



المجلس الوطني للتطوير الاقتصادي والاجتماعي
National Economic and social Development Board

Spotlight

A periodical issued by the Council to highlight topical

(Fuel subsidy policy reform)



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First Periodic Issue

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summery

The aim of this study is to assess the potential economic and social consequences of changing the policy of fuel subsidies in Libya, following the EU's approach for evaluating the effects of legislation, based on these steps (defining the problem, setting the objectives, proposing possible options, analyzing options, comparing options, and making final recommendations).



Introduction

This assessment is a core principle of decision making in developed countries. It usually takes the form of a document that contains an analysis of relevant information and data pertaining to the topics and issues that the policy maker needs to address by issuing appropriate legislation (laws, decisions, executive regulations, procedures, etc.)

The study “Evaluation of the Effects of Inflation in the United States,” which was released during President Carter’s administration in 1978, is considered the first evaluation study in this field. After that, during Reagan’s administration, the use of legislative impact assessment was expanded as a key tool to support decision-making at both the legislative and executive levels in the United States. Australia then adopted

legislative impact assessment requirements in 1985, followed by many European countries. By 2000, 20 out of a total of 28 OECD countries had legislative impact assessment requirements.

This method was not officially adopted by any Arab country as part of its decision-making system, although there were some modest attempts in this direction. The National Economic and Social Development Board in Libya was assigned to assess economic and social policies and legislation and to offer technical assistance and guidance to the decision-maker, as per Resolution 145 of 2014 on the reorganizing of the Board. This role was reaffirmed by Resolution 118 of 2022 on the reorganizing of the Board.

Fuel Subsidy Reform Study will be conducted according to the European Union methodology in the field of legislative impact assessment, by following these steps:**(problem definition, objective setting, proposing possible alternatives, analyzing alternatives, comparing alternatives, and final recommendations).**

Current Situation (problem Difenition) :

The policy of subsidizing fuel and energy in general requires an immediate revision and reform, as it causes several economic and social distortions that will severely damage the national economy and the social cohesion, unless they are addressed appropriately in time.

Social aspect	Economic aspect
<p>Unfairness in the distribution of support due to its equality for all segments of society on the one hand, and therefore those with higher incomes benefit more than those with lower incomes. On the other hand, there is unfairness in distribution between regions due to the inability to deliver fuel to some areas due to unstable security conditions, which in turn contributed to exacerbating the problem by providing a suitable environment for fuel smuggling outside the border.</p>	<p>The increase in the subsidy bill has resulted in direct financial burdens amounting to an average of about 20% of the total public budget. Additionally, the cost of the alternative opportunity resulting from the possible gains that can be achieved if these expenditures are directed towards development should be considered. Finally, the subsidy has created price distortions that have led to inefficiencies in the distribution and production of the economy in general and a decline in economic competitiveness in particular. In contrast, the subsidy policy has maintained a low general level of prices compared to other countries, especially during periods of exposure to external supply shocks.</p>

Sitting the objectives :

In light of the current situation and within the framework of the problem identified in the previous point, the objectives that the decision-maker is interested in achieving through the policies or legislation that he will adopt can be determined. For simplification, we assume that the decision-maker in this case is interested in achieving the following two goals:

1- The economic objective:

Reducing the subsidy bill and achieving a surplus in the budget that can be directed to investment expenditures, and achieving economic efficiency by reducing the levels of subsidies and the price distortions resulting from them on the one hand, and rationalizing the quantities of fuel consumed on the other hand, and reducing inflation

2- The social objective:

Achieving social justice by providing subsidies according to need and not equally for all categories, and providing them in all regions without exception.

Proposing possible alternatives:

At this point, the decision-maker identifies the available alternatives (means and options) from legislation and policies to achieve the desired objectives (which were specified in the previous point). Here, the following three alternatives can be suggested:

A. Substituting direct fuel subsidies with cash transfers aimed at income-eligible groups

B. Substituting direct subsidies with non-cash subsidies (fuel vouchers or electronic cards) and implementing an effective mechanism for equitable distribution across all regions.

C. Replacing imported quantities from abroad with locally produced quantities by increasing the production capacity of local refineries and establishing new refineries

Alternative analysis:

A. Substituting direct subsidies for fuel with cash subsidies for categories based on income

By substituting direct subsidies with cash equivalents and distributing them directly to the citizens, this option would enhance productive efficiency and optimize consumption, and ensure distributive

justice across regions and income groups, but it would also have huge negative impacts (which are currently unquantifiable) on economic stability (indicated by the general price level, inflation).

The effects of this option, both positive and negative, will vary depending on the percentage of subsidy removal and the gradualness of the reform process, but for simplification, if we assume that the decision maker targets on the economic side (reducing the subsidy bill, increasing economic efficiency, rationalizing fuel consumption, reducing inflation), and on the social side targets (achieving social justice by providing subsidies according to need and not equally for all categories, and making them available in all regions without exception), then this option can be evaluated as follows:

	benefits	Costs	rating
Economic aspect	%25	%25-	%0
Social aspect	%25	-	%50

B. Provide indirect assistance instead of direct assistance (such as fuel vouchers or electronic cards) and establish an effective system for distributing it fairly across all regions.

This alternative has economic and social implications for the decision-maker It will save the budget and curb smuggling, reduce the inequality between different regions and income groups, and cause inflation, but less than the previous option.

	Benefits	Costs	Rating
Economic aspect	75%	-10%	65%

Social aspect	100%	-	100%
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C. Substituting the imported quantities with domestically produced ones by enhancing the Productivity of local refineries or building new ones:

The allocated funds for support are used to increase the refining capacity of existing refineries and construct new ones, in order to meet the demand of the domestic market and export abroad. This alternative would accomplish 75% of the economic goals (enhancing economic efficiency, optimizing fuel consumption, curbing inflation) and 50% of the social goals (ensuring equity in distribution among regions)

	benefits	costs	rating
Economic aspect	75%	-	75%
Social aspect	50%	-	50%

Comparison between alternative:

In this part of evaluation the weighted sum method is used. It is one of the simplest methods of multi-criteria decision analysis used in similar situations when it is required to differentiate between a set of different alternatives on a subject. The working group decided to assign equal weights to the two objectives that the decision maker wants to achieve (i.e., 50% for each). Based on this, the group can easily compare the three alternatives by calculating the final score for each one. The score is the sum of the products of the evaluation results and their relative weights for each alternative. The formula is as follows:

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Alternative	Economic aspect (%50)	Social aspect (%50)	Final outcome
Cash support	$(0.5*0)$	$(0.5*0.5)$	0.25
Tangible support	$(0.65*0.5)$	$(0.5*0.5)$	0.825
Local production	$(0.5*0.75)$	$(0.5*0.5)$	0.625

The outcomes and Recommendations:

The study showed that all the proposed alternatives have a positive final outcome, meaning that they are all absolutely feasible, and choosing any of them would be better than keeping the status quo (0).



This alternative of providing cash support will entail adverse economic consequences (price inflation) that will offset its positive impacts (enhanced economic productivity). Moreover, this alternative has the lowest final score (0.25) among the proposed options, and it is the most similar to the status quo (0) than the other options (0.825 and 0.625).

This analysis shows that alternative number (3) (local production) has a high absolute feasibility (0.625) compared to the first alternative (0.25) and the status quo (0), but it is less efficient than the second alternative (in-kind support) for the decision maker, as building new refineries to boost local gasoline production can be time-consuming, costly and complex. However, building new refineries can be a long-term and lucrative investment in the future, as it can enhance the country's self-reliance and reduce its dependence on foreign imports.

Recommendations:

- 1-** Avoiding hasty adoption of a policy of substituting direct fuel support with cash support due to its low absolute feasibility, and considering other alternatives that achieve the desired goals more efficiently.
- 2-** The effectiveness of a policy of reforming support depends on its alignment with other policies, and its coherence with a clear economic vision that has specific, measurable and attainable goals within a time frame.
- 3-** Benefit from successful international experiences in reforming the fuel support policy, and collaborating with international organizations that have knowledge in this field.