

Analysis of Non Merit Subsidy in India : Special reference to Fertiliser Subsidy

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ABSTRACT

In India, the budgetary subsidy has increased enormously over time. The present paper attempts to make an assessment of the trend, composition and reasons of increase in fertiliser subsidy. The study observes that the fertilizer subsidies had grown at a sharper rate upto 2008 which has declined subsequently in a relative sense. However, it is still phenomenal and a major part of explicit subsidies in India. The paper argues for a National Policy on Targeting Subsidies. Based on the outcome of the study, certain policy recommendations are made for fiscal discipline by rationalizing subsidies, and target subsidies only to the financially weaker section of the economy, which should be delivered directly to their bank accounts under Direct Benefit Scheme (DBS).

1. Introduction

Subsidy management is a keenly debated issue in India. The debate is mainly on equity versus efficiency matters. The neo-liberal philosophy views subsidy as fiscally unsustainable and inefficient, whereas the socialist thought argues that subsidies are essential for maintaining social equity. The dilemma for the Government is to choose between social equity and economic efficiency. To have a studied view, it is imperative to go for an empirical analysis on the composition of subsidies, their growth pattern and impact on fiscal deficit. In case of India, food, fertiliser and fuel subsidies, otherwise known as explicit subsidies, account for about 95 percent of total subsidies. A recent study has shown that out of all the categories of explicit subsidies fertiliser subsidy is a major contributor of fiscal deficit, albeit since the enactment of the National food Security Act, 2013 food subsidy has increased stupendously, i.e., about 60 percent of total explicit subsidy. India is the second biggest consumer of fertiliser in the world next only to China. Although the country is the third largest producer of fertiliser, the total availability always falls short of demand and is met through imports. It may be noted that India is meeting 80 per cent of its urea requirement through indigenous production but is largely import dependent for its requirements of phosphatic and potassic (P & K) fertilisers either as finished fertilisers or raw materials. Its entire potash requirement, about 90 per cent of phosphatic requirement, and 20 per cent urea requirement is met through imports. India is meeting 80 per cent of its urea requirement through indigenous production but is largely import dependent for its requirements of phosphatic and potassic (P & K) fertilisers either as finished fertilisers or raw materials. Its entire potash requirement, about 90 per cent of phosphatic requirement, and 20 per cent urea requirement is met through imports. The government incurs huge amount of subsidies, more often than not, to producers, which has significant fiscal implications. The present paper attempts to examine the trend, pattern and reform issues pertaining to fertiliser subsidy in India.

2. Literature Review

Literature on fertiliser subsidy in India basically focuses on trend, pattern, impact and reforms. Chand and Pandey (2008) explore the composition of fertiliser subsidy and observe that a major portion of fertiliser subsidy is granted mainly in favour of nitrogenous fertiliser, which causes enormous price distortions and imbalances in the fertiliser consumption. The paper argues for reducing and rationalizing fertiliser subsidy to boost fertiliser production in the country and to reduce consumption imbalances. Sharma (2012) attempts to examine the benefit from the current system of fertiliser subsidies from the farmers point of view, and observes that the benefit of subsidies reaches to all farmers. Small and marginal farmers receive about 53 per cent of the subsidy, higher than their share in total cropped area, i.e. 44.3% (ibid).

Therefore, the study argues for continuance of fertiliser subsidy without which farming will be unprofitable in many states, and it will not be in the interest of farming community, particularly, small and marginal farmers and less developed states/regions.

A comprehensive analysis is also done by Gulati and Banerjee (2015). The study has raised three key issues with regard to fertiliser subsidy in India: (1) fiscal sustainability of increasing budgetary allocation to fertiliser subsidy; (2) Price distortions leading to imbalanced use of NPK, as also misuse of urea like diversion to neighbouring countries and its use for non-agricultural purposes; and (3) increasing import dependence and delayed payments to industry. This paper suggests the following alternative policy options: (a) switch to direct cash transfers to farmers on per ha basis (say between Rs.6000- 7500/ha), allowing urea prices to be determined by demand and supply forces in open markets; (b) take up a soil health care programme seriously, and if desirable, tag cash transfers to this condition, and communicate that to farmers effectively; and (c) promote investments in nitrogenous fertilisers in Gulf countries by Indian firms where gas prices are typically less than US \$3 per million British thermal units (MMBTU) compared to the pooled price of \$10.5 per MMBTU in India, with some medium to long-term agreements for imports. According to the study, this will promote efficiency in

production consumption, and “provide a stable policy environment in the fertiliser sector to ensure efficient and sustainable growth, and contributing to India’s overall foodfeed-fiber security”. (ibid).

In India, fertiliser subsidy was a strategy for Green Revolution in the late 1960s. The objective was to enhance the farm productivity by supplying farm inputs to the farmers at affordable prices. The subsidies played an important role in promoting use of fertilisers and contributed to significant increases in yields (Morris et al., 2007). But its contribution to agricultural growth and poverty reduction has declined steadily over time (Fan et al., 2007). The mechanism of fertiliser subsidies has been questioned due to its declining contribution to productivity improvement, inefficiency, inequity and the government’s expanding fiscal deficit (Sharma, 2012).

The Prime Minister’s Economic Advisory Council (PMEAC) in its Economic Outlook 2012-13 argued for “dismantling of fertiliser subsidy because agricultural input subsidies are progressively losing their relevance, becoming an unbearable fiscal burden and their role in contribution to productivity enhancement is fast disappearing” (PMEAC, 2012).

Although there are several studies on fertiliser subsidy in the context of India, the focus of the studies is on causes of increasing budgetary subsidies and their impact. There is a need to make a comprehensive analysis of the nature and trend, pattern and economic impact of fertiliser subsidy and reflect on the undergoing economic reforms.

3. Objectives

The specific objectives of the paper are

1. To examine the trend and composition of fertiliser subsidies.
2. To analyse the reasons for the growth of fertiliser subsidy,
3. To reflect on the reform agenda and suggest policy measures

4. Data and Methods

The data for the present paper are compiled from different sources like Department of Fertilisers, Government of India, Fertiliser Association of India, Reserve Bank of India, and Union Budgets, Government of India. Relevant analysis is done by using simple tools like ratio analysis.

5. Results and Discussion

Trends in Fertiliser Subsidy Fertiliser subsidy as a percent of GDP in India had a rising trend during 2002-03 to 2008-09. During this period its share in all explicit subsidies, increased from 26.56 percent to 62.22 percent.

Similarly, if we look at the share of fertiliser subsidy as a percent of GDP, it had increased from 0.48 to 1.51 percent, i.e. more than three times rise in relative standard. (refer Table 1) In order to contain the budgetary subsidy which increased by around three times to Rs.76,603 crore in 2008-0 from Rs.26,222 crore in 2006-07, the government adopted nutrient-based subsidy (NBS) scheme in 2010. The NBS sought to deregulate subsidy on non-urea fertilisers, and reduced the subsidy burden somewhat. Fertiliser subsidy as percentage to GDP continues to decline since then.

Table 1: Trends in Central Government Subsidies in India (Rs in crore)

year	Subsidy	Fertiliser Subsidy as percent of ES	Fertiliser Subsidy as percent of GDPFC
2011-12	70013	33.25	0.65
2012-13	65613	26.12	0.61
2013-14	67319	27.25	0.58
2014-15	71076	28.46	0.59
2015-16	72438	30.29	0.60
2016-17	70000	28.39	0.51
2017-18	64974	26.58	0.44
2018-19	70080	29.87	0.43

Sources: 1. Annual Reports, Department of Fertilisers. 2. Expenditure Budgets of different years, Government of India

6. Increases in the Prices of Imported Fertilisers

Another important reason for rise in the fiscal burden is the rise in prices of some major categories of fertilisers imported along with the prices of imported raw material (feedstocks) for fertiliser production. As far as imported urea is concerned, the free-on-board (FOB) price has increased by 53 percent, from US \$ 279 per MT in 2009-10 to US \$ 422 in 2012-13. Import of fertiliser raw materials such as phosphoric acid, which is the main feedback for di-ammonium phosphate (DAP) has also become expensive phenomenally. In case of ammonia, the import price has increased from US \$ 454 in 2008-09 to US \$ 633 in 2012-13. Sulphur import has also become costly by 110 percent between 2009-10 and 2012-13. It is noticeable that the FOB price of MOP has declined but the overall impact of rise in

the import prices of major fertilizers has pushed up the subsidy bill of the government.

7. Conclusion

The paper finds that, despite rapid increase in fertiliser consumption in India, domestic production has not increased at par. So there has been increased import of fertilisers and fertiliser feed stocks. Furthermore, import prices of fertiliser feed stocks such as urea, phosphoric acid, ammonia and sulphur have increased incessantly, whereas the gate prices have not been revised continuously. So, the subsidy amount has increased manifold. The paper, therefore, suggests that in order to achieve fiscal consolidation, the Government should target subsidy in a better way. Urea pricing may be decontrolled and steps should also be taken to ensure that subsidies are given only to small land holders. There can be an

identification drive through digitalization of land records, and only the small and marginal farmers may be listed for fertiliser subsidies, that too, the benefit should transfer directly in the line of DBT scheme for LPG subsidy.

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