

Income support per farmer better than area-based compensation: SBI

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DAYS ahead of the interim Budget presentation, SBI's research arm favoured a per farmer income support scheme as against an Area-Based Income Compensation (ABIC) scheme.

Assuming each farmer is paid, say ₹4,000, the cost to the exchequer will be roughly ₹60,000 crore, as per SBI Research's estimates.

Likening ABIC to a price differential scheme (PDS), the re-

port added that the former compensates any price gap in contrast to the latter, where compensation is capped to a certain extent.

"Our estimate suggests that if an ABIC scheme akin to PDS is implemented for rabi crops like wheat, barley, grams and lentils only, the cost could be about ₹17,000 crore (at ₹1,600 per acre), whereas if income support is provided for same crops, then the cost could be ₹41,969 crore (total area under wheat, barley, grams and lentils is 42.45 mn hectares),

which is significantly higher than the differential scheme," Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI.

Noting ABIC's disadvantages, he explained that the scheme could potentially cover only 1 crore farmers, as against the farmer base of 15 crore, which is too little.

Then there are additional

costs covering transportation, storage and information gap that aren't covered in ABIC scheme, besides, delay in timely payment, quality checking and window for selling crops under the scheme remains limited to 2-3 months, which is restrictive. "ABIC won't alter the market mechanism and the cost is much lesser compared

to income support schemes," he observed.

Under the income support scheme, major challenges include identifying proper beneficiaries, exclusion of tenant farmers, 100 per cent digitization of land records. If implemented based on per acre per year, the idle and uncultivated land owners will also get away with the benefit. In certain cases, it may discourage some farmers to produce as even if he doesn't produce he can still get the cash benefit. "But the most positive aspect is, it'll not

have any leakage under DBT transfer and have a multiplier effect on the economy," he concluded.

Budget, 2019 proposed a pre-determined threshold MSP of at least 1.5 times the production cost for both rabi and kharif crops.

Trends show that a high Minimum Support Price is not only a policy instrument to sustain higher production and income but it should also be backed up by an effective procurement mechanism to arrest the falling prices.



Area-Based Income Compensation (ABIC) won't alter the market mechanism and the cost is much lesser compared to income support schemes...

Soumya Kanti Ghosh, Group Chief Economic Adviser, SBI