

ENERGY SUBSIDY REFORM AND DELIVERY TECHNICAL ASSISTANCE FACILITY



Fossil fuel subsidies often prove to be a drain on the resources of developed and developing countries alike. When prices are kept below cost-recovery levels, the overall viability of the energy sector can be adversely impacted, which in turn can impact efforts at improving supply quality, expanding access, or improving efficiency. As well as creating unsustainable fiscal pressures, energy subsidies can be regressive and inefficient, and lead to overconsumption of fossil fuels—reducing the incentive to use renewable resources, and increasing pollution and greenhouse gas emissions in the process.

However, artificially low energy prices have proved popular as a tool to lower the cost of living and protect national industries from international competition. Worldwide subsidies reached \$541 billion in 2013, representing about 0.7% of global GDP, and were projected to decrease to \$333 billion by 2015 due to declining international oil prices.

Energy subsidies are often of more benefit to the non-poor and may have little impact on the underlying causes of poverty. Even though the negative impacts of energy subsidies are often well known, attempts to reduce or remove subsidies have been challenging, in many cases, leading to social unrest and policy reversals. Phasing out subsidies, particularly if done suddenly and without a strengthening of social safety nets, can have a negative impact on the poor and vulnerable. At the same time, the primary beneficiaries of subsidies—often industries and middle-class consumers—can be expected to resist reductions to these benefits. Finally, there may also be fears that removing subsidies could adversely impact the country's competitiveness.



Countries looking to embark upon energy subsidy reforms have highlighted the need for significant support in dealing with the complexity of this issue, particularly with regard to handling the political economy of subsidy and pricing reforms, communicating the negative impacts of subsidies and the need to reduce them, and designing specific solutions to mitigate the adverse impacts of reform on poor and vulnerable populations.

ENERGY SUBSIDY REFORM AND DELIVERY

In response, the Energy Sector Management Assistance Program ([ESMAP](#)) of the World Bank launched the [Energy Subsidy Reform and Delivery Technical Assistance Facility](#) in 2013. This US\$20 million, multi-year initiative is supporting countries as they design and implement subsidy reform programs, involving close collaboration with key stakeholders in the country, such as government ministries, think tanks, and civil society organizations. The facility offers countries technical assistance on various aspects of energy subsidy reforms, including:



The Energy Sector Management Assistance Program (ESMAP) is a global knowledge and technical assistance program administered by the World Bank. It provides analytical and advisory services to low- and middle-income countries to increase their know-how and institutional capacity to achieve environmentally sustainable energy solutions for poverty reduction and economic growth. ESMAP is funded by Australia, Austria, Denmark, Finland, France, Germany, Iceland, Lithuania, the Netherlands, Norway, Sweden, and the United Kingdom, as well as the World Bank. The work of ESMAP's Energy Subsidy Reform and Delivery Technical Assistance Facility is made possible in part by funding from the European Commission.

- Analysis of the poverty, social, fiscal, macroeconomic, political, economic, and climate change aspects of subsidy reform
- Assessment of distributional impacts of subsidies at the household and macroeconomic levels
- Support for policy dialogue, consultations and stakeholder engagement, communications strategies, and consensus building
- Support for improving the targeting and delivery of subsidies, including via technology-enhanced approaches
- Design and implementation of subsidy reform approaches, energy pricing frameworks, transition plans, stakeholder consultations, and communication strategies; and suitable social protection and other mitigation mechanisms, including adoption of energy efficiency and renewable energy solutions to mitigate the impacts of price increases

Engagement at the country and regional level is being conducted through World Bank teams composed of experts in poverty reduction, social protection, energy pricing and reforms, fiscal policy, climate change, social development, and communications.

The facility has also launched a series of **knowledge exchange** activities encouraging peer learning on both diagnostics and solutions among client countries and at the international level. A Global Conference was held in Copenhagen in October 2014, bringing together governments from across the world that have undertaken energy subsidy reforms or may be considering such reforms. Another conference on energy subsidy reform was organized jointly with the Friends of Fossil Fuel Subsidy Reform at the sidelines of the World Bank/IMF Spring Meetings 2015 where Ministers

from Ukraine, Honduras, Egypt and Angola shared their countries' experiences. Several other regional workshops have been held in the Middle East and North Africa and Central America.

The facility has also set up a Panel of Experts and Peers who are available to help client countries in various aspects of subsidy reforms, and are also helping with knowledge exchange.

As part of the knowledge exchange aspects of the facility, an online platform has been established for client country practitioners who are reforming or are planning to reform their energy subsidies. The platform seeks to provide a forum for networking and experience sharing with other countries and with the Panel of Experts. So far, several webinars and online discussions have been organized, on various aspects of subsidy reform design and implementation.

The facility is currently working on setting up a comprehensive diagnostic and analytical framework for energy subsidies. The objective is to establish a standardized and integrated approach to assessing the various aspects of subsidies in different countries using well-established methodologies and tools, for instance, for assessing fiscal, economic, social, environmental, and poverty impacts, for conducting stakeholder consultations, and for assessing the adequacy of social assistance mechanisms.

In addition to the World Bank, several organizations already produce extremely important analysis and research on subsidy reforms, such as the IMF, OECD, the Global Subsidies Initiative ([GSI](#)), and the International Energy Agency ([IEA](#)). The facility is collaborating closely with these and other agencies in promoting knowledge exchange.

- EGYPT: AZERBAIJAN:** This new activity aims to support the Government in analyzing the needs for future electricity price reforms, along with assessment of the poverty and social impacts.
- BELARUS:** The objective of this activity was to support the Government in formulating district heating tariff reform strategies, a communication strategy, and measures to mitigate the negative social impact, including energy efficiency and a targeted subsidies program. Price reforms have begun and the Government has made communications a central aspect of reforms. The Government is also considering strengthening social protection mechanisms.
- CENTRAL AMERICA:** The Bank is helping several Central American countries in assessing the economic and social impacts of subsidy reforms, and in understanding the implementation requirements for subsidy reforms. A workshop was held in November 2014 to share international experience in reform design and implementation, as well as on political economy and communication aspects.
- CHINA:** The Bank is helping the Government in assessing the size of energy subsidies in the country. The effort is advising on the alternative methodologies available for estimating various subsidies, and will help build capacity on evaluating and monitoring subsidies.
- EGYPT:** The Bank advised the Government on the economic and social impacts of price reforms, possible subsidy reform alternatives, diagnosis of social protection mechanisms, and the communication and consultation strategy necessary for reforms. This effort also included stakeholder consultations aimed at understanding the attitudes towards energy and energy pricing, awareness of the size and distribution of subsidies, and opinions towards pricing reforms. A second phase of support has begun, aimed at long-term fuel price reform design, strengthening of social protection systems, and communication strategy design.
- HAITI:** This effort supported the Government in designing petroleum subsidy reforms and analyzing the impacts of these reforms. The Bank supported several workshops aimed at sharing international experience and training government staff on assessing and managing subsidy reforms. A second phase of work is beginning shortly, aimed at designing targeted assistance programs and reviewing the pricing structure.
- IRAQ:** The Bank is assisting the Government in the assessment and design of subsidy reforms. Along with a diagnosis of the energy sector, the existence of subsidies, and a cost of service study, the activity is also assisting in designing communication and outreach strategies. A qualitative analysis of public perceptions about the energy sector is also being carried out.
- KYRGYZ REPUBLIC:** This activity aimed to support the Kyrgyz Republic in establishing a sustainable, transparent, and equitable tariff setting methodology for power and district heating. It also included design of a communication strategy and development of a performance accountability and feedback mechanism. The Government has adopted a multi-year tariff policy and begun implementation. A regulatory agency has been established, with clarified roles and functions.
- LATIN AMERICA:** This study aims to assess the magnitude of energy subsidies in 9 countries, and their fiscal, distributional and productive impact. This study is also trying to assess the impact of subsidy reforms on competitiveness. The Bank is collaborating with IDB on this study, with IDB covering 24 additional countries.
- MENA:** A new activity is being designed to support the strengthening of social safety nets in preparation for subsidy reform, in Algeria, Djibouti, Jordan, Morocco, Tunisia and Yemen. This activity will support the assessment of the readiness of social safety nets, recommendations for reforms and capacity building, and the creation of a regional platform for regular dialog on subsidy reforms.
- MOLDOVA:** This activity assisted the Government in assessing the feasibility of and need for heat and electricity pricing reforms, along with a review of the effectiveness and adequacy of social assistance mechanisms. The Government is considering the findings of this effort, which suggested that pricing reforms are needed in order to support much-needed investments in service quality improvement, and that social assistance programs need to be strengthened in order to mitigate adverse impacts on the poor and vulnerable.
- TAJIKISTAN:** The Bank carried out an assessment of the social and economic impacts of current electricity and heating pricing policies and of possible pricing reforms. The study carried out comprehensive stakeholder consultations to better understand the impacts on the poor and vulnerable, of aspects such as energy shortages (particularly in the winter), coping mechanisms, and possible future mitigation measures.
- TURKEY:** This effort is helping a recently privatized electricity distribution company in enforcing cost-recovery prices and ensuring adequate bill collections, through the establishment of a social compact with the community.
- UKRAINE:** This effort is aimed at helping the Government implement pricing reforms in district heating and natural gas while protecting the poor and vulnerable. The Bank is helping the Government in continuing price reform implementation, improving the targeting and performance of social assistance mechanisms, training and capacity building, and implementing its communication strategy aimed at building stakeholder support for difficult reforms. Additionally, the Government is now also assessing the feasibility of electricity pricing reforms in a second phase expanded effort.
- URUMQI, CHINA:** A second effort in China is aimed at helping design Urumqi Municipality's policy on district heating tariffs to support their promotion of affordable, cleaner district heating. This effort is important in sustaining the move from coal-fired boilers to gas-driven district heating, particularly from the point of view of the significant air pollution particularly in winter months.
- UZBEKISTAN:** A comprehensive diagnostic of energy subsidies has recently begun, which will cover aspects such as, the fiscal and other costs of subsidies, their distribution across income groups, assessment of social safety nets, and stakeholder mapping.
- VIETNAM:** The Bank helped the country in designing a low carbon development strategy earlier, which also assessed the size and impact of energy subsidies in the country. Two additional efforts have recently been initiated, in support of the country's energy subsidy reforms. The first activity is aimed at supporting a communication and outreach strategy for electricity price reforms. The second effort will assist the Government in assessing the size and extent of subsidies in various energy products, reviewing international experience with reforms, and eventually designing a road map for subsidy reforms.
- WESTERN BALKANS:** As part of a comprehensive assessment of the energy strategy of the region, this effort aims to assess the subsidy related constraints hindering sustainable and affordable energy development. The objective of this activity is to identify key energy issues and constraints, which require country-specific and regionally coordinated interventions, in order to position and guide the Bank's policy dialogue, technical assistance, and financing support in the Western Balkans. Additional work will shortly begin, focusing on assessing the poverty and social impacts of energy subsidy reforms, and reviewing the adequacy of social assistance systems.
- ZAMBIA:** The Bank is assisting the country in developing electricity tariff principles to help improve cost recovery. The activity will assist the Energy Regulator in developing communication strategies, regulatory impact assessments and a monitoring system, to help regulatory decision-making.