



Designing acceptable and effective subsidy reforms: Lessons for water tariff reform in Jordan

Molly Hickey

- Successful subsidy reforms depend on clearly explaining the downsides of the current system and the benefits of reform.
- Coupling reforms with strategies to redistribute savings or directly support poor and vulnerable groups increases fairness and public acceptance.
- Phased reforms give citizens time to adjust and reduce the risk of sudden unrest. Automatic pricing mechanisms can depoliticize price hikes and enhance policy credibility.
- When citizens trust the government, perceive service delivery as high quality, and believe others are also complying, they are more willing to accept higher tariffs.
- Morocco and Iran's early reforms show how transparency and compensation can ease reform, while Saudi Arabia and Iran's 2019 failures highlight the dangers of abrupt implementation without communication.

This policy brief examines how to design politically acceptable and effective subsidy reforms, with a focus on water tariff reform in Jordan.

Drawing on regional experiences and global best practices, it emphasizes the importance of gradual implementation, transparent communication, and targeted support to build trust and mitigate public backlash.

Why subsidies persist despite their costs

Although widely criticised as regressive and inefficient, broad-based subsidies remain one of the cornerstones of the social safety net in the Middle East and North Africa (MENA). Efforts to replace these subsidies with more targeted forms of support have faced persistent obstacles, such as low state capacity, poor administrative penetration, and high levels of informality. As a result, governments across the region have continued to rely on broad-based subsidies as a tool for ensuring their populations' welfare, such that they have come to form a key part of the so-called "social contract" between the government and citizens. Given that citizens have come to expect subsidies as a form of entitlement, when governments seek to reform them, it can contribute to significant social unrest.

When approaching reforms as unpopular as subsidy reductions, governments often fear that publicizing these decisions will spark opposition. As a result, they may limit communication, hoping to avoid backlash. However, this instinct can be counterproductive. Lack of transparency increases public mistrust and forfeits the opportunity to justify reforms to citizens. This policy brief asks how governments have navigated these challenges, and what strategies have proven most effective for managing reform.

Experience from countries across the MENA region suggests that reforms are more likely to be accepted when they are paired with a clear, proactive communication. These strategies are most effective when they explain both the downsides of the current subsidy structure and the anticipated benefits of reform. Additionally, the credibility and fairness of the reform can be strengthened by including measures that redistribute savings to the public or directly support vulnerable groups most affected. Finally, gradual implementation gives citizens time to adjust and governments time to fine-tune policies, reducing the likelihood of sudden unrest.

Key findings

This policy brief recommends the following best practices:

- A clear, comprehensive communications strategy that explains both the pitfalls of the continued subsidies and the potential benefits of reform
- A mechanism to either redistribute the savings or support the poor
- A gradual introduction of price increases

Jordan's experience with subsidy reform

In 1989, facing a mounting fiscal crisis, the Jordanian government eliminated food subsidies as part of an IMF-backed structural adjustment program. The decision led to widespread riots across southern towns and forced King Hussein to introduce significant political reforms, including lifting martial law and restoring parliamentary elections after a 22-year suspension. Since then, subsidy reform has remained politically sensitive, shaping successive governments' cautious and incremental approach to price adjustments.

In the decades since 1989, Jordan has undertaken several rounds of subsidy reform, often in response to external financial pressures. Fuel subsidies were gradually phased out beginning in the early 2000s, with the government introducing an automatic pricing mechanism in 2012 to adjust prices in line with global markets. Additionally, electricity tariffs were restructured in 2022 to better target subsidies toward lower-income households while reducing the financial burden on the government. Despite occasional public backlash, these reforms have largely avoided the scale of unrest seen in 1989, thanks in part to careful preparation on the part of the government.

Today, the next challenge is water subsidy reform. Jordan is one of the world's most water-scarce countries, and the current pricing system fails to reflect the true cost of supply. As financial and environmental pressures mount, the government may find it challenging to continue its current subsidy strategy, even when taking planned annual price increases into account.

Political and social challenges to reform

The social contract

Considerable scholarship has referred to the presence of a “social contract” between citizens and their governments in non-democratic contexts. This unspoken bargain implies that citizens agree to relinquish certain political rights in exchange for economic benefits (Desai et al., 2009). For decades, governments in the MENA region have provided citizens with heavily subsidized commodities, most notably, fuel, electricity, and food, in an effort to maintain support. This deal, i.e. the provision of key goods in exchange for limited forms of political participation, has historically brought stability to these countries. However, governments tend to find that this dynamic makes it difficult to remove subsidies without inciting political instability.

Despite these challenges, governments in the region have taken considerable steps within the past two decades to scale back their subsidy provision.

Following a collapse in oil prices, Gulf countries began cutting subsidies as part of broader economic reforms. Notably, Saudi Arabia increased gasoline prices in 2016, followed by multiple hikes in subsequent years; the UAE deregulated fuel prices in 2015 and introduced a market-based pricing system; and Kuwait raised electricity and water tariffs in 2016, ending decades of nearly free utilities for expatriates. Some middle-income governments like Morocco and Iran have also undertaken partial transitions away from broad-based subsidies, introducing targeted cash transfers to replace or offset cuts to select commodities (Auktor & Loewe, 2021). In doing so, they have sought to transform their welfare systems from encompassing the entire population to only the neediest citizens, transitioning from a model of subsidies as a “right of citizenship” to “customary privileges,” which can potentially be restricted (Krane, 2018). This is a notable achievement given the inherent difficulty of taking away government benefits from those who have become accustomed to them (Pierson, 1996).

Tax morale

A critical but often overlooked factor in successful reform is tax morale, or the extent to which citizens feel a civic obligation to contribute to public services. High tax morale can substantially ease the reform of subsidies. Tax morale is desirable for leaders because it reduces the cost of enforcement, as well as the incidence of evasion or theft (Bernstein & Lu, 2003; Fjeldstad, 2001; Levi 1988). A number of studies have found support for the idea that citizens are willing to pay taxes when they receive political representation and public goods in return (Alm & Torgler, 2006; Feld & Frey, 2007, Gatt & Owen, 2018). When this is the case, reforms allow the government and the people to continually negotiate their relationship, creating a situation in which taxpayers feel that their preferences are being enacted by the state and thus are willing to pay taxes.

Beyond enhanced citizen participation in government, several other factors are thought to influence citizens’ tax morale, and therefore willingness to pay taxes. First, when citizens trust the government and perceive service delivery as being high quality, they are more accepting of higher costs associated with those services (Torgler & Schneider, 2004, Frey & Torgler, 2007). Second, there are some peer effects associated with taxation, meaning that citizens are more likely to comply with taxes when they believe that others are compliant as well (Fellner et al., 2013). And finally, strategies aimed at promoting compliance are most effective when combining deterrence, like fines and audits, with encouragement, such as appeals to duty or increased service provision (Fellner et al., 2013). Strengthening tax morale through trust-building, transparent service delivery, and fair enforcement can lay the groundwork for more politically sustainable reforms.

Global best practices for managing reform

Experiences from across country contexts have revealed a set of strategies that are most likely to lead to enduring subsidy reform. When deployed properly, these best practices can help foster buy-in to the reform process and reduce opposition.

Effective messaging

One of the primary factors predicting the success of a reform is whether the government engages in a comprehensive communications strategy. The best communications strategies clearly explain to citizens the negative consequences of the existing subsidy system, highlighting economic distortions, including pollution, the misallocation of resources, and other inefficiencies (Sdravovich et al., 2014). Effective communications strategies also include a positive framing, explaining the benefits of reform, including budgetary savings and the ability to reallocate the spending towards other important government functions, such as education and healthcare. This effort to communicate is key in building trust amongst citizens that the government is acting in their best interest.

Gradual price increases

A defining feature of many successful subsidy reforms in recent decades has been the use of a gradual implementation strategy. Gradual price increases allow citizens time to adjust and for the government to implement mitigating measures to ease the burden of the reform. Even when affordability is not a problem, slow price increases are proven to make citizens more inclined to accept higher prices, as sudden increases can surprise the public, sparking opposition (McIlwaine & Ouda, 2020). Moreover, implementing price hikes gradually allows the government to couple the increases with systematic messaging to prepare the public and raise awareness for the rationale behind the reforms. One popular tool for gradual increases are automatic pricing mechanisms, which can effectively depoliticize price setting, and when coupled with a smoothing feature, can reduce price volatility.

Improved targeting

Finally, governments often frame subsidy reform as a shift from regressive to progressive resource distribution, emphasizing the goal of improving equality through better targeting. Across the region, enhancing the targeting of social protection programs has become a key trend, frequently encouraged by international financial institutions. By improving targeted mitigation measures for the poor, such as cash transfers and vouchers, governments can improve buy-in for subsidy reform. Typically, governments find it easier and quicker to scale-

up existing programs, rather than setting up new instruments. However, a key challenge to this strategy is limited government data on citizen income and assets in economies with high levels of informal economic activity. In such contexts, governments can target benefits via coarse measures, such as via cash transfers, tax reductions, or wage increases for public sector workers and recipients of social security benefits.

Reform in practice: Country case studies

Three case studies from across the MENA region highlight the importance of these strategies in managing successful subsidy reform.

Water subsidy reform in Saudi Arabia

Much like Jordan, Saudi Arabia has had to manage a difficult combination of water scarcity and high government subsidies on water. Saudi Arabia relies on seawater desalination to meet growing water demand. While the use of desalination is positive in terms of providing a sustainable source of water, it is a highly energy-intensive process, with electricity being the single largest expense for desalination plants. Prior to its reform efforts, water was heavily subsidized in Saudi Arabia, with revenues covering only about 7% of supply costs (McIlwaine & Ouda, 2020). As part of its Vision 2030 initiative, the government committed itself to reducing this financial burden on the state and promoting more efficient water usage.

The government announced water price reform at the end of 2015, restructuring the tariff blocks and phasing out subsidies. The revised structure significantly reduced the consumption blocks at which citizens would receive subsidies, decreasing the highest subsidized block from 300 cubic meters to just 60 cubic meters a month, in an effort to incentivize reduced water usage. However, the government implemented the new tariff structure abruptly, with little communication to prepare citizens for the change or explain to them the logic of the reform. Residents experienced sudden increases in their water bills, sparking widespread criticism and social media backlash. While the government had originally intended to gradually reduce subsidies over five years, with the goal of the completely eliminating operating subsidies by 2020, it was forced to stop short due to political opposition.

By 2020, water tariff revenues covered only about 30% of operating costs, well below the 100% that had been targeted. This episode illustrates the importance of communicating with citizens well ahead of the implementation of economic reforms. This buffer period is crucial for allowing the government the opportunity to make its case to citizens and explain how it will offset negative impacts of the reform.

Fuel subsidy reform in Morocco

The subsidy reform process in Morocco represents an example of a comprehensive communications strategy in a similar political and social environment to Jordan. After Morocco's subsidy bill reached a peak of 6.6% of GDP in 2012, the government decided to undertake a comprehensive reform process, with the goal of removing all subsidies, particularly those on fuel, by 2017 (Verme, El-Massnaoui, & Araar, 2014). Despite a four-year delay, the government was able to accomplish the removal of all subsidies by 2021, except for those on commodities primarily used by the poor: liquefied petroleum gas (used for cooking and heating), flour, sugar, and water. This achievement was facilitated by gradual changes to prices, following an extensive communication strategy, and an effort to ensure that reforms had only minimal impacts on the poor.

Morocco's communication strategy was designed to reach citizens primarily through the media, including via public TV and radio discussions, newspaper articles, advertisements, and debates. The messaging included information about the scale and distribution of subsidies, the financial reasons for reform, how the government would protect the poor, and the benefits of the reforms more broadly (El-Katiri & Fattouh, 2017). Additionally, the government established in 2012 three commissions to assess options for reforms, review their effects, and to brainstorm strategies for mitigating negative impact (Verme & El-Massnaoui, 2015). One of these strategies was the expansion of existing social protection programs, which were already providing cash transfers and free medical treatment to poor families, helping to offset the impact of rising prices.

Morocco's success illustrates the importance of protecting the poor during reform. By expanding existing social protection mechanisms and ensuring that prices on commodities used most heavily by the poor stayed low, the government ensured that reforms would not negatively impact the most vulnerable. Through effective communication to the public, the government was able to mitigate backlash.

Fuel subsidy reform in Iran

Iran's experience with subsidy reform was positive for many years, as the government prioritized effective messaging. Prior to the reforms, Iran had some of the lowest domestic oil prices in the world, given its status as an oil producer. The government initiated reforms in December 2010, and sought to ease the impact of higher prices for gasoline, natural gas, and diesel by redistributing the proceeds to support domestic industry and introducing a cash transfer scheme. While the government had originally sought to target the cash transfers towards the poor, when this proved logistically difficult, they shifted to a universal cash benefit (Guillaume et al., 2011).

The government accompanied this effort with a comprehensive communications strategy, mobilizing government and societal leaders to speak with the media in favour of the reform. These spokesmen emphasized the wasteful and regressive nature of the previous scheme and discussed the benefits, focusing on the universal cash transfer which would replace the subsidies. By explaining in detail to citizens the logic of the reform and the size and means of the compensation, the government helped to build trust amongst citizens, leading to broad-based acceptance of the reform.

This instance stands in contrast to a subsequent reform initiated in 2019, when the government suddenly hiked fuel prices by 50-200% without warning. Despite claiming that the price increases would fund further cash aid for citizens, due to a lack of preparation and communication, the increases set off massive nationwide protests. This experience highlights the need for preparation and transparency prior to the initiation of reforms.

Designing sustainable and acceptable tariff reform

As Jordan faces growing fiscal and environmental pressures, water tariff reform has become a necessary but politically sensitive step. Lessons from across the MENA region underscore that the success of subsidy reform depends not just on sound economic design, but on political and social considerations. Gradual implementation, clear communication, and targeted support can help secure public buy-in and protect vulnerable populations. Jordan's own experience with past reforms, especially in fuel and electricity, shows that careful sequencing and transparency can reduce the risk of unrest. As the country moves toward restructuring water tariffs, it will be essential to deploy these strategies to ensure citizen buy-in.

References

- Alm, J., & Torgler, B. (2006). Culture differences and tax morale in the United States and in Europe. *Journal of economic psychology*, 27(2), 224-246.
- Auktor, G. V., & Loewe, M. (2021). Subsidy reforms in the Middle East and North Africa: strategic options and their consequences for the social contract (No. 12/2021). Discussion Paper.
- Bernstein, T. P., & Lü, X. (2003). Taxation without representation in contemporary rural China (Vol. 37). Cambridge University Press.
- Desai, R. M., Olofsgård, A., & Yousef, T. M. (2009). The logic of authoritarian bargains. *Economics & Politics*, 21(1), 93-125.
- El-Katiri, L., & Fattouh, B. (2017). A brief political economy of energy subsidies in the Middle East and North Africa. In *Combining Economic and Political Development* (pp. 58-87). Brill Nijhoff.
- Feld, L. P., & Frey, B. S. (2007). Tax compliance as the result of a psychological tax contract: The role of incentives and responsive regulation. *Law & Policy*, 29(1), 102-120.
- Fellner, G., Sausgruber, R., & Traxler, C. (2013). Testing enforcement strategies in the field: Threat, moral appeal and social information. *Journal of the European Economic Association*, 11(3), 634-660.
- Fjeldstad, O. H. (2001). Taxation, coercion and donors: local government tax enforcement in Tanzania. *The Journal of Modern African Studies*, 39(2), 289-306.
- Frey, B. S., & Torgler, B. (2007). Tax morale and conditional cooperation. *Journal of comparative economics*, 35(1), 136-159.
- Gatt, L., & Owen, O. (2018). Direct taxation and state–society relations in Lagos, Nigeria. *Development and Change*, 49(5), 1195-1222.
- Guillaume, D., Zytek, R., & Farzin, M. R. (2011). Iran: The chronicles of the subsidy reform (No. 11-167). Washington, DC: International Monetary Fund.
- Krane, J. (2018). Political enablers of energy subsidy reform in Middle Eastern oil exporters. *Nature Energy*, 3(7), 547-552.
- Levi, M. (1988). *Of rule and revenue*. Univ of California Press.
- McIlwaine, S. J., & Ouda, O. K. (2020). Drivers and challenges to water tariff reform in Saudi Arabia. *International Journal of Water Resources Development*, 36(6), 1014-1030.
- Pierson, P. (1996). The new politics of the welfare state. *World politics*, 48(2), 143-179.
- Sdravovich, M. C. A., Sab, M., Zouhar, M. Y., & Albertin, M. G. (2014). Subsidy reform

in the Middle East and North Africa: Recent progress and challenges ahead.

Torgler, B., & Schneider, F. (2004). Does culture influence tax morale? Evidence from different

European countries (No. 2004-17). CREMA Working paper.

Verme, P., El-Massnaoui, K., & Araar, A. (2014). Reforming subsidies in Morocco. World Bank

Economic Premises, 134, 1-5.

Verme, P., & El-Massnaoui, K. (2015). An evaluation of the 2014 subsidy reforms in Morocco and a simulation of further reforms (pp. 63-90). Springer International Publishing.