

Public Perceptions on Energy Subsidy in the MENA

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I. Introduction

Fossil fuel subsidies have been used as a policy tool to achieve various objectives. They have been employed to accelerate industrialization, ensure better fuel accessibility for the poor, and facilitate revenue distribution in fossil fuel exporting countries. Notably, after the COVID-19 pandemic, fossil fuel subsidies in 195 countries saw a rapid increase, reaching around 1.5 billion USD according to the Fossil Fuel Subsidy Tracker.

In the Middle East and North Africa (hereafter MENA) region, fossil fuel subsidies have been utilized as a social protection mechanism, serving as a tool under the social contract (Loewe, Zintl, and Houdret 2021). However, studies by Hinnebusch (2020) and Loewe et al. (2020) suggest that fossil fuel subsidies in the MENA region have also been leveraged as a populist policy, particularly in the aftermath of the Arab Spring. Consequently, the MENA re-

gion has the highest levels of fossil fuel subsidies, both as a share of GDP and on a per capita basis, compared to other parts of the world.

While criticism against fossil fuel subsidies is increasing, as subsidies result in environmental externalities like excessive carbon emissions and impose a fiscal burden on governments, the MENA countries have been reluctant to reduce these subsidies. This reluctance is driven by several factors: 1) there are many stakeholders, such as petroleum firms, who have vested interests in maintaining the subsidies; 2) there are concerns that reducing subsidies could harm economic development; and 3) the public in the MENA region is resistant to subsidy reforms, as they are skeptical that the provision of social protection services will be more beneficial to them. El-Katiri and Fattouh (2015) have argued that energy sub-

sidy policies in the MENA region could protect the poor, especially in the absence of a robust social protection system.

Previous studies have primarily focused on the social welfare implications of abolishing fossil fuel subsidies. For example, Osorio and Soares (2017), Tran et al. (2021), and Natalini et al. (2020) have explained that energy price increases could adversely affect the poor, middle-income groups, and even lead to political unrest and more protests. Despite the importance of this issue, there are few studies investigating the social perceptions towards energy subsidy reforms. Furthermore, to the best of our knowledge, no earlier studies have addressed the perceptions on fossil fuel subsidies and social services in the MENA region.

In this study, we aim to answer the question of whether the public in the MENA region prefers social protection services as an alternative to fossil fuel subsidies. We conducted an online survey in July 2023, covering four

countries – Egypt, Jordan, Saudi Arabia, and Tunisia – with a sample size of 2,040 respondents aged 18 years and above. The survey was conducted in Arabic.

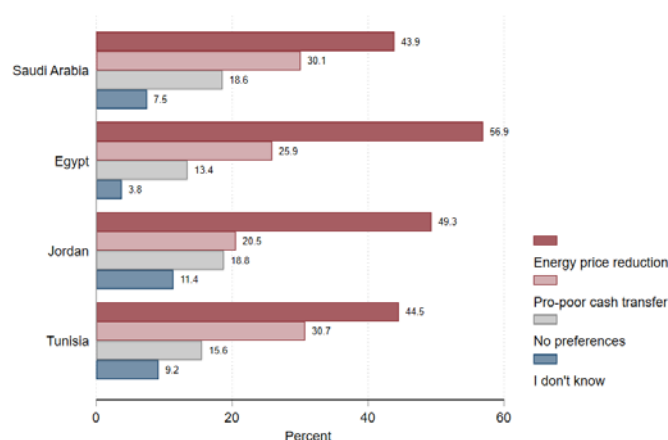
II. Perceptions on subsidy policies

1. Policy preferences between subsidy and pro-poor services

Implementing both energy price reduction policies and pro-poor cash transfer programs simultaneously poses a fiscal challenge in the MENA region, especially in non-oil producing countries. This incompatibility between the two policy options means that achieving a balance between reducing fossil fuel subsidies and improving social protection services could be a viable policy reform. However, the survey results reveal that respondents in the MENA countries prefer energy price reduction (or stabilization) policies over pro-poor cash transfer programs. This preference was particularly stronger in Egypt and Jordan.

Figure 1. Policy Preferences between Energy Price Reduction and Pro-poor Cash Transfer

(Unit: %)



Source: Results from own survey.

Notably, a significant proportion of respondents, ranging from 13.4% to 18.8% in each country, expressed no preference between the two policy options. This suggests that there may be a lack of information and understanding about policy reform among the general public. Additionally, it could also imply that the potential policy changes may not significantly affect certain individuals, leading to a lower level of concern.

2. Policy preferences against energy price hikes

In this subsection, we analyze policy preferences when energy prices increase. Respondents answer that they prefer support for vulnerable groups above government-led energy price reduction policies (see Table 1). However, more than 37% of respondents answer that they prefer energy price stabilization policies such as increases in government expenditure to decrease energy prices or exemption of energy-related tax. This suggests that while re-

spondents generally prefer energy price stabilization or keeping prices lower under ordinary circumstances, they also believe that there should be support for poor and vulnerable groups during times of crisis or external shocks that lead to price increases. In other words, even though maintaining lower energy prices is the preferred policy option, respondents recognize the need for targeted support for the disadvantaged when faced with price shocks.

One of the traditional views on the role of government in the MENA region is that it should provide essential goods, such as food and energy, at low prices, in accordance with the social contract (Auktor and Loewe 2020). This concept has been widely prevalent in the MENA region, and policymakers have historically focused on reducing food and energy prices through subsidies, with the aim of maintaining social stability and their political power. However, the results of the survey conducted in this study reveal a shift in public preferences. The respondents expressed a higher preference for policies that support the

Table 1. Policy Preferences against the Energy Price Hikes

(Unit: %)					
Policy tool	Saudi Arabia	Egypt	Jordan	Tunisia	Average
Government expenditure for energy price reduction	20.31	18.18	18.98	15.17	18.19
Economic support for vulnerable groups	45.40	54.74	39.33	46.31	46.42
Provision of social services for low-income groups	17.62	13.64	14.68	15.37	15.34
Tax exemption or reduction of energy-related items	15.33	12.06	26.81	22.95	19.26
Others	1.34	1.38	0.20	0.20	0.78
Number of respondents	522	506	511	501	2,040

Source: Results from own survey.

poor in extraordinary situations, rather than those focused solely on energy price reduction.

The survey results reveal an interesting contrast in policy preferences between Jordan and the other three countries surveyed (Egypt, Saudi Arabia, and Tunisia). While more than 60% of respondents in the latter three countries expressed a preference for supporting the poor during times of crisis, the policy preference for price decreases was the highest in Jordan. This finding is particularly noteworthy, as previous studies have identified Jordan as one of the successful cases of energy subsidy reform. However, the survey results suggest that even in a country where energy subsidy reform has been implemented, the public may not necessarily support this if it leads to actual increases in energy prices. This in turn implies that the success of energy subsidy reform at the macro level may not always translate into public support, especially when the immediate impact is felt through higher prices. It suggests that championing subsidy reform alone may not be enough to garner public support, and policymakers need to consider the broader implications and impacts on the population, particularly on the most vulnerable groups.

3. Preferences on the energy subsidies policy reform

In this subsection, we aim to investigate which population segments are more favorable towards energy subsidy reform. Previous studies have highlighted several key rationales

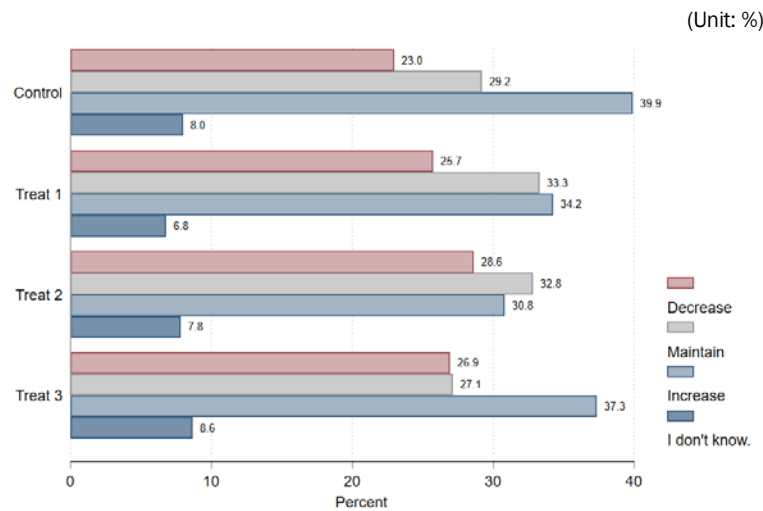
for abolishing energy subsidies, such as: 1) reducing the government's fiscal burden, 2) responding to climate change and excessive energy consumption, and 3) increasing social protection services instead of reducing subsidy-related expenditures.

However, there is a lack of studies providing insights into the policy preferences of the public in the MENA region. To address this gap, we conducted a survey experiment where the sample was randomly divided into four groups: one control group and three treatment groups. Each treatment group was provided with different informational statements, as described below.

- 1) Control group: No statement
- 2) Treatment group 1: Government decided to reduce the energy subsidy gradually to reduce government debt, as advised by the international organizations (e.g., IMF, World Bank).
- 3) Treatment group 2: Government decided to reduce the energy subsidy gradually to contribute to climate change action and decrease domestic coal consumption.
- 4) Treatment group 3: Government decided to reduce the energy subsidy gradually to increase social services for the poor and vulnerable groups and ease inequality.

The results of the survey experiment show that the treatment groups, who were provided with additional information, were more favorable towards decreasing fossil fuel subsidies

Figure 2. Policy Preferences on Subsidy Reform



Source: Results from own survey.

compared to the control group. For instance, the percentage of respondents who answered that the government should increase subsidies was only 34.2% and 30.8% in the treatment groups where the statements were related to government debt or environmental issues, respectively (see Figure 2).

However, the share of respondents who expressed support for fossil fuel subsidy reform was similar between the third treatment group and the control group. This suggests that the public in the MENA region may not agree with the government's policy reform aimed at expanding social service provision as an alternative to fossil fuel subsidies.

One possible reason for this is that the public in the MENA region prefers energy price reduction over social services. However, a more important factor may be the public's distrust in social security services and concerns about corruption. Previous research by Sapsford et al.

(2017) found that one of the main reasons for the 2011 Arab Spring protests was the fight against corruption. In other words, even if the size of energy subsidies was reduced with the stated goal of expanding social security services, the local residents may oppose the policy reform itself due to a lack of trust in the government's ability to deliver on the promised social services.

This implies that if the rationale for reducing energy subsidies in the MENA region is to expand social security services, it will be challenging to obtain the consent and support of the local population. The results highlight the importance of addressing the public's concerns about corruption, and the credibility of social service delivery alongside any energy subsidy reform efforts.

Why do people agree to reduce subsidies? Some of the concerns regarding the energy subsidy is that subsidy policies are more pro-

Table 2. Reason for Supporting Subsidy Reduction

(Unit: %)

Reason	Control	Treat 1	Treat 2	Treat 3
Pro-rich and inequality	48.3	39.8	40.6	41.6
Burden to tax-payers	28.2	21.8	23.1	19.8
Consumption distortion	22.0	12.0	16.8	24.8
Negative impacts on the environment	22.0	18.8	27.3	19.0
Production distortion	21.2	16.5	18.2	18.2
Benefits to monopoly or oligopoly firms	19.5	16.5	16.1	15.3
Non-transparency	16.9	19.5	13.3	15.3
Encouragement of informal economy	16.1	15.0	15.4	13.9
Postponement of strategically important decision-making	11.0	15.8	12.6	12.4
Supports populist government	10.2	9.8	6.3	14.6
Investment distortion	9.3	16.5	18.2	13.1
Others	5.1	3.0	0.7	4.4

Source: Results from own survey.

rich in nature and benefits are unequally distributed (see Table 2). For this reason, respondents across all survey sub-categories point out that subsidies should be decreased. Respondents also agree to subsidy reduction because the government might levy more burden on tax payers, which could distort both consumption and production. For example, energy might be over-consumed relative to optimal levels because of the price reduction. This suggests that policymakers in the MENA region may have an opportunity to garner public support for subsidy reform, provided that they can effectively communicate the potential benefits and address the public's concerns about the fairness and efficiency of the existing subsidy system.

However, respondents who answered they prefer to maintain or increase fossil fuel subsidies mention that the subsidy policy could

benefit all (see Table 3). They also have concerns regarding price increases and price fluctuation. Interestingly, 38% of respondents in the control group stated that energy subsidies should be maintained or increased because they consider it a human right. As mentioned earlier, fossil fuel subsidies in the MENA region are often viewed as part of the social contract, and the public sees them as an entitlement. This perception of energy subsidies as a human right could be a critical obstacle for policymakers in the MENA region when attempting to reform the subsidy system, including food subsidy programs. This finding underscores the deeply ingrained nature of the energy subsidy system in the MENA region's social and political fabric. Any attempts at reform must carefully consider the public's strong attachment to these subsidies and the potential backlash that could arise from perceived infringement on their rights.

Table 3. Reason for Supporting Current or Higher Subsidy Levels

(Unit: %)

Reason	Control	Treat 1	Treat 2	Treat 3
Benefit to all	46.5	40.1	35.8	40.9
Compensation when price increases	42.8	41.0	37.4	40.5
Reduction of risks related to price fluctuation	40.6	42.7	39.9	47.6
Human right	38.0	37.0	33.3	38.1
Decreases production costs, export competitiveness	34.1	28.7	24.8	24.7
Tool as a social protection policy	31.0	33.8	32.7	29.9
Demand for subsidy when there is recession	22.0	19.2	23.6	20.4
Risks for social instability	21.1	16.9	19.5	20.1
Political agreement	12.1	11.2	10.7	11.6
Others	2.0	1.1	0.3	0.3

Source: Results from own survey.

4. Preferences on alternative policies

The survey also explored which social protection policies the respondents would prefer as alternatives to energy subsidy reforms. Among the six alternative policy options presented, the respondents did not express a strong preference for social protection measures (see Table 4). Specifically, the least preferred policies were free education and free healthcare services. The reasons for this preference may be related to concerns about the quality of these public services and a general lack of trust in them.

Furthermore, these social services may not be perceived as direct alternatives to energy subsidies by the respondents. This finding is consistent with the previous results, which showed that the public in the MENA region

generally prefers energy price reduction or stabilization over expanding social protection services. These results suggest that it will be challenging to quickly transform the existing energy subsidy policies and replace them with social services in the MENA region. The identification of target groups, such as the unemployed or the poor, may also be difficult within the current social protection systems.

However, the researchers note that if a clear rationale for reducing energy subsidies is provided and appropriate economic support is offered when making such reductions, the social impact of subsidy reform could be more influential than before. In other words, the success of transitioning from energy subsidies to social protection measures may depend on effectively communicating the benefits, as well as ensuring the adequate delivery of alternative support mechanisms to the public.

Table 4. Preferences on Alternative Policy for Energy Subsidy Reform

(Unit: %)

Alternative policy	Saudi Arabia	Egypt	Jordan	Tunisia
Free education	2.13 (0.96)	1.98 (0.92)	1.96 (0.98)	1.89 (0.94)
Free healthcare	2.11 (0.96)	1.92 (0.89)	1.99 (1.03)	1.92 (0.91)
Support for unemployed	2.24 (0.95)	2.20 (0.97)	2.12 (1.02)	2.33 (1.05)
Food subsidy for the poor	2.21 (0.99)	1.97 (0.94)	2.08 (0.99)	2.01 (0.96)
Cash transfer for the poor	2.67 (0.94)	2.21 (0.91)	2.15 (1.02)	2.19 (0.94)
Food subsidy for all	2.26 (0.97)	2.18 (0.93)	2.14 (0.96)	2.23 (0.97)

Source: Results from own survey.

Note: Using Likert-scale, respondents were able to choose from 1 (totally disagree) to 5 (totally agree); number in parenthesis is standard deviation.

III. Policy Implications

Based on the results, two key policy implications emerge. First, social protection programs must be carefully designed as an alternative to energy subsidy reform. The results suggest that the public in the MENA region may be resistant to subsidy reform, as they strongly prefer reducing or stabilizing energy prices. This indicates that protests could arise over energy prices if the government does not adequately address the public's concerns about price changes. One challenge in expanding social protection programs as an alternative is the accurate identification of target groups. There have been discussions around providing other forms of social services, such as expanding food subsidies, free education, and medical support, to target vulnerable groups.

One alternative approach could be to provide universal cash transfer programs to all citizens, as seen in the study by Mukherjee et al. (2023) in the Dominican Republic case. Mukherjee et al. found that universal cash transfers can improve social welfare more effectively than energy subsidy policies. The survey results in our study indicate that the public's distrust in the government is a key factor behind their preference for energy subsidies over social security services. To successfully implement social security programs as an alternative, regional governments in the MENA must devise a clear roadmap and ensure its effective implementation to build public trust.

The second key policy implication is the importance of effective public campaigning and awareness-raising around the need for energy subsidy reform. The survey results indicate that the public in the MENA region is more

supportive of reducing energy subsidies in order to address climate change, compared to reducing subsidies to expand social service policies. This suggests that framing the subsidy reform within the context of environmental sustainability and climate action may be a more effective approach in the MENA context.

By conducting a well-designed public awareness campaign that highlights the importance of reducing energy subsidies as a means to combat climate change, the risk of public

backlash against a gradual reduction of subsidies can be minimized. This approach leverages the public's environmental concerns as a motivating factor for supporting subsidy reform. However, even with such an awareness campaign, it is crucial that policymakers also present practical alternative measures to mitigate the impact of subsidy reduction on the general population. **KIEP**

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