

Ensuring MSP to Farmers: Are Deficiency Payments an Option?

C.S.C. Sekhar, Amarnath Tripathi and
Yogesh Bhatt

Abstract

In the wake of the central government's minimum support prices hike for kharif 2018–19, the state government in Madhya Pradesh implemented a variant of the deficiency payments system called the Bhavantar Bhugtan Yojana for compensating the farmers when market prices fell below MSP. Besides the problems of long delays in payments to farmers, large transaction costs that farmers incurred due to multiple registrations, and the disposal of inferior quality produce by farmers, a major limitation of BBY is that it is a counter-cyclical payment, insulating farmers from the market by ignoring the demand side completely. A differentiated MSP based on quality and dovetailing with electronic National Agriculture Market may help address some of these problems. A carefully designed price deficiency payment system with partial procurement and dovetailing with e-NAM and other ways of ensuring MSP to farmers, such as direct payments and participation of private sector, are also discussed.