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**TOPIC**

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**AGRICULTURE SUBSIDY IN INDIA  
& FISCAL SUSTAINABILITY**

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## AGRICULTURE SUBSIDY IN INDIA & FISCAL SUSTAINABILITY

### Context

- India has maintained relatively stable retail prices of key **agricultural inputs such as urea and diesel** through **extensive support and agricultural subsidies**, despite increasing international crude oil and fertilizer prices amid **Middle East conflict**.

### About Agricultural Subsidy

- It refers to **financial assistance** provided by the government to farmers to reduce input costs, stabilize incomes, and ensure food security.
- India's subsidy framework emerged strongly during the **Green Revolution** to incentivize fertilizer use, irrigation, and high-yield crop cultivation.

### Major Agricultural Subsidies in India

- Fertilizer Subsidy:** India is among the **largest fertilizer subsidising countries** globally. Subsidy mainly supports **Urea, DAP (Diammonium Phosphate)**, Potassic and phosphatic fertilizers.
  - Nutrient Based Subsidy (NBS)** is applicable for phosphatic and potassic fertilizers, and subsidy linked to nutrient content. Farmers pay only a fraction of actual market cost.
- Food Subsidy:** Implemented through the **Public Distribution System (PDS)** and procurement by the **Food Corporation of India (FCI)**.
  - Ensures food security and MSP-based procurement.
  - Key Components:** MSP procurement, PDS, and PM Garib Kalyan Anna Yojana integration.
  - Around **80 crore beneficiaries** under NFSA.
- Power Subsidy:** Free or highly subsidised electricity for irrigation pumps in many states.
  - States collectively spend over **₹1.5–2 lakh crore annually** on power subsidies.
  - Major beneficiary states** are Punjab, Haryana, Telangana, Andhra Pradesh, and Tamil Nadu.
- Irrigation Subsidy:** Low water charges for canal irrigation and support for micro-irrigation.
- Income Support:** It provides direct income support, and reduces dependence solely on price subsidies.
- Minimum Support Price (MSP) Support:** MSP announced for **22 mandated crops** and sugarcane.
  - Wheat and paddy account for majority procurement.
  - The MSP system disproportionately benefits a few states like Punjab, Haryana, and Telangana.

### Importance of Agri-Subsidy

- Ensuring Food Security:** Subsidies played a major role in transforming India from a food-deficit nation to a food-surplus economy.
- Supporting Farmer Incomes:** Small and marginal farmers, who constitute nearly 86% of landholdings, benefit from lower input costs.
- Stabilising Agricultural Production:** Subsidies help maintain crop production and rural stability by insulating farmers from global price volatility.
- Promoting Rural Economy:** Agricultural support stimulates rural demand, employment, and allied sectors.
- Strategic Importance:** Stable agricultural production reduces dependence on imports and strengthens national food sovereignty.

### Key Concerns, Issues and Challenges in Agricultural Subsidies

- Rising Fiscal Burden:** India's fertilizer subsidy bill has risen sharply in recent years due to increasing global prices of natural gas and fertilizers.
  - Fertilizer subsidy expenditure crossed several lakh crore rupees in recent years. Such expenditure limits fiscal space for infrastructure, health, and education.
- Distorted Cropping Patterns:** Subsidies and MSP procurement heavily favour water-intensive crops such as wheat and paddy, especially in Punjab and Haryana.
  - It has led to groundwater depletion, soil degradation, and declining crop diversification.

- **Environmental Concerns:** Excessive use of subsidised urea has caused soil nutrient imbalance, declining soil fertility, and increased greenhouse gas emissions.
  - ◆ The Economic Survey has repeatedly highlighted the overuse of nitrogenous fertilizers.
- **Inefficient Targeting:** Large farmers often capture a disproportionate share of subsidies due to higher land ownership and input consumption.
  - ◆ Many tenant farmers and landless cultivators remain excluded.
- **Delayed Structural Reforms:** Repeal of the three farm laws has made governments cautious regarding agricultural reforms.
  - ◆ As a result, market reforms remain incomplete, private investment is limited, and agricultural productivity growth remains moderate.
- **Dependence on Subsidy Culture:** Excessive reliance on subsidies can discourage innovation, diversification, and efficient resource use.

### Key Efforts and Government Initiatives

- **PM-KISAN Scheme:** Direct income transfer of 6,000 annually to farmers through DBT.
- **Neem-Coated Urea:** Introduced to reduce diversion and improve nitrogen-use efficiency.
- **Direct Benefit Transfer (DBT) in Fertilizers:** Implemented to improve transparency and reduce leakages.
- **PM-KUSUM Scheme:** Promotes solar pumps and renewable energy in agriculture.
- **Pradhan Mantri Krishi Sinchayee Yojana (PMKSY):** It focuses on 'Per Drop More Crop', micro-irrigation, and water-use efficiency.
  - ◆ It expands drip and sprinkler irrigation systems, and increases irrigation coverage.
- **National Mission for Sustainable Agriculture (NMSA):** Encourages climate-resilient and resource-efficient farming.
- **National Agriculture Market (e-NAM):** Aims to integrate agricultural markets digitally and improve price discovery.

### Way Forward: Strengthening the Agri-Subsidy Ecosystem

- **Rationalising Subsidies:** Subsidies should gradually shift from product-based support to income-based support while protecting vulnerable farmers.
  - ◆ A balanced transition can reduce fiscal stress without harming farmer welfare.
- **Promoting Crop Diversification:** Policies should incentivise pulses, oilseeds, and millets instead of excessive wheat-paddy cultivation.
  - ◆ The declaration of millets as 'Shree Anna' is a step in this direction.
- **Encouraging Sustainable Agriculture:** Support for organic farming, natural farming, precision agriculture, and micro-irrigation can improve productivity while reducing ecological stress.
- **Better Targeting through Technology:** Use of Aadhaar-linked databases, land records digitisation, and DBT systems can improve subsidy efficiency and reduce leakages.
- **Strengthening Agricultural Markets:** Reforms should focus on storage infrastructure, Farmer Producer Organisations (FPOs), agri-logistics, value chains and food processing.
- **Balancing Welfare and Fiscal Prudence:** Long-term sustainability requires balancing welfare measures with fiscal discipline and productivity-enhancing reforms while subsidies remain essential for rural stability.

### Daily Mains Practice Question

[Q] Discuss the significance of agricultural subsidies in India. Examine the major challenges associated with the current subsidy regime.

Source: IE

