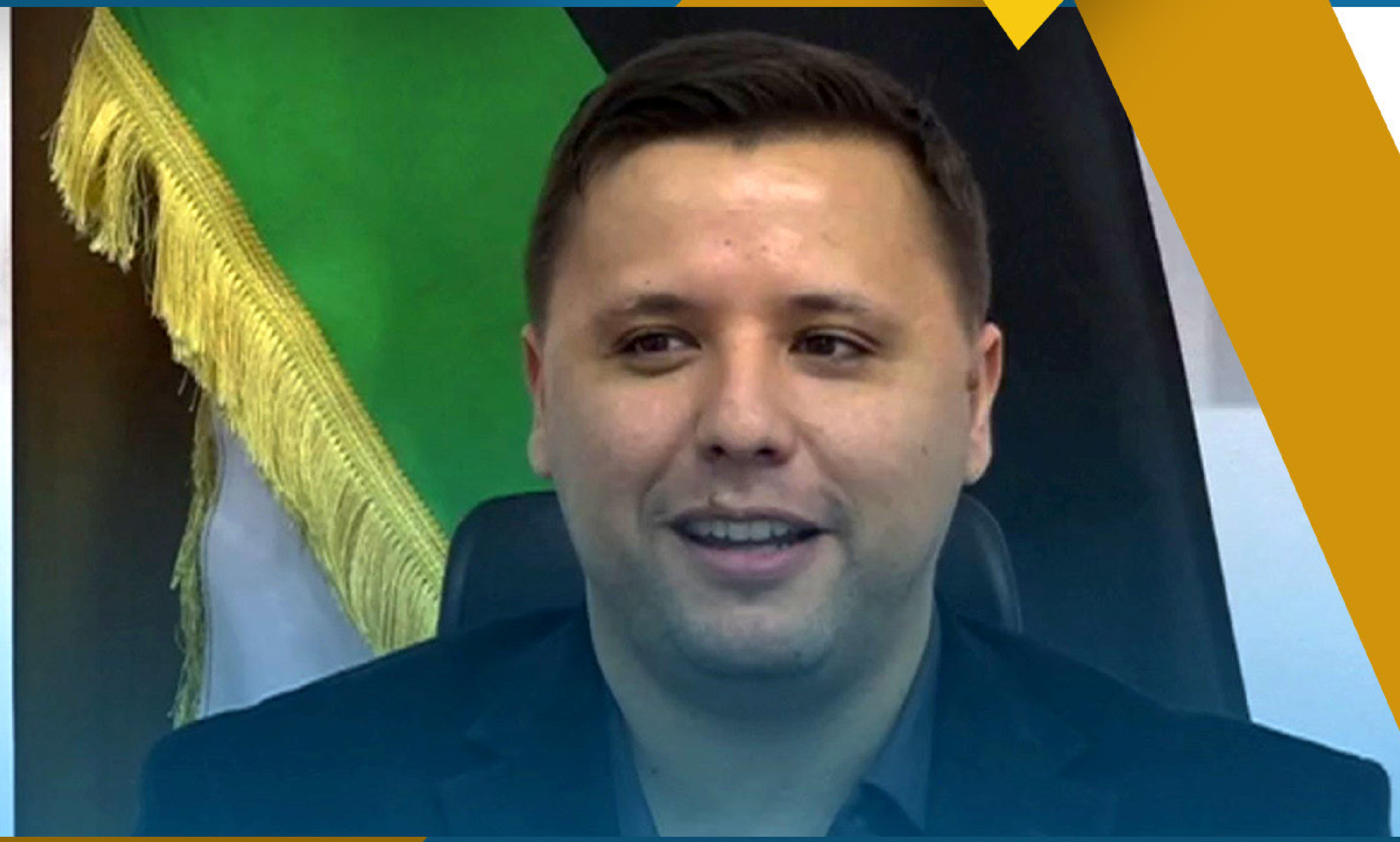
تاريخ المحاضرة: 25-11-2023

محاضـــــرة من تقـــــــديم

الأستاذ/ محمد أبو بكر المنفي



حزب السلام و الازدهار

مواطنة .. تنمية .. ازدهار

صالـــون رقم 95

من نشاطات

فضاء الفكري بحزب

سلام والازدهار

عرض تقديمي بعنـــــوان:

تجارب بعض الدول في اصلاح سياسة دعم المحروقات

Energy Subsidy Reform

Learning from international experiences

Mohamed Almenfi

Peace and Prosperity Party

Nov 2023

Before we start

1. This discussion should focus on the different trade offs and not an advocacy for one solution over the other
2. Try to avoid jumping on conclusion in the middle of the presentation
3. ESR should not an ideological discussion
4. ESR is more of political economy issue than an economic issues
5. Political and business interests are key parts of the discussion

Outline

- Global overview
- Lessons from the recent WB study
- True cost of subsidy in Libya and options available
- Final consideration

Why so many countries use fuel subsidy?

- First, people living in countries with oil may feel that they are entitled to a share of the benefits.
  - In a sense, this is a basic social contract, but one not based on service delivery, but rather simply sharing out, in an easy and conspicuous way, some of the proceeds of oil wealth.

- Second some countries subsidize fuel because they lack the capacity to implement more sophisticated forms of social protection.

Why do we care about fossil fuel subsidies?

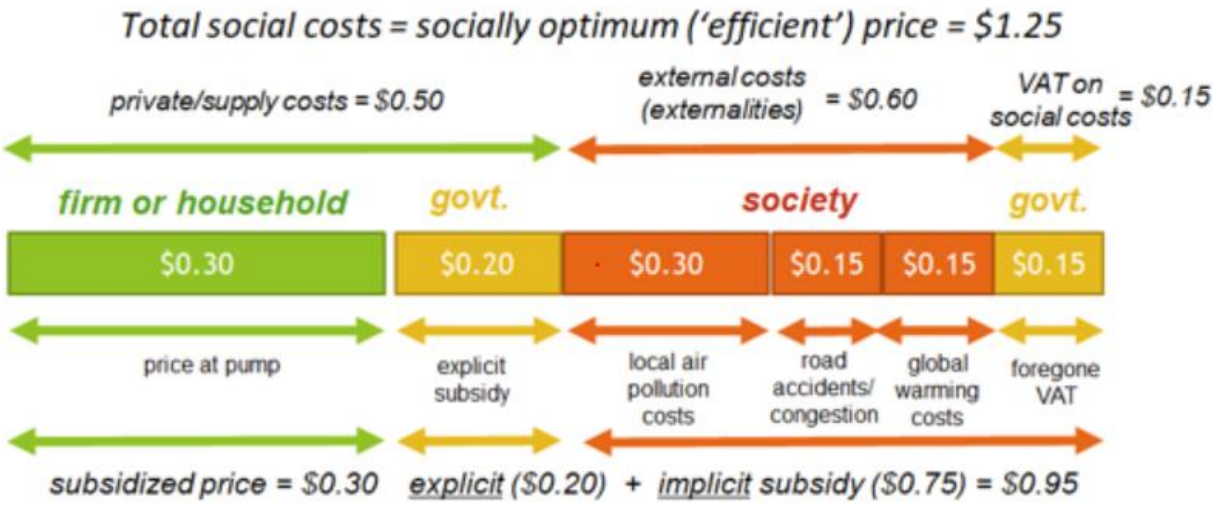
- Subsidies are intended to protect consumers by keeping prices low, **BUT** they come at a **substantial cost**.
  - Sizable fiscal consequences (eg subsidy > development spending)
  - Inefficient allocation of an economy's resources (hindering growth)
  - Not pro-poor (mostly benefiting higher income households)
  - Climate change (Derna tragedy!)
- Removing subsidies and using the revenue gain for better targeted social spending and productive investments can promote sustainable and equitable outcomes.

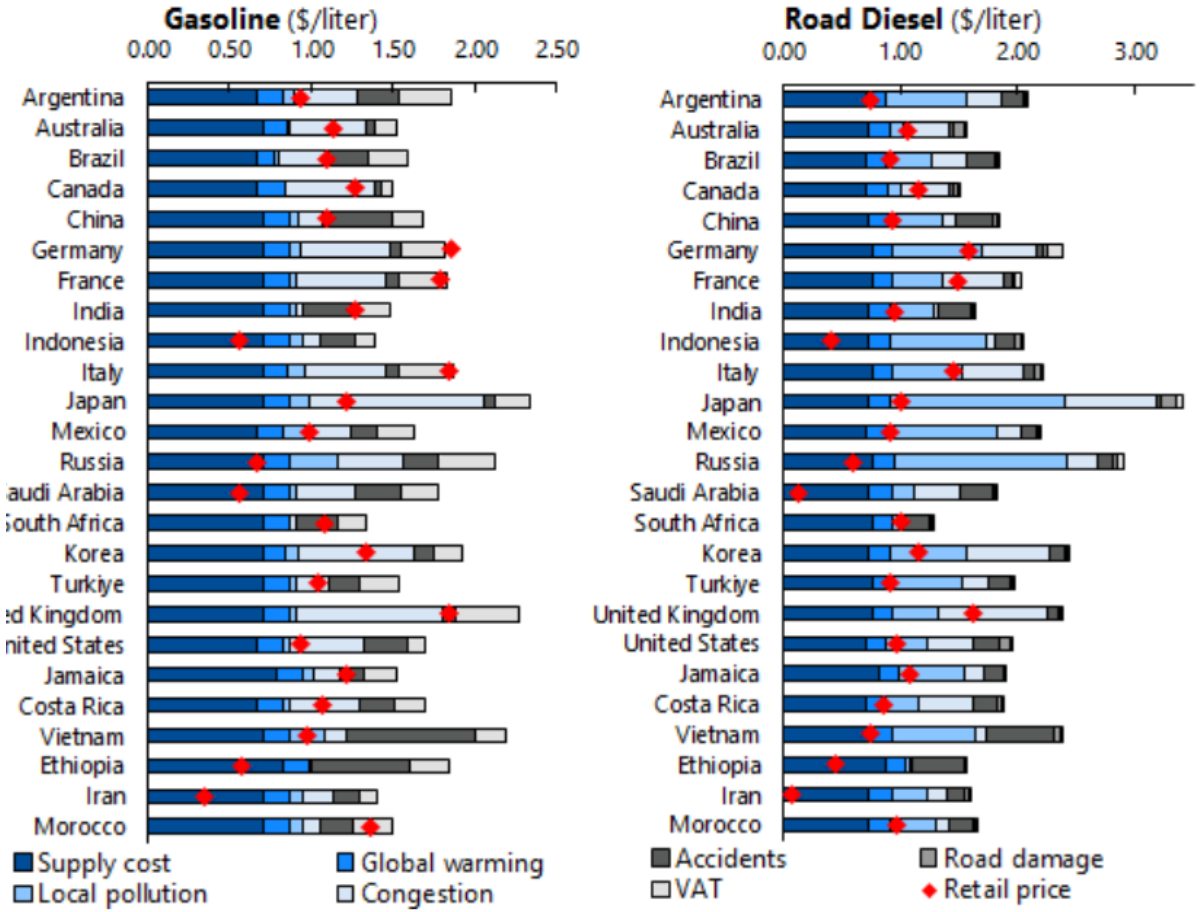
Measuring Fossil Fuel Subsidies

- **Explicit Subsidy**: retail price is below a fuel's supply cost
  - For a non-tradable product (e.g., electricity), the supply cost is the domestic production cost, inclusive of any costs to deliver the energy to the consumer
  - In contrast, for an internationally tradable product (e.g., oil), the supply cost is the opportunity cost of consuming the product domestically rather than selling it abroad plus any costs to deliver the energy to the consumer.

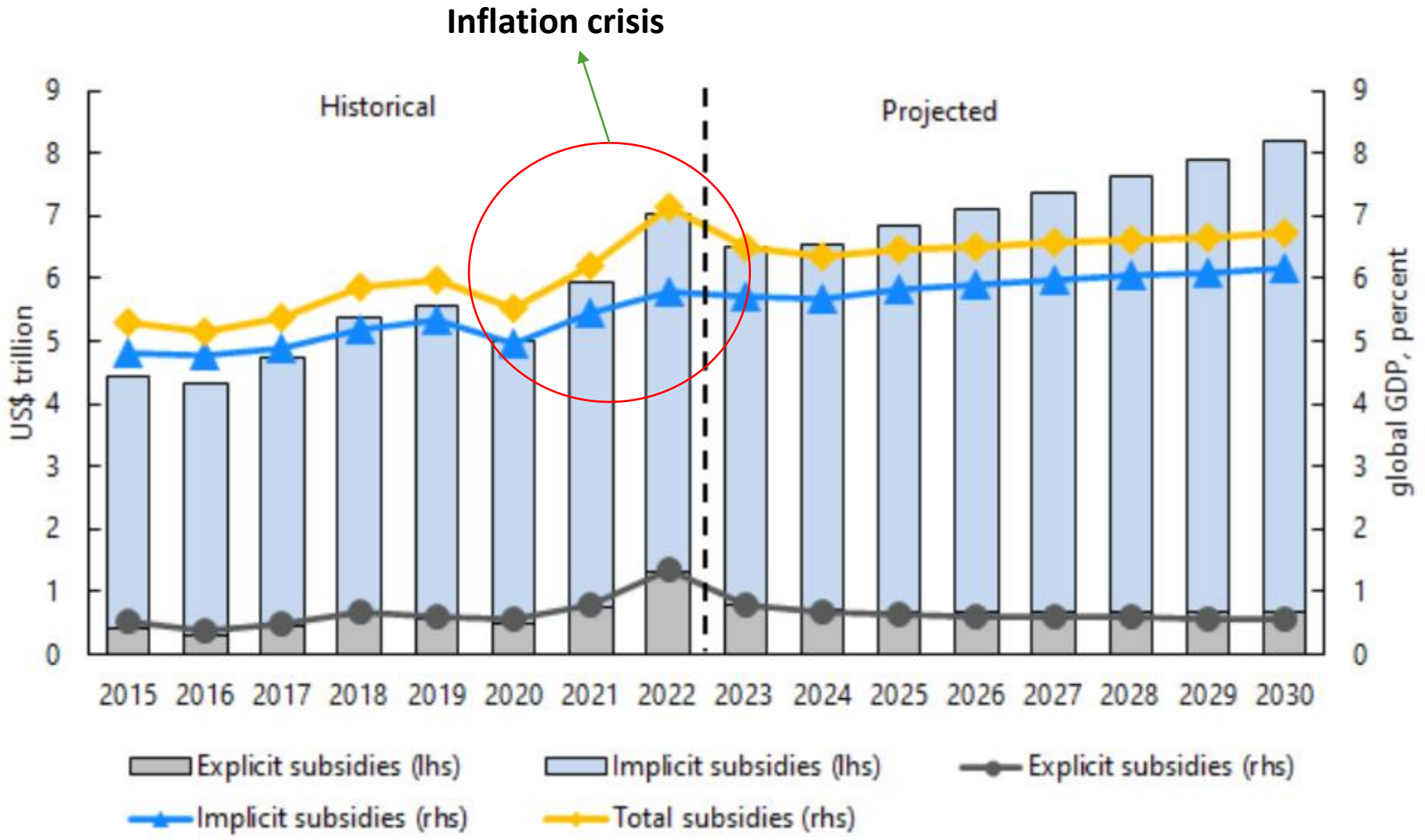
- **Implicit subsidy**: retail price fails to include external costs. External costs include contributions to:
  - Climate change, local health damages, traffic congestion and accident externalities associated with the use of road fuels

Measuring Fossil Fuel Subsidies





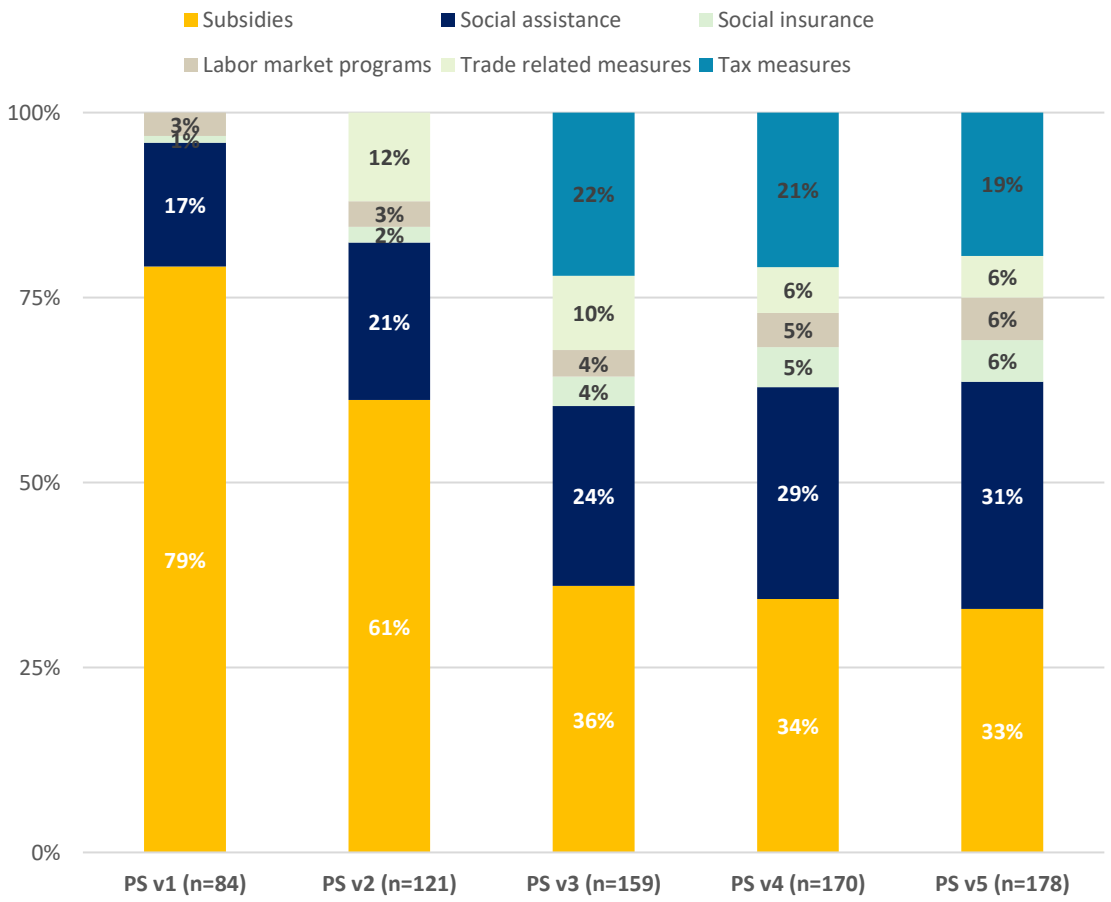
Size of Fossil Fuel Subsidies



Inflation Crisis

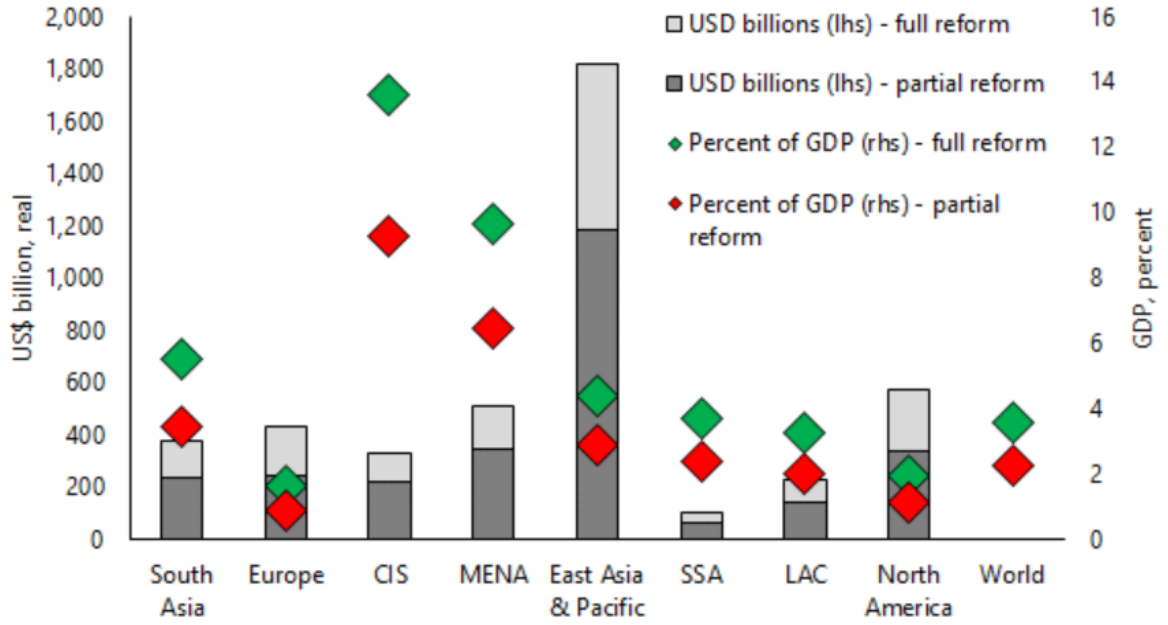
- After a brief period of decline, energy subsidies have been rising globally following the lifting of COVID-19 restrictions and Russia's invasion of Ukraine.
- Rising energy prices have contributed to the ongoing cost-of-living crisis, while governments are finding it difficult to reduce subsidies while maintaining support for reform.
- **Subsidies** have been the dominant policy tools
  - 79% of countries interventions as of April 2022
- **The response policy mix have changed over time**
  - Subsidy share decreased 33% after one year
  - Social assistance has become equally popular instrument (31%)
  - Followed by tax measures (nearly 20%)

Figure: Composition of response measures to inflation (%)

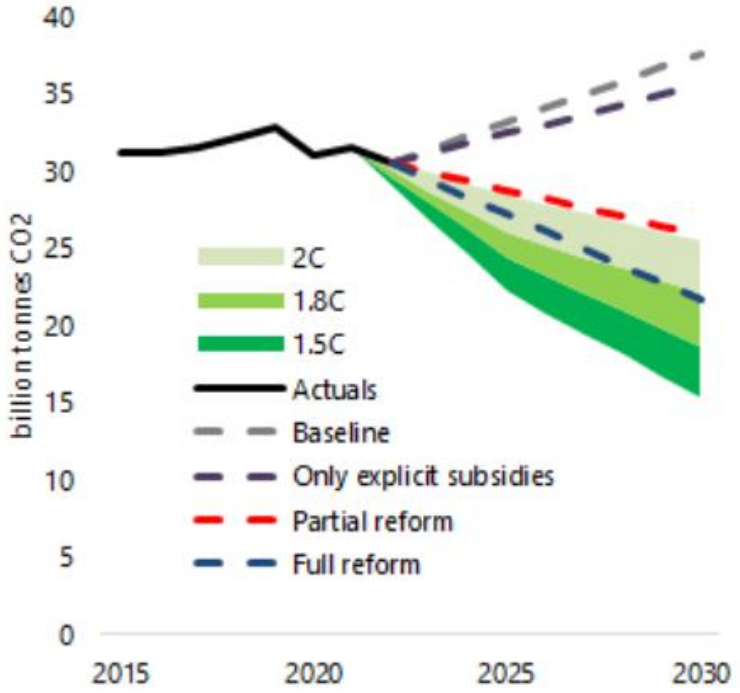


Impacts of Subsidy Reform

Full price reform raises revenues of $4.4 trillion, 3.6 percent of global GDP, in 2030



Full reforms globally reduces projected global fossil fuel CO2 emissions 43% below baseline levels in 2030



But not all reform impacts are positive

- **First**, while energy subsidies definitely are skewed towards the rich, most diagnostics fail to recognize that the direct and indirect impacts on poor people are real and significant. Where poverty increases are projected at even single digits, those numbers can represent thousands of people who will be unable to meet their basic needs.
- **Second**, most safety net programs designed by governments focus on ensuring that only the deserving poor will be eligible. In fact, it is often the near-poor and the lower-middle class who stand to lose the most from the removal of subsidies. Given the scale of the savings that subsidy reform achieves, broader targeting that recognizes these impacts is the more optimal approach.
- **Third**, in situations of low trust in government, skepticism about governmental promises of future mitigation is extremely high. It is unlikely that advertisements and publicity alone will change opinions about a government's ability to deliver.

Reforms efforts

- In 2009, the Group of 20 advanced and emerging market economies called for a phase out of inefficient fossil fuel subsidies in all countries and reaffirmed this again in 2012.
- At COP26 and 27 in 2021 and 2022, countries agreed to accelerate efforts to phase-out inefficient fossil fuel subsidies.
- India, Morocco, Saudi Arabia, and Ukraine that have phased-out explicit subsidies and, in some cases, introduced taxes; and the numerous countries that tax road transportation use (over 160 globally).
- In one IMF study of 25 subsidy reform cases, the authors found that when the subsidy removal was paired **with cash transfers and a communication strategy**, all reforms were successful. Without cash transfers, however, only 17% of reforms succeeded

The Politics of Opposition

- Despite the myriad of problems that fossil-fuel subsidies cause, most governments avoid reforming their system, and attempted reforms often fail or are faced with widespread protests.

- The fall of the Suharto regime in **Indonesia**, **Myanmar's** Saffron Revolution, the **Yellow Vests** protests in France, and the ousting of **Omar al-Bashir** in Sudan were all triggered by failed attempts to cut consumer energy subsidies

- From 2006 to 2019, attempts to remove gasoline subsidies led to mass protests in at least 24 countries.
  - One study found that a 10% increase in the size of subsidies increases the probability of a fuel riot by around one third.

The Politics of Opposition

- The absence of public support for subsidy reform **is in part due to a lack of confidence in government's ability to compensate the poor and middle class for the higher energy prices they face**.
  - Corrupt govt cannot give credible promises
  - fuel subsidies as being less vulnerable to diversion
- Governments are also often concerned that higher energy prices will contribute to a **higher rate of inflation**

Understanding persistence

Reasons for persistence

- Core part of social contracts (e.g., MENA)
- Politically attractive
- Can be easily communicated
- Use market systems or pre-existing structures
- Circumvents fears of cash generating inflation
- Can be more attuned with tight monetary policy (less liquidity)

Reasons for concern

- Costly
- Part of broader market contestability story (e.g., SOEs)
- Stated goals can be pursued more effectively with portfolio of instruments
- Logistically cumbersome
- Risk for opaque practices
- Can further entrenched interests of small pressure groups
- Doesn't provide choice/distorts consumer preferences

Reform is hard... but possible!

From "improve what exists" (India's Chhattisgarh and Bihar states) to more radical reforms, e.g., Jordan (phase out) and Indonesia (conversion to transfers)

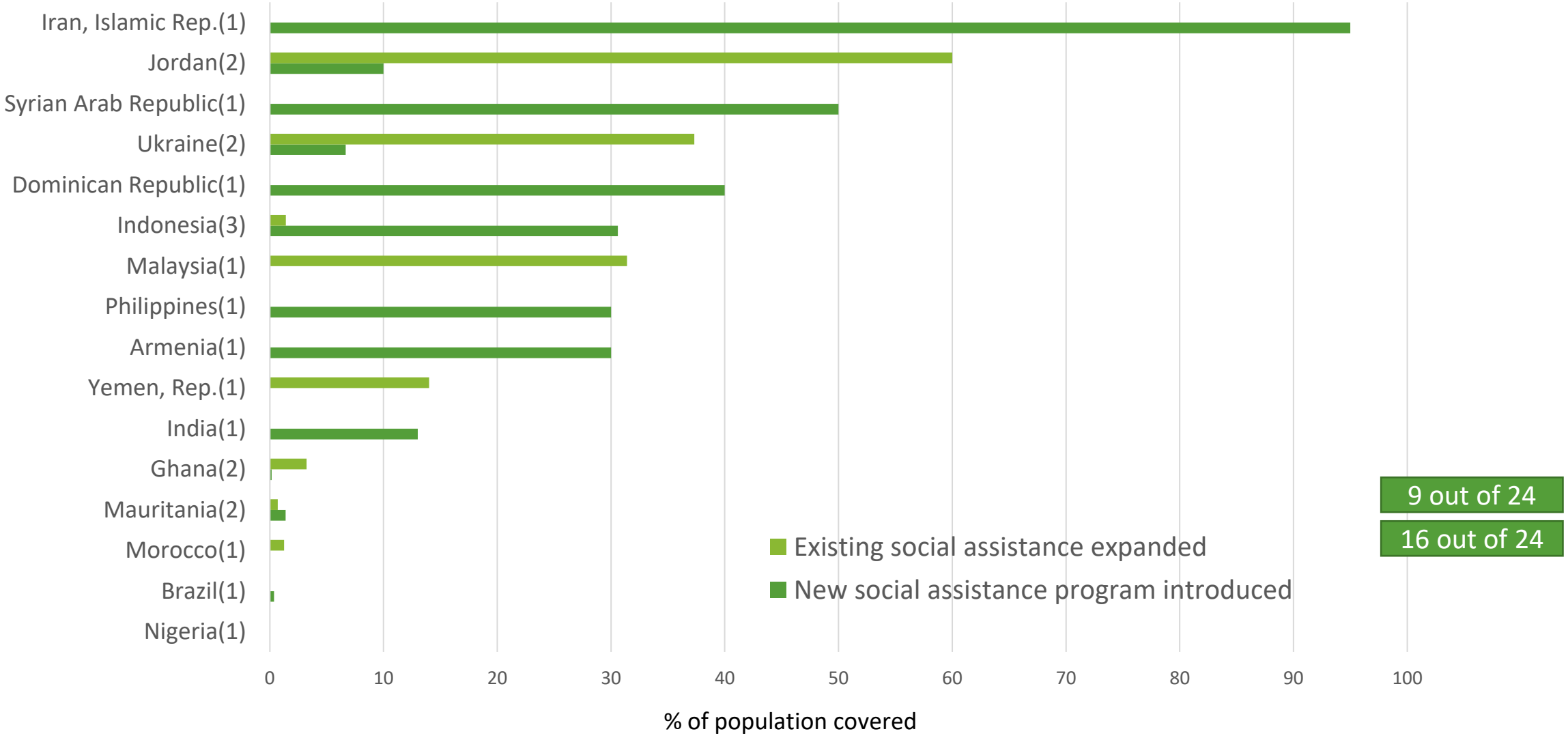
Lessons from the recent WB study

Stocktaking findings: Reform timing, approach and targeting

- **Macrofiscal crises tend to be a time when energy subsidy reforms were initiated**
  - 20 out of the 24 reform episodes took place between 2008 and 2012—period marked by the global economic recession and global energy price shock.

- **Governments either scaled up an existing cash transfer program; created new programs; or a mix of both:**
  - Almost 60 percent of the episodes considered (15 out of 24) centered on **new cash transfer programs**.
  - In about 40 percent of the episodes covered (9 out of 24) they used **existing programs**
  - Where existing programs were used, the reforms leveraged a general social assistance instrument to cover the poor and vulnerable, near-poor households; or transformed the subsidy into a universal transfer.
  - For the countries which had multiple reform episodes: Several countries begun with a new compensatory cash transfer, and then proceed with an expansion of an existing cash transfer program in a succeeding episode (e.g., Ghana, Indonesia, Mauritania, and Ukraine)

Energy Compensatory Transfers: Coverage by Reform Episode (% as share of population)



Coverage and benefit levels: some observations

➢ **Coverage of cash transfers varied across countries, indicating differences in ambition, resources, and tradeoffs involved across countries and episodes**

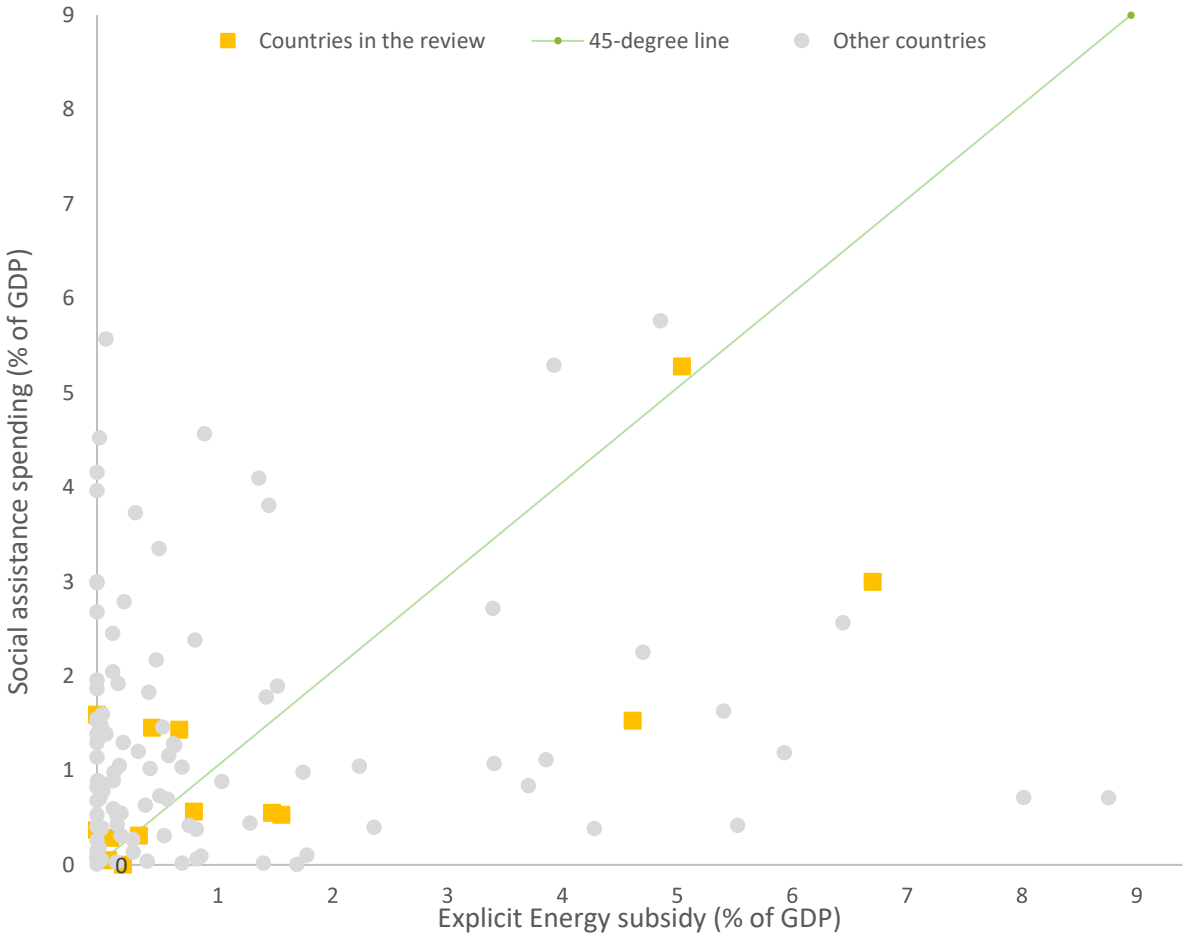
- Eight episodes fall in the middle of the range (30–50 percent), and four episodes covered between 5 and 30 percent of the population.
- The remaining 12 cash transfers episodes reached less than 5 percent, even after multiple efforts to expand coverage .
- Coverage also varied based on energy products or services included in the subsidy reform.

➢ **Energy Compensatory Transfers varied in their targeting approach, with some targeting individuals whereas others focused on households**

- Few had coverage over one-third of the population or households
- Significant variation in the benefit level or degree of “generosity” of programs
- In general, benefit level was correlated with the degree of price adjustment
- In terms of the duration, many were one-off or temporary measures whereas others have been scaled back significantly over time

Fiscal implications: Energy Subsidies and Social Assistance Spending

Energy subsidy and social assistance spending



Source: Energy subsidy (IMF Energy Subsidy databases 2021), social assistance spending (WB ASPIRE database, latest available years)

The stocktaking exercise examined energy subsidy and social assistance spending across 115 countries.

Main observations include the following:

- There is a big variation among countries, in terms of volumes spent energy subsidy and social assistance vary across countries.
- 2/3 of countries spend more on social assistance (77/115) while 1/3 of countries spend more on energy subsidies (38/115).
- For countries with more energy subsidy spending, the average gap is 2% vis-à-vis 1% for those spend more on social assistance.
- Those with large energy subsidies (below the 45-degree line) are mostly fossil fuel producers.

Energy Subsidies and Compensatory Transfers (% of GDP)

	(1)	(2)	(3) = (1) – (2)	(4)	(5) = (3) – (4)
	Energy Subsidy			Cash Transfer	Net Savings
	Pre-reform	Post-reform	Difference		
Dominican Republic	6.4	2.5	3.9	1.2	2.8
Ghana	3.2	0	3.2	0.4	2.2
India (LPG)			0.12	0.18	−0.06
Indonesia	4.5	3.2	1.3	0.5	0.8
Iran	14.4	12.6	1.8	6.5	−4.7
Jordan	5.8	2.8	3.0	1.5	1.5
Kenya	1.5	0.0	1.5	0.4	1.1
Malaysia	2.9	1.9	1.0	0.5	0.5
Morocco	6.5	3	3.5	1.0	1.2
Nigeria	4.7	3.6	1.1	0.3	0.8
Philippines	1.5	0.0	1.5	0.0	1.6
Syrian Arab Republic			7.6	4.5	3.1
Ukraine	6.9	1.4	5.5	2.8	3.4
Yemen, Rep.	8.2	7.2	1.0		1.0

Net savings calculated for the year before and after the introduction of the ECT; does not take into account the long run savings from efficiency gains

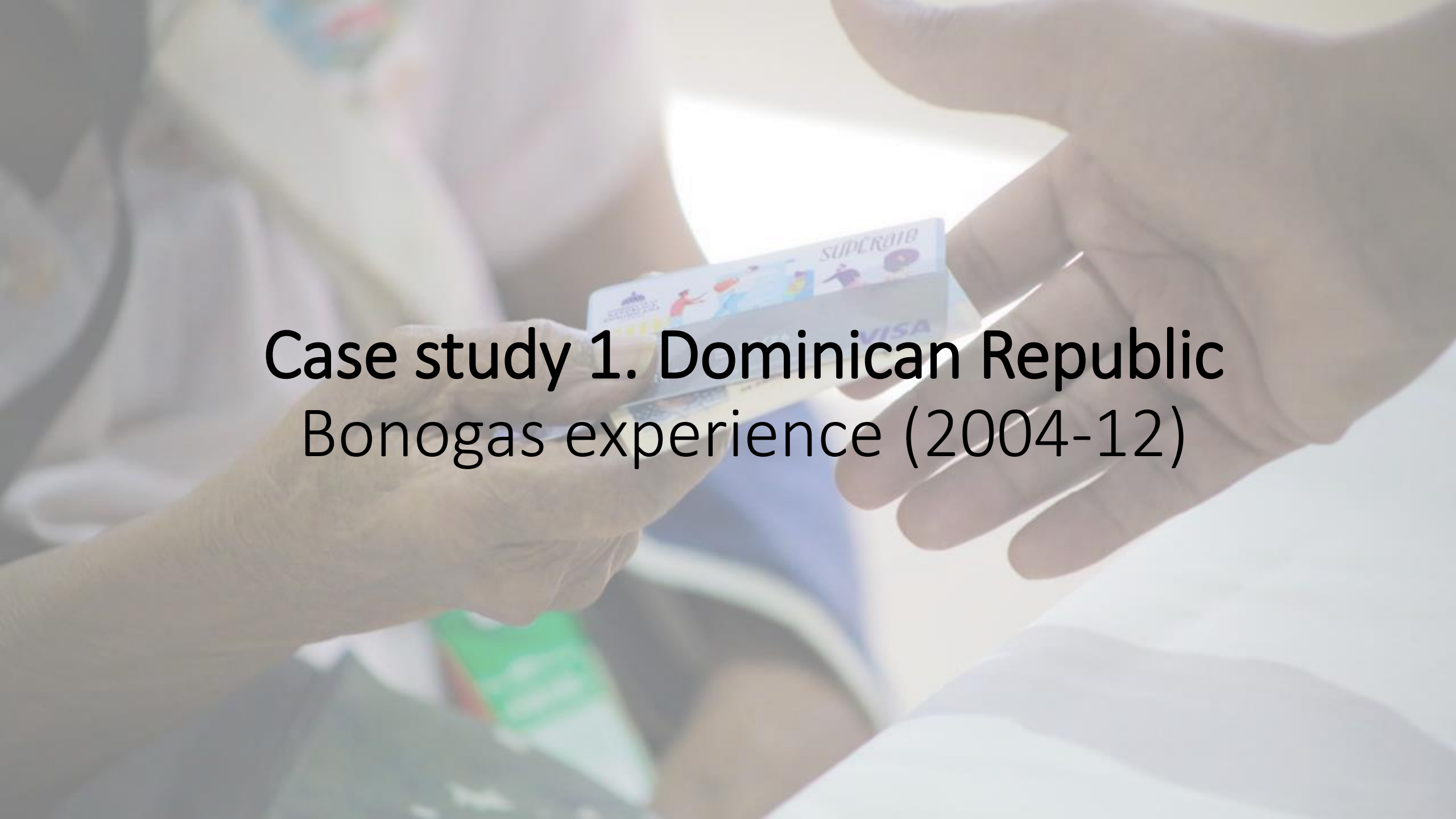
Summary : Insights from Global Stocktaking (1/2)

- **An overarching conclusion** is that targeted measures to protect the poor need to be an integral part of the energy subsidy reform design and implementation strategy.
- **Key design choices**: There are tradeoffs between coverage, 'generosity' and fiscal savings. Once these design choices are navigated, the question of **implementation** becomes central.
- **Targeting, Beneficiary Identification, and Eligibility Criteria**
  - Whom to target, how to target and what criteria remains a major challenge for ECTs, especially for programs that are fiscally constrained.
  - Even when targeted cash transfers prioritize the poor and the vulnerable, strict income-based eligibility can result in exclusion errors.
- **Payment Mechanisms and Delivery Channels**
  - In most cases of high coverage, countries prefer to create a stand-alone, dedicated payment channels.
  - In principle, a dedicated payment channel can provide flexibility with respect to the amount and frequency of the transfers, but it may not be the most efficient use of resources.
  - Countries used wide range of payment modality (eg vouchers, cash, utility bills etc).
  - Well-functioning cash transfers can engender both legacy and spillover effects, including but not limited to financial inclusion.

Summary : Insights from Global Stocktaking (2/2)

- **Incorporating Feedback and Grievance Handling**
  - With appropriate design and effective implementation, governments can minimize the exclusion of genuine beneficiaries as they roll out and scale up cash transfer programs
  - Digital systems, including digital grievance redress channels and social media, can be a powerful
  - tool for improving the quality of feedback mechanisms
- **Aligning Reform Design with the Country Context**
  - Although strong political commitment is a key driver of energy subsidy reforms, policy strategies vary according to underlying political economy conditions
  - International experience suggests that the scope, timing, and pace of energy subsidy reforms are crucial.
  - Fiscal incentives and social assistance to support those most affected can help mitigate some of the political economy risks, opening the policy space for structural reforms
  - Communication and Stakeholder Engagement: Effective communication is critical for the success of ECTs, i.e., to mitigate the adverse welfare effects of energy subsidy reforms

- There are some instances where these **new modalities** have been used to reform other subsidies



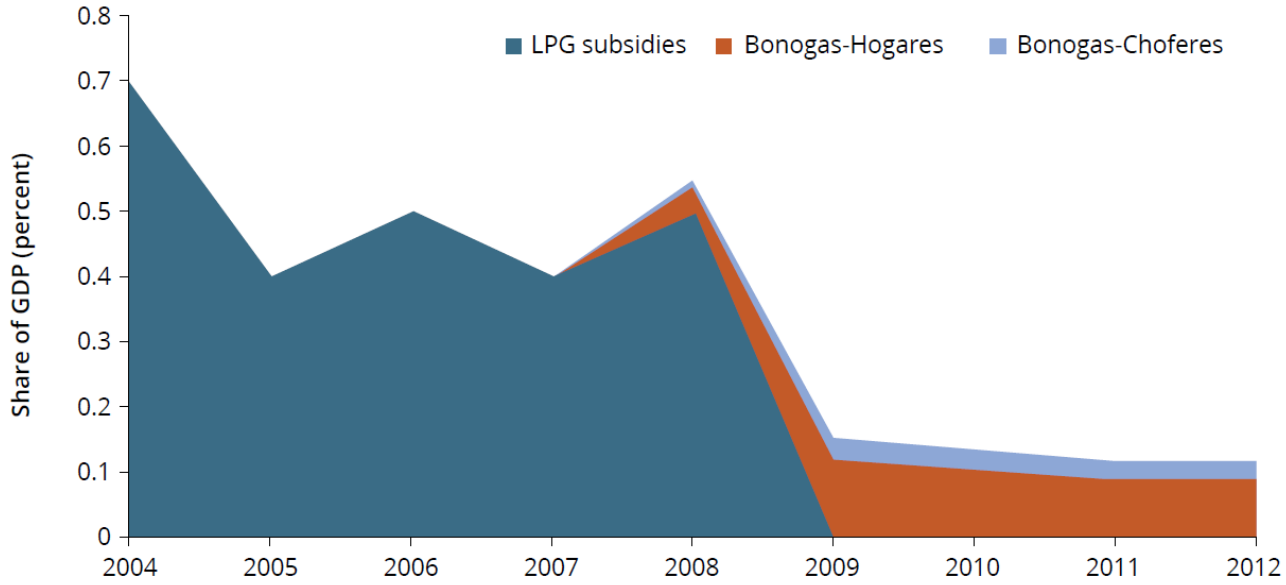
Case study 1. Dominican Republic

Bonogas experience (2004-12)

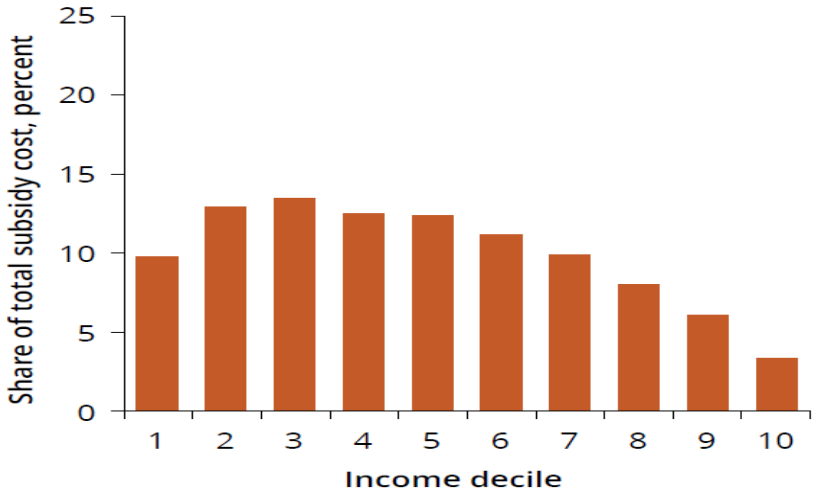
Dominican Republic: Leveraging Social Assistance for Energy Compensatory Transfers

- The country moved from generalized price subsidies to targeted energy cash transfers in 2007/08—Bonogas (transport sector/Choferes and households/Hogares) and Bonoluz (later in 2012).
- Reforms halved the total subsidy burden from 0.5 percent of GDP in 2008 to about 0.2 percent of GDP in 2012.
- Bonogas subsidies improved distributional outcomes and was progressive.
- Almost 50 percent of all spending on Bonogas was targeted to the bottom 40 percent of the income distribution

General and Targeted LPG Subsidies in the Dominican Republic, 2004–12



Bonogas concentration shares, by income decile



Lessons from the Dominican Republic Experience

- Key elements for success include:
  - Streamlining **identification**, **onboarding** of recipients and the **payment** of transfers;
  - communication strategy;
  - ensuring better policy coordination, accountability, and transparency across sectors
  - transforming general price subsidies into social transfers provided the opportunity to seek support from international financial institutions to expand social assistance.

• Programs have not only endured multiple years but also grew stronger.

• Existing social protection systems are key elements to successfully design and deliver compensatory transfers. Their flexibility and efficiency is a must.

• Another interesting feature was the use of well-recognized and accepted channels for directly delivering benefits to consumers.

• Energy compensatory transfers in the DR had strong impact and proved resilient amid changing circumstances and subsequent reforms.

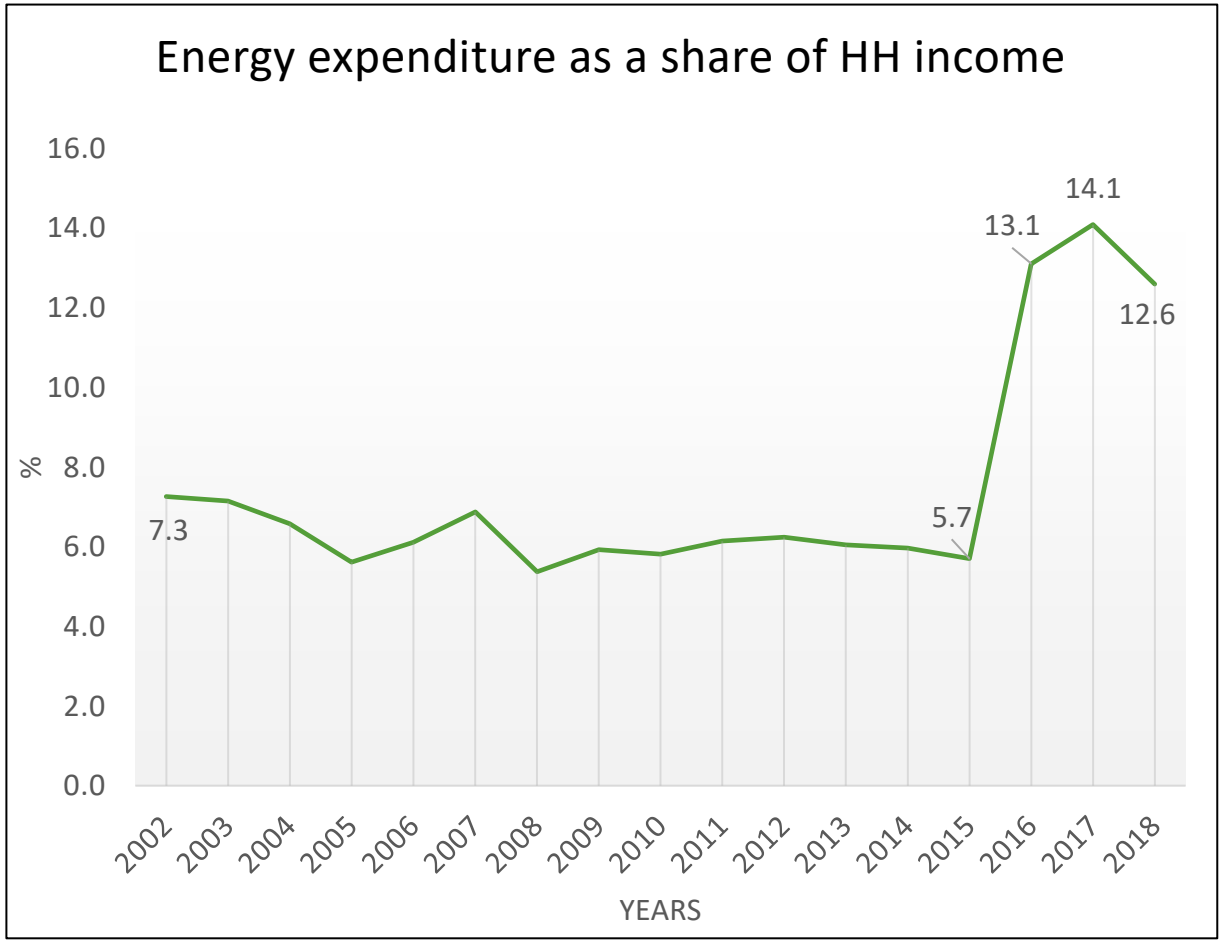
Case study 2. Ukraine

Housing and Utilities Subsidy (2014-2016)

Ukraine: Housing and Utilities Subsidy

Reform context and components

- The Government implemented energy subsidy reform in a difficult geo-political environment.
- Mitigated the substantial increase in energy prices through rapid scale up and expansion of beneficiary base.
- Moved from budgetary transfers to utilities to compensatory transfers to consumers through bill discount.
- Designed transfer formula to favor the lower quintiles and low-consumption households.
- Started implementing direct cash transfers before the crisis.
- Facilitated redesign and expansion of HUS through effective messaging and communications with support from the World Bank.



Insights and takeaways from Ukraine’s Experience

Ukraine's experience offers several key insights:

- It is possible to undertake radical energy subsidy reform even in a challenging fiscal and geo-political situation if there is political will to do so.
- Inclusiveness followed by gradual tightening of eligibility criteria can be an effective strategy to mitigate the sharp increase in energy prices.
- Communicating clearly helps increase program uptake and build support for reform .

… as well as practical lessons that may be relevant for others:

- Identify, scale up, and consolidate an existing program.
- Make the program inclusive to begin with.
- Understand beneficiary needs and communicate well.
- Gradually strengthen program design and targeting.
- Integrate energy compensatory transfers with broader social assistance.

Research Conclusions and the Way Forward

Review of Country Cases: Insights for Program Design

➢ Be inclusive by design

- However inefficient they may be, generalized price subsidies provide a universal benefit
- Move to cash compensation is successful when benefits are quasi-universal
- Targeting can be introduced progressively using rollout and usage data

➢ Leverage existing systems

- Using existing processes, instruments and databases to roll out and scale up quickly
- Key building blocks – identification, payments and grievance – can be retrofitted and repurposed
- Program scale provides incentives for governments to invest in better systems, generating better efficiency and fiscal savings in the process

➢ Coordination and Integration

- Energy compensatory transfers are larger in scale than most social safety net programs
- Needs to be coordinated carefully across implementing agencies
- Countries have a mix of stand-alone and integrated approaches – ultimately depends on efficiency of delivery

Review of Country Cases: Insights for Program Delivery

Capacity

Move from traditional to digital processes – identification, payments and feedback

Digital/electronic payments facilitate greater speed and efficiency of transfers but can also be exclusionary

Build in exceptions for disadvantaged and vulnerable communities (often the most difficult part!)

Commitment

Clear expectation-setting and articulation of end-result

("If you do X, you will receive Y on Z")

Fixing accountability for redressal of errors and delays

Providing long-term vision for change

Communication

Moving from universal price subsidy to cash compensation is a radical change in status quo

Requires multi-level (Head of Government, Minister-in-charge, implementing agency) and multi-channel communication strategy (traditional and social media)

Important for two-way communication – listening to client experiences for mid-course correction

Key takeaways (1/2)

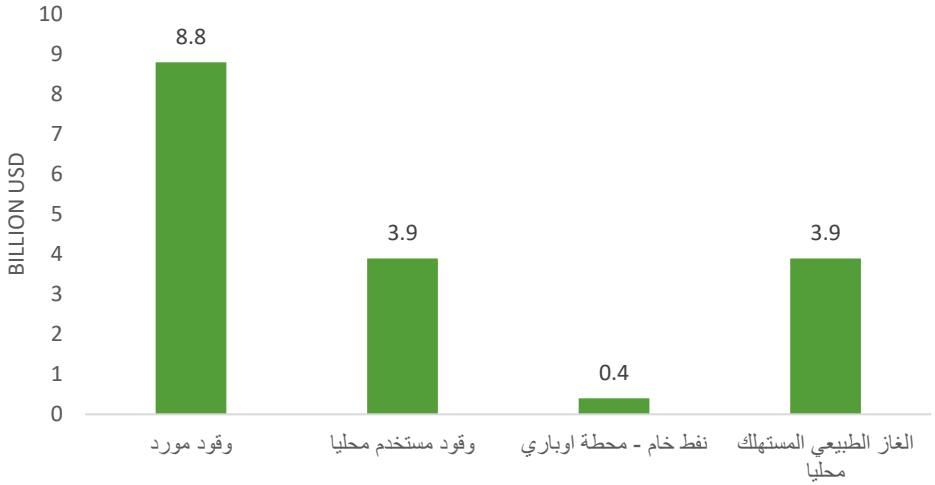
- **The review shows that compensatory cash transfers have come to be a helpful component of governments' policy toolkits while reforming energy subsidies.**
  - Can help mitigate price impact on key groups, help build trust and support, and facilitate reform implementation.
  - Can be useful as part of a holistic approach to energy subsidy reforms – combining economic, financial, social, environmental, and political aspects, and balances the needs of key stakeholders.
- **Compensation programs supporting energy subsidy reforms need to be developed based on careful understanding of distributional impacts, sectoral implications, and stakeholder perspectives.**
  - While designing reforms, it is critical to understand who will be affected, assess which impacts need to be mitigated, and at what cost.
  - Assessment of distributional impacts and stakeholder perspectives is a key input into stakeholder engagement and communications.
- **Systematic preparatory work and rollout efforts are needed to streamline the registration and delivery processes, which are essential for adequate uptake of compensatory cash transfer programs.**
- **While design choices depend on specific country context, preexisting delivery systems are a key factor for enabling speed and effectiveness of government programs.**

Key takeaways (2/2)

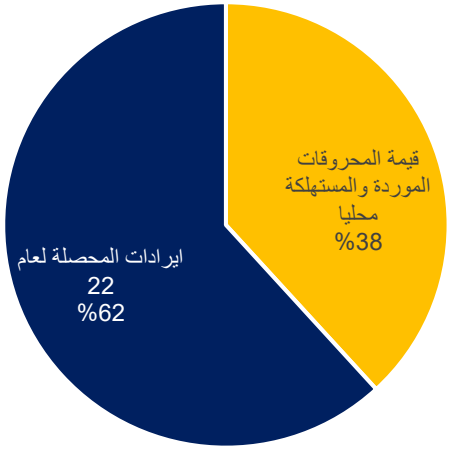
- Success of energy subsidy reforms depends on mitigation measures
  - Compensatory CT to offset its impact on HHS – not just for the poor, but potentially for the "vulnerable" and even middle class
- The scope of compensatory CTs varied and evolved over time, with increasing sophistication of SP instruments and systems
  - **New CT programs** : Many countries inc. India Iran
  - Leveraging **existing CT program**: Used the existing (adaptive) SP delivery system (ex. Ukraine, DR, Brazil, Malaysia, Morocco, Tunisia)
  - More **"holistic" and forward-looking approach** to support a just transition
- Going forward, the third approach is becoming increasing relevant!

Libya context

Forgone Revenue (unaccounted)



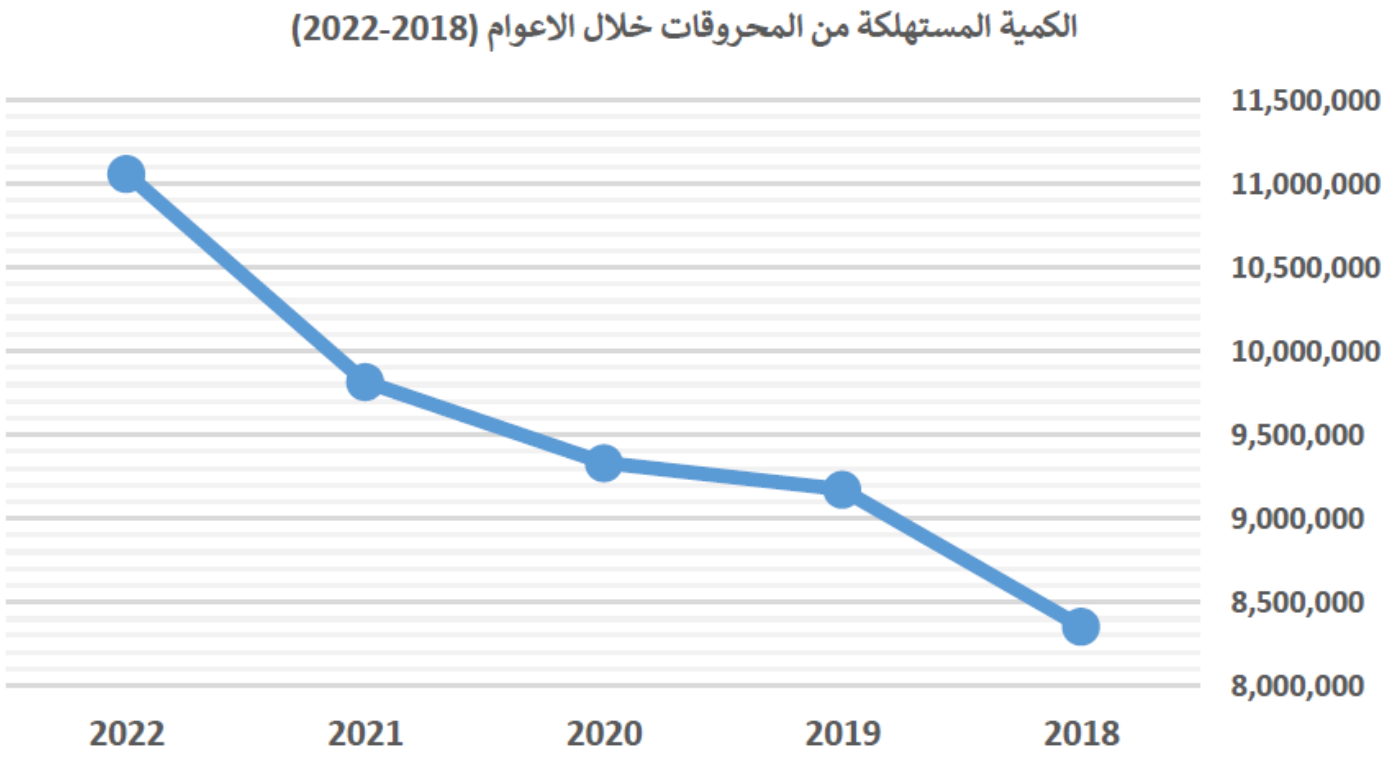
البيان	التكلفة دينار ليبي	التكلفة (دولار)
الوقود المورد من الخارج عن طريق المبادلة	42,671,075,784	8,836,786,735
الوقود المنتج محلياً عن طريق تكرير النفط الخام بالمصافي المحلية	19,119,293,202	3,959,429,507
النفط الخام لتشغيل محطة كهرباء اوباري	1,957,829,275	405,448,409
الغاز الطبيعي المستهلك محليا لتشغيل محطات الكهرباء	19,203,468,608	3,976,861,458
الإجمالي	**82,951,666,869**	**17,178,526,109**



البيان	القيمة (دولار)	النسبة
اجمالي قيمة المحروقات والغاز والنفط الموجه للاستعمال المحلي	**17,178,526,109**	%39
إيرادات الدولة النفطية خلال العام 2022م بالدولار	27,542,868,919	%61
المجموع (اجمالي موارد الدولة النفطية)	**44,721,395,028**	**%100**

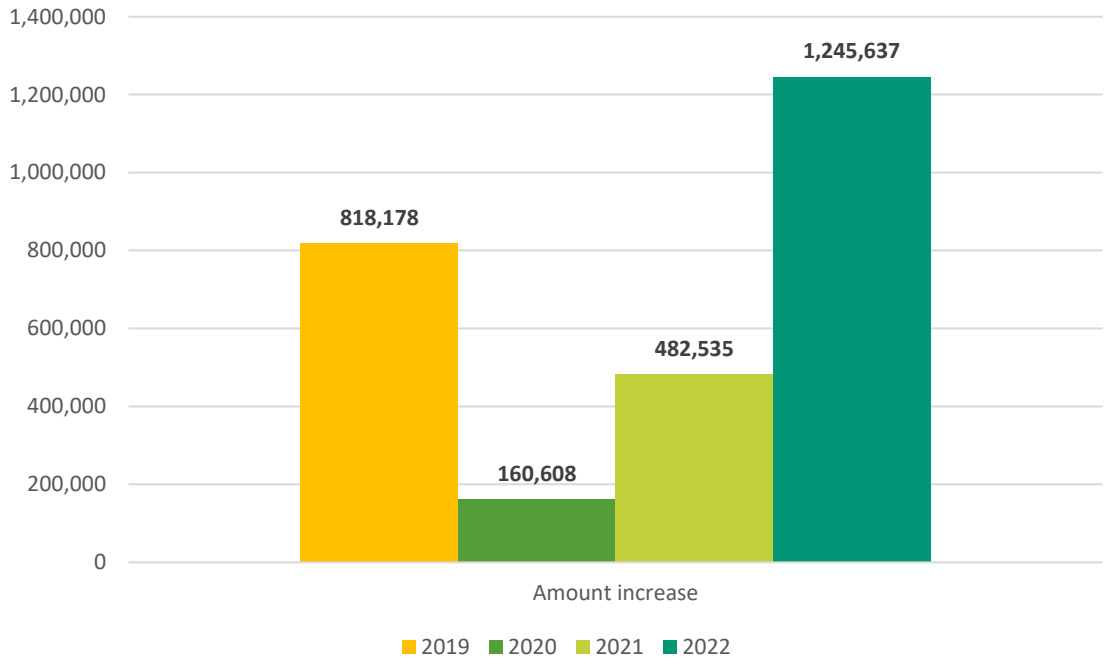
Inflated demand

31% increase in consumed fuel since 2018



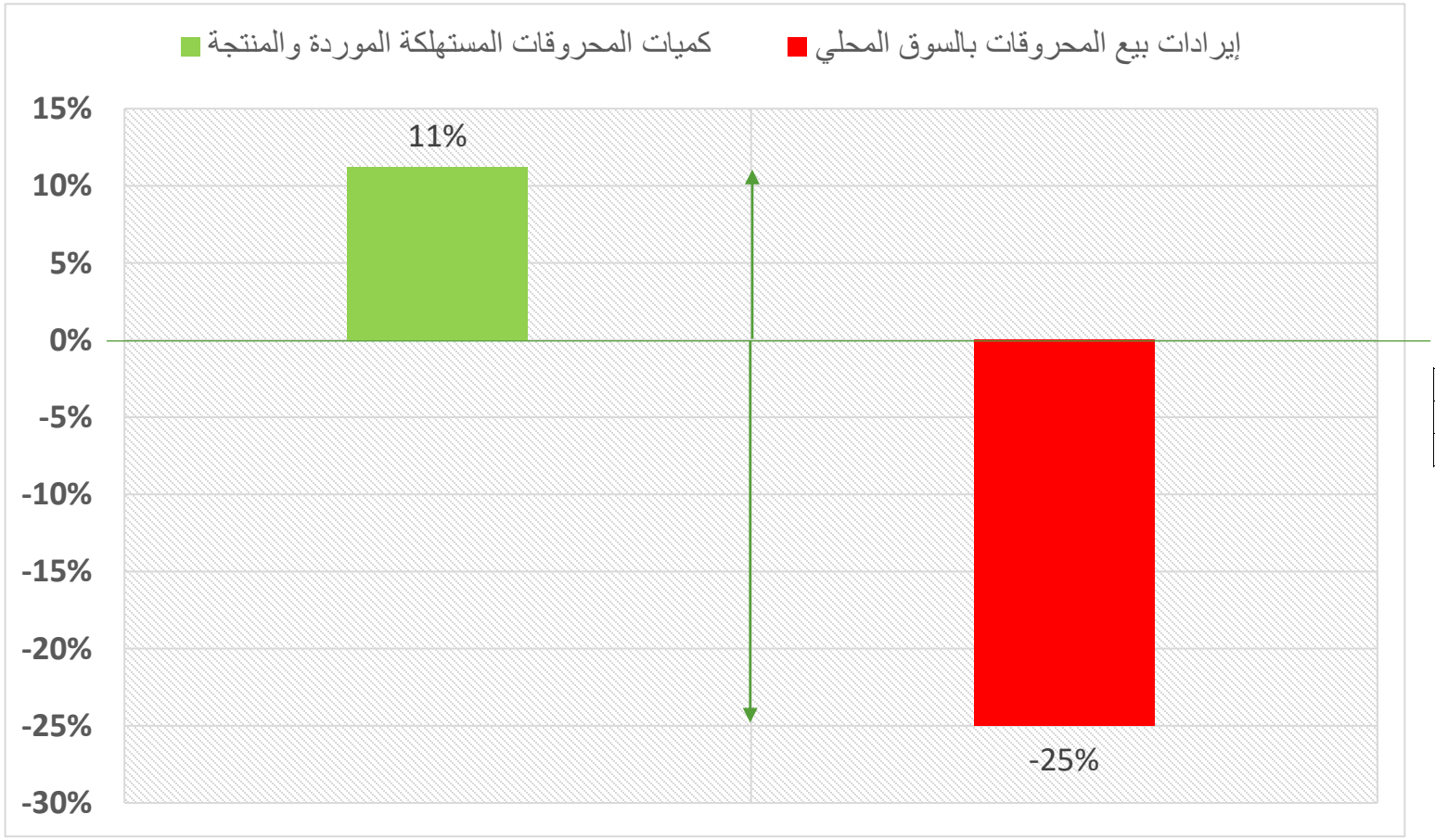
Inflated demand

> 1M metric tone increase in 2022 alone!



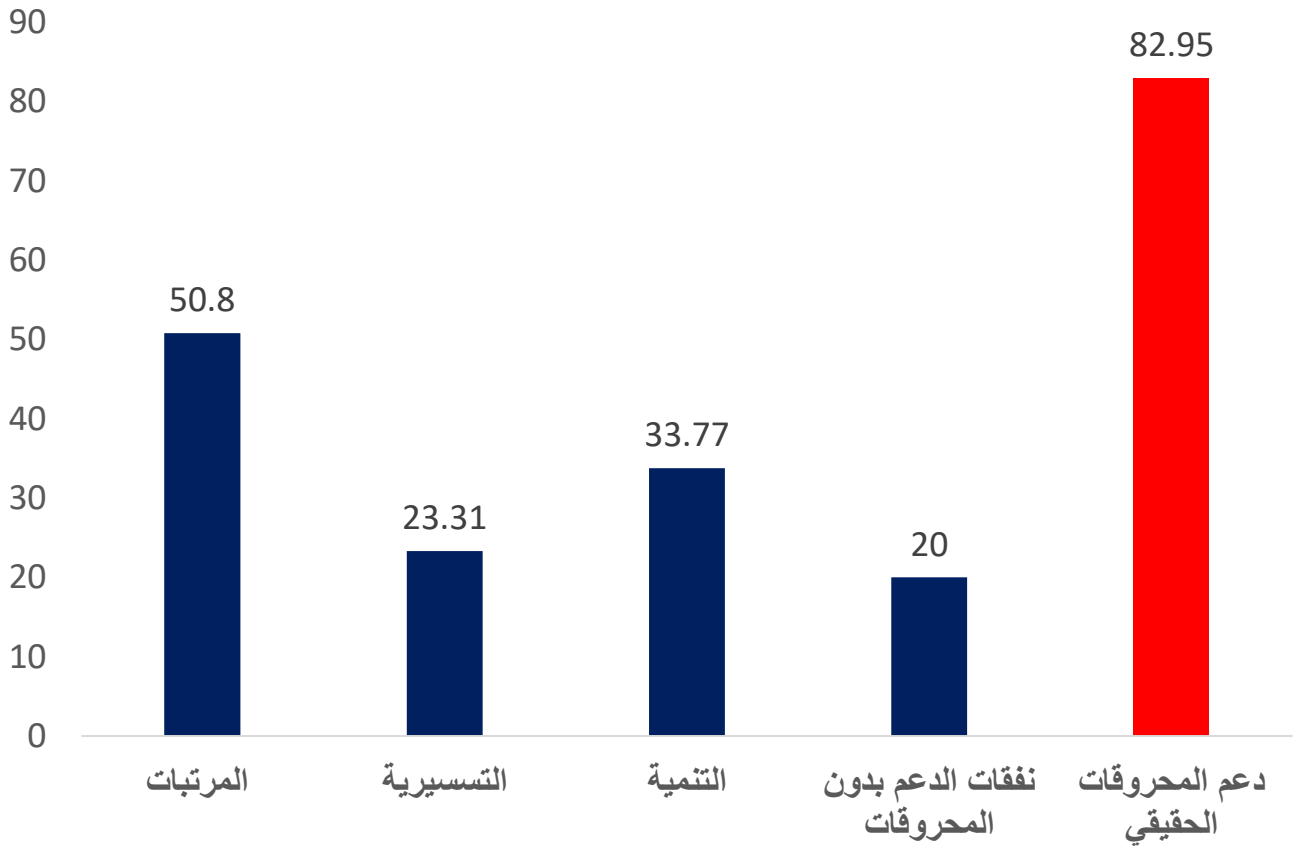
2022	2021	2020	2019	2018	البيان / الكمية (بالطن المتري)
4,939,995	4,535,209	4,051,148	3,988,351	3,919,366	بنزين سيارات
4,718,550	3,609,366	3,514,566	3,416,313	3,041,783	الديزل
957,733	1,190,186	1,328,222	1,262,103	962,167	الزيت الثقيل
252,301	306,802	275,317	289,228	280,217	غاز مسال
193,085	174,464	164,239	216,889	151,173	كيروسين
11,061,664	**9,816,027**	**9,333,492**	**9,172,884**	**8,354,706**	**اجمالي الكميات المسلمة**
1,245,637	**482,535**	**160,608**	**818,178**	-	**مقدار الزيادة عن السنة السابقة**

Big question mark!



البيان / السنة	2021	2022	التغير
كميات المحروقات المستهلكة الموردة والمنتجة (طن متري)	9,818,078	**11,061,664**	ارتفاع
إيرادات بيع المحروقات بالسوق المحلي	449,980,348	360,000,000	انخفاض

Subsidy within the budget



ت	البيان	التكلفة (مليار دينار)	النسبة
1	باب المرتبات	50.8	%24
2	باب المصروفات العمومية	23.31	%11
3	مصروفات التنمية	33.77	%16
4	نفقات الدعم (ماعدا المحروقات)	20	%9
5	قيمة الدعم الحقيقي للمحروقات	**82.95**	**%39**
	الاجمالي	**210.83**	%100

Deconstructing the different options for Libya

Option1: keep the status quo

Reforms needed

- Stop the swapping practices
- Enhance transparency of data publication
- Monitoring public consumption and analysis trends
- Increase security spending to combat smuggling (almost impossible)

Reasons for concern

- Costly
- Risk for increased smuggling
- Can further increase criminal activities and elite capture of the political process
- Depleting resources for reconstruction of the country

Least resistance option but the riskiest

The security failure in the country will prevent the state from stopping smuggling esp since some state actors are involved

Option 2: re-route subsidy to consumer

Reforms needed

- Switch from subsidizing the distributors to subsidizing the consumers
- Give monthly vouchers/cards for fuel only
- Good communication strategy and cards given before increase prices
- Similar to the USD cards and family allowance (effa cards)

Reasons for concern

- Costly
- Cards/vouchers would be tradeable
- Smuggling is reduced but not eliminated
- Issues of monitoring cards distribution and allocation

Instead of channeling the subsidy through the distributors, give it directly to the consumer and this solves the issue of regressivity

Option 3: change modality to cash

Factors for success

- Good communication strategy
- Give cash before price increases
- Universal or quasi-universal coverage
- Multi-sectoral approach to align with other benefits
- Follow gradual approach

Reasons for concern

- Lack of trust in the govt
- Inflation
- Increase poverty
- Social unrest

Bold option but more sustainable if implemented well

This option can be the base for building a robust social protection systesm by going universal and then collect information on HHs for better targeting

Let’s hear from the audience

Bonus slide: does cash transfer cause inflation?

- It is a legitimate concern, but one that needs to properly contextualized.

- Whether cash transfers would fuel inflation would depend **on (i) overall food availability at local and regional level; (ii) the scale of cash injection; (iii) level of market integration; (iv) behavior of traders (speculative hoarding); and (v) design (for example whether transfers are one off vs regular).**

- Big missing piece is **the multiplier effect**: one study suggests that programs like cash transfers generate an average local multiplier of $1.3 (and up to $2.6) for every dollar injected through those programs.

Examples

1- In January 2011, Kuwait announced an Amiri grant of US$3,600 to be paid to all 1.1 million Kuwaitis on February 24 to celebrate the 50th anniversary of independence. Monthly data on the consumer price index **reveals no significant discontinuity in price values** around the time of the transfer announcement and payment

2- In Mongolia, some minor inflation was detected, although it is poorly documented (Yeung and Howes 2015); and in the Islamic Republic of Iran, the UBI scheme was itself implemented in a highly inflationary context—a factor that wiped out three-quarters of the program's real value between 2012 and 2018.

6 Final Considerations for the Future

1. Subsidy reforms can open fiscal space and be an opportunity for progressive redistribution
2. Timing is critical—price increases should not come before cash-in-hand (esp govts that have lower levels of popular support)
3. Transparent and extensive communication and consultation with stakeholders, including information on the size of subsidies and how they affect the government's budget
4. Universal programs can help avoid social conflict and build a sense of equity – UBI provides two benefits:
    1. Avoid targeting capacity issues
    2. Sense of equality to help minimize the social backlash.
5. If not universal, cash transfers should be broad-based and identify where the shoe pinches. Impact of ESR could hit the poorest, near poor and middle class.
    1. Jordan (70% coverage), Indonesia (30% double poor), DR (40%) etc
    2. In the DR, the government also critically recognized the economic impact of price increases on the livelihoods of public transport drivers—and developed a unique mitigation plan to support
6. Effective reforms require a multi-sectoral effort
    - It is critical that all relevant arms of the government, and sectors within agencies supporting them, work together to design the price increases and social benefits simultaneously