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Rayat Shikshan Sanstha's



**Annasaheb Awate Arts, Commerce &
Hutatma Babu Genu Science College, Manchar,**

Tal-Ambegaon, Dist- Pune, Pin-410503

Reaccredited by NAAC with 'B' Grade



ISSN 2350-0476

**INTERNATIONAL JOURNAL OF MULTIFACETED AND
MULTILINGUAL STUDIES**

**Special Issue
Proceedings of the**

"NATIONAL SEMINAR ON INDIAN AGRICULTURE PROBLEMS AND PROSPECTS"

**6th & 7th February, 2015
Vol.I, February 2015**

INDEX

Sr. No	Title of the Paper	Author	Page No.
1	Trends in Productivity and Role of Indian Agriculture	Dr. E. S. Mundhe	1-6
2	New Economic Policy and Indian Agriculture	Dr. R. G. Rasal	7-10
3	Agricultural Finance	Prof. Kekane M.A. Prof. Dr. Gholap L.B.	11-12
4	State & Challenges of Agriculture Finance in India	Dr. G. D. Kharat	13-19
5	Need of Strong Policies For Using The Available Ground Water in India	MRS. Gujar P.S. DR. Adik B. R.	20-23
6	Agricultural Growth and Productivity in India: Opportunities and Challenges	Mr. Dhore K. B.	24-33
7	Problems and Prospects of Agricultural Marketing in India: An Overview	Prof. Dr. B.B. Nighot	34-36
8	The Issue of Farmers' Suicides as Reflected in Indian Movies: an Interdisciplinary Approach	More Sachin Mahadeo	37-40
9	Reforms in Agriculture Sector	Prof. S. A. Palande	41-44
10	Challenges and Opportunities Before Agriculture Marketing	Mr. Kekane M. A. Dr. Manohar K. Sanap	45-47
11	A Study of Warehousing System in Indian Agriculture	Dr. Vinod H. Mane Prof. H.S.Khese	48-53
12	Marketing Agriculture Produce: Challenges	Dr. Vijay D. Kulkarni	54-58
13	Problems and Prospects in Agricultural Marketing in India	DR. Takalkar S. D.	59-62
14	Crisis in Indian Agriculture	Prof. Jawale Shantilal R.	63-67
15	Role of Agriculture Subsidies in Tribal Agriculture Development	Prof. Y.M. Bhilore Prof. S. A. Hon	68-71
16	Challenges Before Dry Land Agriculture in India	DR. Bhosale J. P.	72-75
17	Farmers' Suicides in the Vidarbha Region of Maharashtra, India: The causes	Dr. Jadhav C. D.	76-78
18	Agricultural Productivity in India	Dr. Sou.P.B Patil	79-81
19	WTO & Indian Agriculture	Dr. Zaware S. K. Prof. Ghotekar D.B.	82-83
20	To Check the Sustainability of Villages – A Case Study of Vadgaon (Ghenand) Village in Khed Tehsil of Pune District	Prof. Gopal Dhavade	84-89
21	Impact of W.T.O. on Indian Agricultural Sector	Prof. Hon S.A. Prof. Dr. Waghmode B.M.	90-94
22	Farmer Suicides in India	Dr. Suhas Avhad Vidya Thorat	95-96
23	Indian Agricultural Price Policy	Dr. Barhate G. H. Dr. Tupe B.G.	97-99
24	Study of Soils Distribution in The Drought Prone Region in Maharashtra	Dr. Namdeo Shamrao Adnaik	100-103
25	WTO and Agricultural	Dr. B. S. Patil	104-109
26	Regulated Markets and It's Importance in Agricultural Marketing	Mr. Shivanand V. Kabburi	110-112
27	Agricultural Policy	Dr. Pramodini V. Kadam	113-116
28	Producer Companies	Dr. Kale P. B.	117-120
29	Agrarian Transition in India	Manoj Pandkar	121-123
30	Agriculture Productivity in India: Challenges & Measures	Prof. Nabade R.P. Dr. Kale S.B.	124-127
31	Agricultural Productivity in India	Dr. Pawar Vikas J.	128-130
32	Agricultural Marketing in India	Mr. Shrikant Fulsundar	131-134
33	Agricultural Credit in India	Dr. Pawar A. Manikrao	135-137

Indian Agricultural Price Policy

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Introduction : The Commission of Agricultural Costs & Prices (CACP since 1985, earlier named as Agricultural Price Commission) came into existence in January 1965, currently the Commission comprises a Chairman, Member Secretary, one Member (Official) and two Members (Non-official members are representatives of the farming community and usually have an active association with the farming community.

It is mandated to recommend minimum support prices (MSPs) to incentivize the cultivators to adopt modern technology and raise productivity and overall grain production in line with the emerging demand patterns in the country. Assurance of a remunerative and stable price environment is considered very important for increasing agricultural production and productivity since the market place for agricultural produce tends to be inherently unstable, which often inflicts undue losses on the growers, even when they adopt the best available technology package and produce efficiently. Towards this end, MSP for major agricultural products are fixed by the government, each year, after taking into account the recommendations of the Commission.

As of now, CACP recommends MSPs of 23 commodities, which comprise 7 cereals (paddy, wheat, maize, sorghum, pearl millet, barley and ragi), 5 pulses (gram, tur, moong, urad, lentil), 7 oilseeds (groundnut, rapeseed-mustard, soyabean, sesamum, sunflower, nigerseed, etc.), and 4 commercial crops (copra, sugarcane, cotton and raw jute.)

Copra, Before preparing aforesaid five pricing policy reports, the Commission draws a comprehensive questionnaire, and sends it to all the state governments and concerned National organizations and Ministries to seek their views. Subsequently, separate meetings are also held with farmers from different states, state governments, National organizations, processing organizations, and key central Ministries. The Commission also makes visits to states for on-the-spot assessment of the various constraints that farmers face in marketing their produce, or even raising the productivity levels of their crops. Based on all these inputs, the Commission then finalizes its recommendations/reports, which are then submitted to the government. The government, in turn, circulates the CACP reports to state governments and concerned central Ministries for their comments. After receiving the feedback from them, the Cabinet Committee on Economic Affairs (CCEA) of the Union government takes a final decision on the level of MSPs and other recommendations made by CACP. Once this decision is taken, CACP puts all its reports on the web site for various stakeholders to see the rationale behind CACP's price recommendations.

Cost Concept

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

Cost A1:

- Value of hired human labour
- Value of hired bullock labour.
- Value of owned bullock labour.
- Value of owned machinery labour.
- Hired machinery charges.
- Value of seed (both farm produced and purchased).
- Value of insecticides and pesticides.
- Value of manure (owned and purchased).
- Value of fertilizer.
- Depreciation on implements and farm buildings.
- Irrigation charges.

- Land revenue, cesses and other taxes.
 - Interest on working capital.
 - 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 + imputed value of family labour.
 Cost C3: 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).

1. 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 below:

S1.No.	Items	Criteria
1)	(2)	(3)
i)	Family labour	On the basis of statutory wage rate or the actual market, 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.
iii)	Owned Machinery Charges	On the basis of cost of maintenance of farm machinery, which includes diesel, electricity, lubricants, depreciation, repairs and other maintenance expenses.
iv)	Implements	Depreciations and charges on account of minor repairs.
v)	Farm Produced Manure	Evaluated at rates prevailing in the village.
vi)	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.
viii)	Interest on owned fixed capital	Interest on present value of fixed assets charged at the rate of 10% per annum.

2. **Allocation/Apportion of Joint Costs :** The expenditure on, or imputed for, some of the 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 in proportion to their contribution on the total value of output.

3. Evaluation of Farm Assets:

The criteria adopted for the evaluation of farm assets is given below:

S1.No	Assets	Criteria
(1)	(2)	(3)
1	Owned and self cultivated land	Evaluated at rated prevalent in the village, taking into account the different in type of soil, distance from the village, source of irrigation available etc.
(2)	Farm buildings (cattle sheds, storage sheds etc.)	Evaluated at rates prevailing in the village
3	Implements and other farm machinery	Evaluated at market prices
4	Livestock	Evaluated at market prices

4. In the excel sheet, various items of Cost of Cultivation is described below:

A1: All actual expenses in cash & kind incurred in production by Owner (Icmd 11-11.1.1+12.3+12.4)

A2:- A1+Rent paid for leased-in-land (Item 12.2)

B1:- A1+ Interest on Value of owned capital assets (excluding land) (Item 12.5)

B2:- B1+ Rental value of owned land (net of land revenue) & rent paid for leased in land (Item 12.1&12.2)

C1:- B1+ Imputed value of family labour (Item 11.1.1)

C2:- B2+Imputed value of family labour (Item 11.11)

REVISED C2:- C2 + Addition value of human labour based on use of higher wage rate, i.e. statutory wage rate or actual market rate (as derived from cost study data)

C3:- Includes managerial cost (Revised C2+ 10% of Revised C2)

5. Cost of Production is calculated by multiplying the ratio of Value of Main Product to 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 50 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.

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