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Frank Notes

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Union Budget 2020-21 Thrust on Agriculture but Disappointment for Fertilizer Sector

The Union Budget for 2020-21 was presented by the Hon'ble Finance Minister against the backdrop of slowdown in GDP growth of the economy, caused by low growth in manufacturing, construction and agriculture sectors, in particular. The government has to address the challenge of reviving the economy from the slowdown. The government aims to double the income of farmers by next two years and make India a USD 5 trillion economy by next four years. As our focus is on agriculture and fertilizer, an attempt has been made here to analyze the budget on these two specific areas.

The Union Budget 2020-21 has proposed a series of initiatives for agriculture & allied sectors, irrigation and rural development. Union Finance Minister proposed 16-action points in the Budget 2020-21 to revive agriculture and link it with allied sector to achieve the goal of doubling the income of farmers in next two years.

As a major reform in agriculture policy, the government proposes to encourage those State governments who will undertake implementation of model laws already issued by the Central government. These include Model Agricultural Land Leasing Act 2016, Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017, and Model Agricultural Produce and Livestock Contract Farming and Services (Promotion and Facilitation) Act, 2018. To deal with water stress related issues, the government also proposes comprehensive measures for one hundred water stressed districts.

Among the initiatives under 16-action points, the Union Budget 2020-21 expanded the PM-KUSUM scheme to remove farmers' dependence on diesel and kerosene and linked pump sets to solar energy. The government will help 20 lakh farmers for setting up standalone solar pumps and another 15 lakh farmers to solarize their grid-connected pump sets. In addition, farmers with fallow and barren lands will be helped to set up solar power generation capacity on their lands which can be sold to the grid. Focus on these areas is welcome.

The other important measure is the focus on the agri-warehousing and cold storage sector and tying it up with Warehouse Development and Regulatory Authority (WDRA) norms for warehouse receipts. This can help the farmers realize better prices by providing holding capacity for the farmers in local areas. Involvement of Food Corporation of India (FCI) and Central Warehousing Corporation (CWC) in this is also a good step. In addition, bringing women self-help groups (SHGs) into it with support from Mudra and NABARD Rural Infrastructure Development Funds (RIDF) loans will further strengthen the capacity. Government has also asked NABARD to do geo-tagging of such storages which is a practical approach.

The viability-gap funding would be important for implementation of the programme. Linking warehouses with e-trading and e-National Agricultural Market (e-NAM) platforms is a good measure. Many Primary Agricultural Co-operative Societies (PACS) and other Farmer Producer Organisations (FPOs) are already engaged in warehousing and can be connected as they are locally based. If those organizations can be recognised for warehousing and negotiable receipts, they can help farmers realise better prices.

The cluster approach to developing horticulture under One District-One Product is another good measure. This will give thrust to quality exports from India.

Krishi Udaan and Kisan Rail initiatives for fast transport of perishable products are a welcome move. These measures would facilitate transport of agricultural produce particularly from North East and tribal districts. Under the Kisan Rail initiative, the railways will build cold supply chain for milk, meat and fish by setting up train services for the purpose through PPP (public-private partnership) arrangement. In regard to Krishi Udaan, it would be interesting if the government would push the initiative on national as well as international routes enabling farmers to be a part of the global supply chain of agricultural produce.

The NABARD re-finance scheme is proposed to be expanded. Agriculture credit target for 2020-21 has been set at Rs.15 lakh crore, an 11% increase over the previous year. This brings a ray of hope. However on ground, a large section of farmers still have limited access to institutional credit. Government also proposes to put in place a framework for development, management and conservation of marine fishery resources.

The budget estimate for agriculture & allied sectors, irrigation and rural development is Rs. 283,000 crore for 2020-21 against Rs. 250,000 crore in 2019-20, an increase of 13%. Of this, the budget estimate for agriculture & allied sectors is Rs.142,762 crore. Out of this amount, maximum of Rs. 75,000 crore has been allocated for the

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government's flagship scheme PM-Kisan for the 2020-21 fiscal, followed by Rs. 15,695 crore for the Pradhan Mantri Fasal Bima Yojana (PMFBY) and Rs 2,000 crore for Price Stabilisation Scheme (PSS). There is good potential of the allied farm activities like dairy, which can help to provide supplementary income to farmers. The government has increased the allocation for animal husbandry, livestock, dairy and fishery ministry to Rs 4,114.13 crore for the next fiscal from the revised estimate of Rs. 3,490 crore. For the food processing ministry, the government has increased allocation to Rs. 1,232.94 crore for the next fiscal from the revised estimate of Rs. 1,042.79 crore.

The budget mentions that government shall encourage balanced use of all kinds of fertilizers including the traditional and other innovative fertilizers. Over the years, fertilizer industry has been advocating for integrated use of nutrients from various sources including chemical fertilizers, organic manures, bio-fertilizers, innovative products and micro-nutrients. .

Against the increased allocation on various schemes, cutting down provision on fertilizer subsidy is most disappointing. Budget estimate for fertilizer subsidy has been scaled down from Rs. 79,998 crore in 2019-20 to Rs.71,309 crore for 2020-21, a reduction of Rs. 8,689 crore. Provision for indigenous urea has been reduced by Rs. 4675 crore and that of imported urea by Rs. 1999 crore. Reduction in NBS for P & K fertilizers is estimated at Rs. 2865 crore. In 2020-21, two new urea units will be commissioned which will require higher amount of subsidy. In addition, increase in consumption and input cost raises the level of subsidy. Therefore, the provision for 2020-21 is grossly inadequate.

Delay in payment of subsidy is a continuing issue with the industry. Delay in payment of subsidy due to inadequate budget provision has been leading to huge amount of arrears year after year. The arrear of fertilizer subsidy as on 1st January 2020 is estimated at Rs.46,000 crore. This includes Rs.31,000 crore under DBT and Rs.15,000 crore under other than DBT. It is also interesting to note that out of Rs. 46,000 crore arrear, 68 per cent payment is due to bills generated but not paid and 32 per cent on account of bills which could not be generated. The amount of outstanding subsidy is expected to touch the figure of Rs.60,000 crore by the end of current fiscal, i.e, March 2020. Therefore, the requirement of subsidy for 2020-21 will exceed Rs.135,000 crore inclusive of arrears at the beginning of the year. Industry continues to struggle to maintain liquidity. Banks are also not prepared to lend against subsidy receivable beyond certain period. The interest burden on the industry has been mounting and there is no way out unless government makes realistic provision for subsidy as required by its own policies for the sector.

Apart from subsidy issues, industry has been requesting the government for last several years to eliminate the customs duty or reduce it to 1 per cent on imported raw materials, *viz.*, rock phosphate, sulphur, ammonia and phosphoric acid as against the existing rate of duty. This long pending demand of the industry remains unanswered. The objective behind such a demand is to make more fertilizers in India. The import duty on raw materials (inputs) should be lower than finished fertilizers (output). Continuation of present duty structure causes unfair competition from imports resulting in low capacity utilization of domestic industry.

The government is, however, needed to be complimented for bringing parity between the co-operative societies and corporates, by providing an option to cooperative societies to be taxed at 22% plus 10% surcharge and 4% cess with no exemptions/deductions. It is also proposed to exempt these co-operative societies from Alternative Minimum Tax (AMT) just like companies under the new tax regime are exempted from the Minimum Alternate Tax (MAT).

The turnover threshold for compulsory audit from existing Rs.1 crore to Rs.5 crore to the businesses which carry out less than 5 per cent of their business transactions in cash should help medium, small and micro enterprises (MSMEs) in the fertilizer business.

The Budget 2020-21 continues to extend its focus on agriculture and rural development by adoption of sustainable cropping patterns, bringing in more technology and thrust on rural infrastructure. The effort to raise farm income continues. Government deserves compliments for the same. But the efforts towards farmers' welfare are incomplete without addressing the issue of inefficient use of fertilizers which is affecting farm productivity and farmer's income. To rectify this, there is a need for correction in present fertilizer policy. Indian fertilizer industry has been reeling under liquidity problems due to a variety of factors including inadequate provisions in the union budget. Inadequate provision is resulting in huge carryover of subsidy year to year. There is an urgent need for thorough reforms in the current fertilizer policies and adequate budget provisions for fertilizer subsidy to keep the domestic industry viable. The Union Budget 2020-21 gives a hint about the intent of the government to change the prevailing incentive regime which encourages excessive use of chemical fertilizers. It is hoped that government will take appropriate steps soon to reform the fertilizer sector, possibly by bringing NBS on urea initially and finally deregulate the sector. ■