

Energy Sector Liberalisation: Pricing and Subsidy Reforms and the Poor

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Overview

This paper reports the findings of a chapter belonging to a new and forthcoming World Bank Policy Research Report on energy sector reform and poverty reduction which is prepared by the authors and is intended for presentation in a special session of the conference allocated to his project.

Energy sector reforms in LDCs were aimed at reducing the inefficiency of the sector and close the energy and financial deficits that were holding back the social and economic development in these countries. It soon became evident the restructuring and institutional reform of the sector, though necessary, were not sufficient to ensure the success of the market-oriented reforms. The pre-reform pricing and subsidy schemes had served some of their purpose but also, in the process, had led to the many ills of the sector and the need for a reform.

However, many reform efforts are stalled due to the lack of workable pricing and subsidy reforms. In the meantime, energy subsidies do not show signs of abating. The global 'pre-tax' subsidies for petroleum products, electricity, natural gas and coal amounted to 480 billion US dollars equivalent to a 0.7 percent of the global GDP in 2011 (IMF, 2013). At the same time, some countries have risen to the challenge and have devised new policies to tackle this growing challenge. This chapter revisits the theoretical and empirical literature on the linkages between energy pricing, subsidies, and poverty reduction.

Methods

The method is a comprehensive literature survey revisiting the theoretical and conceptual literature and assessing the recent empirical evidence and the state of the art and innovative policy measures around the world in developing countries to pricing and subsidies reform. It aims to unravel the hiatus between the theory and practice of pricing and subsidies reforms.

Results

The paper assesses the performance of pricing reforms and highlights the options for pro-poor subsidy reforms on poverty reduction from a policy making perspective. It argues that energy sector reforms do not automatically lead to reduced poverty and specific and targeted pricing and subsidy measures need to be adopted. Also, some of the theoretically informed and innovative policies such as cash supports have been less effective in the absence underdeveloped administrative capabilities in developing countries.

Conclusions

The insights emerging from the paper highlights the relatively more successful and effective measures and policies and how these can be improved and made applicable to more countries.

References

IMF (2013). Energy Subsidy Reform: Lessons and Implications, International Monetary Fund, Washington, D.C.