



Bombay Chamber of Commerce & Industry

KS/Agri/1132

May 28, 2009

Dr. D. Subbarao, IAS
Governor
Reserve Bank of India
Central Office Building,
Shahid Bhagar Singh Road,
Mumbai – 400 001.

Dear Sir,

'Producer Companies' Inclusion under Priority Sector Lending

To organise and promote the "producer companies", the Government of India as well as the State Governments have been taking various measures from time to time. The Companies (Amendment) Act 2002 has also, w.e.f. 6.2.2003 inserted Chapter I in Part IXA of the Companies Act, 1956, to make specific provisions for these Companies. The members of the Bombay Chamber appreciate the initiatives in this regard.

Among our members, many companies are engaged in Agri related businesses and development of the Rural economy. We have recently undertaken a study of this sector and understand that the following facilitative steps by Reserve Bank of India can promote the growth of this sector. We request that our following suggestions may be considered favourably.

Issues :

The provision for the Producer Companies - a unique concept, which has promoted development of small scale business enterprises in the agri sector, is a step distinctly ahead of the co-operatives and provides producers the ownership to their producer's institution. The Producer Company, which is based on the principles of mutual co-operation and Self-Help, is fully owned by primary producers. The legislation does not permit any non-producer to acquire equity.

- The Producer company should therefore, be eligible for the same benefits as underlying primary producers under the priority sector lending guidelines as laid by the Reserve Bank of India.
- The Producer companies engaged in production, harvesting, procurement, grading, pooling, handling, marketing, selling of primary produce of its members should be included as direct agriculture under priority sector lending.

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- The Producer companies engaged in processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its members should be included as indirect agriculture under priority sector lending.
- The Producer companies engaged in rendering technical or consultancy services, insurance, generation, transmission and distribution of power and revitalization of land and water resources; promoting techniques of mutuality and mutual assistance; welfare measures and providing education on mutual assistance principles to its members or their produce should be included as other priority sector lending as per their constitution.

Recommendations:

The Bombay Chamber requests that producer companies should be included under the Reserve Bank of India's Priority Sector Lending , same as SHGs/ cooperatives and classification under PSL (Direct Agri/ Indirect Agri/ Others) enabling them to accordingly avail soft loans. The Bombay Chamber therefore suggests **modifications to specific RBI PSL sections (as mentioned below) to be read as:**

Section I (i) Categories of Priority Sector : Agriculture (Direct & Indirect Finance)

"Direct Finance to Agriculture shall include short, medium and long term loans given for agriculture and allied activities (dairy, fishery, piggery, poultry, bee-keeping, silkworm rearing, etc) directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers, their producer companies without limit and to others (such as corporates, partnership firms and institutions) up to the limits indicated in Section I, for taking up agriculture/allied activities".

Indirect Finance

Section 1.1 (Detailed Guideline : Agriculture : Direct Finance)

"Finance to individual farmers including their Self Help Groups (SHGs) or Joint liability Groups (JLGs), i.e. groups of individual farmers or Producer Companies, provided banks maintain disaggregated data on such finance for Agriculture and Allied Activities (dairy, fishery, piggery, poultry, bee-keeping, silkworm rearing etc.)"

Insertion of clause under Section 1.3 (Detailed Guideline : Agriculture : Indirect Finance)

"Loan to Producer Companies engaged in agri-processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its members."

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Insertion of clause under Section 2.1 (Detailed Guideline : Small Entrepreneurs : Direct Finance)

Loan granted to producer companies engaged in non-agricultural activities such as rendering technical or consultancy services, insurance, generation, transmission and distribution of power and revitalization of land and water resources; promoting techniques of mutuality and mutual assistance, welfare measures and providing education on mutual assistance principles to its members or their produce.


Request:

The RBI may examine and include Producer Companies in the list of Priority Sector Lending with maximum cap on lending rate to the Banks.

We request for a favourable consideration of our suggestions.

Thanking you,

Yours faithfully,


Manju Sood
Executive Director

