Minimum Support Price

September 19, 2020

Minimum Support Price (MSP) is a form of **market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices.** The minimum support prices are announced by the Government of India at the **beginning of the sowing season** for certain crops on the basis of the **recommendations of the Commission for Agricultural Costs and Prices (CACP).**

Determinants of MSP

- demand and supply
- cost of production
- price trends in the market, both domestic and international
- inter-crop price parity
- terms of 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

These recommendations are made separately for the Kharif marketing season and the Rabi marketing season.

Crops Covered Under MSP

- Cereals (7) – paddy, wheat, barley, jowar, bajra, maize and ragi
- Pulses (5) – gram, arhar/ tur, moong, urad and lentil
- Oilseeds (8) – groundnut, rapeseed/ mustard, toria, soyabean, sunflower seed, sesamum, safflower seed and niger seed
- Raw cotton
- Raw jute
- Copra
- De-husked coconut

- Sugarcane (Fair and remunerative price)
- Virginia flue cured (VFC) tobacco

However, **public procurement is limited to a few crops such as paddy, wheat and, to a limited extent, pulses.** The **procurement is also limited to a few states.** Three states which produce 49% of the national wheat output account for 93% of procurement. For paddy, six states with 40% production share have 77% share of the procurement.

Calculation of MSP

- Estimation is usually done based on three types of calculation methods. These are **A2 method, A2+FL method and C2 method.**
- As per the A2 method, MSP is set **50% higher than the amount** farmers spend on farming including spending on seeds, fertilisers, pesticides, and labour.
- The present MSP has been calculated based on the A2+FL method. The method is a middle ground between the other methods where the MSP is set 50% higher than the amount that derives from adding the amount farmers spend on farming including spending on seeds, fertilisers, pesticides, and labour and the **value of labour provided by the family members for agriculture.**
- C2 method, on the other hand, makes the calculation by including a **wider range of inputs.** This includes factors used to calculate A2, the economic value of the efforts of family members working on the farm and the value of other spending including rent and other assets. After calculating these, MSP is set at 50% above the derived amount.