



# Minimum Support Price

## Why in News

In a bid to encourage [crop diversification](#), the Central Government has hiked the **Minimum Support Price (MSP)** for **Paddy, Pulses and Oilseeds** (for all mandated **Kharif Crops**).

## Key Points

### ▪ 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.

#### ▪ **Significance of MSP Hike:**

- 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.
- Concerted efforts have been made over the last few years **to realign the MSPs in favour of oilseeds, pulses and coarse cereals** to encourage farmers shift to larger areas under these crops and adopt best technologies and farm practices, to correct demand - supply imbalance.

#### ▪ **Issues with Hike:**

- This increase **seems modest keeping in mind the cultivation costs** - particularly on account of diesel used for powering tractors, irrigation pumps and harvester combines - **have gone up.**
- Some increases, especially for maize, **did not even keep pace with inflation.**
- Further, **absence of assured procurement** means farmers have no incentive to cultivate them.
- The announcement comes at a time **when farm unions have been demanding legislation to guarantee MSP for all farmers for all crops**, and a **repeal of [three contentious farm reform laws](#).**

#### ▪ **Issues with MSP:**

- The major problem with the MSP is **lack of government machinery for procurement for all crops** except wheat and rice, which the Food Corporation of India actively procures under the PDS.
- As state governments procure the last mile grain, the farmers of states where the grain is procured completely by the government benefit more while **those in states that procure less are often affected.**
- The MSP-based procurement system is also **dependent on middlemen**, commission agents and [APMC](#) officials, which smaller farmers find difficult to get access to.

#### ▪ **Solution:**

- The CACP, in its price policy report for the **2018-19 kharif marketing season**, had suggested enactment of a legislation conferring on farmers '**The Right to Sell at MSP**'. This, it felt, was necessary **"to instil confidence among farmers for procurement of their produce"**.
- The government **should be promoting crop and animal agriculture** that also leads to consumption of foods rich in proteins, vitamins, minerals and dietary fibre — as opposed to just calories and sugar — by the people.

- The right way to do it is **by freezing the MSPs of paddy and wheat**, besides capping their procurement at, say, 10-15 quintal per acre per farmer.

[Source: TH](#)

