Protecting the poor and energy access

Strategies for fossil fuel subsidy reforms

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Contents

1. Fossil fuel subsidy reform, poverty and energy access
2. Strategies to protect the poorest and energy access
Fossil fuel subsidy reform, poverty and energy access
Fossil fuel subsidy reform and the SDGs

Fossil fuel subsidy reform = Means of Implementation

SDG 12.c: “Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption […].”

- Fossil fuel subsidies meant for the poor, but disproportionately benefit wealthier households
  - Subsidy reforms plus targeted social welfare programmes support poor households

- Outdoor air pollution estimated to cause 3 million premature deaths worldwide in 2012
  - Removing subsidies and taxing fossil fuels could cut global air pollution by half

- Energy access is crucial, but often women do not have access to fossil fuel subsidies
  - Social welfare programmes and targeted cash transfer can be designed to empower women

- Subsidies can hinder the uptake of new low-carbon technologies
  - Risk of creating stranded assets

- Fossil fuel subsidy reform could result in significant emissions reductions.
  - Risk of creating stranded assets

- Decoupling economic growth from natural resource use is fundamental.
  - Removing fossil fuel subsidies reduces the global demand for fossil fuels
What are fossil fuel subsidies?

**Consumer subsidies**
- Coal
- Petroleum
- Electricity
- Gas

**Producer subsidies**

USD 425 billion in 2015

Source: ODI & OCI, 2015

Global fossil fuel subsidies could finance the global energy access funding gap 7.5 times over.

Fossil Fuel Subsidies: $425 billion in 2015

Universal Energy Access: $56 billion per year until 2036
Good intentions, unintended consequences:

**Common problems with untargeted consumption subsidies**

- Consumption subsidies leave people without energy access out – mostly the poorest
- Poor households get only a fraction of the benefits
- Subsidies can drive fuel shortages and push up prices
- Fossil fuel subsidies are not a magic bullet
Fossil fuel subsidy reform without compensation can hurt poor households

### Households and social welfare

**Negative**
- Overall regressive impact, if most previous subsidy benefits went to poor
- Reduction in household incomes
- Lower wages and unemployment associated with affected business sectors
- Increase in poverty
- Reduced energy access, if households unable to afford other fuels

**Positive**
- Overall progressive impact, if most subsidy benefits previously went to rich

...OR...

- Increased energy access, if proper pricing allows for increased distribution and quality

Pictures: Lockwood 2012; Global Alliance for Clean Cookstoves; Express Tribune
Strategies to protect the poorest and energy access
Preparation is key

IISD Guidebook on fossil fuel subsidy reform
Who needs mitigation measures?

Beneficiaries of fossil fuel subsidies
Poor households

Coping strategies for kerosene price increase - Lagos

- 44% Use less kerosene / LPG
- 21% Increase total expenditure
- 11% Save money by reducing expenditure
- 5% Work more
- 18% Switch to, or increase use of biomass
- 11% No answer

Mitigation strategies

HOW SUBSIDIES ARE CHANGED: GRADUAL VS. “BIG BANG”
- Size and frequency
- Targeting subsidy
- Sequencing reform for different fuels
- Timing

RESPONSES TO IMPACTS: ECONOMIC AND SOCIAL ASSISTANCE
- Anti-inflationary policy
- Target assistance to affected households
- Target assistance to affected businesses
- Energy access programs

EFFORTS TO COUNTER-ACT PRICE INCREASES
- Temporarily reduce taxes and fees
- Policies targeting fundamentals of supply and demand, e.g., competition, efficiency of distribution etc.

Source: IISD Guidebook.
Mitigation measures: economic and social assistance to households

**Policy examples**

- Infrastructure to enable access to key services, e.g. power, clean water, transport, irrigation.
- Subsidized goods or services, e.g. food, water; transport, health, education.
- Cash transfers
  - Unconditional (UCTs), usually short-term
  - Conditional (CCT), typically maternal healthcare, nutrition, school attendance
- Social security programs, e.g. health insurance, pensions
- Job creation schemes: public works; internship programs; training; microcredit
- Minimum wage, tax reductions
- Targeted energy subsidies, usually for energy access reasons
Morocco: careful reforms + social protection

- The 2014 reforms abolished the most regressive subsidies, gasoline, diesel and fuel oil. LPG was excluded.
- The effect of rising electricity prices was mitigated by redefining consumption brackets and freezing tariffs for those in the lowest consumption brackets.
- The Tayssir Conditional Cash Transfer programme targeting poor rural households expanded from 80,000 families in 2009 to 466,000 families in 2014.
- The health insurance scheme for the poor, Regime d’Assistance Medicale (RAMED), increased its coverage from 5.1 million beneficiaries in mid-2013 to 8.4 million beneficiaries in early 2015.
- Communication about the benefits of reallocating subsidies was a key element in the government’s strategy.
India: sticks and carrots to target subsidies

In FY14-15, the Government of India spent US$ 7.8bn subsidizing LPG. This is US$ 1.4bn more than the equivalent central budget allocation for primary education.

➢ DBTL, Direct Benefits Transfer for LPG – subsidy payments into bank accounts, limited to 12 cylinders per year
➢ “Give it up” campaign + review of registry
➢ Pradhan Mantri Ujjwala Yojana (PMUY) for equipment for poor households
Summary

• Reforming subsidies has a potential to hurt poor households, but also to improve the situation.

• “Be prepared”: Strategies need to be comprehensive around pricing, building support and managing impacts.

• Analytical work can guide policy-makers to the biggest needs.

• Social and economic programmes, cash transfers, targeting of subsidies or infrastructure investments can replace fuel subsidies.
Thank you!

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