Readiness of Social Safety Nets to Mitigate the Impact of ENERGY SUBSIDY Reform:

Framework, Country Examples & Simulation Exercise

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Social Safety Nets and Delivery Course

ASSESSING THE READINESS OF SOCIAL SAFETY NETS TO MITIGATE THE IMPACT OF ENERGY SUBSIDY REFORM

OUTLINE

- The role of social safety nets in the context of subsidy reform and beyond
- How have countries used subsidy reforms to expand and improve SSNs for the poor and vulnerable?
- Country Examples: **Indonesia, Ukraine, Jordan**
- What resources and tools are available to support practitioners involved in subsidy reform?
- **CASE STUDY EXERCISE: ~45min**

Assessing the Readiness of Social Safety Nets to Mitigate the Impact of ENERGY SUBSIDY Reform

Why Reform Subsidies? Where does Social Protection Fit in the Subsidy Reform Puzzle?

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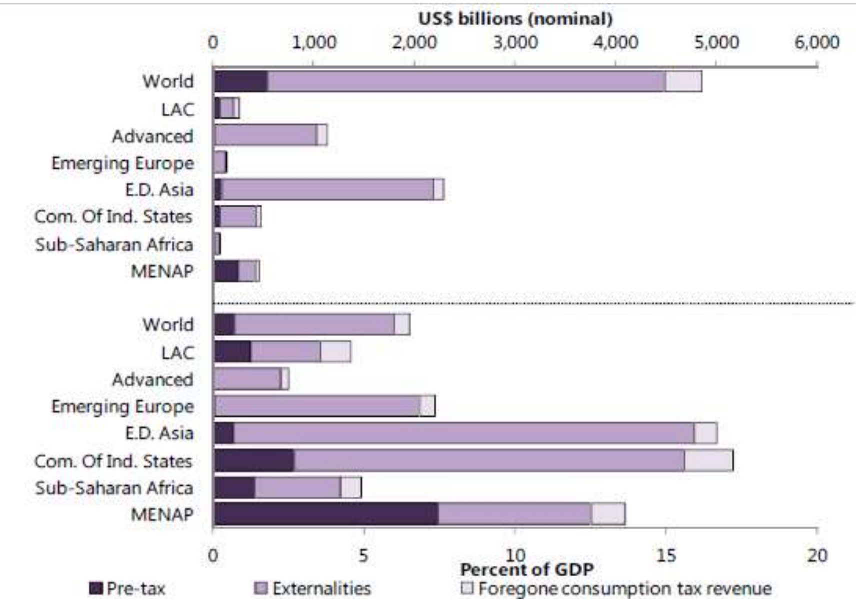
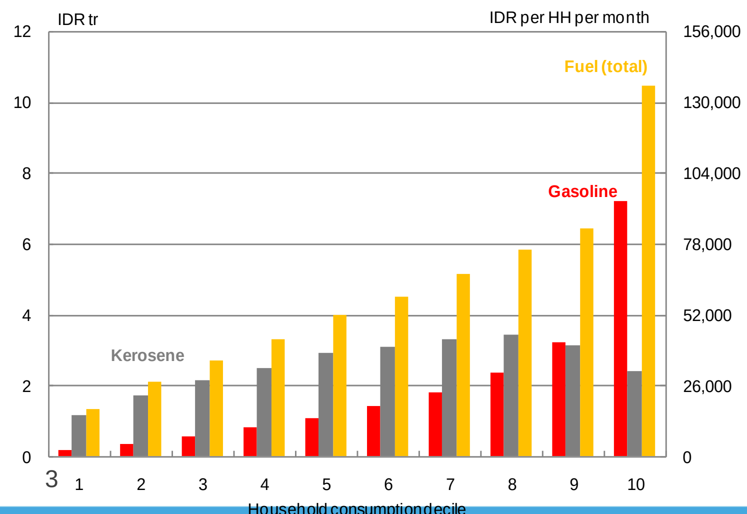
Why reform energy subsidies?





- 2017 Global spending on energy subsidies reached over $5.2billion (IEA)
- This is an immense fiscal burden (6.5 % of world's GDP in 2017)
- It results in over use of fossil fuels
- Diversion of resources away from social goals: spending on subsidies exceeds social assistance spending in over 50 countries.
- Instead fossil fuel energy should be taxed, and the increases in prices needed to achieve that are significant (even with low oil prices)
- Subsidies are regressive

Source: WB staff calculations based on Susenas February 09 and 2008 APBN

Where does Social Protection and "Mitigation" fit in the Subsidy Reform Puzzle?

Identifying the value of energy subsidies

How the different groups will be affected by the removal of subsidies?

Modules on incidence of subsidies on households, and distributional impact of reform

Size of shocks for different groups

Initial plan for subsidy reform

How well the current social protection system is able to respond to needs for mitigation of ESR? What else need to be done?

Module on assessing the readiness of SSNs to mitigate the impact of reform

Module on identifying the impacts on firms and industrial competitiveness

Reform options

Module on Political economy of reform

How to ensure reforms are implementable?

Reform proposal and its fiscal impact

Module on fiscal cost of subsidies and fiscal impact of reform. Module on assessing public opinion and designing a communications strategy.

Main challenge :
inflexible SSN with low coverage and low adequacy

- Existing cash transfers have low coverage
- Most transfer schemes imply flat benefit amounts that do not reflect the actual (differentiated) effects of energy prices on different households
- Existing transfer schemes have inflexible eligibility determination mechanisms that do not allow rapid scale up
- There is overlap or lack of coordination across different programs and actors involved
- Existing programs do not have clear graduation strategy for beneficiaries through linkages to employment- creating fear of “dependency”

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Assessing the Impact of Subsidy Reform Scenarios and Social Safety Nets Mitigation Options

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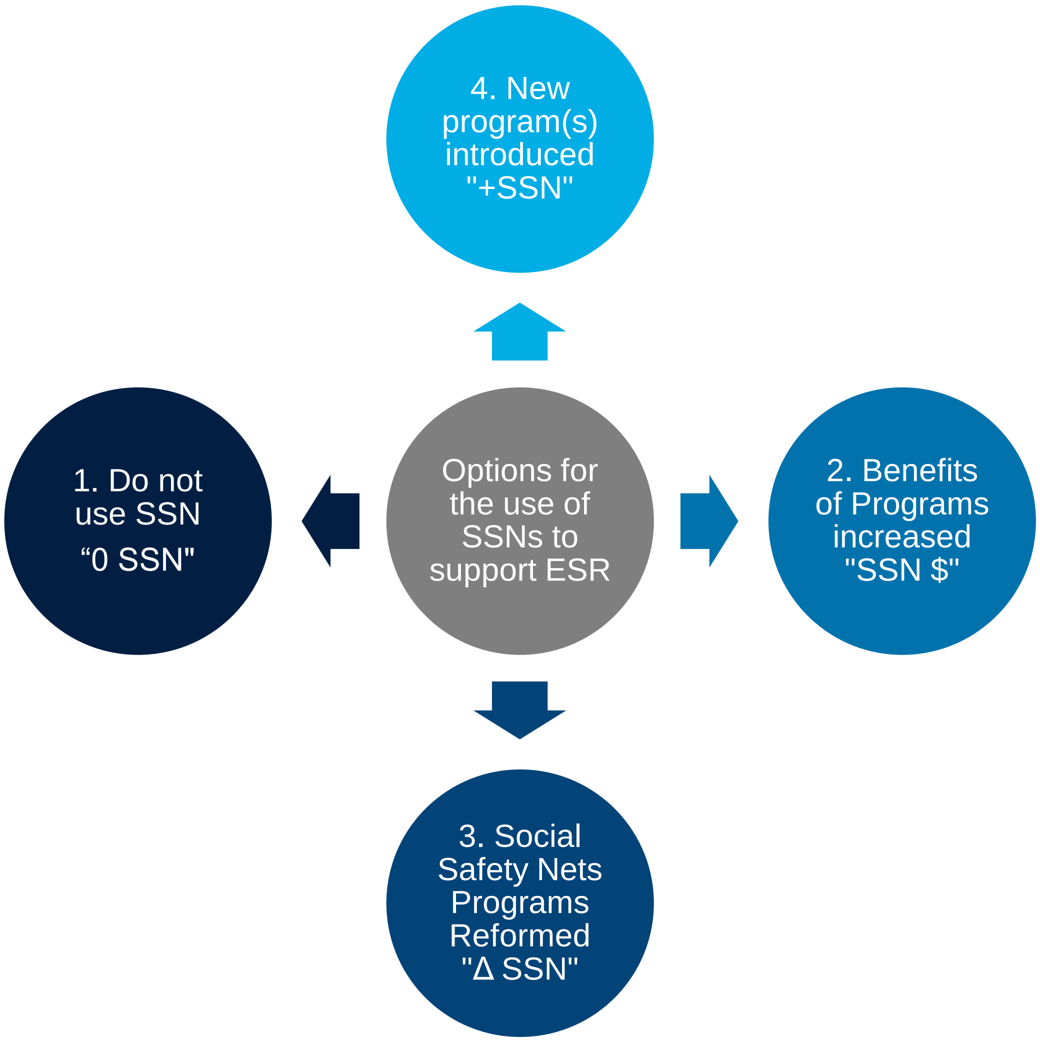
What are the Options?

What countries can do to mitigate the negative impacts of energy subsidy removal?



Country Examples: What are the Options?

- Step 4: Review of Options Available for Using SSNs to Mitigate Welfare Losses from ESR

Subsidy Reform Mitigation Approaches Used (by country)

SSNs not used / No new SSN mitigation measure	**Benefit Level Changed**
Algeria (2016) Bolivia (2010 – reversed) China (2010) Kenya (2000-08) Mexico (2014) Morocco (2012-15) Peru (2011) Turkey (2005) Tunisia (2012-13) Uganda (2012) Yemen (2011-12)	Indonesia (2008) Indonesia (2014) Jordan (2008)
New SSN Program introduced	**Social Safety Nets Significantly Program Altered** (eligibility, benefit level, regional / categorical coverage, etc)
Armenia (1995-99) Brazil (2002) Egypt (2014) India (2012) Indonesia (2005) Iran (2010) Jordan (2012 – discontinued) Nigeria (2012) Pakistan (2009-10)	Ghana (2013) Indonesia (2013) Ukraine (2016) Yemen (2010)

Assessing the Impact of Removing Energy Subsidies and Mitigation Options

STAGE 1: Welfare analysis of losses caused by ESR.

STAGE 2: Stock-taking of functioning SSN and near-SSNs, and modeling expansion options.

STAGE 3: Assessing the existing delivery systems for scale-up.

CAUTION: It won't be a science. Recall – Fiscal Space, Political Space

Assessing the Impact of Removing Energy Subsidies and Mitigation Options

This module provides guidance on:

- **Step 1: What is the Subsidy in Question and Who is Benefiting from it?**
  - Price Gap:

    International - Domestic = Subsidies
  - Who is benefiting?

    Subsidy * Quantity = Benefit

Table 1: Tunisia 2016

	LPG	Gasoline	Petroleum	Gasoline	Natural Gas	Electricity	All subsidies
Quintile							
Poorest	1.4	0.2	<0.1	0.1	<0.1	4.5	6.2
Quintile 2	1.0	0.5	<0.1	0.2	<0.1	4.0	5.7
Quintile 3	0.8	1.0	<0.1	0.3	<0.1	3.8	5.9
Quintile 4	0.6	1.8	<0.1	0.3	<0.1	3.6	6.4
Richest	0.3	3.9	<0.1	0.5	<0.1	3.4	8.1

Assessing the Impact of Removing Energy Subsidies and Mitigation Options

- **Step 2: Measuring the Impact of Subsidies Reform on Households**
  - Options for analyzing impact (e.g., equilibrium analysis)
  - Focus measurement of impact on poor and near poor households

Table 2: Jordan, 2012

	Poverty Level	Change in Poverty	Poverty Gap	Change in Poverty Gap
	(percent)	(% points)	(percent)	(% points)
Pre-reform	14.40	.	2.81	.
Octane-90	14.57	0.17	2.83	0.03
LPG	15.03	0.63	2.97	0.16
Diesel	14.40	0.00	2.81	0.00
Kerosene	14.51	0.11	2.83	0.03
Post-Reform	15.24	0.84	3.03	0.22

Assessing the Performance of Social Safety Nets to select feasible scale-up Options

Step 3: Assessing the Performance of Existing SPJ Programs (to select a program for scale up or a new program)

Table 3: Romania, 2014

	Targeting Accuracy	Coverage		Generosity	
	Poorest 20%	Population	Poorest 20%	All beneficiaries	Poorest 20%
Total social assistance programs, of which:	37.7	57.5	82.2	9.3	26.2
1. Family policy / pro-natality programs					
State Child Allowance	33.1	52.2	74.3	4.0	10.1
Child Raising Benefit	29.1	4.0	6.2	22.7	37.2
2. Programs for Low Income Households					
Guaranteed Minimum Income	81.5	3.4	14.2	19.4	23.6
Complementary Family Allowance	59.5	7.9	23.8	4.0	5.5
Single Parent Allowance	68.6	0.8	2.8	6.4	8.4
Heating Benefits	53.0	na	na	18.5	40.4

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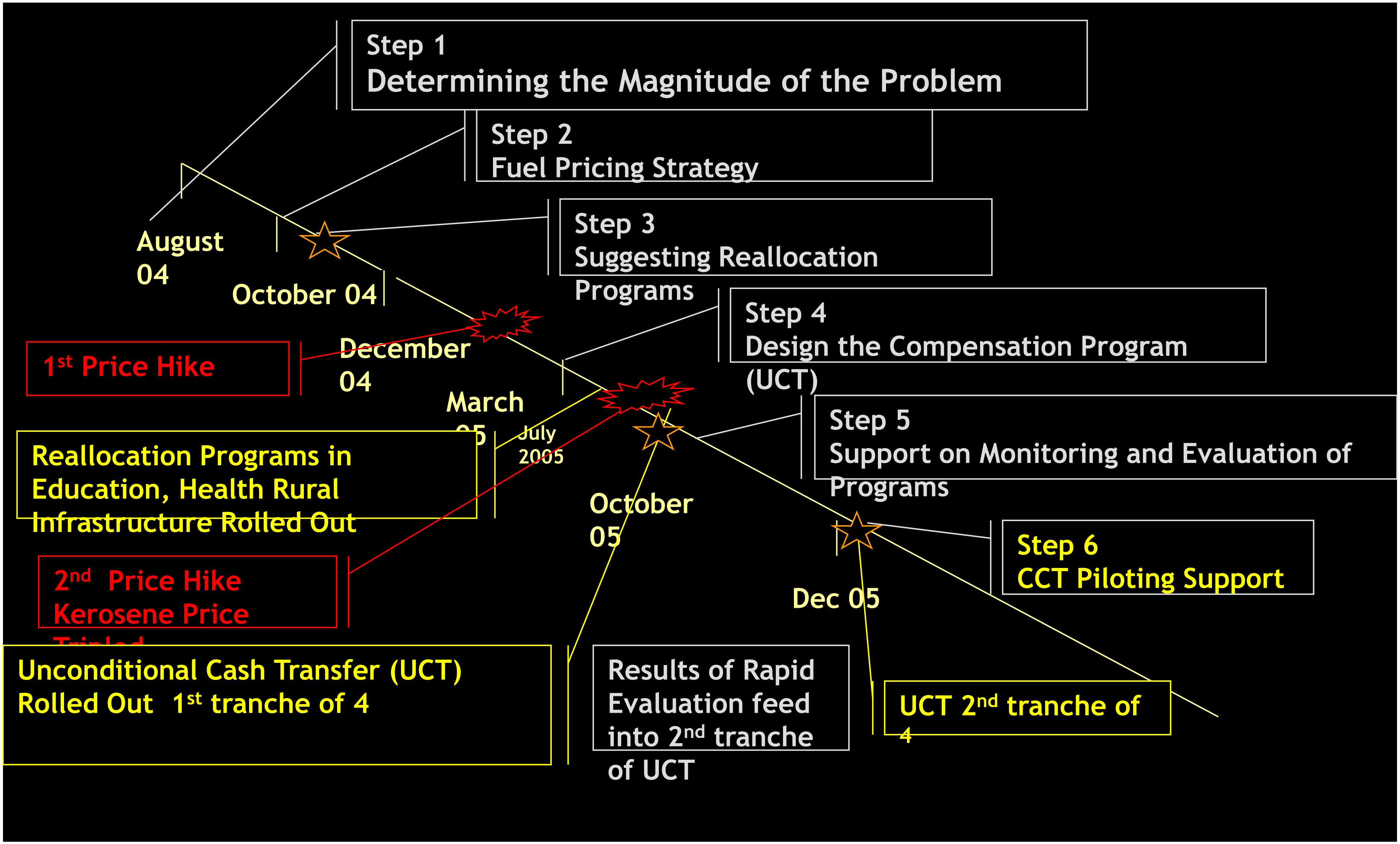
Country Examples

Indonesia - Fastest timeline for reform and compensation package: Reform in 2005



INDONESIA: Poverty impact and costs of compensation

- **Reform needs to include a proper ex-ante planning (system evaluation, compensation, communication) + sequencing of the price increases**

- **With proper mitigation and good targeting, poverty increases can be prevented**

- **Cost of SSN compensations was a small part of the savings, but sufficient to protect the poor and vulnerable and ensure modernization of SSN**
  - In 2005 – reduction of subsidies by 2 % of GDP, cost of compensations 0.8% of GDP, but only temporary cash transfer (over 4 quarters)
  - In 2008 – all subsidy reform savings have resulted in increasing SSN financing
  - In 2013: subsidy reform helped to save 0.4% of GDP , and the total compensation package amounted to 0.3% of GDP, but just 8% of this went to support expansion of SSN, the rest went to other social policy measures
  - 2014: new reform – and launch of new productive family programs consolidating 4 SSN schemes (health, stipends, financial services, microcredit and employment)

INDONESIA: A few steps to strengthen SSNs to accompany energy subsidy reform

- Introduced large temporary cash transfer program (BLT) covering one-third of households building on existing social safety net programs; it was used in 2005, 2008 and 2013. The program tested the use of smart cards introduced later in all SSNs.

- By 2012 it developed (after first attempt in 2005) **a comprehensive register**

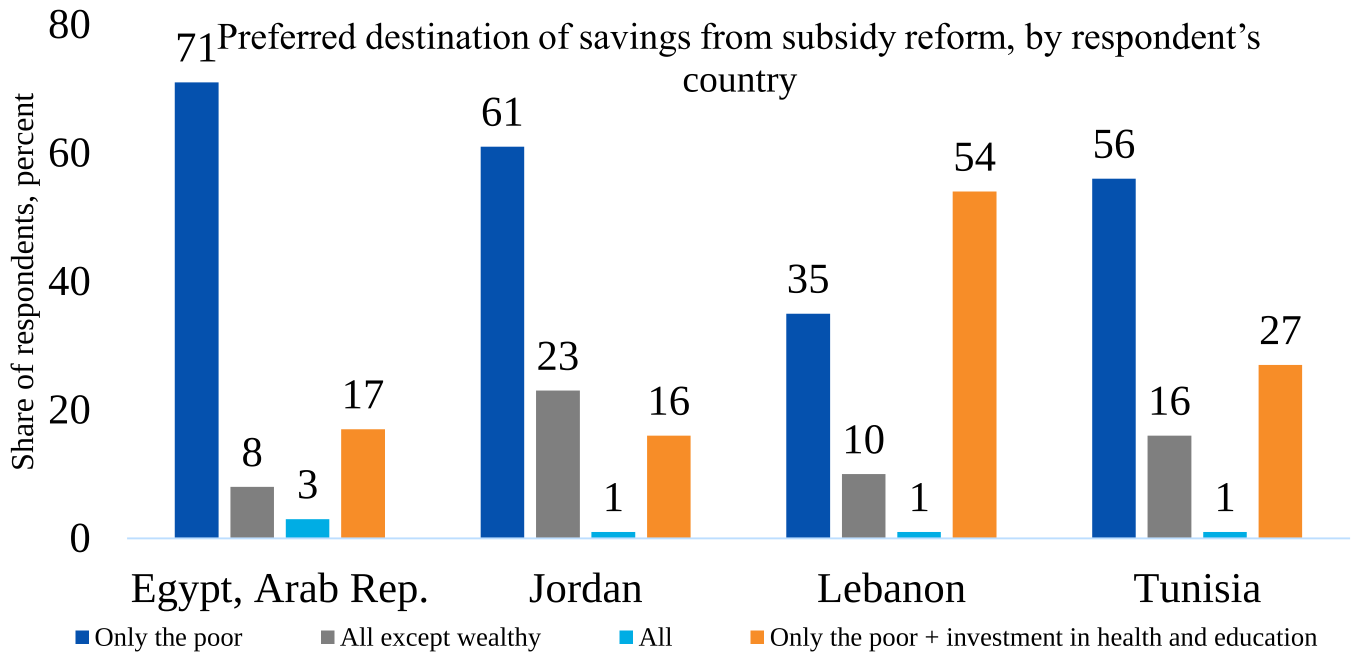
- Introduced innovative CCT program (PKH) and quickly expanded in to 3 min HH (currently scaling it up ton currently and by 2018 to 12 mln)

- Reforming the food subsidy program (RASKIN) with the **Smart card mechanism**

- Reallocated some budgetary savings to education, health, and infrastructure programs benefitting broader population. Promoted education access by introducing stipend for poor students (BSM) and health by expansion of health insurance scheme (Jankesmas) to the poor.

- **In 2014 introduced new social security scheme to ensure 100% coverage of the informal sector & launched a new Productive Family program…..**

Jordan Gives: Understanding what the population would prefer instead of energy subsidies is important.



Source: Silva, Levin and Morgandi 2013, based on MENA SPEAKS Surveys in spring, 2012.

JORDAN: Series of Subsidy Reform Episodes, large Mitigation Schemes to facilitate reform

Jordan's energy subsidies posed a heavy burden on the country's fiscal stability and ability to maintain expenditures in productive and social sectors

- Subsides on petroleum alone accounted for 2.8 percent of GDP and 8.8 percent of government expenditures.

- Cost of producing electricity increased several fold, as a result of regional political unrest that disrupted the supply of natural gas from Egypt to Jordan, leading to fuel subsidies reaching 17 percent of government expenditures and 5.5 percent of GDP in 2011 (twice the amount of petroleum subsidies.)

- **In an attempt to reduce Jordan's dependence on energy imports and phase out subsidies to improve fiscal stability and reduce the country's vulnerability to exogenous shocks, the government introduced :**
  - Electricity subsidy reform in 2012 – 2015 had no impact on household welfare; Fuel Subsidy reform were estimated to have 2 percentage points change poverty level (Araar and Verne)
  - January 2013: monthly fuel price adjustment mechanism was resumed;
  - August 2013 and January 2014: electricity tariffs were increased by 7.5-15 percent for selected commercial consumers
  - June 2018: automated adjustment mechanism was interrupted

JORDAN: Series of Subsidy Reform Episodes, large Mitigation Schemes to facilitate reform

- **Following Fuel subsidy reform actions (2014) and to mitigate effects on households for these large price increases, the government decided to simultaneously introduce a temporary large scale cash transfer program** (Fuel Subsidy Cash Compensation) to households earning less than 10,000 JD a year, covering about two-thirds of Jordanian households.

- 2017, **Jordan introduced bread subsidy reform** and removed certain tax-exemptions from food staples in an effort to increase revenue collection from sales tax. A compensation scheme (for about JD 171M) was used to distribute cash to most Jordanians (benefits were calculated by household size). Targeting was limited to those in formal sector with few asset related checks. *However, there was no robust expansion of a social safety program.*

- In 2018, Jordan approved a plan to expand and improve social safety nets. A new flagship cash transfer program was introduced, Takaful, that would cover an additional 85,000 households who are selected based on welfare criteria and asset filters and targeting criteria. The program includes automated registration, home visits, grievance and redress mechanisms, and financially inclusive digital payments

Simulation Exercise:

Preparing Social Safety Nets for Subsidy Reform