**Government of India**

# Ministry of Consumer Affairs, Food and Public Distribution

**Department of Consumer Affairs**

**LOK SABHA**

#### UNSTARRED QUESTION NO. 4734

#### TO BE ANSWERED ON 23.4.2013

**Benefits of Forward Trading**

4734. SHRI RAVNEET SINGH:

**Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION miHkksDrk ekeys] [kk| vkSj lkoZtfud forj.k ea=h be pleased to state:**

(a) whether the Department of Consumer Affairs/Forward Market Commission (FMC) had commissioned a study during the year 2010 to ascertain the percentage of small and marginal farmers benefitted from futures/forward trading in the country;

(b) if so, the details and the outcome thereof;

(c) the manner in which the small and marginal farmers are being benefitted from futures/forward trading; and

(d) the measures taken to protect the interest of consumers?

**ANSWER**

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**THE MINISTER OF STATE (INDEPENDENT CHARGE)**

**FOR CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION**

**(PROF. K. V. THOMAS)**

(a) & (b)**:** Yes, Madam. A study was assigned by the Forward Markets Commission (FMC) which is the regulator for Commodity Futures Markets under the provisions of the Forward Contracts (Regulation) Act, 1952 to NABARD Consultancy Services (NABCONS) in May, 2010 to examine the percolation of benefits of Commodity futures market among small and marginal farmers and increasing their participation in the commodity futures market platform. The NABCONS has submitted its final report in the year 2011. The salient features of the report are as follows:

* The objective of the study was to ascertain the percolation of the economic benefits of the commodity futures market to small and marginal farmers and to ascertain the extent of direct and indirect benefits that have accrued to these farmers as a result of the commodity futures market
* The study examined a cross-section of farmers growing nine identified crops across six states in India. The nine commodities covered under the study are Cotton, Coffee, Jeera, Turmeric, Pepper, Cardamom, Rubber, Chilli and Maize.
* The states covered under the study are Punjab, Gujarat, Karnataka, Maharashtra, Kerala and Andhra Pradesh.
* Methodology for conducting the Study: Suitable questionnaires were developed by NABCONS in consultation with FMC. Field visits were conducted in the identified locations of the selected States for collection of primary data at ground level through informal interaction / discussions / interviews with the farmers.
* The findings and suggestions/recommendations of the report are placed at [Annexure](Annexure%20-PQ%20Rajya%20Sabha.doc)-I.

(c) & (d): The twin objectives of futures trading are price discovery and price risk management. Futures market provides efficient price signals which enable the farmers to take optimum cropping and marketing decisions. The physical market stakeholders such as importers, exporters, processors etc. also benefit from hedging their price risk in the futures market. In order to improve the transmission of prices discovered by the futures market, the Forward Markets Commission, (FMC) which is the regulator for Commodity Futures Markets under the provisions of the Forward Contracts (Regulation) Act, 1952 has undertaken a project to disseminate the futures prices by installing Ticker Boards at important Mandis/APMCs etc. across the country. As of 30th March, 1863 Ticker Boards have been installed in various mandis/ APMC/Krishi Vikas Kendras/Co-operative Banks etc. in different parts of the country. Awareness programmes are also being conducted at regular intervals to familiarize the stakeholders, including the small and the marginal farmers regarding the benefits of futures trading. In order to protect and safeguard the interest of the consumers of financial services i.e. clients and investors in the commodity futures markets and to increase awareness among stakeholders, the Forward Markets Commission conducts awareness programmes and has also taken the following measures:

* The commodity exchanges have been directed to communicate the details of the trades executed on their platform to the concerned clients, at the end of each trading day, through SMS and E-mail alerts.
* The Investor Protection Fund (IPF) has been operationalised in all National Exchanges and as on 31st December 2012 an amount of Rs 79.89 crores have been transferred to IPF by the exchanges.
* The members of the National Commodity Exchanges have been directed to settle accounts of their clients every quarter.
* A common Know Your Client (KYC) format has been finalized by the commission and implemented with effect from 1st April, 2012, thus ensuring that clients would not need to go through multiple KYC forms to trade in more than one commodity exchange.
* Clients have been exempted from paying arbitration fees/ charges for amounts uptoRs 10 Lakhs.
* Exchanges have been directed to be pro-active in clients’ grievances redressal.

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**Annexure-I**

**STATEMENT REFERRED TO IN REPLY TO PARTS (a) & (b) OF LOK SABHA UNSTARRED QUESTION NO. 4734 FOR 23.4.2013 REGARDING Benefits of Forward Trading.**

**Findings of the NABCONS Report**

**i. Awareness Level**

Majority of the Small Farmers (SF) / Marginal farmers (MF) are generally aware of the existence of the future markets due to its publicity in various popular media like newspapers / TV, etc. This general awareness about the forward markets is, however, not leading, in all cases, to effective participation of the SF / MF in these markets. The main reason for this is inadequate understanding about its working, i.e. how to participate. Nevertheless, 88% of the sample farmers perceived the commodity futures market as beneficial for them in terms of getting better price realization for their produce. The growers have broadly indicated their willingness to participate in the future market provided the terms and conditions for participation in the commodity exchanges are simplified.

**ii. Source of Information**

Fellow farmers, inputs dealers and traders are the most popular sources of price information to the SF/MF. The wide-spread awareness programmes being conducted by the FMC and various commodity exchanges (commexes) are also aiding in improving the awareness of the SF/MF.

**iii. Sowing / Selling Decision**

It was observed that few among the SF / MF considered the future price of the commodity when they were taking the sowing decision. The sample farmers rather considered the then-prevailing prices of the concerned commodities for their sowing decision. Availability of water (expected monsoon performance), credit, other inputs, etc. were the main factors on which the farmers based their sowing decisions.

The selling of the crops was done mostly at the price, whatever that be, that was offered by the traders. Since the SF / MF generally have a low holding power for the harvested crop/s, they were not able to defer their sales after harvesting in expectation of better prices in the future.

**iv. Better Price Realization**

All the sample farmers had received an increased price vis-à-vis that in the previous year and this may be an indirect benefit of commodity trading to them, i.e. better price realization. Due to the increased prices, the acreage under the crops had either been retained or even increased in some cases.

**v. Use of Warehouses**

It was observed that the concept of storing agri-produce in the warehouses by the farmers for better prices in the future or the use of warehouse receipts for credit had not yet percolated to the SF / MF in any significant measure. The SF / MF are mostly subsistence farmers who are forced to sell immediately after harvest.

**vi. Trader’s Participation in Forward Markets**

There is fairly good knowledge about futures trading and national level exchanges among traders and processors. However, their participation level is low and they somehow believe that trading in the futures market is not a profitable proposition. This may be primarily because of the inadequate understanding about the dynamics of futures prices. As a result, their participation is mostly for speculative purpose based on instinct or technical advice given by brokers on TV / Newspapers.

The traders were found to be happy with their work as middlemen between tiller and wholesaler or commission agent. The traders themselves participate in the future market trading in a limited way and they are highly guarded of the price movement of the commodities in the commodity markets.

**vii. Dependence on Moneylenders/Traders/Commission Agents**

40% of the total sample number of the SF / MF had availed trade credit from petty traders / commission agents. The rate of interest charged by the petty traders was in the range from 24% to 36%.

**viii. Display of Ticker Boards**

Only the educated and well-informed farmers based their sowing and selling decisions on the prices displayed in the ticker boards. Besides, such Boards were not there in all the markets that were covered under the study. In the Sangli Market Yard, there is a live price ticker electronic board displaying the spot and future prices of commodities in the different markets. Such display is also made by Commodity Exchanges like NCDEX at Coffee Board Offices in the concerned Districts.

The farmers among the sample group who had participated in one of the awareness programmes organized by FMC were found to be aware of the significance of the prices flickering on the electronic ticker boards and were making its effective use to bargain with the traders for getting better prices.

**ix. Banking Support**

Timely and adequate credit, delivered to the farmers in a cost-effective manner, is of high importance, especially for the SF / MF. The Scales of Finance (SOF) for most of the commodities were found to be inadequate and need to be revised. In the absence of timely and adequate credit, the SF / MF had no option but to resort to local moneylenders. Further, any participation in commodity futures trading requires substantial fund requirement for holding the stock, to meet margin requirement, etc. which small and even big growers could hardly afford.

**Suggestions / Recommendations made in the NABCONS Report**

**1 Intensive Conduct of Awareness Programmes**

There is a need for organizing a series of Awareness Programmes for the growers/producers by the leading commodity exchanges at Panchayat level, involving various growers’ associations, Producers’ Companies, if any, Farmers’ Clubs/Joint Liability Groups promoted by banks/ NGO with assistance of NABARD, etc. which should be preceded by intense publicity through print and visual media for ensuring effective participation.

Awareness about commodity futures market should form a part of the on-going financial inclusion and literacy programmes initiated by various banks at the instance of Union Government, RBI and NABARD. If possible, local farmers may be formed into groups / batches and they may be made aware of the benefits and risks of futures markets. The commodity exchanges could be roped in for this exercise. Financial Literacy and Credit Counselling Centres (FLCC), set up at the District levels by the concerned Lead Banks, could play an important role in this. Additionally, print media, television and radio should be extensively used to disseminate the price and the future of various commodities traded in futures markets.

Technical information on crops is mainly obtained through input dealers, progressive farmers and Government officials such as AAOs and AEOs. The same agencies could be utilized to create awareness about futures trading. It is imperative to undertake confidence-building measures among various members in the value-chain so that the farmers will be encouraged to produce market-driven commodities. Besides, the benefits and usefulness of futures trading has to be demonstrated to the farmers.

As a part of the training, it would be highly effective if arrangement could be made for some kind of ”mock trading“ in future market through demo software, preferably in local language. Use of local language in trading would immensely boost the confidence of the farmers as they would understand the concepts well and would then realize that they would be benefitted.

**2 Lot-size Requirement**

The small growers find it extremely difficult to participate in the futures market as their production is limited and the delivery lots prescribed by Exchanges are difficult to adhere to. Product standardization adopted by the Exchanges aim at inculcating orderliness in the functioning of the exchanges as also reducing the transaction cost, counter-party risks and risks inherent in the fluctuations in commodity prices. It is a pre-requisite for future trading, but growers, particularly small, find it extremely difficult to adhere to owing to their small volumes. It may not, therefore, be practicable for the small farmers to take a position in the commodity exchange independently.

**3 Role of Aggregators**

It is not feasible for the small farmers to participate in futures market individually with a small resource base. The primary advantage of group participation is lower transaction costs, i.e., when shared individually. For avoiding trading decisions, especially entry and exit prices in futures contracts, the group members should elect representatives for participation in futures contracts.The growers’ associations can act as aggregator and broker, providing their members with access to futures and relevant commodity exchange prices. Experts could be roped in to organize training workshops on market-based price risk management instruments for the benefit of the growers.

The role of the aggregators will be to collect retail produce of the farmers and trade on the Exchange platforms of Exchanges on behalf of the farmers. Farmers’ Groups, Co-operative Institutions, RRBs, CCBs, Joint Liability Groups (JLGs), SHGs, NGOs, State Agricultural Marketing Boards, Warehousing Corporations, Commodity Development Boards, etc. that work in rural areas and have close association with and the trust of farmers should be allowed and encouraged to act as aggregators.

The aggregators will hedge on behalf of the farmers in the futures market, as they have the requisite knowledge and operational skills needed to participate in these markets.

**4 Margin Requirement**

There is a huge requirement of funds for meeting the margin requirement, holding the stock and participating in the market. The commitment charges are too prohibitive for the growers. The growers, while harvesting the crops and processing them, take advance from traders / curing houses (eligible bank finance already availed) to meet the immediate requirements while committing their produce to them. Therefore, once the product is market-ready, grower will sell the produce at the earliest to the same traders/ curing houses to lessen his burden. Institutional finance like post-harvest credit, bank guarantee, etc. are crucial for participation in the market.

**5 Proper Delivery System**

A good delivery system is the backbone of any commodity trade. There should be a delivery point in all the districts, otherwise the market participants are compelled to make delivery elsewhere in the State which is a big hurdle in spreading the market among growers. The cost of transportation of the produce to far-flung places may be too prohibitive for the SF / MF.

**6 Banking Support**

The banks may develop suitable products to meet post-harvest credit requirement and provide bank guarantee so that growers’ dependence on traders/curing houses will diminish. When finance is available, growers can hold the stock and participate in futures market. The banks may consider reducing their financing costs by incorporating price risk management instruments into their credits and, thus, both encourage and enable the use of risk management tools by the growers. The respective Lead Banks may consider equipping the FLCCs to provide risk management advisory services to the growers. They may help organize training and awareness-raising programmes on market-based price risk management, targeting all those involved in the concerned crop sector.

**7 Warehousing / Storage Facilities**

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**8 Quality Testing**

Independent quality testing centres may be set up in each region to certify the quality, grade and quantity of commodities so that they are appropriately standardized protecting the interest of the ultimate buyer who takes the physical delivery. Incentives available under the GOI‘s “Scheme for Development / Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization“ could be channelized to the farmers and their Groups / Associations more effectively. A strategic partnership between FMC and National Institute of Agriculture Marketing (NIAM) would help in better dissemination of training inputs among the farmers. NIAM’s objective is to be a Centre of excellence to study and provide advice and assistance to public and private organisations, institutions, co-operatives and individuals on policy issues, trading and marketing of the highest quality with the ultimate objective for helping millions of farmers and functionaries in agricultural marketing.

**9 Simplification of Processes**

The futures’ trading is a complex process and, therefore, requires to be made simple and farmer-friendly. Confidence-building measures for farmers and traders may be undertaken. The Exchanges may demonstrate the usefulness of futures market. These measures will help the farmers and local traders to understand the mechanism well and encourage them to participate in futures market.

**10 Effective Price Dissemination**

In order to ensure that benefits of price discovery on Exchange platforms reach the farmers, it is of prime importance to create infrastructure which enables dissemination of prices to the remotest corners of the country. The efforts made by the FMC and Commexes for dissemination of futures prices need to be strengthened further and new channels of dissemination explored. Means and mechanism should be devised to use the trade outlets of farm machinery, inputs, etc. to reach out to the farmers as these outlets are frequently visited by them. Most of these people are locals or are conversant with local customs and aspiration. They enjoy the faith and trust of the farmers. Mere transmission and dissemination of price information may not be enough. The target population needs to be explained as to its use as well as the manner of interpreting it.

**11 Setting up of E-kiosks in Villages**

The setting up of e-governance kiosks at subsidized rates, co-funded by private and public sponsors, for dissemination of prices of inputs and commodities as well as for providing a trading platform in the villages may be considered. Farmers’ “Call Centres” are already operating in many village Panchayats and this concept can be extended further to provide future trading terminal in commodities to the farmers. There are also several private-sector E-Kiosks functional in various regions of India which could also be partnered. Some such privately-owned portals are – E-Choupals (operated by ITC Ltd., its services today reach out to over 4 million farmers growing a range of crops - soybean, coffee, wheat, rice, pulses, shrimp - in over 40,000 villages through 6500 kiosks across ten States), Village Knowledge Centres (VKCs) run by CAPART to reach the un-reached, un-served and under-served areas more effectively by using ICT through its partner NGOs, etc.

**12 Language Issues**

The participation as well as getting benefit from commodity futures market requires knowledge of English as well as computers. If the process is simplified and information made available in vernacular languages, many growers will appreciate the market fundamentals and may eventually participate in it. There is an urgent need to print publicity literature in vernacular languages and to disseminate the knowledge as widely as possible using all possible means. Further, there is also a need to develop the trading software in the local language for each State so that the mental block of the farmers who otherwise are ready to participate in the future market dissipates. Such software could then be integrated with the e-kiosks located in the area where farmers could go and directly participate in the market. However, all these would pre-suppose an effective training drive and creation of awareness among the farmers on a wide scale in partnership with all the stakeholders interested in agriculture and rural development.

**13 Meeting Immediate Credit Needs of SF / MF**

The financing arrangement for the SF / MF has to be reviewed so that their immediate credit needs are met and they are able to hold their produce longer for better price realization. The farmers otherwise have to go for distress sale of the produce for getting ready cash to meet/repay the expenditure already incurred for raising the crop.

**14 Simplification of Trade Procedures**

Exchanges should design their market procedures and contracts so as to enable farmers an easy access to these markets and provide protection against any market malpractice. The structure of markets, contract designs and other requirement of trading on these markets should be simple and easy to enable farmers to participate in these markets.

**15 Miscellaneous**

Some of the other aspects which can be looked into are:

* Value-addition Units / Processing Units of major commodities in the concerned area may be established under the co-operative fold or in the PPP mode so that the farmers get value-addition done to their produce.
* The scale of finance fixed for the crops have to be revised periodically to account for the increasing cost of cultivation and the general inflation.
* Agriculture Department / ICAR, in association with the traders, can organize farmer education programmes to guide SF / MFs.
* Establishment of an Export Facilitating Office in the Districts, especially in respect of the crops with export-potential and in the Districts where such crops are grown, together with quality certification agencies, will go a long way in aiding all categories of farmers in better marketing of the crops and in higher realization of price / income.

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