Reforming Agricultural Subsidies

For Prelims: Agricultural Subsidies, PM-KISAN, Pradhan Mantri Krishi Sinchayee Yojana, Nutrient-Based Subsidy (NBS), Pradhan Mantri Fasal Bima Yojna, MSP, Food Corporation of India, Agriculture Marketing Infrastructure Fund (AMIF), Pradhan Mantri Garib Kalyan Anna Yojana, Per Drop More Crop (PDMC), Shanta Kumar Committee (2015), World Trade Organization (WTO), Zero Budget Natural Farming (ZBNF).

For Mains: Need and challenges related to agricultural subsidies, Types of agricultural subsidies, Ways to reform agricultural subsidies.

Source: PIB

Why in News?

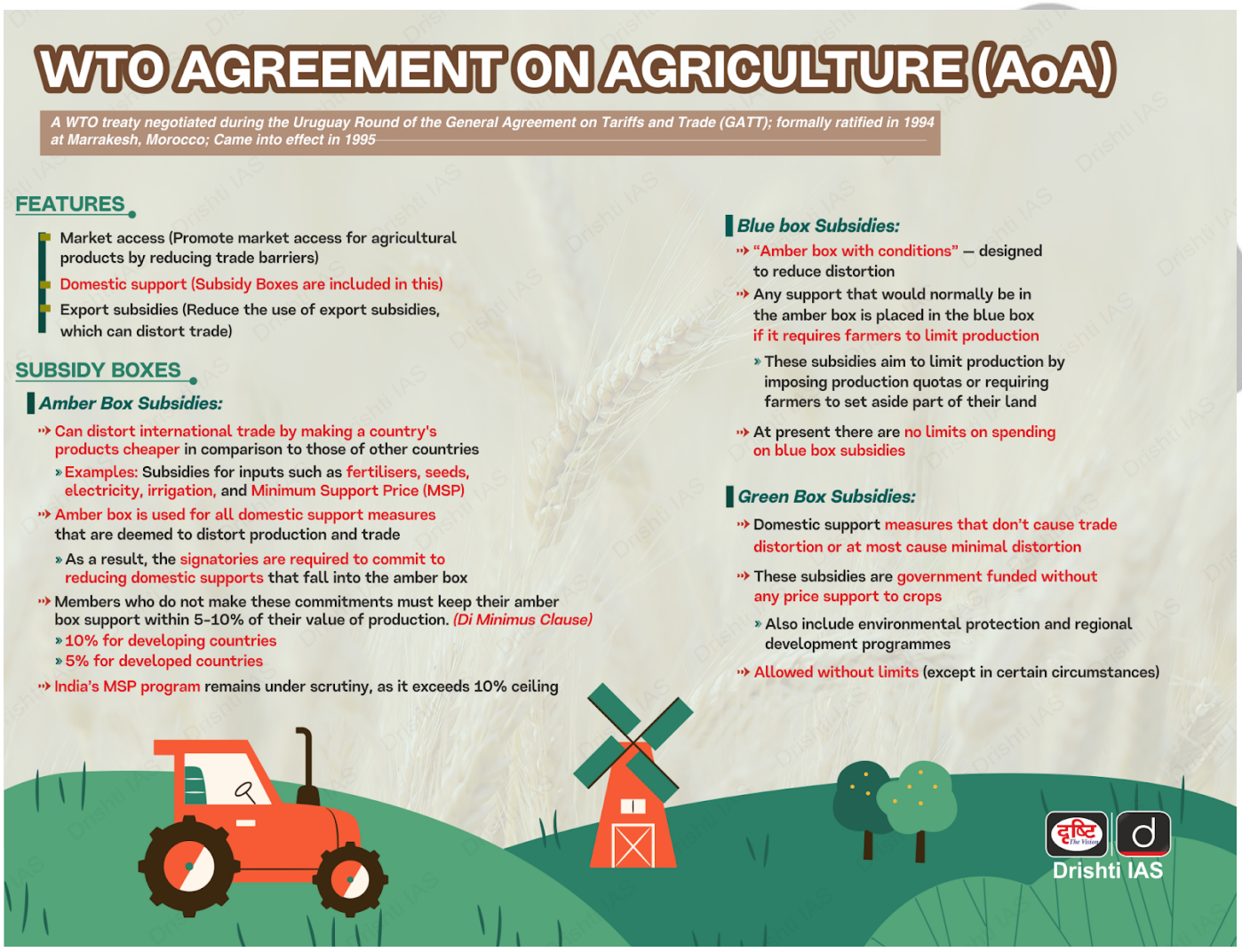
The Vice President stated that **direct transfer of** agricultural subsidies could significantly boost **farmers' income**, estimating each could receive at least **Rs 35,000 annually** if all aid reaches them directly (instead of indirect subsidies).

What are the Various Types of Agricultural Subsidies in India ?

- **Direct Benefit Transfer (DBT):** It provides **direct income support** in form of cash transfers to farmers. E.g., **PM KISAN,** Rythu Bandhu **(Telangana),** KALIA **(Odisha)**.
- **Input Subsidies:**
  - **Fertilizer Subsidy:** It makes fertilizers like **urea** affordable by paying the **difference** between **production cost and selling price**. E.g., Di-Ammonium Phosphate (DAP) fertiliser, Nutrient-Based Subsidy (NBS) scheme for **non-urea fertilizers**.
  - **Seed Subsidy:** It offers **high-yielding, disease-resistant seeds** at subsidized rates, e.g., **Seed Village Program**, Seed Bank, **Mukhyamantri Beej Swavalamban Yojana** in Rajasthan.
  - **Irrigation Subsidy:** The **irrigation subsidy**, under **PM Krishi Sinchai Yojana (PMKSY)**, offers up to **55% support** for **drip and sprinkler systems** to promote **water conservation.**
  - **Power Subsidy:** It provides **free or subsidized electricity** for agricultural pumps, with **states like Punjab offering free electricity to tubewell irrigation**, though this has raised concerns about **groundwater depletion**.
- **Credit & Insurance Subsidies:**
  - **Pradhan Mantri Fasal Bima Yojna (PMFBY):** PMFBY protects farmers from crop failure by requiring them to pay a **1.5-5% premium**, with the government covering the remaining cost.
  - **Interest Subvention Scheme:** Under the Modified Interest Subvention Scheme, farmers get short-term loans up to **Rs 3 lakh** via Kisan Credit Card at a **7% subsidised interest rate,** with a **1.5% subvention** to eligible lending institutions.

- **Output Subsidies (Price Support):**
  - **Minimum Support Price (MSP):** **MSP** guarantees minimum prices for **22 crops** like **wheat, rice, pulses, and oilseeds**, and **fair and remunerative price (FRP)** for sugarcane, procured by agencies such as **Food Corporation of India** (FCI) and **NAFED.**
    - Also, **state level** schemes like **Bhavantar Bhugtan Yojana (Madhya Pradesh)** compensate farmers if market prices fall below MSP.
- **Infrastructure & Post-Harvest Subsidies:**
  - **Warehouse & Cold Storage Subsidy:** The **National Horticulture Board (NHB)** offers a **capital investment subsidy** scheme providing a credit-linked back-ended subsidy of **35% in general areas and 50% in North East, hilly, and scheduled areas** for building or modernizing cold storage facilities with capacities between **5,000 and 10,000 million tonnes.**

Agriculture Subsidies and WTO



What are the Consequences of Agricultural Subsidies in India?

- **Fiscal Burden on Government:** The **Union Budget 2025-26** has allocated **Rs 3.71 lakh crore** for **food and fertiliser subsidies** and as of **January 2025**, over **Rs 3.46 lakh crore** has been disbursed to more than **11 crore PM-KISAN** beneficiary farmers.
  - **It strains public finances** and worsen the **debt crisis** for fiscally stressed states like **Punjab.**

- **Soil Degradation:** India's consumption ratio of **nitrogen, phosphorus and potassium (NPK) is 6.7:2.4:1** (ideal of 4:2:1), leading to **soil toxicity** & declining yields.
    - **Punjab & Haryana** have the highest urea consumption, causing **groundwater pollution & cancer clusters.**
- **Groundwater Depletion:** Free electricity encourages **excessive tube-well use**, depleting groundwater table.
    - Agriculture consumes **87% of India's groundwater**, with **extraction exceeding 100%** in states like **Punjab, Rajasthan, Haryana**, and **Delhi** in **2024.**
- **Market Distortions:** The **Shanta Kumar Committee (2015)** reported that only **6% of farmers**—mainly in **Punjab, Haryana, and Andhra Pradesh**—actually benefit from **MSP**. This skewed procurement has led to **overproduction of rice and wheat** while **pulses and oilseeds remain underproduced**.
    - In **2024**, the **FCI had to dispose of 18 million tonnes of rotting grains**, causing a **waste of taxpayer money.**
- **Hurt Export Competitiveness:** **World Trade Organization (WTO)** rules **limit India's farm export subsidies**, affecting trade.
    - **Developed countries, led by the US**, accuse **India** of providing **up to 93.9% subsidy** to **rice farmers** in **2020–21**, breaching the **10% limit** set under **WTO rules.**

What are the Advantages and Limitations of Replacing Agricultural Subsidies with Direct Benefit Transfers?

Advantages	Limitations
Improved Targeting: Ensures subsidies reach **only eligible farmers**, **reducing leakage and inefficiency**.	**Exclusion Risks: Small or marginal farmers** without proper documentation may be **left out**.
Increased Transparency: Direct payments **reduce intermediaries**, lowering corruption and misallocation.	**Digital Divide:** Reliance on banking and digital infrastructure may **disadvantage remote or unbanked farmers**.
Promotes Farmer Autonomy: Farmers have **freedom** to decide **how to use funds**, encouraging diversified investment.	**Misuse of Funds:** Transfers may be spent on **non-agricultural needs**, diluting the intended impact on productivity.
Reduces Market Distortion: Avoids **overuse or misuse of inputs** like fertilizers and power by unlinking subsidies from physical inputs.	**Price Volatility Exposure:** Without input subsidies, farmers may **face higher costs** during **price spikes**, increasing vulnerability.
Administrative Efficiency: Lowers cost and complexity of managing large input subsidy programs.	**Implementation Challenges:** Requires **robust beneficiary identification**, grievance redressal, and monitoring systems.

How can India Reform its Agricultural Subsidies?

- **Targeted Direct Benefit Transfers (DBT) with Geo-Tagging:** Subsidy allocation should balance **input subsidies** with **precision-targeted DBT** using **geo-tagging** and **farmer identification technologies** in **project mode** and scale in **phased-wise manner**.
    - It will reduce **leakage**, aiding **smallholders**, promoting **financial inclusion**, and encouraging **efficient resources and build upon Shanta Kumar Committee's (2014)** recommendation to shift from **grain-based distribution** to **cash transfers.**
- **Market-Responsive MSP Reform:** Reform MSP into a **dynamic, market-responsive system** using real-time data on **input costs**, **demand-supply**, and **regional prices**. Ensure **transparency** by publishing the pricing method and involving **farmers** and **experts** to prevent issues like the **2020 farm protests**.
- **Green Subsidy Transformation:** To promote **sustainable agriculture**, restructure **power** and **fertilizer subsidies** by directly linking them to adoption of **water-efficient technologies** like **drip** and **micro-irrigation systems** under programs like the **Per Drop More Crop (PDMC)** initiative**.**
    - Phase out subsidies for **water-intensive crops** and incentivize **diversification** with

tailored support to boost **agro-biodiversity**, conserve **groundwater**, and match **regional agro-climates.**

- **Post-Harvest Infrastructure:** Increase **Agriculture Mechanization and Infrastructure Fund (AMIF) subsidies** to curb post-harvest losses and **incentivize agro-processing units** near farms to boost value addition and farmer incomes.
    - **Localized infrastructure** boosts **farmer incomes** by capturing higher **market value**, reducing reliance on **distant markets**, and strengthening **agricultural supply chains.**
- **WTO-Compliant Subsidy Reforms:** Shift subsidies to **non-trade-distorting** areas like **agricultural R&D**, **extension services**, **rural infrastructure**, and **capacity building**, aligning with **WTO** rules, while advocating higher subsidy ceilings for developing countries to protect smallholders and boost exports.
    - Additionally, adopting the **Kelkar Committee's (2012)** suggestion to reduce **subsidies** on **fuel, food, and fertilizers** is essential to curb excessive **public spending**.

Conclusion

India's agricultural subsidies though beneficial need urgent **reforms** to balance **farmer welfare** with **fiscal** and **environmental sustainability**. Shifting to **direct cash transfers**, **rationalizing MSP**, promoting **sustainable farming**, and investing in **post-harvest infrastructure** can enhance **efficiency** while reducing **distortions**. **WTO-compliant policies** and **crop diversification** will ensure long-term **food security**, **farmer prosperity**, and **ecological balance**.

Drishti Mains Question:

Q.Examine the role of agricultural subsidies in ensuring food security in India. Should subsidies be continued in their current form?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. With reference to chemical fertilizers in India, consider the following statements: (2020)

1. At present, the retail price of chemical fertilizers is market-driven and not administered by the Government.
2. Ammonia, which is an input of urea, is produced from natural gas.
3. Sulphur, which is a raw material for phosphoric acid fertilizer, is a by-product of oil refineries.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 and 3 only

(c) 2 only

(d) 1, 2 and 3

Ans: (b)

Mains

Q. How do subsidies affect the cropping pattern, crop diversity and the economy of farmers? What is the significance of crop insurance, minimum support price and food processing for small and marginal

farmers? (2017)

Q. In what way could replacement of price subsidy with direct benefit Transfer (DBT) change the scenario of subsidies in India? Discuss. (2015)

Q. What are the different types of agriculture subsidies given to farmers at the national and at state levels? Critically, analyse the agricultural subsidy regime with reference to the distortions created by it. (2013)