Workshop-4: The Economics and Business Models of Identification Schemes

India LPG Experience: ‘PAHAL’
Direct Benefits Transfer For LPG (DBTL) Based on Aadhar

By Shailendra Kumar Sharma
General Manager(LPG-S)
Indian Oil Corporation Ltd., India

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Agenda

• Overview: India, IndianOil, LPG Market
• LPG Pricing, Under Recovery
• Need for better subsidy administration
• What is Aadhar?
• PaHaL (DBTL) Scheme
• Benefits
• Agencies Involved in Implementation
• Learning’s
2nd most populous country with multi ethnic, multi lingual, multi cultural population of more than 1.25 billion.

29 states & 7 union territories , 676 Districts, more than 0.64 million villages. About 60% of the population lives in villages.

There are large variations in the density of population in different parts of the state depending upon the local conditions.

Young nation with > 62% of the population between 15 & 59 with large pool of skilled & technical population.
IndianOil

- India’s largest Commercial Enterprise. Revenue USD 73.7 Billion & Profits USD 862 Million in 2014-15.
- 96th position Fortune “Global 500” and is the 20th Largest Petroleum Company in the World.
- Products sales of 74 MMT during 2014-15.
- Operates more than
  - 24000 Retail Outlets
  - 8500 LPG distributorships
  - 91 bottling Plants
- 2 million cylinders supplied every days at door-steps of 90 million LPG Consumers.

Map of Refineries in India
(Capacity in MMTPA)
LPG Industry

- **Domestic LPG**
  - Packed product in 14.2 Kg & 5 kg cylinders, home delivered through distributors

- **Non Domestic LPG**
  - Packed product in 5kg, 19Kg, 35 Kg and 47.5 kg delivered supply through distributors.

- **Industrial**
  - Delivered to Storage Tanks of Customers

- **Transport (Auto LPG)**
  - Through Retail Outlets along with Gasoline/Diesel

- Population of country (Census 2011): 1221 m Households: 267 m
- Registered LPG consumers: 201 m
  - Active LPG consumers: 166 m
- LPG Distributorships: 17916
- Bottling plants: 188
- Domestic sale: 17 MMTPA
LPG Pricing & Under Recovery

Domestic LPG Pricing in India

- Protection of Domestic Consumers from Price fluctuations.
- Difference of Market Price & that charged from Domestic consumer is given by Govt. as subsidy.
- This under recovery burden could not be sustained indefinitely.
- Need to improve subsidy administration
Need to Improve Subsidy Administration

- To ensure entitlement on LPG reaches the actual LPG consumer.

- To reduce the misuse of subsidised LPG, by eliminating the incentive for diversion.

- To improve the availability of LPG for genuine consumers.

A Task force was set up during 2011 to suggest ways and means to tackle above issues.
Task Force Recommendation

- **Phase I**: Capping of Cylinder
  - Announced 6 Cylinder Per Year
  - Subsidy reduction by 30%

- **Phase II**: Aadhaar Based LPG Delivery
  - Reduction in Fake identity & direct subsidy transfer

- **Phase III**: Aadhaar Based LPG Delivery only to Segment
  - Subsidy Only to target Household
  - Further Subsidy reduction

Reduction in fake identity & direct subsidy transfer

Subsidy only to target household

Further subsidy reduction

Subsidy reduction by 30%
What is Aadhar?

- Aadhaar is a 12 digit individual identification number issued by the Unique Identification Authority of India on behalf of the Government of India.

- This number will serve as a proof of identity and address, anywhere in India.

- Any individual, irrespective of age and gender, who is a resident in India and satisfies the verification process laid down by the UIDAI can enrol for Aadhaar.

- Each individual needs to enroll only once, which is free of cost.

- Each Aadhaar number will be unique to an individual and will remain valid for life.

- Aadhaar will be:
  - Easily verifiable in an online, cost-effective way
  - Unique and robust enough to eliminate the large number of duplicate and fake identities in government and private databases
  - A random number generated, devoid of any classification based on caste, creed, religion and geography
Consumers to pay the Market Price for the refill and the Subsidy component is transferred directly to their bank account.

LPG consumers have to become Cash Transfer Compliant (CTC) to be eligible to receive the subsidy in their bank account by linking their Aadhar with LPG ID and Bank Account.

On first refill booking, after becoming CTC, One time Permanent Advance is transferred to customer’s Bank account, for making cost of first refill affordable at market price.

Subsidy component is transferred to customer’s Bank account after delivery of refill.
PaHaL (DBTL) - A New Beginning in India
Categories of LPG Consumers

- **Cash Transfer Compliant (CTC)**
  - Consumers who have joined scheme and are receiving subsidy in bank a/c

- **Not Transfer Compliant (NTC)**
  - Consumers who haven’t joined scheme

- **Aadhaar Transfer Compliant (ATC)**
  - Consumers who have joined the scheme through Option 1

- **Bank Transfer Compliant (BTC)**
  - Consumers who have joined the scheme through Option 2
One time Permanent Advance Cash Transfer Process

Customer places Order (Step-1)

Order booking initiates the permanent advance amount transfer

Aadhaar number / Bank Account Number + Advance Amount

Payment Bridge

Sponsor Bank

Customer Bank Account

Cash Withdrawal

Customer

Distributor

OMC LPG distribution application

OMC Central reporting server
Subsidy Cash Transfer Process

- Sponsor Bank
- Customer Bank Account
- OMC Central reporting server
- OMCLPG distribution application
- Cylinder billed at Market Rate
- Delivery Information
- Cash Withdrawal
- Cash Payment at Market Rate
- Cylinder Delivery
- Customer places Order
- Customer places Order
- Customer
- Oil Company
- Distributor

Aadhaar number / Bank Account Number + Subsidy Amount

Order delivery initiates the subsidy amount transfer

Sell at Market Rate

OMC LPG distribution application

Order delivery initiates the subsidy amount transfer

Payment Bridge

Customer Bank Account
Cash Transfer Scheme

Advance given at the time of First Booking

Subsidy 1 → Subsidy 2 → Subsidy 3 → Subsidy 4 → Subsidy 5 → Subsidy 6 → Subsidy 7 → Subsidy 8 → Subsidy N

CYLINDER DELIVERED

1st → 2nd → 3rd → 4th → 5th → 6th → 7th → 8th → Nth

Note:
‘N’ denotes the prevailing cap of the subsidized LPG cylinder applicable in a financial year

Largest Cash Transfer Scheme in the World (160 mn consumer)
On 12th August 2015 PaHal scheme was acknowledged by the **Guinness Book of World Records** for being the largest cash transfer program (households).

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
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<tbody>
<tr>
<td>Aadhaar Penetration</td>
<td>76.12%</td>
</tr>
<tr>
<td>Active Customers</td>
<td>167 m</td>
</tr>
<tr>
<td>Aadhaar Seeding in LPG</td>
<td>126 m (75.5%)</td>
</tr>
<tr>
<td>Bank A/c Seeding</td>
<td>52 m (31.4%)</td>
</tr>
<tr>
<td>CTC Customers</td>
<td>154 m (92.3%)</td>
</tr>
<tr>
<td>No. Of DBTL Transaction</td>
<td>1.5 Billion</td>
</tr>
<tr>
<td>Permanent Advance Transferred (Indian Rupees)</td>
<td>55 Billion</td>
</tr>
<tr>
<td>Subsidy Transferred (Indian Rupees)</td>
<td>264 Billion</td>
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Benefits of the Scheme

**Govt. of India**
- Reduce subsidy burden due to:
  - Elimination of supply chain leakages and unauthorized usage.
  - Reduction in multiple connections by way of Aadhaar based De-duplication.
  - Improvement in public service delivery

**LPG Consumers**
- With removal of incentive for diversion, the entitlement will be protected
- Improved availability of new LPG connections in the market.
- Reduction in back-log due to reduced diversion

**OMCs**
- Reduction in administrative overheads
- Focus on consumer relationship management
- Reduction in product shortage and better management of imports.
- Removal of multiple connections / fake & ghost LPG consumers.
PAHAL :- The Journey Till Now

- 154 Million customers (92.39% CTC) joined the scheme
- Failure rates down below 0.2%
- Rs 323.07 Billion transferred to bank a/c of customers
- Projected Subsidy saving of Rs 140 billion
- Acknowledged in Guinness Book of World Records

The approved outlay for UID Scheme is Rs 136.33 Billion for the period 2009-2017.
Impact of PAHAL Scheme

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<th>% Growth in LPG Consumption</th>
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<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>Commercial</td>
</tr>
<tr>
<td></td>
<td>2014 2015</td>
<td>2014 2015</td>
</tr>
<tr>
<td>Jan</td>
<td>17.0 8.5</td>
<td>-20.9 12.1</td>
</tr>
<tr>
<td>Feb</td>
<td>12.1 5.7</td>
<td>-13.7 30.2</td>
</tr>
<tr>
<td>March</td>
<td>16.0 3.1</td>
<td>-10.0 28.6</td>
</tr>
<tr>
<td>April</td>
<td>11.8 7.8</td>
<td>-12.2 36.3</td>
</tr>
<tr>
<td>May</td>
<td>17.2 3.5</td>
<td>-2.5 26.9</td>
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Above table clearly shows that after implementation of PAHAL scheme, there has been an increase in the % growth of commercial LPG sale whereas % growth rate of domestic LPG sale has come down significantly which indicates that diversion of domestic LPG in commercial sectors has reduced.
Satisfaction Survey of PAHAL Scheme

**Are you satisfied with Pahal Scheme?**

- Satisfactory, 53%
- Unsatisfactory, 14%
- Don't Know, 33%

**Survey done by NetCore**

**Good Govt. initiative?**

- Strongly Agree, 72%
- Agree, 10%
- Neutral, 10%
- Disagree, 2%
- others, 7%

**Survey done by Nielsen**
Agencies Involved in Implementation

- Marketing Companies
- LPG Distributors - 17916
- UIDAI – Unique Identification Authority of India
- NPCI – National Payments Corporation of India
- Bankers
Learnings

- Importance of People’s representatives and District Administration in Successful implementation of the Scheme
- Working in coordination with other Stakeholders
- Greater response from Rural Customers contrary to earlier belief
- Different strategy for persuading varied spectrum of customers
- Unimaginable deadlines possible with untiring efforts
- IT solutions to handle such a large scale scheme
- Majority of the customers support the schemes of the government
- Proper weeding out multiple/fake connections possible by this method
Thank you