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OPINION

Relevant for: Indian Economy | Topic: E-technology in the aid of farmers

In a first of its kind scheme in the country, the Madhya Pradesh government launched and implemented on a pilot basis a price differential scheme, popularly known Bhavantar Bhugtan Yojana (BBY), for eight *kharif* crops—soybean, groundnut, sesame, *ramtil* (all oilseeds), maize (cereal), *moong*, *urad* and *tur* (pulses)—in 2017.

The basic purpose of the scheme was to compensate farmers in the event of a price crash and to that extent hedge the price risk faced by them. One of the novelties of the scheme from the government's perspective was that it need not physically procure the commodities (as is the case with wheat and paddy) and can save on those costs and related leakages. How does the scheme work? Farmers who register under the scheme are compensated only if their selling price (SP) is lower than the government set minimum support price (MSP). The actual amount of compensation or deficiency payment made to a farmer is determined by a modal price, which is a marker of average market price within the state and markets outside the state where the commodity is traded. So when a farmer's selling price is lower than MSP but higher than the modal price, then the difference between the MSP and actual price is paid to the farmer. If the SP is lower than both MSP and modal price, the payout is capped at the difference between MSP and modal price.

How did the scheme perform in its first edition? Many experts and commentators have been critical of the scheme especially with respect to cartelization and prices being depressed, attributing it to the scheme. This column explores how far this criticism is substantiated by empirical evidence in terms of price trends and learnings from the scheme for policymaking and implementation.

The total registration for *kharif* 2017 under BBY was close to 25% of the total operational holdings in the state and about a third of the *kharif* area was covered by BBY. For soybean, which is the main *kharif* crop in Madhya Pradesh, close to 50% of the area under the crop was covered under the scheme (Madhya Pradesh ranks first both in terms of area and production of soybean in the country). So, in terms of coverage, the scheme cannot be termed a failure. An early announcement would have raised these numbers.

Our analysis of the price and arrival data shows that the modal price increase as the BBY scheme progressed, the maximum differential (MSP minus modal price) reduced by half between October 2017 and December 2017 in case of soybean. For *moong* and *urad* too, the maximum differential has declined over the October to December 2017 period. For soybean, the main *kharif* crop in Madhya Pradesh, the modal price announced by the government for effecting deficiency payments for October 2017 was 2,580 per quintal, which increased to 2,640 per quintal in November 2017 and 2,830 per quintal in December 2017. So it is unfair to attribute the decline in prices between September and December 2017 solely to the scheme.

Arrival figures show that almost 58% of the total arrivals of soybean come to the market in Madhya Pradesh between September and December. The year 2017 was no different as almost 61% of the total arrivals came during the same period. Further, in 2017 (January to December), the total arrival of soybean in the markets in Madhya Pradesh was 10.79 lakh tonnes higher than the year before. Despite the fact that there was almost 2.5 times additional arrival during November 2017 as compared to 2016, the price (of soybean) did not plummet southwards in November 2017. Did the BBY scheme which was in operation pre-empt a much bigger imminent price crash that otherwise would have happened? Between November 2017 and December

2017, when the scheme was in operation, soybean prices in Madhya Pradesh rose by 8.46%. The rising trend in soybean prices had already begun during the operation period of the scheme thus attributing (as some experts have argued) that prices rose just after the closure of the scheme may not be completely true as data shows otherwise.

Prices in non BBY states, such as Chhattisgarh and Uttar Pradesh, have also declined during September to December 2017; so the decline in prices is not restricted to Madhya Pradesh alone. Also, international prices of soybean (both in 2016 and 2017) were lower than prices in Madhya Pradesh during most of the period. So it would be too simplistic to put the entire blame of lower prices on price cartelization by traders.

The post-harvest span for the identified crops need to cover the full arrival period so that arrivals are spaced out and possibility of prices crashing is pre-empted. Currently, the registration announcement is delayed and lags behind the arrival of the crop in the *mandis*. This will benefit small and marginal farmers, who have limited holding capacity and are in a hurry to offload their produce, the most. Further, the auction system needs to be improved so that collusion is not possible, and, for this, e-NAM (electronic national agriculture market) could be an appropriate intervention.

The use of technology in agriculture *mandis*, whether it is for price discovery or assaying, will go a long way in bringing about much needed transparency. Price is a major risk that the farmer faces today and BBY provides us important lessons on addressing it. The need of the hour is to improve upon the scheme and analyse the various policy interventions that can address this risk the best. In short, we need horses for courses as no one intervention is a panacea.

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Comments are welcome at theirview@livemint.com

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