

Minimum Support Price - Calculation, Issues and Challenges

Recently, farmers across India have been protesting against the Government in order to increase the Minimum support price and the Government has recently hiked the Minimum support price for six crops i.e. that of major pulses by 350-450 per quintal and that of paddy by 80 per quintal.

Let us know in depth about Minimum support price, how is it calculated, issues with it and various solutions

What is Minimum Support Price?

Minimum support prices as a concept is a form of market intervention undertaken by the Government of India wherein the Government buys the crop produce directly from farmers when there is no demand from other buyers in the market.

Rationale behind the Minimum Support Price

It acts like a buffer to protect the farmer in case the price of the commodity produced by the farmer falls below the market price due to bumper crop which causes a glut in the market, the Government agencies (usually the Food Corporation of India) procures the grains from the farmers at the prices announced by the Government.

There are two objectives of the Minimum Support Price system.

- To prevent distress sale by the farmer in case of a bumper crop and market demand is low to recover the cost of production.
- To procure the grains for public distribution by fair price shops.

Usually, Minimum support prices are announced by the Government at the start of the sowing season. The rates are announced by the Government which is decided by the cabinet committee on economic affairs (CCEA) on the basis of recommendations of Commission for Agricultural Costs and Prices (CACP). The

recommendations are not binding and can be modified by the Cabinet committee.



Crops covered under the Minimum Support Price System

- Seven cereal crops (Paddy, Wheat, Jowar, Bajra, Maize, Ragi, Barley)
- Five types of pulses (Toor, Urad, Moong, Gram, and Lentils)
- Eight types of oilseeds (Mustard, Sunflower, Groundnut, Sesame, Soya bean, Toria, Safflower & Niger seed)
- Other cash crops like Virginia tobacco, raw cotton, jute, and copra.

A total of twenty-four crops are currently covered (Sugarcane falls under the purview of FRP- Fair and Remunerative Price Act)

How is Minimum Support Price Calculated?

The commission for agricultural costs and prices (CACP) in formulating the minimum support prices takes into account, a comprehensive view of the entire structure of the economy along with the following factors

- Cost of production
- Changes in input prices
- Input-output price difference
- Trends in market prices over a period of time (3-6 months)
- Demand and supply of commodities
- Inter-crop price rates
- Effect on the industrial cost structure
- Effect on cost of living of the population
- Effect on general price level in the market
- International prices of the commodities
- Parity between prices paid and prices received by the farmers.
- Effect on issue prices for subsidy

The Commission makes use of both micro-level data and aggregate price levels at district, state, and the country. The data used by the Commission also includes

- Cost of cultivation per hectare in various regions of the country.
- Cost of production per quintal in various regions
- Prices of various inputs
- Market prices of products
- Prices of commodities sold by the farmers
- Supply-related information like area, yield, imports, exports and domestic availability with procurement corporations

- Demand related information like total and per capita consumption
- Prices in the international market
- Prices of farm derivatives like sugar, jaggery, jute goods, oils and cotton yarn
- Cost of processing of agricultural products
- Cost of marketing - storage, transportation, processing, marketing services etc.
- Macroeconomic factors like general level of prices, consumer price indices etc.

Various other Ministries and Departments also help the Commission to arrive at the figure of Minimum Support Price. The estimates of Cost of Cultivation, the most important input forming the recommendation of Minimum Support Price, are made available to the Commission through a scheme called Comprehensive Scheme for Studying the Cost of Cultivation of Principal Crops, operated by the Directorate of Economics and Statistics, Department of Agriculture.

These figures are arrived at by taking into account real factors of production and include all actual expenses in cash incurred by the farmer like rent paid for the leased land, the value of family labor, the interest value of other capital assets (excluding land), depreciation on farm machinery and other miscellaneous expenses.



Impact of Minimum Support Price System

Advantages of MSP

- The Minimum Support Price mechanism has been beneficial in transferring incomes to rural areas and to counter farm level inflation.
- It can also counter the agricultural distress brought on by natural hazards in the country. It gives farmers hope of earning more in the new sowing season.
- In the last few years, India has become a net importer of pulses. Massive hike in the MSP of these crops will encourage the farmers to grow nutritional crops. It will help in changing the cropping pattern which was long due.
- A higher Minimum support price regime will also help in achieving the Government's target of doubling farmer's income by 2022.
- It also acts as an incentive for farmers to produce the crop which is in short supply.

- Higher profits for the farmer will also help them to invest in necessary infrastructure and equipment.
- Today due to lack of sufficient penetration of agricultural insurance schemes farming has become a risky profession exposed to weather and price fluctuations. The minimum support price to some extent will protect the farmer by guaranteeing a minimum floor price so that they can plan in advance for the next season.

Disadvantages of MSP

- Less than 6% of farmers sold their produce at the minimum support price. According to a survey by National sample survey many small and marginal farmers are unaware of the concept of minimum price and the benefits are taken away by large farmers.
- Yield per hectare is the lowest among economies with a large agriculture sector. Hence agriculture productivity needs to improve, for that MSP alone is not enough we need a wide range of interventions.
- Even though recently the MSP for pulses has increased drastically there is no visible correlation between higher MSP and area under pulses.
- In order to meet the obligations under the National Food Security Act (NFSA, 2013) mostly only paddy and wheat are procured regularly and in bulk by the Government agencies. For all others the procurement is irregular so there is no incentive or bankability for the farmer to produce other crops.
- As MSP is declared by the Union Government most of the States do not have the funds to procure crops at rates announced by the center. Eg: In Assam due to budgetary constraints procurement was not carried out for the past two seasons.
- Since the MSP are announced just before the sowing season many of them would have already started the exercise by then so, in reality, the Minimum Support Price has a limited ability to change or have a significant impact on the cropping pattern.



Way Forward

- There is a need to adopt a more scientific approach to agriculture and allocate higher budget in research to boost productivity per hectare.
- The NITI Aayog has advocated for timely dissemination of information via the Krishi Vigyan Kendras (KVKs) and also to announce MSPs well ahead of the sowing season.
- The criteria for fixing prices for MSP must be current costs rather than a historical basis.
- There needs to be a complete overhaul of procurement procedures and more focus must be on local procurement especially at the panchayat level. Use of modern warehousing infrastructure is needed like modern storage facilities, weighing bridges etc. to extend shelf life and prevent rotting of grains.
- The Shanta Kumar committee recommendations for the overhaul of FCI must be implemented in toto and also the suggestion of the National Commission of farmers (Dr. MS Swaminathan committee, 2007) to fix the

MSP at cost of production + 50% so as to have a definitive roadmap for fiscal expenditure and better remunerative output for farmers rather than ad hoc methods.

- Farmers must be made to understand the benefits of crop diversification so as to produce more pulses to ensure nutritional security and prevent supply-side shocks.

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