Adjustment Programs and Social Welfare

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Elaine Zuckerman
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Elaine Zuckerman

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This paper describes how concern for the social impact of adjustment evolved; which income groups are most affected; how data to monitor the social effects of adjustment can best be obtained; which policy reforms have the most pernicious social impact; and what measures can be taken to mitigate them.

The poverty costs of adjustment are not simply a short-term problem. Adjustment is taking longer and proving far more arduous than originally expected. Ideally, adjustment should spur long-term growth and an improved standard of living for the poor. However, even with growth, the poor would benefit only to the limited extent that trickle down occurs. Adjustment programs therefore need to be designed to increase the productivity of the poor so they will contribute to growth.

Adjustment programs also must be designed to protect the poor's living standards from the negative impact of austerity policies such as cutbacks in public social expenditures and in public and private sector employment. Three broad groups of poor are identified for protection: first, the "new" poor -- the direct victims of adjustment such as retrenched employees; second, the "borderline" or vulnerable poor on the brink of poverty, who are pushed over to it by austerity policies; and third, the "extreme" or structural poor. Targeted public interventions are necessary to compensate the new poor and to cushion the vulnerable and structural poor. Constrained public expenditures should be redirected from the better off to the poorer. Cost recovery and private social services are options for those who can afford to pay. Taxation systems need to be made more progressive. Social bureaucracies need to be made more efficient. Short-term compensatory programs, especially for the new poor, are already becoming a popular complement of adjustment programs but much more needs to be done, particularly for the extreme poor.

In the long-term, the extreme poor must become involved in the growth process through the redistribution of assets like land, creation of assets through credit, employment generation, human resource development and community participation in development programs. These measures would contribute to adjustment's principal objective of realizing long-term growth and obviate the need for unaffordable public transfers. Involvement of the poor in the growth process would also make adjustment more sustainable.

Such policies to mitigate the social costs of adjustment are feasible without diluting the main objectives of adjustment. On the contrary, without them, the sustainability of adjustment programs may be jeopardized. There is thus no case for excluding measures to offset the impact on the poor in World Bank-supported adjustment programs.
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ADJUSTMENT PROGRAMS AND SOCIAL WELFARE

I. INTRODUCTION

Not enough is known about the impact of adjustment programs on social welfare. While it is difficult to isolate adjustment as the sole cause of deteriorating social welfare,\textsuperscript{1} what little evidence exists seems to indicate that adjustment makes some of the poor poorer but that the failure to adjust makes them even poorer. Policies to mitigate the social costs of adjustment, while rare in practice, are feasible without seriously diluting the objectives of adjustment. Adjustment programs must furthermore be designed to promote social adjustment and development simultaneously with economic adjustment. This entails bringing the poor into the growth process. Without such measures the sustainability of adjustment programs may be jeopardized. This paper explores the World Bank experience that leads to these conclusions.

The paper is organized as follows: Section II first describes how concern for the impact of adjustment programs on social welfare has developed and how the World Bank has responded. It then distinguishes which groups should be considered in the context of adjustment. Section III reviews data availability and collection approaches and mentions some analytical methodologies that are being applied to evaluate the social welfare impact of adjustment. Household surveys are suggested to be the most promising data source because they yield information disaggregated by income group. Using this methodology, the country experiences are examined of Cote d'Ivoire (which has been adjusting) and Peru (which has not -- a counterfactual case). Section IV explores the social consequences of key adjustment measures and Section V proposes solutions to protect the poor, the constraints to their successful implementation, and the lending instruments available to assist the poor during adjustment. Section VI concludes with summary ideas. Annex 1 contains three basic indicators' time series data for 23 selected developing countries -- per capita caloric intake as a percentage of daily requirement, infant mortality rates and life expectancy. Annex 2 summarizes the adjustment process and its social impact in 13 selected developing countries. Details for most country examples cited in the paper are described in Annex 2.
II. BACKGROUND

Since their introduction in 1979 until recently, World Bank-supported adjustment programs focused narrowly on economic problems with little attention to social consequences. They mainly emphasized short-term restoration of balance of payments equilibrium and financial stability (as have IMF stabilization programs over several decades). Their objectives also included improvements in the incentive system and medium to long-term aggregate growth. However, they have fallen short of expectations in stimulating growth (World Bank 1989). This is because many adjusting countries, burdened by overwhelming debt, have had to implement austerity measures which provide little room for growth (Fischer 1986). By the mid-1980s, it was recognized that adjustment experiences were negatively affecting human welfare. UNICEF's seminal book, Adjustment with a Human Face (Cornia et al 1987), raised the development community's consciousness about the need to cushion the poor from adjustment's fiscal cutbacks. Data to demonstrate that social welfare is deteriorating are scarce but it has become evident that many countries with adjustment programs have reduced public expenditure on social services, cut back public sector staffing and experienced higher unemployment. Real wages have eroded dramatically in many countries and social welfare has suffered. Adjustment programs are today gradually being broadened to emphasize growth and equity concerns. But much more needs to be done.

What is the World Bank Doing?

World Bank staff guidelines since 1987 require (1) Policy Framework Papers for low-income countries to include "a brief description and assessment...of the social impact of the government's intended adjustment program" and (2) Structural Adjustment Lending (SAL) President's Reports to analyze the "short-term impact of the adjustment programs on the urban and rural poor, and measures proposed to alleviate negative effects." In response, an increasing number of these reports estimate the expected impact on the "new poor" -- those impoverished by adjustment programs supposedly in the short-term such as retrenched public sector employees. Many SALs require compensation for the new poor as a condition of SAL disbursement, for example, severance payments for a few months or years and/or retraining. A few recent SAL reports have gone beyond that -- devoting considerable analysis to the social impact on the old and new poor and requiring measures be taken to counter the negative effects on both of them (for example, Chile SAL III). Some countries (for example, Bolivia and Ghana) with donor assistance have initiated programs to alleviate poverty during the adjustment process through complementary compensatory operations. Although there is neither systematic analysis of the likely impact nor incorporation of measures to protect the poor in all adjustment programs, there is an accelerating trend in this direction.

Poverty Groups in Adjustment

Confusion and controversy rage within the development community as evidenced at the Symposium on Poverty and Adjustment held at the World Bank in April 1988 over which poor should be considered during adjustment. Three
broad poverty groups are candidates. Note that females tend to be overrepresented in all of these groups:7

First, the "new poor" who are the direct victims of adjustment, such as retrenched civil servants and laid off public and private enterprise employees who are victims of austerity measures or shifts in production. They include former middle class professionals who were better off prior to the adjustment, and although poorer may not necessarily become poor (some of them may).

Second, the "borderline poor" or "vulnerable" -- low income, vulnerable groups who are affected most severely by changes in the availability and prices of major items of consumption, especially food, and by cutbacks in social programs. Recessions and adjustment hit them severely. The borderline poor tend to include some of the old, infants, landless and poor farmers and lactating and pregnant women.

Third, the extreme or structural poor. A portion of this group is directly affected by adjustment such as those in cities subject to increased food prices, while another portion, usually rural, is little affected because it is too marginalized from production and public expenditure. The extreme poor suffer from malnutrition, illiteracy, disease, short life expectancy and high infant mortality rates. The extreme poor occupy the bottom 10-20% of the population and often reside in rural areas (Lipton 1988). Traditional projects have seldom reached them either because they are too weak and poor to contribute the required energy and assets or because projects did not target them. Since most of the extreme poor in developing countries are potentially productive,8 they should be singled out for special assistance during adjustment programs: by increasing their access to employment and assets, they could contribute to economic growth. Following much debate, a strong consensus emerged among the Symposium on Poverty and Adjustment's developing country administrators that measures to help the poor under adjustment should cover all the poor, not just the "new" or "borderline" poor (World Bank 1988b).
III. DATA APPROACHES AND ANALYTICAL METHODOLOGIES

Data Approaches

Little hard data exists yet to demonstrate that adjustment adversely affects the poor or other socio-economic groups. Still, a literature is emerging pioneered by UNICEF's *Adjustment with a Human Face* (Cornia et al 1987) which compassionately argues that the poor are worse off because of adjustment. These arguments so far are largely based on anecdotal evidence. Data are hard to come by because many adjustment programs are still in early stages and their medium and long-term effects cannot yet be determined. In addition, accurate longitudinal data on welfare distribution are woefully inadequate.

What data can be used to assess the social welfare impact of adjustment? A variety of biological and socioeconomic measures are employed but they must be viewed cautiously: most lack disaggregation and obscure differences among and within income groups by presenting only national per capita averages; data collection methods may be suspect; and even relatively reliable country data may not be comparable among countries. With all these caveats, popular data approaches include:

- **Basic Indicators.** Time-series data covering nutrition, infant and child mortality rates (IMR and CMR), life expectancy, disease, anthropometry, school enrolment and poverty cutoff lines are popularly used to measure poverty. Annex 1 presents cross-country data for per capita caloric intake as a percentage of daily requirement (1970-85) and infant mortality rates and life expectancy (1970-87) data for the 23 countries reviewed for the adjustment lending report (World Bank 1989) and this paper (Boxes A and B and Annex 2.)

**Per Capita Caloric Intake as a Percentage of Daily Requirement** (Annex 1, Table 1): Data are only available through 1985 but interesting trends are observed. Fluctuations from year to year of a few percentage points are normal in all countries. Overall, caloric intake increased everywhere over the entire period except in 5 of the 23 sample countries where significant drops from earlier achievements occurred -- Ghana, Guinea, Peru, Zaire and Zambia. Interestingly, these countries either postponed adjustment indefinitely (Peru), began undertaking it only after protracted delays (Ghana, Guinea) or failed to sustain it (Zaire, Zambia). Note that the slight drop in Kenya's per capita caloric intake from 97% to 95% of daily requirement caused it to slide further below a nutritionally acceptable level. All the other adjustment countries studied achieved nutritionally adequate per capita caloric intake levels except for Bolivia, Guinea-Bissau, Pakistan and Zambia. The first three of these countries improved their intake over the
period but still remain below the acceptable standard. The last, Zambia, which has not sustained an adjustment program, began and ended the period at 92% although it improved to 102% by 1977 but thereafter it descended. Sub-Saharan Africa as a whole fared worse than other regions. Per capita caloric intake indeed appears to reflect both the state of the economy and a government's degree of commitment to sustained macroeconomic adjustment.

Infant Mortality Rates and Life Expectancy (Annex 1, Tables 2 and 3): All countries made steady overall progress as measured by both these important indicators. Recessions and adjustment did not impede progress in reducing average infant mortality rates and increasing life expectancy in all countries (largely thanks to medical advances). Achievement levels differ vastly from country to country: of the 23 countries surveyed, Costa Rica and Jamaica scored best, both with an IMR of 18 in 1987 (down from 60 and 40 respectively in 1970) and life expectancy at 74 years (from 67 in both countries); Malawi's IMR was worst (despite steady progress) at 150 (from 193) and Guinea's and Guinea-Bissau's life expectancy were lowest at 43 and 40 years (from 36 for both). No correlation exists between achievements in these two indicators on the one hand and per capita caloric intake as a percentage of daily requirement on the other: calorically, Malawians made excellent progress with 104Z intake in 1987. Regionally, again Sub-Saharan Africa lags seriously behind in both these indicators.

To conclude, changes in per capita caloric intake correlate with adjustment status but the other two most popular basic health indicators, IMR and life expectancy, made notable achievements in spite of recession and adjustment. This is because nutritional status is more sensitive to economic changes than IMR and life expectancy. It is the most important indicator of social welfare and the most responsive to recession and adjustment (Carlson 1988). Nevertheless, recall that all these basic indicators are national averages which mask inequalities among and within income groups just as do per capita GDP data.
Public sector expenditures on health, education, housing, water supply and other amenities are considered by some to demonstrate a country's commitment to improving basic needs. However, these expenditures are more often than not regressive (spent on sophisticated urban hospitals, higher education etc.). Therefore, social sector expenditures need to be disaggregated by beneficiary groups. Only a handful of World Bank Public Expenditure/Investment Reviews, which often precede or accompany adjustment operations, have examined income distribution effects, including a 1985 report for Ecuador, although most have examined social sector expenditures. In 1988, dedicated public social expenditure reviews were prepared for Argentina, Brazil, Jamaica and the Philippines. These new variations on public expenditure reviews more systematically address equity issues. They confirm (with the exception of Jamaica which has relatively equitable spending) that expenditures are grossly mistargeted to higher-income and urban groups and that social sector bureaucracies have excessively high administrative costs. Public social expenditures in these countries in 1985-87 ranged from 18% of GNP in Brazil to 13% in Jamaica to only 3.6% in Argentina and the Philippines. Public social expenditure reviews will be prepared for more countries in future. They are proving to be a valuable source of information on income distribution which provide the rationale for countries with budgetary constraints to redirect spending toward the poor. What is more, they have demonstrated that social bureaucracies are extremely inefficient and wasteful. Each of the countries with FY88 social expenditure reviews will follow up with World Bank project and policy reform loans to achieve greater equity and efficiency of social expenditures.

Household surveys provide the most promising approach as they disaggregate data to the household level and so can differentiate among income groups. It must be cautioned, however, that past household surveys have not adequately captured intrahousehold consumption patterns (Glewwe & van der Gaag 1988). There is evidence (Dwyer & Bruce 1988) that in many countries, women and children, especially girls, are fed less nourishing food than men, that girls receive less education than boys, and that women tend to have less access than men to health care and to productive assets within the same household. Such inequitable distribution within the household is not captured by the traditional nondisaggregated household model (Gillespie 1988). Given intra-household inequalities, individuals rather than households should be the recipients of economic outlays (Dwyer & Bruce 1988). Some household surveys are being refined to account for gender and other intrahousehold consumption differences. Since it is unlikely that nutritional status within the family could be captured directly, anthropometry serves as a proxy.
Fairly comprehensive household surveys like the World Bank’s Living Standards Measurement Study (LSMS) combine consumption, income, anthropometric, basic needs and other data. They furnish basic social indicators on consumption (non-food, food, home-produced, purchased, prices), employment (self or wage), income, assets, transport, education (attainment, enrolment), health (status, use of medical care), nutrition, water supply access, fertility, migration, etc. Much of the expenditure data are disaggregated to the individual level as are anthropometric data. Ideally, the longitudinal data of these surveys could be analyzed before, during and after adjustment in order to monitor the impact on income groups. This is already being attempted for Cote d’Ivoire (Kanbur 1988a and Glewwe & de Tray 1987) and hypothetically (in that little adjustment has occurred) for Peru (Glewwe 1988), based on the LSMS data available for these countries and summarized in Boxes A and B. Data from other household surveys used to estimate the impact of adjustment on poverty include a recent book on South Asia (Srinivasan & Bardhan 1988) and a study on the Philippines (Blejer & Guerrero 1988). LSMS data are becoming available for Ghana, Mauritania, Jamaica and Bolivia. LSMS surveys are also being launched in other countries.

In a few years, the Social Dimensions of Adjustment (SDA) Project in Sub-Saharan Africa (Annex 2) will start yielding LSMS-type data for some 25 participating countries. SDA is designing its questionnaires to account for intrahousehold gender differences.

**Analytical Methodologies**

Mapping the impact of adjustment programs on social welfare is difficult. Some feel that reliable analytical methodologies to do so have yet to be formulated. Kanbur (Box A) has attempted to quantify the impact of adjustment on income groups based on household survey results. A variety of other methodologies employ household and other available data. This paper mentions a few types but does not explore them. They include economy-wide models such as (1) computable general equilibrium models which simulate the distributional impact of adjustment (de Melo & Robinson 1982; Narayana, Parikh & Srinivasan 1987) and (2) input-output models like Social Accounting Matrices (SAMs) (Pyatt & Round 1985) which claim not only to organize data but to analyze social welfare distribution. Partial analysis is a useful complement to economy-wide models to evaluate specific target groups, regions and sectors. Although much sectoral analysis has been undertaken, evaluation of the available experience with targeted programs, asset distribution, rural public works and other schemes is needed for many countries. All of the above methodologies can be used complementarily to contribute to our understanding. Furthermore, political economy judgements are essential for all countries.
Box A: Cote d'Ivoire: A "Factual" Case (a summary of Kanbur 1988a)

A prerequisite to analyzing the impact of adjustment on the poor in any country is to understand its poverty groups. Kanbur therefore uses the Cote d'Ivoire LSMS data to disaggregate households into five occupational types for each of which he constructs a poverty profile. Food croppers are afflicted by the highest incidence of poverty within their ranks (49.5%), next are export croppers -- defined as households which devote at least half their area to major export crops (36.4%), next are those employed in the informal sector (19.3%), followed by those in the formal sector (6.1%) and finally those in the Government sector (3%). Conversely, Government employees had the highest per capita expenditures and food croppers the lowest. Kanbur also establishes (1) a poverty line, below which fall about 30% of Ivoirians based on per capita household income and (2) a "hard core" poverty line, which cuts off the poorest 10% of the population. He disaggregates his poverty groups into five regions -- Abidjan, other urban areas, West Forest, East Forest and the Savannah. He distributes the sample households by ratio of agricultural to non-agricultural income, by area cropped, by types of crop and crosses these with the above socio-economic groupings. He classifies these categories by household head status. The incidence of poverty in the Savannah is over 60%, whereas in Abidjan it is only around 5%. Per capita income and expenditure data support this. As for "hard core" poor, 26% of Savannahians and no Abidjanians ranked in this group. Over 80% of the Savannah population are food croppers. Kanbur also examines some key basic needs aspects of poverty (using data from Glewwe 1987a) -- education, health and housing disaggregated by region and socio-economic groups. The poorest groups above are worse off again in basic needs. For example, literacy and school attendance rates were lowest in the Savannah region (11%) and highest in Abidjan (62%); the percentage of ill individuals who consulted health personnel is significantly lower for the poor than for the non-poor; and although most poor own their housing, its quality and amenities are inferior -- they have less access to toilets, piped water, electricity, etc.

Kanbur next examines the three Cote d'Ivoire SALs of 1981, 1983 and 1986 to analyze the effects on poverty of macroeconomic adjustments during the 1980s. None of these SALs explicitly considered income distribution consequences in any detail. Only one major social sector policy reform was promoted, to eliminate urban housing subsidies which went primarily to the better off. Some implications of the adjustment reforms are:

(a) Many government sector employees were retrenched and lost their income.
(b) Increased prices for tradeables benefitted export croppers and formal private sector employees engaged in processing and manufacturing for export.

(c) Food croppers, informal and Government sector workers were adversely affected because they were involved in non-tradeable activities. To the extent that demand for food increased by the gainers of adjustment food croppers earned extra income; but this may have been offset by the reduced expenditures of losers.

(d) Producer prices for rice were cut in SAL I but SAL III recommended raising the domestic price to international levels. What would be the impact on the poor? It would be positive on rice farmers who are poorer than average but would not much affect other poverty groups as little rice is consumed by the poor.

Based on income distribution patterns, Kanbur analyzes poverty trends from 1980-85. Real per capita income fell 2.6% per annum. This dramatic decline understates the corresponding increases in poverty which Kanbur finds rose at 4.8% per annum and in hard core poverty which rose at 7.9% per annum. He also examines sectoral output shifts to show that tradeables gained, particularly in processing, while services, construction and utilities sectors declined in value added. He concludes that food crop farmers, already the poorest group, were hit hardest by the relative drop in the price of domestic goods while export crop farmers, poorer than average, did best although their incomes also declined. The incidence of absolute poverty increased from 42% to 50% among food croppers and their "hard core" poverty incidence increased from 13% to 20% over this period. Kanbur thus quantified the poverty costs of the macroeconomic policies of the 1980s in Cote d'Ivoire.

From the foregoing analysis Kanbur recommends that (1) compensatory protection for food croppers be provided during the adjustment of prices in favor of traded goods; (2) proposals to cut export producer prices in order to augment Government revenue be reconsidered as this group is still very poor; (3) housing subsidies be removed as proposed in the SALs, since they do not benefit the poor anyway -- the Government should target housing and other amenities to the poor; and (4) health and education expenditures also should be targeted to the poor.
At the World Bank's Symposium on Poverty and Adjustment in April 1988, K. Amissah-Arthur, the Ghanaian Undersecretary for Finance and Economic Planning, remarked that "adjustment is necessary to mitigate the cost of not adjusting". He concluded that adjustment, with all its welfare and other costs, is inevitable sooner or later for all countries, and if later, the costs escalate substantially.

What are the social costs in a country which delays adjusting? This will be called the counterfactual case. With the evidence from adjustment hardly available yet, perhaps it is too early to consider such a counterfactual. Nevertheless, we examine one counterfactual case here -- Peru. Peru is selected, first, because it persists in delaying adjustment despite experiencing problems similar to those of many countries undertaking adjustment programs and, second, because the Peru Living Standards Survey (part of the World Bank's Living Standards Measurement Survey) has already yielded data.

Peru's recent macroeconomic situation shows worsening fiscal and external imbalances. Yet its macroeconomic policies have been characterized inter alia by selective price controls, overvalued and multiple exchange rates, manufactured import restrictions, agricultural subsidies, subsidized credit, negative real interest rates, a unilateral limitation of debt service payments, fiscal stimulation of consumption, and extended state economic intervention.

Problematic sectoral policies in Peru are not dissimilar to those of countries with adjustment programs; Peru, however, is doing less to push the economy back on track. Selected sectoral policies with social welfare consequences in Peru include: disincentives to producing tradeables, particularly the country's key exports -- mining and petroleum products which still accounted for 64% of exports in 1984; ill-selected public investments such as massive irrigation projects with low returns which resulted in a 16% decline in agricultural GDP per capita from 1970-84; underinvestment in education, an inefficient education bureaucracy and poor quality education services which contributed to rising dropout and repeat ratios particularly at the primary level and in rural areas; and until recently, mainly urban curative hospital-based health expenditures -- in 1982, 47% of all deaths afflicted children aged 0-5 and in 1984,
only 5% of the recurrent budget was spent on primary health activities. The Government in office since 1985 is attempting to reorient expenditures to primary care.

Can we assess how the poor have fared without adjustment in Peru? First, we must identify the Peruvian poor (Glewwe 1987b). They reside primarily in rural areas: while 44% of all Peruvians live in rural areas, 70% of the poorest 30% and 83% of the poorest 10% of the population are found there. Land reform in the 1970s eliminated most large scale private agriculture but did not improve the lot of most of the rural population. Most farmers as well as urban poor are worse off today than in the 1960s (Webb 1987). This is true in most Latin American countries due to the 1980s depression (World Bank 1986) regardless of whether adjustment was undertaken or not, but extreme poverty and inequality are particularly widespread in Peru today and historically. Of 12 countries examined in Latin America, Asia and Africa during the 1960s and 1970s, Glewwe demonstrates that Peru had the highest Gini coefficient reflecting the most unequal per capita income distribution. Although it is difficult to determine a causal effect on poverty in Peru from the absence of adjusting, its deteriorating nutritional record may well reflect such a relationship.

Glewwe's approach (Glewwe 1988) is to hypothesize about how the poor would fare if (some say "when" as adjustment is inevitable) adjustment policies were to be implemented. He estimates that typical adjustment measures and their effects would include: a currency devaluation which would raise producer prices for exports such as coffee that is grown by poor farmers and raise the price of imported foodstuffs such as rice; reductions in social service expenditures which would hit the poor's education and health care; increased charges for utilities such as electricity and water services which would be regressive -- although the poor (mainly the urban poor would be affected) have less access to these utilities than the rich, they in fact spend a much larger proportion of their total budget on them. The same applies to public transportation and petroleum products (mainly the urban poor would be hit). Even if Peru were to undertake adjustment, many of the poor would suffer from expenditure cutbacks. Glewwe therefore recommends targeted programs to protect the poor.
IV. ADJUSTMENT MEASURES AFFECTING SOCIAL WELFARE

Some common features of adjustment programs particularly affect the distribution of social welfare, positively for some, negatively for others. What are these features and their distributional consequences?

- **Currency devaluation and export promotion measures**: These increase the price of tradeable goods, generally benefitting exporters, including farmers, processors and manufacturers producing for export. As the price of non-tradeable goods falls in relative terms, farmers growing non-exported crops and others engaged in non-tradeable activities such as construction, utilities, services and informal sector activities are hurt. Consumers (including many of the poor) are hit with higher prices for food and other goods.

- **Liberalization of prices and lifting of subsidies**: The impact on the poor is severe if general food, public transportation, energy, water supply or any other subsidies on goods they consume disappear. Likewise, removal of subsidies on farmers' inputs such as fertilizer may hit the rural poor. Removal of other subsidies, such as on gasoline or middle class housing will affect the non-poor more and the poor less. However, the poor, if they do consume such "luxury" items as gasoline or electricity, may spend a larger portion of their budget on them. To the extent that poor farmers are engaged in the production of tradeables, not merely in subsistence agriculture, they would benefit from increased producer prices.

- **Reduction of public sector staffing either through cutbacks or liquidation of enterprises**: Civil servants and public enterprise employees find themselves out of work and income. These groups tend not to be destitute and may well earn income from other sources. An increasing number of adjustment loans include compensation for them such as (1) full or partial salary for a fixed term, usually six months to two years; (2) retraining programs; (3) job creation schemes such as emergency work and food-for-work; and occasionally (4) resettlement incentives to relocate to rural areas (for example, this is being tried in Guinea-Bissau and Mauritania -- a difficult transition for most urbanites). To assess the impact of adjustment on laid-off employees who locate new jobs (for example, in the informal sector), their new net income would have to be compared with their old.

- **Cuts in public sector salaries**: Although not as drastic as job loss, salary cuts result in a standard of living cutback.
Cuts in and/or increased cost recovery for public social sector expenditures: All income groups may be hit, but particularly poorer beneficiaries who lack savings to pay for their own health, education, etc. Expenditure cuts particularly constrain operation and maintenance budgets. Since recurrent costs usually constitute the bulk of social sector spending, the poor are suffer most to the extent that they cannot afford alternative services.

Targeted social sector expenditures to protect and assist the poor: This is a rare feature within structural adjustment programs (Chile's SAL III for health and social security) but several sector adjustment lending (SECAL) operations target the poor (education SECALs in Ghana and Morocco and Mexico's Agriculture SECAL are examples). In future, there are likely to be more social sector SECALs and more investment loans associated with SALs which target the poor (Kenya's second rural health and family planning project is an example).
V. SOLUTIONS TO PROTECT THE POOR

Scope for Solutions

Adjustment can further impoverish various income groups, but there is considerable scope for policies and programs which benefit the poor without undermining adjustment. Adjustment programs should be designed to ensure that in the short and medium-term at least the income and standard of living of the poor does not deteriorate further, and in the long-term the poor should be brought into the growth process through asset distribution, employment generation and human resource development.

The following describes in more detail solutions available for different poverty groups, starting with short-term measures. These short-term measures are no substitute for more important and fundamental longer term anti-poverty measures but they must be taken to ease the hardship temporarily. Examples include ensuring the continued output of subsistence crops (rather than single-mindedly promoting export crop production) and protecting any outlays to the poor in social sectors such as primary education and health care, nutrition and slum upgrading. Adjustment programs typically raise agricultural producer prices and reduce food subsidies resulting in high food prices which hurt the urban poor and rural landless. But these groups can be partly protected in a number of different ways. The producer price for certain food crops can be increased more slowly. Carefully targeted food subsidies can replace existing universal or mistargeted subsidies or be introduced where there are none. This entails, of course, a budgetary cost, as well as an efficiency cost resulting from the "underpricing" of the targeted subsidized commodity justified by the social welfare benefits. Furthermore, the budgetary problem may not be necessarily insuperable. There might be scope for raising taxes as a means to pay for popular poverty programs. The Tunisian government, for example, tried in early 1984 to reduce its expenditure on universal food subsidies by more than doubling the price of wheat products. This increase would have reduced the real incomes of the poor and other income groups. Protests over the increase started in one of the poorest regions of the country and quickly spread. In response the government decided to introduce the price increase gradually, partly by halving the size of subsidized bread loaves, and to recoup the budgetary outlay through additional excise taxes. Options to target food subsidies specifically to the poor are being considered.

For the "new" and old poor, short-term solutions include transitory, compensatory measures such as emergency public works or food-for-work programs which provide temporary employment. Severance pay for retrenched workers is becoming a common feature of adjustment programs. Targeted food programs such as stamps or rations to guarantee a minimal nutritional level are also recommended. These countervailing programs are designed to ensure that the basic needs of the new poor are maintained. Multi-sectoral, quick-disbursing compensatory programs are becoming popular (these are discussed in detail in Zuckerman 1988): Bolivia's experiment with the Emergency Social Fund, Ghana's proposed Programme of Actions to Mitigate the Social Costs of Adjustment,
Madagascar's proposed Economic Management and Social Action Project and components of Guinea-Bissau's proposed Social and Infrastructure Relief Project, Chad's proposed Social Development Action Program and Guinea's proposed Social Development Support Project suggest that labor-intensive, NGO and community-executed public works projects to rehabilitate or create social infrastructure may constitute an appropriate type of intervention, but they need testing over time. These compensatory programs are of temporary duration (for example Bolivia's is to have a three-year and Ghana's a two-year life) on the assumption that the beneficiaries will be reabsorbed into sectors such as tradeables and private enterprise spurred into growth by adjustment. Similarly, on Negros Island, the Philippines, compensatory, provisional food-for-work and nutrition schemes were designed for laid-off sugar workers. However, the protracted adjustment experience underlines the lesson that temporary compensatory solutions are insufficient to protect and assist the vulnerable and extreme poor.

For the borderline and extreme poor groups, it is recognized that more public social expenditures are required in the short and long runs. Even when budgetary constraint requires overall social expenditure cutbacks, those for the vulnerable and poor must be protected through better targeting. For example, in Korea, subsidized health programs aimed at the poor were expanded during the adjustment period, and other poverty programs maintained. Unlike many other countries, even during adjustment, Korea managed to alleviate poverty. Even in countries where social expenditures constitute a substantial portion of GDP, as in Brazil, they are mostly mistargeted to reach the better-off (e.g. higher education and curative health care) and fail to benefit the poor. In many countries, this mistargeting has exacerbated already highly regressive income distribution patterns.

Despite constrained resources, savings to help the poor during adjustment could be realized in several ways:

First, targeting available resources to the poor provides enormous potential to improve substantially the equity of social expenditures without the need for additional resources. There are two complementary methods to accomplish this, both based on the principle that those who can afford to pay should do so:

(a) Cost Recovery. If at least some of the costs of public social services provided to the better off could be recovered, these resources could fund social services targeted to the poor. Cross-subsidization from higher to lower-income users would protect the poor. Mexico has eliminated global food subsidies in favor of targeted programs for the poor based on nutritionally superior but socially inferior foodstuffs and Morocco is attempting to do the same. Neither country could sustain the cost of global subsidies. Reducing and redirecting public expenditures are, of course, administratively and politically complex and therefore should be undertaken gradually.
(b) **Provision of Private Social Services.** If social services for the better off could be shifted from the public to the private sectors, more public expenditures would become available to target the poor. Jamaica, for example, is privatizing some hospital services while maintaining a public safety net for the needy. Experience shows there are also efficiency gains from increased private services for those who can afford them.

Second, **social service administrative reform.** Most social sector bureaucracies in developing countries are extremely inefficient. If these operations were streamlined and improved, considerable savings could be realized and be applied to the poor. Social security reform is a special need of Latin American countries where unsustainable expensive programs drain resources.

Third, **taxation reform**, a typical adjustment measure, could be designed to assist the poor. Equity objectives are usually neglected but they should be central to taxation reforms. Progressive taxation can be instituted through more effective tax collection and tax code revision (often done to eliminate exemptions). For example, in Haiti and the Philippines, maladministration and poor collection performance result in regressive taxation. Underreporting and evasion is common in numerous countries. With political will, taxes can become redistributive -- for example, China's central government redistributes nationally collected taxes to the poorest regions (although there is inevitable leakage to the rich within those regions).

**Long-term**, the focus must be on bringing the vulnerable and extreme poor into production as contributors to growth. Adjustment programs must be designed from the outset to restructure policies in the productive and social sectors to reach the poor. Since adjustment experiences of most countries have proved to be longer and more arduous than originally imagined, often necessitating follow-up operations to maintain the reform momentum, it is not sufficient to think simply in terms of short-term transitional measures. Experience highlights that local, community participation by poverty groups is a crucial ingredient for success (Lewis 1988). The **human capital** of the poor should continue to be nurtured through targeted provision of education, training programs, clean water supply, health care services, family planning and social security. Their **physical capital** should be developed through credit schemes (such as the Grameen Bank in Bangladesh) and redistribution of assets such as land, livestock and tools in rural areas and jobs in urban areas. By becoming more self-supporting, the need for secondary income transfers to the poor is reduced (Addison & Demery 1988). Only policies that bring the poor into the process of economic growth by increasing their access to productive assets and employment will reduce poverty.

In summary, these solutions show that there is technical scope for governments to promote policies and programs to protect and assist the poor without undermining adjustment. Short and long term measures are both necessary. While short-term compensatory schemes alleviate hardship
temporarily, they are designed only as an addition to adjustment programs. What is needed from the outset is to design adjustment programs which aim to increase the incomes, employment and productivity of the poor.

Institutional Constraints

Strong institutions are required as programs targeted to the poor are easy to maladminister. However, weak institutions plague most developing countries. For example, funds for compensatory programs are not necessarily a constraint as donors are eager to finance them as a way to assist the poor during adjustment, but weak institutions impede implementation. The delayed implementation of the Ghanaian Programme of Actions to Mitigate the Social Costs of Adjustment was attributable mainly to weak institutions. Bolivia's short-term Emergency Social Fund established a separate organization to circumvent its normal byzantine bureaucracy, but this may not be a suitable option for other countries because institutional strengthening and sustainability are urgent considerations.

Identification of those who qualify for targeting requires socio-economic information on all the poor which is difficult to collect and update particularly as the poor population tends to shift. Not all countries have the technical skills for data collection and monitoring. Furthermore, there are always leakages in targeted programs. Targeting a poor geographical area with social services and subsidizing food consumed primarily by the poor and considered to be inferior goods by the rich constitute fairly efficient targets. Too fine targeting should be avoided (Kanbur 1988b).

Political Sustainability

While it is admirable for committed donors and academics to insist on protecting the poor during adjustment, only strong and sustained political commitment on the part of policymakers will effect anti-poverty changes. Key measures to assist poverty groups during adjustment include shifting public social spending away from the rich and middle classes to the poor and improving the efficiency of social expenditures. These are highly controversial measures in all countries as middle classes tend to dominate and the poor have little political clout. These political facts limit the scope and speed of reform.

Political opposition or support over social policies may make or break an adjustment program. For example, removal of general food subsidies during the Zambian attempt at adjustment caused hardship to larger numbers of people than expected. Political support not only eroded as anticipated reforms did not materialize -- a new power elite failed to support the adjustment reforms, but social unrest and riots undermined the program. The attempted removal of food subsidies also erupted in riots in Algeria, Egypt, Morocco, Sri Lanka and Tunisia. In Pakistan during the 1980s, a fairly stable political situation coupled with positive economic growth rates, permitted the successful implementation of adjustment measures. The Chilean junta has
experienced the longest permanency in power of any regime in the country's modern history, which has permitted it both to implement and to reverse adjustment reforms. Chile's long tradition since the 1920s of targeting social programs made retargeting constrained resources to the poor during adjustment politically acceptable.

Popular social programs to protect the poor during adjustment contribute to the sustainability of adjustment programs as the Bolivia experience with the Emergency Social Fund is proving. This is demonstrated by the role of NGOs and other grassroots organizations in the ESF and other recent compensatory schemes. To gain popular support for adjustment programs, some countries have mounted propaganda efforts -- Guinea-Bissau's President and Cabinet make countryside tours to explain the rationale for reforms and "short-term" sacrifices.

**Tradeoffs**

Some adjustment policy measures alleviate poverty for some groups while exacerbating it for others. For example, removing the disincentive of administrative prices on agricultural products benefits those farmers who market their crops. At the same time, the resulting increases in food prices exacerbate the burden on the landless and poor urban dwellers. The interests of net sellers and net purchasers of food are diametrically opposed and there is a tradeoff between producer poverty and consumer poverty groups (Besley & Kanbur 1987). More generally, those engaged in tradeable activities benefit and those in nontradeable activities suffer from adjustment policies which usually emphasize output switching to tradeables. In the ideal long-term, the dislocated would switch jobs and benefit from adjustment.

**Lending Instruments**

Several types of World Bank lending instruments are available to assist the poor during adjustment. Poverty alleviation measures can be incorporated into (1) structural adjustment lending (SAL) operations (Chile SAL III has social sector reform conditions and many SALs include severance pay and retraining of retrenched workers); (2) sectoral adjustment lending (SECAL) operations (Ghana's and Morocco's Education and Mexico's Agricultural Sector Loans); there are several possible "human resource" or "social sector" adjustment loans under consideration for countries such as Brazil, Jamaica, Senegal and Venezuela. Some of these SECALs are "hybrid" loans combining features of investment and adjustment operations; (3) parallel sector investment projects (Bolivia's Emergency Social Fund and Ghana's Programme of Actions to Mitigate the Social Costs of Adjustment which provide quick responses; and (4) complementary technical assistance operations (Argentina's Social Sector Management Technical Assistance Project).
Which options are selected should depend on a country-by-country approach and these options are not exclusive for any country. Some argue that the first option (SALs) is not viable for most countries as it attempts too many reforms within one adjustment operation (they call it the Christmas Tree approach). Chile, because of its long tradition of targeted social programs, could more readily cope with poverty alleviation measures incorporated into adjustment programs. Other countries might be better assisted through pure or hybrid SECALs (option 2) and/or investment loans (option 3). Their advantage is that there are no other competing non-poverty/social sector policy reforms to implement in the same package (as there would be in a SAL). It is doubtful that quick-disbursing SECALs can directly alleviate long-term poverty but they can play a catalytic role by accelerating policy reforms such as expenditure shifts toward the poor and they can mitigate the social costs of adjustment. Whichever option is selected, all SAL policy reforms (for example price and public sector) should be designed in such a way as to protect the poor from bearing the costs (for example, higher food prices and public enterprise liquidation) and to assist the poor to become productive.
VI. CONCLUSIONS

It has become clear that the poverty aspects of adjustment are not simply a short-term problem. Adjustment programs have taken longer and proved far more arduous than originally expected. Ideally, adjustment will eventually spur long-term growth and possibly an improved standard of living for the poor. In the meantime, adjustment programs must be designed to protect and assist the poor. Short-term targeted interventions can ensure that the social welfare of needy groups is maintained at a decent standard. Constrained public social expenditures should be redirected from the better-off to the poor. Better cost recovery and private social services are options for those who can afford to pay. Social bureaucracies should be made more efficient to achieve savings. Compensatory programs are desirable to mitigate the social costs of adjustment but are insufficient to ensure sustained benefits for the poor. Less contractionary policies and progressive taxation reforms are adjustment measures which could help the poor. Longer term developmental programs aimed at reducing poverty are necessary. The poor must have increased access to assets such as land and credit to allow them to become productive. This would reduce poverty and contribute to adjustment's principal objective of realizing long-term growth. It may also make adjustment more sustainable.
NOTES

1. Recession, economic mismanagement, lack of effective social policies and external shocks inter alia are also responsible for deteriorating social welfare.

2. It may be too early to assess the long-term growth impact as adjustment programs are still in their early stages.

3. This new concern even extends to the IMF. It argues that stabilization and adjustment have important "short run" distributional implications, including negative effects on certain vulnerable groups (Heller et al 1988). It recommends that compensatory measures to protect these groups become part of its stabilization packages.

4. The country studies prepared for the adjustment lending report (World Bank 1989) illustrate major wage drops in specific countries.

5. Chile's six decade-long tradition of social welfare interventions is the impetus for its anti-poverty interventions during adjustment.

6. This controversy is reflected in the literature: for example Huang and Nicholas 1987 on the one hand favoring the new poor versus Cornia et al 1987 on the other favoring the old as well as the new poor.

7. Lack of data makes it difficult to illustrate the share of the adjustment burden borne by females. The same applies to other vulnerable groups within the household such as children and the elderly. This paper recommends intrahousehold disaggregation to understand the adjustment's impact on the social welfare of these groups. Appropriate policy responses for individuals, not just income groups, could then be designed.

8. Lipton distinguishes between the poorest 10% of the population in developing countries who are a potential resource and the same decile in developed countries who constitute the underclass -- such as the poor old, ill, handicapped and drug and alcohol addicts who are not potentially productive (Lipton 1988).

9. Lipton uses nutritional status to define the poor. He distinguishes between the "ultra-poor" -- those at significant risk of income-induced caloric undernutrition, and the "poor" -- those at sufficiently low-income to be at risk of hunger but not of undernutrition (Lipton 1988).


11. These reviews generally cover a multitude of sectors, such as agriculture, industry, energy, transport, telecommunications, housing, water, education and health.
12. Including the private sector, Brazil spent 25% of GNP on social expenditures in 1986. Brazil still has strikingly low social welfare indicators (Annex 1 Tables 1 to 3 and Annex 2).

13. Deaton attempted to use the Living Standards Measurement Study results for Cote d’Ivoire to isolate gender differences. He found the allocation of adult goods is heavily biased towards adult males, with women, old men, and particularly old women appearing to have much less access (Deaton 1987).

14. Cote d’Ivoire and Peru were the first two countries surveyed by the Living Standards Measurement Study.

15. Another research proposal to utilize household survey data to analyze the effects of adjustment on income distribution is David Bigman and Paul McNelis’ planned study of Argentinian household survey results.

16. SAMs will be one of the methodologies employed for some of the countries in the Social Dimensions of Adjustment project (Annex 2) to track income distribution changes before, during and after adjustment in Sub-Saharan countries.

17. A recent IMF paper (Heller et al 1988) concluded that the counterfactual case can be elusive and a possibly misleading yardstick for comparison. It prefers a before-after approach for countries which have tried adjusting.

18. Data from the Peru Living Standards Survey became available in the fall of 1986. It is uncertain when the survey will be repeated but the intention is to do so about every three years.

19. Although these factors contribute to macroeconomic imbalances, this paper argues for selectively maintaining those which assist the poor through careful targeting, such as subsidized credit, within the context of overall trimming.

20. This list was compiled by examining country SAL documents (from which the Annex 2 country sketches are derived) and from William Steel’s systematic “Summary of Conditionality in Sample Country Loans” (Steel 1988).

21. Tunisian food subsidies are not targeted specifically to poor groups. Although they benefit all sections of the population including the poor, middle and upper income groups and the urban population benefit most. There is scope for specifically targeting the Tunisian poor if political and administrative constraints are surmounted.

22. Other countries, such as Guatemala, are designing compensatory programs.
23. The limited successful experiences of reducing food subsidies indicate that geographical and commodity targeting, with inevitable leakages, work better than incomes or nutrition-based screening programs. Many attempts to reduce food subsidies have resulted in riots and political instability. These aspects of food subsidy targeting are discussed in detail in Berg 1987 and Pinstrup-Andersen 1988.

24. Bela Balassa, in reviewing this paper, pointed out that there are tradeoffs in instituting progressive taxation: it may have adverse efficiency effects and may lead to the emigration of professional, skilled and technical workers.

25. It may be difficult to identify inferior but nutritionally adequate food consumed by the poor and disdained by the rich in all countries, for example, in the West Africa region. In Morocco, this was possible (Annex 2).

26. The standard of living of the poor will improve with growth only to the extent that there is trickle down. Even so, it is now recognized that growth and trickle down alone are insufficient to eliminate poverty (World Bank 1989).

27. It has been argued that adjustment programs in several countries have not been sustained possibly because of the social costs (World Bank 1989).
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Source: International Economics Department Socio-Economic Data Division, World Bank
ADJUSTMENT PROGRAMS AND SOCIAL WELFARE

COUNTRY EXAMPLES

The following examples summarize the adjustment process and its social impact in 13 countries. Some illustrate negative, some more positive results:

BOLIVIA

From 1979-85 per capita incomes fell by a third. Hyperinflation reached about 25,000% by 1985. Foreign capital inflows collapsed. Six attempts at stabilization were aborted, sometimes by marches and riots. A severe adjustment program, launched in 1985, succeeded in reducing inflation to 10% by 1987 and produced the first small positive economic growth in years despite the collapse in the price of the two leading recorded exports, tin and natural gas. Stabilization was possible only through continued suspension of debt payments and tenacious adherence to the goal to eliminate domestic credit expansion even though it entailed freezing public investment and wages.

Social welfare indicators kept worsening and severe malnutrition became widespread and infant and maternal mortality rates among the poor rose to levels among the highest in the world. Social expenditures were slashed. There were large-scale public (especially mining) and private sector employment cuts.

An innovative, transitory response is the Emergency Social Fund (ESF), established in late 1986 to generate temporary small-scale employment schemes in social and economic infrastructure projects (school and health post construction and repair, street-paving, water supply and sewerage, low-cost housing, civil works, etc.) (about 80% of funding), expand health and welfare programs (vocational training, food programs, vaccination campaigns, etc.) (10%) and support production (working capital credit, support to cooperatives and small manufacturers (10%). As of the end of September 1988, over 1,000 subprojects had been approved, over 850 were being implemented and about 230 were completed. ESF management has been praised for speedy subproject implementation and transparency although quality has been variable. The subprojects must originate with and be executed by the beneficiary community, often with NGO support. This creates important incentives and discipline. According to ESF managers, NGO involvement has been responsible for the careful selection and successful execution of subprojects. A major success of the ESF is that it is making the adjustment program more sustainable. The strengths and weaknesses of the ESF are being studied heavily and are discussed in Zuckerman 1988. The Living Standards Measurement Study is collecting household data and social scientists are in the field using the Beneficiary Assessment Approach (Salmen 1987) to assess ESF's performance.

\[ This \text{ is not reflected in the Annex 1 data tables which do not disaggregate for income groups.} \]
BRAZIL

Brazil was seriously affected by petroleum price increases, the subsequent rise in interest rates, and practical cessation of voluntary commercial bank lending. From 1980-83, the GDP declined a total of 5% but over the following four years, it averaged a 6.3% growth rate. Brazil's balance of payments performance has varied, but has been impressive on average. Inflation, however, has not been controlled (at the end of 1987 the annual rate exceeded 35%).

Brazil's income distribution is exceptionally unequal and social indicators such as infant mortality and school attendance are strikingly poor compared to other countries of similar income levels although social expenditures are extremely high, about 25% of GDP. The low national social indicators do not reflect regional differences and the particularly poor record in the Northeast and in urban slums. Social spending is mistargeted and mismanaged, subsidizing high-income groups and failing to reach the poor (Macedo 1988).

The transition from a military to a civilian government has been taking place simultaneously with economic adjustment and has added to popular expectations. The present Government is committed to long-term development and poverty reduction as well as to stabilization and adjustment objectives. However, reversing the marked economic differences between regions and classes will require strong and sustained political commitment to retarget resources. The present uncertain political climate combined with likely opposition to retargeting by entrenched interests may hinder implementation of anti-poverty objectives.

CHILE

Chile suffered a severe external shock during 1981-83 following increases in oil prices and interest rates and decreases in copper prices. A serious depression resulted. Average per capita consumption dropped to 1960s levels. In response, a rigorous adjustment program was introduced by the Government in 1982 (followed by IMF supporting operations in 1983 and 1985 and successive World Bank SALs in 1985, 1986 and 1987). The poorest suffered further, registering serious declines in their incomes. Open unemployment surged to over 25%. The majority of Chile's poor reside in urban areas as either unemployed or informal sector workers. To assist the unemployed during the adjustment process, the Government targeted to them emergency employment schemes in the formal sector. Despite an aggregate drop in government expenditures, including those on health and education, social expenditures for low-income groups were protected such as nutrition programs for poor children and pregnant and lactating mothers, social security, and low-cost housing. Nevertheless, basic health status was barely maintained and malnutrition slightly increased in 1986. Improvements in the health and other conditions of the extreme poor were postponed for lack of funds. A renewed effort to target the poor has been launched accompanied by privatization of services for

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2/ This is well documented in World Bank reviews of Brazil's social programs.
those who can afford to pay. SAL III includes as conditions for second tranche disbursement measures to expand preventive health care especially for the chronically ill, targeted maternal-child nutrition programs and rehabilitation of medical facilities and machinery. Improvements to the social security system are also conditions for disbursement, including better management and expanded and more equitable coverage. Chile's long history of intervention in the social sectors stretches back to the 1920s (World Bank 1988d). This long experience in targeting the poor provides the institutional basis for the anti-poverty efforts during the recession and adjustment of 1980s.

**COSTA RICA**

In the two decades preceding the oil crisis, Costa Rica enjoyed stability and economic growth. Major social indicators improved significantly. The economy faced a sharp crisis in 1981-82 with decline in GDP growth, rising inflation and external debt. Per capita GNP fell about 18%, unemployment doubled to 10.5%, real wages declined by 40% and payments on foreign debt to commercial lenders were suspended. Investments and imports were almost halved. A new Government in 1982 introduced a stabilization program with IMF support which entailed a sharp devaluation, higher taxes and increased user charges for public utilities. By 1984, internal and external balances were restored; however, by 1985 it became clear that continuing structural and policy problems constrained sustained economic growth. A new adjustment program was launched supported by a World Bank SAL and a second IMF Stand-by. Improved international terms of trade spurred an import boom which dampened GDP growth. A second SAL is under preparation.

Costa Rica has made excellent achievements in providing for basic human needs (for example, average life expectancy was 73 years and 93% of the population had access to potable water in 1984). However, the social sectors absorb about 40% of government expenditures, draining fiscal resources. These costs are not sustainable. During the crisis, the Government instituted measures to protect the poor: it charged lower utility rates to slum dwellers; it established credit lines for the urban informal sector; and it maintained nutrition and preventive health programs in the face of increased food prices. Per capita nutrient intake declined but the population remained basically healthy. Housing however remains inadequate and education expenditures are mistargeted to higher levels.

**GHANA**

A prolonged recession plagued Ghana from the 1960s into the 1980s. Among the factors responsible were economic mismanagement, deteriorating terms of trade, the return from Nigeria of one million emigrant workers and a succession of droughts and brush fires. Earlier improvements in living standards were set back significantly. By 1982, real per capita income was 30% lower than in 1970. Food availability declined resulting in serious malnutrition, and health and education deteriorated especially for low-income groups. For several years, adjustment was postponed. The Economic Recovery Program (ERP) introduced in 1983 began the inevitable adjustment and arrested
the prolonged economic decline. Economic growth has averaged over 5% per year since 1984. The World Bank has supported the program with five policy-based loans, the most recent of which was the first SAL.

Although the ERP has helped improve living standards and reverse the decline in per capita incomes, the economy is still characterized by widespread poverty and hardship. In addition, the economic problems of some of the poor and vulnerable groups may have worsened in the short run. To respond to this difficult set of conditions, the government prepared the compensatory Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD). It consists 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). PAMSCAD projects emphasize community participation. Indigenous NGOs will play a major role in their execution. Although the project design is virtually complete, implementation has been delayed by institutional problems (details are discussed in Zuckerman 1988). A Technical Assistance Credit supporting the SAL has financed the collection of household data under the Living Standards Measurement Study; follow-up surveys will continue through Ghanaian participation in the Social Dimensions of Adjustment Project.

GUINEA

By the early 1980s the economy deteriorated to make this resource-rich country one of the poorest in Africa. Serious adjustment measures were delayed and only introduced beginning in 1985 with IMF and World Bank support. Prices were decontrolled and public sector employment was cut back significantly. To compensate for price increases in petroleum and rice, public sector employees received allowances for transportation and food. The new unemployed continue to receive their nominal salaries and some are being retrained. To create jobs in the capital, Conakry, infrastructure schemes have been created and private-sector credit is being expanded. Farmers growing cash crops such as coffee have benefited from higher producer prices. The Government is preparing a Social Development Support Project with income-generating and social assistance schemes for the poor (Zuckerman 1988). It is participating in the Social Dimensions of Adjustment Project to upgrade its data collection system, enhance its capacity to analyze the social impact of the reforms, and prepare programs to assist the poor.

GUINEA-BISSAU

Due to poor macroeconomic management in the 1970s, internal and external deficits mounted. Adjustment programs initiated in 1983 with IMF and World Bank assistance were insufficiently implemented to induce economic recovery. In 1987 a new program was launched supported by a SAL which emphasizes expansion of agricultural output and exports through improving incentives to farmers and public sector retrenchment. As urban employment opportunities are likely to decline, the Government, with UNDP and other donor
assistance, is retraining retrenched civil servants and resettling some of them into agricultural activities, aided by severance payments. With World Food Programme support, rice is being subsidized for low-income public sector employees following price increases. Health and education services to protect vulnerable groups will be provided through World Bank credits. A Social and Infrastructure Relief Project is being prepared to assist low income, unemployed and underemployed urban and rural workers, including laid off public sector employees (Zuckerman 1988). The Government is making a major effort to explain to the population the justification for the reforms and need for short-term sacrifices through countryside tours by the President and his cabinet. Guinea-Bissau has joined the Social Dimensions of Adjustment Project to develop a data base in order to monitor the impact of adjustment on the poor and to identify projects to improve their livelihood.

JAMAICA

The 1960s and early 1970s were prosperous with strong economic growth. Since then the economy declined. Nevertheless, adjustment measures were postponed into the 1980s when strong adjustment measures were adopted with IMF and World Bank support. Although Jamaicans have long benefitted from generous public social expenditures and favorable average basic indicators, public expenditure cutbacks over the last decade have reduced social spending. The poor have been particularly affected. Prices of basic foods and unemployment increased exacerbating the hardship of the poor. In an attempt to protect the poor and vulnerable the Government introduced some welfare programs. The most ambitious of these is the Food Aid Programme which targets school children, pregnant and lactating mothers, infants, the elderly and the very poor who are at risk of becoming malnourished because of weak purchasing power. However, the program has not achieved its objectives because of constrained resources and because the target groups comprise about half of the Jamaican population. Recently, the Government prepared a social reform package of projects called the Social Well-Being Program which proposes projects in health, nutrition, education and employment for external financing. A hybrid investment/adjustment reform Social Sector Development Project is being financed by the Government and the World Bank. To monitor the social effects of adjustment the World Bank's Living Standards Measurement Study is conducting a household survey in Jamaica.

KOREA

In 1979, Korea faced both balance of payments and growth problems. Per capita income declined 10% from 1979-81 and income distribution deteriorated. In late 1980, an adjustment program was introduced which included social measures to protect the poor: medical assistance and health insurance to low-income groups, temporary public works programs for the new unemployed, income transfers to those unable to work and increased expenditures on education and housing. GNP growth resumed, the economy is booming, an external surplus is accumulating and poverty continues to shrink. Korea's adjustment and its accompanying social programs to protect the poor are widely regarded as models for other countries to emulate.
MOROCCO

Throughout the 1970s and 1980s Morocco maintained positive although fluctuating growth rates despite external shocks to the economy such as a boom followed by a depression in the international market for phosphates (Morocco is the world's largest supplier). Since 1983 the Government has embarked on an energetic stabilization and adjustment program. Under several IMF Standbys both official and commercial debts were rescheduled. With World Bank support, sectoral adjustment operations were launched to liberalize trade and to reform industry and agriculture, education and the public enterprise sectors. The social implications included curtailing the growth of the civil service and public sector salaries; cuts in public investment programs; reductions in consumer subsidies and limits on credit to the economy. With another IMF Stand-by underway, government investment (including defense) and consumption are being further restrained and increasing prices are eroding the purchasing power of urban residents including the poor. This has provoked periodic social unrest and delays in further prices increases. Macroeconomic balances have improved but the low level of public investment jeopardizes growth prospects.

Measures are being taken to protect the poor mainly through targeting food subsidies and education and health services. The proposed elimination of across the board subsidies is being accomplished by targeted compensatory programs for low income urban and landless rural poor. Socially inferior but nutritionally superior flour will be targeted to poorer areas. This shift is projected to result in substantial budgetary savings. The Government and donors also operate income transfer programs for the poor through food-for-work, school meals and maternal and infant feeding programs. Education reforms emphasize equitable access and completion of the nine-year basic education program with fuller rural and female participation (less than half of primary school age girls are enrolled). Expenditures on higher education will be reduced. Vocational training is being expanded to provide skilled manpower which is in shortage. Health and population services will target neglected rural areas but resources for these sectors must be increased. Likewise, sorely deficient housing and water supply require additional resources.

PHILIPPINES

Severe current account and budget deficits led to an adjustment program initiated in 1983. By 1985, per capita GNP fell to its 1975 level. Real earnings dropped substantially and social sector expenditures were cut back to only 2.4% of GNP during the adjustment (they averaged 6 to 7% in other lower middle income countries). Government policies favored urban over agricultural and rural areas where poverty is concentrated.

One of the worst affected regions was Negros where unemployed sugarcane workers and their families lost their income following the sharp drop in the world price of sugar. With the support of UNICEF, the World Food Programme, UNDP, ILO and Oxfam, successful immunization, nutrition, crop diversification and food-for-work programs are being implemented there. These
compensatory programs are not meant to continue long-term nor can they substitute for more fundamental programs needed for the poor such as asset distribution and human resource development.

The widespread absolute poverty in Negros and elsewhere in the Philippines (30 out of 56 million people) deserves critical Government and donor attention. The Government recently approved a substantive land reform bill but it contains loopholes exempting certain lands. Land and other asset distribution, family planning and employment generation are the most pressing issues for poverty reduction. A World Bank poverty program loan is being considered to address reforms in one or more of these areas.

**SENEGAL**

Since independence in 1960, Senegal has experienced the lowest GDP growth rate (2.3% per annum) of any African country not affected by war. Rural and urban incomes are lower today in real terms than in 1960. Poor investment decisions, deterioration in the terms of trade and in agricultural conditions, among other causes, led to external and internal imbalances. The Government developed a medium term economic recovery plan in 1979 which led in the following year to an agreement with the IMF for an Extended Fund Facility and with the World Bank for a SAL. These initial attempts at adjustment however were aborted (the SAL was cancelled in 1983) and the objectives to stimulate economic growth and reverse the balance of payments deficit were not achieved. More serious attempts were made to stabilize and adjust the economy -- by 1987 the IMF made five Standby Loans and the World Bank two more SALs. Fiscal and balance of payments performances improved but at considerable costs which have been aggravated by the fall in the international price of groundnuts, the main export commodity, and declining rainfall and ecological degradation in the agricultural sector. Output of groundnuts in the 1980s was significantly below levels achieved in the 1960s although the 1985-6 crop rebounded by about 20%. The tradeables sector and rate of economic growth have not improved.

For most urban and rural residents, living standards have declined including reduced food purchasing power. The high rate of population growth damps potential achievements in economic growth. The Government stated its objective of sustainable growth with equity. SAL III includes a "reinsertion" fund for retrenched workers in the parapublic and industrial sectors and for immigrants returning home from France. Its effective operation is a condition of second tranche release. An industrial SECAL includes retraining redundant workers. The ILO and USAID are supporting the creation of small-scale enterprises including credit, training and identification of new growth sectors. A World Bank human resource SECAL under preparation will focus largely on family planning and also address health, education and employment. Senegal has joined the Social Dimensions of Adjustment Project.

**ZAIRE**

Since 1975 the economy has suffered a series of crises, significant economic and financial imbalances, high inflation and declining per capita
income. Beginning in 1983, the Government introduced a series of stabilization programs with IMF support and in 1987 a World Bank SECAL for industrial restructuring followed by a SAL to restore economic growth. Devaluation and liberalization of the exchange rate, other prices and trade were among the measures implemented. However, the economy has stagnated as the adjustment has not been sustained. Living standards continue to decline and acute disparities in income distribution persist. Public social sector expenditures to help the poor have been far from sufficient. Recently, the Government joined the Social Dimensions of Adjustment Project and stated its intention to increase employment, wages and reduce income gaps.

**A Regional Response: The Social Dimensions of Adjustment (SDA) Project**

A unique response to the devastating social impact of prolonged recession in Sub-Saharan Africa (SSA) is the regional SDA project launched in 1987 with financing from the World Bank, UNDP, the AfDB and other donors. It already includes some 25 of the SSA countries embarking on adjustment programs in reaction to negative growth rates, financial imbalances and declining social indicators and living standards. Through the SDA project, each of the participating countries will prepare poverty alleviation projects to accompany their second generation adjustment programs and will receive technical assistance to undertake household surveys and income distribution, social and economic studies in order to monitor the impact of adjustment on poverty. SDA emphasizes the development of indigenous initiatives within each country to combat poverty. It is expected to last at least four years. Its regional approach can enhance our understanding of the common features of poverty and adjustment and remedial measures suitable for Sub-Saharan countries.
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