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FERTILISER SUBSIDY

Not ready yet for Nilekani model

The Nilekani panel's proposal on direct cash transfer of subsidy to farmers in phases involves daunting logistic challenges.

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The Task Force (TF) on 'Direct transfer of subsidies on kerosene, LPG and fertilisers' headed by Mr Nandan Nilekani, Chairman, Unique Identification Authority of India (UIDAI) has, in its interim report, recommended a road-map for direct cash transfer of fertiliser subsidy in three phases:

Create software capability and tech support to track movement of fertilisers from retailer to farmers;

Set up infrastructure to facilitate direct cash transfer to bank accounts of retailers; and

Enable a system where farmers buy at market rates from retailers and get cash transfers to UID-linked accounts. Currently, fertiliser subsidy is disbursed at the level of manufacturer or importer. The Ministry of Fertilisers allocates funds to Department of Fertiliser (DOF). DOF in turn, passes on to the manufacturer who adjusts retail prices according to the subsidy.

Manufacturers/importers are required to sell urea at controlled price (MRP) and collect subsidy from the Government equal to excess of cost of production/import and distribution. Permissible cost to producers is determined under 'New Pricing Scheme' (NPS).

NBS POLICY

Manufacturers of decontrolled phosphorus and potassium (P&K) fertilisers are given subsidy under the nutrient-based subsidy (NBS) policy. Subsidy rates under NBS are fixed on per nutrient basis. Unlike urea, these producers have the freedom to fix MRP.

The thrust of the subsidy policy is to keep fertiliser price to farmers 'low'. Price connects with their capacity to pay. There are 107.6 million small and marginal farmers constituting 83.3 per cent of 129.2 million farm households. Large farmers (holding more than 10 hectares) are only 0.8 per cent.

While continuing the subsidy, TF proposes to shift the point of disbursal from manufacturer to retailer/farmer. Under the scheme, DOF will transfer money to the nodal bank which will credit to account of retailers/farmers in a network of banks after checking with CSMS (Certified Software Measurement Specialist).

In the second stage, the retailer will buy fertilisers from manufacturer at market price and sell it to farmers at a lower price enabled by subsidy. In the third stage, retailer will sell at market price; however, 'effective' price paid by farmer will be lower due to subsidy.

FLAWED PERCEPTION

What has prompted such a drastic shift? This is based on a perception that extant system is prone to leakages! This is flawed. A fairly rigorous system of subsidy payments is in place to prevent any misuse. On other hand, benefits are huge.

The Government has to deal only with a handful of manufacturers (29 urea units and 19 DAP and NP/NPK complex plants). And, that helps in keeping cost of administering subsidy low. Fertiliser Industry Coordination Committee under DOF does this job.

Any apprehension that producers can exploit system is 'unfounded' as under NBS for decontrolled fertilisers, they are paid on 'uniform' per nutrient basis. For urea too, the Government has promised to shift to NBS. This will also help correct the imbalance in fertiliser use. Increase in fertiliser subsidy is often linked withmisuse. This too is a wrong notion. There has been no increase in MRP (10 per cent hike last year came after eight years) while there has been a steep increase in prices of feedstock and other inputs besides an increase in fertiliser use. Hence the rise in subsidy bill.

Farmers will be hard hit were the dealer network were to collapse due to delayed subsidy payments.

In 2008-09 thus, subsidy zoomed close to Rs 100,000 crore. This was primarily due to skyrocketing international crude price and steep increase in prices of feedstock and imported fertilisers. In 2009-10, it dropped to Rs 52,000 crore, as prices cooled that year.

GYRATIONS IN SUBSIDY

We will have to live with gyrations in subsidy irrespective of the chosen delivery point as subsidy is a function of 'target' MRP on one hand and cost of production/import and distribution on the other. It is not a factor of how it is administered. Clearly, there is no justifiable basis for the proposed change. Still, if we take a plunge, this could have disastrous consequences. There are 2,76,313 fertiliser sale points. From a handful of manufacturers now, the government will have to deal with lakhs of retailers.

Setting up the required infrastructure is a huge challenge by itself. But, the biggest worry is the States do not have wherewithal and the will to do the job right. Infotech companies can provide software/tech support, but the crucial job of tracking and authenticating has to be done by States.

In 1991-92, the government exempted small and marginal farmers from increase in MRP of all controlled fertilisers by 30 per cent (except ammonium sulphate, CAN and ammonium chloride which were decontrolled). The money equivalent of this increase was given to States to be transmitted 'directly' to beneficiaries. The result was a fiasco. A meagre 3.5 per cent of farmers benefited from it. Subsidy amount involved then was around Rs 400 crore. Now, we are talking of astronomical Rs 50,000 crore to be paid on certification by States!

PAYMENT HASSLES

Under the present system, manufacturers get subsidy on 'dispatch' – 90 per cent on account payment and the balance on verification. When, it comes to dealing with lakhs of retailers, it will be dangerous to continue with on account payments. Will the entire payment be released after sale? Will a retailer have enough cash to pay full/market price in the very first place?

All the more so, when subsidy component accounts for two thirds (for DAP) of price paid by him. Under extant system, subsidy payments to manufacturers often get delayed due to budget constraints and other reasons. The government has issued 'fertiliser bonds' to them in lieu of cash. This had its own problems. One cannot dream of bonds being issued to dealers!!

There is thus a real danger of dealer network collapsing due to liquidity squeeze in an event of subsidy payments getting delayed. The Government could be putting the fertiliser supply chain to serious risk. Eventually, farmers would be hard hit.

In the third stage, problems of reaching subsidy to 129 million farm households will be of unimaginable proportions. How will they buy at market price? When will they get paid? Will they be 'fully' compensated? Will subsidy go to the 'right' persons?

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