



Minimum Support Price

For Prelims: MSP and its Calculation, Kharif Season, Rabi Season

For Mains: Significance of MSP and Associated Issues

Why in News?

Recently, the Centre has approved the [Minimum Support Prices](#) (MSP) for the [Kharif season 2022-23](#), stating that the rates are at least 1.5 times of the weighed average cost of production.

- The rates for 14 Kharif crops have been increased, the hikes ranging from 4% to 8%.

What is Kharif Season?

- Crops are **sown from June to July** and **Harvesting is done in between September-October**.
- **Crops are:** Rice, maize, jowar, bajra, tur, moong, urad, cotton, jute, groundnut, soyabean etc.
- **States are:** Assam, West Bengal, coastal regions of Odisha, Andhra Pradesh, Telangana, Tamil Nadu, Kerala and Maharashtra.

What is MSP?

- **About:**
 - The MSP is the rate **at which the government purchases crops from farmers**, and is based on a calculation of at least one-and-a-half times the cost of production incurred by the farmers.
 - MSP is a **“minimum price” for any crop that the government considers as remunerative for farmers** and hence deserving of “support”.
- **Crops under MSP:**
 - The Commission for Agricultural Costs & Prices (CACP) recommends MSPs for [22 mandated crops and fair and remunerative price \(FRP\)](#) for sugarcane.
 - CACP is an attached office of the Ministry of Agriculture and Farmers Welfare.
 - The mandated crops include 14 crops of the kharif season, 6 [rabi crops](#) and 2 other commercial crops.
 - In addition, the MSPs of toria and de-husked coconut are fixed on the basis of the MSPs of rapeseed/mustard and copra, respectively.
- **Factors for Recommending the MSP:**
 - The CACP considers various factors while recommending the MSP for a commodity, including cost of cultivation.
 - It takes into account the supply and demand situation for the commodity, market price trends (domestic and global) and parity vis-à-vis other crops, and implications for consumers (inflation), environment (soil and water use) and terms of trade between

agriculture and non-agriculture sectors.

▪ **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 forgone on 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.
- 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.

What is the Need of 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.

What are the Issues Associated with India's MSP Regime?

- **Limited Extent:** As against the official announcement of MSP for 23 crops, only two, rice and wheat, are procured as these are distributed in NFSA (National Food Security Act). For the rest, it is mostly ad-hoc and insignificant.
- **Ineffectively Implemented:** The Shanta Kumar Committee, in its report in 2015, stated that only 6% of the MSP could be received by the farmers, which directly means that 94% of the farmers in the country are deprived from the benefit of the MSP.
- **More of a Procurement Price:** The current MSP regime has no relation to prices in the domestic market. Its sole raison d'être is to fulfil the requirements of NFSA making it effectively a procurement price rather than an MSP.
- **Makes Agriculture Wheat and Paddy Dominated:** Skewed MSP dominated system of rice and wheat leads to overproduction of these crops and discourages farmers to grow other crops and horticulture products, which has higher demand and subsequently could lead to increase in farmers income.
- **Middlemen-Dependent:** The MSP-based procurement system is also dependent on middlemen, commission agents and APMC officials, which smaller farmers find difficult to get access to.

Way Forward

- A true MSP requires the **government to intervene whenever market prices fall below a predefined level**, primarily in case of excess production and oversupply or a price collapse due to international factors.
- MSP can also be **an incentive price for many of the crops which are desirable for nutritional security** such as coarse cereals, and also for pulses and edible oils for which India is dependent on imports.
- Wisdom lies in **investing more in animal husbandry (including fisheries) and fruits and vegetables**, which are more nutritious.
 - The best way to invest is to incentivise the private sector to build efficient value chains based on a cluster approach.
- Government must come up with **a suitable transition to agricultural pricing policy, whereby**

- partial agricultural pricing should be state-supported** and partially market-driven.
- One way to do this, could be a deficiency payments scheme along the lines of the Bhavantar Bhugtan Yojana (BBY) initiated by Madhya Pradesh.

UPSC Civil Services Examination, Previous Year Question

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)

Exp:

- The Government of India announces Minimum Support Prices (MSP) for 22 major agricultural commodities each year in both the crop seasons after taking into account the recommendations of the Commission for Agricultural Costs and Prices (CACP).
- The overall procurement quantity should not normally exceed 25% of the actual production of the commodity for that particular year/season. Over and above the procurement limit of 25%, if any, prior approval of the Department of Agriculture (DAC) shall be required. **Hence, statement 1 is not correct.**
- The MSP is fixed by the Central government, based on the average of MSP proposals made by various states, some of which can be higher than the Centre's recommendation. While the proposals based on input costs vary from state to state, the MSP is fixed to avoid price inequity. When the market prices dip to a level that is below the MSP, the government agencies buy over the produce in order to protect the farmers. Thus market prices can rise above MSP. **Hence, statement 2 is not correct.** Therefore, option (d) is the correct answer.

Q. In India, which of the following can be considered as public investment in agriculture? (2020)

1. Fixing Minimum Support Price for agricultural produce of all crops
2. Computerization of Primary Agricultural Credit Societies
3. Social Capital development
4. Free electricity supply to farmers
5. Waiver of agricultural loans by the banking system
6. Setting up of cold storage facilities by the governments

Select the correct answer using the code given below:

- (a) 1, 2 and 5 only
- (b) 1, 3, 4 and 5 only
- (c) 2, 3 and 6 only
- (d) 1, 2, 3, 4, 5 and 6

Ans: (c)

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