Introduction: Subsidy Reform in Morocco, More Than a Technical Issue

Over the past several years, the government of Morocco has engaged in a process to reform its subsidy regime. Subsidies’ contribution to economic and political stability through price stabilization of key commodities has formed a key pillar of the social contract in place in the country since the 1940s. Although an important part of the country’s social protection system, the subsidy regime presents a number of challenges for the country. These include the untargeted nature of the program, the fiscal pressures it puts on the country’s budget, and its inefficiency. In a country marked by inequality and persisting pockets of poverty, universal subsidies stabilize prices for all strata of society but they benefit the wealthy more than those most in need of targeted support. Furthermore, the subsidy regime is unsustainable from a fiscal and macroeconomic perspective. With fiscal costs spiraling upward in the face of rising global prices, 17 percent of the total government budget and roughly 60 percent of the investment budget in 2011 were absorbed by subsidy expenditure, representing a considerable fiscal liability. Finally, the regime is inefficient, exempting the consumption of imported goods such as fuel from the influence of world market developments.
Because of the challenges the subsidy system presents in Morocco, the government has explored options for reform since the late 1990s. Expert groups from government and academia have proposed policy options for remedying the inequities of the present system and reducing its budgetary toll, including a proposal for capping subsidy expenditures and using part of the savings to provide targeted support to the poor and most vulnerable. Additionally, for over a decade, the World Bank has engaged in a dialogue with the government about the economic, budgetary, and distributional benefits of reform and has presented proposals for an integrated approach to social protection policy. However, this engagement has resulted in only partial and ultimately insubstantial modifications to the current system.

Recently, both the World Bank and the government began to recognize that the obstacles to reform go beyond identifying the right technical solution and derive from the political realm. Specifically, the popularity of the subsidy system emerged as a key bottleneck to the reform process. Historically, announcements of increases in the prices of basic commodities have resulted in large-scale demonstrations. Gaining a better understanding of the likely political reverberations of changes to the status quo, as well as finding options to broaden the room to maneuver toward reform, became a central priority for the government.

Given the delicate social and political dimensions of subsidy reform, the government of Morocco asked the World Bank to undertake a political economy assessment of the potential political impacts of reform. To determine whether there were any politically acceptable avenues for change, the Bank assessed the perceptions of stakeholders as well as the public at large. This political economy analysis focused on wheat flour and butane gas subsidies. However, for the sake of brevity and an in-depth discussion, this chapter highlights only the findings regarding butane gas.

The second section begins with a discussion of the technical challenges facing Morocco’s subsidy regime. It continues with a brief discussion of the political economy drivers of national decision making and reviews how these have impacted previous attempts at reform. The third section describes the methods and approach used to assess public perceptions of the subsidy regime and their views about changes. It also lays out the key findings and recommendations from the analysis. In the final section, the chapter concludes with a discussion of the impact of the analysis on the prospects for subsidy reform in Morocco.
reasons that the adoption of technically sensible solutions has remained blocked for an extended period of time.

**The Problem: The Inequity of Benefits and the Rising Fiscal Cost of Subsidies**

The subsidy system was established in the early 1940s. The main entity charged with its implementation is the Compensation Fund (Caisse de compensation). Designed to protect all consumers’ purchasing power and foster economic development by protecting input prices in key sectors, the system stabilizes prices for staple food products such as sugar and flour, as well as energy products such as butane gas and different types of fuel. The subsidy regime is therefore an integral part of the wider Moroccan social protection system, which also comprises non-contributory social assistance programs benefiting disadvantaged, vulnerable, and poor individuals, as well as contributory social security schemes such as pensions and health insurance. Thus, Morocco’s subsidy regime constitutes a mainstay of the relationship between the state and its citizens.

Morocco’s subsidy regime faces three main challenges. First, the untargeted nature of the current subsidy regime makes it fundamentally unfair. Given a lack of consistent and coherent targeting, the universally administered support payments are profoundly regressive in nature. On the national level, the poorest quintile of households receives less than 10 percent of total subsidies, while over 40 percent of government subsidies benefit the wealthiest fifth of the population (Government of Morocco 2008b; see table 3.1). Even if one takes into account the second-most disadvantaged quintile, the poorest 40 percent of the population receives a mere 22 percent of the state’s total subsidy payout. Regarding energy subsidies, the poorest quintile receives only 10 percent of subsidies for butane gas, compared with 32 percent of subsidies benefiting the wealthiest fifth of the population. The discrepancy is even more marked for liquid fuels, with the wealthiest quintile (Q5) pocketing 75 percent of all subsidies for diesel and gasoline, while the poorest quintile (Q1) receives only 1 percent of the funds. With the largest compensation item in the budget earmarked for petroleum products, it can be said that these public funds fail to further the government’s social equity agenda.

Besides failing to address social inequities, the current subsidy system absorbs a substantial proportion of the government’s budget. The past decade saw aggravating raw material shortages and soaring oil and food prices on international and

<table>
<thead>
<tr>
<th>Table 3.1 Distribution of Subsidies among Income Quintiles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
</tr>
<tr>
<td>Q1</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>Butane gas</td>
</tr>
<tr>
<td>Diesel and gasoline</td>
</tr>
<tr>
<td>All products</td>
</tr>
</tbody>
</table>

Source: Government of Morocco 2008b.
Note: Q = quintile. Q1 is the lowest quintile, and Q5 is the highest.
national markets. As a result, the budget resources spent on subsidies expanded tenfold in eight years, from dirham (DH) 4.89 billion or 1 percent of gross domestic product (GDP) in 2003 to a substantial DH 48.8 billion in 2011, constituting 6.1 percent of GDP (figure 3.1). A vast portion of public spending on social assistance is thus dedicated to food and energy subsidies, accounting for 85 percent and 68 percent, respectively, in 2008 and 2009. Given the finite nature of government funds, the expenditure consumed by universal price supports is unavailable for public investments and social programs. Social protection initiatives addressing key risks for the most vulnerable (providing health care for children under four or dealing with unemployment) are therefore limited.

The subsidy system exacerbates budget and balance of payment deficits and constitutes a contingent liability affecting budgetary planning. Morocco has neither oil nor gas reserves. In a context of dependency on energy imports and rising crude oil prices, it is unsurprising that hydrocarbons account for the largest share of price subsidies—78 percent in 2008. The current subsidy system is thus driving up macroeconomic imbalances, while complicating budgetary planning by constituting a substantial item dependent on erratic exogenous factors. In 2009, DH 15.7 billion were saved unexpectedly as crude oil prices considerably lagged the predicted US$100 on the basis of which budgetary calculations had been made. The opposite situation presented itself in February 2011, when the government had to add DH 15 billion to the DH 17 billion previously earmarked for the Compensation Fund, tantamount to a near-doubling of its resources. The unexpected additional expense contributed to a further increase in the budget deficit, with subsidies as a proportion of GDP rising from 2.1 percent in 2009 to 6.1 percent in 2011 and DH 48.8 billion in total.

In addition to raising equity and budgetary issues, the subsidy system encourages inefficiencies and market distortions. The price distortions caused by the system encourage rent-seeking and fraudulent behavior. Fixed prices lower the

Figure 3.1 Development of Subsidy Payments, 2003–11

Note: DH = dirham; GDP = gross domestic product.
incentives for consumers to adapt their consumption habits in light of world market developments, while value-chain stakeholders may forego opportunities to improve production and distribution methods in order to achieve price reductions and improved product quality. Equally, shortcomings in management and control systems lead to fraud and leakage.

**Political Economy Drivers of National Decision Making and the Difficult History of Subsidy Reforms**

Morocco's political economy shapes policy makers' room to maneuver toward reform. As in other countries in the Middle East and North Africa, the government is increasingly under pressure from its citizens to expand the inclusiveness of the political and economic system. Demands for accountability, transparency, and economic opportunity have led to unrest, political protests, and regime change throughout the region. For most of Morocco's independence period (since 1956), decision-making powers have been concentrated in the monarchy, in particular under King Hassan II, reigning for over 30 years from 1961 to 1999. A gradual shift in executive powers from the king, Mohammed VI, to the prime minister has taken place over the past two decades, culminating in constitutional reform in 2011. The new constitutional rules require the king to appoint a prime minister from the party that wins the most seats in the parliamentary elections. A range of appointment powers has been shifted toward the head of government.

As in much of the region, an uneven playing field for business has long constrained Morocco's economic development. A recent World Bank (2009) MENA (Middle East and North Africa) Development Report, *From Privilege to Competition: Unlocking Private-Led Growth in the Middle East and North Africa*, highlights the political barriers to increased economic opening in the region. Its "review of state-business relationships in seven MENA countries shows how alliances between privileged businessmen and governments are strong, exclusive, and often decades old" (World Bank 2009, 187). In Morocco, the constitutional reforms adopted in 2011 and successively implemented since then have begun to shift this equilibrium. However, the concentration of economic benefits within a narrow group for an extended period of time has also affected employment creation in the country. Thus, the importance of the subsidy system to average citizens in both economic and political terms has been particularly significant.

Consequently, by affecting the distribution of costs and benefits and reshaping a key element of the social contract, subsidy reform has proved to be a delicate subject prone to encouraging organized opposition over the past decades. Subsidy reform has caused civil unrest in Morocco (and similarly in a number of other Middle Eastern countries) in the past. Experiences in various countries have shown that reforming energy and food subsidies can entail considerable risks. In Morocco, strikes and violent protests particularly in urban environments met the announcement of price increases for staple products in 1980, 1981, and 1984. The so-called hunger riots evidenced the population's intense reaction, especially in cities, to attempts at cutting subsidies to food considered vital.
Consequently, reforming the subsidy system is regarded as a highly sensitive, controversial subject by the Moroccan authorities, who have proceeded with the utmost caution. In September 2007, riots again erupted in Séfrou in the Fès-Boulemane region after prices for staple foods were raised. As a result, the government rescinded the 30 percent increase in bread prices and has been particularly cautious regarding regions considered sensitive.

The government has been exploring options to reform the subsidy regime since the late 1990s. Against the backdrop of social, budgetary, and economic shortcomings, the government views the restructuring of the current system as vital to the wider reform of its social protection policy system. Since 2007, the government has emphasized the need to reform the compensation system to limit budgetary expenditure and render social protection more equitable, with several studies conducted to ascertain the status quo and identify reform avenues. However, none of the various proposals to reform the energy subsidy system were implemented. Despite the launched initiatives unanimously calling for reform action, successive governments before 2012 have undertaken only partial and ultimately insubstantial modifications.

Past decisions introducing, extending, curtailing, or abolishing subsidies were customarily made in the face of not only economic pressures, financial bottlenecks, and consequential world market fluctuations, but also pressure exerted by adversely affected social groups and private stakeholders with marked vested interests. Stakeholders, public opinion, and decision makers appear separated by different viewpoints regarding the necessity and the method of reform, with some advocating progressive subsidy reductions up to the complete dismantling of the system in favor of support mechanisms benefiting the poor. Others champion support upholding the current structure, but improving it through measures ensuring proper targeting, price control, and optimization of the distribution channels.

In general, the precise manifestation of reform effects tends to be uncertain ex ante and therefore, bias in favor of the status quo can be widespread (Fernandez and Rodrik 1991), with opposition forming even in some of the very groups who should have been favorable to reform (Drazen 1996). Perceptions as to the future distribution of benefits and costs of the reform are likely to be affected by conflicts of interest (Alesina and Drazen 1991) among several sets of stakeholders. Another feature of subsidy reform has to do with its time dimension, with the immediate costs of reform being felt particularly keenly by certain groups, while the advantages tend to materialize only later and are frequently more diffuse, rendering beneficiaries difficult to predict. Those negatively affected are generally more likely to mobilize themselves than those who gain, capitalizing on their political power and organizational, political, and financial resources. For instance, corporate actors may enlist the support of their representative bodies to oppose reform, as was the case in Morocco with subsidies for sugar for industrial use in April 1999. Equally, the middle and wealthy classes benefiting from universal subsidies may be well
organized, particularly in urban areas. To prevent feelings of disenfranchisement and actors with political power blocking the process, the government may need to implement compensatory measures, but these ought to remain limited to avoid nullifying the reform’s budgetary relief and undermining the coherence of reform.

Any reform of the current system is bound to face the dual challenge of efficiency and acceptability. The technical analysis that has been conducted over the past decade has identified many solutions to the efficiency question. Although reforming the current universal regime would seem inevitable in the face of its threefold shortcomings in budgetary, economic, and social terms, international experience has demonstrated that a sound technical conception of restructuring efforts is no guarantee that the desired outcome can be attained (OECD 2007, 2010). Thus, it is the question of acceptability that remains unsolved. However carefully the sequencing of interventions and accompanying social protection measures may have been planned, public reception is likely to make or break the success of a reform. Its anticipation therefore constitutes a key factor in the context of the wider political economy drivers of decision making given a reform’s reception among key stakeholders and with the public at large. Ascertaining public perceptions of the present system, its shortcomings, and public attitudes to potential reform options would be crucial for moving forward, especially given the difficult history of subsidy reform in Morocco.

The World Bank has engaged the government in a broad dialogue on subsidy reform and social protection policy for over a decade. Over the 2000s, the Bank and the government of Morocco engaged in a dialogue on integrated social protection and the economic, budgetary, and distributional implications of the subsidy system, manifested in studies, technical assistance, and study trips. A Poverty and Social Impact Assessment for butane gas subsidies was conducted in 2007. The following year, the Bank organized a round table in Rabat presenting international experiences pertaining to more efficient and equitable social protection systems. In 2008, the World Bank (2008b) published the paper “Reforming Energy Subsidy Prices and Reinforcing Social Protection: Some Design Issues.” Its key recommendations included carefully analyzing subsidy reform impacts on poverty, health, and the environment and identifying target populations eligible for social assistance, while launching compensatory measures and mechanisms tailored to target populations. A crucial suggestion was implementing a multipronged communication initiative prior to and accompanying the reform process. In 2010, the World Bank (2010a) published a strategy paper on targeting and social protection, which not only offered suggestions on improving human development, poverty reduction, and growth, but also aimed to support the government in transitioning from a universal subsidy system toward targeted interventions benefiting those in need. With the Bank’s principal interlocutor, the minister for economics and general affairs, also the champion of subsidy reform
within the government, a new line of dialogue was opened in 2009 based on the awareness that politics rather than a technical issue may constitute the chief impediment to reform.

The Challenge of Acceptability: Capturing Public Views on a Potential Reform to Subsidies for Butane Gas

Methodology and Objectives
Aware of the social and political dimensions of subsidy reform, the Ministry for Economics and General Affairs asked the World Bank to conduct an investigation into both the political and the economic aspects of reform. It was clear that to move forward, the government needed to understand the political implications of a change to the status quo. The approach taken by the Bank aimed at testing political attitudes toward the sequencing, distributional impacts, and depth of subsidy reform. The study targeted two staple commodities, the typical 12-kilogram butane gas bottles (which are used in virtually every household for cooking, baking, and heating) and flour (as previously noted, only the former is discussed in this chapter). By exploring the views of various social groups and relevant influential actors, the analysis sought to test the acceptability of reform scenarios.

The analysis set itself three main objectives: understanding public reactions to reform options and price increases, identifying possible avenues for reform, and understanding what communication measures would be helpful to increase the acceptance of the reforms. The analysis comprised three key steps: (a) mapping stakeholders and social groups, (b) testing reform options and messages among stakeholders and the public, and (c) eliciting the position of different groups toward subsidy reductions for flour and butane gas to inform the development of a communication strategy.

The political economy analysis combined quantitative and qualitative elements in an innovative, practical, and flexible manner. The analysis used qualitative focus group interviews and conversations with stakeholders\(^2\) to ascertain the preferences, expectations, and likely reactions to reform that were prevalent among the beneficiaries of the current system. The focus group interviews were conducted with members of Morocco’s five socioprofessional categories in both urban and rural settings and included two especially sensitive regions. For stratification into socioprofessional categories, a multicriteria assessment was employed, placing the greatest weight on the household head’s education, the type of residence, and the location, distinguishing among five categories from well-off (A) to most disadvantaged (E).\(^2\) On the basis of these initial findings, the questionnaire for a nationally representative survey was elaborated and applied, with 1,375 households in 12 cities and towns between July and August 2010 included in the analysis.

The qualitative analysis investigated the perceptions held by beneficiaries of the current system, both stakeholders and general population. To comprehend prevalent opinions among value-chain stakeholders, semistructured interviews
were organized with representatives professionally active in the butane gas sector. First, conversations included discussions of stakeholders’ roles within the existing value chains and compensation system, as well as their perceptions of and reactions to (a) the economic implications of the current system, (b) the potential impacts of compensation reductions on various stakeholder and consumer groups, and (c) the transitory measures needed to mitigate such impacts.

Second, eight focus group interviews with members of the general population were conducted in different regions of Morocco, in rural and urban settings. Every focus group—some all male, some all female, and some mixed—comprised eight individuals. The qualitative interviews reached members of all strata of society and all backgrounds by using different methods, including imaging, rating, and fictitious situations, to bring together perceptions of the state, the compensation system, envisaged social protection measures, and options for reform. The interviews also elicited information on participants’ consumption habits and standards of living.

An opinion survey based on a representative sample of 1,375 households followed the qualitative analysis. The questionnaire used in the survey was informed by findings from the initial qualitative stage. The sample’s representativeness was ensured through (a) a rural-urban division combined with a division between socioeconomic categories, (b) a rural-urban division combined with a division between zones benefiting from the national poverty reduction initiative and zones not included in the program, and (c) a rural-urban division combined with a division between zones targeted by the government’s wheat flour support program and those outside the program. Two provinces considered to be sensitive were oversurveyed, with the stratification between disadvantaged and more privileged socioeconomic categories remaining representative. The survey collected information on the following:

- Media used as sources of information
- Consumption habits regarding wheat flour and butane gas
- Knowledge and perception of the compensation system
- Perception of social protection programs envisaged by the government (see table 3.2)
- Opinions on targeting mechanisms that the government aims to use (see table 3.2)
- Attitudes toward compensation reduction measures for flour and butane gas
- Preferences regarding scenarios combining subsidy-reducing measures and envisaged social protection measures

The survey aimed to test the population perceptions and attitudes vis-à-vis subsidy reductions. It then sought to identify whether such attitudes and perceptions corresponded to precise socioeconomic characteristics. Finally, it assessed whether there was any link between perceptions, sociodemographics, and the avenues by which different individuals and groups obtain information about the subsidy regime and avenues for reform (box 3.1). The aim was to lay the
foundation for designing a communication strategy and to identify messages for particular segments of the population, the media channels to be used to roll out the communication, and timing and sequencing of the messages.

**Key Findings**

The analysis showed that in terms of attitudes toward subsidy reform, the Moroccan public can be divided according to three attitudinal profiles:

- moderate interventionists
- radical interventionists
- moderate liberals

At 63 percent, the moderate interventionists constitute the majority of the population. They generally favor gradual policy change and centrist policies. They advocate interventions by the state to benefit the most disadvantaged and tend to think that subsidies should not benefit the wealthy. While believing that the current system does not transfer enough from rich to poor, they are generally confident in the state’s capacity for redistribution.

The 20 percent of the population that fall into the radical interventionists category tend to opt for more polar positions on issues. They strongly hold that benefits should not go to the wealthy and that the state should be responsible for ensuring solidarity in society, while also criticizing the current system’s distributional capacity. Furthermore, they feel a majority of Moroccans are not living in an acceptable situation and believe that the majority of households would not be able to adapt to price increases.

---

**Table 3.2 Social Protection Reform Options Envisaged by the Government Used in a Quantitative Survey**

<table>
<thead>
<tr>
<th>Social protection program</th>
<th>Targeting mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAMED Noncontributory scheme to cover public hospital treatment for poor and vulnerable populations</td>
<td>Multidimensional eligibility test</td>
</tr>
<tr>
<td>Tayssir Cash transfer program conditional on school attendance</td>
<td>Community targeting</td>
</tr>
<tr>
<td>Unemployment insurance Obligatory social insurance against unemployment risk for private-sector employees</td>
<td>Filtering</td>
</tr>
<tr>
<td>Second-chance school Program to (re)introduce school dropouts into school or work</td>
<td>Geographical targeting</td>
</tr>
<tr>
<td>National Promotion Program for public utility work requiring high manual-labor input</td>
<td>Eligibility determined by living conditions (households do not know the details of these criteria)</td>
</tr>
<tr>
<td></td>
<td>Eligibility determined by poverty rate at place of domicile</td>
</tr>
</tbody>
</table>

*Source:* Authors’ compilation.

*Note:* RAMED = Regime d’Assistance Médicale pour les Economiquement (Noncontributory Health Insurance Scheme).
Box 3.1 Choice Variables to Determine Profiles

Because the objective was to identify differentiated profiles, the variables generating mostly consensus in the sample were excluded from the exercise of multicorrespondence analysis (MCA) and segmentation.

Variables that seemed to have been misunderstood were also excluded, such as two variables regarding equity (“An equitable system is a system in which someone receives support to the degree they contribute,” “An equitable system is a system in which someone receives support depending on their needs/on their poverty level”). Although the two variables contradict each other, paradoxically 30 percent of respondents answered both in the affirmative. Eight variables were thus used for MCA and the segmentation as follows:

“The subsidy should also benefit wealthy households as they pay for it through their taxes.”
“The subsidy should not benefit wealthy households as they don’t need it to live well.”
“The current compensation system does not allow sufficient redistribution of funds toward the poor.”
“I am confident that the state equitably redistributes the collected resources to those most in need.”
“The majority of Moroccans live in a satisfactory human and social situation (education, health…).”
“It is part of the state’s obligations to ensure solidarity in a society by transferring funds to the poor.”
“If prices increase, most households will be able to adjust their consumption.”
“If prices for staple products go up slightly, it would seem normal to me if protest movements were organized.”

Five possible responses were given for each variable: “absolutely agree,” “agree,” “neither agree nor disagree,” “disagree,” and “absolutely disagree.”

The moderate liberals represent 17 percent of the population. They express moderate views akin to the first category, yet generally oppose state intervention on behalf of poor households, believing that the state is not obligated to ensure redistribution and professing low confidence in its ability to do so. In general, this group does not believe that the current system is unfavorable to the poor. They oppose any protests that might be organized in reaction to price increases.

Attitudinal profiles cannot be easily attributed to socioeconomic factors, residence in urban or rural settings, or the information media principally used. Although there are slight tendencies visible, with radical interventionists more frequently based in rural settings and in lower socioprofessional categories, and moderate interventionists more often urban and of moderate income, all three attitudinal profiles were found across all socioprofessional categories and in rural and urban environments. Equally, the use of information media is virtually identical throughout all three groups, with television emerging as the consensus prime source.
The public demonstrates a general lack of knowledge regarding the subsidy system. When confronted with the question “Which public support programs for purchasing power do you know?” a mere 10 percent of the sampled population responded spontaneously by saying “the compensation system.” Across all attitudinal profiles and socioprofessional categories, there is a low awareness of the system without prompting. Even after the system has been explained, still a large majority (79 percent) profess to never having heard of it, with awareness most limited in the disadvantaged socioprofessional categories (see figure 3.2). This generalized lack of knowledge of the system might also explain the lack of differentiation among different categories.

The scope and financial implications of the subsidy system are equally unfamiliar. When asked what products they think actually benefit from state subsidies, a limited majority of participants cites flour, sugar, and culinary oil, even though subsidies for oil were discontinued in 2000. Even fewer people are aware of the support for butane gas or fuels, which is still in place today. As a consequence of this limited awareness, the impact of the support measures is substantially underestimated. With the current butane gas price at DH 40 for a bottle containing 12 kilograms, the interviewees expected the real market price to stand at DH 55. In reality, however, removing all subsidies would cause the price to soar by 150 percent to DH 100, corresponding to an underestimation by 45 percent. As a result of this lack of awareness of the system’s magnitude, there is also low awareness of the compensation regime’s overall budgetary toll.

A large majority of the population regard the current compensation system as beneficial but in need of reform, primarily for reasons of equity. Seventy-six
percent of the survey participants throughout all socioprofessional categories and attitudinal profiles believe the system to be beneficial, with 91 percent considering subsidies to be an obligation of the state and 83 percent viewing the regime as maintaining the purchasing power of the poorest. Nevertheless, 76 percent believe the system ought to be reformed given grave dysfunctions, and 73 percent think controls should be tightened on producers and vendors who benefit more than consumers from the subsidy, while 71 percent agree that part of the compensation budget would be better spent on environmental protection. Furthermore, although a large majority of 84 percent believes that the entire population contributes to the financing of the system, it is “the rich” who are generally viewed—justifiably so—as benefiting the most, with only the most privileged socioprofessional categories disagreeing (figure 3.3).

The social protection programs that the government plans to implement are also hardly known but are viewed favorably, as are the related targeting mechanisms. The National Promotion initiative, comprising public utility works and existing since 1961 (see table 3.2), is just as poorly known as the innovative conditional cash transfer program (Tayssir) or the noncontributory health care program (RAMED [Regime d’Assistance Médicale pour les Economiquement, or Noncontributory Health Insurance Scheme]): only 11 percent of participants were aware of them. Once explained, all three schemes are viewed very favorably across all attitudinal profiles and socioprofessional categories. The main concern expressed regarding the usefulness of the schemes was that the programs may fail to target the needs of the most disadvantaged. In the same vein, targeting mechanisms were considered very useful in terms of equity, but concerns were raised regarding the risk of exclusion of eligible groups and individuals when using geographical targeting approaches, as well as risks of corruption for all three other approaches.

Positive attitudes toward social protection programs do not offset the marked opposition toward subsidy cuts. Large sectors of the population do not feel that

---

**Figure 3.3 Perception of the Subsidy System: Who Benefits the Most?**

- **Source:** Calculations based on survey results.
- **Note:** See World Bank 2010d for a description of categories A–E.
a reduction in subsidies could be compensated for by the implementation of one of the government’s planned social protection measures. In the focus groups, only a small part of the more privileged population considered such a coupling as making price increases more acceptable, with the majority opinion diverging: a lack of confidence in the effectiveness, the targeting, and the durability of such beneficiary schemes was voiced. A majority of participants across all socioprofessional backgrounds and attitudinal profiles objected to reducing price supports to increase funding for social programs targeting the poorest. The choice-based analysis showed that the perceived disutility of even limited price increases outweighed the perceived benefits of social protection programs (see figure 3.4).

Maintaining the status quo was viewed as the most favorable option. Over 80 percent of survey participants considered butane gas to be expensive or very expensive already, with the study also showing that consumers are keenly aware of the current price of butane gas (while being unaware of it being subsidized), offering no leeway for price increases. To ascertain the population’s likely reaction to subsidy cuts, the survey raised the question as to what reaction a minimal increase in price, by DH 5 or 12.5 percent, would trigger. A considerable number of participants rated this as unacceptable. Because of its stability over several years, the current price of butane gas is perceived as unchangeable. The price of the 12-kilogram butane gas bottle (DH 40) seems to be perceived as

---

**Figure 3.4** Degree of Utility Attributed to Price Variations and Social Protection Programs

*Source:* Calculations based on survey results.

*Note:* RAMED = Regime d’Assistance Médicale pour les Economiquement (Noncontributory Health Insurance Scheme).

Problem-Driven Political Economy Analysis • http://dx.doi.org/10.1596/978-1-4648-0121-1
an entitlement. Reactions to suggested price increases are not always in line with their actual impact on the respondent’s overall budget, as the latter is very dissimilar across socioeconomic groups. This suggests the presence of a perception barrier to reform. Even a slight increase in bottle price aimed at breaking this psychological barrier could be useful to start a long-term reform dynamic. The second and third most common answers across attitudinal profiles and socioprofessional categories were that a price increase would cause consumption to diminish and force consumers to find substitutes to replace butane gas. Though they expressed dissatisfaction with the safety of the bottles and voiced concerns about leakage in filling levels, most survey participants advocated that the status quo be maintained (see below).

Reducing subsidies for butane gas is perceived as increasing energy poverty as well as environmental risks. A higher proportion of the energy consumption of disadvantaged households is covered by butane gas (between 30 and 34 percent), with a higher percentage of their monthly budgets (up to 6 percent) spent on the subsidized fuel. In the absence of viable alternatives, butane gas price increases would thus be likely to affect more disadvantaged households more strongly. As figure 3.5 illustrates, the two most common coping strategies stated when faced with a price increase would be reducing consumption or shifting to a different source of energy. However, the survey showed that the public does not see any obvious substitute for butane gas, while disadvantaged socioprofessional categories cite coal or wood. In the case of rural households with immediate access to forests, the latter option may risk deforestation.

In sum, the analysis found that a large share of the population consider subsidies to be an integral part of the social contract between the state and citizens. It furthermore showed that large parts of the population are entirely unaware of the magnitude and budget impact of price support measures. The majority of citizens and stakeholders express hostility toward any proposed price increase in butane gas. Moreover, the suggestion that the price support system might be replaced with new social programs that are better able to target the poor was not considered adequate compensation for subsidy reductions.

Figure 3.5 Reaction to DH 5 Increase in Price of Butane Gas

Source: Calculations based on survey results.
Note: N/A = Unacceptable. See World Bank 2010d for a description of categories A–E.
Implications for Reform Entry Points

Against the background of these findings, the team sought to identify some avenues toward energy subsidy reform that may nonetheless be feasible and that could gradually open up opportunities for further reform. The team sought in particular to identify foci that would make gradual changes and communications approaches acceptable. The key findings and implications for ways to approach subsidy reforms are summarized in box 3.2.

Concerns about security and leakage in the supply system suggest potential (imperfect) entry points for reform. The analysis showed that the vast majority of participants believed filling levels of the butane gas bottles have decreased recently, with a considerable majority also dissatisfied with the safety of the butane gas bottles. These perceptions may offer an entry point for reform by officially reducing filling levels and increasing safety while maintaining the same

Box 3.2 Key Conclusions

• Large parts of the population are unaware of the current price support measures, their magnitude, and budgetary impact, with implications for their understanding of the need and objectives of reform.
• Once informed of the existence and role of the subsidy system, a large share of the population considers subsidies to be part and parcel of the social contract between state and citizens.
• Despite minor differences, large majorities within the three attitudinal profiles react with marked hostility toward all price increase scenarios and agree on the fact that the subsidy system ought to be maintained.
• The various attitudinal profiles cannot be easily matched to socioeconomic features. The lack of opinion differentiation might be due to a general lack of knowledge or understanding of the overall subsidy system.
• Less privileged strata use comparatively more butane gas to cover their energy needs and spend a greater portion of their budget on it, with survey participants believing there was no obvious substitute for butane gas.
• The perception of a disproportionate impact on disadvantaged strata could affect the reform prospects.
• The introduction of new social programs based on better targeting mechanisms is not considered as compensating for subsidy reductions.
• Measures toward increased safety and control over filling levels of butane gas bottles might be used to justify moderate price increases.
• Without a targeted communication campaign, cuts can have delicate political and social implications.
• Communication should aim at informing the public about the existence and functioning of the system, as well as its implications.
• The lack of differentiation of public opinion groups provides an opportunity for shaping public opinion groups favorable to reform.
prices. Thus, in the short to medium term, price changes can be associated with measures such as making official the decrease in filling levels and improving the safety of butane gas bottles. The drawback of this option compared to a standard increase in prices is that reform would be predicated on a one-off renewal of the butane gas bottles nationwide and would not have clear follow-up steps to further reduce subsidies going forward. It is also likely to be resisted by bottle fillers as it would reduce margins. Nonetheless, this entry point would work toward breaking the psychological barrier.

Given the vast opposition to reform and the characteristics of public attitudes, any attempt at reform would need to be preceded and accompanied by substantive communication measures. The lack of socioeconomic differentiation among the various attitudinal profiles offers an opportunity to shape public attitudes. A targeted communication campaign would leverage latent perceptions of inequity to elicit support among most progressive constituencies.

The campaign would aim at informing the public of the current system and its functioning, its failures, and its drawbacks—notably its budgetary implications and largely regressive nature—with a view to opening a debate on options for reform. The introduction of innovative social programs supporting the poorest strata of society would be announced in parallel, not in conjunction, with subsidy reform measures, to convey the general direction of government policy without giving the impression of a retaliatory approach to buying consensus.

**Moving toward Impact: Evolving Efforts at Subsidy Reforms**

The results of the analysis were shared with representatives of the ministries of General Affairs, Economy and Finance, and Interior. A communication campaign informed by the study was launched in the fall of 2011, largely aimed at informing the public of the existence of the overall subsidy system and its costs and extent.

In the summer of 2012, the government then moved to reduce price support to diesel, gasoline, and industrial fuel through a sudden price increase effective June 2, 2012 (see table 3.3). A 2008 analysis by the Ministry of Economy and Finance (see table 3.1) had evidenced that although the wealthy benefited disproportionately more than the poorer strata from subsidies for all types of fuel, the balance in the case of diesel and gasoline subsidies was tipped even more in their favor than for butane gas. The World Bank’s political economy analysis had found that butane gas was already considered to be expensive and used comparatively more by poorer households. A removal of butane gas subsidies as a first step could therefore have caused hardship among the poorest strata. Furthermore, the study had demonstrated that the current system was perceived to benefit wealthy households disproportionately. Therefore, reducing subsidies for liquid fuels offered an avenue for reform expected to be more widely accepted by the public.

A multipronged, large-scale communication campaign informed by the analysis involving senior government figures was launched to explain the
subsidy reductions for liquid fuels. The campaign was carried out through different channels, including television, radio, and printed press with a view to reaching all strata in society. The threefold narrative that was pursued reflected the key recommendations of the study. First, statements highlighted the backdrop of soaring world prices and the situation on world financial markets, as well as the sizable subsidies remaining in place for other fuels such as butane gas to protect purchasing power and competitiveness. Second, it was emphasized that the considerable volume of funds tied up in universal subsidies could not be used for crucial investments and growth promotion elsewhere. Finally, to reinforce the message of inequity in the system, the statements stressed that it was crucial to redirect funds toward those most in need of support. In line with recommendations, envisaged social compensation measures were communicated in parallel and without creating a direct connection to subsidy-reducing measures to avoid discrediting the planned programs.

In January 2013, the government began announcing further subsidy reductions to be undertaken during the year, with a view to limiting the deficit to 4.7 percent of GDP (from an actual deficit of 7.1 percent of GDP in 2012) and to reducing the total cost of subsidies to 3 percent of GDP by 2016. An annex pertaining to the reduction plan for subsidies was also included in the 2013 budget plan as a further signal of the government’s intention and part of its communication effort. In parallel, the government has also continued with its efforts to strengthen its social safety net targeting the poorer strata in society. However, the continuing strains have also been evident. In early April, the government announced cut backs to the proposed public investment spending to reach its deficit target. In July 2013, it announced the introduction of automatic price adjustments for subsidized petroleum products based on international market prices, as well as a more comprehensive reform of the subsidy fund to be undertaken in late 2013.

Table 3.3 Overview of Energy Subsidy Reform in Morocco, June 2012

<table>
<thead>
<tr>
<th>Fuel type</th>
<th>Old price (DH)</th>
<th>New price (DH)</th>
<th>Absolute increase (DH)</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diesel (per liter)</td>
<td>7.15</td>
<td>8.15</td>
<td>1.00</td>
<td>14.0</td>
</tr>
<tr>
<td>Gasoline (per liter)</td>
<td>10.18</td>
<td>12.18</td>
<td>2.00</td>
<td>19.6</td>
</tr>
<tr>
<td>Industrial fuel (per ton)</td>
<td>3,678.00</td>
<td>4,666.04</td>
<td>988.04</td>
<td>26.9</td>
</tr>
</tbody>
</table>

Communication campaign
Spearheaded by prime minister and senior government figures
Continuous communication and education on current system and subsidy reform
Highlights of system’s inadequacies in three domains:
- budgetary implications
- unavailability of funds for other investment
- social inequities

Source: Based on political economy assessment and government of Morocco.
Notes

2. Williamson and Haggard (1994, 531) show that policy reforms “are like an investment that should ultimately benefit the majority by enough to make them happy they made it, but that in the short run will—like all investments—involves sacrifices. The distribution of these sacrifices over time and across groups is at the heart of the politics of economic reform.”
3. For more details, see World Bank 2010b.
4. The polling institute entrusted with the study estimates the current distribution of socioprofessional categories in the overall population to be as follows: SPC A (well-off): 2 percent; B: 3 percent; C: 31 percent; D: 38 percent; and E (most disadvantaged): 26 percent. The estimate is based on studies conducted in four waves per year from 1989 to 2002, then in two waves per year after 2002.
5. For more details, see World Bank 2010d.
6. Attitudinal profiles were established through a multicoresponse analysis (MCA) combined with segmentation. One part of the survey sought to identify awareness and opinions regarding the existing subsidy system. The findings of questions about perceptions were subjected to an MCA pointing to generate qualitative variables and a limited number of quantitative variables, the so-called principal factors (see box 3.2 later in this chapter; note that box 3.2 is about key findings). Through a classification combining hierarchical ascendant and dynamic cloud classification, three attitudinal profiles were identified and then analyzed to ascertain sociodemographic particularities and specific information habits. A choice-based correspondence analysis was used to evaluate reform alternatives and rank different combinations of measures. This method allows for an evaluation of the utility of alternatives for various attributes of a product. See, for instance, Liquet and Benavent (n.d.). In this instance, the product in question was a combination of measures, comprising three attributes: (a) a variation of the prices for subsidized products, (b) a cash transfer program, and (c) another social protection program. Four alternatives were assigned to each attribute: (a) the variation of prices was 0 percent, 5 percent, 10 percent, or 15 percent; (b) the cash transfer program could be conditional on school attendance or on visits to a health facility, unconditional, or nonexistent; and (c) the other social protection program could be a RAMED (Regime d’Assistance Médicale pour les Economiquement, or Noncontributory Health Insurance Scheme)—type of program financing hospital costs, a second-chance school, the public utility—work National Promotion scheme, or no program (see table 3.2 and figure 3.4). The joined analysis technique allows a relative evaluation of the utility of each alternative.
7. “Unacceptable” was not originally offered as an answer choice: it denotes the unwillingness to provide an answer among those foreseen in the questionnaire.

Bibliography


