

# India's Experiences with LPG Subsidies

Shruti Sharma,  
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# Experience of LPG Subsidies in India



## Sale restrictions only partially limits LPG subsidy expenditure

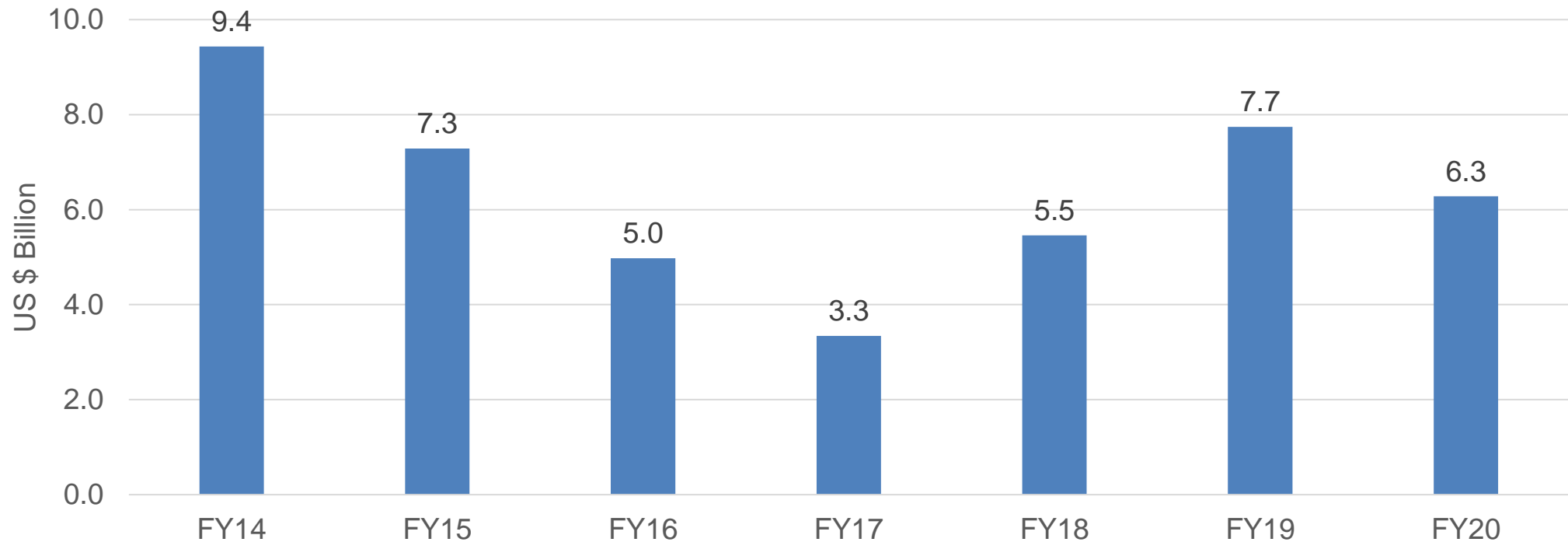
- ❑ 90% of LPG was consumed by household cooking
- ❑ Supply of subsidised LPG restricted through registry but till 2014 LPG subsidies were universal and accessible by all
  - ❑ Subsidized LPG sold as 14.2 kg cylinder and only sold by 3 public oil marketing companies (OMCs)
  - ❑ Registry system allowed 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



## Changes in LPG Subsidy Expenditure



- 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 1<sup>st</sup> 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**



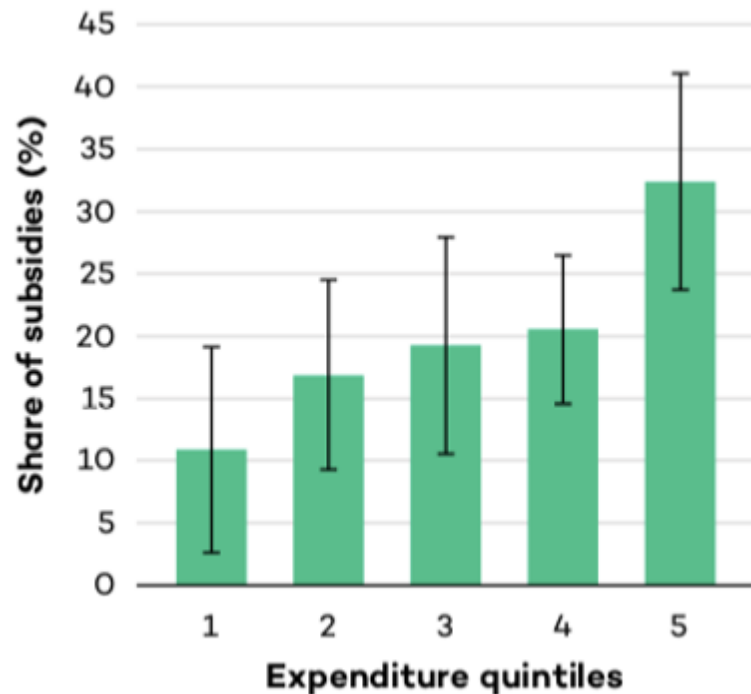
**#GiveItUp**  
**YOUR LPG SUBSIDY  
IF YOU CAN AFFORD  
LPG AT MARKET PRICE**  
**... JOIN THE MOVEMENT NOW!**

# Experience of Targeting LPG Subsidies in India

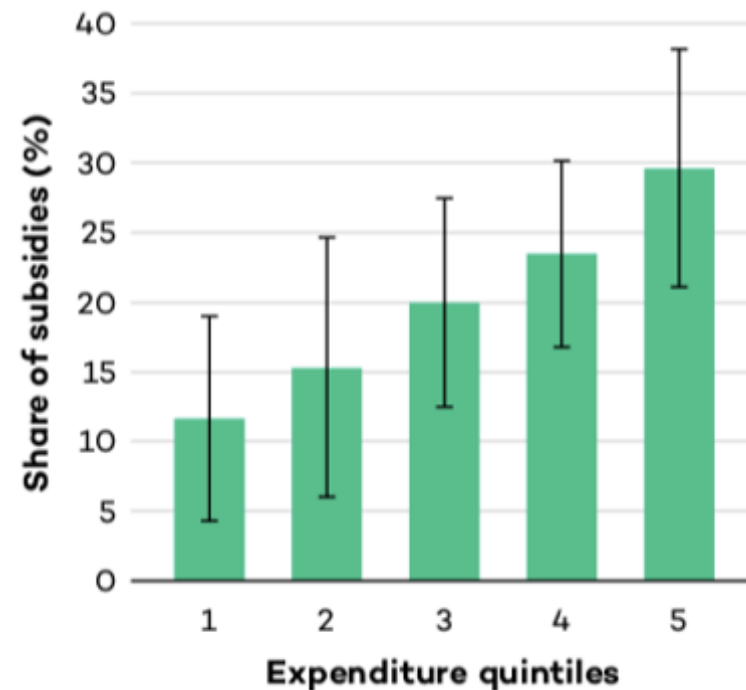


Targeting did not limit LPG subsidies to the poorest

Share (%) of total LPG subsidies received by different rural expenditure quintiles



Share (%) of total LPG subsidies received by different urban expenditure quintiles



- ❑ 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%

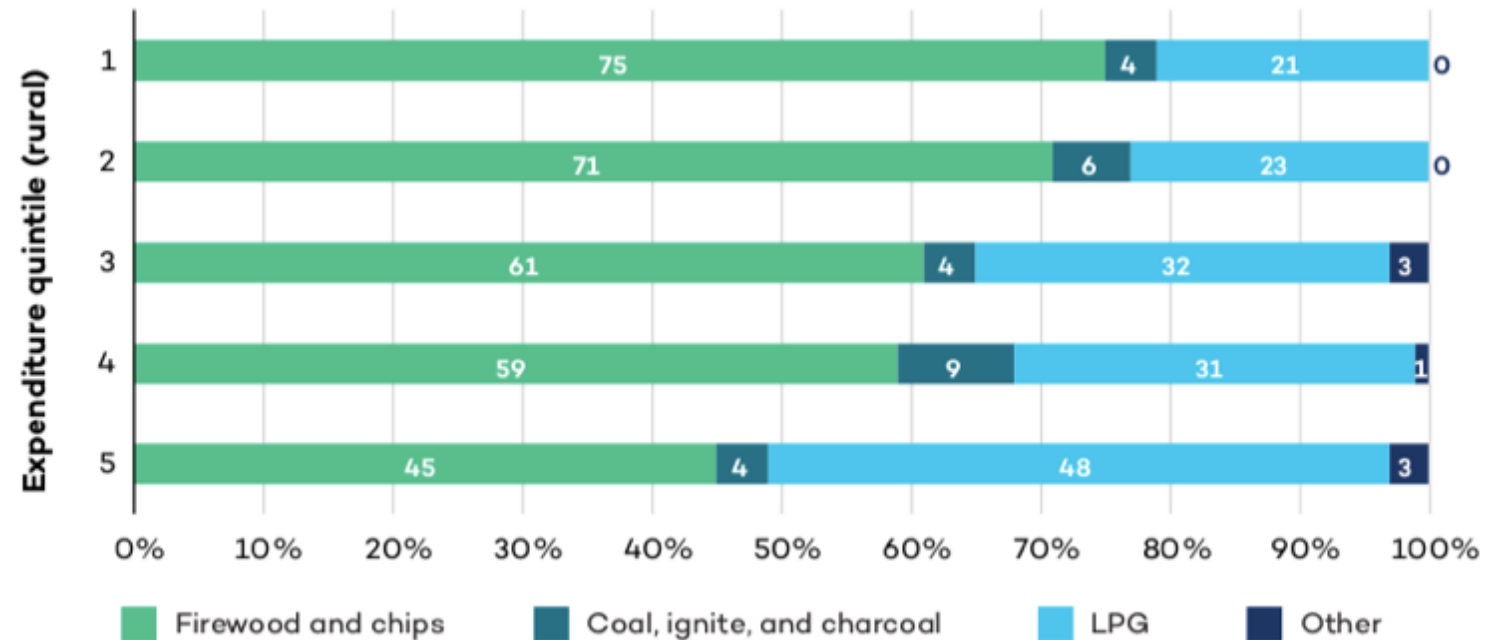
# LPG Affordability Continues to be a Challenge



## 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

Share (%) of households using primary cooking fuel in rural areas





# 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



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