

## AWARENESS OF COMMODITY DERIVATIVE MARKET AMONG FARMERS OF GUJARAT

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**ABSTRACT** : Indian economy is on the broader side a fairy tale of the successful journey over the centuries. Its performance in terms of the output growth has been remarkably and exceptionally outstanding. India stands the very first under the Sun in the production of jute, jute-like fibers, pulses and milk, is on the second position in groundnut, vegetables, fruits, cotton, rice, and wheat and sugarcane production, and is a leading producer of fisheries, poultry, livestock, spices and plantation crops. Crop growing is the mainstay for over 58% of India's population. It contributes to approximately one-fifth of total gross domestic product (GDP). Agrarian occupation accounts for about 12 percent of the total export earnings and provides with the raw material to a large number of industries. Being the third largest landmass in world, India is a top-notch producer of a hoard of agrarian merchandises. However, the ironical fact remains that Indian agriculture has one of the lowest yields in most commodities; nearly 55% of farming soil sown is rain-fed and the farm produce harvest is chiefly governed by the extent and amount of rainfall. Needless to mention while there are challenges there are huge potentials and opportunities as well. It is rightly said that every dark cloud has silver lining.

### WHAT IS DERIVATIVES?

“Derivatives are one type of securities whose price is derived from the underlying assets. These underlying assets are most commonly Stocks, Bonds, Currencies, Interest rates, Commodities and Market indices” (Karvyonline.com). Derivatives play a vital role in risk management in both financial and non-financial institutions. The derivatives can be classified as Futures contracts, Forward Contracts, Options, Swaps and Credit derivatives.

Commodities were things of value of uniform quality that were produced in large quantities by many producers. It includes all kinds of goods other than actionable claims, money and securities. “A Commodity Exchange is an association, or a company of any other body corporate organizing futures trading in commodities. It includes any organized market place where trade is routed through one mechanism, allowing effective competition among buyers and sellers. It would include auction-type exchanges, but not wholesale markets, where trade is localized, and effectively takes place through many non-related individual transactions between different permutations of buyers and sellers” (www.way2wealth.com). The emergence of the derivatives markets as the effective risk management tools in 1970s and 1980s has resulted in the rapid creation of new commodity exchanges and expansion of the existing ones.

### TYPES OF COMMODITY MARKETS:

The commodities market exists in two distinct forms namely the Over the Counter (OTC) market and the exchange based market. As in equities, these markets are also referred to as spot markets and the derivatives markets respectively.

(i) OTC markets: These are essentially spot markets and are localized for specific commodities. Almost all the trading that takes place in these markets is delivery based. The buyers as well as the sellers have their set of brokers who negotiate the prices for them. This can be illustrated with the help of the following example: A farmer, who produces castor, wishing to sell his produce would go to the local ‘mandi’. There he would contact his broker who would in turn contact the brokers representing the buyers. The buyers in this case would be wholesalers or refiners. In event of a deal taking place the goods and the money would be exchanged directly between the buyer and the seller. The participation is restricted to people who are involved with that commodity say the farmer, processor, wholesaler etc.

(ii) Exchange-traded markets: These are essentially only derivative markets and are similar to equity derivatives in their working i.e., everything is standardized and a person can purchase a contract by paying only a percentage of the contract value. A person can also go short on these exchanges. Also, even though there is a provision for delivery, most of the contracts are squared-off before expiry and are settled in cash. As a result, one can see an active participation by people who are not associated with the commodity. Majority of the derivative trading takes place through exchange-based markets with standardized contracts and settlements etc.

**NCDEX futures platform fetches good response in Gujarat by-Vimukt Dave  
(<http://www.financialexpress.com>):**

Farmers' participation in futures platform of National Commodity and Derivatives Exchange Limited (NCDEX) is picking up in Gujarat as trading on it has given nearly 20% more returns to the farmers. So far, six farmer producer organisations (FPOs) have been registered on NCDEX, of which three FPOs are active on futures platform. Companies like Reliance and IFFCO Kisan Sanchar Limited are promoting these FPOs in the state to educate the farmers for better price realisation.

Recently, Rajeshwar Farmers Producer Company from Vav taluka of Banaskantha district has sold about six tonne of jeera on NCDEX and it has received about 23% more price than physical market. The FPO has 230 shareholders and is considering trading in castor next season.

"After getting sufficient education from the exchange and IFFCO Kisan experts, we have decided to participate on futures market platform and we are also expanding our member strength from current 230 to 500 in next three to five months," said Mavjibhai Patel, managing director of Rajeshwar FPO.

The FPO has procured about 10 tonne of jeera from members at `3,220 per 20 kg, of which, it has sold six tonne at about `4,000 per 20 kg on NCDEX.

According to sources in NCDEX, the FPOs have traded more than 13,000 tonne in 13 commodities like maize, soybean, RM seed, barley, wheat, cotton seed oil cake, guar seed, castor and jeera. FPOs from Gujarat have contributed around 50 tonne and have mainly traded in guar seed, castor and Jeera.

Another FPO, Banas Farmers Producer Company, from Patan district had traded guar seed on NCDEX few months back and earned about 20% profit.

Babubhai Thakor, director of Banas FPO said, "With guidance of the exchange we have traded about 22 tonne of guar seed on futures platforms. This has given us over 20% profit than spot market. Now we are planning to trade jeera in futures." Banas FPO has nearly 800 members and it will double its member strength by end of December this year.

The Exchange has started giving training to supportive agencies like the Small Farmers' Agribusiness Consortium (SFAC) and National Bank for Agriculture and Rural Development (NABARD). These agencies also create awareness among traditional farmer communities and become a bridge between commodity futures and the farmers.

"NCDEX is equipping farmers with access to regulated markets and helping them in price discovery while partnering with every stakeholder in the commodity value chain. The Exchange has decided to create awareness by educating farmers across the country and is planning to reach over 3 lakh farmers by March 31, 2018," said Samir Shah, managing director of NCDEX.

#### **AWARENESS OF COMMODITY DERIVATIVE MARKET AMONG FARMERS:**

##### **SEBI FORMULATES SCHEME TO SPREAD AWARENESS ON COMMODITIES DERIVATIVES**

The Securities and Exchange Board of India has formulated a scheme to spread awareness about commodities derivatives among farmers, manufacturers and cooperative groups.

Under the scheme, eligible entities interested in conducting commodities awareness programmes can approach SEBI for recognition and these entities can impart education in the field of commodity derivatives on topics such as forward or futures contracts, hedging and risks.

"The aim of the scheme is to reach the farmers/producers, farmers cooperatives/groups in various parts of the country," SEBI said. Recognised commodities derivatives trainers (CoTs) are expected to organise programmes in small towns and rural areas to provide easy access to farmers as well as their associations, and other stakeholders such as hedgers, traders, processors, exporters, importers and consumers.

Spelling out the eligibility criteria for CoTs, SEBI said that applicants should be a trust, society, company, NGO and institution in the field of education/other developmental/ ancillary activities pertaining to commodity derivatives.

Among other requirements, they need to have a three-year experience in the field of commodity derivatives.

"Applicant is in existence for at least three years at the time of applying to SEBI and has experience of working with the erstwhile Forward Market Commission (FMC) or any central or state government body etc in the area of education/other developmental/ancillary activities pertaining to commodities derivatives," the capital market regulator said.

SEBI will give recognition to CoTs for a period of one year initially, however, they can apply for renewal upon the expiry of the recognition.

**VAIJANATH BABSHEETTI, PRAKASH BASANNA (2016).** Financial derivatives have attracted the attention of scholars and academicians. As a result, various studies have been carried out with respect to price discovery, liquidity, and investor awareness. However, there is still an absence of substantial research in the area of Indian commodity derivatives. Hence, we undertook the problem of lack of awareness of agricultural commodity derivatives among farmers for the current study. The level of awareness about agricultural

commodity derivatives among farmers was assessed by administering a questionnaire to 460 farmers randomly selected across the state of Karnataka. Several studies have shown that the participation of farmers in agricultural derivatives has been very negligible. The lack of higher level of education among farmers, prevalence of excessive speculation, and lower liquidity are some of the reasons for non involvement of farmers in commodity derivatives. Despite commodity derivatives having been present for many years, their benefit has not reached the farming community. If the government undertakes necessary steps based on the suggestions/recommendations given by the researchers/committees, the awareness of farmers about agri commodity derivatives can be improved.

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