

**No. 1(11)/2021-(BP&E)(Part)**  
**Government of India**  
**Ministry of Consumer Affairs, F&PD**  
**Department of Food & Public Distribution**  
**Directorate of Sugar and Vegetable Oils**

Krishi Bhawan, New Delhi  
Dated: 02 May 2022

**OFFICE MEMORANDUM**

**Subject: Request to extend financial assistance to ethanol projects approved by DFPD who have not signed BPA/LTOA with OMCs as per standard Industrial Financing norms of Banks -Reg.**

It may be recalled that in order to boost the ethanol production in the country to achieve the 20% blending target by 2025, the Central Government has notified various interest schemes for sugar mills and standalone distilleries on 19.7.2018, 8.3.2019 and 15.9.2020. Further, DFPD had also notified a modified Interest Subvention Scheme for providing interest subvention to entrepreneurs for enhancement of distillation capacities from 1G feed stock on 14.01.2021. A new window under the modified scheme has also been opened for 6 months w.e.f. 22 April 2022.

2. Under the above notified schemes, Interest subvention @ 6% per annum or 50% of rate of interest charged by banks, whichever is lower, on the loans to be extended by banks, shall be borne by the Central Government for five years including one-year moratorium.

3. Since, many of the projects were not getting approval for loans from banks due to their weak financials/negative net worth or other issues, to facilitate the advancing of loans to such projects with less equity, the concept of Tri-Partite Agreement (TPA) came into existence among the producers of ethanol (sugar mills/distilleries), buyers of

ethanol (OMCs) and the lenders (banks) through an escrow account to the effect that all the revenue generated from supply of ethanol by sugar mills to OMCs goes to this escrow account of sugar mills/distilleries and can be utilized for payment of interest/principal amount to the banks; and there should be an assured purchase of ethanol by OMCs which will give an additional comfort to the suppliers of ethanol as well as to the Banks.

4. State Bank of India (SBI) was made the nodal agency for finalization of the SOP. Accordingly, SBI issued Guidelines cum SOP vide letter dated 20.01.2021 for installation/expansion in production capacity for ethanol which has been adopted by other banks as well. The initial SOP which was based on use of molasses as feedstock which was later modified on 26th April 2021 to include grain-based feedstocks also.

5. At present, out of 131 PPs who have signed LTOA with OMCs for about 432 crore litres offtake quantity, only 76 PPs have received in-principle approval from DFPD and as per Guidelines cum SOP, only these 76 projects shall be eligible for loans from banks.

6. It has come to the notice that banks have been reluctant to extend loans to such Project Proponents (PPs) who have received in-principle approval of DFPD under ethanol interest subvention schemes but have not signed BPA for LTOA with OMCs. Banks are impressing upon PPs to get LTOA signed with OMCs to be eligible for financing under Guidelines cum SOP which would be possible only when suitable action is taken by OMCs to issue EoI in this regard. The Project Proponents cannot take initiative at their own level and then purpose of whole scheme of Interest Subvention, operated by DFPD may remain unfulfilled.

7. A detailed clarification has also been issued to SBI vide letter dated 25.2.2022(copy enclosed) in respect of various points raised by

SBI regarding financing of ethanol projects. It is further informed that the requirement of ethanol to achieve 20% blending targets and for other uses by 2025, is estimated to be more than 1350 crore litres for which capacity required is about 1700 crore litres (@80% plant efficiency). Against this requirement, present ethanol production capacity in the country as on 31.03.2022 is about 849 crore litres only. Thus, there is enough potential for increase in production capacity of ethanol in the country which is expected to further increase with introduction of flex fuel vehicles in the country in near future. Therefore, projects for ethanol production needs to be encouraged by banks/financial institutions.

**8. In view of the above, it is requested to kindly impress upon all the banks/financial institutions to also consider extending loans to those PPs who have been issued in principle approval by DFPD as per standard Industrial Financing norms but do not have LTOA with OMCs, after ascertaining their financial credibility, as there is enough demand of ethanol in the country.**

Encl: As above



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To,

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