Frank Notes

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Union Budget 2019-20
Focus on Rural Sector
Silent on Reforms in Fertilizer Sector

This year's Union Budget 2019-20 is a follow up of Interim Budget presented in February 2019. In addition to existing schemes, a number of new schemes have been proposed. Government has also pronounced a number of policy initiatives and intention for growing size of Indian economy to USD 5 trillion in next 5 years. Our focus here is on initiatives and provisions for agriculture and fertilizers. Government has proposed to invest in wide range of schemes in agriculture and allied sectors. Government would also seek support from private entrepreneurs for a number of programmes for value addition in farm sector. Against the Revised estimate for 2018-19 at Rs 86,602 crore for agriculture and allied activities, the Budget 2019-20 proposes to invest Rs.1,51,518 crore in this sector. This is an increase of about 75 per cent. Bulk of this additional allocation is for the flagship programme of the government, namely Pradhan Mantri Kisan Samman Nidhi (PM-Kisan) earlier announced in the Interim Budget in February, 2019. To address the issue of wide spread distress amongst farmers, government introduced the scheme before the General Election 2019 to provide income support to farmers across the country. The scheme provides for a payment of Rs.6000 per year per farmer's family in three quarterly instalments of Rs. 2000. Initially, it was meant for small and marginal farmers, but now has been extended to all farmers. In view of expansion of scope of the scheme, allocation of Rs.75,000 crore may be inadequate.

The budget spells out a few new schemes to raise farmers' income, such as, Pradhan Mantri Matsya Sampada Yojana (PMMSY), Dairying through Cooperatives, creation of 10,000 new Farmer Producer Organizations, etc. These are the steps in right direction.

The budget also talks about Zero Budget Farming (ZBF). ZBF is a set of farming methods that reduce dependence on purchased inputs as it encourages use of own seeds and locally available natural fertilizers. Natural fertilizers, such as green manure / organic manure have certain specific advantages, such as, increasing organic carbon content in the soil. In fact, these materials improve physical, chemical and biological properties of the soil. But such manures contain very low plant nutrients, that is about 2 to 3 per cent as against nutrient content of 46 per cent in urea or 64 per cent in DAP. Therefore, ZBF is not suitable for mass production at low cost. Organic manure can play a supplemental role along with the use of chemical fertilizers. Fertilizer industry always recommends the use of organic manure along with chemical fertilizers.

The budget also touches upon strengthening of e-NAM for marketing of agriculture produce. It mentions that the central government will work with state governments to allow farmers to benefit from e-NAM. There is a need for more efforts to create infrastructure for storage, sorting and assaying of farm produce. This will help the buyers about the quality of produce and encourage on-line trade.

With major allocation in the budget for PM-Kisan scheme, additional allocation for other agriculture schemes is marginal. About 88 per cent of the total additional allocation for agriculture is on account of PM-Kisan Scheme and remaining 12 per cent on other central government and centrally sponsored schemes implemented by state governments. Other central government schemes include Crop Insurance Scheme, Interest Subsidy on Short Term Credit to Farmers, Market Intervention Scheme, Price Support Scheme, Pradhan Mantri Annadata Aay Sanskaran Yojana, Distribution of Pulses to State / Union Territories for Welfare Schemes, etc. Centrally sponsored schemes, include Pradhan Mantri Krishi Sinchai Yojana and various programmes under the head Green Revolution.

Research & Development in agriculture (Agri-R&D) is vital for sustainable growth in agriculture. High Yielding Variety (HYV) seeds along with fertilizers and irrigation transformed Indian agriculture and brought Green Revolution in India. It is disappointing to note that the allocation for agricultural research and education at Rs. 8079 crore is almost constant at the previous year's level. The share of agri-R & D is only 0.37% of agri-GDP. The budget allocation on irrigation is also not encouraging. It has been highlighted in the budget that 1592 blocks are overexploited in 256 districts. An allocation of Rs. 3500 crore for the 'per drop more crop' programme under PMKSY is inadequate.

There is a need for reforms in policies and adequate budget provisions for fertilizer subsidy to keep the domestic industry viable.

With focus on rural infrastructure, Hon'ble Finance Minister also spelt out a few new schemes. Pradhan Mantri Gram Sadak Yojana-III (PMGSY) envisages to upgrade 1,25,000 kms of road length over the next five years with an estimated cost of Rs. 80,250 crore. This will give necessary impetus to revive rural economy.

Unfortunately, the budget has been completely silent on much needed reforms in fertilizer sector. There is an immediate need to address the issue of imbalanced use of fertilizers. This is affecting soil health and crop productivity. We hope that government brings out changes in pricing and subsidy policy in months to come to promote judicious use of plant nutrients.

The budget allocation for fertilizer subsidy continues to fall short of requirement. There was a carryover of the order of Rs 39,000 crore from 2018-19 to 2019-20. Under DBT scheme for fertilizer sector, subsidy payment is supposed to be made on weekly basis. But, this has not been happening due to budget constraints. The government had assured to clear all previous dues before implementation of present model of DBT to facilitate smooth functioning of DBT system. However, this assurance is also not fulfilled again due to budget constraints. Thus, the current outstanding dues comprise both the dues under DBT and also the pending dues of period prior to implementation of DBT. In fact, there is significant amount for which bill could not be generated due to procedural delays. This amount is never reflected as payable. For example, there is delay in notification of revised subsidy and freight rates, delay in updating the computerized system (iFMS) for bills generation and other pending decisions. Thus outstanding dues include pending bills under DBT of about Rs. 20,000 crore and bills due other than DBT (including previous years' backlog) of Rs.19, 000 crore.

To tide over liquidity crisis of the industry, government made arrangement of bank loan of Rs.10,000 crore against Special Banking Arrangement (SBA) at the end of 2018-19. The budget for fertilizer subsidy for 2019-20 is Rs. 79,996 crores. The amount left for the current year, after deducting previous year's dues and repayment of SBA, is only about Rs.30,996 crore (Rs.79,996 – (10,000+39,000). The total requirement of subsidy for 2019-20 after including the carry forward amount and SBA is about Rs.138,462 crore as against provision of Rs.79,996 crore in the Union Budget. If there is no further allocation through supplementary grants later this year, there will be huge carryover of unpaid fertilizer subsidy dues to next year.

It is needless to mention that 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 recourse unless government meets its commitment and 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% 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 continues to be ignored. Rationale behind such a demand is that import duty on raw materials (inputs) should be lower than finished fertilizers (output). Continuation of present duty structure means unfair competition from imports resulting in low capacity utilization of domestic industry.

In regard to GST, there are some pending issues. These *inter-alia* include refund of unutilized input tax credit (ITC) in respect of both input and input services under the inverted duty structure, refund of unutilized ITC arising due to exemption of fertilizer subsidy from levy of GST and reduction in GST rate for movement of fertilizer through multi-model transport to 5% to bring in parity between freight cost of fertilizers by rail and multi-model transport.

So far as corporate tax is concerned, the government continues phased reduction in rates. Currently, the lower rate of 25 % is only applicable to companies having annual turnover up to Rs. 250 crore. This has been enlarged in the Union Budget 2019-20 to include companies having annual turnover up to Rs. 400 crore. But, this step is expected to benefit only small fertilizer companies.

The Budget 2019-20 continues to extend its focus on rural sector including rural infrastructure and schemes for enhancing farmers' income. Government needs to be complimented and lauded for the same. But the efforts towards farmers' welfare are incomplete without addressing the issue of inefficient use of fertilizers. This is affecting farm productivity and farmer's income. There are large number of issues affecting the domestic fertilizer industry. These *inter-alia* include adequate provision and timely payment of fertilizer subsidy, payment of revised fixed cost of urea, reduction in customs duty on fertilizer raw materials and issues related to GST. Some of these issues are related to policies for the sector. There is a need for reforms in policies and adequate budget provisions for fertilizer subsidy to keep the domestic industry viable. We hope that these issues are addressed in time bound manner. Only healthy domestic industry can serve the cause of Indian agriculture and farmers. ■