INFORMATION TYPE 4: THE DECISION-MAKING STRUCTURE CONCERNING SUBSIDIES

The information required for the political economy analysis of political and administrative decision making is discussed next. The information gathering begins with a basic overview the organizational structures of the executive, legislative, and judicial branches. The goal is to identify which arms of government have the authority to regulate the energy market and make decisions about the direct allocation of subsidies, regulation of prices, and other decisions that create subsidies. Further, it is important to identify which specific units within these arms of government are involved in or drive the decision-making processes.

The analysis focuses on two aspects. First is the question of decision-making control. Are subsidy-relevant policy decisions based on a decree, such as an executive order or in the direct control of SOEs, or do they emerge from logrolling[^3] and political debate within legislative bodies? And if they are instituted and their structure is defined by decree, can the executive decisions be reviewed or overturned—such as through legislative or legal action?

Second is the question of how organized interest groups can make their influence felt within government. Do they mobilize voters who, in turn, can help determine the electoral success of parties? Do they have the power to mobilize populations to protest and take to the streets, possibly in violent protests, challenging the government? This has been the case in more than 30 countries in recent years, often leading to a reversal of policies. If so, that may inform the kinds of subsidies that government adopts—such as highly visible price controls enacted close to election time. Or, do interest groups affect the logic of political survival for policy makers in different ways—such as through lobbying, campaign contributions, or direct roles in government? In some SOEs, for example, there are seats on the governing board reserved for organized interests, such as labor.

A prevalent problem that complicates policy making is opposition within a government. The opposition may be largely ideological or political, but can also involve – typically hidden – private interests. Such cases involve government officials (perhaps working with executives of national oil companies) who orchestrate diversion and smuggling of subsidized fuels. These individuals will not be organized officially, but can have very strong incentives to block subsidy reforms. Also, government officials may be collecting informal payments in exchange for renewing tax expenditures, below-market land leases, and other forms of producer subsidies. By their clandestine nature, information on such vested interests is difficult to gather. These observations suggest, however, that it is important to bear in mind that governments are rarely monolithic and reformers within governments may be facing strong opposition from their own colleagues.

In addition to a current picture of governing systems, it may be useful to include a brief outline of how the existing decision-making structure arose—if that information helps to reveal major changes or lock-in effects. Big changes in governing structures—or in ruling parties—can realign the logic of political survival for leaders and reveal opportunities and difficulties in subsidy reform. Those changes

[^3]: “Logrolling” refers to the practice of exchanging favors, especially in politics by reciprocal voting for each other’s proposed legislation.
may also reveal—through past attempts, successful and not, at reform—how reformers can realign political forces. Information of this type may be useful in interviews, for example, to help elicit information about “what went right” and “what went wrong” with earlier reform efforts.

**INFORMATION TYPE 5: STAKEHOLDER INTERESTS AND DYNAMICS**

The 2017 World Development Report: Governance and the Law, which explores how unequal distribution of power in a society interferes with policies’ effectiveness, defines better governance as the process through which state and non-state groups interact to design and implement policies, working within a set of formal and informal rules that are shaped by power. In this regard, political economy analysis is about how groups organize effectively to get what they want—and which groups fail to organize or to amass sufficient influence and thus end up paying the cost or not benefiting. Analysis of the political economy of reform involves understanding the relative power of those groups. Thus, any political economy analysis requires analyzing and mapping the goals and capabilities of major organized, as well as unorganized, interest groups. It also requires understanding how the groups are organized internally to use their capabilities to advance their goals and how they connect to each other. Further, it is important to understand how the different groups connect to each other, which coalitions they form, how their interests overlap, and how strong their connections are.

Throughout different reform episodes in different countries, various interest groups have organized themselves, formed coalitions among groups, and influenced the reform outcomes. Understanding those important political phenomena requires looking inside each of the major organized political forces. How did the major interest groups arise and what holds them together? How does influencing government subsidy policy help the group remain organized and deliver benefits to its members? How do they connect to the political forces in the given context and what fuels their influence?

In addition to organized interest groups, hidden interests ones can be just as powerful, if not more so (and often involve individuals in influential positions in business and politics). Those engaged in making illegal financial gains from subsidies are not visible and do their best to cover their tracks. In extreme cases, as with kerosene in Nigeria mentioned earlier, their illegal profits may even dominate virtually all potential intended benefits of the subsidies.

It is axiomatic in the study of political economy that broad and diffused interests tend not to be well organized politically, whereas more concentrated interest groups can mobilize more readily and effectively to advance their narrower self-interested cause. This basic logic inspires a simple political economy framework, which could broadly characterize the political equilibrium of a country’s subsidy policy at any point in time. Table 2 shows how the benefits of subsidies may be analyzed and categorized into four cases.
Ultimately, the goal is to understand the interplay of these social groups with the incentives of the government as it embarks on adopting policies that would move the country toward an equilibrium that is closer to case 4, bearing in mind that this could have large political costs. Those interactions will depend on the level of organization and political power of the groups, and it will also hinge on the ability of the reformers in the government to choose their political allies and to blunt the political influence of groups that could block adoption or reverse the implementation of energy subsidy reforms.

When governments are confident in their mandate and feel secure in power, they can often get things done even over the opposition of powerful groups. When political leaders are more insecure in their tenure, the policy may need to be more directly responsive to the underlying political economy. Earlier work on Indonesia, for example, has shown that politically powerful leaders have been able to take politically unpopular subsidy reforms, but when electoral fate is less secure, leaders are less willing to adjust these politically popular (yet fiscally costly) policies (Beaton, Lontoh, and Wai-Poi 2017). In doing research on such factors, it is crucial to remember that matters of political succession and control are internal to a country, and it is problematic for international institutions to be seen as working on reforms that could be construed as meddling with national sovereign choices or interfering with the national political process.

To design feasible reforms and implementation plans, it is crucial to figure out where the current political equilibrium lies at any particular point in time in a country. Then, for each type of case, the proposed framework provides some theoretical intuition about the circumstances that could lead to a change in that equilibrium, and thus the likelihood that an energy subsidy reform would be more (or less) successful. Each of these cases is discussed below and accompanied by a set of hypotheses on the likelihood of reform. The aim is to provide a theoretical framework to assess the extent to which these circumstances are in place at any given point for a country interested in reform and design interventions accordingly.

In what follows, only those cases where costs accrue largely to the government (taxpayers) and benefits to citizens and special interest groups are considered. In practice, costs to citizens and special interest groups also play an important role in political economy analysis. For instance, when energy producers incur large financial losses, or when private businesses have to spend too much on backup generators. Inclusion of such costs may complement the characterization of the political equilibrium described in table 2.

It is also important to note that subsidy scenarios are seldom static. This is especially

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4 Note that not all interest groups will be politically organized. Moreover, even within governments there may different positions with regards to subsidy policy.
true of fuel price subsidies, where costs are driven largely by world fuel price movements, which exhibit high volatility. For the same fixed fuel price, the unit subsidy may be large or small, depending on the world fuel price at any given point in time. It would therefore be useful to trace how a particular subsidy has recently moved from one case to another, as described below, and how the case is likely to evolve in the future, for example based on future world price forecasts.

**CASE 1: Large Benefits to Both Special Interests and Citizens**

An example of case 1 is large price subsidies, such as in countries where retail prices are low for all users even when global prices are high. Large users benefit exponentially, but average citizens also see a significant contribution to their household budgets. Large benefits to so many typically lead to fiscal unsustainability. Special interest groups may also capture large benefits where there are large tax expenditures and other non-price subsidies detailed in table 2 of Good Practice Note 1. These are much less visible than price subsidies, but the government’s revenue loss, contingent liabilities, or both could be considerable.

The theoretical intuition is that such cases of massive energy subsidies exist because citizens enjoy the benefits they reap without being too concerned about the cost of the support or the fact that a large portion of the benefit goes to special interest or wealthier parts of society, as long as they continue to benefit from the low prices. Especially in cases where the cost of subsidy is deferred to the future or hidden in complex institutional arrangements, citizens have no strong motivation to collectively pressure government to change policies because they do not feel a problem directly. Moreover, well-organized special interests fear that a change in policy will harm their interests. Each depends on the support of the other for the benefits, and neither will support lowering benefits for the other. Governments tolerate this situation because leaders gain electoral and other benefits from the subsidy and are not forced to deal with the cost.

Reform in this case is more likely when some or all of these conditions are present:

- Government is able to create a strong, simple, and credible narrative that explains how the current situation is harming the country and its citizens, breaking complex economic processes down to a simple relatable logic. This narrative is communicated consistently and broadly.

- Citizens develop a better understanding of how the existing system is harmful to their interest, as it redistributes public funds mainly to the wealthy and special interest. As a consequence, it is more likely that citizens will mobilize in their own collective interest. This process of mobilization can be supported by an inclusive and participatory process of reform implementation.

- Government can make a credible commitment to citizens and interest groups that policy reforms will leave them better off or at least not harm their interests. However, citizens and interest groups often do not trust governments to deliver on

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5 Note that some interest groups may not be receiving subsidies at all, but may be benefitting from the disruption and shortages that subsidies often create. For instance, low diesel prices combined with an unreliable electricity grid and acute power shortages may result in a flourishing market for backup diesel generator sets. Importers of such generator sets may fiercely resist diesel subsidy reforms, power sector reforms, or both. Although they are neither providers nor recipients of subsidized energy, they should not be left out of the political economy analysis.
these commitments. Solving the credibility problem may require having alternative programs in place that provide at least medium-term benefits and that are timed such that new benefits flow in tandem with the loss of benefits from energy subsidies.

- Special interests find it more difficult to mobilize, in effect reducing the political cost to government of reforming subsidies. For example, special interest groups might become disorganized for some reason, or the government might find different ways to satisfy their core aims. The government may apply a “divide-and-conquer” approach toward special interests, identifying which groups may be enticed to support the reform based on how the reform is structured, as in the example of Poland giving support to the local miners in finding new jobs, which enticed unions to support, or at least not actively fight, the reform process.

- The costs of providing benefits rise sharply (for example, if world fuel prices skyrocket). However, in some cases reforms have been successfully initiated during periods of low world market prices, when the difference between the subsidized and non-subsidized energy prices were less marked and the initial implementation of the reform impacted citizens only minimally.

- Governments face any combination of a large revenue shortfall, general fiscal stringency, or balance-of-payments stringency, with energy subsidies being a large part of the problem (Clements and others 2013).

- The costs of subsidies (paid by the government or energy producers) are not sustainable and the quality of energy service delivery is beginning to decline or has declined noticeably, increasingly offsetting the benefits of subsidies received by consumers.

- External pressure changes the political equilibrium, such as when donors or lenders have exceptional leverage.

By contrast, reform is less likely under the following conditions:

- Governments fear mass mobilization and protest by the public in response to removal of subsidies. This is especially likely when special interest groups are effective in developing compelling narratives of how the reform would harm ordinary people and are able to galvanize citizen protests.

- Powerful government officials’ schemes are making large illegal financial gains from subsidies and stand to lose significantly from reform efforts.

- Governments promise to replace energy price subsidies with cash transfers to average citizens, and fail to adopt a credible sequencing, such that citizens do not believe the promised transfers will materialize.

CASE 2: Large Benefits to Special Interests, Small Benefits to Citizens

Case 2 arises under several circumstances. Many forms of producer subsidies do not benefit citizens noticeably, if at all. An example is tax expenditures for fossil fuels in a deregulated market that trades the fuels across the border. Tax expenditures benefit producers while consumers pay market prices at trade parity irrespective of the magnitude of tax expenditures. In such cases, large tax expenditures provide large benefits to producers at a large cost to the government, and no benefits to consumers. In the case of producer price support, producers may enjoy
large benefits while consumers pay higher prices than otherwise, accepting dis-benefits.

Another example is one in which costs of subsidies are large, but intended beneficiaries do not capture them because of chronic shortages of the subsidized energy. With subsidized liquid fuels, a substantial portion of the subsidies may be captured by those engaged in diversion, black marketing, and smuggling, forcing consumers to pay much higher prices on the black market and reducing their benefits. In the power sector, power shortages are common in many countries, and low-cost electricity that is intended to benefit consumers is not available, forcing businesses to pay much more for electricity by relying on diesel back-up generators. Where underpricing is a cause of power shortages (see pages 35–36 of Good Practice Note 1 for more detail), benefits to citizens of such energy price subsidies might also become small.

Case 2 could also arise when prices are high for all but a handful of consumers, such as select industrial users. The theoretical intuition is that such a policy exists when citizens have little ability to advance their collective interests, while organized lobbies are powerful. In these cases, subsidies are often organized in a way that is less obvious to the general consumer. Subsidies would then flow to special interests to the extent that the well-organized interest groups can exercise leverage over the government—such as when there are family or party ties, or when the interest groups command a vital part of the economy (for example, transport). As a general rule, subsidies of this type may arise and persist because they benefit a powerful but particularly small fraction of the population, or their costs are not large enough to have substantial, broad-based impacts on the functioning of the economy and the public budget. In some cases, these situations will persist irrespective of the size of the cost because of the entrenched nature of the formal and informal influence of special interest and the lack of good governance in the sector. The benefits to the citizenry as a whole may be small or, more likely, citizens generally pay diffused costs while special interests gain concentrated benefits. From a political economy perspective, these cases can develop and prevail because the concentrated special interest is well organized and close to the sources of power, while the general citizenry is diffused and far from the sources of power.

In these cases, a successful and sustainable reform is more likely when some or all of these conditions are present:

- Governments can credibly provide special interest groups with alternative benefits that meet their interests.

- Dispersed interests that benefit from reform—for example, citizens who would gain from larger government revenue or subsidy allocation being redirected to public goods spending—develop a better understanding of the price they pay and the possible benefit of reform. Building on this understanding, they develop the desire and the capacity to mobilize in their own collective interests. Often this will require strong and understandable communication of the reform team and facilitation of participatory processes.

- The government changes, and special interests no longer have a large influence within the successor government.

- Benefits to citizens from existing fuel subsidies are small because black marketing
is creating chronic and acute shortages of subsidized fuels, and consumers are persuaded that eliminating subsidies will eliminate fuel shortages.

- Fuel prices skyrocket (making the total cost of the special interest subsidy more visible), or governments otherwise face the general need for fiscal stringency. However, during world market price hikes, benefits to citizens will increase and may shift the scenario to case 1, while the willingness of special interest groups to fight reforms will also be heightened—and they may use the general price increases to lobby with groups that are not even targeted by the reform, making them feel that they pay more because of the reform.

- External pressure changes the political equilibrium.

By contrast, a successful and sustainable reform is less likely under the following conditions:

- The total cost of the subsidy is small and thus neither attracts broader public attention nor drains the public budget. On the one hand, in this case the political and financial cost of reform may outweigh its benefits. On the other hand, if the cost of the subsidy has become small because world fuel prices have collapsed, then this could provide a window of opportunity for reform, as has been the case in several countries following the decline in oil prices in 2009 and 2014.

- Special interest groups remain well organized and well connected relative to countervailing groups. Special interest groups develop strong narratives that convince the general public that they will lose based on the reform.

- Chronic energy shortages driven in part by a history of price subsidies result in poor quality of service, and consumers feel they are being asked to pay more for continuing poor service quality. The timing of service quality improvement and energy price increases is especially challenging for network energy (electricity, natural gas, and district heating) because it is much more costly and time-consuming to address shortages of network energy than those of liquid fuels. Table 5 in Good Practice Note 1 discusses tangible benefits that may be delivered to electricity consumers in the short run in exchange for higher prices.

- Tax expenditures and other non-price subsidies are not reported and continue to escape scrutiny.

**CASE 3: Small Benefits to Special Interests, Large Benefits to Citizens**

Case 3 generally involves subsidies that are intended exclusively to benefit most households. Examples include low electricity tariffs for residential consumers and low prices of LPG for household use. As with case 1, the fact of providing large benefits to citizens frequently means that the subsidy is not fiscally sustainable for long. In these settings, citizens may be well organized enough to demand subsidies from the government—perhaps because governments, seeking electoral advantage, brandish subsidies as a way to curry broad-based political favor. Also, for some governments, offering subsidies targeted to households in general or the poor more specifically is part of a broader ideology of redistribution.

The theoretical intuition behind case 3 is that subsidies can offer visible political advantages that political leaders might want to use.
broadly. Leaders, for example, might need to appeal to large, lower-income segments of the electorate to retain power. They might fear mass uprisings from energy price shocks or other events that the public might view as failures of government. The poor, for example, may be organized into parties and be pivotal voters—such as when social solidarity is high or when “social altruism” is inspired by specific, rather than general, consumption needs of the poor. Leaders in this setting might lack alternative mechanisms that could target subsidies more efficiently. For example, if benefiting the poor is electorally important, a government may nonetheless use broad-based energy subsidies because it lacks the capacity to implement targeted cash transfers or other better alternatives. Where government lacks capacity to implement more targeted transfers, these broader subsidies may be the second or (nth-) best feasible solution.

A standard political economy framework would suggest that case 3 is rare. Normally, political economy involves well-organized groups obtaining benefits for themselves while the broader public interest is harmed (case 2). However, there are examples of case 3. A large price subsidy for LPG sold in small cylinders, as historically observed in Morocco and Senegal, is one such example. Household use of LPG is nearly universal in Morocco, benefitting citizens of all income levels. Because LPG has limited applications and the transaction cost of transferring LPG sold in small cylinders to large cylinders or containers for illegal diversion is not small, citizens may be capturing a majority of the subsidy benefits. Put differently, these cases might be called “populist political economy” in logic. These cases are especially likely under governments that have won elections as the result of campaigning with a populist agenda.

Reductions in these subsidies are more likely when some or all of the following conditions are present:

- The poor are no longer pivotal to the electoral success of a government. For example, parties that oppose redistribution may come to power in response to ideological shifts or the perceived poor performance of redistribution policies.

- The government can credibly offer alternative policies to some or all of the citizenry, such as through direct cash transfers or other programs, that allow it to administer alternative systems for transferring benefits to the poor. Political leaders are able to craft and communicate a compelling narrative about the benefits of reform and follow through in realizing alternative systems for social support for the poor.

- The costs of the subsidies rise, such as when international fuel prices rise or subsidized energy leads to substantial increases in consumption. However, although the government may be forced to increase prices in response to higher international fuel prices, the unit subsidy may remain the same or even increase, depending on the relative magnitudes of the price shock on the world market and domestic price increases.

- Politicians’ beliefs change about the “special” nature of energy, and redistributive policies shift to more efficient transfers.

- External pressure changes the political equilibrium, such as when donors with exceptional leverage become important to a government’s political survival or other exogenous shocks require a change in the public budget.
• By contrast, reform is less likely under the following conditions:

• Governments fear mass mobilization and protest by the public in response to removing the subsidies.

• Special interests emerge that, along with the broader public, lobby for continuation of the subsidy (that is, moving the subsidy to case 1).

• Governments continue to perceive that the benefits from the subsidy are crucial to their political survival.

• Governments are ideologically married to the concept of subsidies and not willing to give them up.

CASE 4: Few Benefits to Either Special Interests or Citizens

In case 4, no interest group, organized or general, benefits exceptionally. Per-household or per-business subsidies may be small, but that does not mean that the total cost of the subsidy is also small. For example, a subsidy of US$0.01 per liter of diesel fuel may be so small as to be unnoticeable, but if the total consumption is large, the subsidy could still amount to hundreds of millions of dollars a year.

Benefits captured by individual consumers may have been large in the past and fallen recently. Examples include the collapse of the world oil price in recent years in a country with capped prices for petroleum products. In such cases, the fact that subsidy benefits have become small to all parties may provide a good opportunity to reduce or eliminate the subsidy, as many countries did with fuel price subsidies following the collapse of the oil price in 2009 and again in 2014.

While all cases face the possibility of moving to another case, the government stands to lose the most if case 4 moves to any other case, and especially to case 1. For instance, price subsidies dependent on petroleum products which could be characterized as case 4 began to move to other cases in a number of countries at the end of 2017 as the world oil price rebounded by nearly two-thirds from early 2016.

On the other hand, if the cost of the subsidy is small, the pressure to reform the subsidy may also be small. The compelling case for reforming a subsidy in such a case lies in managing the risk of case 4 moving to other cases, and especially to case 1.

INFORMATION TYPE 6: THE TRACK RECORD WITH REFORM

Ultimately, the goal is to understand not just the political forces that explain the origins and persistence of energy subsidies, but also how they might be reformed. Developing a robust mapping of existing subsidies, as well as the interest groups that favor and oppose these policies, is one foundation for this political economy analysis and the resulting reform strategies.

A complementary approach is to look at what has been tried (or avoided) in past reform efforts, since this history can reveal what is possible and how interest groups organize to enhance their agenda. In developing a history of reform, the analysis shifts to a new unit of analysis: episodes of reform. Here the focus is on recounting the process, timing, and sequencing of previous attempts to reform subsidy policies. The purpose is to understand better how subsidy policy has arrived at the current equilibrium and what paths could be open for reform.
For this purpose, it may be useful to create an analytical table that shows the basic “life history” of reform episodes as detailed in figure 1 below. For instance, subsidies may begin with modest purposes at modest levels, as shown in the lower-right corner. This, for example, could take the form of a risk mitigation strategy to soften the impacts of international fuel price fluctuations in the absence of more sophisticated social protection mechanisms.

In such a case, well-organized interest groups may realize that a scaling up of those small subsidies would be to their advantage. As a result, the subsidy regime moves north. Standard political economy models would predict that a north-moving subsidy would be a stable outcome—an iconic example of special-interest politics.

However, there are many examples of subsidies that do not remain in the northeastern corner. Instead, the subsidy is democratized as special interests realize the benefits from a large subsidy. Political leaders—often goaded by the opposition or animated by fears of losing power—also realize the benefits of providing a broad-based subsidy. The subsidy regime thus shifts west and becomes deeply entrenched. These are the most difficult cases for reformers because they lead to the highest costs and are animated by political forces—a combination of leaders who fear the loss of broad-based public support and organized special interest groups that oppose any reduction of the subsidies.

Reformers might focus on re-concentrating the subsidy regime—moving from a very costly broad-based subsidy to one designed to be politically more efficient because it is catering to a smaller number of well-organized interest groups. Undertaking extensive reform, in contrast, may be much harder. Related

**FIGURE 1: Life Cycle of a Subsidy Regime**

to this are reform efforts that focus on the parts of the subsidy regime for which reform is possible. In the Dominican Republic, there have been extensive reforms of the fossil fuel subsidy regime because the political interests have proved feasible to manage. However, a reform of the power sector has stalled because the political economy is much less supportive (Gallina and others 2017).

Reformers have also done things that are quite unexpected within the standard political economy framework. They have shifted subsidies from the northwest corner (case 1) to the south (case 3)—removing special benefits while preserving broad-based benefits. This kind of “populist” reform is evident in several of the reform episodes in Ghana, for example. Leaders, keen to retain public office and fearful of swings in the sentiment of the electorate, found it difficult to reform broad-based subsidies, yet were willing to allow the costs of subsidies to flow against well-organized interest groups, such as industry and even the state-owned refinery (Addo, Bazilian, and Oguah 2017).

Understanding the existing political equilibrium in the context of previous reform efforts is useful to understand the circumstances better that allowed reform to take place in the past, and the likelihood that such circumstances might be put in place once again. Moreover, to the extent that small reform efforts can be used to build the capacity for more extensive reforms, a long-term strategy can be worked out.

While each country presents a specific situation, the factors that have supported or hindered reforms in other countries can provide an interesting context for the analysis of a specific country case. A cross-country comparison of 22 countries, covering 28 reform episodes showed, successful and sustainable energy reforms often had the following in common: (a) a comprehensive reform plan; (b) a far reaching communications strategy; (c) energy price increases that were appropriately phased and often sequenced differently for different products; (d) improved efficiency in SOEs; (e) mitigation measures targeted at the poor; and (e) a depoliticization of the reform to avoid a recurrence of subsidies following the change of political leadership (Clements and others 2013).

3. INFORMATION THAT CAN BE OBTAINED FROM DESK RESEARCH

The goal of this note is to guide readers on how to obtain the information crucial for political economy analysis, as detailed above:

- Goals and structures of existing subsidies
- Size of subsidies—who benefits and who pays
- Mechanisms used to deliver subsidies and alternatives
- Decision making structures concerning subsidies
- Stakeholder interests and dynamics
- The track record of reforms
Prior to field research, it should be possible to obtain a lot of information through existing reports and databases, field research databases, including those produced within the World Bank Group’s Governance Global Practice. Because the accuracy of the available literature and databases depends on the resources devoted to their production, the information so obtained in desk research should be verified or assessed in field research as much as possible.

**MACRO INDICATORS OF SUBSIDIES: GOALS, COSTS, AND BENEFITS**

First and foremost, it is important to populate the entries in table 1. This requires information on the major subsidies—their purpose, fiscal cost, and allocation of benefits. Good Practice Notes 2–4 are a place to start.

**POLITICAL ACTORS AND INTEREST GROUPS**

Desk research should yield basic background information on the decision-making processes and on the political organization of the major groups that affect subsidy policy. The analysis of relevant interest groups should focus on their support base, ties to government (for example, through ideological or party links), and historical engagement with energy subsidy issues, as well as coalitions and conflicts they are engaged in. More subtle and less well-documented information, such as on the internal organization of those groups, and their pathways for informal influence, may require interviews with relevant stakeholders.

In focusing on political actors, some attention should be given to the role (if any) of foreign actors. Foreign firms may play important roles as investors and operators, which may expose them differently to the costs and benefits of subsidy regimes. In addition, foreign economic institutions—such as the International Monetary Fund and organized bondholders—may play an important role in influencing national government policy.

**SURVEY OF EXISTING LITERATURE**

Some countries have been the subjects of extensive research, which can provide useful information. In particular, the existing research may offer considerable value in providing information, or first drafts of information, such as the following:

- The size and basic structure of the subsidy policy, as a cross-check against the information that will be obtained from other ESRAF good practice notes
- Regulations, decrees, decisions, and government announcements relevant to the energy subsidies under discussion
- Identification of the main interest groups that favor or oppose subsidies and why
- A basic history of reform efforts and lessons from those reform episodes and attempts
- An initial list of key observers of the scene and key actors in the process—inside and outside government—who could be interviewed. Interview partners are often found in a “snowball” system, where initial contacts highlight other important actors to interview.

The goal of this prior research is to create a foundation of knowledge, so that subsequent, more detailed work can be more effective. In particular, this prior research will be essential to developing an interview strategy (see annex A) and to laying the foundation for an effective interview program.