CHAPTER XII

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION
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Summary of Findings:

1. **Awareness level:**

   - All the farmers in the sample are generally aware of the existence of the commodity futures market due to its publicity in various leading newspapers, Television, etc. However, these general awareness about the futures markets may not lead to participation of the farmers to trade as the procedure to trade in exchange involves complex process.

   - As per the findings from the analysis, none of the farmers are having extremely good knowledge to trade in futures market followed by only 6.8 percent of respondents are having good awareness to trade in futures exchange. 48.8 percent of them are moderately aware to trade in futures market. And still 40.1 percent of respondents are poorly aware about the futures exchange. The main reason for this is inadequate understanding about its working i.e., how to trade in the market. The producers are however largely indicated their willingness to trade in the market provided that terms and conditions to trade in commodity exchanges are made simplified.

   - **Farmers’ awareness on the services rendered:** Trading system, Grading system, market information system and Clearing and settlement mechanism noticed that more than 50 percent of farmers are aware of these services offered by Regional Commodity exchanges. Except Cotton association of India (CAI), more than 50 percent of farmers in other regional commodity exchanges are aware of the warehousing services.

2. **Effectiveness of Services rendered**

   - Market information system (77.5 percent) with the highest mean score followed by Trading system (76.4 percent) facilitated better to trade in Regional Commodity exchanges in India. The rest i.e., Government regulatory system with 72.0 percent, Grading & Warehousing system (67.7 percent) and Clearing & Settlement mechanism (71.8 percent).
✓ **Trading system:** Trading system is comfortable to trade as the mean score is high (98 percent) followed by the system leads to increased access (94 percent) because it contains standardized rules of trading (78 percent). The transaction cost and the increased volume has got the lowest mean score of 76 percent and 58 percent.

✓ **Grading and Warehousing system:** Grading method adopted in regional commodity exchange helps the farmers in gaining price premium to farmers as 76 percent of the farmers are satisfied with the price to trade followed by satisfaction with respect to Common standards adopted to grade the commodities (62 percent). While the farmers are not satisfied much with the warehousing facility as they expressed very low satisfaction with warehousing, Warehouse receipt financing and the charges laid by the warehouse.

✓ **Market information system:** Respondents expressed higher satisfaction on decision making (76 percent) as the system provides the data on price and commodities which are in demand, farmers can decide well in advance which commodities to grow. Also respondents agree that they are getting remunerative prices for their commodities with these information system whereas they expressed low satisfaction on providing reliable, complete and timely information.

✓ **Government regulation:** Respondents expressed that there should be proper institutional infrastructure has to be provided with 82 percent followed by stringent and continuous regulation with regard to ban of commodities for futures trading has to be taken proper attention.

✓ **Clearing and settlement mechanism:** Respondents gave maximum mean score i.e., 78 percent as the exchange provides limited fear of default of the parties involved in the contract and settle the funds in time. They are satisfied comparatively less with the dispute settlement board of the commodity exchange as the mean score was 64 percent. But the respondents are not satisfied with the margin payments.
3. **Correlation between the farmers and services rendered:**

- **Indian Pepper and Spice Trade Association, Kochi:** Clearing and settlement mechanism showed high degree of positive correlation with growth of regional commodity exchange (0.75) followed by Government regulation (0.74). In addition, Grading and Warehousing system (0.72), Trading system (0.70) and Market information system (0.69) showed a positive relationship with the growth of Regional commodity exchange.

- **First Commodity exchange of India, Kochi:** Government Regulation showed high degree of positive correlation with growth of regional commodity exchange (0.81) followed by Clearing and Settlement mechanism (0.80).

- **Bikaner Commodity exchange Limited:** Market information system showed high degree of positive correlation with growth of Bikaner Commodity exchange limited (0.84) followed by Government regulation (0.82). In addition, Trading system (0.79), Grading and Warehousing system (0.76) and Clearing and Settlement mechanism (0.76) showed a positive relationship with the growth of Bikaner Commodity exchange limited.

- **Cotton Association of India, Mumbai:** Market information system showed a high degree of positive correlation with growth of Cotton Association of India (0.81) followed by Trading system (0.79). In addition, Clearing and settlement mechanism (0.78) and Government regulation (0.68) showed a positive relationship with the growth of Cotton Association of India.

- **Surendranagar Cotton oil & Oilseeds Association Ltd:** Government regulation showed a high degree of positive correlation with the growth of SCAI (0.83) followed by Trading system (0.79). Further, Clearing and settlement mechanism (0.78), Market Information system (0.77) and Grading and Warehousing system (0.76) showed a positive relationship with the growth of the exchange.

- **Chamber of Commerce, Hapur:** Market information system showed high degree of positive correlation with the Growth of Regional commodity exchange (0.84) followed by Government regulation system (0.75).
4. Operational Model of Regional Commodity Exchange

- The Chi-square value is 227.7 and is small when compared to the value of independence model (597.7). Hence the chi-square value is good. For the present model, the $\chi^2/df$ is 2.882 where $\chi^2 = 227.7$ and $df = 79$, signifying a model as good fit.

- Goodness of Fit index (GFI) obtained is 0.94 as against the recommended value of above 0.90. Adjusted Goodness of fit index (AGFI) is 0.92 as against the recommended value of above 0.90 as well. The Normed fit Index (NFI), Relative Fit index (RFI) and Comparative Fit index (CFI) are 0.95, 0.94 and 0.97 respectively as against the recommended level of above 0.90. Root mean Square error of approximation is 0.03 and is well below the recommended limit of 0.05. Hence the model shows an overall acceptable fit.

5. Operational Issues and Potential Benefits

- Regional Commodity exchanges facing are farmers could not make their margin payments as they have to match daily gains/losses while the second major problem is lack of awareness among participants. The word of mouth communication from those individuals who know little about the benefits of futures is potentially blocking farmers and other participants to trade. Because of the negative perception prevailing among some of them and the perception created by those persons, the farmers will not be fully able to evaluate the usefulness of the market until they have experienced it.

- The main reason for the participant to enter into futures contract is to avoid the Commodity Price risk as 79.4 percent of respondents agreed that futures exchange helps to transfer the risk to the traders who are willing to assume the risk.
Suggestions

1. Conduct of Awareness Programmes

There is a need for conducting a number of Awareness Programmes for the farmers and other stakeholders by the commodity exchanges including numerous growers’ associations, Farmers’ Clubs if any promoted by banks or NGO with the support of NABARD, etc. which should be headed by publicity through print and visual media for ensuring effective participation. If possible, local farmers might be formed into groups and they can be made aware of the benefits and risks involved in commodity futures markets. Additionally, print media, television and radio should be widely used to publicize the price and other information of various commodities traded in these futures markets.

As a part of the training programme, it would be greatly effective if preparation could be made for some kind of “mock trading” in futures market through demo software, if possible in local language. Use of local language in trading would enormously boost the confidence of farmers as they can understand the concepts well and they can realize that they would be benefitted with these futures trading.

2. Lot-size Requirement

The small farmers finds it really difficult to trade in the futures market as their commodities produced is limited and the delivery lots prescribed by commodity Exchanges in contract specifications are difficult to follow. Commodity standardization adopted by the these commodity Exchanges aims at instructing regularity in the working of the exchanges as also decreasing the transaction cost, counter-party risk and risks intrinsic in the variations in commodity prices. It is a pre-requisite for future trading, but farmers, particularly small, finds it extremely difficult with their small volumes. It may not, therefore, be realistic for the small farmers to take part in the commodity trading individually.

3. Role of Aggregators

It is not possible for the small farmers to trade in futures market independently with a small supply of commodities. The main advantage of group participation is lesser
transaction costs. The farmer associations may act as an aggregator and broker to trade in commodity exchanges. The major role of the aggregators is to collect the produce of the farmers and trade on the Exchange platforms of commodity Exchanges on behalf of the farmers. Farmers’ Groups, Co-operative Institutions, RRBs, NGOs, State Agricultural Marketing Boards, Warehousing Corporations, Commodity Development Boards, etc. which work in rural parts and have close association with the farmers should be allowed and encouraged to act as aggregators. The aggregators will hedge in the best interests of the farmers in the futures market, as they will be having the required knowledge and operational abilities needed to trade in these markets.

4. Margin Requirement

There is an enormous requirement of funds to meet the margin requirement to participate in the market. The assurance charges are too excessive for the farmers. The farmers, while harvesting the commodities and processing them, take advance from traders (eligible bank finance already availed) to meet their instant financial requirements while committing their commodities to them. Therefore, once the commodity is market-ready, farmer will sell his commodities at the earliest to the same traders to lessen his financial burden. Institutional finance like post-harvest credit, bank guarantee, etc. are crucial to enhance their participation in the market.

5. Proper Delivery System

A good delivery system is the mainstay of any commodity trading. There must be a delivery point in all the districts, or else the market participants are obliged to make delivery somewhere else in the State which is a big obstacle in spreading the market among farmers. The cost of transportation of the commodities to widespread places may be too prohibitive for the small farmers.

6. Banking Support and warehouse receipt financing facility

The banks may develop appropriate services to meet post-harvest credit requirements and to provide bank guarantee so that farmers’ dependence on traders will be reduced. When finance is available, farmers can hold the commodity and trade in futures market and therefore he can get the appropriate price for the commodity produced. They can help in organizing training and awareness-creating programmes exclusively to the
farmers. The finance fixed for the crops have to be reviewed periodically to account for the increasing cost of farming and the inflation.

7. Quality Testing

Self-governing quality testing centers has to be set up in each region to certify the quality and quantity of commodities so that they are suitably standardized protecting the interest of the final buyer who takes the physical delivery. Incentives available under the Government of India’s is the “Scheme for Development / Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization” could be channelized to the producers and their Associations more effectively. A strategic partnership between Forward market commission and National Institute of Agriculture Marketing (NIAM) may help in better provision of training inputs among the producers.

8. Simplification of Process

The futures’ trading is a difficult process and, therefore, needs to be made simple and farmer-friendly. Confidence-building procedures for farmers and traders can be undertaken. These procedures will help the farmers and local traders to understand the trading mechanism well and boost them to participate in futures market. Exchanges should also design their market techniques and contracts so as to enable producers an easy access to these futures markets. The structure of markets, contract specifications and other prerequisite of trading on these futures markets should be made simple and easy to assist farmers to trade in these markets.

9. Effective Price Dissemination

In order to make sure that benefits of price discovery on commodity Exchange platforms reach the growers, it is of major importance to build infrastructure which enables in disseminating the prices to the remote corners of the country. The efforts made by the Forward market commission and Commodity exchanges for disseminating the commodity futures prices has to be improved further and new channels of dissemination has to be discovered. Most of the people are locals or are familiar with local customs and ambition. Mere transmission and dissemination of price information might not be enough. The target population needs to be explained as to its use as well as the manner of interpreting it.
10. Setting up of E-kiosks in Villages

The setting up of e-governance kiosks at subsidized rates, co-funded by public and private sponsors, for disseminating the prices of commodities as well as for providing the trading platform in the villages can be considered. Producers’ “Call Centers” are already operating in several villages and this concept can be enhanced further to provide future trading platform in commodities to the farmers. Some privately-owned portals are – E-Choupals (operated by ITC Ltd., its services today reach out to over four million producers growing a range of commodities - soybean, coffee, wheat, rice, pulses, shrimp - in over 40,000 villages through 6500 kiosks across ten States across the country), to reach the un-reached, un-served and under-served areas more efficiently by using ICT through its partner NGOs, etc.

11. Language Issues

To trade in commodity futures market requires familiarity of English as well as computers. If the process is shortened and data made available in local languages, many farmers will appreciate the market principles and could eventually participate to trade. There is an urgent necessity to provide information in local languages. Further, there is also a necessity to develop the trading software in the local language for each State across the country so that the intellectual block of the farmers who then are ready to participate in the future market dissolves. Such software could then be combined with e-kiosks located in the regions where farmers could go and directly trade in the market. However, all these would require an effective training drive and creation of awareness among the farmers on a varied scale in partnership with all the other stakeholders concerned in agriculture and rural improvement.
Conclusion

The study shows that all the variables have high significant impact on farmers’ perception to trade in Regional commodity exchange that is, the growth of Regional Commodity exchange is influenced by Trading system, Grading and warehousing, Market information system, Government regulation and clearing and settlement mechanism. Grading facility has high positive relationship with Regional Commodity exchange. Farmers reported that the Grading facility would improve their trading activity and ensure remunerative prices as per their quality of commodities. The results also revealed that the farmers prefer to get the information through Short messaging service or newspapers and expect the exchange to know their preferences. Hence, Market information system had a significant impact on the farmers to trade in commodity exchanges. Government regulation forms the basis for trading in commodity exchange. It has to make necessary changes in contract specifications. Thereby it attracts small farmers to trade in regional commodity exchanges. As well clearing and settlement mechanism also strongly influence towards the growth of Regional Commodity exchange as it helps mainly in settlement of their funds in time. Forward market commission (Regulator of Commodity futures market) has to take certain steps to enhance the participation of farmers like it should launch micro and mini contracts (with small trading lots and tick size) across all agricultural commodities to encourage the direct participation of farmers and small traders, government should allow farmer cooperatives and agricultural marketing federations to act as aggregators and hedge positions in futures exchanges on the behalf of their farmers.
DIRECTIONS FOR FURTHER RESEARCH

- The study focuses only on the operational issues faced by Regional Commodity exchanges in India. Further studies could focus on the regulatory mechanism or in-depth analysis on any one operational aspect like settlement; clearing; delivery; or impact of improvement in physical delivery on the price discovery can be carried out.

- The working of these regional exchanges can be studied and compared with the working of national exchanges in India.

- The study covers all six regional commodity exchanges. However, in-depth studies could be undertaken to analyze the overall working of any one exchange only.

- Study on hedging effectiveness in Indian Commodity market.

- Study on Informational efficiency in Indian Commodity market.