



MINIMUM SUPPORT PRICE

Safety Net for Farmers

5th July, 2018



Moneywise. Be wise.

Giving a major boost for the farmers' income, the Cabinet Committee on Economic Affairs chaired by Prime Minister Shri Narendra Modi has approved the increase in the Minimum Support Prices (MSPs) for all kharif crops for 2018-19 Season.

The decision of the CCEA is a historic one as the Budget for 2018-19 had indicated that for FY19, MSP for the majority of kharif crops and rabi crops that are left out will be fixed at 1.5 times the cost of production. Estimates show it is based on A2+FL (actual paid out cost plus imputed value of family labour). This is a paradigm shift in the agricultural policies to achieve the objective of doubling farmers' income by 2022 through greater emphasis on generating higher incomes of farmers.

This is the first time the focus of MSP hike is not only the cost of production but also on the proper income for farmers family.

The Minimum Support Prices (MSPs) for all kharif crops of 2018-19 season have been increased as follows:

Commodity	Variety	MSP for 2017-18	MSP for 2018-19	Increase		Input cost	Return over cost in percent
				Absolute	Percentage		
Paddy	Common	1550	1750	200	12.9	1166	50.09
	Grade A	1590	1770	180	11.32		51.8
Jowar	Hybrid	1700	2430	730	42.94	1619	50.09
	Maldandi	1725	2450	725	42.03		51.33
Bajra	-	1425	1950	525	36.84	990	96.97
Ragi	-	1900	2897	997	52.47	1931	50.01
Maize	-	1425	1700	275	19.3	1131	50.31
Arhar(Tur)	-	5450	5675	225	4.13	3432	65.36
Moong	-	5575	6975	1400	25.11	4650	50
Urad	-	5400	5600	200	3.7	3438	62.89
Groundnut	-	4450	4890	440	9.89	3260	50
Sunflower Seed	-	4100	5388	1288	31.42	3596	50.01
Soyabean	-	3050	3399	349	11.44	2266	50.01
Sesamum	-	5300	6249	949	17.91	4166	50.01
Nigerseed	-	4050	5877	1827	45.11	3918	50.01
Cotton	Medium Staple	4020	5150	1130	28.11	3433	50.01
	Long Staple	4320	5450	1130	26.16		58.75

Source: PIB

The new MSP for 2018-19 Includes

- Costs on hired human labour,
- Bullock labour/machine labour,
- Rent paid for leased in land,
- Expenses incurred on use of material inputs like seeds, fertilizers, manures, irrigation charges,
- Depreciation on implements and farm miscellaneous expenses, and
- Imputed value of family labour.

- MSP of Moong increased by Rs. 1400 per quintal
- MSP of Soybean increased by Rs. 349 per quintal
- MSP of Ragi up by Rs. 997 per quintal
- MSP of Common Paddy increased by Rs. 200 per quintal
- MSP of Sunflower increased by Rs. 1288 per quintal

MSP is a part of agricultural Pricing policy of the central government. It is considered as a form of market intervention and also as one of the supportive measures (safety nets) to the agricultural producers.

The provision of Minimum Support Prices (MSP) was initiated during the mid-1960s to create a favorable environment for the producers of major food crops and protect the farmers against the lower side fluctuations in prices. This policy has proved very helpful in several ways. From a situation of massive shortages, India has emerged as a grain surplus country with self reliance in food grains. This is achieved by ensuring a steady increase in the MSP price level over the years.

In the phase of liberalization, MSP has a strong linkage to the market. In this situation, three important aspects deserve attention: (i) insulating the farm producers against the unwarranted fluctuations in prices, provoked by higher production and the international price variations and (ii) creation of an incentive structure for the farm producers in order to direct the allocation of resources towards desired crops and (iii) insulating consumers against sharp price rise, which may have been created by monsoon failure or even by vested interest by creating artificial scarcity. The focus is to providing remunerative prices for the cultivators.

CACP formula for MSP

The Commission for Agricultural Costs and Prices (CACP), which formulates and recommends MSP, categorises three types of cost of production: A2, A2+FL and C2. "A2" represents the actual cost of farming including seeds, fertilisers and hired labourers. "A2+FL" represents family labourers in addition to A2. And "C2" represents the cost of land rentals or interest on invested capital in addition to A2+FL. In 2006, the Swaminathan Commission recommended that MSP be decided on C2+50 per cent as it gives the farmer maximum returns on the investment. In 2014, the National Democratic Alliance (NDA) came to power promising that it would implement the Commission's recommendation. However, it turns out that the government has considered A2+FL, and not C2, as the cost of production for calculating MSP.

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Role of FCI

On behalf of the Central Government, Food Corporation of India (FCI) along with State Governments and their agencies responsible for procurement of agri product on MSP fixed by CACP. But FCI procure the commodities from such states where production of any specific product is surplus. The main areas for procurement of wheat and rice are the surplus states like Punjab, Haryana, and some parts of Uttar Pradesh for both crops and Andhra Pradesh for rice. This has led two kinds of problems. One, growing buffer stock with FCI and our go-down are overflowing stocks of food grains, but, at the same time some parts of the country reported starvation. Second Rest part of country producing these commodities doesn't access the advantage of MSP. Farmers of those states do not fully get the benefit of the support price. This has created serious imbalances in demand and supply of principal crops in the country. Similarly, the country has been facing large shortages of pulses and edible oils.

There are quite a few instances where the MSP is greater than the average Farm Harvest Prices or market price. Similarly, there are equal numbers of instances where the Minimum Support Price is greater than the Wholesale Price of the commodity. In this situation, price intervention mechanism probably failed to protect the farmers and consumer. It has shown that MSP only provide protection to resourceful farmers and commercial crops.

The correlation between Farm Harvest Prices and Minimum Support Prices

This correlation indicates the effectiveness of MSP to be associated with market prices. We find that the correlation between Farm Harvest Prices (FHP) and the Minimum Support Prices is highest in the case of paddy, whereas the correlations are lower in the case of other cereals and pulses. The weak relationship of MSP with FHP in some commodities raises a question about the role of MSP as an incentive price in the case of these crops. Unfortunately, these crops are grown by the poor farmers and largely dominate in the poor region.

All India kharif crops input price index (Base 2004-05=100)

Inputs	Weights (2014-15)	Crops Input Price Index (CIPI)				Percentage Change in Input Price Index 2017-18 over 2016-17
		2014-15	2015-16	2016-17	2017-18	
Human Labour (HL)	0.53	391.56	408.51	425.28	442.89	4.1
Bullock Labour (BL)	0.06	309.07	328.02	335.13	342.39	2.2
Machine Labour (ML)	0.13	209.89	183.05	205.72	216.47	5.2
Seeds	0.08	312.32	322.24	332.39	343.04	3.2
Fertilizers	0.10	164.45	168.81	173.28	177.89	2.7
Manures	0.03	300.78	309.92	318.97	328.34	2.9
Insecticides	0.03	135.90	138.28	140.71	146.42	4.1
Irrigation Charges	0.04	153.71	157.01	160.38	163.83	2.2
Composite Input Price Index (CIPI)		313.27	321.50	335.49	348.52	3.9
Percentage Change (year-on-year)		---	2.6	4.4	3.9	---

Source: CACP

Can MSP alone savior for farmers

The major question of is still remain whether MSP alone can rescue farmers ? Whether the increased MSP could translate in to the actual income realization of farmers ?

First of all the revised MSPs is will provide much relief to farmers as it will bear the burden of increased input cost such as increasing fuel prices, rental cost of agricultural equipment and spike in fertiliser prices. Promoting cultivation of pulses can help India overcome nutrition insecurity, improve soil fertility by nitrogen fixation and provide income support to farmers. Thus, increased MSPs for pulses will give a price signal to farmers to increase acreage. Further enhanced MSPs would boost production of oilseeds and encourage investment in its productivity and help reduce India's import bill. Increase in MSPs of nutri-cereals will improve nutritional security and allow farmers to get higher prices.

The announcement of higher MSP is a "victory" for farmers, but a "Small victory".

However the actual problem, a result of decades of negligence, will remain. Increasing the production of food grains has always been the strategy to sustain farmers and indirectly, make the country self-sufficient in food. While this strategy has helped mitigate farmers' woes to some extent, it has failed to keep pace with the booming production of food grains. it has been observed that with more produce, the market needs more intervention. Farmers with bumper crops need markets to trade, that too at a price that at least earns return on their investments. But this is the point where the government has failed. This has also a very tragic reason.

As per the Shanta Kumar Committee report, MSP benefits only 6 per cent farmers, as many as 94 per cent farmers do not even avail MSP and remain dependent on the exploitative markets. Many states still lacks proper procurement and storage infrastructure. Recently the Maharashtra government has stopped the procurement of chana from farmers due to lack of storage facility. So if you can't sell your produce on MSP or if government can't procure the produce on MSP, it cannot savior from distress of farmers. The actual income realisation of farmers will be determined by what percentage of

crops will be bought at these prices. Moreover, Starting from setting up a price stabilisation fund to maintaining prices of certain products and insuring crops against weather uncertainties, the Union government and state governments have implemented close to 200 schemes that cover the complete agriculture cycle of a farmer. But none of the schemes cover even 10 per cent of the country's farmers.

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Commodities reported below MSP from 01/06/2018 to 30/06/2018

Arhar (Tur/Red Gram)	Bengal Gram(Gram)	Black Gram (Urd Beans)	Green Gram (Moong)	Lentil(Masur)
Chattisgarh	Chattisgarh	Assam	Gujarat	Assam
Gujarat	Gujarat	Chattisgarh	Karnataka	Chattisgarh
Karnataka	Jharkhand	Gujarat	Madhya Pradesh	Gujarat
Madhya Pradesh	Karnataka	Karnataka	Maharashtra	Madhya Pradesh
Maharashtra	Madhya Pradesh	Madhya Pradesh	Orissa	Maharashtra
NCT of Delhi	Maharashtra	Maharashtra	Pondicherry	Rajasthan
Rajasthan	NCT of Delhi	NCT of Delhi	Rajasthan	Uttar Pradesh
Tamil Nadu	Rajasthan	Pondicherry	Tamil Nadu	West Bengal
Telangana	Telangana	Rajasthan	Telangana	
Uttar Pradesh	Uttar Pradesh	Tamil Nadu	Uttar Pradesh	
		Telangana		
		Uttar Pradesh		
		West Bengal		

Source: Agmarknet

Farmer friendly initiatives by the Government:

By considering the above problems, besides increase in Minimum Support Prices (MSP) of kharif crops, government has also taken several farmer friendly initiatives. The Budget for 2018-19 indicated that increasing MSP. is not adequate and it is more important that farmers should get full benefit of the announced MSP. For this, it is essential that if price of the agriculture produce market is less than MSP, then Government should purchase either at MSP or work in a manner to provide MSP for the farmers through some other mechanism. NITI Aayog, in consultation with Central and State Governments, will put in place a fool-proof mechanism so that farmers will get adequate price for their produce.

The Government has also launched a scheme to develop a pan India electronic trading platform under 'National Agriculture Market' (NAM) aiming to integrate 585 regulated markets with the common e-market platform in order to facilitate better price discovery and ensure remunerative prices to farmers.

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MSP is a last resort.....

The MSP policy has a favorable impact on farm income and has led to an economic growth. The implementation of Minimum Support Prices (MSP) has played an important role in meeting the ultimate goal of improving the agricultural production and farmer's income. This will increase the income of farmers and purchasing capacity, which will have an impact on wider economic activity.

However the MSP hikes of up to 52 percent for 15 crops, is expected to cost the exchequer about Rs 15,000 crore. This will widen the fiscal deficit. The move may stoke inflation, prompt the Reserve Bank of India (RBI) to hike interest rate. It may also hit exports of cotton, wheat, soymeal and rice badly as the domestic prices of these crops may go beyond international prices. Moreover, looking at the current response to the MSP it seems the response from farmers has been weak by-and-large and can be improved through factors such as physical market prices, high yielding varieties, better government as well as private procurement system; are more important for influencing/guiding acreage under crop. Overall the hike in MSP is immediate relief to farmers and not a permanent and stable solution.



SMC Commodity Research Desk

E-mail: smc.care@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4, 5th
Floor, Kolkata-700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

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