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# The ecosystem of minimum support price for agricultural produce in India

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**Abstract**
"Agriculture is the backbone of Indian economy" said by Mahatma Gandhi eight decades ago, even today still the situation is same by contributing one fifth portion to GDP by agriculture and allied activities and accounts for an employment of 52 percent of Indian population. Agriculture as one of the oldest professions on the earth continues to play vital role in the Indian economy. Contribution by agriculture to GDP has been decreased from 44.5 percent in 1970 to 14% to date. A decrease in a growth trend has negative impact on the overall sector growth of the nation. In order to overcome from this situation, it is important to re-energize the agriculture sector. Minimum Support Price is the scheme which is having strong potential of boosting agriculture sector by contributing to the Farmers' Income, Food Security and Monitoring of Price Fluctuations of agricultural produces etc. The study made an attempt to explore the ecosystem of price support scheme by consideration of price fixation methodology, factors considered while fixing the prices and objectives set forth by the CACP (Commission for Agricultural Costs and Prices) etc. Also, the paper employed Compound Annual Growth Rate for analysing the growth trend of MSP fixed for agricultural produces over the years and percentage of changes taken place in order to cover the cost of production of farm harvest.

**Keywords:** MSP, CACP, Efficacy, CAGR; cereals, oilseeds, pulses, commercial crops

## 1. Introduction
"Agriculture is the backbone of Indian economy" said by Mahatma Gandhi eight decades ago, even today still the situation is same by contributing one fifth portion to GDP by agriculture and allied activities and accounts for an employment of 52 percent of Indian population. Agriculture as one of the oldest professions on the earth continues to play vital role in the Indian economy. Contribution by agriculture to GDP has been decreased from 44.5 percent in 1970 to 14% to date. A decrease in a growth trend has negative impact on the overall sector growth of the nation. In order to overcome from this situation, it is important to re-energize the agriculture sector. India's agricultural pricing framework serves as a cornerstone for promoting inclusive economic growth, particularly within the farming sector. It seeks to balance the interests of both cultivators and consumers by ensuring stability in the pricing of essential crops. To address the pressing challenge of food security both nationally and within households the government employs a threefold strategy: setting floor prices through the Minimum Support Price (MSP) mechanism, managing surplus through buffer stock reserves, and distributing staples via the Public Distribution System (PDS). By offering assured returns to farmers, MSP policy fosters greater agricultural output, generates employment, and raises rural incomes and elements essential for long-term food security and economic resilience. Ensuring farmers receive viable compensation for their produce is not just an economic measure, but a vital strategy to safeguard India's nutritional and agricultural future.

India's agricultural pricing mechanisms trace their origins to the pre-independence period, when initial efforts were made to regulate food grain markets through government-led procurement and distribution. Although statutory ceilings on prices were introduced, enforcement remained inconsistent. In the decades following by independence, the focus shifted towards integrating food security goals with ecological sustainability. The central aim of post-independence agricultural price policy has been to offer farmers financially rewarding prices to stimulate increased investment and output in the agriculture sector. Although the government committed to purchase food grains at guaranteed rates during the time of steep market decline, actual market conditions remained relatively stable until 1954, with no significant drop in prices.

Over time, the rising population and growing household incomes in India have led to a persistent increase in the consumption of staple grains, especially in rice and wheat. This shift in dietary patterns has gradually replaced by traditional coarse cereals like maize and jowar, contributing to consistent shortages and driving grain prices upward as demand outpaced supply.

## 2. Review of Earlier Studies

- K.S. Aditya (2017) [1] in the article titled "Awareness about minimum support price and its impact on diversification division of farmers in India". The study reveals that more than 75% of Indian households are not aware about Minimum Support Price. Awareness of MSP of pulse crops was even less (<10%) for most of the crops which is the cause of concern. Out of few who were aware of MSP nearly 25% of farmers reported not selling their produce to procurement agencies. Also, this study found that no empirical evidence to prove that Awareness of Minimum Support Price leads to crops specialisation as procurement and is biased towards rice and wheat.
- Takle, S. R. (2021) in the research paper "Minimum Support Prices and Reality of Agricultural Economy in India" the researchers have analysed farmers' awareness about Minimum Support Price (MSP) and its impact on diversification of crops grown in India with special reference to Maharashtra. The data revealed that only 23.72 and 20.04 per cent of farmers in the rural agricultural households in India are aware of MSP of crops grown by them in kharif and rabi season, respectively. From the results, it is inferred that MSP needs to be backed up by effective procurement coupled with awareness creation by extension system to enable a greater number of farmers to take benefit of MSP. Study also explored the relationship between farmers' awareness about MSP and decision to go for crop specialization. The study shows that farmers' knowledge of MSP had not leaded to specialization. And there is a need to implement the policy effectively by the side of government.
- Sumit Sutradhar, Aryan Gautam, & K. I. Shivani. (2022) [3] in the article "An Economic Analysis of Trends in Cost of Production and MSP in India". The finding of this research unravels that Wheat, Groundnut and Cotton are getting supported largely due to MSP policy, Paddy and Black gram are barely supportive as there is cutthroat competition between MSP and the Cost of Cultivation and sugarcane is not supported by MSP policy. The comparative and profitability analysis unravels how labour cost is the major cost in Tamil Nadu and paddy is profitable whereas cotton is not. Also, depicts that MSP has been supporting the farming community on the policy end. But it's not working as a fundamental supporting system for the majority of farmers as it's not exercised by majority of farmers due to low awareness and inefficiency of the system.

## 3. Statement of the Problem

India's agricultural pricing strategies originated with a multi-faceted intervention framework that gradually matured into a comprehensive support system in response to dynamic changes within the sector. Initial policy goals targeted both direct economic indicators such as pricing stability and indirect influencers like market behaviour and crop choice. The framework was crafted to guide agricultural practices by shaping crop distribution, addressing disproportionalities among cultivated varieties, instituting baseline price assurances, and delivering consistent pricing cues to farmers. These strategic objectives have been progressively embedded in policy recommendations issued by the Commission for Agricultural Costs and Prices (CACP), reflecting ongoing refinements in alignment with evolving sectoral challenges. The reviewed literature indicates a significant research gap concerning the Minimum Support Price (MSP) in India. In light of the absence of major studies focused on this area, the researcher has undertaken a study titled *"The Ecosystem of Minimum Support Price for Agricultural Produce in India".*

## 4. Objectives

Following are the broad objectives of the study:

1. To explore the ecosystem of Minimum Support Price for agricultural produces in India.
2. To analyse the growth trend of MSP procurement prices over the years.
3. To suggest various policy measures to enhance the efficacy of MSP in India.

## 5. Research methodology

The study is descriptive and analytical in nature and purely based on secondary data. The macro level analysis included in this study which is based on time series data of Minimum Support Prices and other prices collected from secondary sources at state level from 2013-14 to 2024-25. Further study has used percentage analysis and compound annual growth rate to explore the growth of MSP announce for various agricultural produces.

$$\text{CAGR} = \left( \frac{V_{final}}{V_{begin}} \right)^{1/t} - 1$$

**CAGR**: Compound annual growth rate
**Vfinal**: Final value (Current year procurement price)
**Vbegin**: Beginning value (Base year procurement price)
**t:** Time in years (No. of Years)

## 6. The Ecosystem of MSP

The Minimum Support Price (MSP) is a market intervention scheme by the Indian government to safeguard farmers from significant drops in agricultural prices. Its objective is to guarantee a minimum price for the crops that farmers bring to market. The Indian government announces the MSP for specific crops at the start of the sowing season based on recommendations from the Commission for Agricultural Costs and Prices (CACP). The MSP is set to protect farmers from extreme price drops during years of bumper production. The primary goals are to prevent distress sales by farmers and to procure food grains for public distribution. If market prices fall below the MSP due to overproduction and a market glut, government agencies will purchase the entire quantity offered by the farmers at the minimum price set.

Minimum Support Prices (MSPs) are set at an incentive

level to encourage farmers to invest in their farms and adopt advanced crop production technologies, enhancing their productivity and income. The Government announces MSPs for major agricultural products annually, considering recommendations from the Commission for Agricultural Costs and Prices (CACP). The price support policy was introduced to protect agricultural producers from drastic drops in farm prices. During a bountiful harvest when market prices fall, the government ensures an MSP or floor price for farmers that covers production costs and guarantees a reasonable profit margin. From the year 1994-95 onwards, Niger-seed and Sesame were included under the MSP Scheme of CACP, in addition to the edible oilseeds already covered by the Commission. Similarly, during 2001-2002, the government enhanced the terms of reference of the Commission by including one additional commodity, namely, lentil (masur). The number of crops covered by the MSP scheme has thus increased to 23 including:

1. **Fourteen Kharif crops**: (Paddy, Jowar, Bajra, Maize, Ragi, Arhar [Tur], Moong, Urad, Cotton, Groundnut, Sunflower, Soyabean, Sesamum, Niger seed)
2. **Six Rabi crops**: (Wheat, Barley, Gram, lentic, Rape seed, Safflower)
3. **Three Commercial crops**: (Jute, Sugarcane, Copra)

A meaningful support price policy should have minimum guaranteed prices, which would cover at least the reasonable cost of production in a normal agricultural season obtained from efficient farming. CACP carries out state-specific analyses for the cost of production in respect of various commodities. This is done through consultations with the state governments. The Agricultural Prices Commission (APC) during the sixties and seventies followed the cost of production approach to arrive at the MSP and procurement prices. They kept under consideration nine important factors while fixing the MSP *viz*., cost of production, changes in input prices, input/output price parity, trends in market prices, inter-crop price parity, demand and supply situation, parity between prices paid and prices received by farmers, etc. Among these factors, the cost of production is the most significant one.

## 7. Comparative Analysis of MSP procurement prices

While determining the Minimum Support Price (MSP), the government should give due consideration to the cost of production of agricultural commodities. The procurement price must ensure remunerative returns that exceed production expenses, thereby safeguarding farmer welfare. This study examines the growth in MSP procurement prices from the base year 2020–21 to the current year 2024–25, in relation to both Cost of Production, and Margin over Production Cost.

**Table 1.1:** Growth of MSP procurement prices of 2013-14 to 2024-25

| Sl. No. | Crops | 2013-14 (in Rs. Per Quintal) | 2024-25 (in Rs. Per Quintal) | % Increase | CAGR | Cost of Production (in Rs. Per Quintal) | Margin Over Cost |
|---|---|---|---|---|---|---|---|
| **Kharif Crops** | | | | | | | |
| 1 | Paddy Common | 1310 | 2300 | 75% | 4.58% | 1533 | 50% |
| 2 | Paddy (Grade A) | 1345 | 2320 | 72% | 4.44% | - | - |
| 3 | Jowar (Hybrid) | 1500 | 3371 | 124% | 6.53% | 2247 | 50% |
| 4 | Jowar (Maldandi) | 1520 | 3421 | 125% | 6.54% | - | - |
| 5 | Bajra | 1250 | 2625 | 110% | 6.00% | 1485 | 77% |
| 6 | Ragi | 1500 | 4290 | 186% | 8.38% | 2860 | 50% |
| 7 | Maize | 1310 | 2225 | 69% | 4.32% | 1447 | 54% |
| 8 | Tur/Arhar | 4300 | 7550 | 75% | 4.58% | 4761 | 59% |
| 9 | Moong | 4500 | 8682 | 92% | 5.33% | 5788 | 50% |
| 10 | Urad | 4300 | 7400 | 72% | 4.42% | 4883 | 52% |
| 11 | Groundnut | 4000 | 6783 | 69% | 4.31% | 4522 | 50% |
| 12 | Sunflower seed | 3700 | 7280 | 96% | 5.48% | 4853 | 50% |
| 13 | Soyabean(Yellow) | 2560 | 4892 | 91% | 5.25% | 3261 | 50% |
| 14 | Sesamum | 2500 | 9267 | 270% | 10.34% | 6178 | 50% |
| 15 | Nigerseed | 3500 | 8717 | 149% | 7.32% | 5811 | 50% |
| 16 | Cotton (MS) | 3700 | 7121 | 92% | 5.31% | 4747 | 50% |
| 17 | Cotton (LS) | 4000 | 7521 | 88% | 5.13% | - | - |
| **Rabi Crops** | | | | | | | |
| 18 | Wheat | 1400 | 2275 | 63% | 3.97% | 1128 | 102% |
| 19 | Barley | 1100 | 1850 | 68% | 4.24% | 1158 | 60% |
| 20 | Gram | 3100 | 5440 | 75% | 4.58% | 3400 | 60% |
| 21 | Masur (Lentil) | 2950 | 6425 | 118% | 6.28% | 3405 | 89% |
| 22 | Rapeseed & Mustard | 3050 | 5650 | 85% | 5.01% | 2855 | 98% |
| 23 | Safflower | 3000 | 5800 | 93% | 5.35% | 3807 | 52% |

**Source:** Compiled from the reports of Commission for Agricultural Costs and Prices

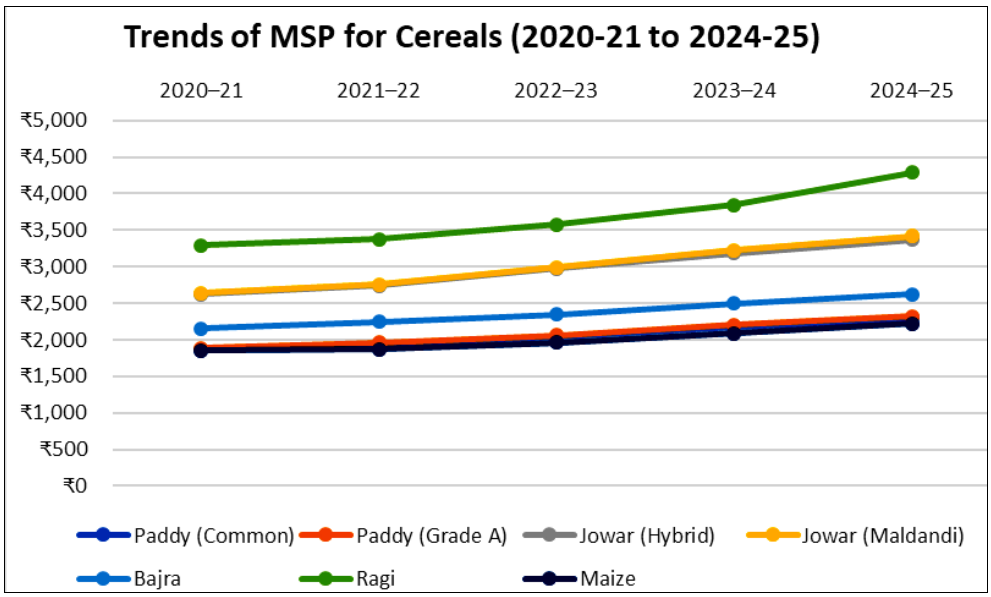
This table highlights the decade-long progression of Minimum Support Prices (MSPs) for major Kharif crops, comparing figures from 2013–14 to 2024–25. It shows noteworthy observations that Ragi shows the highest overall growth in MSP at 186%, rising from ₹1500 to ₹4290, Sesamum stands out with a 227% increase, from ₹2500 to ₹8177, marking it as the biggest jump among oilseeds, Bajra offers the highest margin over cost at 77%, indicating strong policy support, Cotton (Medium Staple) and Soyabean (Yellow) both witnessed substantial MSP gains, reflecting their growing market relevance, and Paddy (Common) rose from ₹1310 to ₹2300, showing a 75% increase, with a consistent 50% margin over production cost. The consistent increase in MSPs reveals a strong policy intent to align

prices with cost of cultivation, ensure remunerative returns for farmers, encourage diversification and promote nutritionally rich crops and Support crops with export potential and domestic demand.

Over the decade, the Minimum Support Prices for Rabi crops have shown a consistent upward trajectory, Masur (Lentil) experienced the highest growth in MSP with a 118% increase, signalling focused support for pulse cultivation. Meanwhile, Wheat, a staple food grain, not only witnessed a substantial rise in MSP but also offered the highest margin over production cost (102%), indicating strong profitability and policy prioritization. Rapeseed & Mustard followed closely, with an impressive 98% margin and an 85% rise in MSP, underscoring its importance in oilseed security and farmer welfare. In contrast, although Safflower saw a significant 93% increase in MSP, its lower margin (52%) suggests relatively restrained returns compared to other Rabi crops. Overall, this data demonstrates strategic price interventions aimed at enhancing the economic viability of diverse winter crops while ensuring remunerative returns to producers.

**Table 1.2:** Trends of MSP for Cereals from 2020-21 to 2024-25

| Crop | 2020–21 (in Rs. Per Quintal) | 2021–22 (in Rs. Per Quintal) | 2022–23 (in Rs. Per Quintal) | 2023–24 (in Rs. Per Quintal) | 2024–25 (in Rs. Per Quintal) | CAGR |
|---|---|---|---|---|---|---|
| Paddy (Common) | ₹ 1,868 | ₹ 1,940 | ₹ 2,040 | ₹ 2,183 | ₹ 2,300 | 4.08% |
| Paddy (Grade A) | ₹ 1,888 | ₹ 1,960 | ₹ 2,060 | ₹ 2,203 | ₹ 2,320 | 4.04% |
| Jowar (Hybrid) | ₹ 2,620 | ₹ 2,738 | ₹ 2,970 | ₹ 3,180 | ₹ 3,371 | 4.92% |
| Jowar (Maldandi) | ₹ 2,640 | ₹ 2,758 | ₹ 2,990 | ₹ 3,225 | ₹ 3,421 | 5.05% |
| Bajra | ₹ 2,150 | ₹ 2,250 | ₹ 2,350 | ₹ 2,500 | ₹ 2,625 | 3.91% |
| Ragi | ₹ 3,295 | ₹ 3,377 | ₹ 3,578 | ₹ 3,846 | ₹ 4,290 | 5.14% |
| Maize | ₹ 1,850 | ₹ 1,870 | ₹ 1,962 | ₹ 2,090 | ₹ 2,225 | 3.62% |
| Source: Compiled from the reports of CACP | | | | | | |

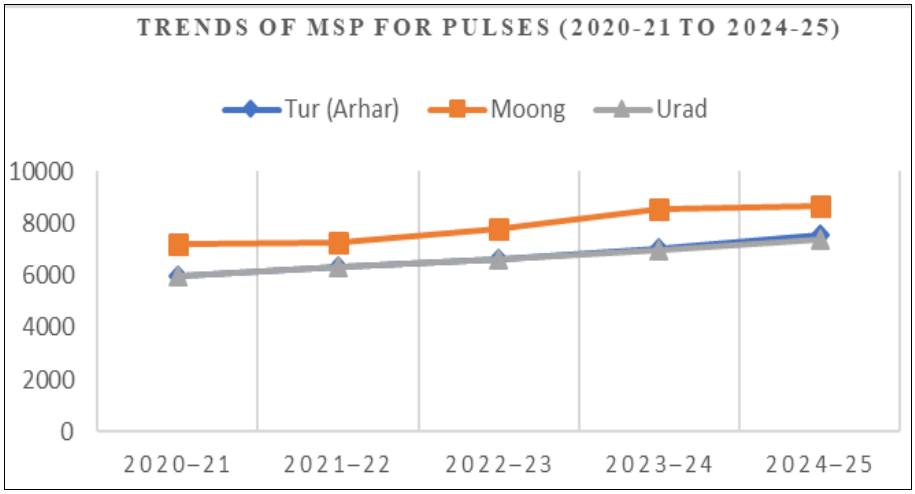



From the above table, it found that over the last five years, the Minimum Support Price (MSP) for cereals has shown a steady upward trajectory between 2020–21 and 2024–25. Among cereals, Ragi recorded the most significant growth, with its MSP rising from ₹3295 to ₹4290 an increase of ₹995 and CAGR of 5.14% among cereals. Maize was found lowest growth among all at a CAGR of 3.62%.

**Table 1.3:** Trends of MSP for Pulses from 2020-21 to 2024-25

| Pulses | 2020–21 (in Rs. Per Quintal) | 2021–22 (in Rs. Per Quintal) | 2022–23 (in Rs. Per Quintal) | 2023–24 (in Rs. Per Quintal) | 2024–25 (in Rs. Per Quintal) | CAGR |
|---|---|---|---|---|---|---|
| Tur (Arhar) | 6000 | 6300 | 6600 | 7000 | 7550 | 4.49% |
| Moong | 7196 | 7275 | 7755 | 8558 | 8682 | 3.68% |
| Urad | 6000 | 6300 | 6600 | 6950 | 7400 | 4.11% |

**Source:** Compiled from the reports of CACP

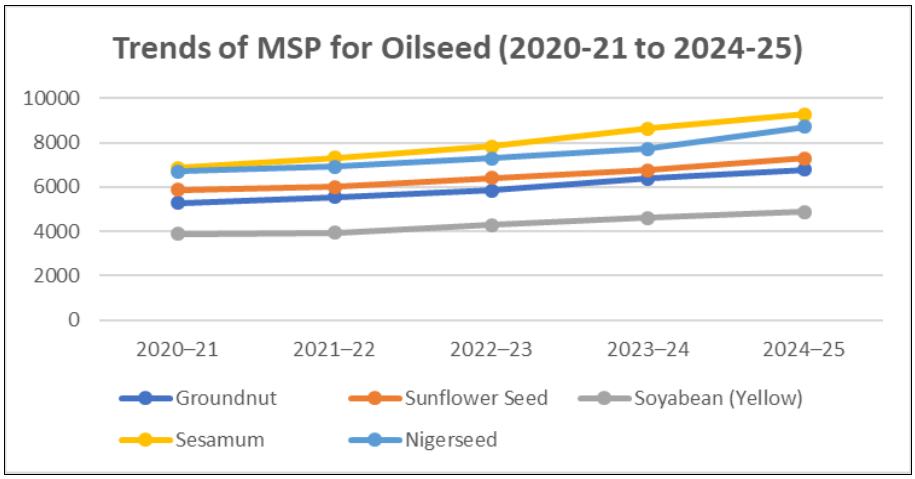



Over the last five years, the Minimum Support Prices (MSP) for pulses have steadily increased: Tur (Arhar) rose from ₹6000 in 2020–21 to ₹7550 in 2024–25, Moong increased from ₹7196 to ₹8682 and Urad climbed from ₹6000 to ₹7400. Among these, Tur registered the highest absolute gain of ₹1550 with 4.49% of CAGR. High compound annual growth rates ensure the better returns for farmers and reinforcing the role of pulses in nutritional security and sustainable agriculture.

**Table 1.4:** Trends of MSP for Oilseed from 2020-21 to 2024-25

| Seed Type | 2020–21 (in Rs. Per Quintal) | 2021–22 (in Rs. Per Quintal) | 2022–23 (in Rs. Per Quintal) | 2023–24 (in Rs. Per Quintal) | 2024–25 (in Rs. Per Quintal) | CAGR |
|---|---|---|---|---|---|---|
| Groundnut | 5275 | 5550 | 5850 | 6377 | 6783 | 4.90% |
| Sunflower Seed | 5885 | 6015 | 6400 | 6760 | 7280 | 4.17% |
| Soyabean (Yellow) | 3880 | 3950 | 4300 | 4600 | 4892 | 4.53% |
| Sesamum | 6855 | 7307 | 7830 | 8635 | 9267 | 5.85% |
| Nigerseed | 6695 | 6930 | 7287 | 7734 | 8717 | 5.14% |

**Source:** Compiled from the reports of CACP

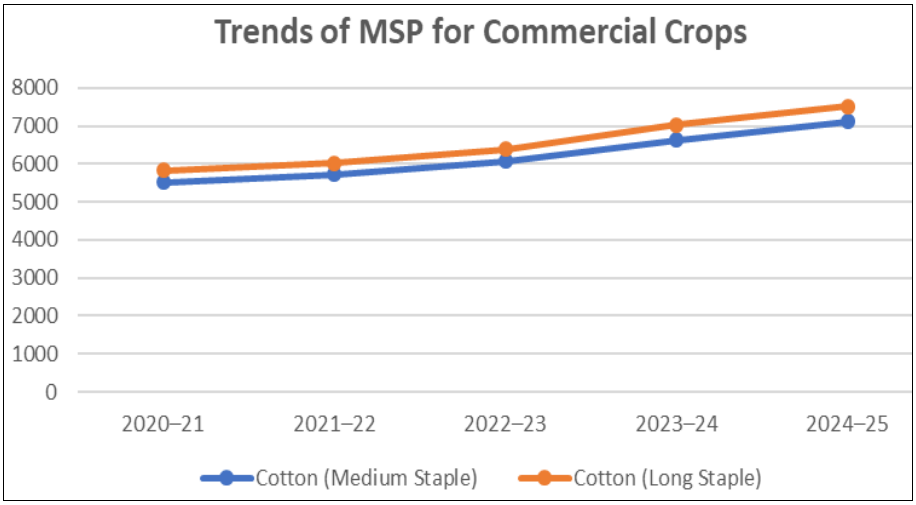



From the above table and graph, it found that the Minimum Support Prices (MSP) for oilseeds have shown a marked upward trend: Groundnut rose from ₹5275 in 2020–21 to ₹6783 in 2024–25, Sunflower Seed increased from ₹5885 to ₹7280, Soyabean (Yellow) climbed from ₹3880 to ₹4892, Sesamum surged from ₹6855 to ₹9267, Niger seed rose from ₹6695 to ₹8717. Among these, Sesamum recorded the highest absolute increase of ₹2412 with 5.85% of CAGR, highlighting its growing market value and the MSP strategic push to incentivize its cultivation.

**Table 1.5:** Trends of MSP for Commercial Crops from 2020-21 to 2024-25

| Crops | 2020–21 (in Rs. Per Quintal) | 2021–22 (in Rs. Per Quintal) | 2022–23 (in Rs. Per Quintal) | 2023–24 (in Rs. Per Quintal) | 2024–25 (in Rs. Per Quintal) | CAGR |
|---|---|---|---|---|---|---|
| Cotton (Medium Staple) | 5515 | 5726 | 6080 | 6620 | 7121 | 4.98% |
| Cotton (Long Staple) | 5825 | 6025 | 6380 | 7020 | 7521 | 4.98% |

**Source:** Compiled from the reports of CACP




The Minimum Support Prices (MSP) for commercial crops such as Cotton have seen a significant rise over the last five years. For Cotton (Medium Staple), the MSP increased from Rs.5515 in 2020-21 to Rs.7121 in 2024-25. Similarly, Cotton (Long Staple) saw its MSP rise from 5825 to 7521 over the same period and both are having same CAGR of 4.98%. This substantial rise in MSP for both varieties underscore the growing value of cotton in the agricultural sector.

## 8. Salient Findings and Suggestions

- Study made an attempt to compare the MSP procurement prices over a decade by using CAGR, it found that out of 23 agricultural crops only single produce (Sesamum) has been yield a CAGR ratio of more than 10 percent. Which indicates the implication gap of the declared prices in minimum support price.
- Table 1.2 shows that among 5 selected cereals *viz*., Paddy, Jowar, Ragi, Bajra and Maize. Jowar has achieved highest CAGR ratio among the said cereals over a period of five years from 2020-21 to 2024-25.
- In general note, India being a diversified country, which is having different environmental conditions from state to state. Therefore, policy makers should revise MSP formulae to reflect input cost inflation and regional crop importance.
- The impact of MSP varies across regions due to differences in market access, awareness, and procurement efficiency.
- The policy makers should promote digital platforms for price discovery and direct sales.

## 9. Conclusion

The MSP being uniform throughout the country, the Commission had to arrive at an all India weighted average cost as an input to price policy formulation. Since price policy was a resultant of informed judgment of various factors, there could not be any mechanical formulae of how much weight was to be given to each factor in the exercise of price policy formulation. The margin of MSP over the cost of production varied widely and no norms had been prescribed for fixing the margin over the cost of production. Thus, there is a need for greater transparency in the method of arriving at MSP over the cost of production. Creating awareness among the stakeholders will enhance the policy effectiveness and fulfil the end objective of the Minimum Support Price scheme.

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