
Practitioner Exchange Series

LPG Subsidy Reform in India | Put the right systems in place first.

By Michelle Pena Nelz



- Government subsidies for liquefied petroleum gas (LPG) can be an important source of support for the poor, ensuring access to clean fuel. But in India, gas illegally diverted from households to businesses has created a black market causing inefficiencies
- To tackle this challenge, India has implemented the largest Direct Benefit Transfer Scheme for LPG in the world, improving delivery mechanisms and enabling better targeting.

The case of India's Pratyaksha Hastaantarit Laabh (PAHAL) program was the subject of discussion in a recent [Energy Subsidy Reform Online Community \(ESROC\)](#) event¹. The virtual discussion with

¹ The ESROC platform, supported by the World Bank's [Energy Sector Management Assistance Program \(ESMAP\)](#), brings together government officials from around the world and experts from the World Bank Group and international organizations to share their insights and experiences on reforming energy subsidies. For membership requests and general inquiries, please contact us at esroc@worldbank.org.

members of the ESMAP-supported online community stressed the importance of putting the right system in place before focusing on targeting, and outlined five key lessons learned from India's experience.

By providing subsidized LPG cylinders for households while imposing taxes on commercial users, incentives for a black market were created in which fraudulent household beneficiaries and LPG diverted from the domestic to the commercial sector became the source of significant inefficiency.

In an attempt to remedy the situation, in 2012, the Government of India embarked on a Direct Benefit Transfer Scheme for LPG —the Pratyaksha Hastaantarit Laabh (PAHAL) program.

Through a series of reforms, the government brought the price of LPG sold to domestic consumers up to the market level. At the same time, through the PAHAL program, it gave subsidies directly to consumers in the form of cash transfers to their bank accounts.

This eliminated the incentive to divert subsidized domestic LPG to non-subsidized sectors, leading to a reduction of leakages. The program also generated sufficient savings to pay for itself by the end of its first year in operation.

"As part of one of the largest distribution mechanisms in the world, I am responsible for giving petrol, diesel, LPG, and kerosene. We have had deregulated petrol and diesel since 2010 and 2014, and we are now gradually targeting subsidy for LPG consumers. I am hopeful in the future that LPG subsidies will only be given to those who need them."

Dharmendra Pradhan, India's Minister of Petroleum and Natural Gas

Key results of the PAHAL program:

- 140 million customers enrolled and received cash transfers of 238 billion rupees (USD 3.7 billion.)
- Led to the creation of 200 million new bank accounts, including for the poor, underserved population.
- It has been recognized by the Guinness Book of World Records for being the "largest cash transfer program (households)" in the world
- Aims to add another 50 million users in the next three years, primarily from rural areas where fuelwood is still the predominant fuel for cooking.

One of the most important aspects of the program is that it focuses on addressing the issue without reducing the subsidy itself.

The Senior Advisor to the Executive Director for Bangladesh, Bhutan, India and Sri Lanka at the World Bank Group, Neeraj Mittal, was responsible for rolling out the PAHAL program and shared insights on the subsidy reform journey.

According to Mr. Mittal, the two big general challenges in such an initiative are:

- 1 | Engaging all stakeholders, which means providing the right incentives, designing close monitoring, setting up robust IT systems, and effective grievance redress mechanisms
- 2 | Designing change management to address attitudes and established behaviors, especially for the higher income groups that will no longer receive subsidies.

Mr. Mittal pointed to the following factors as critical to the success of this initiative, which, he noted, could be valuable for countries with similar contexts.

- 1 | Strong, high-level political leadership such as from the President/Prime Minister to provide an authorizing environment,
- 2 | A technology platform to manage the scaling up of the program
- 3 | Transparent stakeholder incentives and an effective monitoring system to ensure compliance
- 4 | Repetitive, multilingual, multimodal outreach and communications targeted to ensure coverage of all consumers,
- 5 | A multimodal feedback/grievance mechanism for consumers – web, phone, call center, walk-in
- 6 | Flexibility to enable mid-course corrections and adjust accordingly

Vivien Foster, Global Lead for Energy Economics Markets & Institutions at the World Bank Group, also shared some remarks during the discussion. She drew attention to the importance of a solid platform (including technology) for the success of such an initiative. The development dividends of such a platform are evident in PAHAL: universal access to bank accounts; biometric identifiers; and a mobile communications platform through which the government can communicate with citizens directly and systematically.

Finally, participants at the event raised some illuminating questions on implementation of the program:

Q: Regarding the LPG subsidy, how did you do the targeting? How did you reach people who did not have bank accounts?

A: (Neeraj Mittal) The key is to get the delivery system in place and then start targeting. This ensures a step by step approach to implementation and improves chances of success of the program. We also ran the “Give it Up” campaign to encourage users to give up the subsidy if they did not need it. In addition, we had a change management program—to change mindsets, attitudes of consumers, people—rather than just technology. There is a lot of resistance to change and we aimed to change that. We started with the universal subsidy and then we moved into a more targeted subsidy. As far as income/revenue is concerned, people’s tax returns are slowly being linked to Aadhaar (the unique biometric identifier scheme). It may eventually be possible to determine income thresholds. Otherwise, currently, eligibility is based on voluntary disclosure. And, trusting citizens to disclose such information is a new concept in governance. The PAHAL program helped us remove “ghost connections” across the three LPG companies, which was not possible before.

We opened 200 million new bank accounts through a sister program, including for the poor and underserved sections of the population, and linked bank accounts through Aadhaar (National ID) through a payment gateway for effecting cash transfers.

Q: Is the LPG subsidy coordinated with other programs? Is there a proxy-means test? What is inclusion/exclusion error of universal coverage vs. targeting?

A: (Neeraj Mittal) The current stage of the program is built on universal subsidy. Anyone who applies for a connection gets a subsidy until he/she declines it voluntarily. Earlier, one could not even get a market priced connection; you could only get a subsidized one. This has changed. To avail of the subsidy now, you have to make a declaration that your income is less than 1,000,000 rupees per year. In the Essential Commodities Act and Law, there is a

punishment for making a false declaration but the challenge of verifying a beneficiary's income will remain.

About proxy measures like using information on assets, the Aadhaar system does not collect such information as yet. It is only for identity of residents and cannot be used to assess poverty.

Q: Will you cut back on the level of the subsidy? How did you determine the level of subsidy to begin with?

A: (Neeraj Mittal) To determine the level of subsidy, market prices are determined every month based on the landed price of LPG. The end-price to the consumer is fixed by the Indian cabinet from time to time. Hence, the subsidy burden borne by the Government varies every month. The consumer price has been creeping up over time but has not changed substantially. The target is to reduce the overall subsidy burden by reducing leakage, but not by cutting the subsidy itself.