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Fertiliser subsidy coupons: Impracticable?

Issue of coupons is virtually tantamount to cash in the hands of the farmers. There is, thus, a greater chance of their diverting this money to uses other than purchase of fertilisers (unlike the existing dispensation where a farmer has to necessarily buy the material in order to get the subsidy's benefit). Consequently, the very objective of the subsidy — to promote fertiliser use for producing foodgrains — will be defeated, says **Uttam Gupta.**

THE PRESENT method of subsidising fertilisers, that is, selling at a uniform price below the reasonable cost of supply, has come under flak in view of its alleged benefit to the more well-to-do farmers and the producers of fertilisers. As an alternative, economists have come up with the idea of targeting subsidy and making it transparent.

In this context, Dr Kirit Parekh, member of the Expenditure Reforms Commission (ERC) had proposed in an article published in a leading financial daily some time ago, that 60 kg of nutrient be supplied to each of 105 million farm households at the prevailing concessional prices. This adds up to 6.3 million tonnes or 37.5 per cent of the total nutrient consumption. For the balance 62.5 per cent, he recommended sale at the higher market price.

The underlying premise of this package is that the Government's responsibility should only be to protect the most vulnerable farming families. According to Dr Parekh, these are the 'subsistence' farmers — those who produce foodgrains only for consumption. He argues that by using 60 kg of nutrients, a farmer would be able to produce about 850 kg of foodgrains, enough to feed four persons in the family.

Thus, even as the subsistence needs are met in full at 60 kg, using more fertiliser would generate a marketable surplus and, therefore, should not be entitled to concession. As a result, there will be substantial saving in subsidy — about Rs 8,300 crore representing 62.5 per cent of the total payments of Rs 13,250 crore during 1999-2000. While this sounds attractive, careful scrutiny reveals serious flaws.

At the outset, the assessment that with 60 kg of nutrients, a farmer can produce enough to meet his subsistence needs is based on the experience of Punjab, which cannot be generalised. Taking an average response ratio of 1:7, 60 kg of nutrients would give only 420 kg of grains — just 50 per cent of the minimum requirements. In areas with lower response, the shortfall in production will be more.

Even assuming that the nutrient entitlement at subsidised price is raised to a level (say, 120 kg) that fully covers subsistence needs, the farmer cannot be condemned to living in this manner throughout his life. The objective of a progressive policy should be to enable him to increase fertiliser use, leading to higher productivity and income. This has been completely glossed over.

Charging higher prices for nutrients used in excess of 60 kg will lead to an increase in the production cost of foodgrains. In respect of the purchase by Government agencies for sale through PDS, food subsidy will increase if the consumer's price has to remain unchanged. On sales through private trade — these meet the bulk of the poor population's needs — there is no protection whatsoever. Thus, the package is anti-consumer, apart from being anti-farmer.

At the implementation level, by proposing the sale of 60 kg to all farmers, Dr Parekh has tactfully got over the problem of having to identify the target group, unlike under the TPDS, where people below the poverty line have to be identified. But, then, contrary to the spirit of the proposal, even the richer farmers will get 60 kg of subsidised supplies!

How exactly will subsidised supplies reach the farmers? This could, perhaps, involve running a PDS for fertilisers akin to the system in vogue for foodgrains before the TPDS was introduced by the former Prime Minister, Mr Deve Gowda, in 1996. But, the PDS has many problems — inadequate infrastructure, high cost of administration and large-scale misuse/leakages (according to an estimate, about 30 per cent). Even the Comptroller and Auditor General (CAG) has criticised these.

Recognising these problems, Dr Parekh and other economists have suggested the alternative of issuing coupons to consumers. This was also reportedly mooted by the ERC. Under this, even as the producer/seller sells at the full market-based price, the farmer will pay — from his pocket — only the lower target price (as decided by the Government), with the difference to be covered by a coupon. To illustrate, let the target price be Rs 460 for 100 kg of urea (this corresponds to the current selling price of Rs 4,600 per tonne under the existing system of controls). Further, assume that under the decontrolled regime, the market price settles at Rs 8,600 per tonne or Rs 860 per 100 kg. With these, the value of the coupon will be Rs 400 per 100 kg.

On getting the coupon encashed, the farmer can go to any retail outlet and buy the quantity of fertilisers he needs by paying the full price, that is, Rs 860 per 100 kg. The Government need not worry about opening authorised outlets/ration shops to sell fertilisers. And there will be no problem of leakage either, as the price is uniform, unlike in the PDS where, ration shop sales are at prices lower than the market price.

The proposed system is, however, not free from problems. Its implementation would require making arrangements on a monumental scale for printing 105 million coupons, their distribution to genuine farmers, and encashment. While coupons could be issued at the beginning of the year to cover needs for both seasons — kharif and rabi — the scheme's proponents cannot be oblivious of the need for adjustment in its value to reflect cost increases during the year.

In this context, it may be worth noting that already; in the case of decontrolled P and K fertilisers — under the scheme of concession support — even as the selling price remains unchanged for the entire year, the concession amount is adjusted every quarter to reflect the impact of changes in cost of raw materials, depreciation of the rupee, and so on. But for this, there would be a continuous pressure on the selling price and an adverse impact on consumption.

Likewise, under the proposed system and with a view to prevent price hikes, the concession will have to be raised to reflect increased in cost. This would require the issue of fresh coupons whenever the cost goes up. Taking a cue from the situation in the decontrolled P and K sector, this may have to be done at least four times a year. In short, the task would involve printing and distribution of 420 million coupons every year!

To execute this, the Government would need several printing presses, lakhs of revenue officials, thousands of retail banks/cooperatives (for encashment of coupons) and other logistics support for the handling and distribution of coupons.

Fertiliser use is highly seasonal, that is, about 45 days in kharif and 45 days in rabi, or a total of just three months a year. Therefore, timely access to the material is important. This is possible only when the farmer has the coupon in hand and is able to encash it well in time. But, under the proposed set up, delays are unavoidable and could play havoc with the fortunes of the farmers.

The possibility of large-scale misuse of the system is also not ruled out. And on the basis of what Mr Deve Gowda said in the context of implementing anti-poverty programmes, the farmer is likely to get only a fraction of the coupon amount. In several cases, the coupons may even land up with anti-social elements who have a nexus with the political/bureaucratic set-up.

Issue of coupons is virtually tantamount to cash in the hands of the farmers. There is, thus, a greater chance of their diverting this money to uses other than purchase of fertilisers (unlike the existing dispensation where a farmer has to necessarily buy the material in order to get the subsidy's benefit). Consequently, the very objective of the subsidy — to promote fertiliser use for producing foodgrains — will be defeated.

Any scheme of targeting subsidies, including the coupon system, involves State governments as a vital link in implementation. When the High Powered Fertiliser Pricing Policy Review Committee (HPC) in 1998 sought their opinion on this, the prompt reply was that they were not equipped to administer such a system. If, despite this, the HPC recommends that the subsidy be given directly to the farmers, it is perplexing! There is an urgent need to get over the euphoria over targeting subsidies. Such a system involving direct interface with millions of farmers is just not workable. This was tried on a limited scale in 1991- 92, when small and marginal farmers were exempted from the 30 per cent increase in selling price. It was a fiasco as the Government conceded in Parliament that a meagre 3.5 per cent of target group benefited.

Likewise, concessions for P and K fertilisers — when introduced in 1992 — were intended to be given directly to farmers. Sensing the virtual impossibility of the task ahead, State governments decided to route this through the producers. The latter were expected to sell at a lower price and claim excess of reasonable cost over this from the former. This arrangement is in vogue even now with the government routing subsidy through the industry.

Eminent economists should refrain from building castles in the air, and avoid floating concepts that are not workable. Instead, they need to take an objective look at the existing system and focus on how it can be improved. If an increase in subsidy is their sole concern, it can be checked only by tackling the prime causes.

These are: Sustained and steep increases in prices of inputs, especially feedstock; and selling price of fertilisers not keeping pace with rising production cost. If there is genuine concern about subsidy, there is no escape from tackling these, no matter what policy regime is in place.

(The author is chief economist, Fertiliser Association of India. The views expressed are personal.)