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Implications of IMF Subsidy Reform Policies

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Executive Summary

Economies of the Middle East and North Africa (MENA) region are the most heavily subsidized in the world. MENA governments' annual expenditure on energy subsidies is particularly staggering, amounting to nearly 8.5 percent of the region's GDP in 2011, or USD 240 billion.[1] Food subsidies account for a far smaller yet still significant percentage of regional spending, estimated at 0.7 percent of GDP in 2011.[2] Advancing a neo-liberal economic model based on fiscal consolidation and privatization, the International Monetary Fund (IMF) has consistently advised Arab governments to reform and repeal subsidy regimes.

In Jordan, Tunisia, Morocco, Egypt, and Yemen—countries with extensive historical engagement with the IMF—the Fund has conditioned loan agreements on the willingness of governments to adopt stringent fiscal austerity measures—namely the reduction of food and energy subsidies. The IMF views the unwinding of subsidies as the key to fiscal consolidation and debt reduction, which in turn, it argues, enable states to generate inclusive economic growth and sustainable, private sector-led development.[3]

This paper traces the evolution of IMF recommendations on fuel and food subsidies from the onset of the global financial crisis (2007-2008) through the aftermath of the 2011 Arab uprisings. During this period, the IMF has intensified its calls for the reduction of food and, in particular, fuel subsidies in the MENA. In addition to conducting a comprehensive review of IMF staff reports from 2007 to 2013, the authors[*] of this paper interviewed representatives of over 11 development and human rights-focused organizations based in Jordan, Tunisia, Morocco, Egypt, and Yemen.[4] By consulting civil society perspectives, this paper seeks to highlight the concerns of societies in the Arab region over the socio-economic consequences of IMF-backed subsidy reforms.

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Historically, the implementation of the IMF's advice on subsidy removal has yielded little success in countries of the MENA region, mostly owing to inadequate measures to mitigate the increased financial burden on the poor and middle class. Overwhelmingly, implementation of such advice has resulted in popular backlash and economic upheaval. For example, Egypt's decision to repeal food subsidies in 1977 provoked widespread rioting, while Jordan's attempt to cut subsidies in 1989 and 1996 similarly triggered rioting and unrest. The Jordanian and Egyptian governments implemented subsidy reforms in 2011 and 2012, respectively, but subsidy cuts in both instances were reversed in the face of popular opposition. In September 2013, fuel subsidy cuts in Sudan sparked violent protests and a subsequent crackdown by security forces, resulting in confrontations that caused over 50 deaths.[5] Today, amidst heightened socio-economic discontent and political instability, populations in Arab countries are highly likely to lash out against governments' attempts to roll back subsidies on basic commodities.

The reform of food and, in particular, energy subsidies remains the driving component of the IMF's policy advice to Arab governments. Although energy subsidies are regressive, disproportionately favoring the rich, the repeal of these subsidies is more likely to harm than help the poorest segments of society. In the near-term, the unwinding of subsidies cannot serve as the panacea for the serious budgetary and fiscal difficulties facing most Arab states. By continuing to press Arab governments to remove subsidies, the IMF has inadequately responded to the sweeping social and political changes stemming from the 2011 uprisings and subsequent period of unrest.

Recognizing the heightened social unrest and economic volatility in Arab countries, the IMF increasingly recommends the gradual—rather than immediate—removal of subsidies. Moreover, since the reduction of subsidies invariably harms the purchasing power of low-income households and individuals, the IMF has coupled its subsidy removal advice with calls to implement or broaden "social safety nets"[6] that target vulnerable groups.

Theoretically, the IMF proposes the expansion of social safety nets as a way to offset the negative impact of subsidy removal on the poor. In practice, however, social protection schemes are underdeveloped and often nonexistent in Arab countries, and are thus incapable of cushioning the poor against rising prices. In many instances, corruption and the absence of transparency mechanisms further complicate the task of distributing social welfare benefits.

In the present era of citizen empowerment and political upheaval, subsidy policy cannot be detached from the difficult political, socio-economic, and institutional circumstances present in the Arab countries under study. Thus, IMF recommendations should emphasize policies that counteract the negative socio-economic repercussions of subsidy removal on vulnerable and low income groups. These recommendations have yet to specifically evaluate the effects of subsidy reduction on poverty levels, middle class status, and domestic consumption. In the absence of robust social protection schemes, subsidy removal can depress wages, diminish citizens' purchasing power and participation in domestic markets, and endanger the living conditions of vulnerable groups. Subsidy reform should only occur upon the establishment of sustainable and comprehensive social protection schemes, and can only proceed with broad support from a variety of stakeholders.

Rather than calling for the near-term phasing out of energy subsidies, the IMF should adapt its recommendations to country-specific conditions, taking into account the need for viable and effective social protection schemes. Populations in the Arab region are not calling for smaller government, as the IMF suggests, but rather more effective government capable of producing jobs, growth, and social programs that protect vulnerable groups. In the near-term, the IMF should place greater emphasis on designing fiscal policy recommendations that allow for the establishment and expansion of effective social protection programs, while also stepping up its direct engagement with governments, NGOs, and civil society organizations to generate broad societal consensus for economic reform agendas. Enhanced engagement with regional NGOs and civil society organizations is especially critical when devising social protection schemes. Operating at the communal level and familiar with local conditions, these groups can critically assist in developing transparent social welfare programs that effectively target vulnerable groups.

Reflections on IMF Recommendations

For over three decades, IMF engagement in the Arab region has emphasized the implementation of Structural Adjustment Programs (SAPs) that essentially included fiscal austerity measures such as debt reduction, decreased spending, and the unwinding of government subsidies. These policies have failed to prevent rising poverty and unemployment in the region, induced further wage cuts—where women were the most affected, and induced a shift away from the productive manufacturing sector and toward the service sector—a major transformation that has diminished productive economic activity and inhibited inclusive economic growth.[7] Despite the region's changing economic and political conditions, the core elements of IMF policy advice continue to be centered on fiscal consolidation and debt reduction—measures best achieved, the IMF argues, through subsidy reform.

The IMF depicts energy and food subsidies as policy tools that aggravate fiscal imbalances, encourage excessive energy consumption, reduce incentives for investment in renewable energy, and divert public spending away from key social programs.[8] Recognizing the potentially adverse socio-economic consequences of subsidy reform, the IMF now calls for the expansion of social safety nets alongside subsidy reduction. Nonetheless, the Fund continues to advocate the near-term removal of subsidy regimes across the MENA, without regard to the existence of alternative social protection schemes. Such policies are not viable for countries in transition, where institutional structures are weak and populations are under significant duress due to high levels of poverty, rising commodity prices, and depressed wages.

The Efficacy of Social Safety Nets

Since 2011, the IMF has placed greater emphasis on the concept of social protection—advocating cash transfers to the poor and improved targeting schemes for all subsidy and social welfare programs. According to the IMF, direct cash transfers to low income groups could mitigate the negative repercussions of subsidy removal and cushion vulnerable segments of the population against rising commodity prices.

Rather than calling for the near-term phasing out of energy subsidies, the IMF should adapt its recommendations to country-specific conditions, taking into account the need for viable and effective social protection schemes.

While each country examined possesses a distinct set of socio-economic circumstances, all countries face similar institutional and political constraints that inhibit the near-term development of viable protection schemes. Existing social protection schemes are underdeveloped and insufficiently-funded, and many countries lack the institutional and bureaucratic structures necessary to manage national social welfare programs. Furthermore, the absence of national records and databases hinders the task of targeting low income groups. The effective targeting of poor and disadvantaged groups is also inhibited by high levels of institutionalized corruption and entrenched patron-client networks.

Implementing social protection programs is particularly daunting for Yemen, whose institutions are weak and incapable of accessing vulnerable groups. Mustafa Nasr from the Studies and Economic Media Center (SEMC), and Arafat Al-Rufaid from the Human Rights Information and Training Center (HRITC), emphasized that Yemen's existing social programs provide insufficient coverage for the basic needs of the poor, and therefore cannot serve as adequate alternatives to the subsidy regime. Although Yemen's Social Welfare Fund (SWF) reached over 1 million beneficiaries in 2009, with payments that ranged between YER 2,000 (around USD 9.31) and YER 12,000 (around USD 55.84) per quarter (3 months),[9] it has failed to alleviate the country's high poverty levels and food insecurity. In 2012, 54.5 percent of Yemen's population reported living below the poverty line and 45 percent identified as food insecure.[10] With monthly incomes between YER 22,276 (USD 103.65) and YER 25,522 (USD 118.75), Yemen's poor households are forced to spend about 98 percent of their income on basic food items.[11] Hence the inflationary effects of subsidy removal could launch Yemen's most vulnerable groups deeper into poverty and prevent them from securing food items and basic needs.

Jordan and Egypt also suffer from inadequate social protection schemes. According to Amneh Falah from the Jordanian Women's Union, Jordan's existing social safety nets and cash transfer programs have not markedly improved the conditions of the poor. She indicated that the provision of assistance to low income groups is inconsistent, and state institutions struggle to target groups in need due to the lack of accurate population data. Furthermore, Falah stated that subsidy alternatives have not addressed factors related to inflation and the impact of rising prices in all sectors.

In Egypt, for example, the World Bank-led technical assistance program—designed to oversee energy subsidy reform and broaden social safety nets—has failed to develop adequate social protection measures or a viable alternative to subsidy regimes. In line with IMF policy advice, the technical assistance program has aimed at "(i) reforming energy subsidies through a program of price adjustments, (ii) moving away from a subsidized public supply of electricity and gas to a public-private supply that would operate on commercial basis, and (iii) putting in place a transparent and targeted subsidy when and where needed."[12] Under the terms of the April 2013 agreement between the Deauville Partnership and Egyptian government, the World Bank program allocated 35 percent of its USD 6.5 million grant toward developing social protection schemes—mainly a regime of targeted cash transfers to low income groups.[13] World Bank economists estimated that these cash transfers would amount to EGP 240 (about USD 35) per person annually.[14]

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Yet this proposed cash transfer system is not capable of meeting the needs of Egypt's poorest and most vulnerable groups. Samer Atallah, professor of economics at the American University of Cairo and member of the "Popular Campaign to Drop Egypt's Debt," argued that the cash transfers would not benefit the vast majority of Egyptians who struggle to afford basic needs. According to a 2012 population survey conducted by the Egyptian Food Observatory, "86% of Egyptians surveyed said their income was insufficient for covering total monthly needs, including for food, clothes and shelter, up from 74% in

June 2012."[15] Illustrating the dire situation of Egypt's poor, the Observatory reports that vulnerable households earning monthly incomes of EGP 699 (about USD 102) spend 60 percent of their income on food items.[16] Thus the proposed cash transfer system is inadequate and underfunded, underscoring the necessity of improving targeting methods and devising viable alternatives before subsidy systems are dismantled.

In addition to inadequate funding, the current program is also plagued by bureaucratic inefficiency, corruption, and the inability to adequately target vulnerable groups.[17] Although the technical assistance program envisages the creation of a new targeting database, the revamped targeting scheme would rely on existing bureaucratic databases, which track ration card recipients and traffic and electricity records, to identify the poor.[18] Most of these records, however, are faulty and incomplete. For example, over 20 percent of Egypt's vulnerable households do not hold ration cards for subsidized food.[19]

Unless targeting methods are drastically improved and state institutional capacity is enhanced, the near-term dismantling of subsidies will likely deepen Egypt's poverty. Subsidy removal could prove especially damaging given Egypt's anemic economy—wracked by political instability, low levels of foreign investment, and a crippled tourism industry.

Tunisia and Morocco, while not contending with poverty levels on par with Egypt or Yemen, have yet to develop functional and sustainable alternatives to subsidy regimes. Tunisia's current social protection schemes, according to Salaheddine Al-Jourshi, regional advisor at the Arab NGO Network for Development, are incapable of playing a significant role in alleviating economic crises, given that existing programs are detached from a comprehensive development plan. For this reason, effects of safety nets will remain temporary and limited. Sami Aouadi, a representative of the General Union of Tunisian Workers (UGTT) and secretary general of the General Federation of Higher Education and Scientific Research, noted that effective social safety nets could substitute for subsidy programs if the targeting process is conducted with full transparency and with the participation of NGOs. Although cutting subsidies could alleviate Tunisia's budgetary difficulties, Aouadi stressed that such measures would impose an added burden on the poor—the group that is notoriously difficult to target and most in need of social protection.

Given the region's difficult economic circumstances, the elimination of subsidies would also increase the pressure on middle class households and individuals, limiting their ability to achieve a basic standard of living and pushing many to the brink of poverty.

In Morocco, Dr. Mohamad Said Saadi, former secretary of state in charge of social protection, family, and children, contended that well-targeted social safety nets could potentially offset the impact of rising commodity prices on the purchasing power of society's poorest strata. However, these social protection measures must be fully funded, capable of reaching vulnerable groups, and able to keep up with global inflation rates. Nonetheless, he emphasized that the effects of safety nets on the middle classes and domestic consumption could still be negative. Social safety nets do not represent the ideal substitutes for subsidies, Dr. Saadi argued, as administrative and technical difficulties hamper the targeting process. Also, Salah Lemaizi, a journalist for the Observer of Morocco, noted that after three decades of structural adjustment programs in Morocco, education and health sectors have continued to endure structural crises. Hence Morocco cannot depend heavily on its existing social protection programs, which fail to reach the poorest segments of society.

Feasibility and Effectiveness of Subsidy Reforms

In addition to the lack of viable alternative protection schemes, the weak institutional structures in Arab countries and the region's restive political climate greatly complicate the task of subsidy reform. The poorest segments of the region's populations face mounting hardship, but the middle class is also under significant duress, impacted by high levels of unemployment and depressed wages. Given the region's difficult economic circumstances, the elimination of subsidies would also increase the pressure on middle class households and individuals, limiting their ability to achieve a basic standard of living and pushing many to the brink of poverty. Thus the absence of viable, alternative social protection schemes, combined with mounting economic pressures, risks shrinking and impoverishing the region's middle class. Prior to the implementation of subsidy reforms, and alongside the development of comprehensive and sustainable social safety nets, the region's structural and institutional challenges must be addressed.

Commenting on Jordan's economic situation, Amneh Falah contended that attempting to reduce the fiscal deficit through subsidy reform alone could at best produce temporary, short-term results. Fiscal dilemmas will be reproduced unless subsidy reforms are combined with significant changes in macroeconomic policy choices. Overall, Falah asserted, any subsidy reform plan in Jordan must be housed within a broader economic reform agenda. Ahmed Awad, general director of the Phenix Center for Economic and Informatics Studies, called for a comprehensive reform plan that safeguards the social and economic rights of the poor upon the reduction of subsidies. In particular, Awad explained that social protection schemes must consider Jordan's sprawling informal sector, which employed around 44 percent of the country's total workforce in 2010.[20] According to Awad, workers in the informal sector typically lack access to public services and welfare benefits. A viable social protection scheme must discover ways to reach workers in the informal sector, especially those living in poverty who cannot afford rising prices as a result of subsidy elimination. Given these challenges, Awad proposed alternatives such as cutting military expenditure, which accounts for a sizeable portion of public spending in several Arab countries.[21]

Another hurdle is institutional corruption, which inhibits the effective targeting and distribution of social services or cash transfers.[22] Rather than alleviating pressure on the poor, cash transfers might instead line the pockets of corrupt officials or local elites. Underscoring the problem of corruption in Yemen, Mustafa Nasr emphasized the importance of addressing corruption and instituting transparency measures before undertaking any comprehensive subsidy reform initiatives. He added that subsidy reduction in the presence of corruption is likely to increase poverty and offset the government's ability to provide services to the poor. Moreover, Al-Rufaid indicated that the fiscal deficit in Yemen is largely a result of corruption within the public sector, especially the sectors that generate government revenue. Al-Rufaid listed other factors that contribute to the fiscal deficit, including incompetent governance, the inefficient distribution of resources, high inflation rates, unemployment, and unstable levels of public expenditure resulting from oil depletion.

Overall, Yemen's political situation remains volatile and unable to sustain further economic shocks as a result of near-term subsidy reduction. During a recent visit to Yemen, senior World Bank official Mirza Hasan reiterated this point, cautioning that subsidy removal could threaten Yemen's National Dialogue Conference and endanger its political transition.[23]

In Egypt, the recent implementation of energy subsidy cuts has imposed a severe burden on the poor and vulnerable sectors. Adhering to IMF policy recommendations, the Egyptian government decreased annual petroleum subsidies (from year 2011/2012 to 2012/2013) by 25 percent, amounting to a reduction of EGP 25 billion. During this period, the household gas subsidy was cut by 50 percent (EGP 1.5 billion to EGP 0.7 billion), while the agricultural subsidy witnessed a decrease of 75 percent (EGP 2.3 billion to EGP 0.57 billion).[24] Energy subsidies, despite occupying the lowest portion of the public budget compared to other subsidized sectors, have received the highest percentage of cuts. Coinciding with high levels of political and economic instability, these sharp cuts threaten to drive low income households deeper into poverty.

The IMF has provided Arab governments with the same basic set of policy recommendations, centered on fiscal consolidation and subsidy reform, despite the massive changes introduced by the peoples' uprisings and ensuing transitions.

Noting the harmful effects of subsidy removal on vulnerable groups, Mohammed Gad, an economic journalist at Egypt's Al-Shorouk newspaper, argued that fiscal consolidation and subsidy reform plans must include policy safeguards that maintain an acceptable welfare standard for the entire population. Gad urged consideration of alternative, more equitable measures to achieve fiscal consolidation, such as a progressive income tax or taxes on the financial sector and corporations. He called for "a reform system wherein the purchasing power of the poor is safeguarded so as not to fall into economic stagnation," which would contradict the desired outcome of fiscal reform policies.[25]

Commenting on Morocco's readiness to implement subsidy reforms, Dr. Saadi explained that the proposed reforms represent an easy and temporary solution to reducing the budget deficit, but would undoubtedly trigger inflation and erode citizens' purchasing power. If subsidy reforms are adopted, Dr. Saadi emphasized the need to simultaneously reconfigure the taxation system in the manufacturing, agricultural, and services sectors. Additional revenue raised through tax increases in these sectors could help fund alternative social protection programs for the poor and vulnerable classes affected by subsidy removal.

Echoing Dr. Saadi's view, Salah Lemaizi contended that the IMF's subsidy reform proposals would increase national unemployment and slow economic growth, as the industrial units unable to bear the additional costs of price increases would shut down or cut production. Lemaizi also criticized the overall inclination of governments to borrow in order to service their debts while sidestepping crucial economic and social reforms. As alternatives to subsidy removal, Lemaizi proposed a range of structural reforms, such as instituting a progressive taxation system that targets large companies and farms, raising the minimum wage, providing free public services to vulnerable groups, and adopting renewable energy sources as alternatives to oil and natural gas consumption.

Societal Opposition to Subsidy Reforms

When adopted and implemented by Arab governments, the IMF's recommendations on subsidy reforms have often stirred popular resentment—sparking protests, riots, and societal unrest. In April 2013, protests erupted during the IMF's visit to Egypt, whereby a broad array of social movements, trade unions, and political parties demonstrated against the IMF's proposed subsidy reform policies.[26] These groups proclaimed a direct link between those policies and restricted access to food supplies in Egypt: Footage of these protests shows demonstrators joining in anti-IMF marches in downtown Cairo, holding bread loaves to symbolize the effects of subsidy removal on food prices.[27] Similar marches took place in November 2011.[28] Isabel Ortiz, director of the Global Social Justice Program at the Initiative for Policy Dialogue, concludes that the repeal of food subsidies in MENA countries have contributed to greater instances of hunger and malnutrition in already food insecure environments.[29]

Tunisia, Morocco, Jordan, and Yemen underwent parallel experiences following government-led subsidy reforms. The Tunisian government's repeal of bread subsidies in December 2010 triggered social unrest and street protests, which helped pave the way for the January 2011 "Jasmine Revolution." Likewise, Morocco's implementation of IMF-backed austerity measures sparked protests in February 2011. Jordan's experience implementing subsidy reforms has been perhaps the most tumultuous; the Jordanian government's attempts at subsidy reform in 1989 and 1996 met with such widespread popular opposition that the government was forced to reinstate subsidies and offer political concessions to disgruntled citizens. Following the country's most recent experience with subsidy reform in 2012, protests erupted in Amman and a number of provincial towns.[30] Finally, Yemen's 2005 fuel subsidy reforms spawned protests that resulted in a death toll of at least 36 people.[31]

Amidst heightened regional instability, deteriorating economic conditions, and protracted political unrest, any serious attempt at subsidy reform is likely to provoke significant popular backlash. Indeed, recent public opinion data affirms that subsidy reduction remains deeply unpopular with regional populations. A 2012 Gallup poll found that populations surveyed in Egypt, Jordan, and Tunisia overwhelmingly oppose the reduction of food subsidies, and, if forced to choose a product to subsidize, large percentages would opt for fuel products.[32] When asked to allocate the public funds saved through subsidy reduction, large majorities in every country favored redistributing funds to the poor and to public services, namely education and healthcare services. Hence populations in Arab countries are unlikely to support subsidy reform efforts unless functional and effective redistributive mechanisms and social protection programs are in place.

Conclusion and Recommendations

In the absence of robust social protection schemes or alternative measures to mitigate the effects of rising commodity prices, subsidy removal will diminish the socio-economic conditions of low and middle class citizens. From a human rights perspective, it is often argued that the IMF fails to account for the potential adverse effects of subsidy removal on the lower and middle classes. Indeed, the civil society representatives interviewed for this brief commonly perceived IMF-backed subsidy policies as failing to safeguard the economic and social rights of citizens in Arab countries.

Subsidies have served to cushion citizens against rising international prices for essential commodities, thereby protecting the poor from the effects of global financial adjustments and difficulties. Energy subsidies are, admittedly, regressive measures that result in transfers to the rich. This inefficient expenditure of public funds necessitates the reform of energy subsidies policies in the long-term, but the prevailing political and economic environment in the Arab region cautions against undertaking near-term reform.

Theoretically, the phased removal of energy subsidies combined with the implementation of broad and targeted social protection measures would reconfigure public spending in a way that favors the majority of citizens. In practice, however, existing social protection schemes in Arab countries are inadequately funded, poorly constituted, and lack the institutional capacity to reach broad segments of society. In the MENA region—where most countries are net food importers, a significant fraction of the populations suffers from poverty, unemployment, or depressed wages, and governments are grappling with heightened political upheaval—rapid and weakly assessed subsidy elimination could carry severe socio-economic repercussions for the region's most vulnerable citizens.

The socio-economic and political conditions in the Arab region are far from uniform, and each state faces its own set of policy challenges. Yet the IMF has provided Arab governments with the same basic set of policy recommendations, centered on fiscal consolidation and subsidy reform, despite the massive changes introduced by the peoples' uprisings and ensuing transitions.

These popular movements have espoused a democratic, participatory approach to decision-making as a core demand. In all countries of the region, economic reform policies need to be publicly debated among various stakeholders, including governments, labor unions, and civil society organizations. Yet the IMF's policy advice to Arab countries has lacked popular participation and the effective representation of citizens' voices. By neglecting effective engagement with local organizations and civil society actors, the IMF's policy recommendations, when implemented, have been unpopular with broad segments of society.

Although the IMF states that it supports enhanced engagement with civil society, its commitment to date has been largely rhetorical. Most civil society representatives interviewed highlighted the IMF's detachment from local populations. They asserted that the Fund's engagement typically bypasses civil society altogether in the countries under study. Consultations with local and community-based NGOs are vital in developing national development plans and targeted social protection schemes. Moreover, broader societal engagement is necessary to forge consensus on economic reform agendas and avoid triggering public opposition to difficult economic adjustments resulting from subsidy removal.

Recommendations for the IMF:

- Shift policy advice to Arab governments away from near-term fiscal consolidation toward strengthening productive economic sectors and social protection schemes.

- Refrain from recommending major subsidy reform agendas in times of economic crisis and political upheaval. The Fund should place greater priority on safeguarding the social and economic rights of citizens in the Arab region during periods of unrest.

- Avoid generic reform agendas and tailor policy recommendations for each country's political, social and economic circumstances, taking into account homegrown national development visions that aim toward greater social, economic, and political inclusivity, as well as international human rights standards.

- Adjust recommendations on social safety nets according to country-specific political and institutional conditions. IMF recommendations in this area should closely consider the strength and capacity of state institutions, corruption levels, and existence of national databases that identify households and individuals in need of social protection.

- Address potentially negative socio-economic effects of subsidy removal on low and middle income households and individuals by taking into account wages, purchasing power, participation in domestic markets, and poverty levels.

- Urge national governments to consult with civil society organizations—including labor unions, NGOs, and municipal authorities—regarding economic reform agendas and national development plans, especially concerning the development of social protection schemes.

- Work with national governments to develop short-term alternatives to subsidy reform, such as debt relief, progressive taxation systems, or reducing military expenditure—measures that would create the fiscal space necessary for comprehensive reforms and sustainable social protection policies.

- Publicly disclose details regarding the IMF's engagement and negotiations with Arab governments. Greater transparency surrounding the IMF's bilateral meetings will increase public awareness of economic reforms and generate broader societal consensus over reform agendas.

Appendix A: Analysis of IMF Subsidy Advice to Select Arab Countries

IMF recommendations to Arab governments have focused on preserving macroeconomic stability, increasing fiscal consolidation, and enhancing economic resilience to external shocks. Subsidy reform, with a focus on phasing out food and fuel subsidies in favor of targeted safety nets, has been a central policy recommendation advanced by IMF staff reports of the Arab countries under study. These recommendations persisted despite the changing political and socio-economic contexts, including pre- and post- the peoples' uprisings that began in 2011.

Jordan

In Jordan, the IMF staff recommended spending restraint and fiscal austerity measures, including subsidy reforms, to lower the fiscal deficit as well as the national debt. Since 2005, Jordan has begun the gradual phasing out of subsidies.[33] By February 2008, fuel subsidies were removed except for liquefied petroleum gas (LPG).[34] This was accompanied by the implementation of an automatic formula-based price adjustment mechanism, which allows the variability of international oil prices to be reflected in the domestic oil prices.[35] As a result, petroleum prices in Jordan increased by 47.5 percent after the removal of subsidies in 2008. Social spending on vulnerable groups has increased through compensatory measures (around 3.5 percent of GDP), including higher public sector salaries and pensions, cash assistance, assistance through the National Aid Fund, as well as assistance to farmers.[36] This persisted through 2010, when the IMF encouraged authorities to conduct greater expenditure rationalization to achieve further fiscal consolidation.[37] Authorities were advised to phase out LPG and wheat subsidies and revise the electricity tariff schedule. Alongside these measures, authorities worked to enhance the efficacy and functionality of the National Aid Fund by developing clear eligibility conditions and improving targeting mechanisms.[38]

Confronted with heightened societal pressure amidst the 2011 Arab uprisings, Jordanian authorities dramatically increased funding for energy subsidies in 2011, from JD 67 million to JD 567 million.[39] In July 2012, the IMF agreed to lend Jordan USD 2 billion to support "Jordan's agenda for a socially acceptable fiscal consolidation."[40] Later, in November 2012, authorities lifted LPG subsidies with the aim of reducing the fiscal deficit and securing the IMF loan.[41] Protests were ignited in Amman and other provincial towns as a result. Prices increased to more than 50 percent for bottled gas (which is used for cooking), and 33 percent for diesel and kerosene (used for transportation and heating).[42]

Morocco

IMF staff reports on Morocco have repeatedly identified subsidies on basic goods (especially food and fuel) as obstacles to fiscal consolidation that divert funds away from public investment and education spending.[43] In this context, the IMF urged Moroccan authorities to begin reforming the country's subsidy regime and gradually unwind subsidies on fuel and food.[44]

In 2009, Moroccan authorities reduced the volume of subsidized wheat as part of a pilot program aimed at distributing targeted cash assistance. This program demonstrated the Moroccan government's intent to replace the universal subsidy system with a comprehensive social protection scheme targeting vulnerable populations. Authorities envisioned that over the medium-term such reforms, though politically difficult, would be pursued but should not exceed 2 percent of GDP.[45] However, amid rising global commodity prices and heightened domestic unrest in 2011, the Moroccan authorities maintained fuel subsidies, including Butane Gas, as well as subsidies on certain food items. The Fund has prioritized reforming energy over food subsidies, claiming that food subsidies are less costly and better targeted than fuel and butane subsidies.[46]

In 2012, Morocco's budget deficit rose to 7.6 percent of its annual GDP partly due to the rising cost of subsidies, which reached USD 6.3 billion in 2012.[47] In August 2012, the IMF approved a USD 6.2 billion loan for Morocco over two years,[48] on the condition that Morocco scale back subsidies.[49] Specifically, the IMF urged Moroccan authorities to reduce subsidies that cost 53.36 billion dirhams (USD 6.3 billion) of public funds in 2012 or 6.4 percent of Morocco's economic output.[50]

Tunisia

According to the IMF, Tunisia's food and fuel subsidies, estimated at around 7.3 percent of GDP in 2008, are unsustainable given Tunisia's limited hydrocarbon reserves and persistently high food and fuel prices.[51] Thus the IMF advised Tunisian authorities to replace the subsidy system with a more targeted safety net over the medium-term, so that Tunisia would be able to maintain fiscal sustainability, decrease its vulnerability to shocks, and pave the way for additional social and infrastructural spending.[52] In 2009, the Fund highlighted the importance of further streamlining food and fuel subsidies, in order to maintain the fiscal space to counter the impact of shocks on aggregate demand.[53] Tunisia had already established a relatively wide social safety net, so the IMF anticipated a smooth reform process.[54]

In line with the IMF's advice, the authorities loosened fiscal policy in 2009 by launching public investment projects while containing current spending, including on subsidies.[55] Additionally, Tunisian authorities introduced a domestic petroleum products price adjustment mechanism in early 2009.[56]

The Fund has maintained its emphasis on subsidy reform in its recommendations to Tunisian authorities, and in 2011 called for the gradual reduction of food and energy subsidies in conjunction with the expansion of social safety nets to protect the poor.[57] In March 2013, the government increased energy and electricity prices by 7 percent, the second such move in six months. However, this move was accompanied by an increase in cash transfers to low income households.[58] Following the price adjustments, Tunisian President Moncef Marzouki asserted in April 2013 that subsidy programs impose a burden on the state budget, representing around 20 percent of the public funds.[59] On June 7, 2013, the IMF Executive Board approved a USD 1.75 billion loan for Tunisia, intended to support the authorities' economic agenda to strengthen fiscal and external buffers.[60] Tunisia is obligated to set in place financial reforms as part of the terms of the loan.[61]

Tunisian authorities have emphasized that IMF money will be used to plug Tunisia's current account deficit, which has deepened as exports to the European Union decreased in the aftermath of the global financial crisis, and supplement spending on public wages as a result of rising social demands.[62]

Yemen

IMF recommendations toward Yemen have consistently focused on achieving fiscal sustainability and minimizing the fiscal deficit through expenditure rationalization and fuel subsidy reduction.[63] The IMF urged large-scale fiscal adjustment given Yemen's unsustainable spending levels and looming crisis upon the depletion of oil reserves.

In 2007, one of the scenarios designed by the IMF staff[64] included removing subsidies by the end of 2010 and replacing them with social protection programs, to be managed by the Social Welfare Fund.[65] Authorities introduced some reductions in fuel subsidies in August 2008, and raised diesel prices for specific industries (i.e. concrete and steel companies).[66]

During the first two quarters of 2008, the rapid inflation of food prices (22 percent on average),[67] and rising commodity prices led the government to intervene in the wheat market by increasing the supply of commodities and selling them directly to the public to cut consumer costs.[68] The 2009 IMF staff report advised Yemen to gradually eliminate fuel subsidies between 2009 and 2011, in conjunction with establishing social safety nets and initiating a public education campaign aimed at garnering support for the reform agenda.[69] According to the planning minister, Mohammed Al-Saadi, Yemen is expecting an agreement on a $550-million loan from the IMF in early 2014.[70]

Egypt

Egypt has implemented the Economic Reform Structural Adjustment Program (ERSAP) with the IMF since the early 1990s. The ERSAP aimed to achieve economic stability through limiting local and foreign financial deficits as well as expenditures (public wages, state services, and subsidies), and increasing state revenues through indirect taxation.[71] During the course of the decade, the reforms were abandoned due to internal and external shocks, but were revived in 2004 with a focus on trade liberalization and subsidy reform.[72] However, due to the 2008 global financial crisis, the revitalization of the ERSAP did not fully take place.

In 2008, the Article IV Staff Consultation with Egypt recommended cutting subsidies for food, fuel, and healthcare expenses.[73] The staff report called for revising the subsidy regime so that the "in-kind food subsidies will be gradually replaced with a system of cash transfers."[74] The IMF acknowledged that "the capacity to target [vulnerable groups] adequately will take longer to develop,"[75] but nevertheless advocated transitioning to the cash transfer system in the near-term. Since 2011, the IMF has conducted debt negotiations with successive Egyptian administrations to cut food and fuel subsidies and implement other fiscal austerity measures. The loan failed to materialize due to the lack of popular support and the difficulties surrounding the country's ongoing political crisis.[76]

Appendix B: List of Civil Society Interviewees

Name	Organization	Country
Mohammad Gad	Shorouk newspaper	Egypt
Samer Atallah	American University of Cairo; "Popular Campaign to Drop Egypt's Debt"	Egypt
Ahmed Awad	Phenix Center for Economic and Informatics Studies	Jordan
Amneh Falah	Jordanian Women's Union (JWU)	Jordan
Mohamad Said Saadi	Former secretary of state in charge of social protection, family, and children	Morocco
Salah Lemaizi	The Observer of Morocco	Morocco
Salaheddine Al-Jourshi	Arab NGO Network for Development (ANND)	Tunisia
Sami Aouadi	General Union of Tunisian Workers (UGTT); General Federation of Higher Education and Scientific Research	Tunisia
Arafat Al-Rufaid	Human Rights Information and Training Center (HRITC)	Yemen
Mustafa Nasr	Studies and Economic Media Center (SEMC)	Yemen
Rafat Al-Akhaly	Resonate! Yemen	Yemen

Notes

[1] The IMF estimates that MENA countries spent close to USD 240 billion in pre-tax energy subsidies (subsidies measured as the difference between the value of consumption at world and domestic prices) in 2011. This amounts to nearly 8.5 percent of MENA countries' GDP, and accounts for around 50 percent of global energy subsidies. See "Reforming Energy Subsidies," International Monetary Fund, March 27, 2013, http://www.imf.org/external/np/fad/subsidies/index.htm (accessed January 24, 2014).

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