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Strengthening Agricultural



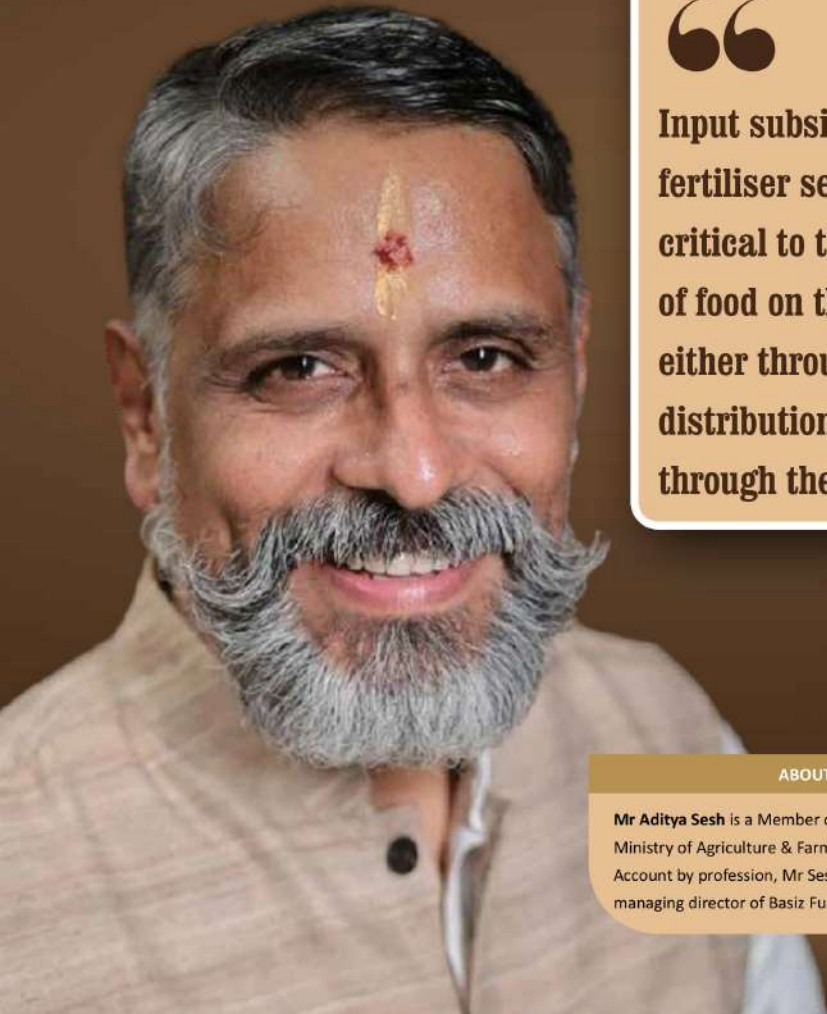
EDUCATION



Market Intervention Through MSP

And

Market Making Of Agricultural Produce In India



Input subsidies like fertiliser seeds are critical to the availability of food on the table either through the public distribution system or through the open market

ABOUT THE AUTHOR

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The agricultural ecosystem has many stakeholders and a whole lot of schemes rolled out by the government that to total and aggregate them is a time-consuming task in itself. Few can boast of knowing the entire ecosystem - its Vishalta, the magnitude. The fact that we currently enjoy an ample supply of food is largely attributed to the government's initiatives and infrastructure, and it is essential to commend their efforts in this regard. While it is common knowledge that the Public Distribution System subsidizes nearly 90% of the sale cost, it is noteworthy that even the open market sales conducted by the Food Corporation of India (FCI) in the domestic market, particularly for wheat, incorporate subsidies. This includes the very stock that consumers purchase from retailers, wholesalers, or millers.

Geographic Disparities and Challenges

Commodity yields and prices undergo huge fluctuations in the market, mainly due to anomalies in the weather, climatic and geographical conditions, demand and supply mismatch, political situations, and many other variables. The farmers are never able to estimate the revenue from the sale of agricultural produce with certainty. Data patterns studied from Market to Market, Mandi to Mandi, and an analysis of all the trades on E- National Agricultural Markets tell us that the variances can be quite high. Market prices of some commodities have gone up beyond the minimum support price recently.

Prices between markets vary because we still have not achieved a one-nation one-agricultural market and trading between agriculture markets is still not unified. The reason for this is that agriculture is a state subject. Until a few years ago, the farmer had no option but to sell in the nearest mandi. However, in keeping with the times, commodities in States like Uttar Pradesh and Tamil Nadu can be bought by traders from different parts of the country.

Why MSP?

The concept of minimum support price and the program was launched way back in 1967 during the days of chronic food shortage and during the beginning of the green revolution era. It has gone from price control to price support and intervention.

The detailed analysis of the cost of agricultural produce leads me to conclude that in the face of such volatility, input subsidies like fertiliser seeds are critical to the availability of food on the table either through the public distribution system or through the open market. Therefore minimum support price or

administered pricing will be needed for times to come in both the developed and the developing world. This is similar to interest rate intervention and subvention by Central Banks all over the world. Even in the labour market, the government sets a minimum wage that employers have to give to employees. Therefore, in critical markets like agriculture, the importance of minimum support price cannot be overstated.

MSP has begun to be a benchmark price, since in many commodities the market prices are above the MSP today. The minimum support price itself is based on the cost of inputs computed by Commission for Agricultural Costs and Prices (CACAP) and a profit margin of 50% is added to it which accounts for imputed labour cost as well as a saving for the farmers. It is important to note that the government reportedly buys almost 60% of the produce in the wheat market and 40% of the produce in the rice market and thus is the largest buyer of agriculture commodities in the country. India is not totally an agricultural country, even though you get periods of surplus. Thus MSP and market intervention are critical to ensure that firstly farm produce has ready liquidity. Secondly, it ensures that producers and consumers see stability in the prices. MSP also plays a very important role in food security and is the stepping stone to move from Food Security to Nutritional Security.

Doubling Farmers Income in 10 Years from 2014-15

The MoAFW has increased the MSP by 5.4 % p.a (CAGR; 9 years) for Paddy and 5.13 % p.a over the last 10 Years. In Jowar, it is even higher @ 8.47 % p.a. Farmer's income has doubled over the last 10 years. MSP, in addition to providing robust price benchmarking help, is a politically sensitive subject. It can also be seen that due to an increase in aspiration and demand, in some commodities like pulses, the market prices are higher than MSP. We are in a deficit as far as pulses like Tur and Moong are concerned and have to resort to imports from time to time. The following table is self-explanatory.

Commodity	2014-15	2023-24	P.A	2023-24	MSP vs ENAM
	MSP	MSP		ENAM Modal Prices	
	Rs.Per Qtl	Rs.Per Qtl		Rs.Per Qtl	
Paddy Common	1,360.00	2,183.00	6.05%	2,400.00	9.94%
Wheat	1,450.00	2,275.00	5.69%	2,000.00	-12.09%
Jowar	1,530.00	3,180.00	10.78%	5,400.00	69.81%
Tur(Arhar)	4,350.00	7,000.00	6.09%	9,200.00	31.43%
Masur	3,075.00	6,425.00	10.89%	5,600.00	-12.84%
Moong	4,600.00	8,558.00	8.60%	7,400.00	-13.53%
Urad	4,350.00	6,950.00	5.98%	6000	-13.67%
Chana	3,175.00	5,440.00	7.13%	5600	2.94%