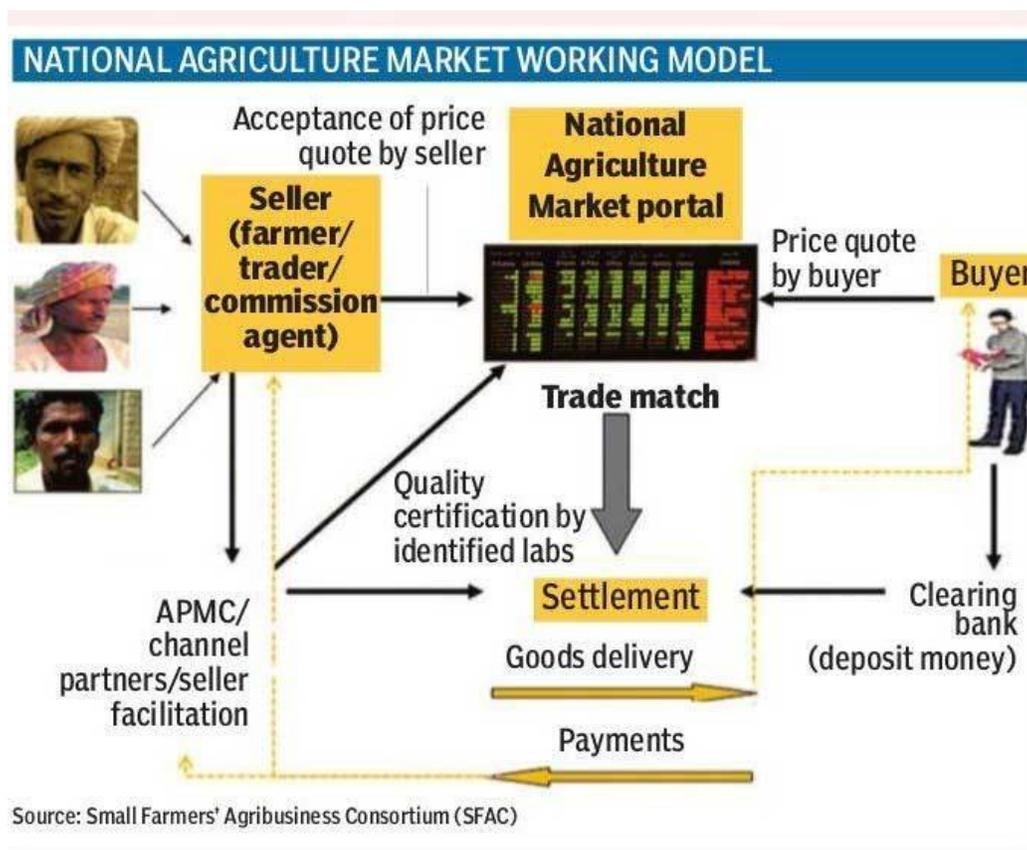


## How e-NAM, derivatives markets linkages can benefit farmers



### **Summary:**

At a time when policymakers are focussed on cleaning up the government's balance-sheet, agrarian distress seems to throw the carefully crafted budgetary discipline off-balance. Farmers, in state after state, have been demanding relief.

### **Reasons behind the agrarian distress in the country:**

- Indebtedness and prolonged low profitability of farming, ineffective support prices, lack of procurement by para-statal agencies have pushed farming in the country to a new low level.
- Competition in labour, input prices that are increasingly marked to market, and the lack of options other than selling in opaque markets dominated by organised traders have added to the current distress.
- In a nutshell, it is the result of the friction between inefficient markets for agri-output and efficient markets for their inputs.

### **Hasn't the APMC Model helped?**

The Agricultural Produce Marketing Committee (APMC) model was supposed to provide an efficient solution, but has instead fuelled the distress, leading to a clamour for amendment of state APMC Acts. Since 1991, with liberalisation, the

industrial sector can buy from, and sell to, anyone in the world, but farmers in many states must buy and sell only in the government-designated APMC market-yards.

### **How can e-NAM be useful here?**

- The electronic National Agriculture Market (e-NAM) initiative could prove a big leap forward if it succeeds **in breaking the traders' nexus**.
- The initiative can be a panacea for all anomalies including fragmented markets, restrictions on movement of farm commodities, varying state taxes, etc.
- Transparent and robust electronic physical markets such as e-NAM, backed by greater standardisation and quality awareness will stimulate PPP for standardised infrastructure, assets, warehousing & logistics, etc.
- Additionally, farmers can access buyers from across states and can offer prices after a complete review.
- The principle of 'One Trader One License' will enable growth of secondary trading among traders, throwing light on the 'price discovery' process as it attracts participation.
- Bulk-buyers like large retailers, processors or exporters, will save on costs of intermediation buying through eNAM if supported by a robust logistics network and a well-developed quality testing mechanism.

### **What you need to know about eNAM?**

It is an online platform with a physical market or mandi at the backend. NAM is not a parallel marketing structure but rather an instrument to create a national network of physical mandis which can be accessed online. It seeks to leverage the physical infrastructure of mandis through an online trading portal, enabling buyers situated even outside the state to participate in trading at the local level.

### **What else needs to be done?**

- There have been calls for closer linkage between spot markets like e-NAM and derivatives markets to benefit farmers. e-NAM authorities can work with derivatives industry stakeholders to introduce exchange-specific quality standards alongside other broad grades to be introduced to encourage the farmers not only to grade and sell their produce, but also to encourage them to produce better quality crop and meeting exchange standards.
- The best practices and their demonstrable benefits of the futures market can be taken to e-NAM. As exchanges work to expand their product portfolio and there are common commodities being traded on both the platforms, integration of players of both ecosystems can be considered by permitting traders, aggregators, FPOs, and hedgers to register under a common license.

- Cost-effective price dissemination, through the e-NAM terminals and to the participants of e-NAM associated APMC market-yards, should be the first step of this integration aspiration. Price disseminated through mobile phones could serve as a reliable reference price for farmers.
- Likewise, allowing warehouse receipts generated by the Warehousing Development and Regulatory Authority-regulated repositories to be traded and delivered in both e-NAM and commodity derivative exchanges will go a long way in integrating both the markets, besides contributing to the healthy development of warehousing infrastructure.
- Financial institutions that may lend against such warehouse receipts should be encouraged to look at e-NAM/exchange platform for receipts-based delivery in case of defaults when allowed. In all, the financial/market institutions and intermediaries, viz. exchanges, warehouses, financial institutions, repositories and APMC market-yards, can cohesively function to promote integration of the two markets.

### **Way ahead:**

There are a total of 2,477 APMC market-yards in the country and 4,843 APMC-regulated sub-market yards. So far, 417 mandis in 13 states have joined the e-NAM platform against the target of connecting 585 mandis with e-NAM by March 31, 2018. Now, it's the responsibility of states to carry this forward and ensure that all mandis are connected.

### **Conclusion:**

Indian agriculture needs robust institutions and transparent, price-based signals to the stakeholders. A lot in terms of infrastructure, institutional (markets and finance) connectivity, infrastructure and logistics, quality and standards would have to be looked into if e-NAM were to deliver long-term benefits. Although e-NAM's implementation has been slow owing to some operational challenges, the farmer needs access to competitive market channels and e-NAM is a major step in this direction.