

## 10 Conclusion

Fertilizer subsidy has been a key component of the country's strategy for improved agricultural productivity for more than five decades. In spite of massive amounts of expenditure by Gol on fertilizer subsidy/ concession – Rs. 2,70,648 crore over the seven year period 2003-10, with expenditure in 2008-09 peaking at Rs. 96,603 crore before coming down to Rs. 61,636 crore in 2009-10, annual production of fertilizers increased only marginally from 284 MT in 2003-04 to 298 MT in 2008-09. Changes in the subsidy regime, have failed to incentivize significant increase in domestic production of fertilizer. The introduction of the New Pricing Scheme (NPS) for urea resulted in a substantial shift from naphtha-based urea production to gas-based urea production, but did not result in a significant increase in the capacity or production of urea. Even the weighted average cost of production of urea increased substantially. As regards phosphatic fertilizers, despite substantial capacity addition, production of DAP came down substantially (with production of only NPK complexes showing a substantial increase). Even the indigenous production of phosphatic fertilizers is largely based on imported raw materials/ intermediates. The country's requirement of potassic fertilizers is met fully through imports. Overall, the increased consumption of fertilizer is, thus, largely met through increased fertilizer import.

The process for detailed assessment of fertilizer requirements was flawed, with the general practice (as observed through field audit) being merely projections of increases of 5 to 10 per cent over the previous season's/ year's requirement. These projections did not have inputs from the District and lower levels, and were generally not based on relevant factors such as the proportion of irrigated area, soil health, type of crops grown etc. Further, first point sales were being treated as consumption for purposes of passing on fertilizer subsidy. Stocks held in each state were also not taken into account.

There were significant deficiencies in planning of fertilizer supplies, with several instances of both over-supply and under-supply at the district and lower levels, with consequential excesses/shortages of the required fertilizers at the time when the farmers needed the same. Even the prescribed checks for verification of sales of "decontrolled fertilizers" (i.e. other than urea) by the State Governments were largely restricted to first-point sales, and were not performed at block and lower levels and to the ultimate consumers i.e., the farmers. There was no physical verification of sales and stocks (even on a sample/ percentage basis). There were also no systems for reconciling the despatch of fertilizers to first level stocking points, available in the Department of Fertilizers' Fertilizer Monitoring System (FMS), with actual receipts at these points, let alone at block and lower levels. Monitoring mechanisms in respect of dealers were deficient, with numerous reports of sales by unregistered dealers/ dealers with expired licenses.

The consumption of subsidized fertilizers by "mixing units" in different States represents a major flaw in the "subsidy chain", since these units consume subsidized fertilizers, but sell

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mixtures at higher rates and are subject to varying levels of license/ regulation/ self-regulation in different States (without any Central control).

We also found significant deficiencies in quality control over subsidized fertilizers in terms of inadequate/ poor infrastructure, lack of adequate skilled manpower, and huge shortfalls in testing of fertilizer samples. Even the limited testing of fertilizer samples actually conducted did not achieve the desired results because of delays in testing, analysis and reporting, as a result of which the balance stock of sub-standard fertilizers had already been sold to unsuspecting farmers by then. Our surveys of dealers and farmers also confirmed deficiencies in terms of timely supply of fertilizers based on actual requirement at stipulated prices to the ultimate beneficiaries (viz. the farmers).

Based on our above audit findings, we find it difficult to derive assurance that the huge expenditure incurred on fertilizer subsidy payments to manufacturers/ importers of fertilizers actually result in full availability of high quality fertilizers as per requirement at the stipulated subsidised prices in a timely manner to the farmers. Consequently, Government needs to review the measures taken to incentivize increased production of fertilizers, ensure better assessment of fertilizer requirements on a scientific and systematic basis, enforce rigorous verification of receipt/ consumption of fertilizers at the lowest level, and put in place effective measures for quality control. This sector at present suffers from lack of adequate and effective mechanisms for monitoring at all levels to ensure that the fertilizer subsidy has the desired outcome of providing adequate, good quality, timely fertilizer at a reasonable price to the farmer.



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