Sustainability of MSP

Why in News?

As the Lok Sabha elections approach in 2024, there could be a clamour for parties to include "legal guarantee for MSP" in their manifestos.

Income Support to Farmers
• **Income support** – It means transferring a fixed sum of money annually into farmers' bank accounts. • **Aim** – To reward farmers for delivering public goods and to function as a safety net and *make farming more profitable*. • To assist in the production of safe, healthy and affordable food and to *guarantee food security*. • **Existing Schemes in India** - Centre's ***PM-Kisan Samman Nidhi*** **-** Per-farmer basis - Telangana government's ***Rythu Bandhu*** **–** Per-acre basis. • **Advantages** – Direct income support schemes *aren't market distorting* and they *benefit all farmers*, irrespective of which crop they grow in whatever quantity, and sell to whomsoever at any price. • **Limitations** – Paying everyone the same money *doesn't incentivise the real producing farmer*, who invests more resources, time, and effort in the field.

What is Minimum Support Price (MSP)?

- **MSP** – It is the price at which the ***government is obligated to purchase the produce*** from farmers in the event that the market price falls below this threshold.
- **Concept** – It was 1st proposed throughout the 1960s as a market intervention to insure agricultural producers against any sharp fall in farm prices.
- **Need** - Farmers for *most part operate in buyer's market* and mostly crops are harvested and marketed in bulk, so sudden increase relative to demand may lead to *fall in prices and lesser income*.
- While their *crops are sold wholesale, they pay retail prices* for other consumables like seeds, pesticides and tractors.
- **Coverage** – ***22 crops*** (Kharif, Rabi and commercial crops)
- It includes cereals (7), pulses (5), oilseeds (7), raw cotton, raw jute and copra.

- **Announcement** – At the *beginning of the sowing season.*
- **Price value** – On the basis of the recommendations of the ***Commission for Agricultural Costs and Prices (CACP)*** and to be ***approved by Cabinet Committee on Economic Affairs (CCEA)***

Fair and Remunerative Price (FRP) is given for sugarcane.

- **Factors considered before fixing the price**
  - Demand and supply of a commodity
  - Cost of production
  - Market price trends (both domestic and international)
  - Inter-crop price parity
  - Terms of trade between agriculture and non-agriculture (ratio of prices of farm inputs and farm outputs)
  - A minimum of 50% as the margin over the cost of production
  - Likely implications of an MSP on consumers
- **Cost provided** – The ***MS Swaminathan Commission*** had recommended ***C2+50%*** but the government is providing ***A2+FL+50%.***
- **Calculation of Cost of Production**
  - **A2** – Actual cost of farming including seeds, fertilisers and hired labour.
  - **A2+FL** – Includes value of unpaid labour of family workers in addition to A2
  - **C2** – Includes the cost of land rentals or interest on invested capital in addition to A2+FL

What are the methods through which MSP can be guaranteed?

- **Forcing buyers to pay MSP** – Already, sugar mills are required, by law, to pay cane growers a "fair and remunerative" or "state advised" price within 14 days of purchase.
- But this risks implementation hurdles.
- **Buying by government agencies on entirety** – Promoting government agencies to buy the entire marketable produce of farmers offered at MSP.
- But this is unsustainable, both physically and fiscally.
- **Price deficiency payments (PDP)** - It entails the government to pay farmers the difference between the market price and MSP, if the former is lower.

PDP *was tried out 1st in Madhya Pradesh through a Bhavantar Bhugtan Yojana. Haryana's PDP scheme is called as Bhavantar Bharpai Yojana (BBY)*

What is the road ahead?

- **MSP for more crops** –Madhya Pradesh and Haryana have demonstrated the feasibility of delivering MSP to farmers in crops other than rice, wheat, and sugarcane through Agricultural Produce Market Committee (APMC) infrastructure and systems for farmer registration.
- **Implementing a nationwide PDP scheme** – Providing 50% central funding can perhaps incentivise other states to follow the examples of Madhya Pradesh and Haryana.
- **Rationalising the eligibility** – Price assurance can be given to those farmers who depend on agriculture as primary income and as their incidental livelihood source as they are more exposed to both price and production risks.

Reference

[The Indian Express| Income Support for Farmers]