



## CALL FOR PROPOSALS

### FOSSIL FUEL SUBSIDY REFORM

#### 1. Overall objective of the project

The International Institute for Sustainable Development (IISD) is conducting a study on fossil fuel subsidies as part of its Global Subsidies Initiative (GSI). The GSI is dedicated to research and awareness building on government subsidies and their impacts on sustainable development. In cooperation with a growing international network of research and media partners, the GSI seeks to lay bare just what good or harm public subsidies are doing and to encourage public debate and awareness of the options that are available for reform.<sup>1</sup> IISD's Trade Knowledge Network (TKN) is assisting with this call for proposals by reaching out to its partner organizations. TKN is a global collaboration of research institutions working on issues of trade, investment and sustainable development.

The GSI has given priority to research on fossil fuel subsidies because of their central role in economic development, environmental change and social welfare. Good management of these resources will be critical in achieving sustainable development; however, in many cases, government intervention in the sector could be encouraging over-exploitation and inefficiency.

In both developed and developing countries, subsidies to the production and consumption of fossil fuels exist in a wide variety of forms, including direct budgetary transfers, tax exemptions, and price controls. Although subsidies are often justified as having an overall benefit for social welfare, research has found that many fossil fuel subsidies have a net negative effect, both nationally and internationally. Fossil fuel subsidies distort the market, resulting in a host negative impact, including potentially greater greenhouse gas emissions, high costs imposed on government budgets, and reduced incentives for energy efficiency and conversion to alternatives energy sources.

Removing subsidies is generally considered to be a win-win policy measure that can benefit both the economy and the environment. However, the practical circumstances of individual countries are far more complex. The rationale for subsidies and the impediments to their reform

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<sup>1</sup> Further information on the IISD and the GSI can be found at [www.iisd.org](http://www.iisd.org) and [www.globalsubsidies.org](http://www.globalsubsidies.org).



can be as numerous and diverse and the types of subsidies themselves. Even measures that improve overall net economic efficiency and environmental performance can have negative impacts in the short-term. For example, fossil fuel subsidies can have some positive environmental effects, including reducing pressure on forests in rural areas where firewood is used for cooking and heat, and improving indoor air quality by reducing dependence on biomass. Reform strategies must be carefully designed to maximize the possibility of harnessing the long-term benefits and minimize any negative effects.

**The GSI is commissioning three case studies to examine the realities of fossil-fuel subsidy reform in developing countries. The studies, undertaken by in-country researchers, would focus on the experience of reform and the lessons learnt from the process. The cases do not necessarily need to be limited to examples of successful reform. Failed reform efforts can also yield important information about the reform process, which can help improve the chances of success in subsequent efforts.**

By examining previous case studies of fossil fuel subsidy reform, the GSI has identified several features that appear to be important for a comprehensive analysis and to allow comparison across country studies. While these will provide the framework for the case studies sought by GSI, researchers are also encouraged to examine other issues that are relevant to their country's experience. The case studies would include an analysis of the:

1. characteristics of the subsidy
2. rationale and purpose of the subsidy
3. key stakeholders
4. objectives of the reform process
5. timeline of reform
6. flanking policies, programs or funding put in place to support reform
7. success of reform and
8. lessons learnt.

## **2. Selection criteria**

*Initially, the GSI is only requesting **1 to 2 page proposals (MAXIMUM)** outlining the case study to be examined and its importance in the broader context of fossil fuel subsidy reform.*

Research proposals will be selected on the basis of:

- the lessons that could be learnt from the proposed reform for other countries and reform efforts;



- whether the reform has already been described in the international field (originality is not essential but case studies that have already been well described might be ranked lower than ones that have yet to be brought to light);

and evidence of the researcher's:

- in-depth knowledge of the sector;
- awareness of the relevant political, economic, social and environmental implications of the subsidy and its reform;
- previous written publications in this or relevant fields; and
- clarity of analysis and written expression.

### **3. Destination**

The case studies will be published as part of IISD's Bali to Copenhagen project, a two-year programme of research and consensus-seeking on trade and climate change issues that seeks to identify policy options for consideration in the negotiations for agreeing the next 2012-20 climate agreement. The goal is to support the international trade-policy community as it searches for ways to mainstream climate change objectives into its own efforts, providing a foundation of analysis that can inform the coming discussions and decisions.

An important component of this work involves issues associated with the reform of fossil fuel subsidies, with an emphasis on developing practical guidance to policy-makers.

The paper will be released in the lead up to the 15<sup>th</sup> Conference of Parties on the UN Framework Convention on Climate Change (December 2009), with the aim of raising the profile of these subsidies as a issue in greenhouse abatement. The case studies will be used to highlight to decision-makers the practicalities of reform and the importance of well-designed reform policies. The paper may eventually be published as part of a larger compendium containing all of the projects studies.

Following publication of the overview paper, the case studies would also be published by the IISD's Trade Knowledge Network and the findings summarized in the GSI newsletter *Subsidy Watch*.

### **4. Assignment**

The consultant will write a case study regarding the reform of fossil fuel subsidies in a developing country. The consultant would draw on existing literature and data sources, as well as personal communication with relevant in-country and international experts.



The following section presents the framework for the case studies. Each number or sub-number should be used as a section heading in the case study. This somewhat prescriptive approach is necessary to ensure that the case studies follow a consistent, comprehensive format that will allow comparison between countries. This is not a definitive list \ and we seek the consultant's suggestions of additional issues to be addressed.

- 1) Characteristics of the subsidy
  - a) Fuels subsidized
  - b) Subsidy instrument(s) (e.g. grants, tax breaks, low interest loans)
  - c) time period the subsidy has been in place
  - d) Estimated annual cost to government (note: should include actual costs for the most recent financial or calendar year (2007 or 2008) as well as any historical data and forecasts of future expenditure).
- 2) Rationale and purpose of the subsidy
  - a) stated purpose of the subsidy (i.e. as set out in government policy documents, budgets or media releases)
  - b) un-stated objectives (e.g. any other drivers, such as the government seeking to gain support of a particular constituency)
  - c) Extent that objectives have been met (also note how these changed over time, in response to their success or failure to deliver the desired objects).
- 3) Key stakeholders
  - a) Domestic
    - i) "Winners and losers" created by the subsidy
    - ii) "Winners and losers" of subsidy reform
    - iii) Interested parties (e.g. academia, lobby groups, NGOs)
  - b) International
    - i) (e.g. neighboring countries, international lending banks, WTO partners)
- 4) Objectives of the reform process
  - a) Motivation for reform
    - i) Stated objectives (e.g. reduce fiscal outlays, improve economic efficiency, environmental concerns, obligations under international agreements such as the WTO)
    - ii) Unstated objectives (any underlying political influences such as change in importance of constituencies to the government)
- 5) Timeline of reform
  - a) Planned timeline (as set out in official government documents)
  - b) Actual pace of reform



- 6) Flanking policies, programs and funding
  - a) Activities to support reform
    - i) research (before, during and after reform effort)
    - ii) communication strategies
    - iii) targeted assistance
    - iv) structural adjustment
  - b) Subsidy context (the options available to government to support the transition away from subsidies will depend on the wealth of the country and its governance structures, therefore a brief description of these are required, as relevant to the subsidy and its reform)
    - i) economic situation of country
    - ii) fiscal position of the government
    - iii) tax system
    - iv) social welfare system
- 7) Success of reform effort
  - a) Success against initial objectives
    - i) Stated objectives
    - ii) Un-stated objectives
  - b) robustness of the reform effort
    - i) Extent of backsliding
    - ii) further progress on reform
- 8) Lessons learnt, as applicable to:
  - a) the country under study and
  - b) general policy guidance for other countries wishing to reform their fossil fuel subsidies.

## **5. Product**

The consultant would agree to:

1. Produce a paper of approximately 4 000 words (minimum 3 000, maximum 5 000), including footnotes, written in a style accessible to policy-makers.
2. Revise the paper in line with comments received from IISD and submit a finished paper within three weeks of receiving comments.
3. Draft the paper in line with the IISD's style guide (format and referencing).



## 6. Timelines

- **Initial 1 to 2 page proposals to be submitted by 5 June 2009.**
- Final selection and contracting of successful applications completed by 19 June.
- First draft to be received by 29 July 2009.
- IISD to provide written comments within 5 working days following the deadline.
- Revised draft to be provided by 21 August 2009.
- IISD to provide written comments within 5 working days following the deadline.
- Final paper to be submitted by 16 September 2009.

## 7. Resources

The budget available is US\$ 4 000 per case study. This amount includes bonuses for delivery on time: US\$500 for receipt of first draft on time and US\$500 for receipt of full draft on time (i.e. only US\$3 000 will be paid if delivery deadlines are not met). Unless previously communicated and agreed with the TKN programme administrator, GSI or TKN is under no obligation to pay for any draft or final study that is more than one calendar month late from the agreed delivery time or does not broadly follow the framework described in Section 4, above.

## 8. Contacts

All **1 to 2 page proposals** should be sent to Chris Charles (GSI Program Administrator) at the following email address: [ccharles@iisd.org](mailto:ccharles@iisd.org) no later than the **5th June 2009**.