

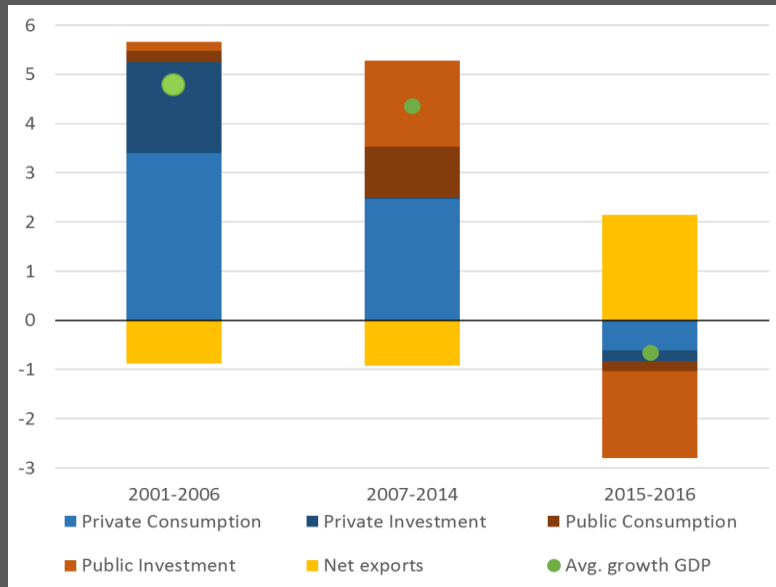
Ecuador

Fossil Fuel Subsidy Reform

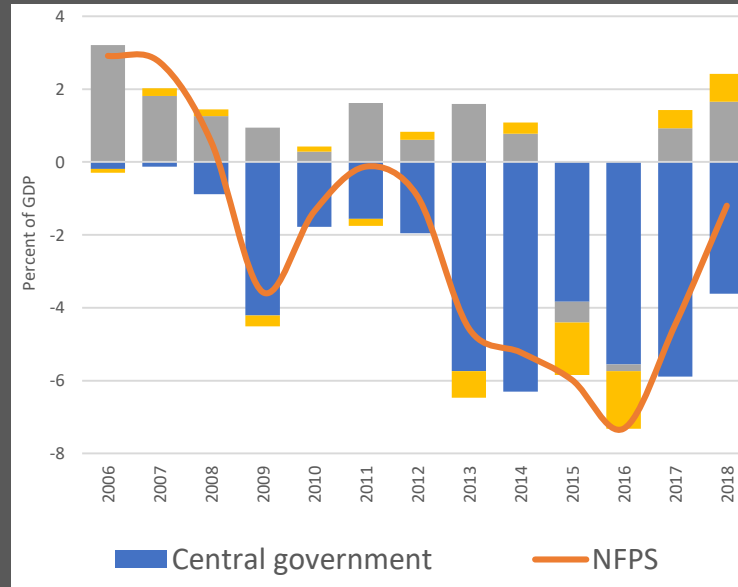
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The Aftermath of a reform
attempt and the path
forward

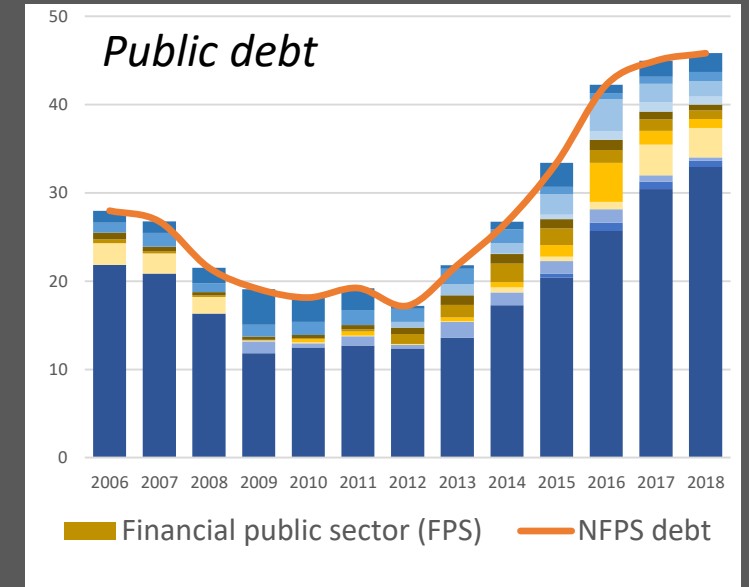
Reform and change does not happen in a vacuum, so let's look at what prompted these reforms and its timing



Volatile and state-led growth financed with debt



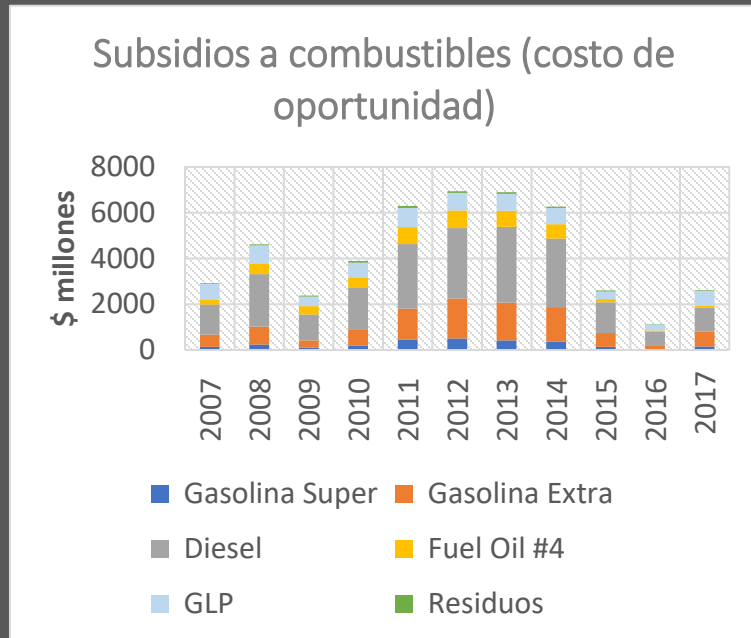
Fiscal situation worsening, deficit increasing



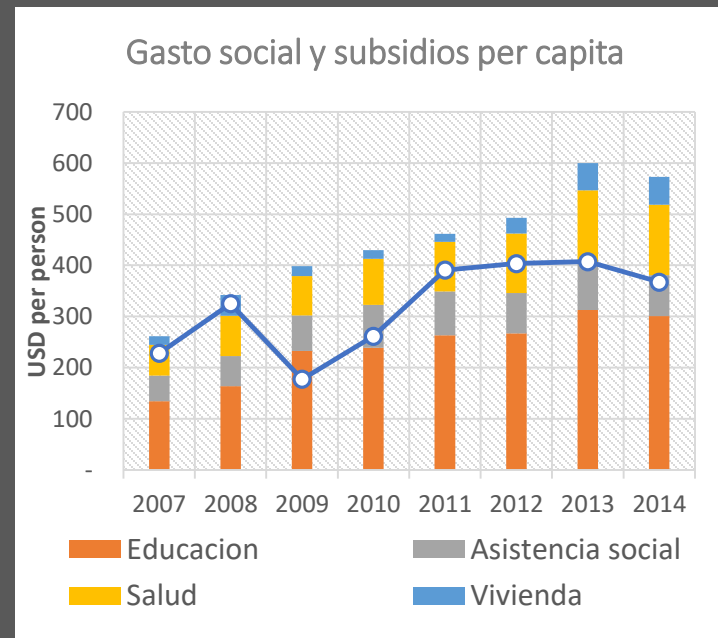
Increasing public debt to finance spending

Energy subsidies are a sizeable expenditure and are perverse socially and environmentally

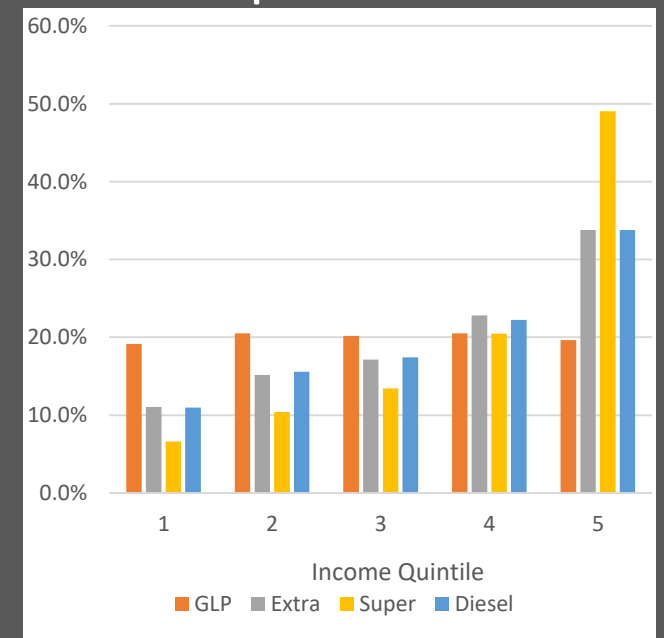
Energy subsidies have taken up between 1.6 bn to 7 bn



They can surpass education and social protection spending



Most goes to the top three quintiles



The largest subsidy is on diesel, which is the key fuel for transportation and important for energy generation

Prices in Ecuador of one liter of:



Soft drink
\$1.08



Milk
\$0.80



Diesel w/o
subsidy \$0.61



Water
\$0.48



Current price
\$0.27

Fuente: Petroecuador, precios TIA Plataforma Gubernamental, 24 de octubre 2019

As part of the fiscal consolidation and structural reform agenda, steps were taken to reduce subsidies

INITIAL STEPS FOR SUBSIDY
REMOVAL (SUCCESSFUL)

DECREE 883 & 887
12 DAYS VIOLENCE RIOTS, PROTESTS
NEGOTIATIONS WITH INDIGENOUS
ABOLISH BOTH DECREES

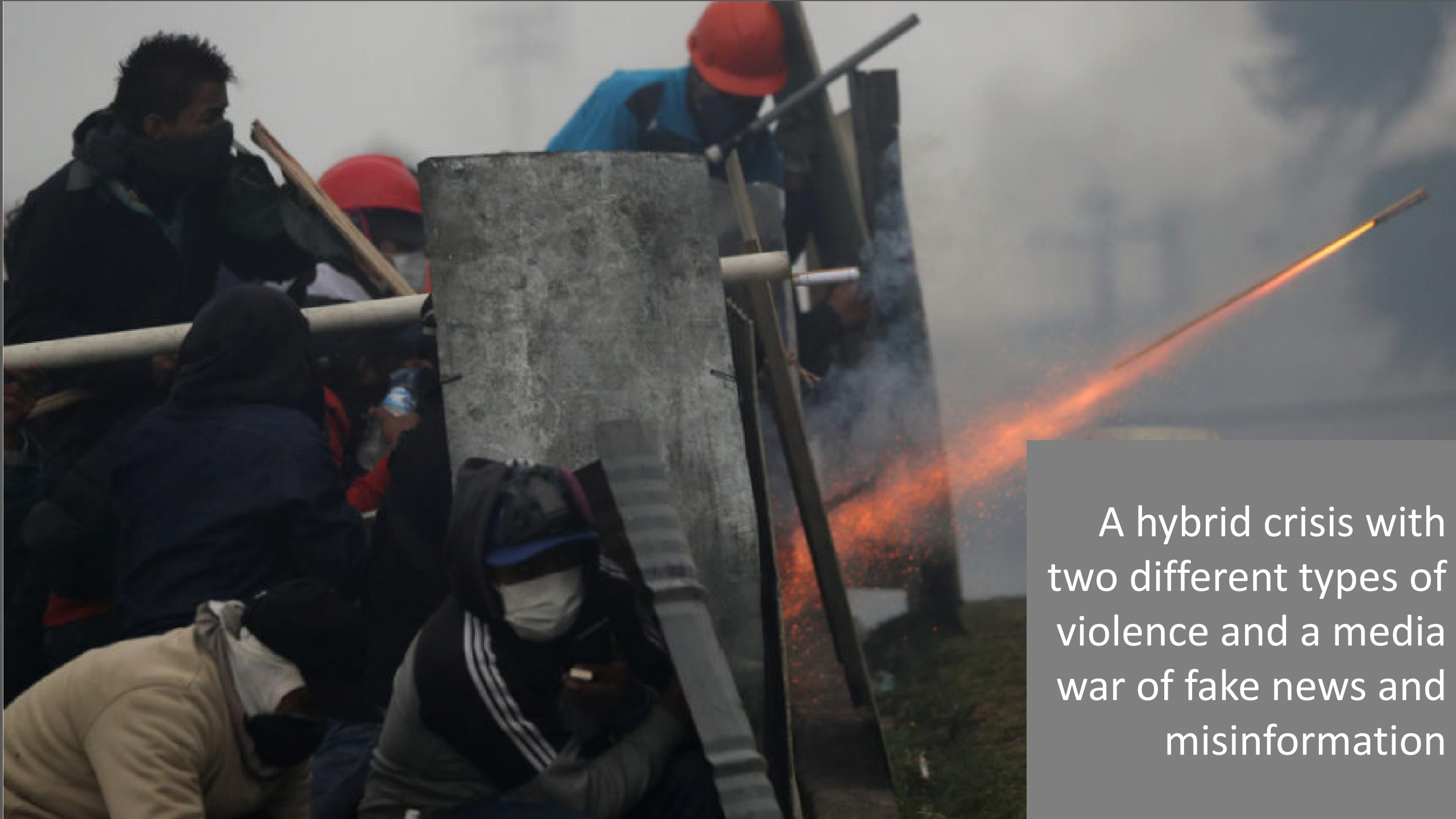
DEC
2018

MAR
2019

OCT
2019

Program with the IMF and
agreement with other MDBs

Reform plans announced



A hybrid crisis with
two different types of
violence and a media
war of fake news and
misinformation



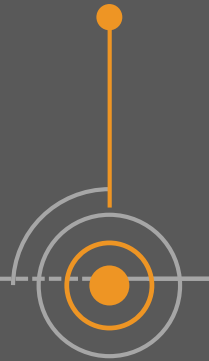
Spontaneous and legitimate protest triggered by the reform but leveraging the general feeling of dissatisfaction and mistrust.



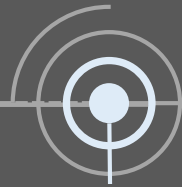
Organized, prepared and deployed networks with the purpose of creating fear and violence under diverse forms, robbery, and attacks on strategic assets such as oil fields, general prosecutor office and media

As part of the fiscal consolidation and structural reform agenda, steps were taken to reduce subsidies

INITIAL STEPS FOR SUBSIDY
REMOVAL (SUCCESSFUL)



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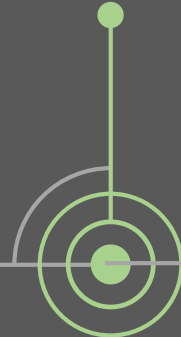


MAR
2019

Program with the IMF and
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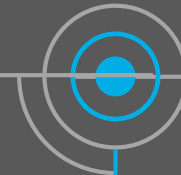
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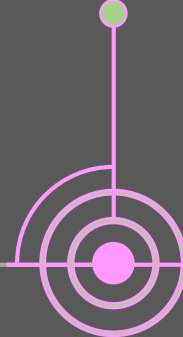
OCT
2019

NOV
2019



REJECTION OF
ECONOMIC PROJECT
LAW

ADAPTING REFORM TO
CURRENT CIRCUMSTANCES



Now

This type of reforms are particularly sensitive
because they threaten engrained issues

When working on this we are facing a wicked-
hard or complex problem



MAKING A CAKE IS A SIMPLE PROBLEM

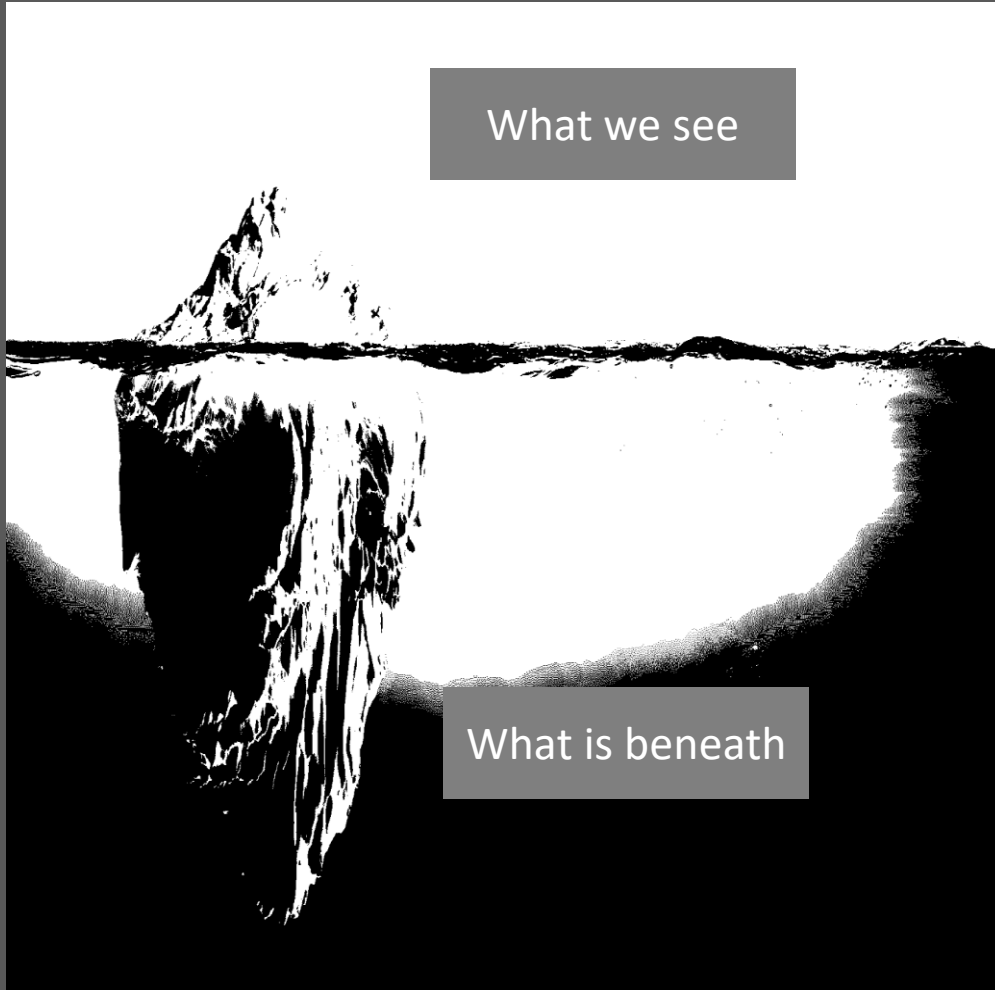
BUILDING A BRIDGE IS A **COMPLICATED** PROBLEM





RAISING A CHILD IS A COMPLEX PROBLEM

Locating ourselves in the place and in the moment



Very challenging fiscal situation:

- ~ 60% Debt /GDP ratio
- Public spending to GDP increased to 44% of GDP from 24% in 2008
- No more commodity boom

Support of the international community to correct path

- Program with IMF and other MDBs to support adjustment and structural reforms (not covering all financing needs)

Implementation of program and policies

- Reduction of public deficit by 7 pp of GDP
- Cuts in public investment and employment
- No growth
- Increase in unemployment and incidence of poverty

Strategic elements

History Energy subsidy reform has historically been a delicate and traumatic process

Benefits are diffused Benefits of the subsidies are diffuse, which makes targeting

Interest groups Subsidies are there because they are part of the current social contract, even if implicitly. Interests of different group are in balance

Loss aversion We may be asking people to leave something they receive now for a Benefit that comes in the future and it is even more diffuse.

Current moment Fiscal situation has opened space for this reform. But it is a period of adjustment, with consequences in growth, employment and poverty

Communication is key Communication is a central pillar of the reform and should start by positioning the problem and the opportunity cost

Coherence with other policy Coherence with other policies will be demanded by population

Long term vision This is a policy with longer term benefits, how can we discount them?

We knew that we needed an approach that balanced three aspects

Our action plan should then:

Designed as an adaptive process balancing three factors

Balance technical soundness, political feasibility and capabilities to implement

Balance “best fit” and “best practice”

Slide I presented in May 2019

How were these factors balanced?

- Systems to pay and distribute compensation in place
- Communication campaign
- Ability to set and charge new price at pumps
- Control of speculative pricing by policy

2. Capabilities to implement

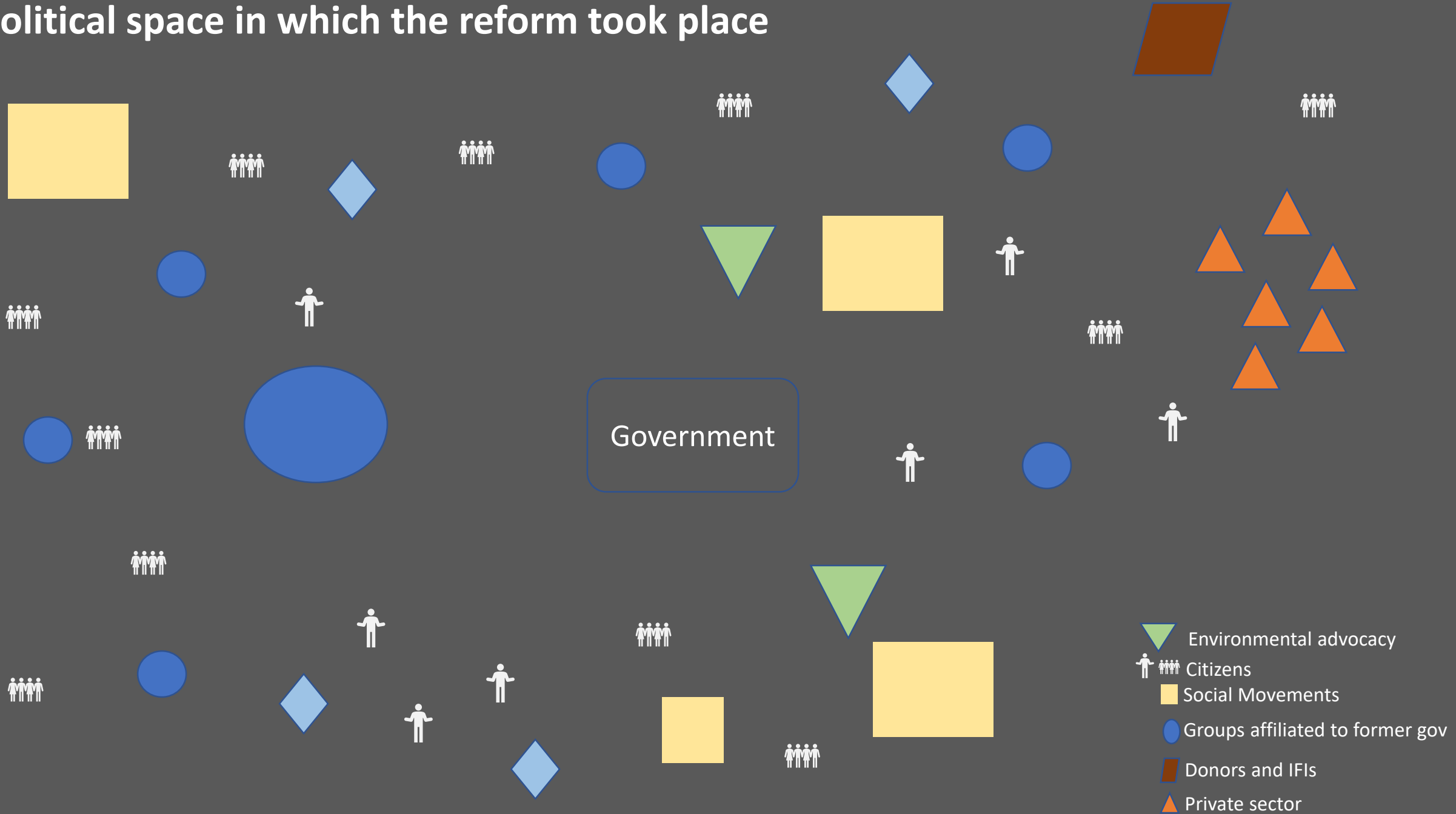
1. Technical soundness

3. Political feasibility

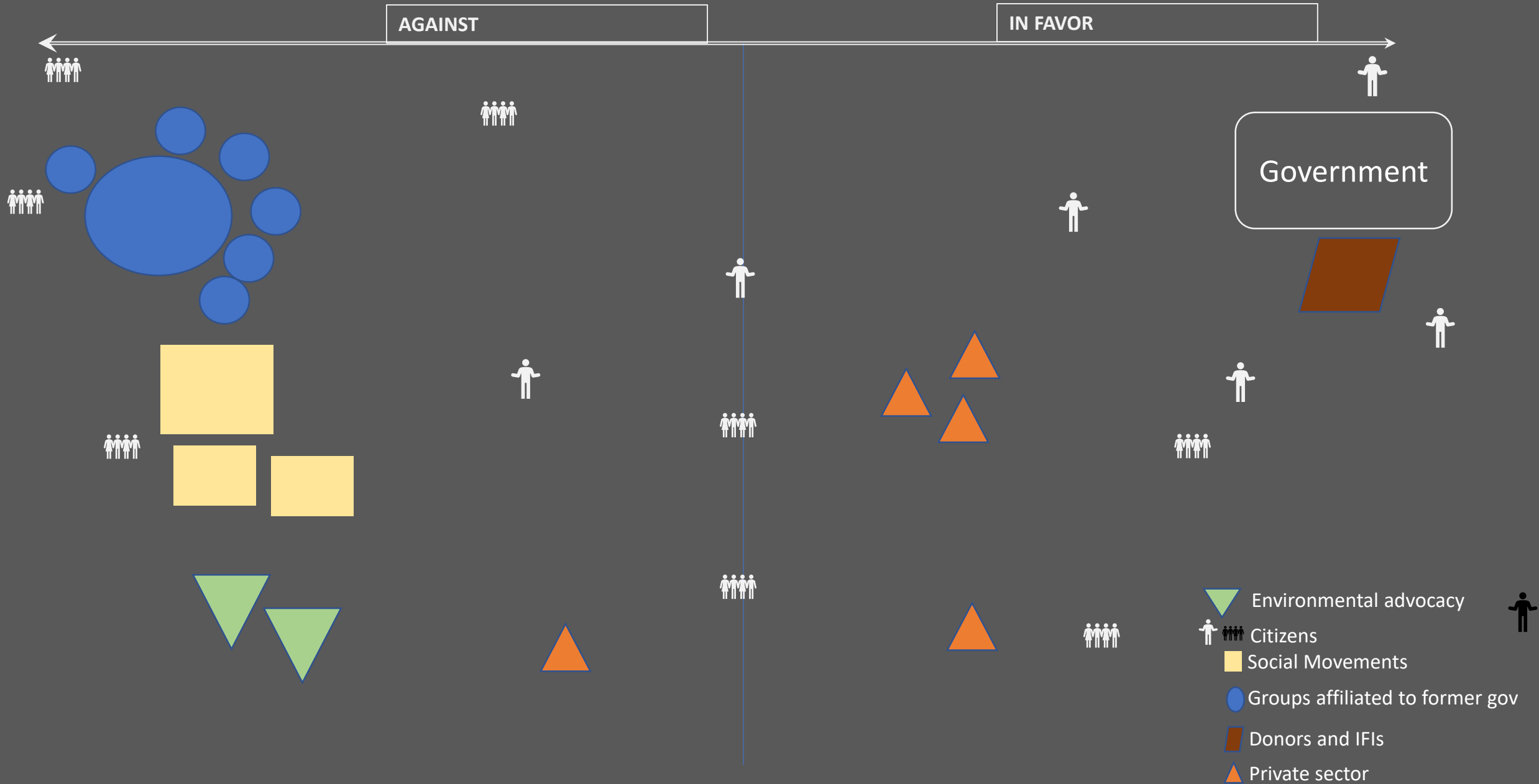
- Distributional analysis (rich benefit from subsidy disproportionately)
- Significant part of income of the poor, will need compensation
- Compensation designed
- Elimination of subsidies will set right incentives, economically and environmentally
- Impact on prices, little to none

- Authority
- Ability
- Acceptance

Political space in which the reform took place



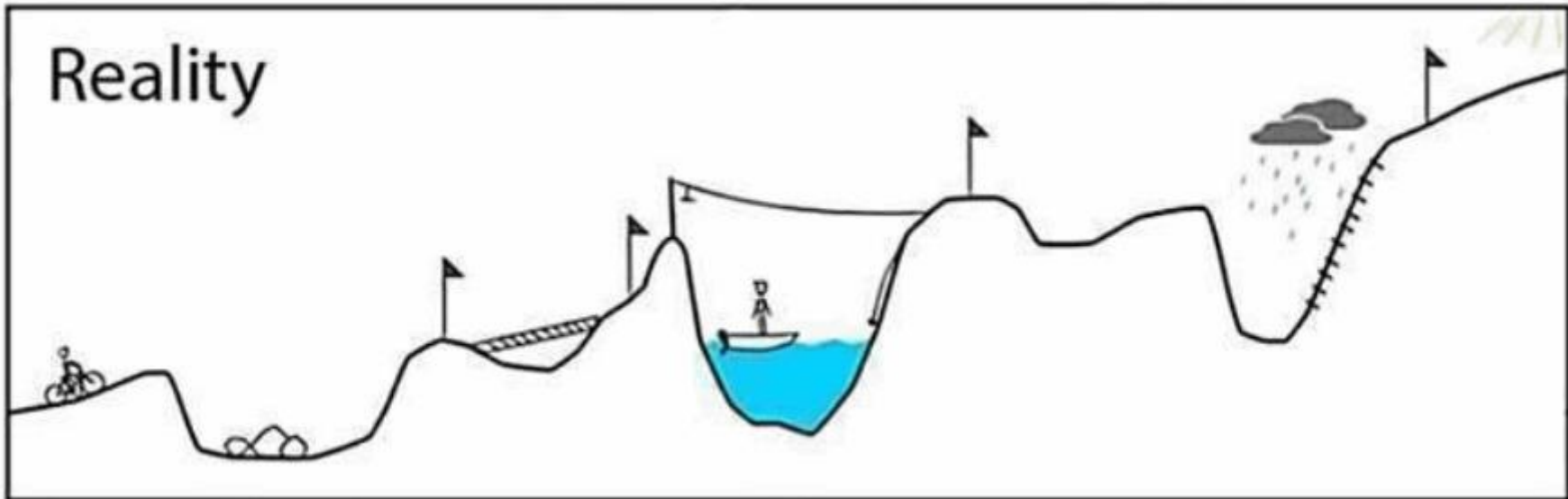
After reform is announced:



Your plan



Reality



Now what?

The problem is on the table and the government has adapted its strategy (best practice vs best fit)

Four KEY questions for us as we navigate carbon pricing reform?

Why does this problem matter?

To whom does it matter?

Who needs to care more?

How do we get them to give it more attention?

Thanks