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Overcoming Resistance

Ibrahim Saif *discusses why building consensus is key to successful energy subsidy reform*

IBRAHIM SAIF, former energy and mineral resources minister of Jordan, has been a vocal advocate for energy subsidy reform and for weaning his country off external sources of energy. In 2015, Saif helped craft Jordan's Vision 2025, a 10-year blueprint for economic and social development that calls for raising the proportion of energy consumption met from local resources and increasing the share of renewables. Saif, who joined the Jordanian government at the tail end of the country's massive energy subsidy reform, predicts that Jordan will be generating 20 percent of its energy through renewable sources by 2025.

Jordan, a resource-poor oil importer, successfully reformed general fuel subsidies in 2012 after a series of failed attempts. The country's energy sector faced significant challenges when prices of heavily subsidized energy rose sharply in parallel with increasing public demand. Facing high debt and fiscal pressures, the kingdom decided to remove general fuel subsidies. The country is still working on completing the reform of electricity subsidies.

Saif is a former director of the Center for Strategic Studies at the University of Jordan and has served as secretary general of Jordan's Economic and Social Council. He has taught at both the University of London and Yale University, where he led courses on the economies of the Middle East. He holds a PhD in economics from the University of London and is currently an advisor to the government of Oman.

In this interview with *F&D*'s Wafa Amr, Saif discusses his country's experience with subsidy reform and the promise of renewable energy sources for the region.

F&D: Can you paint a picture of Jordan's energy situation?

IS: Jordan imports about 95 percent of its energy needs from abroad, with energy imports amounting to about 18 percent of GDP. Put simply, for each dollar we spend, almost a quarter of that goes into energy. It is quite significant, and we are vulnerable. Moreover, Jordan has an energy-intensive economy. With oil prices now lower, the country's energy import bill is about $5 billion. Roughly 10 percent of the household consumption goes into some form of energy, be it electricity or fuel.

F&D: What prompted Jordan to undertake energy subsidy reform in 2011?

IS: Energy subsidy reform was a response to the vulnerability of the Jordanian economy to changes in oil prices internationally and the consumer behavior that has prevailed in Jordan for many years. Subsidies encouraged distorted consumption.

The subsidizing of fuel was a huge burden on our budget. The overall economy was exposed to vulnerabilities because of the imports, but so were our public expenditures, because if the government wanted to guarantee a certain price, it never knew how much to allocate for subsidies at the end of each year. Our economy was at the mercy of what was happening on the outside.

That's why Jordan decided that the situation was untenable. Jordan's fuel subsidies were not targeted; the consumers who consumed more fuel stood to benefit more, which undermined the whole rationale for having subsidies in the first place—to protect the poor and vulnerable.

F&D: In 2011, how did the Arab uprisings and the disruption of the supply of gas from Egypt affect the government's decision to carry out those reforms?

IS: In 2011, Jordan had a long-term contractual arrangement with Egypt to produce and generate electricity whereby we got gas at a certain price that was shielded from the volatility of the international prices. That year, Egypt was seeing unrest, and some violence was disrupting the flow of gas to Jordan. To continue generating electricity we had to resort to another form of energy, heavy fuel oil, which is the most expensive means of generating electricity. And between 2013 and 2015, the National Electrical Company, NEPCO, accumulated debt amounting to almost $7 billion. Without introducing reform, this trend would have continued. But in two years' time, the indicators reversed. In 2015, NEPCO reached operational cost recovery and stopped incurring losses.

"We never stopped repeating the messages."

F&D: What were the main challenges the government faced in introducing energy subsidy reform?
IS: Jordanians had become accustomed to subsidized products. It was difficult to introduce a new culture where domestic prices would now mirror what was happening internationally. When you initiate this type of reform, there are two kinds of resistance: from within the government, because officials feel they could pay a heavy political price for introducing unpopular measures; and second, societal resistance from outside. If you do not communicate properly the consequences of not undertaking these reforms, and if you do not have a critical mass of reform advocates in the community, it becomes extremely difficult. We kept engaging at all levels and never stopped repeating the messages.

F&D: What was the process of compensating the poor?
IS: With proof of income, we guaranteed that people below a certain income level (earning $1,130 a month) would receive cash transfers if the oil price was above $100 a barrel. When we introduced the program, we knew some people who were claiming compensation were not really eligible for it, but we were lenient in the beginning. The following year, we started to use stricter measures and did better due diligence because, for example, some of the beneficiaries were even living outside Jordan! We tolerated this at the beginning because we wanted to establish credibility that we were willing to compensate, but over time, we established a more refined data set. And actually, in the past three years, we haven't paid any compensation because the price is far below the $100 a barrel threshold.

More recently, the government has been developing a database with the National Aid Fund to help the poor by direct assistance instead of subsidizing the commodities that they consume.

F&D: Was the government successful in achieving the reform's objective?
IS: Yes—NEPCO was a loss-making enterprise; today, it generates at least $1.4 billion annually in revenue. And we managed that without any social discontent to speak of.

Moreover, as a result of new technologies and the development of renewable energy, Jordan is now a regional leader in diversifying its sources of electrical generation. We aim to have 20 percent of our energy generated through renewable sources such as solar and wind farms, and this target is very much achievable. We still need to do further reforms in terms of efficiency, improving the energy audit, and rationalizing consumption. But Jordan has succeeded in terms of transforming the energy challenge into something positive. Energy is still consuming an important part of our GDP, but that figure is lower today than it was five years ago.

A few years back, we imported almost all of the country's energy; now we aim to generate about 20 percent of electricity domestically. And Jordan's energy efficiency and energy intensity are now on a healthier track than they once were.

F&D: What was the most important lesson from your experience as energy minister?
IS: I learned the importance of getting consensus within one's own institution about the necessity of reforms. You need the right team around you to carry it out, because you're not just dealing with a ministry. It's a sector, and a huge one at that, with many different stakeholders. You have semigovernment players, the ministry, the regulatory commission, and private investors, both domestic and international. You also have new players and old ones. If you don't align all of the stakeholders, it's difficult to achieve your goals. FD

This interview has been edited for length and clarity.