



OPERATIONAL GUIDELINES
VENTURE CAPITAL
ASSISTANCE SCHEME

FOR
AGRIBUSINESS DEVELOPMENT

XIIth Plan (2012–2017)



AGRIBUSINESS DEVELOPMENT THROUGH VENTURE CAPITAL ASSISTANCE AND PROJECT DEVELOPMENT FACILITY

1. INTRODUCTION

1.1 Farming is the single largest private sector economic activity in the country. The growth potential in this key sector is immense in view of the changes taking place in food consumption and there is growing demand for high value processed products. Successes in such endeavors will require innovations and partnerships. Private agribusiness provide first point market for the farm sector and growth depends principally on private initiatives. A significant portion of agribusiness activity is the result of small and medium enterprises. Such enterprises are necessarily widespread in location to capture opportunities that arise all along the farm to table supply chain. Key constraints that impede development of new agribusiness projects are access to information and access to credit. Agribusiness entrepreneurs are generally first generation who have business skills but their financial resources are limited for setting up units at the farm gate with backward linkages. In order to facilitate agribusiness development in the country SFAC venture capital scheme will:

- (a) Assist agripreneurs to make investments in setting up agribusiness projects through financial participation, and
- (b) Provide financial support for preparation of bankable Detailed Project Reports (DPRs) through Project Development Facility (PDF).

2. OBJECTIVES

2.1 The main objectives of the Scheme are:

- (a) To facilitate setting up of agribusiness ventures in close association with all banks/ financial institutions notified by the Reserve Bank of India where the ownership of the Central/State Government is more than 50% such as Nationalized banks, SBI & its subsidiaries, IDBI, SIDBI, NABARD, NCDC, NEDFi, Exim Bank, RRBs & State Financial Corporations.
- (b) To catalyze private investment in setting up of agribusiness projects and thereby providing assured market to producers for increasing rural income & employment.
- (c) To strengthen backward linkages of agribusiness projects with producers.
- (d) To assist farmers, producer groups, and agriculture graduates to enhance their participation in value chain through Project Development Facility.
- (e) To arrange training and visits, etc. of agripreneurs in setting up identified agribusiness projects.
- (f) To augment and strengthen existing set up of State and Central SFAC.

3. SALIENT FEATURES OF THE SCHEME

3.1 Venture Capital Assistance

SFAC would provide Venture Capital to qualifying projects on the recommendations of the bank/financial institution financing the project. This venture capital will be repayable back to SFAC after the repayment of term loan of lending bank/financial institution as per original repayment schedule or earlier.

3.1.1 SFAC would provide venture capital to agribusiness projects by way of soft loan to supplement the financial gap worked out by the sanctioning authority of term loan under Means of Finance with respect to cost of project subject to the fulfillment of the following conditions:

- (a) Qualifying projects under Venture Capital:
 - (i) Project should be in agriculture or allied sector or related to agricultural services. Poultry and dairy projects will also be covered under the Scheme.
 - (ii) Project should provide assured market to farmers/producer groups.
 - (iii) Project should encourage farmers to diversify into high value crops, to increase farm incomes.
 - (iv) Project should be accepted by banks/financial institutions for grant of term loan.

(b) The quantum of SFAC Venture Capital Assistance will depend on the project cost and will be the lowest of the following:

- ◆ 26% of the promoter's equity
- ◆ ₹50.00 lakhs.

Provided that for projects located in North-Eastern Region, Hilly States (Uttarakhand, Himachal Pradesh, Jammu & Kashmir) and in all cases in any part of the country where the project is promoted by a registered Farmer Producers Organisation, the quantum of venture capital will be the lowest of the following:

- ◆ 40% of the promoter's equity
- ◆ ₹50.00 lakhs.

The cost of proposed agribusiness project would have to be ₹15 lakh & above, subject to a maximum of ₹500 lakh. However, projects valuing ₹10 lakh and above, proposed to be located in backward districts as notified by Planning Commission, hilly and North-Eastern States could also be considered for PDF and VCA.

- (c) The Executive Committee of SFAC will have the power to consider projects for higher Venture Capital Assistance provided :
 1. Provision for higher VCA has been appraised and approved by sanctioning authority of term loan subject to maximum of ₹3.00 Crore.
 2. Total cost of the project not more than ₹10.00 Crore.
 3. Projects are located in the North Eastern Region (NER) and other difficult pre-identified districts declared backward by Planning Commission's Backward Regions Grant Fund Scheme.
- (d) Beneficiary will submit the project proposal in the form of DPR to area lending bank/financial institution.
- (e) On receipt of project proposal, bank/financial institution will appraise, assess and sanction requisite amount of term loan/working capital required by the beneficiary for execution of the project.
- (f) Bank/financial institution will also work out the amount of Venture Capital, as per criteria laid down at para 3.1.1. (a, b & c) and communicate it to SFAC with its recommendation.
- (g) SFAC will make said amount available to the recommending bank/financial institution on case to case basis for disbursement to the beneficiary either in lump sum or in stages, as may be considered appropriate by the bank/financial institution.
- (h) Term Loan/working capital and loan amount from SFAC as Venture Capital will be extended to the beneficiary through a single-window by the project financing bank/financial institution.
- (i) Financial funding from SFAC would be in the nature of soft loan, till the banks/ financial institutions term loan is fully repaid by the beneficiary and would automatically be converted into a term loan on the last date of such repayment as per the original schedule.
- (j) The venture capital after it becomes term loan could be repaid to SFAC in lump sum immediately or in four equal quarterly instalments together with the amount of interest at the same rate as was applicable on the term loan of the lending bank/financial institution.
- (k) During the pendency of loan, the bank/financial institution will have charge over the primary/collateral securities (including FDR) available with the beneficiary and the said securities will not be released by bank to beneficiary or other institutions till full refund of VCA to SFAC.
- (l) The bank/financial institution will provide SFAC with full details of the terms and conditions under which the term loan is sanctioned including a copy of process/appraisal note duly signed by sanctioning authority of term loan and repayment schedule fixed for the term loan.
- (m) The bank/financial institution will also keep SFAC posted of the progress in implementation of the project and repayment of its term loan from time to time and its performance on yearly basis after the project becomes operational.

- (n) The funds received from SFAC will be kept in a separate account by the bank/ financial institution and released to promoters for the project implementation, as and when required.
- (o) Agribusiness promoters may also avail Venture Capital Assistance for second time after refund of first Venture Capital Assistance as per original schedule. However, second time VCA will be for creation of additional capacity in the same activity or for a different activity.

3.2 Project Development Facility

- (a) SFAC will provide financial support to farmers, Producer Groups, Agripreneurs, Units in Agri-Export Zones, and Agriculture graduates (called beneficiary) in the preparation of bankable Detailed Project Reports (DPR) through empanelled consultants/institutions. SFAC will provide for the cost of preparation of DPR depending upon the financial status of the agripreneur, size, location, activity and coverage on a case to case basis.
- (b) The beneficiary desirous of seeking assistance for preparation of DPR can approach the nearest empanelled consultant of the district in consultation with bank/financial institution along with the details /pre-feasibility of the proposed project for the recommendation of the bank/financial institution or SFAC at the State or Central level. The amount for preparing bankable DPR through our empanelled consultant of SFAC under PDF Scheme would be in the range of ₹25,000 to ₹1.00 lakh.
- (c) The bank/financial institution on being satisfied about the feasibility of the intending project will recommend it to SFAC for providing financial assistance for the preparation of DPR. Intending projects must be over ₹15 lakhs (₹10 lakhs in projects located in backward district of States notified by Planning Commission, North Eastern States and other hilly States i.e. H.P., & J&K, Uttarakhand) in size.
- (d) Based on the activity and location of the project, SFAC will entrust preparation of DPR to one of the consultants on its panel.
- (e) SFAC will release cost of DPR preparation to the empanelled consultant.
- (f) Fee will be paid to empanelled consultants in three stages i.e. 20% at Stage-I for preparation of bankable DPR, 40% at Stage-II for sanction of term loan by bank/Financial Institution with VCA provision and 40% at Stage-III after sanction/disbursement of VCA by SFAC for projects categorized into 4 categories i.e. Category-I (₹10.00 lakh to ₹25.00 lakh), Category-II (above ₹25.00 lakh to ₹1.00 Crore), Category-III (above ₹1.00 Crore to ₹3.00 Crore) & Category-IV (above ₹3.00 Crore to ₹5.00 Crore), fees being ₹25000, ₹50000, ₹75000 and ₹100000 respectively.
- (g) The DPR received from SFAC or directly from the consultant will be examined in detail by the lending bank/financial institution for sanction of term loan and release of venture capital. A copy of the term loan sanction advice to the borrower will also be addressed to SFAC for its record.
- (h) Financial assistance to State SFACs for undertaking promotional activities for agribusiness development, training and visits etc. of entrepreneurs setting up the identified Agribusiness projects will also be provided under PDF.
- (i) Project Development Facility may be utilized to engage the services of State SFACs, State Agricultural Universities and others and/or any other competent agency/firm/ consultant to vigorously publicize the benefits of the Venture Capital Scheme to prospective entrepreneurs and producer organizations.

4. ELIGIBLE PERSONS

Assistance under the Scheme will be available to Individuals; Farmers; Producer Groups; Partnership/Proprietary Firms; Self Help Groups; Companies; Agripreneurs; units in agri-export zones, and Agriculture graduates Individually or in groups for setting up agribusiness projects.

For professional management and accountability the groups have to preferably form into companies or producer companies under the relevant Act.

5. ROLE OF CENTRAL SFAC

- (a) On receipt of proposal from bank/financial institution indicating sanction of term loan and requirement of VCA; SFAC will submit the proposal to its Investment Committee for approval. Field visits shall be conducted by SFAC or its authorized representatives for evaluation and linkages with farmers etc.
- (b) SFAC after seeking approval of its Investment Committee and sanction by its Managing Director will release VCA to the bank/financial institution.
- (c) SFAC will seek approval of its Executive Committee in cases where higher Venture Capital Assistance is proposed to be considered.
- (d) Project Development Facility could be utilized to inspect such proposals, which may include site visits, referred by bank/financial institution needing clarification to determine if projects are qualifying or not and report back to Bank/financial institution within 30 days of receipt of reference.
- (e) Central SFAC will strengthen the State SFACs and financially assist them in undertaking promotional activities, campaigns, printing of guidelines in local languages; identification of qualifying projects and in organizing producer groups.
- (f) SFAC will have Memorandum of Understanding (MOU) with all financial institutions notified by the Reserve Bank of India where the ownership of Central/State Government is more than 50% such as Nationalized banks, SBI & its subsidiaries, IDBI, SIDBI, NABARD, NCD, NEDFi, Exim Bank, RRBs & State Financial Corporations.
- (g) SFAC will have a separate agreement with the applicant for facilitating the recovery of its loan amount extended under Venture Capital assistance.



6. ROLE OF STATE SFACs

- (a) To aggressively promote agribusiness project development in their respective States as an extended arms of Central SFACs.
- (b) State SFACs in consultation with Central SFAC will prepare a plan for agribusiness project development in their respective States.
- (c) State SFACs after due diligence and ascertaining the backward linkages as per the objectives will recommend agribusiness projects to Central SFAC for venture capital.
- (d) State SFACs, with the assistance under PDF facility from Central SFAC, will organize awareness and Entrepreneurship Training & Development Camps, Publicity Campaigns, for setting up identified projects. State SFACs, will undertake promotional activities and organize producer group's seminar/meeting etc. State SFACs may get published guidelines, brochures, pamphlets and posters etc. of VCA scheme in local languages. They may use other means of advertisement to get wider publicity for the scheme at the cost of Central SFAC.
- (e) Help producer groups in framing pre-feasibility reports and facilitate interaction with local banks/financial institutions for their recommendation.
- (f) Function as repositories of information maintaining a data base of potential areas, producer groups and marketable surplus of various crops available.
- (g) Provide venture capital to small projects out of interest earned on the Corpus fund and refer large projects to Central SFAC.
- (h) As a member of SLBC, raise the issues concerning agribusiness project development in their respective States during the SLBC meetings and organize awareness camps in coordination with local Banks/State Government.
- (i) Monitor the projects assisted through VCA facility in implementation stage and intimate developments/deficiencies to Central SFAC for initiating remedial action.
- (j) The State SFAC in coordination with the State agencies and lending banks shall assist Central SFAC in recovery of VCA in cases where the beneficiaries of VCA have not refunded the venture capital as per the original schedule.



7. ROLE OF AGRIPRENEURS

For the success of the Venture, the agribusiness projects should be grounded within a predetermined time schedule as fixed in the sanction of term loan.

- (a) The entrepreneur/promoter will provide an undertaking to the Bank/FIs to hold charge on the primary and collateral securities including FDRs till full repayment of VCA to SFAC. The entrepreneur/promoter will also enter into an agreement with SFAC for extending charge in favour of SFAC on all the securities (primary and collateral including FDRs) charged by the bank/financial institution against their term loan/other facilities after repayment of their Term Loan till full repayment of VCA to SFAC.
- (b) Agripreneurs will submit implementation schedule of the Project to SFAC and participating bank/lending institution which will be closely monitored by SFAC.
- (c) Deviation, if any, in the implementation schedule should be immediately notified to the concerned lending Bank/Financial Institution and to SFAC.
- (d) Agripreneurs will submit Utilization Certificate of Venture Capital Assistance in GFR 19 A duly certified by Chartered Accountant to SFAC and the participating bank/financial institutions.
- (e) Agripreneurs will submit yearly physical progress reports, yearly balance confirmation, audited accounts and balance sheet to SFAC and the participating banks/financial institutions.
- (f) The agripreneurs while availing venture capital will have to provide an affidavit to SFAC that they have not availed of VC earlier in any capacity.

8. ELIGIBLE FINANCING INSTITUTIONS

All banks/financial institutions notified by the Reserve Bank of India where the ownership of the Central/State Government is more than 50% such as nationalised banks, SBI & its Subsidiaries, IDBI, SIDBI, NABARD, NCDC, NEDFi, RRBs & State Financial Corporations.

9. MONITORING AND REPORTING

With a view to minimize paper work and ensure that SFAC is provided with all the relevant details of individual projects financed by the bank/financial institutions with Venture Capital support provided by SFAC, units assisted for preparation of DPR, and also progress in project implementation from time to time, the following reporting schedule will be observed:

(a) **Report on Utilization of Venture Capital (VC)/Project Development Facility (PDF)**

The bank/financial institution will report each disbursement made by them in respect of VC out of the funds received from SFAC. A report on progress in project implementation vis a vis utilization of venture capital fund already given to the party through bank/financial institution under VC would also be sent to SFAC.

(b) **Report on the working of assisted units**

The bank/financial institution will submit a report on the working of the units financed by them under VC to SFAC on a half yearly basis indicating whether the operations are in line with the projections and whether the borrowers are adhering to repayment commitments.

(c) **Reporting of Exceptions**

The Bank/FIs will also keep SFAC informed of any proposal of rephasing of their Term Loan and will seek SFAC consent before implementing such rephasing. However, any proposal for rephasing of Banks Term Loan and VCA simultaneously, SFAC's prior permission is mandatory. The entrepreneur will not be eligible for any rephasing

of VCA at a later date in case permission has not been sought by bank at the time of rephasing of term loan. However, the request for rephasing of VCA can be exercised by Bank/FI/Promoters only once.

(d) Project Specific Information

In addition to the above standard reporting by bank/financial institution, it would also provide SFAC with project specific information, if any, sought by it from time to time.

(e) Field Visits

As part of due diligence, SFAC will through its officials or authorized representatives undertake field visits to ascertain backward linkages with the farmers, feasibility of the site, availability of raw material, etc.

SFAC's Officers/representatives will undertake field visits independently or in association with the lending bank/financial institution or State Government/State SFAC to monitor the implementation of the project.

(f) Change of Bank during currency of VCA

Entrepreneur through their Lending bank/Financial Institution will obtain prior permission from the SFAC for change of bank. This facility can be availed by the promoter only once in the tenure of the Venture Capital Assistance.

10. IMPLEMENTATION PERIOD

The Scheme will be implemented during 2012-17 in the XII Plan with a central assistance of ₹500.00 Crores.

11. IMPLEMENTING AGENCY

The Scheme will be implemented by Small Farmers' Agribusiness Consortium (SFAC), a registered society functioning under Department of Agriculture & Cooperation, Ministry of Agriculture.

12. GENERAL AWARENESS, PUBLICITY AND TRAINING PROGRAMME

Services of banking/financial institutions will also be engaged for sensitizing the officials of the banks/financial institutions and other functionaries about the Scheme. SFAC will undertake publicity through multiple media format to generate mass awareness about the Scheme, especially in States and regions which were under-served in the XI Plan.

Services of banking institutions will also be engaged for sensitizing the Branch Managers and other functionaries about the Scheme.

13. MECHANISM FOR RECOVERY OF OVERDUE VCA

SFAC will ensure timely recovery of VCA. SFAC will deposit the amount of venture capital repaid by beneficiaries to the Consolidated Fund of India. SFAC may involve lending banks in the recovery of VCA and fix a fee, with the approval of DAC, to be paid to banks for this service. In critical cases of non-recovery of VCA, Board of SFAC would be empowered to write off the VCA amount and interest accrued thereon with the approval of Ministry of Finance.

14. POWER TO MAKE AMENDMENTS TO THE SCHEME

Within the overall financial ceiling of the Venture Capital Scheme, modification in operating procedures that are not of a financial nature may be made by DAC.



(Model Format)

Memorandum of Understanding between Small Farmers' Agribusiness Consortium New Delhi

(Department of Agriculture & Cooperation
Ministry of Agriculture) and the Bank/Financial Institution

This MOU is signed on the _____ day of _____ month _____ year at _____ by Small Farmers' Agribusiness Consortium (a Society Registered under Registration of Societies Act 1860) registered office at NCUI Auditorium Building, 5th Floor, 3 Siri Institutional Area, August Kranti Marg, Hauz Khas, New Delhi - 110 016, which includes its successors/ assigns etc., hereinafter called SFAC on the first part and _____ Bank/Financial Institution (hereinafter referred to as 'Bank/Financial Institution' which expression that unless repugnant to the context herein shall mean and include its assigns and successors) with registered office at _____ on the other part.

- 1.** SFAC's focus is to attract private investment for setting up of projects that will link farmers & producer groups to markets, thereby substantially enhancing the opportunities for growth through commercial business activity.
- 2.** The objective sought to be achieved by SFAC in discharging its duties are _____ Venture Capital Assistance and Project Development Assistance to qualifying projects through participating Bank/Financial Institution.
- 3.** This agreement for SFAC Venture Capital Assistance operations with participating lending Bank/Financial Institution will synergize their functions, competencies and projected sector development.
- 4.** Whereas the Bank/Financial Institution, in furtherance of its desire to play an active role in participation and promotion of investments in qualifying agribusiness projects and to coordinate the related activities with SFAC, is prepared to make available term loans/ working capital

to qualifying agribusiness projects and also facilitate extension of SFAC's Venture Capital Assistance (VCA) and Project Development Assistance (PDA) through a single window approach.

5. For the purpose of synergizing the efforts of SFAC for Promoting agribusiness Development in the country with the Bank's/Financial Institution's expertise in extending loans to viable agri- projects, SFAC and the Bank/Financial Institution do hereby agree to cooperate with each other, for the development of agribusiness Sector and related areas and enter into this Memorandum of Understanding (MOU).
6. Whereas SFAC and the Bank/Financial Institution are desirous of establishing a formal operational framework to achieve the objectives of agribusiness.
7. Whereas SFAC, in order to achieve its objective desired to associate with the Bank/Financial Institution for disbursement of VCA and PDA (for preparation of DPR by SFAC empanelled consultants) to agribusiness projects and to attract private investment for setting up of projects that will link farmers and producers groups to markets, thereby substantially enhancing the opportunities for growth through commercial business activity which in turn will generate ample employment opportunities for rural unemployed and the Bank/Financial Institution agreed to disburse the same and to provide term loans/ working capital to such qualified agribusiness projects and serve as a single window facility on the following terms and conditions:

The Abbreviations and Terms Used in MOU

Qualifying project for VCA - Project qualifying for Venture Capital Assistance (VCA) provided by SFAC would be one which (a) is dependent upon agriculture or allied sector or related to agricultural services. Poultry and dairy projects will also be covered under the Scheme (b) provides assured market to farmers/producer groups (c) encourages farmers to diversify into high value crops aimed to increase farm incomes and (d) is accepted by the bank/financial institution for grant of project term loans after satisfactory techno- commercial feasibility.

Qualifying project for PDF- A project qualifying for assistance from the PDF will be qualifying project for VCA set up by producers groups/agribusiness groups with minimum project cost of ₹15 lakhs (₹10.00 lakhs in case of North-Eastern and Hilly States (Uttarakhand, Himachal Pradesh, Jammu & Kashmir)) and which has been accepted in principle for considering sanction of term loan by a bank/financial institution on the basis of Pre- feasibility report.

Project Development Facility (PDF) of SFAC maintains a pool of qualified skilled consultants to render services at low cost to producer groups/agribusiness groups.

Project Development Assistance (PDA) is a scheme under which financial support is provided to producer groups/agribusiness groups for preparation of DPR by SFAC.

Detailed Project Report (DPR) is the document providing all necessary details and projections relating to the project, which would enable banks/FIs to evaluate viability of the project.

Venture Capital Assistance (VCA) is the financial support provided by SFAC for qualifying projects to meet shortfall in the capital required for implementation of the project. VCA will be treated as part of equity during the currency of the bank loan and thereafter converted to a loan based on an agreement to be executed between SFAC and the borrower.

8. RESPONSIBILITIES OF THE BANK/FINANCIAL INSTITUTION (FI)

Project Development

- (a) The bank/FI has branches and operations in different parts of the country and they are closely linked and accessible to producers and entrepreneurs in the areas covered by their branch network. The producer groups/ entrepreneurs/trained agribusiness graduates/ units in Agricultural Export Zone (AEZ) (called applicant) desirous of seeking PDA can approach nearest branch of the bank/FI along with pre- feasibility report or such other documents giving details of the proposed project for the consideration of the bank/FI. Such persons may also directly approach SFAC seeking assistance for preparation of DPR under PDA scheme.
- (b) The Bank/FI will examine the pre- feasibility report and on being about the background of the promoters and prima facie acceptability of the project, will record their observations and direct the proposal to SFAC for assistance in preparation of DPR by one of the consultants in their panel. The bank/FI may also directly forward the case to SFAC empanelled consultant for taking up the study on the terms and conditions stipulated by SFAC under advice to SFAC.
- (c) In respect of cases referred to a consultant directly by the bank/FI, payment will be made from the funds received from SFAC for preparation of DPR as per the terms and conditions specified by SFAC.
- (d) The bank/FI will release the cost of preparation of DPR to those projects found viable depending on the size, location, and linkage issues on a case-to-case basis from the SFAC fund. Intending projects must be over ₹15 lakhs (₹10 Lakhs in case of NE States and other hilly areas) in size.
- (e) Fee will be paid to empanelled consultants in three stages i.e. 20% at Stage-I for preparation of bankable DPR, 40% at Stage-II for sanction of term loan by bank/Financial Institution with VCA provision and 40% at Stage-III after sanction/disbursement of VCA by SFAC for projects categorized into 4 categories i.e. Category-I (₹10.00 lakh to ₹25.00 lakh), Category-II (above ₹25.00 lakh to ₹1.00 Crore), Category-III (above ₹1.00 Crore to ₹3.00 Crore) & Category-IV (above ₹3.00 Crore to ₹5.00 Crore), fees being ₹25000, ₹50000, ₹75000 and ₹100000 respectively.
- (f) Agribusiness projects will need to be directly linked to the bank to avail project term loans. The bank/FI will have the flexibility to syndicate any part of the project term loan to other banks/FIs.
- (g) The DPR received from SFAC or directly from the consultant will be examined in detail by the bank/FI for sanction of term loan and release of venture capital. A copy of the term loan sanction advice to the borrower will also forwarded to SFAC for their record.
- (h) The bank/FI will maintain separate account for SFAC funds.



9. VENTURE CAPITAL ASSISTANCE

- 9.1 As part of term loan appraisal in respect of proposals received from the entrepreneurs or agriculture producer groups for sanction of agricultural term loans. The bank/FI will indicate the amount of venture capital support from SFAC while working out the funding pattern for qualifying projects. Projects qualifying for venture capital assistance from SFAC:-
- ◆ Are dependent upon agricultural or allied produce
 - ◆ Provide direct access to producers as assured markets
 - ◆ Encourage farmers to diversify into high value crops aimed to increase farm income
 - ◆ Are accepted by the bank/FI for grant of project term loans after satisfactory techno-commercial feasibility.
- 9.2 The quantum of SFAC venture capital assistance will depend on the project cost and will be the lowest of the following:-
- ◆ 26% of the promoter's equity
 - ◆ ₹50 lakhs
- 9.3 Higher venture capital assistance can be considered by SFAC to deserving projects on merit and/ or to projects that are located in remote and backward areas, northeastern and hilly States and projects promoted by States/State SFAC's.
- 9.4 For qualifying projects conforming to the criteria mentioned under Para 9.1 above, bank/FI while considering sanction of term loan for project implementation and tying up the means of finance to meet the total project. The bank/FI will evaluate the quantum of VCA required keeping in view the stipulations contained in Para 9.2 and 9.3., the bank/FI will write to SFAC giving details of the project, its cost and indicating the quantum of VCA recommended for tying up means of financing. The bank/FI will also indicate when the venture capital funds will be required for project implementation. SFAC will place the proposal before its investment committee and communicate to the bank/FI the quantum of VCA approved for the project.
- 9.5 In case any clarification is needed to determine if projects are qualifying projects or not, the bank/FI can refer them to SFAC's Project Development Facility, Division of SFAC & PDF Division, who will investigate such proposals which may include site visits and respond to the bank/FI within 30 days.
- 9.6 The bank/FI will provide SFAC with full details of the terms and conditions under which the term loan is sanctioned including repayment scheduled fixed for the loan. The bank will also keep SFAC posted of the progress in implementation of the project from time to time after the project become operational. The bank/FI will keep SFAC posted of the performance of the unit on an yearly basis and keep SFAC informed of any unsatisfactory features noticed in the working of the project as and when it occurs. SFAC will have no charge during the currency of the term loan. Once the term loan is fully repaid, the bank/FI will advise SFAC of the position to enable them to convert their venture capital funding into a loan repayable as per the agreement entered by SFAC with the promoters. During the pendency of loan, the bank/financial institution will have charge over the primary/collateral securities (including FDR) available with the beneficiary and the said securities will not be released by bank to beneficiary or other institutions till full refund of VCA to SFAC.
- 9.7 The bank/FI will release the term loan in one go or as per the progress in the project implementation after completion of documentation formalities. The funds received from SFAC will be retained in a separate account and released for the project implementation as and when requested by the applicant.

- 9.8 In case of the failure of the project, the bank/FI may opt for a compromise settlement or resort to legal recourse for recovery of their dues as per the policy of the bank. While, the bank/FI will be free to take any such decisions without seeking the concurrence of SFAC, SFAC will be informed of any such decision taken to safeguard its interest.
- 9.9 The bank/FI will appoint a nodal officer for corresponding with SFAC in all matters relating to sanction and release of assistance under venture capital or for the preparation of DPR. The bank/FI may also provide SFAC with a list of its regional/ Zonal offices for forwarding proposals received by SFAC and its state functionaries/ state level SFAC's for their consideration.

10. RESPONSIBILITIES OF SFAC

- (a) SFAC's Project Development Facility (PDF) will maintain a pool of pre-qualified skilled consulting firms and individuals with specific skills to render services at low cost to entrepreneurs and to lending banks/FIs. SFAC's PDF will address gaps if any in agribusiness enterprise skills in an active hand holding manner. SFAC will also look to take assistance of specialized agribusiness groups if some banks/FIs have the capability to undertake PDF role in line with the PDF and Venture Capital Scheme.
- (b) SFAC's PDF is a generator of potential agribusiness projects which can attract investment that will benefit the rural community through increased employment and incomes which can be referred to the bank/FI.
- (c) SFAC may assign the services of agri business specialists from SFAC's PDF from time to time to associate with periodic progress evaluation of SFAC's VCA projects.
- (d) SFAC will forward proposals received from state level functionaries/ state level SFACs to the nodal officer of the bank/FI or regional/ zonal offices of the bank/FI for their consideration.
- (e) The PDF of SFAC will arrange to have DPR prepared by a consultant in its panel promptly on receipt of request from the bank/FI after satisfying about pre- feasibility report.
- (f) SFAC will arrange to remit funds required for preparation of DPR under PDA immediately on receipt of request from the bank/FI in respect of cases directly referred to a consultant by them.
- (g) On receipt of communication from banks/FIs giving details of the qualifying project for VCA, SFAC will place the proposal for VCA before its investment committee and communicate sanction to the bank/FI and the borrower SFAC will make VCA funds available for the project implementation through the bank/FI immediately on receipt of the communication from the bank/FI giving details of term loan/ working capital proposed to be sanctioned by them.



11. REPORTING AND EXCHANGE OF INFORMATION

With a view to minimize paper work and ensure that SFAC is provided with all relevant details of individual projects financed by the bank/FI with Venture Capital support provided by SFAC and also units assisted for preparation of DPR, and also progress in project implementation from time to time, the following reporting schedule will be observed.

- (a) **Report on utilization of Venture Capital Assistance (VCA)/Project Development Assistance (PDA)**

The bank/FI will report disbursement made by them in respect of VCA/PDA against funds received from SFAC every time a payment is made. In respect of VCA along with the report on utilization of funds, a report on progress in project implementation would also be sent to SFAC. Such periodical reporting will be sent to SFAC until the project is fully implemented and commercial operations are started. In respect of PDA, the bank/FI will report if after examining the DPR, a decision is taken by the bank/FI not to sanction term loan on assessment that the project is not viable.

- (b) **Report on the working of assisted units**

The bank/FI will submit a report on the working of the units financed by them under VCA to SFAC on a half yearly basis indicating whether the operations are in line with the projections and whether the borrowers are adhering to repayment commitments.

- (c) **Reporting of exceptions**

The bank/FI would also keep SFAC informed of any significant developments with regard to operation of the projects, its implementation and unsatisfactory features if any noticed by them. The bank/FI will also keep SFAC informed of any recovery action initiated by them in the event of failure of the unit to perform or inability of the borrowers to meet financial commitments.

- (d) **Project Specific Information**

In addition to the above standard reporting by the bank/FI, the bank/FI would also provide SFAC with project specific information, if any, sought by it from time to time.



12. PARTIES NOTIFICATION

Each of the parties hereto shall promptly inform the other of any of the following events:

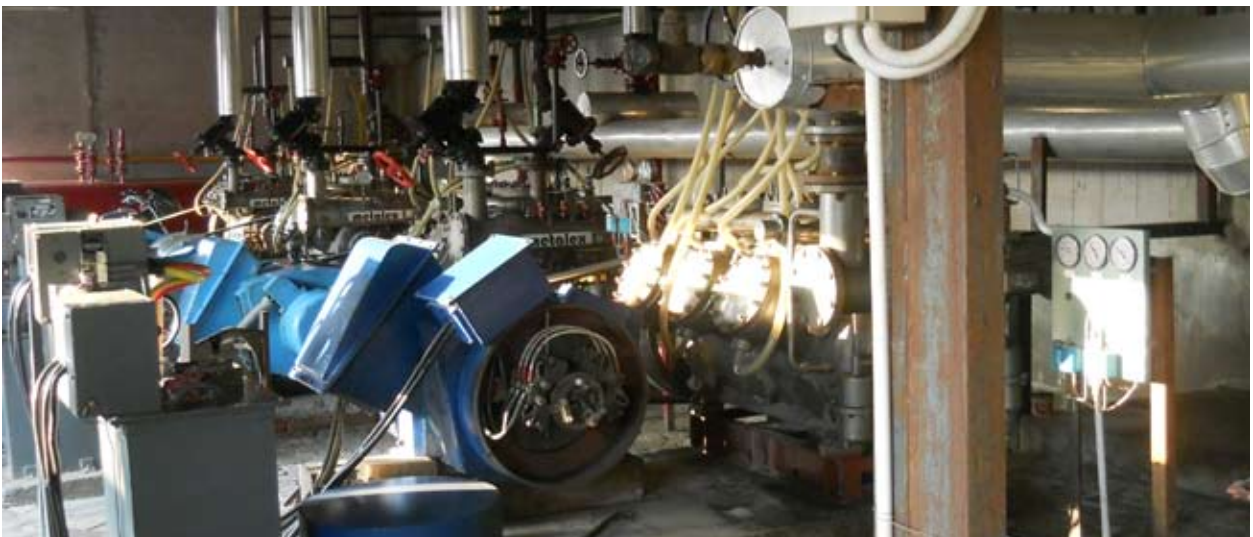
- (a) Any event of which such party becomes aware which, in the opinion of the party, is likely to interfere materially with, or seriously hinder or impair; the implementation of the project, or to interfere adversely and materially with the performance by:
 - (i) The borrower of its obligation under the Facility Agreement with such party; and/or
 - (ii) The guarantor of its obligation under the guarantee given in favor of such party.
- (b) Any notice given by the borrower to prepay the whole or any part of the loan disbursed pursuant to the Agreement with such party and any amount thereof actually prepaid.
- (c) In certain circumstances it might become necessary for the bank/FI to call up the loan and initiate recovery proceeding against the borrower and guarantors if any. The bank/FI would take all such measures required to protect its interest as well as that of SFAC. While, it may not be considered prudent to consult SFAC before taking such action, SFAC will be informed of the action taken by the bank/FI at the earliest.

13. WRITTEN CONSENT PRIOR TO AMENDMENT

SFAC and bank/FI shall not agree to any amendment that will affect the right or responsibilities of the other with regard to disbursement or procurement or that may affect the right to recover the money advanced as per the original authorization schedule without the prior written consent of the other.

14. PARTIES INDEPENDENT DECISIONS

Except as otherwise provided in this MOU, each party agrees that all its decisions, including decision to take or refrain from taking action concerning the project or a loan agreement to which it is a party, shall be based exclusively on its own judgment, independently of the information provided by, or excepted from, the other party or the views expressed by such other part.



15. ARBITRATION

In any case of dispute, if any, arising out of this MOU may be resolved through mutual consultation failing which it may be done by way of arbitration by a sole arbitrator chosen by the bank/FI and SFAC as per arbitration and conciliation Act, 1996 and venue of the Arbitration will be New Delhi.

16. CHANNEL OF COMMUNICATION AND NOTICES

- (a) For the purpose of this MOU, the representative of the parties shall be:
 - i. For SFAC : Managing Director
 - ii. For the bank/FI: Chief General Manager/ General Manager Agribusiness Group/ Priority Sector (to be indicated by the bank/FI)
- (b) Either party may, by notice in writing to the other party, designate additional representative/s or substitute other representative/s for those designated in this Article.
- (c) Any notice or other communication under MOU shall be in writing and shall be deemed to have been duly given or made when it has been delivered by hand, mail, e-mail, cable or tele fax, as the case may be, by either party to the other at the appropriate address specified below or such other address as either party may hereafter notify in writing to the other party:

For SFAC: Mailing Address:

NCUI Auditorium, Vth Floor,
August Kranti Marg, Hauz Khas,
New Delhi.

Telephone: _____ Fax _____ E-mail: _____

For the bank/FI Mailing Address: _____

Telephone: _____ Fax: _____ E-mail: _____



17. FINAL PROVISIONS

1. The Memorandum of Understanding (MOU) shall come into force upon its signature by the authorized representatives of the parties hereto and for a term of 10 years.
2. The parties to this MOU shall before expiry of its term review the result achieved under this MOU and consult with each other with a view to deciding whether to extend the term of this MOU. Any extension of the term of this MOU, as aforesaid, may be affected through a simple exchange of letters between the parties.
3. The parties of this MOU may amend any of the provisions of this MOU or enter into supplementary arrangements designed to extend the scope of the present MOU.
4. Either party may terminate this MOU by giving not less than six (6) months advance notice, in writing, to the other party; provided that such termination shall become effective only on the date specified in the termination notice, and provided further that termination as aforesaid shall not, unless that parties otherwise agree, effect any non-cancelable commitments entered into under this MOU with a third party prior to the date of the termination notice. In the event of termination by either party, both parties shall co-operate to ensure that all arrangements made hereunder are settled in an orderly manner. In the event of the agreement being terminated the amount already sanctioned and released to the bank/FI will continue to be operated by the bank/FI as if this agreement was still operative.

The focal points/contact persons under this MOU will be _____ on the _____ in New Delhi.

For bank/FI
CEO of the bank/FI
Address

For Small Farmers' Agribusiness Consortium
Managing Director
Address

Witness:
(Name & Address)





AGREEMENT BETWEEN SFAC AND THE BORROWER

This agreement is executed on this..... day of Two thousand and (.....201) between

M/s., a Company incorporated under the Indian Companies Act 1956, having its place of business/Registered Office at....., and factory/processing unit at....., hereinafter called the “BORROWER” (which included his/her/its heirs, executors, administrations, successors and assignees) as first party & Small Farmers’ Agribusiness Consortium (SFAC), a Society registered under Societies Registration Act 1860, having its Registered Officer at NCUI Auditorium Building, 5th Floor, 3, Siri Institutional Area, August Kranti Marg, Hauz Khas, New Delhi-110016 hereinafter called “SFAC” (which includes their assignees, attorneys and successors in title) as Second Party.

Whereas the first party is setting up..... and is in need of Venture Capital amount which will be deemed to be a loan after recovery of term loan of Leading Bank....., hereinafter called the Bank (which includes its successor banks). The Venture Capital Assistance amount will be refundable prior to due date or on the scheduled end date of their term loan whichever is earlier. At the request of first party vide their application dated..... received directly or through..... SFAC has considered and sanctioned Venture Capital amount of ₹..... lakh (Rupeesonly) to the First party. The first party will refund the amount of Venture Capital granted by SFAC in lump sum on liquidation of bank’s/financial institution’s term loan as per original schedule of repayment, which is as advised by bank/financial institution. The borrower will tender a post dated cheque dated for the amount of Venture Capital Assistance amount for this purpose.

AND

Whereas in consideration of the above promises The First Party, offered as security by way of equitable/registered mortgage on agricultural land and appurtenants/building thereto as required by SFAC as per details given in Annexure A and will also hypothecate movable assets like plant & machinery/vehicles/equipment/raw materials. etc., as per details given in Annexure B,

and accepted by SFAC. The other terms and conditions as agreed upon between first party and SFAC are as follows:

1. The CEO of the Borrowing unit must be a professionally qualified person.
2. That the lending bank/financial institution will hold charge on the assets (movable/immovable) of the unit till full repayment of their term loan as per original prescribed schedule.
3. That the Venture Capital amount will automatically be deemed to be a loan from the date the Lending Bank has actually recovered its term loan or on the schedule end date of term loan, whichever is earlier. It may, however, be clarified that in the event of re-schedulement of the bank's term loan, the entrepreneur is required to refund the Venture Capital amount as per the original prescribed schedule because Venture Capital amount of SFAC is interest free and financial assistance is to be given to other eligible entrepreneurs for setting up of agribusiness projects. However, if lending bank/financial institution make SFAC a party while discussing possibility of rescheduling banks term loan, SFAC may consider request of the borrower for rescheduling of VCA on case to case basis.
4. That Borrower has the option to refund the Venture Capital amount granted by SFAC even prior to the due date of repayment of Term Loan.
5. That the deemed loan of SFAC as referred to above will remain secured by creation of charge (mortgage & hypothecation) in favour of SFAC on the project assets previously held by the Lending Bank/financial institution and till such times as the deemed loan and interest accrued thereon are entirely refunded to SFAC.
6. That the Borrower hereby undertakes to utilize the Venture Capital amount granted by SFAC for the purpose for which it was granted. In the event of diversion/misutilization, SFAC reserves the right to recall the entire amount of Venture Capital in lump sum.
7. That in case the Borrower is unable to repay the Venture Capital amount in lump sum immediately after repayment of Bank's/financial institution's Term Loan, it will have option to repay the entire amount of loan together with accrued amount of interest in 4 quarterly installments within a year. The rate of interest in this regard will be the same as charged by the lending bank on its term loan.
8. That the Borrower will also authorize the Lending Bank/financial institution at the time of executing this agreement to debit their account, i.e. Cash Credit Account/Current Account No..... with....., after repayment of bank's/financial institution's term loan equivalent to the refundable amount or any other incidental expenses. The borrower also undertakes to ensure substantial balance in their account in order to facilitate the refund of SFAC's loan and other incidental expenses. Alternatively, the borrower can directly refund the Venture Capital amount and other incidental expenses by means of demand draft drawn in favour of "Small Farmers' agribusiness Consortium" payable at New Delhi.
9. The borrower fully understands and acknowledges that the Venture Capital provided by SFAC is based upon appraisal note, sanction letter for the term loan by the bank/financial institution specifically on the terms and conditions and assets verified by the bank/financial institution as securities for the term loan and, therefore, expressly undertakes not to change the bank/financial institution indicated herein during the pendency of the SFAC's Venture Capital. However, in exceptional cases one time change of bank is allowed by SFAC. The borrower also undertakes not to withdraw the securities from the bank/financial institution until and unless the Venture Capital amount is refunded to SFAC.

10. That the Borrower hereby declares and confirms that the status of the securities and their possession, maintenance, coverage of insurance etc. will remain in force, as was the case with in the lending bank/financial institution.
11. That the Borrower must submit their audited Balance Sheet/Financial Statement along with a confirmatory letter every year (i.e. Balance sheet date) about the outstanding amount of Venture Capital in their book which is refundable after repayment of the bank/financial institution term loan.
12. That as per objectives of SFAC, small farmers are to be ultimate beneficiaries of the Venture Capital scheme. Therefore, it will be obligatory on the part of the first party to ensure establishment of backward linkages with the farmers and in the event of failure to have such linkages with the farmers, SFAC may cancel the loan arrangement and ask first party to refund the entire amount of Venture Capital in lump sum within a period of one month after receipt of such decision from SFAC.
13. That the Borrower agree and undertake that a suitable provision equivalent to proportionate refundable amount will be made every year and invest the same in liquid assets in order to facilitate refund of amount of Venture Capital to SFAC in lump sum.
14. Further, the Borrower also undertake to follow the under noted terms and conditions:
 - (i) To pay all taxes, rents etc. regularly and in the time in order to keep the hypothecated and mortgaged assets free from distress, attachment, sale, etc.
 - (ii) Not to create any charge by way of mortgage, pledge, hypothecation, sell or dispose off in any manner the movable/immovable properties referred to in the Annexures.
 - (iii) To keep SFAC indemnified at all times for the losses caused to it on account of negligence of Borrower.
 - (iv) To execute any other document or furnish information as and when required by SFAC.
 - (v) To ensure that after the repayment of the term loan, the beneficiary will continue to comprehensively ensure the movable and immovable assets being charged to SFAC with SFAC Clause and hand over the same to SFAC till refund of the amount of Venture Capital amount.
 - (vi) In the event of any incident, the Borrower shall file the claim with the respective insurance company and keep SFAC posted about the receipt of claim amount and damages etc.
 - (vii) The Borrower undertake to ensure that the permits, licenses are renewed timely and kept intact.
15. That in the event of the Borrower failing to pay the balance or any other money due to the SFAC by virtue of this agreement or if for any reason the SFAC thinks that its interest is in jeopardy, the SFAC reserves the right to dispose of all the securities either hypothecated or mortgaged in order to recover its dues without intervention of Court.
16. That the Officers or nominees of the SFAC, shall have free access to business premises in order to ascertain the actual status of the securities hypothecated/mortgaged assets to the lending bank/financial institution/SFAC and to take possession if warranted for the purpose of acquiring/selling of any of the hypothecated/mortgaged assets by public auction without

intervention of Court and appropriate the net proceed towards liquidation of all sums due from the Borrower. The Borrower hereby agrees to accept that on account of any such sale realization and in case of shortfall, undertake to pay such further balance as may be due from the Borrower forthwith. Any cost incurred by SFAC for realization of its money by sale of hypothecated and mortgaged assets will be added to the outstanding liability of loan amount of SFAC and will be recoverable from Borrower.

17. The borrower also understands and agrees not to neglect or refuse any of the obligation towards furnishing documents required for monitoring the progress of the project, change of bank/financial institution or otherwise shifting the location and the assets acquired for the projects and more particularly towards repayment of the amount of Venture Capital, SFAC will proceed to recover the amount due as if it were an arrears of land revenue.
18. That the Borrower hereby declares that the contents of this agreement have been read and understood by him and he will abide by the terms and conditions of this agreement.
19. That the Borrower shall not remove or dismantle any of the goods/assets as mentioned in Annexures without the written consent of the SFAC.

That in the event of any dispute arising between the parties only Delhi Courts have jurisdiction to try, entertain and decide the said matter.

In Witness of above both parties have executed this agreement on this..... day of Two Thousand (.....201..).

For and on behalf of SFAC:

Borrower:

(.....)

(.....)

(Name & Designation)

(Name & Designation)

(.....)

(.....)

Witness Signature

Witness Signature





SCHEDULE - A

Annexure - I

Fixed Assets

Sl. No.	Particulars/Extent	Nature of Property	Location and boundaries	Approximate Value



SCHEDULE - B

Annexure - II

Moveable Assets

Sl. No.	Particulars/Extent	Location & Boundaries	Approximate Value

FORM GFR 19 - A

(See Government of India's Decision (1) below Rule 15)

FORM OF UTILIZATION CERTIFICATE

Sl. No.	Letter No. and date	Amount	Certified that out of the sum of ₹..... of Venture Capital assistance sanctioned during the year..... in favour of under this Ministry/ Department letter No.....given in the margin and ₹..... on account of unspent balance of the previous year, a sum of ₹..... has been utilized for the prupose of..... for which it was sanctioned and that the balance of ₹..... remaining unutilized at the end of the year has been surrendered to the Government (Vide No..... dated.....)/will be adjusted towards the Venture Capital assistance payable during the next year or utilized in the next financial year.
1.			
2.			
	Total		

Certified that I have satisfied myself that the conditions on which the Venture Capital assistance was sanctioned have been duly fulfilled/are being fulfilled and, that I have exercised the following checks to see that the money was actually utilized for the purpose for which it was sanctioned.

Kinds of checks exercised

- 1.
- 2.
- 3.

Signature.....

(Name).....

Designation.....

(Office seal).....

Verified and certified by

Chartered Accountant
(with address and seal)



सत्यमेव जयते

Government of India
Ministry of Agriculture
(Department of Agriculture & Cooperation)



SFAC
लघु कृषक
कृषि व्यापार संघ

SMALL FARMERS' AGRIBUSINESS CONSORTIUM

NCUI Auditorium Building, 5th Floor, August Kranti Marg
Hauz Khas, New Delhi - 110016
Tel: 91-11-26862365, EPBAX: 26966017/37, Fax: 91-11-26862367
Email: sfac@nic.in, Web: www.sfacindia.com