



KAMARAJ IAS ACADEMY
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Minimum Support Prices (MSP)

Published On: 17-02-2024

Why is in news? The first of the 12 demands made by protesting Punjab farmers in their email sent to the government was for a law to guarantee the procurement of all crops for all farmers at MSP, and for the determination of crop prices as per the recommendations of the Dr Swaminathan Commission.

A major demand of the farmers protesting in Delhi is for the enactment of a law to guarantee minimum support prices (MSP) for all crops, **as per the formula recommended by the Dr M S Swaminathan Commission.**

About:

Minimum Support Price (MSP) is a **form of market intervention** by the Government of India to insure agricultural producers against any sharp fall in farm prices.

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Minimum Support Price (MSP)

It is the minimum price at which government agencies procure particular crops from the farmer at MSP.

It is announced by govt. on **23 commodities** at the start of each cropping season for Rabi & Kharif.

Commodities include **22** mandated crops and fair and remunerative price (**FRP**) for sugarcane.



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CACP recommends MSPs on a total of 23 commodities

Current issues

- Higher usage of fertilizers resulted in poor NPK ration in soil.
- Current ratio- **31:8:1** (in Punjab)
- Target ratio- **4:2:1**
- Farmers are demanding a legal mandate for MSP.

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COMMERCIAL CROP
Cotton, Sugarcane, Copra & Raw Jute

7

CEREALS
Paddy, Wheat, Maize, Bajra, Jowar, Ragi and Barley

5

PULSES
Chana, Arhar/tur, Urad, Moong and Masur

7

OILSEEDS
Rapeseed-mustard, groundnut, soyabean, sunflower, sesamum, safflower & nigerseed

The minimum support prices are announced by the Government of India at the beginning of the sowing season for certain crops **on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP)**.

MSP is price **fixed by Government of India** to protect the producer - farmers - against excessive fall in price during bumper production years.

The minimum support prices are a guarantee price for their produce from the Government.

The major objectives are to **support the farmers from distress sales** and to procure food grains for public distribution.

In case the market price for the commodity falls below the announced minimum price due to bumper production and glut in the market, government agencies purchase the entire quantity offered by the farmers at the announced minimum price.

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The CACP recommends MSPs for **22 mandated crops and fair and remunerative price (FRP) for sugarcane**. The mandated crops include 14 crops of the kharif season, 6 rabi crops and 2 other commercial crops.

Historical perspective of MSP:

The **Price Support Policy of the Government** is directed at providing insurance to agricultural producers against any sharp fall in farm prices.

The minimum guaranteed prices are fixed to set a floor below which market prices cannot fall.

Till the mid 1970s, Government announced **two types of administered prices**: Minimum Support Prices (MSP), Procurement Prices.

The MSPs served as the floor prices and were fixed by the Government in the nature of a long-term guarantee for investment decisions of producers, with the assurance that prices of their commodities would not be allowed to fall below the level fixed by the Government, even in the case of a bumper crop.

Procurement prices were the prices of kharif and rabi cereals at which the grain was to be domestically procured by public agencies (like the FCI) for release through PDS.

It was **announced soon after harvest began**. Normally procurement price was lower than the open market price and higher than the MSP.

This policy of two official prices being announced continued with some variation upto 1973-74, in the case of paddy.

In the case of wheat it was discontinued in 1969 and then revived in 1974-75 for one year only.

Since there were too many demands for stepping up the MSP, in 1975-76, the present system was evolved in which only one set of prices was announced for paddy (and other kharif crops) and wheat being procured for buffer stock operations.

Formulae for Calculation:

A2: Costs incurred by the farmer in production of a particular crop. It includes several inputs such as expenditure on seeds, fertilisers, pesticides, leased-in land, hired labour, machinery and fuel

A2+FL: Costs incurred by the farmer and the value of family labour

C2: A comprehensive cost, which is A2+FL cost plus imputed rental value of owned land plus interest on fixed capital, rent paid for leased-in land

National Commission of Farmers also known as the **Swaminathan Commission (2004)** recommended that the MSP should at least be 50 per cent more than the weighted average cost of production (CoP), **which it refers to as the C2 cost**.

The government maintains that the MSP was fixed at a level of **at least 1.5 times of the all-India weighted average CoP**, but it calculates this cost as **1.5 times of A2+FL**.

Features of MSP:

Price Assurance: The primary feature of MSP is to provide farmers with an assured minimum price for their crops. This assurance helps farmers plan their production and investments without the fear of drastic price fluctuations.

Government Guarantee: The government or its designated agencies commit to purchasing the specified crops from farmers at the announced MSP. This government guarantee reduces the risk of price volatility for farmers.

Crops Coverage: MSP is announced for a variety of crops, including cereals, pulses, oilseeds, and commercial crops. This coverage ensures that farmers engaged in various agricultural activities benefit from the policy.

Cost Consideration: The MSP is determined based on factors such as production costs, market trends, input prices, and desired profit margins. The Commission for Agricultural Costs & Prices (CACP) recommends MSPs considering these factors.

Buffer Stock Creation: The government often procures crops from farmers at MSP to build food stocks. These stocks are used for various purposes, including maintaining food security, distributing through public distribution systems, and managing price stability.

Farm Income Support: MSP ensures that farmers receive a fair and remunerative price for their produce, contributing to their income stability and reducing the income risks associated with agriculture.

Market Intervention: MSP acts as a market intervention tool to prevent distress sales by farmers during times of surplus production or price crashes. Farmers can sell their produce to government agencies at MSP.

Inflation Control: By ensuring a stable supply of agricultural products and preventing price crashes, MSP contributes to controlling food inflation and ensuring reasonable prices for consumers.

Safeguard for Farmers: MSP acts as a safety net for farmers, especially during periods of adverse weather, low market prices, or market imperfections.

Importance of MSP:

Fixed Remunerations: The farmers are financially secured against the vagaries of price instability in the market. It provides security to farmers from the risk of crop failure and less production.

Informed decision making: MSP are announced at the beginning of the sowing season, this helps farmers make informed decisions on the crops they must plant. This advance information helps the farmer to make an informed decision about which crop to sow for maximum economic benefit within the limitations of his farm size, climate and irrigation facilities.

Benchmark for private buyers: MSP sends a price-signal to market that if merchants don't offer higher than MSP prices the farmer may not sell them his produce. Thus it acts as an anchor or benchmark for the agro-commodity. It ensures the market prices will not be drastically lower than MSP.

Targeted crops: MSP is used as a tool to incentivize production of specific food crops which is short in supply. MSP motivates farmers to grow targeted crops and increased production.

Enhance purchasing power: Slow farm growth and increasing farmer's distress demand for more MSP for farmers. It helps in enhancing the purchasing capacity of farmers.

Crop Diversification: There are slightly higher increases in the MSP for pulses, oilseeds and coarse cereals which helps in achieving the motive of diversifying crops.

Promotion to grow oilseeds: As farmers get a secured price for their crops, it will encourage more and more farmers to grow oilseeds as well as prompt them to shift away from grains.

Focus on Nutri-Rich crops: The added focus on nutri-rich nutri-cereals is to incentivise its production in the areas where rice-wheat cannot be grown without long term adverse implications for groundwater table.

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Challenges associated with MSP:

Protest by Farmers: Farm unions have been protesting for more than six months on Delhi's outskirts, demanding legislation to guarantee MSP for all farmers for all crops, and a repeal of three contentious farm reform laws.

MSP and Inflation: When announcing the MSP, inflation should be taken into account. But often the price is not increased upto that mark. Also, frequent increase in the MSPs can lead to inflation too.

High Input costs: The input costs have been rising faster than sale prices, squeezing the meagre income of the small farmers and driving them into debt.

Lack of Mechanism: There is no mechanism that guarantees that every farmer can get at least the MSP as the floor price in the market. So proper mechanisms need to be fixed for all times to come.

Restriction in Exports: Even after producing surplus grains, every year a huge portion of these grains gets rotten. This is due to the restrictions under WTO Norms, that grain stocks with the FCI (being heavily subsidised due to MSP) cannot be exported.

Limited Awareness: Farmers, especially small and marginalised ones, are less aware about the time of announcement of MSPs. It leads to them being left out of the whole virtuous cycle.

Economically unsustainable: The economic cost of procured rice and wheat is much higher for the FCI than the market price of the same. Due to this, the FCI's economic burden eventually will have to be borne by the Union government and may subsequently lead to divergence of funds from being invested in agriculture infrastructure.

Way forward:

Alternate income models: Instead of relying on MSP alone, the government needs to explore alternate models to boost farmer's income like horticulture.

Market Intervention Scheme: A counterpart of the MSP is the Market Intervention Scheme under which the state government procures perishable commodities like vegetable items.

Price Deficiency Payment: To solve the problem of MSP, both NITI and Economic Survey recommend Price Deficiency Payment (PDP) in which the government pays the farmers the difference between modal rate (the average prices in major mandis) and the MSPs.

Income support: By moving from price to income support, all market-distorting input and output subsidies can be collapsed into the Pradhan Mantri Kisan Samman Nidhi or PM-KISAN scheme.

Stock diversification: The government should stock sufficient quantities of all essential food items— not only rice and wheat, that enable effective market intervention, with the interest of poor consumers better taken care of through targeted cash transfers.