The Quest for Subsidies Reforms in the Middle East and North Africa Region (2010-2014)

Paolo Verme
World Bank
Outline

• Introduction
• A brief history of subsidies
• What triggered reforms
• Who reformed, when, why and how
• What have we learned
• The unfinished business
• The distribution of remaining subsidies
• What will take to eliminate subsidies
Introduction

• Why 2010-2014?
  • A spike in demand for subsidies reforms
  • A window of opportunity

• The World Bank traditional approach:
  • Computerized General Equilibrium Model (CGEs)
  • Partial Equilibrium Models (PEMs),
  • Microeconomic simulations

• A different approach: The SUBSIM project
  • A mobile team working with policy makers
  • A quick and flexible simulation model
A Brief History of Subsidies

• 1940-1960 – Introduction of the subsidy systems as *price stabilization* mechanisms (*caisses de compensation*).

• 1970s – Transformation into *social protection system*. This coincided with the turning of the MENA region towards socialism and the revolutions that put dictators into power between the 1950s and the 1970s. (Gaddafi’s revolution, introduction of subsidies soon after in 1971)

• 1980s - *Enterprise support mechanisms*. Import substituting, infant industry protection or export oriented growth are some of the wording used to justify subsidies in this context. The search of a third way.

• 1990s - *Obstacle to economic development*. The socialist period in the MENA region came to an end during the 1990s when enlighten dictators, presidents and monarchs started to implement structural reforms including privatization and financial stabilization in the aftermath of the fall of the Berlin wall. But low oil prices.

• 2000s – *The last bastion of power*. The change in attitudes towards subsidies are generated by two concomitant factors. Subsidies are an obstacle to further reforms. The surge in oil prices generates huge budget deficits.
Why Subsidies Persist?

<table>
<thead>
<tr>
<th>Ten reasons to remove subsidies</th>
<th>Ten reasons to keep subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political</strong></td>
<td><strong>Political</strong></td>
</tr>
<tr>
<td>1. Support undemocratic regimes and populists governments</td>
<td>1. Risk of social uprising</td>
</tr>
<tr>
<td>2. Non-transparent to the population</td>
<td>2. Buy political consensus</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td><strong>Economic</strong></td>
</tr>
<tr>
<td>1. Distort consumption</td>
<td>1. Reduce production costs and increase export competitiveness.</td>
</tr>
<tr>
<td>2. Distort production</td>
<td>2. Reduce price volatility, financial risks and uncertainty for households</td>
</tr>
<tr>
<td>3. Distort investments</td>
<td><strong>Social</strong></td>
</tr>
<tr>
<td>4. Delay important strategic decisions on energy</td>
<td>1. Work as social protection mechanism</td>
</tr>
<tr>
<td>5. Encourage informality and illegality</td>
<td>2. Compensate for general increases in prices</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td>3. Benefit the poor, the middle-class and the rich</td>
</tr>
<tr>
<td>1. Costly for the tax payers</td>
<td>4. Perceived as a basic human right</td>
</tr>
<tr>
<td>2. Inequitable and pro-rich</td>
<td>5. Increased demand for subsidies due to economic decline in MENA</td>
</tr>
<tr>
<td>3. Costly for the environment</td>
<td></td>
</tr>
</tbody>
</table>
What Triggered Reforms?

• Political changes that took the region by storm. Regimes changes in Tunisia, Libya, Egypt and Yemen changed the political settings in these countries and had a demonstration effect on countries that did not experience revolutions first hand

• New social contract with the populations which became less averse to reforms, including subsidies reforms

• Economic decline generated by the revolutions magnified the budget impact of subsidies

• Oil prices and budget deficits
Spike in Oil Prices
Spike in Commodity and Food Prices
## Relatively Low Initial Prices in MENA

<table>
<thead>
<tr>
<th>Region</th>
<th>Gasoline</th>
<th>Diesel</th>
<th>Kerosene</th>
<th>LPG</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia and Pacific</td>
<td>$1.25</td>
<td>$1.03</td>
<td>$1.11</td>
<td>$1.20</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>$1.16</td>
<td>$1.23</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>$1.24</td>
<td>$1.14</td>
<td>$1.18</td>
<td>$1.01</td>
</tr>
<tr>
<td>South Asia</td>
<td>$1.25</td>
<td>$0.91</td>
<td>$0.86</td>
<td>$1.44</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>$1.24</td>
<td>$1.22</td>
<td>$0.96</td>
<td>$0.97</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>$0.67</td>
<td>$0.44</td>
<td>$0.41</td>
<td>$0.40</td>
</tr>
</tbody>
</table>
Who Reformed, When, How and Why

**Big bang reforms**
- Iran (December 18th, 2010)
- Jordan (November 13, 2012)
- Egypt (July 5th, 2014)

**Gradualist reforms**
- Morocco (September 16th, 2013-October 1st, 2014)
- Tunisia (2012-2014)

**No reforms**
- Libya, Yemen (conflict)
- Oil producers (less affected)
- Djibouti (only tax subsidies)
What Have We learned

- Big bang vs gradualist approach (Iran vs Morocco)
- Compensation vs non compensation (Jordan vs. Morocco)
- Complementary fiscal and social policies
- Public information vs no information (Iran vs Jordan)
- Vertical vs horizontal reforms
- Poor vs middle class
- Stakeholders - The dark matter of subsidy reforms
The Unfinished Business

• Only one of the countries studied in the book is on the right track to achieve a complete elimination of consumer subsidies: Morocco

• Gasoline and diesel – gradual increases during low oil prices

• LPG – *ad hoc* reforms, combine with natural gas distribution

• Electricity – Tariffs reforms, prices and structure

• Food subsidies – Different political economy
<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Number of households</th>
<th>Total expenditures</th>
<th>Per capita expenditures</th>
<th>Household expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>939 000</td>
<td>166 966</td>
<td>1 856 869 376</td>
<td>1 977</td>
<td>11 121</td>
</tr>
<tr>
<td>Egypt</td>
<td>85 833 000</td>
<td>16 589 115</td>
<td>276 454 473 728</td>
<td>3 221</td>
<td>16 665</td>
</tr>
<tr>
<td>Iran</td>
<td>77 969 000</td>
<td>21 909 116</td>
<td>582 976 929 792</td>
<td>7 477</td>
<td>26 609</td>
</tr>
<tr>
<td>Jordan</td>
<td>6 694 000</td>
<td>1 246 860</td>
<td>37 757 407 232</td>
<td>5 640</td>
<td>30 282</td>
</tr>
<tr>
<td>Libya</td>
<td>6 213 000</td>
<td>991 549</td>
<td>12 318 968 832</td>
<td>1 983</td>
<td>12 424</td>
</tr>
<tr>
<td>Morocco</td>
<td>33 179 000</td>
<td>7 070 798</td>
<td>138 341 810 176</td>
<td>4 170</td>
<td>19 565</td>
</tr>
<tr>
<td>Tunisia</td>
<td>11 060 000</td>
<td>2 548 655</td>
<td>43 800 788 992</td>
<td>3 960</td>
<td>17 186</td>
</tr>
<tr>
<td>Yemen</td>
<td>27 460 000</td>
<td>3 656 854</td>
<td>66 954 182 656</td>
<td>2 438</td>
<td>18 309</td>
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<tr>
<td>Total</td>
<td>249 346 992</td>
<td>54 179 912</td>
<td>1 160 461 418 496</td>
<td>4 654</td>
<td>21 419</td>
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</table>
## Prices

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Subs.</th>
<th>Subs. (%)</th>
<th>Increase (%)</th>
<th>Price</th>
<th>Subs.</th>
<th>Subs. (%)</th>
<th>Increase (%)</th>
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<tbody>
<tr>
<td></td>
<td>LPG (13 kg)</td>
<td></td>
<td></td>
<td></td>
<td>Electricity (kWh, av.)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Djibouti</td>
<td>28.3</td>
<td>2.8</td>
<td>9.1</td>
<td>10.0</td>
<td>Egypt</td>
<td>3.9</td>
<td>10.8</td>
<td>73.3</td>
</tr>
<tr>
<td>Egypt</td>
<td>3.9</td>
<td>10.8</td>
<td>73.3</td>
<td>275.0</td>
<td>Iran</td>
<td>1.9</td>
<td>9.7</td>
<td>83.3</td>
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<tr>
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<td>1.9</td>
<td>9.7</td>
<td>83.3</td>
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<td>57.5</td>
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<tr>
<td>Jordan</td>
<td>19.1</td>
<td>25.8</td>
<td>57.5</td>
<td>135.4</td>
<td>Libya</td>
<td>2.9</td>
<td>27.4</td>
<td>90.4</td>
</tr>
<tr>
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<td>2.9</td>
<td>27.4</td>
<td>90.4</td>
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<td>Morocco</td>
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<td>10.4</td>
<td>20.7</td>
<td>66.6</td>
<td>199.8</td>
<td>Tunisia</td>
<td>9.8</td>
<td>20.9</td>
<td>68.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>9.8</td>
<td>20.9</td>
<td>68.0</td>
<td>212.7</td>
<td>Yemen</td>
<td>14.7</td>
<td>6.4</td>
<td>30.4</td>
</tr>
<tr>
<td>Yemen</td>
<td>14.7</td>
<td>6.4</td>
<td>30.4</td>
<td>43.7</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Gasoline (L)</th>
<th></th>
<th>Diesel (L)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Djibouti</td>
<td>3.0</td>
<td>-0.1</td>
<td>2.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.9</td>
<td>0.8</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Iran</td>
<td>0.5</td>
<td>2.3</td>
<td>0.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Jordan</td>
<td>2.1</td>
<td>0.3</td>
<td>1.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Libya</td>
<td>0.2</td>
<td>1.6</td>
<td>0.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Morocco</td>
<td>3.1</td>
<td>0.0</td>
<td>2.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>2.5</td>
<td>0.2</td>
<td>2.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Yemen</td>
<td>1.6</td>
<td>0.3</td>
<td>1.6</td>
<td>0.4</td>
</tr>
</tbody>
</table>
How Important are Subsidized Products?
Who Gets Subsidies?

- Liquefied Petroleum Gas
- Electricity
- Gasoline
- Diesel

Countries compared: Egypt, Libya, Jordan, Yemen, Iran, Djibouti, Tunisia, Morocco.
A Policy Dilemma

The expenditure shares of LPG in different countries:

- Djibouti
- Egypt
- Iran
- Jordan
- Libya
- Morocco
- Tunisia
- Yemen

The total benefits per capita of LPG in different countries:

- Djibouti
- Egypt
- Iran
- Jordan
- Libya
- Morocco
- Tunisia
- Yemen
Welfare Impact of Full Elimination of Subsidies
Poverty Impact

Poverty Line = 3 USD/Day

Poverty Line = 6 USD/Day
Budget Trade-offs

LPG

- Yemen
- Tunisia
- Morocco
- Libya
- Jordan
- Iran
- Egypt
- Djibouti

Electricity

- Yemen
- Tunisia
- Morocco
- Libya
- Jordan
- Iran
- Egypt
- Djibouti

Gasoline

- Yemen
- Tunisia
- Morocco
- Libya
- Jordan
- Iran
- Egypt
- Djibouti

Diesel

- Yemen
- Tunisia
- Morocco
- Libya
- Jordan
- Iran
- Egypt
- Djibouti
Conclusions

- Long history of non-reforms
- Reform momentum (2010-2014)
- Uncompleted reforms
- Low oil prices (Iran agreement)
- Opportunity to eliminate gasoline and diesel subsidies
- Big task ahead for LPG and Electricity
- Product by product approach
- Learn more at: www.subsim.org