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DBT for Fertiliser Subsidy

Food is the basic necessity for survival. Keeping in view the importance of food for survival of human beings, various countries provide support to agriculture, particularly to food grains in different forms. The subsidies are provided either on inputs, such as, seeds, fertilisers, irrigation, etc., or on finished foodgrains or combination of both. Different countries have experimented, adopted and used various models of subsidy payment. Developed countries mostly provide income support to farmers. Even some of the emerging and developing economies are changing policies for agriculture from product support to income support to farmers.

Fertiliser being a vital input for agriculture, subsidy scheme was introduced in India way back in 1976-77. Since then, the government of India has entrusted the responsibility to the industry to make available subsidized fertilisers to farmers. In other words, subsidy to farmers have been routed through the fertiliser industry for administrative convenience of the government. The system worked well till the year 2001-02 or so. Under the scheme, industry first passes the benefit to the farmer and gets reimbursement from the government after bills are raised. Industry has been performing the task for such a long period without fail and with no cost to the exchequer. Of late, it is becoming increasingly difficult for the industry to carry on the burden of this responsibility in view of (i) deteriorating financial health caused due to delay in payment and carry forward of subsidy dues from every year to next year and (ii) under recoveries on various heads under pricing and subsidy policies. Industry has also to deal with micro-management of day to day operations by the government. Major time and energy of the industry is wasted in collection of legitimate dues from the government. This has seriously vitiated the business environment in the fertiliser sector.

Fertiliser industry has been advocating for direct benefit transfer (DBT) of fertiliser subsidy to farmers for last several years. Government of India has expressed its intention to implement DBT in phased manner in Union Budgets. Government has made

some efforts in this direction albeit half-heartedly in last 6-7 years. Fertiliser industry has been extending full support and cooperation to the government towards the steps taken by the government for all these years. A substantial amount of money has been spent by the industry on training of field staff and retailers and on associated expenses. Government of India is now implementing DBT in 19 pilot districts. The analysis of data available from pilot districts would facilitate to roll out the scheme across the country. Meanwhile, fertiliser companies have been asked to fulfill the deadline of the procurement of about one lakh seventy six thousand Point of Sale (POS) machines by end of May, 2017 for every registered retailer operating in the country. Fertiliser companies have already procured POS machines for the pilot districts and are also in the process of procurement of more machines. All fertiliser sales transactions w.e.f. June, 2017 have to be done through PoS machines. Any non-compliance may lead to withholding fertiliser subsidy by Department of Fertilizers (DoF). This is an unrealistic deadline devoid of any logical considerations.

Government of India is implementing the DBT scheme for fertiliser in 19 districts which is not DBT in true sense. Unlike DBT for LPG, under present DBT scheme for fertiliser, beneficiaries are continued to be supplied subsidised fertiliser instead of subsidy getting transferred to their bank accounts. In other words, the existing practice of routing subsidy through the industry continues with change in methodology of disbursement. The present scheme provides payment of subsidy based on actual sales by the retailers to the beneficiaries captured on POS machine on weekly basis. Accordingly, fertiliser companies operating in pilot districts can generate weekly subsidy claims. However, in practice, no subsidy bill has been processed/ paid so far as implementation of the scheme is yet to be stabilised. Companies have incurred all costs upfront and non-payment of subsidy on Go-Live districts has affected cash flows adversely. Before rolling out the scheme countrywide, it was necessary that so called DBT is first stabilized in pilot districts. The present DBT scheme being tried in pilot districts has posed many technical and operational problems. These are discussed in the following paragraphs.

There are various technical problems experienced in pilot districts. These include network failure issues in PoS, biometric authentication issues, etc. Moreover, the response time from NIC to address various technical problems at the field level is far from satisfactory. Pointing out this problem in the Workshop on DBT Implementation held on 2nd February, 2017, the Collector of Krishna district suggested to strengthen NIC into 3 separate teams, viz., Development Team, Data Updation/Maintenance Team and Helpdesk/ troubleshooting Team. There

should be better coordination, technical support and prompt response from NIC to address the operational challenges encountered at the field level.

There are a variety of other problems which need to be resolved before implementation of DBT. Fertiliser production is a continuous process. Production takes place throughout the year. Fertilisers are prepositioned nearest to the consumption centers to meet total fertiliser demand during few months of the two cropping seasons, i.e., *Kharif* and *Rabi*. Industry has been paid subsidy on the basis of despatches of materials from factory for several decades since the inception of subsidy scheme in India. Industry now gets 95 per cent subsidy for urea after materials are received in districts and the balance amount is paid after acknowledgement made by the retailers. Under present urea policy, there is provision of 1.25 months for sales realization. Inventory carrying period will increase to about six months for urea industry under the proposed DBT scheme. This will increase the requirement of working capital and the interest cost for the industry significantly. There is need for making provision of working capital for at least 180 days in pricing policy as the DBT is implemented across the country.

Under present scheme, industry is the only stake-holder which will suffer due to non-performance of retailers and state governments. The state governments should make it mandatory for the retailers to sell fertilisers through POS devices only. Moreover, retailers will be the key players as they are loaded with additional roles and responsibilities under DBT. The payment of subsidy is entirely dependent on accurate record of transaction with respect to the beneficiaries, origin of material, quantity of material, etc. Error may lead to delay or non-payment of subsidy. Retailers should be accountable under relevant provisions of FCO to transact and record the sales accurately and efficiently. Currently, retailers do

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not have incentive to maintain this additional responsibility. Retailers need to be incentivized to discharge the additional duties.

Disallowance of inter-district movement of fertilisers under iFMS may restrict fertiliser availability at retailers point. In many cases, the hired warehouse in one district is nearer to retailer in adjoining district. For optimizing costs, companies may move material from rakes to godown network and wholesalers and moved to retailers in the state across the district boundaries. Currently, the wholesalers' districts are captured in iFMS. Under DBT, if the supplying wholesaler is not from the same district as that of DBT district, then the quantities supplied by them to the retailers of DBT district could be ignored for subsidy payment. The restriction will increase the cost in the field causing undue burden on companies. Therefore, there is need for continuation of inter-district movement of fertilisers in the interest of the farmers to get fertilisers without delay.

The current truck challan system is cumbersome and impractical. The system envisages at each rake point on the details of movement of fertiliser entering lorry number, name of drivers, mobile number of driver, name of the owner, etc. Three copies of challan/ invoice should be printed at the rake point. There are more than 700 rake points for handling fertilisers. Current rake points do not have infrastructure for installation of IT facilities. The system requires complete review and the Ministry of Railways be taken on board to assess whether

the system is practical.

Under the present scheme of DBT, subsidy is paid on actual sale to the farmers and hence B₁ certification for quantity has lost any relevance. Quantity check of subsidy is supposed to take place at wholesaler/ retailer level before actual sale. Similarly, for implementation of DBT scheme, payment of subsidy should not be linked to quality certification in B₂ proforma.

The pilot project in selected districts does not capture the details of farmers bank accounts. Even under pilot project, farmers' accounts may be seeded. This will avoid duplication of efforts later and facilitate transfer of subsidy to the farmers' accounts directly when DBT is implemented in true spirit which is the ultimate goal/ aim of the scheme.

At the conclusion, it may be mentioned that there is genuine need for implementation of DBT across the country. Fertiliser industry has been consistently giving full cooperation to the government towards achieving this objective so far. Before implementation of DBT without due preparation and debugging system will only harm the cause of DBT. Operational challenges encountered at the field level need to be addressed urgently. NIC is needed to be strengthened to address various technical problems at a greater speed. The DBT scheme provides to pay subsidy bill on weekly basis. Before this, the huge arrear of subsidy needed to be paid to the industry. DBT without resolving prior claims may create challenges for fresh payments. According to the time lines for DBT which is in present form, entire subsidy will be paid only though record of sales in POS machines by 1st June, 2017. But the budget for 2017-18 does not provide adequate funds to make the system work. Finally, there is no mention of time line by when the direct benefit transfer will be credited to farmers' bank accounts. There is need for a clear road map to achieve the ultimate objective of the same. ■