How Adjustment Programs Can Help the Poor

The World Bank's Experience

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The World Bank
Washington, D.C.
How adjustment programs can help the poor: the World Bank's experience / Helena Ribe ... [et al.].

p. cm. -- (World Bank discussion papers ; 71)
Includes bibliographical references.
HG3881.5.W57H68 1990
332.1'532--dc20 89-70772
CIP
Abstract

Little is known about the overall impact of adjustment programs on poverty. To a large extent, this is because it is difficult to distinguish the effects of externally induced recession from the effects of the policies and programs designed to offset them. Nevertheless, one clear lesson from experience has been that an orderly adjustment process designed to establish a new equilibrium growth path is indispensable for improving the longer-term position of the poor.

Some adjustment measures can affect the poor adversely. This adverse impact may result from reductions in public expenditures, increases in prices of goods and services consumed by the poor, and declines in employment or real wages in sectors in which they work.

Appropriate social and economic measures can help to reduce the adverse impact on the poor and create opportunities for stronger poverty reduction in the future. The most common way of addressing the adverse impact of adjustment has been the implementation of targeted compensatory programs. Such programs can compensate those affected directly by adjustment (for example laid-off public sector employees) or provide temporary employment or relief to the chronically poor. But these programs have often been too complex and have faced serious shortcomings such as insufficient political commitment, institutional weaknesses, shortages of funding and poorly trained staff. Greater attention should be given in the future to identifying the most appropriate interventions as well as to their design and implementation.

Changes in the design of adjustment programs can promote the longer-run interests of the poor, but have received relatively little attention. Appropriate design changes can help to foster pro-poor growth by, for example, removing biases that favor capital-intensive production or other impediments to employment growth. They can also enable reallocations of public expenditures in ways that support, or improve the efficiency of, programs that help the poor to take advantage of the emerging economic opportunities (by developing skills or providing the necessary complementary infrastructure). Finally, appropriate design changes can help mitigate the possible adverse impact on the poor, for example, by targeting subsidies more effectively. Subsidies that have a large impact on the incomes of the poor (even if only a small proportion of the subsidy reaches them), should not be reduced or eliminated unless alternative means of reaching the poor are introduced.
Table of Contents

I. Introduction ..................................................................................1

II. What is Known about the Social Costs of Adjustment? .............2

III. Scope for Solutions .....................................................................5
    A. Redesigning Adjustment Programs .........................................5
        Reallocating Public Expenditures ......................................6
        Directing Subsidies Towards the Poor ..............................9
        Targeting Subsidies in the Social Sectors .......................15
    B. Implementing Targeted Projects ...........................................16
        The Role of NGOs ......................................................18

IV. Conclusion ..................................................................................20

Annex I: Selected Country Experiences with Targeted Food Subsidies
Annex II: Selected Country Experiences with Targeted Projects
Annex III: Main Features and Status of Multi-sector Compensatory Programs

Bibliography
How Adjustment Programs Can Help the Poor

I. Introduction

1. The widespread economic crisis of the eighties halted the advance in poverty reduction in many developing countries. In the early years of adjustment lending there was optimism that adjustment programs would be temporary, and that with the resumption of growth poverty would continue to diminish and the adverse social effects of adjustment would be remedied. But, because the economic problems were more severe than expected, implementation of adjustment programs has been less successful than anticipated and many countries have experienced prolonged periods of economic stagnation and deteriorating social conditions for some groups. This situation has led the international development community to renew its attention to poverty reduction, emphasizing the need for new approaches to long-standing poverty problems within limited growth and budgets.

2. In many adjusting countries the stagnant socio-economic environment has changed the focus of efforts to reduce poverty from ensuring that the poor benefit from growth, to mitigating the adverse social effects of economic austerity. This focus underscores the importance of protecting the welfare of those hurt by adjustment and of the chronically poor (not necessarily the same group) for the success, and the political viability, of the adjustment process itself.

3. This paper discusses what we have learned about poverty and adjustment, the current issues and the experience with efforts to mitigate the social costs of adjustment. It emphasizes that not only can the adverse impact on the poor be reduced at little cost to the adjustment program, but opportunities can be created during the adjustment process for stronger poverty reduction in the future. The paper first discusses issues related to the income distribution and employment effects of adjustment and the scope for redesigning adjustment programs to lessen their adverse impact. Then it discusses issues related to public expenditures and the poor, the incidence of adjustment-induced expenditure cuts and what has been done to redirect public programs towards the poor. The poverty impact of reducing subsidies and the lessons from experience with targeting subsidies are discussed next. Finally, the paper discusses adjustment-induced multi-sector compensatory programs and other selected targeted projects, and considers the role of NGOs. A concluding section summarizes some central themes and underscores the need to go beyond the issues of adjustment and poverty and put in place parallel efforts to enhance the productivity of the poor.

II. What Is Known about the Social Impact of Adjustment?

4. Despite nine years of IMF and World Bank-supported adjustment programs and several attempts at evaluation,² few unambiguous results have yet been obtained regarding the success of such programs using relatively easily measured indicators such as GDP growth, exports, imports, investment and domestic saving. Despite the ambiguity about the overall success of the programs, one clear lesson has been that failure to adjust is likely to hurt the poor. What Corden³ calls primary (recession-induced) adjustment costs inevitably result in lower incomes and employment and are unavoidable. The poor may also bear some of the secondary adjustment costs in the short run (resulting from failure to devalue sufficiently, wage resistance, inappropriate use of import restrictions or from disorderly adjustment). The aim of adjustment programs should be to minimize these costs, especially to the poor. Furthermore, in order to improve the longer-term position of the poor, the adjustment program should aim at an orderly adjustment process designed to establish a new equilibrium growth path.

5. The impact of adjustment on income distribution, employment and the standard of living of the poor has been even less susceptible to rigorous analysis.⁴ UNICEF⁵ has probably done most in assembling quantitative empirical evidence on what has happened to the poor in several countries since the early 1980s, but has not clearly succeeded in distinguishing the effects of externally induced recession, still less deep-seated structural and policy problems, from the effects of the program and policies designed to offset them. In the context of preparing the 1990 World Development Report and the Second Report on Adjustment Lending (RAL II), the Bank intends to improve available estimates of the impact of adjustment and recession during the eighties on the standards of living of the poor, and is improving the methodology for comparing the performance of adjusting and non-adjusting countries with respect to changes in public expenditures and social indicators.

6. Among the problems in undertaking analyses to address the issues mentioned in the two paragraphs above, are the development of robust counterfactuals ("before/after" vs. "with/without"); the existence of various possible patterns of causation, many of which have offsetting effects; and allowing for time lags and supply responses to policy changes.⁶ But constraints on data availability and its quality have also contributed

²/ The most recent and comprehensive Bank study having been "Adjustment Lending: An Evaluation of 10 years of Experience" (World Bank (1988)).
³/ Corden (1988).
⁴/ Although progress is being made in cases such as Jamaica, Living Standard Measurement Studies (LSMS) addressing this issue have so far been undertaken separately from the design of the adjustment programs.
⁵/ Cornia et. al. (1987).
to the lack of empirical analysis in this area. For example, most socio-economic indicators are not disaggregated by income or sector. Developing accurate empirical information about the actual effects of adjustment is essential because the actual social impact of adjustment programs -- and more specifically, the impact on the poor -- depends on the actual profile of the poor in individual countries, on the distribution of the poor across economic sectors and on their ability to respond to the changes in economic policies.

7. In the context of Bank-supported adjustment lending, all SAL (Structural Adjustment Loan) President’s Reports prepared by Bank staff since FY86 have included a section discussing the social effects of the economic reforms supported by the adjustment lending. The Reports recognize that apart from the beneficial medium and long-term effects of adjustment, and from the expected gains to some poor groups such as those employed in tradeable crops, there are likely to be adverse social effects in the short term which need to be addressed. Groups commonly mentioned as requiring assistance under adjustment comprise government employees who may become unemployed because of public sector contraction, urban workers who may experience declines in their wages and the urban poor who are likely to face higher food prices. But largely for the reasons mentioned above, the data and analytic framework needed to examine who the potential gainers and losers from the policy reforms are, have, for the most part, been lacking.7

8. It has, therefore, proven difficult to develop stylized expectations or even working hypotheses regarding the effects of stabilization programs on the poor. Contractionary fiscal and monetary policies, for example, are intended to reduce aggregate demand and thereby seem likely to reduce real output and/or prices in the short term. The impact of lower real output on employment is likely to be adverse although, in principle, fiscal policy can be designed to have a differential impact on output and employment. Also, expenditure and output-switching policies seem likely to shift aggregate supply and the demand for labor, but no working hypotheses are available regarding how quickly this happens and with what effects on real incomes, employment and output.8

9. Exchange rate adjustment provides another example of a measure whose effects on the poor are hard to predict. Real depreciation, for example, is

7/ There has been little systematic analysis of the impact (gain or loss) of each adjustment measure (e.g. devaluation, rise in agricultural prices, cuts in social expenditures and reductions in public staff and salary reductions) on: (i) each poverty group (e.g. small and marginal farmers, landless laborers, rural and urban artisans, formal public and private sector workers, informal sector workers and, tenants and sharecroppers), and (ii) welfare at the household level (i.e. impact on women’s employment -- both in terms of the number of hours worked and the nature of work -- and the consequent implications for intra-household allocation of time and consumption). There has also been little attempt to trace the dynamics of economic adjustment and identify first and subsequent round effects.

8/ The Report titled "Adjustment Lending: An Evaluation of 10 years of Experience" (World Bank (1998)) found that the positive output effects were weaker in poor, relatively monocrop commodity economies.
likely to have adverse effects on low-income groups if the exporting or import-substituting sectors are relatively capital-intensive and if a large part of basic wage goods are imported. But if the poor are predominantly rural, they are less likely to be affected adversely.

10. Other substantial price adjustments (energy prices, agricultural prices) are also likely to reduce real wages in the short term, but their effects on poverty groups may or may not be adverse. This would depend on whether the poor are net buyers or sellers of the commodities whose prices change. In Ghana and Cote d'Ivoire, cocoa producers have benefited from cocoa price increases, but in both cases the majority of the low-income farmers are located in regions not suitable for cocoa. Shifting the intersectoral terms of trade in favor of cocoa farmers, while desirable, would not necessarily improve the welfare of poor households. However, even in such cases, in the longer term, food price increases are expected to benefit the poor through their impact on output and employment, provided that the necessary complementary investments are in place.

11. The impact of adjustment policies on the poor depends on the structure of production and consumption and the differentiated effects of expenditure-absorption and switching on different households. Recent work emphasizes the importance of disaggregating the impact of different policies at the household level, and of considering the impact of those policies on the access to income within the household (e.g. women farmers may fear loss of control over the returns to production if they switch to cash crops). Food consumption is perhaps the most obvious and well-researched area. Households appear to switch expenditures among food items in response to both income and relative price changes. Research also suggests, however, that changes in expenditure on food do not necessarily imply changes in nutrient consumption. In other words, reductions in real income could prompt a return to cheaper, but not necessarily less nutritious food. However, cheaper foods may entail longer preparation times with implications for women's time and welfare. Similar considerations apply to adjustment-induced changes in the supply or price of other commodities or services important in the low-income consumption basket.

12. While few generalizations are possible about the impact of adjustment policies on the poor, experience suggests that there are important country-specific income distribution and employment effects which can be taken into account in adjustment program design. Empirical evidence can be found, or is being developed, in some countries to suggest what the important effects are likely to be. The returns to undertaking such analysis can be high in terms of avoiding adverse effects to the poor or, at least, being clear about the trade-offs.

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9/ For an example of a nutritionally rich but economically inferior good, see "Food Subsidies: A Case Study of Price Reform in Morocco" (World Bank (1989)).

10/ For example by the Social Dimensions of Adjustment project (SDA) in Sub-Saharan Africa and several surveys conducted under the Living Standards Measurements Survey (LSMS).
III. Scope for Solutions

13. This section discusses options for redesigning adjustment programs to address concerns about their possible adverse impact on the poor. It also discusses the two most common approaches to designing adjustment programs to help the poor: reallocating public expenditures and directing subsidies towards the poor. The implementation of targeted programs designed to assist vulnerable groups or compensate those directly affected by adjustment is discussed in the next section.

A. Redesigning Adjustment Programs

14. For the most part, little attempt has been made to identify the possible adverse effects on the poor of specific policy reforms supported by adjustment programs and to redesign the adjustment programs in order to lessen such impacts. Reluctance to modify the conventional design of adjustment programs is based on an understandable concern not to dilute the essential thrust of such programs by offering loopholes for governments with lukewarm commitment. There is also the concern that "crossing the desert" (i.e., addressing the transitional or frictional costs of adjustment to the poor) is made more difficult if the desert is artificially widened by failure to act firmly and decisively on badly needed adjustment measures.

15. But there are frequently cases where adjustment programs can be designed with employment and income distribution objectives more explicitly in mind. One example would be to re-tailor the structure of spending or tax changes (or cost recovery), within the bounds of the overall reduction in public spending dictated by stabilization programs, so as to minimize the effects of the reduction on the poor. This could be achieved through more progressive taxation and expenditures that promote employment for the poor and expand their access to human resource development programs. And in some cases, pursuing less contractionary policies (and providing external financing) to fuel faster growth may also be a feasible option.

16. A second example would be the deliberate slowing of price adjustments in cases where short-term supply elasticities are low and uncertain, and the supply response dependent on a wide range of complementary actions. In such cases, sharp price adjustments are likely to be inflationary and have particularly important effects on vulnerable groups. Risk aversion, incomplete market liberalization and constrained access to production inputs and information, especially in Sub-Saharan Africa, are among the causes of such low elasticities. But in cases where prices are adjusted slowly, it is very important not to send ambiguous signals which may delay the supply response.

17. A third example of an option to redesign adjustment programs would include coordinating agricultural subsidy removal with compensating producer price increases in a country where the poor are mostly farmers. In Mexico, for example, removal of fertilizer subsidies has been coordinated with changes in agricultural producer prices.

18. It may also be possible to reduce the adverse impact of changing employment and wage patterns on the poor through appropriate modifications in the design of the adjustment program. This would require: assessing the wage and employment implications of alternative mixes of macroeconomic policies (e.g. more or less reliance on price changes or on changes in absorption); examining the scope for labor market reform, although this may be politically difficult; and assessing the labor market implications of alternative speeds or sequencing of reforms (e.g. in trade liberalization).

19. The outward-looking policies typically supported by adjustment programs may be largely ineffective in a fast changing and unpredictable international environment. For this reason, some support may also be needed for policies and investments designed to broaden the base of the domestic market and increase the productivity of small farmers.

20. The experience with the two more common approaches to redesigning adjustment programs, reallocating public expenditures and directing subsidies towards the poor, is discussed in more detail below.

**Reallocating Public Expenditures**

21. Cuts in public expenditures have been common during adjustment. This has a contractionary effect and many public sector employees and unskilled and semi-skilled workers involved in infrastructure or public service provision are likely to become unemployed or suffer cuts in real wages. The transition into new jobs may be slow and difficult because of constraints on labor mobility or of mismatching skills. This is likely to have an adverse impact on poverty, particularly in urban areas. Several compensatory programs designed in adjusting countries are intended to address this issue (see Annex II for details).

22. Beyond the direct and indirect employment and income effect, cuts in public expenditure -- and changes in its composition -- may slow investment and have a lasting adverse impact on productive infrastructure and on the development of human resources. Expenditure cuts also constrain the budgets for maintenance, supplies and operation of public services. This reduces employment and has led to a deterioration of public infrastructure and services which may hurt the poor because these services (if well funded and targeted) can be an effective way to reach them and provide a social safety net, particularly in the poorest countries. Reduced allocations for recurrent expenditures are likely to affect the social sectors hardest where recurrent outlays constitute the majority of spending.

23. Since cuts may be unavoidable, the key is for governments to avoid across-the-board reductions, instead allocating available resources to priority investments in infrastructure and the social sectors, and to finance operation and maintenance expenditures, while increasing the efficiency of existing programs. The Bank supports these efforts in the course of public expenditure reviews.\footnote{See for example World Bank (1988a).} These sometimes focus on a wide range of expenditures and sometimes only on a sector such as agriculture or...
education (recently there have been several reviews focusing on the social sectors as a whole for example in Argentina, Brazil and Jamaica). In Senegal, as part of the review of expenditure planned under the adjustment program, specific actions are proposed to improve the quality of public services in basic sectors such as education and health.

24. The impact of expenditure cuts on the poor has generated widespread concern, especially because it can exacerbate a situation where expenditures for programs to reach the poor are already inadequate to meet basic needs and have been growing less than the rate of population growth (or have even declined in some cases). There has been little systematic empirical analysis identifying the actual changes in sectoral expenditures and the incidence of such changes on the poor. But on the basis of available evidence many argue that infrastructure and social programs have often been cut substantially and that such cuts may have hurt the poor more than other groups. This is the case, for example, in several Latin American countries where there has been a sharp decline in public expenditures per capita which has been associated by many with a deterioration in social conditions for the poor.

25. But expenditures that benefit the poor can be maintained during a period of recession and adjustment. In Korea, for example, subsidized medical programs aimed at the poor were expanded during the adjustment period, and other poverty programs were maintained. Korea's mortality and poverty indicators improved steadily after the initiation of the adjustment program in 1980. In Chile, improved targeting of social expenditures, particularly of health and nutrition programs, contributed to a continued decline in infant and child mortality rates despite a 5 percent fall in government expenditures during the period of recession and adjustment. In Indonesia, overall development expenditure was reduced during 1982-1987 but the share of expenditure in human resources increased (from 16 percent to 24 percent) while the share of industry and mining declined (from 26 percent to 11 percent).

26. The key question is how can social programs be financed during a period of widespread cuts in government expenditures. Since additional resources are unlikely to become available, domestic priority social and poverty programs must be protected at the expense of other alternatives. Some external financing from multilateral and bilateral donors is often available to support such programs. But it is also essential to increase the efficiency of service delivery, although realistically this is likely to take some time. Measures to raise additional domestic resources can also be pursued, for example increasing cost-recovery in selected activities and enhancing tax revenues, including the option of earmarking specific taxes to finance priority social services (which in some cases may increase the political viability of a tax increase) -- although earmarked taxes can also introduce distortions and should be used with great caution.

27. In a number of World Bank-supported structural adjustment programs, efforts to direct public expenditures to the poor have focussed on:

- increasing or maintaining public expenditures in the social sectors (mainly education and health); for example, in Mauritania and Chad the
adjustment programs give priority to allocating more budgetary resources to education and health;

• directing public expenditures in the social sectors towards the poor -- mainly through better targeting of resources to primary education and basic health. For example, in Niger higher user charges for services used primarily by the better-off, such as tertiary education and curative health care, are intended to free-up resources to finance primary education and preventive health care; and in Guinea, the government intends to redirect public resources to rural health care and primary education with financial support from IDA, UNICEF, WHO and bilateral donors.

28. In some cases, sectoral adjustment programs in the social sectors have been put in place or are under preparation. Typically, these programs are intended to increase internal efficiency and improve the coverage of disadvantaged groups in specific sectors. They support, for example, targeted programs such as school feeding and nutrition for mothers and infants and redirecting public resources from higher towards primary education or from curative towards preventive health care. Efforts have also been made to reduce unit costs (for example by introducing double shifts) and implement some cost-recovery. Sectoral adjustment programs have also included reforms to build institutional capacity (e.g. training personnel), to improve the quality of services (e.g. strengthening school curricula), or to achieve a better balance between capital and operation and maintenance expenditures.

29. Some examples of these Bank-supported sectoral adjustment programs are presented below, although experience with their implementation is still limited. In Morocco, a sectoral adjustment loan has supported a reform in the education system. This loan was prepared within the constraints of a stand-by agreement with the IMF which placed limits on public expenditures for education, limiting recruitment and salary increases. The reform supports quality improvements and seeks to make education more cost-effective, and at the same time is devoting a larger share of resources to primary and lower secondary schooling -- with a focus on schooling in rural areas, particularly for girls. In Senegal, an education sector adjustment loan supports reductions in unit costs at all levels and in subsidies at the tertiary level, with the goal of releasing funds to expand access to primary education. In Ghana under the Education Sector Adjustment Credit, pre-university education is being reduced from a maximum of seventeen to twelve years and the resulting savings -- together with a range of cost-recovery and other cost-saving measures -- are being allocated to expand primary education and increase the provision of books and materials.

30. Often these sectoral reform programs have proven time consuming and politically difficult to implement. But experience does show that careful design and motivation of those affected by the proposed reforms can be helpful to improve their chances of success. In Senegal, for example, the introduction of double shifts in schools was successful because it was accompanied by careful sensitization of teachers and parents and by incentive payments to the teachers.
31. Despite the efforts described in the above paragraphs, more attention could be given during the adjustment process to minimizing the adverse equity impact of public expenditure reductions. In addition to concern for maintaining expenditures in health and education which benefit the poor, it is important to protect recurrent expenditures essential for preventing the deterioration of productive infrastructure in rural areas and to avoid, to the extent possible, other expenditure cuts which may also have detrimental effects on the poor. Increasingly, the Bank is addressing these shortcomings through more in-depth studies of the composition, effectiveness and incidence of (all or selected) public expenditures and through detailed reviews of the policies and programs for reducing poverty and improving social sector delivery in a number of countries. Examples are the work which has been recently completed or is underway in Bangladesh, Brazil, Ghana, Jamaica and Indonesia. It is anticipated that these efforts will allow better incorporation of these issues in the policy dialogue both of the Fund and the Bank, in the design of adjustment programs, and in separate poverty-oriented lending.

Directing Subsidies Towards the Poor

32. Government services are often provided free or well below cost. This is justified on the grounds that many public services provide externalities and are predominantly public goods, or provide higher social than private benefits, and that many are intended for the poor. It is also argued that the administrative and political costs of collecting fees are often unaffordably high. This practice has a high budgetary cost and imposes financial difficulties on state enterprises. Subsidies are often skewed in favor of higher-income groups (although they also generally form a larger share of the consumption basket of the poor) and are likely to lead to inefficiencies in consumption. The issue is how subsidies that benefit the poor can be maintained and at what cost.

33. Many stabilization and adjustment programs have included a reduction in consumer subsidies as part of their effort to reduce the deficit. These subsidy reductions have often been controversial, and have sometimes provoked strong opposition, mostly from the middle classes, as well as in some cases considerable hardship for the poor. Estimates for five countries of the real income effect on the poorest decile of a 10 percent increase in food prices vary from 8.5 percent for Sri Lanka to 5.6 percent for Egypt.

34. Two types of consumer subsidies should be distinguished. Marketwide subsidies, which reduce the retail price of a good sold through regular market channels; and targeted subsidies, which reduce the price of a good for individuals based on some indicator of need (typically income or location).
Marketwide Subsidies

35. Marketwide subsidies often have a major role in raising the real incomes of the poor. They can, however, be very expensive, and a serious drain on the budget in times of fiscal austerity. And they are sometimes an inefficient means of helping the poor. For one or both of these reasons -- expense and inefficiency -- subsidies are often cut as part of adjustment programs.

36. Widespread cuts in subsidies can severely hurt the poor. This is often forgotten in discussions of the fiscal costs and unintended benefits to the relatively well-off of marketwide subsidies. The effectiveness of a subsidy in raising the incomes of the poor needs to be distinguished from its efficiency. The effectiveness is measured by the percentage increase in the incomes of the poor, the efficiency by the percentage of the subsidy that reaches the poor. It is important to note that an inefficient subsidy may still be highly effective -- in other words, even if only a small proportion of a subsidy benefits the poor, the income value to them may still be great.

37. Brazil and Egypt in the early 1980s serve to illustrate this point. A rice subsidy in Brazil transferred less in absolute terms to the poor than to the rich, but the benefit to the poor in terms of the percentage increase in their real income was eight times as great. In Egypt food subsidies transferred roughly equal amounts to rich and poor alike, but they increased the real incomes of the poor by over 17 percent, as against 3 percent for the rich.

38. Of course subsidy schemes such as the one in Egypt are notorious for their cost and inefficiency. There is often an urgent need to reduce their fiscal burden, either by reducing the subsidy or by more selective targeting. Reducing the subsidy may, as the Egypt example testifies, cause severe hardship for the poor. In such cases better targeting or substitution of alternative, more efficient schemes, is needed. What is crucial is that subsidies that are effective in reaching the poor should not be reduced or eliminated unless and until alternative means of reaching the poor are firmly in place.

39. The issues of effectiveness, efficiency and alternative programs are discussed below. Issues related to the political implications of removing

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14/ Of course the effectiveness and efficiency of a subsidy program as a whole is a complex question involving issues of opportunity cost, administrative costs and so on. But the simple notion used here is useful in considering the distribution and impact of the subsidy itself. See further Reutlinger and Selowsky (1978).

15/ See World Bank (1986) and references therein.
subsidies or of tightening them so that they are more effectively targeted towards the poor are discussed separately.16

40. Effectiveness. The most common form of subsidy is one on the retail price of a good or service consumed by the poor. Such a marketwide subsidy is relatively easy to administer and can be effective in reaching all of the poor. How effective the subsidy is in practice depends on three factors.

- The availability to the poor of the subsidized good. Subsidies on consumables (as opposed to agricultural inputs) are typically, but not inevitably, only applied to goods and services sold in towns. And even within towns the supply of the subsidized good is often rationed in a way which benefits the politically influential at the expense of the poor.

- The share of the subsidized good in the expenditure of the poor (assuming that the first condition is fulfilled and the subsidized good is universally available). The real income effect of a subsidy is directly proportional to the share of that good in the expenditures of the poor.

- The size of the subsidy.

41. Efficiency. Marketwide subsidies can also, however, be very inefficient, especially when compared with the "targeted" subsidies discussed below. The Egyptian program, for example, costs 7 percent of GDP (21 percent of current government spending). There are generally two reasons for the inefficiency of marketwide subsidies.

- Misallocation and "overconsumption". Much of a marketwide subsidy typically benefits the better-off. Subsidies also distort market forces more than a direct income supplement and lead to an "overconsumption" of the subsidized good. Where there are large subsidies this can lead, for example, to the food being used as feed for livestock or for making alcohol or to excessive use of subsidized petroleum products such as kerosene which can easily substitute for other -- non-subsidized -- products.

- Fraud. Marketwide subsidies on goods require heavy government involvement in wholesale trade. The government must manage a two-price scheme -- a higher price for producers and a lower price for consumers. There is room here for fraud, particularly the recycling of the same produce, picking up a subsidy each time. While this sort of fraud is difficult to police (as the EEC has discovered) it does not arise where the product (bread for example) is processed before it is consumed.

42. Marketwide subsidies are most efficient when they are targeted on goods with a negative income elasticity -- kerosene, urban mass transport,

16/ Nelson (1988)
and sorghum often fit this category. Morocco, for example, is restructuring its marketwide subsidies to emphasize foods eaten by the poor, and expects to give the poor greater nutritional benefits for one-fifth the former cost but progress in implementing these reforms has been slow. In Mexico the Government is, with the help of two World Bank loans, replacing its market-wide subsidies by more targeted — and therefore cheaper — alternatives. These alternative schemes include: food coupons and targeted milk distribution; subsidies on low income elasticity foods in selected areas; and targeted school feeding programs. The Bank has set as a condition of release of a $250 million second tranche that these schemes efficiently transfer the same benefits to the poor as the earlier untargeted subsidies, and that — unlike the earlier subsidies — they reach the rural as well as the urban poor. In Venezuela under the recently proposed structural adjustment program, the government intends to improve the targeting of its presently extensive and elaborate system of indirect food subsidies to the poor. This will be achieved by developing with the private sector, differentiated inferior products to be marketed solely in poor areas at subsidized prices. Prior to loan effectiveness studies will have to be initiated to examine the feasibility of developing for sale, very specific items targeted to the poor.

43. Most marketwide subsidies are, however, still applied to goods with positive income elasticities, and the resulting inefficiency means that in times of fiscal austerity their generally high cost can rarely be justified. The critical issue is the speed at which these subsidies are eliminated in cases where they are inefficient but effective in reaching the very poor. Because their immediate elimination can cause severe hardship, such subsidies must be eliminated slowly while more cost-effective targeted programs are introduced. This has been attempted in Jamaica and Tunisia. But slowing the rate of reduction may be difficult in a tight fiscal situation.

44. Whatever success a government may have in raising taxes to fend off a drastic cut in marketwide subsidies, cost-effectiveness considerations still demand that such subsidies are phased out (unless they apply to a good with a negative income elasticity) and replaced by more targeted subsidies. Such targeted subsidies can be both less expensive for the government and of much greater benefit to the poor although (as we will see below) there are limitations to their effectiveness.

Experience with Targeted Subsidies

45. Targeting of subsidies improves both their efficiency and their effectiveness. It may be a cost-effective and equitable way to reduce general subsidies and to mitigate the costs of adjustment on the poor. Targeted subsidies are designed to reach groups selected (or self-selected) on the basis of need. Greater targeting can yield substantial fiscal savings while maintaining the benefits of the poor. For example, it has been estimated that in Morocco expanding targeted programs could compensate most of the poor who benefit from current subsidies at a budgetary cost of 11 percent of current subsidies. Likewise, in Sri Lanka the shift during the seventies to a more targeted program (including the shift to food
stamps and the exclusion of about half of the population from the program) cut by more than half the fiscal costs of the subsidy.

46. In the case of public utilities such as water and electricity, an effective way to target subsidies to the poor would be to use life-line rates. In this way, services can be provided with very low charges to poor (and low volume) consumers to ensure that they consume a minimum amount required to meet their basic needs. In order to maintain the financial viability of the utility companies, this system entails using tariffs with cross-subsidies from higher income users to lower income users. Although there are possibilities for leakages, targeting in this case is made relatively simple by using geographical residence or consumption level criteria.

47. Lessons from Targeted Food Subsidy Experiences. Outlined below are some lessons on targeting food subsidies and selected examples showing ways in which different subsidies can be targeted. Since an extensive literature exists on this subject, only a summary of lessons learned is presented here. Targeting by income groups requires means testing which is administratively difficult (as poverty groups tend to shift) and costly. There is always the danger that households with relatively higher incomes will benefit, especially in schemes which rely on self-reporting income. The most effective types of targeted food programs have been based on: (1) geographical targeting where low-income neighborhoods are selected as in the case of Philippines and Mexico; and (2) identifying types of foods which have negative elasticity of demand (such as less refined grades of wheat in Morocco, of flour in Egypt and of rice in the Dominican Republic).

48. There are only a handful of countries with successful targeted food subsidy programs. The following are some of the reasons:

- Many countries lack the institutional strength required for efficient implementation.
- Political commitment is essential and is often difficult to sustain.
- Some leakages are inevitable (Philippines) and even desirable to the extent necessary to obtain political acceptance and reduce disincentive effects among the non-poor.
- Geographical and commodity targeting are more effective than targeting by income group and/or nutritional status because income and nutrition data are difficult to collect and monitor. However, the effectiveness of this approach depends on the accuracy of identifying poverty areas and foods preferred by low-income groups.


18/ The experiences of Mexico, Philippines and Sri Lanka are presented in Annex I. Other examples of targeted food programs examined in Berg (1987) include Brazil, Colombia, and Sri Lanka. Per Pinstrup-Andersen (1988) covers Colombia, the Philippines and Sri Lanka.
- Indexing food subsidies to cost of living increases is essential to ensure their values are not deflated (Mexico and Sri Lanka) but may conflict with the objectives of adjustment programs.

49. Among targeted food subsidy programs, the most cost-effective have targeted readily identifiable groups, such as pregnant and lactating women, and poor districts or regions, or they have distributed food through existing facilities or programs, such as health programs or schools, that already serve the poor. Thailand and Brazil, for example, now focus on regions where malnutrition is concentrated, in the northeast of both countries. Several Brazilian states have gone further. They target the favelas by subsidizing basic foods for customers of small stores. Because better-off Brazilians prefer not to journey into favelas, even for lower prices, the benefits go to those who need them.

50. In Colombia, the Government, also with the Bank’s assistance, targeted a nationwide food subsidy program to households with young children or pregnant women in designated poverty areas. Health centers distributed the subsidy by means of food coupons. At its peak in 1981, the program benefited 68 percent of households with incomes below 30 percent of the average. Administrative costs were less than 2 percent of the subsidy.

51. Food distribution programs need to be carefully managed if they are to be cost-effective. Bangladesh (with the support of several of the Bank’s Import Program Credits in the early 1980s) moved to enhance the efficiency and equity of its food distribution system. It targeted the food subsidy programs more to the poor, changed the mix of foodgrains distributed toward more nutritional and lower cost varieties, and reduced the cost gradually over a number of years.

52. A problem with ration programs is that they are typically -- but not necessarily -- static. They tend not to discriminate carefully enough to exclude people whose circumstances improve or to draw in those whose circumstances worsen. Another danger is that political pressures may force a government to widen the program’s scope so that it ceases to be efficient in reaching the most needy. Moreover, such programs have high administrative costs and are rare for the rural poor because of the difficulties in managing distribution in sparsely settled or inaccessible areas. Despite these potential difficulties targeting has often been efficient, even in predominantly rural areas.

53. In deciding which program is appropriate, governments need to consider the situation and composition of the group to be compensated. Food rations can work if the group is small and easily identifiable. They can be effective to benefit groups whose real income falls below a minimum level because of a rise in food prices. If the targeted group is large, it may be cheaper (and more efficient) to subsidize the price of a basic food-grain consumed primarily by the poor.
Targeting Subsidies in the Social Sectors

54. Most prices for publicly provided educational and health services are very low or non-existent. Even if prices are defined to include any charges levied on users of a service, the proportion of a government's cost that is recovered through pricing revenue remains small. In 28 developing countries, the public cost recovered through prices for higher education is 9 percent; secondary education, 15 percent; and primary education, 5 percent. In health, the recovered cost is 7 percent. Even if the figures are adjusted upwards to account for the proportion of the cost borne by students (for example time and supplies), and by the communities (for example for school construction and equipment), the proportion of social cost recovered from users often remains small.

55. But free provision of all public services does not mean that everyone, and particularly those who would benefit the most, will be able to use the services (for example, despite the subsidies, the poor are underrepresented at higher levels of education). Another problem with these policies is that, contrary to intentions, they have made educational and health services less efficient. They may also contribute to the observed underinvestment in these sectors relative to others and to overinvestment in services with low social returns (which usually have high unit costs such as tertiary education).

56. For these efficiency and equity reasons, and because of the stringent budgetary conditions faced by many governments, it has become increasingly apparent that some amount of user charges in the social sectors is necessary if the public sector is to provide acceptable health and education services. And there is a growing number of examples indicating that some cost recovery is practicable (this is, for example, the case in West-African countries where church missions have had to charge for their services as a condition of existence).

57. But many questions remain about how to implement selective cost-recovery while ensuring equitable access for the poor. These questions include: the structure of fees and the potential for revenue collection; the individual's response to the introduction of user charges; and administrative problems and collection costs. The limited experience in this area indicates that user fees have to be introduced slowly, starting with fees at the higher levels of education and health care. Such changes are also probably more likely to be successfully implemented, and politically viable, if they are introduced as a part of a broader (long-term) package including other reforms to reduce costs and improve effectiveness of social services.

19/ This section draws from: Jimenez (1987), Vogel (1988) and Gertler and van der Gaag (1988).
B. Implementing Targeted Projects

58. Targeted projects (distinguished from targeted subsidies) represent an attractive option for ameliorating the adverse social effects of adjustment programs. Sometimes the scope for redesigning macro policies to reduce the adverse impacts on the poor may be limited; it may not be possible to avoid the poverty implications of macro policy change without detracting from their effectiveness. In such cases, targeted programs offer a particularly attractive opportunity to address the adverse impact. They are also attractive because they are (or attempt to be) "targeted" to a narrow and unambiguously deserving group of beneficiaries, and because they can be a cost-effective approach.

59. Since FY86 several targeted projects have been designed in adjusting countries. These projects have been designed for two main groups: the newly unemployed who are mainly public sector workers who have been retrenched in an effort to improve public sector efficiency and who are easily identifiable; and the chronically poor. Targeted projects for the newly unemployed have included severance payments, resettlements in agriculture, public works, retraining and credit schemes. Those for the chronically poor have included public works, retraining, nutrition and credit schemes. Government commitment to specific projects, the quality and specificity of the proposed interventions, and the institutional arrangements for the implementation of specific projects differ widely across countries. Annex II describes the main features of the projects in adjusting countries and some experiences with their implementation.

60. The implementation of targeted projects has often faced difficulties. Typically, the limitations have arisen from weaknesses in design, insufficient political commitment, shortages of funding, institutional constraints and poorly trained staff. These factors have in many cases reduced the chances of their successful, lasting implementation.

61. Some countries are giving greater attention to the design and implementation of targeted projects and performance has been improving over time. There is, however, scope for further improvement. More attention could be given to, for example, identifying and reaching target groups effectively; ensuring adequate financing at an early stage; defining the objectives and duration of the programs more explicitly; simplifying the design of the programs by limiting the number of components and their complexity; and facilitating their implementation by ensuring that administrative arrangements (local institutions, NGOs, etc.) are in place. Relevant features of available models (e.g. the credit programs in El Salvador, Calcutta, Bangladesh and Indonesia, the targeted nutrition programs in India, Colombia and Chile, the training projects in Mexico and

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20/ Targeted projects are often, but not necessarily, for the poor. They have sometimes been directed at the newly unemployed who include modest-income groups often not far from some arbitrary poverty line and politically important.

21/ See "Nutrition and Health Programs in Latin America" (1989) for examples of countries that have targeted social programs to the poor even in the absence of exhaustive statistical bases.
Bangladesh and the severance pay scheme in Mali) could also be adopted. (These examples are discussed in Annex II).

62. Multi-sector Compensatory Programs. In some cases, several targeted interventions have been assembled into multi-sector compensatory programs. The programs in Bolivia, Ghana and Madagascar are more advanced. The Emergency Social Fund (ESF) in Bolivia was initiated in 1987 and is now in its second phase. It comprises emergency employment and basic social service projects targeted to low-income populations and areas. Ghana's Program of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) comprises 23 short-term anti-poverty interventions. Projects under it began to be initiated in November 1988. Madagascar has launched the Economic Management and Social Action Program (EMSAP) which includes health, family planning, food security, employment creation and redeployment components. Details and the status of these three programs and of some other similar programs, which are under preparation, are presented in Annex III.

63. These multi-sector compensatory programs are distinguished from other targeted projects by their: (1) intended short-term nature -- they are designed to respond rapidly to a social emergency caused by an economic crisis and to bridge the transition between the crisis and adjustment-induced growth; (2) multi-sector packaging -- they consist of packages of fairly traditional employment, retraining and social interventions; (3) multi-donor financing -- many donors are keen to finance emergency programs to cushion the poor from adjustment; and (4) mixed public sector and NGO implementation. Some programs are strictly short-term compensatory ones while others are hybrids, combining short-term interventions with long-term traditional investment components. No two programs are alike.

64. In supporting multi-sector compensatory programs, the Bank has attempted to give due consideration to specific country circumstances. For example, in Mozambique the Bank is considering supporting under the SDA program, a much smaller multi-sector program than in Bolivia. This is because the ongoing Emergency Assistance Program in Mozambique already includes many projects in agriculture, transport, commerce, education and health, and the absorption capacity for new projects in terms of qualified individuals and institutions to guide planning and implementation is very low.

65. Implementation of multi-sector compensatory programs has shown limited progress so far, with the exception of the ESF in Bolivia. There have been many practical difficulties and few clear-cut successes. They have often been delayed by lack of institutional capacity to implement them (Ghana). There are trade-offs between strengthening existing institutions and creating new ones. New institutions may promote more speedy implementation (Bolivia), but there is a danger that the new institutions will not last. In some cases, programs have been modified or dropped for political reasons (for example some targeted programs under the Social Intervention Fund (FIS) in Madagascar). In some cases, arranging financing for specific projects has been difficult. In Ghana donors have earmarked specific projects (rather than whole packages) and sometimes portions of
projects, and so some projects have been oversubscribed while funding for others is lacking.

66. Typically, multi-sector compensatory programs have constituted an addendum rather than an integral part of the adjustment program. The Social Dimensions of Adjustment (SDA) project in 25 Sub-Saharan countries and several Living Standards Measurement Surveys (LSMS) which are underway are expected to facilitate identifying the groups most likely to be adversely affected by the adjustment program and preparing programs for them such that they complement the adjustment effort.

67. A particularly problematic aspect of both targeted and multi-sector compensatory schemes is the difficulty of designing and implementing them in the short time period generally available to design adjustment programs. This problem is particularly acute in situations where the infrastructure needed to identify those affected by adjustment programs, deliver services, and administer appropriate schemes is absent. In general, periods of adjustment are not the best for discovering the existence and identifying the needs of those affected, especially the poor, for the first time. Ideally, programs and policies should be put in place for them not under the pressure of a crisis but through a deliberate long term plan. In addition, there may be political costs to targeting; the better controlled the leakages of benefits from needy groups, the less likely it is that there will be a broad constituency for adjustment measures.

The Role of NGOs

68. Countries with well developed non-governmental institutions can often usefully involve their NGOs in efforts to mitigate the social costs of adjustment. A number of adjusting countries have already taken initiatives in this area. Apart from forming an important pressure group to prevent drastic cuts in social expenditures that predominantly benefit the poor, NGOs can play a positive role in identifying, designing, financing, implementing and monitoring targeted poverty programs.

69. The following factors account for the important role that NGOs can play in helping governments to undertake poverty programs:

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22/ Sudan is an exception, where the PASCAP (Program for Alleviating the Social Costs of Adjustment and Poverty) mission participated in the pre-appraisal mission for the proposed Economic Recovery Credit and found government support to implement PASCAP as an integral part of the proposed adjustment program. But the adjustment program itself has been delayed.

23/ This is one of the goals of the SDA project.

24/ For example Bolivia, Ghana, Madagascar, Senegal, Burundi, CAR, Togo and Guinea. The major areas of intended involvement include public works, retraining programs, credit schemes and nutrition projects.
- their ability to reach poor communities and remote areas that have few basic resources or infrastructure and where government services are limited or ineffective;

- their ability to promote local participation in the design and implementation of public programs by building self-confidence and strengthening the organizational capability among low-income groups;

- their low cost of operation by using low cost technologies, streamlined services and low operating budgets;

- their innovativeness and adaptability in identifying local needs, building upon existing resources and transferring technologies developed elsewhere.

70. But the nature and degree of NGO involvement has to be carefully planned. The following are major limitations of the NGO approach which should be given due consideration:

- limited replicability of many NGO sponsored activities that are too small and localized to have important regional or national impact. In attempting to scale up their operations with support from the public sector some NGOs may lose their innovative quality and may become top-down, non-participatory and dependent on external government support;

- limited self-sustainability of many NGO activities because they are conceived as being relief-oriented rather than developmental;

- limited managerial and technical capacity of many NGOs;

- lack of a broad programming strategy for a region or a sector and poor coordination of activities of NGOs at different levels;

- controversial political or religious dimensions of some NGOs.

71. Many NGOs are skeptical of adjustment programs' overall effect on the poor and may hesitate to collaborate in the implementation of relatively small "add-on" social programs. Consultation with NGOs on adjustment policy questions may elicit important insights and develop political support for the adjustment program generally, and especially for its anti-poverty dimensions. The government of Ghana has expressed interest in the views of both national and international NGOs regarding PAMSCAD and its overall adjustment program. In a recent initiative to involve NGOs on the social dimensions of adjustment in Chad, the Bank found that a meeting with NGOs to explain the adjustment program itself was a necessary first step.

72. With due attention to these issues, NGO support could be utilized to advantage by adjusting countries in their poverty programs. The lack of institutional capacity to organize targeted programs for the poor in most adjusting countries could, at least in part, be circumvented by NGO involvement. The Bolivian Emergency Social Fund project is a case in point. Municipalities, cooperatives, NGOs and other community organizations have been successfully used as executing agencies for a national poverty pro-

25/ Program design as well as implementation has been their responsibility.
Although in some cases it has been found that community groups may need assistance in organizing themselves and in managing finances.

IV. Conclusion

Threats to the well-being of the poor during adjustment can come from reductions in public expenditures, increases in prices and changes in employment patterns. The following are ways in which the possible adverse effects on the poor may be addressed:

- **Reductions in Public Expenditures.** Reductions in that part (often a small part) of public expenditures that actually help the poor have generated widespread concern. Even existing public expenditures are often inadequate to meet basic needs. Thus, maintaining those expenditures that benefit the poor is crucial. This may seem impossible at a time of wholesale cutbacks, but it can be achieved by a careful setting of priorities. An adjustment program presents a clear opportunity to address public expenditure priorities and processes through protecting important social and poverty programs. Some external financing from multilateral and bilateral donors is often available to support such programs. But it is also essential to increase the efficiency of service delivery, although realistically this is likely to take some time.

- **Increases in Prices.** Many stabilization and adjustment programs have included a reduction in consumer or producer subsidies as part of their effort to reduce the deficit. Wholesale cuts in subsidies for basic commodities, mostly food, can severely hurt the poor. Since an inefficient subsidy may still be highly effective (in other words, even if only a small proportion of a subsidy benefits the poor, the impact on their incomes may still be great), it is crucial that subsidies that are effective in reaching the poor should not be reduced or eliminated unless alternative means of reaching the poor are introduced.

- **Changes in Employment and Wage Patterns.** Adjustment programs can cause reductions in wages and employment for some workers through macroeconomic changes (for example, switching between traded and non-traded goods) and through retrenchment in the public sector. It may be possible to mitigate these adverse impacts by appropriate changes in the design of adjustment programs. This would require assessing the wage and employment implications of alternative mixes of macroeconomic policies, examining the scope for labor market reform, and assessing the labor market implications of alternative speeds or sequencing of reforms. In the short run, it may be desirable to put in place

26/ The Emergency Social Fund includes technical assistance and training to community groups for this purpose as a sub-project category.
severance pay schemes and ensure that they are adequately financed.

74. For the most part, efforts to address the social impact of adjustment programs have focussed on compensating those affected directly by adjustment (for example laid-off public sector employees), or providing the chronically poor with temporary employment or relief. This has been done mainly through targeted projects. Most of these projects have, however, been delayed or have had limited impact. Therefore, more attention needs to be given to designing and implementing them more effectively in the future.

75. By contrast, relatively little attention has been given to introducing changes in the design of adjustment programs. Appropriate design changes can help mitigate the possible adverse impact on the poor, for example, by slowing price adjustments in cases where short-term supply elasticities are low and uncertain, or by targeting subsidies effectively to the poor. They can also help to foster pro-poor growth through generating demand for labor, for example, by removing biases that favor capital-intensive production or other impediments to employment-growth, or reallocating public expenditures towards programs that enable the poor to take advantage of the emerging economic opportunities (by developing skills or providing the necessary complementary infrastructure).

76. In sum, the adjustment program should support measures that help, rather than merely protect the poor. Some of these measures, especially those that ensure an appropriate framework for pro-poor growth, should be incorporated in the design of the adjustment program. Specific actions such as targeted projects that enable the poor to take advantage of the pro-poor framework created, or that protect them from adverse impacts could also be incorporated in the adjustment program itself, although this may not always be necessary. Measures requiring more time and institutional capacity can be dealt with under parallel operations that complement the adjustment program. By giving the social impact of adjustment programs earlier and more serious attention, the adverse impact on the poor can be reduced often at little cost to the adjustment process and opportunities can be created for stronger poverty reduction in the future.
Annex I

Selected Country Experiences with Targeted Food Subsidies

77. Mexico. Mexico's adjustment program included the elimination of extremely costly global food subsidies. These were administered by keeping consumer prices at levels below the procurement and processing costs of agricultural commodities such as corn, wheat, sorghum, soybeans, sugar, rice, barley, beans, cooking oil, powdered milk, and noodles. All subsidies, except for that on sugar, were administered by the state-owned National Basic Foods Company, CONASUPO, by either selling products at reduced prices to processors (who themselves were subject to controlled prices on outputs) or by reimbursing processors directly for costs not covered by sales revenue. Global food subsidies exceeded 1% of GDP by 1983. They represented enormous transfers to upper income groups (the richest 30 percent of the population accounted for about 50 percent of national food expenditures) while benefiting the poor much less (the poorest 30 percent spending only 15 percent). Beginning in 1983, they were gradually reduced, and in 1987, eliminated altogether with the exception of those on sugar and corn. Sugar subsidies will be reduced or eliminated under the World Bank's Agricultural Sectoral Loan. By the end of 1986, food subsidies had fallen to 0.02 percent of GDP. Although the poor benefitted less than the rich from global food subsidies, the urban and landless poor suffered most from their cuts.

78. To protect the poor, the Government instituted a program of targeted food stamps for "tortillas", the corn flatcakes that are a staple of the poor. The tortilla stamps are based on commodity and geographic targeting to low income urban areas. Two additional targeted programs were expanded -- one distributes subsidized reconstituted milk and the other sells subsidized food in poor urban areas. Recipients must queue at fixed times at distribution outlets: for example, milk is available certain days between 5:30 and 8:00 am. The Government also relocated a number of CONASUPO stores from middle-class urban areas to poorer rural locations which are being successfully run by local community organizations. However, these programs are under-budgeted and therefore cover a very small percentage of the poor, do not screen beneficiaries adequately and remain barely available to the most destitute rural poor. A major problem has been the failure to link the price of tortilla stamps to the price of tortillas during high inflation.

79. The World Bank's Agricultural Sector Loan, now being implemented, supports expanding the food coupon and milk programs and developing selective price subsidies on certain basic foods consumed by the poor. Stricter screening will be instituted to target both urban and rural poor. As conditions of second tranche release (not yet disbursed), the Government has to (a) fund targeted food programs at a level sufficient to compensate the poor for the effects of the elimination of global subsidies between 1983 and 1986 (estimated at US$250 million); (b) institute better screening to reduce (not eliminate) leakages; (c) expand targeted food subsidies to rural areas; (d) tighten urban eligibility through anthropometric measuring
and income data collection; (e) link the price of tortilla food coupons to the price of tortillas to maintain the subsidy in real terms; (f) study expanding food subsidies targeted to the poor; and (g) present a satisfactory action plan for nutritional monitoring. It is expected that the cost of these programs would not exceed 0.2 percent of GDP by 1991.

80. **Philippines.** A Government one-year (check year) pilot food subsidy program was targeted to low-income villages in three provinces as the basis for an eventual larger-scale program. Each household in the geographically targeted areas received ration cards which guaranteed a monthly quota of rice and cooking oil at a subsidized price. These two foods contribute nearly two-thirds of the caloric intake of the average Filipino. Small private village stores are accredited marketing outlets for the subsidized food. No household level screening is done.

81. A lesson in the Philippines experience is that geographical targeting is easier to administer than other forms but leakages are inevitable. Leakages took the following forms: (1) Several households padded the number of household members as the subsidized ration is determined by household size; (2) relatives from neighboring non-target villages tried to share in the benefits of the subsidy; and (3) some poor households resold their cooking oil rations on the open market. However, roughly 10 percent of better-off households included some which shared their ration with poorer neighbors, thus reducing leakages. Total leakages were estimated at 18 percent of all food transferred: 3 percent from reselling of cooking oil only, 10 percent from rations benefiting nondeficit households and 5 percent from abuses at the stores.

82. Administrative costs were kept at about 14 percent. These are considered to be low relative to those of other programs (less than half of similar subsidy programs in Colombia, Brazil and Indonesia). Geographical targeting kept the administrative overhead down by eliminating costly beneficiary screening. The pilot study indicates that selecting impoverished areas is a low-cost, logistically feasible form of targeting. It estimates that subsidies contribute 8 percent to the daily caloric consumption of targeted households.

83. **Sri Lanka.** Sri Lanka had a universal food subsidy scheme for nearly four decades. The program was begun as a wartime guarantee of basic nutrition. Rice was the mainstay of the scheme, while wheat, flour, sugar and powdered milk were part of it at different times. Attempts to reduce the unaffordable subsidies in the 1950s and early 1960s resulted in riots and government changes. In the mid-1960s, the subsidy per capita was halved successfully but the entire population continued to receive equal amounts.

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28/ This section draws heavily on Edirisinghe (1988).
In 1978, a new government curtailed the rice ration to about half the population. It instituted three phases of reforms: (1) From 1979, subsidized rice was restricted to families whose self-declared monthly incomes were below Rs300 per month. Underreporting incomes probably contributed to leakages and thus better political acceptance. (2) Later that year, quantity rationing was replaced by an income transfer in the form of food stamps maintaining the Rs300 household eligibility threshold based on self-reported incomes. Coverage, expected to decline, actually remained about the same. (3) From 1980-82, most remaining food price subsidies were eliminated, resulting in higher prices for wheat flour, sugar and other foods. Between 1979 and 1982, the fiscal burden of food subsidies declined from 6 percent to 2 percent of GNP. However, net savings were significantly lower as the Government compensated state employees with increased wages, despite the fact that most of them were not poor enough to be eligible for food stamps.

Endirisinghe suggests 29 -- although others 30 disagree -- that these reforms affected income distribution negatively and that the incidence of ultrapoor households increased from 4.6 percent in 1978-79 to 6 percent in 1982-83. 31 First, although the share of benefits accruing to the bottom 40 percent increased from 50 percent to 60 percent with the introduction of food stamps and elimination of other subsidies, not enough food stamp beneficiaries were in the poorest groups. About 30 percent of households in the lower half of the population do not benefit while about 30 percent of the upper half do. Second, the relative contribution of government transfers to total expenditures of poorer households declined as the real value of the nonindexed transfers eroded. Expenditures required by the lowest quintile to consume its 1978-79 caloric level increased 86 percent by 1981-82, almost halving the real value of food stamps during this period. Third, while mean per capita caloric intake remained constant, disaggregated data show that the nutritional status of low-income households declined. At the same time, middle and upper-income groups maintained or improved their caloric intake.


30/ See for example Glewwe (1988).

31/ Endirisinghe bases his determination of ultrapoor households on Lipton's (1987) definition and includes those households which fail to achieve 80 percent of recommended caloric intake although they allocate 80 percent of incomes to acquire food.
Selected Country Experiences with Targeted Programs

86. Targeted programs to mitigate the social cost of adjustment have included credit and nutrition schemes, public works, retraining, severance payments and resettlement in agriculture. The main features and issues related to program design and implementation of these targeted programs are described below. Similar types of programs, adopted by some non-adjusting countries, which have relevance for the future design of such programs in the adjusting countries are also described in order to illustrate ways in which targeted schemes in adjusting countries could be strengthened.

Credit schemes

87. A number of adjusting countries have attempted to facilitate the absorption of newly retrenched workers into informal sector activities by introducing credit schemes. Guinea, Gambia, Ghana, Mauritania, Senegal, Congo, CAR, Gabon, Togo, and Madagascar have schemes providing loans to those rendered unemployed by public sector contraction to enable them to invest in small business. Similar programs have also been envisaged for the chronically under- and unemployed poor. Credit schemes proposed in some adjusting countries are described below with a brief analysis of the problems they may face and some possible solutions.

88. **Mauritania.** The government has put in place a scheme to increase special credit to help young technicians, former public employees and workers returning to the country to create small scale enterprises. A small fund (FIRVA) is providing this kind of credit through FND (Fonds National du Developmente) and will be replenished. By end-1988, the FIRVA had granted 265 loans, with 1200 applications awaiting review. Preliminary reports about the scheme are not encouraging. The FIRVA (like most institutions affiliated with government agencies) has proven to be overly bureaucratic, inflexible and slow to respond to the needs of small scale enterprises. A streamlined loan application procedure and efficient approval and oversight procedures have been lacking. The organization is understaffed and inefficient and has proven to be unresponsive to the needs of its clients by failing to provide management and technical training, marketing analysis, outreach and promotion systems. Besides, the interest rate charged by FIRVA has been unduly low, varying between 5 and 6 percent. This may fail to ensure that funds are directed to the most productive activities. It may also result in the loan fund becoming decapitalized and overhead costs remaining uncovered. Further, the current program provides loans for 8 to 10 years. Experience with other credit schemes indicates, however, that the most effective time period for initial loans is from one to six months. When clients pay back their initial small loans they become eligible for

32/ The schemes in these countries have their limitations but they represent the most successful approaches to the problems so far.
larger amounts over longer periods. Finally, the repayment rate on the
FIRVA is at present very low (around 31 percent). The scheme could perhaps
do better with the formation of self-monitoring groups of clients which have
proved to be an effective mechanism to ensure prompt repayments.

89. **Guinea.** The government of Guinea created an employment advisory
service (the BARAF) in March 1987 to provide assistance in preparing bank-
able projects. Under this scheme, departing civil servants can use their
severance pay as down payment to secure loans up to five times that amount
at favorable rates of interest. By end-1987, nearly 1,400 project ideas had
been presented of which 500 projects had been submitted for financing.
Although an evaluation has not yet been carried out, it is evident that the
scheme was not well designed. Some important issues, particularly, project
selection criteria, interest rate levels and incentive mechanisms to ensure
quick repayment, have received very little attention. It is likely that
banks will cut back loans because they envisage problems with repayment.

90. While the credit schemes described above have been based on traditional
approaches, the programs in Senegal and Ghana propose to involve
NGOs.

91. **Senegal.** International donors are playing an important role
together with local NGOs in assisting the government's credit schemes for
the newly unemployed. The Employment and Development Department of the ILO
is currently assisting in the creation of small-scale enterprises for those
made redundant from the public sector. ILO's assistance covers credit,
training and identification of new growth sectors. USAID is also providing
$2 million in separation payments for retrenched workers to establish small
enterprises. Discussions are on-going between the Bank and NGOs for closer
collaboration on adjustment programs. Organizing village communities or
neighborhood associations which could form the basis for a community based
credit scheme eligible for borrowing from the traditional banking sector is
under consideration. In this way the private sector at the grassroots level
could be invigorated by the infusion of credit. The Bank would make the
initial funds available to community groups through the banking sector.

92. **Ghana.** The credit scheme in Ghana also envisages involving NGOs in
assisting loan receiving entrepreneurs in the preparation of feasibility
reports, and in follow-up assistance for purchasing, financing and marketing
inputs and outputs. The beneficiaries will be the reemployed and other
unemployed. A $2 million scheme has been proposed. The funds will be channeled through the Bank of Ghana to local banks, who will appraise the loans.
A spread of 8 to 10 percentage points is proposed for the banks to encourage
lending to small-scale enterprises. It is expected that the credit line
will help set up 340 enterprises every year, and will help generate 4,000
person years of employment each year.

93. Promising approaches to lending for the poor can also be found in
India, Bangladesh, El Salvador and Indonesia. These countries have
successfully implemented credit schemes with one or more of the following
unique features: (a) reliance on grass-roots organizations (cooperatives,
NGOs, neighborhood associations, municipal staff) to serve as a bridge
between borrowers and financing agencies; (b) little emphasis on
implementing discreet and costly technical assistance programs; (c) reliance on formal or informal group responsibility for loan repayments; (d) frequent loan collection, preferably at the place of business of the borrower; and (e) no subsidization of credit.

94. **India.** The Small Scale Enterprises Project (SSEP) in Calcutta, India, exemplifies the advantages of the NGO approach, especially in encouraging loan repayments and in borrower identification. The SSEP\(^{33}\) sought out voluntary organizations and, provided they were registered (which requires elected leadership), briefed them about the program and encouraged them to identify and pre-screen potential borrowers. With the help of the city metropolitan staff, the projects were then appraised and loan application forms filed in. Once loans were approved by the commercial banks and disbursed, local organizations also took an interest in repayment. In a few cases, loan collection itself was reportedly contracted out to them for a 2 percent collection fee which helped to reduce arrears.

95. **Bangladesh.** The Grameen Bank in Bangladesh shows how the joint liability approach can help achieve prompt and high repayment rates. A borrower is asked to form a group of five people who would like to borrow from the bank. Then loans are made to the two neediest and the bank directs the other group members to keep watch. If the first two fail to start repaying their loans, the bank will do no more business with any member of the group. If after six weeks all payments are in order, two more of the group of five may borrow. Finally, if all is in order, in six more weeks the leader of the group may borrow. All five must keep up their repayments if they are to continue taking advantage of the credit scheme. This model, based on group guarantees, has proved to be an extremely efficient way of providing credit to some of the poorest people (now almost exclusively women) without collateral. Another important feature of the Grameen Bank is the 95 percent repayment rate despite interest rates and loan charges above the rate prevailing in the formal credit market.

96. **El Salvador.** In El Salvador, women's participation in the credit scheme accompanying the Small Business Support Component of the Bank's Second Urban Development Project has been large (over 78 percent of borrowers). This has been achieved by concentrating the program in the largest and poorest settlements (government housing and squatter areas), which have a higher than average concentration of female heads of household and where the majority of men work or seek work outside. Concentrating on artisanal activities, which predominantly involve females, also accounts for the high percentage of women's participation.

97. **Indonesia.** The Bank-supported Kupedes or general village credit program in Indonesia embodies many lessons from earlier failures in Indonesia and elsewhere and represents a particularly successful rural credit scheme, although it does not reach the poorest of the poor due to collateral requirements. Among its important features are: (a) straightforward appraisal - loan officers sit with applicants to fill out appraisal forms, which cover the borrower, the collateral, the proposed use of funds

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\(^{33}\) Interest rates were highly subsidized on this project.
and the likely flow of funds; (b) rapid approval – Kupedes makes almost all its lending decisions within two weeks which establishes a strong relationship between the bank and its borrower and strengthens the borrowers' obligation to repay; (c) commercial rates of interest – the interest rates run about 33 percent and include a penalty for non repayment by any borrower; (d) small loans and one-year terms – for most borrowers, the largest first loan is $200, repayable in a year in 12 equal installments; (e) performance incentives – if borrowers make all their installments on time, they can double their loans in subsequent years; and (f) low overhead, close contact with clients – Kupedes has more than 2,000 sub-branches throughout Indonesia and officers (almost all of them young, from the community and familiar with borrowing families) maintain personal contact with clients which heightens mutual accountability of both the borrower and the banker.

98. Innovative approaches such as the ones adopted in India, Bangladesh, El Salvador and Indonesia provide models for strengthening the design of credit schemes supported under adjustment. While some of them have proved that the poor can be an excellent credit risk even in the absence of collateral, others have shown that creating new institutions and promoting a more careful design of credit schemes can be much more effective than mere credit subsidies, the predominant policy instrument so far.

Nutrition programs

99. Through effects on household income and purchasing power, adjustment can have a negative impact on the nutrition of those poor people already living on the margin. Improvements in the nutritional levels of these groups need not await the achievement of high economic growth. Even in times of economic stress and structural adjustment, gains can come through sharply targeted nutrition programs. A number of adjusting countries have proposed such programs some of which are described below.

100. Bolivia. By May 1988, the Emergency Social Fund had approved fourteen different nutrition projects reaching a total of 42,000 beneficiaries. Most are small and the range includes school feeding, mothers clubs, soup kitchens for designated groups of adults, open soup kitchens for children and food for institutionalized children. The largest programs are school-feeding in all public schools in Trinidad, about 10,000 students. These are based on local procurement of dairy and wheat products. ESF is also helping to fund the distribution of iodised oil in the anti-goiter campaign.

101. Sao Tome and Principe. In Sao Tome and Principe the World Food Program (WFP) provides basic foodstuffs equivalent to one third the daily wage for over 11,500 workers in a cocoa rehabilitation project and directly distributes free lunches for 20,000 school children. Total employment will amount to over 11 million workdays per year and cocoa enterprises are expected to benefit from a stable supply of labor. WFP will fund $10.9 million and the Government $1.1 million over a period of four years.

102. Until recently, nutrition was largely seen as a consumption or welfare issue rather than as a development concern and sustained efforts to
improve nutrition levels were limited. However, since then, a number of efficient and long term nutrition programs have been designed and implemented. Already, much experience has been gained on operational aspects of project design and on management of nutrition programs. The programs implemented in India, Colombia and Chile have proved cost effective and well-targeted, and provide useful models for future programs.

103. **India.** The Bank sponsored Tamil Nadu Nutrition Program is a successful targeted nutrition program. By stimulating enthusiasm among women, the program relied on women's groups to help with the task of preparing food supplements, thus reducing administrative costs substantially. Another major departure from earlier programs was that the number of components in the project were limited. Nutritional supplements were directly provided to low-weight children between the ages of six and thirty-six months in six districts with the lowest caloric intake. The recruitment and training procedures for supervisors and workers were also carefully designed. By thus accurately targeting those at greatest risk, the supplementary feeding could be highly selective and responsive to the recipients' changing nutritional status - two features that enhance cost-effectiveness and avoid long term dependence on food assistance. Even if the program were expanded to cover the whole state, the total cost would be less than 1 percent of the state budget.

104. **Colombia.** The Integrated Nutrition Improvement Project in Colombia is another successful example. Health posts were designed as a conduit for nutrition surveillance and delivery of integrated nutrition/health services. The simultaneous delivery of health and nutrition services was not only found to be compatible but also seemed to have a significant synergistic effect.

105. **Chile.** Chile has a long history of nutrition interventions which have been increasingly targeted in recent years. Two targeted nutrition programs, the National Program for Complementary Food (PNUC) for children from birth to the age of six, and the School Lunch Program for school age children, have been particularly successful. The following factors account for the success of the PNUC: (a) Chilean women have been educated about the importance of good nutrition for the health of young children and have become accustomed to using the program to monitor their children's health status; (b) great care has been paid to maintaining the quality of the food distributed; (c) it is free and easily available even to the poorest households, although many who could well afford to buy the food and services provided, also receive them at no charge. This leakage is considered a low price for being able to include in the program, children from the poorest households; and (d) the body of administrators responsible for the program is dedicated and able to implement the program effectively and efficiently. As for the School Lunch Program, an interesting feature is that meals are prepared and served by private firms under contract to the central government. This system has reduced the cost and improved the


35/ Both these programs had been initiated long before the adjustment program was undertaken.
quality of the food that had previously been provided by a government service.

**Public Works**

106. A number of adjusting countries have initiated public works in order to create employment for the newly unemployed and the chronically unemployed and to build infrastructure. Food aid or international grants have generally been used to finance public works projects. Some schemes are described below.

107. **Madagascar.** Under the EMSAP in Madagascar, targeted labor intensive employment generation projects have been planned. The objectives of this component are (i) to increase incomes by employment generation in economically disadvantaged areas; (ii) to provide a temporary source of income to employees losing their jobs because of public enterprise closures or restructuring; and (iii) to provide jobs through the development of regional, economically sound infrastructure, particularly roads, using H:3MO (i.e. labor intensive) techniques. The proposed EMSAP would finance the construction or rehabilitation of rural roads in those counties where agricultural employment opportunities are limited by the low availability of arable land per inhabitant. The EMSAP would also support the development of criteria and parameters for construction of other rural infrastructure, such as irrigation and well sub-projects. Further, the EMSAP would provide resources to the Public Works Training Centre (CATP) to expand the training programs on labor-based methods, quality control, and operation and maintenance of equipment for small domestic contractors.

108. **Bolivia.** In Bolivia the Emergency Social Fund (ESF) provides a mechanism for identifying and funding public works programs within a short time. The administrative structure created to implement the program has some interesting features: (a) objectivity in project monitoring is to be ensured by entrusting supervision and monitoring of public works projects to an institution which is not the direct executing agency; (b) project execution is the responsibility of groups that are likely to possess useful local knowledge such as public or private entities, cooperatives, community units, civic, military or religious groups or associations expressly contracted for the purpose; and (c) in order to enhance government support for the projects and ensure their maintenance, completed projects are to be transferred to appropriate public entities who are expected to assume responsibility for their administration. As of September 1988, 230 projects had been completed, but project quality has not been consistently good.

109. **Ghana.** Under the PAMSCAD in Ghana, food-for-work (FFW) projects are to be initiated to provide employment to the rural unemployed, and to help build and rehabilitate the economic and social infrastructure of rural communities. The projects that will be selected for the FFW program will be in the areas of agriculture, construction, water supply and infrastructure.

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36/ Public works are defined as special employment augmenting schemes for the poor which simultaneously aim at infrastructure building. They are distinct from infrastructure projects executed by the government which have as their primary goal the creation of public utilities.
development. The program is intended to support labor intensive work projects with food rations to be paid to workers and with tools and materials provided for the completion of the individual projects. There will also be an education and training component to train workers in basic nutrition and sanitation, and in areas directly associated with the work that they will be doing such as construction and agricultural skills. The support of local NGOs will be sought for implementation. The food rations will benefit 8,000 families for a period of six months each.

110. Also in Ghana, a Priority Public Works project (PWP) is intended to generate 10,000 urban jobs over a two-year period.\(^{37}\) This is a central component of the PAMSCAD (whose implementation has started) and is financed by IDA (63 percent of project costs). Responsibility for project implementation would reside with the Ministries of Roads and Highways and the Works and Housing. These ministries in turn will report to the PAMSCAD secretariat which will monitor the overall project implementation. The main problem with this program is likely to be that the short-run implementation capabilities of existing agencies may be over extended, leading to implementation delays and the breakdown of supervision and financial control. Close monitoring of critical project activities will be essential.

111. Public works projects have, typically, faced a number of problems. They have seldom been able to achieve the twin objectives of maximizing employment and creating durable infrastructure. However, they could be a very useful instrument to help the poor during adjustment, at little cost to the adjustment program itself, especially if they could be focussed on: (1) tradeable-oriented activities, or on non-tradeable activities which are essential to the expansion of tradeables - construction work on roads serving export regions is one example of the latter; (2) providing some on-the-job training to participants to raise their skill levels and improve their chances of employment (PAMSCAD is training workers in agricultural and construction skills under its food-for-work scheme); and (3) constructing and maintaining social infrastructure required by the adjustment program.

112. Given the government's scarce administrative capacity, this may be achieved by mobilizing the organizational capabilities of local communities and NGOs.

113. Chile and some south Asian countries have extensive experience in public works. Some features of the schemes in these countries could be adopted by adjusting countries in their efforts to generate labor intensive employment on public works.

114. Chile. Emergency Employment Programs (ECPs) have been in operation in Chile since 1975. They have mainly concentrated on the development and maintenance of urban infrastructure and are administered through municipal

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37/ Major projects under infrastructure rehabilitation and maintenance will be: drainage, road works, traffic management, sewerage and street lighting. Urban upgrading, housing consolidation and servicing of land for sale to organizations for low income housing, will be the other projects. Thus many of the projects under the PWP are intended to maintain and improve existing infrastructure and housing rather than create new ones.
authorities and financed by central government. Some 240,000 persons were benefitting from the EEPs by the beginning of 1986. The EEPs have some important features. The schemes have been evolving over time - when the PEM degenerated into a transfer mechanism, as work discipline on projects became increasingly lax, it was succeeded by the POJH. A higher level of work discipline was enforced and there was consequently, much less misuse of the scheme by both workers and employers. PIMO which was initiated in 1984, went a step further by (i) requiring an economic rate of return; and (ii) meeting certain conditions for labour intensity. Another important feature has been the low (about US $40 a month) stipend. This has ensured effective, though not flawless, targeting. The schemes have served as "employers of last resort" and, by enabling workers to maintain a continuous employment record, have improved their chances of obtaining regular jobs. In a survey conducted by the University of Chile (1983), 70 percent of those employed on work programs were willing to undertake another activity if employment were available.38

115. **Bangladesh.** In Bangladesh, rural food-for-work programs have resulted in sizeable gains in productivity through the construction and maintenance of irrigation infrastructure. This has facilitated higher employment per acre, so that lasting benefits have accrued from a short-term program.39

### Retraining

116. Retraining schemes have been envisaged in a number of adjusting countries for those rendered unemployed by public sector contraction. CAR, Ghana, Guinea Bissau, Senegal, Gabon, Sao Tome and Principe, Togo and Madagascar have tried to provide retraining facilities to those dismissed from the public sector to facilitate their absorption into other expanding activities. Some countries have also proposed these schemes for the chronic poor. The retraining schemes in Ghana and Madagascar have already been designed and are described below.

117. **Ghana.** In Ghana the retraining scheme under PAMSCAD will provide simple, brief training courses for the retrenched and other unemployed to upgrade their skills and to help them market their skills for self-employment or employment in the informal sector. Phase I of the proposed scheme will entail training of the people retrenched in 1987, through on-the-job training in private enterprises and through part-time courses at training institutes. Phase II of the project will involve an evaluation of the relevance of the existing training programs; brief training of trainers and redesign of courses; and training of the next batches of redeployees. In order to strengthen the design of courses, consultants will identify the skills that are likely to be in demand and identify projects where employ-

38/ A major criticism of these programs is that they have not encouraged the movement of workers into activities that are being promoted by the adjustment program - if anything, they may have discouraged the mobility of the unemployed. The government is aware of these and other problems and is making efforts to remedy them.

ment opportunities are likely to emerge.\textsuperscript{40} Consultants will also investigate the prospects for on-the-job training.

118. Many of the training institutes in Ghana already have counselling and placement units and additional counselling and placement centres will be created to help the trained redeployees and other unemployed by providing information about job prospects. There will be a special emphasis on assisting groups of trainees to use their compensation payment as well as the special credit line for establishing small-scale enterprises. Efforts will also be made to mobilize the support of NGOs who are already providing investment promotion and extension services in the informal sector. The total cost of training the redeployees is estimated at about $4 million over the three year redeployment period. The primary problem with this project is likely to be that the quality of training is poor due to lack of funds, equipment, logistical support and qualified staff in the institutions that will carry out the programs.

119. Madagascar. Training schemes have been designed for the newly unemployed in Madagascar. It is estimated that 30 percent of the laid-off workers would not use the training programs; two-thirds of those would retire or leave to seek different opportunities; and the remaining one-third would be provided with immediate employment opportunities following the interview process. Two types of training programs would be initiated for the remaining 70 percent laid-off workers: (a) on-the-job-training and (b) retraining through specialized institutes.

120. On-the-job-training: Approximately 15 percent of the remaining laid-off workers would be placed in enterprises for retraining for a period not exceeding six months. Their salaries during retraining would be shared equally by the enterprises and the Ministry of civil service and labour (MFOP), for a total not exceeding two minimum salaries. The enterprises would be paid a retraining fee under a standard retraining contract. The average cost of retraining per worker, including the salary, is estimated at $480.

121. Retraining through specialized institutes: These programs would absorb 85 percent of the remaining laid-off workers. The government has prepared an action plan to strengthen the training institutes and programs offered by the Chambers of Commerce and the professional schools. The objective of these programs is to help laid-off employees acquire expertise that increases the likelihood of their finding employment elsewhere in the economy, including in the informal sector. The employees would receive the equivalent of a minimum salary during the retraining period for a maximum of six months. The average cost of the retraining program per worker, including the salary is estimated at $800.

122. The Madagascar scheme is designed well but administrative and financial problems could hinder effective implementation. Problems may also arise if the original assumptions about the number of workers wanting to opt

\textsuperscript{40} Some simple projects have been prepared and the Small Scale Industries Board has identified 200-300 projects for suitable enterprises.
for the various options prove inaccurate. Already, it is expected that due to the recent surge in employment in the labour-intensive clothing business, on-the-job retraining may well absorb a greater proportion of the laid-off workers than the originally anticipated 15 percent.

123. Ideally, every training program should have a system through which information about the learning capacity of the trainees and the needs of the economy are fully assessed. The skills provided in the training courses should be relevant to existing or emerging employment prospects. There must also be mechanisms to assess the progress of the trainees during the training period and there should be follow-up after completion. Some approaches to training programs that have evolved in recent years, for example, the Mexican manpower training project and the BRAC training scheme in Bangladesh incorporate some of these features. They are described below:

124. **Mexico.** The Manpower Training Project in Mexico aims at reducing the social cost of adjustment by increasing labour productivity and by training workers for jobs which exist or are likely to emerge as a result of adjustment. By doing so, it simultaneously aims at reducing the human resource constraint to economic growth. The project envisages improving and expanding the already ongoing World Bank supported pre-training, in-service and re-training programs by introducing the following important features:

- the selection of trainees on the basis of new criteria designed to identify the most trainable and motivated candidates in order to enable the poorest of the unemployed to be retrained;
- introduction of an innovative and very selective use of stipends to trainees;
- the involvement of concerned enterprises as cost-sharers and program designers and implementing agencies in order to ease the financial and administrative burden on the government; and
- strengthening labour market and manpower monitoring to ensure that marketable skills are imparted to the unemployed.

125. **Bangladesh.** In Bangladesh, BRAC (Bangladesh Rural Advancement Committee) has developed a promising system combining group formation and training in practical skills, functional literacy and numeracy. Simple functional skills such as rudimentary literacy and numeracy are essential both to enable sound decision making and to prevent exploitation by more powerful groups. The need to give extension workers in-depth knowledge about the problems of the poor and to develop flexibility to adjust to the learner's learning capacity, has been recognized and will be given attention.

**Severance payments**

126. Compensatory cash payments have been proposed to compensate retrenched public sector workers in several adjusting countries. These

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41/ CONALEP I and II projects are the two ongoing training projects which have had a favorable experience. They have aimed at facilitating self employment as well as employment in the formal sector.
payments are meant to prevent standards of living of dismissed workers from falling below socially acceptable levels during the period of transition while they find another job. The amount of compensation has in most cases depended upon the number of years of service and the grade attained at the time of retrenchment.

127. Different methods have been adopted to finance these severance payments. In cases where staff reductions have coincided with divestiture/privatization of public sector organizations, funds from the divestiture/privatization have been used. In other cases, governments have relied on their own national budgets and (or) on financing from international donors.

128. While severance pay schemes in most adjusting countries are still under preparation, the schemes in Ghana, Togo and Guinea have started and are described below. The scheme in Madagascar is in the advanced stages of preparation with the first lay-offs expected around September 1989, and is also described below.

129. Ghana. A civil service census undertaken by the government of Ghana in 1986 revealed a large concentration of civil servants in the lower strata of the civil service. This group became the target of the 1987 staff reduction exercise. The compensation package designed for those who would be retrenched comprised: (i) severance pay equivalent to four months of gross terminal salary and (ii) end-of-service pay equivalent to two months of gross salary (at the time of termination) for each year of uninterrupted public service. The goal was to reduce the size of the teaching and non-teaching staff of the Ghana Education Service (GES) and the civil service by 15,000 people by the end of 1987. A further reduction of 12,000 was planned for each of the following two years, 1988 and 1989. The Redeployment Management Committee (RMC) under the Ministry of Mobilization and Productivity was given overall responsibility for managing the scheme.

130. So far the targets have not been fully achieved but progress has been good. By May 1988, the secretariat had released and paid over 12,000 surplus staff. Only around 25 percent of the retrenched had, so far, expressed a desire to avail of the government's redeployment scheme implying thereby either that the severance payments had been generous or that they were able to find alternative employment fairly easily.

131. However, since the program depended on the existing administrative structure for its implementation, there have been some bureaucratic delays. Information from the retrenched employees about the choice of future vocation (retraining or redeployment in agriculture) was not forthcoming at the desired speed. Delays have been caused mainly by lack of finance, transport facilities, office equipment and relevant documentation about the affected persons.

42/ The target groups identified for retrenchments were: (a) laborers, cleaners, charwomen, drivers, stewards, cooks, porters, sweepers, messengers, security personnel and analogous grades and (b) clerical officers, secretariat personnel, store officers and analogous grades.
132. **Togo.** Proceeds from divestiture/privatisation were used to finance compensation packages for the retrenched. While proceeds from the sale of assets have in many cases been sufficient to cover the severance payments, the outstanding debt of the former enterprises, originally contracted directly on their behalf by the government or under its guarantee, remains with the government. The retrenchments have not been large because no closures of enterprises were undertaken. The few who lost their jobs were able to find alternative employment either in the public or private sector. The social cost of adjustment arising from privatisation has been relatively small.

133. **Guinea.** Voluntary departure bonuses have been given to departing civil servants. The bonuses are equivalent to five years of salary with 30 percent of the payment being made upfront and the remaining over 20 months. Those with bankable projects have received access to loans at favorable rates. The severance pay scheme has proceeded fairly smoothly so far, although, a civil service pay roll roster that should have been drawn up before the retrenchments were effected, is only now being prepared. In the absence of such a roster it may not have been ensured that the most cost-effective decisions were taken and that the dismissed civil servants did not re-enter public sector employment through the back door.

134. **Madagascar.** In Madagascar, the redeployment fund out of which severance payments are to be made will be managed by the Ministry of Finance and Economy, on the basis of inputs from the Ministry of Civil Service and Labor which has conducted a survey on the number, regional distribution, qualification, seniority and salary of the employees likely to be affected over the next two years. The average severance pay cost per worker (including advance notice, unemployment benefits and accumulated leave) is estimated at $350 equivalent. The redeployment fund will be financed out of the government budget. The IMF has agreed to a special allocation for this purpose in the framework of the ongoing stand-by arrangement. The EMSAP proposes to develop a job-related referral service for workers being laid-off. The referral service would offer information and orientation services, about job openings and training options.43 The World Bank's June 1989 mission reviewed and approved the draft of the Decree creating the information centre for dismissed workers, whose publication is a condition of disbursement of this component. The Ministry of Labor has leased an office for the Information Centre and is in the process of contracting the additional (local) staff necessary for the operation of the centre. Various short term studies on regional employment opportunities have been launched.

135. In general, administrative problems could delay or distort the implementation of severance pay schemes. In view of the generally weak central institutional mechanisms to implement, co-ordinate and monitor severance pay schemes in adjusting countries, these schemes are likely to be more successful if local public bodies assume some responsibilities such as maintaining records about retrenched workers and calculating the amounts

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43/ The training scheme is described in paragraphs 34-37 of this annex.
due for compensation. Financial arrangements will also have to be sound to ensure prompt and effective implementation of these schemes.

136. There is a successful voluntary departure scheme in Mali mounted by the USAID in 1985 which has been used to reduce the size of the civil service. The scheme was designed after a survey (commissioned by the government) ascertained the attitudes and expectations of the Malian public sector employees towards voluntary departure programs. The scheme has two components: (a) a severance pay component combined with a pension guarantee scheme to provide short term income security and a source of investment capital; and (b) a credit guarantee fund. An overwhelming proportion of beneficiaries so far have expressed complete satisfaction with the program. They are gainfully employed in small scale private sector activities. A number of factors have contributed to the success of the scheme. To name a few: (i) it was well publicized (Newspapers, TVs and Radios played an important role in making opportunities in the private sector and application procedures widely known); (ii) the program had firm commitment from the highest levels; (iii) its working was thoroughly transparent; and finally (iv) the fact that there was a great deal of moonlighting prior to opting for departure, facilitated the entry of public sector workers into the private sector.

Resettlement in agriculture

137. Countries with a comparatively low pressure on land have proposed to mobilize the newly unemployed towards agriculture. Guinea Bissau, Mauritania, Sao Tome and Principe, Ghana and CAR are some examples. The schemes in Ghana and Mauritania are described below.

138. Ghana. In Ghana, the resettlement project has recommended that food aid and extension services be provided to enable 9600 redeployees and other unemployed to move into unused but arable fields in 19 locations in 7 regions. Food aid available for a year will enable these families to sustain themselves until they have cleared the land, grown accustomed to agricultural practices, and have grown sufficient food. This will facilitate the mobility to agriculture - the prime growth sector under the economic recovery program. The project is expected to cost $6.3 million, of which $5.3 million will be in food and it is expected that 48,000 individuals will benefit. The scheme also envisages the provision of inputs and extension services (i.e. providing information about the correct use and application of farm inputs and the more efficient farming practices). Group lending will be encouraged by facilitating groupings of between 10 to 15 farmers.

139. Mauritania. In Mauritania, the government intends to help retrenched SNIM (Societe National Industrielle et Miniere) workers to use their severance pay to resettle as private farmers in the South. Vast areas have become irrigable in the South making agriculture a profitable venture. The government is to work out tenurial arrangements by which the land can be transferred to this new group but this could prove difficult.
140. Apart from difficulties of moving public sector workers into agriculture and resettling them into rural areas, there is the question of whether the land made available for distribution (abandoned coffee plantations as in CAR or land not currently in use as in Sao Tome and Principe) is of a quality that will enable profitable farming. If the land distributed to the poor is insufficiently fertile, this measure is unlikely to have lasting beneficial effects. The existence of complementary infrastructure will also be essential if profitable use is to be made of the land. Besides, the distribution of land to "outsiders" could meet with resistance from existing vested interests. Target groups may find it increasingly difficult to acquire and retain the newly distributed lands.
Main Features and Status of Multi-sector Compensatory Programs

Bolivia: Emergency Social Fund (ESF).

141. Status: The ESF was established by the Government in December 1986; projects were solicited from January and approved from March 1987. Two ESF projects, with financing from IDA and other donors were approved by the World Bank Board of Directors in June 1987 and March 1988. Retroactive IDA financing dates to May 15, 1987 and disbursements are expected to continue through December 1989. Project termination is scheduled for December 1989 but the Government wants to extend it by one year or more and is considering transforming it into a permanent fund.

142. Donors: A consortium of donors fund the ESF with the World Bank controlling close to half of the total US$150 million of project funds: IDA funds (US$37m ESF I & II), as well as Swiss (US$22m), Dutch (US$6m), and Swedish (US$4m) are managed in a central pot by the World Bank. Other donor funds are earmarked for specific subprojects including those of Canada, Germany, Inter-American Development Bank, OPEC Fund, the UK and the US. However, uniform appraisal guidelines apply to all subprojects.

143. Target Groups: The ESF aimed originally to assist the direct victims of adjustment, mainly displaced tin miners. In practice, most tin miners had the skills to find new employment on their own. Many beneficiaries have in fact been either the more desperate, chronic poor or artisans, construction workers and small entrepreneurs (self-employed or with one or two employees).

144. Project Mix: Subproject targets were to generate temporary small-scale employment schemes in social and economic infrastructure (school and health post construction and repair, street-paving, water supply and sewerage, low-cost housing, civil works, etc. -- about 80 percent of funding); expand health and welfare programs (vocational training, food programs, vaccination campaigns, etc. -- 10 percent); and support production (working capital credit, support to cooperatives and small manufacturers -- 10 percent). Social assistance projects lagged (around 3 percent) during the first implementation year but reached the target (around 10 percent) in the second year. Subproject composition now roughly matches the above targets. A sample of projects observed by Bank staff includes soup kitchens, school feeding, immunization, rural primary health care, agricultural extension, baking and hair-cutting training, gynecological cancer detection, traditional handicraft training, day care centers, housing, schools, upgrading a jail, roads, and sewerage and drainage canal rehabilitation and construction.

145. Administration: ESF was designed to operate rapidly, efficiently and transparently in a country renowned for sluggish administration, inefficiency and leakages. Its administration has scored high marks on all of these: Bolivians and outsider evaluators are amazed that there has been no major fraud. To bypass the bureaucratic inertia and corruption of line-ministries, the Executive Director reports directly to the President. The founding Execu-
tive Director, who remained in office for under two years, played a crucial leadership role through his efficiency, dedication and political clout -- he had the ear of the President. He attracted high caliber staff by offering superior pay (three times that of civil servants) and working conditions -- well-educated, enthusiastic, hard-working, honest, young graduates (most of whom studied abroad). Staffing has been kept small for efficiency with about 90 staff throughout the country (including support staff such as drivers and secretaries). Only 2.5-3.0 percent of program funds have been used for administration. ESF management has been praised for speedy project processing and for maintaining a transparent management information system.

146. The ESF also circumvents the normally byzantine and corrupt Bolivian project bidding process. Subproject sponsors directly select contractors. Extremely low, and hence "competitive", unit cost standards are set by the ESF which restrict contractors' expenditures. Low unit costs, including wages, are accepted only for lack of better opportunities.

147. Implementation: ESF does not execute projects but acts as a financial intermediary similar to a development finance corporation or a credit institution. All subproject funding is on a grant basis. Any government or non-government entity may apply for subproject funding. Over a third of projects are sponsored by NGOs\textsuperscript{44} and churches. In order to diminish reluctance of NGOs to work with the Government, ESF pledged not to interfere in NGO operations. According to project management, NGO involvement has been responsible for the successful execution of numerous subprojects. The remaining projects are sponsored by central, regional and local governments. Local private contractors typically implement subprojects. This creates important local incentives. The ESF emphasizes rapidly-disbursing, short-term interventions and therefore tries to minimize subproject implementation delays. Initial delays are being reduced considerably by enforcing a cancellation policy for subprojects more than about 100 days behind schedule.

148. Supervision and Monitoring: As of September 1988, over 1,000 subprojects had been approved, over 850 were being implemented and about 230 were completed. ESF claims to have employed over 36,000 Bolivians (595,000 man-months of work) but these data are questionable as they include repetitive, short-term employment for the same beneficiaries.

149. To determine the impact and replicability of the ESF, its implementation record is being studied heavily. There have been numerous Bank supervision missions. The Bank's Living Standards Measurement Survey conducted two surveys (by modifying an existing labor force survey) and is drafting an analytical report. Through the Beneficiary Assessment Approach (Salmen 1987), nine social scientists lived in project areas to conduct field interviews. A report is being prepared.

150. Preliminary judgements are that ESF management is clean and efficient but project quality is not consistently good. Overall, the implementation record is judged to be mediocre to very good. Where applicable, rates of

\textsuperscript{44} For example FENASONGS, the national umbrella organization for health NGOs, for the design and execution of health projects, and Save the Children for several school and hospital projects.
return average 12 percent. Some projects include a supervision fee but
emphasis has been on quantity indicators rather than quality. For example,
health clinics record the number of services delivered and schools track
attendance. Some quality supervision exists such as anthropometric measuring
of children at child feeding and primary health care projects, but more
systematic quality supervision is needed.

151. Sustainability: Politically, a major success of the ESF is that it
is making the adjustment program more sustainable. Throughout Bolivia, it has
enjoyed favorable publicity including nightly television spots featuring
successful subprojects. There is talk of extending its three-year mandate
because the growth objective of adjustment has not yet been attained and
because the ESF represents hope for many people. One option under considera-
tion would be to institutionalize a more permanent externally financed social
investment fund, possibly in the Ministry of Planning. ESF would thereby be
transformed from an emergency to a development program. In that event, would
prolonging the special ESF conditions such as higher salaries, and direct
reporting to the President be accepted or cause resentment?

Ghana: Program of Actions to Mitigate the Social Costs of Adjustment

152. Status: The Government designed the Program of Actions to Mitigate
the Social Costs of Adjustment (PAMSCAD) in late 1987 following an inter-
agency mission led by the Bank which included IFAD, ILO, UNDP, WHO, UNICEF and
WFP. It was to have a two-year life. Implementation was expected to begin in
the summer of 1988, but projects under PAMSCAD began only in November 1988.

153. Target Groups: PAMSCAD was designed to assist both the direct victims
of adjustment and the structural poor. Explicit target groups are poor far-
mers, low-income urban unemployed and underemployed and retrenched workers
from the public and private sectors.

154. Project Mix: PAMSCAD is a package of 23 anti-poverty interventions.
It consists largely of short-term community-initiated projects which generate
employment (public works for slum and shanty rehabilitation and repair of
urban infrastructure, food-for-work programs, credit for small farmers and
enterprises and training schemes) and improve basic needs (low-cost water and
sanitation, health, essential drugs, nutrition and shelter programs). Indige-
nous NGOs are supposed to play a major implementation role. A Technical
Assistance Credit supporting the Ghana SAL financed the collection of house-
hold data under the Living Standards Measurement Study and follow-up surveys
will continue through the Social Dimensions of Adjustment Project.

155. Implementation Problems: PAMSCAD has faced institutional and donor
bottlenecks. (1) Institutional: Weak institutional capacity has hindered
coordination of small, geographically diverse interventions. A significant
proportion of projects were to be community designed and implemented based on
Ghana's long tradition of community-led development. However, central
ministries must approve and disburse funds for these projects and sectoral
ministries are to act as intermediaries. Ironically, because frictions were
anticipated among ministries and agencies, a special institutional
strengthening subproject was designed but like the rest of the program, this
has yet to be implemented. In contrast to Bolivia, other institutional prob-
lems are that the project's manager lacks political clout and suffers a severe shortage of technical staff. (2) Donors: Unlike the ESF, there is no pooled funding at PAMSCAD. Donors have earmarked specific projects and even portions of projects. As a result, funding for some projects is oversubscribed and for others is completely lacking. Despite large commitments, disbursements have been stalled. IDA will fund one of the 23 interventions, an employment generation scheme. Infrastructure works under this scheme have begun operation.

156. After initial delays, momentum for PAMSCAD is now building up. It is an interesting, complex initiative which at this stage has neither succeeded nor failed.


157. Status: Negotiated with the Government in October 1988. Approved by the Board in November 1988. The Project became effective on March 15, 1989 and some components have already become operational. However, there have been implementational delays due to insufficiently thought out institutional arrangements or inadequate budgetary allocations for some components. These are now receiving attention. An improvement in overall project management was already evident in June 1989.

158. Donors: EMSAP will be cofinanced by several donors, with IDA the largest contributor (54 percent). The Government will finance 10 percent. Other donors are Switzerland (12 percent), the African Development Fund (10 percent), UNDP (10 percent), WHO, UNICEF, France and Italy. Funds will be coordinated by the Government.

159. Target Groups: Priority target groups are, first, the chronic poor and, second, the direct victims of adjustment.

160. Project Mix: Madagascar's EMSAP is a hybrid combining traditional investment projects and compensatory elements. Longer-term traditional projects include food security and family planning. Emergency projects include malaria control and treatment, redeployment of laid off workers and income-generation and employment opportunities. NGOs have been reluctant to work with the Government, but have agreed to implement the family planning projects. Technical assistance will be provided to strengthen those NGOs and Government agencies involved in subproject implementation.

161. Organization: EMSAP is attempting to avoid some of the implementation problems encountered by PAMSCAD. Given the central government's limited institutional capacity, its role is restricted to loose project coordination, evaluation and periodic reviews. Sector ministries and agencies will approve, implement and supervise components. Long-term monitoring will be undertaken by a permanent household survey under the Social Dimensions of Adjustment Project. Results of the first survey are scheduled by the end of 1989 with semi-annual surveys thereafter.

* * * * * * *
162. There are several hybrid programs in Africa in early preparatory stages which include compensatory elements although they mainly emphasize longer-term development components. They are an innovative part of the expanding Social Dimensions of Adjustment (SDA) Project called Priority Action Programs (PAPs). Some PAPs are managed by the SDA unit and others by various country divisions. All PAPs include long-term monitoring by the SDA permanent household survey. Three are presented below (information is sketchy at this time).

**Guinea-Bissau: Social and Infrastructure Relief Project (SIRP).**

163. Status: Staff Appraisal Report completed on 19 April, 1989. Approved by the Board on 18 May, 1989. A two or three year life is envisaged.

164. Donors: IDA will contribute US$8 million; other donors will contribute US$8 million and Government costsharing will amount to US$1 million.

165. Target Groups: Beneficiaries will include low income, unemployed and underemployed urban and rural workers, including laid off public sector employees.

166. Project Mix: SIRP will emphasize short-term infrastructure/employment generation and education and health projects.

167. Organization: An NGO Fund will be established to finance specific subprojects prepared and executed by NGOs. Because of recognized institutional weaknesses, technical assistance will be provided to strengthen the capacity of agencies to design and implement social policies and to identify, appraise and monitor poverty projects. To circumvent normal bureaucracy, two quasi-independent units will be established: a Project Implementation Unit to be located provisionally under the Central Bank and a Managing Unit under the Ministry of Social Equipment. Sectoral ministries are proposing projects already through a Project Preparation Committee.

**Chad: Social Development Action Program (SDAP).**


169. Project Mix: Three main types of subprojects are envisaged: (1) small to medium size enterprises with low-interest credit available to generate employment; (2) a network of preventive health centers; and (3) infrastructure work for drainage and sewerage. A two-year timeframe is planned with numerous quick-disbursing subprojects to be implemented mostly by NGOs.

**Guinea: Socio-Economic Development Support Project (SDSP).**


171. Project Mix: SDSP will contain a quick-disbursing compensatory component, called the Special Intervention Fund (SIF). SIF will finance
small-scale employment, income-generating and social assistance projects (details to be determined) targeted to both the direct victims of adjustment and the chronic poor.

172. **Implementation**: NGOs, line ministries, public and private institutions will identify, prepare and submit projects for appraisal and funding. An Evaluation Manual is being developed to ensure consistent, rigorous criteria are used in project selection. SIF will be located within the Ministry of Planning and International Cooperation. SDSP will establish a Social Policy Planning Unit to coordinate a comprehensive social policy during adjustment. Some longer-term investment projects will be identified.

**Uganda: Program for Alleviating Poverty and the Social Costs of Adjustment (PAPSCA)**

**Status**: Tentative date for Staff Appraisal Report (Yellow Cover): September, 1989.

**Donors**: IDA and other major donors are likely to fund the program. Very preliminary cost estimates have been worked out. It is intended to reduce the overall cost of the program to a target of US $100 million which is slightly beyond the upper limit of anticipated donor commitments.

**Project Mix**: PAPSCA will comprise a package of projects in areas such as rural infrastructure, health, primary education, credit, skills-training and community initiative strengthening. Care will be taken to make sure that PAPSCA projects are complementary. For example, since there is an ongoing health project as well as other donor activity, the health component in PAPSCA will seek to strengthen management and supervision capabilities of the Ministry of Health. PAPSCA will include some projects specially designed for those adversely affected by the government's Economic Reconstruction Program.

**Implementation**: A secretariat has been set up under the Ministry of Planning with representatives from key social sector ministries, including health, education, infrastructure and local government. It is not intended that this secretariat evolve into a separate unit but that the kinds of concerns and projects it comes up with become subsumed in the usual planning process. It is proposed to support NGOs where appropriate.

**Sudan: Program to Alleviate Social Costs of Adjustment and Poverty (PASCAP)**

**Status**: Appraisal completed in April, 1988. Commencement of the program has been delayed due to the delay in finalizing the adjustment program that PASCAP is to complement.

**Donors**: It is likely that a part of the adjustment credit will be earmarked for the program. The estimated cost of the core projects is US $16.8 million with a foreign exchange component of $11.9 million.

**Project Mix**: Core PASCAP projects will include urban area upgrading, communal public works for displaced persons, maternal and child health, essential drugs supply and an education project. Support to the regional SDA project is also proposed. An Urban Development Study is also proposed as one
of the core projects. The study will examine employment generation activities particularly in the informal sector, supply and delivery of urban services, urban management and municipal finances and land holding, land use and zoning regulations. In addition to the core projects, four other project proposals are in the advanced stages of preparation for possible inclusion in the PASCAP depending on the availability of resources. These include a credit scheme, an immunization project, rural water supply rehabilitation and support to some NGO activities.

Implementation: The Commissioner of Khartoum/Commissionerate of Engineering Affairs (CEA) will be responsible for implementation of a number of projects. A Project Management Office (PMO) will be created to strengthen the implementing capacity of CEA. The PMO will be managed by a local consulting firm, commissioned on a project Management contract, and will ensure that the projects are implemented within the objectives of schedule, quality and cost. The health projects will be implemented by the Ministry of Health. For the education projects responsibility will lie with the Education Ministry. NGO involvement is proposed in many of the projects.

Distinctive Features: A number of factors are noteworthy about the PASCAP: (i) The program was designed to accompany, rather than follow, the adjustment program; (ii) A quick household expenditure survey preceded the preparation of the PASCAP; and (iii) The program was put together in a remarkably short period.
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