LINKING FARMERS TO FUTURES MARKET IN INDIA

Prelims: Economics- Capital Market
Mains: GS-III- Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment

Why in News?

➢ The Indian Council for Research on International Economic Relations (ICRIER) study suggests the need to empower the Farmer Producer Organizations (FPOs) to trade in the commodities futures market.

Highlights:

➢ For futures market to achieve the objectives of price discovery and risk mitigation and have an impact on Indian agriculture, it is necessary that more farmers and farmer-producer organisations (FPOs) participate in it.
➢ The concept of ‘Farmer Producer Organizations (FPO)’ consists of collectivization of producers, especially small and marginal farmers so as to form an effective alliance to collectively address many challenges of agriculture such as improved access to investment, technology, inputs, and markets.
➢ The FPO can be a production company, a cooperative society or any other legal form which provides for sharing of benefits among the members. In some forms like producer companies, institutions of primary producers can also become a member of PO.
➢ The FPOs are generally mobilized by promoting institutions/ resource agencies (RAs). Small Farmers Agribusiness Consortium (SFAC) provides support for the promotion of FPOs.
➢ The resource agencies leverage the support available from governments and agencies like NABARD to promote and nurture FPOs, but attempting an assembly line for mass production of FPOs has not given the desired results.

Future Market:

➢ Futures contracts are used as hedging instruments in agricultural commodities. Hedging is a common practice that insures the farmer against a poor harvest by purchasing futures contracts in the same commodity.
Forward Markets Commission (FMC) was a regulatory authority for commodity futures market in India. Forward Markets Commission (FMC) has been merged with Securities and Exchange Board of India (SEBI) with effect from September 28, 2015.