

A large, diverse crowd of people is arranged in a large 'U' shape on a white background. The crowd is composed of many individuals of various ages, ethnicities, and clothing colors. Some people are walking, some are on bicycles, and some are standing. The 'U' shape is formed by a thick line of people, with a large white space in the center. The overall scene is bright and clean, with soft shadows cast by the people.

# **Building Public Awareness and Support for Subsidy Reforms**



Start by asking what your audience thinks and feels about energy subsidy reforms and then listen to feedback



Develop messages that are relevant to people and deliver them through credible spokespeople and political coalitions

# THE POLITICAL ECONOMY OF ENERGY SUBSIDY REFORM

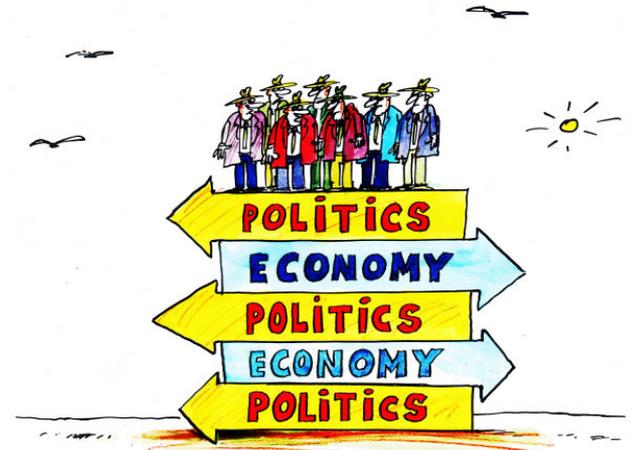
RESULTS FROM A STUDY

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**WORLD BANK GROUP**



# I. Objectives of the Study

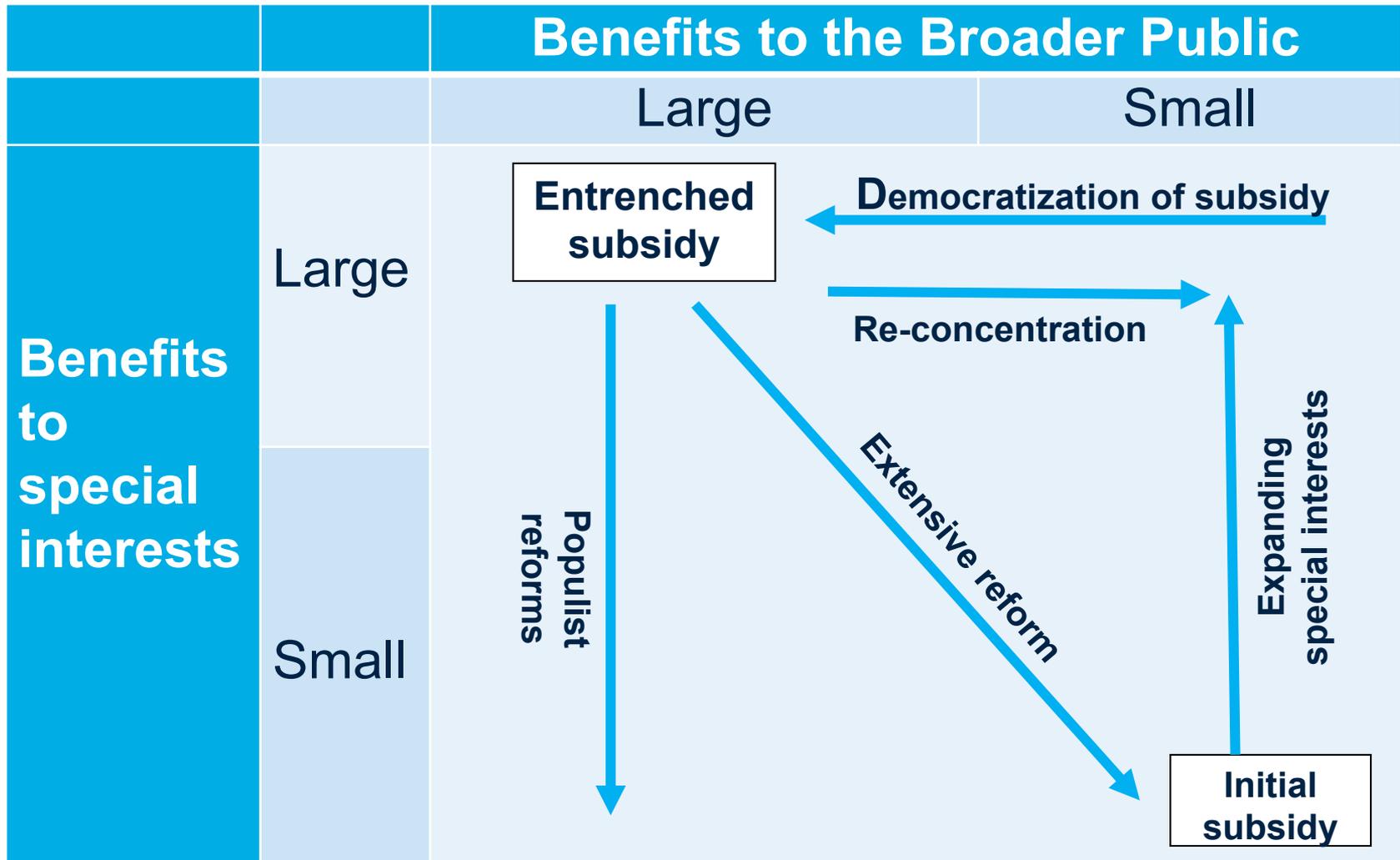
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1. An assessment of the political economy of current subsidy regimes
2. An assessment of historical reforms: case studies and cross-cutting
3. An evaluation of plausible future reform strategies
4. Inform follow-on activities at the Bank—more explicit attention to politics and political economy of reform

# II. Analytical Tool: Simple Political Economy Framework

		Benefits to the Broader Public	
		Large	Small
Benefits to special interests	Large	<u>Case 1</u>	<u>Case 2</u>
	Small	<u>Case 3</u>	<u>Case 4</u>

# Life-cycle of a Subsidy Regime



### III. Insights about Political Coalitions

Contrast between groups that are affected by reforms and groups with the political power to alter reforms.

Static coalitions tend to favor status quo; big reforms usually require shocks that open the political space

Key to successful reform: dynamic coalitions through which pro-reform interest groups gain power as reform proceeds

Technology has helped: e.g., smart cards for targeting benefits and making reforms credible

## IV. Insights about the Role of Communication

Communication as a strategy for making pro-reform groups easier to organize and stay organized, and to make those groups electorally pivotal

Communication as a strategy for refocusing press and elite attention on benefits of reform

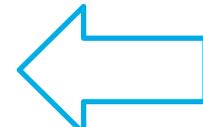
Communication as a strategy for demonstrating credibility of reforms

The "dark sides" of communication—mobilization of mass protest via real and false information

Thank you!

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# Case 1: Both special interests and citizens derive large benefits



## Reform is more likely when some or all of these conditions are present:

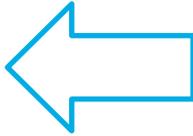
- Government → credible commitment that reforms → better off.
- citizens develop greater capacity to mobilize
- it becomes more difficult for special interests to mobilize.
- the costs of providing benefits rise sharply.
- general fiscal stringency, with subsidies being a large part of the problem.
- external pressure changes the political equilibrium

## Reform is NOT likely when governments:

- fear mass mobilization and protest.
- change or elections are introduced,
- promise to replace energy subsidies with cash transfers to average citizens.



# Case 2: Special interests get most of the benefits, and citizens few benefits



## Reform is more likely when some or all of these conditions are present:

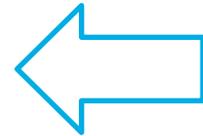
- Government → credibly provide special interest groups w/better benefits.
- citizens develop greater capacity to mobilize
- it becomes more difficult for special interests to mobilize.
- Government change → Special interest no longer has influence
- Prices increase / fiscal stringency, w/subsidies being a large problem.
- external pressure changes the political equilibrium

## Reform is NOT likely when governments:

- The subsidy remains small and thus does not attract broader public attention or drain on the public budget;
- The special interest groups remain well organized.



# Case 3: Special interests get few of the benefits, citizens get most



**Reform is more likely when some or all of these conditions are present:**

- The poor are not pivotal to the electoral success of a government.
- Government can credibly offer alternative policies
- Government has alternative systems for transferring benefits to poor;
- The costs of the subsidies rises
- Politicians' belief about the “special” nature of subsidized product changes and redistributive policies shift to more efficient transfers.
- External pressure changes the political equilibrium.



**Reform is NOT likely when governments:**

- The subsidy remains small enough not to trigger the need for reform;
- Governments fear mass mobilization and protest by the public.
- Special interests emerge that lobby for continuation of the subsid
- Governments perceive the benefits from the subsidy are crucial to their political survival.

# Case 4: Neither special nor general citizen interests benefit significantly

**Change is more likely when some or all of these conditions are present:**

- Prices rise more than anticipated,
- No arbitrage is enforced between subsidized and full-price markets is allowed. Otherwise → Case 2

**Change is NOT likely when governments:**

- No need for reform
- when ideological parties are present, citizen mobilization is more likely to be high and Cases 3 and 4 are more likely to prevail

