

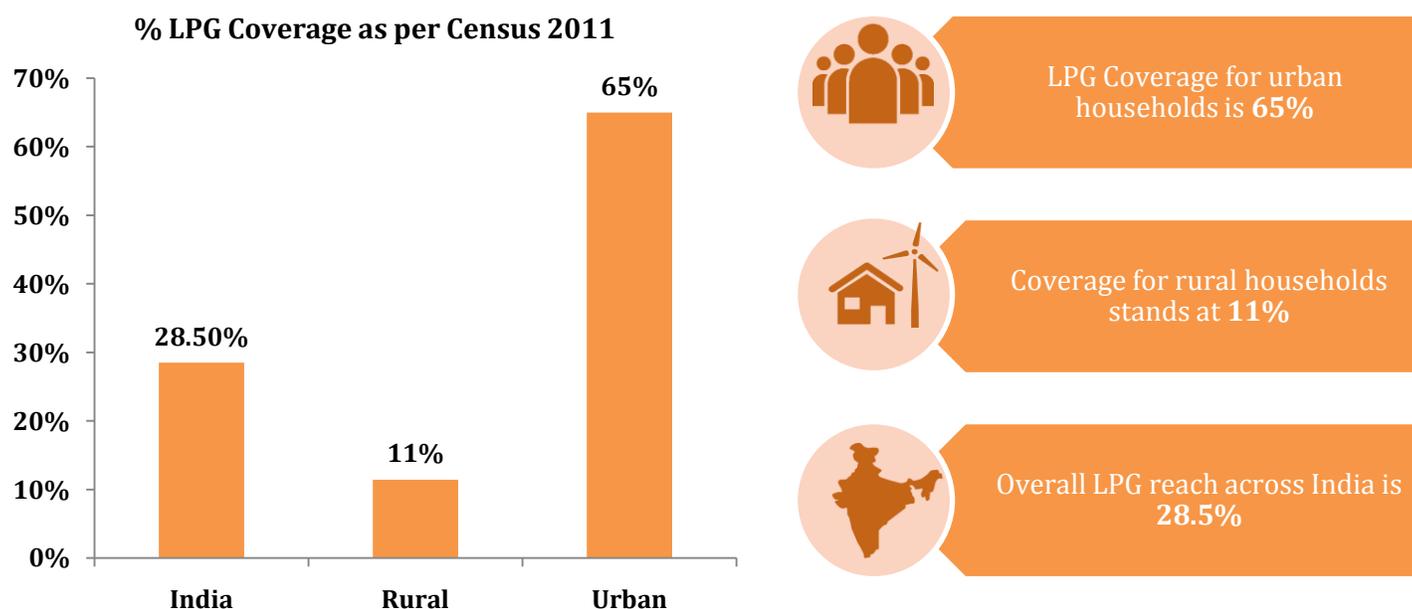
## LPG Access Schemes in India

### Pradhan Mantri Ujjwala Yojana

The Cabinet Committee on Economic Affairs approved the Pradhan Mantri Ujjwala Yojana on 10 March 2016. The scheme aims to provide free LPG connections to women from Below Poverty Line (BPL) households. With an initial earmarked allocation of Rs. 8000 crore<sup>1</sup>, it will target the provision of Liquefied Petroleum Gas (LPG) connections to 5 crore BPL households over three financial years (FY) from 2016 to 2019.

### Background

22% of India's population lives below the poverty line<sup>2</sup>, with around 25.7% of the total households living in rural areas and 13.7% of the households in urban areas having incomes less than the defined poverty levels. Due to high upfront costs and LPG refill prices, Access to cooking gas (LPG) is limited for this section of the society being predominantly accessible to middle class and affluent households living in the urban and semi-urban areas of the country. As per reply given by the Ministry of Petroleum and Natural Gas in the Lok Sabha, the percentage of active registered consumers<sup>3</sup> of LPG is 111% of the total number of households in urban areas. This statistic hints towards the existence of duplication i.e. multiple LPG connections per household in the urban areas.



Source: Lok Sabha Unstarred Question No. 2706 answered on 14<sup>th</sup> March 2016

<sup>1</sup> Data Source: Press Information Bureau (PIB) release on 10<sup>th</sup> March 2016

<sup>2</sup> Data Source: RBI Handbook of Statistics on the Indian Economy released on 16<sup>th</sup> September 2015

<sup>3</sup> Data Source: Lok Sabha Unstarred Question Number 2706 answered on 14<sup>th</sup> March 2016

Moreover, the non-LPG using households rely on other solid forms of fuel like wood, dung, coals or agricultural residues in simple stoves or open fires, known to pose serious health hazards to the lungs and may lead to a variety of respiratory diseases. According to WHO estimates<sup>4</sup>, 4,88,200 deaths per year in India are caused by unclean indoor air arising from use of solid fuels.

Subsidized provision of LPG connections to BPL households will ensure maximum coverage across the country, thereby reducing reliance on solid fuels. Additionally, it will help in reducing the time spent on cooking. Since the scheme targets access to LPG for women, it can contribute towards their empowerment and protection of health. Furthermore, it can lead to employment generation for rural youth in the supply chain management of LPG.

## Backdrop of LPG Access Schemes in India

Prior to 2002, prices of motor spirit, high-speed diesel, kerosene for Public Distribution System (PDS) and domestic LPG were determined by the Government and administered through the Oil Coordination Committee (OCC). Cross subsidization of PDS Kerosene and domestic LPG was achieved through higher motor spirit prices. The net value from cross subsidization by public sector petroleum companies constituted the 'oil-pool'<sup>5</sup> surplus or deficit. Any balances were carried on to state-owned oil companies, occasionally being settled through Government interventions. By 1997, the Government had planned a phased transition from an administered price regime to a market-determined structure.



However, despite the subsidy, the LPG coverage in India still stands at 60%, with an even low rural penetration primarily due to issues of distribution coverage and high upfront costs. In order to increase accessibility of domestic LPG, the Ministry of Petroleum and Natural Gas has rolled out several schemes, for instance:

**Corpus Fund Scheme:** The scheme was notified in 1992 and aimed to provide support to Scheduled Caste (SC)/ Scheduled Tribe (ST) LPG distributors. Public sector Oil Marketing Companies (OMCs) provided land and infrastructural support to LPG distributors availing the scheme. In 2012, this facility was replaced by a bank mediated financial assistance scheme where OMCs facilitated the provision of loans to distributors by tying up with banks. OMCs also provided working capital to distributors.

**Rajiv Gandhi Gramin LPG Vitaran Yojana (RGGVY):** The scheme was started in 2009 with a focus on rural households and areas with low LPG coverage. The aim of the scheme was to start small size LPG distributor agencies. It provides one-time financial assistance to BPL households, with public sector OMCs bearing the cost of security deposit and pressure regulator.

**CSR Scheme for Release of Connection to BPL Families:** BPL families can avail new LPG connections without paying the security deposit of one cylinder and one pressure regulator through the CSR scheme under RGGVY. However, the other expenses for release of new LPG connections like installation and administration charges need

<sup>4</sup> Data Source: WHO Report - [http://www.who.int/indoorair/health\\_impacts/burden\\_national/en/](http://www.who.int/indoorair/health_impacts/burden_national/en/)

<sup>5</sup> Ministry of Finance Report on 'Central Government Subsidies in India 2004'

to be borne by the consumers. The grant for deposit is met through CSR funds of OMCs, constituting 5% of the funds earmarked for CSR budget. In order to avail the benefits, the BPL card holders need to approach their nearest distributor and get themselves registered as prospective LPG consumers under the scheme.

With existing schemes focused on creation of more distributor agencies, the current focus of the Government has been to address the deficiency in the coverage of LPG for domestic use, especially in rural areas and poor households. Subsidies on an LPG cylinder go up as high as 100%<sup>6</sup> creating a strong incentive for pilferage and diversion of subsidized cylinders for commercial use. In order to eliminate this diversion, LPG was proposed to be brought to the supply chain at a single market price. Under this mechanism, the prices are determined by market forces and a cash transfer, equal to the amount paid by the Government to maintain the price of LPG, is given directly to the consumer. To this effect, the Direct Benefit Transfer for LPG Scheme was introduced.

The Direct Benefit Transfer of LPG Scheme (DBTL) was approved by the Cabinet Committee on Political Affairs (CCPA) in May 2013. The scheme was launched in 18 districts on 1<sup>st</sup> June 2013<sup>7</sup>. In January 2014, the scheme had been extended to 291 districts across 6 phases, covering 9.6 crore LPG consumers. All Aadhaar linked domestic LPG consumers received an advance in their bank account as soon as the first cylinder was booked. However, since the scheme was contingent on the possession of the Aadhaar card by consumers, the benefits were constrained to the population already possessing Aadhaar numbers. The Supreme Court of India<sup>8</sup> later released an order stating it was not mandatory to have an Aadhaar card to avail benefits from Government schemes, leading to the formation of the PAHAL Scheme. The Pratyaksh Hastantrit Labh (PAHAL) Scheme was launched in November 2014 in its 1<sup>st</sup> phase in 54 districts and in January 2015 in the remaining 622 districts of the country<sup>9</sup>. It provides a fixed number of subsidized domestic LPG cylinders to consumers through a direct benefit transfer. However, unlike the previous version of this scheme (DBTL), the beneficiaries are not limited to Aadhaar cardholders.

## Details of LPG Schemes in India

In order to expand the ambit of subsidies to ensure maximum reach, the Government has launched an array of schemes. A total LPG subsidy budget of Rs. 21,802 crore has been allocated for the year 2016-17. Details of the major schemes are given below.

### Pradhan Mantri Ujjwala Yojana

The scheme aims to provide LPG connections to women beneficiaries from BPL households. Identification of BPL families will be carried out in consultation with State and Union Territory Governments. An initial financial support of Rs.1600 would be given for each LPG connection in addition to an EMI facility to meet the cost of stoves and refill<sup>10</sup>. The scheme has received a Union Budget allocation of Rs.2000 Crore for FY 2016-17 to provide connections to 1.5 crore women from BPL families. It will be continued for two more years in order to cover the target of 5 crore households by 2019.

<sup>6</sup>Dhanda Committee Report on 'Review of Direct Benefit Transfer for LPG Scheme 2014'

<sup>7</sup> Ministry of Petroleum and Natural Gas document on 'New Initiatives'

<sup>8</sup> Supreme Court of India Website - [http://supremecourtfindia.nic.in/FileServer/2015-10-16\\_1444976434.pdf](http://supremecourtfindia.nic.in/FileServer/2015-10-16_1444976434.pdf)

<sup>9</sup> Press Information Bureau release on 31<sup>st</sup> December 2014

<sup>10</sup> Ministry of Petroleum and Natural Gas summary, 'Pradhan Mantri Ujjwala Yojana and Other LPG Initiatives'

## PAHAL DBTL Scheme

Current coverage by OMCs' LPG distributors caters to 97% of the geographical blocks of the country. The public sector OMCs aim to increase the national LPG coverage to 75% with a minimum 60% coverage in each state and at least one distributor in each block by 2019. The DBTL scheme was first launched in June 2013 with a mandatory requirement of Aadhaar card to avail benefits. However, the scheme was later reviewed to take in to account the difficulties borne by consumers and re-launched in 2014. The modified PAHAL scheme has two options for consumers to receive subsidy. Once the consumer joins the scheme, he/she is referred to as the Cash Transfer Compliant (CTC).

- Option 1 (Primary): Consumers who have Aadhaar numbers are required to link it with their bank accounts and their 17-digit LPG consumer ID.
- Option 2 (Secondary): If consumers do not possess Aadhaar number, they have the option of either linking their present bank account number with their LPG consumer ID or providing account details to their LPG distributor.

Consumers who had already signed up for the subsidy through the previous version of the scheme are now required to take no action and will receive their due amount through their already linked Aadhaar numbers. However, such CTCs will not be allowed to avail option two. Post registration, the consumers will receive cylinders at market price and the LPG subsidy will be transferred in the form of a cash advance to their linked accounts. CTCs will first receive a one time permanent advance of Rs.568 in their bank accounts prior to purchase of the first market price cylinder. Consumers will also receive SMS at each stage in the scheme to ensure transparency.

Non-CTC consumers were allowed 3 months of grace period from the date of launch of PAHAL to become CTC. During this period, consumers were entitled to subsidized cylinders at the then applicable subsidized retail selling price. Post the grace period, all non-CTC LPG consumers were given an additional 3 months of parking period, during which cylinders were given at market-determined price for all LPG consumers. However, the subsidy amount was held back with their OMC for consumers in the parking period. This amount was to be released if and when the consumer became CTC. If the consumer failed to become CTC during this period, the funds held back would automatically lapse, making him/her ineligible for parked funds. After expiration of the grace period of 3 months and the parking period for additional 3 months, the Non-CTC consumers continue to receive cylinders at market-determined prices until they become CTC.

## Opt Out of Subsidy (Give It Up) Scheme

LPG is a highly subsidized commodity in India with subsidies being as high as Rs. 40,000 crore in FY 2014-15<sup>11</sup>, contributing to a gigantic subsidy burden on the Government. To this effect, the 'Opt Out' or 'Give It Up' Campaign has been launched to encourage LPG consumers who can afford to pay the market price of LPG to voluntarily surrender their subsidy. This will help to significantly reduce the under recoveries for oil companies and subsidy outflow for the Government. Against each consumer who opts out of the subsidy, a free connection is provided to a BPL household. These connections are released through the CSR scheme mentioned below. Consumers also have the option of listing themselves in the 'scroll of honours' on the MyLPG website to list their name amongst others

<sup>11</sup> Data Source: Lok Sabha Unstarred Question No. 156 answered on 30<sup>th</sup> November 2015

who have voluntarily given up their subsidies. Till now, more than 90 lakh consumers have successfully given up LPG subsidy.

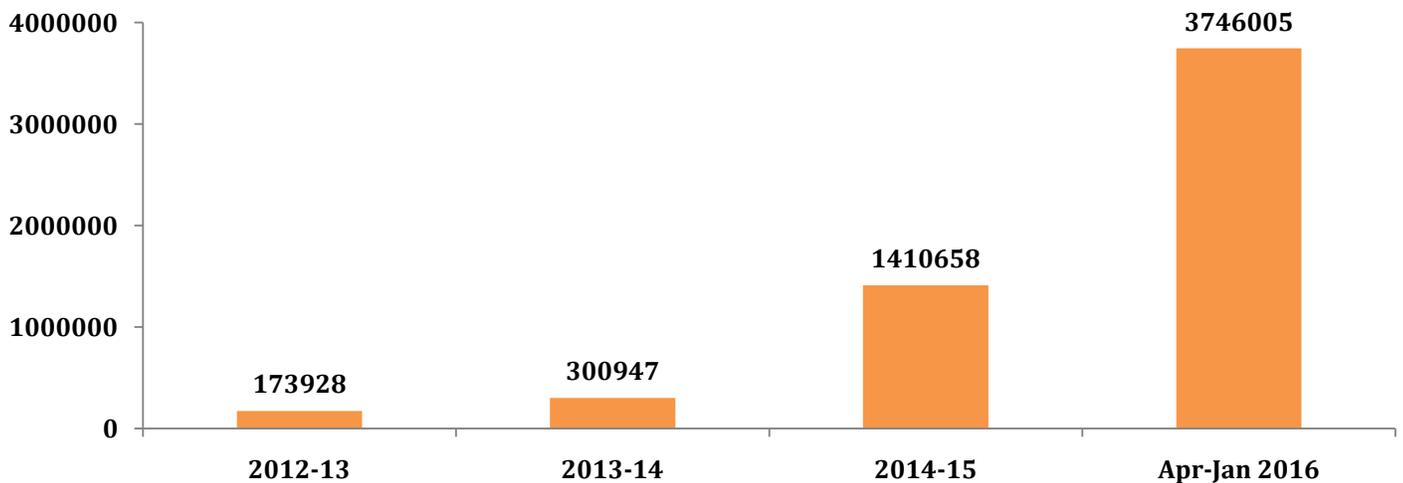
## Impact Analysis

### Potential Impact of LPG Related Schemes

The re-launch of the DBTL PAHAL scheme was done after a comprehensive re-examination of the previous scheme. PAHAL is proposed to have a large number of benefits on the Government, the OMCs and the public.

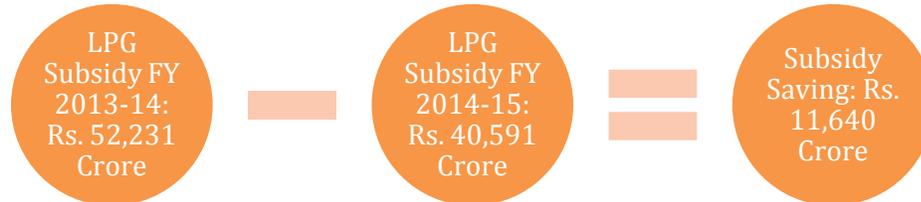
- The scheme supports self-selection, giving an 'opt-out' option. This can potentially lead to a reduction in subsidy burden on the public exchequer. The Union Budget currently provides a budgetary support of over Rs. 19,000 crore for LPG subsidies.
- The scheme may ensure entitlement reaches the consumer directly, consequently leading to improvement in public service delivery and reduction in diversion of subsidy. It can also lead to a reduction in the number of duplicate/multiple connections by way of Aadhaar based de-duplication, thereby reducing supply chain leakages and unauthorized usage.
- Decline in diversion will ensure greater availability of cylinders, thereby reducing the LPG waiting time.
- The scheme also proposes to increase spin off benefits to the banking sector by increasing activity in inactive bank accounts leading to increased financial inclusion and participation.
- For OMCs, it will lead to a reduction in administrative overheads due to reduction in compliance enforcement and number of grievances related to unauthorized usage, diversion and delayed deliveries and public auditing for the subsidy.
- A centralized grievance redressal system has been set up to allow focus on consumer relationship management. Improved quality of consumer database can be used for data mining leading to improved services.

**LPG Connections Issued to BPL Households**



## Current Impact of DBT LPG Subsidy

- At present, 15.25 crore<sup>12</sup> households have joined PAHAL. A total cash transfer of Rs.30,431 crore has been made under the scheme.



- The number of new LPG connections issued to BPL households under PAHAL has consistently increased from 2012-13 to January 2016. The increase has been a whopping 165% from 2014-15 to April-January 2016.
- As per a question answered in Lok Sabha on 30<sup>th</sup> November 2015, subsidy savings of Rs. 11,640 crore has been achieved between 2013-14 and 2014-15. The saving can be attributed to fall in oil prices and implementation of PAHAL.

## Conclusion

The Direct Benefit Transfer for LPG Subsidy (DBTL), now re-launched as PAHAL DBTL, was a noteworthy step towards strengthening the LPG subsidy mechanism in India. The DBTL can ensure reduction in diversion of domestic LPG to commercial use. Since bank accounts or Aadhaar card numbers are linked to the LPG database, it can identify ghost connections, consequently decreasing de-duplication and subsidy burden. The Prime Minister Ujjwala Yojana was released on March 2016 and the specific details and its effects on existing schemes are not yet clear. However, it is a significant step for targeted subsidy provision of LPG to promote use of clean and sustainable cooking fuels.

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<sup>12</sup> Data Source: PAHAL and LPG Subsidy Details mentioned on [www.petroleum.nic.in](http://www.petroleum.nic.in)