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A poor fix

By Joe C. Mathew April 15, 2017

For 24-year-old Simranjeet Singh, it is a lean day at work. The national agricultural market in Karnal, Haryana, where he manages a family-run fertiliser outlet, is blazingly hot. Ongoing wheat procurement is the only visible activity in the market. Singh expects fertiliser sales to gain momentum once wheat harvesting is over and monsoon (kharif) sowing begins.

However, any buyer who steps into his shop cannot help but notice the new process that has now become integral to his business. The moment someone asks him for any of the 20-odd fertiliser varieties sold at subsidised prices, he takes out a fingerprint-reading point-of-sale, or PoS, machine, inserts a SIM card, activates it by keying in his 12-digit unique identity number (Aadhaar), and authenticates it by using his fingerprint. This tiny machine has records of the shop's current stock, and after generating a sales receipt, automatically updates the stock position. It shares all this information with a central server, ensuring that the trail of each and every transaction can be tracked by the government, which provides the subsidy, as well as fertiliser companies. The customer, too, has to share his Aadhaar number and follow the same authentication exercise. The idea is to help the government know exactly how much quantity was sold, by whom, from where, and when, and make the fertiliser distribution system transparent to curb leakages and corruption.



Singh is among the 816 fertiliser retailers in Karnal district supposed to use the system. At least 600 have already started doing so. In the nearby Kurukshetra district, all 550 registered retail outlets are on board. Since not every retailer is a tech-savvy millennial like Singh, the changeover is not a breeze for everyone, but they have no option. The two districts of Haryana are part of a nationwide 19-district pilot project initiated by the central government to reform the way it distributes the ₹70,000 crore annual fertiliser subsidy. By June 1, 2017, the government wants all 1,75,619 fertiliser retail outlets in 673 districts of 29 states and seven Union Territories to switch to PoS-based sales - kicking off a phase-wise, national rollout of a system for tracking the movement of subsidised fertiliser. "We are planning to have 2,00,000 PoS machines in fertiliser retail outlets across India by May 31," says a senior government official handling the project.

The present system, where companies sell subsidised fertilisers and are compensated by the government, will continue. What will change is the use of Aadhaar and technology for

tracking transactions at each and every stage for plugging leakages. While this is definitely a way forward, experts say it hardly qualifies as a major reform. They point at the direct benefit transfer, or DBT, system in LPG, where subsidy is directly transferred to customers' bank accounts as an ideal, and warn that the new system retains quite a few big problems of the earlier system - including the hefty burden on financials of companies and failure to check fertiliser overuse.

THE EVALUATION

Even as the fertilizer ministry was going ahead with the pilot programmes, the government think-tank, NITI Aayog, engaged Microsave, an international financial inclusion consulting firm for an evaluation of these projects. In a presentation to NITI Aayog in February, the agency pointed out that the exercise had resulted in hundreds of retailers - 31 in Pali district, 51 in Hoshangabad district, one in Rangareddy district, 131 in Krishna district, 35 in Una district and 50 in West Godavari district - shutting shop as tracking reduced diversion and, hence, the 'business' potential.

While this strengthens the case for a nationwide rollout, there was a concern that the experiment might result in chaos during the peak season as "35 waiting customers at any time, minimum two attempts (for authentication) and five-six minutes per transaction" might make PoS transactions unsustainable. "Assuming five minutes per transaction and 10 hours of operation, a retailer can handle just 120 transactions a day - without any break or server problems," says the agency.

Other operational and technical issues were also highlighted. Since surveys were conducted only in shops where PoS machines were functioning, the study was perhaps insufficient to highlight the connectivity issues that may pop up during the large-scale rollout. Microsave has also given solutions to some of these problems that the government may be considering at the moment.

DBT in Fertiliser

Introduction of DBT in fertiliser has been under discussion ever since the government changed the method of selling LPG cylinders and paying companies directly. Now, companies sell at market prices, and the subsidy is transferred to consumers' bank accounts. This, the government claims, has helped it weed out lakhs of ghost beneficiaries and end leakages. The fertiliser industry, which sells at government-fixed rates and then endures a long wait for reimbursement of the subsidy amount, has been a strong votary of a similar system. This is because delays in subsidy refunds severely cramp their working capital flow. DBT, they say, will make subsidy an issue between the government and the consumer and they will get to sell their products at market prices.

But that is not happening. Mansukh L. Mandaviya, Union Minister of State for Chemicals and Fertilizers, says the DBT system being implemented in fertiliser is different from the LPG subsidy regime. Instead of paying the consumer, the plan is to release the subsidy to fertiliser companies after retailers sell to beneficiaries, he says.

Simranjeet Singh, a fertiliser retailer in Karnal, has been part of the pilot project for tracking



This will make the industry's life more miserable. That is because, as against the current system of claiming 95 per cent

subsidy for urea after materials are received in districts and the balance after acknowledgement by retailers, the industry will now get subsidy money only after the actual sale.

"Under the present urea policy, there is a provision for 1.25 months for sales realisation. The inventory carrying period will increase to about six months for the urea industry. This will increase working capital requirement and interest costs. There is a need to make provision for at least 180 days working capital in the pricing policy as DBT is implemented across the country," says Satish Chander, Director General of the Fertilizer Association of India.

Urea is a key fertiliser for which the government provides subsidy (see Budgetary Allocation). In addition, there are 21 grades of phosphatic and potassic fertilisers with different subsidy rates. The subsidy rate for urea also varies from company to company due to different production processes, plant efficiencies, vintage, etc.

DOUBTFUL IMPACT

Ashok Gulati, agricultural economist and former Chairman of the Commission for Agricultural Costs and Prices, a government body that recommends minimum support prices for agricultural produce, says the pilot that is being tried out is not DBT at all. "Real DBT is when money is transferred to beneficiaries' accounts. This is not what they are doing. What they are doing is at best an administrative solution to cut leakages, as they believe this is where maximum leakages take place," he says.

He says leakages cannot be plugged unless there is a restriction on how much a farmer can buy at the subsidised price. "As long as you have no quantitative restrictions, and your price remains low, you cannot plug leakages," he says. "Free up urea prices. If he is using more, let him buy at market prices. Or else, you will have, as in case of Bihar, an allocation of 200 kg urea per hectare with yield that is half of Punjab's. Fertiliser purchased at subsidised prices gets smuggled."

The originally envisaged fertiliser DBT system had several features to tackle the problems highlighted by Gulati. The question is whether those ideal conditions exist or not. For instance, the government wants 100 per cent Aadhaar penetration in all DBT districts. It is

also talking about seeding the Aadhaar number in the soil health care data base and in the land record data base. Once that is done, technically, a farmer who buys fertiliser after authenticating himself through his Aadhaar number can be identified and barred if the volume he buys is disproportionate to the land he owns or cultivates as a tenant farmer. The success of the plan, though, depends on the robustness and penetration of India's soil health card system and digitisation of land records.



As far as the central government is concerned, the pilot projects where there PoS experiments have been

successful will continue. In other places, including the two districts in West Bengal where the pilot projects did not take off due to lack of interest from the state government, the success of the programme will depend on the close coordination among all stakeholders. This includes state governments, district administrations, fertiliser companies, technology partners and the central government.

The government has already said that after May 31, subsidy will be paid only on the quantity of fertiliser sold through PoS devices. This may result in companies pushing for installation of these devices in as many centres as possible. But that alone will not be enough for the successful implementation of the system.

Karnal's Singh has not seen any change in his business after he switched to the PoS system. This could be because there was no major diversion or misuse of subsidised fertilisers from his outlet. It could also mean that a mere change in administrative procedures, as Gulati highlights, cannot bring in any major change.

What is certain is that India's fertiliser subsidy distribution system needs reforms. The question is if that is to be done by switching over from 'price policy to income policy', as Gulati would suggest, or through a system of PoS system-led monitoring. There are no easy answers.

@joecmathew

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