



Energy crisis and developing countries

Why is FFSR essential and how could it be implemented?

Presenter: Jonas Kuehl

Date: October 18, 2022

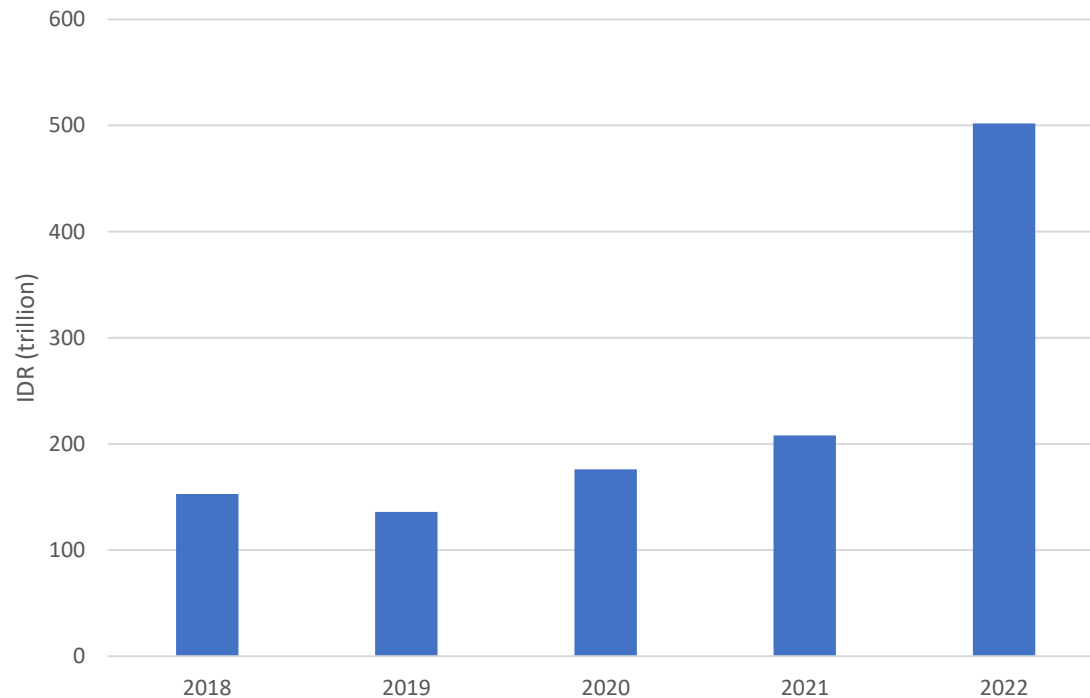
Impacts of high energy prices on developing countries

Direct and indirect impacts



Subsidizing energy prices is a drain on budgets

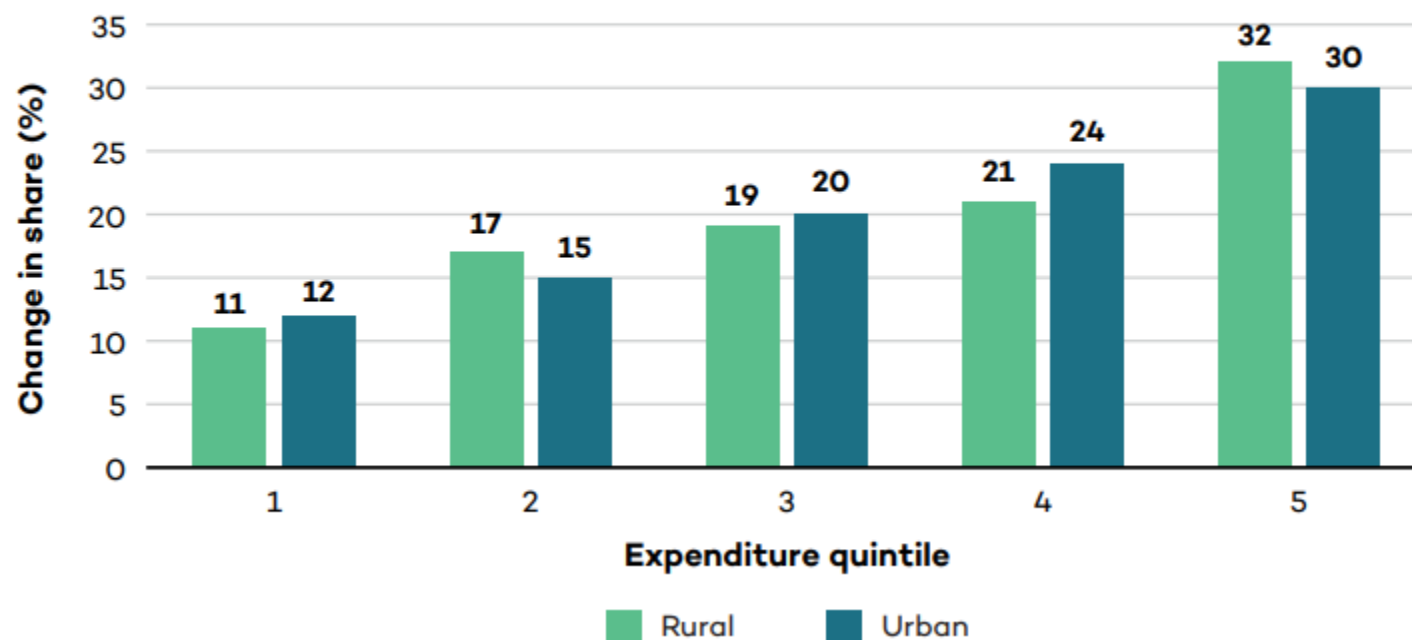
Spending on energy subsidies in Indonesia



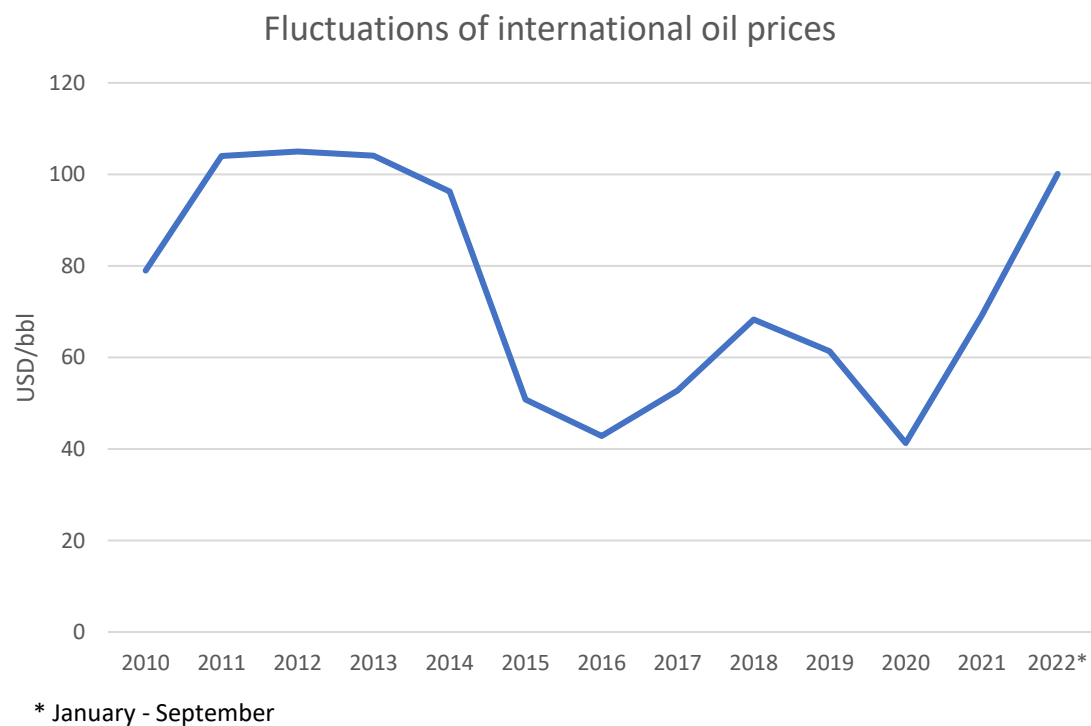
Subsidized energy prices benefits wealthier people

LPG subsidies in Jharkhand, India

Figure ES1. Distribution of total subsidies (in %) by rural and urban expenditure quintiles

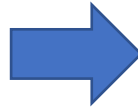
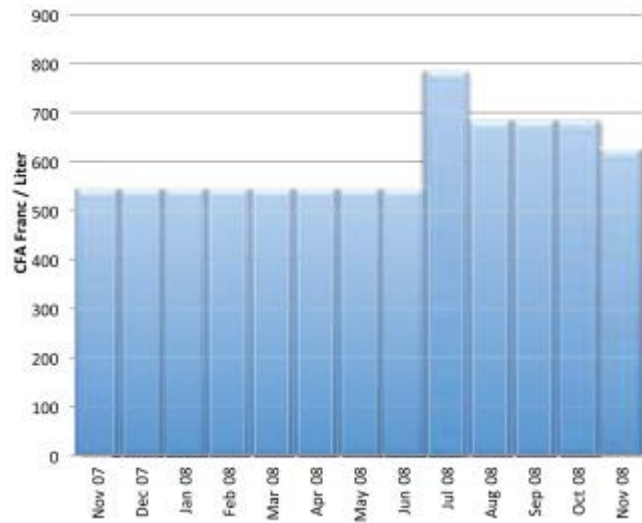


"Good" times for reforming subsidized energy prices



Governments tend to use ad-hoc pricing

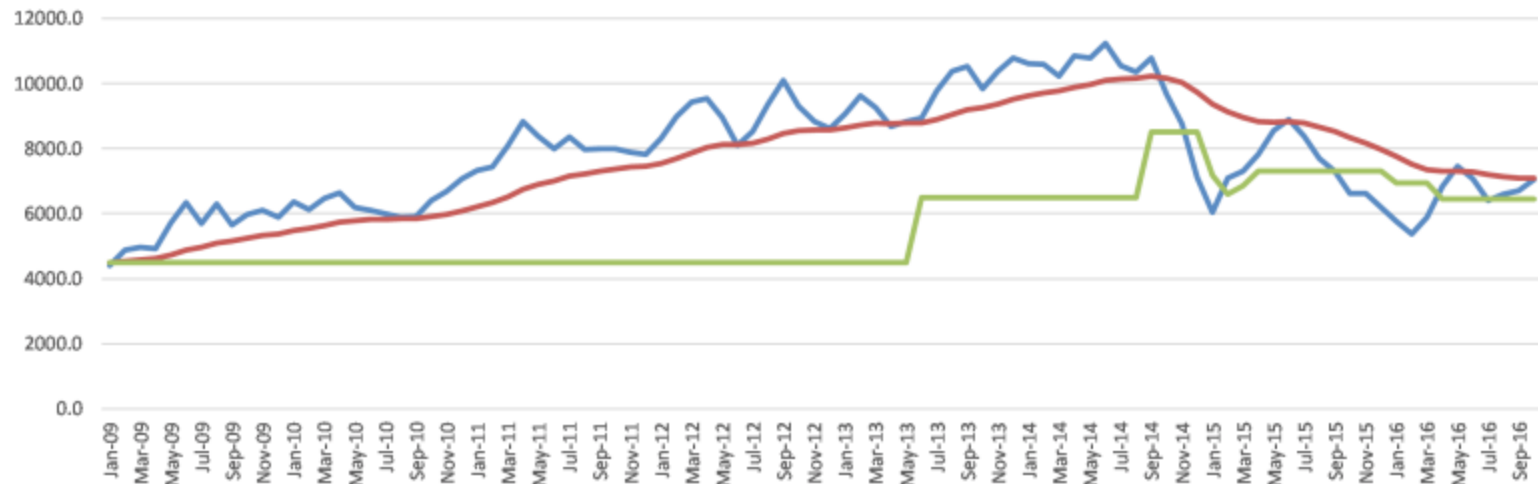
LPG subsidies in Jharkhand, India



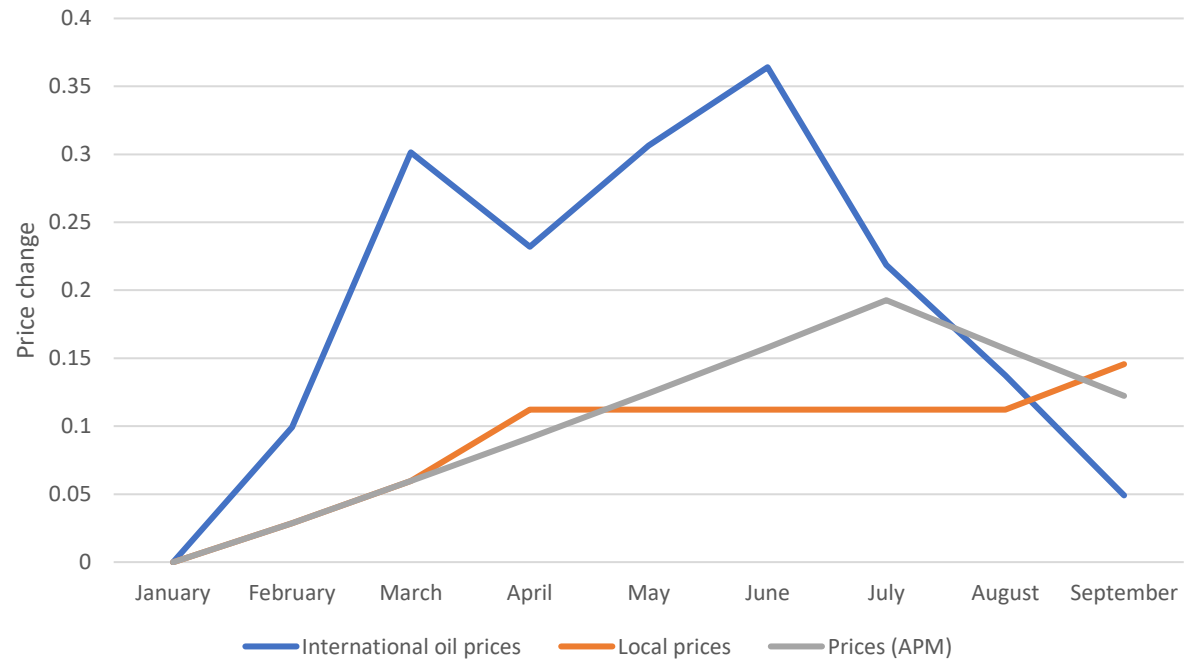
Objectives of Price Adjustment Mechanisms

1. Ensuring fiscal sustainability
2. Minimizing price fluctuation
3. Minimizing fiscal volatility

Gradual price adjustments combined with a smoothing factor are a better approach



Automatic and de-politized processes are essential



Supplementing reform with ramping up social protection

Move to subsidize people, and not energy

1. Many countries have used (conditional) cash transfers and other social protection methods when reforming their energy prices
2. During the Covid-19 pandemic, many countries have used cash transfers and other support measures → countries can build on these experiences
3. Communication and building support for this shift and the implications is also essential

Thank You!

For more information:

Email: jkuehl@iisd.org