

CHAPTER 9

STEP PRICING SYSTEM

The new pricing system is the basic pre-requisite for operation of CSP Centres. The farmers shall get attracted to the centre and tend to use its services only when there is no financial disadvantage to them. Under the existing pricing system, there is uncertainty of price increase under the normal market forces during the lean period. Thus farmer is not sure whether he will get compensation for the costs incurred by him by holding his stock. As a result, he prefers to sell his produce immediately harvest. In case, he is assured of a certain minimum return on his held stocks, he will not mind storing his produce and then selling it in the lean season. The new pricing system for procurement of agricultural produce has been devised and discussed in the view of this requirement.

CURRENT SYSTEM

The current system of price fixation allows a single procurement price for an agricultural produce. The procurement price is in the form of support price, fixed by the government on recommendation from Agricultural Prices Commission. The price is normally fixed before the harvest of the crop. The procurement is done by the government agencies at the support price, thus fixed. The consequences of single pricing system are as follows.

- The produce is brought by the farmers to the market for sale immediately after harvest. Since all the farmers bring their produce to the market in a very short span of time, there is heavy rush in the market. As a result, market infrastructure is over-strained and farmers have to face various difficulties in disposal of their produce.
- As arrivals are limited to a short period of time, the procurement agencies operate in the market for a limited period. Thus, the facility of support price is available to the farmers only for a short period. Thereafter the prices are determined by the traders who tend to exploit the farmers. This becomes cause as well as effect of quick disposal and non-retention of the produce by the farmer.
- The procurement agencies also experience an uneven load. While the procurement staff is overburdened during the short period after harvest, it has lack of work during other time and has to be diverted to other jobs.
- The rush purchases by various procurement agencies also results in poor quality control of the procured produce. The short period available with the farmers also does not allow them to clean and dry their produce before taking it to the market. Thus, the goods procured, in many cases, do not meet the specifications and deteriorate faster.
- After harvest of one crop, the farmers have to start procurement of inputs and preparation of field for next crop. Any delay in sowing or inability to procure inputs has an effect on the yield of next crop. Thus, the intervening time is very crucial for him. But, a part of this time is lost by him in marketing of produce and arrange money for meeting his requirements for next crop. He can save time if the marketing

operations can be postponed and credit is available to him.

Thus it is seen that the current system of single procurement price induces un-necessary rush and strain on the marketing system, procurement agencies as well as the producers. The system needs to be replaced by an alternative system which allows the farmers to sell his produce as and when he wants without any financial disadvantage and strain to him.

STEP PRICING SYSTEM

Introduction of step-pricing system is proposed in place of fixed price system. Under this system, the price of the produce will not be fixed at one level but increase on monthly basis. The fixation of step price will be governed by the following method.

- A basic price will be fixed for procurement of produce during the month immediately after harvest. The basis and procedure for fixing this price will remain same as being currently adopted for fixation of support price.
- An increase in price per month will be provided to compensate for storage charges and cost of capital held in the form of value of produce.
- A monthly incentive will be ensured to the farmer with a view to induce him to postpone the sale of his foodgrains. In order to promote CSP centres, it is proposed that this incentive should be given only to those farmers who store their produce in these centres. The quantum of monthly incentive can be made uniform or varied depending upon the procurement objectives. However, for the purpose of succeeding calculations a uniform rate of incentive per month has been assumed.

CALCULATIONS OF STEP-PRICE

Let P = Basic Procurement Price (Rs./Qtl.)

s = Monthly storage charges (Rs./month/Re)

r = Monthly rate of interest (Rs./month/Re)

c = Monthly rate of incentive (Rs./month/Re)

m = Period elapsed (months)

P_m = Procurement price after 'm' months (Rs./Qtl.)

S = Total storage charges during 'm' months (Rs./Qtl.)

R = Total interest charges during 'm' months (Rs./Qtl.)

C = Total value of incentive during 'm' months (Rs./Qtl.)

Then $P_m = P + S + R + C$

Where $S = P.s.m$

$R = P.r.m.$

and $C = P.c.m.$

$$P_m = P + P.s.m. + P.r.m. + P.c.m.$$

$$= P (1 + sm + rm + Cm)$$

$$= P [1 + m (s+r+c)]$$

ADVANTAGES OF STEP PRICING SYSTEM

It is envisaged that the new pricing system will end most of the bottle-necks in the current disposal system of agricultural produce. It will prevent forced and early disposal of produce by the farmers. Instead farmers will be tempted to store their produce and dispose it off only

when it is convenient to them. Thus, the pressure on the farmers to dispose off their produce will be removed and they can utilise their time after harvest in more gainful works.

The undue strain on market infrastructure and the procurement agencies will be significantly reduced. The load on these agencies will be more uniform. This will also help in improving the quality of procured goods. As a result of storage by farmers at local level, the load of short-term storage and quick transportation by the procurement agencies will be considerably reduced and distributed. This will help in reducing multiple handling, transit storage, quick transport and thereby reducing losses in these operations.

The culture of storage and retention at the local level will also in a way, help in popularising CSP centres which is being envisaged as an important infrastructure in the rural areas. The multiple advantages of CSP centres will relieve the farmers from burden of crop storage, marketing of produce as well as provide him easy credit against storage of his produce.