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DBT in Fertilizer Sector A Reality Check

subsidy to retail customers based on sales made; and Phase IV – Subsidy to farmers based on details of sale made.

Based on the recommendations of the Task Force, a mobile based fertilizer management system (mFMS) was designed by National Informatics Centre (NIC) to provide end-to-end information on the movement of fertilizers from manufactures to the retail level. The mFMS was rolled out across the states with effect from 1st November, 2012. Part payment of subsidy in mFMS (5% in case of urea and 10/15% in case of P&K fertilizers) was linked to sale of fertilizers by the wholesalers to retailers and receipt acknowledgement of the same by the retailers. The industry fully supported the move and provided training to the retailers for acknowledging the receipt of fertilizers received from the wholesalers/companies. Fertilizer companies spent lot of resources in terms of money, time and energy in the process.

In the Union Budget for 2016-17, it was stated that based on successful experience of DBT in LPG, DBT would be introduced on pilot basis for fertilizers in few districts in the country to provide quality delivery services to the farmers. Seventeen districts were selected for the pilot project on direct transfer of fertilizer subsidy. To accomplish this objective, integrated fertilizer management system (iFMS) was developed.

The pilot project was initiated from Krishna and West Godawari districts in Andhra Pradesh in October 2016. Point of sale (POS) machines were purchased by fertilizer companies and installed at the retail outlets. It is not DBT in true sense as subsidy continues to be reimbursed through the fertilizer industry and not directly to the bank accounts of the farmers as is the case with LPG. In case of fertilizers, the procedure has been changed from disbursement of subsidy from receipt of fertilizers in the district to sale of fertilizers to the farmers through POS machines. A large number of issues and problems were faced by the retailers and fertilizer companies in the pilot project including generation of subsidy bills. The issues and problems were brought to the notice of the Department of Fertilizers, Government of India. It was also requested to analyse the outcome of the pilot project before rolling out the scheme across the country.

In spite of numerous problems encountered in the pilot project, GOI started rolling out the scheme in various states in stages w.e.f. 1st September, 2017. It was expanded to all states by 1st March, 2018. The fertilizer industry purchased and installed the POS machines at approximately 2 lakh retail outlets across the country and provided training to the retailers about the operation of POS machines. As per the policy, the disbursement of subsidy is linked to sale of fertilizers to farmers through POS machines by the

Fertilizer has played and will continue to play a vital role in growth of Indian agriculture. Government recognized the importance of fertilizers very early and put in place the policies which encouraged application of fertilizers and increased domestic production. To achieve the objectives of making fertilizer affordable to the farmers and ensuring self-sufficiency in food grain production, the Government of India (GOI) introduced subsidy scheme way back in 1977. Subsidy to the farmers has been routed through fertilizer industry for administrative convenience of the Government. Since 1977, there has been changes in the fertilizer policy such as decontrol of phosphatic and potassic fertilizers with effect from 25th August, 1992; introduction of *ad hoc* concession on such fertilizers from *rabi* 1992-93; new pricing scheme for urea units effective from 1st April, 2003; fertilizer monitoring system (FMS) in 2007 to monitor sale of fertilizers upto wholesale dealers; implementation of nutrient based subsidy (NBS) from 1st April, 2010 for phosphatic and potassic fertilizers, new urea policy in 2015, etc. In spite of these changes in policy for the sector, fertilizer subsidy continues to be routed through fertilizer industry.

Fertilizer industry has been vociferously advocating for direct benefit transfer (DBT) of fertilizer subsidy to the bank accounts of the farmers. As per Union Budget for 2011-12, Government was to move towards direct transfer of cash subsidy in a phased manner for better delivery of kerosene, Liquefied Petroleum Gas (LPG) and fertilizers. Government of India constituted an inter-ministerial Task Force under the Chairmanship of Mr. Nandan Nilekani, Chairman, Unique Identification Authority of India (UIDAI) for evolving a mechanism to provide direct subsidies on kerosene, LPG and fertilizers to the intended beneficiaries. The Task Force was asked to design appropriate IT solutions for the same. The Task Force recommended phase-wise roll out of DBT of fertilizer subsidy to farmers namely, Phase I – Tracking of movement of fertilizers up to the retail points and release of part subsidy through Industry on acknowledgement of receipt of fertilizers by retailers; Phase II – Part subsidy to manufacturers based on retail sales of fertilizers to buyers; Phase III – Entire

retailers on weekly basis. Companies have often been unable to generate DBT bills due to system failures. As per the data received from 25 major fertilizer companies and 10 SSP manufacturers, bills of Rs. 4696 crore could not be generated due to system problems as on 31st March, 2018. The companies could only raise bills of Rs. 602 crore, out of which payment of Rs. 315 crore was made.

The problems are plenty related to system, policy, procedures and lack of incentives to retailers and farmers making this cumbersome system successful. First of all three servers of UIDAI, NIC and internet service provider should be connected simultaneously to make the sales through POS machines. In addition, power and internet connectivity in the rural areas remain poor.

NIC software is plagued by numerous glitches in the system and the system response is very slow. The outcome of interaction with NIC for trouble shooting remains low. There is a lack of expert support team of DBT in the districts. Stocks are not getting updated on a real time basis but many a times, there are irrational changes. Therefore, the issue of mismatch of physical stock with iFMS stock continues to persist. Stock reconciliation is creating a major hurdle due to incorrect stock data in the system. Sale of some quantities by the retailers without using POS machines adds to the variations in physical stock and stock shown in the system. Inaccurate entry of data by retailers also causes many problems. For example, the stock of one company product is shown as product of other company. Reports to reconcile the receipt, sales and stock data are not being generated in the system. In view of such problems, the entire planning of supply of fertilizer to meet the demand in various parts of the country may get adversely affected.

There are problems of marketing federations for advance stocking, acknowledgment and sales of fertilizers by the cooperative

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societies. Many of the retailers are from farming background where thumb impressions are not prominent. So, their thumb impressions are not recognized by the POS machines. Similarly, the finger print impression of the farmers has the same problem of mismatch. Aadhaar authentication is posing a serious problem. There is also no provision in the system for purchase of fertilizers by the farmers having Kisan Credit Cards and Voter ID Cards. The POS devices are not designed for operating in the vernacular languages. There is no provision of sale of subsidized fertilizers to the customized / mixture manufacturers.

The maintenance of the POS machine is also a major issue. After-sale service is very poor. The resolution time is quite long and retailers may not wait for such a long time and resort to selling fertilizers without the POS devices. Such sales not only cause the wrong representation of stocks, but also the subsidy will be denied to the manufactureres on such material.

In addition to systemic problems, there is lack of initiatives on policy issues. Requirement of certification of sale of fertilizers by the auditors and of proforma B₁ for quantity of sales by State Governments has no relevance as the basis of subsidy bills under DBT is on sale of fertilizers by the retailers to farmers through POS machines. To avoid instances of sales without POS machines, there is need for amendment in FCO for making it compulsory for retailers to make sales only through POS machines.

The model of DBT being implemented in fertilizer sector is not DBT in true sense. It has only prolonged the delay in payment of subsidy which was earlier paid on receipt of material in a district. Now, it will be paid only after sale to the farmers. It means a delay of 4-6 months since it is a seasonal commodity. Urea pricing policy includes only 45 days' working capital in calculating cost of production of each unit. Even more serious is the fact that system for implementation of DBT suffers from numerous inadequacies. As per the DBT scheme, the subsidy has to be paid within one week of raising the bills. But system is not allowing to raise the bills. Therefore, the provision of prompt payment of dues of the industry remains only on paper.

Outstanding payments have increased the working capital requirement manifold. The RBI permits for two months against subsidy receivables. This needs to be increased to at least 6 months. RBI has issued circular to the scheduled commercial banks and financial institutions on February 12, 2018 redefining rules where even one day delay in repayment of interest or principal will designate the account as special mention account. This can push many fertiliser companies to insolvency.

Industry needs to be paid its dues in reasonable time after it has fulfilled all the requirements. There is need to supplement the manpower to resolve the systemic problems of DBT and carry out necessary policy changes. Fertilizer companies should be exempted from the provisions of the RBI circular dated February 12, 2018. The experience so far shows that implementation of DBT system may not be trouble free for quite some time. In view of this, it may be examined whether the subsidy can be partly paid when the material is received by the wholesaler, partly when retailer acknowledges the receipt and the balance when sale takes place to the farmers through POS machines. ■