Minimum Support Price

Paper- GS-3 Food security (PT-M-IV)

The MSP is the rate at which the government buys grains from farmers. Reason behind the idea of MSP is to counter price volatility of agricultural commodities due to the factors like variation in their supply, lack of market integration and information asymmetry.

The MSP is fixed on the recommendations of the Commission for Agricultural Costs and Prices (CACP) (PT).

Factors taken into consideration for fixing MSP include:

- Demand and supply,
- Cost of production (A2 + FL method) Price trends in the market, both domestic and international,
- Inter-crop price parity,
- Terms of trade between agriculture and non-agriculture,
- A minimum of 50% as the margin over cost of production,
- Likely implications of MSP on consumers of that product.

The Commission also makes visits to states for on-the-spot assessment of the various constraints that farmers face in marketing their produce, or even raising the productivity levels of their crops. Based on all these inputs, the Commission then finalizes its recommendations, which are then submitted to the government.

The government, in turn, circulates the CACP reports to state governments and concerned Central Ministries for their comments. After receiving the feed-back from them, 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 the CACP.

The Food Corporation of India (FCI), the nodal central agency of the Government of India, along with other State Agencies undertakes procurement of crops.

Crops Covered under MSP

- Government announces minimum support prices (MSPs) for 22 mandated crops and fair and remunerative price (FRP) for sugarcane. The mandated crops are 14 crops of the kharif season, 6 Rabi crops and two 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.

The lists of crops are as follows:

1. Cereals (7) - paddy, wheat, barley, jowar, bajra, maize and ragi
2. Pulses (5) - gram, arhar/tur, moong, urad and lentil
3. Oilseeds (8) - groundnut, rapeseed/mustard, toria, soya bean, sunflower seed, sesame, safflower seed and nigerseed.
4. Raw cotton.
5. Raw jute.
6. Copra
7. De-husked coconut
8. Sugarcane (Fair and remunerative price)
9. Virginia flu cured (VFC) tobacco

Recently, Government has declared MSP for mature de husked coconut for the season 2020 at Rs. 2700/- per quintal, thus hiking the MSP by 5.02% from Rs. 2571/- per quintal during season 2019.