



Dr. Syama Prasad Mookerjee
Research Foundation



MAKING OF
NEW INDIA
Transformation Under Modi Government

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CHAPTER 29

Pradhan Mantri Ujjwala Yojana:
Transformation of Subsidy to Social
Investment in India

KIRK R SMITH

India is on a historic path to provide access to clean fuel to a large majority of its citizenry by early next decade through four initiatives—one new initiative per year over the last four years—that together make up its national LPG programme. Although the programme can be viewed in many ways, here I will focus on how each step of this programme can be seen as the country coming closer to focusing on public expenditures to promote LPG in ways that justify them being considered mostly as ‘social investments’ and not as the common pejorative term of ‘subsidies’. Both deploy taxpayer funds, but the first has an entirely different and more positive connotation.

Fuel subsidies have been common worldwide in many countries and are highly disliked by the economic establishment as generally being expensive to the government, encouraging wasteful use and helping mainly the better off rather than the poor. Nevertheless, they have been difficult to remove and have led to riots in some countries when governments have tried to remove them quickly, most notoriously in 1977 in Egypt. In recent years, however, such reform measures have been more successful, partly driven by the concern that subsidies may lead to excess use of fossil fuels that add to climate change risk.

India, indeed, has made progress in reducing fuel subsidies in the transport sector, where they are essentially gone, and for household kerosene, where they clearly are on their way out, though unclear how these will fare if oil prices rise steeply. Electricity is a much more complicated picture, however, and the evolving and best role of subsidies is not yet clear.

LPG subsidies in India have instead been morphing through new schemes that help them focus better on achieving social goals. Thus, rather than decreasing, they have been somewhat increasing in size, but also are now far better targeted. To a great extent, the impetus has come due to government decisions that take account of growing scientific knowledge of the health impacts of using biomass fuel, the major fuel for the poor. Many of these studies have been done in South Asia, providing local evidence. There is also considerable concern about other social benefits of LPG use compared to traditional biomass, in terms of time savings during fuel harvesting and cooking as well as causing less pressure on forests from non-renewable harvesting of fuel wood. There is also now a growing awareness that the previous system of LPG supply was only keeping up with the growth of the middle class, leaving some 700 million people in the so-called *chulha* trap for decades. Development by itself was just not meeting the needs of the poor for clean fuel.

Let me describe the four major elements of the national LPG programme in the context of how they are helping transform 'subsidy' into 'social investment'.

First came the PAHAL scheme starting in full in early 2015, although being tested as early as 2013. PAHAL took advantage of the rapid growth of 'Digital India'. The LPG programme was modified whereby instead of providing LPG cylinders at subsidised prices, as happened earlier, they were sold at market prices with the subsidies being directly paid to individual electronic bank accounts. PAHAL also enabled the cross-checking of databases across the three oil marketing companies (OMCs) that have the right to sell subsidised LPG in the country to ensure individuals were not receiving subsidies from multiple companies. With the expansion of Aadhaar cards, which are now generally linked to subsidised connections, it is increasingly difficult for anyone to pretend to be someone else. This allowed

both a substantial reduction in 'ghost' and otherwise illegal accounts as well as leakage of household cylinders for commercial use. Thus, the advantage of subsidised LPG was restricted, mostly, to individual households that were the intended beneficiaries of the programme. This step, therefore, even if not yet completely foolproof, was needed before launching other schemes to further expand LPG access and usage among the poor. This targeted approach also is the first step towards moving from a broad subsidy to a social investment programme.

Second, in 2015, came the Give-It-Up (GIU) campaign, an innovative approach to one of the main problems with subsidies, that is, they are hard to take away from populations even when they are no longer needed. The LPG subsidy, which is variable each month due to fluctuations in international prices, has been Rs 50-350 per 14 kg cylinder and was available to all household users in the country. While the current middle class was helped to move to LPG by the subsidy twenty years ago, the roughly Rs 2,000 per year of public money today was no longer needed to keep them there. 'Not needed' in this context means that these households would use LPG anyway, even if it was unsubsidised since it is a relatively small per cent of income for this group. Taking away the subsidy, however, is fraught with two difficulties: 1) It is difficult to discriminate who truly does not need it and 2) people tend to treat long-term subsidies as expectations, that is, something they deserve, and forget the original intention of the programme that provides them—to help move them to clean fuel from dirty fuel.

Instead of taking away the LPG subsidy, the GIU campaign asked people to voluntarily give them up with the proviso that the subsidy would be transferred to a poor household. And millions did, by March 2018 reaching nearly 1.1 crore households. A brilliant use of digital India allows a donor to look up on the OMC websites the name of the poor person who received the benefit of the subsidised connection he/she gave up. And the media, of course, went out to check that these poor families actually existed and benefited.

Much more could be said about the GIU initiative with regard, for example, to the sophistication and wide extent of the social media campaigns that were developed, the extensive national media coverage and the coordinated effort to promote it from the Prime Minister's Office. Although not easily calculated, a

conservative estimate is that some Rs 2,500 crore is being transferred annually to the government by the middle class to enhance LPG coverage among the poor. This might be seen as a major internal 'aid programme', from the better-off to the poor, something akin to an internal 'foreign aid'. These efforts in a sense took an economic embarrassment in the form of a fuel subsidy to the well-off and magically transformed it into an asset for national development and a means to create national purpose around a national social goal, helping the poor gain access to clean cooking energy.

As has been the case all along, however, the early successes in the LPG programme led to a rethinking of what is possible. A crore more LPG connections, highly laudable in itself, slowly came to seem too small—there were after all some 15 crore households still using mainly biomass in 2014. And the GIU campaign itself began to lose momentum, as the number of socially conscious households most willing to give up their subsidies depleted. The government also apparently felt that there was a need for a new programme to keep up the excitement and maintain the momentum of change.

Thus, in May 2016, the Pradhan Mantri Ujjwala Yojana (PMUY) campaign was initiated to bring a total of 50 million new connections to BPL (below poverty line) households by 2019. Rather than rely on the giving up of subsidies to pay for these new connections, the GoI directly allocated Rs 8,000 crore to the effort (Rs 1,600 per connection to pay for the cylinder deposit, regulator and other small costs of setting up each connection). New subsidies brought by PMUY were innovative: only women were qualified to receive PMUY connections, thus justifying a central theme in PMUY: enhancing the status of women. Not incidentally, however, the focus on women also served to further target the subsidies towards only one household member, since the associated electronic bank account and Aadhaar card belonged to one adult woman. This does not eliminate the possibility of double connections in a household (for example, where there are two women), but it greatly decreases the likelihood, since no man qualifies by definition. In addition, the OMCs were charged with hiring ten thousand new distributors to add to the existing eighteen thousand. Such a major increase is needed as many of the BPL households lie in more remote, difficult to reach areas beyond regions handled by current distributors.

Arguably, nearly the full cost of PMUY is being covered by the 1.1 crore GIU customers who gave up their subsidies. By releasing their subsidy, each of these is essentially donating some Rs 2,000 each year for the rest of their lifetimes to help BPL families. This amounts to what is needed to connect nearly 1.4 crore BPL families, each year at Rs 1,600 each, and thus the cost to give connections to the 5 crore PMUY customers would be covered by the saved subsidies in four years or less. In reality of course, the amounts go into different pockets in the government and the OMCs and no agency is evaluated on whether they are balanced in some sense. In addition, the OMCs may not see that their outlays will be covered, which might put their position with their stockholders in some jeopardy.

In addition to difficulty of accounting for the shift of subsidies, it is nigh impossible to assign a true total net cost to the programme, for a number of reasons, including:

- The cuts in ghost accounts also save subsidy funds.
- Increases in subsidy requirements due to natural growth of new connections among the middle class.
- Reductions in subsidy because of mainly urban LPG households shifting to natural gas and electricity.
- The volatility in the international LPG price and thus the big changes in net subsidy each month.
- A slow rise in the subsidised baseline cost that has occurred due to pressure from the Finance Ministry.

Nevertheless, it is far less than a simple extrapolation of total accounts which indicate that the efficiency of subsidies is increasing.

PMUY is generally thought to be a big success and, as of March 2018, at 3.5 crore beneficiaries, it was well on its way to achieving its original target of 5 crore by early 2019. In addition, after a slow start, apparently some five thousand distributors had been hired to help provide the needed capacity to serve all the new customers. Thus, in February 2018, the Ministry and OMCs announced that the target had been extended to 8 crore households before 2021.

A further innovation in PMUY was to limit the qualification for subsidies for the first time at the high end. Everyone is now required to verify that their

household income is less than 10 lakh for the previous year in order to qualify for receiving any LPG subsidy at all. This is not truly enforceable, however, in that there is no easy way to verify income in India, but the underlying assumption is that many people will not be willing to misrepresent their income on an official government form for such a small benefit. It is an important innovation in the system, however, in that it signals clearly that the subsidy is not designed for everyone forever and is subject to being withdrawn when personal circumstances allow.

The innovative national PMUY databases deployed by the OMCs are now making it clear, however, that the provision of an LPG connection does not instantly make everyone a full user. The mean refill rate of PMUY households that have had their connection for at least a year seems to be about four cylinders, a bit more than half of what full usage is thought to be for a rural household, although this number is not known well across all household circumstances. Where study of OMC databases has been done, this seems to consist of a bimodal distribution, that is, mostly consisting of a group refilling around two cylinders and another around 6-7 cylinders per year. This is consistent with the introduction of other new health-saving technologies that require behavioural change, however, such as latrines, bed nets, condoms or institutional facilities for giving birth. Provision of the new better technology is just half the battle; the next portion is to encourage proper usage. From a health perspective, of course, the LPG stove must be used nearly all the time and the biomass stove not used in order for the air pollution benefits to accrue. Other social benefits such as saving of time needed to procure fuel wood also accrue directly with the reduction of biomass cook-stove use.

To deal with this issue of usage, the national LPG programme has this year introduced a fourth major initiative, called LPG Panchayat. It aims to conduct village-level meetings in 1 lakh villages around the country in fourteen months to attempt to bring at least 100 women together each time to learn more about LPG, its health and other advantages and how to safely use it, etc. It would be led by NGOs familiar with the local conditions and have a few high LPG users among its participants to help the others understand the benefits and allay any fears. Standard methods and materials have been prepared and the intention is to not only enhance usage, particularly among

those using just a few cylinders now, but also to further enhance connections. By taking advantage of one of India's major positive characteristics compared to other countries, its vast panoply of rural charitable organisations (NGOs), it is essentially attempting to leverage its subsidies in a new and, one hopes, effective manner.

Although health messaging plays some role in these meetings and local health workers are sometimes to be invited, my own group's interviews in villages indicate that they might be best conducted by the health sector itself, or at least with more active direct participation by ASHA (accredited social health activist) workers and others who work out of the public health centres (PHCs). Villagers are naturally somewhat sceptical of people who represent the sellers of something (LPG) telling them of the health impacts of the alternative (biomass). PHC workers, including ASHAs, however, have more credibility in delivering such messages, as well as being from the villages, speaking the local dialect and knowing many women of reproductive ages already due to their role in helping pregnant women. In the framing of this presentation, they offer an even greater leveraging of potential impact for LPG subsidies due to their existing widespread role in most of rural India.

What might come next: Although immense progress has been made in India in a relatively short time (3.5 years) to change an old, cumbersome, inefficient, disliked, but difficult to eradicate 'subsidy' into a modern, IT-based, popular and successful 'social investment' with demonstrably direct benefits for societies' poorest members, there is still more work needed to complete the transition. Preliminary studies show that although shifting the benefits more substantially to the poor, the LPG subsidy still mostly benefits the better off, in other words, there is more work needed to de-target the rich as well as better target the poor. The GIU campaign and the income cap do this partly, but more is needed. Without a more complete income tax system to better track incomes, however, this is national challenge.

Part of this challenge is seen in the new expansion of PMUY, which needs to find a way to provide three crore new connections to those who are clearly qualified to receive the benefit—they are poor and they use biomass as a fuel. The BPL designation, used in the GIU and first years of the PMUY,

has the advantage of using official lists based on the national census, but is widely recognised as being at best quite out of date. It is now leading to some consternation locally as it does not well distinguish the relatively better off from the truly poor. There is a range of other designations related to poverty or minority status, but these generally do not have the advantage of being relatively easy to verify from official lists or other credible sources. This is part of the challenge being faced as PMUY moves forward.

Given also the financial uncertainties about usage and cost recovery of start-up costs by the OMCs and the mixed record of payment by customers of the associated cost of the stoves themselves, even with zero-interest loans from the OMCs, there may be some wisdom in slowing down the programme in the next couple of years as well as to find ways to focus more on those groups showing the greatest likelihood of increased usage.

My health colleagues and I argue that in addition to attempting to validate additional measures of income/minority status, pregnancy would be much easier to validate and makes most sense as a qualification from the health standpoint. It is simply the best indicator of vulnerability since pregnant women, their soon-to-be-born children, and (commonly) other young children at home represent the most sensitive groups to the health impacts of biomass smoke. Pregnancy is already routinely validated through pregnancy tests by the 9 lakh ASHA workers in the country working out of PHCs. Poor pregnant women also benefit from other government social investments to encourage institutional delivery and receive counselling, medical care, delivery costs and simple medicines courtesy of the taxpayer since everyone believes a healthy child and mother are important for the entire nation—these are already seen as social investments. The women also are at a time of life when they are taking on new responsibilities and making other behavioural changes, that is, it is a good time to bring health messages on LPG being a way to protect their children and themselves. Indeed, targeting special benefits to any pregnant woman not using LPG who plans to deliver through the PHC system would seem likely to be quite precise and require no additional verification of income or minority status. It would require the Ministries of Petroleum and Health to collaborate to get this done.

As part of the effort to enhance the benefits of clean cooking energy for the very poor, the country should also consider including a second cylinder with their connections. It is by far the easiest way to assure high reliability of supply; which studies show is a constraint to many people's full use of LPG. It would recognise that it is difficult for distributors to supply refills quickly in remote rural areas, in the mountains, in the forests, on islands, during the monsoon, etc. even in light of the ambitious government goals on time to delivery. Two cylinders are what middle class urban consumers use to provide full reliability; why not make them easily available to rural consumers as well who face even more difficulties? Our ongoing study in Maharashtra shows that about 75 per cent of pregnant women are willing to pay for the deposit on a second cylinder after we loan it to them until they deliver their baby, proving that they clearly see the value. This would be another way to better target public funds.

In summary, it seems that better targeting and reorientation of subsidies could increase usage among the truly poor, with a particular focus on pregnant women, and still save the overall GoI expenditures for connections if the subsidies were further reduced for the non-poor. Indeed, we believe that nearly free fuel could be offered during pregnancy to protect this vulnerable population and it would cost less than current benefits already received and lead to a greater behavioural shift to long-term usage. And there is a natural end to it when the baby is born.

This would mean all India's babies could be protected within a few years, something I believe would be called by most a great return on social investment.

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