



Commodity Futures as Catalysts of Inclusive Growth – The Cardamom Chronicle



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Inclusive Economic Growth

- PM's Appeal for a caring and inclusive India
- Annual Bankers conference on "Inclusive Growth - A new challenge" – Nov '06
- Rangarajan Committee on Financial Inclusion – June '06



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Indian growth story

- Accelerated average growth rate of 8.1 % from 6.0%
- Agricultural growth rate-1.96%
- Urban–centric economic activities
- Rural area lagging behind
- Need for market reforms



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Annual Growth rates of real GDP at factor cost by industry of origin

Year	Primary Sector	Secondary sector	Tertiary Sector	GDP at factor cost (2 to4)
1	2	3	4	5
At 1993-94 prices				
1979-1999	3.56	6.48	7.02	5.67
New series at 1999-2000 prices				
2000-01	0.0	6.8	5.4	4.4
2001-02	5.9	2.8	6.8	5.8
2002-03	-5.9	6.9	7.03	3.8
2003-04	9.3	7.8	7.70	8.5
2004-05 (P)	0.6	10.0	9.17	7.5
2005-06 (Q)	5.8	10.1	9.67	9.0
2006-07 (A) (April-November)	2.7*	10.6	10.7	9.2

P= Provisional estimates Q= Quick estimates A=Advanced estimates Source= Economic Survey, 2006-07
*does not include mining and quarrying which has a growth rate of 3.8 in the same period

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Why Market Inclusion ?

- Less opportunities for value addition in rural area
- Employment shift to urban areas
- Dominance of urban based traders
- Low producers' share in consumers' rupee
- Call for inclusive development of market
- All round development of market infrastructure
- Benefits need to percolate to rural areas



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Cardamom futures at MCX – How it led Market inclusive development

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About Cardamom

- Cardamom - “**Queen of Spices**” - originated in India (the southern Malabar coast).
- India produces- Malabar, Mysore and Ceylon varieties
- *Charaka Samhita* -mentions its therapeutic effects
- *Arthashastra* -describes its ceremonial use
- *Manasollasa* –included it in panchasugandha-thambula or 'five-fragrance betel chew'
- Kannur in Kerala- Portuguese and British developed International **Trade center for cardamom**
- One of the highest priced spices
- Used as a culinary ingredient
- Acts as a digestive aid

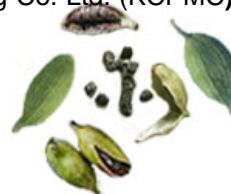


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Cardamom harvest and marketing

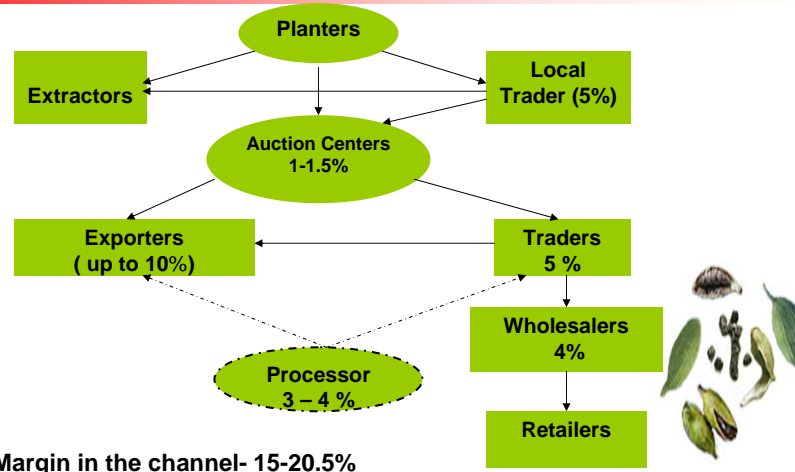
- 15 years crop-starts yielding from third year onwards
- Harvesting - August to January
- Plucked, cleaned, dried and sold in 7 major auction centers in Kerala and Tamil Nadu
- The Kerala Cardamom Processing and Marketing Co. Ltd. (KCPMC), Vandanmedu - biggest auction center in Kerala
- Auction centers or Local traders
- Three grades- 7mm (exports), 6-7 (domestic), < 6mm (for flavor extraction industry)



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Supply chain of cardamom



Total Margin in the channel- 15-20.5%

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Selection of Contract Specifications

Decided by the exchange after interacting with all physical players


- Better understanding of specifications
- Delivery at a convenient place
- Availability of suitable grading and standardization facilities
- Attractive for investors
- Should be an effective benchmark to send and receive price signals



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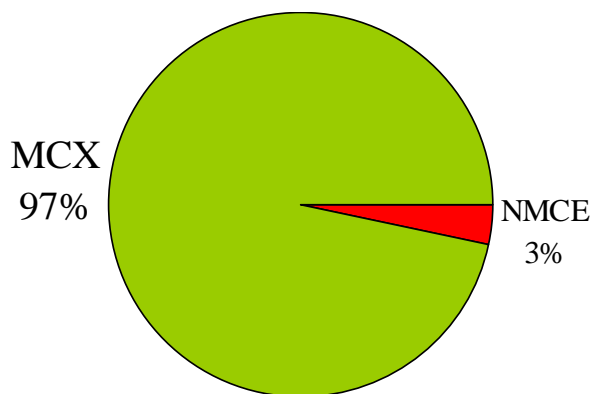
Cardamom Futures- MCX vs NMCE

	MCX	NMCE
Trading Unit	100 Kg	100 Kg.
Quotation/base value	Rs/Kg	Rs/Kg
Maximum order size	5000 Kg (50qtls)	5000 Kg (50qtls)
Delivery Unit	100 Kg and direct multiples thereof	100 Kg
Delivery centre	At exchange designated warehouse at Vandanmedu	CWC Cochin/Kottayam
Quality certification	<ul style="list-style-type: none"> ▪ Size of capsules-7mm ▪ colour-deep green, fancy green, fast green and green ▪ cardamom shall be free from blacks and fruits ▪ Immature cardamom: 5% maximum by count ▪ Split cardamom: 5% maximum by count ▪ Thrips: 3%maximum by count ▪ Immature, split, shriveled, and thrips taken together shall not exceed 7% by count. ▪ Weight in Grams per Litre (Litre weight): 400 and above 	<ul style="list-style-type: none"> ▪ Size of capsules: 6.0 m.m. ▪ Colour:Deep green, green or light green ▪ Empty and malformed capsules:2.% by count max ▪ Immature & Shrivelled capsules: 2.% by weight max ▪ Weight in Grams per Litre (Litre weight): 415 min 
Packing	Packing in 50 Kg. net double jute bag with inner polythene lining	Packing in 50 Kg. net double jute bag with inner polythene lining
Delivery logic	Compulsory Delivery	Compulsory Delivery

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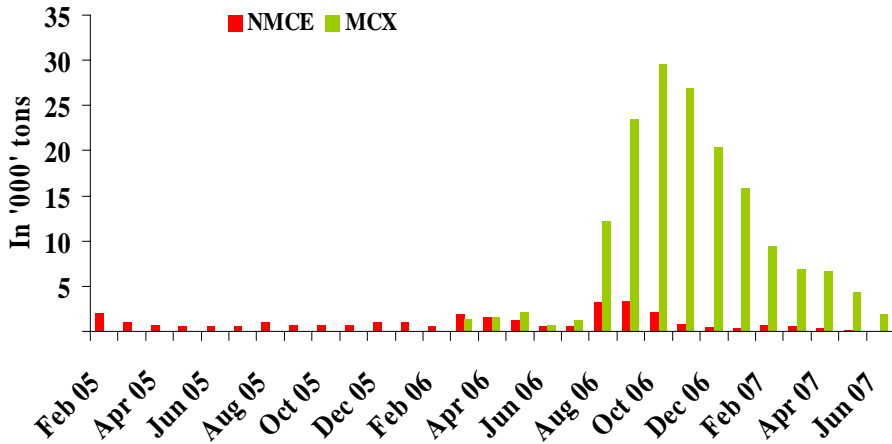
MCX Share in Cardamom Futures Markets (April-June, 2007)



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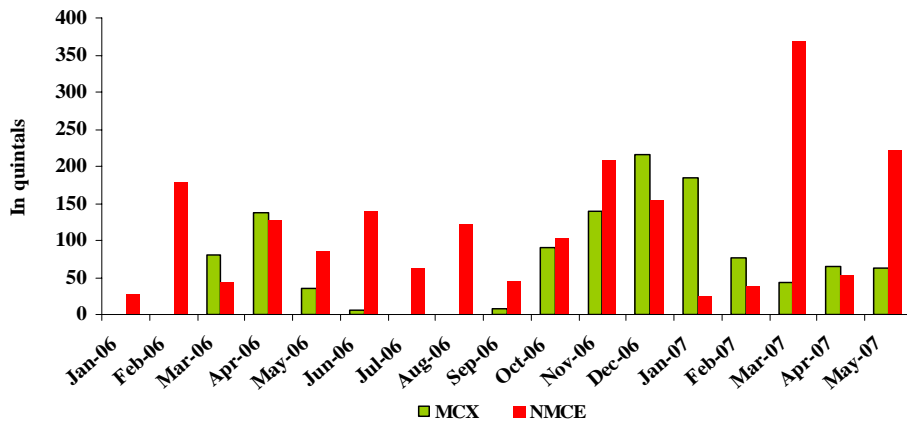
MCX Vs NMCE Traded Volumes (Feb, 2005-June, 2007)



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MCX & NMCE Physical Delivery Jan 2006-May 2007



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Factors behind the success of cardamom contracts at MCX

- Right design of the contract
- Efforts of the exchange to reach the stakeholders and educate them
- Increasing reach of exchange network for right price information
- Helped in concentrating markets back to producing areas



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Market Inclusive Development of Cardamom Growing Regions

- Shift in Delivery Center- Vandanmedu, largest cardamom auction center
- Two MCX warehouses (NBHC facilitated)- better and scientific
- Capacity- 380 tons, meant for delivery of traded contracts
- Non MCX warehouses in the area are not customized for cardamom storage
- Promoted storage activity in producing area
- Led to value addition activity shift to growing area
- Empowered farmers against exploitation by middlemen



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Increased price dissemination in the major growing area

- Pre MCX-2 terminals in cardamom growing region
- Post MCX-60 terminals - source of widespread price information
- Cardamom Growers Association (CGA) also has MCX terminal
- CGA had also given an opportunity to growers to trade on futures besides keeping track of futures prices



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Cardamom Grower's Association.



MCX TWS at Cardamom Grower's Association's office

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Video - Awareness

Video - Participation

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Video - Benefits

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Increased investment in Market Infrastructure and Employment

Pre MCX

- Produce was purchased in auction largely as un-graded produce
- Bought by the traders who got them sorted in to different existing grades

Post MCX

- Planters and investors had set up 3 -4 new grading and standardizing facility
- Investment in terms of Rs. 15 – 25,000 per sorter.
- 60 terminals-supporting direct or indirect employment to about 100 personals
- Four grading centers-60 personals
- Warehouse-permanent employment to about 5 personnel to manage, receive goods and store them.



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Empowering the farmers – Warehouse receipts (WR)

- Collateral management -empowered to store the commodity and to unlock the capital
- Warehouses issue a WR against the stored stocks
- Banks like UTI, HDFC etc. finance against these WR
- About Rs. 2 Crore have currently been advanced against WR of Cardamom in Kerala
- NBHC currently involved in a formal tie up with Federal Bank – a bank with wider presence in the Cardamom growing areas



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Benefits of Futures Trading to Exporters

- Emergence of “MCX Quality”
 - Standardization
 - Storability
 - Transportation
- Shortened supply chain
 - Reduced procurement cost
- Hedging of risk
- Fair demand and supply signals



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Market Inclusive Growth – Needs Research/Policy/Institutional Boost

- Further Intrusion of MCX terminals in rural areas for price dissemination and inclusive growth.
- Advent of electronic spot markets to compliment futures trading.
- Facilitating public & private participation.
- Educational, functional, and financial literacy at the grass root level.
 - Will empower farmers to reap the direct or indirect benefits of market inclusive growth.
 - Market inclusion going hand in hand with financial inclusion.
 - Boost productivity and growth in the agricultural sector **which is the** mainstay of majority in Indian economy—rural areas.
- In the long run “growth with equity”— the main goal of our planning process.



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Thank You!

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