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An Overview On Agricultural Subsidy: A Farmer Welfare Approach

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INTRODUCTION

Agriculture remains a cornerstone of India's economy, supporting approximately 58% of the population and contributing 19.9% to the national GDP as of 2023-24. The sector, however, faces numerous challenges, including fluctuating market prices, rising input costs and environmental pressures. To address these issues and enhance agricultural productivity, the Government of India has instituted a comprehensive subsidy framework covering fertilizers, food, electricity, irrigation and credit.

In the Union Budget for 2024-25, the government allocated ₹4 trillion ($48 billion) towards agricultural subsidies, with ₹2.2 trillion ($26.5 billion) earmarked for food and ₹1.75 trillion ($21.1 billion) for fertilizers. The Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY), a flagship initiative under the National Food Security Act (NFSA), continues to distribute free grains to over 800 million citizens, ensuring food security on an unprecedented scale. On the fertilizer front, subsidies aim to stabilize input costs, particularly for urea and complex fertilizers, benefiting over 145 million smallholder farmers. Despite these efforts, the subsidy regime has raised concerns regarding fiscal sustainability and ecological balance. Issues such as overuse of subsidized resources, groundwater depletion and misallocation of benefits necessitate reforms. This paper delves into the current subsidy framework's impact on agricultural growth, equity and sustainability, while exploring potential policy alternatives to optimize outcomes for all stakeholders.

SUBSIDIES

Subsidies are financial incentives provided by the government to support farmers and:

- Supplement their income.

- Facilitate the purchase of agricultural inputs.
- Encourage adoption of new technologies and policies.
- Promote growth in agriculture and allied sectors.

KEY AREAS OF SUBSIDY DISTRIBUTION:

1. **Fertilizers:** Ensures the availability of chemical and non-chemical fertilizers at stable prices.
2. **Agricultural Equipment:** Reduces costs for machinery and tools to modernize farming practices.
3. **Seeds:** Promotes access to high-yielding and quality seeds.
4. **Exports:** Encourages farmers to compete in global markets for better income.
5. **Financial Support:** Includes credit subsidies and crop insurance schemes.

MAIN TYPES OF SUBSIDIES IN INDIA

1. FERTILIZER SUBSIDY

- **Objective:** To bridge the gap between production costs and farmers' affordability.
- **Schemes:**
  - **Urea Subsidy Scheme:** Farmers receive urea at a fixed MRP; the government covers the difference.
  - **Nutrient-Based Subsidy (NBS) Scheme:** Subsidies based on the nutrient content of fertilizers (N, P, K and S).

2. CREDIT SUBSIDY

- **Goal:** Enhance rural banking access and offer relaxed loan conditions.
- **Features:**
  - Easier loan availability for small and marginal farmers.
  - Reduced interest rates.

3. POWER SUBSIDY

- **Purpose:** Offer electricity at subsidized rates for irrigation.
- **Impact:** Promotes investment in irrigation equipment.

4. EXPORT SUBSIDY

- **Objective:** Support farmers in global markets.
- **Benefits:** Higher income for farmers through international trade.

5. AGRICULTURAL INFRASTRUCTURE SUBSIDY

- **Scope:** Development of roads, warehouses and market access for better logistics and storage.

METHODS OF DELIVERING SUBSIDIES:

1. **Minimum Support Price (MSP):** Ensures farmers a minimum price for crops like cereals, pulses and oilseeds, protecting them from price volatility.
2. **Public Distribution System (PDS):** Distributes essential goods (e.g., rice, wheat, sugar) through fair price shops.
3. **Minimum Export Price (MEP):** Sets a base price for exports to prevent domestic supply disruptions.
4. **Market Intervention Price (MIP):** Stabilizes prices for agricultural products not covered under MSP.

ADVANTAGES OF SUBSIDIES:

❖ Direct Subsidies:

- Increase farmers' purchasing power.
- Allow freedom of choice for agricultural products.
- Prevent wastage of public funds.

❖ Indirect Subsidies:

- Provide access to quality inputs and infrastructure.
- Support technological advancements.
- Ensure food security and reduce migration from agriculture.

CHALLENGES AND ISSUES IN SUBSIDIES:

Direct Subsidies:

- Limited access to financial services in rural areas.
- Risk of unproductive use of funds.
- Inflationary effects.
- Poor identification of beneficiaries.

Indirect Subsidies:

- Skewed cropping patterns (e.g., cereal-centric farming due to MSP).
- Overexploitation of resources like water.
- Corruption and leakages in PDS.
- Non-compliance with WTO norms.

RECENT INITIATIVES:

- **One Nation One Fertilizer Scheme:** Standardizes branding and distribution of fertilizers across India.
- **Direct Benefit Transfer (DBT):** Ensures subsidies reach farmers directly, reducing inefficiencies.
- **PM-PRANAM Scheme:** Promotes balanced use of fertilizers and alternative nutrients.
- **Nano Urea:** A sustainable alternative to conventional urea for reducing environmental impact.

WAY FORWARD:

- Develop uniform policies for balanced nutrient application.
- Promote alternatives like organic farming and bio-fertilizers.
- Strengthen agricultural infrastructure for better input management.
- Address issues of financial inclusion for effective subsidy delivery.

Subsidies play a crucial role in empowering Indian farmers, but a balance is needed between financial assistance and sustainable practices for long-term agricultural growth.

CONCLUSION

Subsidies remain indispensable in fostering growth and resilience in Indian agriculture, enabling farmers to overcome financial constraints and adopt improved practices. However, addressing challenges such as inefficiencies, misuse and environmental degradation is critical. By leveraging recent advancements like nano-urea and Direct Benefit Transfers (DBT), the government can enhance subsidy delivery, reduce wastage and promote sustainability. A well-structured approach combining financial assistance, technological innovation and sustainable practices will ensure equitable development and food security for India's growing population. Policymakers must continually evaluate and reform subsidy frameworks to align with modern agricultural needs and international obligations.

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