



Professor Jayashankar Telangana Agricultural University
Centre for Sustainable Agriculture and Development Studies (C-SAS)
Rajendranagar, Hyderabad - 500030, India

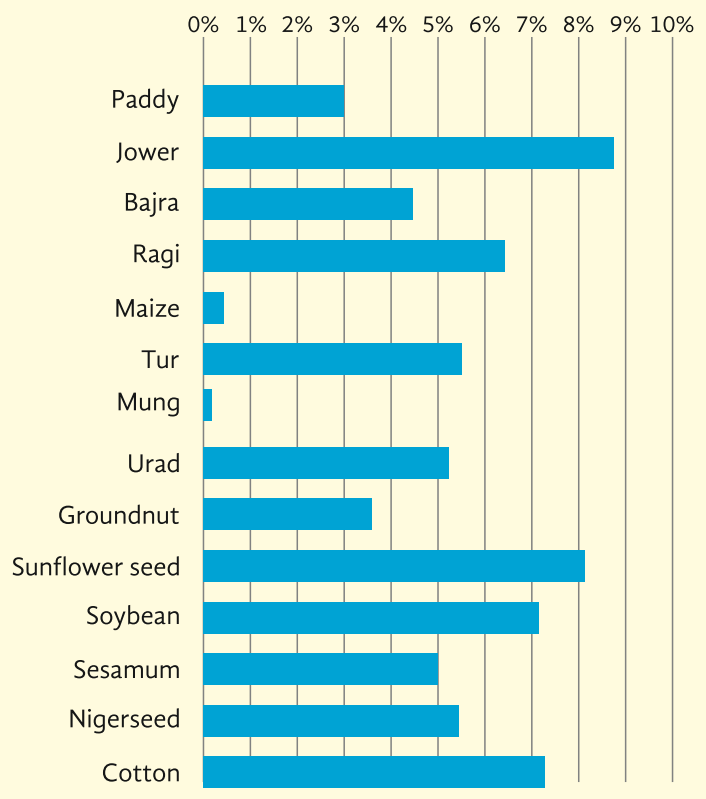
Is the Centralized MSP System Holding Back Agricultural Transformation in India?

The Indian cabinet recently approved Minimum Support Prices (MSP) for 14 crops for the upcoming kharif season. The MSP for paddy was increased by only Rs. 720 per metric ton — a little over 3% compared to last year — while crops such as jowar, cotton, sunflower, and soybean received increases in the range of 6–8%. On the surface, these differential increases suggest a policy push toward crop diversification away from rice. The price signals indicate an intent to reduce excessive dependence on rice, promote oilseed self-sufficiency, encourage pulse production, reduce water use, and improve climate resilience. In reality, however, MSP alone is rarely sufficient to influence farmers' cropping decisions. What matters far more is the credibility of procurement and timely payment.

For rice, farmers are confident that the government will procure their produce and make timely payments. They also know that the government must continue large-scale procurement to meet the requirements of the Public Distribution System (PDS). This creates a strong sense of market security and income assurance. For most non-rice crops, that assurance is largely absent. In many states, procurement centers for pulses, oilseeds, and millets either do not function effectively or operate only sporadically. Procurement tends to be geographically concentrated, intermittent, and limited in volume. As a result, farmers are often forced to sell below MSP to private traders, making diversification financially risky despite higher announced MSP increases.

Therefore, modestly higher MSP increases for alternative crops are unlikely, by themselves, to trigger meaningful diversification away from rice. Unless accompanied by reliable procurement systems, market infrastructure, processing capacity, value chains, and assured market access, rice will continue to remain the safer and more rational choice for many farmers.

Percentage Change in MSP (2026-27 vs 2025-26)



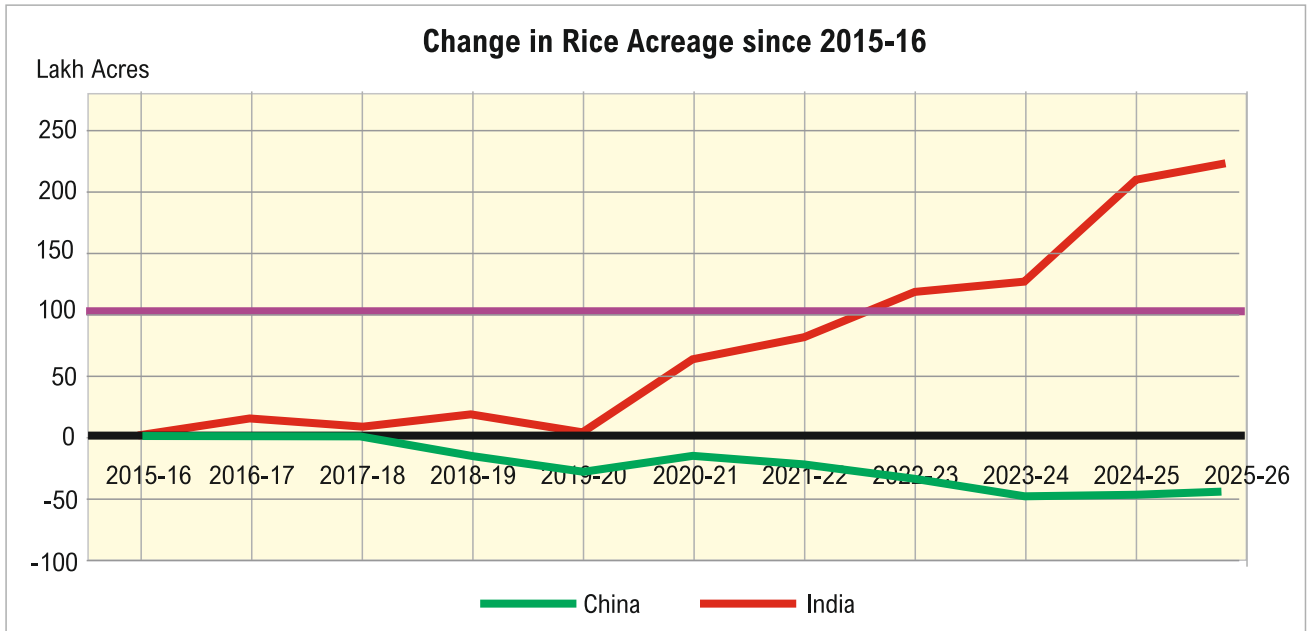
Authors:

Prof. Aldas Janaiah, Vice-Chancellor, Professor Jayashankar Telangana Agricultural University, Hyderabad
Dr. Samarendu Mohanty, Professor of Practice & Founding Director, C-SAS, PJTU, Hyderabad

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Is MSP Still Relevant Under Current Agricultural Realities?

The MSP policy played a critical role when it was introduced in 1964-65 crop year. It incentivized farmers to adopt Green Revolution technologies and expand wheat and rice production, helping transform India from a food-deficit country into a grain-surplus nation. In that context, MSP was highly effective. It moved India from chronic food shortages to self-sufficiency and eventually to becoming one of the world's largest grain exporters. Over the past decade, India has emerged as the world's largest rice exporter, accounting for nearly 40% of global rice trade. Yet even after meeting a large share of global import demand, India's rice procurement stocks continue to rise. Alongside the challenge of surplus management, the country now faces groundwater depletion, excessive fertilizer use, declining soil health, and stagnant farm incomes in many regions. The MSP coupled with assured procurement system has also



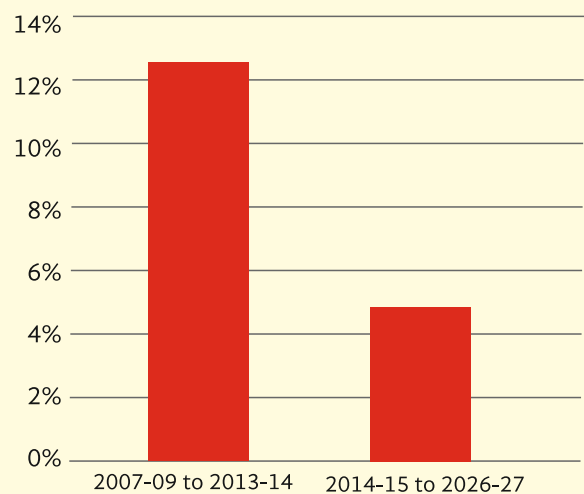
distorted cropping patterns by disproportionately favoring rice and wheat over pulses, oilseeds, horticulture, and other higher-value crops. The scale of this imbalance is striking. Between 2015/16 and 2025/26, India's rice acreage expanded by nearly 210 lakh acres to reach about 1,285 lakh acres, accounting for roughly 75% of the global increase in rice area during that period. On the contrary, Chinese rice acreage declined by 44 lakh acres during the same period.

The increase in rice acreage would likely have been greater if the government had followed the methodology recommended by the Swaminathan Panel in 2006, which proposed fixing MSP at 50% above the comprehensive C3 cost of production. This cost includes all paid-out costs, depreciation, interest on working capital, imputed value of family labor, interest on fixed capital, and managerial charges. Until 2014, the government broadly followed this approach. However, it later modified the cost calculation methodology by excluding interest on fixed capital and managerial charges. As a result, estimated production costs may have been understated by 20–25% relative to the earlier methodology. This shift is reflected in MSP trends: paddy MSP increased at an average annual rate of about 12% between 2007–08 and 2013–14, compared to about 5% after 2013–14.

Although India has emerged as the world's largest rice exporter over the past decade, the centralized MSP-procurement system has inadvertently constrained the modernization of the non-basmati rice value chain. The existing non-basmati supply chain is largely structured around meeting the requirements of the public procurement system rather than evolving in response to changing global consumer preferences and premium export opportunities.

At present, India's non-basmati rice exports are concentrated mainly in African and South Asian markets, with shipments dominated by parboiled rice. While these markets are large and important, they are relatively price-sensitive and offer limited incentives for quality differentiation and value addition. In contrast, premium rice-

**Average Annual Percentage Increase in Rice MSP
2007-09 to 2013-14 vs 2014-15 to 2026-27**



importing markets in Southeast Asia — particularly Indonesia, Malaysia, and the Philippines — increasingly demand high-quality long-grain raw rice with superior grain characteristics, milling quality, branding, packaging, and traceability. India's presence in these higher-value segments remains limited despite its production scale and export competitiveness.

The contrast with the basmati sector is particularly revealing. The basmati rice value chain — where government procurement is virtually absent — has evolved into a highly sophisticated, globally competitive, and market-driven ecosystem. The sector has witnessed substantial private investment in seed development, contract farming, modern milling, storage, branding, packaging, and international marketing. As a result, India has developed a world-class basmati export industry capable of serving demanding premium markets across the Middle East, Europe, and North America.

The Future Direction of MSP

Based on emerging shortcomings of the current MSP system, it can be argued that it has “outlived” its original role as a broad-based production incentive mechanism. The system no longer aligns well with India's evolving agricultural, environmental, and fiscal realities. Countries that have successfully transformed their agricultural sectors rarely relied indefinitely on blanket price-support systems. Over time, they shifted toward direct income support, crop insurance, risk management tools, infrastructure investment, market integration, and value-chain development. However, in India's case, eliminating MSP altogether would be politically difficult and economically risky. For millions of farmers, MSP continues to serve as a psychological income assurance mechanism, a benchmark for market prices, and a safety net during periods of price collapse.

One option to reform the system is to expand procurement programs to include pulses, oilseeds, and other crops in a manner similar to rice and wheat, along with ensuring guaranteed and timely payments. However, in practice, it is neither fiscally nor logistically feasible for the government to procure all crops at scale without a proper disposal mechanism. Further, it is also not feasible to build the necessary storage, transport, and processing systems for every commodity. Therefore, the policy direction should focus on a gradual transition from a procurement-driven support system toward a more diversified, market-oriented, and environmentally sustainable agricultural framework, while still protecting farmer incomes and ensuring national food security.

Toward a Decentralized Diversification Framework: Rebalancing the Central-State Role

One of the biggest limitations of India's current MSP-led agricultural system is its highly centralized design. Crop priorities, procurement incentives, and policy signals are largely determined at the national level, despite enormous variation in agroecology, water availability, market access, and consumption patterns across states. A more effective pathway to diversification would be a decentralized, state-driven approach combined with a targeted central role in food security procurement.

A key institutional reality is that agriculture is a State subject under India's federal structure. This means states are constitutionally empowered to design and implement agricultural policies suited to their own agroecological conditions, production systems, and development priorities. In practice, however, major instruments such as MSP-linked procurement have become highly centralized, limiting the ability of states to tailor strategies for diversification and sustainability. Rebalancing this system is essential for long-term reform.

Under a decentralized diversification strategy, the central government would continue to play a critical role in ensuring national food security through targeted procurement of rice and wheat for the Public Distribution System (PDS) and strategic buffer stocks. For example, rice procurement could increasingly shift toward eastern India, where water availability is relatively better and productivity gaps remain large, while highly water-stressed states such as Punjab and Haryana could be actively supported to transition toward maize, pulses, oilseeds, agroforestry, dairy, and other less water-intensive systems. In this framework, the central government ensures food security, while states lead diversification aligned with local comparative advantage and resource constraints.

The central government's role would include:

- maintaining strategic procurement of rice and wheat for PDS and buffer stocks,
- financing transition support for diversification to the states,
- enabling interstate grain movement and food distribution,
- investing in agricultural R&D and climate resilience,
- and supporting infrastructure development.

At the same time, states should be fully empowered to make agricultural policy decisions, including crop planning priorities, incentive structures, and investment strategies, based on their specific agroecological and socio-economic conditions. Some of the policy instruments at state level could include direct income support, diversification incentives, localized procurements systems, crop insurance expansion and water conservation-linked subsidies and others.

For example:

- Punjab, Haryana and Telangana could prioritize water-saving cropping systems, livestock integration, and agroforestry.
- Eastern India could expand sustainable rice systems alongside fisheries and horticulture.
- Rainfed states could focus on pulses, millets, oilseeds, livestock, and climate-resilient agriculture.
- Coastal regions could emphasize aquaculture and high-value agriculture.

States must simultaneously invest in storage, logistics, processing industries, cold chains, extension systems, seed systems, and market infrastructure. Farmers will diversify only when they perceive stable demand, lower risk, and sustained profitability. This framework would also encourage policy experimentation and innovation. Different states could pilot alternative models such as price deficiency payments, ecosystem service payments, digital procurement platforms, and public-private value-chain partnerships. Successful models could then be scaled nationally.

In many ways, India's future agricultural strategy may need to evolve into a "rebalancing central-state framework" - where the central government focuses on national food security and macro-level stabilization, while states-empowered under their constitutional mandate-lead agricultural transformation based on their own ecological realities and development priorities. This approach would allow India to maintain food security while gradually transitioning toward a more diversified, water-efficient, market-oriented, and environmentally sustainable and profitable agricultural system.

Conclusion

The MSP system was instrumental in helping India achieve food security during a period of scarcity. However, the same procurement-driven framework is increasingly contributing to production distortions, ecological stress, fiscal stress and barriers to diversification. The challenge today is not whether MSP should be abolished, but how India can redesign agricultural support systems to address new realities of surplus management, climate stress, water scarcity, and changing market opportunities.

A decentralized central diversification framework offers a pragmatic path forward. Under such a system, the central government would continue safeguarding national food security, while states—consistent with their constitutional mandate—would lead agricultural transformation based on local ecological and economic conditions. India's next agricultural transformation will depend not only on price support, but on building resilient markets, diversified value chains, sustainable resource use, and state-led innovation.



Professor Jayashankar Telangana Agricultural University

Rajendranagar, Hyderabad - 500030, Telangana, India

www.pjtau.edu.in

Email: director.csas@pjtau.edu.in