

PM-KISAN

AN IMPORTANT ANNOUNCEMENT in the Interim Budget was the one relating to direct income transfer to farmers—under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN), ₹6,000 per year will be provided to each farming family with cultivable land up to 2 hectares (5 acres). This amount will be provided in three instalments of ₹2,000 each, and will be deposited directly into beneficiaries' accounts. PM-KISAN is fully funded by the Centre and is expected to entail annual expenditure of ₹75,000 crore. It is expected to benefit 12 crore small and marginal farmers. The support, although it appears too little and too late for farmers, may not be too late for the government, coming on the eve of the general elections.

PM-KISAN follows PM-AASHA (Pradhan Mantri Annadata Aay SanraksHan Abhiyan), announced in September 2018. Measures like PMKSY (Pradhan Mantri Krishi Sinchayee Yojana), PMFBY (Pradhan Mantri Fasal Bima Yojana) and eNAM (Electronic National Agriculture Market) have been launched in the last four years to address the problems facing the agriculture sector. However, the outcomes have not been very encouraging. In the Union Budget of 2018-19, an increase in MSP to cover at least 150% of the cost of production was announced. PM-AASHA, an ambitious three-pronged programme, was launched to operationalise the hiked MSP. The first component of PM-AASHA is public procurement, which has been in operation for rice and wheat for over five decades, and the related problems of over-

Too little, too late?

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stocking and leakages are well-known. The second component is the deficiency payments system, wherein the farmer is free to sell in the designated APMC market during a specified period, and if the market price falls below MSP, the government steps in and makes a payment (called the deficiency payment), which is equal to the difference between MSP and the market price. This scheme has been implemented in Madhya Pradesh and the experience showed that the system needed a lot of improvement before being scaled to the national level. A major problem with this system is delinking of supply from market demand, because of the assured price and the consequent supply-demand imbalance. The third component is private participation, wherein some designated private agencies carry out procurement of oilseeds at MSP and will be compensated

up to 15% of MSP, if the market price falls below MSP. The private agency is responsible for storage, distribution, sale and related losses, if any. Because market prices of oilseeds in most states were lower by more than 20% of MSPs, the private sector was not keen to carry out pilots in any of the states. Thus, PM-AASHA has not yielded desired results and the desired outcome of ensuring higher MSPs to farmers was not realised. This resulted in discontent among farmers and threatened to hurt the electoral prospects of the ruling party. This prompted a quick rethink and a realisation that more needed to be done. Thus emerged PM-KISAN.

The significance of PM-KISAN is that, for the first time, an attempt has been made to transfer income directly to farmers without using price policy (of either inputs or output). In most of the pro-

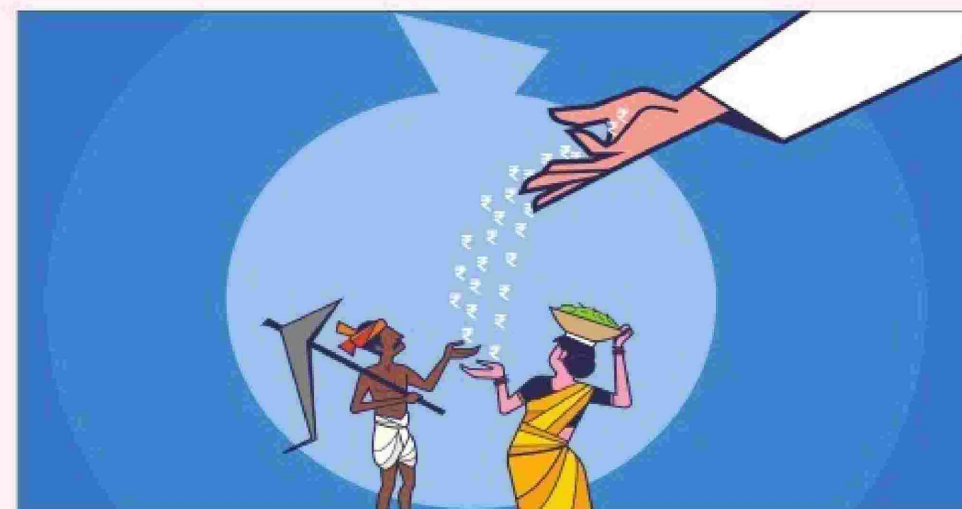


ILLUSTRATION: SHYAM KUMAR PRASAD

grammes in the past, including those of previous governments, the policy instrument used has always been price. The focus has mainly been on provision of inputs at lower price (input subsidies) and provision of a higher output price (MSP). Output price support is useful when the objective is to direct allocation of resources (on the supply side) in a particular direction, but when the objective is to increase farmers' income, it is a rather weak instrument. This is because the demand side is not factored in and, therefore, needs increasing intervention of the government. Input subsidies have resulted in gross overuse of some of the resources, resulting in soil degradation and declining water tables in states like Punjab. When raising farmers' income is the main objective, direct transfer may perhaps be a more appropriate instrument.

What are the advantages and limitations of PM-KISAN? The main advantage is that the benefits are not linked to production of any crop. And since the benefits are not linked to production, the resultant supply-demand imbalance is expected to be minimal, unlike in the case of MSPs. Also, there is no need of procurement, storage and distribution of all the commodities. Instead, procurement can be limited to only those commodities that are needed for public distribution system. This should lead to much lower fiscal costs and lesser storage infrastructure.

On the flip side, since the benefits of PM-KISAN are linked to legal possession of land, no assistance can be provided to tenants, landless agricultural labourers or other vulnerable sections of the rural society. In that respect, the KALIA scheme of Odisha provides a more comprehensive

coverage. Another major limitation of PM-KISAN is poor maintenance of land records, except in states such as Telangana. This may largely limit its usefulness, although there are some efforts recently, after the Interim Budget, to get updated information from states. The benefit of ₹6,000 per year (which is the upper limit) appears inadequate. This works out to a mere ₹1,200 per acre per year. This amount is inadequate considering the fact that the (weighted) average cost of cultivation, as per the latest available data, works out to more than ₹8,000 per acre per year for cereals, pulses and oilseeds. Thus, it becomes absolutely necessary for state governments to top up the amount provided under PM-KISAN from their own funds. After all, agriculture is a state subject and the major responsibility for implementation is on states. It is worthwhile to note here that most non-BJP state governments, except Telangana, have not carried out the reforms needed in state APMC Acts to benefit from eNAM. However, PM-KISAN is different, in the sense that part of the funds are already provided by the Centre, and states only need to supplement to ensure effective support to farmers. Even then, the assistance under PM-KISAN may not be adequate and there is a need to continue to provide support under other programmes such as PM-AASHA.

PM-KISAN is a positive step to provide direct income support to small and marginal farmers. But it can, at best, provide a basic minimum income that needs to be supplemented by other programmes and by state governments.