

General Studies – 3; Topic: Issues related to direct and indirect farm subsidies and minimum support prices

Issues related to MSP

1) Introduction

- MSP is the minimum price paid to the farmer for procuring food crops.
- It offers an assurance to farmers that their realisation for the agricultural produce will not fall below the stated price.

2) Benefits of MSP

- Incentivise production of a specific food crop which is in short supply.
- Protects farmers from any sharp fall in the market price of a commodity.
- Ensures that the country's agricultural output responds to the changing needs of its consumers.
- Ex: The government hiked the MSP of pulses to expand sowing of pulses.
- Higher farm profits will encourage farmers to spend more on inputs, technology etc
- Protect farmers from the unwarranted fluctuation in prices, provoked by the international level price variations.

3) Why is it important

- Almost half of India's population is dependent on agriculture for livelihood.
- Farming is a risky business with the farmer's income dependent on the vagaries of weather, as well as local and international price trends.
- The MSP shields farmers to an extent, from such risks, by guaranteeing a floor price for their produce.
- To achieve food security and tackle shortages of key food items.

4) Some Facts

- MSPs are usually announced at the beginning of the sowing season.
- MSP is recommended by the Commission for Agricultural Costs and Prices (CACP).
- Cabinet Committee on Economic Affairs approves MSP.
- The Food Corporation of India procures food grain under the price support scheme.

5) Concerns / Challenges

- Sharp and frequent increases in MSP can feed inflation too.
- It is believed that it was MSP increases on paddy and wheat that fuelled high food inflation in the years to 2013.
- Government procurement at MSP is benefiting the large traders than farmers.
- Small farmers typically do not have enough marketable surpluses.
- Their crop is usually sold to traders at low post-harvest prices in the village itself or the nearest mandi.
- According to recent research, farmers may typically get as little as 25% of the price that consumers finally pay.
- The input costs have been rising faster than sale prices, squeezing the meagre income of the small farmers and driving them into debt.

- MSP is attractive towards wheat and rice which is produced by large farmers. Small farmers who mostly dependent on vegetables, pulses, coarse grains are at disadvantage.
- The payments are delayed when the farmers are in immediate need of cash.
- In some states, the awareness about the time of their announcement is very low.
- The reason for not selling at MSP was that the purchase centres were located at distance which required high transportation costs.

6) **Recommendations by NITI Ayog**

- The awareness to farmers and timely dissemination of information till the lowest level so that it would increase the bargaining power of the farmers.
- Timely payment should be ensured.
- MSP should be announced well in advance of the sowing season so as to enable the farmers to plan their cropping.
- Improved facilities at procurement centres, such as drying yards, weighing bridges, toilets, etc.
- More godowns should be set up and maintained properly for better storage and reduction of wastage.
- The criteria for fixing MSP should be current year's data and based on more meaningful criteria rather than the historical costs.
- The Procurement Centres should be in the village itself to avoid transportation costs.
- The MSP scheme requires a complete overhaul in those States where the impact of the scheme is 'nil'.

7) **Way Forward**

- Revision of MSP and its provisions are required. Diversification towards other crops like pulses must be done.
- Systematic administrative mechanism that includes personnel, system, infrastructure and scientific mechanism.
- Pre and post planning for the procurement at every location so that all are aware of the activities planned and there are no delays or gaps in the system.
- The monitoring at every phase for the efficiency of the process and accountability of the people involved in its implementation.
- The ambitious projects like e-NAM, doubling farmer's income by 2022, price stabilisation fund, implementation of Swaminathan and Shanta Kumar committee is required.