Limited Procurement Scheme

What is the issue?

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- Raising farm output by providing remunerative prices to agricultural products is a suggestion that is widely popular.
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- But over the years, between the price and non-price factors, the latter has been seen as more effective.
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What are some suggested ways to address farm distress?

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- When output increases well beyond the market demand, market prices decline.
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- In the absence of effective price support policy, farmers are faced with a loss of income, depending on how much the price decline is.
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- The “farm distress” in recent years has been partly on account of this situation, as the loss of income is beyond the ability of the small farmers to absorb.
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- **Schemes -** A few schemes have been suggested to address the problem of managing declining output prices when output increases significantly.
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- The effectiveness of Minimum Support Price (MSP) program in addressing price decline would depend on its effective implementation.
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- “Price Deficiency Compensation Scheme”, for paying the difference between the market price and MSP, has gained acceptance in some states now.
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- Another extreme is the “open procurement system” at MSP that has been in vogue quite effectively in the case of rice and wheat.
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- This scheme, however, poses the challenge of managing the distribution of the procured grain, which currently causes huge wastages.
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What is the recent crisis in the market for pulses?

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- The experience of 2016-17 in the case of pulses points to the huge impact on prices when the output grows significantly and suddenly.
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- Notably, in 2016-17, output increased by nearly 90% over the previous year, resulting in the fall of prices sharply.
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- When the output of kharif crops reached the markets in December, arhar dal prices fell by about 20% in 2017 over the previous year.
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- The price decline was not limited to just one year and it further fell by another 35% in 2017-18 even though output actually dropped in 2017-18.
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- One contributing factor to the continued decline in prices in 2017-18 may have been the high level of imports during 2016-17, besides the surge in output.
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- Imports perhaps were planned keeping in view the general deficit in supplies relative to demand, but the unexpected output increase created strain.
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What is the suggested way out from future pulse gluts?

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- The “price deficiency” scheme may compensate the farmers when prices decrease below a certain specified level.
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- However, market prices may continue to fall as the supply exceeds the “normal demand” and hence this won’t be a sustainable option.
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- Nearly, all the produce may become eligible for the “deficiency payments” in theory as the prices, in general, would have fallen for all the producers.
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- An alternative to this is the limited procurement scheme, under which the

government will procure the “excess” until market prices reach MSP level.
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- This is in contrast to the open procurement scheme for rice/wheat, as it will commence only when there is a significant market glut.
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- If implemented effectively with proper situational assessment, this will leave the normal production levels to clear the market at a remunerative price.
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- The timing and speed with which the procurement is implemented are critical and determining the quantity of excess and price levels is also vital.
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- In any case, the idea is not to absorb all the output but a quantity that would keep the supply-demand balance at the trend level.
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What are the challenges involved?

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- The effectiveness of “limited procurement scheme” would also depend on how “distribution” of the procured pulse/grain is managed.
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- Selling the procured produce back in the market in the same season would clearly defeat the purpose as it would deter price recovery.
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- Therefore, storage facility for managing the excessive produce that is procured is essential as it would help in creating buffer stocks.
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- Further, year-to-year fluctuations in production would aid the distribution of the stored produce without impacting the market prices significantly.
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- It is to be noted that the suggested “limited procurement system” will not work if the MSP is fixed at a level to which the market price will never rise.
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Source: Indian Express

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