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DRG Study: Pricing of Paddy: A Case Study of Andhra Pradesh

The Reserve Bank released today the DRG Study on "Pricing of Paddy: A Case Study of Andhra Pradesh" authored by Dr. Ramana Murthy and Smt. Rekha Misra. From this DRG Study Series No. 38 onwards, Reserve Bank will be only web hosting the DRG Studies and no printed version will be made available.

The main purpose of this Study was to look into, *inter alia*, the extent of the gap between minimum support price (MSP), the rate at which the farmer is able to sell the produce, levy price and the cost of cultivation along with the economic and financial viability of the farmers in the State of Andhra Pradesh. The Study also attempted to analyse the changing agrarian structure, irrigation pattern, changes in the use of agricultural technology, cropping pattern, availability of agricultural credit and insurance as a brief backdrop to the agricultural profile of Andhra Pradesh.

Methodology

For analysing the trends in prices, costs and returns to paddy farming, a sample survey was undertaken covering 192 households in 13 villages from eight districts, namely East Godavari, Krishna, Karimnagar, Nizamabad, Warangal, Medak, Nalgonda and Mahaboobnagar. The class distribution of 192 sample households constituted 39 marginal, 118 small and 35 medium operational households. The Study relied on both primary and secondary data sets.

Major Findings of the DRG Study

The Study highlights that the agrarian structure in the State of Andhra Pradesh is dominated by small and marginal farmers with an increasing share of land under their cultivation. The production has remained unstable due to the large share of cultivated area under tank and well irrigation, which is dependent on rainfall.

According to the Survey findings of the Study, the average cost of production of paddy in the State during 2011-12 was above MSP. The MSP covered only paid-out costs {As per the classification provided by the Commission of Agricultural Cost and Prices (CACP), paid-out cost covers all fixed and variable paid out costs excluding rent}. In addition, the findings reveal that the cost of cultivation has gone up in the State, irrespective of the region. A considerable rise in the demand for labour in the non-agricultural sector, implementation of Mahatma Gandhi National and Rural Employment Guarantee Scheme (MGNREGS) and migration has also resulted in a sharp rise in wage costs, and thereby pushed up the cost of cultivation.

Another important finding of the Study shows that the cost of production is underestimated based on the methodology of CACP. Further, with a view to facilitate the farmers to get a better price for paddy, the Study suggested that procurement innovation initiated by the State by assigning procurement operations to Self Help Groups (called IKP groups) in selected locations could be experimented for the State as a whole. In its findings, the Study has concluded that to make the farmers of the State reap fair price for paddy, the State needs to build the extra storage facilities, as well as to allocate more railway rakes for movement of surplus grains.

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