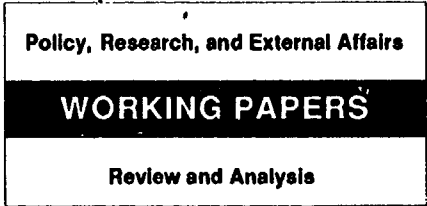


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World Bank Treatment of the Social Impact of Adjustment Programs

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Given existing knowledge and data, a better treatment of the social impact of Bank-supported adjustment programs can be achieved. Even a modest analysis of alternative policy choices can help improve program design and foster more equitable growth. Groups that may be adversely affected can be protected with targeted projects.

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This paper — a product of the Review and Analysis Division, Policy and Review Department — is part of a larger effort in PRE to help improve the treatment of social impact issues in adjustment programs supported by the Bank. Copies are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact Marilou Abiera, room S13-033, extension 31262 (58 pages with annexes).

Since 1987 the Bank's operational guidelines have required President's Reports supporting structural adjustment loans (SALs) to pay particular attention to an analysis of the short-term impact of the adjustment program on the poor and to measures proposed to alleviate negative effects. Ribe and Carvalho review how SAL President's Reports prepared between July 1986 and December 1988 have addressed the social impact issue.

They find that most efforts to address the social impact of adjustment programs have focused on targeted projects, including special employment programs, nutrition projects, resettlement projects, and credit, severance pay, and retraining projects for displaced workers. A great deal of experience has been gained in designing and implementing targeted projects and this can help to improve their future effectiveness. By contrast, there has been little analysis of the impact of the chosen policy mix on major sub-groups in poverty. Design modifications other than reallocations of social expenditures, have received relatively less attention. For example, the composition, incidence, and effectiveness of public expenditures and their

implications for reducing poverty have not generally been examined. In more recent Bank-supported adjustment programs, however, more attention is being paid to the social impact of policy decisions.

In preparing for adjustment operations, Bank staff should explore policy choices that eliminate economic distortions in a way that creates a basis for a more equitable pattern of long-term growth. To the extent that some adjustment measures may hurt the poor in the short term, this should be mitigated through both appropriate modifications in SAL design and carefully designed targeted projects. Longer-term investments in the economic and social sectors can be addressed in sector and project lending.

Given existing knowledge and data, a better treatment of social impact can be achieved, in most cases, at little additional cost and without sophisticated databases. The design and implementation of future targeted projects can be improved on the basis of the experience gained so far.

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WORLD BANK TREATMENT OF THE SOCIAL IMPACT OF ADJUSTMENT PROGRAMS

Introduction

1. Since 1987 the World Bank's Operational Guidelines have required President's Reports supporting structural adjustment loans (SALs) to "pay particular attention to.....an analysis of the short-term impact of the adjustment program on the urban and rural poor, and measures proposed to alleviate negative effects."¹ This paper reviews how the SAL President's Reports prepared between July 1986 and December 1988² have addressed the social impact issue. In particular, it examines: the analysis of the social impact³ of adjustment programs, the measures proposed to address the social impact, and how the treatment of social impact may be improved.

2. The review is based mainly on President's Reports; other supporting documentation and analysis have not been examined comprehensively. Best practice examples have, in some cases, been drawn from documents other than the President's Reports and from periods outside the one under review. The note does not discuss how the proposed measures were actually implemented subsequent to loan disbursement. It also does not examine poverty reduction measures proposed outside of the SAL context.

1/ See The World Bank Manual Circular, no. Op 87/86, dated 23 November, 1987. The relevant sections are attached in Annex II.

2/ Although the guidelines were formally introduced in 1987, most SAL-President's Reports have addressed this issue since 1986.

3/ Social impact refers to the positive and negative welfare impact in terms of the standard of living (real incomes and social indicators) on society at large, especially (but not exclusively) on the poor.

Box 1

Social Impact Analysis -- President's Report Sao Tome and Principe (SAL I)

"The Sao Tomean economy is expected to be able to adjust structurally with a positive GDP growth rate by the end of the decade. The shift in the internal terms of trade in favor of the rural sector will be accompanied by substantial increases in the incomes of rural households. The new wage and price liberalization policies will directly benefit 10,000 workers and 3,000 smallholders. While public sector incomes are expected to decrease in the initial years of structural adjustment, as the public sector starts to retrench from productive and commercial activities, the incentive policies are expected to promote growth and thereby soften the overall impact of the adjustment program on employment. On balance, the negative social impact of structural adjustment will be limited and outweighed by the benefits in terms of growth and efficiency and by the specific measures to protect the most vulnerable groups. In addition, the redistribution of incomes should shift in favor of the agricultural sector, which would benefit a large majority of the population."

Analysis of the Social Impact of Adjustment Programs

3. The World Bank approved 30 SALs between July 1986 and December 1988.⁴ Following Bank guidelines, President's Reports for each of these SALs analyze the expected social impact of the proposed adjustment programs. Box 1 illustrates the analysis typically made with the example of the social impact analysis in the President's Report for Sao Tome and Principe (SAL I).

4. The SAL President's Reports emphasize that in the long run the poor are likely to be better off with the adjustment program than without. This argument is based on the expectation that adjustment programs would promote

4/ The SALs were approved for twenty-four countries -- 19 in Africa, 1 in Asia, 2 in EMENA, and 8 in Latin America -- with some countries receiving more than one SAL.

higher long run growth by reducing or eliminating product and factor market distortions. In particular, higher agricultural growth would increase rural incomes and improve food consumption and nutrition levels. Further, reforms to stimulate investment in efficient industries and services, especially in the tradeables sector, would increase both rural and urban employment.

5. The SAL President's Reports also recognize that in the short run there are likely to be significant negative social effects from adjustment. This is because expenditure reducing policies, aimed at closing the balance of payments and savings/investment gap, may result in lower real wages and consumption levels. Public sector workers who may be retrenched as part of the expenditure reducing measures are commonly identified as major losers. Further, the adverse effect of trade liberalization and tariff reforms on inefficient enterprises may result in employment losses. The poor may also face higher prices, especially for food, and reduced access to social services due to cuts in social expenditures.

6. The analysis presented in the President's Reports is, however, fairly general. Different macroeconomic policy mixes, and their timing and sequencing can have differing long and short run impacts on income distribution and the welfare of the poor. Further, the adjustment program can entail important structural changes in the economy (through reallocations of resources across sectors and changing shares of wages and profits) in which different socio-economic groups can fare quite differently. But the President's Reports do not indicate if the proposed policy mixes, and their timing and sequencing are the best possible from the

int of view of their social impact. Moreover, beyond broadly identifying impacts on the urban and rural poor, the President's Reports generally give little attention to examining the impacts of specific policy mixes and the resulting structural changes on major rural and urban socio-economic sub-groups in poverty who may be affected through changes in real consumption (of public and private goods), income, or employment.

7. To some extent, the relatively weak analysis of the social impact is due to inadequate data, the absence of an established methodology, and time constraints. However, even a modest analysis of the likely social impact could help identify the optimal policy-mix for long and short run poverty reduction. It would also allow designing appropriate short run compensatory targeted projects. Such analysis could be done with little additional research and would not require sophisticated databases. This note illustrates major elements of such an analysis and where possible, the costs -- in terms of time and money -- that it might entail. The Social Dimensions of Adjustment (SDA) project and the Living Standards Measurement Surveys (LSMS) which are currently underway or are planned in a number of countries, are expected to yield useful household data and help improve such analyses.

How have SALs Addressed the Social Impact?

8. Most SAL President's Reports contain some measures intended to address the long or short run social impact (see list of measures in Annex 1).⁵

5/ As specified in the Operational Guidelines, the financing of these interventions is not necessarily supported by SALs since other donors and cofinanciers and sometimes other Bank projects, may provide the financing.

Of the 30 SALs approved during the period considered, only one -- Burundi SAL-I -- does not include any specific measures to address the social impact. Since the analysis of social impact in President's Reports is fairly general, it is usually not possible to assess if the proposed interventions appropriately and adequately address the social impact. Furthermore, the President's Reports do not, generally, provide details of the design of the interventions, their implementation mechanisms, and their financial arrangements which makes it difficult to assess their likely effectiveness.

9. Most countries have proposed interventions for some (or all) of the following three groups (see the attached summary table):

(1) The newly unemployed comprising retrenched public sector employees and civil servants. Measures to reach this group have included severance payments, resettlement to rural areas, public works, retraining, and credit schemes.

(2) The chronically poor comprising people who have been in poverty for a long time -- certainly prior to the adjustment program. Some adjustment policies may further impoverish them. Measures for this group have included social expenditure reallocations and targeted interventions such as subsidized distribution of food, public works, retraining, nutrition, and credit schemes.

(3) Others including civil servants and prospective entrants to the labor force (e.g. graduates or school leavers) who may fail to find jobs as

SUMMARY OF MEASURES IN SAL PRESIDENT'S REPORTS THAT ADDRESS THE SOCIAL IMPACT OF ADJUSTMENT PROGRAMS

Year	Country	Measures for the Newly Unemployed	Measures for the Poor				Other Measures
			Social Expenditure Reallocations	Targeted Subsidies	Tax or Labor Market Reforms	Targeted Projects	
<u>FY86</u>	Chile I	-	x	-	-	x	-
	Malawi III	-	-	-	-	-	x
	Senegal II	x	x	-	x	-	-
	Guinea I	x	-	-	x	-	x
	Niger I	-	x	-	-	x	-
	Burundi I	-	-	-	-	-	-
<u>FY87</u>	Gambia I	x	-	-	-	-	-
	CAR I	x	-	-	-	x	-
	Chile II	-	x	-	x	x	-
	Panama II	x	x	-	-	-	-
	Nepal I	-	-	x	-	x	x
	Ghana I	x	x	-	-	x	-
	Guinea-Bissau I	x	x	-	-	x	-
	Senegal III	x	x	-	x	x	-
	Mauritania I	x	x	-	-	x	-
	Dominica I	-	-	-	-	-	x
	Uruguay I	-	x	-	-	x	-
	Zaire I	-	x	-	-	x	x
	Sao Tome & Principe I	x	x	-	-	x	-
<u>FY88</u>	Congo I	x	x	-	-	-	-
	Chile III	-	x	x	-	x	-
	Togo III	x	x	-	-	x	-
	Gabon I	x	x	-	x	-	-
	Burundi II	-	-	-	x	x	-
	CAR II	x	x	-	-	x	-
	Tunisia I	x	x	x	-	x	-
	Guinea II	x	x	-	-	x	x
<u>FY89</u> (First Half)	Honduras I	-	x	-	-	-	-
	Morocco I	-	x	x	x	x	-
	Costa Rica II	-	x	-	-	x	-

a result of a contracted public sector. Measures for them have comprised compensatory wage increases to counter price increases, and expansion of facilities for vocational training to prepare them for alternative labor market opportunities.

10. Annex I shows that the types of interventions proposed in the various countries have varied widely. The diversity of approaches is illustrated by the contrast between Ghana (SAL I) which included a wide range of measures for both the newly unemployed and the poor, and Dominica (SAL I) which focussed on a Vocational and Technical Education project to reach school leavers who may face a contracted public sector job market after adjustment. The same Annex also shows that more recent SALs include a greater number of interventions to address the social impact suggesting that this issue is receiving more attention.⁶

11. The use of tranche release conditions related to the adoption of social measures has not been common. Out of the twenty-four countries reviewed, tranche release conditions for social measures were found in the following six countries:

•In Chile, SAL I and SAL II second tranche release required satisfactory progress in studies to assess the relative efficiency of the employment programs and to review major issues in the health sector.⁷

6/ The "Report on Adjustment Lending II" (RAL II, 1990) found that the share of loans with at least one social policy reform had increased from 16 percent in FY79-85 to 26 percent in FY86-88 to 34 percent in FY89.

7/ The second tranche release was contingent only upon satisfactory progress in the studies, not upon the adoption of follow-up actions.

In SAL III, second tranche release conditions included reforms in the social security system (e.g. increasing the efficiency of private pension funds and conducting a study of the coverage of the self-employed) and the health sector (e.g. improving preventive health care).

- In Burundi (SAL II) the second tranche release condition included the preparation of monitoring systems for social impact and defining and agreement on an action plan for poverty alleviation.
- In Senegal (SAL III) the second tranche release condition required effective operation of a reinsertion fund for laid-off workers and a third tranche release condition was the adoption of recommendations of the study on labor markets and employment.
- In Togo (SAL III) the second tranche release condition included agreement on budgetary allocations for services in agriculture, health, education, and maintenance of transport infrastructure.
- In CAR (SAL I) the second tranche release condition included setting up a "personnel bank" to facilitate reassignments of redundant staff and voluntary resignations of civil servants and their absorption into the private sector.
- In Gabon (SAL I) a second tranche release condition was to establish a financing facility to help reorient released government employees and the adoption by government of final drafts of the new labor code, investment code and participation code.

12. The response to the possible social impact of SALs has occurred in two main ways: by including specific actions in the SALs themselves and by adding targeted projects to the SAL package. These are described in the two sections below.

Modifying SAL Design

13. Modifications in SAL design have been pursued mainly through reallocation of social expenditures, mostly in education and health. Other design changes (e.g. attention to the macro policy-mix) that might help or protect the poor have received little attention. In a few instances, targeted subsidies or tax and labor market reforms have been proposed.

14. Most SALs include agreement with the government on the public expenditure or the public investment programs and require periodic approvals or reviews of future expenditure/investment programs. In a few SALs, priority expenditures and (or) priority investments have also been protected; for example, in CAR (SAL II) 75 percent of the investment program was to be allocated to priority sectors. But concern with the poverty implications of public expenditure reform has generally been focussed on social expenditures. The poverty implications of non-social public expenditures have rarely been explored.

15. Social Expenditure Reforms.⁸

These reforms have aimed either at protecting the poor against short

8/ SECALs directed at specific sectors, for example the health or education sectors, contain more detailed reforms in these sectors.

term social costs (e.g. maintaining social expenditures on basic health and education in a period of overall reduction in public expenditures), or at enhancing the long term impact of the adjustment program for poor groups (e.g. improving targeting and efficiency in the social sectors). Of the thirty SALs reviewed, twenty-two have addressed the structure and efficiency of public social expenditures by:

- Maintaining or increasing public expenditures on education and health, in spite of reductions in total public spending during adjustment. For example, in Mauritania (SAL I) priority was to be given to allocating more budgetary resources to health and education under the strict constraint of balanced budgets.
- Redirecting social sector expenditures towards the poor, mainly through better targeting of resources towards or within primary education and basic health. For example, in Chile (SAL III) the government intended to improve targeting in primary and preventive health care and maintain the existing level of food distribution in maternal-child programs on a per capita basis.
- Improving efficiency. For example, the SAL I program in Sao Tome and Principe proposed to improve the efficiency of public expenditures in social sectors such as health and education by assuring adequate budgetary allocations and by redesigning with external partners programs and delivery systems to maximize the impact of such programs, and the SAL III program in Chile proposed to increase the efficiency of investment in health.

16. Targeting subsidies. In relatively few countries (Tunisia (SAL I), Morocco (SAL I) and Nepal (SAL I)), have SAL programs proposed to improve the targeting of subsidies to protect the poor. In Tunisia the aim was to reduce subsidies faster on commodities that constitute a small part of the consumption of the poor. Hence subsidies on milk, sugar and vegetable oil for soap-making were to decline faster than subsidies on wheat and cooking oil. The Morocco SAL proposed to target consumer subsidies to the urban poor and rural landless. In Nepal it was planned to target subsidized food programs more appropriately on the poor through the Food Corporation and to account for the subsidies explicitly in the budget.

17. Tax and labor market interventions. In a very few cases, attention has been paid to the distributional effects of changes in tax policy. For example, Morocco (SAL I) proposed to increase the progressivity of the tax structure in order to achieve a more equitable distribution of income. Labor market policies have received attention in some SALs. For example, in Burundi (SAL II) the government proposed to liberalize the labor market, specifically revising the legislation on domestic and foreign labor, strengthening the role of the Ministry of Labor as a promoter of employment, and reducing costs to employers such as unnecessary medical costs. In Senegal (SAL II) the government planned to foster labor mobility by reviewing and modifying the administrative procedures of the labor law which regulates hiring, firing and temporary work contracts.

Targeted Projects

18. Targeted projects have been a more common way of addressing the social

impact than modifications in SAL design (See Annex I for details). These projects have aimed at addressing short term social costs and have mainly been "compensatory" in nature. Major targeted projects have comprised severance payments, retraining, credit, public works, nutrition, and resettlement schemes. The proposed targeted projects have generally been additional to those supported by the Bank's investment lending. In some cases, new projects have been designed, for example, a new priority action program was proposed in Guinea (SAL II) which aimed at clearly targeting vulnerable groups. In other cases, existing programs have been expanded, extended, or improved, for example in Chile it was proposed to improve the emergency employment programs (SAL I) and nutrition programs (SAL III). The major types of projects proposed are described below.

19. Severance payments. Cash payments have been proposed to compensate retrenched public sector workers and civil servants in Guinea (SAL I and II), Gambia (SAL I), CAR (SAL I and II), Ghana (SAL I), Guinea Bissau (SAL I), Senegal (SAL III), Mauritania (SAL I), Sao Tome and Principe (SAL I), Congo (SAL I), Togo (SAL III), and Gabon (SAL I). Severance payments are aimed at sustaining living standards of dismissed workers during the transition to new jobs.

20. Retraining. Retraining schemes have been planned for dismissed workers and the chronically poor in a number of adjusting countries. These schemes aim to retrain the unemployed for other occupations, often for self-employment in the informal sector. CAR (SAL I), Guinea Bissau (SAL I), Senegal (SAL I), Gabon (SAL I), Sao Tome and Principe (SAL I), and Togo

(SAL III) have proposed to provide retraining to the retrenched. Ghana (SAL I) has proposed retraining schemes for both the retrenched and the chronic poor.

21. Credit. Guinea (SAL II), Gambia (SAL I), Ghana (SAL I), Mauritania (SAL I), Senegal (SAL II), Congo (SAL I), CAR (SAL II), Gabon (SAL I), and Togo (SAL III) have proposed schemes providing loans (often subsidized) to retrenched workers for investing in small business.

22. Public Works. Tunisia (SAL I), Chile (SAL I), Ghana (SAL I), Mauritania (SAL I), Sao Tome and Principe (SAL I), and Guinea (SAL I and II) have proposed public works programs to employ the newly unemployed and the chronically unemployed. In most cases, the programs are also intended to build infrastructure. Food aid or international grants are the major sources of finance.

23. Nutrition. Nutrition schemes have been proposed in Ghana (SAL I), Sao Tome and Principe (SAL I), Chile (SAL III), Burundi (SAL II), and Guinea (SAL I) to maintain or improve consumption levels of such groups, particularly pregnant mothers and malnourished children.

24. Resettlement. Countries with a comparatively low pressure on land have proposed to relocate the newly unemployed to agriculture. Guinea Bissau (SAL I), Mauritania (SAL I), Sao Tome and Principe (SAL I), Ghana (SAL I), and CAR (SAL II) are some examples. In Sao Tome and Principe the scheme is intended to resettle the newly unemployed to land not currently in use and in CAR to abandoned coffee plantations.

25. These projects have often been poorly designed and institutional arrangements to implement them have generally not received sufficient attention. Sometimes, adequate financing has not been ensured at the appropriate time. In Guinea (SAL II), for example, voluntary departure bonuses with access to loans were to be made available to civil servants with bankable projects, but important issues such as project selection criteria, interest rate levels, and incentive mechanisms to repay did not receive due attention. In Ghana (SAL I) the proposed retraining program for retrenched workers suffered from lack of funds, equipment, logistical support and qualified staff in the institutions that were to provide the training.⁹

26. Each targeted project to address the social impact is generally designed as an independent intervention, but in some countries (e.g. Ghana),¹⁰ the targeted projects have been combined into multi-sector programs. Such programs face three potential problems: (a) they may be excessively delayed by requirements to coordinate several government agencies and outside donors; (b) they may not be well-integrated with other elements of the adjustment program; and (c) they may require special institutions capable of effectively implementing a range of diverse, multi-sectoral activities.

9/ Typical design weaknesses and other likely problems with targeted projects are elaborated in "How Adjustment Programs Can Help The Poor" (1990), Ribe, Carvalho, Liebenthal, Nicholas, and Zuckerman, Discussion Paper 71, The World Bank.

10/ In Ghana, the social measures proposed in the SAL were subsequently incorporated into the Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) although there is no reference to PAMSCAD in the SAL President's Report.

27. Some countries (e.g. Ghana, Senegal, Burundi, CAR, and Guinea) have planned Non-Governmental Organization (NGO) involvement in their targeted projects. Such involvement has generally been proposed in the case of public works, retraining programs, credit schemes and nutrition projects.

Improving the Treatment of the Social Impact of SALs

28. Efforts to review a decade of the Bank's experience with adjustment lending culminated in two "Reports on Adjustment Lending" -- RAL I (1988) and RAL II (1990). These reports concluded that since domestic inefficiencies have proved to be more intractable than previously thought and external uncertainties have continued, there is need to shift the focus of adjustment lending from short term crisis management and stabilization (which dominated the last decade), to more fundamental issues of long term growth, development, and poverty reduction. This section examines how adjustment programs can lay the basis for long term poverty reduction through improvements in: the analysis of the social impact, the design of the adjustment program, and the effectiveness of the targeted projects.

Improving the Analysis

29. Elements of a framework that would help to improve social impact analysis could include the following:

30. Analysis of the impact of the proposed policy mixes, timing, and sequencing. Alternative macroeconomic policy mixes as well as their timing and sequencing, affect factor and commodity prices differently and,

therefore, are likely to have different implications for labor incomes and the purchasing power of various income groups. For example, a study for the Philippines¹¹ on the effects of macroeconomic variables on the income shares of the poor indicates that if the stabilization had been through a greater reliance on the exchange rate and supply enhancing policies rather than fiscal adjustment, and if the adjustment had been undertaken earlier than it actually was, the incomes of the poor could have been better protected. The extent of analysis required will differ from country to country depending on the specific circumstances and data availability, but a minimum analysis sufficient to justify the chosen policy mix would help to ensure that the long and short run social impact receive due attention.

31. The SDA project is developing macro/micro models such as the RMSM-S (Revised Minimum Standards Model - Social) and the CGE (Computable General Equilibrium Model) that will enable the impact of alternative macro-policies on income distribution to be examined. One of the models that has been prepared so far is the RMSM-S for Togo and the results will be tested in the upcoming SAL. The RMSM-S for Tanzania is under preparation. RMSM-S builds on the conventional Bank RMSM model by adding detailed production, government and household modules that enable projections of income distribution in the agricultural, industrial and service sectors, and of key social indicators. Relative prices and wages are exogenously determined in this model and limited behavioral responses by households, firms, and governments are built into it. But the RMSM-S has the advantage of

11/ See Section II-A-3 in "The Philippines: The Challenge of Poverty", Report No.7144-PH, 1988.

extending a model with which Bank-staff are already familiar, and of requiring relatively less social data for its use. As a result, once it is tested and standardized, the additional cost of adapting it to specific country circumstances in order to determine the most appropriate poverty-reducing policy-mix should be relatively small. Efforts are also underway to develop a CGE model for Cote d'Ivoire and Cameroon, as well as to expand the existing CGE on Egypt. The major additions of the CGE model (unlike the RMSM-S model) are that relative prices and wages are endogenously determined and behavioral responses by households, firms, and governments are built-in. While this model has the advantage of providing a richer and fuller analysis of the medium and long term effects of policy changes, it will take more time to use due to the extra data requirements necessary for calibration, as well as the additional time required to learn to operate and interpret the model.

32. Identification of groups likely to be affected. Depending on the structure of the economy and the characteristics of the poor, the same policies may have quite different effects on different groups of poor people. Identification of the major socio-economic groups who may be affected by the adjustment program is necessary if measures are to be designed to help or protect them. In Malawi, for example, large estate holders were likely to benefit from an exchange rate devaluation since they were the predominant producers of export crops but smallholders were prevented by existing regulations to engage in the cultivation of some export crops. In such cases, governments could ensure that smallholder export responsiveness is not impeded by inappropriate regulations or the

lack of technical support and complementary infrastructure.¹²

Identification of the different socio-economic groups may not be easy in view of data and methodological limitations, but even in countries where data is poor, analysis of available information and technical knowledge can provide useful results. In Gambia, a qualitative estimate of the probable impact of the adjustment process on different socio-economic groups was made (see Box 2).

33. Information about specific groups may often be available from existing studies, NGOs or international agencies working in specific regions. For example, the UNICEF report "Situation Analysis: Women and Children" is an important source of information on vulnerable groups in a number of countries. In Chad an NGO, Medecins sans Frontieres (MSF), has surveyed and maintains information on the nutritional status of specific groups.

34. "Priority Surveys" developed by SDA can also facilitate better identification of target groups and their specific needs. Priority Surveys are quick surveys using a relatively large sample and a questionnaire limited to vital areas concerning household living standards. Especially in countries where little data exists, they can provide a quick broad brush picture of the vulnerable groups and yield information on key variables relating to them. In Chad the preparation of the Social Development Action Program (SDAP) was based in part on a priority survey for N'Djamena conducted a few months before appraisal and completed in roughly four months at a cost of about US \$40,000.

12/ In Malawi the proposed extension of licenses to grow certain export crops to smallholders, in particular, burley tobacco, is expected to provide additional income for some smallholders.

Analyzing impact on different socio-economic groups: Gambia

Five major groups were identified and the likely social impact of the adjustment reforms on them was qualitatively analyzed. These groups were: in the rural areas -- farmers, livestock herders, and those engaged in non-farm activities e.g. craftsmen and traders -- urban areas, formal sector workers, and informal sector workers.

Farmers were expected to gain from an increase in the price of groundnut. They could, however, be adversely affected by the depreciation of the dalasi and the elimination of fertilizer subsidies as well as by increases in the price of other imported goods consumed by Gambian farm families.

Non-farm household (both herders and rural traders/craftsmen) would not gain directly from the changed incentive structure, although increased farm incomes were likely to result in increased demand for other products and services. The adjustment program would also promote a larger role for private traders in the countryside as input suppliers, credit agents and marketers.

All urban groups would, at least initially, experience a loss of purchasing power associated with the exchange rate depreciation and increased prices for tradeable food items, utility, and transport tariffs, as these constitute a large portion of the urban household budget. Some reversal of the high rate of rural/urban migration of the past decade would most likely occur as urban employment opportunities shrank.

Real incomes in the urban formal sector would decline in the short run relative to incomes in the rural areas. The civil service reform would result in some unemployment as would the curtailment of public investment. In the medium term, however, improved incentives for the private sector, especially in resource-based industries such as agro and fish processing would stimulate private sector employment.

The urban informal sector would be hurt as a result of a slow down in formal sector production and income growth, but may be partly compensated by growing demand for informal sector services/products from the rural areas. Besides, many informal sector products are import substitutes whose demand would be boosted by the dalasi depreciation.

35. Analysis of the scale of the impact. An analysis of the broad magnitude of the expected impact on the real incomes and consumption of the poor would assist in designing and implementing appropriate interventions to

help them. Even a modest household expenditure survey could, for example, allow determining the amount of expenditure devoted to specific commodities by different groups and the impact of a likely change in the prices of those commodities on their overall welfare. In the Sudan, a quick household expenditure survey examined the expected impact of price liberalization on the poor (see Box 3). The survey was cheap and quick: the time between

Box 3

Household Expenditure Survey: Sudan

A quick household expenditure survey was conducted to examine the expected social impact of the proposed adjustment program. The household survey aimed at analyzing the impact of price liberalization on the poor, and supplemented the report on the social dimensions of adjustment prepared by the Economic and Social Research Council (ESRC), Khartoum, for the Ministry of Finance, Economics and Planning.

The survey concentrated on household expenditures for basic needs goods and on their prices. Four groups of commodities, considered to be particularly important for the poor, were identified: petroleum products (represented in the survey by kerosene), wheat products (represented by bread and flour), sugar and essential drugs, and sorghum, soap, milk, lentils, cooking oil, tea and matches. The survey did not cover socio-anthropological characteristics of the households, relying instead on the counterpart team's work. In addition to information on prices and expenditures, information was also sought on the household's length of stay in Khartoum, province of origin, quality of housing, access to identity and ration cards and main activity of household members.

The survey concentrated on four poor areas in the national capital which the ESRC had identified -- one where the residents were "poor" and three where they were "very poor". Thirty-two households were surveyed in each area making the sample size 128 households. No sophisticated sampling procedure was possible, there being no population frame available as a basis for sampling. However, prior field observations had confirmed that the areas were internally relatively homogenous. The actual survey was conducted by staff and senior students of Ahfad College, Khartoum.

The survey came to the conclusion that the main group expected to be adversely affected would be the "poor" and not the "very poor". Since the former group was politically important, the survey recommended care in liberalizing prices of commodities in their consumption basket. Targeted employment generating projects were also recommended for this group.

determining the need for the survey and obtaining the first results was about ten days, and the incremental cost of the survey was US \$330, exclusive of Bank staff-time input. The Bank staff-time input was three weeks and the cost was around US \$6000. Further, as the WDR 1990 indicates, changes in the living standards of the poor can be assessed by movements in proxy variables such as producer prices for small farmers, real wages for unskilled labor, the relevant cost-of-living indices, and per capita expenditures on basic social services. Useable information about these variables can often be obtained fairly quickly.

36. LSMS-type surveys or Integrated SDA Surveys which include small samples but a detailed questionnaire (as opposed to the Priority SDA Survey which includes a large sample with a limited number of questions -- referred to in paragraph 34) could be used to collect data about the likely changes in the consumption (of public and private goods), income, and employment of different socio-economic groups. An LSMS survey can take roughly 12 to 18 months and cost on average US \$500,000, but the survey can be focussed on issues of immediate concern, and can be performed using existing government survey personnel and apparatuses, thereby reducing costs and producing results quickly. In Jamaica, for example, a first round LSMS survey consisted of adding-on a questionnaire to the existing labor force survey conducted every quarter by the government. The questions pertained to consumption expenditure, health, education, housing, ownership of durable goods, and anthropometrics and did not include other modules such as agricultural production and migration. As a result, the additional cost of obtaining the relevant data (which fed into the design of the Human Resource Development Program) was only about US \$ 75,000 and took 2 to 3 months of

Bank staff-time. The subsequent rounds (second and third) comprised the same questionnaire and focussed on measuring changes over time. A fourth round is now being planned.

37. Analysis of the rough duration or type of the impact. The expected impact of a given adjustment program on different income groups can be divided between: the long term benefits to the poor from their participation in the economic growth expected from structural adjustment; and the transitional costs incurred before the potential pay-offs from the implementation of the adjustment policies are realized. Anticipating the rough duration or type of the long and short run impact would allow determining the relative emphasis that may be placed on "complementary" interventions that facilitate the longer term integration of the poor into the expanding sectors of the economy, or "compensatory" ones that mitigate short term costs.

Improving the design of SALs and of targeted projects

38. Depending on specific country circumstances, the following interventions may be explored to improve the effectiveness of measures to address the social impact. Many of these interventions will not only help or protect the poor, but may also strengthen the adjustment process itself by, for example, facilitating labor mobility and making appropriately qualified labor available in expanding sectors of the economy. Some of the measures may also enhance the political sustainability of the adjustment program.

Improving SAL design

39. Appropriately designed adjustment programs can create a policy framework that fosters pro-poor growth in the long run and protects the poor from adverse short run effects.¹³

40. Modifying the Policy-mix. A number of policy options, each with differing implications for the poor, are generally available to effect a specific economic change. For example, an external current account deficit can be reduced by fiscal contraction or expenditure switching. The choice of instrument and the specific policy-combination will have differing long and short run consequences for employment patterns and income distribution between different groups in poverty. A study for the Philippines (referred to earlier) concluded that greater reliance on expenditure switching policies rather than fiscal contraction would have been preferable in the Philippines context (see Box 4). The Philippines study was completed in five staff weeks at a cost of roughly US \$9000.¹⁴ Similarly, phasing of price adjustments may be an option in cases where supply elasticities are

13/ For further discussion see "How Adjustment Programs Can Help The Poor", Ibid.

14/ The figure refers to the amount spent on the "adjustment and poverty" part of a larger study on poverty in the Philippines (referenced in footnote 10). The cost of such studies will vary from country to country depending on how much data and analysis are already available at the time of the study. The Bank may already have invested in such data and analyses in the context of its CEMs, CSPs or other similar work. If quarterly data on income shares are not available, as may often be the case, yearly income and expenditure data for some years may be used. Where this data is also lacking, a qualitative assessment may still be possible.

low and uncertain, and dependent on a wide range of complementary actions such as the availability of basic infrastructure and services. In such cases, sharp price adjustments may only be inflationary and have particularly adverse impacts on net purchasers. Awareness of the trade-offs between different groups and between different time periods, in the early stages of SAL design, would allow designing appropriate long and short run poverty reducing policies.

Box 4

Macroeconomic Policy Choices and Income Distribution: Philippines

A study of the effects of macroeconomic variables on the income shares of the rich and poor, based on quarterly surveys of households income for 1980-86 in the Philippines, found that the poor are relatively hard-hit by overall recession and a contraction in the labor market. Accelerating inflation is also regressive because of the stickiness in nominal wages. The poor gain from real exchange rate depreciation because exports are intensive in unskilled labor (and often produced by peasants) and tradeables account for a small part of the consumption basket of the majority of the Philippine poor. Since benefits from government spending largely go to the middle classes, cutbacks hurt the poor less. Finally, the effects of real interest rate increases are largely borne by the rich, who are the principal debtors in the economy. In 1985, only 3 percent of the poor farmers reported using formal credit in the previous fifteen years.

The stabilization path chosen was not favorable to the poor, with the exception of cuts in some forms of public spending and the liberalization of interest rates. Although some fiscal and monetary contraction was necessary, greater reliance on relative price changes would have moderated the extent of the recession and provided relative protection for the poor. Drastic changes in the composition of public expenditures (a large part of which were benefitting higher income groups) could have moderated the costs of economic decline for the poor.

41. Fiscal Reforms. Public expenditure and taxation policy is an area where social considerations could receive explicit attention. There is often substantial scope for helping or protecting the poor through shifts in the composition of public spending and revenue. While public expenditure cuts may be unavoidable, across-the-board reductions can be avoided. Available resources can instead be allocated to priority investments in infrastructure and the social sectors; and to finance operation and maintenance expenditures, while increasing the efficiency of existing programs. The incidence of such reallocations on poor groups can be analyzed and taken into account. Improving the efficiency and equity of economic infrastructure that is particularly relevant to the productive activities of the poor, and of investments in human capital development, may not only protect the poor against adverse impacts, but may actually help them to respond to the new incentives generated by the adjustment program. Indonesia provides an example of effective public expenditure shifts in the process of fiscal adjustment to the oil price decline (see Box 5). The SDA

Box 5

Changing Public Expenditure priorities: Indonesia

Indonesia presents a model of what can be done in the way of appropriate shifts in spending. Over the 1982-83 to 1987-88 period, real public spending declined by 17 percent. However, recurrent spending grew by 6 percent and transfers to the provinces by 29 percent, despite a near doubling of real interest payments. This was facilitated by a major reduction in development spending and a real decline in the wage bill. Within development spending, there were major shifts out of import-intensive industry and mining projects and into human resources. The net effect was to raise the domestic and employment content of public spending and ensure adequate resources for the maintenance and selective expansion of social and economic infrastructure. Indonesia's starting position was also relatively favorable -- it had a low public debt burden and a relatively compliant civil service.

project is planning to design Core Social Expenditure Programs in Cameroon, Senegal, CAR, and Chad. In CAR, SDA is planning to use beneficiary assessments to help design the Core Public Expenditure Program.

42. Labor Market Reforms. Labor market regulations (such as job security and social security regulations) are intended to raise worker welfare and security. But they tend to raise labor costs and reduce employment in the formal sector and therefore increase labor supply in the informal sector and reduce the incomes of the poor. They also introduce rigidities which may impede the labor supply response to economic policy reforms. In such cases, the poor would benefit from labor market reforms such as: removing biases that favor capital intensive production or other impediments to employment growth through changes in regulatory laws; strengthening the institutional framework for labor exchanges to lower the costs of job search; or counteracting labor market segmentation in the presence of which a nominal devaluation imposes an unduly great burden on the poorest workers.¹⁵ In Senegal (SAL IV), labor market reforms have been proposed to remove existing labor market rigidities (see Box 6).

43. Targeting Subsidies. Replacing generalized subsidies by targeted subsidies can yield substantial fiscal savings while maintaining the benefits to the poor. Most generalized subsidies are applied to goods with a positive income elasticity. The resulting inefficiency can rarely be justified in

15/ See "Macroeconomic Adjustment and the Labor Market in Four Latin American Countries" (1989), Lopez and Riveros, Working Paper 335, The World Bank.

Box 6

Addressing Labor Market Issues: Senegal

In Senegal (SAL IV) the government proposes to confront labor market rigidities and reduce labor costs by adopting labor market reform for the short and the medium term.

In the short run, the government has agreed to take two actions which will increase employment flexibility. First, existing enterprises will enjoy unlimited use of temporary contract labor. Second, eligible enterprises will be able to hire their workforce on the basis of temporary employment contracts for a period of up to five years. Furthermore, small and medium enterprises will be exempted from prior government authorization for dismissal of employees.

In the medium term, the government has agreed to establish a tripartite commission (i.e. with employer and union participation) which will examine the existing labor legislation and industrial regulations to identify new policies to encourage production and employment in the modern sector. The government intends to seek technical assistance from the ILO to support the commission's work.

times of fiscal austerity. Cost-effectiveness and equity considerations demand that such subsidies are phased out and replaced by more targeted ones. In Venezuela, the government has included as part of its adjustment program, an effort to redefine and target indirect food subsidies to benefit lower income groups. This will be achieved, among other things, by developing with the private sector, differentiated inferior products to be marketed solely in poor areas at subsidized prices (see Box 7).

44. Targeting subsidies in the social sectors may also be explored. This could be done by subsidizing services that benefit the poor most, for

Targeting Subsidies: Venezuela

In Venezuela, it was recognized that contractionary policies followed by the Government during the stabilization period could affect the poorest groups severely. The Government has, therefore, included as an essential part of its structural adjustment program, an effort to redefine and redirect indirect food subsidies to benefit lower income groups in the following ways:

- (a) by limiting the goods subsidized to those that are consumed intensively by the poor and redress fundamental nutritional deficiencies;
- (b) by developing with the private sector, differentiated inferior products to be marketed solely in poor areas at subsidized prices; and
- (c) by eliminating or severely reducing subsidies on inputs, especially concentrated animal feed.

Prior to loan effectiveness, it was agreed that studies would be initiated to examine the feasibility of developing for sale (perhaps with subsidy), very specific items targeted to the poor, including an inexpensive short pasta, a pasta made of a mix of rice and wheat flour, unrefined sugar, rice with 10-20 percent broken grain, a differentiated corn meal that mixes white and yellow corn flour, a powdered milk based on a mix of skim and soyabean milk, a vegetable oil with a differentiated taste, and perhaps other items.

example, primary education and basic health care. Because of stringent budgetary constraints, and for efficiency and equity reasons, some form of cost recovery may be desirable in the social sectors. Experience indicates that user fees have to be introduced slowly, starting with fees at higher levels of education and health care. Such fees are likely to be more successful if introduced as part of a broader effort to reduce costs and improve overall effectiveness of social services.

Improving Targeted Projects

45. Improvements in SAL design could be complemented by targeted projects. These projects are a particularly attractive tool to address the social impact since they are targeted to a narrow group of beneficiaries and can be cost-effective.

46. Targeted projects could include short or long run measures. There is a clear rationale for short term targeted projects to compensate groups adversely affected during the transitional period. Long run projects generally require more time and institutional development, and may best be addressed in the context of the Bank's overall lending program to a particular country.

47. Special Employment Projects. In most countries a restructuring in the labor market is a central feature of the economy's response to economic crisis. If designed appropriately, employment schemes can help to protect the poor. They have been used in response to macroeconomic shocks in a number of countries, for example in Bolivia, Chile and Peru, and are now being initiated in Ghana and Madagascar.

48. Relatively low wages on these programs can facilitate self-targeting. This is shown by the experience in Chile and Peru during the early eighties. In Chile low wages were paid on the public employment programs and two-thirds of the employees in 1986-87 were from the poorest 20 percent of the population. Similar coverage has also been achieved in the employment

programs in rural India and Bangladesh. By contrast, in Bolivia where market wages were paid, fewer than half of the workers employed by the ESF came from the poorest 40 percent of Bolivian households.

49. Another lesson from experience with employment programs is that decentralization often increases administrative efficiency and that local participation facilitates targeting and gives the community a stake in the program. When governments have scarce local administrative capacity, mobilizing local groups and working with non-governmental organizations can help. In Ghana and Bolivia, for example, the employment schemes have expanded programs initiated by local NGOs.

50. Special employment programs are often traditional public works schemes, but in many cases, including Bolivia, Ghana and Madagascar, the government has acted as a financing agency for labor-intensive projects carried out by private contractors. In Ghana, for example, the Ministry of Transport has shifted to efficient labor-intensive techniques of feeder road construction using local contractors -- this new method uses approximately four times the labor input and is responsible for a 40 percent saving in foreign exchange.

51. Nutrition Projects. Targeted nutrition programs could provide direct compensation and protect the consumption levels of groups who are likely to face reduced access to food through higher prices and lower incomes notably the urban poor, women and children. The Emergency Social Fund (ESF) in Bolivia supports a nutrition project for vulnerable groups; by May 1988 the ESF had approved fourteen different nutrition projects reaching a total of

42,000 beneficiaries -- the range of projects included school feeding, mothers clubs, soup kitchens for designated groups of adults, open soup kitchens for children and food for institutionalized children.

52. Nutrition projects are often difficult to target but targeting may be facilitated by involving agencies that work close to the grassroots. This is being done in a number of countries such as Chad where a nutrition program for women and children is being carried out by local social centres. Delivering nutrition supplements through the public health care system can also be an effective targeting mechanism but requires a fairly advanced health sector. This has been the case in Chile where local health centres distribute milk and other food supplements and where in the eighties there were major improvements in targeting and monitoring of maternal and child nutrition. Special attention may have to be given to large nutrition programs since they can have a negative impact on the incentive to produce food crops if they contribute to lower food prices in a specific region.

53. Redeployment Programs. Laid-off workers can be compensated through severance or other redeployment payments, special credit, and retraining schemes. Such workers are not generally poor, but schemes such as these can strengthen political support for the adjustment program. In Eastern European countries (notably Poland), however, the 1980s have seen an increase in poverty among state employees in urban areas in the 1980s and loss of jobs in the state sector could thus lead to deepening poverty. In such cases, compensating laid-off workers is justified on both poverty and political grounds.

54. Direct payments may often be superior to special credit and retraining schemes which have been generally more difficult to implement successfully. Subsidized credit schemes have generally failed and those that have succeeded rely on organization-intensive systems which are unlikely to work in the time frame of adjustment programs. Training programs provide little benefit unless they impart flexible skills and are responsive to changing demand. They are also difficult to organize and should focus on improving existing training systems (such as the Manpower Training Project in Mexico) and on increasing the flexibility of the labor force rather than on equipping displaced workers for specific new jobs. In cases where credit or training programs are desirable, experience suggests that it may be more effective to utilize and improve existing programs rather than set-up special programs for displaced workers.

55. Multi-sector Programs. The targeted projects described above have often been combined into single multi-sectoral operations. Experience suggests that financing for such short term, emergency-type operations may be fairly easily available during an adjustment period. These operations tend to be highly visible and attract a great deal of international attention. Special foreign assistance is usually forthcoming from a variety of donors to support such operations. But these programs can be quite complex and special attention may have to be given to coordination among several government agencies, non-government groups and external donors; institutional capacity and implementation mechanisms and political arrangements. Experience suggests three ingredients for the success of these projects:

- it is important to ensure that each of the components can be executed independently -- any delay affecting one of the components should not hold up the rest;
- project implementation is more efficient when handled by a management unit which may be located in the Ministry of planning but which also draws staff from the private sector; and
- the program is coordinated at the political level by an interministerial committee but also has support at the higher levels (e.g. of the President in Bolivia) to whom it reports directly.

56. The SDA project is supporting multi-sector Social Action Programs in a number of Sub-Saharan countries such as Cameroon, Madagascar, Somalia, Guinea and Guinea Bissau. In some of these countries (e.g. Somalia or Guinea) "Social Funds" have been introduced either as part of the Action Programs or as independent operations. The Social Funds differ from the Actions Programs in that the Funds provide financing for yet unspecified projects that will be identified and appraised as project implementation proceeds according to precise selection criteria. Because of their flexibility, the Funds offer greater scope for involving local groups in project design. Funds can also manage small grants that would not be manageable through the normal government process.¹⁶

16/ For details see "Social Action Programs in Sub-Saharan Africa" (1990), Alexandre Marc, Preliminary Draft, The World Bank.

57. Beneficiary assessments can help understand projects from the point of view of the intended beneficiaries and facilitate their design (and implementation) in ways that are consistent with beneficiary needs, values and behavior. This method can be used at any point in the project cycle -- for appraisal, or for mid-term or post completion evaluation. The cost of the assessments will vary according to their coverage but the average cost has been about US \$17,000 (50 percent for local, in-country expenses and 50 percent for Bank orientation). The average time needed is about six months from initial planning in the field to submission of the evaluator's final report.

58. Since the adjustment period can prove to be quite long, short run measures may sometimes be more successful if they help to initiate longer term action. This is being attempted in Madagascar, Chad and Guinea Bissau. For example, the Economic Management and Social Action Project in Madagascar includes measures to provide essential drugs and family planning immediately, but is designed to link these to longer term health programs. Similarly, an urban sanitation program in Chad is designed to fit into a master development plan for the sector, and a drug distribution program in Guinea Bissau is being carried out within the framework of a separate, larger program to reform the drug distribution system. Social Action Programs supported by SDA in Sub-Saharan Africa aim to be integrated with national long-term programs. They are giving greater attention to building institutional capacity, include a smaller number of emergency components and are preparing pilot projects for future replication on a large scale.

59. The actual interventions will depend on the country circumstances and will differ according to the economic structure, financial options, characteristics of the vulnerable groups, and administrative structures of the economy. Where the government's capacity to implement such programs is limited (which it usually is) the involvement of non-government agencies should be explored. Even where such capacity exists, non-government organizations often have a comparative advantage vis-a-vis the government in the provision of certain services to the poor and the scope for their involvement should be examined.

Conclusion

60. For the most part, efforts to address the social impact of adjustment programs have focussed on targeted projects rather than on design changes. Modifications in design other than social expenditure reallocations have received relatively little attention. For example, in the SALs reviewed, the overall composition, incidence, and effectiveness of public expenditures and their implications for poverty reduction have not been examined. Furthermore, for the SALs reviewed, there was little analysis of the impact of the chosen policy-mix on major sub-groups in poverty. However, in more recent Bank-supported adjustment programs the treatment of social impact issues has been improving.

61. In preparing for future adjustment operations, Bank staff should explore policy choices that eliminate economic distortions in a manner that lays the basis for a more equitable long run pattern of growth. To the

extent that some adjustment measures may have an adverse short run impact upon the poor, this should be mitigated through both appropriately modifying SAL design, and carefully designing targeted projects (which could, but need not necessarily, be included in the SAL itself). Longer term investments in the economic and social sectors can be addressed in sector and project lending. Given existing knowledge and data, a better treatment of social impact can be achieved in most cases at little additional cost and without sophisticated databases.

MEASURES TO ADDRESS THE SOCIAL IMPACT OF ADJUSTMENT PROGRAMS
LISTED IN SAL PRESIDENT'S REPORTS FY86-89 (FIRST HALF)¹⁷

Note:

The measures have been classified into the following three (usually, but not necessarily) mutually exclusive, categories:

- (1) measures for the newly unemployed. The newly unemployed include retrenched public sector employees and civil servants. They are generally easily identifiable and often politically important; some among them may not necessarily become poor, just poorer.
- (2) measures for the chronically poor. The chronically poor include people who have been in poverty for long while - certainly prior to the adjustment program. The adjustment program may impoverish them further.
- (3) Other measures. These measures are for those still employed, the potentially unemployed (mainly those affected by changing incentive structures).

Measures that appear to involve social expenditure reallocations have been starred (*) to distinguish them from targeted projects. In some cases, the lack of information makes the distinction arbitrary. There may also be an overlap between the two categories.

FISCAL YEAR 1986

CHILE

SAL I, IBRD loan of US \$250 million (President's Report: 10/4/1985)

Measures for the newly unemployed

None are mentioned; no retrenchments referred to in the Report.

Measures for the poor

- *1. The government will ensure that fiscal austerity affects the extremely poor least. Future budget cuts, particularly for social and emergency employment programs, will be reviewed with the World Bank.
2. The government has ended wage indexation to allow real wages to fall and expand employment, and the exchange rate no longer favors capital intensive technology. Incentives have been given to promote generation of labor

17/ The measures listed here are not necessarily financed by the SAL. Other donors and co-financiers and sometimes other Bank-supported projects may provide such support.

intensive production in tradeables. So the Chilean labor market is now conducive to a much more elastic relationship between output and employment. But since the employment so generated will still be insufficient to absorb a growing labor force, the Emergency Employment Programs will be continued.

3. The government has phased down inefficient Minimum Employment Programs and nine new pilot emergency employment programs have been initiated.
4. A study to evaluate emergency employment programs with the objective of improving their cost effectiveness will be undertaken. Satisfactory progress on this study will be a condition of second tranche disbursement.

MALAWI

SAL III, IDA credit of US \$30 million (President's Report: 11/25/1985)

Measures for the newly unemployed

None are mentioned; no retrenchments referred to in the Report.

Measures for the poor

1. The government will continue with the policy of permitting the importation of goods which are also produced domestically, to keep prices down.

(In the summary table, this measure has been classified under "other measures" since it does not fall in the two categories listed under "Measures for the poor").

SENEGAL

SAL II, IDA credit of US \$20 million (President's Report: 1/10/1986)

Measures for the newly unemployed

1. The establishment of preferential credit schemes with assistance from the donors will help the laid-off staff of parastatals to engage in remunerative activities in the private sector.

Measures for the poor

- *1. The reorientation of Government current expenditures will permit renewed attention to be given to maintaining essential social services.
2. Administrative procedures with respect to labor laws that regulate hiring and firing, and temporary work contracts, will be reviewed with a view to fostering labor mobility. Measures will also be taken to encourage job creation by labor-intensive industries through reduction in social charges.

GUINEA

SAL I, IDA credit of US \$25 million (President's Report: 1/21/1986)

Measures for the newly unemployed

1. The government intends to maintain salary payments, including the increase for the price of rice, to terminated employees for six months with a possibility of a further six months for those who have not found employment.
2. The government has recognized the need for creating added employment opportunities for the retrenched through temporary programs in road maintenance and public works. The government has sought IDA and UNDP assistance. NGOs are also to help.
3. Termination grants and loans will be available in some sectors such as livestock to expand private sector opportunities. Banking reforms initiated since 1985 are also expected to improve access to credit.

Measures for the poor

1. Under the new tariff structure the customs tax and the fiscal tax are reduced to a combined 10 percent rate on all products except (i) rice which will be duty free; and (ii) essential food items which will have a 5 percent duty. Luxury goods will have a 20 percent surtax.

Other measures

1. When the prices of rice and petroleum products were initially increased on January 6, 1986, fully compensatory salary adjustments were given to civil servants who account for the bulk of wage earners in Conakry.

NIGER

SAL I, IDA credit of US \$20 million (President's Report: 1/23/1986)

Measures for the newly unemployed

None are mentioned; four public enterprises are proposed to be closed down.

Measures for the poor

- *1. Public savings generated through reduction of transfers and subsidies and higher user charges for selective services such as curative health care and tertiary education will be channelled into the expansion of a number of basic services such as preventive health services and primary schooling.
2. Renewed emphasis on rural development as well as on human resource development and social services, such as village water supply, would primarily benefit lower income groups outside of Niger's urban centres.

BURUNDI

SAL I, IDA credit of US \$15 million (President's Report: 4/30/1986)

The Report states that there are likely to be some transitional costs, primarily in terms of: (a) stagnation in real consumption levels in order to permit savings and investment for the future and (b) a reallocation of incomes between different social and economic groups. But these costs are expected to be: (i) short-term and; (ii) lower than the costs of not adjusting. The Report mentions no measures to address the adverse social impact of adjustment.

FISCAL YEAR 1987

GAMBIA

SAL I, IDA credit of US \$5 million (President's Report: 8/4/1986)

Measures for the newly unemployed

1. Severance payments have been planned for dismissed workers.
2. The government is currently exploring the establishment of a modest "adjustment clearinghouse" that could offer counselling services and work with the Gambian Chamber of Commerce to find private sector employment for redundant government workers.
3. A small scale credit scheme in conjunction with severance pay for some workers is being planned on an experimental basis.
4. A retraining program has also been planned with a budget allocation of US \$0.14 million for 1986-87.

Measures for the poor

None are mentioned

- The country is participating in the SDA project.

CAR

SAL I, IDA credit of US \$14 million (President's Report: 8/11/1986)

Measures for the newly unemployed

1. The government will implement a system of assisted voluntary departure from the civil service; employees quitting the public service under this system will receive compensation. The second tranche release condition includes establishment of a personnel bank to reassign redundant staff or to assist voluntary resignation of civil servants and their absorption into the private sector.

2. The government intends to ease the transition from public to private sector employment through special retraining and indemnity programs.

Measures for the poor

1. A small and medium enterprise project is being designed specifically to deal with urban unemployment.
2. Special emphasis in the adjustment program to be placed on the growth of the private sector (especially in trade and transport) aims at lessening the potentially negative income effect of the program.

CHILE

SAL II, IBRD loan of US \$250 million (President's Report: 10/31/1986)

Measures for the newly unemployed

None are mentioned; non-essential public enterprises have been divested but it is not clear from the Report if this has involved retrenchments.

Measures for the poor

- *1. Improvement and progressive orientation of social programs towards satisfying the basic needs of the most poor has been undertaken.
2. Adjustment policies negatively affected investment and maintenance programs of Chile's health infrastructure. The government has started to reverse this trend by increasing allocations to health programs.
3. Labor market studies will be initiated to evaluate emergency work programs.
4. Two studies, under the auspices of the Bank's Public Sector Management Technical Assistance Loan, will assess the relative efficiency of the employment programs and major issues in the health sector. Satisfactory progress in these studies will be a condition for second tranche disbursement of the loan.

PANAMA

SAL II, IBRD loan of US \$100 million (President's Report: 11/11/1986)

Measures for the newly unemployed

1. The potential adverse impact on the presently employed public sector workers will be mitigated by reducing public employment through attrition.

Measures for the poor

1. To reduce the adverse impacts of adjustment on the poor the government will change relative prices gradually over several years: (a) in industry, import

tariff reductions will occur over five years; (b) in agriculture, the price reductions (as a result of dismantling the support price system) will occur in the second year of the program; * (c) in the case of the social security system,¹⁸ pension levels will be phased over five years while protecting the acquired rights of potential beneficiaries close to retirement. It is expected that announcing these actions in advance will give farmers, firms and workers an opportunity to adjust.

2. The labor code has been revised, and is expected to benefit small businesses and introduce some flexibility into the labor market.

NEPAL

SAL I, IDA credit of US \$50 million (President's Report: 3/3/1987)

Measures for the newly unemployed

None are mentioned; the government intends to reduce the size of the public sector through divestiture and closures.

Measures for the poor

1. Subsidized food programs will be more appropriately targeted to the poor and accounted for explicitly in the budget.

Other Measures

1. Unemployment effects resulting from dislocation of inefficient industries and reduction in incentives to engage in purely trading activities are not expected to be severe as this adjustment will be phased while at the same time the adjustment program will stimulate new investment and employment. In particular, the employment opportunities that are expected to be generated by expanded carpet and garment manufacture will be significant and will benefit the poorer segments of the urban population.
2. Measures to encourage community involvement in the protection of forests will significantly enhance both distributional and intergenerational equity.

GHANA

SAL I, IDA Credit of US \$34 million (President's Report: 3/23/1987)

18/ The social security sector is being reformed to deal with the following problems (a) demographic trends toward an older population structure mean that the number of pension-recipients per contributor is rising; (b) the pension payments are too generous to be sustained. Many retired workers are eligible for pensions virtually equal to their last salary; and (c) the optional ages of retirement with full benefits (55 for men and 50 for women) are unrealistically low in view of Panama's high life expectancy (over 71 years) and health standards.

Measures for the newly unemployed¹⁹

1. The Government's proposed resettlement assistance programs will assist pensionable workers through compensatory cash payments (they will receive both their pensions and one year's salary in cash for every eight years of service) and other retrenched workers through ex-gratia cash payments. The government also intends to assist them to shift to new occupations through: retraining programs; an entrepreneur development program; the allocation of divested state-owned farm land to retrenched workers along with credit and technical advice; incentives to contractors in the roads and highways sector to hire retrenched workers under the cocoa and other feeder roads rehabilitation and maintenance programs; and WFP supported food-for-work and public work programs and credit programs for self-employment schemes in livestock, fishing and other productive and service activities. UNDP and ILO are to assist in the design of the program.

Measures for the poor

- *1. There will be a shift in resource allocation within an expanded level of expenditures for health and education towards primary health care and primary secondary education which will bring substantial productivity gains to lower income groups. These services will be provided especially in remote and backward regions. The Health and Education Rehabilitation project supports a number of nutrition-related activities. It will rehabilitate hospitals specializing in the treatment of malnourished children and offering family planning advice to mothers.
 2. Food for work schemes in the northern areas and in the low-income urban areas aimed at improving water and sanitation, schools, clinics and feeder roads are under preparation.
 3. Parallel schemes to enhance the self-sufficiency of households through income generating social projects for small-scale farmers in the northern areas and low-income urban dwellers are also under preparation.
 4. Nutritional support projects aimed at those suffering from severe malnutrition (pregnant mothers and children under five) and food for work programs are to be prepared in cooperation with UNICEF and included in the public expenditure program. WFP support is also being sought in this area.
- The country is participating in the SDA project. This project, among other things, supports the extension of the GLSS (Ghana Living Standards Survey), from its initial two year plan to a five year time horizon. Currently, the GLSS is in its first year of field operations.

GUINEA BISSAU

SAL I, IDA credit of US \$10 million (President's Report: 4/28/1987)

19/ The interventions described (both, for the newly unemployed and for the poor) were subsequently formalized into the PAMSCAD.

Measures for the newly unemployed

1. Programs started to retrain and resettle laid-off civil servants into agricultural activities in the villages aided by severance payments. UNDP and other donors to assist.

Measures for the poor

- *1. Programs will be implemented to protect vulnerable groups by ensuring that health and education services are improved for these groups. IDA to assist.
 2. Programs started to provide temporary compensation to lowest paid government employees by way of cheap rice. WFP and other food aid donors to assist.
- A special unit within the Ministry of Plan will be established and will launch an IDA-managed study financed by UNDP to track the real income effects of the adjustment program and the pace of adjustment at the household level in representative segments of the population. In addition, an ongoing survey of the impact of the adjustment program in the country-side among the rural poor will be financed by UNDP and IFAD.

SENEGAL

SAL III, IDA credit of US \$20 million (President's Report: 5/4/1987)

Measures for the newly unemployed

1. A reinsertion fund is to be established to ease the transition of laid-off workers in the parapublic and industrial sectors and stimulate voluntary resignation from the Civil Service. A minimum of US\$5 million will be allocated to this fund. Effective operation of the fund is a condition for second tranche release.
2. Under the irrigation TA project, a fund with contributions from the Bank and the Government and operated by a local Bank has been created to extend credit to laid-off agricultural extension workers who decide to set up their own business.
3. The creation of small-scale enterprises for those made redundant from the public sector has been undertaken (ILO and USAID to assist). NGO assistance is being considered to organize village communities or neighborhood associations to function as non-profit economic development-oriented groups.
4. Retraining facilities are to be provided to the retrenched.

Measures for the poor

- *1. The Bank's Primary Education Development project will aim at correcting the unequal distribution of educational opportunity by increasing primary school enrollments while containing educational expenditures on post-primary education.

- *2. The Government's three-year public investment program for 1987-90 has highlighted the priority needs for preventive and primary health care, nutrition and the rehabilitation and maintenance of existing facilities at the expense of large hospital facilities. These needs are being partly met by the on-going Rural Health Project. A second Population and Health Project that would further strengthen the delivery of primary health and family planning services is also under preparation.
 3. 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.
 4. As a result of the proposed tax reform, progress in reducing tax evasion and broadening the tax base will go a long way to permit a reduction in the tax burden on lower income groups through the reduction of tax rates at the lower end of the income scale.
 5. A decree to enable enterprises to hire employees without state interference and to renew temporary contracts will be enacted. Action plans on the basis of the labor studies initiated under SAL II will be a condition of third tranche release.
- The country is participating in the SDA project.

MAURITANIA

SAL I, IDA credit of US \$15 million (President's Report: 5/11/1987)

Measures for the newly unemployed

1. The government is helping the workers recently dismissed from the public sector (mainly from the iron ore enterprise SNIM (Societe Nationale Industrielle et Miniere) by providing opportunities to use their severance pay to buy equipment abroad or to resettle as private farmers in the South.²⁰
2. Special subsidized credit will be provided to help young technicians or former public staff to create small businesses. A small fund (FIRVA) is already providing this kind of credit. It will be replenished. The reform and recapitalization of the banking sector will substantially increase credit availability for both small and large-scale enterprises.²¹

Measures for the poor

- *1. Public sector resources will be reallocated to provide basic social services

20/ The resettlement scheme is in the very early stages of designing. Tenurial arrangements that will guide future resettlements are likely to prove difficult to work out. Vested interests are expected to exert pressures against resettlement by outsiders.

21/ This scheme is already in operation but has met with limited success. The repayment rate is around 31 percent and there have been leakages of funds to non-target groups.

for a broader portion of society and make the long-term investment in human capital needed for sustained growth. Priority will be given to allocating more budgetary resources to health and education under the strict constraint of balanced budgets. A public expenditure review will be conducted notably for the education and health sectors.

2. Through annual food programming, the government will more accurately target food aid on the poorest segments of society and those unable to work.
 3. Food for Work Projects will provide employment to those poor who are capable of working. Increased sales of food aid will mobilize resources to finance development activities, including FFW projects.
 4. Mauritania has a substantial pool of underemployed livestock herders who have been displaced by years of drought. Job creation, retraining programs and promotion of the private sector will be initiated to absorb them.
- The country is participating in the SDA project.

DOMINICA

SAL I, IDA credit of US \$3 million (President's Report: 5/13/1987)

Measures for the newly unemployed

None are mentioned; the government believes that significant reductions in the size of the Civil Service may not be possible, but nevertheless intends to explore likely avenues for reductions in its work force.

Measures for the poor

None are mentioned

Other measures

1. The Fourth Caribbean Development Bank Regional Vocational and Technical Education project is designed to prepare school leavers (who may face a contracted public sector job market after adjustment and may, therefore, be potentially unemployed) for alternative labor market opportunities. This project was approved by the Board for IDA financing in April 1987.

URUGUAY

SAL I, US \$80 million (President's Report: 5/18/1987)

Measures for the newly unemployed

None are mentioned; some public enterprise staff-reductions have been proposed.

Measures for the poor

- *1. A social security reform is proposed to make the system self-financing.

ZAIRE

SAL I, IDA credit of US \$55 million (President's Report: 5/29/1987)

Measures for the newly unemployed

None are mentioned; reductions in civil service staff have been proposed.

Measures for the poor

- *1. The adjustment program envisages the implementation of an effective system of public investment programming which is expected to play an important role in improving the allocation of real resources, especially in favor of social sectors, health and education.
2. It also envisages an emphasis on private sector participation involving small-scale enterprises which is expected to lead to improvements in income distribution and employment creation.

Other measures

1. A series of regional studies on the environmental impacts of investment projects are intended to be undertaken in order that environmental considerations enter into public investment decisions.
- The country is participating in the SDA project.

SAO TOME AND PRINCIPE

SAL I, IDA credit of US \$4 million (President's Report: 6/1/1987)

Measures for the newly unemployed

1. To mitigate the adverse short run impact the government will reduce spending primarily through savings in areas other than the wage bill, while maintaining the bulk of the employees currently on the pay rolls during a transition period.
2. For the 2000 employees who will be retrenched, a redeployment fund of US \$1.03 million will provide a salary for upto two years to dismissed public sector employees. They will also receive training and will be oriented towards specific projects (such as road maintenance) for a period of two years.
3. Access to new employment opportunities will be enhanced for former public sector workers by the distribution of land not presently in use.
4. The government will explore the possibility of establishing a credit fund to aid and train dismissed employees to establish their own businesses.

Measures for the poor

- *1. The government intends to improve the efficiency of public expenditures in

social sectors such as health and education by assuring adequate budgetary allocations and by redesigning with external partners, programs and delivery systems to maximize the impact of such programs.

2. The government will maintain and increase as appropriate the distribution of food aid through the WFP. Free lunches for school children and food for work for building and maintaining access roads to schools are already ongoing. Food for work opportunities in road and other public works maintenance and construction projects will be explored.
 3. Increases in the prices of six basic products included in the strategic list will be phased to limit the impact of the devaluation on the lower income group.
 4. Land distribution to small farmers will be undertaken.
- The country is participating in the SDA project.

CONGO

SAL I, IBRD loan of US \$70 million (President's Report: 6/24/1987)

Measures for the newly unemployed

1. Compensatory actions will be taken to provide severance allowances to retrenched civil servants to enable them to sustain living standards for a period of time (two or four years) based on existing collective bargaining agreements.
2. Interest subsidy scheme is intended for people leaving the civil service to enable them to join the private sector. Commercial credit to be provided to new high school and university graduates to enable them to start new activities.

Measures for the poor

- *1. Through more rigorous planning and programming to be instituted under adjustment, priority will be given in allocating available resources, albeit at much lower levels than in the past, to safeguard basic social services to the more vulnerable segments of the population.

Other measures

1. The government will facilitate the establishment of certain liberal professions in the private sector and other types of small scale enterprises to increase employment generally so as to absorb potential victims of changing incentive structures.
- The country is participating in the SDA project.

FISCAL YEAR 1988

CHILE

SAL III, IBRD loan of US \$250 million (President's Report: 11/20/1987)

Measures for the newly unemployed

None are mentioned; no retrenchments referred to in the Report.

Measures for the poor

- *1. By supporting targeting in the social sectors, the loan supports efforts to protect the most vulnerable groups from the costs of adjustment. In health care, better targeting to low income populations will be attempted and primary and preventive health care will be given added support. The maternal and child health care system will continue. Improved focussing of the milk distribution program will be attempted (at present about 20% of program expenditures still benefit the 40 percent highest income families).
- *2. The social security system will be reformed to ensure an automatic continuation of disability and survival insurance to qualifying part-time workers or the temporarily unemployed. The government will also study the efficiency of encouraging affiliation of the self-employed to the social security system.

The second tranche release condition includes reforms in the health and social security systems.

TOGO

SAL III, IDA credit of US \$45 million (President's Report: 3/7/1988)

Measures for the newly unemployed

1. With regard to the divestiture/privatization program, direct compensation payments out of enterprise sales proceeds have been made.
2. In order to find alternative income and employment opportunities for former employees, the government will consider staff reconversion and retraining as well as provision for alternative sources of income and employment such as employee/management repurchase of enterprise through leverage buy-outs or lines of credit to assist the start-up of small enterprises. The IDA supported Private Enterprise Development Project establishes a line of credit for employment generating small and medium scale enterprises in Lome and secondary urban centres.

Measures for the poor

- *1. The government intends to protect the lowest income groups by:
(a) improving the efficiency of basic social services by recovering part of the recurrent expenditure from users in these areas; and (b) expanding primary health and basic education services under IDA supported projects. Minimum spending norms will be established in these sectors. Modifications will also be made in the composition of public expenditures in favor of basic education and health. Minimum spending norms will be established for these sectors.
2. The government is cooperating with the NGO community through an IDA financed pilot program aimed at village level social and economic development.

- The country is participating in the SDA and the LSMS projects.

GABON

SAL I, IBRD loan of US \$50 million (President's Report: 3/21/1988)

Measures for the newly unemployed

1. Compensatory severance pay schemes will be prepared for departing civil servants following diagnostic results of audited public/parapublic enterprises. The second tranche release condition includes establishing a financing facility to help reorient released government employees.
2. The government intends to set up a credit and training scheme for those leaving the public sector to enable them to set up small businesses.
3. With regard to existing mechanisms to promote small and medium scale enterprises, including a guarantee fund, the government is introducing a crash program to redirect their attention to the development of programs targeted to departing public servants.

Measures for the poor

- *1. For the most vulnerable low income groups, both urban and rural the government's adjustment program makes specific provision to minimize spending cuts for education and health in a period of sharply reduced budgetary outlays and to give priority to primary education and health care.
 2. The government will adopt the final drafts of the new labor code, investment code and participation code. Second tranche release will be conditional upon this.
- The government has requested participation in the SDA project.

BURUNDI

SAL II, IDA credit of US \$90 million (President's Report: 5/11/1988)

Measures for the newly unemployed

None are mentioned; closure of some inefficient public enterprises has been proposed.

Measures for the poor

1. The poor will benefit directly from liberalization of the labor market through revising legislation on domestic and foreign labor, removing obstacles (e.g. medical costs) that reduce incentives on the part of employers to expand job opportunities, and stimulating development of informal and artisanal sector activities.

2. The government is preparing a social action program to be reviewed by the Bank before second tranche release in December 1988. The program will: (a) give priority to nutritional complements for malnourished children; and (b) review and expand ongoing pilot programs targeted to women's participation in development. The government will also undertake preparatory work to identify specific programs in the following areas: (i) labor intensive components in public investments; (ii) development or extension of small productive projects to be supported by public and private donors in line with ongoing pilot projects undertaken by NGOs in small scale fish farming and small livestock; (iii) rural housing credit (an ongoing program has already reached 18,000 families with US \$ 200-275 loans - this will be reviewed); (iv) technology improvement in small scale construction activities, including training in construction skills and artisanal manufacture of construction materials; and (v) food security.

- The country is participating in the SDA project.

CAR

SAL II, IDA Credit of US \$40 million (President's Report: 5/17/1988)

The SAL II President's Report notes that the social reforms proposed under SAL I, especially compensations to dismissed civil servants, were slow in materializing because of delays in organizing the institutions necessary to support the departure of civil servants to the private sector and also because of a shortage of funds to compensate departing civil servants. The SAL II proposes the following social measures:

Measures for the newly unemployed

1. Compensation will be made available to those voluntarily departing from the civil service. The amounts of compensation were proposed to be fixed by government decree before the end of June 1988.
2. "Personnel Bank" will grant departing civil servants lump sum severance payments as seed money to help them start in private business.
3. Training will be made available to redundant or reassigned civil servants to facilitate the absorption into the private sector or other agencies.
4. The government is studying providing a line of credit to departing civil servants in particular in the transport sector.
5. The government is examining the possibility of subdividing some of the large abandoned coffee plantations. The idea is to provide interested departing civil servants with mini-plantations.

Measures for the poor

- *1. The education project is expected to improve provision of social services in the final analysis and promote employment opportunities for the least advantaged groups. Health sector work has also been programmed to proceed in parallel with this.

2. In the context of the preparation of the Third Technical Assistance Project in mid-1988 consideration will be given to financing pilot undertakings possibly in the form of lines of credit to micro enterprises in the informal sector or through rural development programs in storage and marketing of food crops. NGO support will be elicited.

3. A national action plan for rural roads will be prepared and a study on local processing of agricultural commodities by small-scale operators will be performed.

- The country is participating in the SDA project.

TUNISIA

SAL I, IBRD loan of US \$150 million (President's Report: 5/20/1988)

Measures for the newly unemployed

1. Job losses will be countered by an additional allocation of funds for work programs to create new employment opportunities.

Measures for the poor

1. The reduction in subsidies will be greatest on items with the least redistributive effect so as to minimize the cost to the poor.

*2. Medical care is widely available at nominal charges, but the health system's further development requires that a substantial share of costs be recovered through service charges, with exemptions for the poor. The Bank will support the Government's efforts to develop and implement a suitable policy through sector work and a Health and Family Planning Project under preparation. The Bank supported Education, Training and Employment Sector Loan (ETESL) will enable reform in the education sector.

3. The Bank is supporting a study of the social security system to determine how to ensure long-term financial soundness while keeping down contributions by workers, employers and the state.

4. Targeted programs for helping the poor, such as the "Families Necessiteuses" and subsidized loans for low-income housing are already ongoing.

5. The Bank is supporting a small-scale Industries Project (approved by the board on February 16, 1988).

GUINEA

SAL II, IDA Credit of US \$65 million (President's Report: 5/24/1988)

Measures for the newly unemployed

1. Continued payment of salaries has been made to civil servants who were given the "transitory reserve status".

2. Labor intensive works programs have been undertaken to create employment in Conakry funded in the past through IDA's urban project.
3. Voluntary departure bonuses with access to loans at favorable rates have been made available to civil servants with bankable projects.²²
4. Advisory services have been offered to retrenched civil servants.
5. Promotion of small and medium scale enterprises has been envisaged to absorb former civil servants.
6. Micro projects in association with NGOs to be executed in the area of training and refresher courses.

Measures for the poor

- *1. The government will define a core public expenditure program in the social sectors as a safety net for the most vulnerable groups. In education, health, nutrition, population, housing, and basic infrastructure the government will give special attention to protecting or assisting vulnerable groups.
2. The government will undertake a series of institutional measures aimed at strengthening the administrative capacity to design and implement its social policy.
3. In the short run, the government intends to implement a Priority Action Program (PAP) consisting of clearly targeted projects for the vulnerable groups in the sphere of education, primary health care, nutrition, employment generation and micro-credit schemes.

Other measures

1. Additional payments have been granted to (still employed) civil servants to compensate for the increases in cost of living and transport resulting from the devaluation and increase in petroleum prices.
- The country is participating in the SDA project.

FISCAL YEAR 1989 (First Half)

HONDURAS

SAL I, IBRD loan of US \$50 million (President's Report: 8/25/1988)

22/ It is generally felt that this scheme is likely to encounter problems in future operation due to inadequate attention to project selection criteria, interest rate levels and incentive mechanisms to ensure quick repayment. Commercial banks are likely to cut back loans because they envisage problems with repayment.

Measures for the newly unemployed

None are mentioned; no retrenchments referred to in the Report, though it is recognized that strong actions are needed in the management of the public enterprise sector.

Measures for the poor

*1. Cuts in public services directed to the poor would be minimized and the Bank's review of the 1989 public expenditures program will facilitate the minimization of the negative consequences of cuts in expenditures.

*2. Under the second phase of the program which the Bank proposes to support with a second SAL, measures will be defined to better target public social expenditures to the truly needy.

MOROCCO

SAL I, IBRD loan of US \$200 million (President's Report: 11/8/1988)

Measures for the newly unemployed

None are mentioned; no retrenchments referred to in the Report.

Measures for the poor

1. Measures to increase the progressivity of the tax structure will engender a more equitable distribution of income.
2. Protection will be afforded to low income urban and rural landless groups through a targeted program of consumer subsidies.
3. The Agricultural Sector Loans will encourage natural resource management and the development of research and extension packages for smaller farmers in rainfed and irrigated perimeters. To date, Bank-supported investments in this sector have focussed on area development, small and medium irrigation systems and agricultural credit.
- *4. The share of social expenditures in overall public investment will rise with a view to improving human capital and relieving the plight of the poor:

The Education sector loan will ensure greater equity of access to educational services by focussing on basic education, particularly in rural areas, where measures to increase female participation rates have received special emphasis, and on lower secondary levels relative to higher strata within the sector; and

Within the Public Health Sector, expenditure patterns are being restructured away from the traditional urban-based, curative health care system to emphasize preventive health care, particularly in rural areas.

COSTA RICA

SAL II, IBRD loan of US \$100 million (President's Report: 11/9/1988)

Measures for the newly unemployed

None are mentioned; no retrenchments referred to in the Report.

Measures for the poor

The government will pace the transitional social impact of the adjustment process through a two-fold approach:

1. In agreement with the objective to support investments in the reorganization of productive activities, soft credit to small farmers will be made available to facilitate the shift of agricultural production from basic grains to higher value crops.

*2. In order to protect vulnerable groups, the government would keep its provision of social programs making adjustments to reduce the costs of these programs by focussing on better targeting of their benefit to the lower income segments of the population.

The World Bank Manual Circular

Date: November 23, 1987

Circular No.: Op 87/06

Subject: Guidelines for Preparing and Processing Adjustment Loans and Credits

Manual: Operational Manual

Filing Instructions: File as Statement 2.01
Discard OMS 2.01 dated February 1987

1. This Circular updates the guidelines for processing adjustment operations. It emphasizes that:
 - (a) An early decision by Regional management is necessary on the choice of adjustment lending instrument which would best respond to the macroeconomic and sectoral problems of a borrower.
 - (b) The Region should disseminate information and invite comments across a wide spectrum of staff, throughout the processing of the operation.
 - (c) Close collaboration with the IMF is essential at all stages.
 - (d) The Initiating Memorandum should include a policy matrix placing the proposed Bank operation in the context of the government's overall and, where appropriate, sectoral reform agenda.
 - (e) The Region should ensure that the borrower's Letter of Development or Sectoral Policy sets out the scope and timing of proposed policy actions as precisely as possible.
 - (f) The key elements for loan effectiveness and any further tranche releases must also be defined precisely.

2. This Circular incorporates procedures set out in Mr. Dubey's memorandum of July 30, 1987 on Operations Committee Procedures. It replaces Operational Manual Statement (OMS) 2.01 dated February 1987, which can now be discarded. It complements Circular Op 87/03, "Procedures for Processing Investment Loans and Credits" (filed as OMS 2.00) dated August 31, 1987. Based on further experience over the coming year, this circular will be modified as necessary and issued as an OMS.

3. OMS 2.40, "Procurement," and OMS 3.50, "Supervision," are being revised to cover adjustment operations and related lending for technical assistance more fully. OMS 3.58, Annex II, "Preparation of Project Completion Report for SALs" (dated November 1982), will also be updated.

4. Questions on this Circular should be referred to Mr. V. Dubey, Director, Economic Advisory Staff, Office of the SVPOP.



Ducksoo Lee, Director
Central Operations Department

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**GUIDELINES FOR PREPARATION OF PRESIDENT'S REPORTS FOR
ADJUSTMENT LENDING OPERATIONS**

1. Adjustment lending operations are often quite complex. They therefore demand that President's Reports be clearly drafted to help the executive directors appreciate the precise objectives of each operation, how these fit within the government's longer-term development objectives, and how activities of the Bank, the IMF, and other external donors would support government's efforts. The following guidelines should be applied with discretion, since each operation is presented within a unique set of country circumstances.
2. Annex D2 shows the Table of Contents of a President's Report for a SAL, which can be used as a checklist. This model should be appropriately modified for sector adjustment operations. For example, the President's Report for a sector loan should include a review of recent performance in the sector; the effects of that performance on economic growth, income and distribution, public finance and balance of payments; and a presentation of government's programs and policies for the sector.
3. The presentation and content of President's Reports for adjustment operations should pay particular attention to the following:
 - (a) a discussion of recent macroeconomic developments with standard macro projections; the medium-term economic structure; the contribution of traditional and non-traditional export sectors; the domestic food balance and its implications for food imports and/or exports; the economic and social impact of population growth;
 - (b) a discussion of the need for major policy change in the overall economy or in a particular sector, with a presentation of the government's structural or sectoral adjustment program; judgements on its quality and relevance; and exposition of the rationale for Bank support and of how it would support government policy actions and measure performance;
 - (c) a judgement on the extent to which the proposed policy measures (e.g., politically difficult reforms affecting the budget, debt management, pricing policies) could be realized within the projected time frame, produce measurable economic impact, and help achieve development objectives; an analysis of the risks (particularly political risks) which might militate against timely program implementation;
 - (d) an analysis of the short-term impact of the adjustment program on the urban and rural poor, and measures proposed to alleviate negative effects;

common concern;² however, such coordination may be more limited for SECALs than for SALs.

7. Whenever possible, the Bank team should work with the government to design measures to mitigate any adverse short-term impact of policy changes on the poor (e.g., re-training for laid off personnel; lines of credit for establishing small businesses; re-focusing subsidy programs). Any studies necessary for subsequent actions in this regard should be identified, and their terms of reference and timing agreed. The Bank need not finance all such studies or other remedial measures, as other donors frequently are interested. Even where Bank financing is appropriate, it need not be included in the adjustment loan, but documentation for the adjustment loan should indicate related activities to be supported by the Bank, as well as other programs to expand access by the poor to health and education facilities, for example.

Initiating Memorandum

8. Once Regional management considers an adjustment loan justified, the task manager prepares an Initiating Memorandum (IM), not exceeding 15 single-spaced pages of text. In drafting and reviewing the IM, the Region should involve staff of the EAS, PPR, Finance, Legal, IFC and IMF, who can assist in specialized policy areas, and offer lessons of Bank-wide experience. Besides outlining a medium-term macroeconomic program, the IM should address principal policy issues, including the following:

- (a) the borrower's macroeconomic, structural and, for SECALs, sectoral problems, with judgments on the adequacy, expected timing and commitment to proposed policy measures, as well as subsequent actions needed to restore or accelerate development momentum;
- (b) the external debt situation and its servicing as they affect the economy and balance of payments (see Annexes C1-C2); for highly indebted countries without a recent Country Strategy Paper, additional information on debt should be provided (see Annexes C3-C4);
- (c) relationship between different parts of the proposed policy package (incentives, trade, public enterprise reforms, etc.), including how actions in one economic sector would affect other sectors and the overall economy;
- (d) soundness of the medium-term public-sector investment and expenditure programs and, as relevant, the role of major external donors and commercial banks;

2/ "Procedural Guidelines on Bank/Fund Collaboration," Memorandum of October 31, 1985 from S. Shahid Husain, Vice President for Operations Policy, to operational staff;
"Progress Report on Bank/Fund Collaboration" (R86-112 dated May 6, 1986), reviewed at the Board meeting of May 29, 1986.

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