

Energy subsidy reform

What does it take?

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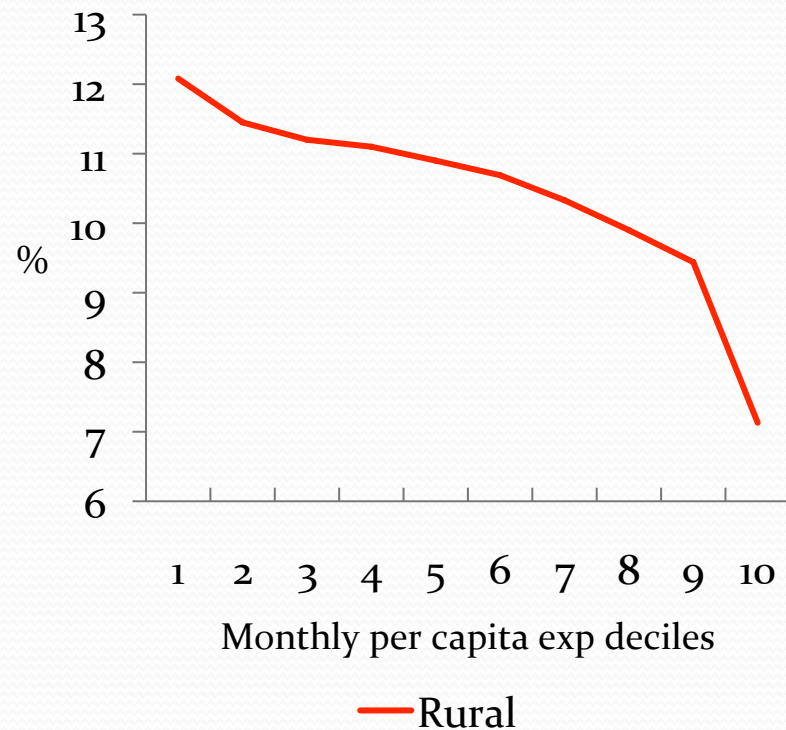


Poor in Asia lack energy

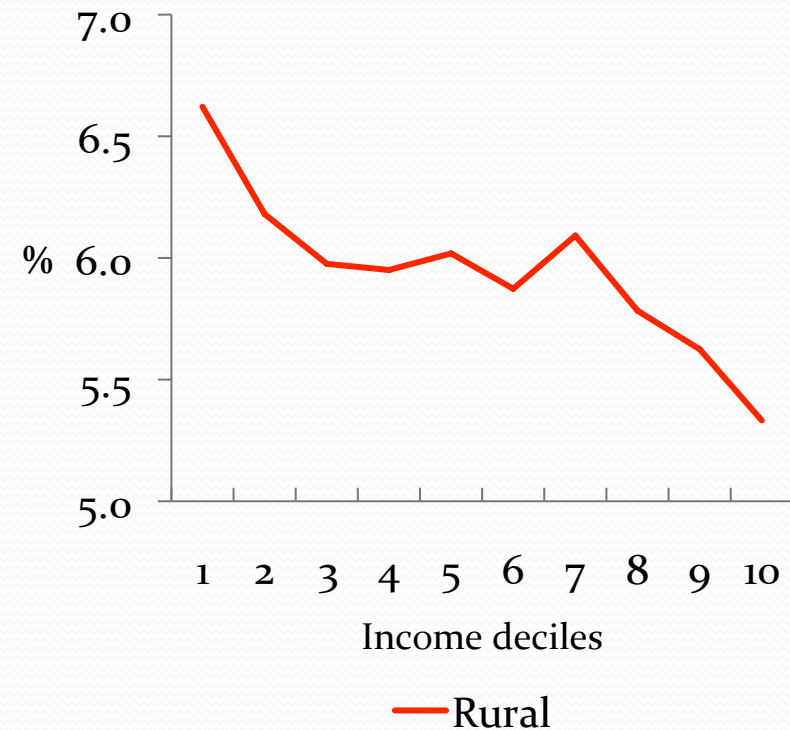
- No access to basic electricity services
 - 700 million (~ 20% of population)
- Reliance on traditional biomass
 - 1.6 billion (~ 45% of population)

The poor spend larger % on fuel & light and get higher price shock than the rich

India



Philippines



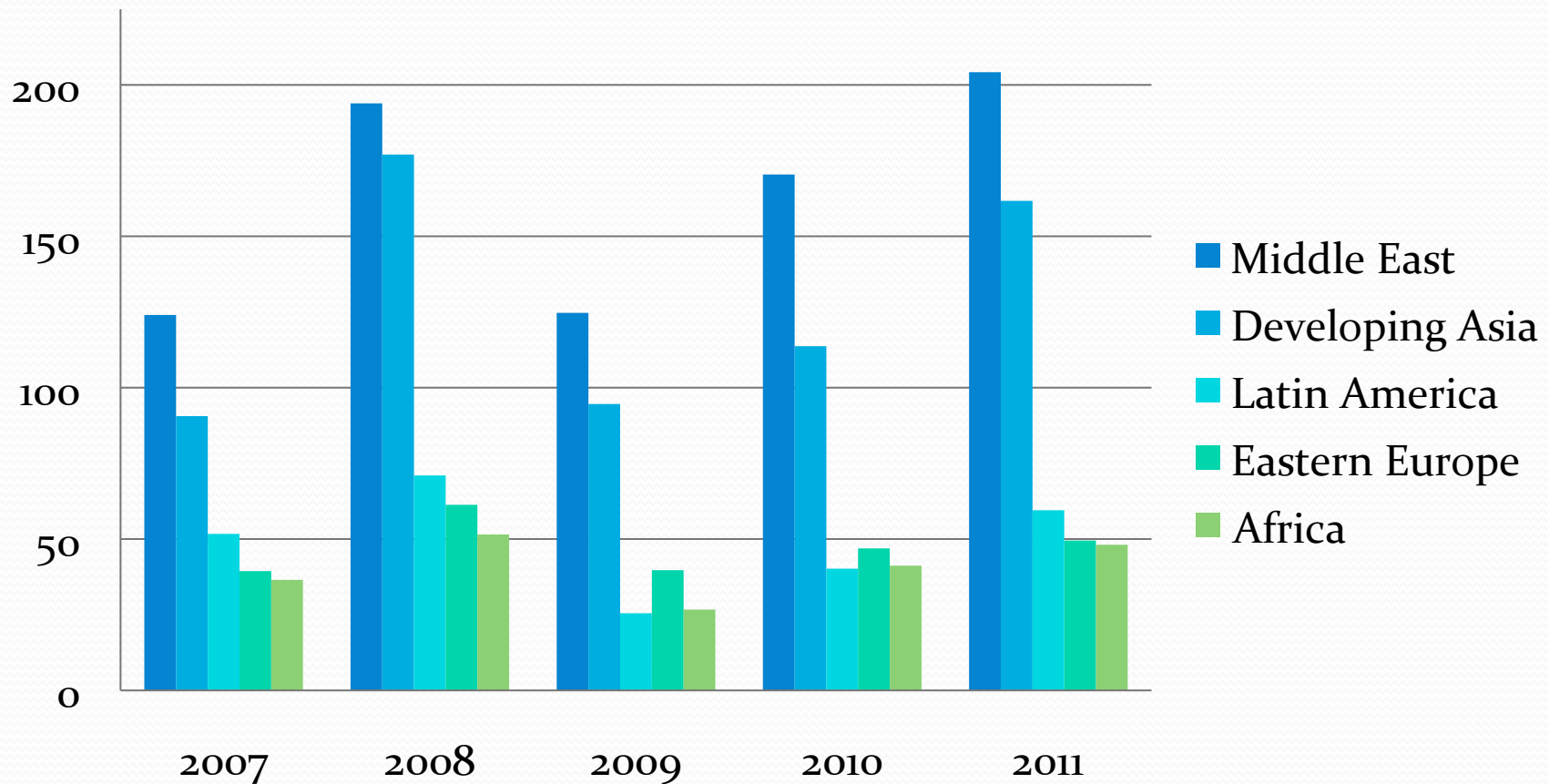
Source: Household Consumer Expenditure in India, 2007-08; Report No. 530; 2009 Philippines FIES



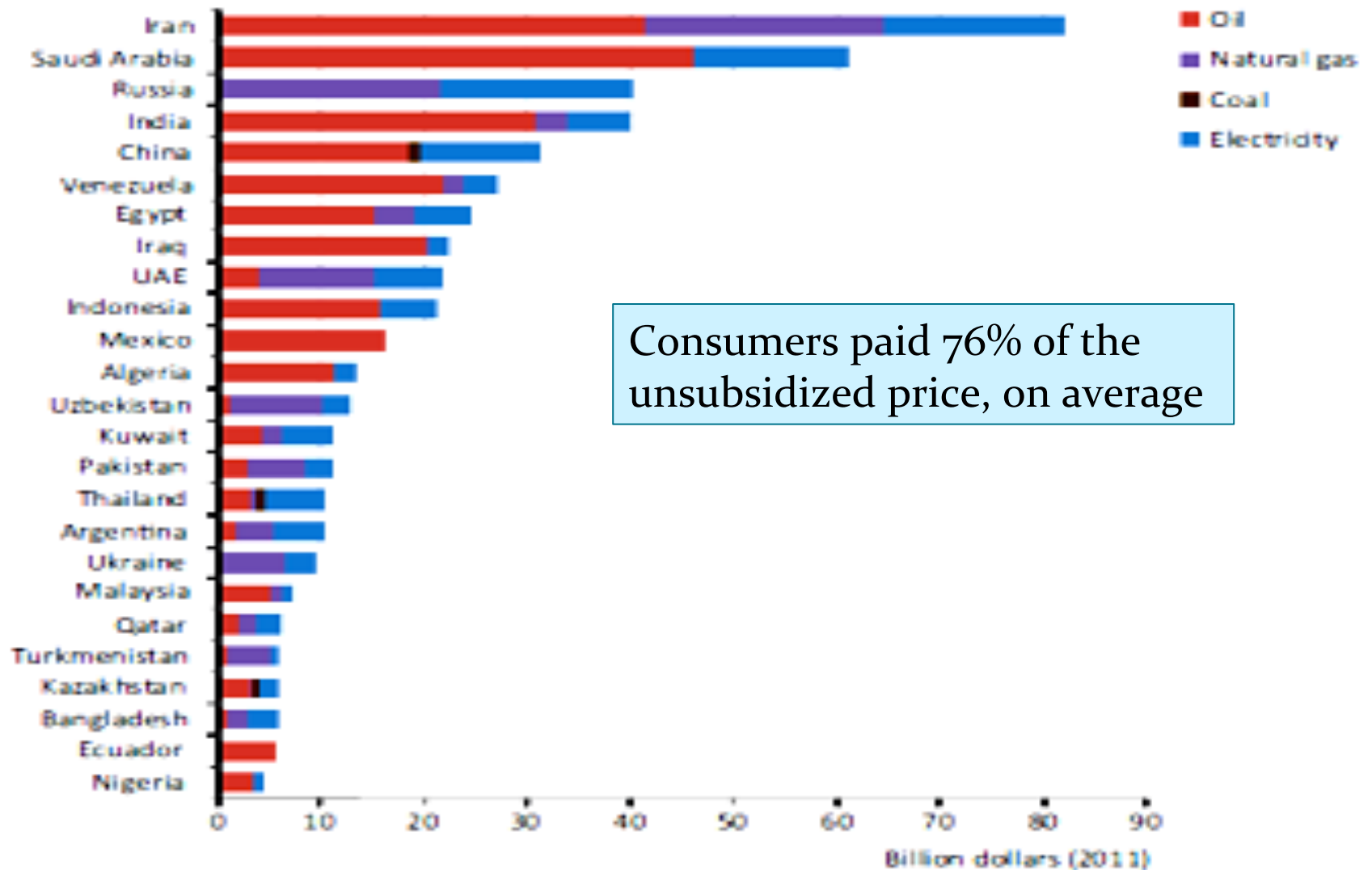
Governments subsidize energy to protect the poor but it costs a lot

- Global fossil-fuel consumption subsidies = \$523 billion in 2011
- \$111 billion more than 2010
 - due to higher prices, rising consumption
 - would have been higher without reforms (e.g., Ghana, Indonesia, and Jordan reduced subsidies)

The Middle East accounted for 1/3rd (billion USD)



Fossil-fuel consumption subsidies for top 25 countries (billion dollars), 2011



Main issues: Energy subsidies

- Mostly accrue to the better-off
 - Worldwide, the poorest 20% get only 8%
 - The poor lack electricity/ gas connections, few own vehicles
- Encourage overconsumption
- Divert resources from healthcare, education
- Aggravate environmental pollution
- Promote cross-border smuggling



G-20 group of countries agreed

- To phase out inefficient fossil-fuel subsidies (2010)
- Timing based on national circumstances
- Complement subsidy reform with targeted support to the poor

- APEC group too agreed

Barriers to subsidy reform:

1. Interest-group influence

- Wealthier populations
- Industry lobby
- Environmental activists (green/ clean energy)
- Politicians (losing vote banks)
- Governments
 - Energy importers - Inflation
 - Energy exporters - Loss of export revenue

Barriers to subsidy reform:

2. Logistical difficulties

- Users are organized differently – Government's ability to deal with interest groups varies
 - Poor consumers lack voice
 - Production industries using gas and coal are well organized and influential
 - Distributors collude
- Multiple responsible offices
 - Ministry of foreign affairs, finance, energy, tax, national planning
 - Requires coordination

Campaign: How to build popular support for reform?

- Create stakeholder awareness and buy-in
 - Benefits: Is the subsidy reaching the poor?
 - Costs:
 - Is it encouraging overconsumption?
 - Is it increasing inflation?
 - Is it raising air pollution?



Campaign: How to generate popular support for reform?

- Dialogue with decision makers
 - Reduce subsidies gradually – most regressive first
 - Introduce targeted transfer for poor before reform
 - Allocate savings to higher priority development goals
 - Time the reform with falling energy prices
 - Improve credibility and trust in government