made between the FPO business activity (input, trading, and processing). Instead, an average loan ticket size was applied to all FPOs within each turnover category. This methodological choice is recognised as a simplification. However, in the absence of disaggregated data by business line, it was considered a reasonable approximation for this preliminary estimation.

The estimated average loan amounts for capital investment and working capital, segmented by turnover category, are presented in Table 3.3.

Table 3.3: Average Loan Ticket Size for Investment and Working Capital

Loan Type	Turnover (*in ₹ lakh*)	Average Ticket Size (*in ₹*)
Capital Investment	Up to 25 25 to 50 50 to 100 >100	2,00,000 5,00,000 10,00,000 25,00,000
Working Capital	Up to 25 25 to 50 50 to 100 >100	5,00,000 10,00,000 25,00,000 50,00,000

3.4 Addressable Market

The final step in our estimation process involved determining the size of the addressable credit market for Farmer Producer Organisations (FPOs).

The total number of FPOs registered with the Ministry of Corporate Affairs (MCA) served as the baseline, estimated at approximately 43,000.

However, not all registered FPOs were considered part of the addressable market. Based on expert inputs, it was assumed that only 75% of these FPOs represent a viable market for credit. This comprises FPOs that have established some degree of business stability, demonstrated commercial viability, articulated growth plans, and are assessed to possess the institutional and managerial capacity to absorb credit effectively.

This refinement acknowledges the heterogeneous nature of Indian FPOs and seeks to account for only those formally registered FPOs that are in a position to engage meaningfully with financial service providers.

Table 3.4: Addressable Market Size of FPOs for Credit

Universe of FPOs	43,000
Addressable market of FPOs for credit (@ 75% of the universe)	32,250

4. Credit Market Estimation

In this section, the credit requirement is estimated based on the set of assumptions outlined in the previous sections. As the first step, drawing from Table 3.1, the estimated number of FPOs within each turnover group is presented in Table 3.5.

Table 3.5: Turnover Segment-wise Distribution of FPOs

Annual Turnover (*in* ₹)	Percentage of FPOs	No. of Qualified FPOs
<25 Lakh	20%	6,450
25 to 50 Lakh	40%	12,900
50 Lakh to 1 Crore	30%	9,675
>1 Crore	10%	3,225
Total	100%	32,250

The number of eligible or "addressable" FPOs in each turnover category was estimated by applying the percentage distributions presented in the second column of Table 3.1 to the total number of addressable FPOs, i.e., 32,250 FPOs.

Of these 32,250 FPOs, 80% are assumed to operate in either input supply or trading business, and the remaining 20% in processing business.

To estimate the total credit requirement, we combine three key elements: (i) the number of FPOs in each turnover category, (ii) their estimated loan ticket sizes (based on turnover), and (iii) the type of credit required (working capital or capital investment). This calculation is presented in Table 3.6. Based on this framework, the total estimated credit demand of FPOs is projected to exceed ₹5,800 crore. Of this, approximately ₹5,600 crore is expected to be working capital requirements, while around ₹189 crore is attributed to capital investment needs for infrastructure and machinery.

5. Conclusion and Way Forward

This estimation represents one of the earliest, if not the first, systematic attempts to estimate the credit demand of FPOs in India. In the absence of hard data, the estimation relied primarily on a series of structured assumptions informed by the practical knowledge and observations of domain experts. Where possible, the assumptions and resulting calculations were cross-verified with lenders operating in the FPO space. This analysis does not claim precision in quantitative terms, given the vast array of logical, albeit subjective, assumptions that underlie it. However, the methodology is intended to serve as a useful foundation for further enquiry.

It is also pertinent to note that this credit estimation reflects a point-in-time credit requirement, rather than a forecast for a specific period. In practice, credit needs vary significantly based on cropping patterns, cropping cycles, post-harvest processing requirements, perishability, and other market dynamics. This estimation exercise has intentionally abstracted from such complexities to retain methodological focus. Nonetheless, these omitted complexities provide valuable scope for future research in this domain. The subsequent analysis could adopt a value chain-specific approach and incorporate historical credit data as they become available. It is hoped that the present estimation will stimulate further efforts in this direction and contribute meaningfully to the evolving discourse on FPO financing in India.

Table 3.6: Credit Estimation – Based on FPO Turnover and Business Activity

	Annual Turnover (*in ₹ lakh*)	Percentage of FPOs with Credit Need	No. of Qualified FPOs for Credit	Average Ticket Size (*in ₹ lakh*)	Credit Need (No. of Qualified FPOs*Average Ticket Size)
Input/Trading FPOs		80%	25,800		
Working Capital	Up to 25	100%	5,160	5	25,800.00
	25 to 50		10,320	10	1,03,200.00
	50 to 100		7,740	25	1,93,500.00
	>100		2,580	50	1,29,000.00
Capital Investment	Up to 25	0%	0	2	0
	25 to 50	2%	206.4	5	1,032.00
	50 to 100	5%	387	10	3,870.00
	>100	10%	258	25	6,450.00
Processing FPOs		20%	6,450		
Working Capital	Up to 25	100%	1,290	5	6,450.00
	25 to 50		2,580	10	25,800.00
	50 to 100		1,935	25	48,375.00
	>100		645	50	32,250.00
Capital Investment	Up to 25	5%	65	2	129.00
	25 to 50	10%	258	5	1,290.00
	50 to 100	15%	290	10	2,902.50
	>100	20%	129	25	3,225.00
Total Credit Demand					**5,83,273.50**

India's Farmer Producer Organisations ecosystem with an enabling policy support, scaling up numbers, stakeholder partnerships, innovative business models, represent the hope and resilience of small and marginal farmers offering pathways for sustainable livelihoods. We at NABARD are committed to the role of ecosystem enabler through support for developmental models, credit facilitation, building capabilities and engaging collaborations. This *State of the Sector Report 2025* offers grounded insights on credit mechanisms, governance and enterprise-readiness, capturing the evolving pulse of the sector. It is a trusted annual resource for policymakers and practitioners committed to the FPO sector and I congratulate NAFPO for this curated important report.

Dr A V Bhavani Shankar
Chief General Manager
NABARD

The State of the Sector Report stands as a testament to the thoughtful incubation and remarkable effort invested in advancing new understanding and ideas among a new generation of farmers, farmer producer companies, practitioners, sector experts, and policymakers across the country. I have had the great privilege of being an integral part of the FPO movement since its inception – witnessing firsthand how this initiative has inspired millions of small farmers to aspire to become agripreneurs and owners of new agri-enterprises.

Despite various initial setbacks and challenges, the FPO movement is now entering a new phase of growth and development. In this context, a resource like the *State of the Sector Report*, with its rich compilation of information, is invaluable for all stakeholders – practitioners and policymakers alike. My sincere thanks to the writers, contributors, and NAFPO for creating such a comprehensive and insightful compendium on FPOs, presented through the *State of the Sector Report 2025.*

Yogesh Dwivedi
Chief Executive Officer
Madhyabharat Consortium of Farmers Producer Company Limited

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authors UPFRONT

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