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WHY CASH TRANSFERS WON'T WORK FOR FERTILIZER SUBSIDIES

Relevant for: Indian Economy | Topic: Agriculture Issues and related constraints

This particular form of aid for farmers is a special case and there are many reasons to rethink it

The concept of direct benefit transfer (DBT) was launched seven years ago on a pilot basis. It was initially a pilot project of the Planning Commission in 20 districts covering student scholarships, social security payments and women and child welfare. The idea was to directly deposit the payments into the bank accounts of the intended beneficiaries. Started in "Mission Mode", the pilot project was transferred to the finance ministry where it resided till September 2015, and thereafter it was housed in the cabinet secretariat as DBT Mission. The DBT mechanism was steadily expanded to cover ever more government welfare schemes, including the National Rural Employment Guarantee Scheme (NREGS). The enablers of DBT are the no-frills bank accounts called Jan Dhan, the universal identity number Aadhaar and the mobile phone, together called the JAM trinity, celebrated with much grandeur as the key conceptual framework in the Economic Survey of 2015. DBT is supposed to bring efficiency, effectiveness, transparency and accountability in the government's welfare and payments system. As of now, there are 436 schemes across 56 ministries which use DBT. The cumulative payments to date are about 9 trillion, and annual number of transactions this year itself are more than 3 billion. Assuming a poverty rate of 25% for the country, and assuming DBT is primarily for the poor (who are, after all, eligible for subsidies), it means more than 10 bank transactions per man, woman and child living in poverty.

By most measures, DBT is a grand success and is the largest such electronic payment system in the world. Recalling the famous line attributed to former prime minister Rajiv Gandhi, that only 15 paise reach the poor from every rupee that the government spends on them, the purpose of DBT is to minimize, if not eliminate, this leakage. Of course, there are overhead expenses, not necessarily corruption leakages that reduce the efficiency of government spending.

The government claims that cumulatively till March 2019, it had saved 1.4 trillion due to DBT. This was mainly due to reduction in fake, duplicate or non-existent beneficiaries. This applies to cooking gas subscribers, ration card holders, as well as fake muster rolls in the NREGS projects. On fertilizer subsidies, the government has saved 10,000 crore due to reduced sales at the retail level. We analyse the case of fertilizer below in some detail.

But suffice it to say that with the march of technology, and the inevitability of the diffusion of electronic payments, the advent and success of DBT was waiting to happen. We have to be careful to note that in cases where the bank branch is not near by, the beneficiary may have to actually trek a long distance to encash her DBT, which may be counterproductive. Bank branches, even with the proliferation of ATMs and correspondent banking, as well as kirana shop-based payment kiosks, are far less widespread than what the eager designers of DBT may have assumed.

The case of India's fertilizer subsidy is special. It is mainly on account of urea. At its peak, it amounted to more than 1 trillion annually for the government. Hence it was imperative to find ways to reduce leakages, and really ensure that the intended beneficiary got the subsidy. Keep in mind that it is meant for poor farmers, not for all farmers.

The first problem is how to identify poor farmers. The Aadhaar number may not be adequate.

Secondly, how to ensure that there is no resale? Even farmers in Nepal and Bangladesh pay much higher prices for urea in their countries. So there have been huge incentives to smuggle urea across the border. Can we then restrict quantity? But on what basis? This is the third challenge. Shall we allocate urea only on the basis of land owned, up to a ceiling of say 2 hectares? But the fact is more than 40% of India's agriculture output is by tenant farmers, who do not own the land that they cultivate. In fact, they do not have any collateral to offer. But they are the ones who should be receiving the fertilizer subsidy, since they bear all the cost and risks of cultivation, paying a fixed rent to the actual absentee landlord farmer.

But the most important challenge is the fourth challenge. Even if you could identify the non-landholding tiller farmer, and if you promise to give him his subsidy through a DBT, he will refuse it.

This has been corroborated by a pilot survey conducted by NITI Aayog. The survey found that farmers simply don't have the wherewithal to pay upfront the full fertilizer price, which is four times the subsidized price that they actually pay. For paying this full price (like subscribers of cooking gas cylinders do), they would have to borrow from usurious moneylenders. Their repayment can start only after 120 days of the full crop cycle, assuming the crop does not fail. So DBT is a non-starter for such poor tenant farmers. The government recently installed monitors at all retail points of sale (POS), so that fertilizer producers get reimbursed only when data flows in from those points. Previously the reimbursement of 75% of the cost of production, which is what the subsidy is, was given when fertilizer was sold to wholesalers. Now the credit cycle is longer, so the wait for producers could be as high as six, nine or even 12 months. This extra interest cost is, of course, not reimbursed. Clearly, the whole fertilizer subsidy framework and use of DBT for the same needs to be reworked from scratch.

Ajit Ranade is an economist and a senior fellow at The Takshashila Institution

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