Concerns with MP’s MSP Based Deficiency Payments

What is the issue?

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- Madhya Pradesh has a MSP-based deficiency payments scheme, which central government is planning to introduce nationwide.
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- But in Madhya Pradesh the deficiency payments swell due to market manipulation and is struggling to achieve its goal.
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What is MSP based deficiency payments scheme?

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- Under this, farmers will be compensated for the difference between the MSPs for select crops and their actual market prices.
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- For crops which suffers ineffective MSP price deficiency payments system has been introduced in MP.
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- A farmer must to register with the nearest APMC mandi and report the total area sown, to avail this benefit.
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- The subsidy is paid via Direct Benefit Transfer (DBT) into the farmer’s Aadhaar-linked bank account. Click here to know more about this scheme
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What are the practical difficulties faced by the scheme?

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- The biggest beneficiaries of this scheme are local traders, as the local trades manage to depress the market for their benefits.
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- There is a lower level bureaucracy in the state that decides which farmers get to register for the scheme and are being biased.
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- MP traditionally had lower prices than other states for most crops, after the implementation of the scheme in September 2017, the price difference has risen.
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- For instance, Urad prices in MP were 93% of those in Rajasthan in FY17 but this fell to 77% in FY18, and from 65% to 57% when a comparison is made with Uttar Pradesh.
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- An average price difference of 20% has been assumed between MSP and the market price of the commodity for deficiency based payment system.
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- The difference would have been higher if only mandi prices in the state were used, but the MP government has included prices in other states also to calculate the reference price for the compensation.
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- Which had cost the state around Rs 1,950 crore for eight crops in Kharif 2017 and this is estimated to improve.
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What are the implications for the Union government?

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- This same scenario might happen to the central government scheme also.
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- There might be a dramatic increase in market arrivals since the government has assured a high price relative to the market.
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- The marketable surpluses that the government had to procure at the MSP used to be quite small, if this new scheme implemented it will be very large.
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- Due to this there will be high fiscal burden to the government, which is estimated to be 80,000 crore.
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- Thus the Centre instead of this schemer can distribute cash to farmers based on the size of their landholdings which will ensure that middlemen don’t corner the benefits meant for farmers.
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Source: Financial Express

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