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Programs for Mitigating Adverse Social Impacts During Adjustment: The A.I.D. Experience

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Although the report benefited from the insights provided by A.I.D. staff, the opinions are those of the author, and in no way reflect official A.I.D. policy. Any errors and omissions are also the responsibility of the author.

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SELECTED EXCHANGE RATES
1985 TO 1989

Units per U.S. Dollar	1985	1986	1987	1988	1989
CFA	378	323	267	303	289
Tunisian Dinars	0.76	0.84	0.78	0.90	0.90
Malagasy Francs	636	770	1,234	1,526	1,533

LIST OF ABBREVIATIONS AND ACRONYMS

A.I.D.	Agency for International Development
ASAL	Agricultural Sector Adjustment Loan (World Bank)
BCEAO	Central Bank of the West African States
CFNPP	Cornell Food and Nutrition Policy Program
CGDR	General Commissariat for Regional Development
DSA	Directorate of Food Security (Madagascar)
EPRP	Economic Policy Reform Program (Mali)
ESF	Economic Support Fund
FED	European Development Fund
FFP	Food For Progress
FMG	Malagasy Francs (Madagascar)
FY	Fiscal Year
GDRM	Government of the Democratic Republic of Madagascar
IBRD	International Bank for Reconstruction and Development
IRR	Internal Rate of Return
MFC	Ministry of Finance and Commerce (Mali)
NGO	Nongovernmental Organization
NPA	Non-Project Assistance
OECD	Organization for Economic Cooperation and Development
PAAD	Program Assistance Approval Document
PACD	Project Assistance Completion Date
PAIP	Program Assistance Identification Paper
PAMSCAD	Programme of Actions to Mitigate the Social Costs of Adjustment (Ghana)
PCRD	Rural Works Program (Tunisia)
SSE	Small-Scale Enterprise
SSN	Social Safety Net Program
TA	Technical Assistance
TD	Tunisian Dinars
UNICEF	United Nations Children's Fund
VED	Mali Voluntary Early Departure Program
WFP	World Food Programme

EXECUTIVE SUMMARY

STUDY OBJECTIVES

This study synthesizes information from the literature and interviews on A.I.D.'s experience in implementing compensatory programs and social safety nets (SSNs) within the context of policy reform. A case study approach is used to assess strengths and weaknesses of A.I.D.'s participation in severance programs for former public employees (Mali), public works programs (Tunisia), and food aid schemes for cushioning potential shocks related to food price liberalization (Madagascar). The study's general objective is to review A.I.D.'s experience in designing and implementing cost-effective interventions that seek to increase the equity and sustainability of the adjustment process.

More specific objectives include:

- Assessing the cost-effectiveness and social and political contribution of various interventions to the adjustment process;
- Identifying strengths and weaknesses in the design and implementation of these programs, especially in terms of A.I.D. policy and operational issues; and
- Formulating recommendations targeted to A.I.D. decision makers on the nature of future commitments to these types of interventions.

OVERVIEW OF A.I.D. PARTICIPATION IN COMPENSATORY AND SAFETY NET PROGRAMS

The number of A.I.D.-supported compensatory and social safety net program activities is small, considering the size of A.I.D. and its presence in most developing countries. There are several reasons for this: the difficulty of classifying programs, which leads to some programs being missed; the relative newness of the idea of providing safety nets during adjustment; administrative problems involved in funding some of these programs; and the fact that certain regional bureaus within A.I.D. appear to have consciously discouraged these types of programs. These bureaus view the social costs of adjustment as a temporary development fad and economic growth as the best remedy for poverty alleviation.

All of these activities are funded using local currency proceeds generated from non-project assistance (NPA) programs. There is considerable difficulty in determining funding levels because local currency uses are rarely discussed at great length in program documents.

THE CASE STUDIES

Criteria for case study selection were as follows: they could be categorized as safety nets or compensatory; they were undertaken during a period of adjustment or major policy reform; A.I.D. had provided them with at least partial funding; and they had been evaluated.

Severance Programs: The Mali Voluntary Early Departure Program

The Voluntary Early Departure Program (VED) was one of two project components of the Mali Economic Policy Reform Program that was authorized for $18 million in September 1985 and had a Project Assistance Completion Date of December 1988. The program had two formally stated objectives: increasing public sector efficiency through reduction of government salary outlays and reinforcing the private sector. The first objective was to be accomplished by providing funding to support the voluntary departure of 600 employees over two years, beginning in 1986. Private sector reinforcement would occur through the establishment of small-scale enterprises (SSEs) by the former public employees and the participation of private banks and local consulting firms in the program. The program was comprised of three components: a $2.6-million severance pay program; a $1.4-million loan guarantee fund for creat n of SSEs by former public employees, with loans administered by commercial banks; and a $178,000 study fund for local consulting firms to prepare investment feasibility dossiers for loan applicants.

Labor-Intensive Public Works: The Tunisia Rural Works Program

Between 1987 and 1989, A.I.D. provided a portion of funds from a $57-million PL 480, Title I program between 1987 and 1989 to the Tunisian government to enlarge its Rural Works Program (PCRD). From its inception, the program had dual objectives: to act as a safety net to unemployed workers (especially in construction and industry) and to assist farmers hurt by the 1988-1989 drought. It was therefore both an attempt at compensation for adjustment and a relief effort. Operating in both urban and rural areas, civil works undertaken included forestry and desertification control, soil and water conservation, improvement and maintenance of public works and archaeological sites, road maintenance, and refurbishing unsound buildings. The program attempted to reach the poor through a self-targeting mechanism -- setting the wage at a low enough level that only the poor would seek employment.

Use of PL 480 for Policy Reform and Safety Nets: The Madagascar Food for Progress Program

To support rice market liberalization efforts and formation of a rice buffer stock, the Madagascar Food for Progress (FFP) Program Agreement was signed between the U.S. and Madagascar governments in August 1986. The program was initially to be of three years' duration. A.I.D. supported buffer stock operations with 30,000 metric tons of rice. The buffer stock had three purposes: to intervene as needed on the open market during the lean period to keep prices within reasonable limits; to ensure continued public distributions at official prices to the needy, phasing down sales as domestic market prices stabilized; and to serve as an emergency stock.

FINDINGS

With regard to the Mali Voluntary Early Departure Program, the following strengths and weaknesses were found:

The severance pay component was smoothly implemented. There is evidence that most participants used a sizable portion of funds for private investment, mainly in self-employment schemes. As much as one quarter of all severance funds may have been used for SSE investment. Evidence of substantial investment and savings of severance benefits are also present in Ghana.

The investment feasibility study component failed. Studies funded under the VED were unable to answer the tough questions normally asked by bankers about potential profitability. This contributed to a low loan approval rate.

Strong disincentives limited effective commercial banking sector participation in the loan guarantee scheme. The program encountered problems endemic to targeted credit programs, such as difficulty enlisting banking sector participation. Loans are typically small, whereas administrative costs are typically fixed for loan approval and supervision. At the same time, the average retrenched public servant, lacking experience in private enterprise and a formal credit history, cannot be viewed as a good credit risk.

It is doubtful whether any sustainable lending program could be successful in the CFA zone. This is true even for established small and medium entrepreneurs because the Central Bank of the West African States sets standard interest rate spreads for all member countries, and these often fail to cover real lending costs.

The loan guarantee program was poorly coordinated within the overall Mali-specific macroeconomic policy reform framework, especially with regard to credit ceilings. If they had wished to lend to VED participants, banks would either have had to pay a penalty for exceeding credit ceilings, or remained under ceilings by refusing loans to regular customers.

Major findings related to the Tunisia Rural Works Program revolve around the issues of targeting, monitoring, and long-term impact:

Targeting. The program was reasonably successful at targeting some of those who were in need — the elderly, unemployed construction workers, and those lacking other alternatives. There were some problems that detracted from the program's success in targeting vulnerable elements of the population. In terms of gender, the program failed to target women. Another problem concerns efforts to dilute the self-targeting function of the wage by combining it with other forms of reimbursement, pushing the effective wage above the minimum wage. Doubts were also raised about the program's effectiveness in geographically targeting those hurt by the economic downturn because the correlation is weak between the geographic distribution of PCRD activities and the geographic distribution of unemployment.

Inadequate monitoring. Most monitoring records concerned inputs rather than outputs. Therefore, it is not possible to draw conclusions regarding either the short- or long-term impact of activities undertaken by the PCRD.

Development impact. The potential long-term impact of PCRD activities in addressing structural unemployment and alleviating poverty is in doubt, because of recurrent cost problems of infrastructure created under the program and the fact that minimal transfer of skills to the poor occurred. These problems are mirrored in a number of other public works programs that have been undertaken around the world.

Policy impact. The Tunisian government successfully instituted self-help measures concerning adjustment of cereals and fertilizer prices to more closely reflect world prices. Private sector activity also increased in fertilizer marketing. However, it is not possible to isolate the political effectiveness of A.I.D. support to the PCRD in sustaining policy reforms carried out under the adjustment program because it ran concurrently with efforts by the World Bank, IMF, and other donors to support the reform process. Yet there is evidence that A.I.D. played a proactive and constructive role in the policy dialogue through its Agricultural Policy Implementation Project.

Findings related to the buffer stock funded under the Madagascar Food for Progress Program focus on policy and distributional impacts:

The buffer stock scheme suffered from political manipulation. It is apparent that major rice marketing reforms were carried out and that these stimulated rice production, contained consumer price rises, and encouraged private sector involvement in domestic marketing and importation. To the extent that the buffer stock contributed to keeping the reform process alive, A.I.D. may regard PL 480 resources as having been effectively used. To the extent that the scheme promoted good will among voters, the ruling party must view it positively.

No long-term negative impact on rice marketing. Although manipulation of the buffer stock and import policy may have been responsible for generating market uncertainty in the short term, Madagascar's efforts at adjustment continue, and there does not appear to have been any permanent damage to the private rice trade.

Equity implications are mixed. The buffer stock does not appear to have benefited directly the vast majority of Madagascar's poor, who are mostly in rural areas and received no buffer stock rice. However, the poor may have benefited indirectly if PL 480 rice combined with other imports to lower market prices. If this was the case, benefits to the poor were derived from PL 480 additionality.

IMPLICATIONS FOR A.I.D. PROGRAMMING

This study raises a number of implications of relevance to future A.I.D. programming in compensatory programs and social safety nets. Implications are general as well as program-specific.

General Implications

The most important general implication is that these activities are often very political in nature. If properly managed and reasonably cost-effective, this is not necessarily bad; political and efficiency goals are not always mutually exclusive. However, A.I.D. needs to be aware that it can lose control of a program if political criteria overwhelm economic and equity considerations in the decision making of host governments.

There may also be a pragmatic argument for financing less than ideal programs for the "greater good" of sustaining the adjustment process. Elements of this line of reasoning are present in both Mali and Madagascar. A.I.D. Missions considering funding compensatory programs or SSNs need to enter the design process with open eyes, asking themselves hard questions about whether, in a politically charged climate, they will be able to retain sufficient control over the local currency resources used to support these activities.

It is not possible to give blanket recommendations about whether compensatory and safety net programs undertaken during economic reform should be supported by A.I.D. Their appropriateness will vary from country to country, based on the nature of adjustment programs pursued; their distributional effects; the financial and human resource capability of local governments and resident A.I.D. Missions to carry out safety nets; and their political, administrative, and economic feasibility. Because determinations should be made on a case-by-case basis, use of a decision-tree approach is recommended to guide Missions in identifying target groups, appropriate programs, and assessing feasibility. For a discussion of the major issues to be addressed at each stage of the design process, see the recommendations section of the final chapter.

Program-Specific Implications

Severance and Retraining

Severance programs should no longer be categorically dismissed as purely political. Lump-sum severance payments may be a cost-effective way to stimulate small-scale entrepreneurial activity in the informal sector, while at the same time serving as a safety net for displaced public workers and their dependents. Monitoring plans should be incorporated into program design to track progress in processing retrenched workers and determine how they fare over a period of several years after leaving the public sector.

Choice of job categories for inclusion or exclusion in severance programs should be strategically determined to minimize the potential negative effects of down-sizing on social service delivery. Efforts should be made to more carefully address the question of how to raise public sector productivity. Severance programs should be designed to meet these requirements.

Credit and retraining programs for retrenched workers have less scope for success. The track record from Mali and a number of other countries is not good; because former civil servants are poor credit risks, participation in such programs is unattractive to the commercial banking sector. The institutional capacity necessary to implement practical and relevant retraining programs is frequently absent.

Labor-Intensive Public Works

In most cases, short-term safety net concerns (reaching as many of the vulnerable as rapidly as possible) and objectives of longer-term asset creation (providing skills transfer) cannot be simultaneously achieved under the same program. They are often mutually exclusive. Based on Mission and host-country objectives and local conditions, design teams should explicitly pick one objective or the other. If they feel that short- and long-term objectives can be pursued at the same time, thorough justification should be provided in design documents.

As a rule, better monitoring plans are needed. If short-term concerns are judged to be of highest priority, plans that focus on inputs are sufficient because these are essentially relief efforts. Assessments of cost-effectiveness in reaching recipients may suffice as economic justification. However, if such programs are justified using a longer-term perspective, more elaborate monitoring plans for determining development impact are needed, including more complete economic and financial cost-benefit analysis.

Missions may need to be wary of supporting national public works programs if they feel that geographic targeting for cost-effectiveness and equity is important. Host governments tend to distribute resources to nation-wide programs evenly across regions (or unevenly if regionalism is evident, with allocations based on ethnic considerations). If the programs have merit, Missions may consider contributing to activities in selected regions and then ensuring through end-use surveys and the like that A.I.D.-generated local currencies actually went to those regions.

Use of PL 480 for Policy Reform and Safety Nets

Although food aid has the potential to serve a useful role in policy dialogue and safety nets, it may be a less flexible mechanism for promoting policy dialogue than other forms of NPA. This is primarily because food aid's usefulness may vary from one year to the next, as a result of changes in local production volumes.

One issue of paramount importance concerns the flexibility with which the food aid spigot can be turned off if a recipient government fails to meet policy conditionality. If local currency proceeds are programmed to meet local costs of A.I.D. project assistance, Missions may find it difficult to cut funding when conditionality goes unmet. Although this problem is also present with other forms of NPA, it may be especially damaging to cut food aid. A.I.D. may open itself to political charges of using food as a weapon.

In sum, policy-conditioned food aid can play a useful role, but is most effective when combined with other Mission portfolio resources to ensure some flexibility.

ADDITIONAL INFORMATION NEEDS

There is a need for additional research in a number of areas:

Severance programs. What is the potential of severance programs to generate SSE, and what are the determinants of success or failure after leaving public employment? Although streamlining of public sector employment figures prominently in most adjustment programs, the potential developmental impacts of severance programs are generally ignored. This is probably because donors view severance programs as, at best, a necessary evil to be supported on a one-time basis so that elements of adjustment programs that are less palatable in the eyes of host governments and their constituents can be sustained. Therefore, there is little interest in examining them in the same way that one would study more standard types of development interventions.

Voluntary departure programs. Determining the approximate amount of severance pay required to induce just the right number of people to leave would greatly increase the cost-effectiveness of these programs.

Retraining programs. The track record of retraining programs is generally poor. Identifying cost-effective strategies for designing them so that they better meet needs of retrenched workers is a major challenge.

Public works programs. Monitoring of public works programs has generally been poor. More work needs to be done on identifying cost-effective monitoring systems for assessing the economic effect of individual infrastructure investments created under public works programs. In addition, follow-up evaluations several years after infrastructure has been created should be carried out.

A.I.D.'s experience in Latin America. Although the highest concentration of severance programs is in Central America, this author was unable to uncover any analyses of A.I.D. experience with them. Missions in Latin American countries currently involved in severance programs should develop monitoring plans that include tracer surveys that elicit opinions from participants about how well the program was carried out and track uses of severance funds by these former public employees. For Missions that supported such programs in the recent past, it would also be useful to carry out tracer surveys if reasonably reliable lists of program participants are available.

Eastern Europe. A.I.D. intervention strategies here are still in the formative stages. Although resource needs are great and A.I.D. resources limited, more reflection could be put into the feasibility of launching more safety net activities in this region. Because Eastern Europe is viewed as a testing ground for the even larger challenge of administering aid to the newly independent states of the former Soviet Union, this is perhaps another reason for launching pilot programs in Eastern Europe and monitoring them carefully.

Documentation needs. NPA activities pose special informational challenges to central bureaus in A.I.D. Many of the development activities undertaken are very poorly documented, both in initial approval documents and evaluations. If documents exist, they never find their way to a central A.I.D. filing system. The discussion in Program Assistance Approval Documents related to uses of local currency is often only illustrative. Although the foreseen development impact of the dollars to be expended is discussed in some detail, this is seldom the case for local currency expenditures. To maintain Mission flexibility and a degree of decentralized decision making, it is best to continue to allow some leeway at the design stage. However, once actual local currency uses are determined, A.I.D.'s institutional memory will be enhanced if records and evaluations of these uses are transmitted to Washington and centrally filed.

CHAPTER ONE

INTRODUCTION

BACKGROUND

In the mid-1980's, governments of developing countries and donor agencies became increasingly concerned about the social costs of adjustment. There was a perception that, at least in the short term, adverse impacts of adjustment were borne disproportionately by some groups, especially the poor. In response, governments and donors initiated an array of programs designed to compensate the losers from adjustment and assist them in smoothing the transition to economic growth.

This is the second short desk study funded by A.I.D. to assess the record of implementing compensatory or safety net programs undertaken within the context of adjustment.[1] The first study used a case study approach to identify lessons learned 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. Among the paper's conclusions were the following:

- For many of these social programs, stating that "redressing the social costs of adjustment" is the prime objective is inaccurate. Little effort was made to identify specific socioeconomic groups suffering from adjustment and then target them with interventions.
- Sufficient consideration has not always been given to the cost-effectiveness of these programs, or to possible alternative uses of resources in achieving stated objectives.
- A number of the programs have not been successful because of a lack of focus and an overcomplicated design that rendered coordination among government agencies, donors, and project participants exceedingly difficult.
- If effectively implemented, these programs have a role to play in lending political legitimacy to the adjustment process.

STUDY APPROACH AND OBJECTIVES

The preceding study dealt in general terms with the experience of donors (primarily the World Bank) in implementing a wide array of activities labeled (sometimes inaccurately) as compensatory

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[1] The first study was funded under the Consulting Assistance for Economic Reform Project: Kingsbury, David S. "Compensatory Social Programs and Structural Adjustment: A Review of Experience." Prepared for A.I.D. by Development Alternatives, Inc., April 1992.

programs. It also focused extensively on organizational issues for implementing compensatory programs.[2] The focus of this follow-on study has been narrowed in three ways: first, only the A.I.D. experience is considered; second, only a few types of compensatory programs are covered; and third, operational aspects of A.I.D. program design and implementation are examined in greater detail.

The specific types of interventions are examined as country case studies: financing of severance pay and related programs for severed public sector workers in Mali, public employment programs in Tunisia, and the use of food aid as a transitional tool from statist to more free-market approaches to food policy in Madagascar. As will be apparent from the discussion in Chapter Two, A.I.D. programs in these areas are quite limited, and evaluations are even scarcer. Therefore, the number of available programs was narrowed from the beginning, based on the following criteria: they could be categorized as safety nets or compensatory; they were undertaken during a period of adjustment or major policy reform; A.I.D. had provided at least partial funding; and they had been evaluated.

This study attempts to synthesize information from the literature and interviews to meet the following general objective: to review A.I.D.'s experience in designing and implementing cost-effective interventions to increase the equity and sustainability of the adjustment process.

More specific objectives include the following:

- Assessing the cost-effectiveness, social, and political contribution of various interventions to the adjustment process;
- Identifying strengths and weaknesses in the design and implementation of these programs, especially in terms of A.I.D. policy and operational issues; and
- Formulating recommendations targeted to A.I.D. decision-makers on the nature of future commitments to these types of interventions.

ORGANIZATION OF THE PAPER

The following chapter provides a brief discussion of the definitional problems inherent in categorizing compensatory and social safety net (SSN) programs and presents an overview of the countries in which A.I.D. has either implemented SSNs or currently has them on the drawing board. This discussion is organized by region, and issues specific to each region are highlighted.

The heart of the paper is contained in Chapter Three, which presents case studies of the Mali Voluntary Early Departure (VED) Program, the Tunisia Rural Works Program (PCRD), and the Madagascar Food for Progress (FFP) Program.

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[2] These included two basic approaches to compensatory program implementation — the multisector approach and the sector-by-sector approach. The multisector approach (also known as social action programs) groups together into a single program actions in several sectors — health, education, agriculture, community development, employment, and the like. The sector-by-sector approach involves free-standing projects in each sector that are linked by a common purpose. See Kingsbury for a more complete discussion of how these have been organized.

The final chapter draws together findings and conclusions from the various case studies and regional discussions to highlight major points relevant for assessing pros and cons of future A.I.D. involvement in these efforts. A decision-tree approach is then recommended for determining the appropriateness of launching safety net or compensatory programs. Recommendations for future studies and data requirements are also made.

CHAPTER TWO

OVERVIEW OF A.I.D. INVOLVEMENT IN SAFETY NET PROGRAMS

DEFINITIONAL PROBLEMS OF CATEGORIZING COMPENSATORY AND SAFETY NET PROGRAMS

A principal theme of the initial paper on this topic (Kingsbury, 1992) is that the failure to distinguish clearly what is meant by compensatory programs undertaken during periods of adjustment has led to a great deal of muddled thinking. The terms "social safety net programs" and "compensatory programs" are sometimes used interchangeably. In addition, "redressing" or "mitigating" the "social costs of adjustment" are used interchangeably with "poverty alleviation." Often, the result has been a lack of clearly defined objectives for interventions the stated purpose of which is supposedly related to addressing problems encountered during the transition from stagnation to economic growth. Moreover, if one uncritically mixes up these terms, 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.

For this paper's purposes, compensatory programs are defined as "programs intended to compensate people for short-term negative effects specifically caused by economic reform." In theory, designing such programs would involve identifying socioeconomic groups that might be negatively affected by specific elements of reform programs, assessing how they would be hurt by those reforms, and coming up with targeted interventions to assist them during a transition period.

Social safety net programs are more general and not necessarily related to compensating for losses from adjustment. In a number of Latin American, Asian, and formerly socialist countries, SSNs have been around for 40 years or more. Although their history is much shorter in Sub-Saharan Africa, many public social sector interventions predate structural adjustment. In most cases, the official justification for undertaking them has been to alleviate poverty.

A fairly wide array of programs has come to be labeled compensatory (Table 1). These fall under three broad categories: creating employment and public works for those perceived to have been displaced by reform measures; ensuring access to publicly provided social services (health, education, and community development) for the most vulnerable; and improving targeting of subsidies to the most vulnerable, while attempting to curtail subsidy access of the relatively well-to-do. An incomplete sampling of the range of programs initiated under the banner of redressing the social costs of adjustment includes credit programs, job training, severance pay, agricultural resettlement, social service support to nongovernmental organizations (NGOs) and local government in the form of medical supplies, health extension, educational supplies, school feeding programs, support to vaccination campaigns, pre-school feeding programs, and targeted subsidies for food and other basic commodities.

Although many kinds of programs have been implemented to address the social costs of adjustment, their ability to affect the negative impacts of adjustment is dubious. As Table 1 illustrates, the only unambiguous compensatory measures in the list above are severance pay and other employment creation programs that target laid-off public and quasi-public employees. Others, such as improved targeting of food subsidies and feeding programs, inhabit a gray area where, if the context is right — if they reach those who have actually been hurt by adjustment — they are compensatory or serve as legitimate safety nets for the vulnerable.

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TABLE 1

A CLASSIFICATION OF COMPENSATORY AND SAFETY NET PROGRAM ACTIVITIES

Type of Intervention	Classification
Employment Creation	
Public Employment	Unambiguous, if for laid-off public sector workers; otherwise, gray area
Credit Programs	Unambiguous, if for laid-off public sector workers; otherwise, gray area
Job Training	Unambiguous, if for laid-off public sector workers; otherwise, gray area
Severance Pay	Unambiguous
Agricultural Resettlement	Gray area
Social Services	
Support to NGOs/Local Govt.	Usually unrelated
Medical Supplies	Gray area
Health Extension	Gray area
Educational Supplies	Gray area
School Feeding Program	Gray area
Vaccination	Gray area
Pre-School Feeding Program	Gray area
Targeted Subsidies	
Food Buffer Stocks, Other Commodity Price Stabilization Measures	Gray area, depending on distributional impact
Food Stamps and Coupons	Gray area, depending on distributional impact

Source: Listing of intervention-types adapted from Kingsbury (1992).

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

This paper deals with several unambiguously compensatory types of programs as well as with some gray area interventions. Those programs not judged to be related to mitigating potential negative effects of adjustment are not treated in this report.

INVENTORY OF A.I.D. ACTIVITIES AND SPECIFIC REGIONAL ISSUES

Through interviews in A.I.D. regional bureaus and collection of documents, an inventory has been assembled of A.I.D.-supported compensatory and social safety net program activities undertaken within the context of policy reform. The thoroughness of this effort has been hampered by time constraints, and the fact that A.I.D. decisions about program design, implementation, and evaluation emanate from the field, not in Washington. Although decentralized decision making is preferable from a developmental standpoint, it makes gathering information difficult for a Washington-based researcher.

The problem is compounded because most, if not all, compensatory and safety net programs are supported with local currencies and may only be elements of broader non-project assistance (NPA) programs. Most Program Assistance Approval Documents (PAADs) place great emphasis on describing recent macropolicy events, identifying and justifying policy conditionality and the procedures for disbursing dollars and local currency once policy conditions have been met.[1] Detailed discussion of how local currencies are to be used and of expected impacts is usually lacking. Because macropolicy and procedural questions are the major areas of emphasis in most PAADs, they also receive the greatest attention in most NPA evaluations. By contrast, it is much more straightforward to identify the content of project assistance activities based on a review of project papers and subsequent evaluations.

Table 2 presents an inventory of recent A.I.D.-supported compensatory and social safety net program activities undertaken within the context of policy reform. Much of the data is pulled from the Congressional Presentation that A.I.D. is required to submit each year to Congress on planned activities and programming levels. Funding levels and years of program implementation should be treated with caution because some of these are prospective rather than actual. In addition, fiscal years of obligation do not always coincide with actual implementation years. Because nearly all of the activities are financed with local currency and because a single NPA program often supports several local-currency activities, in most cases it has been impossible to separate those local currencies that were used for the program from the overall NPA program amount.

The first thing that may strike the reader about Table 2 is that the number of compensatory and social safety net program activities is very small, considering the size of A.I.D. and its presence in most developing countries. There are several reasons for this.

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[1] The equivalent of Project Papers for A.I.D. project assistance, or staff appraisal reports for World Bank projects.

TABLE 2

INVENTORY OF A.I.D.-SUPPORTED COMPENSATORY AND SOCIAL SAFETY NET PROGRAM ACTIVITIES

Country and Program	Years	Financing Source	Approximate Dollar Amount
Severance Pay/Retraining Programs:			
Mali Voluntary Early Departure	1985-1988	Economic Policy Reform Program	Approximately $4.2 million
El Salvador Severance Pay	Years unavailable	ESF	Amount unavailable
Costa Rica Labor Mobility Program	FY 1992-1993	Trade and Investment Program	$20 million, amount reserved for Labor Mobility Program not available
Hungary - skills retraining program (title not available) implemented by U.S. Department of Labor	Begun in FY 1991	Special Assistance Initiative	Amount unavailable
Poland - program in job counseling, retraining, and unemployment insurance (title not available) implemented by U.S. Department of Labor	Begun in FY 1990	Special Assistance Initiative	Amount unavailable
India - support to the "Exit Policy"	FY 1992-1993	PL 480 Title III	$50 million over two years, amount reserved for Exit Policy Program not yet determined
Morocco (severance pay and revolving fund – no specific 1992, program titles yet)	PAIP approved January 1992, possibly for FY 1993	Privatization Sector Assistance	$20 [illegible] for [illegible] revolving fund not available
Nicaragua Employment Conversion Program	FY 1992	ESF	$125 million, amount reserved for conversion program not available
Public Works Programs:			
Bangladesh Food for Work III	FY 1985-1989	PL 480 Title III	$9.4 million
El Salvador Employment Generation	FY 1991	PL 480 Title I	$35 million, amount reserved for employment generation not available
Tunisia Rural Works Program	1987-1989	PL 480 Title I	$57 million, amount reserved for Rural Works Program unavailable

Table 2 continued:

Country and Program	Years	Financing Source	Approximate Dollar Amount
Social Action Programs/Social Investment Funds:			
Ghana Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD)	FY 1989	PL 480 Title II	$4.9 million for child nutrition and rural development activities
Bolivia Emergency Social Fund (ESF)	FY 1989	PL 480 Title II	$12.7 million, amount reserved for ESF unavailable
Honduras Social Investment Fund (for employment generation)	FY 1990-1992 (and perhaps beyond)	ESF and PL 480	$28.2 million through end of 1991, possibly more in future years
Targeted Subsidies and Food Aid Schemes:			
Bangladesh Modified Rations	FY 1985-1987	PL 480 Title III	$243.5 million, amount reserved for modified rations unavailable
Hungary - support to means-tested groups for offsetting increased energy prices (no specific program title)	1991-1992	Energy Sector Grant Program (commodity import program)	$10 million
Madagascar Buffer Stock Program	Authorized for FY 1986-1988, only FY 1986 disbursed	PL 480 Title III Food for Progress Program	$11.5 million, of which $5.4 million for monetized commodities (rice) and remainder for shipping
Mali Cereals Marketing Restructuring Program	FY 1985-1991	PL 480 Title II	$36.4 million

Source: Congressional Presentation, various years; Annual Budget Submission, selected countries and various years; various program agreements, evaluations, and related documents.

First, the number of programs may be much greater, depending on how one defines compensatory and safety net programs. As Table 1 shows, most activities enter the gray area where the line between compensation and social safety net and something else is fuzzy. For example, one can argue that using programmed food aid to ease the transition from tightly controlled agricultural markets to liberalization is an element in nearly all policy-conditioned PL 480 programs. Broadening this even further, if one accepts the notion that one rationale for NPA is "buying" policy reform in exchange for budgetary support, then all NPA programs with a policy element are compensatory (although all are not necessarily safety nets) as recipient governments are being "compensated" for taking actions that are often politically painful.

Second, the idea of providing safety nets during adjustment is a new one, gaining a high profile only in 1987 with the publication by Cornia et al. of *Adjustment with a Human Face*. Donors have only recently begun to design and implement projects and programs that attempt to mitigate some of the adverse effects of adjustment.

Third, many of these programs (especially social investment funds) involve donors pledging money to a common pool. Increasingly, A.I.D., under pressure from Congress and the General Accounting Office, has discouraged commingling of funds as this creates difficulties for Missions and auditors in determining whether A.I.D. resources have been used for intended purposes.

Finally, and perhaps most significantly, certain regional bureaus within A.I.D. appear to have consciously discouraged these types of programs, essentially viewing addressing the social costs of adjustment as a temporary development fad — a bandwagon onto which they do not feel compelled to jump. To summarize their argument: If A.I.D.'s biggest priority is helping the poor lift themselves out of poverty, adjustment through broad-based growth is the most appropriate, sustainable, and cost-effective strategy for achieving this. Devoting significant financial and management resources to other uses diverts effort and attention from this fundamental principle. Inappropriate economic policies and misguided social investments prior to adjustment — not the adjustment process itself — explain why the poor have stayed poor. In addition, the fact that A.I.D.'s resources are more limited than those of the World Bank and a belief that A.I.D.'s comparative advantage may lie elsewhere have contributed to A.I.D.'s not making social costs of adjustment as big a priority as the World Bank and a number of other multilateral and bilateral donors have.

Latin America

The highest concentration of A.I.D.-supported programs for laid-off public and parastatal workers is in Latin America and the Caribbean. A.I.D. has also been one of a number of donors cofinancing social funds in Bolivia and Honduras. The main reason for this may be that, relative to other regions of the world, the United States plays a predominant political role in many of these countries (particularly those of Central America), and A.I.D. NPA resources are far more abundant as a result. The Department of State and A.I.D. may sometimes be placed in the lead role in addressing the political factors related to adjustment programs.

Despite the relatively high concentration of severance pay and retraining programs in Central America, most of them are either very new or still in the design stage. As a result, it was not possible to uncover any evaluations of these programs for inclusion as case studies in this report.

Africa

A.I.D.'s presence is much less high profile in Sub-Saharan Africa than in Latin America. Consequently, political pressures of the diplomatic variety are not as great. Although A.I.D. resources are still substantial in Africa and there are cases where A.I.D. is the lead donor in certain key sectors, World Bank resources and often those of the French in their former colonies tend to dwarf those of A.I.D., making the Bank the obvious candidate to take the lead role in pursuing adjustment programs and associated measures such as funding social programs.

The argument identified above for not wanting to jump on the social costs of adjustment bandwagon is perhaps most commonly expressed in the Africa Bureau. Although quantitative data are scarce, there is evidence that, in a number of Sub-Saharan countries, adjustment has actually benefited the poor and other socioeconomic groups, with the primary losers being elites who reaped economic rents prior to adjustment.[2]

Near East

The Near East Bureau has been fairly active in funding safety net programs. There are at least three reasons for this. First, especially in North Africa, PL 480 and Economic Support Fund (ESF) monies have been plentiful. Egypt and Morocco are among the largest recipients of programmed local currency in the world, and safety net programs are far more dependent on local currency than on dollar funding. Second, and closely linked to the first reason, the United States Government is very sensitive to political developments in this region. This makes A.I.D. more apt to support such programs, perhaps more for political than economic reasons. Third, many of these countries, such as Tunisia and Morocco, already have a relatively high capability to support social safety net programs. As the Tunisian case study makes clear, A.I.D. decided to support a public employment program that had been established on a large scale in the 1960s.

Eastern Europe

In Eastern Europe, the only A.I.D.-supported compensatory or SSN interventions uncovered during interviews and from documents were a commodity import program in Hungary, where local currencies were used to ease the burden of increased energy prices on various means-tested groups; an FY 1990 program for the Department of Labor to assist the Polish government in establishing job counseling and retraining centers and unemployment insurance; and a skills retraining program in Hungary, begun in FY 1991.[3] For the energy-related program, the local currency equivalent of $10 million was provided to pensioners and other low-income groups during the 1991-1992 winter so that they would not be adversely affected by the removal of heavy energy subsidies, which were a legacy of the Communist era. This program was only for the 1991-1992 winter.

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[2] This argument has also been advanced in other regions of the world. For an elaboration of this argument as it relates to Sub-Saharan Africa, see Sahn, 1991.

[3] The source for the energy sector support is interviews with Eastern Europe Bureau officials; the source for the two retraining programs is A.I.D., 1991.

The Eastern Europe Bureau does not foresee allocating a great deal of resources to SSNs. This has more to do with perceptions of A.I.D.'s comparative advantage and limited NPA resources than a belief that they are unjustified for the region. A.I.D. has apparently decided that its comparative advantage in Eastern Europe lies with providing technical assistance for developing the private sector and for democratization. Because NPA and staff resources are very limited and the costs of making a major impact in social safety net areas high, A.I.D. has tended to leave such interventions to the larger multilateral organizations. Although direct-hire staff working on the 10 countries of Eastern Europe — Albania, Bulgaria, Czechoslovakia, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, and Yugoslavia — has grown substantially (from 17 in FY 1991 to 88 requested for FY 1993, of whom 37 are in field Missions), their numbers will remain severely limited.[4]

Although cost-effective targeting is often a major headache in countries in other regions, it is less of a problem for donors wishing to undertake safety net programs in Eastern Europe. Whatever the shortcomings of communist bureaucracies in these nations, they were quite good at keeping detailed records on people's on occupations, wages, and many other things. Therefore, means-testing for establishing criteria and identifying participants in the Hungary program was a straightforward task.

Asia

Because the structural adjustment programs of the 1980s were largely confined to Latin America and Africa, there are few A.I.D.-funded compensatory or SSN programs in Asia implemented in a policy reform context. For the most part, Asian countries — in particular the Asian "tigers" — pursued growth-oriented macroeconomic policies in the 1980s and did not have to turn to adjustment programs. Some, such as India, were able to postpone adjustment until very recently. Although Asia has the longest and most substantial involvement with PL 480 programs, few of them have been undertaken in the context of policy reform.

[4] The source for these numbers is the Congressional Presentation for FY 1993.

CHAPTER THREE

CASE STUDIES OF THE A.I.D. EXPERIENCE

This chapter presents case studies of the Mali VED, the Tunisia PCRD, and the Madagascar FFP.[1] Each section begins with a brief description of program design and objectives and the respective country's adjustment context. Implementation experience is then detailed. Finally, strengths and weaknesses are assessed, and evidence is reviewed on program impact.

SEVERANCE PROGRAMS: THE MALI VOLUNTARY EARLY DEPARTURE PROGRAM

As mentioned in Chapter Two, A.I.D.'s experience with purely compensatory programs of the severance pay, retraining and credit variety is limited, especially in Africa. However, the one African program of this nature attempted by A.I.D., the Mali VED is interesting for a number of reasons. First, the program attempted to combine all three components, and therefore the successes and failures of an integrated package can be observed.[2] Second, the program was not fundamentally flawed from the beginning with the types of cheap credit schemes that have a demonstrably dismal track record throughout the world. Third, by many accounts, the Government of Mali has been one of the most consistently committed in Africa to structural reform, beginning in the early 1980s. Therefore, lack of sustained official commitment to this and other programs linked to policy reform has not generally been a problem.

Background and Program Elements

The VED was one of two projectized components of the Mali Economic Policy Reform Program (EPRP), which was authorized for $18 million in September 1985 and had a Project Assistance Completion Date of December 1988. The other projectized component involved provision of technical assistance (TA) in computerizing the various administrative operations of the Ministry of Finance and Commerce. This TA component was authorized for $1.3 million, and the VED was financed with local currency proceeds. The EPRP incorporated policy conditionality in the following areas: decontrolling prices, reforming the tax structure and improving administration, revising the commercial code, liberalizing import and export procedures, and improving public sector efficiency. In part, this last policy objective was to be pursued by compressing public payrolls through the imposition of hiring ceilings,

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[1] Despite the concentration of safety nets in Latin America, this author was unable to uncover any A.I.D. evaluations of them. A.I.D. was one of a number of contributing donors to the Bolivia Emergency Social Fund. For a case study of this program, see Kingsbury (1992).

[2] As will be discussed later, formal retraining was not an explicit program element. However, using local consulting firms to prepare investment feasibility studies was somewhat related to retraining. Retrenched workers were to be given information that they could put to use in their private sector endeavors.

voluntary departure of public employees, and a higher ratio of material procurement expenses to purely personnel-related expenses.[3]

The VED had two formal objectives: increased public sector efficiency through reduction of government salary outlays and reinforcement of the private sector. The first objective was to be accomplished by providing funding to support the voluntary departure of 600 employees over two years, beginning in 1986.[4] Private sector reinforcement would occur through the establishment of small-scale enterprises (SSEs) by the former public employees and the participation of private banks and local consulting firms in the program.

The program comprised three components:

- A severance pay program of benefits to those volunteering to leave, with funding of approximately $2.6 million;[5]
- A loan guarantee fund of $1.4 million for creation of SSEs by former public employees and with loans administered by the commercial banking sector; and
- A study fund of $178,000 for local consulting firms to prepare dossiers for loan applicants on the feasibility of their potential investment.

Program Implementation

The Severance Pay Component

The only requirements to become candidates for the VED were that volunteers had to have been publicly employed for a minimum of five years and be at least five years from retirement. No positions were exempt from the program.[6] Decision criteria for acceptance into the VED were order of receipt of applications and distribution of departure slots by level of seniority, to ensure that funds did not run out before reaching the target of 600 volunteers.

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[3] Although data problems render exact computation of this ratio difficult, program evaluators estimated the materials-to-personnel expenditure ratio as 0.317 in 1986, rising to 0.485 by 1988 (Rugh et al., 1990).

[4] This represented slightly more than 1 percent of the estimated 40,000-50,000 civil servants in Mali (Rugh et al., 1990).

[5] The exchange rate for the 1987-1989 period averaged $1.00 = CFAF 286 (IMF, 1991).

[6] It is a common feature in many severance programs (both voluntary and involuntary) to exempt employees in certain key social sector job categories. For example, in Ghana, Guinea, and The Gambia, teachers were exempted from down-sizing exercises. The health sector was also untouched in The Gambia and Guinea (de Merode, 1991).

Each volunteer participating in the program received severance pay roughly equal to three to four years of salary and retirement benefits (either a lump sum or a full pension, depending on age). The number of applicants exceeded the number of approvals by a ratio of almost two to one. Of approximately 1,200 applications, 644 were accepted and processed.[7] If the cost of the severance and retirement pay component was roughly $2.6 million, the average amount received by volunteers was about $4,000.[8]

Of those who chose to leave and were accepted, the majority were teachers (53 percent). An additional 14 percent were public works employees, 12 percent were agricultural and livestock parastatal employees, and 21 percent came from a variety of other sectors. In addition, there was a heavy capital city bias to the program, with 75 percent of approved volunteers from Bamako. About one-sixth of the participants were women (Rugh et al.).

The Loan Guarantee Fund Component

To stimulate private sector investment on the part of volunteers, a loan guarantee fund was an integral part of the VED. Loan amounts were allowable up to about $17,500 for those who could come up with a bankable investment idea. The $1.4 million for the fund was divided equally among five commercial banks, and interest rates were those prevailing for other commercial lending (Seydi and Solomon). A.I.D. guaranteed the loans up to 50 percent, and this was assumed by project designers to give banks sufficient incentive to perform well in the program, short of A.I.D. taking on 100 percent of the risk.

By all accounts, the loan guarantee fund fell far short of expectations. Over the life of the program, only six loans were approved through the commercial banks for departing public employees; with a $17,500 limit per loan, 80 loans were theoretically possible. Another 14 volunteers received loans under an SSE credit program funded by the European Development Fund (FED). The FED funding mechanism was a more attractive loan mechanism from the viewpoint of the commercial banks because it was 100 percent guaranteed. However, it quickly ran into serious replenishment problems because of high non-payment rates. This was because many approved loans went to young university graduates whose projects failed because of inexperience (Seydi and Solomon).

Major reasons for the failure of the loan guarantee fund are discussed below.

The Study Fund Component

The weakness of the feasibility studies that were also a component of the VED contributed to the failure of the loan guarantee fund. Over the life of the program, only 55 studies were completed, and the studies provided little useful input to the banks in loan processing.

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[7] The annual breakdown of participants was 210 in 1987, 300 in 1988, and 134 in 1989 (Rugh et al.).

[8] Compared with some other Sub-Saharan African countries, this is very generous. Ghanaian severance pay amounted to only $350-$750 per retrenched worker (Alderman, Canagarajah, and Younger, 1992) and in Guinea to $900 (de Merode, 1991).

According to Diallo and Elliot, the studies were of uneven quality. Many of them emphasized the potential of the projects to generate employment and local value-added while falling short on the kinds of market analysis required by entrepreneurs. In other words, they were more economic policy than solid financial investment analyses. This can be attributed partially to limited data availability, but more to a lack of strong analytical capability on the part of the local consulting firms in private sector business operations.

The most important result of the weakness of this VED component was that volunteers who were potential investors, already relatively high risks in the eyes of bankers, came to the bank unarmed. This greatly lowered the probability of loan approval.

Strengths, Weaknesses, and Evidence on Impact

It is fairly straightforward to identify the strengths and weaknesses of the three components and reasons for success or failure. In gross terms, the loan guarantee fund and studies fund components failed, although demand for participation in the severance pay component was high, and processing of applicants for voluntary departure proceeded smoothly and in transparent fashion. By early 1989, evaluators were calling for elimination of the loan guarantee fund and the studies component so that savings could be rolled into supporting more departures (Diallo and Elliot).

The Loan Guarantee Fund Component

As detailed above, the studies were not able to adequately answer the tough questions normally asked by bankers about the potential profitability of an investment. This inability contributed to the low rate of loan approvals. However, there is evidence that a number of more serious reasons existed for the failure of the loan guarantee fund. It remains unclear what real incentives were present for the commercial banking sector to perform well in the loan guarantee scheme. In contrast, several strong disincentives were present.

First, these types of targeted credit programs to SSEs suffer from a number of endemic problems when it comes to banking sector participation. Loans are typically small, whereas administrative costs are typically fixed for loan approval and supervision. At the same time, the average VED participant cannot be viewed as a good credit risk, because of lack of experience in private enterprise and the absence of any previous formal credit history. Donors typically try to get around this by guaranteeing some portion of the loan program, in this case 50 percent. This introduces a Catch-22 of sorts. Banks generally do not wish to risk any of their own money in these schemes (unless they are free to raise interest rates, which is rarely an option available for political reasons), so that a guarantee falling short of 100 percent reduces their interest. However, if loans are 100 percent guaranteed, the banks have no incentive to vet applications and perform necessary follow-up. This is a classic example of what economists refer to as "moral hazard": a situation wherein insurance coverage leads to negligent behavior on the part of the insured party.

Second, it is doubtful whether any sustainable lending program could be successful in the CFA zone — even to established small and medium entrepreneurs. The Central Bank of the West African States (BCEAO) sets standard interest rate spreads for all member countries. To a large extent, these are politically determined, low by free market standards, and favorable to those borrowers with enough political clout to gain access to rationed credit.[9] Such a system is skewed toward short-term, rapid-turnover operations with established customers (or those forced on lenders by overbearing governments) and very high fees for administrative operations. Unless provided by a donor, medium- and long-term credit is nonexistent. Unfortunately, this is just the type of credit needed for establishing SSEs.

Third, the loan guarantee program was poorly coordinated within the overall Malian macroeconomic policy reform framework. One element of the IMF stabilization package involved strict imposition of credit ceilings. This is also required by the French central bank for CFA zone countries. In initial negotiations during program design, Malian and IMF authorities apparently assured the A.I.D. Mission that loan guarantee monies would be exempt from these ceilings as the EPRP local currencies were additional and should not have contributed to inflation or real currency depreciation. However, the waiver never came through.[10] Therefore, any loans to VED participants meant that the banks would be forced to either pay a penalty to the central bank for exceeding credit limits or remain within limits by reducing lending to regular clients with a proven track record of submitting bankable dossiers. Although the sums of money involved were not substantial in relation to overall domestic credit, the program was implemented during a period of steadily tightening credit availability. Between 1986 and 1988, private domestic credit supply fell by one-third in dollar terms and over 40 percent in local currency terms (IMF, 1991). Given this climate, asking banks either to pay penalties or deny credit to regular customers greatly reduced bank sector interest in aggressively vetting VED loan applications.

In short, a combination of an unfavorable macroeconomic environment and the generic problems associated with credit schemes narrowly targeted to those with little or no prior formal entrepreneurial experience made successful participation of the private banking sector unlikely.

The Severance Pay Component

In March and April 1988, a survey was carried out to determine VED participant attributes, attitudes about the program, and private sector activities. This occurred nine months after the first wave of volunteers had left the public sector, and five months before the second wave was to leave. Interviews of 107 participants were conducted, 79 in Bamako and 28 in other regions of the country (Seydi and Solomon). The survey reveals some interesting information, although it is obviously of limited value because it was done so early in the program; only covered a subset of the first group of volunteers; and was never followed up.

Responses to several key questions appear in Table 3. Most respondents had been thinking of leaving the public sector prior to the VED, and the offer of severance pay provided the incentive to quit. The questionnaire only asked for the primary motivation for leaving, but one can reasonably presume that a combination of reasons led to the decision to leave. Unfortunately, there is no information available on the incidence of moonlighting prior to leaving public employment. One could hypothesize that such prior experience in the private sector might increase the probability of success for the volunteers. Only 9 of the 107 respondents listed parallel activities as their primary reason for leaving, but there is reason to suspect that moonlighting was fairly common in Mali, especially after delays of several months in payment of salaries became commonplace.

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[9] The BCEAO sets interest rates for different types of operations (small and medium enterprise lending, agricultural marketing credit, and the like). The highest rate for ordinary credit was in the 13-15 percent range from 1987 to 1989 (Nelson, 1991).

[10] Personal communication from James Elliot, former Mali Mission macroeconomist.

TABLE 3

SELECTED RESPONSES TO THE VED FOLLOW-UP SURVEY, MALI
(March-April 1988)

	Number of Responses
Reasons for leaving:	107
• Late payment of salary	25
• Had been thinking about leaving prior to VED	40
• Saw severance pay as seed capital	5
• Had parallel activities	9
• Other	28
Current employment status:	107
• Self-employed	90
• Salaried/wage labor	4
• Unemployed	13
Sector of activities:	94
• Trade	43
• Transport	7
• Agriculture and livestock	10
• Other	34
Amount of investment:	90
• CFAF 0-750,000	21
• CFAF 750,000-1,500,000	24
• CFAF 1,500,000-2,500,000	19
• CFAF 2,500,000+	20
• Unknown	6

Source: Seydi and Solomon (1988).

Despite the failure of the loan guarantee fund, the overwhelming majority of respondents (84 percent) claimed to have used a portion of funds for private investment, mainly in self-employment schemes. The majority of these (46 percent) were in trade, because of the quick turnover of funds in this endeavor, the relatively small amount of initial capital required, and probably also to lack of expertise in other areas.

Most investments were less than $10,000. Although it is not possible to determine how much of the severance and retirement benefits were invested versus consumed, the survey provides evidence that investment may have been substantial. A simple calculation leads one to believe that about one quarter of severance and retirement benefits may have been invested.[11] However, it should be mentioned that no attempt has been made to verify the statistical validity of the sampling procedure used in the VED survey.

It is not possible to determine investment success rates because of the brief time span between inception of the VED and implementation of the survey. In the survey, 88 percent of the participants noted lack of a training component as a major shortcoming of the program. However, it should be pointed out that the track record on training programs implemented in the context of severance programs is not good. Lack of time, interest, and perceived training quality were reasons for lack of success in Senegal (Kingsbury, 1992), and lax implementation was also a reason cited in Ghana (Alderman, Canagarajah, and Younger, 1992; de Merode, 1991). Given roughly similar capabilities of local training institutions in Mali, one must question whether it would have been worth the effort and expense. Rugh et al. are not too sanguine on the potential for successful creation of new businesses, given the absence of training and the bleak economic outlook for Mali. However, picking up private sector experience through moonlighting prior to leaving the civil service may improve chances for business survival, once these workers leave the public sector.

Evidence of substantial investment and savings of severance benefits are present in Ghana, where the Cornell Food and Nutrition Policy Program (CFNPP) conducted a tracer survey of public sector employees who had been retrenched as part of that country's Economic Reform Program. With a sample size of more than 500 and questioning some respondents as much as four years after leaving the public sector, this is probably the most detailed and rigorous survey to date on the subject of redeployed public employees. According to Alderman, Canagarajah, and Younger, savings and investment are estimated to represent 56 percent of severance pay expenditure (Table 4). Major investment items include business equipment (19 percent), land purchase and construction (12 percent), and deposit of funds in savings accounts (13 percent).

Once again, it is not possible to determine the survival rate of Ghanaian businesses started or continued with severance funds. However, severe erosion of morale and real salary levels had turned moonlighting into the primary source of income for many public employees prior to initiation of the severance program. According to de Merode, real public sector wages in Ghana fell by 10 percent per year between 1975 and 1983. The fact that these people were largely fending for themselves before being retrenched may have improved the chance of survival of activities continued after retrenchment.

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[11] Taking the midpoint of the intervals displayed in Table 4 as the average for those responding in those intervals, one calculates the amount invested, extrapolates from the sample portion investing to the number of first-wave volunteers investing, and recalculates the total invested. This yields a figure of CFAF 187.5 million (approximately $700,000 using the average 1987 exchange rate). This is approximately 26 percent of first-year expenditures on severance and retirement. As of January 1988, this amounted to CFAF 707,989,210 ($2.65 million) for the first 210 volunteers (Seydi and Solomon, 1988).

TABLE 4

ALLOCATION OF SEVERANCE PAY IN GHANA

Use of Severance Pay	Percent *
Deposit in interest-bearing accounts	13
Debt repayment	8
Real estate purchase	2
Construction	10
Business equipment	19
Education	3
Sub-Total: savings and investment	56
Consumer durables	8
Consumer non-durables	36
Total	100

* Figures do not add up to 100 percent because of rounding error.

Source: Alderman, Canagarajah, and Younger (1992).

With evidence that a substantial amount of severance funds was invested in SSEs, it is ironic that the Ghanaian government was obliged to foot the entire bill for the severance program. The government was unable to convince any donor to participate. At the same time, at least 13 multilateral and bilateral donors agreed to underwrite the $96.3 million Programme of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD), which was viewed by many observers as a failure, because of its lack of focus and inefficiency in getting funds to supposed beneficiaries (Kingsbury, 1992).

Observers of the Mali program differ in opinion regarding its cost-effectiveness. Diallo and Elliot estimate the internal rate of return conservatively at 12-15 percent when the present value of VED costs were set against the present value of projected public budget savings. Assuming a discount rate of 10 percent, this yields modest positive returns. With a total public sector wage bill of about $100 million per year prior to the VED, annual savings from severing 600 employees were initially estimated at $1.5 million per year through the mid-1990s, tapering to slightly less than $1 million per year, and eventually disappearing as natural attrition occurred through retirement. Actual savings were slightly less but still resulted in positive returns.

On the other hand, in a midterm evaluation of the EPRP, Hermann and Gordon (1987) point out that cost savings from the VED are relatively minor when compared with savings generated by rigorously enforcing hiring ceilings and allowing natural attrition to run its course. They point out that in 1985, the last year before the EPRP, the Malian government recruitment budget was $2.6 million, and 1,857 new hires joined the public rolls. This fell to $2.3 million and 1,138 new hires in 1986, $1.9 million and 746 in 1987, and $1.1 million and 350-500 in 1988. Using 1985 as the base year, this results in a cumulative reduction of roughly 3,000 workers and savings of $4.9 million, before attrition. Attrition of approximately 1,000 employees per year increases these savings. In contrast to the VED, there are no up-front financial costs related to maintaining hiring ceilings.

However, Hermann and Gordon go on to endorse continuation of the VED, largely from a political standpoint. They claim that A.I.D. support to the VED provided impetus to the Malian government to meet conditionality for EPRP first-tranche disbursement. Therefore, the VED had a payoff related to adoption of the full package of reforms. In addition, its popularity with the Malian government provides leverage for continued adherence to the hiring ceilings that Hermann and Gordon maintain result in the most significant cost savings. Hermann and Gordon also view the potential role of the VED in generating small-scale enterprise positively.

Some lessons from the A.I.D. experience with severance pay programs in Mali are clear and appear corroborated by experience from other countries. First, credit programs for retrenched workers are fraught with problems and have very little scope for success. Many of these programs are little more than outlets for cronyism, with heavy subsidies and loans granted largely on political criteria (see Kingsbury, 1992, on Senegal). Because the Mali loan guarantee fund was administered by commercial banks, these common problems were absent. However, incentives to lend with speed and integrity were absent for private bankers, and it is unclear how they can be introduced. Second, efforts at skills transfer to retrenched public employees — either through retraining or feasibility studies (as offered in Mali) — are management-intensive and often yield unsatisfactory results.

There has been little success in these two domains elsewhere. Severance programs in Ghana, Guinea, and The Gambia all included credit and outplacement subcomponents. All suffered from low loan repayment rates and trained a very modest percentage of former public employees (de Merode, 1991).[12]

Designing retraining programs to meet needs of retrenched workers while being cost-effective is a major challenge. A recent World Bank paper presents some lessons from the OECD countries that may be useful (Leigh). Links to prospective employers need to be developed to ensure that trainees obtain marketable skills. Training programs should seek to minimize forgone earnings of trainees; systems need to be developed so that providers of training are held accountable for success and failure; not all displaced workers require retraining (placement services may be all that is required for some); and development of permanent retraining institutions is preferable to ad hoc and temporary ones.

The third lesson is that lump-sum severance payments may be a cost-effective way to stimulate small-scale private entrepreneurial activity. This may be especially true in countries where pay scales have become seriously eroded prior to adjustment and moonlighting has become commonplace among those who leave — either voluntarily or involuntarily.

However, many questions remain unanswered. Most important, what is the potential of severance programs to generate SSE, and what are the determinants of success or failure after leaving public employment? Although the streamlining of public sector employment figures prominently in most adjustment programs, this author was only able to uncover two tracer surveys (Ghana and Mali) of former government workers. In all likelihood, this is primarily because of the fact that donors tend to view severance programs as a necessary evil to be supported on a one-time basis so that the elements of adjustment programs that are less politically attractive from a host-country standpoint can be sustained. There is little interest in examining them in the same way that one would study more standard types of development interventions.

Second, what was the effect of reducing the number of teachers in the Malian public education system? One potentially disturbing feature of the VED was the high number of teachers (53 percent of participants or 341 teachers) who were allowed to participate. As noted above, programs in other countries often exempted certain categories of employees from both voluntary and involuntary programs — teachers being the most commonly exempted.

To the extent possible, choice of job categories for inclusion or exclusion in such programs should be strategic to minimize the potential negative effects of down-sizing on social service delivery. Ideally, this would involve identifying the types and levels of skills necessary to improve public sector productivity on a sector-by-sector basis, assessing skills of current employees and devising incentives (including better pay) to keep and upgrade skills of qualified employees, recruit new qualified employees to fill gaps, and remove those who are not qualified. In reality, doing this correctly takes substantial time and resources — both in short supply during periods of major adjustment. Therefore, a compromise may be required, with sectoral human resource needs assessments perhaps not being as rigorous as would be desirable, and some sectors not analyzed at all. Nevertheless, efforts should be made to move beyond simple blanket exclusions of certain sectors from severance programs before addressing the issue of how one can raise the productivity of current workers in those sectors (or move some of them from low-priority sectors to more important ones).

[12] Also see Kingsbury (1992) for a discussion of the poor performance of the credit and retraining components of Senegal's Civil Servant Redeployment Program.

Another question that should be examined is the cost-effectiveness of voluntary departure programs: what is the approximate amount of severance pay required to induce just the right number of people to leave?[13] The benefits offered in Mali seem very generous in comparison with what was offered in some other countries.[14] Because there were almost two applicants for every VED position, participation had to be rationed. Therefore, benefits could have been reduced by some amount to induce the same number of (or more) employees to leave. This would have increased the cost-effectiveness of the program, both in terms of initial cash outlays for the program, and the future stream of public budget savings from having more workers off the payrolls.

In conclusion, more work is needed on the potential development impact of severance programs and their cost-effectiveness relative to other measures such as hiring ceilings for streamlining public payrolls and redressing the social costs of adjustment. At the very least, they should no longer be categorically dismissed as purely political. Monitoring plans should be incorporated into program design to track progress in processing retrenched workers and how they fare over a period of several years after leaving the public sector.[15]

LABOR-INTENSIVE PUBLIC WORKS: THE TUNISIA RURAL WORKS PROGRAM

A.I.D. has a great deal of experience with public works programs, both for purposes of employment generation and physical infrastructure creation.[16] Wages for some of these efforts have been furnished in kind through food-for-work programs. Local currency for cash wages may be generated through market sales of PL 480 commodities or other non-project assistance — programmed ESF monies or bank deposits by private sector businessmen for imports under commodity import programs.

However, A.I.D.'s experience with implementing these types of programs in the context of structural adjustment programs is not extensive, although undertaking them in coordination with policy reform appears to make sense on paper from several perspectives.

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[13] CFNPP researchers will address this question econometrically in future research on the Ghanaian program (personal communication from Stephen Younger, July 1992).

[14] In Ghana, benefits totaled \$370 to \$750 and were calculated based on up to 10 months of salary for every year of service (Alderman, Canagarajah, and Younger, 1992). Malian benefits were the equivalent of three to four years of base pay and totaled approximately \$4,000 to \$10,000 per departing employee (Seydi and Solomon, 1988).

[15] It is crucial that resources be devoted to carrying out censuses of public sector employment prior to retrenchment. An accurate census is important for assuring the integrity of administering the severance program (de Merode, 1991) as well as for reducing the costs of constructing a sample frame of former employees for survey purposes (Alderman, Canagarajah, and Younger, 1992).

[16] See Bowles (1988) for a review of A.I.D. employment generation projects that includes discussion of labor-intensive public works as well as vocational education, food-for-work, export promotion, and SSE development.

From an economic standpoint, one can argue that pursuit of appropriate adjustment policies creates an environment conducive to economic and social development. Yet sufficient physical infrastructure (roads and bridges, market structures, schools, health clinics, and the like) is often lacking, and direct investment in construction of these facilities can speed response to a new set of policy-level incentives. If one accepts this logic, it follows that the economic return to such infrastructure creation is greater than what it would otherwise have been in the absence of an appropriate economic policy framework. One can also argue that in countries that have historically pursued import substitution policies through overvaluation and protectionist trade regimes, implicit subsidies have been granted to capital while labor has been taxed. Liberalization leads to an increase in the demand for labor, and one function of labor-intensive public works programs can be skills transfer, thus increasing labor productivity and setting the stage for greater economic growth.

From an equity standpoint, such interventions often attempt to target the poor, a group often receiving few benefits from public investment, relative to better-off groups in society. To the extent that the poor actually capture benefits (both directly as wages earned from participating as laborers, and indirectly as recipients of the externalities associated with using social infrastructure), public expenditure policy becomes more progressive.

Politically, implementation of public works programs demonstrates government and donor concern about the social costs associated with policy reform. If targeted at those groups most hurt by adjustment (or economic downturn prior to the onset of adjustment), such programs can defuse some of the potential political problems associated with temporary increases in unemployment.

Background and Program Elements

Tunisia's economic and social development over the last several decades has largely been a success story. Per capita GNP in 1990 was $1,488, exceeded in Africa only by some OPEC members, Mauritius, and South Africa (World Bank, 1991). Since the 1960s, impressive progress in social indicators has been made, with substantial improvement in life expectancy, child mortality, adult literacy, and a tempering of the population growth rate (2.1 percent). However, growth in the rate of labor force entry has been higher because of increased entry of women and the overwhelmingly young profile of the population.

Through the mid-1970s, prudent macroeconomic policy and emphasis on human resource development were key to this performance. However, booming oil revenues in the late 1970s led to unwise public sector expansion and precipitated a balance of payments crisis when oil prices fell in the early 1980s. One effect was to exacerbate unemployment, which reached the 15 percent range by the mid-1980s and was cause for worry on the part of the Government of Tunisia.

In response to the economic crisis, the Tunisian government initiated a series of policy reforms in 1986. In the short term, these were intended to redress balance of payments problems and rein in public expenditure. Soon thereafter, attempts were undertaken at longer-term structural reforms (trade regime and domestic market liberalization, financial sector reform, reorientation of public investment, and the like). This led to a series of structural adjustment and sectoral adjustment loans from the World Bank, beginning in 1987. A.I.D. joined other donors in supporting the adjustment program through a combination of ESF-funded commodity import programs and PL 480 programs.

In an effort to reduce the social costs of adjustment, A.I.D. provided a portion of funds from a $57-million PL 480 Title I program between 1987 and 1989 to the Tunisian government to enlarge the PCRD.[17] The program was an ongoing effort, centrally coordinated by the General Commissariat for Regional Development (CGDR) within the agriculture ministry, but also involving municipalities, the departments of Health and the Education, the National Institute of Archaeology, and the Department of Tourism as implementing agencies.

From its inception, the program had dual objectives: to act as a safety net to unemployed workers (especially in construction and industry) and to assist farmers hurt by the 1988-1989 drought. It was therefore an attempt at compensation for adjustment, as well as a relief effort. Operating in both urban and rural areas (the English program title is a bit of a misnomer), civil works undertaken included forestry and desertification control, soil and water conservation, improvement and maintenance of public works and archaeological sites, road maintenance, and refurbishing unsound buildings.

The program attempted to reach the poor through a self-targeting mechanism — setting the wage at a low enough level that only the poor would seek PCRD employment. In addition, a rotation system was established whereby length of employment for any individual was related to the intensity of unemployment in the region. The greater the unemployment pressure, the more quickly the rotation was to occur. Rotations were reported to vary from two weeks to two years.[18]

Program Implementation

Table 5 provides a breakdown of 1987-1988 funding allocation. The cost of the program over two years was approximately $27 million, or 22.5 million Tunisian dinars (TD). Eighty percent of the budget was used for financing unskilled salaries, with the remaining 20 percent devoted to skilled labor.

Physical accomplishments of the PCRD in forestry and soil and water conservation are detailed in Table 6. The PCRD furnished funds to support slightly less than 700,000 person-days of labor in 1987, and nearly 3 million in 1988. Hachette estimates that the PCRD absorbed approximately 20 percent of total Tunisian unemployment in 1988.[19] In all, 40,000 jobs were created, which assisted 100,000 families.

A survey of 320 PCRD workers in 32 sites and eight governates was conducted by the implementing agency with A.I.D. support. The survey sheds some light on motivations for participating. Of rural residents who participated, 45 percent did so because of hardships brought on by the drought. Of urban participants, 50 percent had previously worked in construction and had become unemployed because of the recession. Fifty percent of rural and 77 percent of urban participants took PCRD work because they had failed to find other work. More than 90 percent of those surveyed had not received any formal education. Because data on income levels of participants were unavailable, education level was

[17] Most of the PCRD background information in this section is drawn from Hachette (1989).

[18] Hachette (1989) does not indicate the specific decision rules used to determine how great the pressure was, how this then was used to calculate length of employment rotations, and whether rules varied from one region to the next. One can perhaps presume that unemployment pressure was determined by the excess of applicants over available PCRD spaces.

[19] He admits, however, that the accuracy of Tunisian unemployment figures is doubtful.

TABLE 5

FUNDING ALLOCATION OF THE PCRD PROGRAM, TUNISIA
(1987 AND 1988)

Type of Project	1987		1988		Total	
	Dinar Million	Percent	Dinar Million	Percent	Dinar Million	Percent
Forestry	1.3	28.9	4.9	34.0	6.2	32.8
Soil/Water Conservation	1.6	35.5	4.0	27.8	5.6	29.6
Public Building Maintenance	1.2	26.7	3.3	22.9	4.5	23.8
Other	0.4	8.9	2.2	15.3	2.6	13.8
Total	4.5	100.0	14.4	100.0	18.9	100.0

Note: Exchange rates are: 1987 - $1 = TD 1.21; 1988 - $1 = TD 1.17.

Source: Hachette (1989).

TABLE 6

PCRD PHYSICAL ACCOMPLISHMENTS IN FORESTRY AND SOIL CONSERVATION, TUNISIA
(1987 AND 1988)

Activities	1987		1988		Total	
	Workdays	Output	Workdays	Output	Workdays	Output
Forestry - of which:	300,492		1,462,460		1,762,952	
Planting	61,222	192 ha	645,158	2,583 ha	706,380	2,775 ha
Forest maintenance	65,276	1,896 ha	323,987	5,760 ha	389,262	7,756 ha
Pasture improvement	81,819	841 ha	284,360	1,596 ha	366,179	2,437 ha
Desertification control	39,889	154 ha	24,972	673 ha	74,861	827 ha
Windbreak plantation and maintenance	4,685	16 km	39,670	335 km	44,355	351 km
Forest road and track improvement	24,500	49 km	32,610	120 km	57,110	169 km
Road and track maintenance	23,101	250 km	101,703	1,358 km	124,804	1,608 km
Soil/Water Conservation - of which:	387,747		1,429,940		1,808,687	
Terracing	145,057	2,324 ha	723,429	11,358 ha	868,486	114,180 ha
River basin treatment	141,774	1,001 ha	454,705	4,290 ha	596,479	5,291 ha
Reinforcing conservation works	2,966	155 ha	177,462	4,054 ha	180,428	4,209 ha
Safeguarding conservation works	88,950	4,889 ha	74,344	3,551 ha	163,294	8,440 ha

Source: Hachette (1989).

used as a proxy for poverty, because of their high correlation. Hachette concludes that the PCRD was effective in targeting the poor because of the high proportion of participants with the equivalent of only a primary education or less. A high proportion of PCRD workers (30 percent) were over the age of 59. Because old age is also correlated with poverty, this is another indication of the program's targeting effectiveness. According to Hachette, the availability for work on PCRD activities increases with age as the probability of finding alternative employment for unskilled workers decreases.

Participants cited reasons for preferring to work elsewhere than on PCRD activities: low wages, instability because of the rotation policy, lack of social security, and absence of relevant on-the-job training. Despite these reasons and expressions by some that they felt exploited, Hachette had the impression that the relief provided by the PCRD was appreciated by the majority of those who participated.

Strengths, Weaknesses, and Evidence on Impact

As mentioned above, it appears that the PCRD was reasonably successful at targeting some of those who were in need — the elderly, unemployed construction workers, and those lacking other alternatives. The fact that participants cited shortcomings such as low wages and the instability associated with the rotation system indicates that PCRD slots were not so attractive as to promote dependency and a hope that the slots would become sources of permanent employment.

Targeting

However, Hachette also mentions several problems that detracted from the program's success in targeting vulnerable elements of the population. The program failed to target women; they were entirely absent from the PCRD rolls. This is explained by traditional attitudes in Tunisia that frown upon women performing wage labor.

Occasional efforts to dilute the self-targeting function of the wage by combining it with other forms of reimbursement also posed a problem. In some cases, municipalities and the World Food Programme (WFP) supplemented the salary with food-for-work. This practice pushed the effective wage above the minimum wage, causing the wage to lose its self-targeting aspect and reducing the incentive to seek employment elsewhere.

Doubts were also raised about the program's effectiveness in geographically targeting those hurt by the economic downturn. The correlation is weak between the geographic distribution of PCRD activities and the geographic distribution of unemployment. Using data from the last two columns in Table 7, if one regresses the share of projects per governate of total projects (dependent variable) against the share of unemployed per governate of total registered unemployment (independent variable), this yields an R-squared coefficient of only 0.15. As is the case with many nation-wide safety net programs in other countries, there is a tendency to try to spread activities across administrative regions as uniformly as possible for political reasons.[20] Calculation of the coefficient of variation for the same two columns

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[20] This was a major problem contributing to the lack of success of the PAMSCAD program in Ghana (Kingsbury, 1992).

TABLE 7

PCRD GEOGRAPHIC DISTRIBUTION OF ACTIVITIES, TUNISIA
(4TH QUARTER 1987 THROUGH FIRST HALF 1989)

Governate	October-December 1987	1988	January-June 1989	Total	% of Projects	% of Unem-ployed
Tunis	297	599	213	1,109	3.1	12.1
Ariana	110	541	259	910	2.5	3.6
Ben Arous	151	540	317	1,008	2.8	4.1
Biezerte	252	470	470	1,192	3.3	4.8
Nabeul	226	402	402	1,030	2.9	4.4
Zaghoun	193	720	720	1,633	4.6	4.5
Sousse	172	502	502	1,176	3.3	6.1
Monastir	163	282	282	727	2.0	1.3
Mahdia	267	720	720	1,707	4.8	3.9
Sfax	217	570	570	1,357	3.8	4.8
Gabes	157	590	590	1,337	3.7	1.3
Medinine	215	612	612	1,439	4.0	2.9
Tatouine	164	782	782	1,728	4.8	0.5
Beja	147	520	814	1,481	4.1	0.5
Jendouba	153	452	1,859	2,464	6.9	8.1
El Kef	145	720	888	1,753	4.9	6.7
Siliana	166	970	1,188	2,324	6.5	5.7
Kairouan	426	1,020	1,721	3,167	8.8	8.3
Kasserine	166	790	1,317	2,273	6.3	6.2
Sidi Bouzid	234	652	972	1,858	5.2	1.3
Gafsa	149	1,022	1,146	2,317	6.5	4.4
Tozeur	158	422	162	742	2.1	0.9
Kebili	171	580	322	1,073	3.0	1.2
Total	4,499	14,478	16,828	35,805	100.0	100.0

Source: Hachette (1989).

of data confirms this.[21] The coefficient of variation for geographic project distribution is 0.39, whereas it is nearly double for the geographic distribution of unemployment (0.67). Thus, the distribution of PCRD activities was much more uniform than the geographic distribution of unemployment, indicating that spreading the wealth was a more important criterion for allocating PCRD resources than targeting the most impoverished regions.

Obviously, the reliability of this conclusion is subject to several caveats. First, unemployment data are unreliable (especially in rural areas) and only cover those who formally register as unemployed. Second, amount of expenditure on wages or number of person-days of work funded would have been better indicators than number of projects for assessing the degree of PCRD involvement in the governates. If project size were closely correlated with unemployment rates in the governates, then equity would be greater. Unfortunately, figures for making this determination were unavailable. Third, these calculations only deal with geographic targeting of PCRD activities. Most PCRD funds were allocated to vulnerable groups in all the governates where the program was present, then these vulnerable groups may still have been reached in a cost-effective and equitable manner.

Despite these reservations about the data, such findings are consistent with opinions expressed by a number of observers. Many believe that ruling party politics plays an important role in both the allocation of funds for Tunisian relief programs and decision making on who is allowed to participate. If these tendencies were curbed somewhat, Tunisian safety nets would be far more cost-effective in reaching those truly in need (Kramer, 1990).

Probably reflecting the PCRD objective of providing drought relief, most activities supported were in rural areas. This runs counter to government-sponsored safety nets in many other countries, where there is often an overwhelming urban bias, despite the fact that poverty is most heavily concentrated in rural areas. Because the urban program was implemented totally by government, it may have displaced some private sector construction activity.

Evidence on Development Impact

Because of inadequate monitoring, Hachette (1989) is unable to draw any conclusions regarding either the short- or long-term impact of activities undertaken by the PCRD. Most monitoring records maintained by the Tunisian government concern inputs rather than outputs. Yet even these are rather sketchy as the relationship between disbursed credits and the number of workdays is difficult to determine.

Hachette is dubious of the potential long-term effect of PCRD activities in addressing structural unemployment and alleviating poverty. One reason is that little attention has been given to the recurrent cost implications of activities supported by the program. The probability is high that most of the infrastructure improvements will fall into disrepair because of this oversight.[22]

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[21] The R-squared statistic is a measure of the association between a dependent variable and one or more independent variables. The coefficient of variation is a scale-neutral measure of variability about a mean.

[22] Evidence from other countries' experience with public works programs is discussed in the following section.

Another reason that the long-term effect appears limited is that there exists a conflict between the short-term safety net objective of the rotation system (to reach as many of the poor and unemployed as possible) and the longer-term objective of increasing the skills levels of participants so that they can become more effective members of the labor force. In Hachette's words, "a program designed to be a safety net for the poor unemployed cannot simultaneously maximize productivity....On-the-job training requires more labor stability, and hence, reduction in the frequency of rotation."

Because the long-term goal of skills acquisition is an overriding concern, Hachette advocates that PCRD emphasis shift from safety nets to more extensive training, extension, and supervision in the conservation techniques targeted by the public works program. In addition, he proposes that PCRD activities be developed within the overall context of national training policies. PCRD administration should be integrated with the Tunisian government agency responsible for determining employment policy.[23]

Policy Impact

The program agreement between the U.S. Government and the Government of Tunisia identified self-help measures to increase the efficiency and productivity of the Tunisian agricultural sector. Most of these measures involved the Tunisian government pledging continued support to agricultural research. Agricultural policy issues concerned reducing input and output subsidies to bring them more in line with world prices.[24] These policy-related self-help measures were essentially the same as those stipulated under the World Bank's Agricultural Sector Adjustment Loan (ASAL), which was appraised in 1986.

For the most part, the government successfully instituted the policy measures.[25] Major cereals and fertilizer target prices were set based on a moving average of world prices. Marketing margins for fertilizer were liberalized. Although agricultural parastatals did not raise their margins in response to this policy change, private sector activity increased in fertilizer marketing.[26] Greater private sector participation was judged to have introduced more reliability in fertilizer supply to farmers and, in some cases, even lowered costs to farmers.

Because of extreme volatility in world market prices, output and input prices as determined by the moving average formula did not always closely coincide with actual border prices. However, implicit taxation on farm output — prices paid to farmers below the adjusted world price-equivalent — prior to the ASAL was replaced by substantial price rises for hard and soft wheat and barley. Fertilizer prices also rose, resulting in a decrease in subsidy payments.

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[23] To further this end, the World Bank developed a project with the Tunisian government's Employment and Professional Training Bureau (*Office de l'Emploi et de la Formation Professionelle*).

[24] "Agreement Between the Government of the United States of America and the Government of Tunisia for the Sale of Agricultural Commodities." July 1986.

[25] Discussion in this section of Tunisian input and output pricing policies is based largely on World Bank information (1990).

[26] The lack of cost accounting procedures in the parastatals made it impossible to determine the extent to which parastatals were recovering costs.

It is not possible to gauge the political effectiveness of A.I.D. support to the PCRD in sustaining policy reforms carried out under the adjustment program, because ran concurrent with efforts by the World Bank, IMF, and other donors to support the reform process. Assisting the Tunisian government with concessional wheat imports and placing funds at the disposal of a nation-wide program as popular as the PCRD may have helped to make the adjustment program more palatable to the Tunisian government and the general population, but it is difficult to determine how much.

Although the Mission appears to have more or less piggybacked on the policy conditionality of the ASAL in the PL 480 self-help measures, there is evidence that A.I.D. took a more proactive role in the policy dialogue process in the late 1980s through its Agricultural Policy Implementation Project. The World Bank's Project Completion Report for the ASAL cited the project as having made substantial contributions to the policy process through analysis, dissemination of results, and training of Tunisian researchers.

Lessons from Other Public Works Programs

Hachette's doubts about the long-term sustainability of actions undertaken by the PCRD are echoed in other assessments of public works programs. In a review of five A.I.D.-sponsored labor-intensive infrastructure projects, Bowles (1988) judged that provisions for after-project maintenance were adequate for only one of them: the Indonesia Rural Works Program (see Table 8). Such provisions were in place in the Indonesia project, principally because the types of subprojects implemented were on property traditionally perceived as communal and for which maintenance had been popularly viewed for centuries as the responsibility of local communities — not that of any individual, government body, or donor agency. Reasons for failure to provide adequate maintenance included lack of public funds when projects were viewed as essentially the property of the government (Kenya and the East Caribbean), and lack of an agricultural policy environment conducive to rural development and crop marketing (Jamaica). These problems occurred despite short-term success in effecting net employment creation, using technologies that were sufficiently labor-intensive, and completing the initially planned construction and maintenance.

A fundamental problem with labor-intensive public works programs is that they typically possess a number of competing objectives. In assessing public works programs' potential to address food insecurity, von Braun et al. (1991) identify a built-in tension between the objective of short-term food security and long-term asset creation. In the context of policy reform, both the short-term safety net objective and the long-term skills enhancement and asset creation objective may make sense. However, as Hachette explicitly states, these may be mutually exclusive in practice.

Possible (and sometimes conflicting) short- and long-term program objectives include the following:

Short-Term Objectives

1. Compensation to the poor for adjustment;

2. Compensation to those temporarily displaced, but generally not poor;

3. A safety net for the poor to provide temporary relief because of natural and man-made disaster (drought, locust attacks, warfare, and the like);

TABLE 8

EMPLOYMENT GENERATION ACCOMPLISHMENTS IN SELECTED LABOR-INTENSIVE INFRASTRUCTURE PROJECTS

Accomplishment	Project				
	Kenya Vihiga	Indonesia Rural Works	Jamaica Feeder Roads	Jamaica IRD	E. Caribbean BHN
Did project create net employment effect?	Yes	Yes	Yes	No	Yes
Did project meet adequate labor-intensity effect?	Yes	Yes	No	Yes	Yes
Did maintenance plan allow for long-term employment?	No	Yes	No	No	No
Were assets completed?	Yes	Yes	Yes	Yes	Yes
Were assets used to stimulate employment?	Yes	Yes	No	No	Yes

Source: Bowles (1988).

4. A safety net for the poor to provide semipermanent relief because of seasonal unemployment;

5. Dissipated political pressure during the transition from austerity to growth;

Long-Term Objectives

6. Permanent job creation through skills transfer;

7. Creation and maintenance of high-quality physical infrastructure that can be used for development purposes;

8. Institution building (local government, NGOs and other grassroots groupings, central government ministries);

9. Small enterprise development; and

10. If a permanent program is in place, an insurance scheme for the poor that permits them to know that a safety net is in place at all times if they suffer a temporary loss of income.

The Tunisia program explicitly included goals 2, 3, 6, and 7, and all other goals (with the exception of 9) were present to some degree. If one were to assess the PCRD using the types of questions raised in Table 8, it would probably score similarly to the Kenya and East Caribbean projects, where short-term goals were reached while the long-term viability of investments and maintenance remains in doubt. Although much of the infrastructure created by the PCRD, especially forestry and soil conservation investments, was placed in private hands, sustainability is in doubt because farmers received little extension advice as to why these measures were important. There were also some doubts as to the appropriateness of these technologies from an economic and agronomic perspective.

It appears that the program was reasonably effective in targeting poor rural dwellers for drought relief and unemployed construction workers for compensation because of losses from adjustment.[27] However, attention to political and cultural aspects of the PCRD may not have received adequate attention. Specifically, women received no direct employment benefits from the PCRD, and this was a function of culture and tradition. Hachette (1989) advocates setting up a specific PCRD program for women. Although this author is not qualified to make judgments about what is culturally appropriate in Tunisia, it is reasonable to ask whether it would be wiser to reach women through safety nets or development programs in which female participation is more common, such as supplemental feeding programs, agricultural extension, and health education, especially in a country like Tunisia where a wide array of national safety net programs exists.[28]

[27] One can certainly argue that these job losses were caused by unwise polices pursued prior to adjustment that precipitated the economic downturn in the first half of the 1980s.

[28] See Kramer (1990) for an inventory of these programs.

At the very least, detailed social impact analysis is required. As Bowles (1988) states, "Perhaps in the case of labor-intensive employment more than any other type of project, cultural factors may dominate." Careful attention to land tenure arrangements and traditional gender, ethnic, and social group division of labor is necessary, as is economic and institutional analysis commonly undertaken in design and evaluation.

In addition, there were numerous instances of wages being paid in excess of the level necessary to maintain the safety net aspect of the program and avoid development of dependency on the PCRD as a semipermanent source of work. Bowles (1988) advocates strong central control over labor-intensive infrastructure projects, but decentralized administration, allowing local administrators to select projects based on guidelines set by the central government agency in collaboration with A.I.D. Norms for the number of workdays required to complete a given task were not clearly defined by the CGDR, nor were wage levels strictly adhered to. Failure to define these variables can dilute the effectiveness of public works programs as safety nets.[29]

USE OF PL 480 FOR POLICY REFORM AND SAFETY NETS: THE MADAGASCAR FOOD FOR PROGRESS PROGRAM

Of all the forms of development assistance at A.I.D.'s disposal, PL 480 has perhaps been used more extensively than any other form of aid to promote policy reform and support safety nets, especially in the areas of agricultural policy reform and food security at the national and household levels. Sales of PL 480 commodities are often used to generate local currency for funding in-country expenses of development projects. Some of these projects may have a safety net objective. This was certainly the case with the local currency proceeds used to support the Tunisian PCRD program discussed above. The imported commodities themselves may be used for safety net purposes, most commonly for purposes of stabilizing food prices during the transition from a highly interventionist agricultural policy regime to a more liberal, market orientation. Proponents of stabilization measures generally justify them on two counts. First, they have the potential to protect poor consumers and small farmers from the debilitating effects of wild price swings as market forces replace administrative fiat in setting prices. Second, support to stabilization can relieve some of the reticence that governments typically exhibit toward market liberalization and the political pressures that liberalization may unleash.

However, these programs are not without their detractors. Critics claim that there is an inherent inconsistency between liberalizing prices by letting market forces determine them and simultaneously devising methods to stabilize them through various public intervention schemes. Such public interventions may reflect a heavy political bias and actually destabilize prices more than would have been the case if prices had been left entirely to the market.

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[29] This in no way recommends uniform setting of wage levels. There will often be a need for wages to vary from one region to the next, as a function of supply and demand conditions in regional labor markets. Instead, clear guidelines are needed for analyzing supply and demand conditions to facilitate identification of the appropriate wage level.

Background and Program Elements

The Madagascar government took its first steps towards liberalizing the rice sub-sector in 1983. Liberalization initially involved lifting price controls and rice marketing restrictions in certain parts of the country (Meerman, 1991). However, the two most important irrigated basins for marketed rice remained under strict government controls in terms of pricing and public monopsony buying. In 1985, the government and the World Bank agreed to a Rice Compact. This was essentially a compromise whereby the Madagascar government agreed to liberalize rice marketing in the two basins, and the Bank agreed to assist the Madagascar government in setting up a rice buffer stock and temporarily continuing its monopoly on rice importing. The general objective of the Rice Compact was to achieve food self-sufficiency by 1990.

As Meerman (1991) puts it, the Bank acquiesced to these two measures, implying with little subtlety that the Bank was not terribly enthusiastic about the buffer stock idea from its inception. The officially stated purpose of the buffer stock was to minimize price fluctuations during the lean season, which normally lasts from November to April and is characterized by short supplies and high prices.[30]

The buffer stock program began to operate in 1986. The Directorate of Food Security (DSA) was authorized to manage the buffer stock program, and two parastatals (SINPA and SOMACODIS) were responsible for moving stocks from ports to warehouses.

To support the rice subsector reforms and formation of the buffer stock, the Madagascar FFP Program Agreement was signed between the U.S. Government and the Madagascar government in August 1986 and was to last three years. A.I.D. saw the buffer stock operation as having three purposes:

- To intervene as needed on the open market during the lean period to keep prices within reasonable limits;
- To ensure continued public distributions to the needy at official prices on a schedule that provides for phasing down these sales as domestic market prices stabilize; and
- To serve as an emergency stock as needed.[31]

A.I.D.'s participation in the buffer stock was prompted by the steep price rises of the 1985-1986 lean season. Antananarivo rice prices climbed to over 700 Malagasy francs per kilogram during the December 1985 to February 1986 period, causing great hardships for urban consumers and threatening to derail the reform program.[32] It was hoped that support to the buffer stock would assist the Madagascar government in averting a similar situation during the 1986-1987 lean season.

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[30] The lean season is commonly referred to as the *soudure* in French.

[31] Excerpted from: "Agreement Between the Government of the United States of America and the Government of the Democratic Republic of Madagascar for Agricultural Commodities Under Food for Progress." August 1986.

[32] Some attributed the sharp climb in lean season prices (double those of the 1984-1985 lean season) to poor import management on the part of the Madagascar government. The popular view in the streets was that price liberalization was the culprit (Hough et al., 1987).

Although FFP was envisaged as a three-year program, it was only funded for the first year because A.I.D. decided that imports were not needed in subsequent years, because of record harvests. Thirty thousand tons of rice were supplied to the government rice buffer stock between November 1986 and April 1987. As of July 1988, all FFP rice had been sold. In addition to the FFP rice, the WFP provided 5,000 tons for the buffer stock during 1987 and 1988.

Program Implementation

Table 9 provides a chronological summary of major events related to operation of the buffer stock. Operations began in November 1986 with an announced retail trigger price of 480 Malagasy francs per kilogram. In principle, the trigger price was one above which buffer stock sales would begin, in order to dampen price rises. Sales would continue until the market price fell below that level, and then cease. According to Meerman, the buffer stock worked as intended during the 1986-1987 lean season. Slightly more than 14,000 metric tons of rice were sold. Most of this was sold in Antananarivo through private traders at a retail price of 450 Malagasy francs per kilogram. Operations for the season ceased in April 1987 as the lean season ended.

A first glance at the evolution of rice prices would seem to indicate that the buffer stock fulfilled its price stabilization objective during the 1986-1987 lean season (Table 10). Whereas Antananarivo rice prices averaged 670 Malagasy francs per kilogram from December 1985 to April 1986, they averaged only 482 Malagasy francs per kilogram for the same months of the 1986-1987 lean season — roughly a 30 percent reduction. However, more was going on in the rice market than buffer stock sales. In reaction to the significant price rises of the 1985-1986 lean season, private merchants purchased large volumes of rice. To guard against possible political repercussions of a repeat of the 1985-1986 lean season, the government imported heavily, while at the same time strongly encouraging parastatals to compete directly with the private sector in purchasing paddy (Hough et al., 1987). As a result, public and private rice and paddy stocks were large when the buffer stock began. Therefore, a combination of buffer stock and other public and private buying and selling activities was responsible for 1986-1987 lean season prices evolving as they did.

This short-term success in price stabilization carried the seeds for serious problems throughout the remainder of 1987. Having sold 14,000 metric tons during the 1986-1987 lean season, the buffer stock still held 19,600 metric tons as of April 1987, and much of this rice was beginning to spoil (Meerman, 1991).[33] An additional 25,000 metric tons of Thai rice, given by the Soviet Union as a gift, entered the buffer stock in October. The World Bank and others recommended that this shipment be delayed, but to no avail because it would be politically inappropriate for the Madagascar government to be seen as refusing food aid.

Parastatals that had overpurchased in 1986 were facing severe cash flow problems by mid-1987. SOMALAC, the irrigation authority in the high-producing zone of Lac Aloatra, held 15,000 metric tons of paddy in April 1987 and was unable to cover the credits taken to finance paddy purchase. Eventually, a government-guaranteed loan was needed to bail out the parastatal (Meerman, 1991).

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[33] See Hough et al. (1987) for a discussion of the inadequacy of storage conditions in 1986-1987. This first FFP evaluation team recommended that all stocks be moved to better storage facilities and that USAID hire a personal services contractor to monitor storage and rice quality. The USAID Mission did both of these in 1987. According to the second FFP evaluation team, eventual losses totaled 4.2 percent of the FFP consignment (Rassas et al., 1988).

TABLE 9

CHRONOLOGY OF MADAGASCAR BUFFER STOCK DEVELOPMENTS
(1986 TO 1988)

Date	Action Taken
November 1985	GDRM* and World Bank agree to the Rice Compact.
April 1986	Reserved areas opened to free trade in rice and paddy.
November 1986	Buffer stock begins operation with announced trigger price of 480 FMG/KG.**
December 1986	President Ratsiraka promises that rice will be sold at 360 FMG/KG. DSA begins sale at 340 FMG/KG to wholesalers and at 360 FMG/KG to consumers.
March-April 1987	Price reduced to 360 FMG/KG to convince traders to sell their overstock (agreed to by donors) prior to harvest. At same time, average price throughout the country was 400 FMG/KG.
June 1987	Official Distribution System eliminated.
October 1987	25,000 MT of Soviet-donated rice enters the buffer stock.
November 1987	Trigger price set at 400 FMG/KG.
January 1988	President Ratsiraka once again announces sale at 360 FMG/KG.
June 1988	Local newspaper announces prices at 400 FMG/KG for 1988-1989 period. Abundant crops and large public stocks obviate need for buffer stock sale, but rice still released.
March 1989	Presidential election held, followed by other local elections in 1990.

*GDRM = Government of the Democratic Republic of Madagascar
** FMG = Malagasy francs

Source: Compiled from Rassas et al. (1988) and Meerman (1991).

TABLE 10

MONTHLY RETAIL RICE PRICES FOR ANTANANARIVO, JANUARY 1985 TO JUNE 1988
(FMG/KG FOR >30 PERCENT BROKEN RICE)

Month	1985	1986	1987	1988
January	325	769	515	435
February	397	714	507	439
March	423	690	457	374
April	381	486	391	360
May	292	419	340	376
June	284	420	324	412
July	309	486	322	
August	369	527	323	
September	406	537	323	
October	482	554	339	
November	563	530	375	
December	724	525	405	

Source: Rassas et al. (1988)

Prices had also fallen substantially, making stock liquidation a losing proposition. There was little hope of a significant price rise in the near future because rains were good, and a bumper harvest was expected to hit the market in late 1987.[34]

Government decisions related to rice marketing policy in 1988 were heavily influenced by the impending elections of March 1989. Meerman (1991) calls 1988 the year of "political rice," with pricing and import policies intended more to curry urban favor than to meet any economic reform goals. Because of the 1987 glut described above, no PL 480 rice was imported and the last of the FFP stocks were sold off by early 1988. Thus, A.I.D.'s direct involvement in rice stabilization policy ended.

Government actions in 1988 undercut any potential for effective management of the buffer stock because the government placed rice at the disposal of a private wholesaler with a retail distribution system operated by local agents of the government's political party. This had the effect of keeping rice prices below 400 Malagasy francs per kilogram. According to a World Bank supervision report in early 1988, "It was not possible to have an informed discussion with decision makers about the course of the rice program...the movement of imported rice stocks now appears to be out of control and unmonitorable."[35]

The donor stance towards rice marketing in 1989 was largely one of negotiating complete liberalization of rice marketing and importation and a phasing out of public rice stocks. As liberalization had proceeded in other sectors, rice market policies had increasingly come into contradiction with the overall macroeconomic policy framework. Although the government continued to import rice during 1989, the Policy Framework Paper for 1990-1992 stipulated complete liberalization of rice importing. Buffer stock volumes were drawn down until only 2,000 metric tons were left in September 1990. Nearly all 1990 rice imports (41,000 metric tons as of September 1990) were handled by the private sector, reversing the total government domination of imports that had been in place for 15 years (Meerman, 1991).

Strengths, Weaknesses, and Evidence on Impact

The Madagascar FFP program specifically supported operation of the buffer stock but was also an attempt to support the overall rice marketing liberalization effort. Acting as a safety net, it was to protect the vulnerable with minimal distortion of market signals. Unlike the two programs discussed earlier in this chapter, it was not targeted to a specific socioeconomic group, but was a general safety net — essentially a universal subsidy program designed to compensate consumers who would suffer inordinately from higher rice prices if prices were entirely determined by the market.

In addition to the three direct buffer stock objectives cited above (price stabilization, safety net for the needy, and emergency stock), the program agreement identified the following criteria for determining whether the buffer stock was a success:

- The operation of the buffer stock should not interfere with private marketing channels.
- Competitive private marketing of rice should continue to be encouraged.

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[34] 1986 and 1987 production both set records for Madagascar at 2.23 million metric tons and 2.3 million metric tons respectively (Dorosh et al., 1990).

[35] Sigrist Supervision and Back-to-Office Report, February 1988, as quoted in Meerman (1991).

- There should be evidence that the volume of public distribution is decreasing over time.

- Appropriate pricing policies for imported and domestic rice and corresponding release price targets for the reserve stock should be followed.

- By the third year of the program, increased domestic production of rice should be demonstrated and should satisfy a larger proportion of domestic needs.

Economic Impact

Meerman states that the buffer stock was flawed from the start because no clear ground rules were laid out related to pricing and stock release. The Rice Compact was a last-minute compromise, and there was an understanding that stock management rules would be worked out later. This probably would not have presented problems if the donors and the Madagascar government had been in close agreement about the goals of the buffer stock. The World Bank and A.I.D. viewed the role of the buffer stock as a transitional measure for moving from a statist approach to rice market organization dominated by parastatals and the central government to a more market-determined one, where basic decisions would be made through the interaction of private buyers and sellers. The donor approach emphasized the gradual development of efficient markets whereby strategic, but minimal, manipulation of prices would add a reasonable amount of stability and predictability to the market while encouraging increased private sector participation in production, marketing, and external trade. Once this participation was sufficiently strong, movement to border pricing as the determinant of market prices would be the rule. The government approach had only one objective — keeping rice prices low to urban consumers.

As a result, major buffer stock decisions were largely made on an ad hoc basis. Rassas et al. list a number of buffer stock decisions that ran counter to promoting economic efficiency and encouraging more active private sector participation in rice marketing. These decisions include the following:

- Announcing the trigger price after the beginning of marketing campaigns, as well as inadequate publicizing of the price;

- Lowering the release price in March 1987 (a decision made by the government and the World Bank);

- Selling imported rice at below-market prices, undercutting private trader operations;

- Selling buffer stock rice on a less than fully competitive basis at the wholesale level to two parastatals (SINPA and SOMACODIS) and the pseudo-private party-affiliated PROCOOPS.

As of the writing of the second evaluation (mid-1988), the evaluation team judged that private sector participation in rice marketing had contracted because of greater risk from price uncertainty occasioned by government buffer stock, import, and domestic distribution decisions. This was associated with a commensurate increase in quantities handled by the public sector. Although private sector contraction may have occurred (and this is disputed by some observers), it was clearly a short-term phenomenon.

Political Impact

While the buffer stock operated, there is considerable evidence that certain politically motivated actions on the part of the Madagascar government were disruptive to promoting greater private sector participation in rice marketing, at least in the short term. These actions had less to do with public behavior toward the buffer stock than with parallel public interventions through parastatals and the pseudo-private rice wholesaler. In addition, political considerations received greater weight in determining buffer stock pricing and stock acquisition. These decisions ensured that the buffer stock would be such a financial drain as to be unsustainable without substantial donor support.

At the same time that the buffer stock suffered from political manipulation, it is clear that major rice market reforms were carried out and that these stimulated rice production, held down consumer price rises, and encouraged private sector involvement in domestic marketing and importation. By late 1990, the government had greatly curtailed its involvement in rice marketing and importing. However, it is unclear to what extent the presence of the buffer stock contributed to this state of affairs. As mentioned above, a combination of factors contributed to price stabilization during the 1986-1987 lean season, not the least of which was aggressive (and financially disastrous) parastatal competition with the private sector. The government did everything in its power to keep urban consumer prices low until the 1989 elections. The buffer stock was only one part of this. Therefore, one can reasonably discount claims that the net effect of support to the buffer stock was substantial.

Because the buffer stock was part of a compromise known as the Rice Compact, it was plagued by conflicting pressures — essentially reflecting different degrees of faith on the part of major donors and the Madagascar government in the ability of the free market to allocate resources in a way consistent with the public interest. Although a buffer stock can be seen as a way of dampening the volatility of market signals (though not intended to obscure such signals), the government did not trust the buffer stock alone to do this. As a result, parastatal operations and political party mechanisms were also used to maintain low prices to the urban consumer through aggressive purchasing in domestic markets and importing large volumes.

Despite these problems, the ultimate political impact was that the overall economic reform program survived at the same time that AREMA (the ruling party) won the 1989 elections overwhelmingly. To the extent that the buffer stock contributed to keeping the reform process alive, donors may view it as a political success. To the extent that it promoted good will among voters, the ruling party must view it positively. Although the buffer stock may have been responsible for generating market uncertainty in the short term, the government felt confident enough to agree to a Policy Framework Paper for 1990-1992 that greatly reduced the public role in rice marketing and imports; the government has largely stuck to the stipulated reforms; and the private sector continues to respond favorably to continued involvement in rice markets.

Equity Implications

In the program agreement signed between the U.S. Government and the Madagascar government, equity was an explicit concern as the practice of publicly distributing rice at official prices to the needy was to continue until evidence existed that domestic market prices had stabilized.

Unfortunately, quantitative data on the evolution of rice consumption patterns do not exist after 1986-1987. It is therefore impossible to calculate with any precision the distributional effects of the buffer stock program or the parallel actions of the Madagascar government vis-à-vis rice distribution.

One can, however, make the case that falling consumption just prior to establishment of the buffer stock had negative implications for the poor, and government actions to increase availability through buffer stock and other channels helped the poor, albeit not in a very cost-effective manner because targeting of the most vulnerable was not a high priority.

Table 11 shows the evolution of rice subsidies in financial terms for Madagascar from their peak in the early 1980s to 1985 — the period just prior to initiation of the buffer stock. A total consumer subsidy bill of nearly $30 million (18.9 billion Malagasy francs) had fallen to next to nothing by 1985. But, as discussed above, severe price rises during the 1985-1986 lean season created great hardship for consumers and prompted donors to support the buffer stock idea.

As is the case with most universal food subsidy programs, there is little doubt that Madagascar's rice subsidy policies prior to 1986 were highly regressive. Tables 12 and 13 give an indication of the distribution of officially distributed rice, in urban versus rural terms (Table 12) and by income quartile in the capital city (Table 13).

The geographic distribution of poverty in Madagascar is overwhelmingly rural. Using 1980 data, Dorosh et al. calculate poverty lines based on minimum food consumption requirements and estimate that 37 percent of rural households, 26 percent of households in small urban centers, and 18 percent of households in the seven largest urban centers can be classified as falling below the poverty line. With an overall total of 34 percent of households in Madagascar living in poverty in 1980, they estimate that 90 percent of these households were to be found in rural areas. Yet as Table 12 makes clear, no officially distributed rice reached rural areas. If these figures are to be believed, the maximum number of poor people that could have theoretically benefited from consumption subsidies were the 10 percent of Madagascar's poor residing in urban areas.

Looking at just the capital city (Table 13), the poorest (first) quartile definitely benefited from rice subsidies in 1982-1983, although benefits were poorly targeted to this group; they received only about two-thirds the per capita amount of the two highest quartiles. Moreover, this poorest quartile was hardest hit by the removal of subsidies in 1986-1987, as reflected in the reductions in overall consumption (a fall of 31 percent versus an overall average decrease of 20 percent). Diminished access to official distribution channels was more or less evenly distributed, although the richest quartile suffered somewhat less than the other income groups.

Therefore, one can make the following very tentative claims about the equity implications of the buffer stock:

- If effects of the buffer stock are reflected in the 1986-1987 consumption data (its first and supposedly most effective year), the buffer stock does not appear to have directly benefited the vast majority of Madagascar's poor, who are mostly in rural areas and received no buffer stock rice. However, the rural poor may have indirectly benefited to the extent that buffer stock rice combined with imports to increase overall rice availability and place downward pressure on market prices.

- Buffer stock rice did not arrest the decline in rice consumption of the urban poor, although this decline might have been worse during the 1986-1987 lean season if there had been no buffer stock. As detailed above, 1986-1987 lean season prices were successfully stabilized, and the buffer stock had a role in achieving this, although it is not possible to separate buffer stock effects from other effects and quantify them.

TABLE 11

EVOLUTION OF THE FINANCIAL COSTS OF MADAGASCAR RICE SUBSIDIES
(1980 TO 1985)

Year	Quantity Procured	Domestic Subsidy		Imports	Import Subsidy		Total Consumer Subsidy	
	1,000 MT	Percent	Million FMG	1,000 MT	Percent	Million FMG	Percent	Million FMG
1980	132.3	65.3	5,182	177.0	96.0	10,200	83.4	15,381
1981	68.3	54.1	2,771	193.0	111.5	16,137	98.8	18,908
1982	60.4	6.5	548	351.0	5.8	2,840	6.8	3,388
1983	74.4	18.2	1,920	179.0	17.3	4,394	22.3	6,313
1984	78.9	0.5	70	111.0	4.8	1,004	2.0	1,074
1985	61.9	(6.6)	(920)	106.0	5.5	1,323	0.9	403

Source: Dorosh et al. (1990).

TABLE 12

URBAN AND RURAL RICE CONSUMPTION IN MADAGASCAR BY SOURCE
(1982-1983 AND 1986-1987)

Year and Source	Urban	Rural	Average
	Kilograms per Capita		
1982-1983			
Official Distribution	121	0	21
Own Production	15	118	100
Market	15	22	20
Total	151	140	141
1986-1987			
Official Distribution	51	0	NA
Own Production	10	125	NA
Market	67	8	NA
Total	128	133	132

Source: Dorosh et al. (1990).

TABLE 13

RICE CONSUMPTION IN ANTANANARIVO BY INCOME GROUP
(1982-1983 AND 1986-1987)

	First Quartile*	Second Quartile	Third Quartile	Fourth Quartile	Average
1982-1983: Consumption by Source (kg/person)					
Official Distribution	105	135	144	150	132
Market	3	6	10	26	10
Own Production	8	12	20	25	16
Total	116	153	174	201	157
1986-1987: Consumption by Source (kg/parson)					
Official Distribution	49	68	67	82	64
Market	30	45	54	82	51
Own Production	1	9	14	22	11
Total	80	122	136	186	126
1982-1983 to 1986-1987: Percent Change in Consumption					
Official Distribution	(53)	(50)	(53)	(45)	(52)
Total	(31)	(20)	(22)	(7)	(20)

* First quartile denotes poorest 25 percent; fourth quartile denotes wealthiest 25 percent.

Source: World Bank data cited in Dorosh et al (1990).

- Although no household-level data are available, the urban versus rural distribution of officially distributed rice may have improved a bit during the 1987-1988 lean season because donors insisted that a major portion of buffer stock rice be distributed outside of the principal urban centers. As a result, 44 percent of buffer stock rice (8,000 of 18,400 metric tons of FFP and WFP rice) was sold in peripheral markets.[36]

- Because parallel government rice distribution activities in 1988 were politically motivated to appease urban voters, it is probably safe to conclude that these efforts were no more progressive and cost-effective in reaching the poor than previous efforts pursued through official distribution channels.[37]

The Role of Food Aid As a Transitional Tool

The first food-aid-related lesson that one may derive from the FFP experience in Madagascar is that food aid is a less flexible mechanism for promoting policy dialogue than are other forms of NPA — cash transfers and commodity import programs, for example. In periods of food scarcity, properly programmed food aid can play an important role in stabilizing prices and keeping policy reform programs on track. There is some evidence that this occurred during the first year of the buffer stock program. However, in years of relative food abundance, food aid loses its attractiveness for this purpose and can have a disincentive effect. In the case of Madagascar, the A.I.D. Mission correctly decided to abbreviate the FFP Program from three years to one year to avoid exacerbating the 1987 rice glut. Yet to the extent that underwriting certain aspects of policy reform buys one a seat at the negotiating table, A.I.D.'s leverage in the policy dialogue process was reduced. Such problems are not present with other forms of NPA that do not take into account the vagaries of a recipient country's agricultural production from one year to the next.

In a review of the success of using food aid to promote economic policy reform in Mali, Guinea, and Bangladesh, Block et al. come to a similar conclusion about the value of food aid in the policy dialogue process. They found that in Mali food aid played a crucial role during years of scarcity, whereas its usefulness was much less evident in years of abundance. Table 14 summarizes the findings of Block et al. related to the advantages and disadvantages of using food aid for policy reform purposes. Some of these findings are reflected in the Madagascar experience.

Because A.I.D. is only one of a number of donors typically involved in food aid delivery, any discussion of the uses of food aid should consider the role of donor coordination. Although Table 14 indicates that food aid can be used to promote increased donor coordination, it can be a double-edged sword if there is a lack of consensus on specific policy issues. Host governments can then play a game of divide and conquer.

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[36] Markets other than Antananarivo and Tamatave. Donors would have preferred that a higher proportion be distributed in peripheral markets, and the Madagascar government initially promised that 10,000-20,000 metric tons were to go to these areas. The source for this is Rassas et al. (1988).

[37] Meerman (1991) makes this point, although he admits to a lack of quantitative evidence on distributional impacts.

TABLE 14

ADVANTAGES AND DISADVANTAGES OF FOOD AID FOR POLICY REFORM

Advantages	Disadvantages
Leverage for policy reform is enhanced when food aid has a high priority for the host government relative to other forms of aid that are highly restricted in their use and slower to disburse.	* Food aid levels are determined largely on the basis of political considerations and food needs, and therefore may be difficult to adjust in response to changing policy conditions.
The magnitude of aid flowing through the PL 480 channel relative to other forms of assistance makes food aid an appropriate tool for securing policy reform.	* The leverage value of food aid varies greatly depending on local production conditions.
* Food aid can be directly linked to many (but not all) reforms in the agricultural sector.	* Food aid can easily have disincentive effects on local production and development of private markets.
* When there is a strong link between food aid commodities and the policies to be addressed, opportunities may arise to program the commodities in direct support of policy reforms.	* Resources other than food aid are needed to carry out many reform programs.
Food aid can foster donor coordination	* Food aid delivery often poses formidable logistical problems.

* Judged by the author to have occurred in Madagascar.

Source: Adapted from Block et al. (1988).

In the case of the Madagascar buffer stock program, there is evidence that donor efforts were not well coordinated. In March 1987, Madagascar government and World Bank officials jointly decided to reduce buffer stock sales prices. Neither of the two donors that had provided rice to the buffer stock — A.I.D. and the WFP — was consulted about this (Hough et al., 1987), nor did the decision contribute to making markets more predictable for traders. According to Rassas et al. (1988), the government-World Bank rationale for this was that lowering the preharvest price would persuade traders to sell the last of their stocks to reduce the gap between the immediate postharvest price and the eventual 1987-1988 lean season price. It is not readily evident why a reasonably savvy trader could not figure out for himself that he has an incentive to sell off stocks just prior to a new harvest without government prompting. With regard to the appropriateness of World Bank actions, Hough et al. (1987) state:

> "the World Bank role in policy coordination should not imply a unilateral assumption of representational authority in donors' dealings with the Madagascar government. Donors have a legitimate right to advise on and consent to programmatic decisions which involve the use of bilaterally donated resources."

This of course implies that A.I.D. Missions have the analytical capability, either within the field Mission or through technical assistance, to engage in policy dialogue with host governments and the World Bank. This capability is often unavailable in small Missions, as was the case in Madagascar during the buffer stock period. Although it was initially presumed in the early 1980s that NPA would enable A.I.D. to move significant blocks of resources in a way that was less management-intensive than project assistance, A.I.D. has become increasingly aware over the last several years that the policy dialogue associated with NPA is very management-intensive, requiring significant on-the-ground expertise in economics and other social sciences.

In addition, there was lack of clarity as to the nature of WFP participation. According to Hough et al., A.I.D. officials were under the impression that WFP rice was only to be supplied if no other sources could be found to meet the volume requirements of the buffer stock. However, the Antananarivo WFP representative was unaware of this and offered the opinion that "the Madagascar government finds it politically useful not to have the buffer stock program linked exclusively to one bilateral donor."[38]

Finally, NPA emanating from A.I.D. appears insignificant when compared with the financial leverage that the IMF, the World Bank, and (in some cases) other multilateral or bilateral donors bring to the policy dialogue process. This applies not only to PL 480, but to other forms of NPA. In the case of Madagascar, it is probably more accurate to say that A.I.D. conditionality piggybacked that of the World Bank. In other words, with or without the PL 480 program, there would not have been any difference in how the policy dialogue process was conducted or what conditions were placed on receipt of assistance. A.I.D. resources were dwarfed by those of other organizations flowing into the Madagascar rice sector. In sheer volume, PL 480 importations under this program amounted to only about 2 percent of total Madagascar rice availability in 1986-1987. This is not meant to disparage the usefulness of A.I.D.'s participation in the policy process. Rather, it is meant to underline the importance of donor coordination for an organization like A.I.D. and inject a note of realism into the debate over A.I.D.'s ability to influence the direction of policy change.

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[38] Quoted from Hough et al. (1987), page 23.

CHAPTER FOUR

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

This chapter begins by highlighting the main findings presented in the paper. It then proceeds to draw out the main conclusions that have implications for future A.I.D. programming. These conclusions are separated into general and program-specific ones. Finally, specific recommendations for future A.I.D programming are identified. A decision tree is mapped out for determining the circumstances under which various types of compensatory or safety net programs may be warranted, and areas where there appear to be significant research gaps are discussed.

SUMMARY OF FINDINGS

Breadth of A.I.D. Regional Coverage

As indicated in Chapter Two, the number of A.I.D.-supported compensatory and social safety net program activities is very small, considering the size of A.I.D. and its presence in most developing countries. Reasons for this include the following:

- Definitional problems render it difficult to classify programs as compensatory or SSNs: many activities enter a gray area where the distinction between compensation or SSNs and something else is unclear.

- The idea of providing safety nets during adjustment is a new one, beginning only in 1987 with the publication of UNICEF's *Adjustment with a Human Face*. Donors have only recently begun to design and implement projects and programs that attempt to mitigate some of the adverse effects of adjustment.

- Some of these programs (especially social investment funds) involve donors pledging money to a common pool. A.I.D. has increasingly discouraged commingling of funds because this creates difficulties in determining whether A.I.D. resources have been used for intended purposes.

- Certain regional bureaus within A.I.D. appear to have consciously discouraged these types of programs, essentially viewing the social costs of adjustment as a temporary development fad and economic growth as the best remedy for poverty alleviation.

The highest concentration of A.I.D.-supported programs for laid-off public and parastatal workers and for investment in social funds is in Latin America and the Caribbean. The United States plays a relatively predominant political role in many of these countries, particularly those of Central America, and A.I.D. NPA resources are far more important as a result. The Department of State and A.I.D. may sometimes be placed in the lead role in addressing the political factors related to adjustment programs.

In Sub-Saharan Africa. where A.I.D.'s presence is less visible, diplomatic pressures may not be as great. Although A.I.D. resources are still substantial in Africa and there are cases where A.I.D. is the lead donor in certain key sectors, World Bank resources (and sometimes those of the French) dwarf those of A.I.D. in many countries, making the Bank the natural lead donor in these areas.

In the Near East, A.I.D. has been fairly active in funding safety net programs for several reasons. First, especially in North Africa, PL 480 and ESF funds have been plentiful. Egypt and Morocco are among the largest recipients of programmed local currency in the world, and safety net programs are far more dependent on local currency than on dollar funding. Second, and closely linked to the first reason, the U.S. Government is very sensitive to political developments in this region. A.I.D. is more apt to support such programs, perhaps more for political than economic reasons. Third, some of these countries such as Tunisia and Morocco already have a relatively high capability to support social safety net programs.

The Eastern Europe Bureau does not foresee allocating a great deal of resources to SSNs. This has more to do with perceptions of A.I.D.'s comparative advantage and limited NPA resources than a belief that they are unjustified. Because NPA and staff resources are very limited, and the costs of making a major impact in social safety net areas huge, A.I.D. has tended to leave such interventions to the larger multilateral organizations, focusing instead on the provision of technical assistance.

Because the structural adjustment programs of the 1980s were largely confined to Latin America and Africa, there are few compensatory or SSN programs in Asia. For the most part, Asian countries pursued growth-oriented macroeconomic policies in the 1980s and did not have to turn to adjustment programs (the Asian "tigers") or were able to postpone adjustment until very recently (India).

Severance and Retraining Programs

In Mali, identifying the strengths and weaknesses of the three components of the VED Program and reasons for success or failure is straightforward. The loan guarantee fund and studies fund components failed, whereas demand for participation in the severance pay component was high, and processing of applicants for voluntary departure proceeded smoothly.

Investment feasibility studies funded under the VED were unable to answer the types of tough questions normally asked by bankers about potential profitability, contributing to the low loan approval rate. However, there is evidence that a number of more serious reasons existed for the failure of the loan guarantee fund. It remains unclear what real incentives were present for the commercial banking sector to perform well in the loan guarantee scheme.

In contrast, several strong disincentives were present. First, targeted credit programs to SSEs suffer from a number of endemic problems in enlisting banking sector participation. Loans are typically small although administrative costs for loan approval and supervision are typically fixed. At the same time, the average retrenched public servant, lacking experience in private enterprise and a formal credit history, cannot be viewed as a good credit risk. Donors typically try to get around this by guaranteeing some portion of the loan program, in this case 50 percent, introducing a Catch-22 of sorts. Banks generally do not wish to risk any of their own money in these schemes, and a guarantee falling short of 100 percent reduces their interest. However, if loans are 100 percent guaranteed, banks have little incentive to carefully administer the programs.

Second, it is doubtful whether any sustainable lending program could be successful in the CFA zone — even to established small and medium entrepreneurs. This is because the BCEAO sets standard interest rate spreads for all member countries, and these often fail to cover real lending costs.

Finally, the loan guarantee program was poorly coordinated within the overall Mali-specific macroeconomic policy reform framework, especially with regard to credit ceilings. If they had wished to lend to VED participants, banks would either have had to pay a penalty for exceeding credit ceilings, or remain under ceilings by refusing loans to regular customers.

In short, a combination of an unfavorable macroeconomic environment and the generic problems associated with credit schemes narrowly targeted to those with little or no prior formal entrepreneurial experience made successful participation of the private banking sector unlikely.

In contrast, the severance pay component was smoothly implemented. Of greatest interest is evidence that a majority of participants used a sizable portion of funds for private investment, mainly in self-employment schemes. Most of these investments were in trade, because of the quick turnover of funds in this endeavor, the relatively small amount of initial capital required, and lack of expertise in other areas. As much as one quarter of all severance funds may have been used for SSE investment. Evidence of substantial investment and savings of severance benefits is also present in Ghana, where a more rigorous tracer survey of severed workers was conducted by Cornell University.

Labor-Intensive Public Works

The Tunisia PCRD was reasonably successful at targeting some of those who were in need — the elderly, unemployed construction workers, and those lacking other alternatives. However, there were also some problems that detracted from the program's success in targeting vulnerable elements of the population. In terms of gender, the program failed to target women. Another problem concerns efforts to dilute the self-targeting function of the wage by combining it with other forms of reimbursement, pushing the effective wage above the minimum wage and causing it to lose its self-targeting aspect. Doubts were also raised about the program's effectiveness in geographically targeting those hurt by the economic downturn, because the correlation is weak between the geographic distribution of PCRD activities and the geographic distribution of unemployment. Spreading the wealth was a more important criterion for allocating PCRD resources than targeting the most impoverished regions.

Because of inadequate monitoring, it is impossible to draw conclusions regarding the short- or long-term impact of activities undertaken by the PCRD. Most records maintained by the Tunisian government concern inputs rather than outputs. The PCRD evaluator is dubious about the potential long-term impact of PCRD activities in addressing structural unemployment and alleviating poverty. One reason is that little attention was given to the recurrent costs of activities supported by the program. There is a high probability that many of the infrastructure improvements will fall into disrepair because of this oversight. Another reason that the long-term impact appears limited is that there exists a conflict between the short-term safety net objective of reaching as many of the poor and unemployed as possible and the longer-term objective of increasing the skills levels of participants so that they can become more effective members of the labor force. These problems are mirrored in a number of other public works programs that have been undertaken around the world.

For the most part, the Tunisian government successfully instituted self-help measures concerning adjustment of cereals and fertilizer prices to more closely reflect world prices. Implicit taxation on farm output (prices paid to farmers below the adjusted world-price equivalent) prior to the ASAL was replaced by substantial price rises for hard and soft wheat and barley. Fertilizer prices also rose, resulting in a decrease in subsidy payments. Private sector activity increased in fertilizer marketing, making fertilizer supply to farmers more reliable and, in some cases, even lowering costs to farmers.

It is not possible to isolate the political effectiveness of A.I.D. support to the PCRD in sustaining policy reforms carried out under the adjustment program because it ran concurrently with efforts by the World Bank, IMF, and other donors to support the reform process. However, there is evidence that A.I.D. played a constructive role in the policy dialogue through analysis, dissemination of results, and training of Tunisian researchers undertaken through the Agricultural Policy Implementation Project.

Use of PL 480 for Policy Reform and Safety Nets

It is clear that the buffer stock funded under the Madagascar Food for Progress Program suffered from political manipulation. However, it is also apparent that major rice market reforms were carried out and that these stimulated rice production, dampened consumer price rises, and encouraged private sector involvement in domestic marketing and importation. By late 1990, the government had greatly curtailed its involvement in rice marketing and importing. To the extent that the buffer stock contributed to keeping the reform process alive, donors may view it as a political success, and A.I.D. in particular may regard PL 480 resources as having been effectively used. To the extent that it promoted good will among voters, the ruling party must view it positively. Although the buffer stock may have been responsible for generating a fair amount of market uncertainty in the short-term, Madagascar's efforts at adjustment continue, and there does not appear to have been any permanent damage to the private rice trade.

Equity implications of the buffer stock and parallel government attempts by the Government of the Democratic Republic of Madagascar to intervene in rice marketing include the following:

- The buffer stock does not appear to have directly benefited the vast majority of Madagascar's poor, who are mostly in rural areas and received no buffer stock rice. However, they may have indirectly benefited if PL 480 rice combined with other imports to lower market prices. If this was the case, benefits to the poor derive from PL 480 additionality.

- Buffer stock rice does not appear to have arrested the decline in rice consumption of the urban poor, although this decline might have been worse during the 1986-1987 lean season if there had been no buffer stock.

- Although no household-level data are available, the urban versus rural distribution of officially distributed rice may have improved a bit during the 1987-1988 lean season as donors insisted that a major portion of buffer stock rice be distributed outside of the principal urban centers.

- Because parallel government rice distribution activities in 1988 were politically motivated to appease urban voters, it is probably safe to conclude that these efforts were no more progressive and cost-effective in reaching the poor than previous efforts pursued through official distribution channels.

CONCLUSIONS RELEVANT FOR A.I.D. PROGRAMMING

Although it is always unwise to generalize case study findings, reasons for some of the successes and failures of elements of the three programs examined appear to be reflected in the broader experience of A.I.D. and other donors. This is especially true in policy-conditioned food aid and public works, where a good deal of literature already exists. Mali VED findings related to severance pay uses by retrenched public employees, and the poor track record of accompanying retraining and credit programs is corroborated elsewhere, although such programs have not been studied as extensively as food aid and public works schemes. General and program-specific implications are presented below.

General Implications

The most important general implication of compensatory and SSN activities for A.I.D. programming is that they are often very political in nature. If properly managed and reasonably cost-effective, this is not necessarily bad; political and efficiency goals are not always mutually exclusive. However, as appears to be the case in Madagascar, A.I.D. can lose control of a program if political criteria overwhelm economic and equity considerations in the decision making of host governments.

There may also be a pragmatic argument for financing less than ideal programs for the "greater good" of sustaining the adjustment process. Elements of this line of reasoning are present in both Mali and Madagascar. In Mali, the argument was made that continued support to the popular VED could be used as a carrot toward ensuring that the less popular but ultimately more cost-effective hiring ceilings remained in place. In Madagascar, initial enthusiasm about support to the buffer stock was not great, but it was seen as part of a compromise, ensuring that other food policy reforms would continue. The implication for A.I.D. is that Missions considering funding compensatory programs or SSNs need to enter the design process with open eyes, asking themselves hard questions about whether, in a politically charged climate, they will be able to retain sufficient control over local currency resources used to support these activities.

Program-Specific Implications

Implications for A.I.D. programming of each of the types of interventions studied in this paper are presented below.

Severance and Retraining Programs

More work is needed on the development impact of severance programs and their cost-effectiveness relative to other measures such as hiring ceilings for streamlining public payrolls. At the very least these programs should no longer be categorically dismissed as purely political. Lump-sum severance payments may be a cost-effective way to stimulate small-scale entrepreneurial activity in the informal sector, while at the same time serving as a safety net for displaced public workers and their dependents. This may be especially true in countries where pay scales have become seriously eroded prior to adjustment and moonlighting has become commonplace among those who leave — either voluntarily or involuntarily. Monitoring plans should be incorporated into program design to track progress in processing retrenched workers and determine how they fare over a period of several years after leaving the public sector.

Another implication is that choice of job categories for inclusion or exclusion in severance programs should be strategically determined to minimize the potential negative effects of down-sizing on social service delivery. Ideally, human resource needs assessments would be carried out for each sector, and incentives (including better pay) would be identified for retaining and upgrading skills of qualified employees, recruiting new qualified employees to fill gaps, and removing the unqualified. In reality, doing this correctly takes substantial time and resources, and compromises may be required. Nevertheless, efforts should be made to more carefully address the question of how to raise public sector productivity. Severance programs should be designed with these considerations in mind.

Credit programs for retrenched workers are fraught with problems and have less scope for success. Although not the case in Mali, some of these programs are little more than outlets for cronyism, with heavy subsidies and loans granted largely on political criteria. In the case of Mali, however, incentives to lend with speed and integrity were absent for private bankers, and it is unclear how they can be introduced. In addition, efforts at skills transfer to retrenched public employees — either through retraining or feasibility studies (as offered in Mali) — are management-intensive and unlikely to yield satisfactory results. There has not been much success in this domain in other countries.

Labor-Intensive Public Works

A finding from the Tunisian program and others is that, for the most part, short-term safety net concerns (reaching as many of the vulnerable as rapidly as possible) and objectives of longer-term asset creation (providing skills transfer) cannot be achieved under the same program; they are often mutually exclusive. Based on Mission and host-country objectives and local conditions, design teams should explicitly pick one objective or the other. If they feel that short- and long-term objectives can be pursued at the same time, detailed and convincing justification should be provided in design documents.

As a rule, better monitoring plans are needed. If short-term concerns are judged to be of highest priority, plans that focus on inputs are sufficient, because these are essentially relief efforts. Assessments of cost-effectiveness in reaching recipients may suffice as economic justification. However, if such programs are justified using a longer-term perspective, more elaborate monitoring plans for determining development impact are needed, including more complete economic and financial cost-benefit analysis.

Missions may need to be wary of supporting national public works programs if they feel that geographic targeting for cost-effectiveness and equity is important. Host governments tend to distribute resources to nation-wide programs evenly across regions (or unevenly if regionalism is evident, with allocations based on ethnic considerations). If the programs have merit, Missions may consider contributing to activities in selected regions and then assuring through end-use surveys and the like that A.I.D.-generated local currencies actually went to those regions.

Use of PL 480 for Policy Reform and Safety Nets

Food aid has the potential to serve a very useful purpose in policy dialogue and safety nets closely related to the uses of the commodities imported (Block et al., 1988). Assuming that no domestic production disincentives are created, providing food commodities for food policy reform often makes sense because the monitoring that must be done allows Missions to build expertise in the particular commodity subsector where aid is being provided and facilitates A.I.D. having a stronger voice in the dialogue process. However, these benefits are not guaranteed.

A.I.D. experience in Madagascar and elsewhere indicates that food aid is a less flexible mechanism for promoting policy dialogue than are other forms of NPA, such as cash transfers and commodity import programs. In periods of food scarcity, properly programmed food aid can play an important role in stabilizing prices and keeping policy reform programs on track. But in years of relative food abundance, food aid loses its attractiveness for this purpose and can have a disincentive effect. In the case of Madagascar, the A.I.D. Mission correctly decided to abbreviate the FFP from three years to one year to avoid exacerbating the 1987 rice glut. Yet to the extent that underwriting certain aspects of policy reform "buys" one a seat at the negotiating table, A.I.D.'s leverage in the policy dialogue process was reduced. Such problems are less common if the food aid commodity is one that the recipient country does not produce or for which there is a net deficit, although one does have to take into account issues of substitutability in consumption, and resulting disincentive effects.

With regard to using food aid to stabilize prices and, more specifically, lowering prices during periods of potential shortage to act as a safety net for the vulnerable, PL 480 will only assist in reducing prices if volumes exceed what would have been imported in the absence of a PL 480 program. If PL 480 merely displaces commercial imports, then the net effect on market prices is zero.

These potential problems are not present with other forms of NPA because one does not have to take into account the vagaries of a recipient country's agricultural production from one year to the next, the complex consumption relationships, or the issue of additionality.

Because A.I.D. is never the only donor supplying food aid or participating in policy dialogue, effective donor coordination is paramount in ensuring that food aid is properly used. One issue that was not necessarily present in Madagascar but is still very important concerns the flexibility with which the supply of food aid can be turned off if a recipient government fails to meet policy conditionality. First, if local currency proceeds are programmed to meet local costs of A.I.D. project assistance, Missions may find it difficult to cut funding when conditionality goes unmet. Other donors may be under the same constraint.[1] For A.I.D., this may also be a problem for ESF monies (when dollar tracking is tied to commodity imports) and commodity import program funds.

Second, it may be politically damaging to cut food aid because A.I.D. may open itself to charges of "using food as a weapon." This is not a problem for curtailing ESF or commodity import program expenditures and therefore contributes to the relative inflexibility of food aid as a policy reform tool.

The finding appears to be that policy-conditioned food aid can play a useful role, but is most effective when combined with other Mission portfolio resources to ensure some flexibility.

RECOMMENDATIONS

In this section, specific recommendations for future A.I.D programming are identified. A decision tree approach is used to highlight the most important issues that need to be considered for determining the circumstances under which various types of compensatory or safety net programs may be warranted. The paper concludes with a discussion of areas where there appear to be significant research gaps and data needs.

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[1] This was alluded to as a problem by one of the evaluation teams in reference to the WFP in Madagascar (Hough et al., 1987).

A Decision Tree Approach

It is not possible to give blanket recommendations about whether compensatory and safety net programs undertaken during economic reform should be supported by A.I.D. The appropriateness of such assistance will vary from country to country, based on the nature of adjustment programs pursued; their distributional effects; the financial and human resource capability of local governments and A.I.D. Missions to carry out safety nets; and their political, administrative, and economic feasibility. The socioeconomic groups to be assisted and the types of programs to be implemented need to reflect the priorities and policies of A.I.D. and host governments.

Because appropriateness needs to be determined on a case-by-case basis, use of a decision tree for mapping the main elements to consider is recommended (Figure 1). The decision tree is divided into three stages: problem identification (Stage I), program identification (Stage II), and determination of feasibility (Stage III). Obviously, this is very stylized: The decision-making process is not as neat, tidy, and mechanically sequential as the decision tree and accompanying discussion make it appear — nor should it be. In reality, there will be constant feedback from one stage to the next.

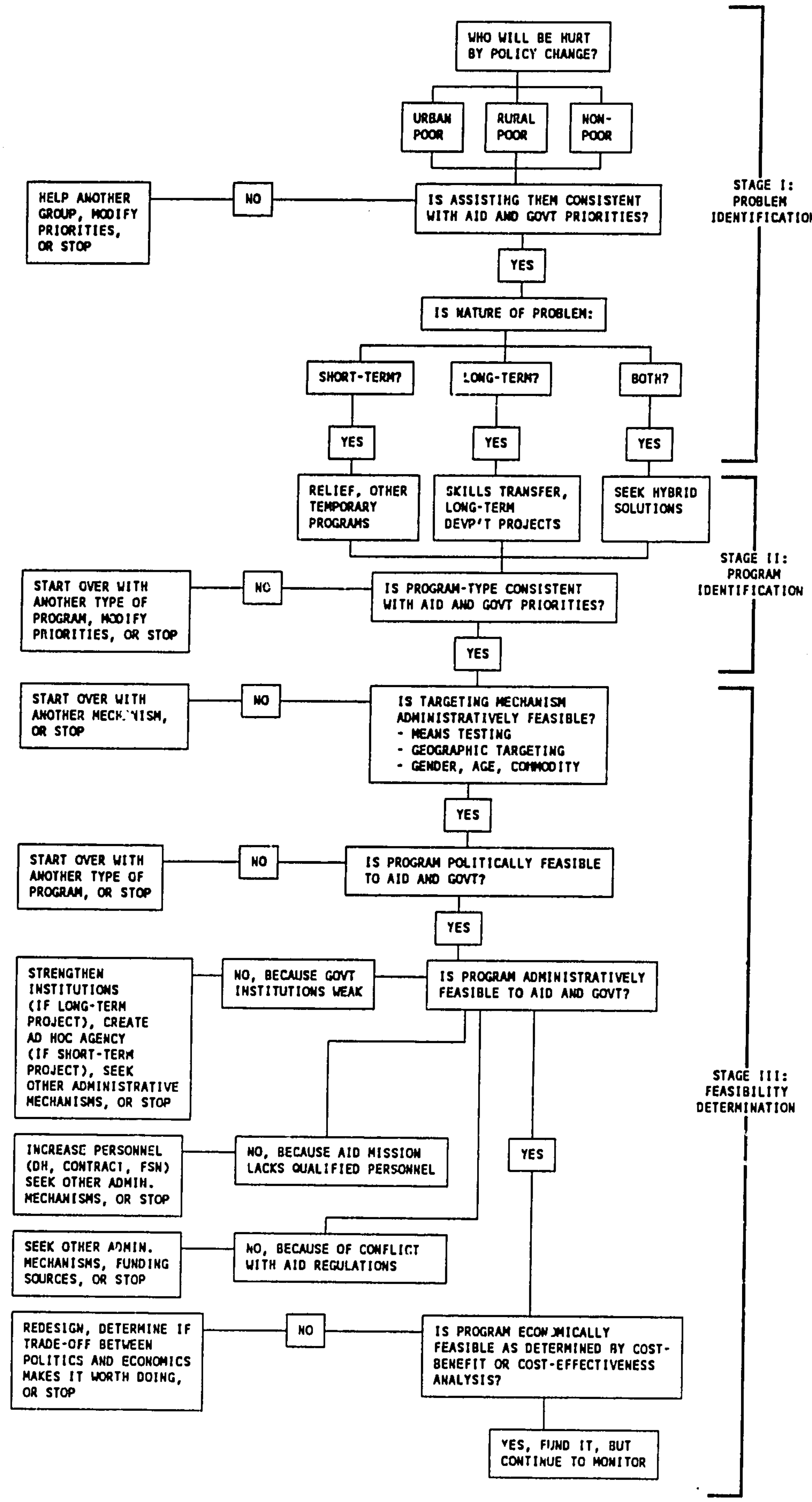
In Stage I, one needs to determine which socioeconomic groups are most likely to be hurt by economic reform. Depending on data availability, analysis capability, and time and financial constraints, this may be a very involved and rigorous exercise using sophisticated economic models, or it may be "quick and dirty," using a best guess to determine who is hurt. If only "quick and dirty" assessments are possible, they should not be frowned upon. In many cases, little or no serious effort at tracing hypothesized winners and losers from specific policy reforms has been made prior to designing multimillion-dollar programs for alleviating the social costs of adjustment. It has simply been assumed in a knee-jerk way that the poor will be hurt by adjustment, and unfocused crash programs have been implemented. Even if somewhat cursory, and based on shaky data, analysis by qualified economists and social scientists can go a long way in clarifying whether public interventions are truly warranted and who should be target groups.

Once probable losers from policy reform have been identified, host governments and A.I.D. must determine if assisting these groups is a priority. If these people are poor, assisting them raises no policy problems for A.I.D.; this is clearly a priority socioeconomic group for the Agency. If they are not poor but are among the rich upper strata that benefited from political favors prior to adjustment — "rent seeking" cronies of the president, for example — it is clearly not in A.I.D.'s mandate to help them. If, however, they are somewhere in the middle (laid-off public employees or students set adrift because government is no longer willing to serve as employer of last resort), the question becomes more complicated. Some Missions may want to assist only the poor, whereas other Missions may be willing to help relatively better-off groups that will definitely suffer losses in income from streamlining public bureaucracies.

Once those in need are identified and judged worthy of assistance, Stage II of the decision tree is where appropriate interventions are identified. One begins by determining whether target groups are most likely to be best served by short- or long-term interventions. If the problems they are facing are largely transitory and can be eased by short-term interventions, then relief programs, labor-intensive public works, severance pay, and other temporary programs may be most cost-effective and rapid in reaching the greatest number of those suffering hardship. If problems appear to be more persistent, longer-term interventions may be best that reach fewer people, but assist them in a way that will be sustainable after project assistance ends. This most often has to do with chronic poverty, where the emphasis is on increasing the physical and human capital of the poor (von Braun et al., 1991). Sustained efforts in education, health, and infrastructure creation are among the most important interventions for addressing chronic poverty.

FIGURE 1

DECISION TREE FOR SAFETY NET PROGRAM DESIGN



Often, problems are of both a short-and long-term nature. One example would involve the chronic poor who temporarily become poorer because a subsidy is phased out or a money-losing agricultural parastatal scales back buying operations in a poor region. In such cases, temporary relief efforts may be combined with development activities to grow alternative crops or improve physical infrastructure (for example, civil works programs that build or rehabilitate roads and handling facilities to lower marketing costs, and feeding programs that temporarily raise infant food intake while at the same time educating poor women about nutrition). However, as the Tunisia case study indicates, it may not always be possible to address adequately both short- and long-term problems with the same program.

Once possible interventions are identified, representatives from A.I.D. and the host government need to determine whether the type of intervention is within their priorities. This is often (or should be) a period of intense dialogue. It is at this point that the analysis carried out in Stage I becomes very important. As mentioned above, governments and donors often uncritically assume that certain groups will be hurt by reform and that a standard set of interventions will be helpful. Stage I analysis often upsets the conventional wisdom regarding both identification of losers and strategies for helping them. Concerted efforts at educating decision makers can be extremely useful in getting them on board early so that the most cost-effective programs eventually receive support.

At Stage III, the administrative, political, and economic feasibility of the possible intervention is determined. There is ample literature on identification of appropriate targeting mechanisms that will not be broached in this discussion. The only point to be made here is that tradeoffs exist between attempting to target those most in need (administratively costly, but more equitable), and widening the net to include others who are not necessarily needy (less costly and less equitable). For example, the best way to ensure that programs only reach the needy is means-testing, where program participation is determined by income level on an individual basis. Yet this is beyond the administrative capacity of most host governments. There are exceptions, such as the formerly socialist countries, which kept extensive records on citizens, or Chile, which has much experience with cost-effective targeting of social programs based on means-testing. In most circumstances, targeting by region, age and sex, or commodity will be the only feasible options.

The question of political feasibility arises again because choice of targeting strategy implies including some segments of the population and excluding others. Governments often attempt to make social programs as inclusive as possible, in terms of geography (the apparent case in Tunisia) and level of income, with relatively better-off urban residents gaining at the expense of relatively poorer rural populations (definitely the case in Madagascar). A more narrow targeting scheme can easily run into opposition (especially if the narrow target is the poor) and can actually result in the poor losing benefits.[2]

Once the targeting mechanism is chosen, governments frequently lack sufficient administrative capability to implement both short- and long-term programs. If it is judged that an economic or political imperative exists to get results quickly and if there is no previous track record of successful government implementation of social programs, consideration should be given to setting up an independent agency. If longer-term problems are to be addressed, institution building within existing agencies should be emphasized. Otherwise, creation of a new agency that eventually becomes permanent will only spread scarce human resources too thinly and add to the overlap of ineffective agencies with similar mandates.

[2] See Kingsbury's (1992) discussion of the Mexican *tortibono* program and Kanbur's (1988) description of a similar occurrence in Sri Lanka.

A.I.D. also needs to assess whether it has the human resources to carry out programs that may be very skills-intensive in policy dialogue, procurement and logistics, and financial control. Most NPA programs incorporate policy conditionality, and if A.I.D. wishes to take an active role in the policy dialogue, qualified economic expertise is required. Certain NPA activities, especially PL 480, involve intensive monitoring of commodity procurement and use. Insufficient monitoring of in-country rice stocks was a problem in Madagascar, and the Mission had to hire additional personnel to avert spoilage.

Programs may not be administratively feasible if they are in conflict with A.I.D. regulations. Participation in social investment funds and social action programs where local governments ask donors to pledge funds to a common pool may not be allowable because of restrictions on commingling of funds. PL 480 programs may not be allowed if food aid volumes displace commercial imports, provide a disincentive to local production, or exhaust storage capacity. If these hurdles cannot be avoided, Missions may be forced to seek other funding mechanisms or types of programs.

Finally, economic feasibility needs to be measured using cost-benefit or cost-effectiveness analysis. Design changes may be required to lower costs and increase benefits. However, the Mali and Madagascar case studies highlighted that there may be tradeoffs between economic feasibility and political reality: in essence, funding a program that is unattractive in the donor's eyes to render the economic reform politically palatable to the host-country government and its constituents.

If programs are funded, economic costs and benefits should be monitored continually. As this paper points out, monitoring plans in at least two areas — severance programs and public works programs — tend to be very weak. Better monitoring can lead to improvements in program design and implementation.

Boxes 1 and 2 are intended to assist Missions in the design of severance programs and public works schemes. Largely based on lessons learned in this study, these checklists highlight major issues to be considered by design and evaluation teams and by those who review such programs in Washington. No checklist has been prepared for food aid schemes such as the buffer stock, because guidance prepared by A.I.D. on the major elements of disincentive analysis already meets this need.

Areas for Future Research and Data Needs

With regard to severance programs, a number of questions remain unanswered. Most important, what is the potential of severance programs to generate SSE, and what are the determinants of success or failure after leaving public employment? Although streamlining of public sector employment figures prominently in most adjustment programs, this author was only able to uncover two tracer surveys of former government workers who benefited from safety net programs. This is probably because donors often view severance programs as a necessary evil to be supported on a one-time basis so that elements of adjustment programs less politically attractive to host-country governments can be sustained. As such, there is little interest in examining them in the same way that one would study more standard types of development interventions.

BOX 1

CHECKLIST OF RELEVANT QUESTIONS FOR SEVERANCE PROGRAM DESIGN

- Are there more cost-effective and politically palatable means for reducing public payrolls? Alternatives include:

  Eliminating ghost workers
  Laying-off temporary workers
  Hiring freezes
  Abandonment or suspension of "hirer of last resort" policy for university graduates
  Voluntary retirement or resignation
  Early retirement
  Privatization with a degree of employee ownership

- Has a valid public sector census been carried out to serve as a basis for determining who will be included?

- If the program is to be voluntary, what criteria have been used to determine the level of severance benefits? Are these levels too high (too low) to attract the optimum number of participants?

- What are justifications for categories of employees to be included in (excluded from) the program? Is there more scope to analyze human resource needs of the public sector to make this determination? Is such an approach administratively and politically feasible?

- Has a monitoring program been designed that:

  Incorporates feedback mechanisms for eliciting participant opinions during the program?
  Calls for tracer surveys some time after participants have left public employment?

- Has <u>rigorous</u> thought been given to whether accompanying programs (credit, retraining, etc.) are truly necessary and feasible?

<u>Credit</u>:
- Can a substantial majority of prospective participants be objectively considered good credit risks?
- What evidence exists of sincere commercial banking sector interest in participating, short of a 100 percent donor or government guarantee to bear risk?
- Is the macroeconomic climate conducive to establishment of credit programs?
- Will participation in the program force some banks to surpass their credit ceilings? What arrangements have been made with the central bank and IMF officials to address this situation?

<u>Retraining</u>:
- Has serious analysis been done of the retraining needs of retrenched workers?
- Have any potential future employers had input into design of the retraining programs?
- Are local institutions capable of providing practical training directly relevant to the job skills required?
- Will such training minimize forgone earnings of participants?

BOX 2

CHECKLIST OF RELEVANT QUESTIONS FOR PUBLIC WORKS SCHEMES DESIGN

- Is the program primarily to address objectives of a long-term nature, short-term nature, or both?
- Are these objectives clearly justified in light of the needs of prospective participants?
- Is the wage level set so as to cost-effectively target those most in need?
- If geography is a strong determinant of poverty, does the program weight poorer regions more heavily than relatively better-off ones?
- Has thorough social impact analysis been completed and incorporated into program design that:
- Outlines the gender implications of the program and addresses any potential inequities?
- Identifies any ethnic, class, and/or caste implications and how they are to be addressed (in some societies, division of labor has traditionally been determined on such bases)?
- Identifies strategies for assuring that local populations feel ownership of the infrastructure that is created so that they will maintain it?
- Has a cost-effective monitoring scheme been devised that will track costs and benefits of individual infrastructure subprojects and provide timely feedback to program managers?

Another question that should be examined relates to the cost-effectiveness of voluntary departure programs: What is the approximate amount of severance pay required to induce just the right number of people to leave? The benefits offered in Mali were generous in comparison with what was offered in some other countries. Because there were almost two applicants for every VED position, participation had to be rationed. Therefore, benefits could have been reduced by some amount to induce the same number (or more) employees to leave, increasing the cost-effectiveness of the program.

To date, the record of retraining programs has not been good. Identifying cost-effective strategies for designing them so that they better meet needs of retrenched workers is a major challenge. A number of lessons about what works are apparent from experience in the OECD countries. However, applying them and monitoring their success has not yet been done in developing countries.

Regarding public works programs, monitoring the economic impact of individual infrastructure investments has generally been poor. Because a large-scale program often involves funding a large number of "miniprojects," monitoring every subactivity is not cost-effective. More work needs to be done on identifying cost-effective monitoring systems. This would involve analysis of sampling strategies for determining representative investments and identification of simple, but reliable, cost-benefit analysis techniques. Moreover, follow-up evaluations several years after infrastructure has been created have rarely occurred. A series of these should be done for public works programs that have been viewed as generally successful. Such a review should focus on the degree to which infrastructure is still being used, whether it is being maintained and at what cost, and whether it has benefited a broad base of the local population.

With respect to the A.I.D. regional bureaus, more work is needed on A.I.D.'s experience in Latin America. Although the highest concentration of severance programs is in Central America, this author was unable to uncover any analyses of A.I.D. experience with them. Although most of the programs are new, some are perhaps far enough along for a preliminary examination. Missions in Latin American countries currently involved in severance programs should develop monitoring plans that include tracer surveys to elicit opinions from participants about how well the program was carried out and to track uses of severance funds by these former public employees. For Missions that supported such programs in the recent past, it would also be useful to carry out tracer surveys if reasonably reliable lists of program participants are available.

Regarding Eastern Europe, A.I.D. intervention strategies are still in the formative stages. Although Eastern European resource needs are great and A.I.D. resources limited, the feasibility of launching more safety net activities in this region should be considered. As mentioned in Chapter Three, thorny technical questions regarding cost-effective targeting are less of a problem in Eastern Europe than elsewhere, and governments have experience in implementing safety net programs. Because the FY 1993 Congressional Presentation described Eastern Europe as a testing ground for the larger challenge of administering aid to the newly independent states of the former Soviet Union, this is perhaps another reason for launching and carefully monitoring some pilot programs in Eastern Europe.

Finally, it should be mentioned that NPA activities pose special informational challenges to central bureaus in A.I.D. Many of the development activities undertaken are very poorly recorded, lacking both initial approval documents (Program Assistance Identification Papers, PAADS, cable traffic) and evaluations. When documents do exist, they never find their way to a central A.I.D. filing system. The discussion in PAADs related to uses of local currency is often only illustrative, indicating the types of activities that may be funded. The bulk of discussion usually concentrates on policy issues and conditionality, justification for commodities to be imported under the program, and logistical and financial control issues. While the foreseen development impact of the dollars to be expended is discussed in some detail, this is rarely the case for local currency expenditures. To maintain Mission flexibility and a degree of decentralized decision making, it may be better to continue to leave some leeway in PIDs and PAADs. However, once actual local currency uses are determined, A.I.D.'s institutional memory would be enhanced if records and evaluations of these uses are transmitted to Washington and centrally filed. Otherwise only half the story of NPA development impact will be documented.

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