**Session 2 Case Scenario**

**From the Macro- to the Micro-Level: Implementing Fuel Subsidy Reforms**

1. **Scenario[[1]](#footnote-1)**

Case scenario 2 takes place in a country in Latin America with a population of around 20 million people. The country is a petroleum producer (value of total exports amounted to US$ 20 billion in 2012). Nevertheless, petroleum products, such as fuel, are relatively costly and unaffordable for a large part of the population, as almost all of the oil extracted is refined overseas. For a long time, the Government has therefore been subsidizing fuel with over US$ 2 billion per year (30% of its total expenditures and about 4% of the GDP). Two weeks ago, the Government decided to completely remove the subsidy. Expected social and environmental benefits of the subsidy removal include:

* Saved Government expenditures could be redirected towards other sectors such as health, education, and infrastructure;
* Fuel consumption and hence CO2 emissions are expected to go down.

However, since the removal of the subsidy has been announced, the country has been paralyzed by a major strike. Demonstrators protest against rising costs for food and transportation due to higher fuel prices.

1. **Working Group Assignment**

The President has approached development partners to ask for policy advice on how to solve the crisis. An advisory group with representatives from different bilateral and multi-lateral development agencies has been created with the mandate to develop a post-subsidy action plan. Specific questions to be addressed by the group include:

* What ***measures/actions*** could be taken at the macro-, meso- and micro-levels respectively to implement the fuel subsidy reform in line with green economy considerations?
* Who are the key actors and change agents at each level and what could be there role? What contribution can development cooperation play?
* What are possible impediments and challenges in fostering strategic change?

1. **Additional Information**

In its deliberations, the group may consider the following information:

* The country’s mineral richness has not resulted in a significant improvement in the quality of life for the majority of its citizens, 54% of whom live below the national poverty line.
* The poor population relies primarily on public transportation as such their per capita fuel consumption is significantly less than the country’s rich, who generally use private vehicles.
* The fuel subsidy had crowded out other development spending. By comparison, total national allocation for education is about US$ 0.5 billion and US$ 0.8 billion for health care.
* The nation-wide protests are starting to affect the oil production and multinational oil companies are calling upon the Government to find a solution.
* The strike is being spearheaded by the influential Labor Congress with over 2 million members.
* The industrial sector is not developed. However, a first oil refinery was just inaugurated.
* Other major sectors in the country include forestry and mineral extraction.

1. **Group Reporting Template**

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| --- | --- | --- | --- |
|  | Macro-Level Action | Meso-Level Action | Micro-Level Action |
| Proposed Action |  |  |  |
| Key Actors |  |  |  |
| Challenges |  |  |  |

1. The case scenario has been informed by Nelipher Moyo and Vera Songwe, Brookings Institution (2012): [Removal of Fuel Subsidies in Nigeria: An Economic Necessity and a Political Dilemma](http://www.brookings.edu/research/opinions/2012/01/10-fuel-subsidies-nigeria-songwe). Additional fictitious information has been added for the purpose of the working group exercise. [↑](#footnote-ref-1)