



ECONOMICS OF REDGRAM MARKETING IN SPOT MARKET vs. NSPOT EXCHANGE - A STUDY IN GULBARGA DISTRICT

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Abstract

NCDEX Spot Exchange Ltd. (NSPOT) is a leading electronic Spot Exchange in India deriving strength from the expertise of National Commodity and Derivatives Exchange Ltd (NCDEX), NSPOT offers an electronic trading platform for trading in a host of commodities, both agricultural and non-agricultural to various market participants, primary producers including farmers, traders, processors etc. The study compared the economics of tur marketing between NSPOT and APMC and found that even at a higher price per quintal in spot market the net realization by the NSPOT farmers selling through spot market would have been reduced by almost Rs.20 per quintal. This was mainly due to the reduced cost of marketing in NSPOT exchange which would benefit the farmers to a very large extent.

Keywords: spot exchange, awareness, participation, electronic platform, marketing pattern.

Introduction

Agriculture continues to be the mainstay of life for a majority of the Indian population even though its contribution as a percentage of the GDP has decreased to 14.2 per cent. The agricultural sector employs more than 57 per cent of the country's workforce. Significant strides have been made in agriculture production since independence. The subject of agriculture and agricultural marketing is dealt by both the States as well as the central government. Starting from 1951, the different Five-Year Plans laid stress on the development of physical markets, farm and off-farm storage structures, facilities for standardization and grading, packaging, transportation, etc.

Economic liberalization and emphasis on Public Private Partnership are already revolutionizing agricultural marketing. India is looking forward to having a double digit growth rate which can only be achieved if the income disparity between farmers and other sectors of the economy is narrowed through a market centric approach. There is a need to improve purchasing power of farmers through income from their farm and non-farm economic activities. Currently, farmers sell their produce through mandis (agricultural markets) which are controlled and regulated by respective state governments. Mandi is the delivery point where farmers bring their produce directly or through village agents for sale to traders. Trading in mandis is conducted and controlled by commission agents called Adatias who have extensive personal network and financial influence on farmers.

Therefore, the focus of growth in rural economy has to shift from production to processing and marketing of agriculture produce. Although, some of the governments have given permission to agencies (e.g. ITC, Cargill etc.) to operate as private mandis, problems related to transparency and fair price discovery persisted. Therefore, NCDEX took the initiative to launch a National Spot Market. Such a national level platform would help transcend regional and state boundaries and pave the way for participation by concerned entities irrespective of geographical locations. The farmer would stand empowered by virtue of the electronic platform which would extend the reach to buyers across the length and breadth of the country.

Materials and Methods

The present study pertains to Gulbarga district since APMC Gulbarga is the only market in Karnataka, where NCDEX has established NSPOT exchange for Redgram since 2009-10. From the selected six villages, participants spread over in three taluks 30 participants farmers were selected randomly who are participating in NSPOT and 30 farmers who are participating only in spot market are selected for the study. To compare the costs and benefits between NSPOT exchange and spot market. Thus the total sample size constituted 60 farmers.

The analysis of data was further done using tabular analysis to analyse the share of NSPOT exchange in the total quantity of Redgram traded in Gulbarga spot market. Further, pattern, procedures, costs, returns and benefits of both the markets (APMC and NSPOT exchange) were also worked out. The data collected were presented in tabular form to facilitate easy comparisons.

Results and Discussions

Comparative economics of Redgram marketing

The cost structure in Redgram sales via two alternative marketing channels, namely, NSPOT exchange and spot market is presented in Table 1. It can be observed that the total marketing costs per quintal of Redgram was Rs.153.1 and 265.3 when produce sold through NSPOT exchange and spot market respectively. A considerable decrease in total

marketing cost in NSPOT exchange was the result of several factors, among which commission charges and soot (deductions) were the most important components. While Redgram sellers paid commission charges of Rs.66.83 in spot market, which was not observed in NSPOT exchange. Also, while soot (deductions) accounted for a substantial amount in spot market (around 69.25 Rs. per quintal); it was totally absent in NSPOT. Cost of transportation per quintal in respect of NSPOT exchange sales was less by around Rs.11 when compared to the spot market. This was the result of pooled transportation system adopted by farmers at reasonable charges. Similarly, Weighment charges were less in case of NSPOT exchange. Assaying including cleaning and grading charges were slightly more in NSPOT exchange compared to spot market, because of grading operations were meticulously carried out in the case of NSPOT exchange. The notable thing with regard to marketing costs was that NSPOT exchange collected Rs.5 per quintal as trading charges, which was not present in the spot market. Also, since quality determination assumes much significance in NSPOT exchange, it collected Rs.3.50 per quintal from sellers for quality determination. These charges were absent in spot market. These findings are in conformity with the findings of Rajesh Kumar and Ranjit Kumar (2010).

Table 1 Costs and returns in marketing of Redgram (Rs. per quintal)

| Sl. No. | Particulars | NSPOT exchange | Spot market |
|---------|-----------------------|----------------|-------------|
| 1 | Transportation | 43.67 | 54.76 |
| 2 | Weighing | 03.43 | 09.33 |
| 3 | Loading and Unloading | 22.00 | 12 |
| 4 | Commission charges | 00.00 | 66.83 |
| 5 | Assay charges | 03.50 | 00.00 |
| 6 | Trading charges | 05.00 | 00.00 |
| 7 | Soot (Deductions) | 00.00 | 69.25 |
| 8 | Miscellaneous charges | 41.53 | 33.79 |
| 9 | Tur board charges | 07.00 | 00.00 |
| 10 | Storage cost | 33.90 | 13.76 |
| 11 | Total marketing cost | 153.10 | 265.30 |
| 12 | Price | 3640.10 | 3458.00 |
| 13 | Net benefit | 3487.00 | 3192.70 |
| 14 | Additional benefit | 294.30 (8.43%) | |

Table 2 presents the results that shed light on the utility of spot exchange operations in Redgram at Gulbarga. It may be recalled that NSPOT accepted only good quality Redgram for trading. Assuming that spot exchange operations were not yet started, the alternative option for Redgram growers was to dispose their good quality produce through spot market only. With this alternative possibility in the absence of NSPOT, it was reasonable to assume that NSPOT saleable produce could be sold at modal price reported by spot market. Even at a higher price per quintal in spot market the net realization by the NSPOT farmers selling through spot market would have been reduced by almost Rs.20 per quintal. This was mainly due to the reduced cost of marketing in NSPOT exchange which would benefit the farmers to a very large extent.

Table 2 Comparative marketing cost and returns in NSPOT exchange and spot market

| Sl. No. | Particulars | NSPOT exchange sales | Spot market sales | Difference between NSPOT over spot market |
|---------|------------------------------|----------------------|---------------------|---|
| 1 | Quantity of Redgram sold (Q) | 517.00 | 517.00 | 0.00 |
| 2 | Price (Rs /qtl) (P) | 3640.1 | 3732.63 | -92.53 |
| 3 | Gross returns (P×Q) | 18,81,931.7 | 19,29,769.71 | -47,838.01 |
| 4 | Marketing cost (Rs/q) | 153.10 | 265.30 | -112.2 |
| 5 | Total marketing cost (Rs) | 79,152.7 | 1,37,160.1 | -58,007.4 |
| | Net returns (Rs) | 18,02,779 | 17,92,609.61 | 10,169.39 |
| | Net benefit Rs/qtl | 3487 | 3467.33 | 19.67 |

Note: NSPOT quality tur is assumed to be sold at model spot price (2010-11)

Relationship between the prices of NSPOT exchange and spot market

The relationship between NSPOT and spot market price were explained in Table 3, from this it was observed that correlation coefficient of two prices were moderately correlated.

Table 3 Comparison of price realization pattern of NSPOT and spot market, Gulbarga

| Trade date | Price realization at NSPOT exchange | | | | Price in spot Market (Rs/q.) | Difference in prices (NSPOT and spot Market) | |
|------------|-------------------------------------|---------------------|----------------------|-----------------------------|------------------------------|--|-------------------|
| | Spot market Price (Rs/q) | Quantity traded (q) | Premium discount (%) | NSPOT price realized (Rs/q) | Modal | (Rs/q) | Percentage change |
| 09.08.10 | 3635 | 100.60 | 1.00 | 3671 | 3417 | 254 | 7.43 |
| 09.08.10 | 3612 | 100.40 | 1.00 | 3648 | 3417 | 231 | 6.76 |
| 09.08.10 | 3664 | 100.00 | 1.00 | 3701 | 3417 | 284 | 8.31 |
| 17.08.10 | 3886 | 100.40 | 1.00 | 3925 | 3550 | 375 | 10.56 |
| 09.08.10 | 3615 | 100.00 | 1.00 | 3651 | 3417 | 234 | 6.85 |
| 20.07.10 | 4059 | 100.40 | 1.00 | 4100 | 3928 | 172 | 4.38 |
| 12.08.10 | 3610 | 96.95 | 1.00 | 3646 | 3461 | 185 | 5.35 |
| 16.08.10 | 3624 | 103.85 | 1.00 | 3660 | 3496 | 164 | 4.69 |
| 09.08.10 | 3619 | 99.65 | 1.00 | 3655 | 3417 | 238 | 6.97 |
| 09.08.10 | 3620 | 99.90 | 1.00 | 3656 | 3417 | 239 | 6.99 |
| 09.08.10 | 3610 | 99.90 | 1.00 | 3646 | 3417 | 229 | 6.70 |
| 09.08.10 | 3610 | 100.20 | 1.00 | 3646 | 3417 | 229 | 6.70 |
| 09.08.10 | 3605 | 99.21 | 1.00 | 3641 | 3417 | 224 | 6.56 |
| 28.09.10 | 3730 | 100.09 | 1.00 | 3767 | 3590 | 177 | 4.93 |

The cost structure in Redgram sales via two alternative marketing channels, namely, NSPOT exchange and spot market was analysed and it was observed that the total marketing costs per quintal of Redgram was considerably less when produce sold through NSPOT exchange compared to spot market due to several charges involved in spot markets such as commission charges and soot (deductions). The notable thing found with regard to marketing costs was that NSPOT exchange collected Rs.5 per quintal as trading charges, which was not present in the spot market.

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