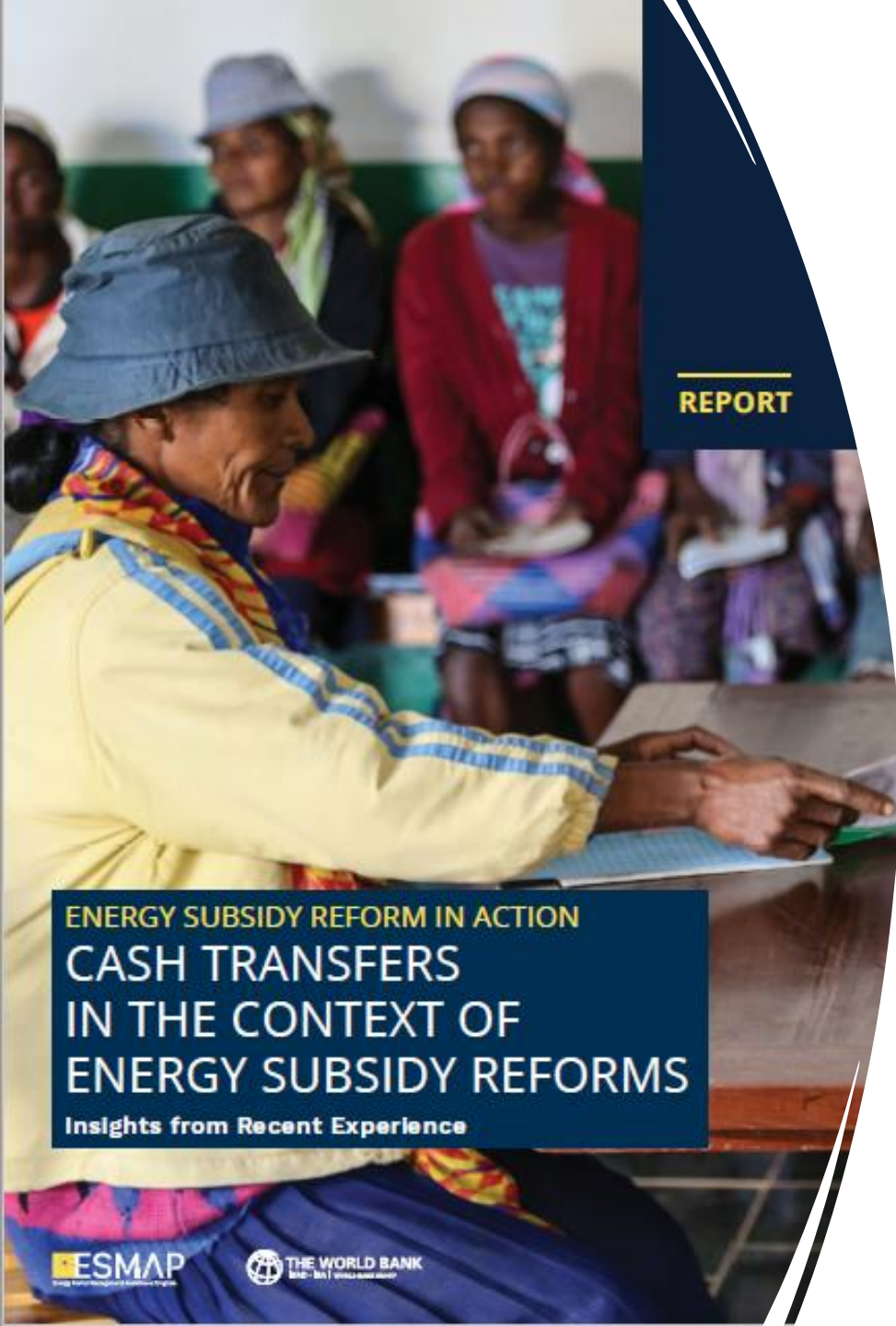




REPORT

ENERGY SUBSIDY REFORM IN ACTION
CASH TRANSFERS
IN THE CONTEXT OF
ENERGY SUBSIDY REFORMS
Insights from Recent Experience



Cash transfers in the context of energy subsidy reforms

Insights from recent experience

Social Protection and Jobs GP and ESMAP Team

World Bank

May 28, 2024

ESMAP

Energy Subsidy Reform Facility

Introduction

Defne Gencer

ESMAP ENERGY SUBSIDY REFORM FACILITY

OBJECTIVES AND ACTIVITIES

ESMAP
Energy Subsidy Reform Facility

Established in 2013, the WB/ESMAP Energy Subsidy Reform Facility (ESRF) supports governments in designing and implementing sustainable energy subsidy reforms while safeguarding the welfare of the poor and vulnerable.

Technical Assistance Grants

Provides **TA grants to support developing country governments** in energy subsidy reform efforts, through multisectoral WB teams

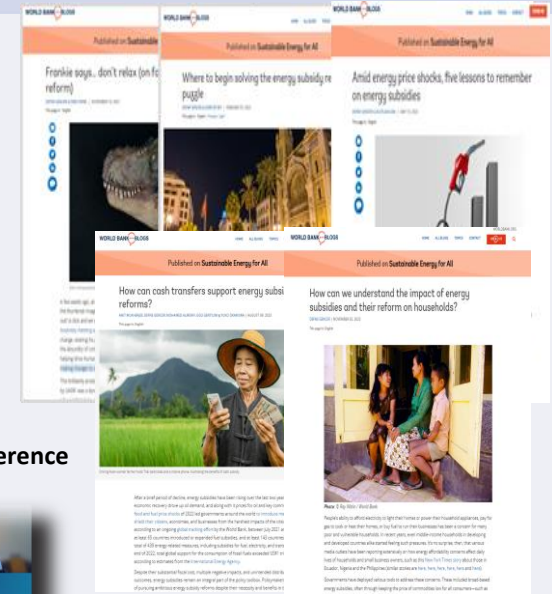
Knowledge creation and sharing

Produces **knowledge products**
Facilitate **knowledge exchange**, on reform experiences and approaches.

Global outreach and advocacy

Performs **global advocacy, partnerships and communication** on energy subsidy reforms

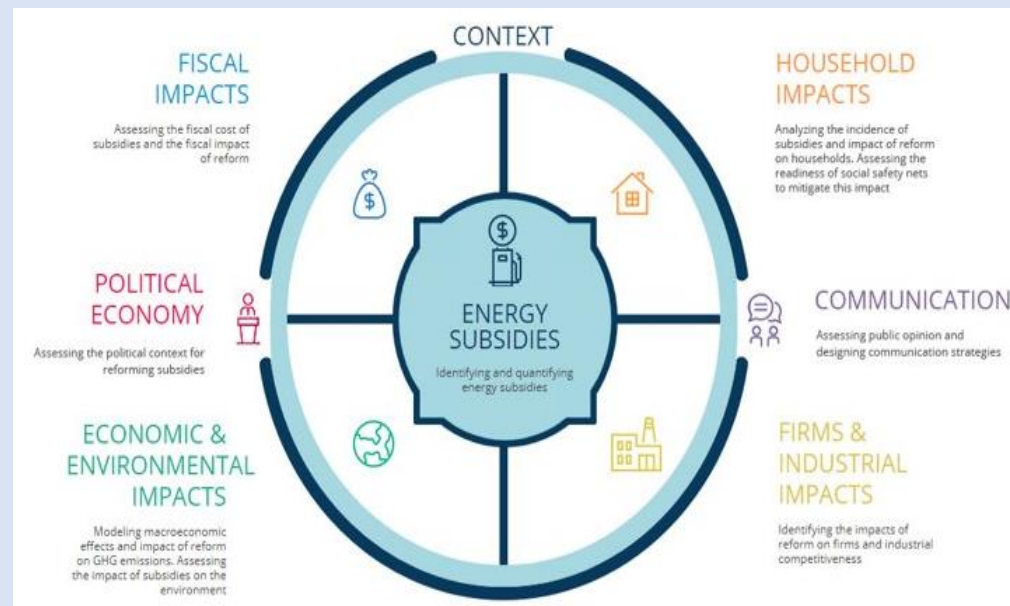
*Nearly \$30m in TA grants to date



Recent ESRF global knowledge work

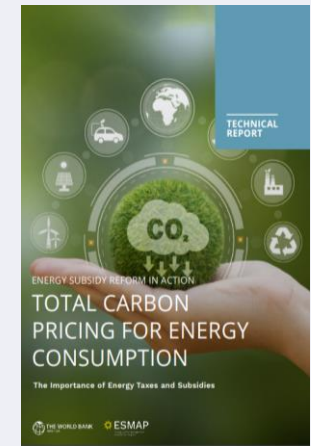
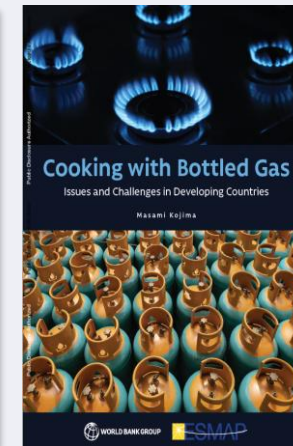
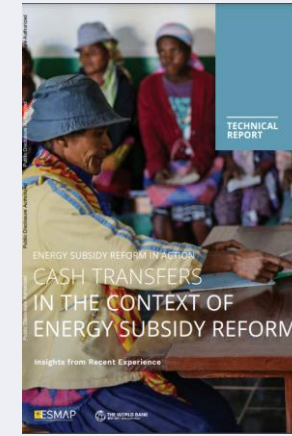
ESMAP
Energy Subsidy Reform Facility

Energy Subsidy Reform Assessment Framework (ESRAF)



ESRAF consists of 10 good practice notes that:

- Offer a comprehensive view of main dimensions of reform;
- Outline step-wise approach to assess impacts of subsidies and their reform;
- Offer tools to identify reform options that are appropriate for country context;
- Help assess political economy context, consult and communicate with stakeholders— to inform the design and implementation of the reform.

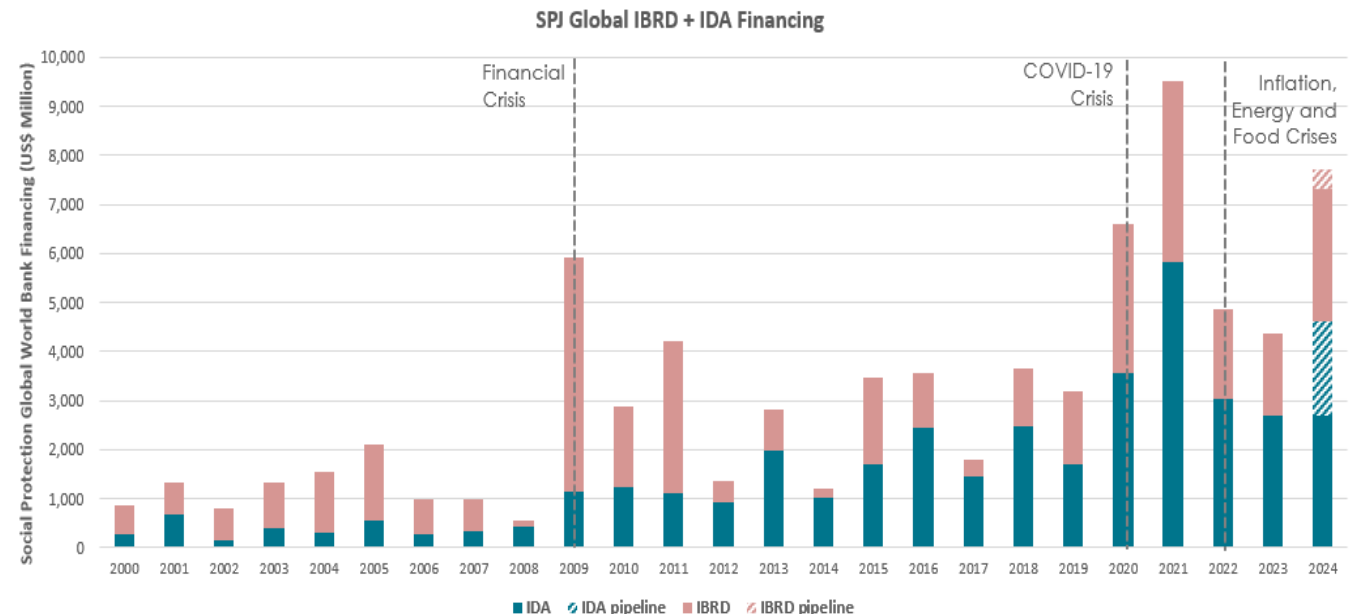


Cash transfers in the context of energy subsidy reforms

Yuko Okamura

Background and Context

- Social Protection and Jobs team supporting client countries to establish and improve their systems (Figure on our portfolio)
- As part of the evolving understanding of **energy subsidy reforms**, there has been growing recognition of the potential of **targeted cash transfers** to support the affected population over the past two decades.
- With **appropriate design, communication and implementation**, global experience suggests that Energy Compensatory Transfers can mitigate downside risks of energy subsidy reforms both from political economy and welfare perspectives.



Subsidies and Social Assistance during inflation: Global tracker



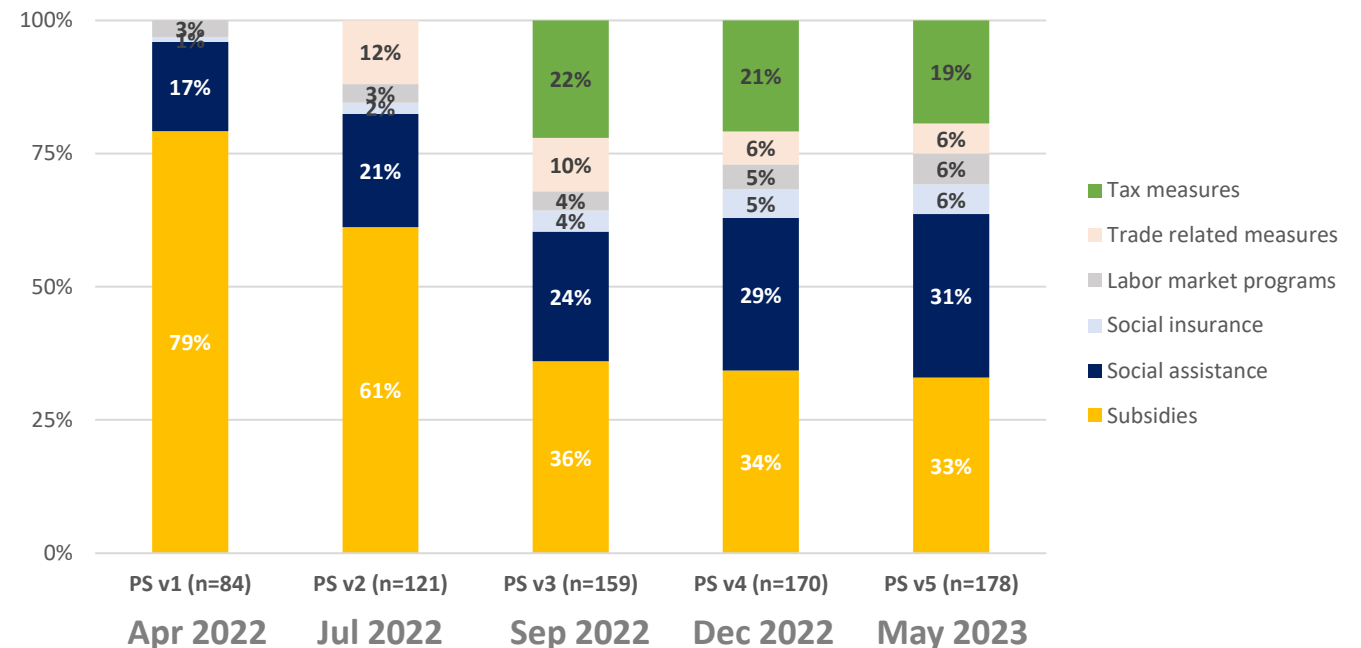
Subsidies have been the dominant policy tools

- 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 (%)



Research Organization and Design

- 4-year collaboration since 2019 between ESMAP ESRF and Social Protection and Jobs GP
- Drew on expertise in both **energy subsidy reform** and **social protection** programs and systems
- Created a **global database** of energy subsidy reforms that involved cash transfers for cross-country analysis
- In-depth **case studies**, documenting country experience
- Report outline:
 1. Global stocktaking
 2. Country case studies (Dominican Republic and Ukraine)
 3. Lessons from stocktaking and cases
 4. Future direction for knowledge work

Chapter 1. Global Stocktaking



Inclusion
Criteria
and
Typology

18 Countries

**24 Reform
Episodes**

Inclusion criteria

- Energy subsidy reforms undertaken between **1995 and 2016**
 - Subsidies on consumption of **fuel** and **electricity**. Inc. **price subsidies and lifeline tariffs**.
- **Initiated social protection measures** alongside energy subsidy reforms
 - The stocktaking does not include reforms where no such measures were introduced

Program type

- **New programs** that included one-off, temporary, or longer-term measures
- **Existing programs** that expanded coverage (horizontal **expansion**)

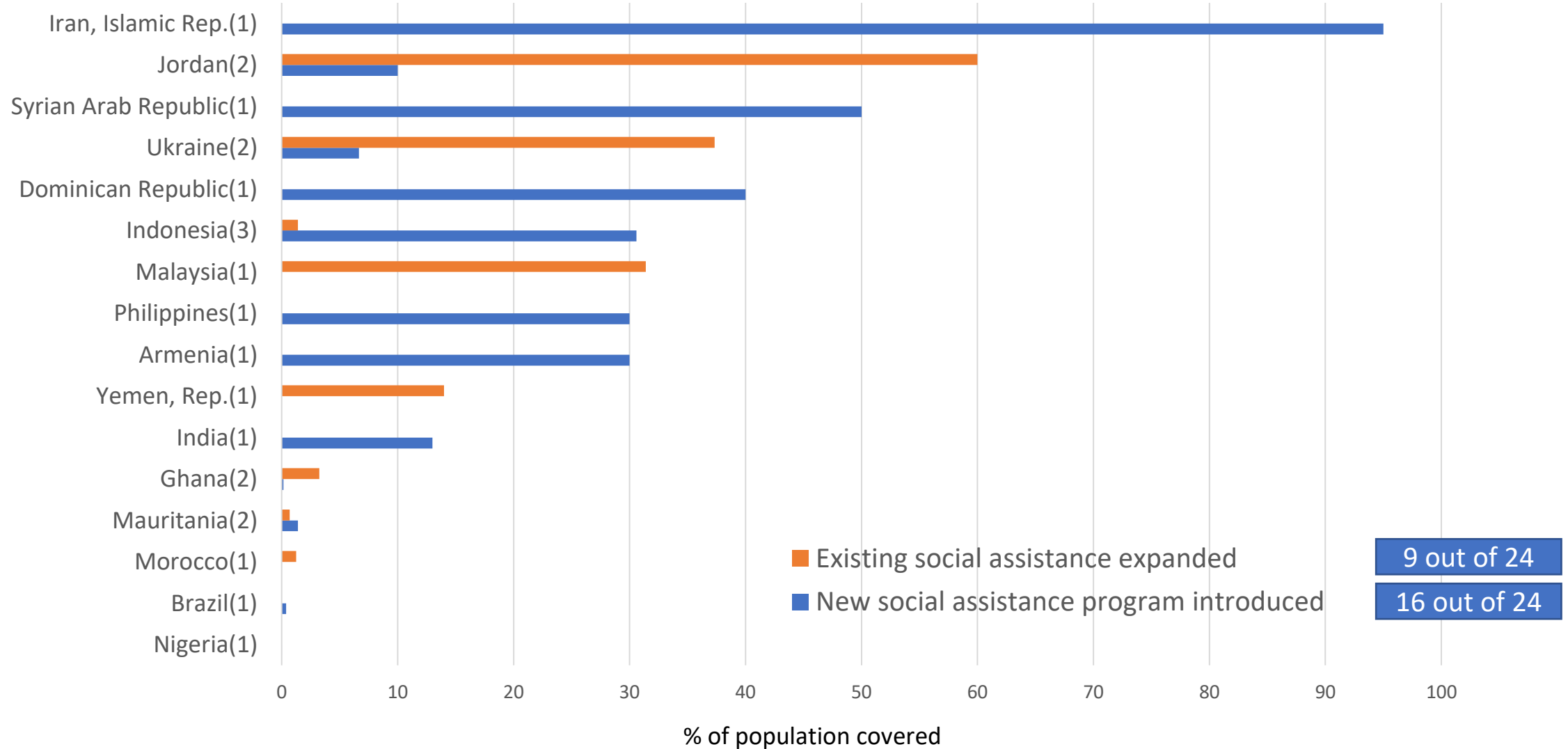
Conditionality and targeting

- **Conditional and targeted:** Voucher for energy purchase to qualifying beneficiaries
- **Unconditional and targeted:** Cash transfer to qualifying beneficiaries
- **Conditional and untargeted:** Universal voucher for energy purchase
- **Unconditional and untargeted:** Generalized price subsidy or universal cash transfer

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.
- **Cash transfers were implemented when price adjustments were fairly significant compared to the subsidized price in most of the cases reviewed.**
 - Ex. Ukraine at one extreme of the spectrum, with gas prices increasing by nearly six times after the reform
 - Dominican Republic and India at the lower end of the spectrum, with LGP prices increased nearly by 50 percent
- **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

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.

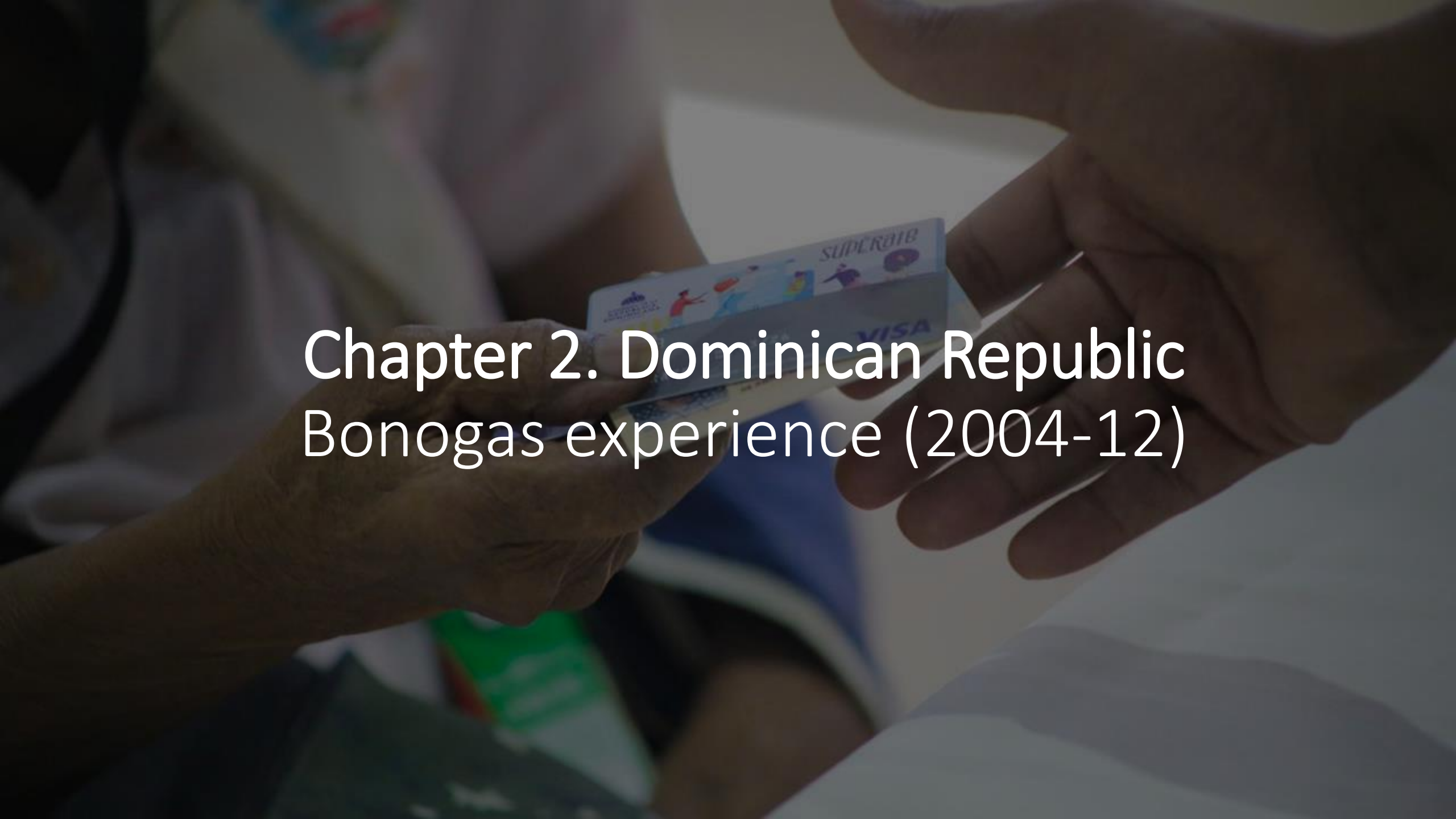
Summary : Insights from Global Stocktaking (2/2)

- **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
- ECTs are similar to **social protection programs** that transfer monetary benefits. As such, they can benefit from, and contribute to, **existing** and new social assistance **delivery mechanisms**
 - There are some instances where these **new modalities** have been used to reform other subsidies

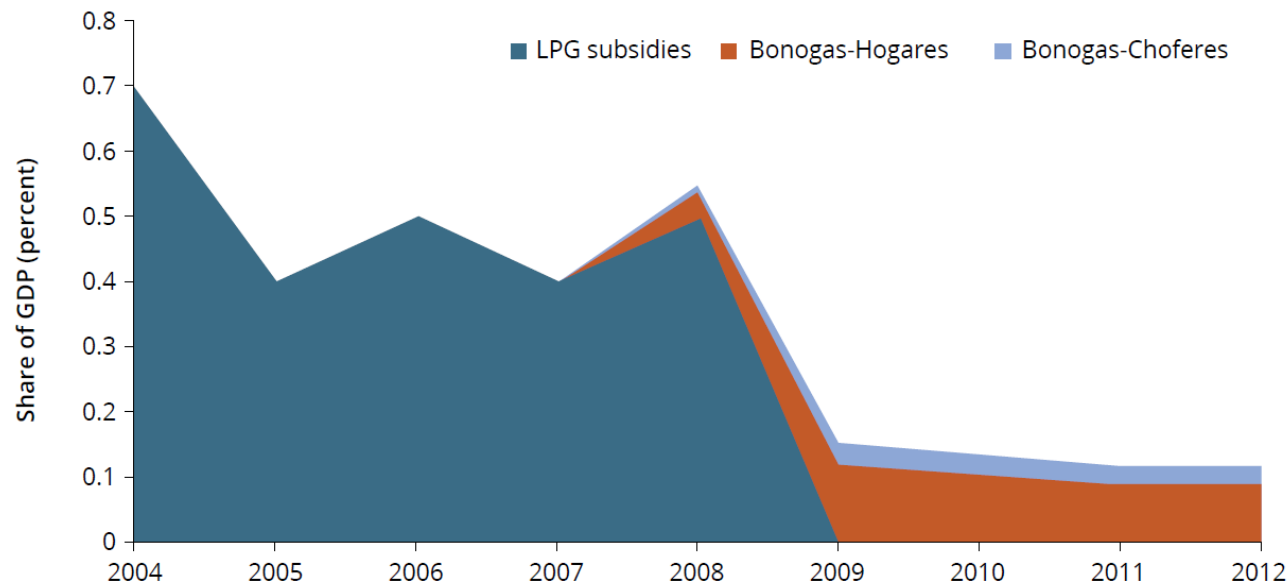
A close-up photograph of a hand holding a Dominican Republic SuperCard Visa credit card. The card is light blue and white, featuring the Dominican Republic coat of arms and the word 'SUPERCARD' in blue. The Visa logo is visible in the bottom right corner. The background is blurred, showing other people and what appears to be a public event or exhibition.

Chapter 2. Dominican Republic Bonogas experience (2004-12)

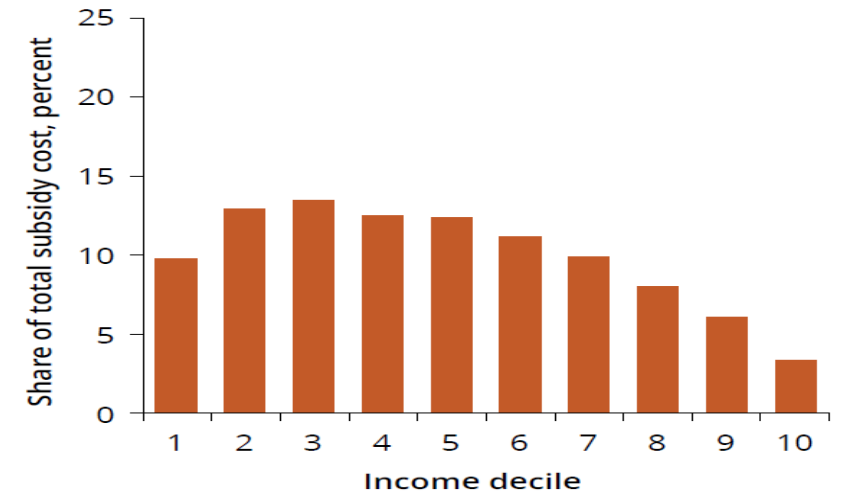
Dominican Republic: Leveraging Social Assistance for Energy Compensatory Transfers

- 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



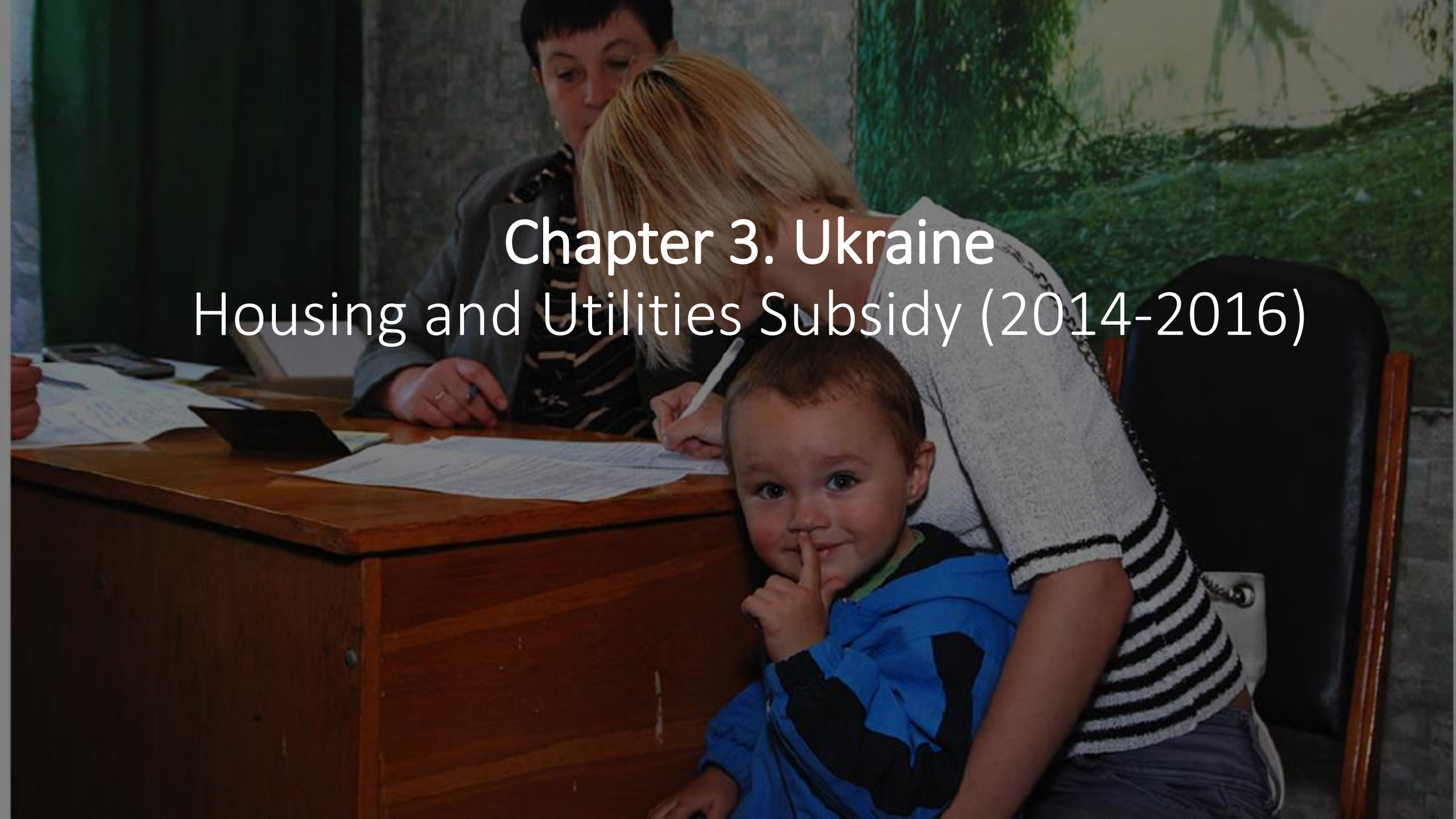
Bonogas concentration shares, by income decile



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.



A photograph of a family in an office setting. A man and a woman are seated at a wooden desk, looking at papers. A young child in a blue jacket is sitting on the desk in the foreground, looking at the camera with a finger in their mouth. The woman is leaning over the desk, and the man is in the background. The text 'Chapter 3. Ukraine Housing and Utilities Subsidy (2014-2016)' is overlaid on the image.

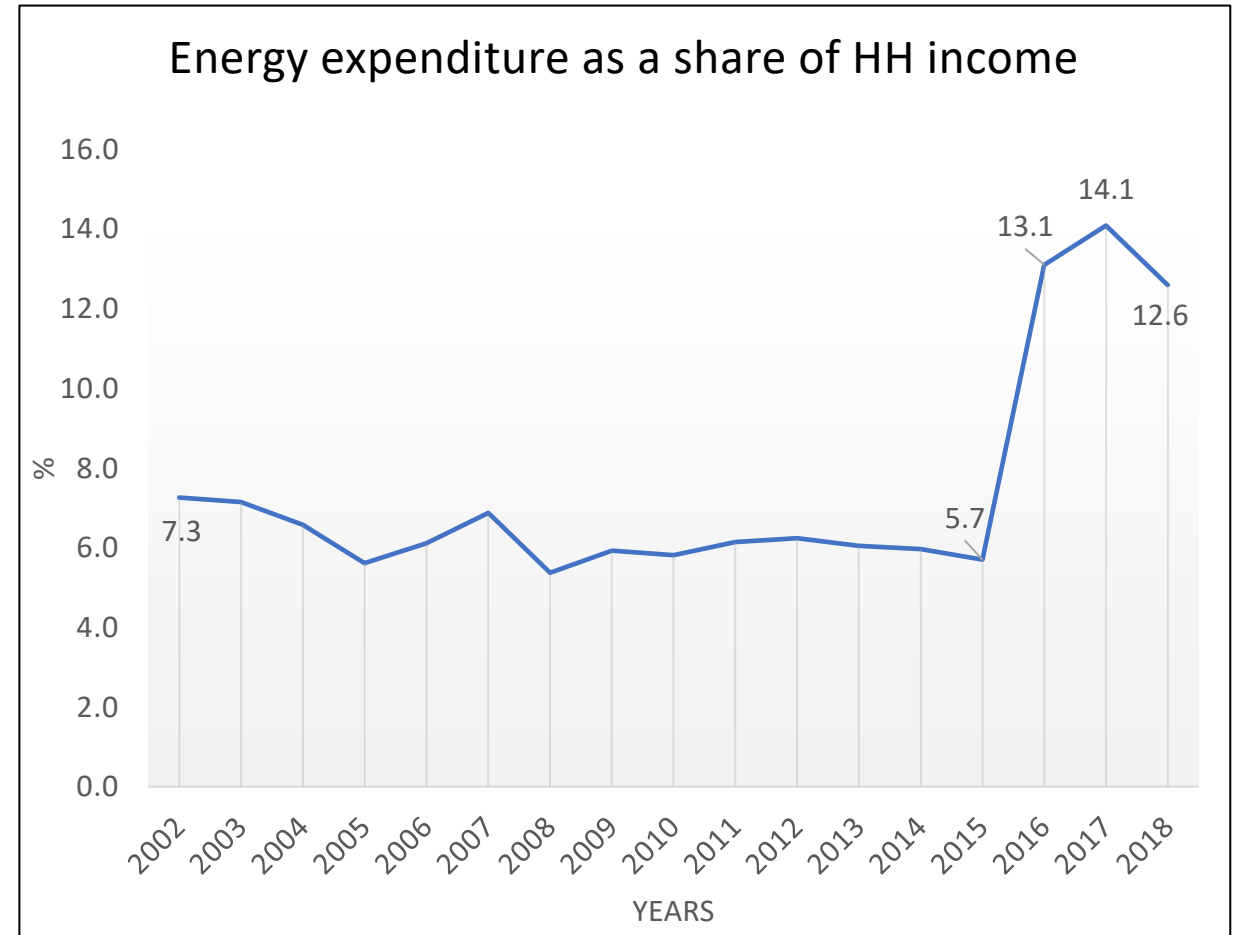
Chapter 3. Ukraine Housing and Utilities Subsidy (2014-2016)

Ukraine: Housing and Utilities Subsidy

Rapid Scale-up of Compensatory Transfers to Mitigate Price Impacts

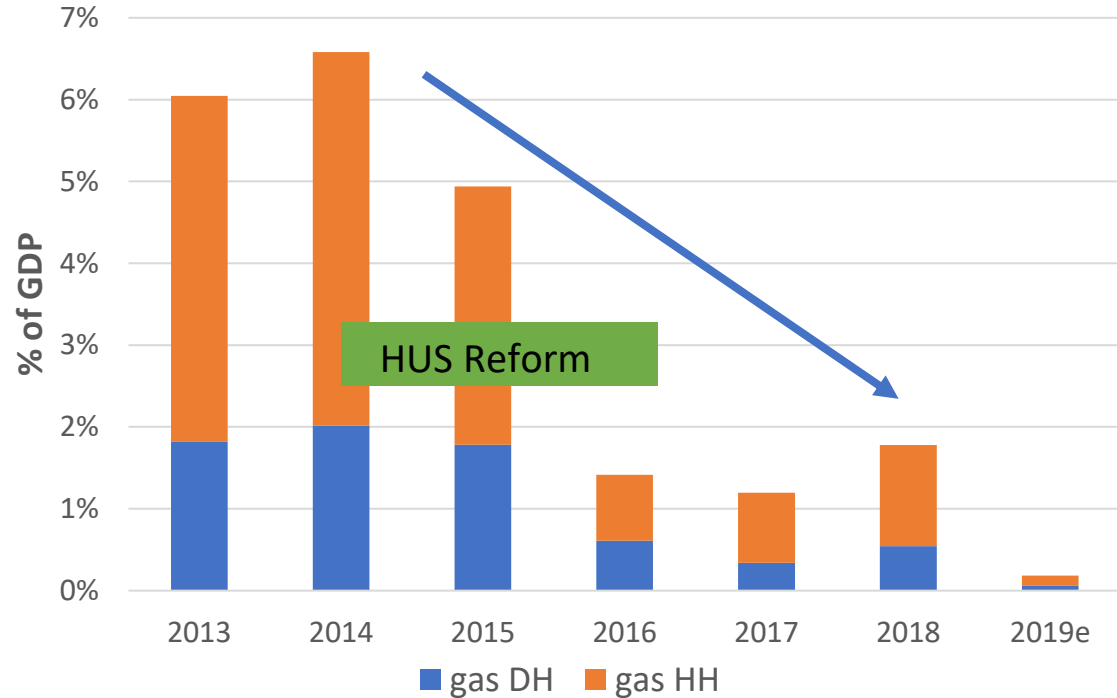
Reform context and components

- 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.



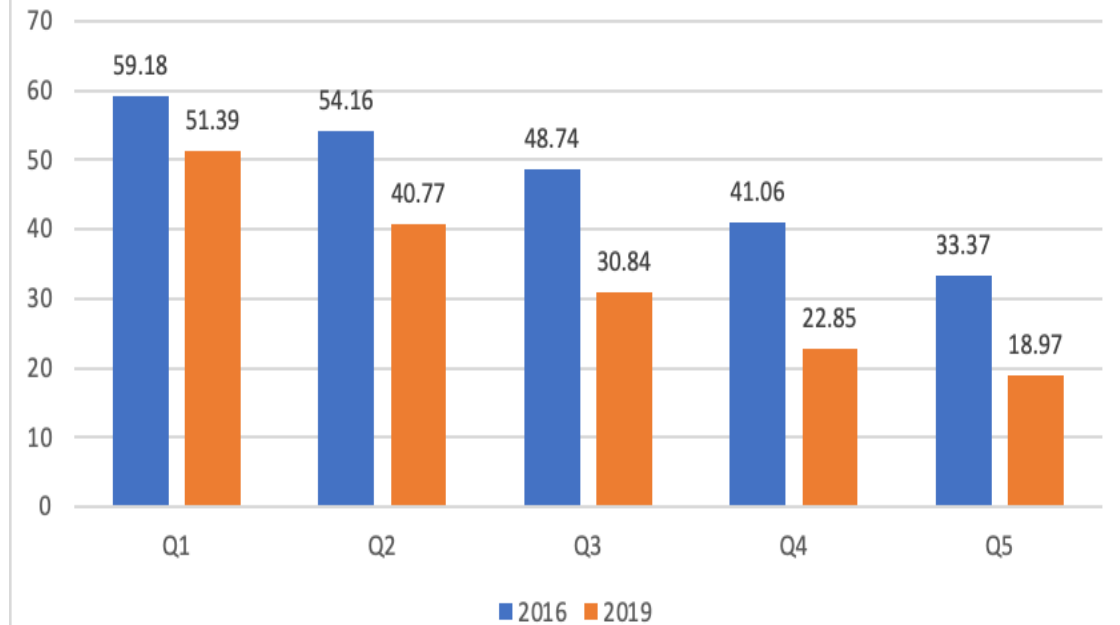
Fiscal and Distributional Impact of HUS

District Heating Subsidy



- Gas DH: Subsidy to gas distribution companies
- Gas HH: Subsidy to household users

% Households Receiving HUS, by Quintile



- Distribution of HUS is skewed towards poorer quintiles.
- Proportion of Q1 and Q2 households receiving HUS actually increased between 2016-18

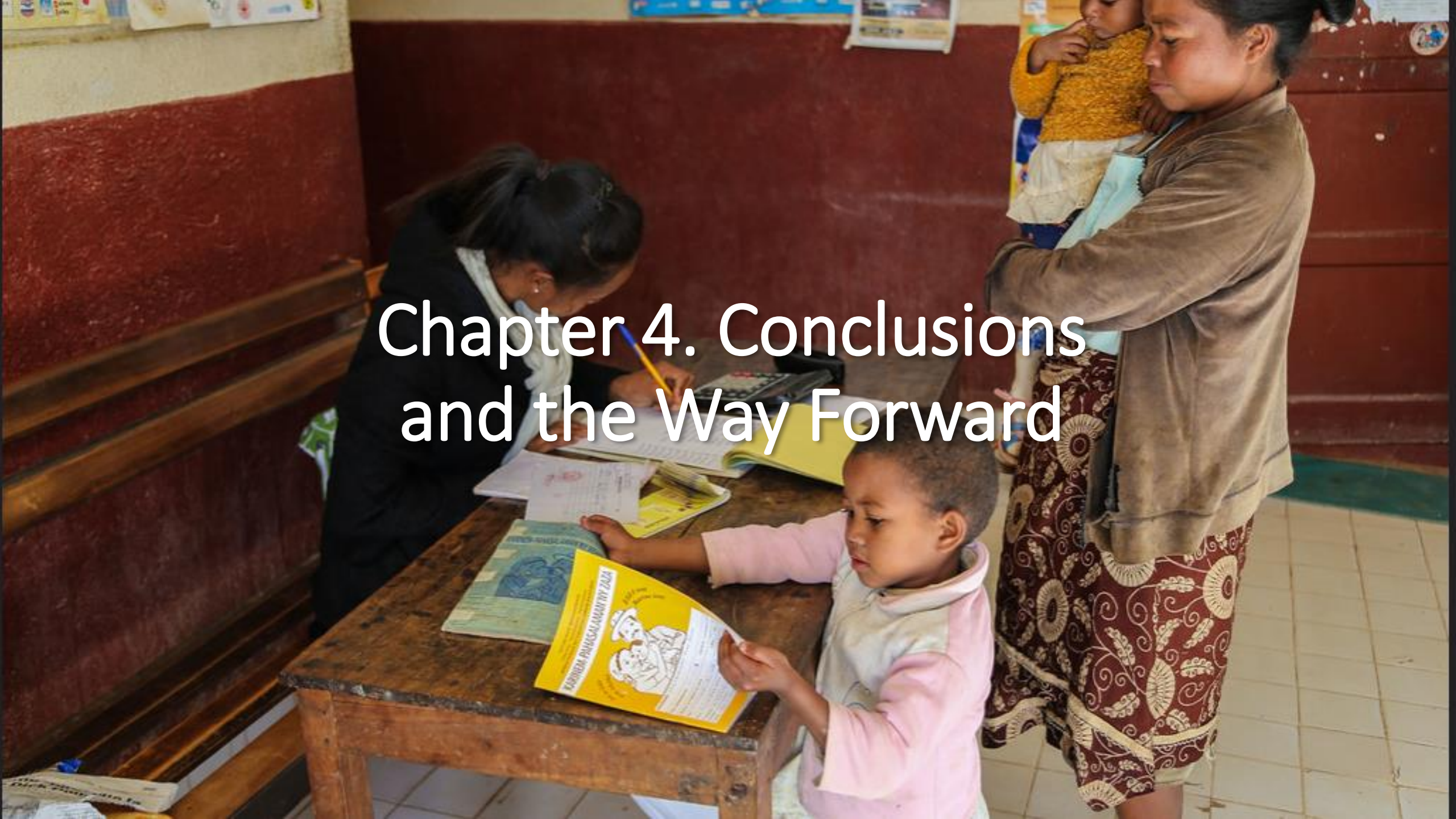
Insights and takeaways from Ukraine's Experience

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.

A photograph of a woman in a black dress writing in a notebook at a wooden table. A young child in a pink shirt is sitting at the table, looking at a yellow book. Another woman in a brown jacket and patterned skirt stands next to the child, holding a baby. The background is a red wall with some papers pinned to it.

Chapter 4. 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 (the analysis of the distributional impacts)
- 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 assistance 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

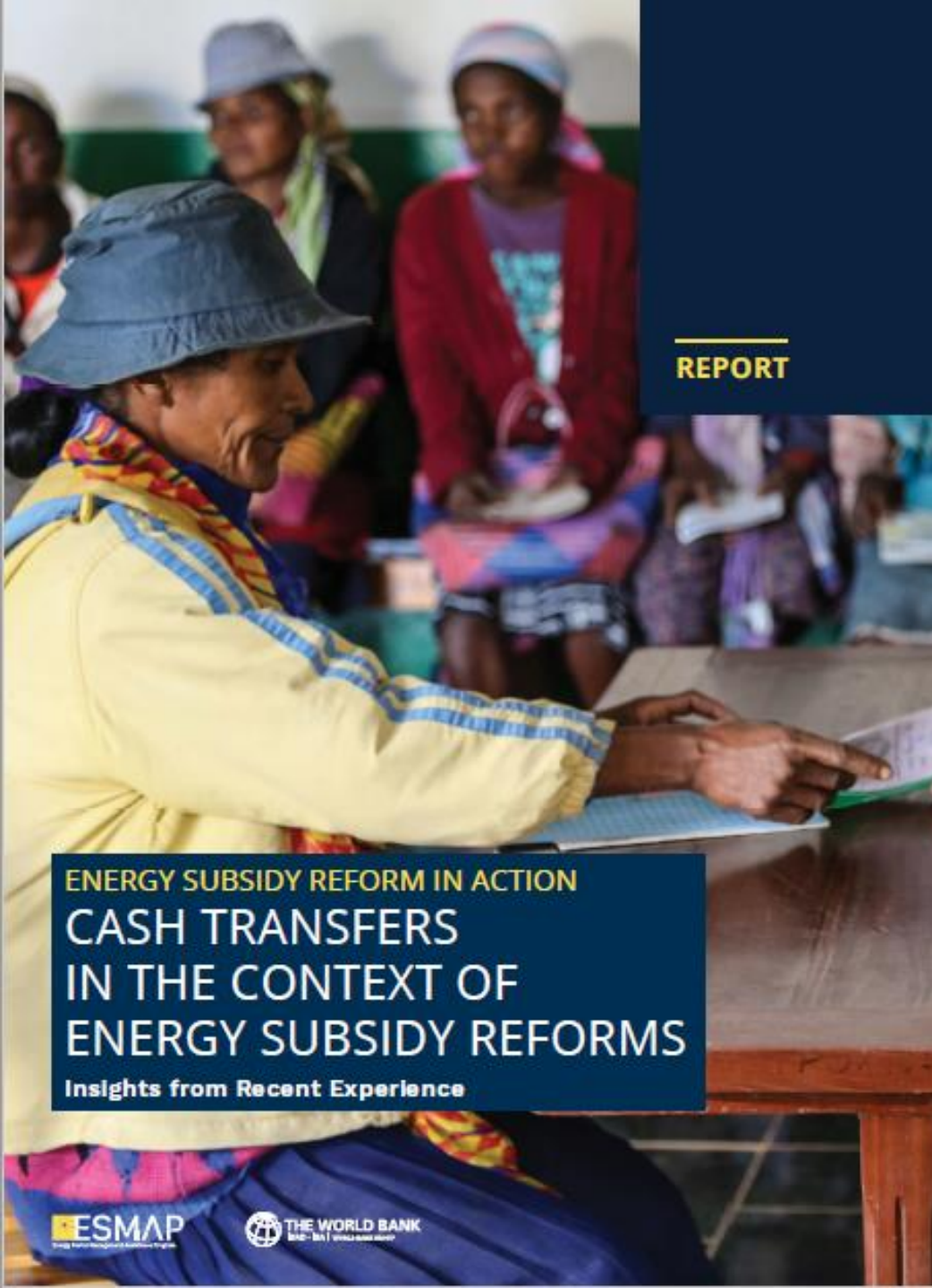
Moving from universal price subsidy to cash compensation is a radical change in status quo

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

Considerations for the Future

- Continued investment to **strengthen the social protection system** can contribute to reform subsidy reforms (SPJ as an enabler)
- **Adaptive Social Protection** can ensure ability to respond to a variety of shocks, inc. price shocks due to subsidy reforms
- Moving beyond compensatory cash transfers: Different and expanded SP and labor policies/ programs are needed to support broad-based economic transformation, inc. **just transition** and **mitigation efforts**.
 - Ex. Retrofit / energy efficient programs
 - Transition of workers from fossil fuel jobs may be supported through a package of pre- and post-layoff assistance comprising mobility grants, reskilling training, and financial support for the affected workers and their families
 - *Ruppert Bulmer, Elizabeth et al. 2021. Global Perspective on Coal Jobs and Managing Labor Transition out of Coal*



REPORT

ENERGY SUBSIDY REFORM IN ACTION
**CASH TRANSFERS
IN THE CONTEXT OF
ENERGY SUBSIDY REFORMS**
Insights from Recent Experience

Thank you