

***Equity and
Efficiency in
the Reform of
Price Subsidies***

***A Guide for
Policymakers***

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Foreword

The reform of price subsidies may be necessary not only to improve efficiency, but also to facilitate pro-poor economic growth and release resources for critical social services for the poor. At the same time, increases in prices for basic commodities and petroleum products can be associated with real income losses for the poor as well as political unrest in some cases. This guide provides guidance to policymakers on how to design and implement sound price-subsidy reforms that take into account both economic and social considerations.

This guide draws on the experience with the reform of price subsidies in 28 countries. It discusses economic and political considerations in price-subsidy reform and makes several recommendations concerning the speed of reform and social protection mechanisms. Rapid reform requires a favorable political and economic environment. In the absence of this, reform should be implemented gradually. The social impact of reform can be limited by establishing cost-effective and well-targeted temporary social protection mechanisms. Governments can reduce the risk of political disruption by distributing the initial burden of reform fairly and by clearly explaining the cost and benefits to the public.

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