1. Why Government Must not give up on Fertiliser DBT

Context:

- According to a survey by NITI Aayog, nearly two-thirds of the farmers don't favour direct benefit transfer (DBT) of fertiliser subsidy.
- If this is also the thinking of our policymakers, then it would leave one shell shocked as it would be tantamount to a complete reversal of the process set in motion a couple of Years Ago.

Brief Background:

- In FY17, the government **launched Pilot Projects for linking subsidy payments to producers,** for the sale of fertilisers to farmers by retailers in 18 districts spread over 12 states. It was launched across the country in April 2018.
- Under the scheme, **Manufacturers receive 100% of subsidy after Fertiliser is delivered to the Farmer,** and the latter's identity viz. Aadhaar is captured on the point of sale (PoS) machine at the dealer's shop.
- Termed direct benefit transfer (DBT), the nomenclature is misleading as the subsidy continues to be routed through manufacturers.
- The manufacturers sell urea at the maximum retail price (MRP) controlled by the Centre, which is kept at a low level.
- They also get **subsidy Reimbursement on Unit-Specific basis under the new pricing scheme (NPS).** The manufacturers of non-urea fertilisers are given 'uniform' subsidy (on per nutrient basis) under the nutrient based scheme (NBS).

Direct Benefit Transfer of Fertilizer Subsidy to farmers:

- At present, the farmer pays Rs 268 for a bag of urea—a bag contains 50 kg—as against the cost of supply that is at least twice as much, or Rs 536 (it could be even higher depending on the manufacturer who supplies the material).
- The difference is claimed by the manufacturer as subsidy from the government. Under this arrangement, **subsidy to farmer is embedded in the price—also termed as Subsidised Price.**
- Under DBT, the farmer will have to pay the higher cost-based price or Rs 536 to the manufacturer, and get subsidy of Rs 268 'directly' in the bank account.
- This switch-over makes a big difference as **he has to first pay the full price, and thereafter, get the subsidy.** And, there lies the Rub.

Issues with the Direct Benefit Transfer of Fertilizer Subsidy:

- The very rationale for giving subsidy **is that majority of the farmers are poor and cannot afford to pay a higher price.** Yet, if a farmer has to pay a higher price, where will the extra money come from?
- This **Forces the farmers to fall back on the money lender—**the surest invitation to a debt-trap. But, this can be avoided if only the subsidy is transferred to farmers' account as an advance.
- During the initial years of the existing scheme, the bulk of the subsidy amount was released to manufacturers on 'dispatch' of the material from the Factory.
- Another issues is the **Government is prone to providing much less funds for fertiliser subsidy than required, leading to a pile up of arrears—**according to Fertiliser Association of India, the current year is likely to end with whopping dues of Rs 60,000 crore to the industry.
- However, under DBT, the government cannot continue with business as usual. It will be **Forced to provide adequate allocation to meet all needs in full, and ensure that no dues are kept pending,** or else, it will invite the wrath of farmers, which will be politically suicidal.
- That will take away the flexibility it currently enjoys to manipulate expenses in sync with the fiscal target. Hence, it is unable to muster courage to switch over the benefit of the DBT to farmers.
- The other factors include its unwillingness to discontinue the protection of public sector plants. Vested interests in continuing with import of urea (currently, this is allowed only through state agencies such as MMTC, STC, etc) and the bureaucracy which doesn't wish to let go of its discretionary powers.

Conclusion:

- The business-as-usual approach is unsustainable. The government should switch to the policy of DBT to farmers. This **will empower them to make the right choices based on crop/soil need, reduce Imbalance in fertiliser use, improve efficiency in the supply chain and give a boost to 'Make in India'.**
- It will save quite a lot on the subsidy by eliminating misuse, and owing to better targeting. Further, need not fear falling short of funds even while achieving the Fiscal Target.