Agriculture Subsidies - Policies and Impact

March 26, 2007

Amar Nath H K

National Institute of Public Finance and Policy

New Delhi 110067

Email: amarhk@nipfp.org.in

Introduction

- There are growing disparities between the agricultural and no-agricultural sectors and deterioration in the quality of public services in rural India.
- Governments view is that growth of manufacturing and services sector will pull agriculture out of its present crisis.
- Indebtedness, low levels of investment and import liberalization are not the only causes of present crisis. Lack of technological support by the govt and awareness among the farmers are the main hindrances to the growth of Agriculture.
- Regulation and Targeting of Incentives need top most priority.

Subsidy regime in India

- Prominent Agriculture Subsidies in India are
  - Food
  - Fertilizer (1996-67 basically for import substitution (NPK) and push fertilizer consumption)
  - Irrigation (Hugh investments, Hydel power generation and Flood control)
  - Power subsidy
  - Crop insurance (Mainly when you take a crop loan)
  - Subsidized Priority lending (NABARD, PSU banks, RRBs)
  - Minimum Support Pricing (1964 LK Jha Committee)
  - Subsidized Inputs and
  - Welfare schemes under rural development.

Major Subsidies - Irrigation

- Major share goes to Fertilisers (centre) and Irrigation (states)
- From farmers’ perspective Irrigation Subsidy is difference between what he/she is willing to pay and what he pays
- From Producers point of view - the un-recovered cost is the subsidy.
- Water is charged only under two types of irrigation that is Surface irrigation 1. Canal Irrigation and Tank Irrigation
- Majority of the Irrigation Charged is under canal irrigation That is around 70 percent of surface irrigated land and the remaining 30 % is from Tank irrigation.
- Tank irrigated water is cheaper and well regulated than canal irrigation.

Irrigation Subsidies contd.

- 6.9 lakh ha and 40 lakh ha are irrigated through tanks and canals respectively in Karnataka
- Watershed management policy of the government has resulted in improving minor irrigation sources like Tanks.
- Tanks are administered and maintained mostly by local bodies (at Village level and Block/District Level).
- Since major investment like tank desiltatation, strengthening the tank bunds is done by other departments under plan programmes and the revenue is collected and appropriated by the local bodies for maintenance, subsidies are not estimated taking the whole gambit of expenditures and receipts in case minor irrigation through tanks.

Irrigation Subsides contd..

- Irrigation (canal) subsidies are dominated more by inefficiency and unregulated cropping patterns
- Surface Irrigation through canals supply water to 70 % of Surface irrigated land
- Canal irrigation involve huge investments and incur huge recurring expenditures for maintenance.
- Costs are are inflated due to inordinate delays in completion of the projects and also inefficiency in the public expenditure.
- Though projects are constructed with a pre determined objectives defining the extent of area to be covered and cropping pattern to be followed, rarely regulated by the implementing agency.
- This results in water not reaching fag end users
- This also results into degradation of the quality of the soil by continuous high water consuming crops and decline in productivity.(proved by various studies)

Irrigation Subsidies contd.

- Irrigation charges are not revised for long.
- Involvement of Revenue Dept. in Revenue collection, lack of coordination between revenue and irrigation department resulted in non recovery of user charges.
- Water Users Associations though successful in some states in mobilizing revenue through user charges has resulted in improving the facilities and reducing the leakage but has not resulted in increase of cropped area or changing the cropping pattern.
- Water users association not successful in some states due to social and economic factors.

Major Subsidies - Fertilizers

- 1944, Central fertilizer pool - to pool the fertilizers and distribute through State agencies
- 1957 Brought under essential commodities act
- 1965, Sivaraman Committee regarding production, promotion distribution and consumption
- 1966, liberalisation of Fertilser marketing
- 1973 Fertilizer distribution and inter state movement under government control
- 1977, SS Marathe committee - retention price scheme
- 1980, The prices of Ammonium Sulphate and Cacium Nitrtate decontrolled - Block delivery scheme to open retail outlets in remote areas and reimbursed the freight cost from railway lines.

- In between many of the fertilizers were brought under RPS
- 1986 BB Singh high powered committee to evolve criteria of RPS was rejected
- 1987 GVK Rao committee recognized the fertilizer as key input for agr productivity, systematic development of dry land, soil testing laboratories.
- 1991 GOI tried dual price system and withdrew later in the same year
- 1992 JPC (Prathap Rao Bhosale to review the method of computation of Retention Price. Phosphate and Potasium prices decontrolled.
- 1998 Hanumantha Rao Committee Unit price RPS discontinued and a uniform normative referral Price system was introduced.

- 2000 Geethakrishnan Expenditure reforms Commission
  - Fertiliser companies grouped into five categories
  - RPS replaced by Fixed concession in each of the categories
  - decontrole by 2006
  - farm gate price to be introuduced
- 2001 Alagh committee reassessed the capacity of 22 ammonia-urea plants for the purpose of pricing and subsidy
- 2002 New pricing policy for urea units Group based concession
- AK singh committee recommended combination of NPK to be soil, crop and climate specific. Suggested strengthening of soil testing, fertilizer quality control. Promotion of green manures and organic manure. Receomnedations have been aceepted in principle but yet not implemented

- Govt. Intentions are affordable prices, proper distribution and agricultural productivity
- Fertiliser subsidies are indirect and benefits acrue more to the manufacturers and large farmers than small and marginal farmers.
  - Share of fertilizers cost in total cost of inputs in Agriculture is so high that only large farmers get benefited from Fertilizer subsidy
  - Many studies reveal that fertilizer consumption is mainly with large and medium farmers.
  - The combination of contents of fertilizers available is common for entire India and does not vary with soil texture, crop intensity ore climate.

To conclude

- Subsidies benefit the large and medium farmers.
- Subsidies have resulted in degradation of soil
- Could not impact the cropping pattern
- extension and training ignored.
- Did not encourage indigenous inputs like organic manures

Thank you All