Compensatory Social Programs and Structural Adjustment:

A Review of Experience

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LIST OF ABBREVIATIONS AND ACRONYMS

A.I.D.	Agency for International Development
ADB	African Development Bank
AGETIP	Program of Action for Youth Employment (Senegal)
CDIE	Center for Development Information and Evaluation (A.I.D.)
CIDA	Canadian International Development Agency
DIRE	Directorate for Insertion and Reinsertion into Employment (Senegal)
EC	European Community
EEP	Emergency Employment Program (Chile)
EMSAP	Economic Management and Social Action Project (Madagascar)
ERP	Economic Recovery Program (Ghana)
ESF	Emergency Social Fund (Bolivia)
ETF	Employment and Training Fund (Tunisia)
FHIS	Honduran Social Investment Fund (Honduras)
FNE	Fonds National d'Emploi (Senegal)
FS	Fonds Spécial (Senegal)
GOS	Government of Senegal
IDA	International Development Association
ILO	International Labor Organization
IMF	International Monetary Fund
MSP	Multisector Program
NEP	New Economic Policy (Bolivia)
NGO	Nongovernmental Organization
ODA	Overseas Development Administration (Britain)
PADS	Social Development Action Project (Chad)
PAPSCA	Programme for the Alleviation of Poverty and the Social Costs of Adjustment (Uganda)
PAMSCAD	Programme of Action to Mitigate the Social Costs of Adjustment (Ghana)
PDV	Voluntary Departure Program (Mali)
PEM	Minimum Employment Program (Chile)
POJH	Occupational Program for Heads of Household (Chile)
SAF	Social Action Fund (Somalia)
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Program
SDA	Social Dimensions of Adjustment Project (World Bank)
SDA	Social Dimensions of Adjustment Program (Cameroon)
SEDS	Socio-Economic Support Project (Guinea)
SIF	Social Investment Fund
SIRP	Social and Infrastructure Relief Project (Guinea-Bissau)
SRF	Social Recovery Fund (Zambia)
TEVTP	Technical Education and Vocational Training Project (Togo)
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNICEF	United Nations Children Fund
WFP	World Food Program

EXECUTIVE SUMMARY

STUDY OBJECTIVE

The objective of this study is to identify lessons learned to date from the relatively brief experience that donors and developing country governments have had in designing and implementing compensatory programs in the context of structural adjustment in Latin America and Africa. This is done using short case studies from Bolivia, Ghana, Chile, Senegal, and Mexico of the major types of programs that have been implemented.

COMMON TYPES OF COMPENSATORY PROGRAMS

A fairly wide array of programs have come to be labeled compensatory programs. These fall under three broad categories: employment creation and public works; assuring access to publicly provided social services (health, education, and community development) for the most vulnerable; and improved targeting of subsidies to the most vulnerable.

The most common types of interventions are projects for employment creation through public works. Credit programs are also common, either specifically targeted to former civil servants and parastatal employees, or more generally to the poor and unemployed. Job training and severance pay schemes also are implemented. On occasion, agricultural resettlement programs are implemented in the context of structural adjustment.

Provision of social services through central ministries, local government, or nongovernmental organizations (NGOs) is commonly an element of programs undertaken to alleviate the social costs of adjustment. Feeding programs for vulnerable groups and vaccination campaigns are also supported.

Finally, targeted food subsidies in the form of coupon or food stamp programs may be implemented. These rarely involve establishing new programs, but rather improved targeting of existing programs toward the most vulnerable elements of the population.

Although a broad array of programs have been implemented to address the "social costs of adjustment," one can seriously question whether many of them have much to do with the negative impacts of adjustment. The only unambiguous compensatory measures of those cited above are severance pay and other employment creation programs that target laid-off public and quasi-public employees. Certain others (improved targeting of food subsidies, feeding programs) inhabit a gray area; in some contexts, they may be compensatory.

Certain interventions do not enter the gray area. Although laudable in other contexts, support to NGOs and local government for purposes of institution building and decentralization is totally unrelated to mitigating potential negative effects of adjustment, especially as short-term measures.

INSTITUTIONAL STRUCTURES USED TO IMPLEMENT COMPENSATORY PROGRAMS

The paper also examines the implications of different institutional structures that have been used to implement compensatory programs. These fall into two general categories — the multisector approach and the sector-by-sector approach. Using the nomenclature of the World Bank, the multisector approach "groups together into a single 'program' actions in several sectors — health, education, agriculture, community development, employment, etc." This may be done using either a package of projects implemented by various line ministries, or a social investment fund that makes grants to NGOs and local governments for social projects. The sector-by-sector approach involves "separate free-standing projects in each sector, but linked by a common purpose."

JUSTIFICATIONS FOR COMPENSATORY PROGRAMS

Proponents of compensatory programs justify them on equity, growth, and political grounds. Equity considerations are most commonly cited for programs targeted to the poor — either those who are chronically poor or those who have been pushed below the poverty line as a result of adjustment measures. Equity advocates view safety net programs as normal elements of an enlightened government's set of public investments, although opinions on strategies for implementing them may differ. However, the need for such programs may be heightened under adjustment if the poor remain vulnerable, or become even more vulnerable in their capacity to meet their basic human needs.

Equity arguments are also employed to increase access by the poor to publicly provided social services. In such cases, the economic reform process is viewed as an opportunity to redress problems of limited access to such services that preceded adjustment.

Compensatory programs are also justified on efficiency grounds if they raise demand for labor — especially that of the poor. As most developing countries are abundant in labor relative to capital and labor is the most valuable asset of the poor, implementing programs that raise the demand for labor is viewed as making short- and long-run economic sense.

The political justification for compensatory programs is often quite controversial and includes two elements: keeping the most vocal potential critics of adjustment content, and building broad-based popular support for the adjustment program through provision of public programs whose purpose is to demonstrate that the government cares about the concerns of the masses.

THE CASE STUDIES

In each case study, major elements of that country's adjustment program are briefly outlined. Available evidence pertaining to the likely distributional impact of reform measures is then discussed. The nature of the country's compensatory programs is described and the extent to which these programs reached the likely losers from adjustment is assessed. The array of programs examined are described below.

The Bolivian Emergency Social Fund (ESF)

Run as a semiautonomous agency and enjoying support from the highest political levels, the Bolivian ESF was created in 1987. It was designed to be a temporary, quick-disbursing program for funding relatively small and simple projects submitted by public, private, and voluntary agencies. As well as creating infrastructure, it was also an intensive employment program that sought to reduce unemployment, at least until the economy returned to a growth path.

As of April 1990, the ESF had approved over 3,000 projects with a value of $181.1 million. Of these, approximately 1,700 had been completed for a value of $100 million. At its peak in September 1988, 20,000 people were employed, and a cumulative total of 383,000 person-months of employment had been generated by April 1990. Most funding (87 percent) was devoted to the construction and rehabilitation of social and economic infrastructure such as schools, health clinics, water and sewage facilities, and roads.

The Ghana Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD)

Since its inception, the $86 million PAMSCAD has been hampered with coordination problems and delays in receipt of donor funding. At one point, PAMSCAD consisted of 23 project interventions across nine sectors, with 13 different national agencies involved in program implementation, and 13 different donors, including USAID and the World Bank.[1] Program activities are in various stages of implementation; some components have operated several years while others only began in 1990. The Ministries of Finance and Economic Planning, and Local Government are jointly responsible for overall coordination while the individual projects are carried out by the relevant functional ministries.

The Chilean Emergency Employment Programs

Beginning in 1974, the Pinochet government initiated efforts to thoroughly revamp safety net programs in public works employment, mother/child feeding, school lunches, housing, health care, and social security. The new approach to employment programs was partially implemented through the Emergency Employment Programs (EEP). These were made up of two elements — the Minimum Employment Program (PEM) and the Occupational Program for Heads of Household (POJH). At their height in 1983, these programs employed 500,000 people, or 11 percent of the Chilean workforce. They were by far the largest employment programs in Latin America.

Targeting was of two types — self-targeting and administrative. The PEM effectively self-targeted beneficiaries by setting wages at 25 percent of the legal minimum and also required that participants be unemployed. POJH administrators determined eligibility for social programs with a sophisticated poverty index based on a household survey administered by municipalities, which placed households in income deciles.

[1] Table 6 in the report has the complete list of donors.

The Senegal Civil Servant Redeployment Program

This program was created in 1987 during Senegal's third structural adjustment program. Loans from two credit funds, the Fonds National d'Emploi (FNE) and the Fonds Spécial (FS), were targeted to laid-off parastatal workers, civil servants, and recent university graduates (who would normally have sought employment in the public sector). This $11-million effort provided interest-free loans ranging from $10,000 to $50,000 for the creation of small-scale enterprises.

The Mexico Tortibono Program

The *tortibono* program was a geographically and commodity-based targeted food stamp program for tortilla distribution to the poor. In 1983, Mexico eliminated global food subsidies as part of an adjustment package. Recognizing that this could have adverse effects on the poor, a food stamp program was instituted in 1987 that allowed recipients to purchase up to 2 kilograms per day of tortillas at a price 25 percent below the market price.

FINDINGS

The paper identifies several tentative findings with regard to compensatory program design:

- For most of these social programs, the statement that "redressing the social costs of adjustment" is the prime objective is inaccurate.
- With the exception of redeployment and severance pay schemes for former public employees, there are few instances where analysts and decision makers have coherently thought out the cause and effect implications of adjustment measures on income distribution, and then incorporated these into compensatory program design.
- Not much thought has been given to the opportunity-cost implications of these programs.
- If effectively implemented, MSPs have a role to play in lending political legitimacy to the adjustment process.
- With regard to multiagency MSPs, there is strong reason to doubt their efficacy as truly integrated approaches to short-run poverty alleviation and relief.
- There is little information on the long-term implications of these short-run programs on public and private carrying capacity.
- For compensatory programs to be successful, governments must possess a clear commitment to them, independent of "donor agendas."
- Governments and donors need to take a hard look at the capability of existing institutions to implement short-run social programs cost-effectively and rapidly.

- For those compensatory programs targeted to the poor, care should be taken that efficient targeting does not create a social stigma on recipients that will make it harder to escape poverty.

- The long-run potential of emergency public employment programs to build job skills is probably overestimated.

For a discussion of each of the above points, see the concluding section.

THE FUTURE ROLE OF A.I.D.

A.I.D. should be cautious in becoming further involved in short-run compensatory programs undertaken within the context of structural adjustment. Many of these programs are not really "compensatory" in nature, but are really aimed at alleviating poverty. They should therefore be designed and evaluated as such.

The multisector, multiagency type of program does not have a good track record because of the large number of coordinating ministries and donors, unclear objectives, and the weakness of public institutions that are called upon to administer them. In addition, programs of the "crash" variety should be avoided where lessons learned over 30 years of development experience dictate that carefully designed medium- to long-term efforts are required.

On the positive side, compensatory programs appear to have increased the legitimacy of economic reform in the eyes of the populace. This is more the case for programs that effectively reach a broad base of support and develop reputations for streamlined administration and integrity. Social investment funds run by semiautonomous units appear to have a greater probability of getting resources out to grassroots organizations more quickly and effectively than do multicomponent programs run through line ministries. Yet, as large-scale efforts, it may be that social investment funds are most successful only under very special conditions: presence of a government that feels "ownership" of economic reform programs and is committed to broad participation in the development process, high-level political officials committed enough to helping the poor to waive standard spoils system practices (at least temporarily), and an implementing agency staffed by dynamic and qualified individuals.

Under appropriate conditions, A.I.D. missions may wish to become involved in such efforts. If properly designed and implemented, such programs may have a substantial short-run positive impact that furthers legitimate economic and political goals for fledgling governments sorely in need of displaying their ability to govern and respond to people's needs.

Even though compensatory programs seek short-term gains, A.I.D. and other donors should study the long-run economic and social implications of these programs. Because such programs have not existed for very long, empirical evidence on their impact remains sparse. Further study is desirable on potential multiplier effects of investments; recurrent cost implications of development activities funded; sustainability of businesses assisted by redeployment programs; contributions to poverty alleviation; appropriate institutional design and sustainability; potential for reinforcing local institutions (NGOs, cooperatives, and local government); and appropriateness as democratization initiatives. In addition, one should recognize that "temporary" programs tend to become permanent given the nature of public bureaucracies.

PART ONE

BACKGROUND AND STUDY JUSTIFICATION

EVOLUTION OF CONCERN ABOUT COMPENSATION UNDER STRUCTURAL ADJUSTMENT

The World Bank initiated its first round of structural adjustment programs (SAPs) in 1979. In concert with International Monetary Fund (IMF) stabilization programs, SAPs were originally intended as short-term measures to improve balance of payments positions and reorient incentives towards more rational and efficient resource use. It was hoped that after a few years of austerity, temporarily derailed third world economies would be back on the path to growth.

By the mid-1980s, it had become clear that economic restructuring would be more complicated in most countries. World Bank and IMF programs were commonly criticized as failing to meet the unique needs of individual countries. More specifically, some observers were of the opinion that deeply entrenched structural problems could not be solved with short- or medium-run palliatives. In addition, they argued that the most vulnerable members of society were being harmed and little attention was being paid to alleviating their pain. This debate grew considerably more intense after UNICEF's publication of *Adjustment with a Human Face* (Cornea et al., 1987), which claimed that adjustment had a clear and direct negative impact on the poor. Counter-arguments that the poor are worse off under nonadjustment provided little solace to those who felt that the international donor community had an obligation to protect the poorest of the poor.

Responding to this pressure, World Bank staff guidelines have required since 1987 that policy framework papers and Structural Adjustment Lending President's Reports include analysis of social impacts of adjustment, effects on the urban and rural poor, and identification of measures for alleviating those effects (Zuckerman, 1988). For Africa, the Social Dimensions of Adjustment (SDA) Project was initiated in 1987 to assure more effective "integration of social and poverty concerns in the structural adjustment process in Sub-Saharan Africa."[1] By the end of 1991, there were over 28 countries engaged in SAPs with compensatory programs either being implemented or on the drawing board. Of these, 24 were located in Africa or Latin America.

STUDY FOCUS AND ORGANIZATION

The objective of this study is to identify lessons learned to date from the relatively brief experience that the World Bank and other prominent donors have had in designing and implementing compensatory programs in the context of structural adjustment in Latin America and Africa. This will

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[1] From the foreword, Christiaan Grootaert, and Timothy Marchant, "The Social Dimensions of Adjustment Priority Survey: An Instrument for the Rapid Identification and Monitoring of Policy Target Groups," Social Dimensions of Adjusment in Sub-Saharan Africa Working Paper No. 12, February 1991.

be accomplished using a case study approach in synthesizing principal findings from the literature and interviews with knowledgeable experts.

Case studies are limited to Latin America and Africa for several reasons. First, the bulk of structural adjustment programs have been implemented on these two continents, and this report deals with social programs undertaken within the context of adjustment. Second, although the history of these programs is brief, only starting around 1987, the Latin American and African experiences are the longest. Compensatory programs may become prominent as part of Eastern European adjustment efforts in the future, but most have not yet begun or have less than one year of experience. Finally, this paper is part of a larger effort by DAI researchers under the A.I.D.-funded Consulting Assistance for Economic Reform Project, which reviews evidence on the social impacts of adjustment on these two continents.

The terms "social safety net programs" and "compensatory programs" are often used interchangeably. In addition, "redressing" or "mitigating" the "social costs of adjustment" are used interchangeably with "poverty alleviation." One of the principal themes of this paper is that the failure to distinguish clearly between these has led to a great deal of muddled thinking. Often, the result has been a lack of clearly defined objectives for interventions whose stated purpose is supposedly related to addressing problems encountered during the transition from stagnation to economic growth. Moreover, if one mixes up these terms uncritically, it amounts to an implicit admission that structural adjustment is responsible for poverty, when, in fact, the inappropriate policies pursued prior to the onset of adjustment are usually far more responsible. This makes it easy for governments to use structural adjustment as a scapegoat for their own economic mismanagement. Clearly distinguishing these terms is not a mere semantic issue.

Zuckerman (1989) narrowly defines compensatory programs as "multisectoral, multidonor financed short-term . . . programs designed to redress the social costs of adjustment which combine several of the discrete types into one operation." The range of interventions are generally in food policy, health, education, employment, infrastructure, and rural development.

In differentiating among the institutional approaches that have been employed for mitigating the social costs of adjustment, the World Bank (1989) broadens the definition by identifying two basic approaches — the multisector approach and the sector-by-sector approach. The multisector approach "groups together into a single 'program' actions in several sectors — health, education, agriculture, community development, employment, etc." This may be done using either a package of projects implemented by various line ministries, or a social investment fund that makes grants to NGOs and local governments for social projects. The sector-by-sector approach involves "separate free-standing projects in each sector, but linked by a common purpose."

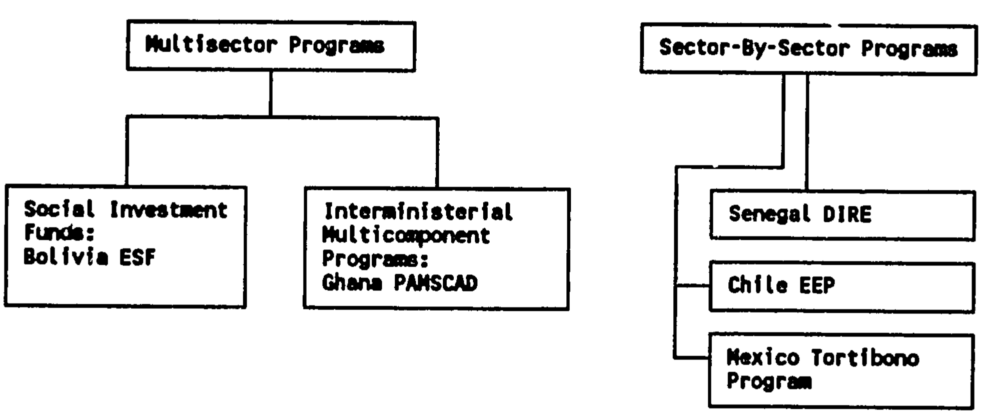
In contrast to the above discussion, social safety net programs (SSNs) are permanent elements of many governments' social welfare strategies. In several Latin American and Asian countries, SSNs have been around for 40 years or more. Although their history is much shorter in Sub-Saharan Africa, the broad array of discrete public social sector interventions in the areas listed above predate structural adjustment. In most cases, such social interventions have been undertaken to alleviate poverty. Most experts agree that reaching the poorest of the poor is exceedingly difficult. Poverty alleviation strategies must be long term in their vision. Most important for this paper, one must recognize that poverty existed prior to structural adjustment and will exist afterwards. Its roots are economic, political, social, and cultural, extending far beyond the policy conditionality included in SAPs. By definition, compensatory programs are meant to compensate people for short-run negative effects specifically caused by structural adjustment.

This paper will attempt to identify lessons learned from both discrete (in other words, sector-by-sector) and multicomponent compensatory programs undertaken during structural adjustment. Figure 1 presents a diagram of the types of interventions considered and a sampling of some of the country-specific cases that appear in this paper. As much as possible, lessons learned from different types of discrete interventions will be limited to those that are structural-adjustment-related. This is done to avoid the redundancy of reviewing the vast literature on what makes for good credit program design or effective targeting of food subsidies. In these cases, the operative questions will be: have such programs been effectively used to ease the pain of adjustment for targeted groups? and are there any special issues that must be considered in the design and implementation of these programs when they are undertaken within the context of structural adjustment? In addressing the former question on targeted groups, an effort will be made to distinguish "those hurt by adjustment" from "the poor," although there is often a failure to do this at the design stage.

The next section summarizes some of the potential effects of the most important measures implemented under adjustment programs on various socioeconomic groups in developing countries. Compensatory programs undertaken to mitigate some of the effects of these policies are also discussed, as well as the various justifications commonly offered for these programs (equity, economic, and political). Section III identifies countries (mainly in Latin America and Africa) where such programs are either being implemented or are planned. Information is included on types of interventions (both in terms of the type of activity and what types of institutions carry them out) and overall funding levels. The following section presents short case studies from Bolivia, Ghana, Chile, Senegal, and Mexico of the major types of programs (in terms of activities and organizational structure) that have been implemented.[2] In each case study, major elements of that country's adjustment program are briefly outlined. Available evidence pertaining to the likely distributional impact of reform measures are then discussed. The nature of the country's compensatory programs is described and the extent to which these programs reached the likely losers from adjustment is assessed. The concluding section presents tentative lessons learned with regard to compensatory program design and also discusses the potential future role of A.I.D.

FIGURE 1

CLASSIFICATION OF COMPENSATORY INTERVENTIONS AND COUNTRY EXAMPLES



[2] A.I.D. was one of several donors that financed the Bolivia and Ghana programs.

PART TWO

WHO IS AFFECTED BY STRUCTURAL ADJUSTMENT MEASURES

INCIDENCE OF SELECTED STRUCTURAL ADJUSTMENT MEASURES

Table 1 summarizes hypothesized effects of some of the major adjustment measures included in reform packages, as well as compensatory measures that may be carried out to assist those who lose income or access to public services as the result of policy changes. Effects of adjustment measures are simplified because they ignore interactions between policy changes which may be occurring simultaneously and second round effects of these changes. Nevertheless, the table is useful for sketching out possible short-run winners and losers from adjustment and the types of public interventions commonly used to help the losers. Major adjustment measures include devaluation, trade liberalization (including tariff reform), market liberalization, and public expenditure rationalization.

Devaluation

Devaluation results in prices of tradable goods rising relative to nontradable goods. This shift in relative prices towards tradables induces a reduction in demand for labor engaged in producing nontradables. Sticky wages and imperfect factor mobility result in short-term unemployment that is usually most pronounced for urban workers. This is because governments that have pursued import substitution strategies typically protect capital intensive urban industries. Their inefficiency renders them noncompetitive when exposed to the rigors of market prices.

With regard to the agricultural sector, devaluation leads to a shift in food demand away from imports and toward local production. If local supply is fairly inelastic, this leads to a short-run rise in local food prices and reduced consumption. Sometimes this may be more than a short-run phenomenon. This is often the case in countries where the agricultural sector has traditionally been discriminated against. Serious deterioration in market infrastructure and agricultural technology research and extension capacity make it difficult for farmers to respond to more favorable price incentives. Rectifying the effects of such neglect requires a long-term commitment of resources and political will.

On the other hand, even in countries with a long history of bias against agriculture, farmers may be quick to respond to more favorable price incentives. This is especially true for export crops. Higher prices induce increased supply to the extent that production is domestic resource intensive. Small farmers generally benefit more than large industrial producers from a less overvalued exchange rate as their production technology is less import-intensive. The increase in demand for their products raises income and induces greater production. However, this is partially offset by higher prices of imported consumption goods and imported farm inputs. For assessing the net effect, it is always important to examine changes in the terms of trade.

TABLE 1

POSSIBLE EFFECTS OF SELECTED STRUCTURAL ADJUSTMENT REFORMS ON SOCIOECONOMIC GROUPS AND COMPENSATORY MEASURES

Adjustment Measure	Socio-Economic Group	Hypothesized Effects	Compensatory Measures for Negative Effects
Devaluation	Urban wage earners	Shift in relative prices towards tradables induces fall in labor demand for non-tradeables. Sticky wages and imperfect factor mobility result in short-term unemployment.	Employment programs for creation of social infrastructure (roads, schools, health facilities, etc.)
	Urban consumers, rural net food purchasers	Shift in food demand away from imports and towards local production. If local supply is inelastic, short-run rise in local food prices and fall in consumption.	Targeted feeding programs, food price subsidies
	Rural net food sellers	Increase in demand for their products raises income and induces greater production. Higher income offset by higher prices of imported consumption goods and farm inputs.	Partial maintenance of input subsidies, investment in market infrastructure to stimulate supply response
	Export sector producers	Higher prices induce increased supply to extent that production is domestic resource intensive. Small producers generally benefit more than large industrial producers as their production technology is less import intensive.	Partial maintenance of input subsidies, investment in market infrastructure to stimulate supply response
Trade Liberalization	Laborers in noncompetitive industries	Noncompetitive industries suffer from tariff reductions which lead to shifts in labor demand from noncompetitive to more competitive industries.	Employment programs, retraining of displaced workers, selective tariff reduction
	Export sector wage earners	Reductions in export taxes stimulate export sector supply and wages.	
Trade Liberalization (cont.)	Consumers of imported goods	Real incomes rise due to tariff reductions, cheaper imports, and more competitively priced local goods.	
	Government bureaucrats and influential businessmen	Lose significant amounts of influence and economic rent when trading procedures become more transparent.	None

Adjustment Measure	Socio-Economic Group	Hypothesized Effects	Compensatory Measures for Negative Effects
Market Liberalization	Consumers,	Subsidy reduction results in lower real income which may lead to fall in consumption of previously subsidized goods, or maintenance of consumption with reduction of some other expenditure. Net effects depend on prior consumption patterns of socio-economic groups, and degree to which they benefitted from previous subsidies.	Price subsidies on inferior goods, food stamps, ration coupons, targeted feeding programs
	Farmers	If farmers previously taxed on their production (i.e. received less than border price), incomes rise. If inputs previously subsidized, incomes fall.	Phasing of input subsidy removal, producer price increases targeted to crops of resource poor farmers
	Market participants	More transparency in rules governing transactions harm rent-seekers under the old system, and increases efficiency.	None
Public Employment Reduction/ Privatization	Public/para-public employees	Unemployment increases, in most cases, especially for less skilled, lower income civil servants.	Severance pay, retraining
Public Social Service Expenditure Reduction	High income users of public social services	Demand shifts towards private sector provision of social services.	None
	Low income users of public social services	Decrease in overall social service use.	Improved targeting of remaining social services towards the poor

Trade Liberalization

Major elements of trade liberalization include narrowing the variability of tariff rates (to reduce effective protection), lowering export taxes, elimination of red tape for exporting, and relaxation of foreign exchange controls and import licensing procedures. Formerly protected industries suffer from tariff reductions. Lowering export taxes and elimination of bureaucratic meddling stimulate export sector supply and wages as the transactions costs of exporting are reduced. All of these lead to shifts in labor demand from noncompetitive to more competitive industries. Increased unemployment may be a relatively short-term phenomenon. However, if there has traditionally been a heavy public presence in economic activity, employment dislocations can be expected to endure for quite some time. This has been the experience of much of Africa over a decade of adjustment, and it is the prospect now facing Eastern Europe and the former Soviet Union.

In isolation, real incomes rise due to tariff reductions, cheaper imports, and more competitively priced local goods. However, trade liberalization is almost always accompanied by devaluation.[1] Import price rises from major devaluations often cancel out any price reductions from lowering tariffs.

The biggest losers from trade liberalization are often government officials who have previously been able to extract economic rents from their control over tariff and tax collection and granting of import licenses. Businessmen influential enough to evade taxes and gain access to artificially cheap foreign exchange are also big losers. These two groups are often the most powerful behind-the-scenes opponents of reform.

Market Liberalization

This involves aligning domestic prices more closely with border prices, as well as changing the rules of the game for buying and selling commodities. Price liberalization commonly results in complete or partial removal of subsidies on food, fuel, other consumer goods, transportation, and industrial and agricultural inputs.

Food subsidy reductions are often the most visible and politically volatile element of an economic reform package. They result in lower real income for consumers. This leads either to cuts in household food consumption or attempts by households to maintain previous food consumption levels by curtailing other types of expenditure. As will be discussed in greater detail later, the extent of real income reductions vary by income group and must be carefully considered in the design of effective compensatory mechanisms.

For industry and agriculture, price liberalization may involve a package of raising prices for outputs at the same time that input prices rise. The net effect has a direct bearing on income, supply response, and input demand (including labor).

Public Expenditure Reduction

A central theme of stabilization and adjustment programs is the need to reduce government budget deficits by cutting public expenditures. One of the most obvious places to cut is employment in civil and parastatal bureaucracies that have become bloated and inefficient. Although there is virtually no

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[1] A major exception is the CFA franc zone in West and Central Africa.

economic cost associated with severing redundant workers (productivity losses are negligible), the political costs may be very high.[2] Unemployment increases, and in most cases, less skilled, lower income civil servants are the hardest hit. Although the conventional wisdom is that these people are among the better off in society prior to being sacked, this is not necessarily the case for lower-level public employees in countries with persistent high inflation rates, nonindexed wages, and frequent delays of several months in receiving pay checks.

Provision of social services may also be cut in an effort to reduce fiscal deficits. Despite many claims to the contrary, there is no a priori reason for assuming that structural adjustment necessitates cuts in social services to the most needy. This issue will be examined more closely in Part Four of the paper.

TYPES AND FREQUENCY OF COMPENSATORY MEASURES

A fairly wide array of programs have come to be labelled compensatory programs. These fall under three broad categories: employment creation and public works; assuring access to publicly provided social services (health, education, and community development) for the most vulnerable; and improved targeting of subsidies to the most vulnerable.

The most common types of interventions are generally employment creation through public works projects. Of the 29 countries included in Table 2, 16 had public works interventions either in the design or implementation stage. Credit programs were also common, either specifically targeted to former civil servants and parastatal employees, or more generally to the poor and unemployed. Job training and severance pay schemes also are being implemented. It should be noted that these are often part of the same program. Occasionally, agricultural resettlement programs are implemented in the context of structural adjustment. These are included under the rubric of employment creation because that is often their primary goal.

Provision of social services either through central ministries, local government, or NGOs is commonly an element of programs undertaken to alleviate the social costs of adjustment. Support to NGOs and local government appears as a separate element because institutional strengthening is often an explicit goal of these programs. This is a different objective from the simple provision of medical and educational supplies and extension. Feeding programs for vulnerable groups and vaccination campaigns are also sometimes supported.

Finally, targeted food subsidies in the form of coupon or food stamp programs may be implemented. These rarely involve establishing new programs, but rather improved targeting of existing programs towards the most vulnerable elements of the population.

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[2] There may also be substantial financial costs to governments because of legal requirements mandating severance pay and other benefits.

TABLE 2

COMPENSATORY PROGRAM ACTIVITY TYPES IN SELECTED ADJUSTING COUNTRIES

Type of Intervention	Number of Interventions
Employment Creation	
Public Employment	16
Credit Programs	16
Job Training	13
Severance Pay	8
Agricultural Resettlement	4
Social Services	
Support to NGO's/Local Government	15
Medical supplies	13
Health Extension	12
Educational Supplies	8
School Feeding Program	6
Vaccination	3
Pre-school Feeding Program	3
Targeted Subsidies	
Food Stamps and Coupons	8

Note: Countries include Argentina, Bangladesh, Bolivia, Cameroon, Chad, Chile, Columbia, El Salvador, Ghana, Guatemala, Guinea, Guinea Bissau, Honduras, India, Indonesia, Madagascar, Mali, Mauritania, Mexico, Philippines, Sao Tome and Principe, Senegal, Somalia, Sri Lanka, Sudan, Togo, Tunisia, Uganda, and Zambia.

Source: Skillings et al. (1990), program documents, and interviews.

While there exists a broad array of programs that have been implemented with the objective of addressing the "social costs of adjustment," one can seriously question whether most of those appearing in Table 2 have much to do with the negative impacts of adjustment. The only unambiguous compensatory measures in the table are severance pay and other employment creation programs that target laid-off public and quasi-public employees. Certain others (improved targeting of food subsidies, feeding programs) inhabit a gray area where, if the context is right, they are compensatory. One example would be targeted food subsidies in instances where devaluation has caused the cost of local nontradable food staples to rise as resources are shifted to tradable export crops. Another might be targeting of medical or educational supplies to the poor if user fees have been instituted for social services.

In most cases, however, social service interventions are supported as compensatory measures without having first gone through the analytical exercise of determining who the potential losers are from adjustment and then designing programs explicitly for them. There is no a priori reason for assuming that certain socioeconomic groups (including the poor) are hurt by adjustment, but, without doubt, some are harmed and some rough and ready empirical analysis is required to determine who they are. By failing to consider cause and effect, it is questionable that those who are actually hurt are effectively targeted by the "gray-area" type interventions.

Certain interventions do not enter the gray area. Although laudable in other contexts, support to NGOs and local government for purposes of institution building and decentralization is totally unrelated to mitigating potential negative effects of adjustment, especially as a short-term measure. More often than not, if such institutions are weak, using them to implement short-run programs will lead to delays and frustration on the part of potential program participants.

JUSTIFICATION FOR COMPENSATORY PROGRAMS

Proponents of compensatory programs justify them on equity, growth, and political grounds. They implicitly assume that (1) social groups can be identified that are harmed by structural adjustment, at least in the short run; (2) policy reform alone cannot be depended upon to alleviate the negative effects of structural adjustment on these groups, especially the poor (Ribe et al., 1990); and (3) it is desirable to assure preferential access to some of these groups and exclude others who are judged to be less deserving.

Equity considerations are most commonly cited for programs targeted to the poor — either those who are chronically poor or those who have been pushed below the poverty line as a result of adjustment measures. Equity advocates view safety net programs as normal elements of an enlightened government's set of public investments. However, the need for such programs may be heightened under adjustment if the poor remain vulnerable, or become even more vulnerable in terms of their capacity to meet their basic human needs.[3]

Equity arguments are also employed to increase access by the poor to publicly provided social services. In such cases, the economic reform process is viewed as an opportunity to redress problems

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[3] The term "vulnerable" needs clarification. The "vulnerable" in the context of adjustment are not necessarily synonymous with the "poor." Rent-seeking cronies of powerful politicians may be rendered vulnerable by economic reforms that institute a more level playing field. They become vulnerable as their opportunities to earn income from economic rents are curtailed. The vulnerability of the poor arises from a reduced capacity to meet basic human needs.

of limited access to such services that preceded adjustment. It is well documented that public resource allocation is often biased against the poor prior to structural adjustment. In examining characteristics of poverty in Asia, the World Bank (1990) found that within and across regions in many countries, the poor received a disproportionately low share of publicly provided physical and social infrastructure in both quantity and quality. These relatively small shares were not always justified by differences in productive potential. Low levels of public expenditure may also reinforce poverty. This was found to be the case where there were subsidy biases to rich versus poor regions (India), higher versus primary education (India and Bangladesh), rich farmer versus poor farmer irrigation (India), and urban curative versus preventive communicable disease health services (Laos and Indonesia). An important corollary follows: As the poor lack political voice, they may be the first to suffer from public expenditure cuts unless their needs are explicitly taken into account during adjustment program design.

Compensatory programs are also justified on efficiency grounds if they raise demand for labor — especially that of the poor. As most developing countries are abundant in labor relative to capital and labor is the most valuable asset of the poor, implementing programs that raise the demand for labor makes short- and long-run economic sense. If one accepts the premise that factor mobility is not perfect, thoughtfully selected public works projects and retraining schemes can be used to facilitate labor flows congruent with comparative advantage. Investment in human capital through primary education and preventive health care also raises demand in the long run as the labor force will eventually be more skilled, healthier, and ultimately more productive. However, one can pose the question here as to whether short-run compensatory programs or longer-duration programs and projects make the most sense for stimulating long-run supply response.

The political justification for compensatory programs is often quite controversial and includes two elements: keeping the most vocal potential critics of adjustment content, and building broad-based popular support for the adjustment program through provision of public programs whose purpose is to demonstrate that the government cares about the concerns of the masses.

The first political justification is especially controversial. This is because some of the losers from adjustment may not be especially deserving from an equity or efficiency standpoint. Those who benefited prior to the onset of adjustment may include civil servants; military; university students; businessmen; and politicians influential enough to be able to extract favors such as rationed foreign exchange, cheap credit, government contracts, subsidized commodities and services, and bribes. Their losses may simply be losses in economic rent. However, from a pragmatic standpoint, they will continue to be vocal in the future and are the groups most likely to attempt to derail the whole reform process. At best, compensating these segments of society can be viewed as efforts at national consensus building and bridging the temporary gap between austerity and growth. At worst, such compensation amounts to extortion by the well-off, as they divert resources away from potentially more productive members of society or from more needy ones.

Many observers are of the opinion that well-designed public works and other social programs have definitely had a political impact in building popular support for adjustment programs. If they are reasonably quick in reaching a broad base of the population, such programs lend credence to the adjustment process by demonstrating that the government cares about the needs of the mass of the population. However, as will be seen in the discussion on Bolivia, this often does not conform to "compensation" in the narrow sense, but rather has more to do with bringing people into the development process who were excluded prior to the onset of adjustment.

PART THREE

PREVALENCE OF COMPENSATORY INTERVENTIONS DURING STRUCTURAL ADJUSTMENT

As of May 1991, World Bank-financed compensatory programs have been implemented or designed in 24 countries. These programs are differentiated in this section by the composition of project and program activities, and the types of institutional mechanisms that have been put in place for implementing them.

CLASSIFICATION OF INTERVENTIONS

The World Bank (1989) identifies two basic approaches to short-run compensatory program implementation — the multisector approach and the sector-by-sector approach. The multisector approach "groups together into a single 'program' actions in several sectors — health, education, agriculture, community development, employment, etc." African examples include Cameroon, Chad, Ghana, Guinea-Bissau and several others. The sector-by-sector approach involves "separate free-standing projects in each sector, but linked by a common purpose" with examples being Senegal, Togo, and Tunisia.

As Table 3 shows, the most common elements of MSPs include creation of social infrastructure, support to NGOs and local government organizations, health sector interventions, credit programs, and public employment programs. There is often a great deal of overlap in these categories. For example, public employment projects are often done through NGOs and local governments to build social infrastructure. Credit and job training are sometimes elements of the same intervention.

The most common element of the sector-by-sector approach (Table 4) has been credit programs, usually for severed civil servants and former parastatal employees. However, the figures and classifications in this table should be used with caution. This is because it is not always possible to clearly distinguish whether a discrete social sector intervention (for example, maternal child care, or purchase of school books) was undertaken as an element of an adjustment program or just in the normal course of development program funding under the broader rubric of poverty alleviation. This is easier for more clear cut cases such as severance pay or credit programs for former public employees who were cut from the public rolls as an economic reform measure. In addition, most of the data are from 1990 and there are certainly more programs in at least the design stage now.

CLASSIFICATION OF MULTISECTOR PROGRAMS BY INSTITUTIONAL CHARACTERISTICS

As illustrated in Figure 1, multisector programs are basically of two types: social investment funds where a single agency makes grants to local organizations for projects in the various social sectors, and the multiagency program where a coordinating body oversees projects that are implemented by several technical ministries. In addition, MSPs may be administered by line ministries, temporary semiautonomous units set up specifically for carrying out the MSP, NGOs, or a combination of these.

TABLE 3

COMPENSATORY PROGRAM ACTIVITIES BY COUNTRY: THE MULTISECTOR APPROACH

	ARGENTINA SEAP	BOLIVIA ESF	BOLIVIA SIF	CHAD PADS	CHILE FOSIS	GHANA PAMSCAD	GHANA PWP	GUATEMALA SIF	GUINEA SDSP	GUINEA B. SIRP	HONDURAS FAIS	MADAGASCAR EMSAP	SOMALIA SAF
Targeted Food Subsidies	X				X						X		
Pre-School Feeding Program	X				X			X					
School Feeding Program			X		X	X		X		X			
Vaccination		X	X										
Medical Supplies			X	X		X		X	X	X	X	X	X
Health Extension		X	X	X	X			X	X	X	X	X	X
Educational Supplies		X				X		X	X			X	
Social Infrastructure	X	X	X	X		X	X	X	X	X	X	X	X
Support To Agencies and NGOs	X	X	X	X		X	X	X	X	X	X	X	X
Public Employment Scheme		X			X	X							X
Severance Pay						X			X			X	X
Job Training			X	X		X			X	X		X	X
Credit Programs		X		X		X		X	X		X	X	
Agricultural Resettlement						X				X			

Source: Skillings et al. (1990) and interviews.

TABLE 4

COMPENSATORY PROGRAM ACTIVITIES BY COUNTRY: THE SECTOR-BY-SECTOR APPROACH

	TOGO	TUNISIA	UGANDA	SUDAN	MEXICO	PHILIPPINES	SRI LANKA	MAURITANIA	SENEGAL	INDIA	CHILE	INDONESIA	SAO TOME	COLOMBIA	MALI	EL SALVADOR	BANGLADESH
Targeted Food Subsidies					X	X				X				X			
Pre-school Feeding Program																	
School Feeding Program													X				
Vaccination				X													
Medical supplies	X		X	X										X			
Health Extension	X		X														
Educational Supplies	X		X	X													
Social Infrastructure	X		X	X													
Support to NGO's/Local Govt.	X	X	X														
Public Employment Scheme				X													
Severance Pay	X							X			X				X		
Job Training	X	X	X		X				X								X
Credit Programs	X		X	X				X	X	X		X				X	X
Agricultural Resettlement								X					X				

Source: Skillings et al. (1990) and interviews.

Table 5 categorizes 15 MSPs. Nearly all multiagency MSPs are carried out by line ministries, usually with a specially created unit within the planning ministry taking responsibility for coordination. Occasionally, as in the case of Chad and Honduras, one or more of the components may be given to NGOs to run if they have proven expertise.

Social investment funds are implemented either directly by government or by semiautonomous units, using contract employees recruited from the private sector. Table 5 indicates that there appears to be a tendency for semiautonomous units to be set up in Latin America, while African social investment funds are usually implemented by governmental units.

Social investment funds are generally designed to follow a "demand-driven" approach. This is essentially a grassroots strategy for eliciting felt needs of potential beneficiaries and working with them to solve problems. The participants decide what activities will receive support and are also responsible for managing them. A "supply-driven" approach is more top-down in nature. A central administrative unit decides who to target for assistance, identifies activities, enlists participants, and administers programs. A social program may have elements of both. In some countries such as Bolivia and Chile with social investment funds, experience has shown that it is difficult to reach the poorest of the poor with demand-driven approaches because they are often unable to organize effectively and often need special attention for soliciting funding. Those with relatively higher incomes tend to be better organized and more capable of taking independent initiatives.

Program Costs

Table 6 gives costs for programs for which data are available. The list is far from complete, and in the case of discrete social projects, it is often very unclear what is a compensatory program and what is a general development project. There is a great deal of variability in the size of the programs, with the largest ones generally located in Latin America (Chile, Bolivia, Argentina, Guatemala). In most cases, the African programs are smaller, although there are notable exceptions. The multicomponent Ghana PAMSCAD and Cameroon SDA programs are quite large by Sub-Saharan Africa standards.

Unfortunately, no complete databases are available which provide the duration of the programs, nor a breakdown of shares financed by different donors. In most cases, the World Bank has taken the lead role in assisting governments in program design. The Bank has also been the largest donor, although quite a few other multilateral and bilateral organizations are involved in these programs. The plethora of donors may make program coordination very difficult. The Bolivian ESF program had funding from 12 different donors. As will be discussed below, a very clear vision of program objectives on the part of senior Bolivian ESF managers was essential to keeping donor coordination from becoming a major problem.

TABLE 5

CLASSIFICATION OF MULTISECTOR COMPENSATORY PROGRAM DESIGN AND IMPLEMENTATION CHARACTERISTICS

Country and Program	Multi-Agency Approach		Social Investment Fund	
	Gov't. Administered	NGO Administered	Gov't. Administered	Semi-Autonomous
Argentina SEAP	X			
Bolivia ESF				X
Bolivia SIF			X	
Cameroon SDA	X			
Chad PADS	X	X		
Egypt SIF				X
Ghana PAMSCAD	X		X	
Guatemala SIF				X
Guinea SEDSP	X		X	
Guinea Bissau SIRP	X			
Honduras FHIS	X	X		X
Sao Tome/Principe SIF				X
Somalia SAF			X	
Togo GDIP			X	
Tunisia ETF			X	
Uganda PAPSCA	X		X	
Zambia SRF			X	

Source: Skillings et al. (1990) and interviews.

TABLE 6

COSTS OF SELECTED COMPENSATORY PROGRAMS BY COUNTRY

Country and Program	Cost	Donors
Argentina SEAP	$120-$450 million/year	Not available
Bolivia ESF	$150-$250 million/year	IDA, UNDP, IADB, Switzerland, AID, Germany, UK, Canada, Holland, Italy, Sweden, OPEC
Bolivia SIF	$40 million/year	IDA, Others
Cameroon SDA	$85.7 million	IDA, Others
Chad PADS	$26.9 million	IDA, Switzerland, AID, UNCDF
Egypt SIF	$572 million	IDA, Arab Fund, Denmark, EC, Kuwait, Norway, Switzerland, UNDP, AID, others not yet confirmed
Ghana PAMSCAD	$96.3 million	IDA, Canada, EC, ILO, Japan, Netherlands, ODA, OPEC, Switzerland, UNDP, UNICEF, AID, West Germany
Guatemala SIF	$95.3 million	Not available
Guinea SDSP	$13.48 million	IDA, Others
Guinea Bissau SIRP	$17 million	IDA
Honduras FAIS	$70 million	IDA, KfW, AID, Holland, UNDP
Madagascar EMSAP	$40.95 million	IDA, ADB, Others
Sao Tome/Principe SIF	$8 million	IDA, Others
Senegal AGETIP	$33.3 million	IDA, ADB, Japan, Others
Senegal DIRE	$11.4 million	IDA, ADB, Islamic Development Bank, UNDP
Somalia SAF	$2.7-4.2 million	ASAP Credit, ADB
Togo GDIP	$6.7 million	IDA
Togo TEVTP	$15.7 million	IDA, EC, Local
Uganda PAPSCA	$106 million	IDA, ILO, ODA, Sweden, UNDP, UNICEF, AID, various NGO's
Zambia SRF	$46.4 million	IDA, EC, Norway

Source: Skillings et al. (1990) and interviews.

PART FOUR

EXPERIENCE WITH DIFFERENT TYPES OF INTERVENTIONS

This section reviews experience in several countries with compensatory interventions at the policy and program/project levels. Projects and programs are roughly divided according to whether they are designed as multisector programs or sector-by-sector stand-alone activities undertaken during a period of structural adjustment.

MULTISECTORAL PROGRAMS

Since roughly 1987, the greater emphasis on integrating the needs of the poor into the structural adjustment process has increasingly been operationalized through multisectoral programs (MSPs). As stated in Part Three, MSPs have been initiated in at least 24 countries within the context of adjustment. MSPs may be broken into two broad categories: (1) social investment funds administered by a central body, either within government or semiautonomously; and (2) multicomponent, multiagency programs overseen by one ministry, but with a series of projects implemented by several line ministries. Although many MSPs have been recently initiated or are currently on the drawing board, only a handful have been studied in any depth. In this section, a case study approach is employed to examine two MSPs — one social investment fund (the Bolivia ESF) and one multiagency program (the Ghana PAMSCAD).

Social Investment Funds: The Case of Bolivia

The most studied MSP is the Bolivian Emergency Social Fund (ESF). It was the first program to receive significant World Bank support for the purpose of protecting the losers from adjustment. A.I.D. was also an important donor.[1] The ESF is also generally considered one of the most successful compensatory programs because it was perceived as accomplishing a great deal in a short period of time, and with a fair degree of integrity. Although few observers would argue that the ESF should serve as a blueprint for MSP interventions elsewhere, discussing its strengths and shortcomings may be valuable for assessing the probability of success in implementing MSPs in other countries.

The ESF was established by the Bolivian government in 1986 to reduce the social costs resulting from the severe economic downturn of the 1980-1985 period, and to protect the poor and others against potential negative impacts of the macroeconomic stabilization and structural adjustment program that was initiated in late 1985 with IMF and World Bank support. This program, the Bolivian New Economic Policy (NEP), had as its primary purpose the reigning in of hyperinflation, which had exceeded 8,000 percent in 1985 and paralyzed economic activity.[2] Hyperinflation was the result of the previous government's inability to reduce the fiscal deficit, which totalled 27 percent of GDP in 1984.

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[1] Other donors included the UNDP, the Inter-American Development Bank, Switzerland, Germany, Great Britain, Canada, Holland, Italy, Sweden, and OPEC (Table 6).

[2] An exact national figure is unavailable. This estimate is based on changes in the La Paz CPI (Cariaga, 1990).

Major elements of the NEP included:

- Significant exchange rates devaluation, which was accomplished through daily currency auctions run by the central bank. This had the effect of narrowing the margin between the parallel and official exchange rates to 1-2 percent;

- Elimination of all subsidies, including those on food, public services, and utilities;

- Freezing of public sector wages and removal of numerous expensive perquisites (such as bonuses, supplementary wages, and free commodities);

- Tax reform, including establishment of an indirect tax on fuel, a value-added tax, and improvements in collection procedures;

- Imposition of a single uniform tariff, which substantially lowered effective protection;

- Interest rate liberalization and removal of restrictions on foreign currency transactions; and

- Removal of an extensive network of price controls.

The lack of detailed household income and expenditure data make it difficult to precisely determine the effects of the NEP on socioeconomic groups in Bolivia. Nevertheless, several qualitative statements can be made with some confidence. The World Bank's 1990 poverty assessment came to the following tentative conclusions.[3]

Hyperinflation was immediately arrested. Consumer price increases in La Paz were cut to 66 percent in 1986 and 11 percent in 1987. In general, this had a positive impact on output and welfare because it became no longer necessary to engage in time-wasting activities such as queuing up to hoard commodities as soon as consumers got cash. In addition, the normal trade-off that exists between lowering inflation and growth did not apply in this hyperinflationary climate. Prior to adjustment, growth had completely stagnated, real incomes had fallen, and people had ceased using the local currency as a medium of exchange, basing transactions on either foreign exchange or barter. This meant that changes in relative prices denominated in the local currency had little meaning, except for official state transactions.

Although not quantifiable, the Bank authors hypothesize that the positive effects of stopping hyperinflation were perhaps greatest for the poor. This was because price stability reduced the need for timely market information, and the poor usually had the least access to it.

According to the World Bank team, comparing parallel exchange rates prior to adjustment with official rates during adjustment indicates that there was significant real exchange rate appreciation. This was partially due to a rise in demand for domestic currency as stabilization made it more attractive to hold it than during the hyperinflationary period. In the agricultural sector, this contributed to a fall in real prices and output of commodities primarily produced by small highland farmers for the domestic market (corn, wheat, potatoes, onions, and so on) when compared with the 1980-85 period. In addition, there is anecdotal evidence of increased illegal food imports from neighboring countries as the competitive position of Bolivian food crop production eroded. At the same time, there was a rise in export crop

[3] World Bank, "Bolivia: Poverty Report," October 1990.

production (quinoa, fruits, and coffee, for example). These came mainly from estate agriculture (although some quinoa and coffee emanated from smallholders).

Small farmers also suffered from imposition of the fuel tax due to the importance of truck transport for the marketing of their surpluses. On balance, the dual effects of exchange rate appreciation and higher fuel prices hurt small farmers who marketed nontradables.

Exchange rate developments probably helped the urban poor as their purchasing power expanded. Food became cheaper due to the sharp increase in unrecorded food imports. With a stronger domestic currency, they paid less for these imports than under previous the previous parallel exchange rate.

The fairly flexible nature of labor mobility in Bolivia may have resulted in some migration from nontradable crop producing highlands to export crop producing in the lowlands, and there is some evidence that such was occurring prior to adjustment. However, for those remaining in highlands, there were few alternatives to agriculture, and these were not terribly remunerative (one example being cross-border trade where people carried goods on their backs — popularly known as the "ant trade").

Reduction in public sector employment adversely effected redundant workers in that sector. Most prominent among these were the 23,000 laid-off COLIMBOL employees (the tin mining parastatal) who had few transferable skills. However, several points need to be noted here. First, former miners received very generous severance payments ($3,000 per employee). Second, even in the absence of the NEP, substantial layoffs would have been inevitable as world tin prices dropped significantly in 1986, and COLIMBOL had been running massive deficits even prior to the collapse of tin prices ($2 million per month in late 1985). The fall in mining output and employment had important negative multiplier effects on those who provided ancillary services to the mining sector and its employees. The miners also had limited alternative employment opportunities as they had few transferable skills, and investment expansion was weak.

The burden from tax reform (a value-added tax on formal sector transactions and a complimentary tax — 10 percent tax on income) probably hit formal sector workers and public employees the hardest. Informal sector participants continued to be able to evade most formal taxation.

Removal of price controls reduced opportunities for corruption and by bringing activities into the open, lowered transactions costs. This may have helped the poor somewhat, although they had successfully evaded price controls in the past (but presumably at a cost). Although impossible to quantify, public officials who had previously been on the receiving end of bribes in exchange for evading controls were the biggest losers.

Therefore, the major short-term losers from adjustment may be tentatively identified as severed public and parastatal employees, remaining public sector employees who saw their wages frozen and lucrative perquisites removed, rural highland populations primarily dependant on nontradable crop production for their incomes, and public officials who lost rents as economic decision making became more an affair of the market than of the government.

Run as a semiautonomous agency and enjoying support from the highest political levels, the ESF was designed to be a temporary, quick-disbursing program for funding relatively small and simple projects submitted by public, private, and voluntary agencies.[4] As well as creating infrastructure, it was also an intensive employment program that sought to reduce unemployment, at least until the economy

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[4] Much of the following discussion of ESF accomplishments is derived from Jorgensen et al. (1991).

returned to a growth path. It was to cease operation by the end of 1989, but was later extended to March 1991, after which its mandate was switched to various permanent government agencies.

As of April 1990, the ESF had approved over 3,000 projects with a total value of $181.1 million. Of these, approximately 1,700 had been completed for a value of $100 million. At its peak in September 1988, 20,000 people were employed, and a cumulative total of 383,000 person-months of employment had been generated by April 1990. Of all Bank-supported MSPs to date, none comes close to the ESF in the sheer volume of employment generated and infrastructure created. Most funding (87 percent) was devoted to the construction and rehabilitation of social and economic infrastructure such as schools, health clinics, water and sewage facilities, and roads. The remaining 13 percent of funds were disbursed for provision of social services, small credit programs, and cooperative development. Table 7 provides further detail on the magnitude of ESF accomplishments.

How were ESF administrators able to accomplish so much in such a short time period, and how successful was the ESF in aiding its intended beneficiaries and the losers from adjustment (not necessarily the same groups)? To answer the first question, it is instructive to examine the conception of the program and the personality of its first chief administrator.

The idea of the ESF was originally conceived by the Bolivian government — not donors. This democratically elected government had perhaps a greater amount of popular legitimacy than most governments that undertake adjustment programs. The president, Victor Paz Estenssoro, was widely considered to be the father of the 1952 revolution that had ushered in a legacy of statist economic policies. However, he had no government role during the 1980-85 economic crisis, and was therefore untainted by association with the military regime that had been in power at that time. His unique status enabled him to "undo" his own revolution (Graham, forthcoming). He had a strong working relation with the legislative branch, and recognized the need to assist the poor who had greatly suffered during 10 years of economic decline.

Only after the initial vision had taken root in the government and had the enthusiastic support of the president, did Bolivians approach international organizations such as the World Bank and the UNDP for assistance. The first executive director of ESF, Fernando Romero, was dynamic and persuasive in advocating the ESF to government officials and potential donors. One of the reasons for the initial success of the ESF was that it had a great deal of political support at the highest levels. However, without a forceful personality such as Romero at the helm and the commitment of the president to keep it apolitical, this could easily have become a double-edged sword. Romero was successful at resisting efforts to make ESF a tool for political patronage and politicians were aware that he had the backing of the president on this. Therefore, projects were appraised more on technical merits than is typically the case.[5] It has often been observed that one element of successful, broad-based development programs (the Grameen Bank in Bangladesh, the Karnataka Dairy Cooperative in India, and so forth) is the presence of a charismatic and visionary leader at the inception. The ESF at least partially conforms to this pattern.

[5] For each potential project, ESF appraisers relied on a handbook which specified unit costs for elements of each type of infrastructure project (road improvement, schools, housing, sewers, water, etc.). Rudimentary internal rate of return analyses were also performed to screen projects.

TABLE 7

BOLIVIA ESF MATERIAL ACHIEVEMENTS AS OF APRIL 1990

Activity	Quantity
Social Infrastructure ($80.9 million, 45 percent):	
Meters of Sewerage and Water Systems Installed	181,038
Low Income Houses Constructed	7,084
Health Posts Constructed	259
Schools Constructed	224
Economic Infrastructure ($76.2 million, 42 percent):	
Blocks of Urban Streets Paved	2,760
Kilometers of Inter-City Roads Improved	6,368
Meters of Irrigation Works Installed	30,775
Social Assistance ($17.1 million, 9 percent):	
Meals (Including School Breakfasts)	4,426,137
School Textbooks Provided	640,000

Note: A remaining $6.9 million (4 percent) was devoted to production support projects.

Source: Jorgensen et al. (1991).

One other point that deserves mentioning with regard to ESF inception — its originators did not initially view it as a means of alleviating the social costs of adjustment. The program gained its original sense of urgency from the severe economic turmoil that occurred in the period prior to adjustment. It was only after World Bank funding was granted in late 1986 and the fallout from the 1987 publication of *Adjustment With a Human Face* that ESF became characterized as a device for compensating the losers from adjustment.

The ESF administration was deliberately placed outside of normal permanent line ministry channels. Because speed was of the essence and there was a high-level political imperative to show concrete and legitimate impact as soon as possible to garner support for the economic reform program, it was judged that the government agencies were too slow and inflexible, and that this would cause contracting procedures to drag on interminably and be patronage based. Moreover, the "demand-driven" philosophy of the program's originators was foreign to the more authoritarian and paternalistic attitudes of ministry officials when it came to dealing with the poor. Finally, operating outside of civil service pay scales also enabled the ESF to attract a much higher caliber of staff than would have been possible if ESF had been placed within the government. If ESF had been initially envisaged as a potentially permanent institution, it probably would have been placed within a ministry or split up amongst several public agencies.

Because ESF's leadership had a clear and consistent vision of its mission, it was effective in "managing its donors." Donors were obliged to follow ESF procedures and were not allowed to design or identify their own pet projects. Donor funds either entered the common pool of funds, or were targeted to specific categories of projects (but not to individual projects of the donor's choosing).

The ESF leadership had a coherent vision of the public sector's role in encouraging private sector development. Here we define the private sector broadly as not only businesses, but also private voluntary organizations, and grassroots organizations. Whereas there often exists a mutual distrust and ambivalence between public and private entities, here there was more of a partnership. This reinforced the overall adjustment program which sought, at a policy level, to put in place the proper economic incentives to encourage private sector development.

Although ESF operated across sectors (health, education, agriculture, roads), projects within sectors were straightforward in nature and efforts to standardize contract costing procedures were successful. Nevertheless, something more than simple construction or employment creation was created. According to Moser (1991), the ESF strengthened the ability of private groups and local governments to administer projects, and organize and solicit for state funds for social services.

Finally, the ESF was a major factor in fortifying the political sustainability of adjustment process. While many observers point out that the ESF only made a dent in unemployment, Graham (forthcoming) quotes ESF executive director Romero as saying: "The perception that the government is doing something to make the adjustment process less painful or costly is important to the political process of sustaining development." In the 1989 elections, 65.4 percent of the electorate voted for parties that had committed themselves to continuing the reform program (Cariaga, 1990). Although a significant share of this favorable popular response may be attributable to the NEP's success in ending hyperinflation, most observers believe that the ESF also made an important contribution to keeping the adjustment program on track.

The above discussion addresses the question of why the ESF was able to accomplish so much in such a short time span. There were however some shortcomings. These are detailed below.

The focus of this paper is on compensation. To the extent that losers from adjustment and winners from the ESF can be identified, it appears that the ESF was not terribly effective as a compensatory mechanism.

There are three principal ways that Bolivians could have benefitted from ESF operations: directly and immediately, from ESF wages received in exchange for construction labor; directly, but probably with a lag, if living in a community where ESF-sponsored infrastructure was created; and indirectly, from the second-round effects of ESF workers spending their wages on goods and services with local value-added. As discussed above, the main losers from the NEP can be tentatively identified as severed public and para-public employees, remaining public sector employees who saw their real wage and nonwage incomes fall, rural highland populations who were primarily producers of nontradable crops, and public officials who lost rents.

Due to data problems, the evidence on how the losers from adjustment correspond to the beneficiaries of the ESF can only be roughly discerned. In terms of compensating severed public sector workers, the ESF did not perform well. One element of the adjustment package involved reducing the number of tin mining parastatal employees from 30,000 to 7,000. The 23,000 redundant workers each received severance payments of $3,000.[6] However, few of them participated as these payments were very generous (five times the per capita GNP). The relatively low wages paid for unskilled construction work and the incompatibility of their skills resulted in only 10 percent of the miners participating (Jorgensen et al., 1991). The vast majority relocated in the informal sector. This is probably not a terribly significant shortcoming of the program if the goal was to alleviate the suffering of the poor. The most visible direct losers from the adjustment program were left well enough off so that it was not imperative to seek further public assistance beyond their severance payments. Nevertheless, it is interesting to note that Jorgensen et al. (1991) make it very clear that one of the prime political motivations for the establishment of the ESF was to respond quickly to the public demonstrations of miners. These had threatened to topple the government early in the adjustment process.

With regard to remaining public sector employees who lost income from wage freezes, and reduced nonwage income (both legitimate and illicit as in the case of lost economic rents), the ESF provided few, if any, direct employment benefits. To the extent that they lived in communities that received ESF-sponsored social infrastructure, they may have received some indirect benefits.

As for direct wage benefits to non-tradable-producing farm households, the ESF almost certainly failed. The ESF was more successful at generating work for unemployed construction workers, whose typical profile was urban, male (99 percent), married, head of household, and the sole income earner in the family. They were by and large from the poorer segments of the urban population (Graham, forthcoming); therefore, they considered ESF wages more attractive than did the former tin miners. Separating out how much of their suffering was due to the general economic decline from the adjustment program is difficult. Some construction workers would certainly have been adversely affected by the drop in demand for their services occasioned by the closing of mines in the highlands (a post-1985 development), but to what extent is hard to say.

Data problems make it more difficult to gauge what indirect effects these were for rural nontradable producers. However, Jorgensen et al. provide evidence that ESF benefits were distributed rather regressively (in terms of project disbursements to relatively better-off and worse-off administrative areas). In dividing departments into five "poverty areas," they found that per capita disbursements to the

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[6] These payments were not part of the ESF program, but were mandated by the government's labor laws.

least poor area totalled $23.97 and only $9.45 to the poorest area, with a national mean of $18.20. This finding, combined with anecdotal evidence that the ESF's demand-driven approach was not terribly successful in identifying and funding projects in poor and rural areas, leads one to tentatively conclude (but admittedly with very little precision), that the segment of the rural population most hurt by adjustment measures received little "compensation" from the ESF. However, in all fairness, reaching these populations was difficult, ESF administrators were aware of the problem and tried to deal with it, and the few projects that reached these remote areas were among the first in memory due to long years of official neglect.

It remains unclear whether a demand-driven program can effectively target the poorest of the poor (who by no means always lose from adjustment, but may have in the Bolivian case). To reach them, it may be necessary to revert to a more "supply-driven" or "top-down" approach, essentially designing projects for the poor and assisting closely in their implementation. As with any top-down approach, this runs the risk of imposing what is "best" from the outside. Moreover, because it generally takes more time and effort to reach the poorest of the poor, one may question the extent to which short-run quick-disbursing crash programs can effectively meet their needs.

Other weaknesses of the ESF center around implementation problems, a lack of clarity about its long-term implications for poverty alleviation and public action, and increased politicization of decision making.

The most commonly cited shortcoming is that the pressure to move money quickly to demonstrate that the government was serious about redressing the economic situation resulted in a project portfolio of uneven quality. There were numerous incidents of ESF staff granting funds to activities that they knew to be uneconomic, redundant, or technically below standards.

The ESF has also been criticized because it operated outside of normal government channels. Instead of attempting to improve the capacity of existing institutions already possessing social service mandates, a new institution was created in an effort to get quick results. Although the ESF was never intended to be permanent, the danger exists that local organizations, now possessing a greater capacity to seek support for social services, will simply be frustrated as ESF procedures and lessons learned fail to be incorporated by the central government agencies that have taken on some of ESF's functions.

Little on-the-job training occurred as the work demanded only minimal skills and because most workers were recruited directly out of the construction industry, they already possessed the requisite skills. Therefore, the program did little to enhance long-run employment prospects of those who could have perhaps benefitted from vocational training, nor did it effectively reach the poorest segments of society.

Although director Romero was initially successful at maintaining ESF as an apolitical institution, this became increasingly difficult to resist as the ESF developed a reputation for success and the various competing political parties rushed to take credit. This was made even harder during the 1989 local elections when competing pressure for patronage became severe. There was evidence that the ESF was succumbing somewhat to party politics and the staff appeared to be less protected from such pressure. The message here is obvious — even the most successful organizations are fragile, being very dependant on the presence of a few individuals to maintain integrity. This is as much a problem under democratic regimes as under authoritarian ones.

Multisector, Multiagency Programs: The Case of Ghana

Multisector programs are basically of two types: social investment funds similar to the Bolivian ESF where a single agency makes grants to local organizations for projects in the various social sectors, and the multiagency program where a coordinating body oversees projects that are implemented by various social ministries. The longest running multiagency MSP is the Ghana Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD), which was initially designed in 1987.

Adjustment in Ghana began in 1983 with the Economic Recovery Program (ERP), which was developed in consultation with the IMF and the World Bank. The Structural Adjustment Program succeeded it in 1987.[7] Components of the Ghanaian adjustment effort have included:

- Exchange rate devaluation, initially by official devaluation, and later by establishment of a phased-in foreign currency auction system that initially covered a limited number of external transactions; by early 1988 nearly all were covered. In addition, private foreign exchange bureaus have been created for free buying and selling of foreign exchange;

- Improvement of cocoa producer incentives by eliminating export taxes, increasing producer prices, and reducing the role of the Cocoa Marketing Board in production, input provision, and output marketing. The Board's overhead costs were reduced by laying off over 17,000 employees and eliminating input subsidy payments to producers;

- Divestiture or liquidation of over 35 state-owned enterprises by 1990 with an additional 40 planned divestitures in 1991 and 1992;

- Public sector retrenchment which resulted in the severance of 26,000 workers in 1989 and 1990, and increases in pay for remaining civil servants, especially those at more senior levels;

- Increased public expenditure on rehabilitation of economic and social infrastructure, resulting in public investment rising from virtually zero prior to adjustment to 7.4 percent of GDP in 1990;

- Interest rate liberalization;

- Removal of most price controls; and

- Tax and tariff reform.

Effects of adjustment on most socioeconomic groups have generally been positive. Higher cocoa prices resulting from devaluation and more efficient marketing have benefited rural producers, both poor and nonpoor. Health and education indicators show positive trends due to higher incomes and increased social sector public investment.

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[7] Most information in the description of elements of the adjustment programs is from the World Bank study, "Ghana: Progress on Adjustment," April 1991.

Severed public and parastatal employees have lost most from adjustment. Other losers include officials who lost economic rents from their previous command over artificially cheap foreign exchange, import licenses, price controls, subsidized credit, and other administratively rationed items.

Since its inception, the $86-million PAMSCAD has been hampered with coordination problems and delays in receipt of donor funding. At one point, PAMSCAD was made up of 23 project interventions across 9 sectors, with 13 different national agencies involved in program implementation, and 13 different donors, including A.I.D. and the World Bank.[8] Program activities are in various stages of implementation; some components have operated several years while others only began in 1990. The Ministries of Finance and Economic Planning, and Local Government are jointly responsible for overall coordination while the individual projects are carried out by the relevant functional ministries.

In August 1990, a multidonor team reviewed the program. Representatives from the World Bank, A.I.D., CIDA, ODA, UNDP, UNICEF, and the WFP participated on the team. Their findings are discussed below.

The program was too complex, with too many government agencies pursuing separate agendas and too many donors providing financing with a wide array of different administrative procedures. The review team recommended cutting interventions from over 20 to only four.

For several reasons the program had not fulfilled one of its objectives, which was to be quick-disbursing and targeted to the short-term needs of vulnerable groups — both those made vulnerable specifically from adjustment and the chronic poor. For most donors, lags of 1-2 years between making funding pledges and actual disbursement had occurred. Transfer of funds between the various bank accounts set up had been inordinately slow. This was especially true in the case of counterpart funds where delays of more than a year resulted in serious depreciation of the value of local currency generations before reaching projects. Finally, nearly half the funds disbursed as of mid-1990 (48 percent) had gone to logistical support to ministries (euphemistically referred to as "institution-building").

Decision making was overcentralized, with too much power taken at the national and regional levels. For one activity, the Community Initiatives Project which was to function as a demand-driven social investment fund, district-level officials often submitted project lists to central authorities for funding while ignoring project requests at the village level.

Additional problems included ineffective targeting of vulnerable groups, both by socioeconomic status, gender, and geography; and insufficient monitoring of program impact on addressing the problems of vulnerable groups. Despite stated objectives about keying on the vulnerable, it seems fairly clear that the primary design stage priority was to blanket the entire country with projects, rather than target poorer regions or vulnerable socioeconomic groups. For example, the Community Initiatives Project was designed to operate in all 110 districts of Ghana's 10 regions. The various agricultural and small enterprise credit programs were also designed to be nationwide. This not only resulted in poor targeting, but also increased the difficulty of administering the program.

The longest running program subcomponent is the Priority Works project which, as of August 1990, was one year behind schedule due to financial and administrative bottlenecks. The program's objective was to create 10,000 productive jobs over a two-year period through labor intensive public works projects. Below market wages were instituted as a self-targeting mechanism so that the poor would be more apt to participate. According to Moser (1991), limited data suggest that some urgently needed

[8] Table 6 has the complete list of donors.

temporary wage labor has been provided, as well as benefits to construction contractors who had suffered from the economic downturn. The prospect for skills transfer is probably limited because most of the public works activities call for unskilled labor.

Another activity is the Credit Scheme for Small Scale Enterprises component whose principal original objective was to provide lines of credit to the redeployed and unemployed so that they could form new small businesses in urban and rural areas. A $2-million revolving fund was created for this purpose. As of March 1990, 109 loans had been approved, with only 23 as new businesses, while the remaining 86 were for pre-existing businesses (Moser, 1991). For the most part, direct beneficiaries are not the poorest segments of the population nor the formerly unemployed,[9] but rather small entrepreneurs who might have had to close or reduce operations to more modest levels in the absence of credit. Most of the funds have been used as working capital (not investment capital) in metal and leather work, auto mechanics, bakeries, poultry raising, and carpentry. According to Moser, the absence of a training component is a serious drawback of the credit program because most of these small entrepreneurs lack business and managerial skills as well as familiarity with credit application procedures. As of early 1990, loan repayment had been slow, adversely affecting replenishment of the revolving fund.

A UNDP team evaluating the Social Dimensions of Adjustment Program (UNDP, 1990) is very tough on MSPs of the multiagency variety. The team criticizes them as "not bounded by any particular set of rules or governing principles." In most cases, they are a hodge-podge of social programs having little to do with identifying and helping those hurt by adjustment, combined with a smattering of projects intended to assist the direct losers from adjustment (employment programs for laid-off public employees, etc.). Although individual components may have merits as stand-alone activities, the multisector approach generally ignores all the lessons from the 1970s on integrated rural development programs that call for simple and clear design. Additional misgivings include openendedness in fund allocation, difficulty of monitoring and evaluating impact in the absence of clear objectives, lack of coherence among program subcomponents, and the difficulty of coordinating activities among all the host government and donor institutions implicated.

A review of the variety of PAMSCAD subcomponents confirms the UNDP evaluators' claim that, while individual components may have merits as stand-alone projects, there is little overall cohesion and connection to adjustment. While public works and credit programs may be argued as alleviating the pain of economic reform, deworming programs and small-scale gold mining projects may push the linkage a bit too far (Alderman, 1991). The 1990 review team recommended cutting program components to four. These included a self-help or social investment fund, a hand-dug well and sanitation program, an agricultural credit program geographically targeted to poor areas, and a nonformal education program. Perhaps only one of these (the agricultural credit program) could be linked to mitigating the social costs of adjustment. Ironically, the team recommended terminating the only "pure" compensatory program, the redeployment program for former civil servants. The team argued that they should remain eligible for PAMSCAD activities, but not receive any preferential treatment. Clearly, the desire was to use PAMSCAD as a poverty alleviation program, relegating its compensatory role to the backburner.

The public works and credit program experience highlights one problem related to the short-run nature of MSPs. There is often a failure to incorporate widely accepted lessons in the design of individual subcomponents. As a general rule, successful implementation of certain types of interventions require a long-term perspective.

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[9] Data are lacking on the potential multiplier employment effects of financing existing businesses.

For example, credit programs for small-scale entrepreneurs are rarely successful when undertaken as crash programs of two to three years' duration. Extending credit to people with no prior business experience (former civil servants, recent university graduates, laid-off miners, and so on) is generally a bad risk and will rarely result in sufficient numbers of "bankable" requests or acceptable repayment rates. This issue will be discussed in greater detail in the section on the Senegal redeployment program. Simply stated, a grassroots credit scheme designed in the context of structural adjustment is no different from one designed in its absence (except for the fact that the policy environment under adjustment may be more conducive to success). Lessons from successful interventions (the Grameen Bank and others) are well established and include the facts that commitment must be long term; subsidized credit is financially unsustainable and often results in the exclusion of the poor; poor women are often better credit risks than affluent men; and there are numerous strategies for assuring good repayment rates that involve minimal levels of policing, coercion, and overhead costs. In summary, credit schemes may be completely out of place as short-run unemployment reducing compensatory measures, while at the same time being perfectly valid long-run poverty alleviation or private enterprise development activities if properly designed.

The same general lesson applies to public works employment schemes where short-run objectives of income relief are often unrealistically linked to long-term employment enhancement. While both goals are laudable when pursued separately, they usually conflict when combined under the same activity. If the short-term goal is to employ as many of the poor as possible, and self-targeting is achieved through payment of extremely low wages, the bulk of wages will be allocated to unskilled labor and little skills transfer will take place. Most skilled labor will be performed by those already possessing the requisite skills. This has been the experience in Ghana, Bolivia, and Chile (to be discussed below). If the long-term goal is human capital investment, then traditional vocational training and other educational interventions may be more appropriate. Again, the fact that these programs are undertaken within the context of structural adjustment does not imply a different design.

SECTOR-BY-SECTOR PROGRAMS

For purposes of definitional clarity, this report identifies a multiagency MSP as a program initially designed within the context of structural adjustment as an integrated package with an officially designated coordinating body. In practice, it may be difficult to separate sectoral programs from multiagency MSPs. If central coordination of the program is poor and there is no clear complimentarity between the projects, then there are no concrete differences distinguishing MSPs from individual sector programs. Such arrays of projects are "programs" in name only.

Sectoral programs have the advantage of being much easier to implement than multisector programs. Usually only one ministry is involved and implementing agents are of the same general technical background (agriculturalists, public health experts, educators, etc.). There may also be fewer donor agencies. Obviously, coordination is much simplified under such circumstances.

The major drawback is the absence of an integrated approach if one is attempting to wed short-term relief to longer term development problems (as is often the case). While one might argue that the success of short-term compensatory programs should not be evaluated in light of their potential impact on longer term problems of poverty, certain categories of compensatory programs (such as employment programs for civil works construction and rehabilitation) are targeted primarily to the poor. In such cases, it is legitimate to consider the long-term effects of short-term programs.[10]

If one accepts the notion that poverty alleviation requires a multifaceted strategy involving (at a minimum) interventions related to income generation (and agriculture in rural areas), education, and health, then addressing each of these in isolation has obvious shortcomings. This may lead to defining the problem in narrow technical terms (cost-effective targeting of the poor, increasing crop yields, building roads to correct engineering specifications, ignoring the role of income in sustaining social service consumption, etc.) while neglecting more fundamental growth and developmental concerns. Ultimately, for those compensatory programs primarily addressed to improving the lot of the poor, short-run relief concerns must be cogently linked to an understanding of the causes of poverty and a long-term public commitment to poverty alleviation. This is the main lesson that can be extracted from the following discussion of the Chilean experience with employment generation under the Pinochet regime.

The Chilean Emergency Employment Programs

The Chilean experience with social safety net programs extends back to the 1920s. However, prior to the military takeover in the early 1970s, much of the financial assistance went to the nonpoor, especially miners and rail workers due to their greater political strength. Reorienting these social expenditures was a major element of the Chilean adjustment experience.

Major elements of post-1973 Chilean adjustment and stabilization programs are summarized by Meller (1990) and include:

- Movement from a multiple exchange rate system to a unified one;
- Replacement of high tariffs (average 94 percent with maximum of over 200 percent) and quotas with a flat import tariff of 10 percent (automobiles excluded) and removal of nontariff barriers;
- Significant public employment reductions and various tax reforms which led to fiscal surpluses by 1979-81 after massive prior deficits;
- Privatization which reduced the number of state-owned enterprises from 500 to 25;
- Extensive domestic and external capital market liberalization which included market-determined interest rates, reprivatization of previously-nationalized banks, removal of state credit controls, removal of controls on external capital movements, and shift of demand for external credit from the state to the private sector; and

[10] In this section, the discussion on Chile will consider the poverty alleviation issue, while the Senegal discussion will not. This reflects the fact that the Chilean program targeted the poor. In contrast, the Senegal program targeted former public employees and university graduates who were better-off relative to the rest of society.

- Forcible repression of union activity, end of collective bargaining, relaxation of labor laws related to dismissal procedures, minimum wage restrictions, and nonwage benefits. These led to severe cuts in real wages.

The Chilean experiment has been categorized as a program of monetarist orthodoxy which simultaneously contracted demand and opened the economy to external competitive forces. The initial effect was a surge of unemployment that grew from 4.8 percent of the population in 1973 to 17.6 percent in 1975.[11] By 1975, real wages had fallen to only 62.9 percent of their 1970 level and through 1985, never recovered to their 1970 level. At the same time, there was a marked improvement in most social indicators over their pre-1973 levels. Neo-natal infant mortality fell steadily from 31.7 per 1,000 live births in 1970 to 9.9 per thousand in 1985. Similar trends were apparent for all other age cohorts to the age of 14. Percentages of undernourished 0-5 year olds (as recorded in Ministry of Health establishments using weight-for-age criteria) also fell from 15.5 percent in 1975 to 8.7 percent 10 years later.

Despite these objective successes, a great deal of controversy swirls around Chilean social programs instituted under the Pinochet regime. The Pinochet regime was successful in more effectively targeting assistance to the poorest of the poor and excluding the nonpoor. However, the regime's overwhelmingly authoritarian approach created a dilemma: the poor gained greater access to public assistance, but in a way that created dependency as they were not called on to seek solutions to their own problems. Moreover, the government made it clear that there was social stigma attached to enrolling in public programs, and this made it even harder for participants to break out of poverty.

Beginning in 1974, the government initiated efforts to thoroughly revamp safety net programs in the areas of public works employment, mother/child feeding, school lunches, housing, health care, and social security. According to Graham (1991), the military had two major goals in restructuring these programs. The first was mainly political: to curb the power of labor unions which had constituted the backbone of the previous Allende regime's support. The second goal was more economic and technocratic: to get relief services to the poor as cost-effectively as possible.

The new approach to social programs was partially implemented through the Emergency Employment Program (EEP) that was comprised of two elements — the Minimum Employment Program (PEM) and the Occupational Program for Heads of Household (POJH). At their height in 1983, these programs employed 500,000 people, or 11 percent of the Chilean workforce. They were by far the largest employment programs in Latin America.

Targeting was of two types — self-targeting and administrative. The PEM effectively self-targeted beneficiaries by setting wages at 25 percent of the legal minimum and also required that participants be unemployed. POJH administrators determined eligibility for social programs with a sophisticated poverty index based on a household survey administered by municipalities which placed households in income deciles. The EEPs were very effective in providing employment to women who were institutionally discriminated against in formal labor markets. By 1983, approximately 75 percent of all participants were women.

All social programs were under the control of regional authorities and administered by municipalities. Although decentralization was one of the stated goals of the EEPs, in practice, they simply became a vertical extension of central government authority as all municipal officials were

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[11] This figure includes those employed by the Emergency Employment Programs, the majority of whom would almost certainly have been unemployed in their absence. All figures in this paragraph are from Raczynski, 1987.

appointed by the central government whose harsh authoritarian nature prevented any development of grassroots initiatives. Instead, claimed some critics, the EEPs were used as tools to discourage such efforts.

EEP efforts were viewed purely as short-term relief. There was no recognition that EEP investments could be used to improve the lot of the disadvantaged beyond the direct employment benefits, nor were there any long-term strategies addressing the problem of reducing the dependency of the poor on public assistance beyond counting on trickle-down from overall economic growth. According to Graham, the notion of human capital investment was foreign to EEP administrators. This was reflected in the highly regressive nature of some of the public works projects chosen for EEP labor: an air force aerodrome, an access road leading from the national airport to the most affluent Santiago suburbs, amphitheaters, and football stadiums.

By and large, the EEPs did not improve the future earnings prospects of participants as the skills required were minimal and on-the-job training was not a feature of the programs. Ideally, short-run relief should increase self-help capacity, but many participants were stigmatized as lazy and incompetent because of their association with EEP.

Ultimately, the EEPs failed to provide a coherent strategy for linking short-run relief and long-run poverty alleviation. While some might counter that addressing poverty alleviation concerns is irrelevant in the context of short-run compensatory programs, it makes little sense to ignore the potential long-term consequences of short-term programs. In the short-run, the EEPs played a role in reducing unrest during economic hard times, providing much needed primary income to female-headed households and supplementary income to women in male-headed poor households. While a top-down authoritarian approach might be suitable for emergency relief, it is clearly incompatible for poverty alleviation where the objective should be to assist people in developing the capacity to solve their own problems.

The Senegal Civil Servant Redeployment Program[12]

Senegal has a long history with structural adjustment lending, beginning with SAL I in the early 1980s and currently engaged in its fourth loan. Despite this long history, many observers seriously question whether the Government of Senegal (GOS) has been consistent in its commitment to economic reform.[13]

Over the years, central elements of Senegalese adjustment have included rationalization of public and parastatal agencies through termination of redundant staff, elimination of direct and indirect subsidies, and implementation of contract plans between the central government and parastatal bodies. As in other CFA zone countries, the adjustment process has been complicated by the fact that exchange rate policy is not an available tool for increasing the competitiveness of the Senegalese productive sectors.

Although there are no firm current figures on the number of public and parastatal layoffs resulting from adjustment, it does not come close to that of Ghana. From a high of 68,800 in 1985, civil service

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[12] Much of this section is based on February 1992 interviews with Carol Graham (Brookings Institute) who did field work in late 1991 in Senegal under World Bank funding, and Eliane Karp-Toledo, the World Bank task officer for the program.

[13] For a detailed discussion of this complex issue, see Berg and Associates, 1990.

employment had fallen slightly to 66,500 in 1988.[14] Senegalese authorities have been quite effective in resisting donor initiatives to pare down public sector employment.

The GOS has created programs for adjustment's perceived losers, but by and large, the concern has been more with the educated unemployed than with poorer elements of society who may have been harmed by other fiscal reform measures such as reductions in fertilizer subsidies (Berg and Associates, 1990). From 1982 to 1986, the GOS spent nearly 7 billion CFAF ($20-25 million) on employment projects. Eighty percent of this was devoted to the "maitrisard" program, a program consisting of subsidized loans to recent university graduates.[15]

In 1987, the Directorate for Insertion and Reinsertion into Employment (DIRE) was created during SAL III. Loans from two credit funds, the Fonds National d'Emploi (FNE) and the Fonds Spécial (FS), were targeted to laid-off parastatal workers, civil servants, and recent university graduates. This $11 million effort was funded by the Government of Senegal, the World Bank, the African Development Bank, the UNDP, the ILO, Japan, and the Islamic Development Bank and administered by government line ministries, and provided interest-free loans ranging from $10,000 to $50,000 for the creation of small scale enterprises.

Table 8 summarizes some of the main accomplishments of the DIRE. The DIRE suffered from political manipulation, administrative problems, and poor design. Of the original $11 million, approximately $3 million simply disappeared. With the remaining money, slightly less than 500 loans were approved, and of these, 32 percent of the new enterprises went bankrupt within two years. Approximately one out of every five loans did not correspond to proper criteria and were probably granted on political grounds. Although there was a training component for assisting potential applicants in applying for loans and establishing their business, few applicants took advantage of these. Interestingly, the highest proportion of successful enterprises (and what constitutes "success" is admittedly somewhat arbitrary) were those created by former rural development parastatal agents investing in agriculture and livestock. In other words, investments were more likely to succeed in areas where the recipient already had expertise. However, this lessened their interest in training. There was no systematic monitoring of loan recipients. Although the DIRE was part of the government (as opposed to being an autonomous unit), it duplicated roles of at least four other government agencies with employment policy responsibility.

In the design and implementation of the program, little thought was given to the opportunity cost of the funds disbursed. Using various approaches, project evaluators estimated that the cost of creating nna single informal and formal sector job cost between $7,000 and $11,000 with the formal sector jobs being more expensive, although not necessarily more productive. The dubious nature of many of the businesses created, their lack of creditworthiness, and the inefficiency with which funds were administered limited any second round employment benefits for the poor that might have resulted from creating new businesses. In short, it is probably safe to say that the efficiency of this program in creating value-added was very low.

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[14] Public enterprise employment totalled 24,000 in 1984. No summary figures have been available since.

[15] University graduates may be considered to have "lost" from adjustment because, prior to adjustment, they were traditionally absorbed by the ever-growing public sector. When public sector hiring stagnated in the latter half of the 1980's, many new liberal arts graduates found themselves without options.

TABLE 8

BACKGROUND DATA ON SENEGAL DIRE ACHIEVEMENTS AS OF MARCH 1991

	Quantity
Overall Cost	$11,000,00
Potential Eligible Participants	11-16,000
Percent of Potential Eligible Who Participated	app. 5%
Loans Granted	496
Mortality Rate for Enterprises Created	32%
Jobs Created	app. 1,500
Cost Per Job Created	$7-11,000
Loan Repayment Rate	app. 10%

Source: Interviews with Graham and Karp-Toledo, February 1992.

Although there were no quantitative data available, observers strongly suspected that many of the funds were used for current consumption rather than investment. Extended-family pressures made th' almost certain. Many of the loan recipients either did not understand that they had an obligation to repay the funds or felt that they had a right to the money as laid-off public employees who had always assumed that they would have a secure government job for life.

Funds were kept in a bank account prior to disbursement, but potential loan recipients only interacted with the DIRE secretariat. The bank therefore only played the role of repository of funds, not creditor. As such, loan recipients did not face any of the rigors normally associated with getting a loan, nor did the bank have any role or incentive to screen viable loans from nonviable ones.

However, even if the project had been designed in a more "market-oriented" way, it is questionable that any commercial bank would be interested in processing these loans applications due to their management intensity and low potential "bankability." Similar problems occurred in the USAID-supported Voluntary Departure Program (PDV) in Mali where loan applications for new business creation were to be reviewed and approved by commercial banks for those who chose to leave the civil service. While a severance pay scheme was part of the program and was well-implemented, not a single loan had been granted nearly one year after the inception of the program. Banks cited low bankability of projects, lack of viable collateral, and poor dossier preparation (despite the fact that the program provided funds for dossier preparation by local studies bureaus). Program evaluators concluded that severance payments had been more successful in generating new business than a complicated training, studies, and loan program.[16]

All of these factors contributed to a very low repayment rate in the Senegal program. Evaluators estimated it to be roughly 10 percent, although poor accounting made it difficult to come up with a precise figure.

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[16] For more detail on the PDV, see Metametrics Inc. (1988).

Program evaluators identify five pre-conditions of a successful loan program for severed public employees. Unfortunately, they were all absent from the DIRE experience:

- Institutional know-how on the part of both the public and private sector on how to successfully implement such programs;
- Participation of commercial banks which have had experience in small-scale enterprise lending in a way that exposes loan recipients to the rigors of commercial lending and provides proper incentives to the bank to make viable loans;
- Establishment of clear and transparent criteria for loan approval based on potential investment profitability;
- Establishment of mechanisms for monitoring and supervision of new businesses;
- A coherent macrolevel strategy for employment promotion.

Several additional comments are germane here. First, as with the credit scheme in Ghana, one must seriously question the wisdom of waiving well-established guidelines related to successful credit program design. Subsidized credit, granting loans to people with no prior business experience, lax accounting procedures, and absence of transparent and objective criteria for loan approval can only lead to failure.

Structuring redeployment programs in a way that makes commercial bank involvement more substantial is also problematic. It is unclear how one could structure incentives in such a way that participation by commercial banks would be attractive, unless donors assume all default risk and management fees are lucrative. However, if the bank bears no risk, this defeats the objective of exposing redeployees to the real rigors of applying for commercial credit. Placing loan processing with NGOs is one possible solution, but this too raises problems. Many NGOs with experience in small scale lending programs might not view programs targeted to former civil servants as consistent with their overall objectives which are more geared towards helping the poor. In addition, NGOs would have little leverage or willingness to enforce collection of delinquent debts when the need arose. Continuing to leave this responsibility with a government agency gives rise to the standard set of political complications.

Whether the DIRE made the adjustment process more palatable is also open to question. The extreme narrowness of the beneficiary base and the presence of high levels of political cronyism would indicate that the answer is no. More fundamentally, and as alluded to above, many observers seriously question the extent to which Senegal has actually followed an adjustment process. Senegal's experience with adjustment and policy reform is more one of fits, starts, and stalls, than a linear progression onto an economic growth path. As one of the highest per capita recipients of aid in Sub-Saharan Africa, the Government of Senegal operates in an environment in which there is "lots of donors, lots of money, and a no-sanctions/soft-budget-constraint atmosphere" (Berg and Associates, 1990). Ultimately, new businesses survive best in an environment experiencing positive growth rates. No matter how well a redeployment program is designed, positive impact will be severely constricted in a stagnant economy.

In such an environment, relatively small-scale efforts run by semiautonomous bodies with motivated workers not subject to civil servant pay scales and incentive structures may achieve limited success. To some extent, this is the case with another Senegalese program, the Program of Action for Youth Employment (AGETIP), a small social investment fund run semiautonomously by a highly motivated and well-qualified staff recruited from the private sector. The Micro-Projects Unit in Zambia, a similar small semiautonomous social investment fund program, achieved a degree of success in assisting

NGOs with small projects during the Kaunda regime. This was in sharp contrast to the Social Recovery Fund, implemented within a Zambian ministry context, and fairly devoid of accomplishments.

Targeted Food Subsidies: The Mexico Tortibono Program

In efforts to reduce government spending, adjustment programs often include provisions aimed at curtailing food subsidies which constitute a major drain on public resources. Their modification or removal is often the most politically volatile component of reform packages. Although governments attempt to justify maintaining food subsidies by claiming that their removal would adversely affect the poor, there is a good amount of empirical analysis that concludes that fairly small shares of the subsidies actually reach the poor. In a political economy sense (and somewhat cynically, perhaps), if it were only the disenfranchised poor who were hurt, removing subsidies would not be so politically disruptive.

There is a vast literature analyzing the design, implementation, economic, political, and social impacts of food subsidies, and it is beyond the scope of this paper to review it. However, one or two points related to targeting of subsidies are germane to this study. Several adjustment programs have attempted to modify food rationing schemes (coupons and food stamps) by more efficiently targeting them to the poor. Such changes seek to lower government outlays as well as assure that a larger portion of the potential benefits reach the poor. While laudable from an efficiency and equity perspective, there are political problems which merit special attention.

Ribe et al. (1990) review Mexico's experience with the "tortibono" program, a geographic and commodity-based targeted food stamp program for tortilla distribution to the poor.[17] In 1983, Mexico eliminated global food subsidies as part of an adjustment package. Recognizing that this could have adverse effects on the poor, a food stamp program was instituted in 1987 which allowed recipients to purchase up to 2 kg/day of tortillas at a price 25 percent below the market price. Although the government successfully narrowed the program to the poor (albeit with some leakage), this had the effect of politically isolating it with a label as a poor people's program. As the poor lacked political voice relative to other segments of the population, the government failed to link the price of the food stamps to the price of tortillas during periods of rapid inflation, greatly reducing the real benefits of the program.

Moser (1991) also observes that geographic targeting under the Tortibono Program excluded some poor areas and the overall level of benefits were not enough to offset the purchasing power losses occasioned by the 1983 subsidy reductions. The program reached only about 24 percent of eligible families while providing, on average, 9.5 percent of the 1989 minimum wage to those who gained access to the program. The lower level of eligible families receiving assistance was mainly attributable to the fact that the state distribution outlets were accessible to only limited numbers of the poor, as well as leakages due to lax administration and political manipulation.

A similar situation occurred in Sri Lanka where a long-standing universal food coupon program was replaced by a targeted one. The value of the coupons did not keep pace with inflation, adversely affecting the poor.

One general lesson here is that any subsidy scheme that seeks to more efficiently target benefits to the poor must be viewed within a political economy framework, as opposed to strictly technocratic analysis (Kanbur, 1988). Because such targeting involves transfer of resources from more powerful to

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[17] Corn products constitute 40 percent of food consumption for the poorest 10 percent of the population.

less powerful groups within society, special care must be taken to assure that this does not have the effect of politically isolating the poor. This may dilute the potential benefits of compensatory programs targeted to them, thus increasing their food insecurity. To the extent that the poor become more vulnerable under adjustment, governments and donors should pay special attention that real subsidy levels of programs efficiently targeted to the poor are not substantially cut.

One must also keep in mind something that may seem obvious. Universal subsidies are often grossly inefficient, with the distribution of benefits generally being inequitable, as they favor the rich relative to the poor. However, in most cases, eliminating them will still have a negative impact on the poor as absolute levels of real benefits may fall if policy makers in government and donor agencies are not vigilant in assuring that the poor continue to receive adequate levels of assistance.

SUMMARY DISCUSSION

As detailed in Part Three, more than 24 MSPs are currently in the design or implementation stage. It is too early to definitively evaluate the success or failure of these, but there is reason for concern. Even after taking into account its shortcomings, no other MSP has come close to the level of success of the ESF. As Ribe et al. (1990) explain, all other operating MSPs at that time were experiencing mediocre performance for a variety of reasons: weak institutional capacity of host governments, poor host government and donor coordination, overcomplicated design with too many disjointed activities, and numerous bureaucratic delays related to lining up funding and ironing out procedures for using those funds. According to Ribe et al., one reason for this seeming disarray was that MSPs were typically designed as "addendums" to SAPs, with little careful attention devoted to figuring out how the MSP was to be integrated into the adjustment process, nor to how the various component parts were to complement each other. They advocate incorporating MSPs as integral elements of adjustment programs, designing them concurrently with SAPs.

Sahn (1991), after making the case that empirical evidence does not support the claim that the poor in Africa have been inordinately hurt by adjustment programs, discusses the attractiveness of multisector compensatory programs to recipient countries and donor agencies. Arguing that the poor are hurt by adjustment may be useful in drawing more attention and resources to social programs. To the extent that this results in funding well-designed projects that actually address the needs of the poor, this is not such a bad thing. Recipient governments view the resources devoted to such programs as additional to the aid that they would have otherwise received. While this perception may or may not be correct, such programs have been fashionable among donors. "Redressing the social costs of adjustment" has certainly entered the vocabulary of buzzwords and phrases in many donor circles. As Table 6 makes clear, donors have devoted substantial amounts of resources to programs aimed at mitigating the social costs of adjustment. Although figures are unavailable, host governments have also contributed. It is hard to accept the notion that these funds have no opportunity cost. An added complication concerns the fact that once entitlements have been "temporarily" granted, it is often difficult to remove them as political costs may be substantial.

In terms of public budgets, many MSPs are financed off-budget, neither entering into the investment budget, nor being subject to the same types of financial oversight as on-budget expenses. While one could perhaps be charitable in saying that this increases the flexibility of policy makers to allocate resources, in most cases, the reality is that such lax controls lead to waste, mismanagement, and resource allocation based on political expediency rather than any rigorous determination of development priorities.

According to Sahn, the greatest perceived benefit on the part of recipient governments may be purely political. By stating that the purpose of such programs is to "redress the social costs of adjustment," this deflects blame away from the failed economic and social policies of the recipient government. It aids in perpetuating the myth that structural adjustment is imposed from the outside, instead of recognizing its inevitability in the face of unsustainable macroeconomic policy regimes.

Donors have also been responsible for uncritically promoting (or at least not challenging) the idea that adjustment worsens poverty and therefore large amounts of external funding are required for MSPs. This comes partly from a sincere conviction that adjustment is inimical to the poor, but also from less justifiable bureaucratic motives related to empire building and turf protection.

PART FIVE

CONCLUSION

COMPENSATORY PROGRAM DESIGN ISSUES

This paper highlights several issues that influence the probability of compensatory program success or failure. One should view the opinions offered as tentative, rather than definitive pronouncements of lessons learned. This is due to the complexity of the issues and the widely varying experience from country to country, as well as the fact that the paper is a desk study undertaken over a brief period of time and involving no field work.

The discussion below is separated into conceptual and implementation issues. Conceptual issues relate to what role compensatory programs may have in the structural adjustment process and whether they can be economically and politically justified. Implementation issues is more "nuts and bolts," and concerns tentative lessons learned on what seems to work and what does not.

Conceptual Issues

For most of these social programs, stating that "redressing the social costs of adjustment" is the prime objective is inaccurate. This is not just a semantic issue. The failure to adhere to proper standards or "truth in labelling" have made it easier for several expensive ill-conceived programs, and/or subcomponents of programs, to obtain funding. The recurrent cost implications of these have not been seriously explored. "Crash" programs have been instituted in areas that call for a more careful long-term approach to poverty alleviation. Moreover, governments and donors who emphasize the social costs of adjustment often abdicate their role in educating the public about the potential social benefits of adjustment. In their rhetoric and in design of social programs, it would be more appropriate for governments and donors to emphasize the areas of complimentarity between adjustment with growth and long-term poverty alleviation, while recognizing that a limited number of short-term measures with clear objectives and simple implementation procedures may be justified.

With the exception of redeployment and severance pay schemes for former public employees, there are few instances where analysts and decision makers have coherently thought out the cause and effect implications of adjustment measures on income distribution, and then incorporated these into compensatory program design. There are probably several reasons for this. Early compensatory programs were often designed as a hurried addendum to adjustment programs. While a great deal of effort was frequently exerted lining up donor pledges, donors and governments spent less time seriously reflecting on who might be hurt by adjustment, realistically assessing the capacity of public bodies to effectively implement short-term programs, and designing appropriately targeted programs with these two factors in mind. For obvious political reasons, the greatest attention was usually devoted to the plight of civil servants, and less often to, say, those smallholder farmers who sold nontradables in the face of currency devaluation and found it difficult to shift to tradable crop production

At the end of 1991, the World Bank was mandated to complete poverty assessments for 32 Sub-Saharan countries and 22 Latin American and Caribbean countries by 1995.[1] Usually based on

[1] World Bank, "Operational Directive 4.15: Poverty Reduction," December 31, 1991.

secondary sources, these should provide useful and timely input into improved design of compensatory programs. They are often done within the context of adjustment programs and consider the distributional impacts of policy change. The issues of whether donors and governments will use this information wisely, frankly assess the capacity of LDC governments to carry out multifaceted short-term programs, and design better programs are more open to question.

Not much thought has been given to the opportunity cost implications of these programs. Although under some criteria, the ESF is viewed as a success, it must be recognized that it was quite expensive (approximately $180 million for a country of 8 million inhabitants). One can legitimately ask whether these funds could have been put to a more valid long-term use. The Ghana PAMSCAD was also expensive ($96.3 million) and very management intensive. However, it was far less successful than the ESF by any set of standards. While some of these funds might have been "additional" in the sense that donors would not otherwise have contributed, it is doubtful that the entirety of such large sums can be viewed as additional. Also, it is not possible to argue that substantial host government contributions were additional. Extremely limited public funds undoubtedly have a very high opportunity cost. Human capital also has a substantial opportunity cost in developing countries, and these programs require a great deal of high caliber management intensity to succeed.

If effectively implemented, MSPs have a role to play in lending legitimacy to the adjustment process. The ESF was very successful in demonstrating that the Bolivian government was committed to alleviating the suffering brought on by economic deterioration. The fact that results came fairly quickly made a difference. However, assisting in the political arena did not require that the losers from adjustment be compensated. Rather, the ESF gained its legitimacy from being a transparent and apolitical mechanism for reaching a broad base of the population. MSPs can also complement the adjustment process if they take a view of the private sector that is consistent with the adjustment program. One role that the ESF played was to be a clearinghouse and quality control agent for contracts between NGOs, local governments, and the private sector. Construction work was let out to the private sector, thus stimulating its growth as opposed to displacing it.

With regard to multiagency MSPs, there is strong reason to doubt their efficacy as truly integrated approaches to short-run poverty alleviation and relief. They are "integrated approaches" only to the extent that effective coordination exists between implementing government agencies and donors. In most cases, such coordination has been lacking and the result has been very uneven performance. In addition, there is room for improvement in designing subcomponents in a way that is consistent with the extensive knowledge base about what works and does not work for each type of project or program. Short-term "crash" programs in areas where it is commonly accepted that a long-term commitment is essential (i.e. credit and career training) should be seriously questioned.

There is a paucity of information on the long-term implications of these short-run programs on public and private carrying capacity. With regard to MSPs, little analysis of the recurrent cost issue has been done. These recurrent costs are of two types: first, those of national institutions that will continue to implement projects or investment funds after donors end their funding, and second, local-level costs for the large number of small projects created.

The first is not an issue if institutions created in an ad hoc way to implement compensatory programs are actually phased out. However, this is not always the case. At present, there is not yet much of a track record from which one can glean lessons on effective ways of transferring responsibilities of temporary semiautonomous institutions such as the ESF to line ministries.

The second concern will always be relevant in cases where social infrastructure such as schools, clinics, or roads is created and operating expenses need to be paid to sustain benefits from their presence.

The ESF and other similar programs that experienced some short-term success should be reevaluated at some point to determine how much of the infrastructure created has been maintained and whether related expenses have continued to be provided by local communities or government.

Implementation Issues

For compensatory programs to be successful, governments must possess a clear commitment to them, independent of "donor agendas." The ESF was initially conceived by the Bolivian government and had support at the highest levels. Key officials also maintained a clear vision of its objectives throughout its life. The competing claims of donors were managed by the Bolivians towards ends articulated by the Bolivians. In contrast, it is unclear to what extent the Ghana PAMSCAD program was a truly Ghanaian initiative. It appears that donors pursued their own agendas, with little overall coordination from the Government of Ghana. Where governments are merely passive recipients of programs mainly initiated and funded by external donors, the probability of success is far more limited.

Governments and donors need to take a hard look at the capability of existing institutions to implement short-run social programs cost-effectively and rapidly. If it is judged that an economic and/or political imperative exists to get results quickly, funding agencies should strongly consider setting up an independent agency if there is no previous track record of successful government implementation of social programs. One of the major reasons for the success of the Bolivian ESF in getting a large number of projects identified and implemented in a short period of time was that it existed outside of normal government channels. Clearly, it would not have been so successful in the short-run if it had been made part of one or more line ministries which were notoriously inept. The Chilean EEPs were implemented within existing ministries, but achieved some success due to the long Chilean experience with social programs. Due to lack of existing institutional capacity on the part of the Ghanaian government, PAMSCAD was less successful in quickly disbursing funds to intended recipients. Nearly half the funds were expended on the administrative overhead of the Ghanaian government, while the remaining half suffered substantial delays in reaching beneficiaries.

For those compensatory programs targeted to the poor, care should be taken that efficient targeting does not create a social stigma on recipients that will make it harder to escape poverty. This is one reason why it is necessary to link short and long run poverty alleviation strategies. Simply stating that there is no justification for considering long-term effects because compensatory programs are short-term in nature is irresponsible. If a stigma is attached to aid in the short-term, this may make it more difficult for the poor to find employment later on. In the long-run, this will only heighten the dependency of the poor on public hand-outs. To the greatest extent possible, a demand-driven approach which allows recipients to define and seek solutions for their own problems should be followed. A related issue has to do with targeted food subsidies. Improved targeting to vulnerable groups may lessen the political appeal of those programs as they no longer benefit more vocal social groups.

The long-run potential of emergency public employment programs to build job skills is probably over-estimated. On-the-job training achievements in both Bolivia and Chile were minimal. This was because most of the tasks required few, if any, skills. In addition, the primary goal of crash employment programs is generally to provide wages to as many people as possible in a short time span. Such interventions do not double very effectively as training programs which require smaller numbers of participants and greater management intensity. In addition, it is questionable that training performed within the context of redeployment programs is viable or worth the cost. Participation rates were very low in Senegal, Ghana, and Mali. Although it is not entirely clear why this is so, there is some evidence that it has less to do with the quality of training offered than with the desire of redeployees to work in areas in which they already have some expertise.

THE POTENTIAL ROLE OF A.I.D.

A.I.D. should be cautious in becoming further involved in short-run compensatory programs undertaken within the context of structural adjustment. First, most of these programs are not really "compensatory" in nature, but are really aimed at alleviating poverty. They should therefore be designed and evaluated as such. The multisector, multiagency type of program does not have a good track record due to the complexity of coordinating ministries and donors, unclear objectives, and the weakness of public institutions that are called upon to administer them. Third, programs of the "crash" variety should be avoided where lessons learned over 30 years of development experience dictate that carefully designed medium to long-term efforts are required. The best example here is credit programs.

From a political perspective, compensatory programs appear to have had an impact in increasing the legitimacy of economic reform in the eyes of the populace. However, this is more the case for programs that effectively reach a broad base of support and develop reputations for streamlined administration and integrity. In most cases, it is probably erroneous to posit that "buying off" the relatively well-off losers from adjustment earns the adjustment program much legitimacy. Benefits go to a very small group of people and only reinforce the perception that elites can continue to get away with "business-as-usual" while the general population continues to suffer.

Secondary information seems to indicate that social investment funds run by semiautonomous units have a greater probability of getting resources out to grassroots organizations more quickly and effectively than do multicomponent programs run through line ministries. Yet, as large-scale efforts, it may be that social investment funds are most successful only under very special conditions: presence of a government that feels "ownership" of economic reform programs and is committed to broad participation in the development process, high-level political officials committed enough to helping the poor that they will waive standard spoils system practices (at least temporarily), and an implementing agency manned by dynamic and qualified individuals. While such conditions prevailed in only a handful of Sub-Saharan African countries several years ago, there may now be more such cases in countries where there have been radical, noncosmetic moves towards broader participation in government (Zambia, Benin, Mali, and so on). If properly designed and implemented, ESF-style programs may have a substantial short-run positive impact that furthers legitimate economic and political goals for fledgling governments sorely in need of displaying their ability to govern and respond to people's needs.

Even though compensatory programs seek short-term gains, one should still look into their long-run economic and social implications. Because such funds have not been in existence for very long, empirical evidence on their impact remains sparse. Further study on potential multiplier effects, recurrent cost implications of development activities funded, contributions to poverty alleviation, appropriate institutional design and sustainability, potential for reinforcing local institutions (NGOs, cooperatives, and local government), and appropriateness as a democratization initiative is needed.

With regard to the sector-by-sector programs such as redeployment programs, credit schemes, and the like, it would be useful to follow some of the businesses created under these programs over a period of several years to determine elements that contribute to their survival and failure, especially the profile of the types of redeployees who have the highest potential of starting and sustaining a business. In addition, a closer assessment of the training needs of redeployees is warranted as it is unclear what type of training is desired by the redeployed. Another important issue concerns a better identification of the potential role of commercial banks in the loan approval and monitoring process.

Whereas this study deals in general terms with the experience of several donors in implementing a wide array of activities labelled (sometimes inaccurately) as compensatory programs, it would be desirable to narrow the focus of any follow-on study in three ways: first, it should be A.I.D.-specific; second, only a few types of compensatory programs should be covered (such as financing of severance pay, credit programs for severed public sector workers, retraining programs, public employment programs, and targeted food subsidy programs); and third, operational aspects of A.I.D. program design and implementation should be considered in greater detail. Objectives of such follow-on work would be to:

- Assess the economic, social, and political contribution of these programs to the adjustment process;

- Identify strengths and weaknesses in the design and implementation of A.I.D.-supported compensatory programs, both at the policy level and operationally; and

- Formulate recommendations targeted to A.I.D. decision makers on the nature of future commitments to these types of interventions.

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