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‘Online payments will now gain momentum in agri markets’

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Bengaluru, November 20 Demonetisation has jeopardised trading in agricultural markets across the country. In Karnataka, considered a pioneer in agri-marketing reforms — most APMC [Agricultural Produce Market Committee]*market yards in the State are already automated — it was no different. BusinessLine caught up with Manoj Rajan, Managing Director and CEO of Rashtriya e-Market Services (ReMS), the joint venture between the Karnataka government and NCDEX e-Markets Ltd, which has linked 152 of the 158 APMC markets in the State by rolling out its Unified Markets Platform (UMP). Excerpts from the interview:*

What has been the impact of demonetisation in Karnataka’s APMCs?

Market participants have been cautious. Farmers are sceptical of bringing their produce, while traders and commission agents are not fully participating in the markets, which has adversely impacted transactions. We have analysed the market arrivals and trade data in the week preceding the announcement of demonetisation, and the week after that. During the November 1-8 period (First Block) a total of 74,619 lots were traded, whereas during November 9-16 (Second Block) 48,892 lots were traded — a decline of 34 per cent in market arrivals. Traded volumes have dropped 38 per cent — from 137 lakh quintals during the First Block to 85.1 lakh lots in the Second Block. Also, the traded value has dropped 35 per cent — from 633 crore to 414 crore.

Has there been an impact on the price movement of commodities and payments during this period?

There was no major change in prices of commodities. However, maize prices moved up by 10 per cent in Hubballi and Gadag; bengal gram showed an *uptrend in Bidar, cotton in Raichur and onion in Hubballi and Raichur. Also, tur declined by 10 per cent in Kalburgi, groundnut by 15 per cent in Davangere and potato by 5 per cent in Bengaluru.*

How is settlement happening in these markets?

Compared to traditional cash payments, a section of traders have now deferred payments or are now using RTGS and cheques to settle the deals. However, there were no instances of complete shutdown of markets in the State.

How will normality return to the markets?

As an immediate measure, banks have to open extension counters enabling farmers to exchange cheques received on the spot at par. The farmers may be allowed a withdrawal limit of 50,000, which would take care of any liquidity issues for the majority of the farmers in the agricultural markets.

The next step is for banks/financial institutions to launch a series of commodity pledge schemes. Farmers who don't get traders to buy their produce or who don't want to sell under distress can stock their produce in the APMC warehouses and seek commodity funding from banks. Once normality re-appears, the commodity to be sold and banks get their funding and the balance to farmers.

In the long term, it would be online payments directly paid to the farmers account from the trader/ commission agents, for this to happen banks have to extend credit facilities to traders/ commission agents.

Despite bringing a majority of the markets under the UMP, why hasn't the system of online payments taken off?

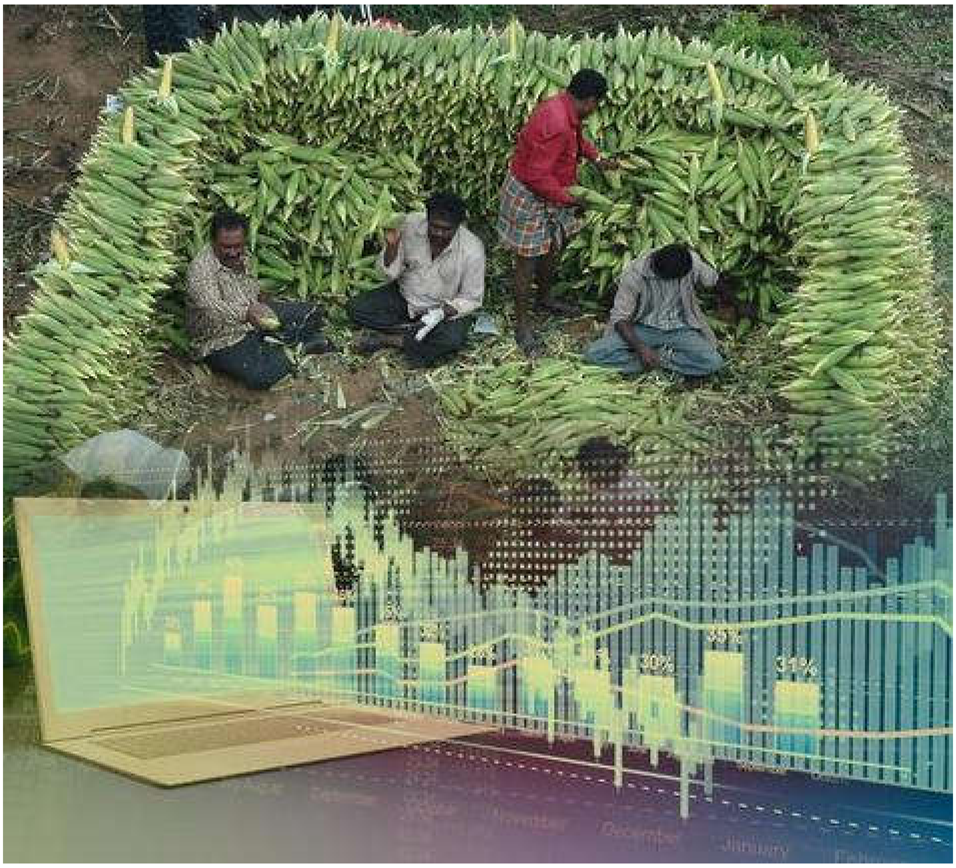
Online payment began in three markets of Karnataka on a pilot basis in Gadag, Tiptur and Hubballi, where a total of 197 lots worth 1.36 crore have been settled online. The UMP has a clearing and settlement module, which enables such direct payment from the accounts of traders to farmers. Due to resistance from traders and commission agents, we did not make online payments compulsory. Post demonetisation, traders have begun making online payments *in Tiptur. Around 11 lots of 5.5 lakh has been deposited in bank account of farmers.*

Ground-level preparations such as Farmer Registration and the stakeholder awareness programme — the precursor to the online payment — is being carried out, wherein 29 lakh farmers have been registered and a massive stakeholder education programme in 11,000 villages covered. The environment is conducive now to start online payments. I think post-demonetisation, online payments in markets will gain momentum.

From farm to futures

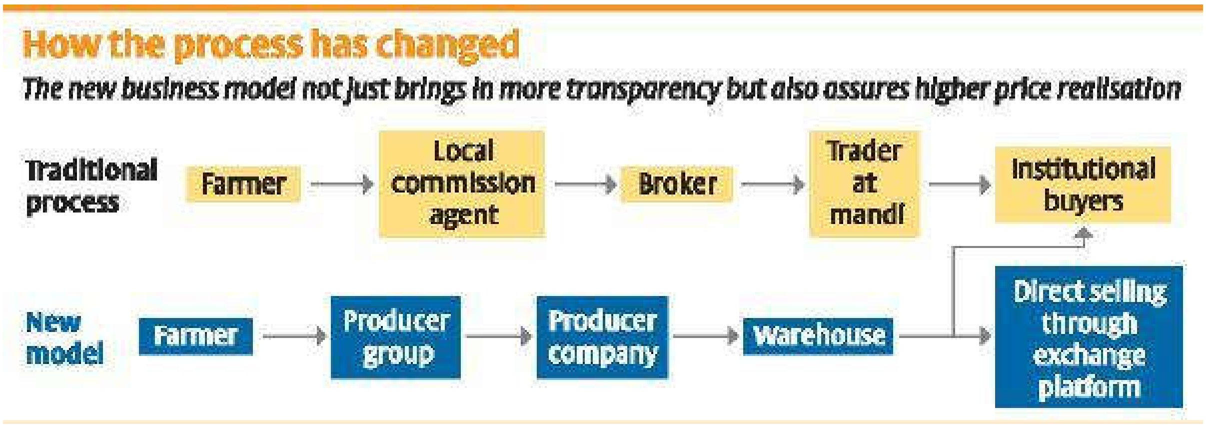
How farmers can reap good returns by using derivatives exchanges

The majority of Indian farmers have a holding of less than an acre. With no bargaining power, left to the mercy of middlemen, they struggle to make ends meet. While on the one hand input costs are high, on the other, they don't get the right price for their produce.



The futures market can play an effective role in mitigating such risks.

The Indian commodity derivative exchanges have been in existence for over a decade, but not many farmers know about them. Today, some farmer producer companies are using this platform to help out farmer members. We take a look at how this is done.



Serious business

Farmer producer organisations received legal status in 2002 when they were allowed to register as companies. Only farmer-producers can be members of this company. They contribute capital, manage the company, appoint staff and share the profits. They receive assistance from NGOs in the initial years (in some cases for a longer time). They train the member farmers on managing the company, and also help them reach out to corporate groups and sell their produce directly. Small Farmers' Agri-Business Consortium (SFAC) or Nabard provide them financial assistance through loans. By coming together as a company, farmers benefit from lower transaction costs as they aggregate their produce and also get a good bargain on inputs, including seeds and fertilisers.

There are, at present, 750-plus farmer producer organisations (FPOs) in India. While some of these are still co-operatives, others have registered themselves as companies. Some of these companies have taken to the futures market to help their members get better prices. Eight farmer producer companies, covering 18,000-plus farmers, trade on the NCDEX, the agri commodity derivatives exchange.

Success stories

Two examples are worth mentioning here.

JEEViKA, a World Bank-supported program for poverty alleviation in rural Bihar, started its pilot project in Purnia district in Bihar in 2015 for maize farmers. As most of the farmers in this district were small with an average land holding of less than 1.4 acres, they had limited access to mandis. The manual grading process followed by the agents saw farmers lose out as price was fixed by the ‘look and feel’ of the crop. However, today, the Aranyak Agri Producer Company, a federation of producer companies in Bihar, supported by JEEViKA and TechnoServe India, a global non-profit organisation, sells its produce in the futures platform on NCDEX.

Debranjan Pujahari, Associate Practice Leader, TechnoServe India, says, “After aggregation of the produce of the members, the company stores it in the exchange-accredited warehouse and sells it either directly to institutional buyers or to traders through the futures platform. The Aranyak Agri Producer Company procured about 1,014 tonnes of maize in 2015-16 from about 300 members of the total 1,000 plus members under it. A good portion of this was sold through the futures market. Farmers were able to realise 1,060/quintal, compared to 951 if they followed their usual ways.

The Samriddhi Mahila Crop Producers Company and its supporting agency — SRIJAN, an NGO — is another case in point. This group of tribal women farmers in Bundi district in Rajasthan have been in operation as a Producer Company since 2011. Currently, the company has 2,310 members producing soyabean. Earlier, these farmers were selling their produce to agents. Then, after SRIJAN came on the scene, it helped the farmers sell their produce directly to Bunge, a global oilseeds processing company. But last year, Bunge closed its plant in Bundi, forcing farmers in the area to look for other options; and find the way to NCDEX.

In September this year, the producer company took a ‘sell’ position in NCDEX futures to deliver 100 quintals of soyabean at 3,300/quintal in November; that time the price in a nearby mandi was 3,075/quintal. It then, in October, squared off its position as prices dropped to 2,995/quintal and made a profit of 30,500. Souvik, CEO of Samriddhi Mahila Crop Producers Company, says, “We use the profits to source good quality seeds and fertilisers for farmers and give it to them at a lower than market price.”

Working capital needs

SFAC and Nabard provide financial support to FPOs. But larger the producer group, higher the working capital requirement, and these companies are, at most times, in a fund crunch situation.

When they sell their produce through the futures market, they incur a large expense. First, to adhere to the contract specifications, they have to do assaying and grading of the produce, for which they need to invest in some basic machinery and instruments.

Second, they need to put the produce in the warehouse and cough up rent for it.

Further, when the produce has to be sold on the exchange’s platform, the company has to pay the margin money — which may be about 10 per cent of the contract value.

Also, while these producer companies sell and realise money two or three months down the line, they pay the farmers immediately.

The Samriddhi Mahila Crop Producers Company, for instance, gives two options to its member farmers — either put their produce in the warehouse and take 70 per cent loan on it from the bank or give it to them to sell in the futures market.

Farmers who go with the first option, see the company assisting them in open market sale at any time the prices go up in the mandi. Those who take the second option, see the producer company paying them immediately the market value of their produce.

Will ammonia recover?

Demand is now largely dependent on the prospects of agriculture, its key user industry

Even as natural gas prices have remained steady in recent times, the prices of commodities that use natural gas as the key input have not followed suit. Prices of downstream products produced using natural gas have remained weak; ammonia is one such.

Natural gas is the key input that is used to manufacture ammonia. Even as the price of NG1 contract rose by nearly 40 per cent since May, ammonia's price at Tampa has corrected by 35 per cent during the same period. From $320/tonne in May 2016, the price of ammonia (Tampa) has tumbled to $210/tonne currently. Why this disconnect between the price of raw materials and finished goods? Well, besides the cost of raw material, demand for the end product and purchasing power of consumers also have a bearing on the price of the final product.

Though ammonia is a key ingredient used to manufacture other chemicals such as nitric acid, the largest use of ammonia is in agriculture.

About 85 per cent of the ammonia produced globally is used in agriculture, either directly for application or further processed to make nitrogenous fertiliser such as urea.

Given that most of the ammonia produced worldover is used for agriculture, the prospects and price of ammonia are now closely linked to the global agricultural prospects. Hence, the raw material (natural gas) to end product (ammonia) price linkage has weakened over the last few years.

Medium-term outlook

Where is the price of ammonia headed in the medium term? According to the International Fertiliser Association, barring any major economic or policy changes, fertiliser production and demand is expected to grow at a modest 1.6

per cent annually until 2020-21. Within this, the demand for nitrogen nutrient is expected to grow at 1.2 per cent annually.

Despite large ammonia capacity reductions in China, the planned expansions in North America, Africa and Eastern Europe should keep the supply stable. Thanks to the capacity additions, global ammonia capacity is expected to reach 230 million tonnes by 2020, according to the International Fertiliser Association (IFA), implying a 10 per cent increase over 2015.

According to the IFA, excess supply is expected to continue over the next five years and this may keep the commodity's price under check. However, a recovery in agri commodity prices, particularly corn, if that happens, can potentially aid recovery in the international price of ammonia.

Without cash, AP's chilli, jaggery markets reel

The major as well as minor agricultural market yards in Andhra Pradesh have been badly hit by demonetisation and some of them are not functioning. Many are open, but transactions are negligible. Two of the major market yards — the jaggery market at Anakapalle in Visakhapatnam district, the biggest in the State and South India, and the chilli market yard at Guntur, the biggest in the country — have been hit, the former badly.

The jaggery market yard has been closed from Thursday. Every day 13,000-15,000 lumps of jaggery arrive at the market during and payments are made in lakhs of rupees to farmers, but after demonetisation, the merchants have been unable to pay farmers and the market had to be shut down.

Lack of liquidity

"Banks are not allowing us to draw more than 24,000 and the lack of liquidity has hit transactions. We are helpless and unless something is done all will suffer an irreparable loss. Labour in the market yard is also badly hit. A way has to be found to address the problem," says Buchi Raju, a leading jaggery merchant at Anakapalle.

“Arrivals are of the order of 10,000 lumps of jaggery per day (each lump weighing roughly 16 kg). This is the biggest jaggery market yard after Hapur in Uttar Pradesh. We are in a panic.” He also apprehends that sugarcane may be diverted to sugar factories. Transactions at the Guntur chilli market yard have also been hit and arrivals have halved. However, this is the off-season and the arrivals in the marketyard gain momentum only from January, after the arrival of the new crop. But, merchants as well as farmers are worried and are hopeful that the liquidity position will improve by that time.

Banana market also hit

At Ravulapalem banana market in East Godavari district, transactions have fallen 25-30 per cent.

“This year, yields have declinedand the prices have also come down. Demonetisation has come at the most inopportune time for us. We are paying in the old notes. Some are accepting and some farmers are not doing so. No farmer accepts a cheque, even though the Chief Minister so eloquently pleads for cashless transactions,” says Sathi Babu, a merchant.

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THE ECONOMIC TIMES

Cash crunch puts brake on India's cotton exports; rivals to gain

Expecting a bumper crop of 35 million bales, Indian traders had contracted 2 million bales for exports to China, Vietnam, Bangladesh and Pakistan for shipments in November to January.

MUMBAI/BENGALURU: Exports of 1 million bales of cotton from top producer India have been delayed after a government move to ban high-value currency notes prompted farmers, who prefer cash payments, to postpone sales, industry officials told Reuters.

The supply crunch has driven up prices in India to levels higher than in the global market and could force buyers to switch to other producers like the United States, Brazil and African countries. It could also curb India's total exports in the 2016/17 year marketing year that started on Oct. 1.

"Supplies are very limited in the market. Farmers are not selling cotton right now as they need payments in cash and it is not available," said Chirag Patel, chief executive officer of Indian exporter Jaydeep Cotton Fibers.

Earlier this month, Prime Minister Narendra Modi scrapped 500 rupee and 1,000 rupee bills to crack down on corruption. But the move disrupted trading of farm commodities like cotton and soybean as most farmers prefer payments in cash.

"November remains a peak supply month but now supplies have stopped due to the cash crunch. We are ready to give farmers cheque, but they are insisting on cash," said Pradeep Jain, a ginner based in Jalgaon in the western state of Maharashtra.

Expecting a bumper crop of 35 million bales, Indian traders had contracted 2 million bales for exports to China, Vietnam, Bangladesh and Pakistan for shipments in November to January. But traders have managed to ship only around 300,000 bales and nearly 1 million bales that were due to ship in November and December are getting delayed, three exporters told Reuters.

India's inability to ship promptly could force buyers to switch to other suppliers like Brazil and the United State, said Keith Brown, principal at cotton brokers Keith Brown and Co in Moultrie, Georgia. "In fact, this may be one reason why U.S. cotton is going higher at harvest time."

New York cotton futures last week touched a high of 72.75 cents per pound, the loftiest since August. They have risen about 5 percent over the past fortnight, versus a 10 percent gain in Indian prices.

The surge in local prices is also making signing new export deals difficult for India as overseas prices are lower than local prices, Jaydeep Cotton's Patel said.

The disruption in exports will have an impact on global prices as it reduces the overall supply, said Rebecca Pandolph, statistician of International Cotton Advisory Committee. "How much of an effect will depend on how long the situation lasts."

However, industry officials say the crunch is temporary and prices will moderate as India is set to harvest a bumper crop. Last year, the country shipped out 6.9 million bales.

"The Indian crop is still very big and if price pressure doesn't come now, then it's only being delayed and that pressure will arrive at some point," said a cotton trader from Britain.

Government allows farmers to buy seeds with old Rs 500 notes

NEW DELHI: Further easing norms for cash-strapped farmers, the Finance Ministry today permitted them to use old Rs 500 notes for purchasing seeds from any state or central government outlets and agri universities.

Farmers can purchase seeds from the centres, units or outlets belonging to the central or state governments, public sector undertakings, national or state seeds corporations, central or state agricultural universities and the Indian Council of Agricultural Research (ICAR), on production of proof of identity, the finance ministry said in a statement.

The government is committed to ensure that farmers are suitably facilitated during the Rabi season, it said.

This is in addition to the decision taken earlier for making cash available with the farmers by permitting them to draw up to Rs 25,000 per week from their KYC compliant accounts subject to the normal loan limits and conditions apart from the other facilities announced last week.

Besides, the government has also extended the deadline for payment of crop insurance premium by 15 days and permitted APMC-registered traders to withdraw up to Rs 50,000 per week.

Prime Minister Narendra Modi had on November 8 surprised citizens by announcing demonetisation of 500 and 1,000 rupee notes and since then large number of seemingly unending queues before banks and post offices are seen in order to exchange these currencies.

Rice farming in India much older than thought: Study

The findings suggest a network of regional farmers supplied assorted produce to the markets of the ancient cities of the Indus Valley civilisation.

LONDON: Rice farming in India began far earlier than thought, according to new research on sites of the ancient Indus Valley Civilisation, which shows that domestication of the staple crop in the country may have developed in tandem with China.

The research also confirms that Indus populations were the earliest people to use complex multi-cropping strategies across both seasons, growing foods during summer (rice, millets and beans) and winter (wheat, barley and pulses), which required different watering regimes.

The findings suggest a network of regional farmers supplied assorted produce to the markets of the ancient cities of the Indus Valley civilisation, which stretched across what is now Pakistan and northwest India during the Bronze Age.

Evidence for very early rice use has been known from the site of Lahuradewa in the central Ganges basin, but it has long been thought that domesticated rice agriculture did not reach South Asia until towards the end of the Indus era, when the wetland rice arrived from China around 2000 BC.

Researchers, including those from Banaras Hindu University (BHU) in Uttar Pradesh and the University of OxfordBSE 0.00 % in the UK, found evidence of domesticated rice in South Asia as much as 430 years earlier.

"We found evidence for an entirely separate domestication process in ancient South Asia, likely based around the wild species Oryza nivara," said Jennifer Bates from University of Cambridge in the UK.

"This led to the local development of a mix of 'wetland' and 'dryland' agriculture of local Oryza sativa indica rice agriculture before the truly 'wetland' Chinese rice, Oryza sativa japonica, arrived around 2000 BC," said Bates.

"While wetland rice is more productive, and took over to a large extent when introduced from China, our findings appear to show there was already a long-held and sustainable culture of rice production in India as a widespread summer addition to the winter cropping during the Indus civilisation," she said.

The location of the Indus in a part of the world that received both summer and winter rains may have encouraged the development of seasonal crop rotation before other major civilisations of the time, such as Ancient Egypt and China's Shang Dynasty, said Cameron Petrie from University of Cambridge.

"Most contemporary civilisations initially utilised either winter crops, such as the Mesopotamian reliance on wheat and barley, or the summer crops of rice and millet in China - producing surplus with the aim of stockpiling," said Petrie.

"However, the area inhabited by the Indus is at a meteorological crossroads, and we found evidence of year-long farming that predates its appearance in the other ancient river valley civilisations," he said.

The study was published in the journals Antiquity and Journal of Archaeological Science.

Demonetisation: Cane farmers survive on credit but it is a crisis for farm, factory labourers

For small and landless farmers, long queues at banks and disbursement of less currency than stipulated by the RBI are proving dampener in the sowing season.

MEERUT: At Modi Sugar Mills in Modi Nagar, Krishan Kumar is waiting to unload sugarcane from his buffalo cart. He is concerned about the cash crunch but says farmers are resilient.

"I have yet to get Rs 3 lakh for sale of sugarcane sold last December but sill surviving on credit. We will manage this phase too," says Kumar, who has come with 20 quintals of cane at 3am.

He is happy with Prime Minister Narendra Modi’s decision to discontinue old higher denomination currency notes but is struggling to strike a balance between cutting his sugarcane crop and standing in queue at bank.

Things are much worse for small and tenant farmers and daily labourers in the rural belt towards Meerut, an ancient city in western Uttar Pradesh. Those who grow seasonal vegetables, flowers and other crops in an area less than 1-2 acre have seen sales halve.

Surinder has rented over 1 acre (6 bigha) of land in Niwari village near Modinagar town in Ghaziabad district of Uttar Pradesh for an annual rent of Rs 30,000 to grow sugarcane and marigold. He has not received money from the sugar mills for the previous year and says demand and price for flowers has come down for temples and weddings. Unable to sell 3,000 kg of the marigold in Delhi, he says if he can get some money, his priority will be to buy fertiliser and wheat seed.

"I will make a partial payment to my labourers and buy sugar and oil for my family," he says. Like other landless farmers, Surinder is also unable to borrow money from the organised financial sector for seeds, pesticides and fertilisers.

However, Surinder's neighbour Manoj Tyagi, who owns 10 acre, feels there was no challenge in the rural market. "I have 200 quintal (1 quintal=100 kg) wheat and 1 quintal rice in my house. I will accept sugar from the mill instead of cash this time against my sugarcane sale. Our need for milk and dairy products is met by our two buffaloes," says Tyagi, who is in favour of demonetisation to get black money and fake currency out of the system.

For small and landless farmers, long queues at banks and disbursement of less currency than stipulated by the RBI are proving dampener in the sowing season. Those who are able to withdraw cash are also suffering since banks offer Rs 2,000 note rather than the lesser denomination currencies and coins instead of cash. In rural areas, banks often do not follow regular banking hours, especially when they run out of cash.

The labourers in farm and factory who get Rs 300-500 per day are not getting credit from shopkeepers, who are not confident about repayments even after a month in view of cash crunch in the market. It has compelled many to reduce their consumption of milk and chicken or mutton and even sell household items, says Bijendra, who works as a daily labourer in Modi Nagar.

Farmers are even cutting costs of cattle feed, says farm labour Rajendri from village Jagatpuri, who cuts sugarcane in exchange of green stock instead of wages. She is unable to find dairy farmers to purchase a bunch of green stock at Rs 10 for 2-3 kg.

On a normal winter day, fresh gur from Mangu Singh Tyagis kolu (jaggery making unit) would sell like a hot cake. He is unable to sell his produce to retailers in neighbouring villages and Muradnagar’s jaggery mandi that is on strike to protest against demonetisation.

With rural banks unable to dispense the stipulated amount suggested by the RBI to farmers, the village economy is being impacted, says Virendra Singh, a farmer from Rohta village on the outskirts of Meerut city. "I have postponed wedding of my son, who was get married on December 8, since I am unable to withdraw either from the cooperative bank or the local public sector banks (PNB and Syndicate). I had kept a budget of Rs 15-20 lakh to entertain 1,000-1,200 people and buy jewellery for my daughter-in-law," he says.

According to Bajaj Auto sub-dealer Rajeev Shandilya, sale of bikes has not taken off despite the wedding season due to the cash crunch. Since the beginning of this month, he has been able to sell only five bikes, of which two were sold on credit. Shandilya is not hopeful to achieve his target of 20 bikes for November.

Irshad, a furniture shop owner, says he has never seen such a slump during the wedding season.

In Meerut city, fertilizers, pesticides and seed traders say bulk sales have slumped even as the peak season of sowing has set in.

"So much time is wasted to get your own money," says Suresh Chand Gupta of Kaiser Ganj Road in Meerut city, who had sent his son to the bank to withdraw money. "80% of the products being sold are on credit to dealers in villages. In the current scenario, we are just making daily need purchases and nothing extra."

The Rs 7 a cup of tea is also proving to be costly in the Kaiser Ganj market, which is the main arterial business road of the city. Tea vendor Vijay Kumar quips that from an average purchase of 5 litre milk to make tea, he is now only getting 1.5 litre, as customers—shopkeepers, farmers to labourers—have cut down their tea intake. "I have no money left to buy biscuits, chips, and for once, consumers are not complaining," he says.