CHAPTER-4

ADMINISTRATION OF MSP SCHEME AT THE STATE LEVEL

4.1 Introduction

The scheme support prices are mainly for agricultural products which are subject to severe price fluctuations on account of erratic climate and other factors. It is generally found that when prices are high, traders are gainer because they have the holding capacity and when prices are low, the producers are losers because of unremunerative prices. This is partly due to the low retention power of the farmer. With the provision of MSP of various commodities, announced by the government before the harvest is ready and sometimes in advance of the sowing, the farmer can decide about the cropping pattern if he has various options open so that he might protect his economic interests. Under the scheme, the government assures that prices will not be allowed to fall below the minimum support price and in case of the producers do not get buyers for his products at the support price, the government is prepared to procure the supply. Thus, through such price support policy the government protects the producers from the likely fall in their profits which may act as a disincentive to production. The MSP have been fixed for a large number of
agriculture products, such as wheat, cotton, sugarcane, jute, paddy, barley, etc. The minimum price has been revised from time to time on the basis of the recommendations of agricultural prices commission (APC).

Most governments around the world intervene actively in the operation of their agricultural markets. The ways they intervene and the reasons they do so depend in large part on the wealth of the country. Governments in poor Third World countries routinely impose price controls to keep food prices artificially low. They do so to gain favour with their more politically powerful urban residents. Though numerous (and partly because they are numerous), peasant farmers do not organize politically and therefore have much less political power than their urban brethren. The irony of this situation is that by artificially depressing the price of food, Third World governments reduce incentives for farmers to produce and reduce the availability of food from indigenous sources.

The price intervention scheme began with a series of objectives and culminated into a price support scheme with the changes that occurred in the agricultural sector. Some of the objectives envisaged direct influence on the parameters of the economy whereas, the others were to be achieved indirectly through intervening variables. The price intervention scheme envisaged influencing the crop pattern, correcting the imbalances
across crops, providing floor level support prices and creating price intently to the producer. All these objectives toned in the price policy declared over the years under the CACP reports. It can be assumed that a certain level of efficiency in the implementation of the scheme must have been achieved. However, there are hardly any studies looking into the efficiency of the system operating at the ground level. These are neither initiated by the CACP nor taken up by academic fraternity independently. Therefore, there's hardly any literature on the effectiveness of Minimum Support Price scheme across states in the country. It is always assumed that the scheme has been operating perfectly across the countryside and thus providing the required support for the farmers across the length and breadth of the country. This assumption probably stems out of the experience of the implementation of the scheme in Punjab and Haryana only. Further, there were not severe aberrations in the process of implementation or at least these were not felt strongly.

In many nations, state marketing boards are granted a legal monopoly to buy agricultural products from farmers and to resell them to domestic consumers and in export markets. Such boards often pay farmers only a third to half of the domestic consumer price or the export price.

In highly developed countries, on the other hand, the opposite occurs. As development proceeds, the percentage of a
nation's population employed in agriculture declines. The shrinking number of farmers makes organizing in interest groups easier. Furthermore, political redistricting often lags behind the shift in population to the cities. As a result, rural districts often have more legislative representatives and enjoy greater political power than their numbers would suggest. Farmers use this power to seek higher and more stable farm prices via legislation or fiat.

But good political organization is not the only reason that farmers succeed in getting governments to raise their prices. A second reason is that farmers are often viewed as disadvantaged. Rural communities lack many of the amenities that cities have. And because labour productivity is generally lower in agriculture than in manufacturing, wage rates are lower. Also, technological change tends to expand agricultural production faster than consumption, reducing the price of farm products. In 1870, for example, the price of wheat was over eleven dollars per bushel in 1991 dollars. Today, it is only about four dollars per bushel, a drop of over 60 percent. Although consumers gain by paying lower prices, the incomes of farmers drop. As labor leaves agriculture in search of higher income in the cities, the reduced supply of farmers causes the remaining farmers' incomes to rise back to their previous level. This can take years, however.

A third reason governments intervene to support farm prices is that they often are volatile. Weather conditions, over
which farmers have no control, are an important determinant of how much a farmer harvests in a given year. The resulting variability of production in the face of relatively stable demand causes farm prices, and farmers' incomes, to vary from year to year. This may cause economic hardship for farm families in a bad year. It may also cause farmers to go bankrupt because modern farming requires large investments in specialized facilities and equipment.

It is easiest to support the price of an agricultural product if a country's farmers do not produce enough of it to meet domestic consumption. The rest is made up through imports. In these cases the country simply imposes an import duty or quota until the domestic price rises to the desired level. Growers receive the higher price, and consumers pay the higher price for both imports and for domestic production. For example, in the mideighties, when the world market price of sugar was four percent pound, United States import quotas were so limiting that the domestic wholesale price exceeded twenty cents per pound.

When a country grows more of a product than it consumes, supporting the price is more complex and requires a substantial bureaucracy. Legislating a minimum legal price below which a good can be sold rarely works. So instead of legislating minimum prices, governments sometimes try to raise prices artificially by limiting production. Each farmer may be issued a quota that
stipulates how much he can sell in a given year. Limiting supply can raise market prices as long as government inspectors monitor the market to ensure that no production beyond the quota is sold for a lower price. Limiting production effectively cartelizes the industry, and the government enforces the cartel.

While this policy raises prices, the only people who benefit are the individual farmers who receive the quotas when they are initially allocated. Because of their scarcity, the quotas immediately take on value. All future entrants must buy a quota to gain the right to sell the product. That raises the investment required to become a farmer and the cost of production. Once the original quotas are sold to new farmers, those farmers become a strong lobbying force against ever giving up quotas.

More common than issuing quotas is the practice of requiring (or paying) farmers to take land out of production. This "set-aside" approach rarely is very effective at supporting agricultural prices. Farmers are not stupid; they set aside their least productive land first. Furthermore, a policy that creates artificial scarcity of land induces farmers to intensify their production practices on each acre that remains in production, raising its yield. So unless very large reductions in acreage are required, set-asides alone rarely reduce production very much. Moreover, intensifying production often requires heavier doses of fertilizer and agricultural chemicals, with potentially adverse
environmental consequences.

The most common approach to supporting the price of an exportable agricultural product is to create a government agency to buy any quantity of a product offered by the farmers at the guaranteed support price that keeps market prices at or near the support price. Support prices must be accompanied by import quotas. Otherwise, foreign producers would sell their products in the International market as long as the price exceeded the price they could get elsewhere. If that happened, the government would wind up guaranteeing the price to farmers around the world.

A variant of this policy is designed to stabilize market prices. The procurement agency buys grain at the support price, stores it, and releases it back into the market if the market price rises to a prescribed trigger level of, say, 140 percent of the support price. In this manner the policy protects growers against the risk of low prices but also protects consumers against unusually high prices. This type of government program can provide some protection against wide swings in prices if the acquisition (support) price is set at about 75 percent of a five-year moving average of market prices (leaving the highest number and the lowest number out of the calculation). The markup between acquisition and release price should cover the cost of operating the buffer stock program.

Farm organizations, however, often lobby to raise the
acquisition and release prices, so that "stabilization policy" becomes price support policy. When this happens, government inventories tend to rise without limit until the stabilization agency exhausts its budget for buying the product. At that point the agency has to subsidize the export of the inventories, with the taxpayers picking up the loss on the operation.

The United States currently uses a hybrid approach to price supports that also involves loans. At harvest the NGRBA gives grain farmers nine-month loans equal to their production times the support price. The support price is called the "loan rate." The NGRBA accepts the grain as collateral for the loan. If, during the term of the loan, the market price rises above the support price, farmers repay the loans with interest and sell the grain in the market. If the market price remains at or below the loan rate, farmers forfeit the grain to the NGRBA, keep the money, and have no further obligation. Such loans are called nonrecourse loans, meaning that the lender has no claim on the borrower beyond the collateral (in this case the crop).

By supporting prices above the market-clearing level, governments encourage farmers to expand production. To produce more, farmers apply more inputs per acre. They also compete against one another for the finite amount of farmland, bidding up its price. In this way the value of the price supports is capitalized (incorporated) into land prices. Thus, it is the owners
of farmland, and not farmers per se, who are the principal beneficiaries of agricultural price supports.

Price supports cause larger production and smaller consumption (since consumers will buy less of any good as its price rises), resulting in overproduction at the support price. The only way for the price support agency to get rid of its inventories is to use export subsidies to make them cheap enough that foreigners will buy them. The EC uses this approach for grains. From the mid-seventies to early eighties, internal EC grain prices were 150 to 200 percent of the prices at which other countries were willing to export their grain. Subsidies to agriculture account for over two-thirds of the total EC budget.

With minor exceptions the State does not make its domestic consumers pay more for grain than foreign buyers pay. Instead, the government combines price supports with income supports that are known as deficiency payments. In normal years the market price is above the support price, and the NGRBA accumulates few inventories. A so-called target price is then set at a somewhat higher level than the support price, usually through political bargaining between farm organizations and the federal government. The government then pays to producers, as an income supplement, the difference between the target price and the higher of the support price or the market price. To receive this income transfer, a farmer must set aside a prescribed fraction of
his historical acreage planted in that crop. The payment is made on only a finite volume of production equaling a prescribed fraction of the acreage planted each year times a fixed fraction of the historical yield per acre.

The deficiency payment was once paid on a farmer's full production. This encouraged farmers to intensify production and to plow up more land (often highly erodible) to qualify for larger government deficiency payments. As the program has evolved, the payments have been decoupled from production decisions. A farmer cannot gain larger deficiency payments from either planting more land or intensifying input use on the acres in production. In this sense the deficiency payments have moved far in the direction of becoming lump-sum income transfers that are not affected by current or future production decisions. But since the deficiency payment is made on a fraction of the historical acreage planted on a given farm, the land on farms with larger historical bases is worth more than land on farms with smaller bases. Once again, the value of the government payments is capitalized into the price of land.

Although few commercial farmers have low incomes, their incomes are highly variable because variability in weather and in exports creates instability in supply and demand. Nevertheless, there are ways to reduce this risk other than through government price supports. One is insurance. Farmers can purchase
government-subsidized crop insurance against natural disasters. Farmers can also buy a form of price insurance in the futures markets. Commodity-futures options are really a form of price insurance for which a farmer pays a premium (the price of the option). Before planting his crop, a farmer can purchase a guarantee of a minimum price, without incurring the obligation to sell at that price should the market price be higher at harvest time. More sophisticated commercial farmers employ the full range of price insurance instruments available to reduce their market risk. But these instruments are used less by farmers than they would be if the government did not provide a subsidized form of price insurance through its price-support programs.

An administered price is in general a price which is either set or fixed by legal statute or by a standard procedure formulated as an official policy, instead of being determined directly by supply costs and market demand. Even if supply and demand conditions change, the administered price may therefore stay the same, or it may change in the opposite direction - if e.g. demand falls, the administered price is kept the same or raised, to subsidize the supplier and protect his income, or alternatively the price is kept constant to protect the consumer/purchaser.

The use of administered prices in market economies is often part of an economic policy of price controls, but in a planned economy or command economy the majority of prices are usually
administered prices. The Minimum Support Price (MSP) Scheme is a scheme of the Government of India (GOI) to safeguard the interests of the farmers. Under this Scheme the GOI declares the Minimum Support Prices of various agricultural produces and assures the farmers that their agricultural produce (of FAQ) will be purchased at the MSP, thereby preventing its distress sale. The Food Corporation of India (FCI) acts as the Nodal Agency of the GOI. On behalf of FCI, in Western Uttar Pradesh, the MSP Scheme is implemented through the State agencies.

The Department of Agriculture and Cooperation implements the Price Support Scheme for Oil Seeds and Pulses through the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED). NAFED is the nodal procurement agency for Oilseeds and pulses, apart from Cotton Corporation of India. So, when the prices of oilseeds, pulses and cotton fall below MSP, NAFED purchase them from the farmers.

4.2 Agriculture Growth and MSP

Like most other developing countries, India has predominantly been an agrarian economy, with agriculture sector contributing the largest share to gross domestic product (GDP) and employment. Under the colonial regime, Indian agriculture was geared towards the production of commercial crops (tea, coffee, rubber, cotton, etc.), while the food crops suffered from neglect. After independence, India depended heavily on imports
of food grains as it inherited a stagnant, low-productivity, food-crop sector. At the time of independence, the share of agriculture in total GDP was more than 55 per cent and about 70 per cent of the population was dependent on the agriculture sector for their livelihood.

In the post-independence era, stagnant production, low productivity, traditional technology, and poor rural infrastructure were the major challenges for the Government. Not surprisingly, food self-sufficiency became a key national policy goal. To achieve this goal, agricultural development received the highest priority and in the First Five Year Plan, about 17.5 per cent of the plan outlay was allocated to agriculture and about 22 per cent to irrigation, multi-purpose irrigation, and power projects. However, in the Second Five Year Plan, the emphasis shifted from labour-intensive agriculture and small scale production to large-scale capital-intensive heavy industry (Dantwala, 1986). Consequently, foodgrain Food production.
Table: 4.1

Compound Annual Growth (CAGR) trend in MSP of major crops during last three five year plans:

<table>
<thead>
<tr>
<th>Crops</th>
<th>CAGR in 1997-2002</th>
<th>CAGR in 2002-07</th>
<th>CAGR in 2007-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paddy</td>
<td>7.05</td>
<td>2.184</td>
<td>9.4</td>
</tr>
<tr>
<td>Wheat</td>
<td>6.08</td>
<td>2.20</td>
<td>6.2</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>7.6</td>
<td>3.8</td>
<td>17.21</td>
</tr>
<tr>
<td>Jowar</td>
<td>10.68</td>
<td>2.57</td>
<td>14.04</td>
</tr>
<tr>
<td>Bajra</td>
<td>7.55</td>
<td>2.57</td>
<td>8.6</td>
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<tr>
<td>Gram</td>
<td>11.6</td>
<td>3.7</td>
<td>18.46</td>
</tr>
<tr>
<td>Arhar/Tur</td>
<td>10.57</td>
<td>1.62</td>
<td>13.54</td>
</tr>
<tr>
<td>Maize</td>
<td>7.55</td>
<td>2.86</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Source: Based on the CACP data

The above table shows the compound annual growth in MSP of paddy, wheat, sugarcane, jowar, bajra, gram, tur and maize in three different five year plans. It is observed that CAGR of all the crops decreased in 2002-07 (tenth five year plan) as compared to CAGR of 1997-2002 (ninth five year plan) but increased in (2007-12) eleventh five year plan. The striking analysis is that CAGR of all crops are less in 2002-07 in comparison to 1997-02 and 2007-12. The CAGR of sugarcane increased from 7.6% in 1997-02 to 17.21% in 2007-12. And the CAGR of paddy increased from 7.05% in 1997-02 to 9.4% in 2007-12, but where CAGR of wheat is almost
same in north five year plan and eleventh five year plan. It is also clear from the graph given below:

![Graph showing CAGR in 1997-2002, 2002-2007, and 2007-2012 for different crops]

But from the graph above it is clear that the CAGR continues to improve with the five year plan. Agriculture sector in UP has been characterised by intermittent phases of growth and stagnation. It is a matter of deep concern as this sector relates directly to the overall growth performance of the state economy. Efforts, both at policy and at implementation levels are being made to overcome the constraints and encourage growth boosters. The constraints
mainly relate to proper price incentive structure, imperfections in the product and factor market, existing infrastructure facilities, forward and backward linkages, and allied supportive activities. Besides these, current liberalization process has led to the emergence into prominence the role of market and domestic market related policies. If on the policy front proper corrections are incorporated to deal with the market induced imperfections and correct price signals are created in the economy, it will help the state economy to get onto a new path of development.

Table: 4.2

Agriculture growth rate in different years in U.P and India

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</tr>
</thead>
<tbody>
<tr>
<td>U.P</td>
<td>1.63</td>
<td>.14</td>
<td>3.85</td>
<td>-1.05</td>
<td>2.34</td>
<td>2.42</td>
<td>3.51</td>
<td>3.8</td>
<td>-.4</td>
<td>4.71</td>
<td>4.57</td>
<td>3.47</td>
</tr>
<tr>
<td>India</td>
<td>6.01</td>
<td>-6.6</td>
<td>9.01</td>
<td>.18</td>
<td>5.14</td>
<td>4.16</td>
<td>5.8</td>
<td>.09</td>
<td>.81</td>
<td>7.94</td>
<td>3.65</td>
<td>1.91</td>
</tr>
</tbody>
</table>
The table and graph above shows that there is almost a positive correlation between agriculture growth rate in UP and India. There is a direct proportion between the rate of agriculture growth in India and UP. It is also seen that there is observed a sharp curves when agriculture growth rate of India is taken into consideration as compared to that of UP.

The introduction of high yielding varieties (HYV) technology (commonly known as Green Revolution) in mid-1960s yielded spectacular results and the production of food grains increased from about 83.4 million tonnes in the triennium ending (TE) 1964-65 to 104.4 million tonnes in TE 1971-72 (GoI, 2012). Subsequently, the country, which was threatened by hunger and
high dependence on imports as late as in mid-1960s, became one of the largest producers of many agricultural commodities such as rice, wheat, pulses, fruits and vegetables, etc., thus being self sufficient in staple foods. In aggregate, the food situation is quite favorable in the country and the problem of hunger is one of access and income distribution rather than shortages. Today, about 407 million people in India live below poverty line (GoI, 2009) and about 42 per cent of all children under 5 years suffer from malnutrition (HUNGAMA Survey Report, 2011). Increase in demand for food due to increasing population, rising income levels, and other demographic changes will require continuous increase in agricultural production. However, growth in productivity is slowing down in many states while the scope for expanding the area under cultivation as well as irrigation is limited. The growing environmental and natural resources concerns and food safety and human health issues associated with agriculture could threaten sustainability of agricultural growth. Therefore, the real challenges for agricultural sector in future would be to feed the ever growing population and to protect long-term sustainable productive capacity of natural resources like land and water.

The Indian economy has undergone structural transformation from an agriculture-based to knowledge-based services and industrial economy but the agriculture sector is still
the mainstay as about half of India's Population is wholly or significantly dependent on agriculture and allied activities for their livelihood (GoI, 2011). The dependence of workforce on agriculture is high in rural areas as nearly 63 per cent of the male workers are engaged in agricultural sector and dependence of female workers is much higher as nearly 79 per cent of them are engaged in agricultural sector (GoI, 2011a). The contribution of agricultural sector to GDP has continued to decline over the years, while that of other sectors, particularly services, has increased. In 1970-71, agriculture contributed about 44 per cent of the GDP, which declined to 31.4 per cent and 13.9 per cent in 1990-91 and 2010-11 (at 2004-05 prices), respectively (CSO, 2012). The pace of structural transformation has accelerated in the post reforms period. The decline in the share of agriculture in GDP. During the last four decades, there was more than 30 percentage point decline in the share of agriculture in GDP, while the decline in the share of agriculture in employment was less than 20 percentage points. As a result, the labour productivity in agriculture has increased marginally, while for non-agricultural workers, it has increased rapidly.

Moreover, the gap between agriculture and non-agriculture GDP has increased significantly in the post-reforms period leading to an increasing disparity between rural and urban areas. Although the share of agricultural GDP has declined in almost all
states, agriculture is still an important contributor to Gross State Domestic Product (GSDP) in some States like Punjab (24%), Madhya Pradesh (22.3%), Uttar Pradesh (21.7%), Assam (19.8%), and Bihar (19%) during TE 2010-11 (CSO, 2011). On the other hand, in States like Maharashtra (6.5%), Tamil Nadu (7.4%), Uttarakhand (8.9%), and Kerala (9.9%), the share of agriculture in GSDP is relatively low. But, that does not reduce the importance of agriculture as a large share of rural population in almost all the states is dependent on agriculture for employment and livelihood.

However, the problem of disguised unemployment and underemployment in agriculture is an issue and has important implications for a variety of organizations working in agriculture and rural non-farm sector value of output from the agriculture sector has diversified to comprise not only the traditional crops like rice and wheat but also high-value commercial crops and livestock products. At the all-India level, the share of food grains in the total value of output from agriculture and allied sectors (excluding forestry and logging) has fallen from 31.3 per cent (at 1999-00 prices) in TE 1983-84 to 24.7 per cent in TE 2007-08 (Figure 4.3).

Figure 4.3: Changing Composition of Value of Output from Agriculture in India: TE 1983-84 and TE 2007-08
Source: CSO (2011a)

The decline in share was more pronounced in case of cereals among food grains, where it declined from 26.3 per cent in TE 1983-84 to 21.7 per cent in TE 2007-08, whereas due to shift in the demand pattern towards high value crops, the farmers are also responding to market signals and gradually shifting production-mix to meet the growing demand for high-value commodities (Sharma and Jain, 2011).

There is a clear shift from staple food grains towards fruits and vegetables, livestock products, and fisheries. The share of high-value commodities/products (fruits and vegetables, livestock
products, fisheries) increased from 37.3 per cent in TE 1983-84 to 47.4 per cent in TE 2007-08. The share of livestock in the total value of agricultural output has increased from 20.6 per cent in TE 1983-84 to 26.1 per cent in TE 2007-08. Among livestock products, the contribution of milk has increased at a faster rate, from 12.7 per cent in TE 1983-84 to 17.4 per cent in TE 2007-08 than meat (from 3.4% to 4.5%). The share of fisheries has also increased from 2.7 per cent in TE 1983-84 to 4.6 per cent in TE 2003-04 but marginally declined to 4.4 per cent in TE 2007-08 (Sharma and Jain, 2011). The above trends clearly indicate that farmers have responded to market signals and diversified into high-value agriculture under given technological, institutional, and infrastructural constraints.

Third, although the share of agricultural exports in the total national exports has declined in the post-reforms period, the share of high-value agriculture in the total agricultural exports has increased. The share of agriculture in total export value declined from about 18.5 percent in 1990-91 to about 10.5 per cent in 2009-11, while the share of agricultural imports to total national imports increased from 2.8 per cent in 1990-91, reaching a high of 8.2 per cent in 1998-99 and then declining to about 3.5 per cent in 2010-11 (GoI, 2011b). Overall, India experienced a trade surplus in agriculture and food products during the last decade. The trade surplus in TE 2009-10 was about Rs. 42.7 thousand crores, a 279
per cent increase over TE 2003-04. The share of high-value products in total agricultural exports in the country has also witnessed an increase during the last decade. For example, the share of horticulture crops has increased from about 5.7 per cent in 2001-02 to 7.9 per cent in 2009-10.

The Indian agriculture needs such technological breakthroughs in other crops and sub-sectors. Agricultural production in the country has increased faster than the population growth in recent decades, thereby leading to a steady increase in per capita agricultural output but a steady decline in per capita availability of food grains due to changing food demand patterns (CSO, 2012 and GoI, 2011b). The increase in per capita agricultural output has been achieved mainly with technological change that has led to an increase in yield through increased use of modern inputs such as improved seeds, irrigation-water, fertilizers, pesticides, etc.

In a dramatic shift from historical trends, expansion of cropped area has played a small role in increasing agricultural production in the recent past and technological change has been a major production growth strategy in the post-green revolution period. However, there is increasing evidence that yield growth is slowing in many foodgrain-basket regions of India in recent decades, while there is no scope for bringing more area under agriculture. In this section, we review past achievements and
identify major challenges facing Indian agriculture. Trends in area, production, and yield of food grains, nonfood grains, and all crops between 1950-51 and 2010-11 are presented in Table 4.4. The food grains production grew at about 2.64 per cent per annum in the pre-green revolution period (1951-52 to 1965-66) and area growth contributed to the output growth (Table 4.4). The net sown area in the country increased from 119.4 million ha in 1951-52 to 138.1 million ha in 1964-65. The food grains production increased from 52 million tonnes in 1951-52 to 89.4 million tonnes in 1964-65 and declined to 72.4 million tonnes in 1965-66 and 74.2 million tonnes in 1966-67 due to two consecutive unprecedented severe droughts necessitating massive emergency food aid imports (10.4 million tonnes in 1966-67). This triggered a complete restructuring of agricultural policy in the country and emphasized technological innovation and introduction of new technologies from abroad. Achieving food security became the overriding goal of agricultural policy. The High Yielding Varieties (HYVs) of wheat developed at CIMMYT in Mexico suitable for conditions in the north-western states like Punjab, Haryana, and Uttar Pradesh were introduced in 1966-67. This was followed by the introduction of HYVs of rice from IRRI, Manila, and the Philippines, which ushered the green revolution in India. Since HYVs required assured irrigation and more chemical fertilizers, the government facilitated diffusion of private tube-wells and chemical fertilizer consumption through
various incentives.

Table 4.4

Compound Growth Rates of Area, Production and Yield of
Food grains, Non- Food grains and All Principal Crops
during 1951-52 to 2010-11
(Base: TE 1981-82 = 100)

<table>
<thead>
<tr>
<th>Period</th>
<th>Foodgrains</th>
<th>Non-Foodgrains</th>
<th>All Crops</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52 to 1965-66</td>
<td>1.12</td>
<td>2.64</td>
<td>1.51</td>
</tr>
<tr>
<td>1966-67 to 1980-81</td>
<td>0.51</td>
<td>2.82</td>
<td>2.30</td>
</tr>
<tr>
<td>1981-82 to 1990-91</td>
<td>-0.23</td>
<td>2.85</td>
<td>2.74</td>
</tr>
<tr>
<td>1991-92 to 2000-01</td>
<td>-0.07</td>
<td>2.02</td>
<td>1.52</td>
</tr>
<tr>
<td>2001-02 to 2010-11</td>
<td>0.37</td>
<td>2.12</td>
<td>2.89</td>
</tr>
</tbody>
</table>

Source: Gol (2011b).

The new HYV seed-fertilizer technologies led to a significant increase in food grains production from 74.2 million tonnes in 1966-67 to 129.6 million tonnes in 1980-81 at an annual growth rate of 2.82 per cent. Improvement in yield (2.3%) contributed to increased production while the contribution of area was very small (0.51%). Despite the introduction of Green Revolution, large quantities of food as well as chemical fertilizers had to be imported for several years. Moreover, the first phase of Green Revolution in India was limited to wheat and rice and to the north-west and small deltaic regions of peninsular India, and so, it could not raise rural incomes and alleviate rural poverty over a wider area. The decade of the 1980s witnessed favorable and broad based agricultural growth in India, including other regions and important crops and sub-sectors. The food grains production
recorded an annual compound growth rate of 2.85 per cent, mainly driven by productivity improvement (2.74%) while the area under food grains witnessed a negative growth rate (-0.23%). The growth in non-food grains production also increased at a much higher rate of growth (3.7%) compared with the period 1966-67 to 1980-81 and both area expansion and yield improvement contributed to output growth. In many states, agricultural growth during the 1980s was accompanied by a substantial increase in labour productivity (Bhalla and Singh, 2009).

However, in the early 1990s, India embarked upon a liberal policy framework, which got reinforced with the signing of the Uruguay Round Agreement on Agriculture (URAA) in 1994. The economic reforms aimed at reducing government controls and increasing the role of the private sector in all sectors of the economy and the agricultural sector was no exception to this. Agricultural price policy became a major policy instrument for bringing in technological change and more private investment, thereby, attaining high growth in agriculture.

On the other hand, non-price factors such as technology, infrastructure, farm credit, etc., were neglected. The substantial increase in procurement price of wheat (24.4%) and rice (17.3%) in 1991-92 and de-protection and deregulation of trade and industry led to improvement in terms of trade in favour of agriculture but
did not trigger agricultural growth. However, the impact of barter terms of trade on private investment, technological change, and agricultural growth is ambiguous due to income, wealth, and substitution effect, which work in the opposite direction (Desai and D’Souza, 1999 and Desai, 2002). The empirical estimates have shown a negative impact of terms of trade on output and marketed surplus of food grains (Desai and Namboodiri, 2001). As is evident from Table 4.1, growth in agricultural sector decelerated (2.29%) during the 1990s. The growth rate in food grains production declined from 2.85 per cent in 1980s to 2.02 per cent in 1990s and growth rate in yield fell from 2.74 per cent to 1.52 per cent during the same period. A similar trend was observed in the case of nonfood grains. During the 1990s, fatigue in the agricultural and rural economy became a serious problem, in contrast to rapid growth in non-agricultural sector, particularly services sector and urban areas. The slowdown in growth rate and plateauing of the productivity in major crops is a matter of concern and efforts are needed to step up crop productivity as there is no scope for area expansion. Ahluwalia (2011) suggests that productivity can be increased by 80-100 per cent for many crops in large areas by using modern agronomic practices based on available technologies but it would require state government action.

Concerned with slow growth in the agricultural sector
during the 1990s, the government focused concentrated attention on agriculture in the last decade and more particularly since 2005-06. Public investment in agriculture increased significantly, e.g., Gross Capital Formation in agriculture and allied sectors has increased from 13.1 per cent of GDP in agriculture in 2004-05 to 20.1 per cent in 2010-11 (CSO, 2012). Minimum support prices for many agricultural commodities have been significantly increased. For example, minimum support price of paddy increased from Rs. 570 per quintal in 2005-06 to Rs. 1,080 in 2010-11 and wheat price from Rs. 700 to Rs. 1,285 per quintal during the same period (GoI, 2011). The flow of institutional credit to agriculture and allied sectors has increased from Rs. 86,981 crores in 2003-04 to Rs. 4,46,779 crores in 2010-11, at an annual compound growth rate of about 25 per cent (Sharma, 2011). The actual achievement in flow of credit has exceeded the targets during the period. The government launched two centrally-sponsored scheme the National Food Security Mission (NFSM) to increase the production of rice, wheat, and pulses by 10, 8, and 2 million tonnes, respectively, by the end of the Eleventh Plan and the Rashtriya Krishi Vikas Yojana (RKVY) in 2007 to incentivize states to increase investment in agriculture and allied sectors, which has led to an increase in allocation for agriculture and allied sectors from 4.88 per cent of the State Plan expenditure in 2006-07 to 6.04 per cent in 2010-11. In order to develop the horticulture sector, the National Horticulture Mission (NHM) was implemented in 2005-
Due to the concerted efforts, there is a definite growth recovery in the agricultural sector during the last decade, the performance increasing particularly in the last 5-6 years. Food grains production growth rate increased to 2.12 per cent and the yield growth rate increased to 2.89 per cent during the 2000s. The food grains production reached a record level of 244.78 million tonnes in 2010-11 and is expected to be over 250 million tonnes in 2011-12, exceeding the target for the year by 5 million tonnes (GoI, 2012). The pulses production also touched a record of 18 million tonnes in 2010-11. A similar trend was observed in the case of non-food grains and all crops. Cotton production in the country increased more than three times from about 100 lakh bales in 2001-02 to 330 lakh bales in 2010-11. In order to exploit the potential of Eastern Plains for enhancing agricultural production, a new programme, Bringing Green Revolution in Eastern India (BGREI) has been implemented with an allocation of Rs. 400 crores. However, there is a need to increase allocation under the programme as a large investment is required for strengthening the production and market infrastructure in the region. Despite these accomplishments, serious concerns related to slow and uneven growth, high food inflation, declining public investment, rising subsidies, environmental issues, participation of small farmers in emerging agri-food chains, etc.,
still remain.

4.3 Relevance of MSP for Major Crops of the State

Minimum Support Price scheme is in operation in the State right from the starting of the scheme. The crops covered include paddy, wheat, jowar, ragi, maize, gram, tur, ground nut, sugarcane etc. These crops are covered under MSP and have been included in the scheme for the last 35 years. The growth rates in MSP over the period 2000-01 to 2012-2013 have been presented in the Table 4.6. As it can be seen from the Table, the growth is higher in the commercial sector as against the food crop sector. Paddy is an exception. But the procurement of paddy is not done in the State. Even in the case of other major crops, the State procurement as a ratio of the total production is quite low.

Government announces minimum support price (MSP) for major crops during the two main crop seasons – Rabi and Kharif – every year. In recent years, MSP for various crops has been raised year after year. For example, the MSP for wheat has been raised to Rs. 1350 per quintal this year while it was Rs. 650 in 2005-06. In the case of rice, MSP has gone up to Rs. 1250 per quintal from Rs. 570 per quintal in 2005-06. Pulses and oilseeds have seen similar or bigger hikes in MSP over the years.

The substantial hike in MSP has resulted in better prices available to farmers for their produce. Successive rise in MSP has also led to overall food security to the country: India is now self-
sufficient in wheat and rice. 2011-12 has seen record production in the case of wheat, rice, pulses and oilseeds. Even there was widespread drought in the monsoon season in 2012, overall foodgrain production dipped only marginally.

While rice, wheat and major coarse cereals are purchased by procuring agencies, government helps producers of pulses, oilseeds and some other crops by market intervention when prices tend to fall below the MSP. The government is strengthening the procurement infrastructure so that farmers do not have to resort to distress sale of their produce.

With Kharif sowing to pick up, the Cabinet Committee on Economic Affairs has approved increasing the minimum support prices between 15.7 per cent and 53 per cent. Such an increase will benefit crops such as paddy, urad, cotton and maize besides others. This increase has been made on the basis of recommendations given by Commission for Agricultural Costs and Prices (CACP). However, the CCEA has referred the MSP proposal back for two pulses such as tur and urad to seek some more clarifications,‖ (Home Minister, Mr. P. Chidambaram, June 2012).

The most common Kharif crop paddy (common) has seen minimum growth of over 15 per cent, while maximum increase has been done in the case of jowar with over 53 per cent. Ragi follows next in terms of increase. At the same time, MSP for urad,
groundnut, soyabean and sunflower has been increased by over 30 per cent.

This increase has come at a time when annual rate of inflation based on wholesale price index has exceeded 7.5 per cent. Though it is lower than the previous year inflation of over 9 per cent, but still prices of various non-food items such as soyabean, niger seed, groundnut seed and cotton have gone up. MSP of all these have been raised.

Simultaneously, ragi and jowar are among the primary food products, whose prices have gone up during May. There is feeling that increase in the MSP of various food crops can increase the inflation, but the impact can be seen only in the latter half of the current fiscal year.

Meanwhile, the Government has its own argument for raising the price. It believes that cost of production has gone up for the farmers, so it was required to increase the MSP. It also believes, with increase in the overall production the prices will come down and it will have some impact on inflation.
Table: 4.5

Annual Growth rate in MSP of major crops: 2007-08 to 2012-13

<table>
<thead>
<tr>
<th>Year</th>
<th>Paddy</th>
<th>Jawar</th>
<th>Bajra</th>
<th>Maize</th>
<th>Tur</th>
<th>Wheat</th>
<th>Sugarcane</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>15.8</td>
<td>53.1</td>
<td>19.9</td>
<td>19.9</td>
<td>0</td>
<td>5.1</td>
<td>17.2</td>
</tr>
<tr>
<td>2008-09</td>
<td>8</td>
<td>11.4</td>
<td>11.4</td>
<td>11.4</td>
<td>6.6</td>
<td>14.7</td>
<td>4.2</td>
</tr>
<tr>
<td>2009-10</td>
<td>5.3</td>
<td>4.76</td>
<td>4.76</td>
<td>4.76</td>
<td>30.4</td>
<td>1.8</td>
<td>7.7</td>
</tr>
<tr>
<td>2010-11</td>
<td>11.8</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>15</td>
<td>1.8</td>
<td>60</td>
</tr>
<tr>
<td>2011-12</td>
<td>31.78</td>
<td>40</td>
<td>40</td>
<td>35.5</td>
<td>29</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>2012-13</td>
<td>11.2</td>
<td>11.1</td>
<td>11.1</td>
<td>14.8</td>
<td>9.9</td>
<td>33.3</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Table reveals the growth rate in MSP of different crops from year 2007-08 to 2012-13. Table clearly depicts that as more farmers are growing sugarcane to growth rate in MSP of sugarcane has increased many fold from 2007-08 1.2% to 17.2% in 2012-13 whereas the growth rate of MSP of wheat is declining from 33.3% in 2007-08 to 5.1% in 2012-13. The growth rate of MSP of Jawar,
Bajra, maize Ragi has the same trend and almost same in all years such as 11.1% in 2007-08, 11.4% in 2011-12 and 4.76% in 2011-12 and no change in year 2009-10. Two crops barley and gram has high growth rate in MSP in 2011-12 i.e. 25.6% and 33.3% respectively as compared to all others years.

Table 4.6

Compound Annual Growth Rates (CAGR) in MSP: 2000-01 to 2012-13

<table>
<thead>
<tr>
<th>Year</th>
<th>Paddy Common</th>
<th>Coarse Cereals</th>
<th>Wheat</th>
<th>Gram</th>
<th>Arhar(Tur)</th>
<th>Sugarcane</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>510</td>
<td>445</td>
<td>610</td>
<td>1100</td>
<td>1200</td>
<td>59.50</td>
</tr>
<tr>
<td>2001-02</td>
<td>530</td>
<td>485</td>
<td>620</td>
<td>1200</td>
<td>1320</td>
<td>62.05</td>
</tr>
<tr>
<td>2002-03</td>
<td>530</td>
<td>485</td>
<td>620</td>
<td>1220</td>
<td>1320</td>
<td>69.50</td>
</tr>
<tr>
<td>2003-04</td>
<td>550</td>
<td>505</td>
<td>630</td>
<td>1400</td>
<td>1360</td>
<td>73.00</td>
</tr>
<tr>
<td>2004-05</td>
<td>560</td>
<td>515</td>
<td>640</td>
<td>1425</td>
<td>1390</td>
<td>74.50</td>
</tr>
<tr>
<td>2005-06</td>
<td>570</td>
<td>525</td>
<td>650</td>
<td>1435</td>
<td>1400</td>
<td>79.50</td>
</tr>
<tr>
<td>2006-07</td>
<td>580</td>
<td>540</td>
<td>750</td>
<td>1445</td>
<td>1410</td>
<td>80.25</td>
</tr>
<tr>
<td>2007-08</td>
<td>645</td>
<td>600</td>
<td>1000</td>
<td>1600</td>
<td>1550</td>
<td>81.18</td>
</tr>
<tr>
<td>2008-09</td>
<td>900</td>
<td>840</td>
<td>1080</td>
<td>1730</td>
<td>2000</td>
<td>81.18</td>
</tr>
<tr>
<td>2009-10</td>
<td>1000</td>
<td>840</td>
<td>1100</td>
<td>1760</td>
<td>2300</td>
<td>129.84</td>
</tr>
<tr>
<td>2010-11</td>
<td>1000</td>
<td>880</td>
<td>1170</td>
<td>2100</td>
<td>3500</td>
<td>139.12</td>
</tr>
<tr>
<td>2011-12</td>
<td>1080</td>
<td>980</td>
<td>1285</td>
<td>2800</td>
<td>3700</td>
<td>145.00</td>
</tr>
<tr>
<td>2012-13</td>
<td>1250</td>
<td>1175</td>
<td>1350</td>
<td>3000</td>
<td>3850</td>
<td>170.00</td>
</tr>
<tr>
<td>CAGR</td>
<td>8.20</td>
<td>8.21</td>
<td>8.06</td>
<td>7.77</td>
<td>10.67</td>
<td>8.73</td>
</tr>
</tbody>
</table>
In this table, the graph of the annual compound growth rate of MSP from 2000-01 to 2012-13 is drawn on the basis of MSP of previous table. The Arhar has highest CAGR i.e. 10.67% followed by sugarcane which has second highest CAGR which is 8.73% and coarse cereals and Paddy on third place have near about same CAGR 8.21% and wheat is with second lowest CAGR it is 8.06% of former and 9.4% of latter. The crop which has minimum CAGR is gram with 7.77%.

The relevance of MSP to the farm sector can be viewed from three different angles. First, the declaration of MSP should be at the time when the farmer has to take a decision about the crop. It is
stipulated that the Minimum Support Prices be declared well before the sowing season. This is not difficult as the cost data used for computations and arriving at MSP is of the previous years. However, even after more than two decades of exercise the MSP is not declared before decision-making about the sowing. This year the MSP has declared by the end of September when the crops was ready for harvest. Table 4.7 gives the date of declaration of MSP from 1984-85 onwards.

**Table 4.7**

Announcement of MSP by the Government

<table>
<thead>
<tr>
<th>Year</th>
<th>Season</th>
<th>Crops</th>
<th>Date of Submission of CACP report</th>
<th>Date of Declaration of MSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>Kharif</td>
<td>Food grains, oilseeds &amp;</td>
<td>-</td>
<td>27.09.1985 &amp;</td>
</tr>
<tr>
<td>1986-87</td>
<td>Kharif</td>
<td>Food grains, oilseeds &amp;</td>
<td>-</td>
<td>29.08.1986 &amp;</td>
</tr>
<tr>
<td>1987-88</td>
<td>Kharif</td>
<td>Paddy, Kharif coarse cereals,</td>
<td>23.02.1987</td>
<td>27.08.1987</td>
</tr>
<tr>
<td>1988-89</td>
<td>Kharif</td>
<td>Paddy, Kharif coarse cereals,</td>
<td>03.02.1988</td>
<td>04.05.1988</td>
</tr>
<tr>
<td>1989-90</td>
<td></td>
<td>NA</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>Rabi</td>
<td></td>
<td>09.08.1990</td>
<td>06.11.1990</td>
</tr>
<tr>
<td>1991-92</td>
<td></td>
<td>NA</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1994-95</td>
<td>Kharif</td>
<td>Kharif food grains, oilseeds</td>
<td>31.03.1994</td>
<td>09.04.1994</td>
</tr>
</tbody>
</table>
The above table explains that there is a considerable gap in the submission of CACP report and the declaration of MSP. In addition to the fact that in most of the years MSP has been declared well after sowing was completed and the farmer was committed to the crop. Second, MSP needs to provide the floor level price for the crops under consideration. The main objective of MSP is that it should provide such a floor at the time when prices crash below the promised level. Here, it is not only the declaration of MSP but its implementation process also gets involved. Third, the relevance of MSP emerges in the form of extension of participation of the farmers in the scheme and their exposure to it. The participation certainly depends upon the prices going below the MSP; however, the very fact that the farmers are aware or unaware of the scheme gives clear clue about their participation. We shall look into this aspect from the point of view of the present administrative structure here.
4.4 Implementation Process of MSP

4.4.1 The Process

Implementation of MSP in Uttar Pradesh had been quite a oblique task. During the harvest season the arrivals in the market start increasing which is an obvious and well-anticipated phenomenon. But as the regulated markets work on only a stipulated day in the week, the clustering of the arrivals in the regulated market takes place more by design. When the arrivals increase in the market it is natural that the prices offered by the traders collapse in the wake of huge arrivals. Many times the prices go well below the MSP, and the procedure requires that the APMC reports this to the District authorities. After receiving such information the District authorities call a meeting of the departments involved in the process of procurement and a decision about procurement is taken. This decision is conveyed to the authorities at the State level in order to get clearance and release of funds. After such clearance and release of funds procurement centres are opened. An order from the Government is issued for the purpose of procurement. The procurement agencies also have to identify the State level procurement network. Food Corporation of India has good network whereas NAFED depends on other agencies for its procurement. Thus, it is
very clear that the time-gap between prices falling below the Minimum Support Prices and the starting of procurement is at least two weeks and by this time the farmers would have sold the crop in the regulated market yard.

**MSP in different regions:** It may seem fair to offer the same price everywhere and farmers may push for one minimum support price that is valid in all parts of the country, but such a policy would be expensive. Private traders might be able to offer better prices to farmers living near Addis and other major markets, leaving the GOI to handle the unprofitable routes, transporting wheat from more remote locations. In addition, although such a policy initially seems —fair, the benefits would accrue disproportionately to wheat farmers in the remote areas provided GOI has a procurement center in those locations.

For this reason, it is preferable for the MSP to vary across locations in the country. One approach would be to set an MSP for Addis and lower MSP in other towns, adjusted by the costs of transportation to Addis. However, this only approximates what market prices would be in each town. A better approach would be to set the MSP based on recent market prices, perhaps a constant percentage increase from market prices in the same town the previous year as discussed in the previous section.

**MSP over the year:** Should the MSP vary over the harvest season? One option is to set the MSP at a fixed level throughout
the harvest season. This would be administratively simpler and easier to communicate with farmers. In addition, it would serve the purpose of minimizing the drop in prices during the peak harvest period. On the other hand, it would concentrate GOI purchases during the month of harvest, possibly resulting in congestion and long waits at the buying stations. An alternative would be to adjust it on a weekly or monthly basis during the harvest. Although this would follow market prices more closely, it is probably not worth the administrative complexity. Based on these considerations, it is preferable to maintain a constant MSP over the harvest season in each location.

4.4.2 Institutions Involved

There are various institutions involved in the process of implementation of MSP at the State level. The involvement of these institutions makes the functioning more complex than easy. These institutions include Uttar Pradesh Food and Civil Supply Corporation, Uttar Pradesh State Co-operative Marketing Federation, Oil Seed Uttar Pradesh Growers Federation and the National Agricultural Co-operatives Marketing Federation.

It is understood that the State Government has recently taken steps to open procurement centres in the APMC yards. We do not have any experience of this institutional arrangement (NAFED). The procurement of food grains is entirely the responsibility of the Food and Civil Supplies Corporation at the State level. Oilseed growers’ Federation deals with oilseeds
whereas NAFED has the responsibility of procuring other commodities. We give below a brief description of their activities.

4.4.2.1: National Agricultural Co-operative Marketing Federation of India

This is an apex institution dealing with co-operative marketing in the country and it came into existence on 2\textsuperscript{nd} October 1985. NAFED was established to play an effective role in the marketing of the agricultural produce within and outside the country in the fast changing business environment. NAFED involves itself in the following activities:-

- Providing market support to farmers through its commercial purchase.
- Acting as the Central Nodal-Agency of the Government of India for undertaking purchases of oilseeds and pulses under the Price Support Scheme.
- Acting as one of the agencies of the Government of India for making purchases under market intervention scheme.
- Acting as a channelizing agency of the Government of India for select commodities.
- Assisting farmers to source various agricultural inputs.

NAFED undertakes its operations through two agencies namely, Taluka Agricultural Produce Cooperatives (TAPC) and Agricultural Produce Marketing Committee (APMC). The regional office of NAFED is in Chennai and its head office is in
New Delhi. NAFED decides about the procurement mainly on the basis of the budget available: The regional office and the branch offices will get the information from the State Marketing Boards whenever prices slide down below MSP. It is only at the behest of the State Marketing Board; NAFED begins its intervention in the market and starts procurement. Main APMCs send the information of arrival and prices of the commodity to NAFED every day. But it does not act suo motto. NAFED procures groundnut, soyabean, safflower, sunflower and sesame, gram, tur, black gram and copra. Information about the price situation takes about one week to reach from regional or branch office to the Head office. It is only then the Head Office makes available the required funds to the regional office and thus NAFED can enter into the market and start procuring.

The main objectives of NAFED can be explained under as follows and NAFED effectively satisfies most of the objectives. NAFED always would like to intensify their presence in the market. This not only help increase competition in the market but also enhances market functioning and protect the producers against fluctuations.

**NAFED Objectives:**

- Providing market support to the farmers through its commercial purchase.
- Acting as the Central Nodal Agency of the Government of India for undertaking purchases of oilseeds and pulses
under the price support Scheme.
➢ Acting as the agency of the Government of India for making purchases under market intervention scheme.
➢ Acting as the canalizing agency of the Government of India for select commodities.
➢ Assisting farmers to source various agricultural inputs.
➢ NAFED appoints the agent for the purchase and delivery of the commodity.
➢ NAFED signs the agreement with the agents.
➢ NAFED supplies properly stitched and standard weighted gunny bags to the agents
➢ NAFED officers/representatives shall oversee the operations.

4.4.2.2 Uttar Pradesh Food and Civil Supply Corporation (UPSFCSC)

The U.P State Food and Civil Supplies Corporation handles procurement, storage and distribution operations of essential commodities on behalf of the Food Corporation of India and the State of U.P. The UPSFCSC handles procurement of food grains and the storage. It also receives food grains for distribution from the Food Corporation of India. Till 1981-82, UPSFCSC used to procure paddy and process it into rice for the purpose of public distribution, but now paddy is not procured. Rice is taken as levy from rice mills. UPSFCSC acts as a sub-agent of FCI for the purpose of procurement and the procurement takes at all the
stages. The APMC reports about the fall in price to the Deputy Director of Food and Civil Supplies, who, in turn, apprises the Deputy Commissioner of the district about the situation. The Deputy Commissioner calls a meeting of the Task Force and only after the Task Force clears that the procurement operation should take place only after it is reported to the State Authorities for necessary permission and funds. The procurement points are opened only after the State level authorities direct the procurement. This entire exercise takes at least two weeks, and till then the farmer cannot wait in the market yard. Recently, the Government of Karnataka has taken a decision to open permanent procurement centres in the APMC yards. UPSFCSC makes significant profits in the procurement and distribution operations. The profits recorded in 1996-97 were Rs 5 crores and it went down to Rs 1.76 crores in 1998-99. The recent procurement of food commodities are indicated below:

Recently FCI procured directly 132,000 tonnes of Maize for Rs. 445/q and UPSFCSC sold that at Rs 405/q and incurring a loss of Rs. 40 per tone. However, it was pointed out in a recent study by the Directorate of Agriculture that the procurement was largely from the traders despite the restriction that procurement will not be made in the absence of Land Records (Pahni or ROR) of the farmer. This happened due to three factors. First, there was a sufficiently long time-gap between the price collapse of maize and
opening of the procurement centres. Second, the farmers who had brought their produce for sale could not wait that long to sell their produce. They preferred to sell the produce immediately and receive the cash. Third, traders were ready to purchase the produce at lower than the MSP, and effected such purchases. Traders also obtained a copy of the ROR to produce at the procurement centre for the purpose of procurement at MSP. In the entire process, the traders could make profit.

The UPSFCSC undertakes procurement and the stocks are handed over to the FCI. FCI holds these stocks in the godowns and the state has a good capacity for stocking the grains. UPSFCSC undertakes the distribution of rice, wheat, sugar and kerosene to the BPL and APL under the PDS scheme. The PDS rates are almost closer to open market rates and therefore, BPL households usually buy at the fair price shops. In a Taluka, 65% of PDS allocation is managed by the UPSFCSC and another 35 per cent is met from the co-operative societies. The State has godowns to store about 3.40 lakh metric tonnes of grains. This is neither sufficient nor well spread in the State.

The table which is given below shows capacity and numbers of food storage in Meerut from year 2005-06 to 2011-12. During this period No. of storage of FCI increased from 22 to 29 and capacity increased upto 1309MTs. Situation of CHS in number wise stable in duration but capacity decreased 5164 MTs which is
19454 MTs in 2005-06 become 14290 in 2011-12. No variation in SH in number and capacity wise but number of food storage of SG and capacity has increased number of food storage is 24 in 2005-06 which increased upto 29 and capacity from 10295 to 66463 MTs.

Table: 4.8

Capacity and number of food storage in the division
(2005-06 to 2011-12)

<table>
<thead>
<tr>
<th>Owned by</th>
<th>F.C.I</th>
<th>C.H.C</th>
<th>S.H</th>
<th>S.G</th>
<th>Cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>22</td>
<td>29306</td>
<td>27</td>
<td>19454</td>
<td>25</td>
</tr>
<tr>
<td>2006-07</td>
<td>23</td>
<td>26806</td>
<td>27</td>
<td>19454</td>
<td>24</td>
</tr>
<tr>
<td>2007-08</td>
<td>31</td>
<td>27503</td>
<td>28</td>
<td>22293</td>
<td>24</td>
</tr>
<tr>
<td>2008-09</td>
<td>28</td>
<td>16851</td>
<td>28</td>
<td>22293</td>
<td>24</td>
</tr>
<tr>
<td>2009-10</td>
<td>28</td>
<td>25193</td>
<td>28</td>
<td>22293</td>
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<td>29</td>
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</table>

Source: Zila Shankhiya Patrika.

It is highly required to control price and promote to grain production. Zila cooperatives are the most crucial ones they play major role in providing seeds, fertilizers and insecticide to farmers and also buy their crops and provide loans. Farmers have direct participation in decisions and policy framing of districts cooperatives. There is significant increase in number of food storage from 41 in 2005-06 to 60 in 2011-12. As the number of storage increase upto 40, the capacity increased from 26191 MTs. in 2005-06 to 33851 MTs. in 2011-12.
4.4.2.3: Uttar Pradesh State Agricultural Marketing Board (UPSAMB)

UPSAMB is an institution financed by the State govt. for the purpose of market intervention. It is administered as a co-operative society and involves in procurement operations. UPSAMB gets the requests for procurement of commodities from APMC or directly from the farmers. It is only then that UPSAMB enters the market for procurement. It also undertakes the market disposal of the procured commodities and thus intervenes as seller as well as purchaser. Theoretically, UPSAMB should make a significant dent on the market operations and help in correcting price and market distortions. But in practice this does not seem to happen for various reasons. UPSAMB is financially self sufficient having 32 branches and well established network with APMCs in the State. But this is not effectively used.

The marketing federation usually procures commercial crops like cotton, maize and tur and other pulses. These form nearly 10-15% of the total commodities procured. The preference for commercial crops is due to the fact that these have longer shelf life and the proportion of wastage is quite low. Apart from that it was told that UPSAMB’s procurement is demand-oriented and their presence in the market is not obligatory. UPSFCMF had procured huge quantities of cotton a few years back and in the
process incurred losses to the tune of Rs 5 crores. Experience suggests that marketing federation should pre-plan their market intervention every year. The target fund provided for procurement every year is approximately 250 crores and this should be utilized to achieve the best results.

The objectives of UPSAMB are as follows:

- UPSAMB purchases fertilizer and pesticides from the industry and provides that to the farmers at reasonable prices.
- UPSAMB maintains cold storages in different areas for farmer’s service.
- UPSAMB undertakes construction of cold storage at the necessary places.
- UPSAMB is required to procure/purchase agriculture produce under Minimum Support Prices.
- UPSAMB is required to maintain godowns for the storage of procured quantity.
- UPSAMB is required to maintain good relationship with APMC.
- UPSAMB takes loans from different Banks to distribute fertilizer to the farmers in advance in the season.
- The main objective of UPSAMB is to give good price for farmer’s agricultural products, if the market price goes
If the seeds are not available in the sowing season then the UPSAMB will provide the seeds to the farmers.

**Policy Measures**

Minimum Support Prices have been in operation as a price support scheme for over a quarter of a century and it is time to look back at the effectiveness of this scheme. This will require examining if the present operations of MSP are meeting the objectives with which the scheme began. The first question that crops up here is the need for intervention especially to correct the market distortions and making the market more competitive. The present institutional structure in the market itself is imperfect and that provides further scope for the process to fail. The APMCs and other market intervention agencies perform their functions in a way that the farmer and the primary producer rarely benefit. Therefore, if the intervention itself is withdrawn and replaced with proper institutional framework, probably the gain will be on the farmers’ side. Such scheme requires the market institutions to intervene selectively but timely when the market prices fall below the declared MSP. However, timely intervention in the agricultural markets, at least in Uttar Pradesh, seems to be not taking place. The lag between the collapse of prices and procurement is about two weeks and such lag helps the traders and middlemen to buy from the market at a price lower than the
MSP and sell it at the procurement centre at the MSP, in the process earn good profits. This had happened in the case of maize procurement in Karnataka recently. As timely intervention is the core element of the scheme it is necessary to ensure this through proper policy measures. In order to ensure timely intervention the Uttar Pradesh Government has opened procurement centres at all the APMCs and a special fund is created for this purpose. There are a number of institutions which are active in the process of implementation of MSP. But these do not function with full information of the horizontal operations of the others. They work independently. Working in isolation does not make the policy effective, therefore, it is required that these institutions work in close coordination with each other. This will require the apex bodies to effect such collaboration. Functioning of the markets and their interface with the market intervening institutions is one of the problematic areas. APMCs have infrastructural difficulties in their functioning and this provides enough room for the inefficiencies to creep in. Under the domestic market reforms probably we may have to take up the reforming of the APMCs functioning on priority. The probable areas that need reform are i. infrastructure and proper use of infrastructure, ii. Process of grading and removing the inefficiencies in that, iii. Process of auction and the probable nexus between traders, and iv. Reducing the dependence of the farmers on traders and breaking the
interlocking of the credit and product market. In addition to these the monitoring of the prices and a proper information system is required in all the APMCs. Thus reforms at the APMC level should take priority over other factors.