

# ENERGY SAFETY NETS

## INDIA CASE STUDY

### POLICY BRIEF

#### KEY FINDINGS

- The Direct Benefit Transfer for LPG (DBTL) was one of the first reforms to India's domestic LPG program. The move away from subsidizing LPG at the point of sale to transferring cash to consumers' bank accounts has reduced the leakage of the LPG subsidy to non-domestic uses.
- *Pradhan Mantri Ujjwala Yojana* (PMUY) has provided subsidized LPG connections (part in-kind, part interest-free loan) and has been instrumental in enabling access to LPG by the poorest households.
- Affordability of LPG has limited its use by the poorest households because: a) PMUY beneficiaries must pay the market price for initial refills to repay the loan on LPG connections; and b) all consumers must pay the unsubsidized cost of an LPG cylinder upfront before receiving the subsidy (albeit automatically).
- Availability of LPG remains inequitable in rural areas. Many isolated households do not receive the cylinder at their doorstep, leading to additional time and transport costs to procure it.
- Despite the efforts of the government's Give it Up Campaign to convince households that do not need LPG subsidies to voluntarily give them up, only about three percent of active LPG users have done so.
- A campaign of one-off community-level meetings (*LPG Panchayats*) has helped but has not fully allayed confusion and distrust around the LPG subsidy mechanism for new LPG users, which has been exacerbated by delays in delivering the subsidy.

#### RECOMMENDATIONS FOR POLICYMAKERS

- Introduce a tiered subsidy mechanism to reflect that poorer households need greater support than the middle class to use LPG on a regular basis. Start by increasing the subsidy for households that have received LPG connections under PMUY and investigate how to better identify those in need of increased support.
- Reconsider the requirement for households to pay the unsubsidized LPG price upfront. Instead, consider providing them with digital vouchers that reduce the amount they pay for LPG refills.
- Continue awareness-building platforms such as the *LPG Panchayats* and include household primary decision-makers alongside LPG users to educate consumers about the disbursement of subsidy for LPG.
- Provide small distributors that serve PMUY households in rural and remote areas with additional incentives per refill to account for the higher transportation cost, lower customer density and lower refill rates compared to those for urban distributors.
- Actively collaborate with other ministries (e.g. those providing healthcare, education and nutrition assistance) to integrate LPG subsidies with existing social assistance programs to better target them to poor and vulnerable households and to reduce the burden on households to claim and access multiple benefits across schemes, freeing them to invest more time in productive activities.

## INTRODUCTION

Social protection programs are a major mechanism for ensuring access to social goods such as nutrition, healthcare, education and employment for deprived segments of the population. Social Assistance/Social Safety Nets are an important part of social protection systems. These may include unconditional or conditional cash transfers, in-kind transfers, school dining programs, fee waivers, public works, or other social services (World Bank 2012). In a similar context, energy safety nets (ESNs) refer to social assistance mechanisms that enable poor and vulnerable people to access and use modern energy services.

This policy brief focuses on the subsidization of clean cooking energy in India, in particular on the four main policies introduced since 2014 to improve access to and targeting of LPG subsidies, and their impact. These are *Pratyash Hanstantrit Labh* (PaHaL) or the Direct Benefit Transfer for LPG (DBTL) Subsidy, *Pradhan Mantri Ujjwala Yojana* (PMUY), the Give it Up Campaign and the Unified Guidelines for Selection of LPG Distributorships. Each of these was introduced to address a certain challenge with access to LPG for all or some sections of the population.

## RESEARCH FINDINGS

### Transition from connection to use

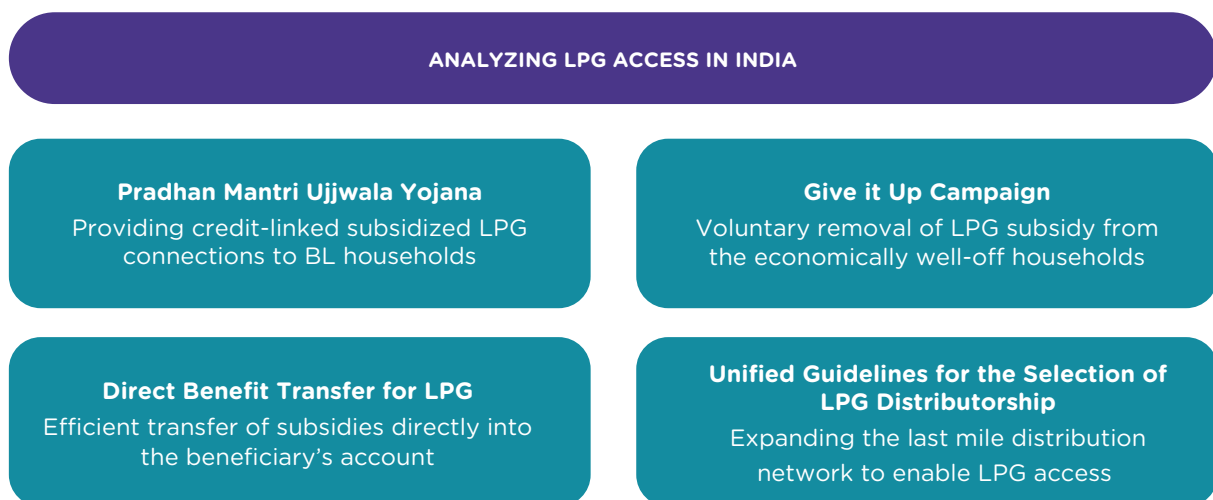
By mid-2019, the LPG program covered 94 percent of Indian households, with over a quarter of these (80 million) connected under PMUY (PPAC 2019). PMUY has been instrumental in removing the barrier of the upfront cost of access to an LPG connection by subsidizing half of the connection and providing an interest-free loan for the other half. But despite also receiving a subsidy towards the cost of the fuel, many households are unable to afford sufficient refills to transition to sustained use of LPG as their primary cooking fuel. For the 74 percent of PMUY beneficiaries who opted for the interest-free loan from the oil marketing companies, affordability issues are compounded (Pandey 2019). Paying back the loan is equal to the subsidy component of six to eight refills. Forcing households to use the subsidy on their initial refills to repay the loan poses a barrier to changing cooking behaviors and to the regular and sustained use of LPG.

### Effectiveness of DBTL

While DBTL has addressed subsidy leakage at the distributors' end, the increase in the upfront expense for

**Figure 1**

**Scope of the policies analyzed in the study and their respective objectives**



**Source:** Author's compilation

LPG and the requirement to manage the subsidy via a bank account may pose a barrier for households that would otherwise have bought a directly subsidized LPG refill. Changes in the retail price of refilling a cylinder, which varies with international oil prices, may pose affordability challenges for poor households, particularly those whose income can vary (casual agricultural or daily wage). Interviews with distributors for this case study also revealed that beneficiaries are often not aware of, or are confused by, the subsidy-transfer and -calculation process.

### Targeting of subsidy

Although the Give it Up Campaign convinced many wealthy households to voluntarily forego the LPG subsidy, analysis for this case study suggests that 90 percent of India's non-poor population continues to receive it. While the Socio Economic and Caste Census (SECC) provided a leap forward in the comprehensiveness of defining deprivation, targeting relies on data from 2011, which fails to account for changes to households' circumstances since then.

### Availability of LPG

A lack of availability of LPG still limits many households from using it regularly. The government has instituted a tiered distribution structure for LPG to be delivered to the homes or nearest common spaces for households across India. Yet the rate of expansion in the distribution network has not kept pace with the rate of connections, particularly in the last four years, during which millions of new connections have been provided under PMUY. As a result, not all households receive their LPG cylinder at home, meaning they have to spend additional time and money to procure it.

### Awareness and behaviour change

Insufficient awareness of the benefits of LPG vis-à-vis traditional biomass and a failure to engage with household decision-makers continues to limit LPG use. Alongside PMUY, the government has begun conducting *LPG Panchayats*, a community-level platform to facilitate interaction among new and experienced users of LPG (all women), to educate them

about the benefits of LPG, and address their queries around its use. A gender-disaggregated examination of the cooking energy transition revealed that social status and intra-household dynamics mean that most women lack the autonomy that the PMUY scheme is trying to empower. The *Panchayats* are carried out once in each location, but research shows ongoing awareness-raising campaigns and removing the option of using traditional fuels are required to prevent households from stacking LPG with traditional biomass (Jain et al. 2018).

### Delivering energy access through social assistance programs

While food-, education- or health-focused social safety nets may have different aims from ESNs, the targeting approach for them and for the LPG program has been similar, i.e., focused on the below poverty line (BPL) population. Opportunities for enhancing support for regular use of LPG include: integrating support for a range of essential needs for the poorest parts of the population, to save them time and effort in accessing multiple benefits; and co-opting the targeting of other schemes to identify the poorest households, amplifying the impact of LPG subsidies by providing a differentiated subsidy based on their level of deprivation. Both options require a distinct administrative apparatus to simplify coordination between various ministries.

## CONCLUSION AND RECOMMENDATIONS

The research for this case study indicates that despite the subsidy, the cost of using LPG as a primary cooking fuel remains unaffordable for the poorest households. A differentiated subsidy mechanism that increases the amount of subsidy for all poor households, beginning with those identified as PMUY beneficiaries, would be a useful next step. This would build on the success of PMUY in enabling access to LPG connections and help the poorest households transition to sustained use of LPG. This could be accompanied by measures to relax the repayment of the loans taken out by PMUY beneficiaries to cover their connection costs. For small distributors, particularly

those serving rural and remote PMUY customers, the incentive structure should be redesigned to account for higher transportation costs, and lower customer density and refill rates compared to those of their urban counterparts. Additionally, extending the training and certification of distribution to self-help groups or local institutions could develop the last-mile distribution network, which would improve LPG availability.

To reduce inclusion errors and better target LPG subsidies, the government should reconsider automatic enrolment for households that are unlikely to be poor (e.g. in affluent urban areas), instead asking them to prove their eligibility when registering. The Ministry of Petroleum and Natural Gas (MoPNG) could also prioritize support for the poorest parts of the population by providing additional support for LPG to households that receive support for other essential services, and integrate the subsidy enrolment process to reduce the transactional costs that fall on households that access multiple benefits. This could involve cross-ministerial collaboration or be led by a single ministry. An increasing dependence on data for providing social assistance requires strengthening of information systems and accounting for dynamic changes in poverty levels to ensure the poorest households remain included in the programs.

Finally, there is a need to consider how non-subsidy aspects can and could impact sustained use of LPG. Examples include ensuring on-demand home delivery of LPG, improving access to banking services for rural consumers, reducing the distance travelled to access the service, and perhaps most importantly, enhancing the agency of women to determine their cooking energy.

## REFERENCES

- Jain, Abhishek, Saurabh Tripathi, Sunil Mani, Sasmita Patnaik, Tauseef Shahidi, and Karthik Ganesan (2018). "Access to Clean Cooking Energy and Electricity: Survey of States 2018," no. November.
- Pandey, Kundan (2019). "1.5 Crore People Didn't Avail Ujjwala Loan Benefit, 1.2 Crore Didn't Go for Refill." Down To Earth, January 3, 2019. <https://www.downtoearth.org.in/news/energy/1-5-crore-people-didn-t-avail-ujjwala-loan-benefit-1-2-crore-didn-t-go-for-refill-62660>.
- PPAC (2019). "LPG Profile (Data on LPG Marketing) as on 1.4.2019."
- Parikh, Jyoti K, Ashutosh Sharma, Chandrasekhar Singh, and Shruti Neelakantan (2016). "Providing Clean Cooking Fuel in India: Challenges and Solutions."
- Planning Commission (2014). Rangarajan Report on Poverty. <http://pib.gov.in/newsite/printrelease.aspx?relid=108291>.
- World Bank (2012). "Resilience, Equity and Opportunity: The World Bank's Social Protection and Labor Strategy 2012–2022."

This policy brief is based on research jointly implemented by CEEW, the Overseas Development Institute (ODI) and Catholic Agency for Overseas Development (CAFOD). The research in India is part of a broader program of energy safety nets research also carried out in Brazil, Ghana, Indonesia, Kenya and Mexico funded by Sustainable Energy for All (SEforALL) as part of its People-Centered Accelerator work program.