



International Journal of Research in Finance and Management

P-ISSN: 2617-5754
E-ISSN: 2617-5762
IJRFM 2024; 7(1): 151-152
www.allfinancejournal.com
Received: 08-02-2024
Accepted: 11-03-2024

Ramesh Singh
Department of Crop
Improvement, ICAR-Central
Soil Salinity Research
Institute, Karnal, Haryana,
India

Kunal Gupta
Department of Crop
Improvement, ICAR-Central
Soil Salinity Research
Institute, Karnal, Haryana,
India

Kamal Sharma
Department of Crop
Improvement, ICAR-Central
Soil Salinity Research
Institute, Karnal, Haryana,
India

Correspondence
Ramesh Singh
Department of Crop
Improvement, ICAR-Central
Soil Salinity Research
Institute, Karnal, Haryana,
India

The role of government subsidies and support in enhancing domestic savings among farmers

Ramesh Singh, Kunal Gupta and Kamal Sharma

DOI: <https://doi.org/10.33545/26175754.2024.v7.i1b.295>

Abstract

This review paper examines the role of government subsidies and support mechanisms in enhancing domestic savings among farmers, focusing on the Indian context. By analyzing various forms of government intervention, including input subsidies, crop insurance, minimum support prices, agricultural credit, and direct benefit transfers, the paper aims to elucidate how these policies contribute to the financial stability and savings capacity of farmers. The review synthesizes findings from a wide range of studies, offering insights into the effectiveness of these measures and proposing recommendations for improving their impact on farmers' savings behavior.

Keywords: Government subsidies, domestic savings and financial stability

Introduction

Agriculture plays a pivotal role in the Indian economy, not only as a major contributor to GDP but also as a primary source of livelihood for over half of the population. Given the sector's susceptibility to risks such as price volatility, climatic variability, and market fluctuations, government subsidies and support play a crucial role in safeguarding farmers' incomes and promoting financial resilience. This paper reviews the existing literature on the impact of such government interventions on enhancing domestic savings among farmers, with an emphasis on identifying effective policies and areas for improvement.

Previous Studies

A study analyzed various agricultural income support programs, including output subsidies and land subsidies, and found no single program uniformly outperformed others in achieving domestic policy goals such as income support and the reduction of negative externalities. This indicates the complexity of designing effective support schemes that align with multiple policy objectives (Guyomard, Mouël, & Gohin, 2004) ^[1].

An analysis of the U.S. Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) subsidy programs revealed their differing impacts on farmers and consumers. While PLC generally motivates farmers to plant more, leading to higher supply, ARC can result in lower crop supply under certain conditions. This study provides insights into how subsidy programs can influence agricultural outputs and farmer income (Alizamir, Irvani, & Mamani, 2019) ^[3].

Investigation into the influence of campaign contributions on agricultural subsidies highlights the economic interests served by such contributions, suggesting a significant decrease in subsidies if contributions were eliminated. This points to the potential social welfare benefits of reducing agricultural subsidies and re-evaluating their allocation (Onyiriuba L, *et al.* 2020) ^[4].

Methodology

The review is based on a comprehensive literature search conducted in databases such as Web of Science, Scopus, and Google Scholar, using keywords related to agricultural subsidies, farmer savings, government support, and the Indian agriculture sector. Selection criteria included relevance to the topic, publication date (focusing on the last two decades), and methodological rigor.

Both quantitative and qualitative studies were considered to gain a multidimensional understanding of the impact of government policies.

Government Subsidies and Support: An Overview

Input Subsidies

Input subsidies on fertilizers, water, and electricity reduce production costs, potentially increasing profit margins and disposable income for savings. The effectiveness of these subsidies in reaching small and marginal farmers, however, varies, affecting their impact on savings.

Crop Insurance Schemes

Insurance schemes like the Pradhan Mantri Fasal Bima Yojana aim to protect farmers from income shocks due to crop failures, thereby stabilizing savings. The uptake and adequacy of coverage remain critical factors in their effectiveness.

Minimum Support Price (MSP)

The MSP guarantees farmers a minimum income for their produce, intending to mitigate market price volatility. While MSP has the potential to enhance savings by providing income stability, its impact is limited by the scope of crops covered and accessibility for all farmers.

Agricultural Credit

Subsidized credit through the Kisan Credit Card scheme enables farmers to invest in productivity improvements without depleting savings. The accessibility of these credit facilities and their terms significantly influence their utility in enhancing savings.

Direct Benefit Transfers (DBT)

Programs like Pradhan Mantri Kisan Samman Nidhi provide direct financial support, augmenting farmers' incomes. The direct transfer of funds ensures minimal leakage and can contribute significantly to savings, contingent on the adequacy of the amounts transferred.

Analysis of the Impact on Domestic Savings

This section synthesizes research findings on the impact of the aforementioned subsidies and support mechanisms on farmers' savings. It examines the direct effects, such as increased disposable income, and indirect effects, such as enhanced investment in productive assets, and how these contribute to savings. The section also considers variability in impact based on farm size, crop type, and regional factors.

Conclusion

The Role of Government Subsidies and Support in Enhancing Domestic Savings among Farmers" highlights the critical impact of targeted governmental interventions in fostering financial stability and growth within the agricultural sector. Through a comprehensive analysis of previous studies, it becomes evident that well-designed subsidies and support programs can significantly contribute to increasing domestic savings among farmers. These interventions not only aid in reducing operational costs and mitigating risks but also empower farmers with improved market access and revenue opportunities. However, the

effectiveness of such programs is contingent upon their alignment with the specific needs of the farming community, the avoidance of dependency and market distortions, and the promotion of sustainable practices.

To maximize benefits, it is imperative for policymakers to engage in continuous evaluation and adaptation of subsidy and support mechanisms, ensuring they are responsive to the evolving landscape of agriculture and the diverse needs of farmers. Moreover, the study underscores the importance of integrating environmental considerations into these programs to ensure long-term sustainability.

In conclusion, government subsidies and support emerge as indispensable tools in enhancing domestic savings among farmers, ultimately contributing to the resilience and prosperity of the agricultural sector. The findings advocate for a balanced approach that prioritizes efficiency, equity, and environmental sustainability in the formulation and implementation of such policies, ensuring the long-term well-being of farmers and the broader economy.

References

1. Guyomard H, Mouël C, Gohin A. Impacts of alternative agricultural income support schemes on multiple policy goals. *European Review of Agricultural Economics*. 2004;31:125-148. <https://doi.org/10.1093/ERA/E/31.2.125>.
2. Geda MB, Jemal K. Determinants of domestic saving in Ethiopia: A vector error correction approach. *Int. J. Agric. Food Sci*. 2021;3(2):60-65. DOI: 10.33545/2664844X.2021.v3.i2a.83
3. Alizamir S, Iravani F, Mamani H. An Analysis of Price vs. Revenue Protection: Government Subsidies in the Agriculture Industry. *Manag. Sci*. 2019;65:32-49. <https://doi.org/10.1287/mnsc.2017.2927>.
4. Onyiriuba L, Okoro EO, Ibe GI. Strategic government policies on agricultural financing in African emerging markets. *Agricultural Finance Review*. 2020 Jul 1;80(4):563-88.
5. Ochola RO, Fengying NI. Evaluating the effects of fertilizer subsidy programmes on vulnerable farmers in Kenya. *Journal of Agricultural Extension and Rural Development*. 2015 Jun 23;7(6):192-201.
6. Hoda A, Terway P. Credit policy for agriculture in India: An evaluation. Supporting Indian farms the smart way. Rationalising subsidies and investments for faster, inclusive and sustainable growth. Working Paper; c2015.
7. Pinstrup-Andersen P, Pandya-Lorch R. Food security and sustainable use of natural resources: A 2020 vision. *Ecological economics*. 1998 Jul 1;26(1):1.
8. Mgbenka RN, Mbah EN, Ezeano CI. A review of smallholder farming in Nigeria: Need for transformation. *International Journal of Agricultural Extension and Rural Development Studies*. 2016 May;3(2):43-54.
9. Baiphethi MN, Jacobs PT. The contribution of subsistence farming to food security in South Africa. *Agrekon*. 2009 Dec 1;48(4):459-82.