



Minimum Support Price

For Prelims: [Minimum Support Price](#), [Rabi and Kharif Crops](#), [Commission for Agricultural Costs and Prices \(CACP\)](#), Fair and remunerative Price, Crop Diversification.

For Mains: Minimum Support Price, Major crops cropping patterns in various parts of the country, Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

[Source: TH](#)

Why in News?

Recently, the Centre has announced hikes in the [Minimum Support Price \(MSP\)](#) for wheat and **five other [Rabi Crops](#)** for the 2024-25 marketing season.

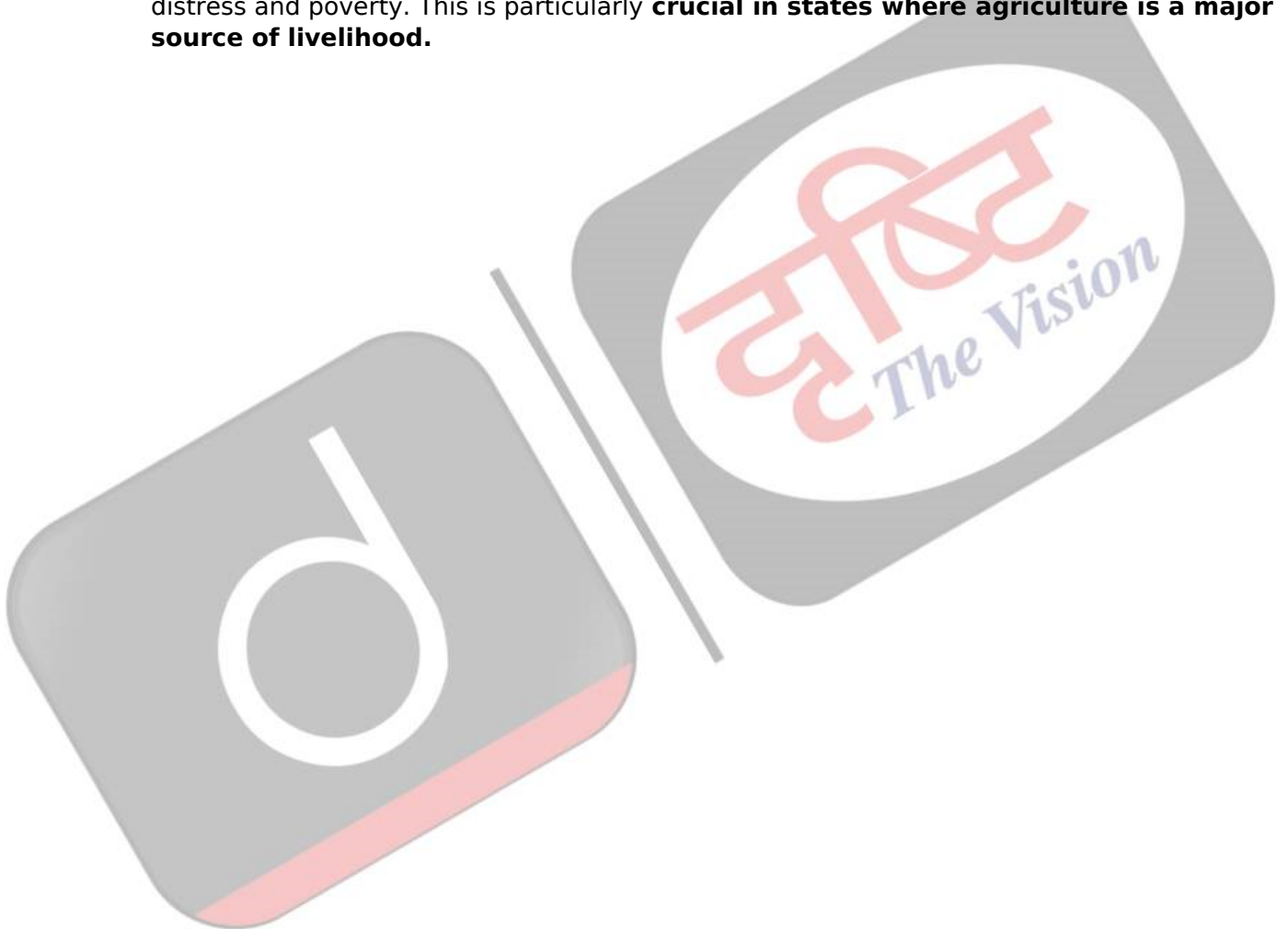
- The most significant increase is for wheat, **with a Rs 150 per quintal hike**, the highest since 2007-08.
- Wheat is a crucial rabi crop and is the second-largest crop in terms of **area coverage in India and plays a crucial role** in the economy.

What is the Minimum Support Price?

- **About:**
 - MSP is the **guaranteed amount paid to farmers** when the **government buys their produce**.
 - MSP is based on the recommendations of the [Commission for Agricultural Costs and Prices \(CACP\)](#), which considers **various factors such as cost of production, demand and supply**, market price trends, inter-crop price parity, etc.
 - CACP is an attached office of the **Ministry of Agriculture and Farmers Welfare**. It came into existence in January 1965.
 - The [Cabinet Committee on Economic Affairs \(CCEA\)](#) chaired by the Prime Minister of India takes the **final decision (approve) on the level of MSPs**.
 - The MSP is aimed at ensuring **remunerative prices to growers for their produce** and encouraging [Crop Diversification](#).
- **Crops Under MSP:**
 - 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.
- **Three Kinds of Production Cost:**
 - The CACP projects three kinds of production cost for **every crop**, both at state and all-India average levels.
 - **'A2'**: Covers all paid-out costs directly incurred by the farmer in cash and kind on seeds, fertilisers, pesticides, hired labour, leased-in land, fuel, irrigation, etc.

- **'A2+FL'**: Includes A2 plus an imputed value of unpaid family labour.
- **'C2'**: It is a more comprehensive cost that factors in rentals and interest for owned land and fixed capital assets, on top of A2+FL.
- CACP considers both **A2+FL and C2** costs while recommending MSP.
 - CACP reckons only A2+FL cost for return.
 - However, C2 costs are used by CACP primarily as benchmark reference costs (opportunity costs) to see if the MSPs recommended by them at least cover these costs in some of the major producing States.
- **Need for MSP:**
 - The twin droughts of **2014 and 2015 forced the farmers** to suffer from declining commodity prices since 2014.
 - The twin shocks of [Demonetisation](#) and the [Rollout of GST](#), crippled the rural economy, primarily the **non-farm sector**, but also agriculture.
 - The slowdown in the economy after 2016-17 followed by the pandemic further ensured that the **situation remains precarious for the majority** of the farmers.
 - Higher input prices for diesel, electricity and fertilisers have only contributed to the misery.
 - It ensures that farmers receive a fair price for their crops, which helps in reducing farm distress and poverty. This is particularly **crucial in states where agriculture is a major source of livelihood**.

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MINIMUM SUPPORT PRICE (MSP)

The rate at which the govt. purchases crops from farmers; based on a calculation of at least 1.5x the cost of production incurred by the farmers

RECOMMENDED BY

Commission for Agricultural Costs & Prices (CACP) (recommends MSPs for 22 mandated crops and Fair and Remunerative Price for Sugarcane)

22 MANDATED CROPS

(14 Kharif, 6 Rabi and 2 Other Commercial crops)

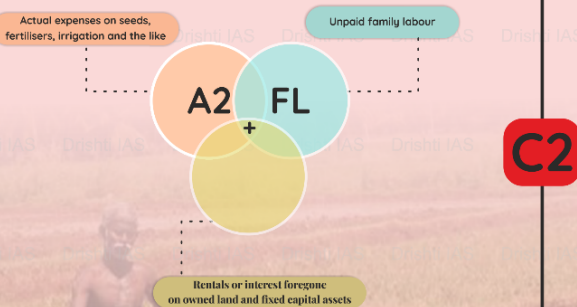
- 7 CEREALS** Paddy, Wheat, Barley, Jowar, Bajra, Maize And Ragi
 - 5 PULSES** Gram, Arhar/tur, Moong, Urad And Lentil
 - 7 OILSEEDS** Groundnut, Rapeseed/mustard, Soyabean, Sunflower, Sesamum, Safflower And Niger Seed
- RAW COTTON** **RAW JUTE** **COPRA**

MSP is the price at which the govt. is supposed to procure the mandated crops from farmers if the market price falls below it

FACTORS FOR RECOMMENDING MSP

- Cost of cultivation
- Demand-Supply situation for the crop
- Market price trends
- Inter-crop price parity
- Implications for consumers (inflation)
- Environment (soil and water use)
- Terms of trade b/w agri and non-agri sectors (ratio of farm inputs and outputs)

Considers both A2+FL and C2 costs



MSP has no statutory backing — a farmer cannot demand MSP as a matter of right

What are the Concerns Related to MSP in India?

- **Limited Extent:**
 - The MSP is officially announced for 23 crops, but in practice, **only two, rice and wheat, are extensively procured** and distributed under the [National Food Security Act \(NFSA\)](#).
 - For the rest of the crops, the MSP implementation is **ad-hoc and insignificant**. This means that the majority of farmers growing non-target crops do not benefit from the MSP.
- **Ineffective Implementation:**
 - The Shanta Kumar Committee, in its 2015 report, revealed that only **6% of the MSP was actually received by farmers**.
 - This suggests that a significant portion of farmers, around 94%, do not benefit **from the MSP**. The primary reason for this is inadequate procurement mechanisms and market access for farmers.
- **Skewed Crop Dominance:**
 - The focus on MSP for rice and wheat has **led to a skewed cropping pattern** in favor of these two staples. This overemphasis on **these crops can have ecological, economic, and nutritional implications**.
 - It may not align **with market demands**, thereby limiting income potential for farmers.
- **Middlemen Dependency:**
 - The MSP-based procurement system often involves intermediaries such as middlemen, commission agents, and officials from [Agricultural Produce Market Committees \(APMCs\)](#).
 - Smaller farmers, in particular, may **find it challenging to access these channels**, leading to inefficiencies and reduced benefits for them.
- **Burden on Government:**
 - The government shoulders a significant financial burden in **procuring and maintaining buffer stocks of MSP-supported crops**. This diverts resources that could be allocated to other agricultural or rural development programs.

Way Forward

- To encourage crop diversification and reduce the dominance of rice and wheat, the government can **gradually expand the list of crops eligible for MSP** support. This will provide farmers with more choices and promote the cultivation of crops in line with market demand.
- Instead of providing MSP for all crops across all regions, the government can focus on **setting MSPs for crops that are essential for food security** and those with a demonstrated impact on farmer livelihoods. This targeted approach can help optimize resource allocation.
- Improve and modernize **procurement mechanisms to ensure that farmers have access to MSPs**. This may involve creating more efficient procurement systems, reducing middlemen, and expanding the reach of procurement agencies.

UPSC Civil Services Examination Previous Year Question (PYQ)

Q. Consider the following statements: (2020)

1. In the case of all cereals, pulses, and oil seeds, the procurement at Minimum Support price (MSP) is unlimited in any State/UT of India.
2. In the case of cereals and pulses, the MSP is fixed in any State/UT at a level to which the market price will never rise.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (d)

Q. Consider the following statements: (2023)

1. The Government of India provides Minimum Support Price for niger (*Guizotia abyssinica*) seeds.
2. Niger is cultivated as a Kharif crop.
3. Some tribal people in India use niger seed oil for cooking.

How many of the above statements are correct?

- (a) Only one
- (b) Only two
- (c) All three
- (d) None

Ans: (c)

PDF Reference URL: <https://www.drishtiias.com/printpdf/minimum-support-price-7>

