

Impact of Minimum Support Price on Crop Diversification in India

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Abstract

Minimum Support Price (MSP) is one of India's most influential agricultural policy instruments, designed to protect farm incomes and incentivize production of selected crops. However, MSP's impact on **crop diversification** depends less on announced prices alone and more on **credible procurement**, market access, and relative risk-adjusted profitability across crops. This paper examines how MSP affects crop diversification in India through (i) inter-crop price parity (relative MSPs), (ii) procurement concentration (where MSP is "real" via government purchase), and (iii) cropping pattern outcomes using recent national land-use statistics. Using official MSP series (2020–21 to 2024–25) and national area data (2015–16 to 2024–25), we show that rice and wheat continue to dominate India's cereals acreage—rice+wheat constitute roughly ~75–77% of cereals area over the last decade (Figure 2). Evidence from policy analysis highlights that high-procurement states (notably in the rice–wheat belt) exhibit strong path dependence, limiting diversification despite MSP announcements for pulses/oilseeds. The paper concludes that MSP can support diversification only when paired with procurement/price support mechanisms, processing and marketing infrastructure, and risk mitigation (insurance, assured offtake) for non-rice/wheat crops.

Keywords: Minimum Support Price, crop diversification, procurement, rice–wheat cycle, inter-crop parity, India, agricultural policy.

1. Introduction

Crop diversification—shifting land from a narrow set of staple crops to a broader mix including pulses, oilseeds, millets, horticulture, and fodder—is widely seen as essential for (i) improving farm incomes through higher value crops, (ii) managing resource stress (especially groundwater), (iii) enhancing nutrition security, and (iv) improving resilience to climate shocks. In India, diversification outcomes are shaped by technology, irrigation, markets, and policy—among which MSP occupies a central place.

MSP is announced for a set of crops each year, based on the Commission for Agricultural Costs and Prices (CACP) recommendations and government decisions. In official explanations, MSP setting considers production costs, demand-supply, domestic/international prices, and **inter-crop parity**, among other factors. Yet, the practical influence of MSP on farmer decisions depends critically on

whether MSP is backed by **effective procurement operations** and marketing channels.

2. Conceptual Framework: How MSP Influences Diversification

Farmer crop choice can be viewed through an expected profit and risk lens:

$$\left[\begin{array}{l} \text{Choose crop } i \text{ that} \\ \text{maximizes } E(\pi_i) - \lambda \cdot \\ \text{Risk}_i \end{array} \right]$$

where $E(\pi_i)$ depends on yield, input costs, and output price; and risk includes price volatility, yield uncertainty, and marketing uncertainty.

2.1 Channels through which MSP can shape crop choice

1. **Price floor and risk reduction:** MSP reduces downside price risk—*but only if procurement is accessible.*

2. **Inter-crop price parity:** Relative MSP increases for pulses/oilseeds can encourage diversification if they offset yield and market risks. MSP announcements often highlight differential increases across crops.
3. **Procurement concentration and credibility:** Where procurement is intensive (typically rice and wheat), MSP becomes a credible “assured price,” strengthening specialization. Policy analysis notes that procurement is concentrated in a few states and largely in rice/wheat.
4. **Input subsidies and complementary policies:** Free/cheap power, fertilizer subsidies, and irrigation access can amplify MSP-driven specialization in water-intensive crops, especially where the state supports procurement.
5. **Infrastructure and value chains:** Even if MSP for a crop is attractive, lack of storage, processing, and buyers can deter switching.

3. Review of Literature and Policy Evidence

A consistent theme in policy literature is that MSP’s diversification impact is asymmetric: **strong where procurement is strong**, weak where procurement is absent or unreliable.

- PRS analysis argues MSP incentives are most effective for crops that are **actually procured**, and that procurement focus on wheat and rice skews production toward these crops in high-procurement states, reducing incentives for pulses and other crops.
- PRS also reports very high procurement shares in Punjab (2019–20): about **72% of wheat** and **92% of rice** production purchased under public procurement—showing why rice–

wheat persists as a low-risk choice there.

- The “Doubling Farmers’ Income” committee report similarly notes that wheat and rice procurement by FCI is concentrated in a few states and suggests broad-basing procurement and/or expanding beyond wheat–paddy to other crops (millets/pulses).
- Evidence on sustainability concerns and rice–wheat lock-in in north-west India also highlights that diversification is difficult without strong marketing support and alternative crop profitability—reinforcing the role of assured returns (often associated with procurement-backed MSP).

4. Data and Methodology

This paper uses two official datasets:

1. **MSP series (Rs/quintal)** for key crops from the Government MSP table (crop years 2020–21 to 2024–25).
2. **Gross area under major crops (million hectares)** from the Economic Survey 2025–26 Statistical Appendix (Table 1.16), for years 2015–16 to 2024–25 (provisional for 2024–25).

4.1 Indicators constructed

- **Rice+Wheat share in cereals area (%):a**

$$\left[\frac{\text{Area(Rice)} + \text{Area(Wheat)}}{\text{Area(Cereals)}} \right] \times 100$$

- **Cereals diversification proxy (Simpson Index):** using cereal shares of rice, wheat, maize, and “other cereals”:

$$\left[D = 1 - \sum s_i^2 \right]$$

Higher (D) indicates greater diversification within cereals.

Note: These are **macro indicators**; they do not establish causal identification (which would require district/state panel data, procurement intensity, irrigation, and yield controls). They are useful for showing patterns consistent with policy mechanisms.

- Paddy (common): 1868 → 2300 Rs/ctl
- Wheat: 1975 → 2425 Rs/ctl
- Maize: 1850 → 2225 Rs/ctl

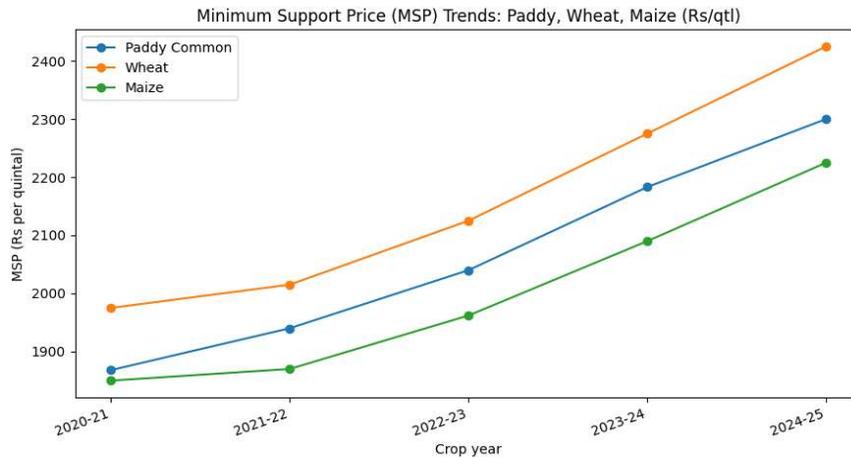
While MSP has also risen for pulses and oilseeds (e.g., tur, gram, mustard), diversification depends on whether these crops enjoy comparable procurement certainty and market depth.

Interpretation: MSP increases are broad-based on paper, but the *effective* price guarantee differs by crop and region due to procurement realities.

5. Results and Discussion

5.1 MSP trends: rice, wheat, and alternatives

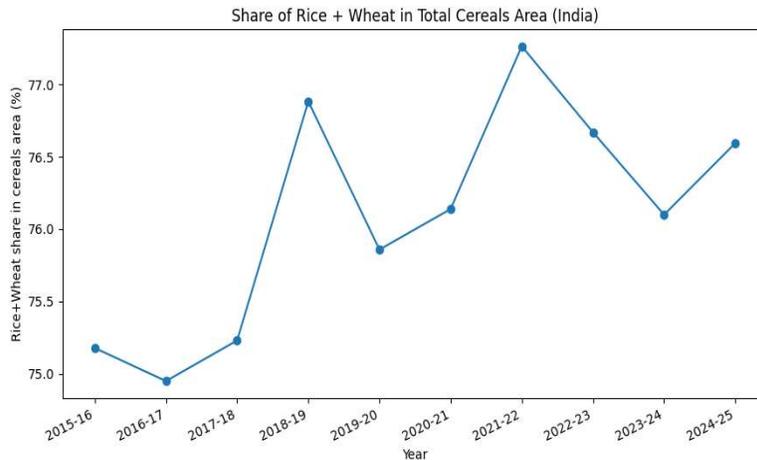
Figure 1 (based on official MSP data) shows steady MSP increases for paddy, wheat, and maize from 2020–21 to 2024–25.



5.2 Cropping pattern evidence: rice and wheat remain dominant in cereals

Using Economic Survey acreage data (Figure 2), rice+wheat account for roughly ~75–77% of cereals area over 2015–16 to

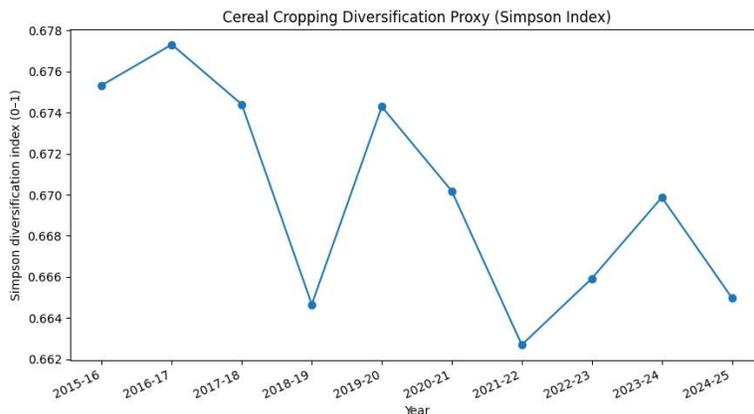
2024–25, with rice area rising notably in 2024–25 (provisional).



This persistence indicates limited cereal diversification at the national level. The

cereal diversification proxy (Figure 3) also shows only modest movement over time—

suggesting that changes are incremental rather than structural.



Why this matters for MSP: If MSP procurement is concentrated and most credible for rice/wheat, it can reinforce this dominance by lowering market risk for those crops compared to alternatives.

5.3 Procurement-backed MSP and regional “lock-in”

Policy evidence points to procurement concentration as a key mechanism restricting diversification:

- PRS notes exceptionally high procurement shares for wheat and rice in Punjab (2019–20), which creates an assured marketing channel that strongly favors rice–wheat cropping systems.
- The Doubling Farmers’ Income committee report highlights that FCI procurement for rice and wheat is concentrated in a few states, and explicitly discusses the need to broaden procurement and/or support other crops (millets, pulses) to reduce policy skew.

Mechanism: When a farmer faces near-certain procurement at MSP for rice/wheat, expected profit becomes less uncertain. For many diversification candidates (pulses/oilseeds/maize), even if MSP exists, farmers may still confront buyer uncertainty, price volatility, and post-harvest losses—making them riskier.

5.4 MSP and diversification: the “parity is not enough” insight

Even if MSP for pulses or oilseeds rises faster in percentage terms, diversification may remain limited because:

- yields can be more variable,
- procurement may be patchy,
- processing/value chain may be weaker,
- crop insurance and extension support may be insufficient,
- and existing irrigation + input structures favor rice/wheat.

PRS summarizes this core issue: MSP incentivizes production most effectively for crops that the government procures at scale (primarily wheat and rice).

6. Policy Implications: Making MSP Pro-diversification

If the policy objective includes diversification (toward pulses, oilseeds, millets, maize, and sustainable alternatives), the evidence implies MSP policy must be complemented by the following:

1. **Procurement diversification (or price deficiency payments):** expand assured offtake beyond rice/wheat in targeted regions, as policy discussions recommend.
2. **Regional crop planning aligned to water stress:** discourage water-intensive crops in stressed regions through incentives for alternatives plus groundwater/energy reforms.
3. **Market and value-chain development:** invest in storage,

grading, processing, and buyer linkages for diversification crops.

4. **Risk management:** improve insurance, extension, and post-harvest systems for pulses/oilseeds/maize so switching is not penalized by higher downside risk.
5. **Outcome monitoring:** track diversification indexes at district/state level alongside procurement intensity to evaluate whether MSP changes are translating into real shifts.

7. Limitations and Future Research

- The analysis uses national acreage data and recent MSP series; it does not estimate causal impact.
- A stronger empirical design would use **state/district panel data** with procurement intensity (FCI/state agencies), irrigation coverage, relative prices, and yield shocks; and apply fixed effects or quasi-experimental strategies.
- Diversification should be evaluated beyond cereals into horticulture, livestock fodder, and high-value crops, which may not be MSP-driven.

8. Conclusion

MSP can either support or hinder crop diversification depending on how it is implemented. Official MSP data show steady increases across multiple crops, including cereals, pulses, and oilseeds. Yet national acreage patterns indicate that rice and wheat remain dominant within cereals, and diversification changes are gradual. Policy evidence strongly suggests that the binding constraint is not MSP announcements per se, but the **credibility of procurement** and the strength of markets for non-rice/wheat crops—especially in high-procurement regions where rice–wheat becomes a low-risk equilibrium.

For MSP to become a meaningful diversification tool, India needs a package of reforms—procurement/price support for

alternative crops, market infrastructure, risk mitigation, and region-specific incentives aligned with sustainability.

References

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