

ELECTRICITY SUBSIDIES HELP RICH ZAMBIANS FIVE TIMES MORE THAN THE POOR – BUT REMOVING SUBSIDIES NEEDS TO BE DONE WITH CARE

PRESS STATEMENT

FOR IMMEDIATE RELEASE

Electricity subsidies benefit the rich more than the poor. The richest Zambians currently receive nearly five times more in subsidies than the poor, according to a new research commissioned by *Policy Monitoring and Research Centre (PMRC)*. Given how unfair the current subsidy is, the government's aim of reforming subsidies by the end of 2017 is the right move. But care also needs to be taken to protect the poorest when subsidies are cut.

These conclusions are based on rigorous distributional analysis that will form part of PMRC's forthcoming report considering the impact of removing electricity subsidies on individuals and businesses. This analysis has revealed stark findings that demonstrate the regressive nature of energy subsidies and the consequences of removing them. The analysis shows:

- The wealthiest 20% of the population receive approximately 70% of all subsidies, whilst the poorest 50% of the population receive less than 3% of the electricity subsidies;
- Poorer households consume less electricity, average consumption for the bottom 50% of households is 226 kWh each month, compared to 312 kWh for all households;
- Despite this, poorer households spend more of their income on electricity – so removing subsidies has a higher proportional impact on the poorest households (it could increase expenditure by up to 13% of income of poorer households, compared to 6% for the wealthiest households).

This evidence is illuminating and highlights the challenges of withdrawing subsidies without increasing poverty. PMRC's research suggests that without alleviating measures subsidy withdrawal could increase poverty. However, this doesn't mean subsidies should not be withdrawn- their withdrawal will make large savings for the Zambian treasury and reduce inequality in Zambia. Rather PMRC is calling on the Government and Zambia Electricity Supply Corporation (ZESCO) to consider some options to alleviate the impact on the poorest households.

Specifically, ZESCO and the Government should consider:

- **Improving the way the subsidy is targeted:** Replacing the current universal lifeline policy with a targeted usage and hardship based lifeline tariff policy that is only available to the poorest households. The current lifeline policy extends subsidies to all electricity users regardless of their income status. Thus the majority of the benefits accrue to the wealthiest households.
- **Revising ZESCO's proposed lifeline band setting:** ZESCO has recently proposed to increase the current lifeline band from 100kWh to 300kWh following the tariff adjustments. This needs to be lowered as it is currently skewed toward benefitting the wealthiest households. ZESCO's proposals imply over 50% of households will never exceed the lifeline rate, including many wealthy households. It could be better to align the rate to average use of the poorest households and set the upper limit at 225kWh.
- **Removing the "fixed monthly charge" rate:** This is a fixed non-metered rate. Currently this only benefits wealthy households, PMRC's research shows this rate leads to cross subsidisation of wealthy households and under usage by poorer households (effectively forgoing 100kWh of electricity).



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