PRESS INFORMATION BUREAU
पत्र सूचना कार्यालय
GOVERNMENT OF INDIA
भारत सरकार

Deccan Herald, Bangalore
Thu, 26 Jan 2017, Page 10
Width: 31.16 cms, Height: 48.26 cms, a3, Ref: 18.2017-01-26.6

FERTILISER SUBSIDY

Will DBT work?

The version of DBT being tried in pilot districts is flawed. It will provide no proper assessment of the scheme's effectiveness.

By Uttam Gupta

Alluding to the direct benefit transfer (DBT) of fertiliser subsidy, in budget speech for 2016-17, Finance Minister Arun Jaitley had stated: "We have already introduced DBT in LPG. Based on this successful experience, we propose to introduce DBT on pilot basis for fertiliser in a few districts in the country with a view to improving quality of service delivery to the farmers."

The focus on the DBT has its link to a revelation made in Economic Survey (2015-16). It stated that "24% of the fertiliser subsidy is spent on inefficient producers, 41% is diverted to non-agricultural uses and 24% is consumed by larger—presumably—richer farmers". This leaves a meagre 11% for poor/small and marginal farmers who alone should be the sole beneficiary as promised by Prime Minister Narendra Modi.

Indeed, the Survey had strongly advocated DBT of fertiliser subsidy to the bank accounts of beneficiaries using the JAM (Jan Dhan–Aadhaar–Mobile) platform. Yet, all that we see is DBT on a pilot basis in 16 districts. Currently, it is in operation in two districts — Krishna and West Godavari in Andhra Pradesh. For the remaining 14 districts, the Centre plans to start work from December. Since by this time much of Rabi sowing season is already over, effectively the pilots would begin from April 2017.

Even so, running a pilot project by itself does not ensure that the scheme will actually be launched. The proof of pudding is in eating. For instance, in 2012-13, the UPA—government had also announced a road-map for all-India launch of DBT in April 2014 preceded by trial runs. But, the plan remained on paper. There is no guarantee that the Modi dispensation will make it happen.

Ironically, even the pilot is wrongly conceived and is completely out of sync with the basics of DBT. To get an idea, let us first look at how the existing system works. The manufacturers sell fertilisers at a low price and claim excess of cost of supply over it as subsidy from the central government. In the case of urea, the subsidy varies from unit to unit whereas for decontrolled complex fertilisers, it is 'uniform' for all units. To some 95% of subsidy to urea units (85% to complex manufacturers) , it is released on sale of material in each district. The balance 5% to 15% is paid on confirmation of sales to farmers by the state governments.

Under the DBT, subsidy goes to the bank account of beneficiary/farmer. Therefore, it cannot be routed through producers who need to sell fertilisers to farmer at full cost-based or market-based price. This is how LPG subsidy is disbursed under PAHAL (Pratyaksh Hastantrit Labh) scheme in vogue since Jan 2015. But, under the pilot for fertilisers, this principle has been thrown to the winds.

Under this, the Centre won't credit the subsidy in farmer's bank account and he will continue to buy fertiliser at subsidised rate. As soon as he purchases fertiliser, he will have to identify himself —using Aadhaar number or Kisan Credit Cards (KCC)—through a point-of-sale (PoS) device placed with the retailer. Following this, a recommendation of his soil condition and fertiliser requirement will be generated, which he may or may not follow.

Thereafter, the difference between the market rate and subsidised price will be credited into the bank account of the manufacturer. Initially, the subsidy will be paid weekly and then on a real-time basis as and when the system stabilises. The PoS devices will have to be purchased by the companies themselves.

This sort of architecture is not DBT. Any scheme which does not involve crediting subsidy directly in to beneficiary's account cannot be termed DBT. What is being done is continuation of existing system (old wine in new bottle) with changes that will make life more miserable for manufacturers.

At present, they get 95%-85% of subsidy once the material reaches the district. Under the proposed dispensation, to get the entire subsidy amount released, they will have to wait till the product is sold to farmers. This will aggravate their cash flow problems caused by under-provision in the budget year after year (for instance, during current year, there is shortfall of about Rs 30,000 crore).

Wrong move

Moreover, subjecting manufacturers to controls (by ordering them to sell at low price as per government's diktat) and yet paying them subsidy on market based price is anomalous. If, the intent is to move the producers towards a market driven price, then why not leave them free to sell at that price? Why ride piggyback on them for delivering subsidy to farmers?

Will it achieve better targeting? The answer is an emphatic 'no'. This is because fertiliser will continue to be available at low price to all farmers irrespective of whether he is rich or poor/small or large. It won't prevent diversion either as biggest incentive to divert is its low price. Lured by much higher market price, traders can always find ways to sell subsidised fertilisers to chemical factories.

Clearly, the version of DBT being tried in pilot districts is flawed. It will provide no proper guidance in judging the effectiveness or otherwise of the scheme. It won't be of any help in dealing with the maladies as pointed out in the Economic Survey.

A plausible reason as to why the government does not want to embrace DBT in its 'real' form could be absence of data on millions of those farmers who do not own land but do farming. This is a genuine concern and needs to be addressed on top priority by building their data base along with those of owner/cultivators.

But lack of such data cannot be an excuse for trying a flawed experiment. Yet, if the government is going ahead with it only reinforces a lurking suspicion that unlike LPG, it is not serious about embracing this revolutionary idea for delivering fertiliser subsidy.

(The writer is a New Delhi-based policy analyst)