Solutions beyond MSP

What is the issue?

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- Farmers in India are facing various practical constrains regarding MSP mechanism of the government.
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- Solutions beyond MSP are needed to address the concerns faced by the farmers.
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How the concept of MSP works in India?

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- The MSP is set by the CACP (Commission for Agricultural Costs and Prices) and is normally active for rice and wheat at all times where the Food Corporation of India (FCI) is the procuring agency.
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- For other crops, while MSP is announced, it becomes active when there are cooperatives or state agencies procuring the product based on circumstances.
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- This is because market prices would normally be higher than MSP and the machinery for procurement, storage and disposal is weak.
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- Hence, while oilseeds or cotton are procured in limited quantities, in general the market is the place for sale.
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- In the last couple of years pulses were also in the procurement loop while sugar has also featured at times.
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What are the difficulties faced by Farmers regarding MSP?

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- **MSP calculation -**In Union budget 2018 government announced to increase the MSP to 1.5 times. Click here to know more about MSP formula.
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- It has, however, not been clarified whether the cost being referred to is the A2+FL concept which is actual cost plus farm labour or the C2 concept which is comprehensive and includes interest paid, rent, etc.
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- **Market scenario -**For the present Kharif crop the market prices have been lower than the MSP for other crops with the exceptions being paddy, soybean and cotton.
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- At the same time higher prices for crops would mean a radical change in the way in which farm products are marketed.
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- **Grading process -** Most of the farmers produces are rejected at the time of procurement due to poor quality and few farmers doesn't even aware of the grading process.
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- **Procurement constrains -**In the case of rice and wheat, there is direct linkage with PDS and buffer stock, and thus they are more easily procured.
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- Even though MSP for rice is lower than the market price, the FCI continues to procure (admittedly quality issues would account for a large difference between the two prices).
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- But in the case of other products like groundnut or maize, soyabean etc. doesn't have an encouraging procurement or storage mechanism.
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- **Fund disposal mechanism -**Farmers usually sell their products to the Mandis which are closer to them and these are opaque, with records not being maintained, which delays their payments.
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- Even if the market price is lower than the MSP, farmers are not able to get the MSP as there are no channels existing for them.
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What measures needs to be taken?

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- The Government now needs to make clear what is being referred whether A2+RL or C2 when of 1.5 times the cost is involved.

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- If C2 is being used then the increase would be substantial as the market price to C2*1.5 multiple would be upwards of 1.5 times the current market price.
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- Necessary procurement centres and warehouse facilities across all the marketsneed to be created with the involvement of Central or State.
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- For rice and wheat the manual inspection system has been established, the same has to be developed for other crops.
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- The issues with transparency can be gauged by the numbers on arrival of crops noted on the AGMARKNET website which, at best, covers 20-30 per cent of the total marketable surplus of any commodity.
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- Thus a way out is to not procure but to compensate the farmer with the difference between the price received at the mandi and the MSP.
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Source: Business Line

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