

Agricultural Subsidies in India – An Overview

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ABSTRACT

Agriculture plays an important role in the economic growth of our country. Almost all the activities revolve round agriculture. It provides employment to around 60 per cent of the total workforce in the country. Extremities in climate and variety of soil condition have made possible the cultivation of every item. Introduction of new high yielding varieties after the spread of Green Revolution in the late sixties resulted in record of food grains production. For stimulating agriculture production and attaining self-sufficiency the government provides various incentives together with price supporting schemes. Among the agriculture production incentives, subsidies are considered to be the most powerful instruments for accelerating the growth of agricultural production.

Although agriculture now accounts for only 14 per cent of Gross Domestic Product (GDP), it is still the main source of livelihood for the majority of the rural population. Agriculture is the most important sector in India in terms of the population dependent on it. With more than two third of the population engaged in agriculture related activities. A country with one billion populations, and 56 per cent workforce engaged in agriculture means this is the only sector where such a huge force is engaged. Many countries in the world even do not have their total population, which India is having the workforce engaged in agriculture. As such rapid growth of agriculture is critical for development of rural economy. A viable development of rural economy will leads to inclusive growth. Thus, it is imperative to study the constraints faced by Indian farmers. Like other sectors, agriculture also requires capital. Capital implies the credit required for the purchase of inputs and machinery. In a poor agricultural country like India, where savings are negligible among the small farmers, agricultural credit appears to be a critical factor affecting agricultural productivity (Gooyal, 2014:22). For many Indian farmers, it is inevitable to incur debt within every stage of the agricultural process. The main obstacles before Indian agriculture are finance. Unlike industry, agriculture is not getting proper credit. As a result, labours are migrating from agriculture to industry in order to earn two squares meal. Credit supply is an important determinant of investment in agriculture. In India, access to credit remains a significant challenge for low income households. Typically, the poor access credit through the informal sector, where monopolistic practices frequently occur, and interest rate can easily exceed 100 per cent per year (Dooner, 2008:14). Besides, poorer households live in remote regions; have hardly any assets, and are viewed as being “unprofitable” by formal institutions.

AGRICULTURAL SUBSIDIES IN INDIA

Major items of agricultural subsidies are food, fertilizer, irrigation, power and credit. While food and fertilizer subsidies are borne by the Centre, power and irrigation subsidies are borne by the

respective state government. Credit subsidies are given through the banking system. Food subsidy is the difference between the price at which the Food Corporation of India (FCI) procures from

farmers and sells through the Public Distribution System (PDS). The food subsidy in India was Rs.12060 crores in 2000-01 and it increased to Rs.56002 crores in 2009-10.2 for fertilizer inputs, subsidy is the difference between the price paid to fertilizer manufacturers and price received from the farmers. For other inputs, it is the difference between economic cost of input and issue price to the farmers, which is paid by the government. Credit subsidy is applicable for short term loans provided for production purpose for a period of one year. It is the difference between cost of credit and the actual interest paid by the farmers. Credit subsidy includes interest subvention and interest subsidy.

In the case of Nationalized Banks interest subvention is only applicable and it is provided by the Government of India through the RBI. For the Co-operative Banks both the interest subvention and the interest subsidy is applicable and it is given through the NABARD. To augment the agricultural production, in addition to the above the Government of India is providing some other subsidies to the farmers, through the Farmers' Co-operative Societies in the form of seeds, development of oil seeds, pulses, cotton, rice, maize, crop insurance schemes and price support schemes. The total agricultural subsidies for the past ten years from 2000-01 to 2009-10 and the agricultural subsidies per hectare of GCA in India is presented in Table 1.

TABLE -1: AGRICULTURAL SUBSIDIES IN PER HECTARE OF GROSS CROPPED AREA IN INDIA

YEAR	TOTAL AGRICULTURAL SUBSIDIES (IN CRORES)	GCA IN INDIA (MILLION HA)	SUBSIDY PER HECTARE (IN RS.)
2000-01	50440	185.34	2658
2001-02	56747	188.29	3062
2002-03	59679	175.58	3399
2003-04	66625	190.08	3506
2004-05	75635	191.55	3948
2005-06	82967	193.05	4297
2006-07	91737	193.23	4748
2007-08	119036	195.83	6078
2008-09	204668	195.83	10451
2009-10	108982	195.83	5565

Source: Central Statistical Organization, National Account Statistics, Government of India

It is noted from Table 1 that the total agricultural subsidies include fertilizer, irrigation, other subsidies and electricity. During 2000-01 the total subsidies in Indian agriculture accounted for Rs.50440 crores and Rs.108982 crores in 2009-10. The amount of subsidy is increasing at a considerably higher rate year after year. The increase in total subsidy may be due to the increase in the consumption of fertilizers, increase in the use of electricity for irrigation purpose and easy availability of credit at a subsidized rate. The subsidy amount per hectare of GCA was Rs.2658 during 2000-01 and it was Rs.10, 451 per hectare during 2008-09.

It is noted from Table 1 that the amount of subsidy disbursed during the year 2000-01 was Rs.9481 crores and it was Rs.24580.23 crores for the year 2009-10. The amount of subsidy provided for domestic (indigenous) production is more than that of imported fertilizer except the year 2009-10.

TABLE -2: DETAILS OF EXPENDITURE ON SUBSIDY/CONCESSION DURING THE YEAR 2000-01 TO 2009-10 (IN CRORES)

YE AR	AMOUNT OF CONCESSION DISBURSED ON DECONTROLLED FERTILIZERS (INDIGENOUS + IMPORTED)			AMOUNT OF SUBSIDY DISBURSED ON UREA			TOTAL FOR ALL FERTILIZE RS
	INDIGENO US P & K	IMPORT ED P & K	TOTA L	INDIGENO US UREA	IMPORT ED UREA	TOTA L UREA	
2000 -01	3995.00	724.00	4319	9480	1.00	9481	13800.00
2001 -02	3759.52	744.00	4503.5 2	8044.00	147.50	8191.5 0	12695.02
2002 -03	2487.94	736.8	3324.5 2	7790.00	1.16	7791.1 6	11015.68
2003 -04	2606.00	720.00	3326.0 0	8521.00	0.82	8521.8 2	11847.82
2004 -05	3977.00	1165.18	5142.1 8	10243.15	742.37	12793. 45	19389.64
2005 -06	4499.20	2096.99	6596.1 9	10652.57	2140.37	12793. 45	19389.64
2006 -07	6648.17	3649.95	10298. 12	12650.37	5071.06	17721. 43	28019.55
2007 -08	10333.80	6600.00	16933. 80	16450.37	9934.99	26385. 36	43319.16
2008 -09	32957.10	32597.69	65554. 79	20968.74	12971.18	33939. 92	99494.71
2009 -10	16000.00	23452.06	39452. 06	17580.25	6999.98	24580. 23	64032.29

Source: Central Statistical Organisation, National Account Statistics, Government of India (2010)

TABLE -3: AVAILABILITY AND AMOUNT OF SUBSIDIES ON FERTILIZERS IN INDIA

YE AR	AVAILABILITY OF FERTILIZER ('000 TONNES)			FERTILIZER SUBSIDY (RS. CRORES)			RATE OF FERTILIZERS SUBSIDY (RS. PER TONNE)		
	DOMEST IC PRODUC TION	IMPO RTS	TOT AL	DOMEST IC PRODUC TION	IMPO RTS	TOT AL	DOMEST IC PRODUC TION	IMPO RTS	TOT AL
200 0-01	14704	2091	1679 5	13075	725	1380 0	8892	3467.2 4	8216. 73
200 1-02	14628	2399	1702 7	11803.52	8991.5	1269 5.02	8069.13	3716.1 3	7455. 82

200 2-03	14474	1674	1614 8	10277.94	737.74	1101 5.68	7100.97	4407.0 5	6821. 70
200 3-04	14266	2018	1628 4	11127	720.82	1184 7.82	7799.66	371.95	7275. 74
200 4-05	15405	2750	1815 5	14220.15	1907.5 5	1612 7.7	9230.87	6936.5 5	8883. 34
200 5-06	15575	5253	2082 8	15151.57	4237.8 7	1938 9.44	9728.13	8067.5 2	9309. 31
200 6-07	16095	6080	2217 5	19298.54	8721.0 1	2801 9.55	11990.39	14343. 77	126.3 5.65
200 7-08	14707	7583	2229 0	26784.17	16534. 99	4331 9.16	18211.85	21805. 34	19434 .35
200 8-09	14334	10151	2448 5	53925.84	45568. 87	9949 4.71	37620.93	44891. 02	40634 .96
200 9-10	16320	8123	2444 3	33580.25	30452. 04	6403 2.29	20576.13	37488. 66	26196 .58

It is clear from Table 3 that the total availability of fertilizer, that is, both the domestic production and imported fertilizer shows an increasing trend except for two years, 2002-03 and 2009-10. The availability of domestic fertilizer from 2001-02 was showing a declining trend. Only after 2005, it shows an increasing trend and in 2009-10 it reaches 16,320 thousand tonnes. It is inferred that in 2000-01 the subsidy paid for imports was Rs.725 crores and in 2009-10 the subsidy amount raised to Rs.30,452.04 crores.

TABLE – 4: FLOW OF INSTITUTIONAL CREDIT TO AGRICULTURE SECTOR IN INDIA

YEAR	CO-OPERATIVE BANKS	RRBS	COMMERCIAL BANKS	OTHER AGENCIES
2000-01	20718	4219	27807	83
2001-02	23524	4854	33587	80
2002-03	23636	6070	39774	80
2003-04	26875	7581	52441	84
2004-05	31231	12404	81481	193
2005-06	39403	15223	125477	125477
2006-07	42480	20435	166485	0
2007-08	48258	25312	181088	0
2008-09	46192	26765	228951	0
2009-10	34363	22132	22132	0

Source: Department of Agriculture and Co-operative, Credit Division.

It is noted from Table 4 that the credit flow to agriculture sector through the Co-operative Banks is showing an increasing trend from 2000-01 to 2007-08. Only in the last two years it shows a decreasing trend.

SUBSIDY ON AGRICULTURE CREDIT IN INDIA

It is clear from Table 2.7 that in the year 2006-07, the government has provided Rs.1100 crores as interest subvention for providing short term credit to farmers and Rs.1359.13 crores as waiver of 76 interests on overdue loans in debt stressed states. Then in the year 2007-08, an additional amount

of Rs.1737.26 crores was provided and in 2009-10, Rs.2011 crores was allotted. The agricultural credit subsidy includes interest subsidy and interest subvention.

From the year 2010-11, an additional 2 per cent interest subvention is being provided to those farmers, who repay their short term crop loans in time under this scheme. Thus, the short term crop credit is available to farmers at the rate of 5 per cent per annum in 2010-11. The government has also proposed to further incentivize the farmers who make prompt repayment by providing a further incentive of 3 per cent additional interest subvention for the year 2011-12. That is, loans will be available to farmers who pay in time at the rate of 4 per cent per annum. Thereby the interest rate recommended by the National Commission for Farmers has been decided to implement. Table 5 shows the details of interest subvention provided by the government.

TABLE -5: SUBSIDY ON AGRICULTURE CREDIT IN INDIA

YEAR	INTEREST SUBSIDY (IN CRORES)
2005-06	1701.00
2006-07	2534.13
2007-08	1737.26
2008-09	640.00
2009-10	2011.00

CONCLUSION

Access to finance, especially by small holders, is crucial for improved agricultural performance. Credit flow doubled in the Eleventh Plan but mainly by credit deepening, with little increase in farmer coverage and still leaving 60 per cent of farmers without institutional credit. There are several ways in which credit access can be widened. Primary Agricultural Co-operative Societies (PACS) still have the widest coverage and must be made more members driven and less dependent on higher tiers. Joint Liability Groups (JLGs) are still the most appropriate mechanisms for farmers and livestock owners who have productive assets but cannot access credit because they have no land records, are located too far from banks or have last mile problems. The SHGs Bank Linkage programme is still the most appropriate financial mechanism to extend credit to marginal and dry land farmers as this allows better income smoothing since SHGs provide space for diversity in loan purposes and sizes, enabling financing of a variety of activities that such families select as part of livelihood strategies when income from agriculture is low.

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