

Chapter 6 - Conclusion and Recommendations

6.1 Conclusion

‘Nutrient Based Subsidy’ (NBS) Policy was introduced by DoF w.e.f. 1 April 2010 in order to improve agriculture productivity, ensure balanced use of fertilizers, promote growth of indigenous fertilizer industry and to reduce the burden of subsidy. Under NBS Policy, MRP of P&K fertilizers were left open and the manufacturers/importers/marketers were allowed to fix MRP of P&K fertilizers at reasonable level.

Performance Audit of Nutrient Based Subsidy Policy for decontrolled Phosphatic & Potassic Fertilizers revealed that:

- There was no clear road-map in DoF for achieving the laid down objectives of NBS Policy and the Policy did not succeed in arresting imbalanced use of nutrients. The ratio of usage of N, P & K respectively stood at 8:2.7:1 in 2013-14 as against preferred ratio of 4:2:1. Despite stated objective of improving growth of indigenous fertilizer industry under NBS Policy, indigenous production of P&K fertilizers declined continuously from 2010-11 (122.64 LMT) to 2012-13 (98.28 LMT). Production in 2013-14 was 105.24 LMT.
- Though the objective to contain the subsidy bill was achieved after introduction of NBS Policy as the amount of subsidy disbursed came down from ₹39452 crore in 2009-10 to ₹29427 crore in 2013-14, however, it was observed that indigenous production as well as imports of P&K fertilizers also declined during this period indicating lesser availability and consumption of P&K fertilizers in the country.
- Testing facilities created in 78 Fertilizers Quality Control Laboratories were not utilised optimally as some facilities were underutilized and others were overutilized.
- Fixation of benchmark at a lower level in comparison to the then prevailing international prices for determining NBS rates for DAP resulted in delay in finalization of contracts for import of DAP for the year 2011-12. This also led to avoidable subsidy burden of ₹5555 crore to the GoI.
- There was high pendency of Proformae ‘B’ which was a control tool in support of certification of quantity as well as quality of fertilizers actually received in the States. 4112 Proformae ‘B’ were pending from 2007-08 to 2013-14 as on 31 October 2014, out of which 3899 pertained to period of NBS Policy.
- Lump sum payment of ₹200 PMT was allowed to compensate the withdrawal of freight subsidy of ₹104 PMT for SSP during the period 1 January 2011 to 31 August 2011, resulting in excess expenditure of ₹25.74 crore.
- DoF did not finalize guidelines for recovery from fertilizer companies using APM gas for production of Ammonia even after delay of more than two years after directions of EGoM (February 2012) in this regard.

- MSP in respect of decontrolled P&K fertilizers, as issued to fertilizer companies as well as States was not based on realistic assessment of requirements. Quantity actually supplied by companies was being regularised without having any link with the quantity mentioned in MSP. Further, no MSP was being prepared for SSP.
- DoF had to bear additional subsidy burden of ₹653 crore due to payment of subsidy at higher NBS rates of 2011-12, on additional quantity of imported fertilizers supplied to States during February-March 2012, despite there being no immediate requirement.
- There was no monitoring mechanism in DoF to ensure that prices fixed by fertilizer companies were based on their cost of production and that these were reasonable.

6.2 Recommendations:

1. A well-defined road-map for achieving each objective of the Policy, which may, inter alia, indicate quantifiable deliverables and specific timelines for achieving the objectives, needs to be laid down.
2. DoF may put in place specific well coordinated measures including a critical review of pricing of Urea and extending to farmers the benefits of balanced usage of fertilizers through a dedicated strategy of publicity.
3. DoF should take measures to encourage and enhance investment in the fertilizer sector in close coordination with Ministry of Finance. Early adoption of a result oriented approach to promote growth of domestic production of P&K fertilizers is recommended.
4. There is a need for critical review of utilization of FQCLs so that there is no avoidable underutilization or overutilization of the facilities.
5. DoF may factor in the impact of movement of international prices, while fixing benchmark price before start of financial year, which would enable fertilizer companies to enter into contracts with international suppliers for timely procurement of their requirements.
6. DoF may critically review the existing monitoring mechanism of receipt and pendency of Proforma 'B' and consider periodical review of the status at Regional or State level to bring sense of urgency/importance to the issue and arrest pendency.
7. DoF may establish a mechanism to ensure that requirement of fertilizers is assessed in advance based on month-wise and State-wise demand of fertilizers projected by DAC and co-ordinate the arrangements for supplying the required quantities of fertilizers.
8. Necessity for having an MSP for SSP and modalities for same may be worked out by DoF in close co-ordination with DAC.
9. As NBS Policy left MRPs open for being fixed by fertilizer companies at a reasonable level, DoF may critically review adequacy of measures to assure itself that prices are actually fixed by companies at a reasonable level. For this, cost accounting firms already appointed by DoF may be instructed to submit their reports in a timely

manner, so that action could be taken by DoF against fertilizer companies loading their cost with irrelevant components. Further, DoF may also consider extending verification of cost data of fertilizer companies from April 2010 onwards i.e. with effect from the date of introduction of NBS Policy instead of getting cost data examined only from 2012-13.

DoF replied (March 2015) that it had already initiated action in respect of some of the recommendations i.e. pricing of Urea, streamlining of movement/supply of P&K fertilizers and for ensuring reasonableness of prices of P&K fertilizers.



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Place : New Delhi

Countersigned



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Comptroller and Auditor General of India

Dated: 20 April 2015
Place : New Delhi