



Why Should We Care About Development Finance? ...because it's our money!

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Who Pays for India's Ethanol Transition?

India's ethanol story has mostly been told as a complaint story, failing mileage, stalled cars, a minister who won't budge. But underneath it is a money story, and it's the part that actually explains why the government isn't backing down. Since 2018, the Indian government has actively supported ethanol capacity expansion by implementing various interest subvention schemes. Through these initiatives, the Central Government bears an interest subvention of 6% per annum or 50% of the interest rate charged by banks (whichever is lower) for a period of five years, which includes a one-year moratorium. These financial assistance schemes, managed by nodal agencies like NABARD, have helped approve over 1,200 distillery projects across the country. Oil companies then signed agreements to buy fixed quantities of ethanol from these plants, often with a bank guaranteeing the deal. This structural layout of India's Ethanol Blended Petrol (EBP) program creates a distinct divide in risk distribution. While long-term agreements shield producers, consumers bear the resulting financial, mechanical, and logistical risks.

That gap is now out in the open, in the government's own words. Asked why consumers aren't given a choice between E10 and E20, the government didn't point to safety data or engine testing. It said public sector banks have financed close to ₹1 lakh crore a year in ethanol plants, storage, and logistics, and reversing course now would strand that investment. In financial terms, that's a stranded asset problem, loans that stop making sense the moment the policy behind them changes. So the mandate isn't holding firm because science demands it. [NITI Aayog's own 2021 roadmap](#) said E10 should stay available for older vehicles during the transition, and that recommendation was quietly dropped. The mandate is holding firm because reversing it would mean admitting those loans are at risk.

The pricing story hasn't been resolved either. Ethanol used to be the cheaper fuel, and NITI Aayog's roadmap said it should be priced below petrol, with tax relief to offset the mileage loss. Neither happened, consumers now pay full price for fewer kilometres per litre. More recently, the government announced zero excise duty on future ethanol blends and framed it as a win for consumers. But that benefit goes to oil companies, ethanol producers, and sugar mills, not to the person at the pump. Nothing in the policy ensures any of that saving is passed down.

Meanwhile, the real cost of the transition is landing on ordinary vehicle owners, one repair bill at a time, a rusted tank quoted at ₹19,000, a car stalling mid-drive, a full day lost getting a fuel tank drained and refilled. None of this was priced into the policy, because it isn't the industry that's absorbing it. That's the real story behind India's ethanol experiment: not whether the fuel works, but who was made to carry the cost of making it work, while the people who built the ethanol business were never asked to carry any risk at all.

- Team CFA

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Analysis

India Out of Work

An excerpt from 'India Out of Work: Rethinking India's Growth Story' India Out of Work explores the growing crisis in India's labour market. Over the past few years, non-farm jobs, which are crucial for diversifying the economy and providing stability, are not growing as they should. The formal job sector, which offers security, benefits and fair wages, is also stagnant. This lack of job creation is pushing more people into unpaid or informal work (the latter constitutes just over 90 per cent of the workforce) where they struggle to make ends meet.

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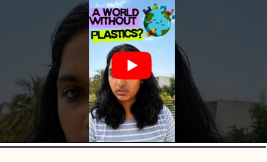
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