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Minimum support price for agricultural commodities in India: A review

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Abstract

An attempt has been made to study the Minimum Support Price for Agricultural Commodities in India: - A Review. The study conducted on the basis of secondary data collected from different resources like journals, magazines and officials sites previous researches also include in the study. The study analyzed the growth trend in minimum support price of main crops for a period of 2007-08 to 2021-22 and controversy in Indian agricultural policy. The MSP was 1.5 times the cost of all crops for the *Kharif* season 2020-21 announced by the government. As compared to the season 2019-20, the increase in the MSP in all the crops, in which the maximum increase in the Nigerseed crop which was 12.7 per cent as compared to the previous season. The study reveals that the growth rate of minimum support price of paddy, wheat, gram, cotton, mustard and green gram was 8.19, 7.16, 9.42, 7.97, 7.38 and 11.74 percent respectively. The study conclude that highest awareness about MSP in kharif season among the farmers of Delhi and Punjab which were 64.29 per cent and 52.94 per cent respectively followed by Chhattisgarh, Haryana, Telangana and Madhya Pradesh. Also conclude in the study MSP of crops are same all country but cost of cultivation are different so all farmer not equal profitable. Sawaminathan commission submits a report on the recommendation of Minimum Support Price announced by Government. In this report commission recommend 1.5 time MSP over C2 cost but current government announce 1.5 time price over A2+FL cost.

Keywords: Minimum support price, awareness, agricultural commodities, agricultural policy

Introduction

Agriculture has been a way of life. It is not only provides food and raw material for country but it continues to be the single most important livelihood of the masses. More than 50 percent of its population is dependent on agriculture and more than 14 per cent contribution in Indian GDP and when we compare it with developed countries then it's very high. Agri exports accounts for 10.5 percent of total exports. Agriculture and its related goods contribute about 38 percent in total exports of the country. The performance of the agricultural sector influences growth of the Indian economy (Jain M, 2019) [6].

The agricultural production more perishable and seasonal than industrial produce so price of agricultural produce fluctuated day to day, week to week and every month. Agricultural Price Policy plays an important role in achieving growth and equity in the agriculture sector as well as Indian economy. The major underlying objective of the Government's Price Policy is to protect both producers and consumers. In present time the Food Security System and Price Policy basically consist of three instruments: Procurement Prices/Minimum Support Prices (MSPs), Buffer Stocks and the Public Distribution System (PDS).

The Commission for Agricultural Costs and Prices (CACPC) recommends Minimum Support Price (MSP) for 25 agricultural crops, the most important of which are paddy, wheat, cotton, oilseeds and pulses before sowing season. The MSP benefited for farmer and gives guarantee to the farmers, prior to the sowing season, that a fair amount of price is fixed to their upcoming crop to encourage higher investment and production of agricultural commodities. Agricultural situation in India has undergone sea change after the green revolution period, but the agriculture price policy has more or less remained same (Chand, 2003) [5]. The production of wheat and rice were increased due to rise in MSP by the Government (Merwe, 2010) Also, the price policy is considered to have favoured food crops more than the other crops (Singh *et al.*, 2002).

In recent years, the MSP policy has been criticized by both farmers and proponents of free trade because most of the time MSP is not in line with the international prices as well as domestic demand and supply situation.

The MSP mainly based on cost of cultivation of farmers and government decide equal minimum price for all states in India. One more major controversy in MSP that cost of cultivation very high in some states but minimum price equal. In case of sugarcane, MSP has been assigned a statutory status and as such the announced price is termed as statutory minimum price, rechristened as Fair Remunerative Price (FRP).

Determinants of MSP

While recommending price policy of various commodities under its mandate, the Commission keeps in mind the various Terms of Reference (ToR) given to CACP in 2009. Accordingly, it analyzes (i) Demand and supply (ii) Cost of production (iii) Price trends in the market, both domestic and international (iv) Inter-crop price parity (v) Terms of trade between agriculture and non-agriculture (vi) Likely implications of MSP on consumers of that product.

Materials and Methods

The study is based on secondary data. The data was collected from official site of CACP, magazines, different journal and other publications. The period of study was 2007 to 2021 for study of objectives. The data was collected for all different

group crops as they have a great share in procurement at Minimum Support Price by the government like Wheat, Paddy, Mustard, Gram, and Cotton etc. For analysis the whole period was divided into three sub-periods period I- 2007-08 to 2011-12, period II- 2012-13 to 2016-17 and period III- 2017-18 to 2021-22. Growth rate was also calculated for whole period of 2007-08 to 2021-22.

The growth of minimum support price was calculated with help of following

$$Y_t = Y_0 (1 + r)^t$$

Where,

“ Y_0 ” be the value of variable under study in the base period.

“ Y_t ” is the value of a variable in time “ t ”.

“ r ” be the value of Compound Growth Rate (CGR)

Result and Discussion

The compound annual growth rate was calculated for Minimum Support Price of different group crops. Paddy and wheat are among the staple food of Indian population while gram and green gram main pulses crops for population. The results are presented in table 1 below-

Table 1: Compound annual growth rate of minimum support price of different crops

Crops	Wheat	Gram	Mustard	Paddy	Green Gram	Cotton
2007-08 to 2011-12	14.40	9.79	1.91	12.69	20.17	10.80
2012-13 to 2016-17	3.09	5.73	7.59	6.89	8.49	5.57
2017-18 to 2021-22	4.99	6.26	5.87	6.17	8.33	8.78
2007-08 to 2021-22	7.16	9.42	7.38	8.19	11.74	7.97

The above table reveals that in case of wheat highest growth of 14.40 percent was observed in period of 2007-11 because government started NFSM for increase rice, wheat and pulses crop production. For increasing wheat production government rapidly increase MSP. While lowest growth of 3.09 percent was seen in period of 2012-16. The overall growth of MSP in wheat from 2007 to 2021 was 7.16. In case of paddy, same trend was observed with highest growth rate of 12.69 percent was observed in period 2007-08 to 2011-12. While lowest growth rate 6.17 percent in period of 2017-18 to 2021-22. The overall growth of paddy 8.19 percent was however higher than wheat. In case of pulses crop, growth rate in gram was highest 9.79 percent in 2007-08 to 2011-12. While lowest growth of 5.73 percent was seen in period of 2012-13 to 2016-17. The overall growth of MSP in from 2007 to 2021 was 9.42 percent. In case of Green gram, highest growth in period of 2007-08 to 2011-12 was 20.17 percent while lower growth was 8.33 percent in 2017-18 to 2021-22. The overall growth rate of green gram 11.74 percent was however higher than gram because government want to increase production of green gram. In case of mustard highest growth 7.59 percent in period of 2012-13 to 2016-17 because India want to promote oilseeds crop production and become self depend in oil production. Lowest growth in 2007-08 to 2011-12 was 1.91 percent. Overall growth in MSP of mustard was 7.38 percent. In case of cotton crop highest growth of MSP in period of

2007-08 to 2011-12 was 10.80 percent because at this period inflation was higher level in India. Overall growth rate in cotton MSP was 7.97 percent. In this analysis conclude is highest growth rate in most of the crops MSP was seen in period of 2007-08 to 2011-12 except mustard crop while lower growth in MSP noted in period of 2012-13 to 2016-17 except mustard and paddy.

Current status of MSP in India

After the implementation of MPP, there was a hope that the farmers would enjoy the benefits. The government announced a price of one and a half times the cost of crops in the last budget, but that was not according to the Swaminathan report. The MSP was 1.5 times the cost of all crops for the *Kharif* season 2020-21 announced by the government. As compared to the season 2019-20, the increase in the MSP in all the crops, in which the maximum increase in the Nigerseed crop which was 12.7 per cent as compared to the previous season. Along with this, millet also an increase of 7.5 per cent, Sesam 5.7 per cent, Maize & Arhar 5.1 per cent which will help farmers to increase their income. Minimum growth over last season was in jowar and paddy crops which are 2.7 per cent and 2.9 per cent respectively. In the season 2020-21 MSP of bajra and black gram crops highest over cost of cultivation which was 183 per cent and 164 respectively. Along with most of the crops MPS are 150 per cent over cost of cultivation that was higher than previous year.

Table 2: Shows Minimum Support Price and Cost of Cultivation of 2020-21 *kharif* seasons. (₹/qtl)

Crops	Cost of Cultivation 2020-21	2019-20	2020-21	MSP as percent of Cost of Cultivation
Paddy (Common)	1,245	1815	1868 (2.9)	150
Paddy (Grade A)		1835	1888 (2.9)	-
Jowar (Hybrid)	1,746	2550	2620 (2.7)	150

Jowar (Maldandi)		2570	2640 (2.7)	-
Bajra	1,175	2000	2150 (7.5)	183
Ragi	2,194	3150	3295 (4.6)	150
Maize	1,213	1760	1850 (5.1)	153
Tur (Arhar)	3,796	5800	1850 (5.1)	158
Green gram	4,797	7050	7196 (2.1)	150
Urad	3,660	5700	6000 (5.3)	164
Groundnut	3,515	5090	5275 (3.6)	150
Sunflower Seed	3,921	5650	5885 (4.2)	150
Soybean (Yellow)	2,587	3710	3880 (4.6)	150
Seasamum	4,570	6485	6855 (5.7)	150
Nigerseed	4,462	5940	6695 (12.7)	150
Cotton (Medium Staple)	3,676	5255	5515 (4.9)	150
Cotton (Long Staple)		5550(1.8)	5825 (5.0)	150

In the Rabi season 2020-21 also the increase in the mussel of all crops. The maximum increase was in Lentil crop, which were ₹ 325 per quantal more than the previous season followed by safflower, gram and rapeseed which was increase

₹ 270, ₹ 225 and ₹ 225 per quantal respectively. In the season 2020-21 MSP of wheat and rapeseed crops highest over cost of cultivation which was 209 per cent and 190 respectively.

Table 3: Shows Minimum Support Price and Cost of Cultivation of 2020-21 rabi seasons. (₹/qtl)

S. No.	Crop	Cost of Cultivation	MSP for Marketing year 2019-20	Rabi Crop 2020-21	Growth over year 2019-20 in ₹	MSP as percent of Cost of Cultivation
1	Wheat	923	1840	1925	85	209
2	Barley	919	1440	1525	85	166
3	Gram	2801	4620	4875	255	174
4	Lentil	2727	4475	4800	325	176
5	Rapeseed	2323	4200	4425	225	190
6	Safflower	3470	4945	5215	270	150

Farmers Awareness about Minimum support price in India

Even after 40 years of MSP, many shortcomings remain in system due to which farmers are still not getting the benefit of MSP. Even today, there is a lack in awareness among the farmers about MSP. A study conducted by Aditya *et al* on Awareness about Minimum Support Price and Its Impact on Diversification Decision of Farmers in India on the basis of *kharif* and *rabi* season. According to the study, in many states not more than 20 per cent farmers are aware of the MSP, which is a matter of concern. The highest awareness about MSP in *kharif* season among the farmers of Delhi and Punjab which were 64.29 per cent and 52.94 per cent respectively followed by Chhattisgarh, Haryana, Telangana and Madhya Pradesh. The highest awareness in *Rabi* season among Punjab

and Chhattisgarh which was 48.93 per cent and 47.20 per cent respectively followed by Delhi, Odisha, Haryana. The lowest awareness about MSP in *kharif* season among the farmers of north east states in India because these states depends upon commercial and horticultural crops.

The reason for higher awareness of farmer in these states is buffer production of wheat, rapeseeds and barley in *Rabi* season and paddy and Bajra in *kharif* season and most of the quantity of all crops sell on the MSP. It is further contended that the MSP has outlived its utility and is being used more as a political tool than an economic instrument. It therefore becomes imperative to examine the review of MSP in different regions of the country as well as its contribution towards growth (G. Sudhakar, 2017).

Table 4: Shows State wise Awareness of Farmers about MSP of Crops (%)

State	Rabi	Kharif	State	Rabi	Kharif
Delhi	64.29	41.18	Himachal Pradesh	10.24	13.24
Punjab	52.94	48.93	Gujarat	9.97	12.02
Chhattisgarh	37.09	47.20	Uttaranchal	9.14	9.81
Haryana	32.10	27.80	Jammu & K	6.03	8.21
Telangana	30.82	25.32	Maharashtra	8.00	8.19
Madhya Pradesh	30.47	12.19	Tamilnadu	15.12	7.71
Uttar Pradesh	22.43	27.59	Arunachal Pradesh	7.39	6.49
Bihar	22.34	27.49	Tripura	21.50	5.99
West Bengal	19.29	26.23	Mizoram	0.30	4.24
Rajasthan	20.90	15.09	Assam	3.88	4.09
Odisha	9.85	36.23	Nagaland	1.96	3.87
Kerala	19.47	22.09	Chandigarh	6.67	3.13
Andhar Pradesh	14.35	14.60	Meghalaya	12.52	1.33
Karnataka	14.61	13.97	Manipur	0.14	0.48
Jharkhand	4.96	13.25	Sikkim	0.00	0.00

Source: Aditya *et al.*: Awareness about Minimum Support Price and Its Impact on Diversification Decision of Farmers in India, *Asia & the Pacific Policy Studies*.

Almost procurement agency established in 1960s era but after 55 years farmer not more about agencies. According to study farmer highest aware about food corporation of India

followed by state food corporation and State civil supplier. Lack of awareness due to illiteracy and not direct connect with procurement agencies.

Table 5: Shows Farmers Awareness of Procurement Agencies (%)

S. No.	Procurement Agency	Rabi	Kharif
1	Food Corporation of India	18.80	19.02
2	Jute Corporation of India	1.02	1.35
3	Cotton Corporation of India	0.62	2.13
4	NAFED	5.24	3.30
5	State Food Corporation	17.74	13.23
6	State Civil Supplier	7.73	9.13
7	Other	21.03	21.36
8	Did not know	27.83	30.48
	Total	100	100

Source: Aditya *et al.*: Awareness about Minimum Support Price and Its Impact on Diversification Decision of Farmers in India, Asia & the Pacific Policy Studies.

Controversies in Minimum Support Price announcement

There is a constant change in the price of agricultural implements with inflation in the country, so the prices of agricultural equipment are different in every year. Also, according to the state governments' tax rate, there is a difference in the price of inputs in each state, so cost of cultivation also different for crops, but the minimum support price is the same in a single crop in the entire country. It is large controversial part in MSP announcement. Below table

shows the cost of cultivation rapeseed in Madhya Pradesh, Odisha, Punjab, Haryana and Rajasthan are ₹ 1294, ₹ 3274, ₹ 1843, ₹ 1136 and ₹ 1617 per quantal respectively but MSP of rapeseed of all these states are ₹ 3700 per quantal. The margin for farmer in Odisha low for same crop because cost of cultivation is high and margin for Haryana's farmer high because cost of cultivation for rapeseed crop low. Table shows same controversies for wheat and rice crops. Also same controversies in all the crops that are exist under MSP.

Table 6: Shows A2+FL cost and MSP of different states in 2017-18 (₹/qtl)

Crops	Madhya Pradesh	Odisha	Punjab	RAJ	West Bengal	Haryana	MH	MSP (India)
Rapeseed & Mustard	1294.4	3274.5	1843.5	1617	2409.6	1136.2	1245.3	3700
Wheat	711.1	1153.7	578.2	1364	1541.3	679.7	1635.1	1625
Rice	1124	1051	565	-	1277	813.86	2243	1550

Sources: Calculated by author from data of CACP.

Analysts have been debating how the cost of cultivation will be calculated? Whether the cost A2+FL, which includes actual expenses in cash and kind, including rent paid for leased-in land along with imputed value of family labour will be considered. Or the more comprehensive cost C2, which includes imputed rent for the owned land, interest on owned fixed capital, and imputed value of wages to labour, will be considered to calculate the MSP. But Budget announcements on the farm sector, especially the one that commits to ensure a minimum support price (MSP) for crops that is equal to 1.5 times the cost of production which the Swaminathan Commission report had recommended in 2006. Sawaminathan commission submits a report on the recommendation of

Minimum Support Price announced by Government. In this report commission recommend 1.5 time MSP over C2 cost but current government announce 1.5 time price over A2+FL cost. Simple calculation show in below table if government announce over C2 cost then farmer benefit to more price. In case of wheat crop A2+FL cost are ₹ 923 per quantal less than C2 cost which was ₹ 1425 per quantal. If government announce MSP on the basis of C2 cost then farmer gets ₹ 297 per quantal. Similarly in case of lentil crop farmer gets ₹ 1954 per quantal more price than existence MSP. It is debatable for subject for government as well as farmers. Agricultural price policy has been argued to have widened the farm income inequalities also (Singh *et al.*, 1986).

Table 7: shows Projected Cost of Production (A2, A2+FL & C2) of major Rabi Crops for Marketing Season 2019-20 (₹/qtl)

S. No.	Crops	A2	A2+FL	C2	C2 over the A2+FL	1.5 time estimate MSP on C2 cost	Actual MSP announced by Govt.
1	Wheat	724	923	1425	502	2137	1840
2	Gram	2267	2801	4023	1222	6034	4620
3	Rapeseed	1495	2323	3401	1078	5101	4200
4	Barley	585	919	1347	428	2020	1440
5	Lentil	2034	2727	4286	1559	6429	4475

Sources: Calculated by author from data of CACP.

Conclusion

The study indicates that the announcement of minimum support price to be 1.5 times the cost of production will be beneficial to the farmers. The minimum support prices are increasing pulses and oilseeds rather than food grain crops. The study concludes that the awareness about MSP among the farmers was very low in India. Sawaminathan commission

submits a report on the recommendation of Minimum Support Price announced by Government. In this report commission recommend 1.5 time MSP over C2 cost but current government announce 1.5 time price over A2+FL cost.

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