

the PRS Blog » Explained: Recent changes in MSPs

Recently, the Cabinet Committee on Economic Affairs [approved an increase in the Minimum Support Prices \(MSPs\)](#) for Kharif crops for the 2018-19 marketing season. Subsequently, the Commission for Agricultural Costs and Prices (CACP) released its [price policy report](#) for Kharif crops for the marketing season 2018-19.

The central government notifies MSPs based on the recommendations of the CACP. These recommendations are made separately for the Kharif marketing season (KMS) and the Rabi marketing season (RMS). Post harvesting, the government procures crops from farmers at the MSP notified for that season, in order to ensure remunerative prices to farmers for their produce.

In this blog post, we look at how MSPs are determined, changes brought in them over time, and their effectiveness for farmers across different states.

How are Minimum Support Prices determined?

The CACP considers various factors such as the cost of cultivation and production, productivity of crops, and market prices for the determination of MSPs. The [National Commission on Farmers](#) (Chair: Prof. M. S. Swaminathan) in 2006 had recommended that MSPs must be at least 50% more than the cost of production. In this year's [budget speech](#), the Finance Minister said that MSPs would be fixed at least at 50% more than the cost of production.

The CACP calculates cost of production at three levels: (i) A2, which includes cost of inputs such as seeds, fertilizer, labour; (ii) A2+FL, which includes the implied cost of family labour (FL); and (iii) C2, which includes the implied rent on land and interest on capital assets over and above A2+FL.

Table 1 shows the cost of production as calculated by the CACP and the approved MSPs for KMS 2018-19. For paddy (common), the MSP was increased from Rs 1,550/quintal in 2017-18 to Rs 1,750/quintal in 2018-19. This price would give a farmer a profit of 50.1% on the cost of production A2+FL. However, the profit calculated on the cost of production C2 would be 12.2%. It has been [argued](#) that the cost of production should be taken as C2 for calculating MSPs. In such a scenario, this would have increased the MSP to Rs 2,340/quintal, much above the current MSP of Rs 1,750/quintal.

Table 1: Cost of production determined by the CACP for calculating MSPs for KMS 2018-19 (in Rs/quintal)

Crop	MSP (2017-18)	MSP (2018-19)	Cost of production (2018-19)		Profit on A2+FL cost	Profit on C2 cost
			A2+FL	C2		
Paddy - Common	1,550	1,750	1,166	1,560	50.1%	12.2%
Paddy - Grade A	1,590	1,770	1,166	1,560	51.8%	13.5%
Jowar - Hybrid	1,700	2,430	1,619	2,183	50.1%	11.3%
Jowar - Maldandi	1,725	2,450	1,619	2,183	51.3%	12.2%
Bajra	1,425	1,950	990	1,324	97.0%	47.3%
Ragi	1,900	2,897	1,931	2,370	50.0%	22.2%
Maize	1,425	1,700	1,131	1,480	50.3%	14.9%
Amar (Tur)	5,450	5,675	3,432	4,981	65.4%	13.9%
Moong	5,575	6,975	4,650	6,161	50.0%	13.2%
Urad	5,400	5,600	3,438	4,989	62.9%	12.2%
Groundnut	4,450	4,890	3,260	4,186	50.0%	16.8%
Sunflower Seed	4,100	5,388	3,592	4,501	50.0%	19.7%
Soyabean (Yellow)	3,050	3,399	2,266	2,972	50.0%	14.4%
Sesamum	5,300	6,249	4,166	6,053	50.0%	3.2%
Nigerseed	4,050	5,877	3,918	5,135	50.0%	14.4%
Cotton (Medium Staple)	4,020	5,150	3,433	4,514	50.0%	14.1%
Cotton (Long Staple)	4,320	5,450	3,433	4,514	58.8%	20.7%

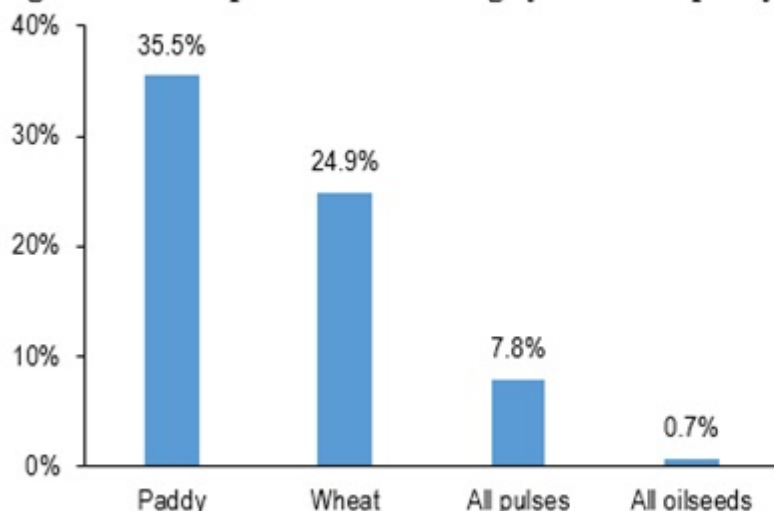
Sources: Commission for Agricultural Costs and Prices; PRS.

Which are the major crops that are procured at MSPs?

Every year, MSPs are announced for 23 crops. However, public procurement is limited to a few

crops such as paddy, wheat and, to a limited extent, pulses as shown in Figure 1.

Figure 1: Public procurement is largely limited to paddy and wheat



Sources: Committee on Doubling Farmers' Income, 2017; Ministry of Agriculture and Farmers Welfare; PRS.

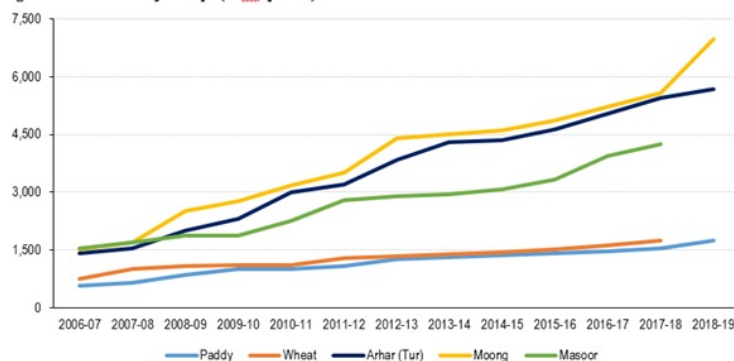
The procurement is also limited to a few states. Three states which produce 49% of the national wheat output account for 93% of procurement. For paddy, six states with 40% production share have 77% share of the procurement. As a result, in these states, [farmers focus on cultivating these crops over other crops such as pulses, oilseeds, and coarse grains](#).

Due to limitations on the procurement side (both crop-wise and state-wise), all farmers do not receive benefits of increase in MSPs. The CACP has noted in its 2018-19 [price policy report](#) that the inability of farmers to sell at MSPs is one of the key areas of concern. Farmers who are unable to sell their produce at MSPs have to sell it at market prices, which may be much lower than the MSPs.

How have MSPs for major crops changed over time?

Higher procurement of paddy and wheat, as compared to other crops at MSPs tilts the production cycle towards these crops. In order to balance this and encourage the production of pulses, there is a larger proportional increase in the MSPs of pulses over the years as seen in Figure 2. In addition to this, it is also used as a measure to encourage farmers to shift from water-intensive crops such as paddy and wheat to pulses, which relatively require less water for irrigation.

Figure 2: MSPs for major crops (in Rs/quintal)

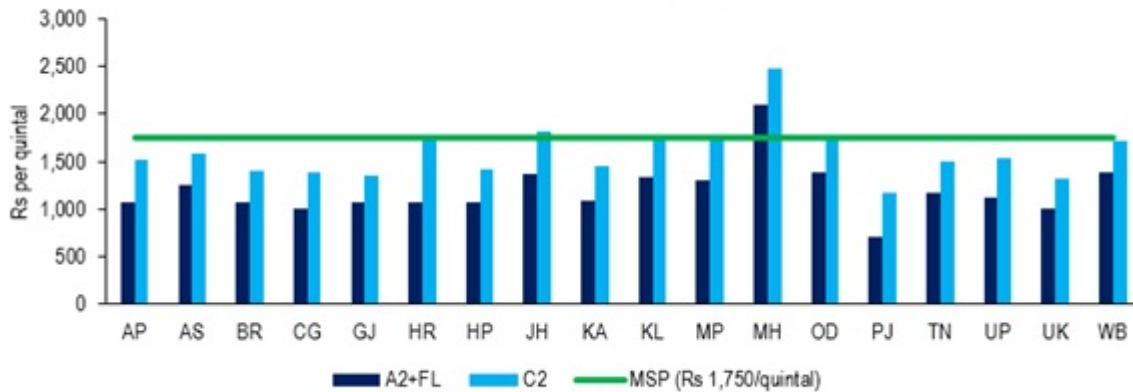


Note: Paddy denotes paddy (common), MSP (2018-19) for Wheat and Masoor is not yet declared. Sources: Commission for Agriculture Costs and Prices; PRS.

What is the effectiveness of MSPs across states?

The MSP fixed for each crop is uniform for the entire country. However, the production cost of crops vary across states. Figure 3 highlights the MSP of paddy and the variation in its cost of production across states in 2018-19.

Figure 3: Cost of production of paddy across states for 2018-19 (in Rs/quintal)



Sources: Commission for Agriculture Costs and Prices; PRS.

For example, production cost for paddy at the A2+FL level is Rs 702/quintal in Punjab and Rs 2,102/quintal in Maharashtra. Due to this differentiation, while the MSP of Rs 1,750/quintal of paddy will result in a profit of 149% to a farmer in Punjab, it will result in a loss of 17% to a farmer in Maharashtra. Similarly, at the C2 level, the production cost for paddy is Rs 1,174/quintal in Punjab and Rs 2,481/quintal in Maharashtra. In this scenario, a farmer in Punjab may get 49% return, while his counterpart in Maharashtra may make a loss of 29%.

Figure 4: Cost of production of wheat across states for 2017-18 (in Rs/quintal)



Sources: Commission for Agriculture Costs and Prices; PRS.

Figure 4 highlights the MSP of wheat and the variation in its cost of production across states in 2017-18. In the case of wheat, the cost of production in Maharashtra and West Bengal is much more than the cost in rest of the states. At the A2+FL level, the cost of production in West Bengal is Rs 1,777/quintal. This is significantly higher than in states like Haryana and Punjab, where the cost is Rs 736/quintal and Rs 642/quintal, respectively. In this case, while a wheat growing farmer suffers a loss of 2% in West Bengal, a farmer in Haryana makes a profit of 136%. The return in Punjab is even higher at 1.5 times or more the cost of production.

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