



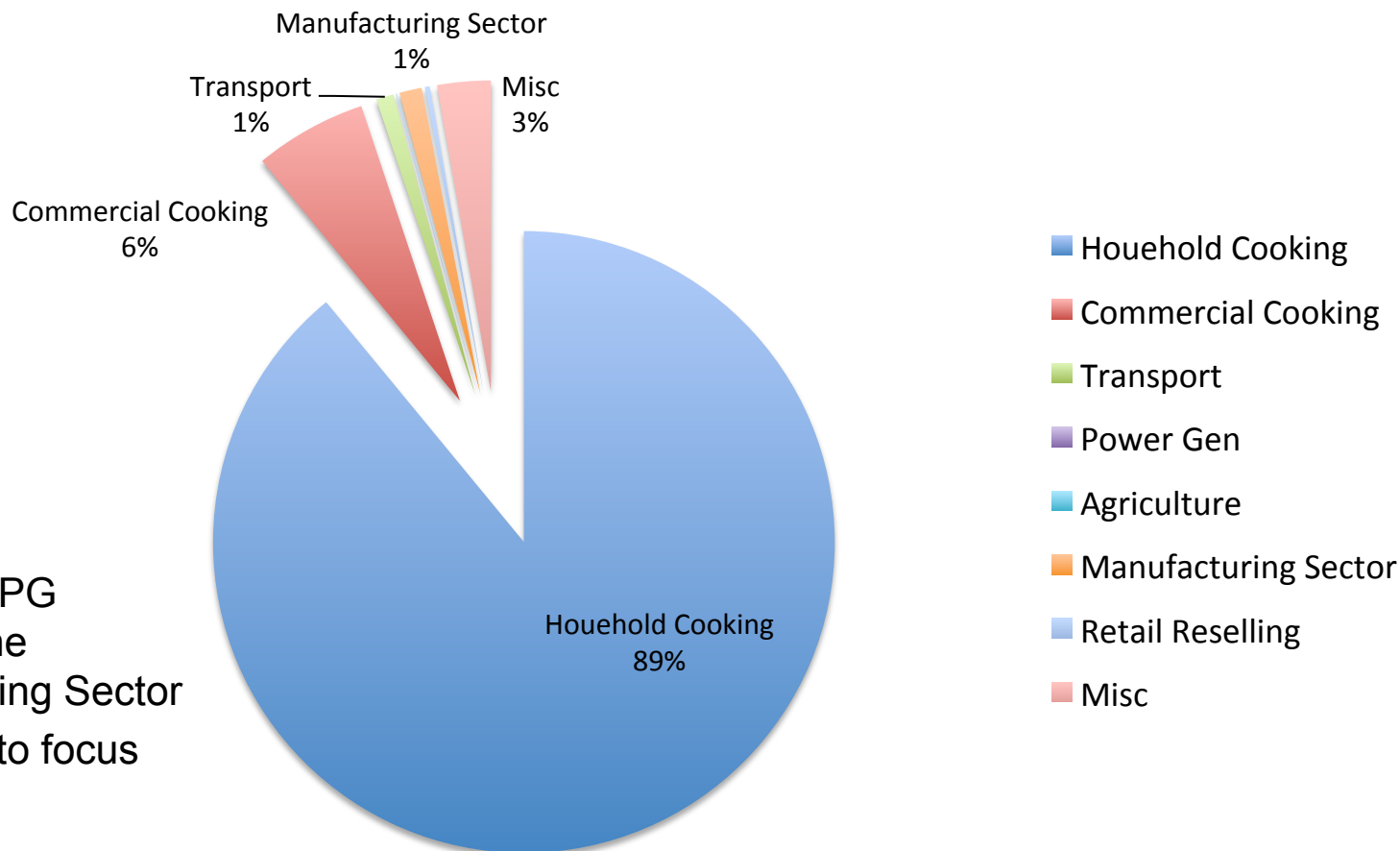
India's Experiences and Lessons Learned with LPG Subsidy Reform

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January 2016

LPG Consumption by Sector



Usage of LPG in 2014-15 ('000 tonnes)



How is LPG Supplied? – Through an “LPG Connection”



IndianOil
Oil Company
supplies
cylinders to
Distributor



LPG Distributor



LPG Distributor's
Delivery man



Rules for LPG Connection:

- Everyone is eligible to apply for LPG connection
- Customer submits application to local LPG Distributor

Customer
receives LPG
Cylinder at home



Why does India have this Supply Chain of LPG?



This “registry system” of LPG Connections:

1. Allows the government to track LPG consumers
2. Allows the government to track consumption of LPG cylinder per consumer
3. Allows the government to control supply of LPG subsidised cylinders

Subsidised LPG Cylinder is 14.2 kg and is supplied by 3 Oil Marketing Companies (OMCs)

These are Public Sector Companies and come under the Ministry of Petroleum and Natural Gas



How is LPG Supplied? – Through an “LPG Connection”



Was!

Dual Pricing System

Govt.



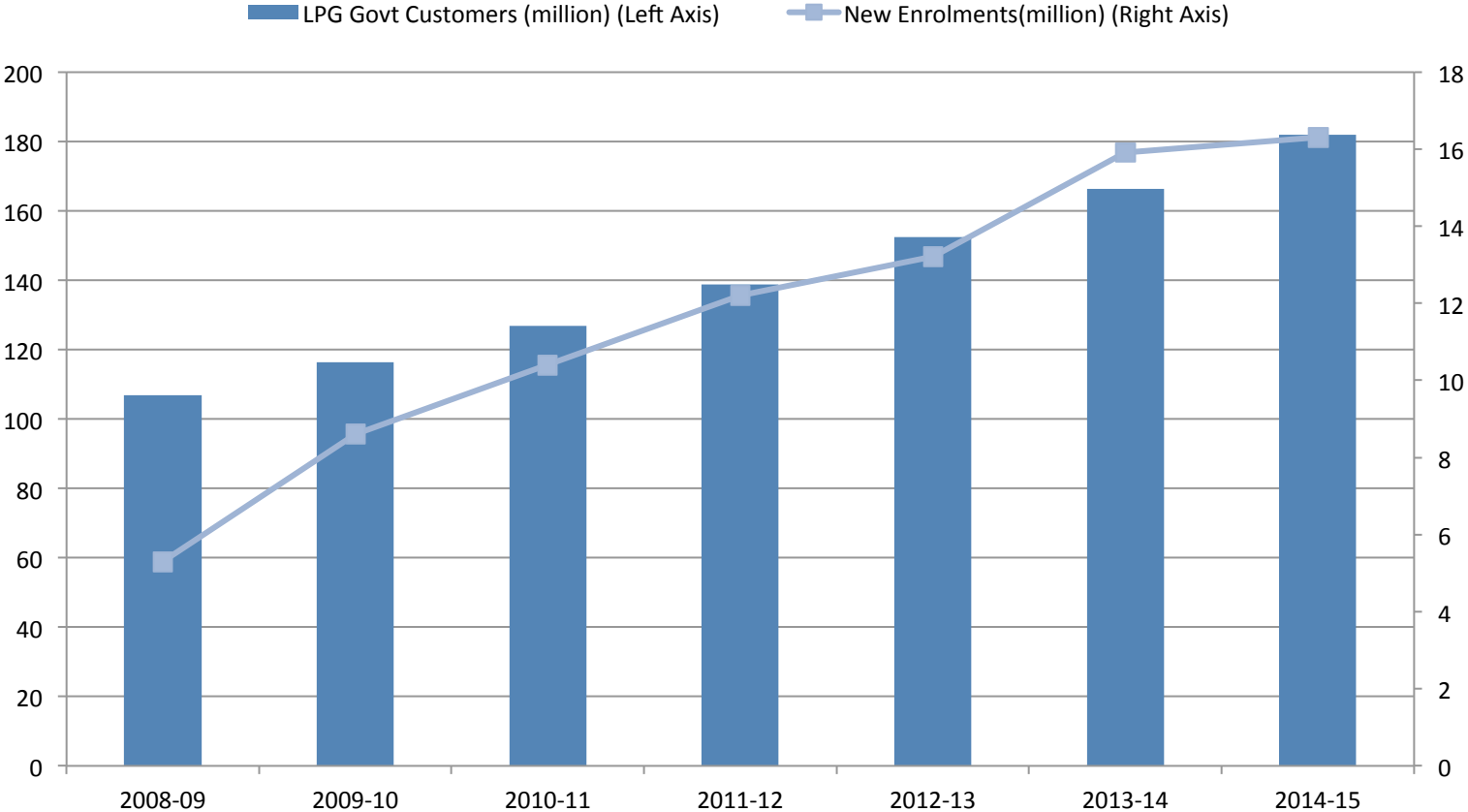
Subsidised Cylinder ONLY available through LPG Connection (Govt.)

Open Market



Open Market sells LPG Cylinder at FULL price

LPG Customers

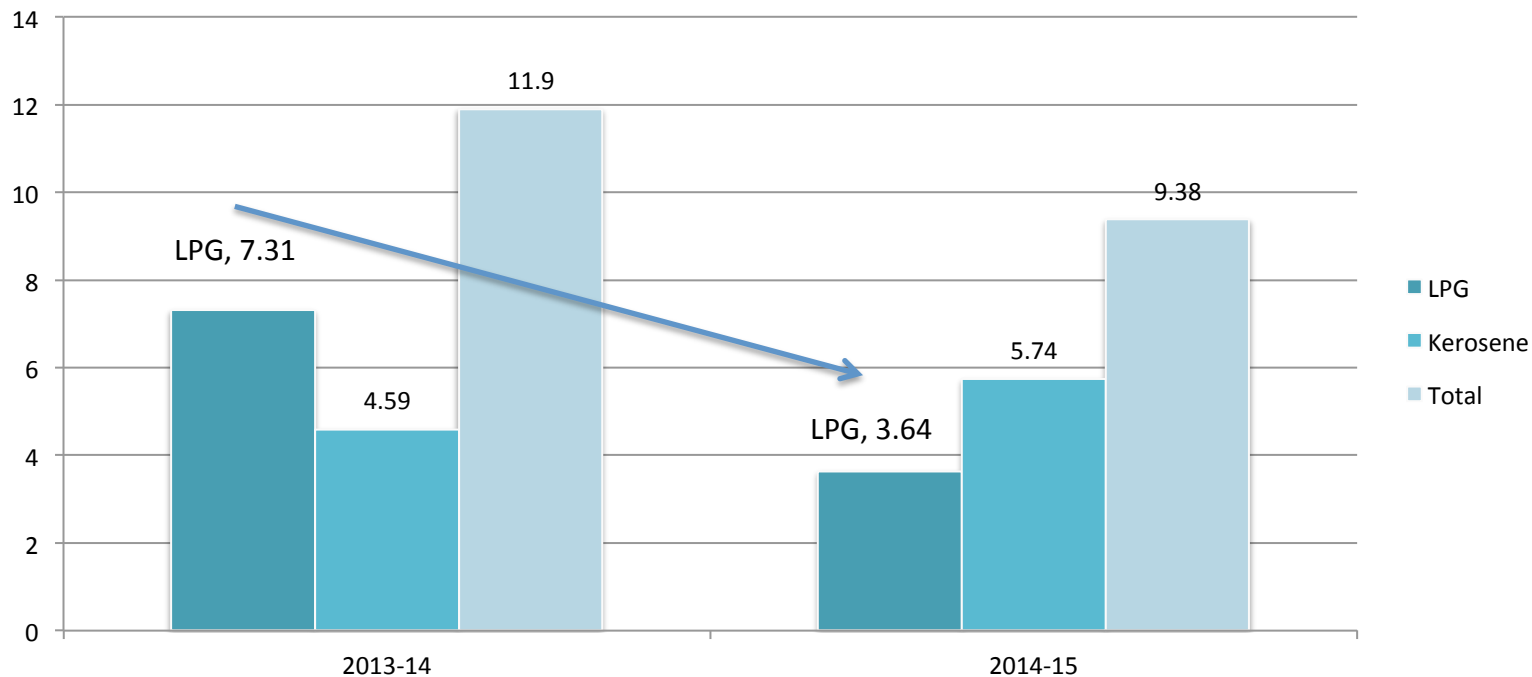


Every year millions of new customers enrol for the subsidised LPG Cylinder
By March 2015, the LPG customer base stood at 181 million households

Subsidy Numbers



India's Subsidy Bill (in US\$ Billion)



A series of reforms initiated from 2012 onwards resulted in a substantial drop of LPG subsidies

Challenges in India's "LPG Connection" System



The LPG Connection System

1. Causes subsidies to be captured by higher income classes – **Subsidies become ineffective**
2. Causes diversion of Subsidised LPG cylinders into the open market – **black marketing**
3. Has duplicate database – leading to “ghost” / unverified connections
4. Subsidies are skewed towards urban areas

TARGETING

LPG Subsidy Reform Approach

Targeting Reform

- Quota Caps
- Digitisation & Verification of LPG Customer Database
- Introduction of Income based targeting in combination with cash transfer scheme

Distribution Reform

- LPG: Experiments with Cash Transfer Schemes and caps on sale of subsidised fuel



Targeting Reform



Quota Caps



- **Problem:** Diversion of extra subsidised cylinders in the open market
- **Solution:** Reduction of Quota of Subsidised Cylinders

Sep 2012: an **annual cap of 6 cylinder** (cooking gas) per household announced

Jan 2013: owing to political pressure, **cap increased from 6 to 9** per household

Oct 2013: **Cash transfer scheme introduced** and single market price announced with 9 cylinder cap

Jan 2014: Cash transfer **scheme canceled** and cap **increased from 9 to 12**

A cap of **6 cylinders** covers cooking needs of **40 per cent of households**

A cap of **9 cylinders** covers cooking needs of **90 per cent of households**

A cap of **12 cylinders** covers the cooking needs of **all households**

Digitization & Verification



- **Problem:** “Ghost” connections and divergence of subsidised cylinders
- **Solution:** Verification of LPG Customer Database

In 2010, Oil Companies initiated a program of verification

1. **identifying and blocking duplicate domestic LPG connections**
2. **Blocking LPG connections registered to households with Piped Natural Gas (PNG) connections in urban areas**

By the end of May 2012, Oil Cos had reportedly identified and **blocked approximately 3.2 million irregular LPG connections**

In September 2012 the Ministry of Petroleum and Natural Gas launched a further initiative to identify and **block inactive and irregular LPG connections**

By **Nov 2012**, OMCs reportedly **blocked at least 13.3 million** unused and duplicate connections

In May 2013 it was reported that the OMCs intend to launch a further validation exercise to identify duplicate connections across companies (these figures are not yet public)

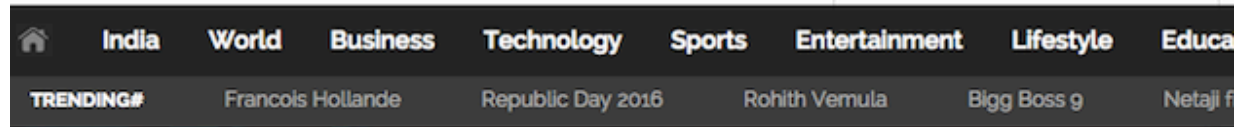
Income Based Targeting – checking inefficient subsidies

Most recent of the reforms, launched in Jan 2016

Households with income more than INR 1 million (annually) will not be eligible for the subsidy

In 2014-15, 2 million taxpayers had income of more than INR 1 million (Indonesian Rupiah 205 million)

Implementation yet to be studied but this should **reduce inefficiency of subsidies**



Representational Image (dna Research & Archives)

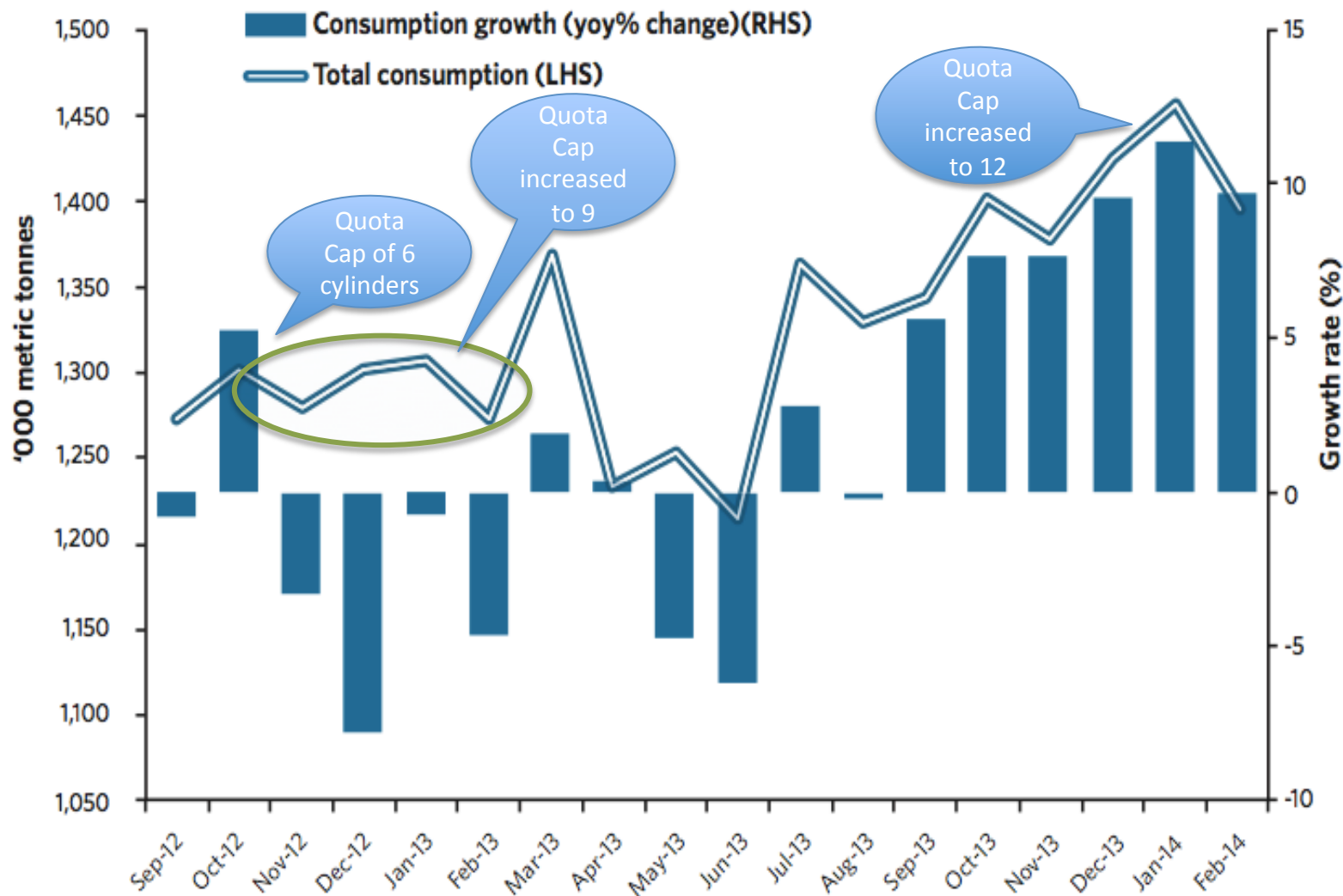
dna DNA WEB TEAM | Mon, 28 Dec 2015-06:40pm , Mumbai , dna webdesk

The subsidy payout on LPG in 2014-15 was Rs 40,551 crore, which this fiscal will be less than half as oil prices have slumped to a six-year low. During April-September, the subsidy outgo was Rs 8,814 crore.

What Impact of these Targeting Reforms?



Total Monthly Consumption of LPG (Sep 2012 – Feb 2014)





Distribution Reform



Cash Transfer Scheme (PAHAL)



Old System: **Dual Pricing**

Govt.



Open Market



Subsidized Cylinder **ONLY** available through
LPG Connection (Govt.)

Open Market sells LPG Cylinder at
FULL price

This system caused **diversion** of cylinders from Govt supply to open market

Cash Transfer Scheme (PAHAL)



New System: **Market pricing** – subsidies delivered directly to bank accounts of LPG connection holders, **curbs leakages and prevents black-marketing**



Places Order with
LPG Distributor



LPG Distributor informs
Oil Co Server

Customer pays for LPG
delivery by **paying full price**



भारतीय स्टेट बैंक
State Bank of India
हर भारतीय का बैंक
THE BANKER TO EVERY INDIAN



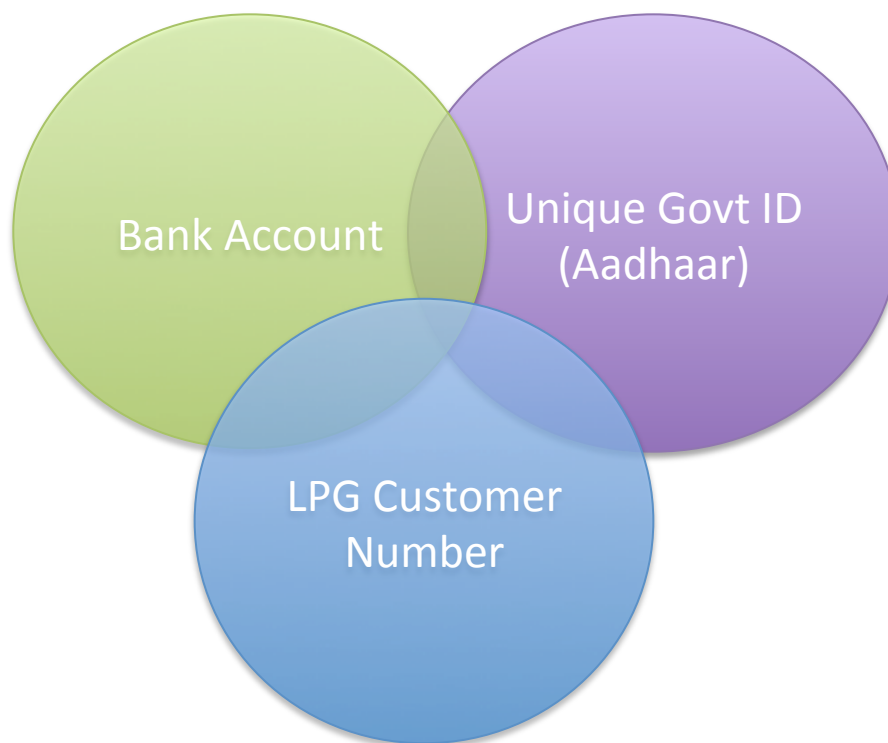
Subsidy delivered to
Customers bank account

Cash Transfer Scheme (PAHAL)



Enrolment Process

LPG consumers link their bank account number with their LPG consumer number, and Aadhaar number (Unique ID)



IMPACT of PAHAL



Number of Connections Further Reduced:

- As on 1st April, 2015, there were 181 million registered LPG Consumers and 148 million active consumers implying a gap of **33 million consumers which are duplicate / fake / inactive accounts blocked under PAHAL Scheme** and related initiatives.

Financial Savings & Consumption:

- Currently Govt estimates INR 14,000 crore (**US\$2 bn**) saved in the Financial Year
- But we have to wait till March 2016 to see the full effect on a financial year.
- Scheme launched in Jan 2015 and new FY started 3 months later in April 2015. So the full impact of the scheme will be evaluated after Mar 2016



Criticism of the scheme:

1. Financial Inclusion: the scheme **excludes** existing customers who **don't have a bank account**
 - Because they might not have paper work to open a bank account
 - Because they may live too far away from a bank

Solution: Financial Inclusion Scheme launched- Pradhan Mantri Jan Dhan Yojana – Bank Accounts for All launched – targeting the poorest. – free zero balance accounts.

2. Increases Transaction Costs for the Poor Consumer

- The poorest LPG consumer will lose productive working hours (increased time cost) in chasing up paper work, going to the bank to withdraw subsidy amount
- Increases short term borrowing between households
- In some instances- changes their spending pattern on food grains
- Impacts the women more – because she manages the household budget (forthcoming research on Gender and Subsidies)



#GiveItUp

Feel *the* Joy of Giving

#GiveItUp



#GiveItUp

**YOUR LPG SUBSIDY
IF YOU CAN AFFORD
LPG AT MARKET PRICE**

... JOIN THE MOVEMENT NOW!

“Give it Up” Campaign



About the Scheme

- Government has launched an “Emotional Appeal” initiative in Aug 2015 to encourage domestic LPG consumers, who can afford to pay the market price for LPG, to **voluntarily surrender their LPG subsidy**.
- This will enable the Government to utilize the limited resources to reach out to the economically backward classes.
- Scheme advertised as “Joy of Giving” and is philanthropic in its appeal

How to Give it up?

- Customers send a text message/ go online to their LPG distributor and opt out of the subsidy scheme
- A subsidy given up is linked to a rural household receiving an LPG connection:

Impact of Give it Up:

- By July 2015, 30-40,000 households were daily giving up subsidy
- The government aims to target 10 million households to give up their subsidy
- By launching scheme– govt is signalling the end of LPG subsidies and creating a scenario of customers who can “live without subsidy”

LPG Subsidy Reform Policies in India



Cylinder: *back and forth*

Sep 2012: an **annual cap of 6 cylinder** (cooking gas) per household announced

Jan 2013: owing to political pressure, **cap increased from 6 to 9** per household

Oct 2013: **Cash transfer scheme introduced** and single market price announced with 9 cylinder cap

Jan 2014: Cash transfer **scheme canceled** and cap **increased from 9 to 12**

Jan 2016: Income based targeting under the cash transfer scheme introduced

Cash Transfers scheme has survived a change in government and appears to be consistent



Lessons Learned

1. An Administrative System to Track Consumption
 - A **good database of LPG consumers** → can begin targeting
 - ① based on income to prevent capture of subsidies by rich
 - ② Control consumption of subsidised LPG by introducing quota caps
2. Digitising the Database
 - Prevent ghost/illegal/ inactive connections from black marketing
3. Launching a Voluntary 'Give up Subsidy Scheme'
 - Asking the rich households to give it up for the poor can trigger a **change in consumer behaviour**
4. Introducing a Single Market Pricing Mechanism
 - **Prevents black marketing** - diversion of subsidised cylinders