

Minimum Support Price: Challenges and Policy Recommendations

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Abstract:

Minimum Support Price as a price policy instrument was first introduced by the government of India in 1966-67. The major objectives of MSP are to support the farmers from distress sales and to procure food grains for public distribution. Since introduction of MSP as a price policy it has been suffering from different challenges and hurdles. In general limited reach, mounting fiscal burden, environmental issues, market distortion and limiting agricultural diversity are some of the major issues and challenges related to MSP. However the government needs to find out the defects and limitation of different policy like MSP in relation to implementation part and timely action to ensure proper execution of these policies is a must.

Introduction:

Agricultural sector has been playing a pivotal role in Indian economy. The share of agricultural sector in GDP recorded as 20% in 2020-21, and the percentage of population depends on agriculture was 46.5 % (PLFS 2022-23 by NSSO). This exhibits the importance and role of agriculture in our economy. India stands second after China in production front of agricultural sector and a world leading exporter of agricultural produce. Agricultural sector in India witnessed remarkable growth in relation to production after independence. However the scenario of agricultural sector is not as encouraging as it supposed to be. A huge part of our farmers, particularly marginal and small farmers have been deprived from the benefits of growing production of agricultural sector. To be more precise farmers are not receiving deserving price for their produce due to inefficiency and imperfection of agricultural marketing in India. There are various types of problems in the marketing of agriculture product pertaining

to organizational, functional, physical and infrastructural aspects (Kalita, 2017). Agricultural marketing system in India has been a matter of concern on the part of researchers and policy makers as, in spite of adoption of different policy measures it has been suffering to secure deserving return for the farmers for their produce. After independence particularly since the adoption of five year economic planning in 1951 the government has been come up with different agricultural marketing reform measures in the form of marketing regulation act and policy instrument with the aim of protecting the interest of the farmers. Minimum Support Price (MSP) is such one of the policy instrument introduced by the government.

Minimum Support Price: MPS as a price policy instrument was first introduced by the government of India in 1966-67. MSP of a crop serves as a form of contingent subsidy to farmers who grow that crop: when the market price of a crop falls below its MSP, government purchases the crop from the farmers at the pre-announced MSP of the crop by absorbing the price shortfall (i.e., the difference between the market price and the MSP) (Chintapalli & Tang, 2017). The major objectives of MSP are to support the farmers from distress sales and to procure food grains for public distribution. Initially Minimum Support Price was declared for wheat only, however later it was extended to cover more crops. In 2017, the Indian government offers MSPs for 23 crops, which comprise 7 cereals, 5 pulses, 7 oil seeds, and 4 commercial crops.

Determination of MSP:

The determination of MSP for listed crops in India based on the recommendation provided by 'Commission for Agricultural Cost and Prices' (CACP) an expert body under the 'Ministry of Agriculture and Farmers Welfare'. In the process of recommending price policy for various commodities under its command the CACP abide by the terms of reference given to the commission in 2009. Accordingly the commission the following factors in determining the MSP:

- Demand and supply
- Cost of production
- Price trend in both domestic and international market
- Inter-crop price parity
- Term so trade between agriculture and non-agriculture
- A minimum of 50 percent as the margin over cost of production

- Likely implications of MSP on consumers of that product

The recommendation submitted by the CACP carefully reviewed by the Cabinet Committee on Economic Affairs (CCEA) chaired by the Prime Minister and finally approves the same. Challenges Associated with MSP:

Since the introduction of minimum support price as a price policy instrument to support the farmers, it has been suffering from a number of hurdles and challenges. These challenges are related with both executions part of MSP and challenges occurred as outcome of execution of MSP policy. In general limited reach, mounting fiscal burden, environmental issues, market distortion and limiting agricultural diversity are some of the major issues and challenges related to MSP. Moreover from the analysis of the research studies carried out in this area the following observations can be listed:

MSPs may not always be beneficial to farmers. When there are very few strategic farmers, an improper choice of MSP of a crop can negatively impact the profits of the farmers, both myopic and strategic, who grow that crop. This defeats the actual goal of MSP for a crop, which is to benefit the farmers who grow that crop (Chintapalli & Tang 2017). Even if the farmers are favorable to the MSP system, it is not helping the farmers to adopt new technologies for increasing the production. MSP is only available for the notified crops, so that the farmers cultivating fruits, vegetables, etc. are not covered under the system. In addition to this, several operational hurdles persist in public procurement. Traders registering in the name of farmers are not unknown. Many note that the MSP does not reach the farmers fully, especially where payments are routed via commission agent. In other cases, there are substantial delays.(Gupta, et. al., 2021, Philip & Gillariose, 2022).

Lack of awareness among the farmers regarding MSP for the crops grown by them is found to be a major hurdle in successful execution of the MSP as an agricultural price policy. K.

S. Aditya et. al. in their study in 2017 found that 75% of their respondents were not aware about the MSP for the notified crops grown by them. However it has been observed in research study that infers knowledge and awareness about MSP not proves to be helpful on the part of farmers to ensure deserving return for their crops. This could be due to couple of reasons. Farmers have

very little marketable surplus limiting their access to markets and they have immediate cash requirements because of which they have less bargaining power with the traders. Secondly, lack of storage facilities and credit constraint means that farmers are always at a disadvantageous position in price negotiation with the trader (Srinivisa, et. al., 2021).

Recommended Steps for Successful Execution of MSP:

A good number of research studies have been carried out in relation to problems and challenges associated with the policy of Minimum Support Price. The researchers have suggested different measures for the successful implementation of MSP, among these some of the key recommendations are as follows:

MSP as a safety net fails in absence of procurement by the Government and there are constraints to increase the procurement. Alternative systems like deficiency price systems or direct benefit transfers may be better options than the system of support prices, welfare implications of these vis-à-vis support prices need to be examined (Srinivisa, et. al., 2021). Das, (2020) in her study observed that to ensure farmers benefit from MSP, the platform of the National Agricultural Market (e-NAM), which can increase the price choices of farmers by interlinking the market chain, should be effectively utilized. She also advocated for instant payment to the farmers by the agencies using the e-NAM.

To increase the number of farmers benefited from the policy of MSP there is a need for providing incentives to the farmers and to carry out regular awareness activity among the farmers. Moreover MSP coverage must be trickle down from the farmers of Punjab and Haryana to other states of India (Ansari, et. al. 2021). A well developed decentralized procurement networking system, increasing storage capacity and system of deficiency payments to bypass the need for procurement can extend the benefits of support prices to a larger segment of the farming community (Aditya K. S. et. al., 2017). Level of education of the farmers plays an important role in determining marketing ability and efficiency on the part of farmers. With relatively higher level of education farmers ability of marketing their product at remunerative price increases and also they become capable enough to draw the benefit of government policy like MSP (Gupta, et. al., 2021).

MSP should work as an aid to the farmers in adopting new technology. Increasing number of procurement centre and well facilitated go downs can assist in the process of executing the policy of MSP in successful way. At the same time MSP should cover different horticultural crops so that the benefit of MSP can be extended to greater number of farmers as it is suppose to be more advantageous to offer MSPs to complementary crops like rice and pulses (or vegetables) than to offer MSP stockrooms that are close substitutes like rice and wheat.(Chintapalli & Tang 2017, Philip & Gllilariose, 2022).

Conclusion:

There should not be much doubt on the policy framework announced by the government at different point of time to protect the interest of farmers in our country. MSP as a price policy to protect the farmers from the suffering of falling price of certain notified crops below the cost of production is appreciable. However the government needs to find out the defects and limitation of different policy like MSP in relation to implementation part and timely action to ensure proper execution of these policies is a must.

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