HAITI

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- In 2014 fuel subsidies, amounting to 2.2% of Haiti's GDP, outstripped health spending, which represented 0.8% of GDP in the same year.
- With real time support from ESMAP, retail petroleum prices were increased about 7% in October 2014, eliminating fuel subsidies in Haiti.
- The Government of Haiti failed, however, to reintroduce an automatic price adjustment and with higher international oil prices fuel subsidies reemerged.

THE CHALLENGE

The severe poverty situation and massive reconstruction challenges following the 2010 earthquake triggered the island nation of Haiti to cease implementing an automatic price adjustment mechanism for fuel products. Prices on gasoline, diesel, and kerosene were frozen in nominal local currency terms. This translated into higher subsidies.

As international fuel prices rose, so did the burden of subsidies. Given that the Government fixed the retail price of fuel, and these prices had not been increased since March 2011, fluctuations in international oil prices directly affected the country budget. When the difference between the fixed pump price and the higher import price was not sufficient to cover charges and fees, excise taxes and customs duties were progressively eliminated.

As a result, forgone fiscal revenues were estimated to have risen from 0.2% of GDP in 2010 to 2.2% of Haiti's GDP, outstripping health spending, which represented 0.8% of GDP in the same year and favoring richer households, consuming fuel the most.

The government raised prices in late 2014 with the aim of easing the burden on public finances, and use part of the proceeds to finance poverty reduction programs. The reform, however, faced challenges.

While nearly six out of ten Haitians were poor and used little fuel, the richest 20% of the population received 93% of fuel subsidies. However, eliminating subsidies would increase fuel prices by about 30% and this would have affected poorer people's food and transport costs. An estimated additional 90,000 people were at risk of falling under the poverty line. Many of Haiti's urban poor and rural population used kerosene for lighting. Haitians

dependent on the network of so-called "tap-tap" shared taxis and "Madan Sara" women traders, would also be adversely affected. Families who rely on school transport for education access were another group at risk.

THE RESPONSE

Complementing the Government of Haiti's own study of reform options, in 2014, ESMAP-financed technical assistance, through the Energy Subsidy Reform Facility (ESRF), provided fiscal costs estimates of the current policy; a distributional analysis of fuel subsidies by income groups, sectors, and petroleum products; and simulations of the impact of price increases and possible mitigating measures on household expenditure, on poverty, and on the government's budget.

Based on in-depth review and analysis of existing international experiences and on a new preliminary survey on public transport, guiding principles were shared with Haiti on strategies for fuel price reform, including the importance of designing appropriate communication and mitigating measures. South-South experience from the Dominican Republic delivered by practitioners allowed building trust and assisting the client in carrying out the reform.

In addition, a series of knowledge exchange events was developed to support Haiti's efforts in designing and implementing an increase in fuel prices. This included workshop on options for fuel price reforms in Haiti, hands-on training session on methods and tools for analyzing the distributional effects of fuel price reforms, and presentation on both the design of direct subsidy mechanisms for transporters, as well as price structures for petroleum product. Options to improve the efficiency of the transport sector, to increase efficiency and improve service delivery in the energy sector, and to develop alternative sources of energy were shared.

Besides, with real time assistance from the ESMAP-financed team, an inter-ministerial reform committee was created, focusing on accompanying measures to contain possible social and political unrest, and carrying forward fuel price reforms. From here, real time support was provided to the Presidential Commission specially set up to move fuel price reforms forward towards an automatic price adjustment mechanism.

OUTCOMES

With the support of the ESMAP-financed team, the Government of Haiti, embarked in late 2014 on a fuel subsidy reform aimed at eliminating forgone revenue while implementing targeted mitigating measures. The discussions at the inter-ministerial reform committee led to the identification of accompanying measures and to the decision to increase fuel prices.

The Government of Haiti scheduled a number of fuel price increases with the aim of gradually phasing out subsidies. As a result, retail petroleum prices were increased about 7% in October 2014. Combined with the decline in international oil prices, this decision eliminated fuel subsidies.

At the same time, as mitigating measures, the Government of Haiti allocated a higher budget for health and education, while containing administered transport price increases. This resulted in a total cost of 0.6% of GDP.

The 2014 assistance was effective in delivering the planned results through improved Government's capacity. The workshops provided the international experience, the hands on training, and the skills for Haiti to run its own scenarios, while trusted embedded advices guided in real time the thinking of the reform. All this contributed in helping to push the reform agenda forward.

The continued decline in international oil prices triggered strikes in the transportation sector and street protests asking to pass through the lower international oil prices. Consequently, in an election period, the Government of Haiti wanted to avoid social unrest and therefore backtracked by decreasing retail petroleum prices by about 10% in February 2015. Furthermore, the lack of automatic price adjustment mechanism and independent agency made the sustainability of the reform vulnerable. With international oil prices rebounding, fuel subsidies reemerged.

NEXT STEPS

Following up on the initial engagement and the set-up of the Presidential Commission to carry price reforms forward, the Government of Haiti has requested assistance from the World Bank Group to design a targeted subsidy scheme for urban transport, seen as the most likely organized group to trigger unrest. The design of an automatic fuel price adjustment mechanism and the establishment of the independent agency in charge of implementing will also be priorities.

A "post-mortem" qualitative evaluation to understand better the factors behind the success and failure of the subsidy reform was also carried out. The ESMAP-financed World Bank Group team plans to look at perceptions, attitudes and reactions towards the fuel subsidy reform in Haiti among different population groups as well as factors that motivated or influenced such attitudes and behaviors.

Taking stock, the experience shows that insufficient time and effort had probably been devoted to communication and outreach. Neither mechanism to gather consumers' views, nor mechanism to get consumers' feedback and to understand the impact of reforms on consumers were put in place. Research points out there was a widespread lack of information and understanding on the cost of subsidies and whom they benefit. A lack of trust in the government and perceptions of corruption contributed to the problem. The political transition added to the challenge.

More advocacy is hence needed. The design of a communication strategy focusing on explaining the costs of fuel subsidies and benefits that a reform could bring, supplemented with a one-off targeted action to mitigate negative impacts from the reform on critical and most vocal groups is under preparation. Trade and transport

unions would be better involved in the decision-making process. Long-term strategies to improve transport systems, road maintenance could follow.

CONCLUSION

The island nation of Haiti, which relies overly on foreign oil products, has faced difficult challenges to reform its fuel subsidies. Freezing retail petroleum prices represented a heavy burden for the budget. In 2014 fuel subsidies rose to 2.2% of Haiti's GDP. This outstripped health spending, which represented 0.8% of GDP in the same year. Increasingly expensive and inefficient for the energy sector, and disproportionately benefitting the rich, these subsidies left the government little fiscal room to commit much-needed social spending.

With just-in-time support of the ESMAP-financed World Bank Group team, through improved capacity building, support and improved internal and external collaboration, South-South learning, training and real time advisory, the Government of Haiti responded by raising fuel prices about 7% with the aim of easing the burden on public finances. Combined with the decline in international oil prices, this decision eliminated fuel subsidies in Haiti.

However, public opposition to subsidy reform was strong, while understanding of the issue was often limited, which forced Haiti to backtrack in early 2015. In response, the ongoing work financed by ESMAP has since focused on continued advocacy on the cost of energy subsidies to the economy and the budget, as well as understanding better how households coped with higher fuel prices, pushing for the implementation of a sustainable automatic price adjustment mechanism, and proposing options to introduce a targeted subsidy for urban transport to alleviate political opposition to fuel price increases.

ESMAP's $20 million Energy Subsidy Reform Facility (ESRF) was set up in 2013 to help countries remove fossil fuel subsidies while protecting the poor. ESRF provides technical assistance to governments, develops tools for assessment and decision-making, and facilitates knowledge-exchange for a global community of reformers.

ABOUT ESMAP

The Energy Sector Management Assistance Program (ESMAP) is a global knowledge and technical assistance program administered by the World Bank. It provides analytical and advisory services to low- and middle-income countries to increase their know-how and institutional capacity to achieve environmentally sustainable energy solutions for poverty reduction and economic growth. ESMAP is funded by Australia, Austria, Denmark, the European Commission, Finland, France, Germany, Iceland, Japan, Lithuania, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the Rockefeller Foundation, and the United Kingdom, as well as the World Bank.

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