Experience of LPG Subsidies in India

Sale restrictions only partially limits LPG subsidy expenditure

- 90% of LPG was consumed by household cooking

- Supply of subsidised LPG restricted through registry but till 2014 LPG subsidies were universal and accessible by all
  
  - Subsidized LPG sold as 14.2 kg cylinder and only sold by 3 public oil marketing companies (OMCs)

  - Registry system allowed govt to track LPG consumers and their cylinder consumption

- Restricting sales limited LPG subsidy expenditure and it was a growing problem
Experience of LPG Subsidy Targeting in India

Since FY14 LPG subsidy expenditure has fallen but LPG subsidies are still a significant fiscal burden.
Experience of LPG Subsidy Reforms in India

Targeting LPG subsidies to the poorest has limited impact

- Consumption subsidy: called DBTL or PAHAL, introduced in 2014
  - Consumers buy LPG cylinder at market price and subsidy transferred to consumers bank account

- Connection subsidy: called PMUY or Ujjwala; introduced in 2016
  - Up front costs like deposit for 1st cylinder, LPG cooking stove, equipment are subsidised along with an interest free loan

- Targeting in PAHAL and PMUY has limited benefits so far:
  - Income based targeting: subsidy only for households earning annually less than INR 1 million
  - Gender targeting: PMUY or connection subsidy only given to women from poor households
  - Voluntary opt-out: Give it up campaign where richer households give up consumption subsidy
  - Volumetric targeting: households have an annual limit of purchasing 12 subsidised cylinders
#GiveItUp
Feel the Joy of Giving

#GiveItUp
YOUR LPG SUBSIDY IF YOU CAN AFFORD LPG AT MARKET PRICE
... JOIN THE MOVEMENT NOW!
Experience of Targeting LPG Subsidies in India

Targeting did not limit LPG subsidies to the poorest

- Rural households: richest two quintiles received 54% of benefits but poorest two quintiles received 27%
- Urban households: richest two quintiles received 53% of benefits but poorest two quintiles received 28%
LPG Affordability Continues to be a Challenge

LPG subsidies have not helped the poor transition away from biomass use

- Poorer households limit LPG consumption and continue to use firewood and coal for cooking:
  - Half of the richest quintile uses LPG as their primary cooking fuel, compared to only 21% in the poorest quintile

- LPG subsidies alone have not been successful
  - in increasing consumption of LPG cylinders among the poorest
  - Increased targeting of the poor should have been a focus
Where are LPG Subsidies now in India?

LPG Subsidies removed since May 2020

- In May 2020, LPG subsidies were effectively removed owing to low crude oil prices
- However since late 2020, both oil and LPG cylinder prices have increased, reaching pre-Covid levels
- Price support is vital for low-income households, especially now when household incomes have been impacted under the impact of COVID-19 and households are falling back into poverty
- Offering LPG cylinders part of the social protection efforts: Govt offered free 3 LPG cylinders during the first lockdown in 2020
Learnings for Indonesia

Undertake LPG subsidy targeting now

- Introducing a registry for subsidised LPG connections is a good starting point and has benefits to track consumption.

- Map the knowledge gap: Analyse the equity of LPG subsidies across Indonesia to assess how well LPG subsidies are reaching the poorest.

- Test strategies to better identify poor households: Coordination between govt and poverty experts to maintain accurate registries of poor households.

- Identify any bottlenecks limiting LPG consumption among the poorest: this will help in improving distribution of LPG subsidies among the poorest.
THANK YOU

Contact:
• Shruti Sharma, IISD, shruti.sharma@iisd.net
• Christopher Beaton, IISD, cbeaton@iisd.org