TRANSITIONAL POLICIES TO ASSIST THE POOR DURING IFSS REFORM

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Outline

• Structure of the paper
• Scope of the paper
• Main messages

• Full paper is available at https://www.g20.org/official_resources/library
Structure of the paper

- Executive summary
- Introduction
  - The rationale for focusing on transitional measures
  - Addressing the social impact of reforming fossil fuel subsidies
  - Key issues in the design of transitional measures
  - Factors affecting countries’ ability to implement transitional measures
- Conclusions: the relative costs and benefits of various measures
- References
  - Annex 1: Country-level estimates of the incidence of various types of fossil fuel subsidies
  - Annex 2: Additional references
Scope of the paper

- Focus of the paper is on assisting the poor while “phasing out inefficient fossil fuel subsidies that encourage wasteful consumption”
- For simplicity we refer to FFS reform
- Focus is on how to assist the poor if countries voluntarily choose to undertake FFS reform
  - The rationale for assisting the poor is briefly discussed in the second section of the paper
  - Discussion of how to assist the poor does not extend to increasing access to sustainable energy sources for the poor
  - Energy efficiency was excluded by the TORs
Main messages [1]

- There are no universal recommendations on how best to protect basic energy service consumption by the poor
  - Country context influences the feasibility, effectiveness and relative costs and benefits of different measures
- Reforming FFS offers an opportunity for strengthening the social protection system
  - Avoiding duplications
  - Relying on and strengthening existing systems
- On balance a gradual approach seems preferable:
  - Also non-gradual approaches require time for planning and communication
  - A decision on pace needs to reflect the price-gap to bridge, fiscal resources etc.
**Main messages [2]**

- Broadly speaking countries can follow two main strategies:
  - Targeting existing subsidies
    - Advantage of being able to rely on existing systems
    - Application to liquid fossil fuels can be problematic
  - Introducing or strengthening other forms of support for the livelihoods of the poor – in cash or in kind
    - In cash transfers seen as theoretically superior
    - BUT concerns on implementation capacity, and fraud and corruption
    - Low income countries are building the physical and technical infrastructure to deliver modern social assistance programs lessening these concerns
Main messages [3]

- Evidence reviewed suggests that:
  - Carefully designed cash transfers are likely to be the best transitional measure, if they have appropriate coverage
    - Complementary measures might be required to foster income growth in low-income communities and address potential broader impacts of FFS reform
  - Increasing social service provision or introducing offsetting measures in the tax system or in the pricing of public services can prove valuable alternatives
  - Efforts to rationalize existing subsidies might be easier to implement, but likely to offer at best a temporary solution given the disincentives they can generate for liquid fuels
Main messages [4]

Key factors influencing the success of these transitional policies include:

- Availability of data for designing and monitoring the policy response
- Institutional coordination as these measures typically involve different stakeholders within government
- A consultation and communication strategy involving different institutional stakeholders and the public
- External support can also play a role, particularly in terms of sharing global knowledge and learning
Thank you!