

FOR IMPLEMENTATION OF PRICE SUPPORT FOR FARMERS

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Price support to farmers has been an important pillar of development policy in agriculture. Price support is a way to implement minimum support price (MSP) of crops and its proper implementation provide income insurance to farmers. There have been innumerable studies aiming to highlight benefits of price support (Jha 2016). Its role in reduction of price uncertainty in domestic market is well appreciated¹. In fact lack of assured price at the time of harvest of crop is one of the most important reasons for farmers' distress. Accordingly it has been considered important in attempts of doubling farmers' income by 2022.

Price support for agricultural commodities is often criticised for incurring high social costs, and restricting growth of private trade in the commodity. Price support supposedly distorts world market with price subsidy and therefore has been considered an anathema in the post WTO framework. The production-limiting income support has been a WTO-compatible way to support farmers, but in a country like India, any farm support not linked with augmentation of production may not lead to balanced development. The present effort attempts to address some concerns of price support programme in the country.

The Cost Efficiency of Price Support Programme

In India price support is often linked to an advance announcement of minimum support price (MSP) of the commodity. The MSP is however, limited to about 23 commodities. In the non-MSP crops like fruits, vegetables, spices and similar other perishable commodities, Government responds to market failure with Market Intervention and similar adhoc Schemes (MIS). In MIS, market intervention price (MIP) is declared after harvest, just before undertaking MIS for the commodity. The cost efficiency is evaluated with benefit cost (BC) ratio of different price support schemes (PSS). In PSS for non-cereals, benefit is the price received for

procured commodities at the time of disposal; while cost consists of procurement price (MSP and MIP for non-MSP crops), procurement incidentals and distribution cost (details see Jha 2016). The PSS of non-cereals is largely undertaken by NAFED (National Agriculture Cooperative Federation) and its sister organisations. The BC ratios of PSS are calculated separately for different pulses (urad, moong, lentil, gram, pigeonpea), oilseeds (mustard, groundnut, soyabean, sunflower, safflower), cotton and copra.

Table 1 presents distribution of the same with respect to B-C ratio. This shows that for non-cereals the BC ratios are more than one, in around 25 percent of total instances of PSS. It is nearly efficient (BC ratio less than one but higher than 0.8) in 50 percent of total instances. The BC ratios are significantly less than one in some cases, but in an open economy, domestic price of a commodity, that represents benefit in BC ratio, is often influenced with the international price of the commodity. The higher cost in PSS operation and lower BC ratio at time is also because of arbitrary decisions of the concerned Ministry officials.

Table 1: Distribution of B-C ratios of PSS for non-cereals

B-C Ratios	Frequency	Frequency in %
1 and more than 1	17	25.4
0.8 to Less than 1	34	50.7
0.6 to Less than 0.8	11	16.4
Less than 0.6	5	7.5
Total	67	100
Source: worked out from Jha 2016		

In comparison to PSS for non-cereals, Sharma (2012) found that PSS for fine cereals was not cost efficient as the cost of procuring fine cereals was often higher than the price received at the time of

¹ In an open economy prices in domestic market are often influenced with the world price, and Jha 2016 found that farmers' prices were less than MSP of commodity at frequent interval. At times it was less than the cost of production of commodity causing severe distress to farmers in the region

disposal of the commodity (Sharma, 2012). The cost of PSS of fine cereals undertaken by Food Corporation of India (FCI) and its sister organizations was higher than the PSS of non-cereals. For example, in fine cereals the MSP accounted for about 70 per cent of cost of PSS operation. On the other hand market price of fine cereals is highly distorted on account of low PDS (Public Distribution System) price of the commodity.

Procurement as percent of TCO	Frequency	Frequency in %
10 and more than 10	6	9.0
8 and less than 10	14	20.9
6 and less than 8	19	28.4
Less than 6	28	41.8
	67	100
Source: worked out from Jha 2016		

Procurement Cost as Measure of Efficiency

In PSS there are many operation related decisions, which are beyond the control of any implementing agency (NAFED). These are the directives of the concerned Ministry officials, often not on commercial line. For example, MSP becomes procurement price of commodity without any regard to market price of the commodity in recent months. The efficiency of PSS is therefore discussed with the incidental costs of procurement by the implementing agency. This excludes some related costs like procurement price and the cost of distribution of procured commodity.

In non-cereals, Jha (2016) found that procurement as percent of total cost of operation was less than 10 in majority (91 percent) of instances of PSS for non-cereals. Nevertheless it was less than 6 percent in many cases (42 percent) of PSS (Table 2). The cost of procurement of non-cereals was more than 10 percent (high) in exceptional cases. Such exceptions happened when the region was devoid of adequate storage and post harvest facilities in its proximity.

Sharma (2012) studied PSS for cereals, he reported that between 2007 and 2012 procurement as percent

of total cost of operation of PSS for paddy varied between 13 to 17 per cent, whereas for wheat it ranged from 13 to 18 per cent. The PSS for cereals is part of the policies for food security which includes public distribution system (PDS) and related operations like maintenance of buffer stock, open market sales of the commodity. Therefore efficiency of PSS for cereals is often not cared for food security.

Evidences on Efficiency of Market Intervention Scheme (MIS)

The MIS is a price support programme for non-MSP commodities. It is an adhoc decision for highly perishable commodities, primarily to avoid a market failure kind of situation². It is also used to achieve certain macro objectives, like MIS for oil palm is organised regularly primarily to promote oil palm and improve sufficiency of edible oil. Since the MIS is decided for highly perishable commodities, delay in disposal of procured commodity (as it happens with adhoc decisions) reduces price of procured commodities (garlic). The market intervention price (MIP), unlike MSP, is declared just before procurement of commodity.

Whereas market failure in reference to MIS is a localised phenomenon caused by real factors (over production) which are unlikely to change even at the time of disposal; therefore the possibility of significant increase in price of commodity at the time of disposal is remote. This further makes MIS unviable (details see Jha 2016). Field experiences suggest that there is scope of increasing efficiency in MIS if it is regular on the criteria of MIS predictable to all stakeholders (details see Jha 2016).

In addition to the above price support programmes, in 2017 the Government of Madhya Pradesh (MP) attempted to support farmers with a kind of deficiency payment named as Bhawantar Bhugtan Yojana (BBY). In this kind of arrangement (BBY), government parastatals like FCI, NAFED were not physically procuring the commodity, and farmers were paid difference of market price with MSP of the same commodity. However this had to be abandoned, on account of difficulty in implementation. In a region where producer and consumer markets are largely integrated, a workable deficiency payment kind of price support might be enough for farmers and the economy.

2. In MIS market failure is about over production or under pricing. Over production refers to a situation when production of commodity exceeds 10 percent of the preceding year and the situation of under-pricing arises when price of a commodity falls below 10 percent of the preceding year (Details in Jha 2016, 2019).

Comparison of Efficiency of PSS with other Development Programmes

Crop insurance is an example of production augmenting income support. The crop insurance schemes in India are National Agriculture Insurance Scheme (NAIS), Modified National Agriculture Insurance Scheme (MNAIS), Weather based Crop Insurance Scheme (WCIS). In addition to these, Prime Minister Fasal Bima Yojana (PMFBY) was launched in the year 2016 and was not incorporated in the present analysis in dearth of information for sufficient period. The efficiency of different crop insurance schemes is worked out with B-C ratios and the same is compared with PSS for non-cereals³. The MNAIS started in 2011-12 was supposed to be modification over NAIS, but in terms of B-C ratio, there were only marginal change in MNAIS over NAIS. The weather linked crop insurance programme seems logical, but the BC ratio for WCIP was as low as 0.17 in 2009-10.

The above estimates suggest that BC ratios of different crop insurance schemes (excluding PMFBY) have never exceeded 0.37 (Jha 2019). In other words, in the best performing crop insurance scheme named NAIS only 37 percent of cost incurred by government and organisations involved in crop insurance was met by premium deposited by farmers in the most favourable year. Contrary to it, the B-C ratios of PSS for non-cereals were high (around one) in most cases. The inefficiency of crop insurance is not unusual in India. The experiences of crop insurance in the most countries are similar to that of India (William J. A. Dick and W. Wang, 2010).

Evidences on other Concerns of Price Support Programmes

Besides inefficiency, price support is also criticized for its ill effects on growth of the private trade. However perusal of government procurement under PSS of different non-cereals between 1999 and 2016 showed that PSS for soybean was never required in Madhya Pradesh, though it (PSS for soybean) happened in adjoining states of Maharashtra and Chhattisgarh. In fact, success of ITC's e-Choupal in marketing of soybean in Madhya Pradesh is well documented.

Similar to the above, PSS was required in copra in Karnataka, but not in the adjoining regions of

northern Kerala (Malappuram region) where Marico (FMCG major) was active in procurement. These examples suggest that PSS for non-cereals were not a hindrance to private trade. Infact situation as that of PSS for non-cereals, arises due to inadequate participation of private traders. Therefore any idea that procurement of non-cereals by government parastatals causes competition with private traders is obsolete.

In fact, a positive association of procurement of a non-cereal (in PSS) with importance of region in production of the same, shows that PSS for non-cereals is response to the ongoing growth of agriculture in direction of specialization. It is also required due to inadequate post harvest infrastructure facility.

Conclusion and Suggestions

The above brief shows importance of price support, its implementation has however been highly skewed across crops and regions. There are numerous studies that state that PSS for fine cereals (rice and wheat) happens with certainty in Punjab and Haryana. Most of the criticism of PSS that it accounts for high cost to society and leads to other concerns in domestic market are largely based on the PSS of cereals, which is not true. The PSS for non-cereals (pulses, oilseeds, cotton and copra) were nearly efficient, though there is a scope of further increase.

Unlike cereals, the PSS for non-cereals and MIS have not hindered private trade of the commodity. In fact price support in these commodities is government's response to market failure. The regularity of PSS with predictable and transparent criteria will improve their efficiency. This will increase confidence of farmers against low price of their produce. Also, the secondary benefits of PSS like strengthening of farm associated collectives would be immense.

The price support is more desired in an open economy. Though price support is often considered incompatible with WTO, it has never been challenged in Dispute Settlement Body of WTO. Nevertheless, many WTO member countries are following the essence of price support for their farmers.

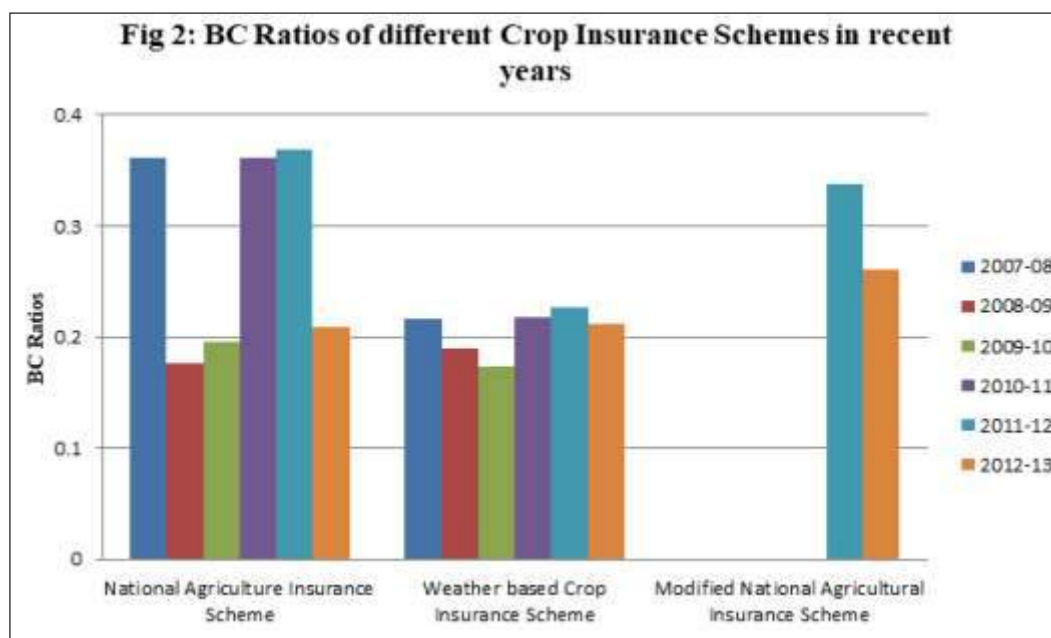
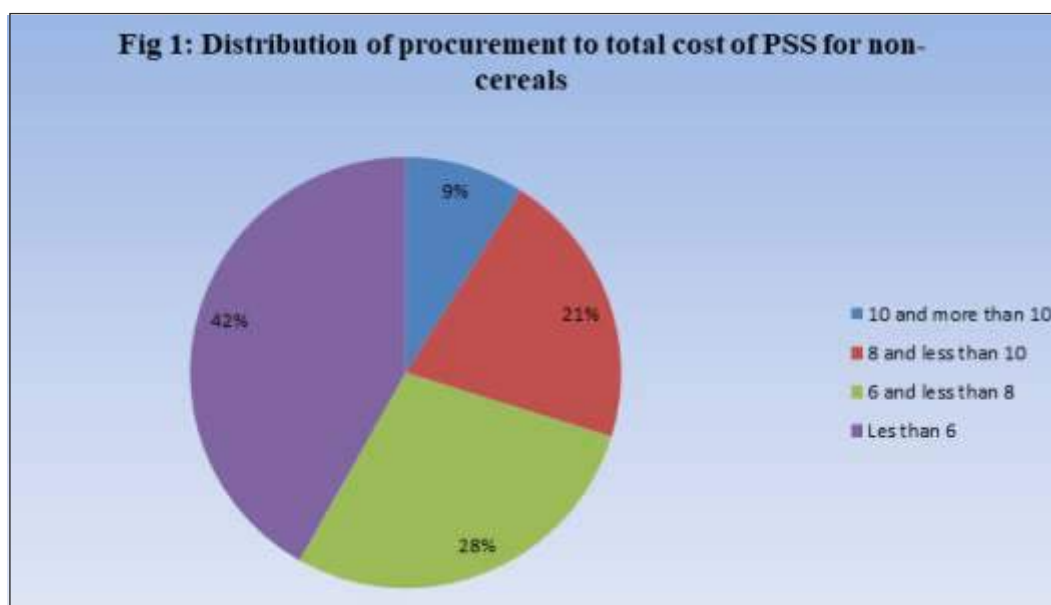
³ The benefit in different crop insurance programme is the premium deposited by farmers for undertaking crop insurance, while claim paid to farmers is the cost of crop insurance. The Union and State governments also add to farmers' premium to incentivise crop insurance. This is the cost of undertaking crop insurance programme in the present calculation.

References

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