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DAILY EDITORIAL ANALYSIS

TOPIC

MSP IN INDIA: MEASUREMENT GAPS, STRUCTURAL LIMITS, AND THE CASE FOR REFORM

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Context

- Concerns were raised that **outdated cost estimates and weak procurement** are distorting **Minimum Support Price (MSP)** effectiveness, prompting calls for **reform in estimation and implementation.**

About Minimum Support Price (MSP) System in India

- MSP is the **minimum price at which the government purchases crops from farmers**, announced before each sowing season to protect farmers from price crashes and ensure food security.
- It was **operationalised in 1966–67** during the **Green Revolution**, following the establishment of the **Agricultural Prices Commission (now CACP)** in 1965.
- MSP is currently announced for **22 mandated crops** like 14 Kharif crops, 6 Rabi crops, and 2 commercial crops (jute and copra) plus **Fair and Remunerative Price (FRP) for sugarcane.**
- It aims to ensure **remunerative prices,** protect farmers from **price crashes**, and maintain **food security.**

Institutional Framework

- **Commission for Agricultural Costs and Prices (CACP):** It advises the government on MSP. It considers cost of production, demand–supply conditions, price trends (domestic & global), and terms of trade.
  - Final MSP is approved by the **Cabinet Committee on Economic Affairs (CCEA)**.
  - MSP is largely based on a **cost-plus approach**, targeting at least **50% margin over A2+FL cost**.

Cost Concepts in MSP

- **A2:** Actual paid-out costs (seeds, fertilizer, labour, fuel)
- **A2 + FL:** A2 + imputed value of family labour
- **C2:** A2+FL + rental value of land and interest on capital

Cost Estimation System: MSP recommendations are based on cost estimates generated under the **Comprehensive Scheme for Studying Cost of Cultivation**, implemented by the **Directorate of Economics and Statistics (DES)**.

- The scheme uses a **triennial block sampling design**, where selected villages are surveyed over a 3-year cycle, and samples are rotated periodically to maintain representativeness.
- It has ensured **statistical consistency**, but has remained largely unchanged despite structural changes in agriculture.

Limitations in the MSP Cost Framework

- **Time Lag in Cost Estimation:** MSP calculations often rely on **2–3-year-old cost data**.
  - This lag is manageable during stable periods. However, during shocks (e.g., **2021–22 fertilizer and fuel price surge**), it leads to underestimation of real costs, and compression of MSP margins over costs.
  - Accurate real-time cost capture **could raise MSP by 20–30%** for some crops.
- **Changing Mechanisation Patterns:** Traditional framework distinguishes **owned machinery** as depreciation & interest, and **hired machinery** as paid-out costs.
  - However, policy shifts like **Sub-Mission on Agricultural Mechanization (SMAM)** resulted in a shift from ownership to service-based mechanisation; and existing surveys may **over-represent outdated ownership models.**
- **Gap Between MSP and Market Reality:** Effective procurement is concentrated in **rice and wheat.**
  - **Procurement Mechanism** is implemented mainly through **Food Corporation of India (FCI)**, and State agencies.
  - Data shows that market prices for many crops often fall **below MSP**.
- **MSP and Cropping Patterns:** Cropping decisions depend more on procurement assurance, irrigation infrastructure, input subsidies, and market linkages.

- **State-Level Evidence:**
  - **Punjab & Haryana**: Rice–wheat dominance (strong procurement)
  - **Madhya Pradesh, Rajasthan, Maharashtra**: Diversification into pulses/oilseeds due to better market ecosystems.
- **MSP as a Transmission Problem:** The MSP debate is often framed as a **pricing issue**, but evidence suggests it is fundamentally a problem of **measurement (cost estimation inaccuracies), and transmission (weak procurement reach).**
  - **Two Key Outcomes:**
    - **Stable periods**: MSP works reasonably well
    - **Volatile periods**: MSP fails to maintain real profitability

Reforming MSP System in India

- **Short-Term Reforms**: There is a need to refine **interest rate assumptions;** and introduce **indexation for volatile inputs** like fuel, and fertilisers.
  - Pilot reforms in **pulses and oilseeds** (priority diversification crops)
- **Medium-Term Reforms:** There is a need to increase **sampling frequency,** improve **regional representation**; and integrate **real-time cost tracking (digital tools, remote sensing).**
- **Fiscal Implications:** Likely to be **modest relative to benefits.** Gains include improved policy credibility, better farmer income alignment, and more efficient diversification.

Recent Government Initiatives

- **PM-AASHA (Pradhan Mantri Annadata Aay Sanrakshan Abhiyan):** Umbrella scheme to operationalise MSP, with the Price Support Scheme (PSS) for procurement of pulses, oilseeds, and copra through NAFED and NCCF.
- **Pulse self-sufficiency target**: Government has committed to procuring 100% of production of tur, urad, and masoor until 2028–29.
- **Digital platforms**: **e-Samridhi and e-Samyukti (NCCF) s**treamline farmer registration to payment for MSP procurement.

Conclusion & Way Forward

- India's MSP system has been crucial for food security, price stability, and farmer protection.
  - However, evolving agricultural realities demand **modernised cost estimation, stronger procurement systems, and better alignment with market signals.**
- A **gradual, non-disruptive reform strategy** is essential to preserve institutional stability while enhancing effectiveness.
- A **data-driven, adaptive MSP framework**, supported by improved cost measurement and stronger procurement can transform MSP from a static safety net into a **dynamic instrument for agricultural transformation**.

Source: BL

Daily Mains Practice Question

[Q] Critically examine the limitations of cost-based Minimum Support Price (MSP) determination in India. Do you think there is a need to reform the MSP system?