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# Bhavantar Bhugtan Yojana – MP's Price Deficiency Payment Model Explained

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# Bhavantar Bhugtan Yojana — MP's Price Deficiency Payment Model Explained

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## WHY IN NEWS

Madhya Pradesh re-implemented the Bhavantar Bhugtan Yojana (Price Difference Payment Scheme) for the 2025–26 agricultural season, extending coverage to mustard and urad crops, reviving a farm income support model that sidesteps the logistical difficulties of physical MSP procurement.

## WHAT IS THE BHAVANTAR BHUGTAN YOJANA?

**Bhavantar Bhugtan Yojana (BBY)** — literally “Price Difference Payment Scheme” — is a **state-level agricultural price support intervention** first launched by Madhya Pradesh in 2017. Its core mechanism:

Government declares an **MSP (Minimum Support Price)** for listed crops

Farmers sell in mandis (Agricultural Produce Market Committee markets) at **prevailing market prices**

If market price < MSP, government pays the **difference (bhavantar)** directly to the farmer’s bank account via **DBT (Direct Benefit Transfer)**

No physical procurement — government does not buy the produce

**Formula:** Payment per quintal = MSP - Minimum of (Market price OR Modal price)

The **modal price** is the price at which maximum quantity was traded — used to prevent artificial deflation of reported sale prices.

## WHY BBY? THE PROBLEM WITH PHYSICAL PROCUREMENT

India’s MSP system, managed by state agencies and the Food Corporation of India (FCI), relies on **physical procurement** — government agencies buying grain at MSP from farmers. This works well for wheat and rice but breaks down for:

**Oilseeds** (soybean, mustard, groundnut): Fragile, bulky; procurement requires specialised storage

**Pulses** (urad, moong): Rapid quality deterioration; small lot sizes

**Vegetables** (onion, garlic): Perishable; no government cold-chain for procurement at scale

In many states, **less than 10% of farmers** actually sell to government procurement agencies — the rest sell to private traders at below-MSP prices. BBY bypasses this by letting the market remain the primary buyer while compensating the price gap.

## ADVANTAGES OF THE PRICE DEFICIENCY PAYMENT MODEL

Feature	Physical Procurement	Price Deficiency Payment
Government storage needed	Yes (massive)	No
Risk of procurement quality rejection	Yes	No
Covers all farmers	No (only those near procurement centres)	Yes (anyone selling in a registered mandi)
Government expenditure if market > MSP	Still procures at MSP	Zero (no payment needed)
Distortion risk	Creates surplus stocks	Does not create government surplus
Budget predictability	Low (depends on volumes)	Moderate (depends on price gap)

## CROPS AND COVERAGE IN 2025-26

Madhya Pradesh's 2025-26 implementation covers:

Crop	MSP (₹/quintal)	Status
Soybean	₹4,892	Core crop; historically lowest market prices
Mustard	₹5,950	Newly expanded 2025-26
Urad	₹7,400	Newly expanded; with additional bonus
Groundnut	₹6,783	Core crop
Sesame	₹9,267	Core crop
Onion	Separate price stabilisation	Separate mechanism

MP is India's largest producer of **soybean** (~50% of national output) and a major producer of wheat and pulses. Price crashes in soybean — which often sells 30–40% below MSP in glut years — are the primary driver of agrarian distress in central MP.

## THE SWAMINATHAN COMMISSION AND MSP REFORM

The **National Commission on Farmers (2004–2006)**, chaired by **M.S. Swaminathan**, recommended MSP be set at **C2 + 50%** — where C2 includes imputed rent on land and interest on fixed capital, not just variable costs. Current MSP formula uses **A2+FL** (actual paid-out costs + family labour) for most crops.

The **2020 Farm Laws** — which were repealed in November 2021 following farmer protests — aimed to allow private players to procure directly from farmers. One key demand of protesting farmers was **legal guarantee of MSP**, which the government has not implemented nationally.

BBY-type schemes represent a middle path: they do not provide a legal MSP guarantee but do provide **financial compensation** when markets fail farmers.

## LIMITATIONS AND CRITICISMS

### REGISTRATION BOTTLENECK

Farmers must sell at registered **APMC mandis** to qualify for payment. Many farmers in remote areas sell to local intermediaries outside mandis and cannot claim BBY payments.

### MODAL PRICE MANIPULATION

The use of modal (most-traded) price — rather than actual individual sale price — can undercompensate farmers. If some traders buy at artificially low prices, the modal price falls, reducing government payment.

### DELAY IN PAYMENT

DBT payments have historically been delayed by 60–90 days, by which time farmers may have already taken loans to cover costs.

### FISCAL BURDEN

In years of sharp price crashes (e.g., soybean at ₹3,200 when MSP is ₹4,892), the aggregate payout can be very large. MP's BBY expenditure has exceeded ₹1,500 crore in some years.

## THE BROADER POLICY DEBATE

India's agricultural support debate involves three broad schools:

**Procurement maximalists** — expand government procurement to all crops; create a national buffer for oilseeds and pulses as done for wheat and rice

**Price deficiency champions** — BBY-type schemes are more efficient, cover more farmers, reduce storage costs

**Income transfer advocates** – PM-KISAN style direct income support regardless of crop or price;  
PM-KISAN currently ₹6,000/year per farm family

The **PM-AASHA (Pradhan Mantri Annadata Aay Sanrakshan Abhiyan)** announced in 2018 includes a Price Deficiency Payment Scheme (PDPS) component at the central level – essentially a national version of BBY – but its implementation has been limited.

#### UPSC RELEVANCE

BBY, MSP, APMC, DBT, C2+FL formula, PM-AASHA, PM-KISAN, FCI, Swaminathan Commission.

#### MAINS GS-3:

Agricultural price policy; MSP reform; farm income support mechanisms; APMC market reforms.

#### ESSAY:

“MSP as a legal right: possible, desirable, or counterproductive?”

## ★ FACTS CORNER — KNOWLEDGEPEDIA

### BHAVANTAR BHUGTAN YOJANA (BBY):

State: **Madhya Pradesh**

Launched: **2017** (re-implemented 2025-26)

Mechanism: Government pays MSP – market price difference via **DBT**

No physical procurement by government

Coverage: Farmers selling at registered **APMC mandis**

2025-26 expansion: **Mustard + Urad** added (with urad bonus)

### MSP KEY DATA (2025-26 KHARIF/RABI):

Soybean: **₹4,892/quintal** | Mustard: **₹5,950/quintal**

Urad: **₹7,400/quintal** | Groundnut: **₹6,783/quintal**

Sesame: **₹9,267/quintal**

### MSP FORMULA:

Current: **A2+FL** (Actual costs + Family labour)

Swaminathan recommendation: **C2+50%** (includes rent on land + capital interest)

C2 formula MSP would be significantly higher for most crops

### NATIONAL SCHEMES (MSP-RELATED):

**PM-AASHA (2018):** Umbrella: PDPS (Price Deficiency Payment) + PPSS (Price Stabilisation) + PSF (Private Procurement Stockist)

**PM-KISAN:** ₹6,000/year direct income to 11+ crore farm families

**FCI:** Food Corporation of India — procures wheat and rice at MSP nationally

### PHYSICAL PROCUREMENT REALITY:

Wheat + Rice: ~40–50% of output procured at MSP (mainly Punjab, Haryana, MP)

Oilseeds + Pulses: **<10% procured** nationally; most farmers sell below MSP

### MP AGRICULTURE:

MP: India's largest **soybean producer** (~50% of national output)

MP BBY expenditure: Can exceed **₹1,500 crore/year** in bad price years

### FARM LAWS (2020-2021):

Three Farm Laws passed Sept 2020; repealed Nov 2021 after year-long farmer protests

Key farmer demand: **Legal guarantee of MSP** — not implemented

### OTHER RELEVANT FACTS:

APMC (Agricultural Produce Market Committee): State-run wholesale markets; each state has its own APMC Act

Modal price: Price at which maximum volume was traded (used to prevent mandi price manipulation)

Swaminathan Commission: National Commission on Farmers; submitted report 2006; basis for farm policy debate

Sources: The Hindu, PIB, Ministry of Agriculture

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