Global Subsidies Initiative

Building Support for Fossil-Fuel Subsidy Reform

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18 March 2013
The Global Subsidies Initiative

• Established by the **International Institute for Sustainable Development (IISD)** in 2005

• **Purpose**: to investigate and promote reform of subsidies that have negative economic, social or environmental impacts


• Phase II (2009 – 2011): Fossil-fuel subsidies

• **Phase III (2012 – 2015)**: Energy and Water
Framework for subsidy reform

Guidebook for policy-makers (April 2013)

1. Getting the prices right

2. Managing impacts of reform

3. Building support for reform
Challenges: Internal

- Unclear or changing reform plans
- Various government bodies involved, making it difficult to keep messages consistent
- Government culture can be resistant to openness
Challenges: External

- Strong public perceptions of entitlement
- Cost of living is a major issue: perceptions vs reality
- Subsidy reform gets tied up in other public grievances (e.g. corruption, management of natural resources)
- Short-term pain for long-term gain

Behavioral economics tells us that:
- We have a strong bias against change; we prefer harmful inaction over harmful action
- Individuals attach extra value to goods/services they already own/receive
- Individuals are more motivated by avoiding loss than acquiring a similar gain
Need strong internal and external communications to meet these challenges
Lessons learned from Southeast Asia
What’s missing?

- **Strong internal coordination throughout the reform process**

<table>
<thead>
<tr>
<th><strong>INTERNAL</strong></th>
<th>Inception of policy proposal (lead ministry and minister)</th>
<th>Decide approach (all relevant ministries &amp; central agencies)</th>
<th>Clearance by decision makers</th>
<th>Development of detailed plan (relevant ministries)</th>
<th>Decide &amp; release final policy &amp; comms. strategy (meeting with cabinet)</th>
<th>Monitoring and adjustment (lead ministry)</th>
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<tbody>
<tr>
<td><strong>EXTERNAL</strong></td>
<td>Research the likely impacts of reform</td>
<td>Choose and design new pricing mechanism &amp; mitigation measures</td>
<td>Implementation</td>
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<td><strong>EXTERNAL</strong></td>
<td>Awareness-raising communications about subsidy and the need for reform</td>
<td>Consultations with stakeholder groups on likely impacts</td>
<td>Consultations w stakeholder groups on reform plan</td>
<td>Communications on final policy; raising awareness of plan &amp; mitigation measures</td>
<td>Communications on actual impacts, adjustments and successes</td>
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- **E.g. Nominate a high-level spokesperson (President’s office)**

**GSI Global Subsidies Initiative**
What’s missing?

• Research and preparation to understand public and stakeholder views

• Simple but varied messages for target audiences

<table>
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<tr>
<th>Function</th>
<th>Raise awareness of subsidy problems</th>
<th>Neutralize opposition</th>
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<tbody>
<tr>
<td>Example focus of messages</td>
<td>Costs; inefficiencies; comparison with other countries; impacts on poor &amp; environment.</td>
<td>Identify and counter smuggling and corruption.</td>
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• Positive messages: e.g. Philippines

**POLITICAL PRICING**

- Oil subsidy displaced more important govt expenditures.
  * Equivalent to:
  - Free rice for 17.6 months to the poorest 30% of the population below poverty line
  - 62,241 schoolhouses
  - 5,280 kms of rural roads
  - 146,080 deep wells for drinking water
  - 2 light rail transit lines
What’s missing?

- More dialogue and consultations with stakeholder groups
- For example:
  - Iran: surveyed 12,000 companies
  - Vietnam: interviews, surveys and focus group discussions on impacts for households and informal sector
Conclusions

• Invest in communications, use external expertise as required
• Need strong leadership at both levels: across departments and amongst political leadership
• Be flexible: many variables – political, social and economic – in reform policies. Communications strategy should monitor and adapt to shifting policy context.