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MAKING UJJWALA YOJANA THE LIVEWIRE OF RURAL INDIA POST THE LPG PRICE INCREASE

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The current surge in inflation could be broad-based. If we look at the item-wise inflation during Oct'19 to Jan'20, there are 10-items that are contributing 94% to the overall inflation. More importantly, in the fuel & light inflation, most of the contribution to the rising prices is coming from LPG and firewood & chips. Interestingly, LPG contribution has increased by 31 bps and firewood & chips has increased by 10 bps during Oct'19 to Jan'20. Firewood and chips is mainly used in rural areas for cooking purposes and increase in prices of this indicates that demand for it is more than the supply. Given the fact that almost 96.5% (Oct'19) of households in India today have an LPG connection due to Pradhan Mantri Ujjwala Yojana (PMUY), an increase in LPG prices might thus be the reason.

Against this context, we analysed the state-wise refill data of 5.92 crore connections installed till Dec'18 since beginning (May'16) and refill upto 03 Jun'19 (means the connections that have completed more than one year). As per the data, 54.2% of total PMUY consumers consumed upto 3 cylinders in a year or more. However logic suggests that a family of 4 requires at least 3-4 cylinders per year. In fact, though PMUY is an excellent step in promoting clean energy to rural households, the PMUY use among the rural households in states with low per capita income may be lower due to continuous increase in LPG prices. The beneficiaries are going back to use of unclean fuel (hazardous to their health also) as soon as the free cylinders get exhausted. **Though, PMUY has solved the problem of availability but the affordability barrier still exists**. **Government should now focus on the 'affordability' issue and to achieve this, we suggest a set of measures as follows:**

- The current loan scheme under PMUY allows households the option to take hot plate on purchase of first refill or both on loan basis from zero interest rate and the same is recovered through subsidy received by the beneficiary. **This should be phased out and will only involve a one-time cost of around Rs 2500 crore and will improve the cost of refilling.**
- An increased and graded subsidy may be provided to PMUY and poor consumers which can be tapered off over a period of, say, four years. For this, the Government can create a comprehensive merged database using databases of Ayushman Bharat, PM-KISAN, PMJDY, PMUY and MUDRA and then provide these people with maximum four free cylinders in a year. **Even if 4 crore people are eligible for this then the total cost to exchequer per year will be maximum Rs 12,800 crore (4 crore x 4 x Rs 800 per cylinder). We can also have a compulsory opt-in scheme for availing subsidies emulating nudge theory in policy making.**
- The number of subsidised cylinders per annum to households can be reduced from the current 12 to 9 (average all India consumption is 6.7 cylinders) which would be sufficient for most households. Introducing mandatory standards and labelling for LPG stoves will save at least 10% of the LPG consumption.

Meanwhile, the fiscal arithmetic will change significantly post 16th March 2020 (the date till which telecom companies have to pay their AGR dues). If we assume that the Government is able to collect Rs 1.20 lakh crore through AGR dues, the fiscal deficit for FY20 will reduce to 3.5% of GDP.

TOP 10 ITEMS CONTRIBUTING 94% (279 BPS) OF THE OVERALL CPI RISE OF 297 BPS DURING OCT'19 TO JAN'20

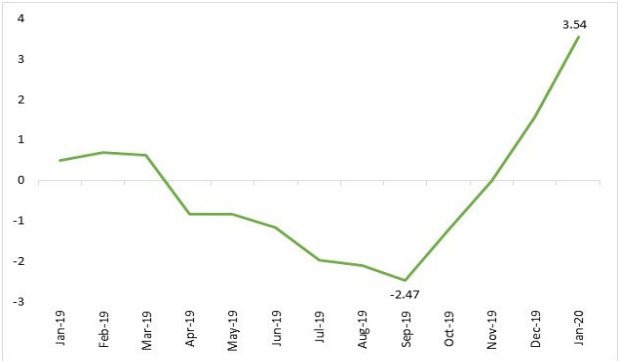
- CPI inflation in Jan'20 has increased sharply to 68-month high of 7.59% as against 7.35% in the month of Dec'19 and 4.62% in Oct'19. Though most of the recent surge in CPI inflation is due to exorbitant rise in vegetable prices, especially onion & potato, a cursory look at the data shows that the weighted contribution of vegetables in overall CPI has declined in Jan'20 as compared to Dec'19. This indicates that other factors are also contributing to rising inflation.
- If we look at the item-wise inflation during Oct'19 to Jan'20, there are 10-items that are contributing 94% (or 279 bps) to the overall inflation. Among these 10 items, 7 are from food and fuel groups which contributed 223 bps and 3 items are from core group contributing 56 bps to the overall inflation. More importantly, in the fuel & light inflation, most of the contribution to the rising prices is coming from LPG and firewood & chips. Interestingly, LPG contribution has increased by 31 bps and firewood & chips has increased by 10 bps during Oct'19 to Jan'20.
- This is a matter of research as to what is prompting inflation in firewood and chips to increase at such a rapid pace. Firewood and chips is mainly used in rural areas for cooking purposes and increase in prices of this indicate that demand for it is more than the supply. Given the fact that almost 96.5% (Oct'19) of households in India today have an LPG connection due to Pradhan Mantri Ujjwala Yojana (PMUY), an increase in LPG prices might be the reason.
- In fact trends indicate that continuous increase in LPG prices and subsequent decline in annual refill of gas cylinders under PMUY could be strongly correlated.
- According to Government (as indicated in CAG report), the average refill consumption of PMUY connections has declined to 3.0 cylinders per year in FY19 from 3.9 cylinders per year in FY17.

Top 10 items contributing to Headline Inflation during Oct'19 to Jan'20

Itemwise Contribution	in bps
Food and Fuel Inflation (7 items)	**223 (75%)**
of which , Rice	17
Milk	17
Potato	59
Onion	79
Garlic	10
LPG	31
Firewood and Chips	10
Core Inflation (3-items)	**56 (19%)**
of which , Petrol for Vehicle Under 'Transport & Communication'	29
Mobile Bills	18
Clothing	9
Overall CPI	**297 (100%)**

Source: SBI Research

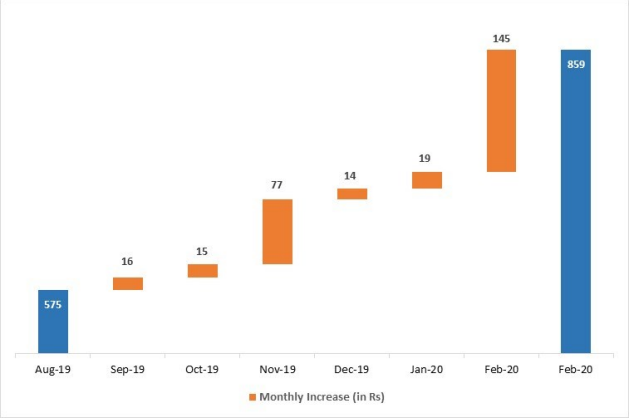
CPi Inflation In Firewood & Chips (% YoY)



Source: SBI Research

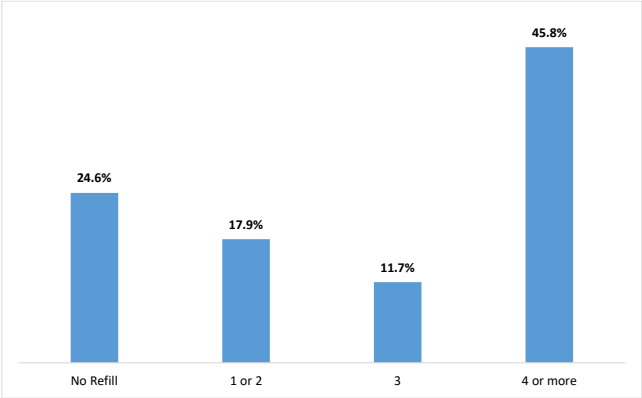
- The price of non-subsidised LPG cylinder (in Delhi) has increased from Rs 575 in Aug'19 to Rs 859 in Feb'20, an increase of Rs 284 in just 6 months. Interestingly the inflation in firewood and chips is also showing increasing signs post the increase in gas cylinder prices.
- A press release by the Ministry of Petroleum & Natural Gas (MPNG) has stated that till Dec'19 about 87% of PMUY beneficiaries have returned for at least second refill and the total number of refills including installation against PMUY connections has crossed more than 40 crore.
- We analysed the state-wise refill data of 5.92 crore connections installed till Dec'18 since beginning (May'16) and refill upto 03 Jun'19 (means the connections that have completed more than one year). As per the data, out of 5.92 crore connections, 24.6% of beneficiaries never came back for second refill, 17.9% consumers refill either 1 or 2 cylinders, 11.7% refill 3 cylinders and 45.8% consumers refill 4 or more cylinders. This indicates that 54.2% of total PMUY consumers consumed upto 3 cylinders in a year or more. However logic suggests that a family of 4 requires at least 3-4 cylinders per year. **This means that peoples are not using PMUY cylinders on regular basis.**
- States' wise analysis indicate that Chhattisgarh had the highest number of beneficiaries (in share) who did not returned for second refill (52.3%), followed by Tripura (44.5%), Jharkhand (43.7%), Odisha (35.7%), Assam (36%), and Madhya Pradesh (32.7%). Interestingly, the average per capital income of these states are 50% lower than the national average.
- The above analysis proves that though PMUY an excellent step in promoting clean energy to rural households, the PMUY use among the rural households in states with low per capita income may be lower due to continuous increase in LPG prices. The beneficiaries are going back to use of unclean fuel (hazardous to their health also) as soon as the free cylinders get exhausted.

Price of non-subsidised LPG cylinder (in Delhi) in Rs



Source: IOCL, SBI Research

Refill Pattern of 5.92 crore Beneficiaries



Source: PMUY; SBI Research

UJJWALA 2.0: IDEAS TO ENHANCE LPG USAGE SUSTAINABLY

PMUY has been successful in providing LPG connections to nearly every household in the country. However, the consumption by PMUY beneficiaries and other poor households is still picking up pace. For example, in 2018-19, the average consumption of LPG by a PMUY household was 3.0 cylinders per annum in contrast with 6.7 cylinders by an average Non PMUY household. As a result, the larger objectives of the programme regarding improving health outcomes for rural women and children is still being fulfilled. This calls for further interventions that can help increase LPG consumption by poor and rural households. **Though, PMUY has solved the problem of availability but the affordability barrier still exists. Government should now focus on the 'affordability' issue and to achieve this, a set of measures are proposed as follows:**

- Under the current loan scheme of PMUY, customers have option to take hot plate on purchase of first refill or both on loan basis from zero interest rate and the same is recovered through subsidy received by the beneficiary. This recovery forces households to buy cylinders at unsubsidized prices until the loans are repaid, thus discouraging them from purchasing refills. So, this should be phased out, which will only involve a one-time cost of around Rs 2500 crore.
- An increased and graded subsidy may be provided to PMUY and poor consumers which can be tapered off over a period of, say, four years. Providing such a subsidy will encourage them to consume greater quantities of LPG, and over time they are more likely to be willing to pay the normal subsidised price. This will require recurring expenditure for at least some years. **For example, a similar scheme is being implemented in Maharashtra by the Forest Department to incentivise forest dwellers to shift to LPG.**
- There are concerns about subsidy amounts being deposited into customer accounts with some delay, which can be a concern for poor consumers with cash-flow challenges. Digital technology can easily be leveraged to address this and ensure prompt subsidy credit to consumer accounts. This will promote digital transactions in addition to addressing cash-flow challenges**.**
- The subsidy net is currently cast wide, with over 85% of customers being subsidised. There is room to improve targeting of subsidy and thus reduce subsidy requirements. Measures to do this include gradually moving to an opt-in rather than opt-out mechanism for most non PMUY and poor consumers.
- The Government can do this with the help of creating a comprehensive merged database using databases of Ayushman Bharat, PM-KISAN, PMJDY, PMUY and MUDRA and then provide these people with maximum four free cylinders in a year. Even if 4 crore people are eligible for this then the total cost to exchequer per year will be maximum Rs 12,800 crore (4 crore x 4 x Rs 800 per cylinder).

Adopting such measures would result in increased financial burden, which is also a social investment by the government. **Some measures can be also be taken to offset the increased subsidy as:**

- The number of subsidised cylinders per annum to households can be reduced from the current 12 to 9 (average all India consumption is 6.7 cylinders) which would be sufficient for most households.
- Introducing mandatory standards and labelling for LPG stoves will save at least 10% of the LPG consumption. This would reduce subsidy and also have additional benefits such as reducing India's import bill and saving on GHG emissions. An example, of such is bulb replacement with LED bulbs under UDAY.
- The financial burden of subsidy can be shared with other ministries (such as the Health ministry) and state governments, since they also gain from improved usage of LPG. Moreover, a nominal 'smokeless kitchen' cess could be considered to raise further revenues if required.

FISCAL DEFICIT FOR FY20 WILL BE AROUND 3.5%

- The fiscal arithmetic will change significantly post 16th March 2020 (the date till which telecom companies have to pay their AGR dues.
- Of the total Rs 1.47 lakh crore, Rs 92,600 crore (Rs 31,600 crore - Airtel, RJio, and Tata; Rs 28,300—Vodafone and Rs 32,600—RCom and Aircel) is the Unpaid licence fee and the rest Rs 55,504 crore is the charges for spectrum usage.
- If we assume that the Government is able to collect Rs 1.20 lakh crore through AGR dues, the fiscal deficit for FY20 will reduce to 3.5% of GDP.
- However, this will put a question on the amount that the Government can raise next year from the telecom sector out of Rs 1.33 lakh crore budgeted, which in turn can impair the fiscal arithmetic of FY21.

Fiscal Deficit Estimate (Rs crore)	
Gross Corporation Tax shortfall	155500
Gross Income tax shortfall	9500
Gross Customs and Union Excise Duties shortfall	82892
Gross Goods and Services Tax (GST) shorfall	51016
Shortfall in Disinvestment receipts	40000
Net Shortfall in other heads (Interest income, other non tax revenue, recovery of loans)	1426
Surplus in other small heads (recovery of loans, etc)	
Surplus on account of Dividend & Profits (Dividend from PSB's, FIs & PSUs+ RBI surplus)	36364
Total Revenue loss (A)	**303970**
Net tax Revenue shortfall to Center after adjusting for States transfer (B)	**150883**
Expenditure rationalisation (C)	**87797**
Fiscal Deficit BE (D)	703760
Revised Fiscal Deficit for FY20 =D +(B-C)	**766846**
Revised Fiscal Deficit (% of GDP)	**3.8**
Memo:	
Food subsidy expenditure cut	75532
Additional revenue generation by AGR by 15 telecoms	147000
Excess revenue collected assuming Government gets Rs 1.2 lakh crore of AGR dues	44468
New Fiscal Deficit (% of GDP)	**3.5**

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