The Reach and Depth of MSP

What is the issue?

One of the key demands of the protesting farmers' unions, that minimum support prices (MSP) be made legal needs a deep analysis.

What is MSP?

- MSPs are the prices at which the government promises to procure agricultural produce from farmers.
- At present, the government announces MSPs for 23 crops – 7 cereals, 5 pulses, 7 oilseeds and 4 commercial crops.
- MSPs are announced by the government at the beginning of the sowing season on the basis of the recommendations of the **Commission for Agricultural Costs and Prices (CACP**).
- MSP is then approved by **Cabinet Committee on Economic Affairs** to protect the farmers against excessive fall in price during bumper production years.
- At present there is no legal compulsion for the government to procure the crops at MSP.

What is the reach and depth of MSP?

- The reach and depth of MSP can be assessed from the unit level data reported by NSSO (77th round) in its Situation Assessment Survey (SAS) of agri-households (agri-HHs) for the agricultural year July 2018-June 2019.
- **Coverage-** Based on the unit level data set, just 8.8% of agri-HHs sold any crop to government agencies at MSP, and the value of that agri-produce is just 8% of the total value of agriculture (crops plus livestock).
- If one uses the Census and National Accounts data which are more reliable, the percentage of farmers benefiting from MSP shrinks to just 5.6% and the value of agri-produce benefiting from MSP to a mere 2.2%.
- It differs across states, ranging from less than 1% reach of MSP in most of the north-eastern states to as high as 50% reach in a state like Chhattisgarh.
- **Differences in the reports**- The total operational holdings estimated for India, based on the SAS sample, was about 89 million
- Agri-HHs are estimated to be close to 93 million, much lower than the **Agriculture Census 2015-16** operational-holdings estimate of 146 million.

> *The Department of Agriculture, Co-operation and Farmers Welfare conducts agriculture census every five years. It has been conducted since 1970-71 following broad guidelines of decennial World Census of Agriculture (WCA) evolved by FAO.It is a Central Sector Plan Scheme and so far 10 censuses have been conducted in the country.*

- The total value of agri-produce estimated from the SAS sample data is about Rs 10.1 trillion compared to the National Accounts' Rs 37.3 trillion.

- The SAS's extrapolation of absolute numbers is vastly different from other sources raising serious doubts about the coverage and true representativeness of this sample.
- **Reach-** While Punjab and Haryana farmers have benefitted the most from MSP due to the Green Revolution's legacy, lately, procurement has spread to many other states including Chhattisgarh and Telangana for paddy, and Madhya Pradesh for wheat.
- But what the narrative of MSP reaching small and marginal farmers in states like Chhattisgarh misses is that most of these farmers also benefit from highly subsidised PDS.

What is the need to move beyond MSP?

- The several concerns with MSP are as follows.
    1. Distorted incentive structures favour wheat and rice
    2. Highly-subsidised/free power and urea leads to environmental disaster
    3. Distorts the basic logic of the supply-demand mechanism
    4. Slows down the process of diversification
    5. A very expensive and inefficient instrument
    6. Leads to massive leakages and corruption
    7. Cannot augment incomes of small and marginal farmers

What is the need of the hour?

- **Direct benefit transfer**- It is better to directly help small and marginal farmers with income policy or through a diversification package towards high-value agriculture.
- **PM-KISAN** that provides agri-HHs with Rs 6,000 can be refined and scaled up by linking it with adoption of farming practices that are environmentally sustainable (reducing methane emissions, abstaining from stubble burning, etc).
- **High-value agriculture**- With an average holding size of just 0.9 ha, = the scope to achieve better incomes for small-holders in an efficient and sustainable way lies in high-value agriculture.
- **Investment in infrastructure-** The government must focus on development of efficient value chains, commodity-specific FPOs, and incentivise the private sector to invest in logistics, storage, cold chain, processing, etc.

References

1. https://www.financialexpress.com/opinion/from-plate-to-plough-the-reach-and-depth-of-msp/2396558/

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