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# Energy for the Poor Program

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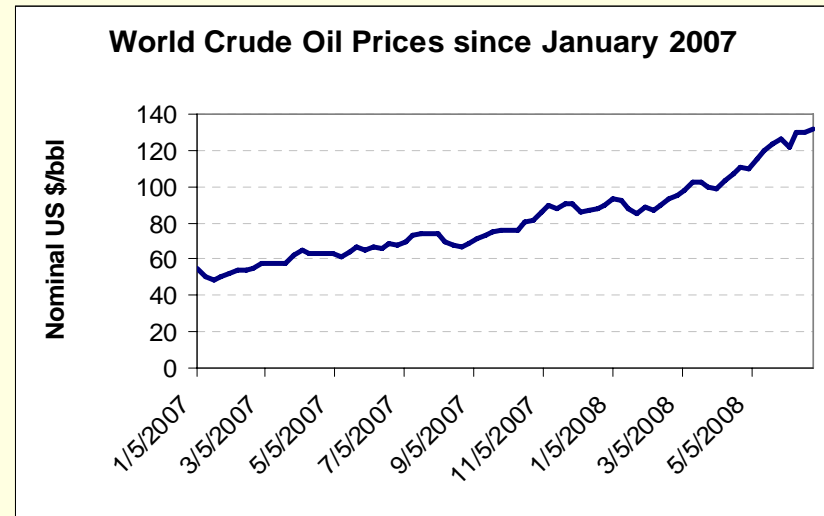
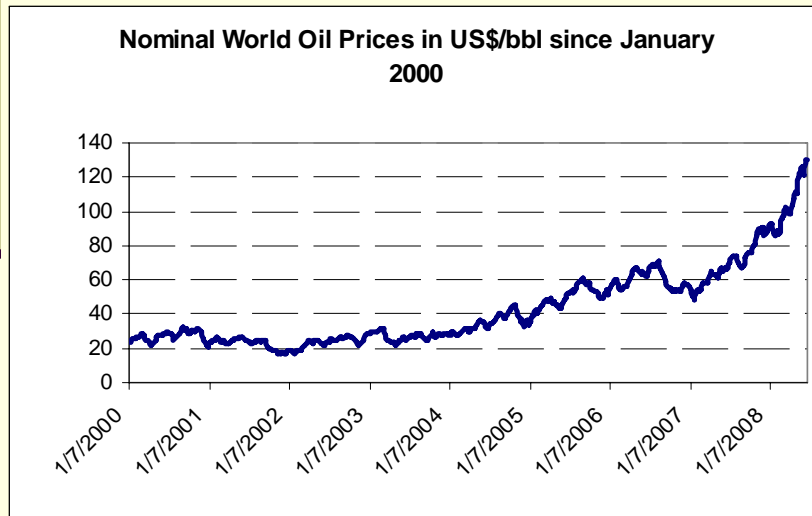
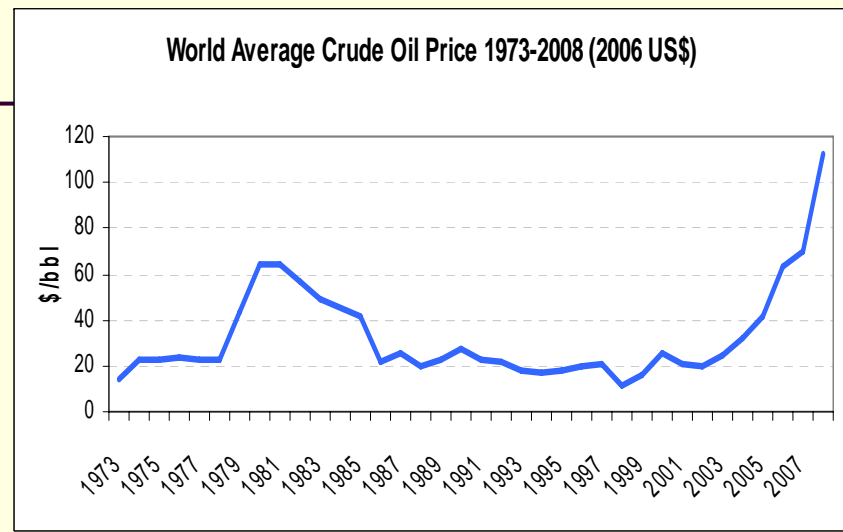
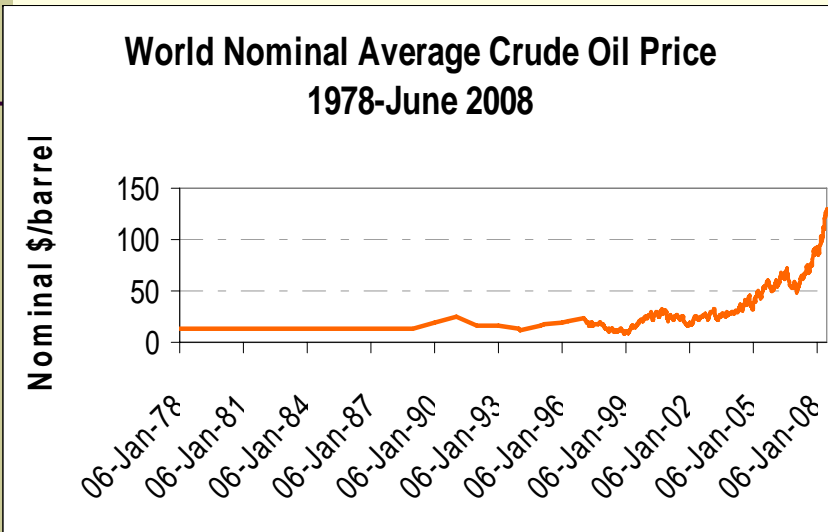
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# Outline

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- Oil Prices trends
- Energy Use and Economic Growth
- Impacts
  - Macro impacts on countries
  - Micro impacts on households
- Policy Responses
- Jeddah Energy Conference
- Energy for the Poor program
  - Details
- Way Forward

# Dramatic unprecedented price increases



<http://www.energyshortage.org/>

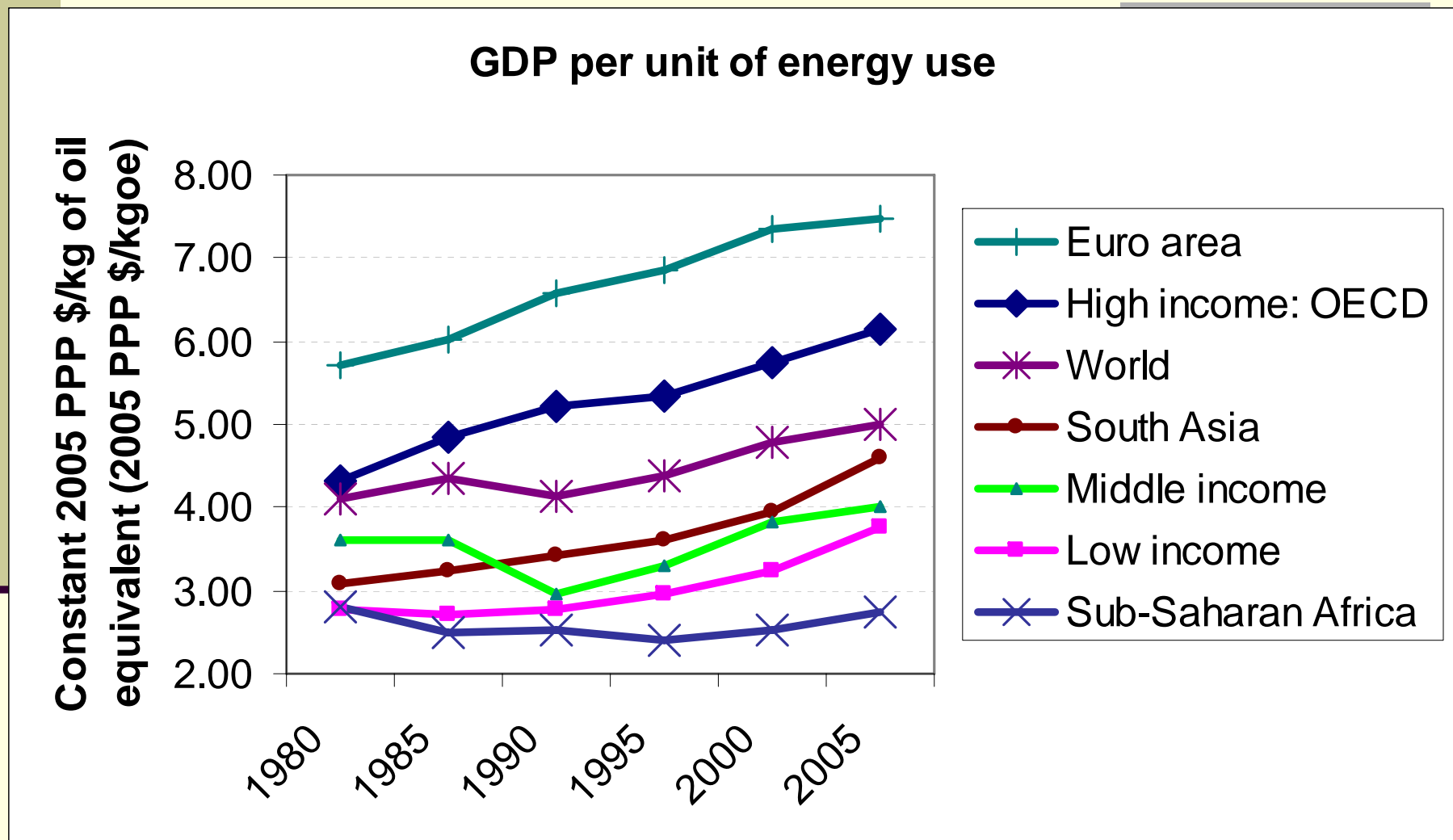


# Energy use and economic growth

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- Consumption has extreme inelasticity for petroleum use in the short term
- Higher elasticity in the long term
- Close correlation with economic growth

# Energy intensity



# The Intensity story

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- GDP/kgoe has increased in the world since 1980
  - 25% increase in world energy 'utility' since 1980, from 4\$/kgoe to 5\$/kgoe
  - Irregular trend in the late 80s
- Almost stagnant in Sub-Saharan Africa, with even some decrease since 1980
- South Asia's utility increased rapidly with growth in the past 10 years or so. Increase in rate of increase ( $d^2y/dt^2 > 0$ )
  - Correlation to growth or prices?
- Low income countries as a whole have shown positive increase but middle income countries have shown varying trends
  - Severe reduction in MICs in late 80s (because of cheap oil?)
- Consistent growth in OECD countries
  - Euro area shows highest increase as well as the highest levels
- Correlation to growth? Industrial Organization? Better availability? Prices?

# Macro impacts

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- Price shock came in the middle of a global growth boom
  - This growth has reduced impact of the price rise somewhat
  - No impact till 2005, but some tempering since then
- Higher inflation in developing countries, particularly Asia but not globally, yet.
- Increasing current account pressures (not always compensated by higher prices of other commodities)
- Increase in fiscal deficits if domestic prices are not adjusted
- More volatile prices means more uncertainty for producers to plan investments

# Micro impacts on the poor

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- High direct impacts on the poor (India, Indonesia, Lao PDR and China)
  - 12% of HH expenditure on fuels and electricity
  - 16% on transport Higher prices of public transport, fertilizers, irrigation, lighting fuels, electricity: Nexus food - energy - water - transport
- Poor need to cut back on oil consumption or reduce expenditure elsewhere
  - Eg. 64% Lao PDR rural HHs reported scaling down on education expenditure
  - In India, children moving to schools closer to home
- Urban poor and 'near-poor' generally hit more than rural, who can substitute with biomass to some extent
  - Near poor have some cushion but higher prices can push them back towards poverty
  - Present lifestyles impacted as well as future prospects
- Rural poor can afford less lighting now
  - Slipping back to lower order fuels in the energy ladder (reverting back from LPG or Kerosene to biomass)
  - Severe health impacts of using biomass (indoor air pollution)

# Policy Options to reduce impacts

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- Short Term:

- Reductions in import duties, consumption taxes, direct subsidies, cross subsidies
- Better targeted subsidies
  - E.g. Cash transfers
- Energy conservation
  - Demand side, supply side

- Medium term

- End use efficiency
- Advance energy access: Renewable energy
- Fuel diversification
- Improve the efficiency of supply

# Jeddah Energy Conference

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- 22<sup>nd</sup> and 23<sup>rd</sup> June, in Jeddah, Saudi Arabia, at the invitation of the King of Saudi Arabia
- 38 countries, 4 international organizations (incl. the World Bank) and 30 oil companies participated
- Declarations of increasing production in S. Arabia by 200k barrels a day
- Request to the Bank to develop a framework for an *Energy for the Poor* program

# Energy for the Poor program

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- **Short term** assistance to economies hit adversely by combined impacts of oil and food price increases
- Combining resources under the GFRP to topup and extend the Social Protection Component
- **Medium term** support to supply diversification, energy efficiency programs and policy support for severely affected countries
- Co-financing and parallel financing to scale up assistance to energy access program including fuel supply diversification, energy efficiency



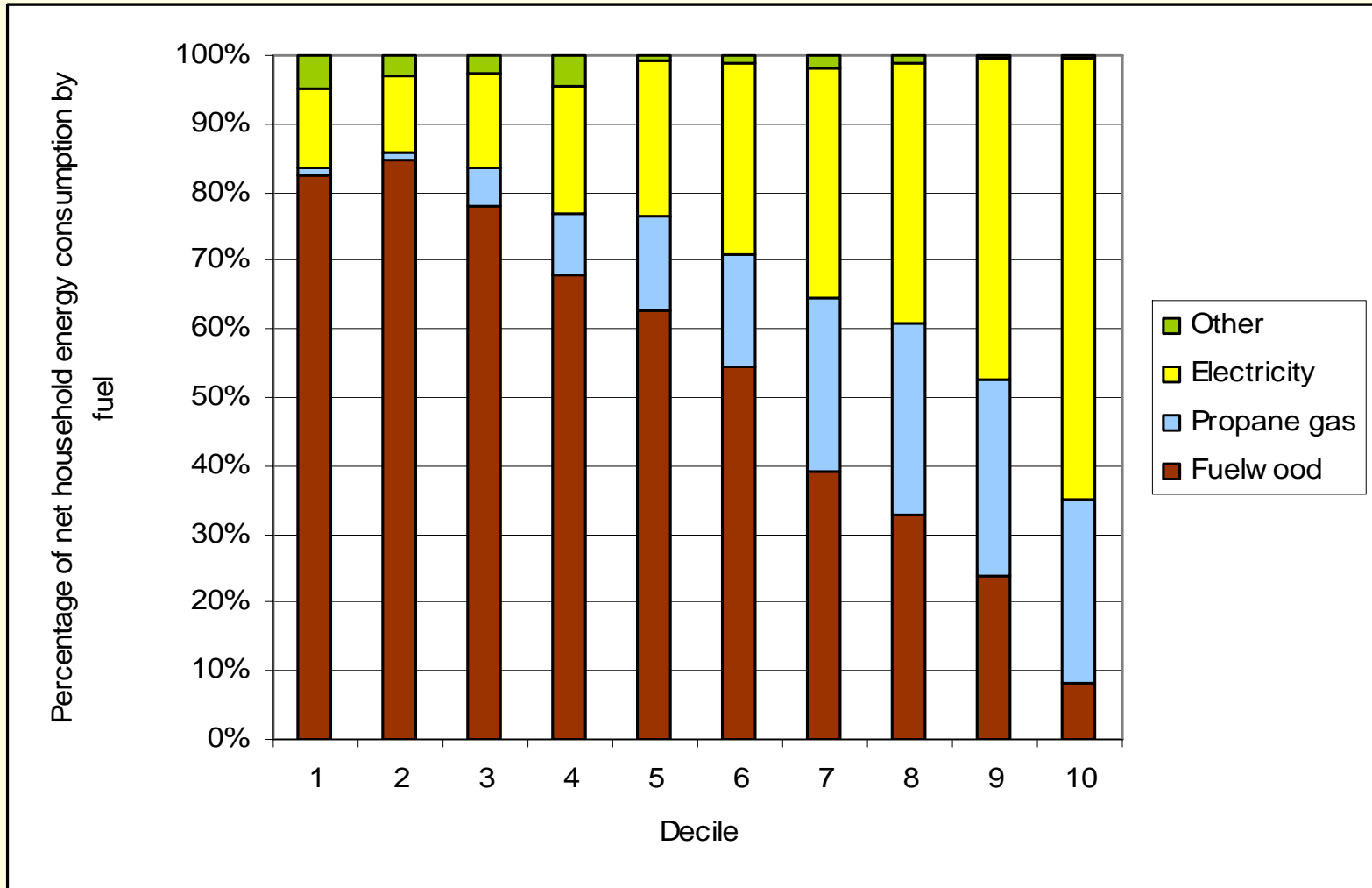
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# Supply and demand pressures

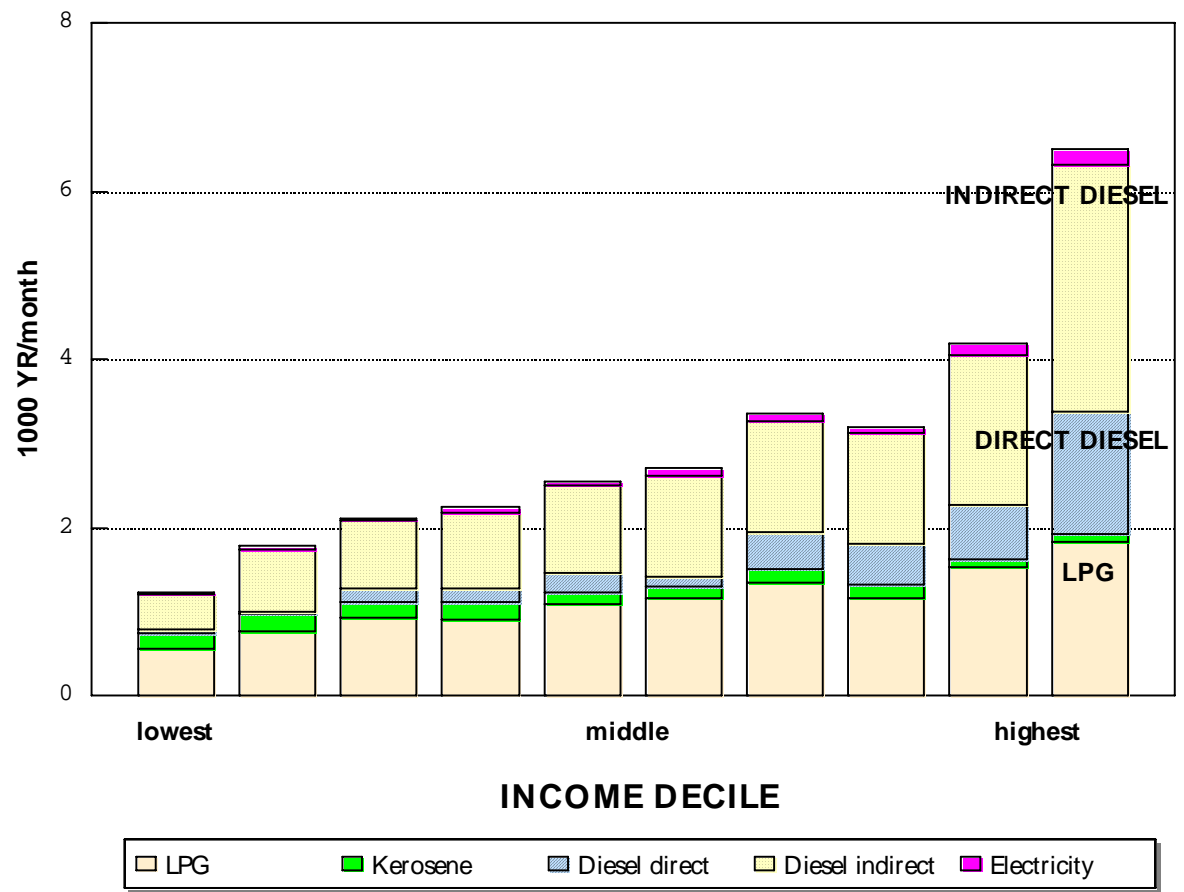
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- Supply fell short of expectation and projections in non-OPEC producing countries
- OPEC region almost stagnant at ~32.2mbbl/d since 2007
- Demand pressure absorbs extra production
  - Increase of production in S. Arabia from 9.4mbbl/day to 9.7mbbl/day hardly reduced prices
  - Very little spare capacity, only 1.2 mbbl/day, conc in S.Arabia

# Energy Consumption of households: By fuel



# Monthly impact on households of total fuel price increase, by income decile



# Fuel choice

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- Some countries switching over to more coal-intensive sources of energy
  - Increase in use of coal in South Asia
- More gas being used to replace some oil
  - SE Asia using more gas
- New demand for energy being met by non-oil fuels
- Not much oil substitution in transport sector
- Oil is still needed for growth, for better services, transport
- Oil consumption is related to human development
- To keep growing without comparable increase in oil consumption, countries in developing countries will need to be more oil-efficient,

## Policy options for oil importing countries

- Combination of adjustment and additional financing
- The shock is viewed as permanent and many SSA countries already adjusting to higher oil prices,
- Macroeconomic adjustments
- Combination of macro adjustments
  - exchange rate policies to facilitate expenditure switching
    - absorption reduction through domestic demand management
- Microeconomic adjustment -- energy pricing policies:
- For African countries – adjustment has been mainly through prices rather than quantities
  - Out of 44 countries, 24 fully or extensively passed through prices
  - Partial adjustment in prices in 15 countries
  - No adjustment of prices in 5 countries

## Policy options for oil importing countries (contd.)

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- Composition of public expenditures
  - Implications for budget allocations as macro. and micro. adjustments are undertaken
- Key questions
- Should the budget subsidize energy prices for the poor? What mechanisms should be used and how should it be financed?
  - What should be the government's priorities, across programs and within each priority program? What programs should be maintained and which should be cut?

# Approach & key elements of reform program

## Approach

Embed price reform in package of complimentary reforms

- Remove all fuels subsidies in a coordinated manner
- Minimize negative impact on poor
- Introduce energy sector reforms

## Key Elements of Fuel Price Reform

- Establish predictable formula for price adjustments by instituting permanent system to automatically adjust prices
- Revise reference price (from Rotterdam to Gulf) and freight rate basis in price setting formula
- Phase subsidy removal over about 2 years



## Complementary Reform Recommendations

- Reform Social Welfare Fund
- Allocate part of price reform dividend to priority programs of PRSP (e.g improving health, education services)
- Implement targeted initiatives to
  - Increase rural electrification
  - Encourage sustainable woodfuel use
  - Develop gas-to-power
  - Improve performance of electricity sector and downstream oil & gas sector