Linking Farmers with Futures Market

The recent, **Indian Council for Research on International Economic Relations (ICRIER)** study suggests the need to empower the Farmer Producer Organizations (FPOs) to trade in the commodities **futures market**.

Farmer Producer Organisation

- The concept of 'Farmer Producer Organizations (FPO)' consists of **collectivization of producers, especially small and marginal farmers** so as to form an effective alliance to collectively **address many challenges of agriculture** such as improved access to investment, technology, inputs, and markets.
- An FPO is **a legal entity formed by primary producers**, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen.
- The FPO can be a production company, a cooperative society or any other legal form which provides for sharing of benefits among the members. In some forms like producer companies, institutions of primary producers can also become a member of PO.
- The FPOs are generally mobilized by promoting institutions/ resource agencies (RAs). **Small Farmers Agribusiness Consortium (SFAC) provides support for the promotion of FPOs.**
- The resource agencies leverage the support available from governments and agencies like NABARD to promote and nurture FPOs, but attempting an assembly line for mass production of FPOs has not given the desired results.

Future Market

- Futures contracts are used as hedging instruments in agricultural commodities. Hedging is a common practice that insures the farmer against a poor harvest by purchasing futures contracts in the same commodity.
- **Forward Markets Commission (FMC)** was a regulatory authority for commodity futures market in India. **Forward Markets Commission (FMC) has been merged with** Securities and Exchange Board of India **(SEBI) with effect from September 28, 2015**.

Future Trading in India

- The first futures trade by an Indian FPO took place in 2014 when the Ram Rahim Pragati Producer Company – an enterprise started by 3,000 women belonging to self-help groups in a tribal area of Madhya Pradesh – hedged soyabean price risk on the **National Commodity and Derivatives Exchange (NCDEX)**.
  - Between April 2016, when NCDEX began making formal efforts to directly engage with FPOs, and May 2018, FPOs had a miniscule 0.004% share of the agri-futures trade at NCDEX. More than half of the FPO futures trade of ₹50.8 crore was in soybeans, while another third was in maize. **Bihar, Maharashtra and Madhya Pradesh account for 92% of the trade.**
- **Reasons:** The Small farmers often hesitate to trade in the futures market due to their limited

capacity as individuals. Future market is viewed with suspicion and termed as gambling.

  - Instead, they depend on traders in traditional marketing channels who charge high commissions, but provide easy access to credit and market.
  - However, FPOs, as aggregates of small farmers, can provide the scale of production needed if they receive sufficient information and support.

National Commodities and Derivatives Exchange

- The National Commodities and Derivatives Exchange (NCDEX) is an online commodities exchange dealing primarily in agricultural commodities in India.
- It is a public limited company, established on 23 April 2003 under the Companies Act, 1956.
- The exchange was founded by some of India's leading financial institutions such as ICICI Bank Limited, the National Stock Exchange of India and the National Bank for Agricultural and Rural Development, among others.
- NCDEX is located in Mumbai but has offices across the country to facilitate trade. Trading is done on 27 commodity contracts as of March 2018. These include 25 contracts for agricultural products. NCDEX is run by an independent board of directors with no direct interest in agriculture.

Benefits of Future Market

- **Efficient Price Discovery for Farmers:** Linking farmers with futures market can be mutually beneficial to both. Farmers, when linked with a consistent, liquid and deep futures market will be able to reap the benefits of efficient price discovery.
- **More Liquidity to Market:** Higher farmer participation will provide more liquidity to the market, helping it achieve its objective of price discovery.
- **Removing Middlemen:** The trading in **futures market** will help farmers make their cropping decisions based on next year’s prices rather than last year’s rates, as well as break the crippling hold of middlemen and traders and ultimately boost income for agricultural families.

Way Forward

- Learning from the example of China, where the state has helped small land holding farmers by providing customised products and reducing price distortions, the **Government of India should have limited intervention in prices and procurement of commodities**.
- The government needs to identify production centres and build warehouses and delivery centres around them in order to encourage futures trading in these areas.

Source: TH