

# An overview of Minimum Support Price (MSP) in India

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The Minimum Support Price (MSP) is a government-initiated measure designed to ensure that farmers receive a fair and guaranteed price for certain agricultural products, regardless of market fluctuations. It serves as a protective mechanism, safeguarding farmers from potential losses in situations where the open market price falls below the cost of production. In India, the government sets the MSP for 24 commodities twice a year.

The primary objective of MSP is to shield farmers from abrupt price drops, especially during years of bumper crops when market prices may decline significantly. By announcing the MSP before the planting season, the government aims to provide farmers with clarity regarding the expected price for their produce, offering income stability and preventing distress sales. Under the MSP system, if the market price falls below the declared MSP, the government commits to purchasing the entire quantity of the commodity directly from the farmers. This mechanism ensures that farmers are not compelled to sell their produce at unfairly low prices and helps maintain a stable income for them. However, the MSP policy has received both support and criticism. Advocates argue that it offers necessary security to farmers and contributes to food security, while critics point out potential challenges, such as market distortions and surplus stocks. Striking the right balance between supporting farmers and ensuring market efficiency remains an ongoing topic of debate and policy refinement.

## Back ground of MSP

The concept of Minimum Support Price (MSP) in India has its origins in the 1960s when the country faced food shortages due to droughts and

conflicts, such as the Bihar famine of 1966-1967. At that time, India was undergoing the Green Revolution, a period marked by efforts to increase agricultural productivity through the adoption of high-yield varieties, improved tools, and the use of fertilizers. In pursuit of this objective, various agriculture policy strategies were proposed, including a government price policy for food grains that aimed to support land productivity. To implement these policies effectively, the Agricultural Price Commission (APC) was established in 1965. The APC's role involved the implementation of pricing policies, such as predetermined procurement price, minimum support prices, and the establishment of a food distribution system, including procurement at pre-decided prices and the distribution of food grains at subsidized rates.

In March 1985, the Commission for Agricultural Costs and Prices (CACP) was formed, replacing the APC with a broader set of responsibilities. In addition to the CACP, other institutions, both at the central and state levels, are involved in the MSP implementation process. Notable examples include the National Agricultural Cooperative Marketing Federation (NAFED) and the Food Corporation of India (FCI). These policy changes and the introduction of MSP played a significant role in boosting the production of grains like wheat and rice. As a result, the country transformed from facing grain shortages to achieving grain surpluses.

## CACP - Commission for Agricultural Costs and Prices

The Commission for Agricultural Costs and Prices (CACP), formerly known as the Agricultural

Prices Commission, underwent a name change in 1985 and now operates as a statutory panel under the Ministry of Agriculture & Farmers Welfare, Government of India. It plays a vital role in the agricultural sector by providing recommendations on Minimum Support Prices (MSPs) for the notified Kharif and Rabi crops to the Cabinet Committee on Economic Affairs (CCEA).

The primary objective behind the establishment of the CACP is to suggest appropriate MSPs that can serve as a motivating factor for farmers and cultivators to adopt modern agricultural practices, employ the latest technologies, and increase productivity while minimizing the use of resources. However, it's important to note that the government is not bound by the recommendations put forth by the CACP and holds the discretion to make the final decisions regarding MSPs. It decides the minimum support price taking into account the following factors such as:

1. The entire structure of the economy of a particular commodity or group of commodities.
2. Cost of production.
3. Changes in input prices.
4. Input-output price parity.
5. Trends in market prices.
6. Demand and supply.
7. Inter-crop price parity.
8. Effect on industrial cost structure.
9. Effect on the cost of living.
10. Effect on the general price level.
11. International price situation.
12. Parity between prices paid and prices received by the farmers.

13. Effect on issue prices and implications for subsidy.

### Importance of MSP to the farmers

- Minimum Support Price (MSP) is a market intervention mechanism employed by the Government of India to protect agricultural producers from significant drops in farm prices.
- It is typically announced at the beginning of the sowing season and serves the purpose of shielding farmers against price declines, especially during years of bumper production.
- The government guarantees minimum support prices for various agricultural commodities, providing assurance to farmers for their produce.
- This support is essential to safeguard farmers from distress sales and to ensure a steady supply of food grains for public distribution.
- During times of abundant production and market oversupply, if the market price for a commodity falls below the announced minimum support price, government agencies step in to purchase the entire quantity offered by the farmers at the declared MSP.
- This action helps stabilize prices and prevents farmers from incurring losses due to lower market prices.

### Latest Minimum Support Price - Kharif (2023-24); Rabi (2023-24)

The sowing season of crops in India varies across states, and the harvesting timeline is influenced by the crop variety. As a result, crops sown during the Kharif season may reach the market even before October. The Minimum Support Price

(MSP) for Kharif crops for the year 2023-24 will be applicable from 1st September 2023. On the other hand, the MSP for all mandated Rabi crops will be for the Rabi Marketing Season (RMS) 2023-24.

The increase in MSP for Kharif crops in the Marketing Season 2023-24 aligns with the announcement made in the Union Budget 2018-19. The government aims to fix the MSP at a level of at least 1.5 times the All-India weighted average Cost of Production to ensure reasonable and fair remuneration for farmers. Among the Kharif crops, the expected margin to farmers over their cost of production is estimated to be the highest for bajra at 82 per cent, followed by tur at 58 per cent, soybean at 52 per cent, and urad at 51 per cent. For the remaining crops, the margin to farmers over their cost of production is estimated to be at least 50 per cent.

The Minimum Support Price (MSP) increase for Rabi Crops during the Marketing Season 2023-24 is in accordance with the announcement made in the Union Budget 2018-19. The government aims to set the MSP at a level of at least 1.5 times the All-India weighted average Cost of Production to ensure fair and reasonable remuneration for farmers. Among the Rabi crops, the maximum rate of return is projected to be 104 per cent for rapeseed & mustard, followed by 100 per cent for wheat, 85 per cent for lentil, 66 per cent for gram, 60 per cent for barley, and 50 per cent for safflower.

### **Latest News about MSP**

The All-India Kisan Sabha has expressed dissatisfaction with the Minimum Support Price (MSP), asserting that it is unfair and fails to meet the farmers' expectations, resulting in substantial income losses. According to Ashok Dhawale, the president of AIKS, the rising input costs combined

with the inadequate MSP will push many farmers, especially small, marginal, and medium-level farmers, as well as tenants, into indebtedness. The Bharatiya Janata Party had promised in 2014 that the MSP would be set according to the Swaminathan Commission's recommendation of  $C_2+50\%$  ( $C_2$  being the comprehensive cost of production). However, this promise remains unfulfilled, as stated by Ashok Dhawale.

The Bharatiya Kisan Union (Ekta-Ugrahan), a prominent farmer union in Punjab and a member of the Samyukta Kisan Morcha (SKM), which is an umbrella organization of approximately 500 farmer groups, has also dismissed the recent MSP hike. They argue that the government's approach of ensuring 1.5 times the cost of production on crops fails to address the farmers' predicament adequately and does not provide them with a remunerative price. The outfit's leader, Sukhdev Singh Korikalan, labels it as mere eyewash and demands that the MSP should be based on the Swaminathan Commission's formula of  $C_2+50\%$ . Additionally, the government should make MSP a legally binding right for farmers, ensuring that their crops are purchased at MSP to sustain them in the otherwise economically challenging agricultural sector.

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**Table 1: Latest Minimum Support Price - Kharif (2023-24)**

| Commodity             | Variety       | MSP for 2022-2023<br>(Rs/ quintal) | MSP for 2023-2024<br>(Rs/quintal) | Increase over<br>previous year<br>(Rs/quintal) |
|-----------------------|---------------|------------------------------------|-----------------------------------|--|
| <b>KHARIF CROPS</b>   |               |                                    |                                   |  |
| Paddy                 | Common        | 2040                               | 2183                              | 143  |
|                       | Grade 'A'     | 2060                               | 2203                              | 143  |
| Jowar                 | Hybrid        | 2970                               | 3180                              | 210  |
|                       | Maldandi      | 2990                               | 3225                              | 235  |
| Bajra                 |               | 2350                               | 2500                              | 150  |
| Maize                 |               | 1962                               | 2090                              | 128  |
| Ragi                  |               | 3578                               | 3846                              | 268  |
| Arhar (Tur)           |               | 6600                               | 7000                              | 400  |
| Moong                 |               | 7755                               | 8558                              | 803  |
| Urad                  |               | 6600                               | 6950                              | 350  |
| Cotton                | Medium Staple | 6080                               | 6620                              | 540  |
|                       | Long Staple   | 6380                               | 7020                              | 640  |
| Groundnut in<br>shell |               | 5850                               | 6377                              | 527  |
| Sunflower<br>seed     |               | 6400                               | 6760                              | 360  |
| Soyabean              | Yellow        | 4300                               | 4600                              | 300  |
| Sesamum               | -             | 7830                               | 8635                              | 805  |
| Niger seed            | -             | 7287                               | 7734                              | 447  |

**Table 1: Latest Minimum Support Price - Rabi (2023-24)**

| <b>RABI CROPS (Rabi Marketing Season (RMS) 2023-24)</b> |                |   |   |   |
|---|----------------|---|---|---|
| <b>Commodity</b>  | <b>Variety</b> | <b>MSP for 2022-2023<br/>(Rs/quintal)</b> | <b>MSP for 2023-2024<br/>(Rs/quintal)</b> | <b>Increase over previous<br/>year (Rs/quintal)</b> |
| Wheat   |                | 2015                                      | 2125                                      | 110   |
| Barley  |                | 1635                                      | 1735                                      | 100   |
| Gram  |                | 5230                                      | 5335                                      | 105   |
| Masur (Lentil)  |                | 5500                                      | 6000                                      | 500   |
| Rapeseed & Mustard                                      |                | 5050                                      | 5450                                      | 400   |
| Safflower   |                | 5441                                      | 5650                                      | 209   |
| Toria   |                | 5050                                      | 5450                                      | 400   |
| Copra (2022 crop season)                                | Milling        | 10,335                                    | 10,590                                    | 255   |
|   | Ball           | 10,600                                    | 11,000                                    | 400   |
| De-husked coconut (2022 crop season)                    |                | 2800                                      | 2860                                      | 60  |
| Raw Jute (for 2023 -24 season)                          |                | 4750                                      | 5050                                      | 300   |

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