CGD Note
MAR 2021

Fuel Subsidy Reform in Fragile States

Forging a Constructive IFI-UN Partnership

Sarah Rose and Mark Plant

Even before the COVID-19 pandemic, fragile states around the world struggled to manage complex and interacting risks. Facing macroeconomic stressors on top of a fragile peace, many countries found themselves balancing precariously between tipping points, knowing that interventions that might ease economic tension may push dangerously close to a political precipice, while those designed to alleviate social unrest may drive the country deeper into fiscal crisis. The pandemic has only exacerbated these risks, as governments' response to COVID-19 further stretches fiscal capacity, while a new scale and depth of hardship magnifies existing grievances or creates new ones.

International institutions, including the international financial institutions (IFIs)—the World Bank and the International Monetary Fund (IMF)—and the United Nations (UN), along with other international partners, have long-standing partnerships with many of these fragile states and are working with them to navigate the now-narrower path between tipping points. To avoid working at cross purposes, it will be imperative that they coordinate their plans, actions, and messaging.

The IFIs and the UN have a solid base upon which to continue to build their coordination. The World Bank and IMF have a long history of cooperation "across 19th Street." And the World Bank and UN have focused with great intentionality on improving their collaboration in fragile states, conducting joint analysis, and coordinating on strategy, programming, and sequencing, though there is more to be done to ensure the partnership reaches its full potential.[1] The UN and IMF have tended to be less directly involved in one another's operations but do maintain high-level dialogue and country-level interactions. Still, recognizing the interaction of political and macroeconomic risks, building fragility-focused collaboration between the UN and IMF is becoming more important.

New York University's Center on International Cooperation (CIC) and the Center for Global Development (CGD) recently outlined a series of opportunities and challenges for constructive partnership among the IFIs and the UN in fragile states.[2] This paper applies these lessons to the specific issue

1 World Bank and United Nations, 2021.
2 NYU Center on International Cooperation and Center for Global Development, 2020.

We are grateful for the support of the United Kingdom Foreign, Commonwealth & Development Office and the Swedish Ministry of Foreign Affairs.

of fuel subsidy reform, a policy option under consideration to manage mounting fiscal pressure in countries as diverse as Sudan and Lebanon. Relatively low international fuel prices present an opportunity, but at the same time, struggling households and fuel dependent industries hit hard by the pandemic are seeking increased government support. **With fuel subsidy reforms, success will be measured not only in fiscal savings, but also in the degree to which governments can navigate a tricky political course and minimize welfare loss, particularly for the poor. The World Bank, IMF, and UN can each support aspects of the reform agenda, but to ensure success of the whole, coordination among the three in their interactions with government will be essential.**

Below, we provide an overview of fuel subsidies and fuel subsidy reform, with particular attention to the opportunities for reform and obstacles to its success. We then outline three elements of productive cooperation among the IFIs and the UN that are of particular relevance for promoting and supporting fuel subsidy reforms. These are

1. sharing analyses of the problem and coming to agreement on the basic elements of an approach to reform,
2. coordinating vision and strategy with the government, and
3. carrying one another's messages in communications about the reform.

AN OVERVIEW OF FUEL SUBSIDIES AND THE REFORM PROCESS

The rationale for subsidies

Governments choose to subsidize fuel prices for a variety of reasons—economic, social, and political. These most commonly include protecting households from high and variable prices, lowering the cost of production, and appeasing special interest groups.[3] To the latter points, governments may use subsidies to lower input prices for firms to promote industrialization or export competitiveness or to reward political supporters by allowing them to reap the economic rents from lower input costs (or both). In energy-input producing countries, distributing a share of the national patrimony in the form of subsidized prices often forms a key part of the social compact.[4] Over time, however, the rationale for maintaining a subsidy may evolve beyond the original policy intent as the low-input prices become entrenched in the economic structure of society and the interests of a broader range of stakeholders become vested in their continuation.[5]

Costs and inefficiencies

While a subsidy's benefits are often visible to the public who benefit from lower and relatively predictable prices, the policy's costs tend to be obscured. Yet these costs can be high, especially when international prices are substantially higher than domestic prices charged. Government outlays to pay the wedge between local and international prices can crowd out other forms of public spending—in-

3 Commander, 2012
4 Commander, 2012; Rentschler and Bazilian, 2016.
5 Inchauste and Victor, 2017.

cluding redistributive spending that benefits the public more widely.[6] Fuel subsidies are notoriously inefficient at helping the poor, since those with higher fuel consumption—typically higher income households—reap a larger share of the benefits.[7] Where subsidies are financed through regressive taxation, the inequitable distribution of costs and benefits across income groups is magnified even further.[8] And, contrary to their ostensible purpose, subsidies can in fact depress economic activity, reduce the competitiveness of the private sector, and promote cross-border smuggling.[9] Furthermore, since fuel subsidies promote higher fuel consumption, they can have significant environmental and health costs—and preclude the adoption of climate-friendly carbon pricing schemes.[10]

Opportunities for reform

While resistance to subsidy reform can be lower during periods of high growth and low inflation, the impetus for subsidy reform often comes from mounting fiscal pressures.[11] The risk of fiscal crisis raises the imperative of action and can increase the credibility and political palatability of pursuing a reform agenda.[12]

Pressure to remove subsidies is particularly acute when high international fuel prices make the subsidy's fiscal cost unsustainable. Lower international prices can ease the shock of a shift to market pricing and buy some time to implement any compensatory measures that are needed to smooth the adjustment.[13] But while low international prices represent an opportunity, it may be fleeting; without firm government commitment to an automatic price adjustment formula, subsidies can re-emerge as resistance develops to ad hoc upward price adjustments.

International pressure to reform can also play a role, both from donors and civil society groups who advocate better use of budgetary resources and from other countries that have a commercial or trade interest in equalized regional prices.[14]

Obstacles to reform

Even as governments begin to explore options for subsidy reform, however, they face several obstacles; fragile states must confront particular challenges. First, there are significant economic risks. Businesses can become less competitive and may need to lay off workers if their production model is built around subsidized inputs that would be subject to reform.[15] Subsidy reform also carries the risk of price increases across a large range of goods whose costs of manufacturing, transport, etc. rise in response to subsidy removal.[16] If the country's productive base is narrow, these price increases can have knock-on effects well beyond any short-term perturbation, especially in fragile states with less

6 Coady, Flamini, Sears 2015; Rentschler and Bazilian, 2016; Inchauste and Victor, 2017; Bauer, Andreas,et al. 2013.

7 Coady, Flamini, Sears 2015; Bauer, et al. 2013; Clements and Parry, 2018; Inchauste and Victor, 2017.

8 Coady, Flamini, Sears 2015.

9 Rentschler and Bazilian, 2016; Ellis, 2010; Bauer, et al. 2013.

10 Bauer, et al. 2013; Research from the IMF estimates that efficient fuel pricing in 2015 would have lowered global carbon emissions by 28 percent and fossil fuel air pollution deaths by 46 percent (Coady, et al., 2019).

11 Alleyne, et al., 2013.

12 Vagliasindi, 2012; Rentschler and Bazilian, 2016; Inchauste and Victor, 2017.

13 Coady, Flamini, Sears 2015; Benes, et al., 2015; Rentschler and Bazilian, 2016.

14 Peer pressure to reduce fuel subsidies, in the form of international commitments like the 2015 Addis Ababa Action Agenda or subsidy peer review processes like those of the Asia-Pacific Economic Cooperation and G20 can also play a role. Effectiveness, however, is unclear; the most recent G20 peer review process found limited progress overall on fuel subsidy reduction (Geddes, Anna, et al., 2020).

15 Bazilian and Onyeji, 2012.

16 Alleyne, et al., 2013; Coady, Flamini, Sears 2015; Bazilian and Onyeji, 2012.

stable economies. Thus, where fiscal pressure is a primary motivation for reform, governments need to navigate carefully the economic implications of a return to market-based pricing in the short and long term.

There may also be technical obstacles, especially where fiscal institutions and administrative capacity are weak. Planning and implementing subsidy reforms requires first a measure of the magnitude of the subsidy's inefficiencies, and a strong understanding of the impact proposed reforms may have on inflation, competitiveness, and changes in welfare across different societal strata.[17] The data and analytical skills needed to measure and model these scenarios may be limited within government, especially in fragile states, as may be the technical capacity to determine and design the appropriate scale up of compensatory measures that do not impose more of a fiscal burden than the subsidy itself. And where transfer systems are new or significantly increased in scope, implementation could require another set of technical skills that may be in short supply. However, international partners, including the IMF and World Bank, can often support these analyses and new implementation needs that may arise.

While international assistance has often been available to support technical aspects of reform, it is the domestic political barriers that tend to raise the most serious obstacles to success.

Finally, there are political economy barriers to reform. While international assistance has often been available to support technical aspects of reform, it is the domestic political barriers that tend to raise the most serious obstacles to success.[18] Appetite for reform can depend, in part, on the strength of the sitting government and political cohesion.[19] Subsidy reform is bound to draw opposition, so stronger governments may have more room to maneuver without compromising their political position while weaker governments may be more reluctant to pursue policies that would further erode their support.[20] Weaker governments may also struggle to generate buy in for reform. Regimes with lower legitimacy, like those in many fragile states, tend to have less effective messaging due to limited trust by the public that they are acting in good faith, can effectively execute the reform, or will compensate for losses in welfare.[21] For example, lack of government credibility is seen as an important factor behind the limited success of Nigeria's 2011 attempt at fuel subsidy reforms.[22]

The nature of political obstacles to reform can also depend on the size, concentration, and organizing power of those who benefit from the subsidy and would feel harmed by its removal. Central to any subsidy reform plan must therefore be an understanding of who benefits from the existing subsidies and how the proposed changes are likely to impact welfare across income and special interest groups—and among ethnic groups where ethnic fractionalization is high.[23] This information can help governments to better manage reactions through careful timing, sequencing, and adoption of targeted compensatory measures.[24] For many subsidies, better off households and firms reap disproportionately more

17 Coady, Flamini, Sears 2015; Benes, et al., 2015; Coady, et al., 2010.

18 Rentschler and Bazilian, 2016; Inchauste and Victor, 2017; Pritchett, 2005; Strand, 2013; Cheon, Lackner, & Urpelainen, 2015; Benes, et al., 2015; Beaton et al. 2013; Victor 2009.

19 Gupta and Tovar Jalles, 2020.

20 Commander, 2012; Inchauste and Victor, 2017.

21 Calvo-Gonzalez, Cunha, Trezzi, 2015; Commander, 2012.

22 David, et al., 2013.

23 Coady, Flamini, Sears 2015; Rentschler and Bazilian, 2016; Araar, Choueiri, and Verme, 2015; Benes, et al., 2015.

24 Commander, 2012.

of the subsidy's benefits and may be better able to organize in opposition (labor unions have played an important part, but they may also be easier to appease with targeted compensatory policies.[25] On the other hand, the poor, whose purchasing power is often hardest hit by subsidy removal, is a more diffuse group. But while the poor may be unlikely to form a powerful coalition against reform, interest groups can use them to argue that the reform is anti-poor, even when it is not.[26] The government can argue that eliminating a subsidy will increase budgetary flexibility and allow more pro-poor spending, but that hypothetical improvement in future well-being is seldom enough to appease those whom subsidy removal will harm immediately—or those who feel entitled to energy subsidies given government failure to provide other basic productive infrastructure.

Hypothetical improvement in future well-being is seldom enough to appease those whom subsidy removal will harm immediately.

Components of a reform plan

Subsidy reform requires a comprehensive plan with clear objectives and a timetable that often spans a period of years.[27] The planning process itself can take quite a lot of time, especially when stakeholder consultations are built in, but it lays the foundations for success. For example, the IMF views a lack of effective planning as contributing to the limited success of Nigeria's 2011 reforms.[28]

Central to the reform is depoliticizing energy pricing; adopting an automatic pricing mechanism as part of a broader reform package can help reduce the risk that reforms will be reversed.[29] Depending on the magnitude of the difference between subsidized and market prices, the government's fiscal position, and the nature of vested interests, phasing in (vs. sudden) adoption of efficient pricing may be desirable to avoid steep price shocks and assuage potential opposition forces. This may be done through incremental price increases or by sequencing subsidy removal on a product-by-product basis, deferring reform on products more heavily used by the poor or particular interest groups.[30] For instance, Nigeria exempted kerosene, used mainly by the poorest households, from price increases; in Niger, targeted subsidies remained in place for public transport which would have been highly impacted by price increases and which is heavily utilized by the poor.[31]

A key component of many subsidy reform efforts is planning policy alternatives that mitigate the impact of price increases. Cash transfers are a prominent vehicle for achieving this. They are often built upon existing cash transfer infrastructure and can be universal or targeted toward those likely to be hit hardest. The latter is a less costly option, but one that requires more administrative capacity; targeted transfers may also neglect the most vulnerable and can overlook non-poor interest groups who could oppose reform.[32] Reinvesting fiscal savings into investments designed to enhance welfare is another option—including scaling up existing social programs (e.g., school feeding programs) or spend-

25 Bazilian and Onyeji, 2012; Benes, et al., 2015; Inchauste and Victor, 2017.

26 Arze del Granado, Coady, & Gillingham, 2012; Rentschler and Bazilian, 2016.

27 Coady, Flamini, Sears 2015; Clements and Parry, 2018; Rentschler and Bazilian, 2016.

28 David, et al., 2013.

29 Alleyne, Trevor, et al., 2013.

30 Coady, Flamini, Sears 2015; Clements and Parry, 2018; Araar, Choueiri, and Verme, 2015. However, a phased in approach can distort consumption patterns toward goods that retain subsidies and may provide more opportunity for opposition to build over time (Commander, 2012; Alleyne, et al., 2013).

31 David, et al., 2013.

32 Rentschler and Bazilian, 2016; Coady, Flamini, Sears 2015; Clements and Parry, 2018; Araar, Choueiri, and Verme, 2015; Commander, 2012.

ing on critical infrastructure.[33] For example, the reduction of fuel subsidies in Niger in 2011-2012 created room for a 19 percent year-on-year increase in budgeted social spending, largely education.[34] The challenge with these plans is that the benefits of reinvestment may be less visible or slower to materialize than an increase in fuel prices, depending on the timing and sequencing of price reforms.[35] Using fiscal savings to reduce debt may be of particularly limited visibility to the public.[36]

A key component of many subsidy reform efforts is planning policy alternatives that mitigate the impact of price increases.

Compensatory measures may also need to consider possible employment effects of subsidy reform. Subsidization to firms—and state-owned enterprises in particular—can drive higher employment than would exist under market prices; forcing firms to be competitive can lead to job losses. A reform package may include targeted protections, like unemployment insurance or job retraining, for those affected by economic changes, though these measures are less common across low-income countries or fragile states, irrespective of a subsidy reform agenda.[37] And where large parastatal firms provide social benefits (housing, education, food), the government may have to assume the costs of these benefits, at least on a temporary basis, if the removal of subsidies renders them unaffordable to the firm. Without a concrete plan to phase out the government's involvement, these social support activities risk becoming entrenched in the government's budget.

Price increases may also be made more palatable by improved service delivery. For instance, in the case of fuel subsidy reforms, efforts to improve the efficiency of energy production, distribution, and revenue collection may be part of a subsidy reform plan, along with greater transparency of new pricing mechanisms.[38]

Finally, and importantly, implementation of subsidy reform must include a communications plan. Public messaging should center around the importance of the reform—which is not always well-understood among the public, especially where there has been limited transparency around the subsidy itself.[39] Highlighting the fiscal necessity of reform can be helpful, as can conveying that it will improve economic fairness, though understanding the audience is critical; equity arguments can be less compelling for groups that stand to lose.[40] The communications plan should also include messaging around any planned compensatory measures . Yemen's experience demonstrates the importance of attention to communications. The country's early attempts at subsidy reform failed to include a public information strategy; the resulting protests forced a partial reversal. When the government communicated the need for reform and the benefits it would bring, the public was more accepting.[41]

---

33 Coady, Flamini, Sears 2015; Coady, et al., 2010.

34 David, et al., 2013.

35 Inchauste and Victor, 2017.

36 Benes, et al., 2015.

37 Commander, 2012.

38 For example, Armenia, Brazil, and Kenya's electricity subsidy reform package included reforms to improve electricity supply (Alleyne, et al. 2013). Coady, Flamini, Sears 2015; Commander, 2012; Inchauste and Victor, 2017; Bauer, et al. 2013.

39 International Monetary Fund, 2011; Coady, Flamini, Sears 2015; Clements and Parry, 2018; Vagliasindi, 2012; Commander, 2012; Coady, et al., 2010.

40 Von Chamier, 2019; Commander, 2012.

41 Demirkol, Moers, and Ostojic, 2013.

MULTILATERAL COORDINATION TO PROMOTE AND SUPPORT SUBSIDY REFORM IN FRAGILE STATES

Opportunities for cooperation

Subsidy reform is challenging for any government, in rich or poor countries, but in fragile and conflict affected states, the stakes are amplified. Typically, these countries are near both political and economic tipping points, with rapid action needed on both fronts to build short-term confidence and initiate the longer-term reforms needed to build peace, stability, and resilience to complex risks. At first blush, energy subsidy reform may appear to pull a country back from an economic precipice while pushing it further toward a political tipping point: while eliminating subsidies can relieve fiscal pressure, it may raise prices for much of the population, potentially aggravating an already tenuous social compact and upending the government's political mandate.

But energy reforms can be made to work in fragile states if the reform agenda balances the economic and political imperatives explicitly. The World Bank, the IMF, and the United Nations can support governments to navigate this path.

These are typically the institutions first to assist states as they emerge from conflict or other social and economic strife and each supports governments to move away from economic and political tipping points. The distinct focus, objectives, and efforts of the three institutions can complement one another to strengthen the base of available assistance, but coordination among the three—as well as with any other bilateral and multilateral partners—is critical to ensure their respective political and economic advice points in the same direction, and not at cross purposes.[42]

CGD partnered with New York University's CIC to outline a roadmap for a constructive partnership among the UN, the World Bank, and the IMF in fragile situations. Based on this work, we see three key elements of productive cooperation that are of particular relevance for promoting and supporting energy subsidy reforms:

- A shared analysis of the problem and the basic elements of an approach to reform.
- A multilateral partnership with the government and coordinated strategic planning.
- Mutually reinforcing communications throughout the reform.

We consider each of these in turn and how they might apply to a fuel subsidy reform conversation in fragile states.

A shared analysis of the problem and the elements of an approach to reform

The power of the triumvirate of institutions working together is that they bring to bear a wide range of expertise on fuel subsidy reform. Broadly speaking, the UN, through the economist and peace and development advisor in the UN Resident Coordinator's office, will bring expertise on how subsidy reform might affect political and conflict dynamics, the IMF on the budgetary and productivity implications, and the World Bank on the distributional impacts, with particular attention to the impact on the poor, along with insights into potential accompanying compensatory or redistributive policies. Together, these various angles can offer a package of critical insights to a government pursuing fuel

42 Rose and Plant, 2020.

subsidy reform. But these different lenses also imply the need to reconcile different—and what can be competing—theories of change. While all three institutions are likely to agree on the shared objectives of political stability and sustainable poverty-reducing growth, each is likely to see a different path through which subsidy fuel reduction could contribute to those objectives, each with a different implicit timeline. The IMF is likely to see energy subsidy reduction principally as a means of increasing immediate fiscal space for other expenditures and building a sounder productive infrastructure over the long term. The UN may see it as a tool for the government to build its legitimacy and work toward a more equitable distribution of energy. And the World Bank may view it as a tool to ensure the poor have better access to energy resources and more efficient safety nets. Considerations of climate sustainability may enter each institution's equation as well. But these mandates, independently pursued, may not always lead to aligned advice, risking confusion and potentially compromising outcomes. The coalition of partners will be best served by discussing their respective objectives in advance to determine the depth and sequencing of proposed reforms.

Sharing analyses across institutions can help them come to a shared and more comprehensive analysis of the problem and potential solutions to drive forward more coherent engagement. As part of planning its country operations, each institution will conduct an analysis of the complex set of problems confronting the country and the potential impacts of various solutions. **While each institution will have views outside its core area of expertise, attempting to integrate the different institutional analyses will bring to light the cross currents of energy subsidy reform, underscore the assumptions driving potential interventions, and test whether those assumptions make sense from various perspectives.** Recognizing these potential synergies, the World Bank and UN have begun to undertake joint risk assessments (e.g., in the Sahel).

Given the societal reach of energy subsidies, having a more comprehensive vision of the likely political and social reaction to reform will be critical. While the government should guide interactions with the host of parties who should be consulted—or who will expect to be consulted—as part of deciding upon a reform path, the IFIs and the UN have informal access to interested parties that the government cannot or should not reach and the organizations can also moot proposals "unofficially." Because each institution relies on consultations with different groups of local stakeholders to inform its analysis, sharing analyses across institutions effectively broadens the range of perspectives that each institution can take into account.

The diverse networks will allow international partners to gauge potential reactions, identify unforeseen pitfalls, and eventually encourage support for whatever reform path is adopted. The IMF focuses its interactions on economic actors, typically in the country's capital city. But its engagement tends to be confined to "like-minded" actors who would focus on the financial implications of energy subsidy removal and its dialogue with opposition parties is often limited as it seeks to preserve its privileged relationship as the government's financial advisor. The UN will be able to access a broader political network—both in terms of political affiliation (opposition parties) and impact viewpoint (civil society organizations). And having offices outside the capital city can help the UN track subnational variation in the impact of reform. The World Bank will have access to sectoral economic actors, civil society and poverty coalitions, and advocates that can inform any internal debates with the government (and provide a platform for future communication, as we discuss below). This multiplicity of formal and informal contacts will be particularly useful in designing compensating measures that will aim to quell dissent and steer the country away from political tipping points.

The World Bank, IMF, and UN will also need to share their perspectives and analysis on the critical temporal dimension of subsidy reform. As noted above, there is no a priori best practice on how to time energy subsidy reform. Quick reform could yield immediate budgetary benefits, while slower reform allows people to adjust to changed prices and for any compensatory measure to take effect; eliminating subsidies when international prices are low lessens the impact, while doing so when they are high gives more motivation to the policy makers to act. But while much of the potential temporal dynamics will be a matter of judgement, there are key timing considerations that the three international institutions can work with one another to understand and integrate into their own planning. The UN will be particularly attuned to the political calendar—for example, ongoing negotiations among competing centers of power or with external stakeholders; parliamentary sessions where reforms might be advanced or mooted, or local and national elections that might accelerate or impede reform momentum. The IMF will be focused on the budget cycle and pace of spending decisions, the timing of external demands on government resources such as debt service, and the cyclical patterns of global energy prices. The World Bank will have a keen sense of the timing of ongoing discussions with donors and decision points within various ministries that might conflict or reinforce reforms. And each institution will have its own internal calendar that will regulate its financial or technical assistance to the government. While institutional calendars should not determine the pace of reform, they should not impede it either; an ex-ante understanding of institutional temporal constraints will help assure complementarity of assistance.

The timing of energy subsidy reform discussions in fragile states will depend on the nature of the fragility and the immediacy of the fiscal problems posed by subsidies. Coordination problems are likely to be less acute in early post-conflict scenarios since subsidy reform is likely to come only after some measure of economic and political stability is achieved. Instead, subsidy reform is likely to arise as an option in surveying reforms for the longer-term (6-24 months). Cross-institutional discussion of energy subsidies may become important as these options are developed, as will agreeing on further analysis that could be done and when and how it might be shared. Given the sensitivity of subsidy reform, initially those discussions should be "closed shop" until it is clear that energy subsidy reform is an option the government should and might pursue. For countries entering into an economically driven political crisis, the need for energy subsidy reforms might be more immediate, and coordination of IFI/UN positions could challenge the bureaucratic scheduling constraints of the institutions. In the past, the "when" of politically sensitive fiscal reforms might be contingent on the Fund team's schedule of visits to the country, but post-COVID-19, the normalization of the use of virtual meetings will make scheduling more flexible. In any case, institutions may have to adjust internal processes to quickly engage international partners and get rapid advice to the government.

The success of energy reforms will depend on the accompanying compensatory measures. With the benefits of subsidy elimination being dispersed over time and across the populations, those taking an immediate loss will want to see some immediate compensation. What is politically tenable, economically feasible, and technically possible will fall broadly within the analyses of the UN, IMF, and World Bank, respectively. The UN will be able to judge whether the compensatory measures will dampen political opposition, while the IMF and the World Bank together can judge if the compensatory measures are affordable within the budgetary envelope and how they can be executed to maximum effect. It may also fall to these institutions to lend technical and financial support to the implementation of compensatory measures, so mutually agreed ideas of what is feasible will be useful to have up front.

The success of energy reforms will depend on the accompanying compensatory measures.

While the principle of shared analysis is easily articulated, the process of doing so—and using this to coordinate decision making—can prove difficult in practice. As noted in the CIC/CGD paper, the institutions have different organizational structures and the timing and location of decision making varies across them, with more headquarters-based processes at the Fund and the World Bank and the UN organizations having more field autonomy. That said, in non-conflict affected fragile states, where international teams have been consistently operating, established modes of cooperation likely exist and coordinating analyses of the landscape relevant to fuel subsidy reforms can likely fit into those. In conflict-affected situations, however, country-level coordination may be harder since while the UN is often present in country from the outset of the conflict resolution process, the Fund is usually slower to (re)establish a staff presence. In person coordination can also be complicated by competing priorities; for example, in some countries the World Bank country director has multiple countries in their portfolio.

Coordinated vision and strategy in partnership with government

The aim of international institutions' partnership with government should ultimately be to agree to support the government's chosen strategy for energy subsidy reform and outline the various roles each can play in support of its successful implementation. Given the role energy provision plays in every aspect of production and consumption, the aftershocks of the reform can be long, variable, and unpredictable; having in place ex ante mechanisms by which the government can monitor the impacts, recalibrate its response and marshal the technical, financial, and political expertise of its partners will provide some assurance that the reforms will be successful. The success of the reform process will hinge upon constructive dialogue, not bickering, with the government driving the process.

It will be incumbent upon the government's external supporters to present a set of options for moving forward that promise to dampen economic and social instability and yield quick and visible benefits. It is here that joint action of the three multilateral institutions, alongside other partners, can be most powerful. The institutions have expertise in areas that span the set of policy concerns the government might confront in energy subsidy reform; with coordination, they can present a set of options that balance the various objectives of the reform. That said, there is a tension between, on the one hand, the power of a "unified front" among external partners in demonstrating the benefits of reform and, on the other hand, the need for the government to hear different perspectives on how the reform should be advanced. There are difficult political and economic tradeoffs to be made in choosing the reform path and a variety of views and options will be helpful to the government in making its choice. But if partners' views are too heterogeneous, they are likely to confuse rather than convince the government of the merits of reform.

In the end, each institution will need to respect and support the government's choice of a responsible reform path. This might require the institutions to accept a path that is viewed internally as less than ideal. Still, having a good sense of the various objectives the government—and its international supporters—needed to weigh, and in some cases trade off, can help bring skeptical institutions on board. For example, IMF financial support is often contingent upon a financial program that shows regular progress towards fiscal and monetary stability, coordinated across government and external financers. To the extent energy subsidy reform is slower than desired by the IMF team, they will have to be able to make the case at headquarters that the proposed reform pace will not, over the medium term, destabilize the finances of the government. Understanding and being able to convey, for instance, the political rationale for a slower pace of reform—drawing on the expertise and analysis of UN counterparts—can factor into this and be used to inform conversations with the World Bank and other donors about the additional external financing needs that may accompany a prolonged reform process. Similarly, where a country is approaching the economic tipping point, the UN may have to be convinced that the risk to peace and security posed by a rapid pace of reform is less than the risk posed by a major fiscal crisis that would worsen the plight of the poor. The role of each institution then turns to supporting the government to mitigate the risks of concern.

Reinforcing communications and carrying each other's messages.

One of the most important conclusions of our earlier work was that successful reforms require clear, frequent, and consistent communications among the government, its partners, and the people. International organizations are likely to have three points of communication in promoting energy subsidy reform: first to the government at the policy level as it decides what routes to take, second to the public as the government undertakes the reform, and finally to the government and the public to respond to any political, economic, or technical difficulties that the reform encounters, especially for the parts of implementation that each institution may directly support. At each of the stages, there is a danger that the three institutions convey unaligned messages that confuse the government or allow opponents of reform to drive a wedge between the various actors and undermine reform momentum.

It is critical that the three institutions understand and carry one another's messages. Since each institution tends to consult bilaterally with different parts of the government, it is especially important that messages are consistent and mutually reinforcing. If the Minister of Energy hears something from the World Bank that is different than what the Minister of Finance hears from the IMF which is in turn at variance with what the Prime Minister's office hears from the UN, any policy crosscurrents within the government may be amplified.

Messaging around the need for reform should be consistent among the various actors, with the political, social, and economic objectives well spelled out. Then, while the different institutions can present to the government a menu of different reform possibilities, once the government decides on a strategy for energy subsidy reduction, there should be no light between the international institutions and the government in their communications about the path forward. Part of the tactical roll-out plan should include communications roles and messages for each institution, exploiting their different audiences. In addition to bearing messages directly, the UN or World Bank may also provide technical assistance to bolster the government's own communications. They can help the government promote reform and fight disinformation, particularly about the social impact of energy subsidy reform, which can feel abstract and distant in the face of immediate hardship and fragility.

Coordinating communications is easier said than done, but there are steps that institutions can take to facilitate unity of messaging. Talking to each other is central, of course, and parties should be intentional about discussing communications strategies as part of their agenda. Each institution should also seek to understand which of its own priority messages are less relevant to—or even incompatible with—broader audiences. For example, while improving efficiency may be central to the IMF's interests in subsidy reform, efficiency may not resonate with those who care about the plight of the poor, including the poor themselves. Similarly, the IFIs may be uncomfortable with messaging centered around social or economic rights if they feel the framing gives inadequate due to the need for tradeoffs in a world of limited resources.

It may be particularly difficult in the aftermath of the reform if political opponents exploit the inevitable unanticipated impacts or technical missteps in the rollout of subsidy removal or compensatory payments. Political pressures will demand immediate response and time for consultation will be limited, suggesting that advance planning for how to respond to various lines of resistance might be useful. There may be strong temptation by the government and its international supporters alike to apportion blame for mistakes or lack of oversight on some party to the reform. **But with a consistent and uniform message that energy reforms are never easy and mid-course adjustment is always needed, the focus can remain on the long-term benefits of the reform effort, particularly the shared benefit of more budgetary, economic, and political flexibility.**

CONCLUSION

For conversations around fuel subsidy reform, the three institutions will be able to draw upon their growing foundations of collaboration. The World Bank and UN are focusing more on mission driven partnership that leverages each institution's comparative advantages; expanding deeper fragility-focused collaboration with the IMF is becoming a top priority. Ensuring real engagement on particular policy issues across institutions—not just one-off information sharing of consultative coordination—takes time and repeated contact. The cost of coordination therefore is not small. But the cost of not coordinating—and risking confusing government partners, working at cross purposes with one another, failing to secure buy in, and thereby propping open the door for potentially fatal opposition to reform—is higher.

REFERENCES

Alleyne, Trevor, et al. 2013. "Reforming Energy Subsidies: Lessons from Experience." In Benedict Clements, David Coady, Stefania Fabrizio, Sanjeev Gupta, Trevor Alleyne, and Carlo Sdralevich, eds. Energy Subsidy Reforms: Lessons and Implications. Washington, DC: International Monetary Fund. https://www.elibrary.imf.org/view/IMF071/20361-9781475558111/20361-9781475558111/20361-9781475558111.xml?language=en&redirect=true

Araar, Abdelkrim, Nada Choueiri, and Paolo Verme. 2015. The Quest for Subsidy Reforms in Libya. Policy Research Working Paper No. 7225. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/21673

Arze del Granado, Francisco Javier, David Coady, and Robert Gillingham. 2012. "The Unequal Benefits of Fuel Subsidies: A Review of Evidence for Developing Countries." World Development 40, (2012): 2234–2248. https://www.sciencedirect.com/science/article/abs/pii/S0305750X12001155

Bauer, Andreas, et al. 2013. "Macroeconomic, Environmental, and Social Implications." In Benedict Clements, David Coady, Stefania Fabrizio, Sanjeev Gupta, Trevor Alleyne, and Carlo Sdralevich, eds. Energy Subsidy Reforms: Lessons and Implications. Washington, DC: International Monetary Fund. https://www.elibrary.imf.org/view/IMF071/20361-9781475558111/20361-9781475558111/20361-9781475558111.xml?language=en&redirect=true

Bazilian, Morgan, and Ijeoma Onyeji. 2012. "Fossil Fuel Subsidy Removal and Inadequate Public Power Supply: Implications for Businesses." Energy Policy 45 (2012): 1-5. https://www.sciencedirect.com/science/article/pii/S0301421512001747?casa_token=lF5cPf3tb4gAAAAA:jljBnzeVEhJyfi-CSuzGTJI-wAKnlEjsNNOm3-KLjpKyf4fiAm9wIKmHZp8i1ZdhRSuTRGHn9

Beaton, Christopher, et al. 2013. A Guidebook to Fossil-Fuel Subsidy Reform for Policy-Makers in Southeast Asia. Winnipeg: International Institute for Sustainable Development. https://www.iisd.org/publications/guidebook-fossil-fuel-subsidy-reform-policy-makers-southeast-asia

Benes, Keith, et al. 2015. Low Oil Prices: An Opportunity for Fuel Subsidy Reform. New York: Columbia University Center for Global Energy Policy. https://energypolicy.columbia.edu/sites/default/files/Fuel%20Subsidy%20Reform_October%202015.pdf

Calvo-Gonzalez, Oscar, Barbara Cunha, and Riccardo Trezzi. 2015. When Winners Feel Like Losers: Evidence from an Energy Subsidy Reform. Policy Research Working Paper No. 7265. Washington, DC: World Bank. http://documents.worldbank.org/curated/en/601991468182346903/When-winners-feel-like-losers-evidence-from-an-energy-subsidy-reform

Cheon, Andrew, Maureen Lackner, and Johannes Urpelainen. 2015. "Instruments of Political Control: National Oil companies, Oil Prices, and Petroleum Subsidies." Comparative Political Studies, 48, 370 –402. https://journals.sagepub.com/doi/abs/10.1177/0010414014543440

Clements, Benedict and Ian Parry. 2018. "Subsidies. Some Work, Others Don't." Finance and Development 55, no. 7. (2018). https://www.imf.org/external/pubs/ft/fandd/2018/09/what-are-subsidies-basics.htm

Coady, David, Valentina Flamini, and Louis Sears. 2015. The Unequal Benefits of Fuel Subsidies Revisited: Evidence for Developing Countries. IMF Working Paper No 15/250. Washington, DC: International Monetary Fund. https://www.imf.org/external/pubs/ft/wp/2015/wp15250.pdf

Coady, David, et al., 2010. Petroleum Product Subsidies: Costly, Inequitable, and Rising. IMF Staff Position Note. Washington, DC: International Monetary Fund. https://www.imf.org/en/Publications/IMF-Staff-Position-Notes/Issues/2016/12/31/Petroleum-Product-Subsidies-Costly-Inequitable-and-On-the-Rise-23584

Coady, David, et al. 2019. Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates. IMF Working Paper No 19/89. Washington, DC: International Monetary Fund. https://www.imf.org/en/Publications/WP/Issues/2019/05/02/Global-Fossil-Fuel-Subsidies-Remain-Large-An-Update-Based-on-Country-Level-Estimates-46509

Commander, Simon. 2012. A Guide to the Political Economy of Reforming Energy Subsidies," IZA Policy Paper No. 52. Bonn: IZA Institute of Labor Economics. https://www.iza.org/publications/pp/52/a-guide-to-the-political-economy-of-reforming-energy-subsidies.

David, Antonio, et al. 2013. "Case Studies from the Sub-Saharan African Region." In Benedict Clements, David Coady, Stefania Fabrizio, Sanjeev Gupta, Trevor Alleyne, and Carlo Sdralevich, eds. Energy Subsidy Reforms: Lessons and Implications. Washington, DC: International Monetary Fund. https://www.elibrary.imf.org/view/IMF071/20361-9781475558111/20361-9781475558111/20361-9781475558111.xml?language=en&redirect=true

Demirkol, Ozgur, Luc Moers, and Dragana Ostojic. 2013. "Case Studies from the Middle East and North Africa Region." In Benedict Clements, David Coady, Stefania Fabrizio, Sanjeev Gupta, Trevor Alleyne, and Carlo Sdralevich, eds. Energy Subsidy Reforms: Lessons and Implications. Washington, DC: International Monetary Fund. https://www.elibrary.imf.org/view/IMF071/20361-9781475558111/20361-9781475558111/20361-9781475558111.xml?language=en&redirect=true

Ellis, Jennifer. 2010. The Effects of Fossil-Fuel Subsidy Reform: A Review of Modelling and Empirical Studies. Winnipeg: International Institute for Sustainable Development. https://www.iisd.org/publications/effects-fossil-fuel-subsidy-reform-review-modelling-and-empirical-studies

Geddes, Anna, et al. 2020. Doubling Back and Doubling down: G20 Scorecard on Fossil Fuel Funding. Winnipeg: International Institute for Sustainable Development. https://www.iisd.org/system/files/2020-11/g20-scorecard-report.pdf

Gupta, Sanjeev and João Tovar Jalles. 2020. On the Political Economy Determinants of Tax Reforms: Evidence from Developing Countries. CGD Policy Paper 199. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/political-economy-determinants-tax-reforms-evidence-developing-countries

Inchauste, Gabriela, and David Victor. 2017. "Introduction." In Inchauste, Gabriela and David Victor, eds. The Political Economy of Energy Subsidy Reform. Washington, DC: World Bank. https://openknowledge.worldbank.org/bitstream/handle/10986/26216/9781464810077.pdf?sequence=2&isAllowed=y

International Monetary Fund. 2011. Regional Economic Outlook: Middle East and Central Asia. Washington, DC: International Monetary Fund. https://www.imf.org/en/Publications/REO/MECA/Issues/2017/01/07/Regional-Economic-Outlook-October-2011-Middle-East-and-Central-Asia-24751

NYU Center on International Cooperation and The Center for Global Development. 2020. Strengthening Approaches to Conflict Prevention and Peacebuilding at the UN and IFIs: Key Ideas and Recommendations. New York and Washington, DC: NYU Center on International Cooperation and the Center for Global Development. https://www.cgdev.org/sites/default/files/UN-IFI%20Recommendations%20Final%20Dec%202020.pdf

Pritchett, Lant. 2015. The Political Economy of Targeted Safety Nets. Social Protection Discussion Paper Series. Washington, DC: World Bank. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/283821468772779954/the-political-economy-of-targeted-safety-nets

Rentschler, Jun and Morgan Bazilian. 2016. "Reforming Fossil Fuel Subsidies: Drivers, Barriers and the State of Progress." Climate Policy 17, no. 7 (2016): 891-914, doi: 10.1080/14693062.2016.1169393 http://documents1.worldbank.org/curated/en/778411511435472695/pdf/121453-JRN-PUBLIC-Reforming-Fossil-Fuel.pdf

Rose, Sarah and Mark Plant. 2020. "On Fragility, Tipping Points, and International Coordination." Center for Global Development (blog). October 22, 2020. https://www.cgdev.org/blog/fragility-tipping-points-and-international-coordination

Strand, Jon. 2013. Political Economy Aspects of Fuel Subsidies: A Conceptual Framework. Policy Research Working Paper No. 6392. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/13190

Vagliasindi, Maria. 2012. Implementing Energy Subsidy Reforms – An Overview of the Key Issues. Policy Research Working Paper No. 6122. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/11934

Vagliasindi, Maria. 2013. Implementing Energy Subsidy Reforms: Evidence from Developing Countries. Directions in Development, Energy and Mining. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/11965

Victor, David. 2009. The Politics of Fossil-Fuel Subsidies. Winnipeg: International Institute for Sustainable Development. https://www.iisd.org/gsi/sites/default/files/politics_ffs.pdf

Von Chamier, Paul. 2019. Creating Political Space for Fiscal Compromises: How to Build Consensus Around Progressive Taxation and Spending. New York: New York University. https://cic.nyu.edu/sites/default/files/paulvonchamier_final_june_25.pdf

World Bank and United Nations. 2021. United Nations – World Bank Partnership in Crisis-Affected Situations: 2020 UN-WB Partnership Monitoring Report. Washington, DC: World Bank. http://documents.worldbank.org/curated/en/707891612484648757/United-Nations-World-Bank-Partnership-in-Crisis-Affected-Situations-2020-UN-WB-Partnership-Monitoring-Report

Thanks to Jocilyn Estes for research assistance. The authors are also grateful to Paige Arthur, Henk-Jan Brinkman, Sarah Cliffe, Sanjeev Gupta, and Leah Zamore for helpful comments on an earlier draft. All errors are the authors' alone.

Center for Global Development

Ideas to Action: Independent research for global prosperity

WWW.CGDEV.ORG

SARAH ROSE is a policy fellow at the Center for Global Development.

MARK PLANT is director of development finance and a senior fellow at the Center for Global Development.