



## Understanding and Extending MSP

This editorial is based on [“The Effective Support Price”](#) which was published in Indian Express on 12/12/2021. It talks about the issues in the MSP regime of India and what guaranteeing MSP for a crop shall actually mean.

After more than a year, farmer unions have finally decided to call off their protests following the [repeal of the three farm laws](#). The Government has also conceded to the demand of the unions to set up a committee to ensure [minimum support prices \(MSP\)](#) for all farmers.

The MSP for key agricultural commodities has been a **persistent sticking point in the negotiations** between the government and the farmers.

However, even an efficient and functional MSP is unlikely to be the permanent solution to the deep-rooted crisis in agriculture which suffers from **low investment, absence of state support and inefficient management of the economy**.

### Minimum Support Price (MSP)

- **About MSP:** By definition MSP is not an income support programme, rather, designed to be used as a government intervention to stabilise prices and provide remunerative prices to farmers.
  - It is a public procurement programme to meet the requirements of the [National Food Security Act \(NFSA\), 2013](#).
- **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.

### 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. 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

- **Understanding the True Spirit of MSP:** A price intervention scheme is not unique and is a standard intervention used by many countries. 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.
  - It does not require the government to buy all the produce but **only to the extent that creates upward price pressures in the market** to stabilise prices at the MSP level.
- **Extending the Scope of MSP:** 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.
  - Despite repeated demands from food activists, there has not been any progress in including pulses, edible oils and millets in PDS.
  - These are not just essential for nutritional security but will also **increase the pool of farmers likely to benefit from MSP** interventions to include small and marginal farmers who grow millets, pulses and edible oil.
- **Investing More in Agri-allied Sector:** 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.
  - The government can **freeze the MSPs of paddy and wheat, besides capping their procurement** at, say, 10-15 quintal per acre per farmer.
- **Changing the Pricing Mix:** 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.
    - In this scheme, the government, **rather than procuring from farmers, compensates farmers with cash transfers** when the market price falls below MSP.

## Conclusion

It is neither the paucity of funds nor the lack of infrastructural and institutional mechanisms to ensure a guaranteed MSP but basically a lack of understanding of what agriculture needs and above all a lack of political commitment to ensure remunerative prices to farmers.

It is the least that the government can do to protect a sector which remains the largest employer in India.

### ***Drishti Mains Question***

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Comment.