EXECUTIVE SUMMARY

All governments provide public funds to support agriculture and improve human welfare. Subsidies for watershed development programmes in India are intended to serve both of these objectives simultaneously, but combining them can actually undermine watershed projects.

This paper outlines the history of subsidies in India, then goes on to discuss when the use of subsidies is justified and when it is not. Briefly in economic terms, introducing a subsidy is only justified if two broad conditions apply: (1) There must be a market failure; and (2) A subsidy must be the best way to correct the market failure.

Subsidies, used inappropriately, can have many drawbacks. Heavy subsidies guide farmers to accept technologies that they do not want and will not maintain, inhibiting project managers and researchers from gaining feedback on what farmers actually want. Financial subsidies can discriminate against products and practices that are not subsidised, thus impeding scientific progress and stifling indigenous knowledge. Subsidies can also undermine people’s incentives to take the initiative, and as a result, rural development agencies promoting self-reliance find it difficult to operate without subsidies because villagers have become accustomed to ‘giveaways’. This paper provides numerous examples, from India and elsewhere, to demonstrate these problems.

Several approaches are suggested to promote watershed development with no or low direct subsidies. These include institutional innovations to manage local externalities, support to community organisations, and sequencing projects to reduce financial constraints.

The authors conclude by pointing out how evidence from around the world shows that farmers will invest in conservation practices when it is profitable for them to do so. This suggests that farmers do not need subsidies so much as they need less expensive, more profitable technologies; policies that encourage them to take a long term perspective in caring for their land, greater awareness of the costs of degradation, and support to organise themselves to invest in conservation.
SUBSIDIES IN WATERSHED DEVELOPMENT PROJECTS IN INDIA: DISTORTIONS AND OPPORTUNITIES

Heavy subsidies are a standard component of virtually all agricultural and rural development projects in India. It is difficult to find examples of government or non-government projects that do not include substantial funding from the sponsoring agency. Such funding can take several forms, helping to pay for labour, agricultural inputs, machinery services or technical expertise. Sometimes assistance is provided to help rural people carry out work on their own, and sometimes the work is done for them.

This paper discusses the effects of subsidies on watershed development projects, particularly in India, although the arguments presented are relevant throughout the world. It focuses particularly on heavy subsidies for labour and specific technologies. In this paper we do not argue against government support for agriculture and poverty alleviation. Rather, we aim to show that some unintended, negative consequences of heavy subsidies in watershed management programmes actually undermine watershed development objectives. The cause of the problem is that watershed subsidies are intended simultaneously to support improved land management and rural employment generation. This is a lot to demand of a single policy intervention. We argue that watershed programmes could be more successful if these subsidies were reduced or eliminated, and the objectives of support for agriculture and poverty alleviation were achieved through alternate means. We conclude by suggesting alternate approaches that avoid subsidies or minimise their potentially destructive impacts.