

A case for a revamped, need-based PDS

The recent Economic Survey has flagged the issue of the growing food subsidy bill in India. As per the government's own admission the food subsidy bill is increasingly becoming unmanageably large.

National Food Security Act:

- The National Food Security Act (NFSA) came into force in July 2013.
- It extended entitlements of food grains to almost two-thirds of the country's population.
- The law requires the authorities to provide to each beneficiary 5 kg of rice or wheat per month.

The withdrawal of food grains by States from the central pool under various schemes has increased over the years.

- During the last three years, the quantity of food grains annually drawn by States has hovered around 60 million tonnes to 66 million tonnes.
- However, by December 2020, the Centre set apart 94.35 million tonnes to the States under different schemes including the NFSA and additional

allocation, meant for distribution among the poor free of cost.

Concerns:

1. Rising food subsidy:

- Food subsidy has been on a perpetual growth trajectory.
- During 2016-17 to 2019-20, the subsidy amount, clubbed with loans taken by the Food Corporation of India (FCI) under the National Small Savings Fund (NSSF) towards food subsidy, was in the range of Rs. 1.65-lakh crore to Rs. 2.2-lakh crore. In future, the annual subsidy bill of the Centre is expected to be about Rs. 2.5-lakh crore.
- The COVID-19 pandemic has further expanded this with the revised estimate of the food subsidy pegged at about ₹23-lakh crore, excluding the extra-budgetary resource allocation of ₹84,636 crore.

2. Issue prices:

- Though the NFSA in 2013, envisaged a price revision after three years, the Central Issue

Price (CIP) has remained at Rs. 2 per kg for wheat and Rs. 3 per kg for rice for years now.

3. Political compulsions:

• It would be extremely difficult to reduce the economic cost of food management in view of rising commitment towards food security and the government's reluctance to not disturb the NFSA norms or increase the prices owing to political compulsions.

4. Financial viability:

• The insistence of keeping the retail prices of food grains at fair price shops at the present low levels, even after the passage of nearly 50 years and achieving substantial poverty reduction in the country goes against the financial sustainability of the system.

• As per the Rangarajan group's estimate in 2014, the share of people living below the poverty line (BPL) in the 2011 population was 29.5% (about 36 crore).

• The mere increase in the CIPs of rice and wheat without a corresponding rise in the issue prices by the State governments would only increase the

burden of States, which are already reeling under financial stress.

Way forward:

- PDS is a useful tool to counter the challenge of extreme poverty and hunger and hence the dismantling of it is not a solution.

- Also, given the fact that the PDS system helps support the farmers through government procurement of their produce, it might not be advisable to replace the in-kind provision of food subsidy of the PDS system with Direct Benefit Transfer (DBT).

- The Centre should have a relook at the overall food subsidy system.

1. Revising NFSA coverage:

- The centre should revisit NFSA norms and coverage. The government could look at decreasing the quantum of coverage under the law, from the present 67% to around 40%.

- For all ration cardholders drawing food grains, a "give-up" option, as done in the case of cooking gas cylinders, can be made available.

- Though the States have been allowed to frame criteria for the identification of PHH cardholders, the Centre can play a critical role in nudging the states into pruning the number of beneficiaries under the NFSA system.

2. Rethink at the pricing mechanism:

- With respect to the pricing mechanism, the existing arrangement of flat rates should be replaced with a slab system. Leaving the poor and needy sections, other beneficiaries can be made to pay a little more for a higher quantum of food grains.

Conclusion:

- A revamped, need-based PDS is required not just for cutting down the subsidy bill but also for reducing the scope for leakages. There should be a political will to take the necessary steps.

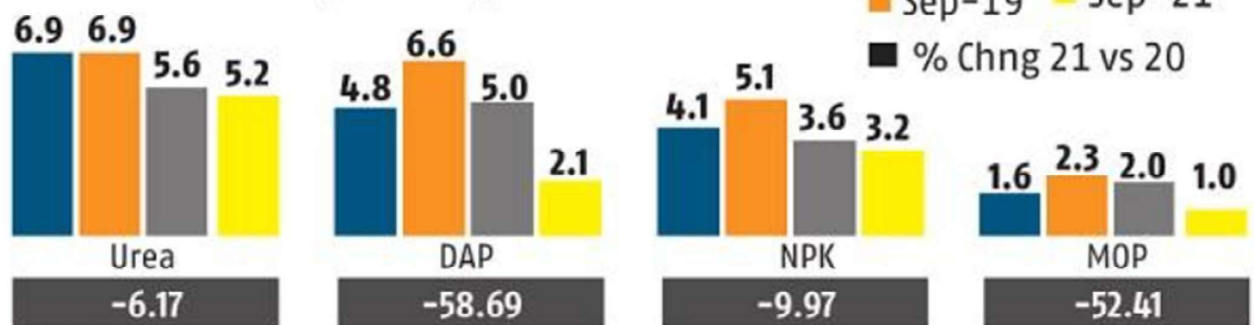
Centre enhances Subsidy for Non-Urea Fertilizers

Fertilizer Consumption in India

- India's fertiliser consumption in FY20 was about 61 million tonnes – of which 55% was urea
- It is estimated to have increased by 5 million tonnes in FY21.
- Since non-urea (MOP, DAP, complex) varieties cost higher, many farmers prefer to use more urea than actually needed.

GROWING PROBLEMS

Fertilisers stocks at the end of September
SYSTEMIC INVENTORY (Mn tonne)



Source: ICRA and others

PRICES OF KEY COMPONENTS IN \$ PER TONNE

	20-Oct	21-Jun	21-Oct	% Chng Oct-21 vs Oct-20	% Chng Oct-21 vs Jun-21
Ammonia*	270	550	630	133.33	14.5
Phosphoric acid**	689	998	1,160	68.36	16.2
DAP finished/imported***	383	580	680	77.55	17.2

*Middle East ammonia spot prices; **Phosphoric acid CFR spot price; ***Imported finished DAP spot price (CFR)

Source: ICRA and others

- The government has taken a number of measures to reduce urea consumption.
- It introduced neem-coated urea to reduce illegal diversion of urea for non-agricultural uses.
- It also stepped up the promotion of organic and zero-budget farming.
- Currently, the fertiliser production of the country is 42-45 million tonnes, and imports are at around 18 million tonnes.
- **Subsidy on Urea:** The Centre pays subsidy on urea to fertiliser manufacturers on the basis of cost of production at each plant and the units are required to sell the fertiliser at the government-set Maximum Retail Price (MRP).
- **Subsidy on Non-Urea Fertilisers:**
 - Examples of non-urea fertilisers: Di-Ammonium Phosphate (DAP), Muriate of Potash (MOP).
 - All Non-Urea based fertilisers are regulated under Nutrient Based Subsidy Scheme.

With urea and fertilizer prices shooting up in the wake of Russia's invasion of Ukraine-

- Cabinet approved an enhancement in subsidies on non-urea fertilisers for the upcoming Kharif crop, to ₹60,939 crore.
- The govt fixes the retail price of urea and subsidises producers based on the difference between costs and the fixed selling price.
- It pays a **subsidy to non-urea fertiliser** makers on the basis of nutrient-based rates.
- The increase in the prices of **Di-ammonium phosphate (DAP)** and its raw material is in the range of about 80%.

How is the subsidy paid and who gets it?

- The subsidy goes to fertiliser companies, although its ultimate beneficiary is the farmer who pays MRPs less than the market-determined rates.
- From March 2018, a new so-called **direct benefit transfer (DBT) system** was introduced, wherein subsidy payment to the companies would happen only after actual sales to farmers by retailers.

- With the DBT system, each retailer now has a point-of-sale (POS) machine linked to the Deptt of Fertilizers' e-Urvarak DBT portal.

How does this system work?

- A popular example of how this system works is that of the neem coated urea fertiliser.
- Its MRP (Maximum Retail Price) is fixed by the govt at Rs. 5922.22 per tonne.
- The average cost of domestic production is at Rs 17,000 per tonne.
- The difference is footed by the centre in the form of subsidy.
- This fertiliser has high Nitrogen content and is cheaper than usual fertilizers.
- While this may be perceived as a good thing, excess of Nitrogen can disrupt the NPK (Nitrogen, Phosphorus and Potassium) balance in the soil.

What about non-urea fertilizers?

- The non-urea fertiliser is decontrolled or fixed by the companies.

- The non-urea fertilizers are further divided into two parts, DAP (Diammonium Phosphate) and MOP (Muriate of Phosphate).
- The govt pays a flat per tonne subsidy to maintain the nutrition content of the soil, and ensure other fertilizers are economical to use.

Issues with such subsidies

- A flawed subsidy policy is harmful not just for the farmer, but to the environment as well.
- Indian soil has low Nitrogen use efficiency, which is the main constituent of Urea.
- Consequently, excess usage contaminates groundwater.
- The bulk of urea applied to the soil is lost as NH_3 (Ammonia) and Nitrogen Oxides.
- For human beings, "blue baby syndrome" is a common side ailment caused by Nitrate contaminated water.