

Empowering Farmers – Utilising Capital Markets to Transform Agricultural Markets



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Indian agriculture, the backbone of the nation's economy, supports millions of livelihoods and ensures food security for 1.4 billion people. Yet, small and marginal farmers, especially those now being organized under Farmer Producer Organizations (FPOs), face daunting challenges in navigating volatile markets, securing fair prices, and accessing modern financial tools. These hurdles not only threaten their livelihoods but also impact the country's food and nutritional security and economic stability.

The Farmer's Plight: Navigating a Maze of Market Challenges

Imagine a farmer who toils for months, only to find that the price of their harvest plummets just as they reach the market. Price volatility is a harsh reality for Indian farmers, driven by unpredictable weather, fluctuating global demand, and global linkages of agri markets across world. For FPOs, which aggregate produce from

smallholder farmers, this unpredictability can be catastrophic, eroding income and discouraging investment in better farming practices. Without tools to manage this risk, farmers are often forced to sell at distressingly low prices, trapped in a cycle of poverty and debt.

Exploitation by Middlemen: The Hidden Tax

Middlemen have long dominated agricultural markets, exploiting farmers' lack of holding capacity, market access and information. FPOs, despite their collective strength, often struggle to bypass these intermediaries, who dictate terms and corner maximum share of profits. Such exploitation leaves farmers with suboptimal returns, limiting their ability to reinvest in their farms or improve their quality of life. The absence of direct market linkages further isolates FPOs, making them vulnerable to unfair practices and reducing their bargaining power.

Limited Market Access: The Isolation Trap

For many FPOs, accessing formal markets is like trying to navigate a labyrinth with no map. Smallholder farmers, often in remote areas, lack the infrastructure, knowledge, and resources to engage with larger buyers or commodity exchanges. This isolation forces them to rely on local markets, where prices are often dictated by a handful of buyers. Without integration into broader market systems, FPOs struggle to scale their operations or achieve financial stability, perpetuating inefficiencies in the agricultural supply chain.

Knowledge Gaps: The Barrier to Modern Markets

The complexities of commodity trading and financial derivatives are alien to most farmers. Terms like "futures," "put options," and "hedging" might as well be a foreign language. For FPOs, this knowledge gap creates a significant barrier to participate in formal derivatives markets. Without proper training, they risk losses due to poor trading decisions or substandard produce quality, further undermining their confidence in engaging with platforms like commodity exchanges.

Hedging Against Price Volatility: A Safety Net for Farmers

While the crop insurance schemes work in the interest of farmers if there is a crop failure, mainly on account of natural calamities, crop insurance does not come into play to address volatility in prices of harvested crop. So when the prices of a commodity go down, when harvested crop comes at one go in the market, due to inability of farmers to hold after reaching mandi, there is oversupply situation leading to a price crash, and there is no solution for farmers on account of crop insurance. By integrating farmers into formal market systems, providing education, and leveraging financial tools like derivatives, the agricultural landscape can greatly benefit.

Empowering FPOs with Futures and Options

Price volatility keeps FPOs and constituent farmers awake at night, but derivatives market offers a lifeline. Through futures and put options, FPOs can lock in prices for their member's produce, shielding them from market downturns. For instance, a farmer growing chana can use a put option to secure a guaranteed price, ensuring income stability even if market prices crash. This financial safety net allows FPOs to plan ahead, reinvest profits into better seeds or

equipment, and break free from the cycle of uncertainty.

Collaboration between all the relevant stakeholder like SEBI, Exchanges, NABARD and SFAC, market based initiatives such as put option can be promoted, which can help FPOs manage price risks without bearing the full cost of premiums. These efforts empower farmers to face market fluctuations with confidence, inspiring other institutions to develop similar risk-mitigation tools tailored to smallholders.

Enabling Direct Market Access - Integrating FPOs into Formal Trading Systems

The market system can be used for effectively dismantling the exploitative grip of middlemen by connecting FPOs directly to its trading platform. This direct access empowers FPOs to bypass intermediaries, negotiate better prices, and retain a larger share of their profits. The derivative market truly exemplifies “one nation, one market” and the farmers know the price of their produce across the nation and don’t have to depend on exploitative Mandi operator around in their village. By fostering transparency, derivatives platform can ensure that FPOs are no longer at the mercy of local buyers. For example, an FPO trading Castor seed on a derivative exchange can access real-time market data and sell directly to institutional buyers, cutting out the middleman’s “hidden tax.” This model not only boosts farmers’ incomes but also sets a precedent for other exchanges and organizations to prioritize direct market linkages, creating a more equitable agricultural ecosystem.

Bridging the Knowledge Gap: Empowering Through Education

Knowledge is power, and commodity market participants impart the same in regional languages to simplify complex concepts like derivatives trading, using real-world trading screen examples to make learning practical. These programs, often supported by academic institutions like the Institute of Rural Management, Anand (IRMA), equip FPOs with the skills to navigate commodity markets confidently. Such empowerment inspires other organizations to invest in capacity-building, recognizing that knowledge is key to unlocking the potential of farmers in modern markets.

Incentivizing Participation: Financial Support for FPOs

A formal derivatives market mechanism understands that financial barriers can deter FPOs from engaging with formal markets. To address this, they offer incentives like early pay-in benefits, allowing FPOs to recover margins and trading costs by depositing funds or commodities early. Additionally, incentivising post-harvest expenses such as warehousing and transportation, make trading more affordable and accessible to resource-constrained FPOs, encouraging wider participation. FPOs in the formal derivatives market structure can also use modern day instruments like electronic negotiable warehouse receipts and get formal relationships with Banking system.

Building a Resilient Ecosystem: Collaboration and Innovation

When all the financial sector players in India come together to build a robust ecosystem that integrates farmers into the derivatives market, such partnerships facilitate grassroots outreach, ensuring that FPOs and their farmer members across the country can access derivatives market related tools and resources. The new layer of financial sophistication besides aligning agriculture with global markets, stabilizes farm incomes as also helps attract institutional investors, deepening market liquidity. Such systemic changes inspire other stakeholders and policymakers to adopt innovative financial products tailored to farmers’ needs, fostering a more resilient and inclusive economy.

A Ripple Effect: Inspiring Change for India’s Prosperity

The challenges faced by FPOs—price volatility, exploitation, limited market access, and knowledge gaps—are not just agricultural issues; they are barriers to India’s economic growth. Agriculture employs nearly half of India’s workforce, and its stability directly impacts the nation’s prosperity. By empowering FPOs, the market mechanism positively impacts farmers’ livelihoods as also strengthening the agricultural supply chain, reducing food price volatility, and boosting rural economies and incomes. This, in turn, enhances food security and supports sustainable development, contributing to India’s broader economic goals.

NCDEX: A change agent for Empowerment and Prosperity

The journey of Indian farmers is fraught with challenges, from unpredictable prices to exploitative middlemen and limited market access. These issues not only threaten livelihoods but also hinder India’s agricultural potential. NCDEX’s systematic approach—offering derivatives to hedge risks, connecting FPOs to formal markets, providing tailored education, and reducing financial barriers—addresses these challenges head-on. By empowering FPOs with tools and knowledge, NCDEX is creating a more equitable and resilient agricultural ecosystem, ensuring farmers can thrive in volatile markets.

NCDEX’s initiatives are more than just solutions; they are a call to action. By showcasing the impact of financial innovation and collaboration, NCDEX inspires other institutions to invest in farmer empowerment. The impact of NCDEX’s initiatives is quantifiable and profound. By March 2025, 673 FPO accounts represented 11,54,061 farmers, with 246 FPOs hedging 2,83,433 MT across 23 commodities. As more FPOs gain access to modern markets, India’s agricultural sector will drive economic growth, enhance food security, and uplift millions of lives. This transformative model not only strengthens farmers but also paves the way for a prosperous, inclusive future for the nation.