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Minimum Support Price Regime: Balancing Farmer Welfare, Food Security and Long-Term Sustainability of India's Agricultural Support System

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Recent Developments:

- Farmers' protests in **Madhya Pradesh** over procurement of **summer moong** at **Minimum Support Price (MSP)** ended after the State Government assured procurement of **60%** of the estimated produce, compared to the earlier **25%** procurement limit.
- The episode has revived the national debate on the long-term sustainability of the **MSP** regime, fiscal implications of large-scale procurement and the need for structural reforms in agricultural support.
- The Government continues to strengthen procurement of pulses under **PM-AASHA**, while committing to procure **Tur, Urad and Masoor** offered by registered farmers under the **Mission for Atmanirbharta in Pulses** till **2030-31**.

Minimum Support Price Framework:

Meaning, Objectives:

- **Minimum Support Price (MSP)** is a pre-announced assured price at which the Government procures specified agricultural commodities from farmers to protect them against distress sales.
- The mechanism provides a price safety net during periods of bumper production, stabilises farm income and supports national **food security**.
- The **MSP** framework has gradually evolved from an instrument of price protection to a strategic tool for enhancing **self-reliance** in food and pulses.

Institutional Mechanism:

- **MSPs** are announced before every sowing season on the recommendations of the **Commission for Agricultural Costs and Prices (CACP)**.
- **CACP**, an attached office under the **Ministry of Agriculture and Farmers Welfare**, analyses production costs, demand-supply conditions, domestic and global prices, inter-crop price parity and likely consumer impact before recommending MSP.
- The recommendations of **CACP** are advisory, while the final decision is taken by the **Cabinet Committee on Economic Affairs (CCEA)**.

Coverage, Procurement Agencies:

- The Government presently announces **MSP** for **22 notified crops** and a **Fair and Remunerative Price (FRP)** for **sugarcane**.
- Physical procurement is undertaken through nodal agencies such as the **Food Corporation of India (FCI)**, **National Agricultural Cooperative Marketing Federation of India (NAFED)** and **Cotton Corporation of India (CCI)**.

- Procurement of pulses and oilseeds is implemented mainly under the **Price Support Scheme (PSS)** of **PM-AASHA** whenever market prices fall below the notified MSP.

MSP Calculation Methodology:

Cost Concepts:

- **A2 Cost** includes all paid-out expenses incurred by farmers, including seeds, fertilisers, pesticides, hired labour, irrigation, machinery, fuel and other operational inputs.
- **A2 + FL**, the present benchmark, includes **A2 Cost** along with the imputed value of unpaid **Family Labour (FL)** contributed by farm households.
- Since **2018-19**, the Government has fixed **MSP** at a minimum of **1.5 times** the all-India weighted average **A2 + FL** cost, ensuring at least **50%** return over production cost.
- **C2 Cost** includes **A2 + FL**, imputed rental value of owned land and interest on owned fixed capital, making it the most comprehensive measure of cultivation cost.

Swaminathan Commission Recommendation:

- The **National Commission on Farmers**, chaired by **Dr. M.S. Swaminathan**, recommended fixing **MSP** at least **50% above C2 Cost**.
- Farmer organisations continue to demand implementation of the **C2 + 50%** formula, whereas the Government has expressed concerns regarding fiscal sustainability, inflationary pressures and market distortions.

Why the MSP Regime is Becoming Increasingly Difficult to Sustain:

Fiscal Burden, Resource Allocation:

- Universal procurement of all **23 MSP-supported crops** may impose an estimated fiscal burden of nearly **?10–17 lakh crore**, limiting public investment in irrigation, agricultural research, rural infrastructure and storage facilities.

Market Distortion, Monopsony Risk:

- A legally enforceable price floor restricts transactions below **MSP**, distorts normal market price discovery and discourages private participation.
- Large-scale procurement gradually converts the Government into the dominant purchaser, creating a **monopsony** in agricultural markets.
- Repeal of the **Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020** reduced opportunities for contract farming and alternative price discovery mechanisms.

Cropping Pattern Distortion:

- Assured procurement of **rice** and **wheat** encourages monoculture while discouraging cultivation of pulses, oilseeds, millets and horticultural crops.
- Such distortions adversely affect nutritional security, import substitution and balanced agricultural development.

Ecological Concerns:

- Continued **MSP** support for water-intensive crops in semi-arid regions has accelerated groundwater depletion, soil degradation and crop residue burning.
- The prevailing procurement pattern often conflicts with climate-resilient and resource-efficient agriculture.

Limited Coverage, Regional Imbalance:

- According to the **Shanta Kumar Committee (2015)**, only about **6%** of Indian farmers benefit directly from effective **MSP** procurement.
- Benefits remain concentrated in a few surplus-producing States and relatively larger farmers, while many small and marginal farmers remain outside procurement networks.

Storage, Logistics Constraints:

- Large procurement operations create excess foodgrain stocks beyond **Public Distribution System (PDS)** and buffer stock requirements.
- Excess inventories increase storage expenditure, handling costs and post-harvest losses while imposing operational pressure on procurement agencies.

Outdated Cost Estimation:

- **MSP** calculations rely on historical production cost estimates and may not adequately capture sudden increases in fertiliser, diesel, labour and other input costs.

WTO Compliance Issues:

- Expansion of **MSP**-based procurement increases trade-distorting domestic support under the **Agreement on Agriculture (AoA)** of the **World Trade Organization (WTO)**.
- Developing countries are generally subject to a **10% de minimis** ceiling for **Amber Box** support, making large procurement programmes vulnerable to international trade disputes.

Recent Digital and Institutional Reforms:

Digital Procurement Platforms:

- **e-Samriddhi** and **e-Samyukti**, developed by **NAFED** and **NCCF**, facilitate online registration, slot booking and direct benefit transfer for pulse and oilseed procurement.
- The **Kapas Kisan App**, developed by **CCI**, enables cotton farmers to complete self-registration, monitor quality assessment and track payments digitally.

Strategic Shift Towards Pulse Self-Reliance:

- The Government has committed to procuring **100%** of the production offered by registered farmers for **Tur, Urad and Masoor** till **2030-31** under the **Mission for Atmanirbharta in Pulses**.
- The policy aims to reduce import dependence, strengthen domestic pulse production and improve long-term nutritional security.

Measures Required Beyond MSP:

Minimum Income Support, Market-Based Support:

- Introduce **Minimum Income Support (MIP)** through direct income transfers linked to cultivated area, supplemented by strengthened **PM-KISAN** assistance.
- Expand the **Price Deficiency Payment System (PDPS)** under **PM-AASHA** by compensating farmers for the difference between **MSP** and market price without large-scale physical procurement.

Market Infrastructure, Agricultural Reforms:

- Expand the **Agriculture Infrastructure Fund (AIF)**, warehouses, cold chains and rural logistics to reduce post-harvest losses.
- Strengthen **e-NAM** to improve transparent price discovery and create competitive agricultural markets.

Farmer Producer Organisations, Diversification:

- Promote **Farmer Producer Organisations (FPOs)** to improve bargaining power, reduce transaction costs and strengthen market access for small farmers.
- Encourage cultivation of pulses, oilseeds and **Shree Anna (Millets)** through agro-climatic planning, targeted incentives and value-chain development.

Climate-Resilient Agriculture:

- Integrate crop diversification, micro-irrigation, precision farming, crop insurance and sustainable resource management into agricultural support policies to improve resilience against climate risks.

Conclusion:

Way Forward:

- India's agricultural support framework should gradually evolve from predominantly **price support** towards a comprehensive **farmer income support** architecture combining **MSP**, **Minimum Income Support**, **PM-AASHA**, crop insurance, efficient markets, modern infrastructure and climate-resilient agriculture.
- Such a balanced approach can simultaneously strengthen farmer welfare, food security, fiscal sustainability and long-term agricultural competitiveness.

Value Addition for UPSC:

Important Committees:

- **National Commission on Farmers (M.S. Swaminathan Commission)**.
- **Shanta Kumar Committee (2015)**.

Important Schemes:

- **PM-AASHA**.
- **PM-KISAN**.
- **Agriculture Infrastructure Fund (AIF)**.
- **e-NAM**.
- **Mission for Atmanirbharta in Pulses**.

Important Organisations:

- **Commission for Agricultural Costs and Prices (CACP)**.
- **Food Corporation of India (FCI)**.
- **National Agricultural Cooperative Marketing Federation of India (NAFED)**.
- **National Cooperative Consumers' Federation of India (NCCF)**.
- **Cotton Corporation of India (CCI)**.
- **Cabinet Committee on Economic Affairs (CCEA)**.
- **World Trade Organization (WTO)**