



Energy Subsidy Reform in Africa

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I. Global Context

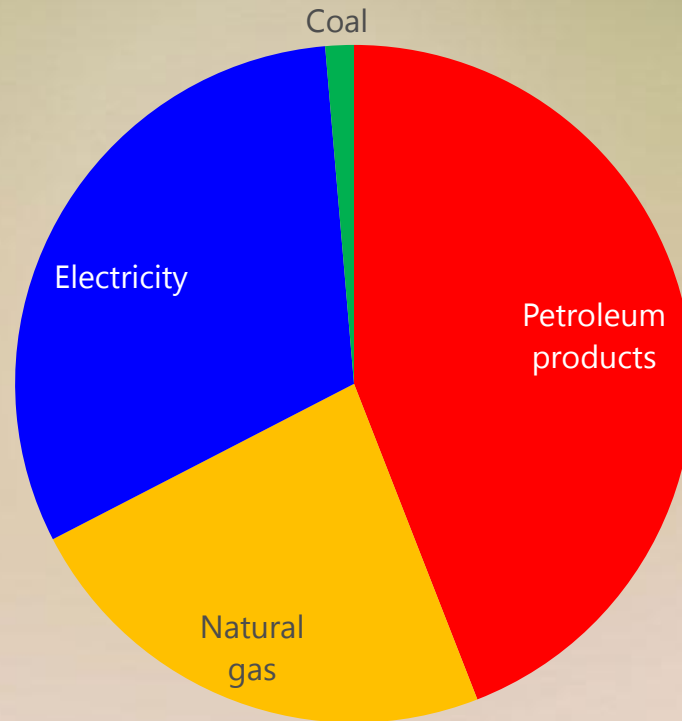
US\$ 1.9 trillion
(post-tax)



Petroleum and electricity dominate pre-tax subsidies, while coal subsidies are negligible

• Pre-tax

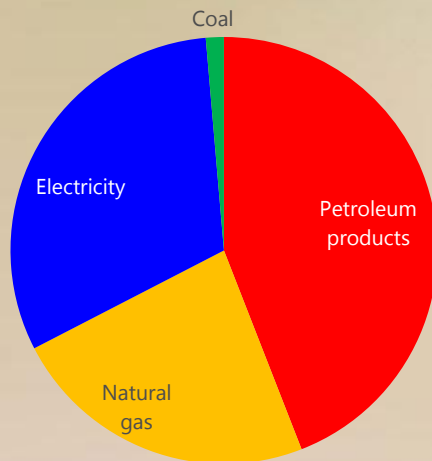
\$480 billion (0.7% GDP, 2.1% revenues)



Post-tax subsidies are four times larger than pre-tax subsidies, with more than a quarter from coal

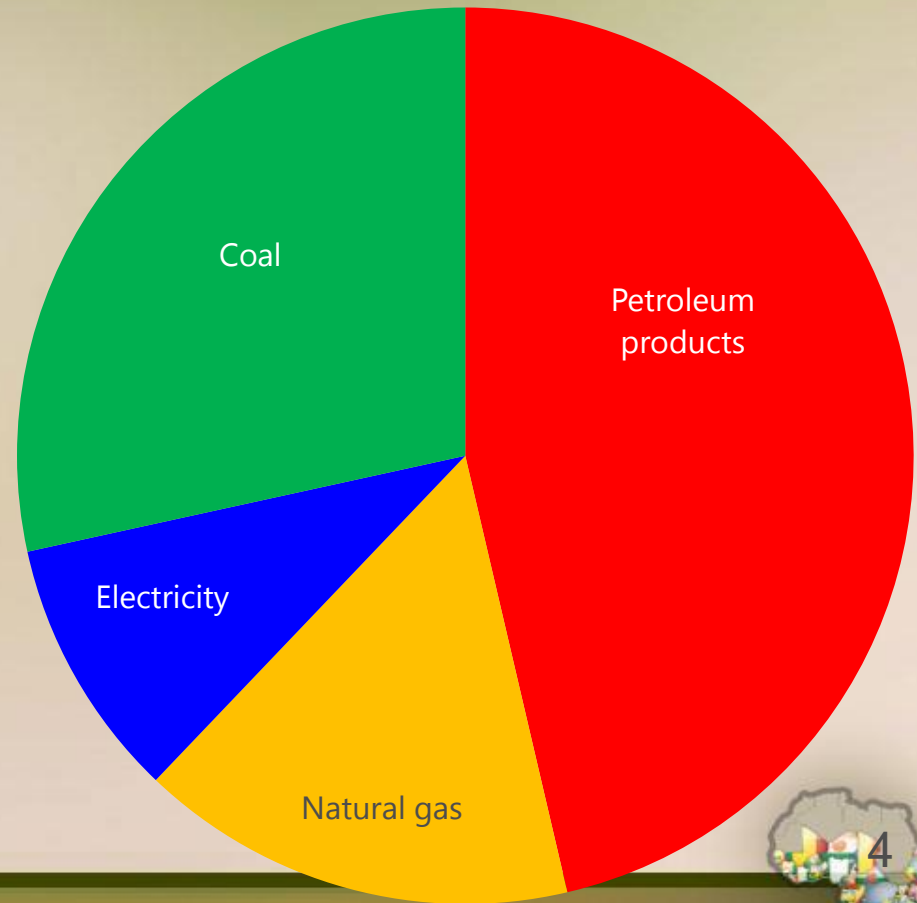
• Pre-tax

\$480 billion (0.7% GDP, 2.1% revenues)



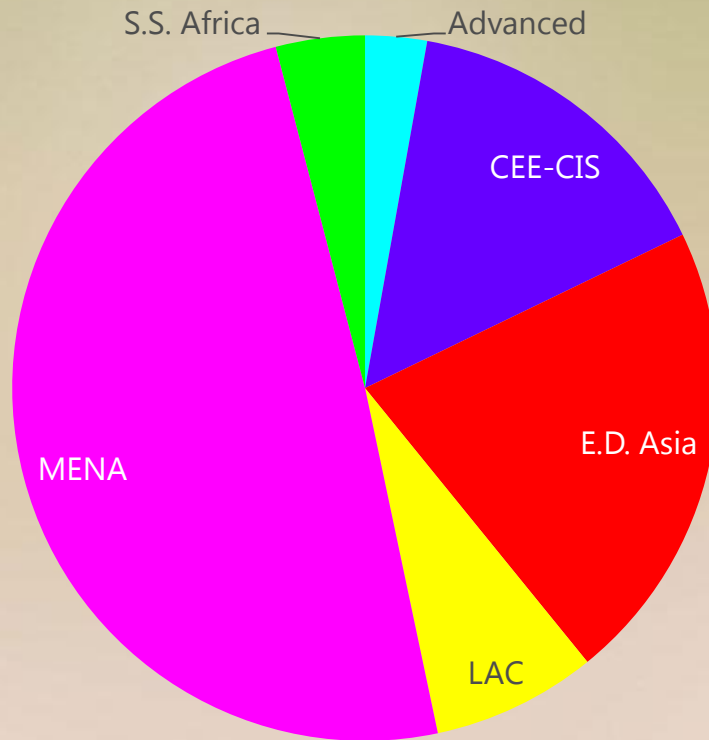
• Post-tax

\$1.90 trillion (2.7% GDP, 8.1% revenues)



Nearly half of pre-tax subsidies are from MENA region

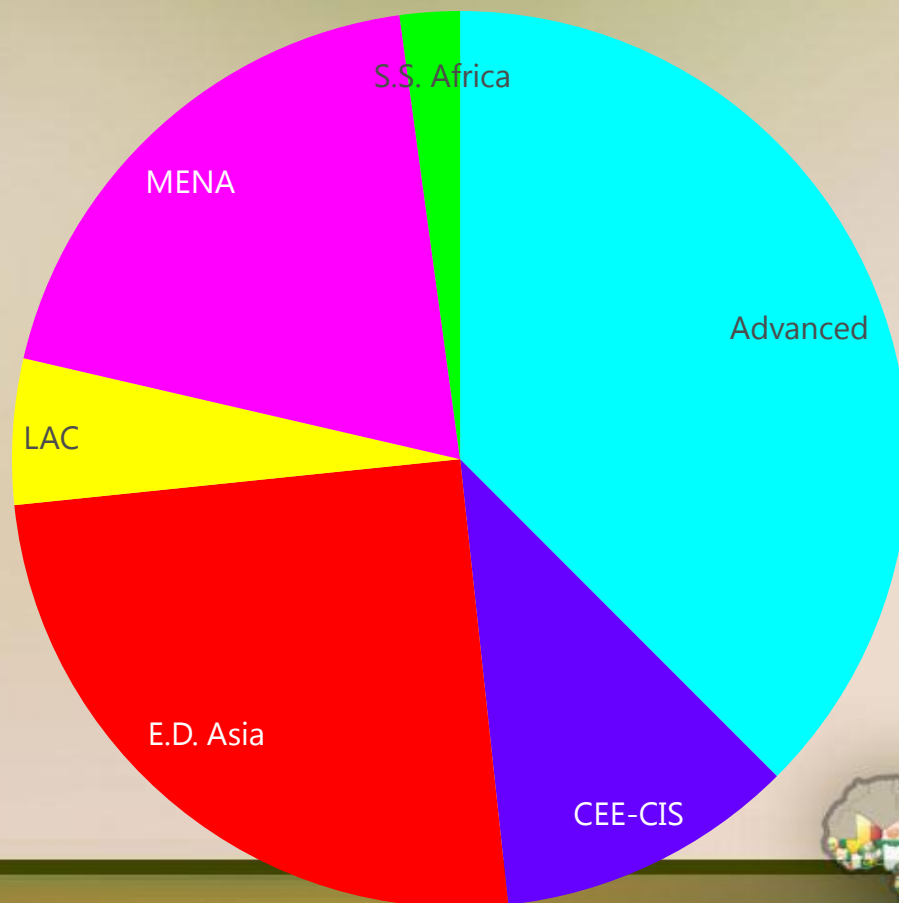
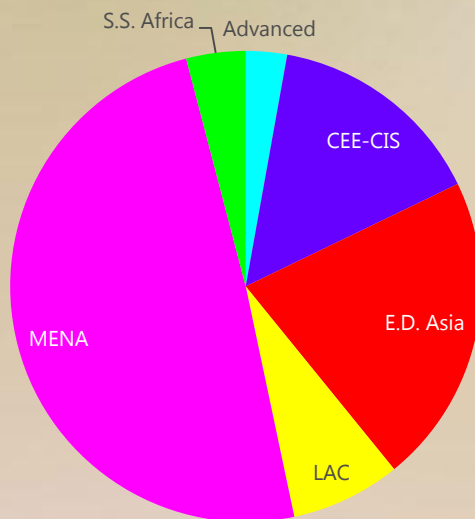
• Pre-tax
\$480 billion (0.7% GDP, 2.1% revenues)



Advanced economies account for 40 percent of post-tax subsidies

● Pre-tax
\$480 billion (0.7% GDP, 2.1% revenues)

● Post-tax
\$1.90 trillion (2.7% GDP, 8.1% revenues)

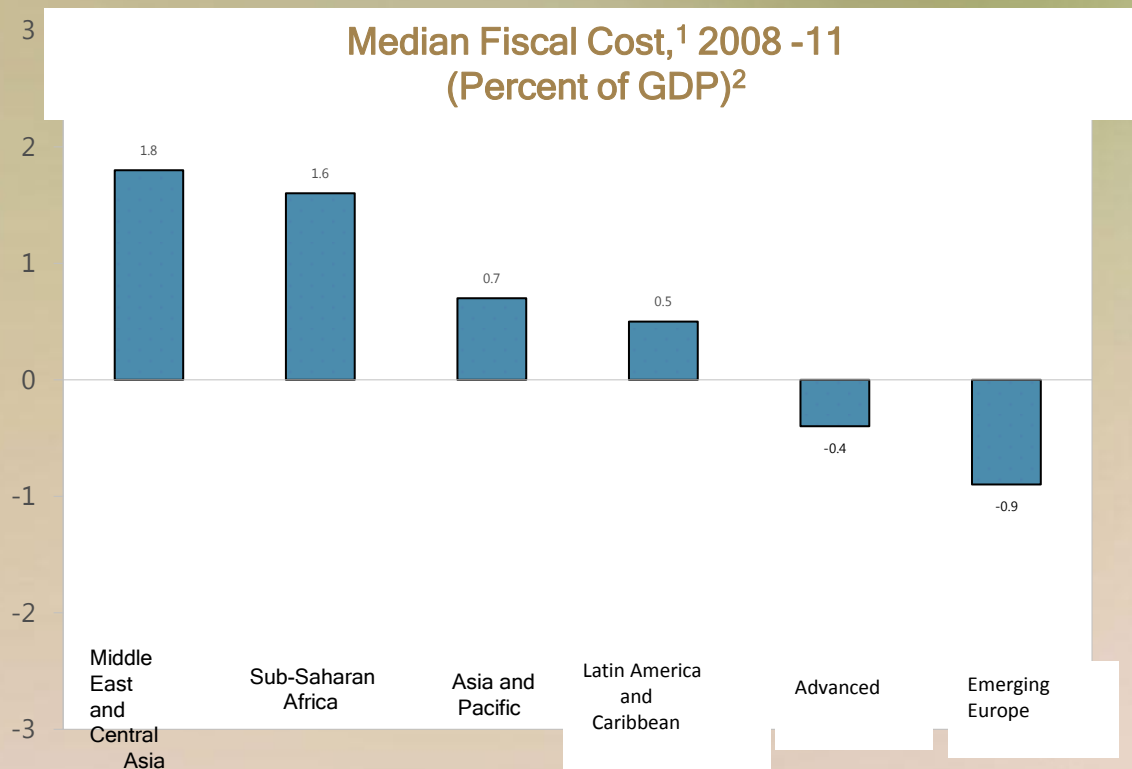


II. African Magnitudes

4.5% of GDP
(pre-tax)



But fuel subsidies in Africa are also costly ...



¹Fiscal cost is calculated by subtracting the annual fuel tax revenue that would be collected at end-2011 tax levels if applied for one year from the annual fuel tax revenue at end-2008 tax levels that would be collected if applied for one year.

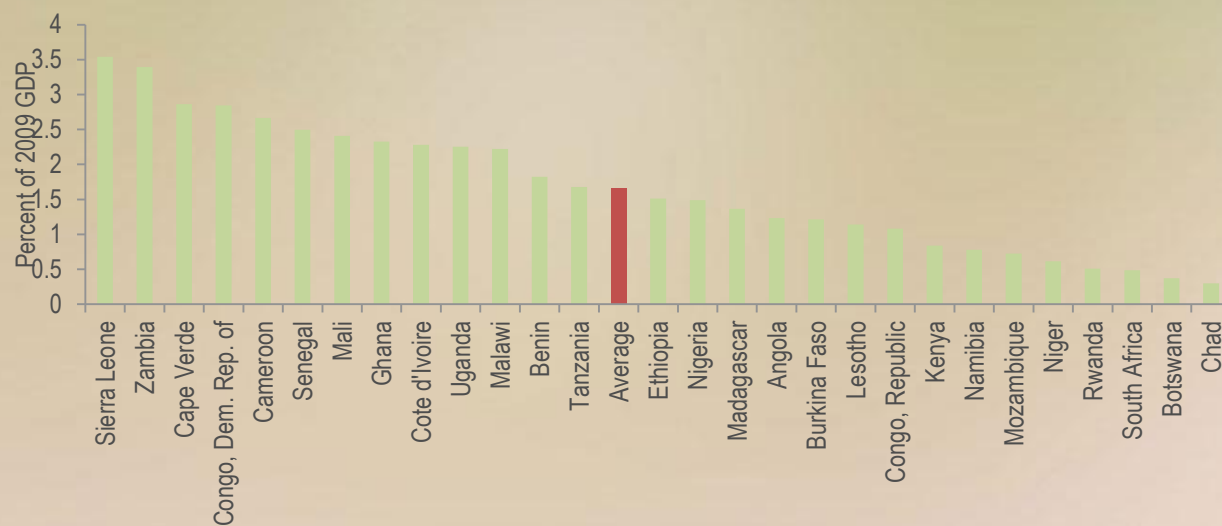
²Comoros, Eritrea, Seychelles and Zimbabwe are omitted.

Sources: IMF WEO and Staff calculations



... and electricity subsidies are costly as well.

Sub-Saharan Africa: Quasi-Fiscal Deficits of Power Utilities in 2009–10



Source: IMF staff calculations based on data from the World Bank, International Energy Agency, and IMF.

Note: Zimbabwe, which had a quasi-fiscal deficit of 11 percent of GDP in 2009, is excluded from the calculation of the average.



Energy subsidies
are regressive



Subsidies are regressive but costs of removal can be high for the poor too

**Table 1. Sub-Saharan Africa: Impact of Increase in Oil Prices of \$0.25 per liter
(percent of total household consumption)**

	Consumption quintiles					
	Bottom	2	3	4	Top	All
Total	5.8	5.6	5.5	5.6	6.0	5.72
Direct impact	2.1	1.6	1.5	1.3	1.4	1.58
Gasoline	0.1	0.1	0.1	0.2	0.6	0.22
Kerosene	1.9	1.4	1.2	0.9	0.6	1.19
LPG	0.1	0.1	0.1	0.2	0.2	0.16
Electricity	0.2	0.3	0.3	0.4	0.6	0.38
Indirect	3.5	3.7	3.7	3.9	4.0	3.77

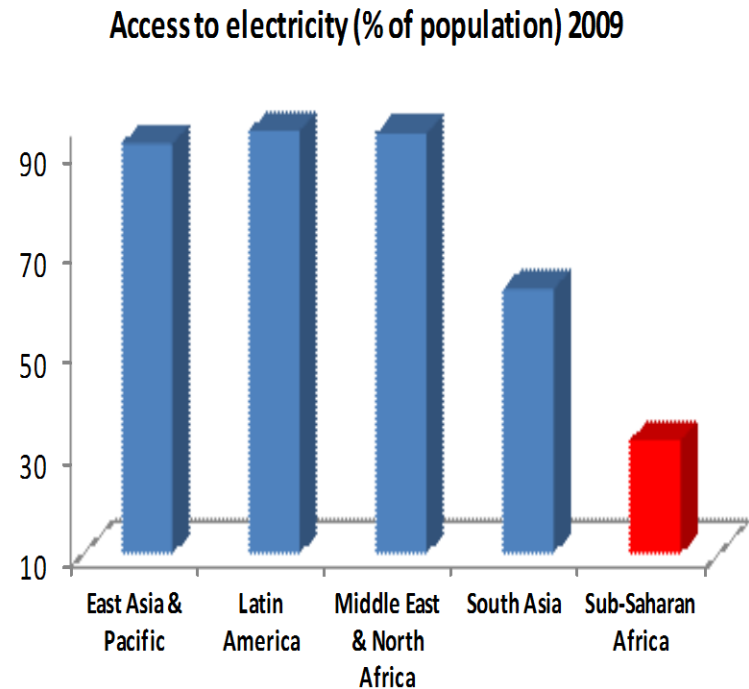
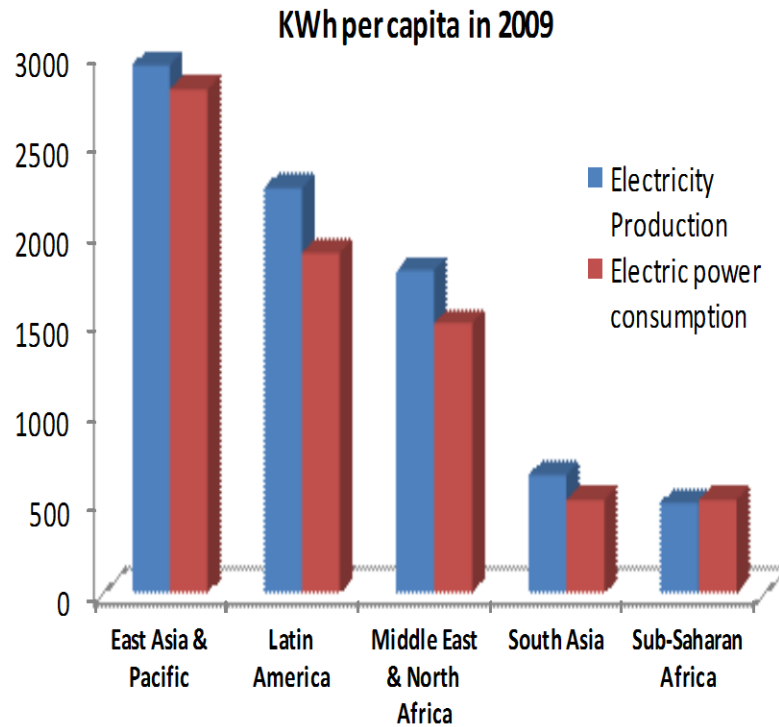
Source: Javier Arze del Grenado, David Coady, Robert Gillingham, "The Unequal Benefits of Fuel Subsidies: A Review of Evidence for Developing Countries", 2010



Energy subsidies
are inefficient and
stifle growth



Africa's power infrastructure lags behind other developing regions...

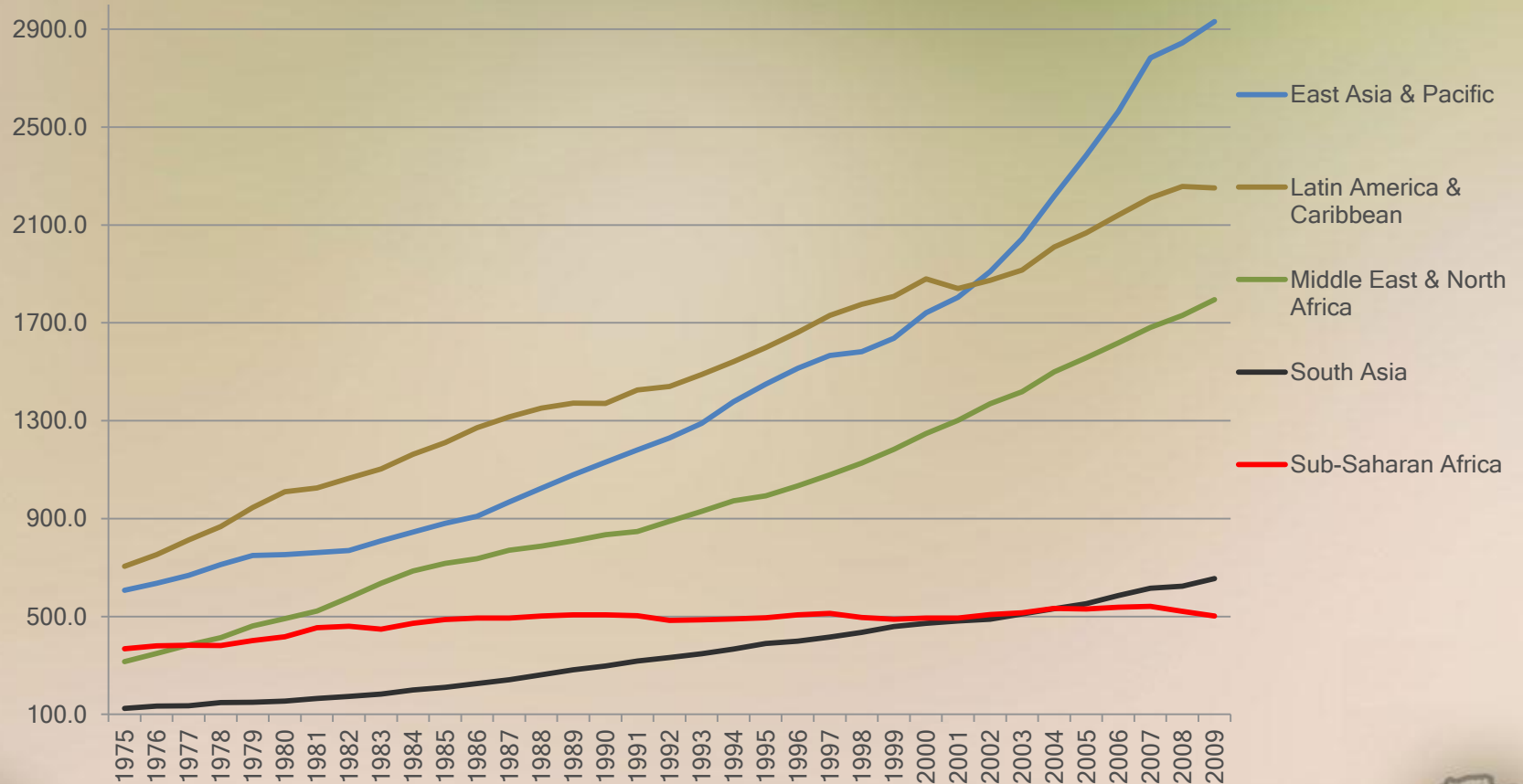


Source: World Development Indicators and IMF staff estimates.



... and there's been relatively little convergence

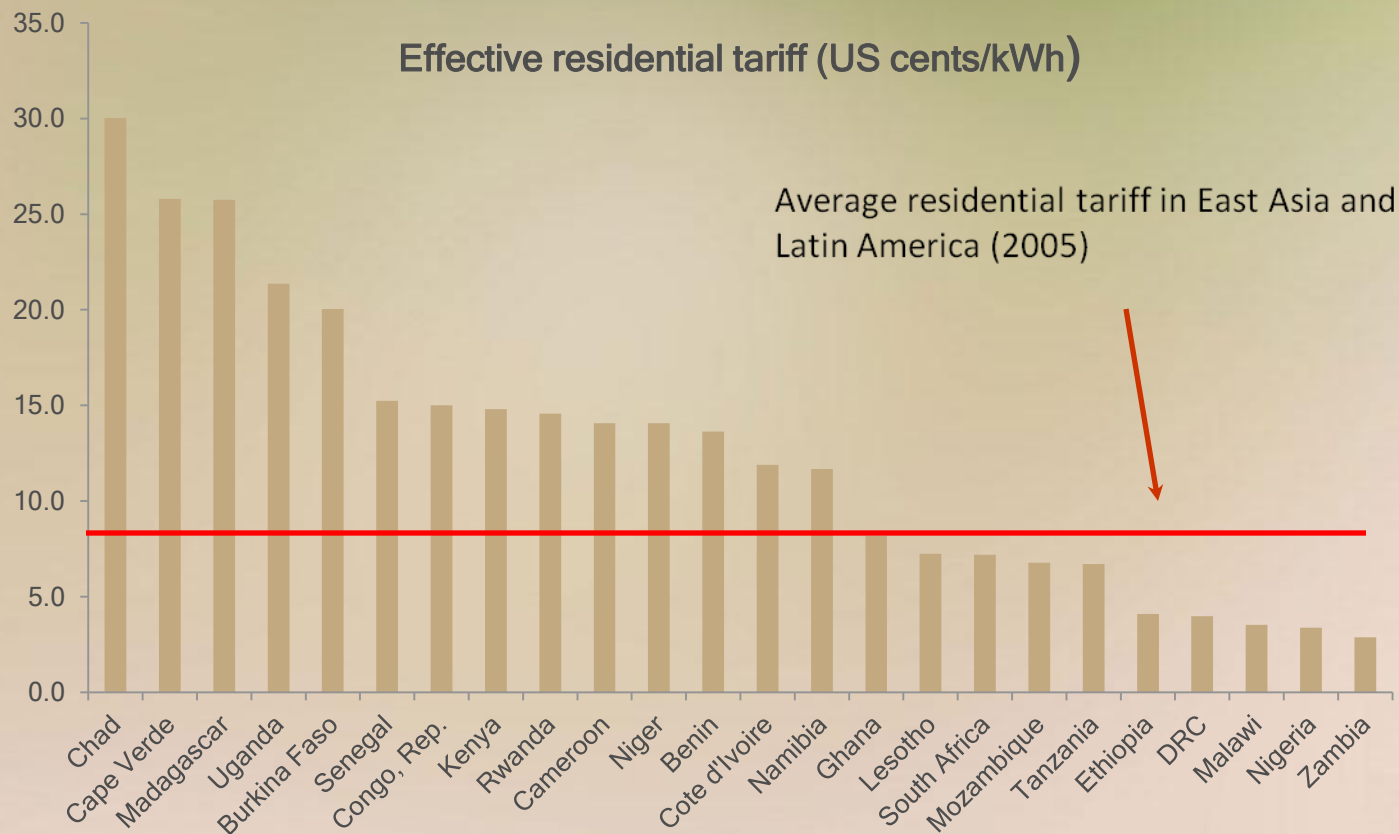
Electricity Production (kWh per capita)



Source: World Development Indicators and IMF staff estimates.



... but it's not only about the tariff



Source: AICD ; Briceno-Garmendia, C. and Shkaratan, M. (2011), and IMF staff estimates



III. Lessons for Reform



II. Preliminary lessons

1. A comprehensive energy sector reform plan with clear long term objectives (Namibia, Iran)
2. Public communications and transparency on the size of energy subsidies and their beneficiaries is helpful to kick start reform.
(Ghana, Indonesia, Niger, Nigeria)
3. Gradual implementation of price reform in terms of size as well as timing/sequencing
(Kenya, Namibia)



II. Preliminary lessons (contd)

4. Targeted measures to protect the poor and credibility of government's commitment to compensate vulnerable groups is essential for success (Gabon, Ghana, Mozambique, Indonesia, Jordan)
5. Improving the efficiency of SOEs receiving producer subsidies reduces the emphasis on tariff increases. (Kenya, Uganda)
6. Institutional reforms such as depoliticizing energy price setting e.g. automatic pricing mechanisms or independent regulators. (Tanzania, Namibia)

