



# UNDERSTANDING THE ISSUE OF MSP



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## *Agricultural Production and Market Outlook*

The Rising Agriculture....

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### About Cost of Cultivation Scheme of the Ministry

“Comprehensive Scheme for Studying the Cost of Cultivation of Principal Crops in India”, is being implemented by the Ministry through grants-in-aid to 16 Agricultural Universities/ Institutions in 20 States. The Scheme generates estimates of cost of cultivation/production in respect of 25 selected crops namely paddy, wheat, jowar, bajra, maize, ragi, barley, moong, urad, arhar, gram, masur, groundnut, rapeseed and mustard, nigerseeds, safflower, soyabean, sunflower, sesamum, cotton, jute, sugarcane, onion, potato, and coconut. These crops are selected for a block period of three years. The combination of crops covered in each state (also known as crop complex)

Field Agencies Implementing The Comprehensive Scheme For Estimating The Cost of Cultivation and Cost of Production in Different States		
S.No.	State	Implementing Agency
1	Andhra Pradesh	Acharya N. G. Ranga Agricultural University, Hyderabad
2	Assam	Assam Agricultural University, Jorhat
3	Bihar	Rajendra Agriculture University, Pusa, Samastipur
4	Gujarat	Sardar Patel University, Vallabh Vidya Nagar
5	Haryana	Haryana Agriculture University, Hissar
6	Himachal Pradesh	Himachal Pradesh University, Shimla
7	Karnataka	University of Agricultural Sciences, Hebbal, Bangalore.
8	Kerala	University of Kerala, Thiruvananthapuram.
9	Madhya Pradesh	Jawahar Lal Nehru Krishi Viswavidhyalaya, Jabalpur.
10	Maharashtra	Mahatma Phule Agriculture University, Rahuri
11	Odisha	Orissa University of Agriculture & Technology, Bhubaneswar.
12	Punjab	Punjab Agricultural University, Ludhiana.
13	Rajasthan	M.P.U.A.T, Udaipur
14	Tamil Nadu	Tamil Nadu Agriculture, University Coimbatore
15	Uttar Pradesh	R. B. S. College. Bichpuri, Agra.
16	West Bengal	Bidhan Chandra Krishi, Viswavidyalaya, Kalyani, Nadia.
17	Chhattisgarh	Jawahar Lal Nehru Krishi Viswavidhyalaya, Jabalpur.
18	Jharkhand	Rajendra Agriculture University, Pusa, Samastipur
19	Telangana	Acharya N.G.Ranga Agricultural University, Hyderabad
20	Uttarakhand	R. B. S. College. Bichpuri, Agra

varies from state to state depending upon their importance in terms of its relative contribution in the production of the relevant crop at all-India level.

**System of Data Collection:** The Scheme envisages collection of representative data on inputs and outputs in physical and monetary terms on a comparable and comprehensive basis following uniform methodology which is designed by the Expert Committees and is reviewed from time to time by these Committees. The field data are collected on the Cost Accounting Method by 16 implementing agencies from 8100 sample holdings spread over 20 states. The list of these agencies is given above. Under the scheme, daily entries of debit/credit for the expenditure/income are made in order to assess the total cost /benefit incurred/accrued to each farmer covered under the scheme. The field data on the input-wise cost incurred by farmers are collected by the fieldmen in a well-designed schedule from the selected farmers under the strict supervision and monitoring of concerned officials of the Implementing Agencies deployed under the Scheme. The data received from State Implementing Agencies are scrutinized and validated before processing it to arrive at State-wise cost of cultivation and production estimates of 25 mandated crops at DES level.

**Cost Concepts:** The items covered under the cost of cultivation and production are:

- A2+FL cost include all paid-out costs plus imputed value of family labour.
- C2 cost includes rental value of owned land and interest on fixed capital in addition to A2+FL costs.

The CACP recommends its price policy for various crops based on the above cost estimates apart from other parameters.

### Cost Concepts

1. Costs are generated following certain cost concepts. These cost concepts and the items of costs included under each concept are given below:

- Cost A1:**
- i) Value of hired human labour.
  - ii) Value of hired bullock labour.
  - iii) Value of owned bullock labour.
  - iv) Value of owned machinery labour
  - v) Hired machinery charges.
  - vi) Value of seeds (both farm produced and purchased).
  - vii) Value of insecticides and pesticides.

viii) Value of manure (owned and purchased).

ix) Value of fertilizer.

x) Depreciation on implements and farm buildings.

xi) Irrigation charges.

xii) Land revenue, cesses and other taxes.

xiii) Interest on working capital.

xiv) Miscellaneous expenses (Artisans etc.).

**Cost A2:** Cost A1+ rent paid for leased in land.

**Cost B1:** Cost A1+ interest on value of owned fixed capital assets (excluding land).

**Cost B2:** Cost B1+ rental value of owned land (net of land revenue) and rent paid for leased in land.

**Cost C1:** Cost B1+imputed value of family labour.

**Cost C2:** Cost B2+ imputes value of family labour.

**Cost C2\*:** Cost C2 adjusted to take into account valuation of human labour at market rate Or statutory minimum wage rate whichever is higher.

**Cost C3:** Cost C2\*+ value of management input at 10 percent of total cost (C2\*).

## 2. Imputation Methods

Some of the inputs used in the production process are provided by family sources. The criteria adopted for deriving imputed values of these inputs is given Table-1:

## 3. Allocation / Apportion of Joint Costs:

The expenditure incurred on, or imputed for, some of cost items relate to the farm as a whole. Such joint costs are allocated to individual enterprises, among different categories of livestock and so on. Depreciation on farm buildings and implements, land rents, land revenue, cesses and taxes, interest on owned fixed capital are such costs, which are allocated to each category of crops in proportion to their areas. The cost on livestock is allocated to each category of animals in proportion of its numbers to the total number of animals owned by the farmer.

The apportionment of total costs incurred jointly on different crops grown in mixture crops is done in proportion to the total value of output contributed by individual crops in the crop mixtures. The apportionment of total costs of cultivation between the main product and the by product(s) is done proportion to their contribution to their contribution to the total value of output.

## 4. Evaluation of Farm Assets:

The criteria adopted for the evaluation of farm assets is given Table-2:

**Table-1: Criteria Adopted for Driving Inputed Values**

SI. No.	Items	Criteria
(1)	(2)	(3)
i)	Family Labour	On the basis of statutory wage rate or the actual market rate, whichever is higher.
ii)	Owned Animal Labour	On the basis of cost of maintenance, which includes cost of green and dry fodder and concentrates, depreciation on animal and cattle shed upkeep labour charges and other expenses.
ii)	Owned Machinery Charges	On the basis of cost maintenance of farm machinery, which includes diesel, electricity, lubricants, depreciation, repairs and other maintenance expenses.
iv)	Implements	Depreciation and charges on account of minor repairs.
v)	Rent of owned land	Estimated on the basis of prevailing rents in the village for identical type of land or as reported by the sample farmers subject to the ceiling of fair rents given in the land legislation of the concerned State.
vii)	Interest in owned fixed capital	Interest on present value of fixed assets charged at the rate of 10% per annum.

**Table-2: Criteria Adopted for Evaluation of Farm Assets**

SI. No.	Assets	Criteria
(1)	(2)	(3)
1	Owned and self cultivated land	Evaluated at rates prevalent in the village, taking into account the differences in type of soil, distance from the village, source of irrigation available etc.
2	Farm building (cattle sheds, storage, etc)	Evaluation at rates prevailing in the village.
3	Implements and other farm machinery.	Evaluated at market prices
4	Livestock	Evaluated at market prices

**5. Cost of Production** is calculated by multiplying the ratio of Value of Main Product to Cost of Cultivation and the ratio of Value of Main and By-Product to Derived Yield.

**6. Assumptions made for estimating costs for Coconut crop:**

1. The economic life of a coconut palm has been assumed to be 5 years.
2. A coconut palm starts bearing fruit from the beginning of 8th year.
3. The rate of interest has been taken as 6% per annum for the purpose of working out amortized establishment cost.

**Commission for Agricultural Cost and Prices (CACP):**

The Commission considers the cost of production and other important factors such as demand and supply situation, trends in domestic and international prices, intercrop price parity, terms of trade between agricultural and non-agricultural

sectors and likely impact of MSP on consumers and overall economy along with rational utilization of scarce natural resources like land and water while recommending MSPs of the agricultural crops. Thus, cost is an important factor but not the only factor in determining MSPs.

The Commission prepares its cost projections on the basis of latest three years' cost estimates furnished by the DES, Ministry of Agriculture & Farmers Welfare under Comprehensive Scheme (CS) for Studying the Cost of Cultivation of Principal Crops in India for each crop and each state, which is generally available with a time lag of two years. These projected cost estimates are factored into formulation of price policy recommendations. The projected cost of cultivation (CoC) estimates of selected crops for last three year (2015-16 to 2017-18 Crop Season) are based on actual estimates for the latest three years viz. 2013-14 to 2015-16 for

each crops. The CoC estimates' projections capture movement in overall input cost separately for the crop season 2015-16 to 2017-18 over each of the past three years viz. 2012-13 to 2014-15, 2013-14 to 2015-16 and 2014-15 to 2016-17. An assessment of likely changes in input costs for the crop year with

reference to each of the above mentioned three consecutive years ending with 2012 to 2017 is made by constructing the Composite Input Price Index.

### Minimum Support Price and Cost of Production

Even after more than four decades of MSP

### All India Weighted Average Projected Cost of Production (A2, A2+FL & C2) of major crops - 2015-16 to 2017-18 Crop Season (Rs./quintal)

Crop	2015-16				2016-17				2017-18			
	Cost of Production			MSP	Cost of Production			MSP	Cost of Production			MSP
	A <sub>2</sub>	A <sub>2</sub> +FL	C <sub>2</sub>		A <sub>2</sub>	A <sub>2</sub> +FL	C <sub>2</sub>		A <sub>2</sub>	A <sub>2</sub> +FL	C <sub>2</sub>	
Paddy	780	1020	1324	1410	791	1045	1378	1470	840	1117	1484	1550
Jowar	1170	1467	1929	1570	1171	1501	1992	1625	1214	1556	2089	1700
Bajra	535	893	1154	1275	549	925	1218	1330	571	949	1278	1725
Maize	696	941	1223	1325	709	966	1286	1365	761	1044	1396	1425
Ragi	1196	1688	2069	1650	1211	1733	2150	1725	1384	1861	2351	1900
Tur/Arhar	2453	3237	4272	4625	2405	3241	4314	5050	2463	3318	4612	5450
Moong	2714	3993	5025	4850	2821	4065	5191	5225	2809	4286	5700	5575
Urad	2529	3455	4483	4625	2624	3584	4661	5000	2393	3265	4517	5400
Groundnut	2584	3314	4195	4030	2695	3371	4300	4220	2546	3159	4089	4450
Soybean\$	1527	1770	2418	2600	1543	1852	2542	2775	1787	2121	2921	3050
Sunflower	2846	3282	4114	3800	2912	3479	4418	3950	2933	3481	4526	4100
Sesamum	2765	4132	5189	4700	2705	4188	5570	5000	2685	4067	5706	5300
Nigerseed	2119	3146	4068	3650	1629	3366	4320	3825	1788	3912	5108	4050
Cotton#	2228	2753	3767	3800	2305	2889	3920	3860	2622	3276	4376	4020
Wheat	631	785	1163	1525	631	797	1203	1625	642	817	1256	1735
Barley	486	776	1089	1225	511	816	1119	1325	522	845	1190	1410
Gram	1724	2124	3102	3425	1799	2241	3185	4000	1977	2461	3526	4400
LentilMasur	1573	2015	3098	3325	1674	2174	3360	3950	1845	2366	3727	4250
R&M	1138	1702	2605	3350	1232	1871	2773	3700	1354	2123	3086	4000
Safflower	2574	3057	3734	3300	2076	3049	3952	3700	2216	3125	3979	4100
Sugarcane	113	140	210	230	121	152	211	255	MSP yet to be declared			
Jute	1578	2125	2697	3200	1553	2160	2836	3500	MSP yet to be declared			

implementation, less than 25 per cent of farmers knows the MSP of crops they grow. Although MSP is announced for the whole of India, the operation is limited only to few states where the designated government agencies procure the produce from farmers. The highlights of cost of production of principle crops in Gujarat vis a vis MSP declared by the Central Government is presented below.

Hon. Finance Minister Shri Arun Jaitley had announced in Budget 2018-19 that government has decided to keep MSP for the all unannounced crops of kharif at least at one and half times of their production cost. The MS Swaminathan committee's widely disseminated recommendation, to fix MSP at levels "at least 50 per cent more than the weighted average cost of production", remains a holy grail or

MSP and Cost of Production of Major crops in Gujarat 2015-16 (Rs./quintal)					
Crops	A2	A2+FL	C2	MSP	% MSP over cost A2+FL
Arhar	2594.16	3476.81	4550.86	4425	27.27
Bajra	675.69	865.00	1125.22	1275	47.40
Cotton	2274.24	2848.02	3659.32	3800	33.43
Groundnut	2148.33	2641.47	3409.54	4030	52.57
Maize	1062.31	1651.10	1931.00	1325	-19.75
Moong	8674.90	10198.61	11264.37	4650	-54.41
Paddy	745.24	850.66	1095.87	1410	65.75
Sesamum	3970.37	5143.20	6903.85	4700	-8.62
R&M	1064.36	1379.21	2068.79	3350	142.89
Wheat	800.80	976.95	1239.07	1525	56.10

partial reality at best.

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