

### CACP considers the following costs:

1. A2: covers all cash and in kind expenses incurred by farmers on seeds, fertilisers, chemicals, hired labour, fuel etc.
2. A2 + FL: Actual costs plus an imputed value of unpaid family labour.
3. C2: includes 'A2 + FL' along with revenue foregone on owned land (rent) and fixed capital assets (interest).

## Advantages

The minimum support prices are a guarantee price for their produce from the Government.

MSP is announced before the sowing season so that the farmers can make an informed decision.

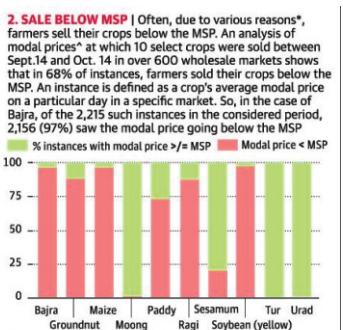
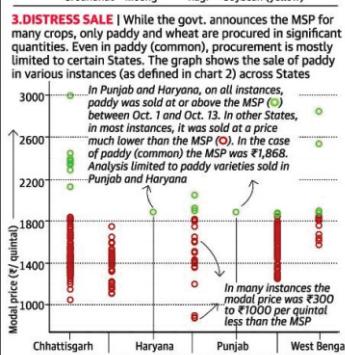
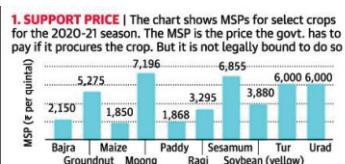
The major objectives are to support the farmers from distress sales and to procure food grains for public distribution.

It ensures adequate food grain production in the country.

In case the market price for the commodity falls below the announced minimum price due to bumper production and glut in the market, government agencies purchase the entire quantity offered by the farmers at the announced minimum price.

MSP thus increases the farmers' income which they can invest in new technology.

It also helps in achieving the Government's goal of doubling farmers income by the year 2022.



The analysed are from the govt.'s Agmarknet portal, which tracks the sales of crops inside the mandis. A significant share of transactions also takes place outside the mandis. However, it is important to note that most such farmgate transactions outside mandis may have fetched the farmer less than the MSP if the transaction cost incurred by the trader to reach the farm is factored in.

\*The price at which most transactions take place during the peak marketing period on a particular day for a specific crop. \*Reasons vary from insufficient procurement levels, unawareness of the MSP programme, inaccessibility of procurement agencies, pre-pledged crops, etc.

Source: agmarknet, PIB

MSP ensures that farmers withstand price fluctuations and get a minimum price for their produce in unfavourable market conditions. Also with MSP, farmers are incentivised to grow crops, which are short in supply. In the absence of support price, farmers may not find certain crops lucrative, which would lead to poor production, resulting in high prices.



## Disadvantages

MSP is devoid of any legal backing. Access to it, isn't an entitlement for farmers. They cannot demand it as a matter of right. The government can procure at the MSPs if it wants to. The only crop where MSP payment has some statutory element is sugarcane.

MSP has not increased in proportion to the cost of production.

CACP is just "an attached office of the Ministry of Agriculture and Farmers Welfare". It can recommend MSPs, but the decision on fixing and enforcement rests finally with the government.

Though government announces MSP for 23 crops, it procures only 1/3rd of those.

There is lack of awareness amongst farmers and there is regional variation in implementation.

It kills competition and puts pressure on government finances.

The system has been often criticised at WTO platform.