

Pratyaksha Hastaantarit Laabh (PaHaL) Scheme:

A move towards fixing India's broken subsidy regime

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I. Introduction

"If the JAM Number Trinity can be seamlessly linked, and all subsidies rolled into one or a few monthly transfers, real progress in terms of direct income support to the poor may finally be possible," stated the Economic Survey 2014-15. It acknowledged that price subsidies are often regressive³. In a move to eliminate leakages in subsidies without reducing the amount of subsidies themselves, the JAM (Jan dhan, Aadhaar, Mobile) Number Trinity was extended to directly transfer subsidies to LPG customers, and is being considered for food and kerosene subsidies as well. The Trinity can cut the government's subsidy burden by 25-30%.

The Indian government has been providing LPG subsidies since late 1970s, in order to make clean cooking fuel affordable for Indian households (Jain, Agrawal, & Ganesan, 2014). With the rise in LPG consumption and prices, the overall annual subsidy burden on the government has more than tripled over the last 10 years, from INR 10,246 crore in 2005/06 to INR 36,580 crore in 2014/15 (Petroleum Planning and Analysis Cell, 2015). In order to target the rising burden on the government, among other major issues, direct cash transfer of subsidy and targeting the beneficiaries was recommended. In line with the

recommendations of the 2010 Expert Group, the Government of India launched the Direct Benefit Transfer for LPG Scheme in 2013.

The PaHaL (DBTL) Scheme for direct transfer of subsidy to the LPG customers, which was earlier launched on 1st June 2013, and covered 291 districts, made Aadhaar mandatory for the customers to avail the subsidy. A modified version of the scheme, re-launched in 54 districts on 15th November 2014 in the first phase and on 1st January 2015 in the rest of the country, removed the requirement of having an Aadhaar number. With effect from 15th May 2015, all LPG customers obtain cylinders at market price and only those who enter the scheme receive a one-time permanent advance and subsidy directed to their bank accounts on the purchase of each cylinder. As of January 28, 2016, the scheme covered 149.7 million domestic connections (more than 90% of the total active user base) (MoPNG, 2015). PaHaL is now the world's largest subsidy benefit transfer scheme (MoPNG, 2015). It aims to curb diversion and weed out fake/duplicate connections.

Our study aims to analyse the overall efficacy of the scheme, while highlighting its challenges and providing our recommendations to overcome awareness, availability and administrative hurdles. We also wanted to study whether the

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beneficiaries are able to access their money easily.

In this paper, we start off with reviewing existing literature on the topic and outlining our methodology. We move on to talk about the existing banking scenario among the poor (especially urban poor) and give a brief overview of the LPG market in India. Finally, we discuss the scheme in detail, its limitations and our suggestions for its improvement.

II Reviewing Existing Literature

Over the past few years, many reports and articles have been written, reviewing the functioning of the DBTL scheme.

The Economic Survey (2015-16) examines the first variety of JAM—the PAHAL scheme of transferring LPG subsidies via DBT. The Pahal scheme has been a big success. The use of Aadhaar has made black marketing harder, and LPG leakages have reduced by about 24 per cent with limited exclusion of genuine beneficiaries. However, diversion of LPG from domestic to commercial sources continues, because of the differential tax treatment of “commercial” and “domestic” LPG. In other words, the One Product One Price principle is still being violated. Despite huge improvements in financial inclusion due to Jan Dhan, the JAM preparedness indicators suggest that there is still some way to go before bank-beneficiary linkages are strong enough to pursue DBT without committing exclusion errors.

A Government Committee (May, 2014) has examined the functioning of the DBTL scheme in depth by meeting all stakeholders to understand every aspect of the scheme and the difficulties

encountered by the stakeholders, primarily LPG consumers. After a detailed study, the committee strongly recommends that the DBTL scheme be recommenced as it is a very efficient way to disburse subsidies. However, it has suggested several systemic changes and enhancements to mitigate the hardships reported by the LPG consumers.

The Council on Energy, Environment and Water (CEEW) is one of India’s (and South Asia’s) leading think-tanks with a vast scope of research and publications. CEEW addresses pressing global challenges through an integrated and internationally focused approach. CEEW conducted an independent performance evaluation of the modified DBTL scheme (April, 2016), with a focus on assessing the efficacy of the scheme against its stated objectives and its implementation process, as well as the experiences of key stakeholders with the scheme’s implementation and impact. The study also unravels the difficulties faced by different stakeholders and puts forward suggestions for reforms. Finally, it provides insights into the lessons learned from the scheme’s implementation. Besides achieving its objectives to a significant extent, the DBTL scheme elicited high levels of consumer satisfaction. Moreover, all the key stakeholders expressed a positive outlook towards the scheme, except the banking personnel.

III Methodology

This paper is based on a household survey covering 100 urban households in the capital city of New Delhi. With an aim to evaluate the modified DBTL scheme and assess its efficacy, we surveyed urban poor households with an average income of Rs

7,365 per month. A purposive sample⁴ was chosen to see whether the poor had access to the subsidised LPG cylinders. Our focus was on the customer only, not on the other stakeholders⁵. We carried out the surveys in Timarpur, Vijaynagar, Patel Chest Institute area, Burari and Adarsh Nagar in North Delhi, and Dhaula Kuan and Chhattarpur in South Delhi. The areas were selected based on our convenience, in terms of proximity and access. We also interviewed a few support staff in our college.

We personally interviewed the respondents and prepared a comprehensive questionnaire for the same. Interviewees were asked about their awareness of the scheme, whether the payment of subsidy was regular and whether they had any difficulties in accessing it, among other questions. The questionnaire was designed to understand consumer awareness, their perspective and their experience of the scheme, as well as the issues they faced. We also tried to elicit the users' views on how the scheme has affected them.

All the interviews were conducted in September-October 2016. (Note, the survey was undertaken before the government's demonetisation move.) The paper was written in January 2017.

IV Financial Inclusion and Literacy

As LPG coverage expands in rural areas, the subsidy program could create additional barriers for economically weaker strata of the society. These could be in the form of no bank account or the

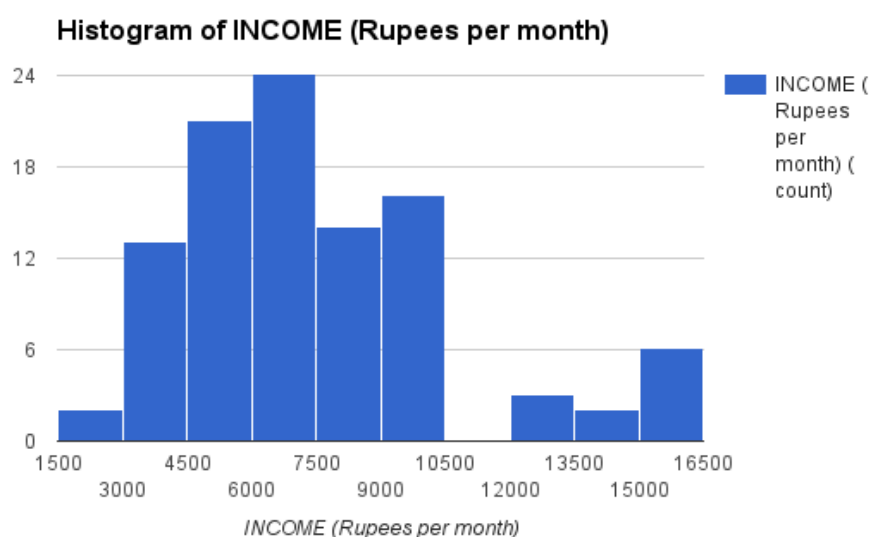
distance the person travels to have access to banking services. While the Pradhan Mantri Jan Dhan Yojana has increased the number of rural households with bank accounts, we need innovative payment approaches to fill the gap of last mile access to banking services. Our survey that was conducted in urban poor areas gave the result that only 12% of the households knew when the subsidy is delivered, while 22% knew the amount of subsidy delivered. Our inference from the data is that though banks are located close to households, they aren't used at frequent intervals and very few people keep a check on their bank account activities.

Of the sample urban poor population, only 1% did not have a bank account and 4% did not have an Aadhaar card. Reasons of not having an Aadhaar card included distance between people's homes and the enrolment centre and the inconvenience of the process. We assessed the scheme's efficacy in terms of the extent to which it could achieve its stated objectives. Close to 71 % of the consumers enrolled in DBTL reported receiving their subsidy in their bank accounts. However, issues such as non-receipt of subsidy and lack of information about the subsidy transfer need to be resolved urgently to ensure that the subsidy reaches all deserving households, not only for economical purposes, but also in the quest for providing clean fuel across the nation. Thus, the DBTL scheme could help accelerate PMJDY, the financial inclusion scheme, to cover the unbanked households. This would also improve the overall outlook of the scheme for the public at large.

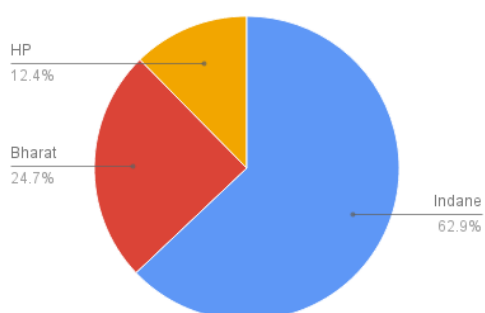
V The LPG Market in India

The rising preference for LPG (Liquefied Petroleum Gas) for domestic consumption has been witnessed through the expanding customer base of the LPG market in India. At the same time, as our data suggests, 8% of the sample still uses coal for their cooking and heating needs, whereas another 8% uses LPG along with coal. LPG customers are tied to LPG distributors, usually determined by the geographical location, thereby providing customers very little freedom to choose their distributors. LPG distributorships are appointed by the Public Sector Oil

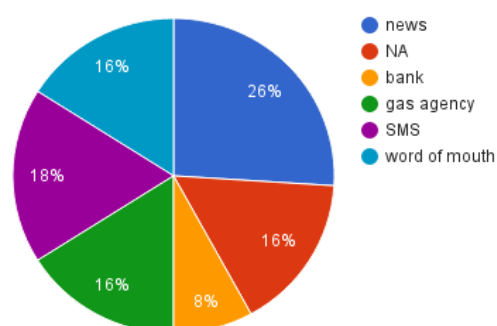
Marketing Companies (OMCs). Heavy subsidies in domestic LPG sector by the government makes it difficult for private firms to survive in this sector. As per our survey, there were three major market players, all from the PSU sector, viz. Indane, Bharat and HP. Their respective market share was 69.2%, 24.7% and 12.4%.



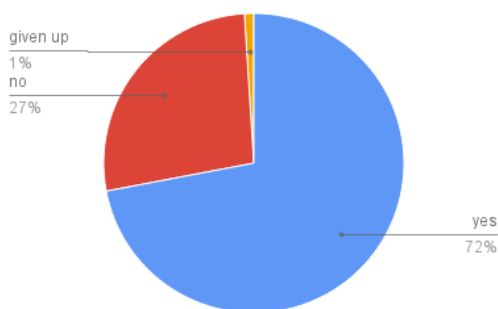
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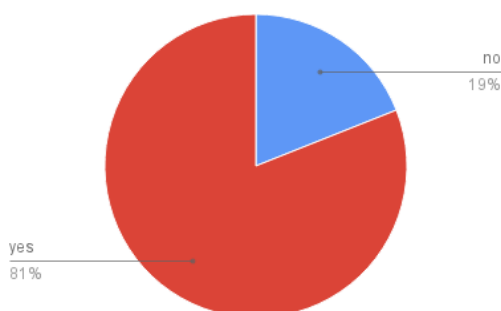
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