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Development Issues

Presentations to the 47th Meeting of the Development Committee

Washington, D.C.—September 27, 1993

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Joint Ministerial Committee of
the Boards of Governors of
the World Bank and the International Monetary Fund
on the
Transfer of Real Resources to Developing Countries
(Development Committee)
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Established in October 1974, the Development Committee is known formally as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries. The Committee's members, usually Ministers of Finance, are appointed in turn for successive periods of two years by one of the countries or groups of countries represented on the Bank's or the Fund's Board of Executive Directors. The Committee is required to advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad questions of the transfer of real resources to developing countries, and to make suggestions for consideration by those concerned regarding the implementation of its conclusions.

The International Bank for Reconstruction and Development (IBRD) and its affiliate, the International Development Association (IDA), together constitute the World Bank. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are other affiliates of the IBRD.

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FOREWORD

The Development Committee held its 47th meeting in Washington, D.C. on September 27, 1993. There were two main items on their agenda: first, Adjustment Experience of Low-Income Countries and Implications for Financing Needs; second, Social Security Reforms and Social Safety Nets. The first item followed up and broadened the Committee's discussion of resource flows and transfers to developing countries, which started in 1992. The topic of social safety nets was also related to this item. The Committee based its discussion on the joint issues papers by the World Bank and the IMF and several supplementary papers provided by independent experts.

On adjustment experience, Ministers recognized that during 1987-92 the low-income countries which persisted with strong adjustment programs did better in reaching their growth and development targets than those which faltered or never started. They therefore welcomed the broadening political consensus on adjustment strategies which stress stabilization and market-friendly measures, combined with human resource development and poverty reduction. They underlined that external financial support and appropriate debt relief were crucial for those countries. They thought that some of the lessons of the East-Asian experience might be relevant to the low-income countries.

On social security reforms, Ministers looked critically at Latin American and European models. They recognized that although its mix varied from one country to another, a system combining elements of public and private provision would be appropriate. Ministers recognized that social safety nets must be an integral part of future adjustment programs and of poverty reduction policies. They also underlined the need of poorest countries for technical and financial support from the World Bank and the IMF and from the donors.

Ministers also took note of the progress made on several other issues, such as Middle East Peace Process, the impact on developing countries of recent trends in the world economy, international trade (including the Uruguay Round negotiations), debt strategy and environment protection, which were outlined in the reports of the Managing Director of the IMF and the President of the World Bank.

In view of the broad interest in these subjects, the presentation made to this meeting of the Committee are now made available (in three languages--English, French, and Spanish) for a wider audience.

Peter Mountfield
Executive Secretary
October 1993

PAPER BY THE CHAIRMAN OF THE DEVELOPMENT COMMITTEE, RUDOLF HOMMES, MINISTER OF FINANCE AND PUBLIC CREDIT, COLOMBIA

Background

This meeting takes place at a difficult time for the developing countries. The problems are greatest for the low-income countries, which are the subject of one of the main papers on our agenda. But most of us are finding it hard to maintain growth levels which permit an improvement in the living standards of our people. We look with admiration, and some envy, at the success of some of the Asian countries, and we wish we could copy their achievements.

Mr. Preston's paper, already circulated, and Mr. Camdessus' report will bring out some of the main problems. The Committee may in particular wish to concentrate on five of them:

(a) The world economy is recovering very slowly from recession. Even resumed slow growth in the industrial countries will not be enough to increase demand for the traditional exports of commodity producers, most of whom have suffered serious terms-of-trade losses in the past decade. The Interim Committee will spend much of its meeting on September 26 on the problems of resumed growth. Understandably they will concentrate mainly on the industrial countries. The developing countries stand to benefit from industrial country expansion. However there are clearly limits to the extent to which this will feed through. I think it would be wrong for the Committee to over-emphasize the need for world reflation in order to help the developing countries.

(b) The low growth rate in the principal markets has accelerated the long-term downward trend in commodity prices, which itself has been made worse by over-production. Commodities are to be the subject of the World Bank's Spring 1994 "Global Economic Prospects", which the Committee may wish to examine during its Spring meeting. The traditional remedies of managed commodity markets (through quotas, price fixing and stockpiles) have not always been successful in the past. Many countries, along with UNCTAD and G-24, are now looking more to the use of market hedging instruments to protect developing countries from the most violent swings in prices. It would be unrealistic to hope that improvement in prices will help to restore export earnings to past levels quickly.

(c) Prospects for the Uruguay Round now look much brighter than at the time of our last meeting. But we must be careful not to exaggerate the impact on the developing countries, especially in the short term. For the reasons already given, the Round will not help the primary producer countries much; while the opening up of markets for

manufactured goods (especially textiles and footwear) will be phased in over many years and even then will benefit mainly those countries which have already begun to industrialize. Some low-income countries may even lose in the short term from the loss of preferential access to existing markets.

(d) Resource flows have increased sharply in the last few years. But much of this improvement has been in the form of bank lending and (to a lesser extent) bond finance, both of which are of course debt-creating. The growth in foreign direct investment slowed down in 1992. Most of these private flows have been concentrated on a small number of recipient countries. If one turns from resource flows to net resource transfers (allowing for the repayment of capital and payment of interest) the picture is even less satisfactory. For most countries, including many of the poorest, net transfers are negative; or are kept positive only by relatively high levels of concessional finance. Transfers from the multilateral banks are often negative, as one would expect for countries which have been borrowing steadily for many years, but those negative flows have to be financed. Repayment of bilateral and commercial debt, where debt reduction is not justified or possible, is an extra burden. Many Finance Ministers concerned with cash-flow management (that is, with transfers) may still face serious problems even when resource flows appear to be positive. We should therefore be cautious in welcoming the continued positive trend in total resource flows.

(e) We cannot safely assume, as in the past, that increased aid flows or debt relief will close the gap. As Mr. Preston's paper points out, net aid flows actually fell in 1992, and the immediate prospects for increases do not look good, both because of budgetary constraints and because of donor disillusionment. There are new claimants on these limited resources, and new needs are emerging among traditional recipients. And the climate for additional debt reduction, beyond that already agreed, does not look very propitious.

The Committee should be realistic about all these developments. No amount of rhetoric will improve the situation. Those of us from developing countries must redouble our efforts to improve the productivity of our own economies, to finance more of our growth from our own domestic resources, and to continue the adjustment effort. It is our responsibility, and no-one else's.

Middle-Income Countries

For the middle-income countries like my own, this will require a combination of political will, technical know-how and good luck. The problem is (for most of us) maintaining the momentum of adjustment, and securing political support for it until the results become obvious. We can also do more to mobilize domestic savings, and to

attract foreign capital, along the lines discussed at our last meeting. I hope the Committee will find time to discuss some of the detailed follow-up ideas which were put forward during the meeting on May 1.

Lower-Income Countries: Adjustment and Financing

But for the lower-income countries which are the subject of our main agenda item this month, the problems are much more acute. The staff paper brings out clearly the results which have already been achieved in the group of "adjusting" countries, in terms of reduced fiscal deficits, lower inflation and improved current account balances. In most of them GDP has continued or resumed a slow rate of growth. But GDP per capita has not: their populations are almost all poorer than a decade ago. Present low rates of growth will not catch up with the growth of population for many years. As the latest World Development Report demonstrates, population growth in the poorest countries (notably in Africa) can be expected to level off eventually, just as it did in what are now the middle-income countries. But meanwhile the crisis of disappointed expectations will continue. Its damaging effects can be mitigated, but not removed, by greater attention to domestic reforms. (There is a strong link here to the second topic of our agenda, the construction of social safety nets, to which I turn in a moment.)

However, the better solution for African and other low-income countries is to seek faster rates of growth. Here there are interesting lessons to be learnt from other regions. Early drafts of the forthcoming World Bank study on the East Asian Experience suggest some of them. The fundamentals include ensuring low inflation, through management of the fiscal deficit, and competitive exchange rates. The successful countries invested strongly in human capital. They built effective and secure financial systems. They limited price distortions. They deliberately encouraged importation of foreign technology. They limited the bias against agriculture. They created supportive institutions to promote growth. The evidence about their intervention in markets seems mixed; few such interventions succeeded, but those which did had considerable impact. In all cases the costs were held within reasonable limits. Promotion of specific industries seldom worked. Repressing interest rates and directing credit worked sometimes. A strategy of encouraging exports was both the most successful form of intervention, and the one most likely to transplant to other situations.

Later this year it will be possible to compare these lessons with the conclusions of another major World Bank study on Adjustment in Sub-Saharan Africa, expected soon. One very simple comparison may serve to illustrate the results of the two studies. Thirty years ago, Thailand was as poor as Ghana. Since then, Thailand is on the way to becoming a major industrial country. Ghana, despite the success of its adjustment policy until recently, is still poor, and its per capita income is falling. Why did Ghana not grow

as fast as Thailand? Why has Africa as a whole not had the success of the East Asian countries? There are, of course, many answers to this one simplistic question. And it is dangerous to transplant economic measures from one country to another unquestioningly where the circumstances may be very different. It takes time to develop new institutions which are suitable to the culture concerned. However, it would also be wrong to assume, automatically, that these transplants will never work. And in the present desperate situation of many low-income countries, it seems to me that all such options should at least be considered. Indeed, many of the lessons of the East Asian Experience are already part of the standard toolkit of the World Bank and the IMF. But I believe that publication of the East Asian Experience study, followed later this year by that on Africa, gives us a unique opportunity. To put the question somewhat melodramatically, "Why not an Asian Miracle in Africa?".

The Committee might like to consider how a systematic country-by-country study of the lessons of the East Asian Experience might be applied in African and other low-income countries. This need not be done all at once. It could, for example, form part of the regular review of Country Assistance Strategy for each country listed in the paper before us. The results might also be included in the documentation for Consultative Groups or UNDP Round Tables, so that donors can consider where their own efforts can best be directed. In each case, the emphasis should be on the positive: "Will this strategy work here?" -- and if the preliminary answer is "No", then ask "Why not? Can anything be done to help remove the constraint? What adaptations might make it work?". Much of the preparatory work has already been done, in the course of the two studies I have mentioned. What is needed now is the political impetus which our Committee might provide. One should not expect dramatic or early results from such an approach. But, applied carefully and thoughtfully, it may yield some useful pointers in individual countries. Indeed many of the lessons might equally well be applied in the middle-income countries too. If the Committee agrees, we might ask Bank Management and the Executive Directors jointly to work out a procedure for applying these lessons in the way I have suggested.

Members may also like to discuss the supplementary paper provided by Tony Killick of the Overseas Development Institute in London. Mr. Killick accepts that the main policy thrust of the present adjustment strategy is generally sound. He is less convinced about the current successes of the strategy than are the authors of the staff paper. He points out some of the limitations which constrain both governments and institutions in applying the strategy, and he makes a number of specific criticisms of the way both groups of actors operate. We should consider whether Members agree with these comments, and whether they have any specific suggestions for improving the operation of the strategy.

Social Safety Nets and Social Policy Reform

Many of the topics covered in this paper are new to the Development Committee, but of great importance to Members. Since most of us are Finance Ministers, I would emphasize in particular the related questions of the macro-economic impact and budgetary consequences of social security schemes. Where schemes are contributory, they are a means of mobilizing domestic savings, and the investment of the surpluses becomes a matter of very great importance. As the paper shows, too often in the past, publicly-run schemes have been required to invest in public sector securities which have proved of doubtful value, and this has contributed to the deficits which now place so heavy a burden on the fiscal deficit in so many countries. On the other hand, private provision has the potential for profitable investment in the private sector. Properly directed, it can make a valuable contribution to the most dynamic sector of the economy. But particularly where fund management expertise is limited and regulatory capacity almost non-existent (as in many developing countries) privatization of pensions provision poses serious risks to beneficiaries. It is not easy to see the correct answer to this dilemma, which will probably vary from one country to another. I would like to add this to the list of questions posed on page (i) of the paper.

One particular problem relates this section to the second half of the paper. In countries where social security provision is limited largely to public sector employees, privatization of state enterprises will leave many workers without provision. Special care will be needed in dealing with this problem.

The paper makes it clear that there is no single model of social security reform which will fit all developing countries. But I suggest we concentrate in particular on the second question posed on page (i): is the multi-tiered arrangement outlined here a useful framework within which to consider the kinds of reform appropriate for individual countries?

These general issues about the design of social insurance programs and safety nets are also covered in two Supplementary Papers. The first of these is by the International Labour Office in Geneva, who have extensive knowledge of these systems in both industrial and developing countries. It is a very valuable adjunct to the staff paper. The second is provided by Professors Fields and Mitchell, two distinguished academic experts. Section 5 of their paper deals with "The Reform Agenda" and sets out seven general propositions which I found very illuminating. But Section 6, on "The Roles for International Development Institutions", suggests four specific tasks which I think we should consider carefully. The first is a natural extension of the assistance which both Bank and Fund already try to provide (resources permitting) in appropriate cases. But the remaining three suggestions break new ground. Does the Committee wish to endorse

proposals of this kind; and if so, how should they best be pursued? I should welcome reactions during the meeting.

The remainder of the paper deals with "Social Safety Nets". This is a problem which has always existed, and has formed an essential part of the World Bank's anti-poverty campaign for several years. But this paper puts it for the first time firmly into the context of economic adjustment. In the last few years, the increasing tempo of adjustment in many member countries has led the IMF and the Bank to recognize the need for conscious efforts to build safety nets into their programs. A body of experience has been built up, but there is no general consensus on the correct approach to these problems or the detailed solutions appropriate in each case. The paper suggests an open-ended discussion on these issues, from which all parties hope to learn some useful lessons. We should not expect concrete decisions from this initial exchange of views, but I am sure it will prove helpful.

Women in Development

Finally, we must note the valuable progress report circulated by the World Bank on its own strategy for gender issues in development. As this report makes clear, a major review of this field is currently under way in the Bank and will be reported to the Executive Board in March. That in turn may provoke other questions to be referred to Ministers at some future meeting. Meanwhile, I think we should commend the Bank for some excellent work already done and for much more in the pipeline. We should also acknowledge that very much more is still to be done.

Conclusion

I hope these initial thoughts will serve to focus the Committee's discussion during the meeting on September 27.

I. Introduction

1. Once again the Development Committee is taking up several issues of great concern to the international community. In light of the need to continue and deepen the process of economic reform in many countries, it is timely that the Committee take stock of the progress achieved and lessons learned from the adjustment process to date in low-income countries. Such an assessment should point the way toward more effectively designed and better implemented programs in the future.

2. It is also appropriate that the Committee examine the experience with formal social security arrangements and social safety nets. In a great diversity of countries -- including low-income countries undergoing adjustment, middle-income countries in Latin America and elsewhere, and the formerly centrally planned economies now undertaking market-oriented reforms -- protecting the poor, the aged, and other vulnerable groups is one of the great issues of the day.

3. In this connection, the recently published 1993 World Development Report on Investing in Health is highly relevant. Protecting people's health is an essential component of any social safety net and is intimately related to the Bank's overriding objective of poverty reduction. WDR 1993 presents an agenda for action that would save millions of lives and billions of dollars in developing countries. The report calls for substantially increased investments in a number of public health activities (immunizations, school-based health services, family planning and nutrition, AIDS prevention, and others) and for provision of a package of essential clinical services of high cost-effectiveness whose precise components would vary from country to country. It also spells out the implications for the volume and allocation of external assistance to the health sector. I am certain you will find its extensive analysis and recommendations of great interest.

4. I also call your attention to the progress report prepared for this meeting on the Bank's activities designed to strengthen the role of women in development. The report documents the substantial progress that has been made in incorporating gender-related concerns into the Bank's lending activities, economic and sector work, research, staff training and dissemination activities, and internal organizational arrangements. Collaboration with other agencies, including bilateral donors, has been an important contributor to this progress. I am fully committed to further strengthening of the Bank's work on gender issues. Much remains to be done to ensure the full participation of women in the development process, and the Bank looks forward to playing an even stronger role in the future.

5. This President's Report to the Committee discusses a number of Bank-related developments since the Committee's last meeting on May 1. It includes status reports on the ratification process for the Tenth Replenishment of the International Development Association (IDA), the negotiations for the replenishment of the Global Environment Facility (GEF), and the discussions concerning an extension of the Special Program of Assistance (SPA) for low-income countries undertaking adjustment reforms in Sub-Saharan Africa. The Report also brings Members up to date on a number of recent Bank initiatives designed to strengthen the effectiveness of its lending activities. In addition, the report comments briefly on several substantive areas of Bank lending of particular current interest to Members, including lending to the nations in transition in the former Soviet Union and Eastern Europe, and lending for the environment.

II. Recent Developments in the Global Economy: Implications for Developing Countries

6. The challenges stemming from the current international environment for development continue to be formidable. Since the Committee's spring meeting, the economic outlook for the major industrial countries has turned more unfavorable, and projections of their output growth in 1993 have been scaled back by 0.5-1.0 percentage points. Current projections suggest that 1994 will bring only a sluggish recovery. The weakness in demand in the industrial countries has been reflected in further declines in the prices of primary commodities, upon which many developing countries rely for the bulk of their export earnings. Commodity prices are now down about 25 percent in constant dollar terms from their 1990 average. These developments have greatly complicated the task of adjustment for many countries.

7. On the trade front, time is running out for a successful conclusion to the Uruguay Round. Seven years of negotiations are due to be concluded by December 15, whether or not agreement is reached among the negotiating parties. While the market-access package agreed to between the United States, the European Community, Japan and Canada at the Tokyo summit in July gave new impetus to the negotiations, subsequent developments have threatened to stall progress once again. Moreover, the Tokyo agreement to reduce or eliminate tariff and nontariff barriers on a large group of products is conditional on further negotiations, some of which are likely to present considerable difficulties. Positions on several key issues, including agriculture and services, appear to be still far apart. Once again I appeal to Committee Members to lend their strong support and to wield their influence in their respective capitals on behalf of a successful conclusion to the Uruguay Round. The Bank continues to attach the utmost importance to such an outcome. Failure to attain it would constitute a severe blow to the reform efforts of countries throughout the developing world, many of which have undertaken impressive trade

liberalization efforts in the expectation that they would be reciprocated by the major trading countries. Let us finally act so that expanded trade can be a dynamic contributor to global growth and development efforts.

8. Against the background of slow growth in the industrial countries and uncertainty on the trade front, indications are that performance in developing countries in the first quarter of 1993 was approximately in line with expectations in aggregate, though regional growth rates continued to show wide disparities. For example, real output growth in many countries in East Asia and some in Latin America was well above expectations. Oil exporters in the Middle East and commodity-dependent countries in Sub-Saharan Africa, on the other hand, seem to have performed below expectations, largely reflecting adverse terms-of-trade effects. Considerable uncertainty continues to surround the economic prospects of the countries of the former Soviet Union, and the declines in output which they have experienced in recent years, while slowing, are unlikely to be reversed in the short-term. Trends in some Central and Eastern European countries, notably Poland, appear decidedly more favorable, however.

9. The external environment will continue to exert a strong influence on the economic prospects of developing countries. A prolonged recession in the industrial countries, slower growth in world trade, greater tendency to use trade barriers to protect domestic jobs, and continued downward pressure on commodity prices -- all of which are elements of a plausible downside scenario over the next eighteen months -- would seriously compromise the reform efforts being undertaken by many low- and middle-income countries. The Committee will need to monitor trends in these areas closely.

III. Recent Trends in Resource Transfers to Developing Countries

10. Net total resource flows (including official development assistance, other official flows and private sector resources) to developing countries from the developed world in 1992 reached, according to preliminary estimates, a record level of about $127 billion (in constant prices and exchange rates).[1/] (See Annex Table 1.) This represented an

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1/ *The data reported in paragraphs 10-12 are data obtained from the World Bank's Debtor Reporting System (DRS). They differ in several respects from the data on resource flows reported by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD). OECD/DAC reports data on countries that are not classified as low- and middle-income countries by the Bank and includes some categories of flows not included in the Bank's data base. With respect to country coverage, the Bank covers 116 low- and middle-income countries that report external debt data published in the World Debt Tables, while the OECD/DAC includes 147 countries. With respect to categories of flows, OECD/DAC includes short-term flows, technical assistance grants, and grants from nongovernmental organizations not included in the Bank's DRS.*

increase of 16 percent over 1991. This sharp increase was virtually entirely accounted for by a surge in private flows, especially international bank lending.

11. The overall increase in private flows -- from $51.8 billion in 1991 to $72.6 billion in 1992 -- is in large measure a testimony to the successful reform efforts of a number of adjusting countries. However, only a relatively small number of countries have benefitted from this increase. Low-income countries (apart from China and India) received some additional bank lending but little other private finance, while private flows to the poorest countries, largely but not exclusively in Sub-Saharan Africa, have now reached negative levels. In addition, there are a number of concerns related to the volatility of some private flows and the difficulties this might create for domestic macroeconomic management in some recipient countries. Despite these concerns, the overall increase in private resource transfers is on balance highly welcome.

12. Flows from official sources actually declined in 1992, however -- from $57.5 billion in 1991 to $54.1 billion in 1992 (in constant prices and exchange rates). Particular importance attaches to the volume of official development assistance (ODA), which accounted for almost 80 percent of all net official flows. Net flows of ODA fell in 1992 -- from $43.7 to $42.5 billion. Nor does the immediate outlook for many donors look favorable. While some are already implementing cuts in their aid budgets, others may follow suit as a result of examinations of their aid programs and their budgetary implications which they are currently carrying out. A noteworthy exception is Japan, which recently revealed a plan to increase its ODA disbursements in the 1993-97 period by 50 percent over the previous five-year plan.

13. Recent developments with respect to the volume of aid are troublesome since many low-income countries continue to rely overwhelmingly on concessional assistance for the external financing of their development objectives. In addition, the increasing demands on scarce concessional resources stemming from peacekeeping operations and humanitarian assistance threaten to divert funds from longer-term development programs. While budgetary constraints are severe in many countries, aid is everywhere a small fraction of public expenditures, and political leadership will be needed to ensure that slow growth in donor countries does not provide a convenient excuse for cutting aid budgets. Concessional assistance will continue to play a vital role in the post-Cold War era.

Progress With Debt Reduction

14. Reducing the debt burdens of many severely-indebted countries continues to be an essential aspect of ensuring that they will have adequate external resources in support of

their development efforts. Some further progress has occurred since my last Report to the Committee.

15. Of particular note is the acceleration in the use of the IDA Debt Reduction Facility for easing the burden of external commercial debt owed by IDA-only countries. Since the Committee's last meeting, a further operation was closed for Bolivia in which $20.5 million from the Facility and in other donors' support served to eliminate $170 million in principal of eligible debt. This brought the total of operations to three for FY93 (Guyana and Uganda being the others), and grants have been made to a further five countries for the preparation of operations (Albania, Nicaragua, Sao Tome and Principe, Sierra Leone and Zambia). To date, a total of almost $623 million of principal in external commercial debt has been extinguished through debt-reduction operations supported by the Facility. An additional seven countries are currently in discussion with IDA concerning access to the Facility.

16. The Bank's Board of Executive Directors has approved an extension of the Facility through July 31, 1995. The original funding of the Facility was in the amount of $100 million, financed by a transfer from IBRD's FY89 net income. Significant bilateral official funding support has also been made available for Facility-supported operations. Only about $3.7 million of Facility resources remains unallocated. Given the increasing recourse to the Facility by eligible countries, the Bank's Executive Directors recently recommended to the Board of Governors that it be replenished in the amount of $100 million with an allocation from IBRD's FY93 net income.

17. Other debt-reduction developments since the Committee's May 1 meeting include five Paris Club rescheduling agreements. Benin, Burkina Faso and Guyana obtained "enhanced Toronto terms" applicable to severely-indebted low-income countries; Peru obtained a rescheduling similar to that obtained by a number of other severely-indebted lower-middle-income countries; and Costa Rica rescheduled arrears on conventional terms. In addition, the Dominican Republic has commenced making monthly interest payments on its medium-and long-term commercial bank debt, and it is anticipated that a comprehensive debt-reduction agreement with its commercial-bank creditors will be completed by December 31 of this year. Jordan also has recently reached an agreement in principle on commercial-bank debt reduction.

18. These agreements constitute further welcome progress in alleviating the debt burdens that have constrained growth and development in many developing countries for much of the past decade. Many low- and lower-middle-income countries, especially but not exclusively in Sub-Saharan Africa, continue to experience severe debt servicing difficulties, however. They are likely to require further debt reduction going well beyond

that already obtained from creditors. This is a matter which the Development Committee should keep under continuing review.

IV. The World Bank and IDA: Resource Transfers and Current Resource Mobilization Efforts

(A) Bank/IDA Lending Commitments in FY93

19. With these general developments regarding resource flows as background, it is gratifying to be able to report to Members that combined IBRD/IDA gross disbursements for FY93 totalled $18.0 billion, compared with $16.5 billion in FY92. IBRD gross disbursements amounted to $13.0 billion, an increase of $1.4 billion from FY92. IDA gross disbursements were $5.0 billion, up about $150 million from the previous fiscal year. IBRD/IDA net disbursements also increased by about 10 percent between FY92 and FY93. New lending commitments to developing countries from IBRD and IDA totalled a record $23.7 billion in FY93; the comparable figure for FY92 was $21.7 billion. IBRD loan commitments in FY93 amounted to $16.9 billion for 122 projects; $6.8 billion of IDA credits supported 123 projects during the fiscal year ending on June 30. While the Bank is striving to enhance the quality of its projects already under implementation through efforts that should expedite disbursements (see the discussion in paras. 41-50), it is important that this not be at the expense of its new lending for sound operations.

(B) A Note on Lending to the Countries of the Former Soviet Union and Eastern Europe

20. Most of the increase in new commitments in FY93 was accounted for by the countries of the former Soviet Union and Eastern Europe. Overall lending to these countries increased from $1.8 billion in FY92 to $3.3 billion in FY93. The number of projects grew from 11 to 26. Over the past year, the Bank has increased its ability to respond effectively and in a timely manner to the great challenges posed by the historic processes of economic transformation now taking place in these nations.

21. The Russian Federation joined the Bank in June 1992 and in one year (FY93) the Bank's level of commitments to this new member reached about $1.4 billion. The lending program began with a rehabilitation loan to support the initial stages of the Federation's reform process; this was followed by technical assistance and an oil loan supporting reform in the sector. In Poland, the acceleration of the reform program is being accompanied by a rapid growth of the private sector. To support privatization, financial

sector reform and restructuring, the Bank's Board approved a $750 million package of adjustment operations in FY93, bringing total commitments to Poland during the fiscal year to $900 million. Increased assistance also became particularly important in the Baltic countries, where rehabilitation loans from the Bank supported the first stages of adjustment.

22. Some positive developments have recently emerged in the region. The Russian Federation is in the process of implementing a stabilization program to reduce inflation which has been supported by the new IMF Systemic Transformation Facility (STF). Steps are being taken to further liberalize pricing and trade in energy and to reduce the heavy subsidization of imports. The privatization program remains on a fast track; as many as 5,000 medium- and large-scale enterprises may be privatized by the end of this year. The G-7 initiative for enhanced financial support to the Russian Federation announced in Tokyo in July is planned to coincide with improvement in the Federation's domestic policies, and the Bank is accelerating its work to support the program.

23. Stabilization programs have been developed in Belarus, Kazakhstan, and Kyrghyzstan, and are being supported by the STF. The Bank plans to support the stabilization programs and the associated structural reform measures through rehabilitation loans. The stabilization program is proving successful in Albania. Inflation has been reduced to about one percent per month and agricultural growth has resumed, largely due to privatization. The Bank has quickly supported this effort through small but targeted projects in agriculture, rehabilitation of infrastructure, and provision of social safety nets. In the Baltic states, output has stabilized and inflation has been sharply reduced. The Bank plans to support the efforts of the Baltic countries through projects providing credit to the emerging private sector and rehabilitation of infrastructure, particularly in energy conservation. An institution-building loan to Ukraine in the amount of $27 million was approved by the Bank's Board in June. Its objective is to assist the government to implement economic reforms and to strengthen institutions essential to the transition to a market economy.

24. While IBRD continues to have ample lending headroom to respond to the prospective financing requirements of the countries in transition as well as those of its more traditional borrowers throughout the developing world, the ability of the Bank Group to respond to the pressing needs of its low-income members will be crucially dependent on the future volume of concessional resources at its disposal. The replenishment of a number of concessional facilities would greatly enhance the flow of resources to low-income countries. Three are discussed here -- IDA-10, the Global Environment Facility (GEF), and the Special Program of Assistance (SPA) for low-income countries undertaking adjustment reforms in Sub-Saharan Africa.

(C) The Tenth Replenishment of IDA: Status Report on the Ratification Process

25. In my report to the Committee for its spring meeting, I was pleased to announce that 34 donor countries had reached agreement on an IDA-10 replenishment totaling SDR 13 billion (approximately $18 billion). I pointed out, however, that necessary parliamentary and other measures needed to be taken expeditiously in order to bring IDA-10 into effect. I stressed that IDA-10 must become effective in the summer of this year if its operations were not to be disrupted.

26. This goal has not yet been reached. As of September 1, eleven donors accounting for about 52 percent of the total donor contributions have given IDA formal notifications of their contributions (Australia, Canada, the Czech Republic, Denmark, Germany, Japan, Korea, New Zealand, Norway, Sweden, and the United Kingdom). We are extremely grateful to those donors who have already acted to make their commitments effective. However, since the effectiveness of IDA-10 requires such notifications from donors accounting for 80 percent of contributions, IDA-10 has not yet become effective.

27. While many IDA recipients made important progress during the IDA-9 period (FY91-93) in laying the foundation for stronger and more sustainable economic growth, they still have a long way to go. All of these countries need uninterrupted support from the donor community, including IDA. In addition, resources are needed to assist new or reactivating IDA recipients and to support a broadening of the sectoral scope of IDA operations, including in particular a greater emphasis on environmental projects. For these reasons, it is vital to make IDA-10 effective as soon as possible. I urge Members to lend their strong support to a speedy conclusion of the ratification process, including the necessary legislative approval where required.

28. Fortunately, IDA has not had to interrupt its lending operations thanks to the so-called Advance Contribution Scheme for IDA-10 which became effective on July 1 of this year. Under this arrangement, one-third of the total contributions from the donors participating in the scheme can be committed by IDA. In August, IDA's Executive Directors also authorized IDA to make advance commitments of SDR 800 million a year against its future reflows during the IDA-10 period. These resources will help IDA to bridge the gap created by the delay in the effectiveness of IDA-10. Current circumstances confronting the low-income countries, however, demand nothing less than a fully functioning IDA.

(D) The World Bank's Environmental Work and the Replenishment of the Global Environment Facility (GEF)

29. Another concessional financing facility of great importance to supporting activities in low-income countries that achieve global environmental objectives is the Global Environment Facility (GEF) implemented jointly by UNDP, UNEP and the World Bank. Recent developments regarding the Facility are discussed in paragraphs 32-35 following a brief report on the Bank's environmental lending and related activities.

30. In the period since the United Nations Conference on the Environment and Development (UNCED), the Bank has, as reported in my last President's Report, accelerated its activities designed to help its member countries meet their environmental challenges. The number of Bank/IDA loans and credits promoting environmental stewardship has risen substantially in the past year, with total lending for free-standing environmental projects in FY93 reaching a record $2.0 billion for 24 projects. An additional 30 projects approved in FY93 have environmental components. Loans or credits were approved by the Bank's Board of Executive Directors for seven projects involving approximately $1.3 billion for pollution control, eleven projects totalling $526 million for natural resource management, and six projects involving $173 million for environmental institution-building. In addition, strengthened efforts are being made to incorporate environmental considerations into all aspects of the Bank's lending and non-lending activities. The full range of the Bank's efforts in this regard is detailed in the forthcoming report on The World Bank and the Environment: FY93, which discusses enhanced efforts to assist countries in environmental management, to assess and mitigate adverse impacts from Bank-financed projects, to build on the positive synergies between development and the environment, to address global environmental challenges, and to build up the Bank's human resources and institutional capacity in dealing with environmental issues in all their complexity.

31. The Bank has been active since UNCED in expanding its international collaboration and cooperation on environmental issues. It is taking an active role in the new Commission on Sustainable Development, which held its first -- and highly productive -- meeting in New York in June. In addition, the Bank was active in the establishment of the Interagency Committee on Sustainable Development, and will continue to play an important role as this group seeks to add efficiency and effectiveness within the U.N. system in the follow-up to UNCED.

32. A vital aspect of enhanced international cooperation on global environmental problems is the work of the GEF. Its purpose is to help developing countries meet the incremental costs of undertaking projects designed to protect the global environment. The GEF has been named as the interim funding mechanism of the Biodiversity and Climate

Change Conventions. The GEF's pilot phase commenced in early 1991. As of June 1993, $727 million had been committed for 113 projects endorsed or under implementation by the three implementing agencies. This included $468 million for 53 investment projects managed by the Bank, $242 million for 55 UNDP technical assistance and research projects, and $17 million for five projects under the purview of UNEP.

33. Since core funds available to the GEF have been fully committed, discussions have been underway since March on a replenishment for the next phase of GEF operations. These discussions have proceeded in tandem with discussions about appropriate governance, voting, and implementation arrangements. The replenishment process formally began at the Participants' Meeting in Beijing, China in May of this year, and replenishment negotiations will continue to run parallel with those on restructuring.

34. Consideration was given in Beijing to the size of the new GEF phase. Many donors supported the view that a replenishment of SDR 2-3 billion (or about $2.8 - $4.2 billion) was an appropriate range to aim for in the replenishment discussions. The replenishment would be for a three- to five-year period starting in July 1994. An evaluation of the GEF's pilot phase now nearing completion will be important in helping to assess the size of GEF II.

35. I am confident that arrangements for the restructuring of the Facility will be satisfactorily concluded. I welcome the support that the GEF has received from its donors to date and urge an early resolution of its funding level and other outstanding issues for the next phase. Taken together with full effectiveness of IDA-10, a substantial replenishment of the GEF would help developing countries to meet their objective of sustainable development while also protecting the global environment. For this reason, I seek Members' support for a timely and sizeable replenishment of a restructured GEF.

(E) The Special Program of Assistance (SPA) for Low-Income Countries Undertaking Structural Reforms in Sub-Saharan Africa

36. Turning now to Africa, it is well-known that most low-income countries in the region have suffered enormously since the early 1980s. The average growth rate for 37 low-income countries in Sub-Saharan Africa from 1981-86 was 1.6 percent. From 1987-92, it was 2.4 percent. However, African countries which have been implementing adjustment programs on a consistent basis have experienced an average growth rate of about 4 percent per annum during the 1987-92 period. Nevertheless, with the average population growth rate of about 3.1 percent per annum, there are many adverse ramifications -- including a decline in per capita incomes and a substantial increase in both the proportion and absolute numbers of people in the region living in poverty. While

continuing to pursue a broad range of economic reforms, many countries in the region need to strengthen their efforts to curtail rates of population expansion if they wish to experience sustained increases in per capita incomes.

37. Domestic policy and institutional deficiencies of the African countries have contributed to the decline in economic growth and increase in poverty which they have experienced over the last two decades, and these have been compounded by a difficult international economic environment -- including sharp declines in commodity prices, increasing debt burdens, and the adverse effects on growth of recessions in the industrialized world. However, many low-income countries in Sub-Saharan Africa have put in place far-reaching reforms in macroeconomic policies, exchange-rate and trade policies, domestic pricing policies, and in other key areas of their economies. Donors have responded to these initiatives in recent years with substantial increases in net transfers of resources, largely on concessional terms.

38. Since 1987, under the leadership of the Bank, seventeen donors have been supporting the Special Program of Assistance (SPA) for low-income debt-distressed countries implementing adjustment programs. SPA is intended to mobilize quick-disbursing balance-of-payments support and is now in its second phase covering 1991-93. For SPA-2, donors pledged approximately $7.0 billion in cofinancing and coordinated financing to help cover the external financing gaps for 27 currently eligible Sub-Saharan African countries. In addition, IDA contributed $2.9 billion in adjustment credits. While the overall experience has been mixed, and progress remains slow and difficult, such assistance has enabled many SPA-recipient countries to rebound quite well in terms of GDP growth, investment levels, and exports. They still have formidable obstacles to overcome, however, to sustain this effort and they will be unable to do so without continued substantial external support.

39. The SPA has made important contributions in fostering a consensus among donors and recipients on policy priorities, helping to mobilize additional resources, and coordinating the assistance provided. At a donors' meeting in October 1992, donors agreed that SPA had been an effective mechanism and expressed their willingness to support another phase of the program, covering the period 1994-96. At a meeting in Paris next month, donors will consider the objectives and priorities for SPA-3, including the possibility of financing sector investment programs in addition to providing quick-disbursing balance-of-payments support. They will also consider the financing requirements for the next phase, and make their pledges in support of SPA-3. Many countries in the region are beginning to experience concrete payoffs from the reforms that have been put in place. Now is certainly not the time to reduce external support. I am confident that the SPA donors will agree with me on this crucial point. I hope that Ministers will express their strong support at this meeting of the Development Committee

for a substantial volume of additional resources to be channeled to the reforming countries during a third phase of the SPA.

40. It is important to emphasize that many of the adjustment lessons learned, challenges ahead, and financing implications relate as well to non-African low-income countries undertaking reforms. This is well documented in the issues paper on adjustment in low-income countries prepared by Bank and IMF staff for this meeting of the Committee. The international community must continue to monitor closely the external financing requirements of all low-income countries undertaking reforms -- and respond with adequate volumes of assistance on appropriate terms. At the same time, the immensity of problems confronting the low-income countries of Sub-Saharan Africa can only be successfully addressed if substantial external support on concessional terms continues to be provided to assist their reform efforts. Donors have done much to help meet the external financing requirements of low-income countries in Sub-Saharan Africa over the past decade, and I am confident that they will not slacken their efforts now.

V. Development Effectiveness and the World Bank's Role

41. If developing countries are to continue to make progress in achieving their objectives of sustainable growth, poverty reduction, and environmental protection, it is essential that their efforts be supported by adequate volumes of external finance. At the same time, increased attention is being paid to the effectiveness with which resources are both supplied by donors and used by recipients. Growing constraints on the volume of official resources have led a number of bilateral and multilateral institutions to examine how such resources can have a greater development impact.

42. The World Bank has been in the forefront of these efforts. At the Committee's meeting on May 1, I presented an outline of the measures being taken to improve the management of the Bank's portfolio and thus the performance of the projects under implementation. These were in response to the findings and recommendations contained in the report of the Portfolio Management Task Force which was completed last fall.

43. Following discussions with the Bank's Executive Directors, management presented a summary of the next steps the Bank is taking to improve its portfolio performance, with associated actions, responsibilities, and timeframes. These recommendations were discussed by the Board on July 9 and were approved. The action plan, which embraces many specific and monitorable actions to be undertaken by Bank staff and management in close coordination with our shareholders and borrowers, recognizes that the Bank's portfolio requires managing on an overall country basis rather than simply a project-by-project basis. Accordingly, for each of our borrowing countries, the entire portfolio of

Bank-financed projects will now become the focus for assessing effectiveness. Annual portfolio performance reviews will be undertaken systematically for all our major borrowers, and there will be regular although less frequent reviews for smaller country borrowers. Moreover, portfolio performance and country lending programs will be explicitly linked in the future.

44. Supervision of ongoing operations has already been increased and this trend will continue. Bank resources allocated to supervision went up by 16 percent in FY92 and 8 percent in FY93, with a further increase of 12 percent planned for FY94. Every project in the portfolio will now have a clear implementation plan for tracking progress. For projects classified as "problem projects," specific action plans will be developed jointly with borrowers and, where relevant, with other cofinanciers.

45. Greater attention will be given to the quality of new projects. This will include assurance that project designs are consistent with local capacities for implementing and sustaining projects; local ownership of and commitment to the projects being financed; and increased efforts to ensure local participation in the design and implementation of projects, particularly participation by the poor in the projects that affect them. There will also be a more rigorous analysis of project risks and uncertainties.

46. Other measures envisioned include an enhanced role for the Operations Evaluation Department, and changes in personnel policy, particularly in filling skill gaps and in assessing promotion and performance criteria. A number of generic factors affecting portfolio performance are being reviewed, including simplification of business practices, an expanded role for field offices in portfolio management, and the need for an independent inspection function to augment the Bank's supervision, audit and evaluation functions. We intend to keep the Bank's Board informed on a regular basis on the implementation of the "Next Steps," including a full assessment of progress under the various proposals and actions by June 1994.

47. One of the key lessons learned from our assessments of portfolio performance is the importance of timely and relevant information about what the Bank is doing and proposes to do in the future. Greater transparency of the Bank's work should enable its shareholders, from developed and developing countries alike, to feel confident that they understand and can support its operations. More openness is essential in explaining the Bank's work to the various stakeholders in the operations it helps finance. At the same time, the Bank's relationship of trust with its borrowers rests on its ability to maintain the confidentiality of certain types of information, and access to some documentation needs to be restricted during certain steps of the internal deliberative process so as to encourage an open discussion of issues within the institution.

48. With these concerns in mind, the Bank's Executive Directors recently approved a substantially more open information policy. As a result, the amount of information made available worldwide to the public will be increased significantly. Greater access will be provided to many of the reports produced by Bank staff, including project appraisal reports, country economic and sector reports, summaries of evaluation reports, and sectoral policy papers once approved by the Board. In addition, a new and expanded factual description of individual projects under preparation (the Project Information Document) will be made available. It will provide substantially more information on projects, and at an earlier stage, than is currently available. A World Bank Public Information Center will be established in January 1994. The Center will facilitate access to Bank documents in member countries worldwide through a computer network.

49. These various initiatives will contribute greatly to enhancing the Bank's development effectiveness. Success will, however, depend crucially on the actions taken by our borrowers. If there is one thing that experience has taught, it is that development is primarily the responsibility of the developing countries themselves. External aid and institutions can only support their efforts. The Bank's efforts to improve the development impact of its work ultimately can only be as successful as the efforts taken by its borrowers to help themselves. Moreover, those efforts must extend to the entire portfolio of countries' public investment programs--not only those financed by the Bank.

50. The Bank can be proud of taking the lead among international institutions in self-critically examining -- together with its borrowers -- the whole gamut of its own activities, even if this has put us under the critical microscope of many external observers. I am confident that, as a result of this self-examination and the measures being taken as a consequence of it, the Bank will emerge as an even more effective development institution.

VI. Concluding Remarks

51. The preceding discussion clearly indicates that the current development agenda is a full one and calls for decisive actions on many fronts. The Bank Group has been actively and extensively involved in addressing the elements of that agenda since the Committee's last meeting. Progress is being made in ensuring more adequate resources to help developing countries meet their key development objectives and in strengthening the effectiveness with which they are supplied and used. Continued efforts will be required by all parties, however -- industrial countries, developing countries, and members of the international community -- to ensure that such progress is sustained. The momentous transformations taking place in today's world will not be complete without greater success in the attainment of development objectives and without more productive integration of all countries, developed and developing alike, into a thriving global economy. The actions outlined for the Committee's attention in this report are important steps toward this end.

Annex Table 1. Long-Term Aggregate Net Flows of Resources to Developing Countries 1/

($ billion, 1992 prices)

Type of Flow	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 2/
Official Development Finance	43.5	44.3	46.0	48.8	44.7	41.0	43.6	59.2	57.5	54.1
ODA	27.1	27.0	33.4	35.8	39.0	35.8	37.4	44.6	43.7	42.5
Official Grants 3/4/	12.6	15.6	18.9	20.4	20.0	20.6	20.9	28.9	30.4	30.0
Official Concessional Loans	14.5	11.4	14.5	15.5	18.9	15.2	16.6	15.7	13.3	12.5
Official Nonconcessional Loans	16.4	17.3	12.6	13.0	5.7	5.2	6.2	14.6	13.9	11.6
Private Flows	50.6	40.3	41.0	29.4	31.7	44.2	42.0	43.1	51.8	72.6
Private Loans	36.8	26.4	22.7	12.2	10.0	16.5	11.4	12.6	11.4	28.8
Foreign Direct Investment 5/	10.8	10.6	14.5	12.9	16.7	22.7	26.1	25.4	35.2	38.3
Private Grants 3/	2.9	3.3	3.8	4.3	4.9	5.0	4.5	5.1	5.2	5.5
AGGREGATE NET FLOWS	94.1	84.6	87.0	78.2	76.4	85.2	85.7	102.3	109.4	126.7
Memorandum Items:										
Interest Payments	58.5	67.6	73.1	69.9	66.8	72.0	62.6	55.9	59.1	52.0
Profits on Foreign Direct Investment	14.9	13.6	14.3	13.1	13.8	14.1	15.4	14.5	11.4	18.9
Related Data:										
IMF – Net Flows 6/	14.0	5.8	−0.3	−3.2	−7.1	−6.4	−2.6	0.1	3.1	1.1
Technical Cooperation Grants 3/	8.7	9.1	11.2	11.3	12.8	13.6	13.1	14.3	14.7	11.4
Portfolio Equity Investment 7/	0.0	0.0	0.0	0.0	0.0	0.0	3.9	4.0	7.6	8.1
Memorandum Items: 8/										
World Bank – Net Flows	7.1	7.7	7.0	7.3	5.9	3.3	3.1	5.3	2.5	0.1
IDA – Net Flows	2.9	3.2	3.7	4.0	4.6	4.3	3.8	4.3	4.2	4.9

1. One hundred and sixteen (116) developing countries for which data are reported in the 1992–93 edition of the World Debt Tables.
2. International Economics Department, Debt and International Finance Division (IECDI) projections, except the IMF, World Bank and IDA net flows, which reflect actual Debt Reporting System working base data.
3. OECD data (through 1991).
4. Excludes technical cooperation grants.
5. IMF balance of payments data, which include reinvested profits.
6. Includes IMF Trust Fund, SAF and ESAF.
7. World Bank staff estimates (available from 1989 onwards only), which are derived from reported market transactions and are often available only on a gross flows basis.
8. The World Bank and IDA net flows data are on a calendar year basis. The historical data differ from more widely reported fiscal year data only because of the different aggregation period.

THE WORLD ECONOMIC SITUATION AND ECONOMIC TRENDS IN DEVELOPING COUNTRIES
STATEMENT BY MICHEL CAMDESSUS
MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

In contrast to the weakness of activity in much of the industrialized world, growth in the developing countries as a group is projected to remain relatively strong in 1993-94 (Table). The resulting buoyancy of developing country imports highlights the crucial contribution of these countries to global economic prosperity. However, the success of a growing number of developing countries contrasts sharply with the continued plight of many of the poorest countries, in which per capita real incomes have continued to fall and are now lower than they were one or even two years ago.

World Economic Outlook

The external economic environment for many developing countries has benefited recently from reduced interest rates, increased capital inflows, and the continued expansion of intraregional trade, which have mitigated the adverse effects of prolonged weak activity in industrial countries. The poorer countries, especially in Africa, however, continue to be buffeted by falling commodity prices. Prospects for growth in the developing countries are expected to improve in the period ahead as interest rates remain low, activity in industrial countries strengthens, and world trade picks up.

World economic activity has remained sluggish this year but is expected to strengthen somewhat next year, with output growth increasing from 2 1/4 percent in 1993 to 3 1/4 percent in 1994. Economic growth in the industrial countries weakened in the first half of 1993, following an already modest performance in 1992. For 1993 as a whole, output is expected to decline in continental Europe and increase only marginally in Japan. The recoveries in North America and the United Kingdom are expected to strengthen during the course of this year, and gradually to become more firmly established in most other industrial countries during 1994. By contrast, economic activity in the developing countries as a group is projected to remain relatively strong and output growth is expected to be 6 percent in 1993 and 5 1/2 percent in 1994, led mainly by buoyant activity in Asia. For many poor countries, however, especially in sub-Saharan Africa, output growth is expected to remain weak. For the central European countries in transition, average output is expected to decline again in 1993, although by much less than in recent years, and to increase in 1994 for the first time since 1988. Economic activity remains extremely weak in the countries of the former Soviet Union where output is expected to decline substantially in 1993.

The volume of world trade is projected to rise by 3 percent in 1993, 1 1/2 percentage points lower than in 1992, mainly because of lower demand growth in Europe. Trade is expected to expand at a more rapid pace with the projected increase in growth in the industrial countries in 1994. Continued expansion of trade among the developing

Major Economic Indicators

(Annual changes in percent, except where noted)

	1990	1991	1992	1993	1994
World					
Real GDP growth	2.2	0.6	1.7	2.2	3.2
Trade Volume	4.5	2.4	4.6	3.0	5.0
Trade Prices					
Fuel	28.2	-17.0	-0.5	-8.4	3.3
Nonfuel primary commodities[1]	-7.7	-4.5	-0.2	-2.5	3.9
Manufactures	9.0	-0.7	3.8	-2.6	2.0
Six-month dollar LIBOR (percent)	8.4	6.1	3.9	3.5	4.1
Industrial countries					
Real GDP growth	2.3	0.5	1.7	1.1	2.2
Inflation	5.1	4.6	3.3	3.0	2.7
Import volume growth	4.5	2.5	3.7	1.2	3.4
Developing countries					
Real GDP growth	3.7	4.5	5.8	6.1	5.5
Inflation	65.4	35.7	38.8	43.8	34.7
Inflation (median)	10.2	11.4	9.4	6.9	5.4
Current account (in billions of U.S. dollars)	-12.1	-82.2	-62.4	-80.1	-84.6
Current account (in percent of exports)	-1.2	-7.5	-5.2	-6.3	-6.0
Export volume growth	6.4	8.1	9.5	9.4	9.2
Import volume growth	7.6	9.7	10.5	9.3	9.1
Terms of trade	2.1	-3.7	-1.2	-1.0	0.0
Export unit value	6.4	-2.4	0.5	-1.1	2.3
Import unit value	4.3	1.4	1.7	-0.1	2.3
Debt (in billions of U.S. dollars)	1292	1356	1390	1476	1527
Debt (in percent of exports)	126.2	124.5	116.3	115.6	107.4
Debt service (in percent of exports)	14.5	14.4	14.2	13.7	12.4
By region					
Africa					
Real GDP growth	1.9	1.6	0.4	1.6	2.6
Inflation	16.9	32.3	41.3	36.4	22.6
Current account (in percent of exports)	-2.3	-4.4	-7.7	-9.7	-6.9
Export volume growth	5.8	1.9	2.1	0.1	0.0
Import volume growth	2.6	-2.7	4.8	-0.5	-2.5
Terms of trade	3.3	-5.6	-5.0	-2.9	0.4
Debt (in percent of exports)	219.8	230.3	226.4	241.5	235.4
Asia					
Real GDP growth	5.7	6.1	7.8	8.7	7.1
Inflation	7.5	8.4	7.5	8.3	7.8
Current account (in percent of exports)	-0.4	-0.2	-0.7	-2.7	-3.2
Export volume growth	8.8	11.9	11.2	12.7	11.5
Import volume growth	8.7	11.7	12.2	13.5	12.3
Terms of trade	-1.6	-0.2	1.2	-0.7	-0.1
Debt (in percent of exports)	67.5	66.1	61.0	62.1	57.7
Middle East and Europe					
Real GDP growth	4.2	2.4	7.8	3.4	4.6
Inflation	23.9	24.0	23.3	22.7	21.3
Current account (in percent of exports)	-0.6	-27.3	-7.1	-5.5	-5.1
Export volume growth	1.4	3.1	8.4	6.9	6.9
Import volume growth	7.2	4.5	2.5	2.9	5.1
Terms of trade	14.1	-11.5	-3.4	-1.8	-0.6
Debt (in percent of exports)	125.4	135.4	130.5	133.2	122.4
Western Hemisphere					
Real GDP growth	0.3	3.3	2.5	3.4	3.5
Inflation	480.1	135.9	165.9	221.1	162.9
Current account (in percent of exports)	-3.5	-11.1	-19.2	-20.4	-18.2
Export volume growth	5.9	4.7	8.5	4.1	6.7
Import volume growth	7.6	17.8	16.9	4.5	5.8
Terms of trade	-0.5	-4.2	-5.6	-0.5	0.9
Debt (in percent of exports)	256.9	259.5	252.8	249.7	238.1

Major Economic Indicators (Concluded)

(Annual changes in percent, except where noted)

	1990	1991	1992	1993	1994
By Analytic Criteria					
Countries with recent debt-servicing difficulties					
Real GDP growth	0.2	2.1	2.1	2.9	3.7
Inflation	226.8	92.5	109.3	135.0	100.0
Current account (in percent of exports)	-7.0	-10.5	-16.1	-16.9	-15.3
Export volume growth	0.2	-1.0	5.9	4.8	6.8
Terms of trade	1.7	-5.0	-4.2	-1.2	0.9
Countries without recent debt-servicing difficulties					
Real GDP growth	5.7	5.7	7.5	8.3	6.6
Inflation	9.7	10.9	10.8	10.7	9.7
Current account (in percent of exports)	-2.0	-1.5	-1.7	-3.4	-3.4
Export volume growth	9.2	11.0	11.9	13.3	11.3
Terms of trade	-0.3	0.0	-0.1	-0.5	0.1
Fuel exporters					
Real GDP growth	4.1	4.1	5.9	2.9	4.4
Inflation	17.1	16.9	17.5	16.3	12.1
Current account (in percent of exports)	-0.0	-27.3	-16.0	-14.2	-11.7
Export volume growth	4.6	4.5	8.6	5.0	7.5
Terms of trade	15.6	-12.0	-5.8	-1.9	-0.5
Exporters of nonfuel primary products					
Real GDP growth	1.9	3.6	4.2	4.1	4.1
Inflation	184.9	88.2	45.4	39.4	28.0
Current account (in percent of exports)	-12.5	-16.8	-26.2	-26.2	-24.3
Export volume growth	12.5	3.7	5.5	5.6	5.6
Terms of trade	-7.0	-3.5	-3.2	-2.0	1.1
Exporters of manufactures					
Real GDP growth	4.0	5.1	7.1	8.6	6.5
Inflation	94.2	43.1	58.2	73.2	58.0
Current account (in percent of exports)	0.9	1.9	1.6	-1.5	-2.4
Export volume growth	5.9	11.0	11.7	12.3	11.0
Terms of trade	-2.0	0.1	1.2	-1.0	-0.2

[1] In U.S. dollars. Averages weighted by 1979-81 commodity shares in exports of developing countries or groups of countries.

countries has helped to sustain world trade despite the weakness of activity in industrial countries. Intraregional exports as a share of total exports have risen particularly rapidly in Asia and have recovered in the Western Hemisphere to levels comparable to those prevailing before the debt crisis.

The aggregate terms of trade of developing countries fell by 1 1/4 percent in 1992, reflecting modest declines in the prices of primary commodities and oil relative to developing country import prices. In Asia, however, there was an improvement in the terms of trade of 1 1/4 percent in 1992 due to the rise in the relative price of manufacturing exports. The terms of trade of the developing countries is projected to fall further by 1 percent in 1993 reflecting declines in the prices of primary commodities and oil. Among the developing country regions, the largest decline in the terms of trade in 1993 is expected to be in Africa. The developing countries' terms of trade is expected to be broadly unchanged in 1994, reflecting in part the projected strengthening of activity in the industrial countries.

Long-term interest rates have continued their downward trend, reflecting generally encouraging inflation prospects, progress towards fiscal adjustment, and the scaling back of official and private growth forecasts. Short-term interest rates in the United States and the United Kingdom have changed little since mid-April and have declined somewhat in Japan and Canada. The decline in short-term interest rates has been more pronounced in Germany and continental Europe, and short-term interest rates are expected to decline further following the widening of the bands for mandatory intervention in the Exchange Rate Mechanism of the European Monetary System.

Notwithstanding the near-term uncertainties, developments consistent with the Interim Committee's call for a cooperative strategy give some reason for cautious optimism that conditions for a strengthening of global economic performance will improve gradually. [1] There is growing recognition that the large fiscal imbalances in North America and Europe are unsustainable and need to be substantially reduced over the medium term. As deficit reduction measures are implemented, continued success in containing inflation in most industrial countries provides scope for monetary policy to support activity. In the developing countries, the strong economic performance of the most successful countries illustrates both the longer-term benefits of sustained stabilization and reform efforts, as in many Asian countries, and the scope for growth to recover when a stable macroeconomic environment is in place and when reforms that allow market forces to allocate resources efficiently have been implemented. In the area of trade,

[1]See "Declaration on Cooperation for Sustained Global Expansion," adopted at the conclusion of the fortieth meeting of the Interim Committee of the Board of Governors of the IMF, April 30, 1993 (reprinted in the May 1993 *World Economic Outlook*).

however, progress has been slow. With the Tokyo agreement on market access, chances have improved that the long overdue conclusion of the Uruguay Round of multilateral trade negotiations may be reached in 1993. There are, however, many difficult issues still to be resolved. Moreover, protectionist pressures remain strong and growing resort to managed trade arrangements and other nontariff distortions continue to threaten the future of the multilateral trading system.

Economic trends in the developing countries

In contrast to the pervasive weakness of activity in much of the industrial world, growth in the developing countries as a group is projected to remain relatively strong in 1993-94. This good performance is attributable to sustained stabilization efforts in many developing countries, together with buoyant intraregional trade, low interest rates on dollar-denominated debt, and increased capital inflows. The experience of the past two decades suggests that capital inflows can provide significant benefits, but that they also entail risks--especially when the inflows are large relative to the economic and financial potential of the country. The policies required to make best use of capital inflows are essentially the same as those that best use domestic resources: a return on investments that is higher than the cost of resources used. Policies that promote high domestic saving and adequate rates of return on domestic investment include a strong commitment to market forces, prudent financial policies, an outward-oriented trade strategy, and competitive exchange rates. Such policies are now being implemented in a large number of developing countries, including, in particular, many in the Western Hemisphere.

The relatively strong average growth for the developing countries as a group mask substantial differences in regional growth rates (Chart). In 1993 growth in Asia is expected to be 8 3/4 percent, primarily because of continued strong growth in China. The Chinese authorities have recently taken policy actions aimed at slowing the growth of aggregate demand, and growth in the region as a whole is expected to slow somewhat in 1994. In the developing countries of the Middle East and Europe, growth is projected to moderate to 3 1/2 percent in 1993, and to rise to 4 1/2 percent in 1994; changes in average growth in this region continue to be significantly affected by the aftermath of the 1991 regional crisis. Increases in output in the developing countries of the Western Hemisphere are expected to average 3 1/2 percent in 1993-94. Buoyant capital inflows in several countries, and reduced debt-servicing costs in much of the region, have contributed to the recent strength of activity. In Brazil, uncertainty regarding the direction of economic policy and high inflation resulted in a decline in output in 1992 but recovery is expected during the course of 1993. In Africa, adverse weather, weak export demand from industrial countries, and problems associated with policy imbalances in several countries have weakened the near-term outlook, and growth is expected to average only 1 1/2 percent in 1993 and 2 1/2 percent in 1994. For the sub-Saharan African countries that had arrangements under the IMF's structural adjustment facility

(SAF) and enhanced structural adjustment facility (ESAF) as of end-1992, growth is projected to average 4 1/2 percent in 1993 and 1994.

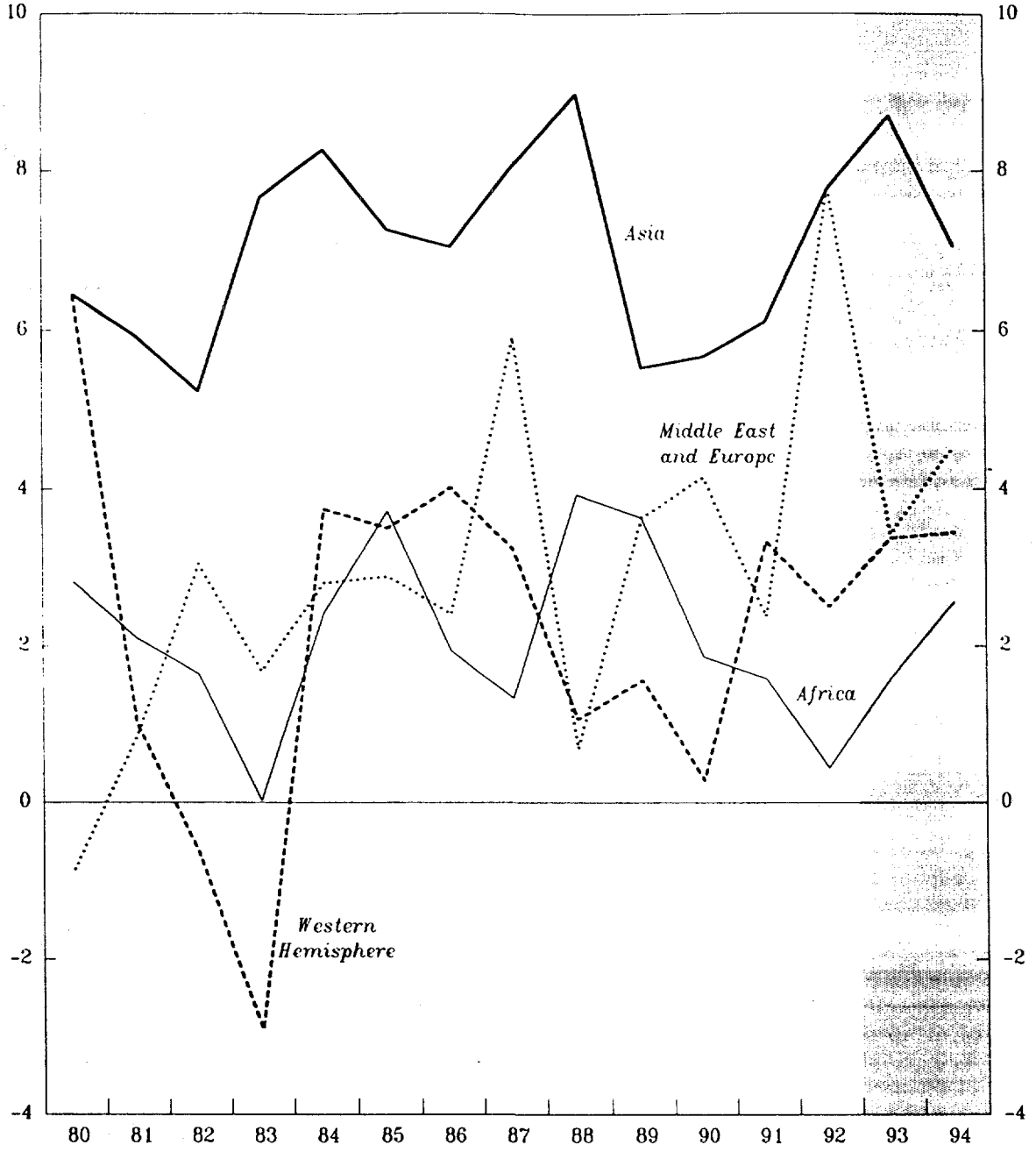
Average inflation in developing countries is projected to rise a little in 1993 to 44 percent, and then to fall to 35 percent in 1994. The relatively high average inflation rate reflects extremely large price increases in a small number of countries; median inflation is much lower and is expected to decline further, from 7 percent in 1993 to 5 1/2 percent in 1994. In Africa, inflation is expected to decline in both 1993 and 1994 on the assumption that policy reform programs are implemented in a number of countries. Inflation in Asia is expected to rise slightly to 8 1/4 percent in 1993, although this projection depends critically on macroeconomic developments in China, where inflation has accelerated sharply since the beginning of the year. Although inflation in the Western Hemisphere has been brought down substantially in several countries, chronic high inflation in Brazil is reflected in high average inflation for the region as a whole. Excluding Brazil, inflation in the Western Hemisphere is expected to moderate from 16 percent in 1993 to 11 1/2 percent in 1994. Inflation is expected to decline only slightly in the Middle East and Europe, to 22 3/4 percent in 1993 and to 21 1/4 percent in 1994.

The volume of developing country exports rose by 9 1/2 percent in 1992 and is expected to increase at the same rate in 1993, reflecting the continued expansion of intraregional trade, particularly in Asia and the Western Hemisphere. Exports are expected to grow more slowly in 1993 among the fuel exporting countries due to the weakness of demand for oil; exporters of manufactures, by contrast, are projected to have continued strong export growth. For 1994 export growth is expected to pick up in all regions except Africa where the stagnation of exports of some major countries is likely to continue.

The developing countries' aggregate current account deficit is projected to increase in 1993 to $80 billion, about 1 1/2 percent of their aggregate GDP. A large component of the change in the aggregate current account reflects smaller surpluses or larger deficits in several countries in Asia reflecting continued strength of domestic activity and relatively weak export demand (China, Hong Kong, Taiwan Province of China, and Thailand). In the Western Hemisphere, large current account deficits, associated with capital inflows, are projected to persist in 1993 in Argentina and Mexico. The aggregate current account deficit for Africa is expected to widen somewhat in 1993, owing to stagnant exports and adverse movements in the terms of trade in some countries. In the Middle East and Europe, the aggregate current account deficit is projected to improve slightly in 1993, mainly resulting from efforts to reduce imbalances in Saudi Arabia. For low-income countries, official flows remain the main source of external financing for current account deficits, while for many middle income countries the share

Developing Countries: Real GDP [1]

(Annual percent change)



1 Composites are indices based on arithmetic averages of real GDP weighted by the average U.S. dollar value of respective GDPs over the preceding three years. Shaded area indicates staff projections.

of private flows--including direct investment as well as equity investment--in total flows has increased in recent years.

Total external debt (excluding IMF credit) of the developing countries as a percent of exports of goods and services is projected to continue the declining trend apparent since 1986, falling from 116 percent in 1992 to 107 percent by 1994. Contrary to the significant declines in debt-export and debt-service-to-export ratios in other regions, the situation for African countries is projected to show only a slight improvement. Debt-service--including interest payments on total debt plus amortization on long-term debt--for Africa as a whole is projected to increase further to over 33 percent of export earnings in 1993.

Official bilateral creditors concluded ten debt restructuring agreements so far in 1993, including the rescheduling agreement with the Russian Federation. Paris Club creditors provided debt reschedulings for four middle-income countries (Costa Rica, Guatemala, Jamaica, and Peru) and for five low-income countries (Benin, Burkina Faso, Guyana, Mauritania, and Mozambique). The agreements with the low-income countries incorporated the menu of enhanced concessions, providing for a 50 percent reduction in net present value terms of debt service consolidated. To date, seventeen countries have benefited from these enhanced concessional terms for a total amount consolidated of nearly $4.5 billion. Commercial bank creditors have reached agreements on terms with Brazil on a $35 billion debt-relief package, as well as with the Dominican Republic and Jordan, while negotiations continue with a number of other countries.

STATEMENT BY THE CHAIRMAN OF THE INTERGOVERNMENTAL GROUP OF TWENTY FOUR ON INTERNATIONAL MONETARY AFFAIRS, MOHAMMED IMADY, MINISTER OF ECONOMY AND TRADE OF SYRIA

September 27, 1993

Mr. Chairman,

First of all, please accept my warmest congratulations on your election as Chairman of the Development Committee. On behalf of the Group of Twenty-Four, I look forward to pledge our cooperation and dedication to the work of the Committee in the coming year. I also wish to pay tribute to the excellent contribution Mr. Ricardo Hausmann has made to the work of this Committee.

Let me begin, Mr. Chairman, by noting that in our meetings last week, the Group of Twenty-Four deliberated, as on previous occasions, on the main issues of your agenda. Allow me to share with you the main thrust of our discussions.

In reviewing the major factors that affect the prospects for growth and poverty alleviation in our developing countries, we noted that developments on the global scene have not been conducive. This is most clearly manifested in the global economic environment, the recent trend and future prospects of aid flows, and the inconclusive state of international trade negotiations.

We have noted that the prospects of the global environment have not improved since we last met. In fact, Mr. Preston's report to this Committee indicates a turn to the worse in a key projection--output growth of industrial countries. This, of course, is a topic which has just been discussed at some length by our colleagues at the Interim Committee. As it seems, sluggish growth and uncertainties in the world economy will unfortunately have to remain with us for some time.

The trends in aid flows are disturbing. The figures in the President's Report show another decline in official financial assistance for last year, on top of a decline in the previous year. There was, however, a large and welcome rise in private flows. But this, as we know, will benefit only a limited number of mainly middle-income countries, and does not reach the low-income countries, especially in sub-Saharan Africa, where it is needed most. What is equally disturbing is that the prospects of aid flows are not promising in view of negative public attitudes in many donor countries. This is something which we hope this Committee will focus on.

On the trade front, the optimism which we felt following the Tokyo Summit has now given way to uncertainty and some apprehension on the prospect of concluding the Uruguay Round. As you mentioned in your paper, Mr. Chairman, we should indeed be careful not to exaggerate the impact of the Uruguay Round on developing countries. We

do realize, however, that the price of failure of negotiations can be high for all of us. Failure would erode business confidence and undermine the outward-oriented reform strategies now being followed by many developing countries. We hope that this will not be allowed to happen.

Despite the many unhelpful elements in the external environment, numerous countries in the developing world persisted in their market-oriented reform policies, and many scored notable successes. The East Asian strategy of growth with equity continued to set an excellent and inspiring example. In Latin America activity has picked up in a number of countries and the debt burden controlled.

Scores of low-income countries have persisted in their adjustment efforts, often at high social cost. It is these countries that require our most concerted attention if they are to have a chance to tackle the thorny problem of poverty and contribute to the world economy.

This, Mr. Chairman, brings me to the important specific issue on your agenda today: adjustment experience in low-income countries.

We noted the useful Bank and Fund documentation, and endorsed the main areas of emphasis of the analysis, including the stress on consistent adjustment policies, the need for a longer time-frame for structural reforms; the key contribution of employment-enhancing growth; and the strengthening of institutional and administrative capacity. However, it is also obvious that, for adjustment efforts to succeed, strong support of the international community is crucial in the form of adequate concessional assistance, more open markets and debt reduction well beyond what is being offered so far.

We were also interested in the supplementary documentation submitted to this meeting--a practice which we hope will continue under your leadership, Mr. Chairman. We urged, in particular, that the Fund and the Bank continue to keep under review the main issues raised in these papers, including the crucial importance of ownership of adjustment programs, the effectiveness of conditionality and the design of technical assistance.

Turning to the other specific issue under consideration today, we noted that the experience of governments, donors, and international institutions with social security reforms is quite recent and, therefore, more analytical work and extensive exchange of views and experiences is needed. We emphasized that the design of social security systems, including the feasibility of contributory systems, should reflect specific country conditions.

We also underscored the key contribution of safety nets to the maintenance of public support for adjustment programs. We also considered that safety nets should be an

integral part of stabilization and reform programs, should be transitional in design and well targeted, and should receive the active support of donors and international institutions.

A final thought, Mr. Chairman, is prompted by the approaching fiftieth anniversary of the Bretton Woods institutions. We thought that this historic occasion should provide an opportunity to take a long-term view of the working of the international monetary and financial system, experience with the development process as well as the role of developing countries in the international decision making process.

We expressed the hope that deliberation on these issues will contribute to a much needed strengthening of international economic cooperation and its institutions. We underscored the importance of examining ways to enhance the role and effectiveness of the Interim and Development committees, and to ensure that the views and interests of developing countries are presented effectively at the policy coordination fora of the industrial countries.

In closing, Mr. Chairman, allow me to brief you on two issues that we agreed with our former Chairman, Mr. Hausmann, to pursue as a follow-up to our discussion last May on private flows.

The first is the establishment of a contact between our Group and DAC on the question of Aid Effectiveness. Contacts have been made, and I agreed with the Chairman of DAC, to consider this issue on global basis after gaining some experience with the regional exchange which DAC is planning to conduct.

The second, is for the G-24 to consider the potential of commodity hedging in developing countries. I am pleased to report that a study that I have commissioned on the topic has indeed been recently submitted. Executive Directors of developing countries are expected to consider it prior to our Group discussion next Spring. I must also mention that we are undertaking a number of research works that should be of interest to our two institutions and to this Committee.

Thank you, Mr. Chairman.

ADJUSTMENT EXPERIENCES IN LOW-INCOME COUNTRIES AND IMPLICATIONS FOR FINANCING NEEDS

The attached paper, prepared jointly by the staffs of the Bank and the Fund, outlines the record of adjustment in low-income countries based primarily on the reviews of experience of adjustment under the Bank's adjustment lending and the Fund's Enhanced Structural Adjustment Facility. It considers the lessons from this experience and the financing implications for future adjustment efforts. This covering note suggests some issues for discussion by the Ministers.

Issues for Discussion

(i) The low-income countries are a diverse group, and the nature and scope of policy reforms have varied widely among them and over time. Where adjustment efforts have been sustained, there has been reasonable success on the macroeconomic front. In general, there has been significant movement towards more liberal exchange and trade regimes, and progress in decontrolling domestic prices, particularly, agriculture. Less progress has been made, however, on financial sector and public enterprise reforms. Ministers may wish to comment on policy priorities, and the scope for making greater advances in lagging policy areas.

(ii) The experience suggests that with the strong support of the international community, those low-income countries which sustain adjustment policies over a period of time generally have done better than others--as evident in terms of growth and poverty reduction. This finding is similar to that for higher income countries. The economies which have done best emphasized macroeconomic stability, realistic exchange rates and outward orientation. However, experience also suggests that shifting economies to higher and sustainable, poverty-reducing, growth paths and raising private investments require time-consuming structural changes, and time for new policies to become credible. Ministers may wish to comment on the implications of these findings for future adjustment efforts of low-income countries, and whether there is an adequate framework for low-income countries to benefit from each other's experience.

(iii) With this experience, those low-income countries which have begun adjusting need to stay the course and others need to embark on this process as soon as possible. Reform programs need to continue aiming at efficient employment-enhancing growth, with low inflation and external viability, supplemented by poverty-reducing targeted interventions and measures to sustain the environment. Policy elements need to encompass reductions in budget deficits, reductions in unproductive public expenditures including military spending, a supportive and efficient public sector, more forceful effort in reforming public enterprises, and liberal exchange and trade regimes. Policies which inhibit the growth of employment by direct or indirect subsidies to non-labor inputs (such as through interest rate subsidies) need to be avoided. The anti-agriculture bias commonly seen in low-income countries needs to be

rectified as the agriculture sector contains the bulk of the poor. In addition, institutional and administrative capacity needs to be strengthened. Well-targeted, well-coordinated, and timely provision of technical assistance will in many cases be required to enhance implementation capacity, particularly in the areas of public expenditure review and control, tax reform and administration, the efficient delivery of health, education, and other social services, and public enterprise and financial sector reforms. Ministers may wish to express views on the relative priorities to be placed on these wide-ranging policy reform elements, and on the role of technical assistance.

(iv) Looking ahead and assuming continuation of adjustment efforts, the prospective external financing needs of low-income countries as a group are projected to decline slightly over the next five years. But this aggregate masks significant diversity among and within regions. Financing needs will remain high in Africa and Asia and even increase for some countries. Low-income countries will have to strengthen efforts to mobilize domestic savings as well as to continue to attract increasing amounts of private capital and foreign direct investment, and substantial official external flows, to finance investments at levels necessary for longer-term growth and external viability. Ministers may wish to comment on the prospects for the various financing sources--debt relief, bilateral concessional financing, private flows, and assistance by IFIs, particularly the Bank's IDA-10 and the Fund's ESAF successor.

(v) On the debt front, the Paris Club has extended significant debt relief, by implementing a menu of enhanced concessions implying a 50 percent reduction of the amounts consolidated, and has indicated its willingness to consider possible debt stock operations after a period of sustained adjustment of three to four years. It will be important that the implementation of debt stock operations not jeopardize direct financial assistance for these countries. While benefiting from substantial immediate cash-flow relief, many adjusting low-income countries still face very difficult debt situations over the longer-term, and for those exceptionally indebted not even a 50 percent reduction in debt would be sufficient to attain a position of external viability even with a sustained adjustment effort. Do Ministers agree that in a number of cases with exceptionally heavy debt burdens, appropriate flexibility on the part of creditors will be required, going beyond the current terms of debt relief and flow rescheduling?

(vi) Industrial countries will need to promote a favorable global economic environment through sustained implementation of sound macroeconomic and structural policies and through successful conclusion of the Uruguay Round. Additional support to low-income countries' reform efforts through continued concessional assistance would also remain crucial. This continued international support would be well placed, as the reform process in many low-income countries is now well underway, and this support could well prove more effective, given the greater receptivity by these countries to market-based reforms and the

experience gained to date. On the part of reforming countries, for continued and substantial aid flows, there must be demonstration of effective aid use and assurance of reduced reliance on aid over time, progress towards poverty alleviation, political reforms, and efficiency in the composition of public spending. On the part of the donors, focusing aid on those low-income countries undertaking strong reforms would enhance aid effectiveness and help to rebuild public support for aid. Ministers may wish to comment on the additional efforts that need to be made in order to secure an appropriate level of concessional assistance, to rebuild public support for aid and to ensure that priority in allocation of assistance is given to countries which sustain reforms.

(vii) The Bank and the Fund have worked closely together in supporting reform policies in low-income countries, by providing policy advice in their respective areas of mandate and expertise, financial resources--under the Bank's IDA and the Fund's ESAF--and technical assistance. Medium-term macroeconomic and structural policy frameworks, spelled out in Policy Framework Papers (PFPs), have provided an important context for coordination of adjustment program lending by bilateral donors, multilateral agencies and regional development banks. Ministers may wish to comment on the effectiveness of this collaborative framework in helping to sustain the momentum of adjustment in low-income countries.

This joint issues paper was prepared by Emmanuel van del Mensbrugghe, Policy Development and Review Department, IMF and Anandarup Ray and Sona Varma, Development Policy Group, World Bank.

ADJUSTMENT EXPERIENCES IN LOW-INCOME COUNTRIES AND IMPLICATIONS FOR FINANCING NEEDS

(Prepared jointly by the staffs of the International Monetary Fund and the World Bank)

I. Introduction

1.1 Sustained adjustment efforts have had positive and encouraging results in many developing countries over the last decade. But the effectiveness of adjustment has been uneven; economic responses have often been weaker in low-income countries than in middle-income countries. This paper draws upon the recent reviews of the adjustment experience by the staffs of the Bank and the Fund to provide a broad overview of the progress with adjustment and the emerging pay-offs (Section II).[1/] The policy priorities from the perspectives of developing and industrialized countries are then summarized in Section III, along with financing implications of the adjustment process and the role that international financial institutions might play.[2/]

II. Overview of Recent Experience

2.1 Adjustment to the external shocks experienced in the late 1970s and early 1980s was often more difficult in the low-income countries than elsewhere. They typically had poorer foundations for growth--inadequate human and physical infrastructure, weak public institutions, and less diversified exports. In addition, their domestic economic strategies were often inward-looking and market-unfriendly, with widespread state interventions, lax financial and monetary policies, and inappropriate incentive structures. As a result, growing financial and external imbalances led to little or no economic growth and unsustainable debt burdens in many cases, particularly in Sub-Saharan Africa.

2.2 The need for broad-based structural adjustment came to the forefront in the early 1980s, and became more pressing by the mid-1980s. In varying degrees across countries adjustment programs encompassed macroeconomic measures for stabilization, structural reforms needed to reduce widespread distortions in incentive structures, and longer-term measures to enhance supply responses and move economies to higher, poverty-reducing growth paths.

1/ Reports drawn upon include the Bank's Third Report on Adjustment Lending and the Fund's Review of Experience under ESAF-Supported Programs.

2/ In this paper, unless otherwise indicated, the "low-income" countries are defined as those receiving IDA credits during the IDA-9 period and/or those eligible for ESAF resources. These countries are listed in the Annex.

2.3 More and more low-income countries began to perceive the benefits of broad-based adjustment and the number of adjusting countries has steadily grown since the early 1980s. At this time, some 35-40 low-income countries have in varying degrees undergone this process. Recent additions include such countries as Albania, Ethiopia, Honduras, Kyrgyzstan, Lao PDR, Mongolia, Nicaragua and Zimbabwe.

2.4 The experience thus far suggests that the adjustment process is much broader and takes longer than initially anticipated in the early 1980s. This is partly because of the external environment that low-income countries have faced--weak commodity prices and more recently recession in the industrial countries. However, there have also been positive, and in many cases rising, net external transfers. The adjustment process has also been prolonged because domestic policy reforms have proven more difficult, and institutional capacity weaker, than expected, and because of unstable political environments in several cases. Policy reforms have been interrupted and in several cases there have been reversals, even in politically stable countries.

Extent of Policy Reforms

2.5 Low-income countries are a diverse group, and the nature and scope of policy reforms have varied widely among them and over time. Despite the varied experience, there are some common patterns. Where policy reforms have been sustained, there has been reasonable success with stabilization, movement towards more liberal foreign exchange and trade regimes, and significant progress in decontrolling domestic prices. But there have been greater difficulties with reforms of public enterprises, with privatization and with financial sector reforms.

2.6 **Macroeconomic Policies and Stabilization.** Macroeconomic stability is central to adjustment, growth and poverty reduction. Many countries have implemented corrective macroeconomic policies, involving appropriately tight fiscal and monetary stances and exchange rate adjustments. As a percent of GDP, the fiscal deficit for the low-income countries was lowered from an average of 8.4 percent in 1981-86 to 7.5 percent in 1987-92. This helped lower the average growth of broad money from 43 percent in 1981-86 to 20 percent in 1987-92. As a result, the average inflation rate for the low-income countries as a whole fell from 56 percent in 1981-86 to 22 percent in 1987-92.[3/] Continued progress in controlling fiscal deficits and the growth of broad money -- through a strong central bank implementing a prudent monetary policy -- is essential to curb inflation.

[3/] *The data on money supply and inflation exclude the two outliers, Nicaragua and Zaire, where hyperinflationary rates were observed in the latter period.*

2.7. The quality of the fiscal effort determines whether the deficit reductions can be sustained and whether the fiscal stance is consistent with long-run growth and poverty reduction. Countries have re-examined the major current expenditures and subsidies in such areas as civil service, agricultural inputs, urban food distribution and energy, and sizable cuts have been made in many cases. The inter-sectoral allocations of current expenditures and public investments have also improved, especially in terms of greater protection for the social sectors. Much more needs to be done, however, to reduce unproductive expenditures and to improve the institutional framework for decision making, implementation and monitoring. On the revenue side, improvements in the tax base and in tax administration remain a priority, although movements towards the introduction of the value added tax (VAT) have occurred in many countries (for example, Bangladesh, Bolivia, Kenya, Malawi, Niger and Senegal).

2.8 **Exchange and Trade Reforms.** A key objective of policy reforms has been the liberalization of exchange and trade regimes to reduce protection of importables and encourage exports (and export diversification away from a few primary commodities). Apart from promoting efficiency and comparative advantage, more liberal trade also encourages employment because nontraditional exports tend to be more labor-intensive than import substitutes. Exchange and trade restrictions have included severe controls on the allocation of foreign exchange, quantitative restrictions, export taxes, and import tariffs. Much progress has been made in this area. In many cases, the exchange rate has been brought closer to a realistic and competitive level, and exchange controls have been relaxed. This has enabled advances in trade liberalization. Non-tariff barriers, such as import quotas and restrictive licensing systems, have been reduced, as have the level and dispersion of tariff rates. Sri Lanka, for example, has not only reduced quantitative restrictions (which in some cases were so tight that even high tariffs were redundant), but also the maximum tariff rates from over 100 percent to 50 percent. While there remains much scope for reducing import tariffs in low-income countries, it should be noted that they have been lowering tariffs unilaterally without waiting for reciprocity on the part of industrial countries.

2.9 **Domestic Prices and Agriculture.** Important elements of the reform agenda have also included moving domestic prices closer to world prices, deregulating marketing, and reducing anti-labor biases and capital subsidies. Price reforms have been significant in many sectors including energy, but nowhere more important than in agriculture, which is typically the largest sector in low-income countries. It is also the sector that contains the bulk of the poor: rural sector growth is a prerequisite to employment generation and poverty reduction. China, Ghana, Guyana, Nigeria, and Zimbabwe, among others, have made significant progress in agricultural price reforms.

2.10 The traditional bias against agriculture has been reduced in many low-income countries. This is due to both agricultural price reforms, and improved macroeconomic and exchange/trade policies (the nonagricultural sectors have traditionally been the prime beneficiaries of tariffs, quotas and exchange controls). The anti-agricultural bias is still large,

however, because improvements in agricultural prices have been far from universal. As far as export marketing is concerned, marketing board reforms have been significant in selected cases, but the agenda is far from complete (See Box 1).

Box 1. Adjustment, Agriculture and Poverty

The vast majority of the poor in low-income countries live in rural areas. Yet the policy regimes pursued by these countries in the 1970s and the early 1980s were biased against agriculture, sometimes to an extreme degree, through direct sectoral taxes and controls and through the effects of overvalued exchange rates and industrial protection. Marketing parastatals were major impediments because of the excessively low prices they paid to producers. When low growth turned into full scale crisis in the early 1980s, many governments initially responded by increasing the rationing of foreign exchange and domestic goods. In Tanzania, for example, the bulk of what little foreign exchange was available was allocated to very inefficient industries, while most consumer goods became unavailable in rural areas.

Policy reforms in low-income countries are addressing these biases. Marketing has been liberalized in many countries. Both depreciating exchange rates and more liberal external and internal trade have raised the prices of traded agricultural goods. Producers of primary products, such as cocoa in Ghana and Nigeria, have gained, and the greater availability of consumer goods in rural areas has also helped the supply response.

Source: " Implementing the World Bank's Strategy to Reduce Poverty", World Bank, 1993.

2.11 **Public Enterprise Reform and Privatization.** The public enterprise sector expanded rapidly in the 1970s in most low-income countries, dominating many key sectors, becoming a major fiscal drain, and crowding out private sector activities. However, public enterprise reforms have been slow and difficult. It has proved difficult to sustain improvements in management and maintain hard budget constraints. In many cases parastatal accounts are not audited regularly, nor is bank credit to the public sector systematically monitored. Often it is not possible to judge the full extent of the public enterprise sector, let alone assess its performance and need for reforms, because of severe data deficiencies.

2.12 Many public sector agencies carry out production, marketing and distribution functions that can be better provided by the private sector. Although privatization--including foreign direct investments--has been significant in a few countries (for examples, Pakistan and Sri Lanka), it has yet to begin in earnest in many countries, (see Box 2). In many cases, reform efforts have focussed on improving enterprise management through restructuring or through performance contracts with the private sector.

Box 2. Adjustment and Public Enterprises in Sri Lanka

Sri Lanka adopted an outward-oriented development strategy as early as 1977, but the progress of the reform program has not been smooth since then because of various factors, including civil strife. Reforms have continued, however, and progress is finally being made with privatization.

Sri Lanka intensified its adjustment efforts in 1988, bringing the fiscal deficit down from 15.7 percent of GDP in that year to 7.4 percent in 1992. Reform of the trade and external payments systems has also played a major role. During 1990-93, current account transactions and important components of the capital account were also liberalized, including profit and dividend repatriation and the facility to open foreign currency accounts by residents. By 1992, the tariff system was simplified to only four rates ranging from 10 percent to 50 percent, and most NTBs (except for agricultural goods) were eliminated.

The economy has been traditionally dominated by public enterprises, and improvements in this area were hard to engineer and sustain; privatization was clearly very difficult politically. Nonetheless, privatization began on a serious scale in 1990. All public enterprises in the mining sector were privatized during 1990-92. In 1992, the program gained in political support, and regulatory and tax reforms encouraged further privatization and facilitated foreign direct investment. Since June 1992, some 30 industrial enterprises out of 159 have been privatized. There has also been significant progress in privatizing management: in agriculture, the Government has transferred the management of most of the public export crop estates to private companies on a profit sharing basis.

2.13 **Financial Sector Reform.** Financial systems in low-income countries have typically been characterized by weak prudential standards, poor supervision, limited competition, high loan losses, high operational costs, and political interference. Reforms have focussed on the formal banking sector, aimed at reducing financial repression, restoring solvency -- including restructuring and recapitalizing banks -- and improving the administrative infrastructure.

2.14 Much progress has been made in liberalizing interest rates and raising them to positive real levels. However, financial sector reforms have not advanced very far in most cases, because many such reforms were initiated only recently, and also because they cannot

meaningfully proceed without simultaneous reform of loss-making public enterprises. It also takes time to restructure or privatize banks, improve banking supervision, and introduce the legal and institutional changes necessary for the transition to indirect monetary control. In Bolivia, for example, financial sector reforms were initiated in 1987, and considerable progress has been made since then in improving the regulatory and legal framework, closing down state banks, strengthening supervision, and liberalizing interest rates. However, much still remains to be done in developing the capital market and in rationalizing the pension system.

Some Lessons

2.15 **Growth**. What has happened to incomes in low-income countries? The average rate of real GDP growth in the low-income countries was 2.6 percent per annum during 1987-92, about the same as during 1981-86, but there were important differences across countries. Many countries attained rates of growth in excess of 4 percent, for example: Burundi, China, Ghana, India, Lao PDR, Nigeria, Nepal, Pakistan, Tanzania and Uganda. On the other hand, there were also many countries which continued to suffer declining per capita incomes, especially in Sub-Saharan Africa.

2.16 Various reviews and studies using different methodologies have suggested that countries which sustain adjustment policies over a period of time generally have done better than before periods of
adjustments and also better than others. This is clearly true for the low-income group. To examine this, the group was subdivided into two parts. Group A refers to 25 countries which received support under SAF/ESAF arrangements and/or at least one adjustment operation (including IBRD loans for blend countries) during the last two IDA replenishment periods.[4/] Group B refers to the rest of the countries in the sample, many of which had major interruptions in their adjustment programs, or began to adjust only recently.[5/]

[4/] *Bangladesh, Benin, Bolivia, Burundi, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guyana, Honduras, Kenya, Lao PDR, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Philippines, Senegal, Sri Lanka, Tanzania, Togo and Uganda.*

[5/] *This group includes Albania, Angola, Burkina Faso, Central African Republic, Chad, Dominican Republic, Egypt, Ethiopia, Guinea-Bissau, Haiti, Kyrgyz Republic, Mongolia, Nepal, Nicaragua, Nigeria, Pakistan, Sierra Leone, Somalia, Sudan, Yemen Arab Republic, Zaire, Zambia and Zimbabwe. This group excludes the small island economies with per capita incomes higher than the operational IDA cut-off, and Afghanistan, Cambodia, Liberia, Myanmar and Viet Nam. China and India are excluded from both Groups A and B because of their very large size. However, China and India are included in Group C in Table 1, which also includes Group A countries. Comparisons of Groups B and C strengthen the conclusions of this analysis. It should also be noted that Groups A and C did better than Group B even though the trend in their external terms of trade was much more adverse (Table 1). Bank and Fund reviews, in particular the reports cited in footnote 1, may be consulted for more detailed analysis of the many factors which determine outcomes.*

2.17 This comparison showed that the countries in Group A increased their average rate of growth to 3.1 percent in 1987-92 from 1.9 percent in 1981-86. In contrast, the growth rate declined from 2.7 percent in 1981-86 to 1.3 percent in 1987-92 for the other countries (Group B). This is consistent with one of the key findings of the Bank's Third Report on Adjustment Lending,[6/] as well as the Fund's detailed review of the nineteen countries with SAF/ESAF arrangements.

2.18 The comparison also confirms one of the most common findings: that macroeconomic stabilization goes hand in hand with improved growth. The countries in Group A succeeded in significantly reducing inflation and fiscal deficits during 1987-92, as compared to the earlier period. In contrast, countries in Group B experienced a rise in inflation and no significant reductions in fiscal deficits over the above periods (Table 1). Progress on the external front has been mixed. The average current account deficit widened by some 2 percentage points of GDP for Group A countries, reflecting a major deterioration in the terms of trade, increased investments, and greater availability of concessional financing.

2.19 The following lessons are particularly noteworthy:

- Encouraging results have been obtained in countries which sustained policy efforts. The economies which have done best emphasized macroeconomic stability, realistic exchange rates, and outward orientation.

- Shifting economies to higher and sustainable growth paths requires time-consuming fundamental structural changes. This is best seen in the case of agriculture, on which low-income countries rely heavily. Output responses in some agricultural crops have been quick and strong, and in some cases quite dramatic (for example, rice in Guyana and Viet Nam). However, for such gains to last over time and spread to the agricultural sector as a whole, private capital--and better technologies--and labor need to flow back to that sector. This kind of basic adjustment takes time because the new policies need to become credible.

- Policies to promote private investment--both domestic and foreign--are crucial for longer-term growth, but private investment responds with considerable lags in low-income countries. Apart from the need to establish the credibility of macroeconomic reforms, private sector development needs complementary

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[6/] *An updating of that Report shows that the group of intensive adjusters, as defined therein, increased their growth rates to 2.8 percent in 1987-92, as compared to 1.3 percent in 1981-86. Another study showed that the group of countries in the Special Program of Assistance (SPA) for Africa grew by an annual average of 3.2 percent between 1988 and 1991, compared to the 1.4 percent for African countries outside the SPA.*

measures to address such important constraints as inadequate or poorly administered legal and regulatory systems, poorly functioning institutions and markets, inadequate physical infrastructure, and a weak human capital base.

- The adjustment experience suggests that sound and effective institutions and borrower ownership are primary determinants of success. The greater the participation of the borrower in the design and implementation of the program, the greater the ownership, and hence, the greater is the likelihood of a successful outcome. Such participation is in turn heavily influenced by the quality of the civil service and local institutions, the technical expertise available to the borrower, and the commitment of the political leadership to the reform process. [7/]

2.20 **Poverty Reduction.** Poverty remains a persistent problem. During the 1980s the overall progress in improving living standards slowed down. While the incidence of poverty for the low-income countries as a group may have fallen somewhat during the last five years, progress has been uneven. As shown in Table 1, per capita incomes increased only modestly during 1987-92; per capita incomes actually declined in countries which could not sustain adjustment programs or which initiated them only recently (Group B). Thus, broad-based and labor-intensive growth at much faster rates is necessary for poverty reduction. This means avoiding anti-agriculture and anti-labor biases in economic policy: to be equitable the rural sector must fully participate in the growth process (see Box 1). But even broad-based growth can leave important areas or segments of the population behind. Targeted poverty reduction policies are needed to address such problems. Public expenditures need to be reallocated towards the social sectors, as giving the poor access to basic social services and the development of safety nets are essential components of poverty reduction.[8/] Adjustment programs are now increasingly supporting the necessary reallocations of public spending. Targeted public expenditures, and the creation of safety nets to protect the poor and the vulnerable during adjustment, need to receive continuing emphasis.[9/]

2.21 **The Environment.** The relationship between adjustment and the environment is complex and, although much research is underway, as yet imperfectly understood. For example, positive or negative linkages may arise from relative price shifts brought about by changes, inter alia, in the pattern of taxes, trade duties, real wages, and exchange rates, and

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[7/] *See, in particular, the OED review "Adjustment in Sub-Saharan Africa: Selected Findings from OED Evaluations".*

[8/] *The Third Report on Adjustment Lending found evidence that the share of health and education in total public expenditures increased in some adjusting countries between the early and latter half of the 1980s. However, meaningful analyses of such expenditures are hampered by lack of data.*

[9/] *Social safety nets are the subject of a separate paper for the Development Committee meeting in September 1993.*

it will be difficult in many cases, if not impossible, to trace their ultimate environmental impact. However, it is clear that many typical elements of the adjustment process are consistent with the achievement of environmental objectives. Generally, efforts to ensure that prices reflect resource costs are likely to be environmentally benign, because they will discourage inefficient and wasteful use. Examples include pricing reform for energy and water resources; or reduction in subsidies for farm inputs such as pesticides. In addition, growth-oriented measures that expand employment opportunities in industry and agriculture may also reduce poverty and pressures by the landless poor on the exploitation of marginal and open-access resources (such as mangroves and forest lands). These examples demonstrate that there are many opportunities for "win-win" policy reforms, i.e., those that meet environmental, economic, and social objectives.

2.22 There are, however, instances when certain adjustment measures may have predictable adverse environmental consequences, such as when public expenditures are cut to reduce the government deficit. If environmental constituencies are weak, support for conservation and pollution control may be cut disproportionately to other measures. In these cases, targeted environmental protection measures might be helpful, similar to the safety net approach adopted for poverty alleviation goals. The more difficult challenge is to anticipate the environmental consequences of adjustment that are much less apparent; often these occur when macroeconomic or broad sectoral reforms are undertaken while resources continue to be undervalued or before tax/institutional reforms to address environmental externalities have been addressed. Trade liberalization, for example, may encourage deforestation or over-fishing by increasing output prices--if long-standing policy distortions, such as nominal timber stumpage prices and open access fishing, persist. Industrial promotion, while promoting growth and poverty-reduction, may lead to excessive pollution, if systems of environmental taxes and regulatory institutions are not put in place. In these circumstances, the answer is not to delay stabilization or the adjustment process, but rather to integrate into the adjustment program specific measures, such as tax or regulatory instruments to mitigate the negative environmental effects.

III. The Road Ahead

Policy Perspectives

3.1 **Developing Countries.** As the above overview of experience suggests, those low-income countries which have not yet brought about macroeconomic stability and laid the foundation for sustained growth ought to start the process as soon as possible. This is because this process, while beneficial in the short to medium term, can also be time consuming. And those countries which have begun adjusting need to stay the course. Their reform programs should aim at efficient growth, with low inflation and external viability, supplemented by poverty-reducing targeted interventions and measures to sustain the

environment. The reform programs need to include the creation of, and support for, liberal exchange and trade regimes--even if progress in the Uruguay Round continues to be slow--and competitive markets so as to promote a dynamic private sector.

3.2 Given the need to increase domestic savings in most of these countries, reductions in government budget deficits combined with a more forceful effort in reforming public enterprises would free up badly needed resources for higher rates of investment and growth. Further progress in rationalizing public expenditures away from unproductive uses, including military spending, would lead to greater efficiency and enhance welfare. Effective regional security arrangements, and reduced official sales of arms, could make an important contribution to this effort. Much greater encouragement should be given to private savings through banking and financial sector reforms and broadening of capital markets.

3.3 There is no room for complacency regarding the prospects for the low-income countries. Adjustment is a difficult process even with strong social safety nets to protect the vulnerable and the poor. Sustainability requires broad ownership, both within the government and in the population as a whole. This in turn is a matter of governance, which needs to be stable and participatory.

3.4 Institutional reforms should be prominent in reform agendas and administrative capacity needs to be strengthened. Bilateral and multilateral agencies will need to continue to provide technical assistance to improve institutional and administrative arrangements, and to improve data collection and accounting. Well-targeted and timely provision of technical assistance will in many cases be required to enhance government implementation capacity, particularly in the areas of public expenditure review and control, tax reform and administration, and public enterprise and financial sector reforms.

3.5 **Industrial Countries.** Responsibility for strengthening the global economic environment rests centrally with industrial countries. For them, as for the low-income countries, sustained implementation of sound macroeconomic and structural policies is required. Firm adherence to the medium-term strategy of fiscal consolidation will have a favorable impact on interest rates, private investment and job creation, as well as on the supply of savings needed to finance investment and growth in the developing countries. Structural measures to improve the allocation of resources and the efficient functioning of labor and products markets are equally important for achieving faster output growth which will in turn strengthen domestic demand.

3.6 There is an immediate and urgent need for successfully concluding the Uruguay Round. Failure to complete the latest GATT Round could lead to increased protectionist pressures. Market opening measures by the industrial countries, especially in the areas of

textiles and agriculture, are crucial for the longer-term success of the reform efforts of the low-income countries. In the transition to greater efficiency under a freer trade environment, some countries currently relying on subsidized food imports and on preferences could face greater financing needs. In any event, the low-income countries will need to continue to pursue reform efforts including trade, to prepare them to better compete in an open market environment.

Financing Implications

3.7 With few exceptions such as China and India, most low-income countries--even those that have followed ambitious reform programs over a number of years--have at this time limited or no access to international capital markets. They will thus have to strengthen efforts to mobilize domestic savings as well as to continue to attract such flows, and also to attract official external, especially concessional, flows, to finance investments at levels necessary for longer-term growth and external viability. With increased global competition for funds, and given the budget constraints in many of the industrial countries, low-income countries will have to both rely more on domestic savings and also demonstrate effective use of aid. Both these in turn require a sustained commitment to structural reforms, especially improvement in public sector savings and efficiency as well as progress in areas such as poverty and human resource development. On the part of official creditors and donors, their continued strong support is needed in a variety of forms, including debt relief, concessional financing, and official export credits and other loans.

3.8 The medium-term outlook for the external financing needs of the low-income countries depends on the strength of policy reforms, world demand, and the terms of trade. Because of the complex interaction of these factors, there are substantial uncertainties and only broad orders of magnitude of aggregate financing needs can be indicated. Excluding China, gross financings provided to the low-income countries were US$59 billion annually during 1987-92; this is expected to decline slightly to US$54 billion annually, during 1993-97 (Table 2).[10/] Within these broad aggregates, significant shifts within and among regions in financing needs and sources can be expected. A large part of the aggregate decline reflects substantially lower scheduled amortization in a few cases that have had major debt relief (e.g., Egypt). The group aggregate also masks the prospect that for many low-income countries, particularly in Africa and Asia, their financing needs remain high and are even increasing in some cases. Bank and Fund staffs estimate that the financing needs of the Africa Region could be higher than the current estimate of US$23 billion, if there were major adjustment efforts in the exceptionally difficult cases, such as Liberia, Somalia, Sudan and Zaire. Of course, major slippages in the reform programs

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[10/] *Gross financing needs are defined as current account deficit before grants, amortization payments, reduction/elimination of arrears and build-up in reserves, as in the Fund's World Economic Outlook (WEO, May 1993).*

being pursued by the low-income countries, or adverse changes in the external environment they face, will change both the gross financing requirements and the likely pattern of financing.

3.9 Official grants and loans together are projected to provide some two-thirds of the anticipated financing needs. Substantial debt relief, which averaged some US$15 billion annually, or 25 percent of total, over the last five years, will continue to be needed, as would other exceptional BOP financing, from bilateral and multilateral sources, including the Fund and the Bank.

3.10 Total external debt for the low-income countries is estimated at around US$500 billion at end-1992, or 219 percent of export earnings. But the debt burden varies widely across countries, from a high debt to exports ratio of 1,800 percent in the case of Mozambique to 80 percent in the case of China. The aggregate debt-service ratio (accrual basis) is estimated at 43 percent, but for many the ratio approaches 70 percent; on a cash basis, the debt-service ratio in aggregate is estimated at 20 percent.

3.11 Given heavy debt burdens for many low-income countries, the Paris Club has extended significant debt relief, by implementing a menu of enhanced concessions implying a 50 percent reduction (in net present value terms) of the amounts consolidated, and has indicated its willingness to consider possible debt stock reductions after a period of sustained adjustment of three to four years.[11] For many countries, the instruments now being put into place, together with application of the concessional options under the enhanced Toronto terms by all creditors, should be sufficient to solve their external debt problems provided that the future debt stock operations are implemented flexibly. Earlier reductions in the stock of debt on a case-by-case basis could prove quite beneficial in bolstering investor confidence. It will be important that the implementation of debt stock operations not jeopardize direct financial assistance for these countries. While benefiting from substantial immediate cash-flow relief, many adjusting low-income countries still face very difficult debt situations over the longer-term, and for those exceptionally indebted not even a 50 percent reduction in debt would be sufficient to attain a position of external viability even with a sustained adjustment effort. Thus in a number of cases with exceptionally heavy debt burdens, appropriate flexibility on the part of the creditors will be required, going beyond the current terms of debt relief and flow rescheduling.

3.12 For several low-income countries, non-Paris Club bilateral creditors (e.g. FSU and OPEC countries) hold a large share of the debt. In some instances (for example, the Arab

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[11] *All 17 low-income countries that have concluded rescheduling agreements with the Paris Club since December 1991 have obtained enhanced concessions, typically for a multi-year period on the basis of ESAF arrangements, or in two cases, rights accumulation programs.*

Funds) the debt is largely concessional, while in others the debt is nonconcessional. These debts pose the same problems as Paris Club debt. Some of these creditors have also provided concessional debt relief, with net present value reduction in excess of 50 percent, but in other cases, debt restructuring has yet to take place. It will be important that other bilateral creditors provide comparable treatment to the Paris Club's enhanced concessions. The same also applies for private creditors (commercial banks and suppliers' credit) which hold large claims on some low-income countries.

3.13 In addition to debt relief, most low-income countries will remain heavily dependent on bilateral financial assistance. The strategy of subordinating old debt to new by maintaining cutoff dates has allowed Paris Club creditors to extend new credits.

3.14 In view of their debt situations and income levels, for the foreseeable future the financing needs of most low-income countries are likely to be met primarily by concessional flows. Grants, which made up 55 percent of total ODA flows in the beginning of the 1980s, now account for two-thirds of these flows. For continued aid flows to low-income countries, there must be demonstration of effective aid use--better economic results that would permit reduced reliance on aid over time, progress towards poverty alleviation, political reforms, and efficiency in the composition of public spending. On the part of the donors, focussing aid on those countries undertaking strong reforms would enhance aid effectiveness and help to rebuild public support for aid.

3.15 Improved economic performance together with official finance can act as a catalyst for private flows, as have been demonstrated in several Asian and Latin American cases.[12/] Both private capital and foreign direct investment have an important role, and convincing macroeconomic and structural reforms aimed at building a strong private sector have helped to attract such flows in an increasing, albeit limited, number of low-income countries, and need to continue. Also, for countries that have faced difficulties in servicing existing debt it will be important to normalize relations with their creditors, including as appropriate through buyback of old commercial bank debt at substantial market based discounts, financed through grants, as a means to facilitate access, particularly to trade financing, on less onerous terms. Over time, as reform takes hold and economic performance improves, more low-income countries can be expected to increase reliance on private flows.

The Role of International Financial Institutions

3.16 The reform process of low-income countries takes time, requires a sustained effort, but is now well underway in many countries and deserves continued international support

[12/] *The subject of private capital flows was discussed in the May 1993 Development Committee meeting.*

through concessional resources. Given the greater receptivity on the part of low-income countries to comprehensive market-based reforms and the experience that has been gained to date, further international support of economic reforms in these countries could prove even more effective. Donors need to work closely with the reforming countries and the IFIs to ensure effective coordination of policy advice, timely availability of external finance on appropriate terms, and adequate and timely technical assistance. Donors and IFIs should also ensure priority in their aid allocations for sustained reformers.

3.17 The Bank and the Fund have played a key role in supporting reform policies, by providing policy advice, financial resources, and technical assistance. ESAF assistance by the Fund and IDA adjustment credits, involving formulation by countries of medium-term macroeconomic and structural policy frameworks, have been key and complementary in a growing network of bilateral and multilateral assistance supporting the reform efforts in low-income countries. For donors supporting the reform process, the medium-term policy framework and financing requirement spelled out in policy framework papers (PFPs) have provided a context for consideration of their assistance. With strengthened contacts with the European Community, the macroeconomic and structural framework of PFPs has become an integral element of its indicative programs for structural adjustment funding under Lomé IV. PFPs are also taken into consideration by regional development banks.

3.18 The Fund promotes a supportive global environment through its exercise of surveillance of all members' policies. This is carried out through Article IV consultations with individual members, and in the World Economic Outlook exercise through multilateral analysis of the consequences of individual policies for the operation of the global system as a whole. Recent steps to strengthen surveillance include more continuity and flexibility in the Executive Board's oversight activities, better quality and focus of the staff's work, and enhanced cooperation with members. These steps are aimed at strengthening the Fund's role in encouraging the pursuit of appropriate and mutually consistent policies in a medium-term context with a view to securing the basis for the expansion of world trade, investment and growth.

3.19 The Fund's concessional assistance under the SAF and ESAF facilities has been its chief instrument for supporting low-income countries and has helped to catalyze other sources of financing, including debt relief and donor flows; SAF/ESAF commitments over the period 1986-June 1993 totaled US$6.8 billion (total of resources from the Fund's General Resources Account were US$14.8 billion during this period). With the positive experience so far under the ESAF, and the continued needs for adjustment and financing of ESAF-eligible countries, the Interim and Development Committees agreed in May 1993 that the Fund should continue such concessional assistance and urged that an ESAF successor be put in place by end-November 1993 to ensure continuity of ESAF operations. The targeted lending volume now under discussion with potential contributors, for the ESAF successor is

aimed at maintaining the Fund's relative support of the low-income countries' financing needs (as described above) over the next five years. Total subsidy requirements for the successor are quite modest and would stretch over a relatively long period of the successor operations. Under the ESAF successor, beyond the current approach to macroeconomic and structural reforms, priorities would include stepping up efforts to improve the quality of data, and to strengthen administrative capacity to implement reform by placing greater emphasis on well-targeted and timely technical assistance, in cooperation with other institutions, including the Bank and bilateral donors, as a complement to ESAF supported programs. Countries would be encouraged to make timely reassessments of program objectives and policies in light of unanticipated changes in external developments, including through the use of contingency mechanisms, and to integrate into programs well-designed social safety nets.

3.20 IDA has supported policy reforms at the economy-wide and sectoral levels through a combination of quick-disbursing and investment operations and technical assistance. To help low-income countries cope with the second oil crisis, IDA introduced policy-based adjustment credits in 1980. During 1980-85, IDA's commitments reached about US$20.0 billion, of which US$1.6 billion was provided through structural and sectoral adjustment credits. This support grew steadily as more and more countries adopted adjustment programs. During 1986-June 1993, IDA's total commitments for low-income countries were US$40.2 billion, of which US$9.5 billion represented adjustment operations. In addition to these, several "blend" countries received IBRD adjustment loans, totaling US$0.6 billion in 1980-85, and US$5.4 billion in 1986-June 1993. Combining IDA and IBRD support, the total commitments since 1980 has therefore been US$65.5 billion, of which US$16.5 billion has been in the form of adjustment loans and credits.

3.21 IDA also continues to play a major role in catalyzing other financing, partly through cofinancing and partly through coordinated financing. For example, the Special Program of Assistance to Africa (SPA), introduced in 1988, supports a multi-donor strategy of providing additional concessional resources and debt relief. SPA-1 provided US$5.6 billion during 1988-90, and the donors have pledged approximately US$7.0 billion for the 1991-93 period. The debt relief provided through SPA supplements the Debt Reduction Facility that IDA set up in 1989, with a grant of US$100 million from the net income of the IBRD, to help highly-indebted IDA-only countries with adjustment programs; this facility is continuing at the same scale. Donors have agreed to provide US$18 billion for the IDA-10 period (FY94-96), although legislative action is awaited for effectiveness.

3.22 Throughout this period, IDA's support for policy reforms has continued to broaden in scope: the reforms supported have encompassed changes in tax structures, public expenditure policies, financial and banking sector policies and institutions, trade policies, public enterprise policies, privatization, social sector and safety-net programs, price and marketing decontrols, improved environmental management, and policy changes in various sectors such as agriculture and energy. IDA's support for these policy reforms has benefitted

from the periodic reviews of the adjustment experience that it conducts as well as from the reviews by the Operations Evaluation Department and outside critics. It has issued guidelines to staff which highlight the following prerequisites for adjustment lending: that the initiative and leadership in designing adjustment programs must come from the government concerned; that staff should promote ownership of the adjustment programs and avoid adjustment lending when broad based political commitment is weak; that policy measures supported by different operations or different donors whould be seen as part of an integrated overall program which is consistent with and supportive of the country's overall poverty reduction and sustainable development strategy including the provision of adequate resources for social services to the poor; and finally, that such operations should be well coordinated and adequately funded. The guidelines also suggest that conditionality should be carefully designed to focus on key reforms, to keep these to the minimum consistent with effective implementation of the program, and to ensure that the reforms in question are within the competence of the borrower to bring about. The time-frames required for adjustment are likely to be much longer than initially expected in the early 1980s, because supply responses tend to occur with considerable lags in low-income countries. Effective support of adjustment programs requires an appropriate blend of adjustment, sectoral and project lending and technical assistance. Such IDA lending must be part of an effective country assistance strategy that promotes the Bank's overarching objective of helping its borrowers achieve a sustained reduction in poverty, that supports capacity building and finances strategic investments designed to help ensure the supply response to improved policies.

Annex 1: List of Low-Income Countries

Africa

Angola
Benin
Burkina Faso
Burundi
Cape Verde
Central African Republic
Chad
Comoros
Cote d'Ivoire
Djibouti
Ethiopia
Equatorial Guinea
The Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Mali
Malawi
Mauritania
Mozambique
Niger
Nigeria
Rwanda
Sao Tome and Principe
Senegal
Sierra Leone
Somalia
Sudan
Tanzania
Togo
Uganda
Zaire
Zambia
Zimbabwe

Asia

Afghanistan
Bangladesh
Bhutan
Cambodia
China
India
Kiribati
Lao PDR
Maldives
Mongolia
Myanmar
Nepal
Pakistan
Philippines
Solomon Islands
Sri Lanka
Tonga
Vanuatu
Viet Nam
Western Samoa

Latin America and Caribbean

Bolivia
Dominica
Dominican Republic
Grenada
Guyana
Haiti
Honduras
Nicaragua
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines

Middle East and North Africa

Egypt, Arab Republic of
Yemen, Arab Republic

Europe and Central Asia

Albania
Kyrgyz Republic

Table 1. Main Macroeconomic Indicators, 1981-1992

	1990	1991	1992	Average 1981-86	Average 1987-92
Group A (25 countries) 1/					
Real GDP growth, annual percent change	2.8	2.6	2.4	1.9	3.1
GDP Per Capita, annual percent change	0.05	-0.5	-0.8	-1.2	0.04
Consumer prices, annual percent change	16.8	15.7	13.0	110.8	19.3
Fiscal deficit/GDP, percent	6.9	5.3	5.3	9.5	6.8
Current Account Deficit/GDP, percent	16.3	16.4	16.8	12.6	15.0
Investment/GDP, percent	24.5	25.2	25.1	19.8	23.2
Export Volume Growth, annual percent change	7.2	2.7	4.4	3.7	4.1
Terms of Trade, annual percent change	-7.5	-0.6	-5.0	0.7	-5.6
Group B (24 countries) 2/					
Real GDP growth, annual percent change	0.6	-1.2	-0.1	2.7	1.3
GDP Per Capita, annual percent change	-2.5	-3.8	-2.5	0.4	-1.0
Consumer prices, annual percent change 3/	30.0	38.8	52.4	16.1	32.5
Fiscal deficit/GDP, percent	10.9	10.8	9.1	10.4	11.0
Current Account Deficit/GDP, percent	14.7	17.0	19.1	12.3	15.4
Investment/GDP, percent	17.1	15.6	16.0	21.2	17.6
Export Volume Growth, annual percent change 4/	-0.8	-6.3	2.1	2.3	-0.6
Terms of Trade, annual percent change	-3.5	-4.8	-3.4	-2.0	-2.8
MEMORANDUM ITEMS:					
All low income countries 5/					
Real GDP growth, annual percent change	2.1	1.5	2.1	2.7	2.6
GDP Per Capita, annual percent change	-0.4	-0.9	-1.5	0.0	0.2
Group C (27 countries) 6/					
Real GDP growth, annual percent change	2.9	2.7	2.9	2.4	3.3
GDP Per Capita, annual percent change	0.3	-0.3	-0.3	-0.7	0.4
Consumer prices, annual percent change	16.0	15.2	12.6	103.0	18.6
Fiscal deficit/GDP, percent	6.8	5.2	5.2	9.1	6.7
Current Account Deficit/GDP, percent	14.8	14.8	15.2	11.5	13.7
Investment/GDP, percent	24.9	25.6	25.5	20.5	23.7
Export Volume Growth, annual percent change	7.4	3.0	4.7	4.0	4.6
Terms of Trade, annual percent change	-7.1	-0.5	-4.5	0.8	-5.3

Sources: Bank and Fund staff estimates, World Bank database and the Fund's WEO.

1/ *Group A comprises Bangladesh, Benin, Bolivia, Burundi, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guyana, Honduras, Kenya, Lao PDR, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Philippines, Senegal, Sri Lanka, Tanzania, Togo and Uganda.*

2/ *Group B comprises Albania, Angola, Burkina Faso, Central African Republic, Chad, Dominican Republic, Egypt, Ethiopia, Guinea-Bissau, Haiti, Mongolia, Nepal, Nicaragua, Nigeria, Pakistan, Rwanda, Sierra Leone, Somalia, Sudan, Yemen Arab Republic, Yemen P.D.R., Zaire, Zambia and Zimbabwe.*

3/ *Excludes Nicaragua and Zaire.*

4/ *Non oil exporters only (excludes Egypt, Nigeria and Yemen).*

5/ *72 countries receiving IDA credits during the IDA 9 period and/or those eligible for ESAF resources.*

6/ *Group C comprises countries in Group A plus China and India.*

Table 2. External Financing Needs of Low-Income Countries 1/
(in billions of US$)

	Average 1987-92	1992		Average 1993-97 (projections)
Gross Financing Needs 2/	58.6 (64.6)	63.1 (64.8)		54.4 (65.8)
Africa	21.0	21.9		22.6
Asia	21.9	23.7		23.7
Others	15.7	17.5		8.1
1. Current Account Balance (excluding official transfers)	-31.1 (-27.1)	-29.1 (-21.7)		-27.4 (-25.7)
2. Scheduled Amortization	24.1 (28.2)	24.4 (29.9)		20.4 (27.6)
3. Other	3.3 (9.3)	9.6 (13.2)		6.6 (12.5)
Sources of Financing				
1. Grants	10.9 (11.1)	12.0 (12.6)		11.6 (11.9)
2. Gross Borrowings	26.0 (33.8)	25.1 (32.1)		25.1 4/ (34.1)
3. Debt Relief	14.9 (14.9)	15.5 (15.5)	)))	17.7 5/ (19.7)
4. Other Sources of Financing 3/	6.8 (4.8)	10.5 (4.6)	))	

Sources: World Bank and Fund staff estimates and projections under the World Bank database and the Fund's World Economic Outlook, May 1993.

1/ *Defined as the 72 countries that are ESAF-eligible or IDA-recipients in the base period 1987-89. Figures in parentheses include China.*

2/ *Defined as current account deficit before grants, amortization payments, reduction/elimination of arrears, and buildup in international reserves.*

3/ *Includes use of Fund resources, net direct investment, net short-term liabilities, net asset transactions, and net errors and omissions.*

4/ *Projected borrowings under existing loan commitments and prospective loan commitments yet to be secured.*

5/ *Residual financing need, potentially to be met by debt relief (from existing and new debt rescheduling arrangements) and other sources of financing (as defined in footnote 3 above, and mainly bilateral and multilateral balance of payments support, including from the Fund and the Bank).*

SOCIAL SECURITY REFORMS AND SOCIAL SAFETY NETS IN REFORMING AND TRANSFORMING ECONOMIES

The attached paper, prepared jointly by the staffs of the Bank and the Fund, reviews the role of social security arrangements and social safety nets in the successful implementation of economic reforms. In many adjusting countries, particularly in the former Soviet Union (FSU), Eastern Europe and Latin America, existing social security arrangements are an important source of actual or potential macroeconomic imbalances, and hence an important focus of reform efforts. At the same time, and together with safety nets, they are an important part of the response of governments to some of the adverse effects of macroeconomic reforms on poor and vulnerable households. Within social security arrangements, the paper focuses largely on pensions, which account for a predominant share of total social security expenditures, while there is a relatively broader look at the range of safety net instruments. The experience of the Bretton Woods Institutions in these areas is relatively recent, and this paper is seen as a way to elicit the perspective of Ministers, who have direct experience of these issues, with a view to seeking their guidance on the nature and direction of further work in this area. This covering note suggests some issues for discussion.

Issues for Discussion

Social Security Reforms

(i) Social security arrangements for normal contingencies associated with old age, sickness, and unemployment are an important basis for the efficient and equitable functioning of market-oriented economies. In many parts of the world, however, social security arrangements are a major source of fiscal imbalance and are failing to meet their objectives. The goals of reform are to (a) minimize allocative distortions and contribute to macroeconomic stability by reducing fiscal imbalances, and (b) promote equity, both inter-generational and between income groups, particularly to ensure protection against life-cycle risks and unemployment at minimum cost. Approaches to reform include early measures to reduce relatively high entitlements and improve coverage, and switching to a multi-tiered system with a publicly provided minimum pension supplemented by contributory and voluntary pensions, both of which could be privately run. There has been, in the past, a tendency for short-term solutions to be adopted with deleterious long-term consequences. Reforms should be tailored to the legal framework, administrative capacity, resource capacity and political constraints in a particular country.

- Ministers may wish to comment on the immediate aim of reforming social security arrangements in developing countries. How can the fiscal burden of social security arrangements be reduced, while broadening their coverage?

- Ministers may also wish to comment on reforming social security arrangements in economies in transition. What are the minimum elements of social

security that should be retained? Can universal coverage be maintained, while achieving fiscal adjustment?

- What should be the long-term approach to social security reforms? Is the multi-tiered arrangement discussed in the paper appropriate--for developing countries and/or for economies in transition? Is the provision of universal flat-rate pensions and unemployment benefits appropriate as a first step?

- How can the private sector be encouraged to play a larger role? Is this feasible without a well administered regulatory and legal framework?

Social Safety Nets

(ii) Because social security arrangements are often confined to the formal sector of the economy and rarely reach the poorest of the poor, or in cases where such arrangements are absent, many countries have relied on temporary social safety nets, often introduced in response to major economic shocks. A range of social safety net instruments is available to developing countries. The appropriate choice in any particular country depends on the mix of economic reform measures, the composition of target groups, existing institutional arrangements, data availability, administrative capacity, the available financing and the policy preferences of the authorities. Typically, balancing the policy mix of economic reforms could help to mitigate the impact of certain measures on the poor, as could an increase in pro-poor social spending. Nonetheless, social safety nets for mitigating major transitory adverse effects of economic reform measures on vulnerable groups are an important means of both assisting the poor and enhancing the political viability of economic reforms. Such measures could take the form of targeted subsidies, including cash payments or the distribution of vouchers, compensation for retrenched workers, and public works programs targeted at the poorest by paying wages which are below market levels. Several issues typically arise when countries attempt to implement social safety nets:

- Ministers may wish to comment on how best to deal with the constraints on integrating social safety nets into reform programs in developing countries. What relative role is played by such factors as data availability, administrative capacity, availability of finance and political considerations?

- Ministers may wish to comment on the possible sources of finance for social safety nets, in particular, the scope for reallocating budgetary expenditures to (a) social safety net measures; and (b) pro-poor social spending. What is the scope for donors' technical advice and financial support for social safety nets for low-income countries?

- Ministers may wish to comment on the role of social safety net measures in enhancing the political support for reforms. Is there a trade-off between allocating resources for protecting the very poor while maintaining the support of other groups for the reform effort?

The Role of Donor Agencies, the Bank and the Fund

(iii) The role of bilateral donor agencies--particularly in Eastern Europe and the FSU--is critical in the reform of social security systems. Coordination of donor activity is essential to avoid duplication of effort. The Bank and the Fund have worked closely together to help members reform social security systems and establish social safety nets through policy advice, financial resources (in the case of the Bank) and technical assistance. The Bank's principal role is to lead the policy dialogue focussed on rendering the existing permanent social security arrangements more equitable, relevant to the poor and cost-effective. As for social safety nets, the Bank has and will continue to provide advice, financial resources, and technical assistance in support of their establishment. The Fund's main focus, in close collaboration with the Bank, has and will continue to be on advising member governments on the macroeconomic and budgetary implications of options for reforming social security systems and introducing social safety nets.

- Ministers may wish to comment on the effectiveness of this collaborative framework in helping countries to reform social security systems and establish social safety nets.

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SOCIAL SECURITY REFORMS AND SOCIAL SAFETY NETS IN REFORMING AND TRANSFORMING ECONOMIES

(Prepared jointly by the staffs of the International Monetary Fund and the World Bank)

I. Introduction

1.1 Economic reforms have been introduced in many countries in response to macroeconomic imbalances and structural impediments to better economic performance. In adjusting countries, particularly in the former Soviet Union (FSU) and in Latin America, social security arrangements have themselves become a source of these imbalances; these countries are attempting to contain the fiscal burden of these arrangements as part of their reform efforts. Economic reform may have adverse effects on poor and vulnerable households. In mitigating these short-term effects, the existing social security arrangements, which usually benefit only those in the formal sector of the economy, can be supplemented by safety nets. Thus, social security systems can both contribute to the need for adjustment and be the necessary response to possible adverse consequences when supplemented by social safety nets.

1.2 Social security is provided through (a) social insurance (generally covering pensions, unemployment benefits and health care), and (b) social assistance (comprising various in-kind and cash transfers to the entire population or to some specific target groups). While the objectives of social insurance are income smoothing and insurance against risks, social assistance is provided to households which are either not covered by any insurance, or are very poor and vulnerable to shocks. Permanent social assistance arrangements are available in a few countries to take care of the chronically poor. In addition, social safety nets (comprising a variety of cash and in-kind transfers, retraining of labor and public works programs) are being established in many instances to provide relief to vulnerable households following major shocks (such as changes in macroeconomic policies, droughts, famines, etc.).

1.3 This paper will review social security arrangements and safety nets in developing countries **in the context of economic reforms.** Section II gives a brief overview of how governments mitigate the risks confronted by households in the ordinary course of affairs. The section identifies those countries, especially in Latin America and the FSU countries, where formal social security systems are predominant and are experiencing problems, and discusses various approaches to reform. Section III addresses how governments might adapt their formal social security arrangements when countries undergo severe economic stress and undertake policies to adjust to it. Transitory social safety nets are particularly relevant in those countries where coverage of formal arrangements is low. Section IV concludes with the implications for governments, donor agencies, the Bank, and the Fund.

1.4 The discussion on social security arrangements focuses largely on pensions, because pensions account for a major proportion of such expenditures in most countries. The paper does **not** address the issue of health financing and insurance in view of its detailed coverage in the *World Development Report, 1993*. Finally, the discussion is restricted to reforming countries only, since the paper's main thrust is on the scope for protecting vulnerable households during economic reform through reform of the existing formal social security systems and the institution of safety nets.

1.5 The experience with reforms of social security arrangements and integrating safety nets during economic reform program is limited, and governments, donors, and international institutions are still learning from this experience. This paper is, therefore, an initial attempt at a survey of selected issues, with a view to seeking the perspective of Ministers who deal daily with these issues, and drawing on their experience to guide the further work planned in the Bank and the Fund.[1]

II. Formal Social Security Arrangements

A. The Social Security Situation in Reforming Developing Countries: An Overview

2.1 The social security situations in developing countries and economies in transition vary greatly in terms of the nature of the arrangements (formal versus informal systems of care), the extent of coverage (public versus private sector employees, organized versus unorganized sector employees, rural versus urban), and the extent of private sector participation in the provision of social security. Countries undergoing economic reform fall into two broad categories: those countries with formal social security systems covering a relatively large share of the population (these are found mainly in Eastern Europe, the FSU and Latin America) and countries where the formal arrangements are confined mainly to the organized sector and social security arrangements are for the most part informal (these are found mainly in Asia, the Middle East and North Africa, and Sub-Saharan Africa).

2.2 In the countries of the *former Soviet Union (FSU) and Eastern Europe*, the main social insurance benefits are pensions (old-age and disability), sick pay and maternity benefits. In many FSU countries, pensions are paid from a separate pension fund, which derives its revenues predominantly from employer payroll contributions, while sick pay

[1] A Fund paper, Social Safety Nets in Economic Reform (EBS/93/34), was discussed by the Fund's Board on June 2, 1993; a Policy Research Study on Old-Age Security will be completed by the Policy Research Department of the Bank in FY94; and an ongoing work program on The Effectiveness of Social Safety Nets in the Education and Social Policy Department of the Bank will lead to a best-practice paper in FY95.

and maternity benefits are paid out of a social insurance fund. By contrast, in the Eastern European countries, all benefits, including pensions, are paid out of a social insurance fund. Some fully non-contributory schemes also exist. Universal health care is provided and is subsidized heavily by the state. Unemployment compensation was introduced only recently. The benefits are financed by employer payroll contributions and, where needed, by budgetary transfers.

2.3 In *Latin America*, the major component of social security is old-age pensions, covering all organized sector employees (in both the private and public sectors). The coverage is generally not extended to informal sector employees. The pensions are financed primarily from employer payroll contributions, while the benefits are earnings-related. In some countries (such as Brazil, Costa Rica and Uruguay), non-contributory, means-tested or other non-earnings-related schemes are also in place. The Chilean type of private insurance, where public schemes have been completely replaced by private schemes, has not yet been adopted in other Latin American countries. Unemployment benefits are available in a few countries to formal sector employees who generally contribute. In Brazil, for example, workers contribute a day's wage a month to a fund which finances unemployment benefits. In Argentina, unemployment insurance was added to the existing severance pay system in December 1991. Benefits are financed by contributions made by employers to a national employment fund.

2.4 In *Asia*, there is great variation in the extent to which the elderly and the sick enjoy social security. For example, in India, family-based informal social security is widespread. Formal social security is confined to the organized sector employees in both public and private enterprises. However, India has made rapid progress in private pensions and savings through life insurance schemes by setting tax provisions favorable to these programs. In the Philippines, a formal defined benefit scheme covers not only public and private employees, but also the self-employed. However, the coverage of rural areas is limited. Ten years of contributions are required to qualify, and the program has significant redistributive features. In China, economic security is underpinned by structural features of the economy, custom, and a wide range of government programs targeted to specific social security objectives. At the structural level, (i) all rural households have access to agricultural land, either individually or collectively, and (ii) recruitment and employment practices are geared towards maintaining a high rate of employment in urban areas. As a matter of custom, almost all villagers and many townspeople are expected to care for their aging parents. Thus, formal social security arrangements need to cater only to a small percentage of the formal labor force: government employees and employees of state-owned enterprises and larger collective enterprises. It excludes the unemployed and the "floating" population (those who are legally supposed to be in their home region but are actually living in and around the faster growing cities). The formal social security programs prevalent in China are: labor insurance, social welfare, social and disaster relief and public provision of health care.

Labor insurance (covering disability and old-age pensions, maternity and sickness benefits, and subsidized health care) is provided to the employed labor force, excluding peasants, and is financed by a payroll levy on enterprises or remains a direct obligation of employers. **Social welfare** covers diverse income-maintenance provisions and social facilities at the work unit or residential areas, including villages. **Social relief** covers primarily assistance to the rural poor, including the elderly without relatives to depend on. **Disaster relief** covers the whole of the rural population subject to natural calamities.

2.5 In the *Middle East and North Africa*, public pension schemes and informal traditional arrangements together provide old-age security. Private pension programs are yet to be developed in this region. In the public pension schemes, benefits are earnings-related, with a stipulation that contributions are scaled up when necessary to cover benefit expenditures. The pension benefits have a redistributive characteristic reflected in the minimum and maximum pensions. Coverage varies within the region. In Algeria, both the agricultural and nonagricultural self-employed are covered. In Jordan, on the other hand, the Social Security Law empowers the Social Security Corporation to collect contributions and provide insurance for: (i) work injuries and occupational diseases; (ii) disability, old age and health; (iii) sickness and motherhood; (iv) health insurance for the worker and beneficiaries; (v) family allowances; and (vi) unemployment. So far, only the first two elements of the law have been implemented and a study for introducing unemployment and health insurance is under consideration.

2.6 In *Sub-Saharan Africa*, formal social security arrangements are not extensive and, when they exist, apply only to the organized sector. However, extensive community- and family-based informal social security institutions exist in both rural and urban areas. Rural social security systems differ between the land-rich areas and the land-scarce regions. In the former case, security is provided through the formation of large households or kinship groups across communities. Such arrangements permit the exploitation of economies of scale and risk-pooling. For example, in The Gambia, a relatively land-rich country, an institutionalized system of community-level food security and welfare can be found in the *Zakat* system, under which a tax (10 percent of delivery obligation of staple food to the mosque) is redistributed to the poor and needy in the village communities. Such intra-village communal systems of social security reduce the pressure on household-level targeting. In the land-scarce areas, diversification of income sources is the prevalent strategy to cope with risks. Thus, in land scarce Rwanda, settlements are largely in the form of individual and scattered farms. Formal social security does not exist, but some security is provided by the state. As in most other Sub-Saharan African countries, the state is active in public works, rural health systems and nutrition centers.

B. The Need for Reform[2]

2.7 As traditional forms of social support break down and populations age, formal social insurance arrangements are desirable to protect individuals against aging, loss of employment, and disability. However, unless adequate care is taken instituting formal arrangements may lead to a breakdown of traditional forms of support. Moreover, common property resources--an important traditional safety net for the poor in many countries--have declined, causing environmental problems in addition to eroding an available cushion for the poor. At present, however, large-scale formal schemes are in place only in middle-income countries. Moreover, they suffer from many weaknesses, the two principal ones being fiscal imbalances and a failure to protect the poor owing to inadequate coverage and an inequitable distribution of benefits. In this context, the reform of formal arrangements is critical to the success of certain adjustment programs not only because the restoration of financial balance is essential for macroeconomic stability, but also because of the need to tap the potential of the adapted and reformed formal arrangements for serving vulnerable groups better during economic reforms.

2.8 **Fiscal Imbalances.** Social security budgets are plagued by deficits in many countries. During the 1980s, the social security budget deficits as a percent of GDP in six large countries in Latin America ranged from 0.1 percent to 4.3 percent. The share in GDP of public spending on pensions is 7.1 percent in Poland, 9.4 percent in Hungary, 10.5 percent in Uruguay, and 5.8 percent in Argentina. Thus, social security arrangements have contributed to, and have been affected by, macroeconomic instability in many countries. The crisis is most acute in Eastern Europe, where adoption of reform policies has increased the demand for benefits, such as unemployment compensation, for those losing jobs.

2.9 The underlying causes of the fiscal imbalance include weak financial management and high administrative costs, compounded by an aging population and the level of benefits. The financial deficits have been further exacerbated by exogenous macroeconomic shocks.

2.10 *Weak financial management.* Poor portfolio management of pension funds, cross-subsidization of different social security systems, and built-in incentives to evade contributions have led to weak financial management of pension schemes. In some

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[2] The experience with respect to unemployment insurance is very limited. It was introduced only recently in some countries in Latin America, Eastern Europe and the FSU; it does not exist in most low-income countries. Health financing and insurance are discussed in the *World Development Report, 1993*. The discussion in this section, therefore, is focussed mainly on pension reform.

countries (such as Peru, Venezuela, Turkey, Egypt and Madagascar), pension funds are required to be invested in public sector debt instruments which have yielded negative real rates of return, which in turn have eroded the funds' capital bases from an initial fully funded position. In Peru, for example, the real returns on public pension fund investments declined from -17.2 percent in 1981 to -93.5 percent in 1988. Further, pension operations with surpluses have been obliged to divert resources to finance health care. In FSU countries, extra-budgetary pension funds are also financing family allowances (such as child allowances), a cross-subsidization that has weakened the long-term financial viability of these arrangements. Finally, under the pay-as-you-go (PAYG) schemes adopted by many Latin American countries, pensions are paid out of current revenues, and are not linked to contributions, thereby creating incentives to evade contributions. In addition to being poorly managed, the formal systems have also proven very costly to administer. For example, in Latin America, administrative costs of social security systems average 16 percent of total social security expenditures, compared to 3 percent in OECD countries.

2.11 *Aging population.* Many countries have undergone substantial demographic changes; declining birth rates have resulted in aging populations and a growing dependency ratio (the ratio of pensioners to contributors). At the same time, pension payments have risen as the pool of the aged increases and their longevity improves. Countries like Hungary, Argentina and Uruguay are currently facing this problem. Economies like Brazil, Mexico and the FSU countries will face this problem in the future, given their current demographic trends. In Brazil, for example, the ratio of the population above 60 to the population between 20-59 years of age was 13.8 percent in 1990, but is projected to increase to 21.5 percent in 2020. In Turkey and Ukraine, it takes two contributors to support one pensioner.

2.12 *The level of benefits.* An important shortcoming of the systems is early retirement provisions and relatively high benefits which have contributed to escalating costs and led to actuarial and financial imbalances, resulting in an erosion of real pensions and a decline in the quality of coverage. For example, in Russia, an individual with less than five years of service is eligible for a social pension which is two-thirds of the minimum pension. This did not present a problem in the "full employment" regimes of the Soviet Union, but is increasingly a source of fiscal burden and labor market distortions today. In Brazil and Costa Rica, an insured person can retire after 20-30 years of service regardless of age, resulting in retirement as early as 40-45 years of age.[3] The relatively

[3] For instance, as of 1991, the eligibility for a pension in Brazil required only 5 years of contributions, which would result (upon attainment of the age of retirement of 65 for men and 60 for women) in a pension benefit level of 70 percent of average earnings in the last three years of service, and an additional 1 percent of average earnings for each year of insured service in

high benefits are an important cause of the financial difficulties. Most countries in the past have also exhibited a tendency for short-term solutions (such as letting people retire early to reduce unemployment), which have typically expanded entitlements and created vested interests, with deleterious consequences for the long term. Moreover, once such short-term approaches were introduced, they proved difficult to reverse.

2.13 Social security arrangements have been further strained by *worsening macroeconomic conditions* in the 1980s. Real social security contributions declined as real wages fell and open unemployment increased. Expansion of labor-intensive informal sector activities cut into social security contributions, as informal sector employers and workers were not legally bound to contribute to social security funds. Social security expenditures grew as unemployment rose, the price of health care services and equipment increased, and the number of people needing assistance grew.

2.14 **Inadequate and Inequitable Coverage.** One of the main purposes of social security systems is to protect poor and vulnerable households. In practice, as noted above, there is a wide variation in coverage, ranging from near-universal coverage in the transition economies of Eastern Europe and the FSU countries to nonexistent or negligible coverage of the formal systems in most countries of Sub-Saharan Africa. Moreover, even in countries where all modern sector workers are covered under social security, the distribution of benefits is unequal, resulting in large differences in benefits across, and even within, groups. In Latin American countries, for example, the armed forces receive pensions which are 2.5 to 8 times as large as those received by the general population, the police 1.6 to 6.9 times, and the civil services 1.2 to 3.8 times.

C. Approaches to Reform: Pensions

2.15 The nature of the problem differs across regions, and across countries within a region. Nonetheless, the challenge facing the formal social security systems is similar: how to address fiscal imbalances while ensuring that these arrangements provide cost-effective protection to vulnerable households. Social security systems need to be tailored to what a country can afford within the boundaries of its social values and demographic patterns. International competitiveness may be eroded by excessive social protection. If the system is plagued by current deficits, future generations will be unduly taxed. The goals of reform measures are to (a) minimize allocative distortions and ensure macroeconomic stability by reducing fiscal imbalances, and (b) promote equity, both inter-generational and between income groups, particularly to ensure maximum protection against life-cycle risks and unemployment at minimum cost. Reform strategies could differ across countries depending upon the initial conditions and the extent of distortions,

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excess of five years.

as well as the differences in structural and cultural characteristics. A reformed system should be simple and easy to administer, especially in countries lacking institutional capacity. Considering that pensions account for a major proportion of social security expenditures and, as such, are an extremely important component of formal social security in many countries, the discussion of reform is confined to pensions.

2.16 *Switching to privately administered schemes.* Given fiscal contraction, reducing excessive dependence on public pensions and developing supplementary private insurance schemes is imperative in some countries. Currently, the extent of private sector provision of pensions varies greatly among regions. In Latin America, especially Chile, private insurance companies are becoming increasingly important. In the FSU and Eastern European countries, the private sector is only just beginning to emerge, financial securities markets are being developed, and an appropriate legal and institutional framework for the successful functioning of private insurance/pension schemes has yet to be established. In Sub-Saharan Africa and South Asia, private pension schemes exist only in South Africa, Zimbabwe, Sri Lanka and India, typically in association with contractual saving institutions such as life insurance firms. In Africa, private pensions are also offered by multinational companies, but the coverage is limited to the urban middle- and upper-income groups, engaged in formal sector employment.

2.17 Social insurance is financed by wage contributions of the insured, the employers and, in some countries, the government. In countries where the government became the principal contributor, as is the case in most countries of Latin America, the approach to reform is a gradual switch from the prevailing pay-as-you-go (PAYG) schemes to an earnings-related, privately administered, but publicly regulated, contribution system. The switch to such schemes can reduce the potentially damaging feature of the previous system: its weak link between contributions and benefits.[4] Under such schemes, workers can clearly see the link between their current contributions and future pension benefits; the administration of the scheme becomes transparent to all. Such a

[4] However, even under privately-managed schemes, two fundamental problems remain, namely adverse selection and moral hazard. Adverse selection arises when an insurance company cannot distinguish between high- and low-risk customers and charges everyone the same premium, based on average risk. As a result, low-risk individuals will face an inefficiently high premium and may choose not to insure even though, at an actuarial premium, it would be efficient for them to do so. This problem is pervasive, especially in the case of medical insurance for the elderly. Moral hazard arises when a customer can costlessly manipulate insured events and size of the losses. The latter is called a third-party problem, again prevalent in health care. If medical insurance pays all medical costs, the doctor knows that the company pays the bills, and behaves as if the cost to the patient is zero. This is inefficient as it causes overconsumption of medical facilities and puts upward pressure on insurance premia.

switch can also help foster financial markets and savings. Chile made a dramatic break with the past when it switched to such a system operated by the private sector. However, for such a system to function well requires a number of pre-conditions that may prove difficult to meet. These include a well-functioning financial system which yields adequate returns on investable reserves, and an assurance that reserves will be safeguarded. An important factor limiting this option of private pensions is the lack of adequate investment opportunities in the local capital markets. If local capital markets are expanded, private pensions can become an effective means for raising domestic contractual savings. Moreover, private pension schemes may require a complementary system aimed at addressing the needs of those retirees who have no work history or have had insufficient earnings.

2.18 *More gradual reforms.* In most countries, social security arrangements involve a heavy burden in terms of payroll taxes (from 30 to 60 percent of wages), and budget transfers. As such, financial balance is best restored by cutting expenditures, not by raising contribution rates (though it is important to control evasion of social security contributions). Thus, to reduce the budgetary cost, it would be necessary to discontinue costly and highly inequitable programs, such as seniority pensions whereby individuals can retire after a certain number of years (usually 20) regardless of age and increase the age of retirement for both men and women. "Soft" reforms (such as incentives to delay retirement in Uruguay or the elimination of early retirement in Panama) have not corrected the fundamental problems of financial imbalance, loose entitlements and a weak link between contributions and benefits. Many countries have extended the coverage to the rural populations to render the system more equitable.

2.19 *Two- or three-tiered systems.* Reforms of the pension system along the Chilean lines may be an unrealistic goal for many low-income developing countries, countries of Eastern Europe and the FSU. An intermediate approach might be a two- or three-tiered system, including a public scheme providing only the minimum subsistence pension, with limits on pensions to working pensioners;[5] a defined contribution pension (either government-run, or mandated, or entirely privately run); and a voluntary private pension as a supplement to the defined contribution pension. Such a voluntary pension scheme could be operated as a cooperative pension as well, either individual- or employer-owned. The basic advantage of such an approach is that the safety net/poverty alleviation objective can be realized by the minimum subsistence pension, while the objective of income-smoothing and insurance for old age can be achieved by the defined contribution pension. It reduces budgetary costs as it gradually shifts from reliance on the state to the

[5] There are many working pensioners in the FSU countries and Eastern Europe owing to extensive early retirement provisions.

individual. In such a system, the state would continue to play a central role in addressing the needs of the poor and the vulnerable groups.

2.20 The extent and speed with which a country can switch to a two- or three-tiered system and the coverage of employees (public or private sector) depend on the initial conditions. Moreover, the three tiers need not be adopted sequentially; the second or third tier may be initiated even if the first (public) tier is small or non-existent. For example, in countries where employees in the unorganized private sector currently do not contribute to any scheme, and therefore do not enjoy social security of any kind, introducing the first, basic tier of minimum state pension is desirable to serve redistributional goals, in addition to providing critical minimum social security. However, given fiscal constraints, such countries may not be able to afford the first tier of basic publicly-funded minimum pension for all the vulnerable groups for many years to come. The complete adoption of a two- or three-tiered system may have to be a long-term goal for many low-income countries. In countries where workers in both the private and public sectors currently contribute to PAYG schemes, and where private insurance markets are active (as in most Latin American countries), switching to two- or three-tiered schemes could be a medium-term goal.

2.21 The need for a quick switch to two- or three-tiered systems is obviously the greatest in countries where the fiscal burden is high and it is imperative to reduce dependence on public pensions, as in most of Eastern Europe and the FSU countries. Yet, the progress of reform is necessarily slow because of political and administrative limitations. This implies that the implementation of a two- or three-tiered system will remain a medium-term goal, although it will still be necessary to start putting in place the administrative and legal framework to support the switch to a multi-tiered system in the short term.

2.22 **Pre-conditions to Social Security Reform.** Even in countries with reasonably developed financial markets and good public administration, experience suggests that a couple of years of preparation are needed for comprehensive reform. Critical pre-requisites for reform of the system are a legal framework, administrative capacity and political feasibility.

2.23 *Legal framework.* To implement any reform, an estimate of the existing worker contributions has to be prepared for transfer to the new pension funds. A legal framework is necessary to manage, operate and regulate private pension schemes and securities and insurance markets. The state may be under pressure to provide explicit guarantees for the value of capitalized contributions transferred to the newly created privately-managed pension funds but, if possible, such pressure should be resisted given the contingent liability involved. In Eastern Europe and the FSU countries, the inadequacy or absence of an administrative and legal framework considerably slows down

the pace of reform, but this may not be a major bottleneck in many low-income countries or in Latin America.

2.24 *Administrative capacity*. The limits to reform are often set by the administrative capacity of countries. For example, in countries currently transforming from a command system to a market economy, earnings-related benefits may have to be operated in a narrow band, thus resembling a flat benefit. Alternatively, a flat-rate pension may be considered to reduce administrative complexity, even though it is not fair for those with long years of service. In some low-income countries, administrative capacity may not be a constraint (for example, India), to the extent that competent administrators are available to run complex schemes.

2.25 *Political feasibility*. The variation in the degree of reform attempted in Latin American countries and the reforms proposed in Eastern Europe and FSU countries can be explained not only by the practical difficulties mentioned above but also by the degree of political commitment to reform. Even simple reforms have encountered political resistance in many countries as reducing entitlements is always difficult. Most reforms, such as offering only a basic minimum pension, and facilitating private savings under government supervision, are unpopular with the middle class who anticipate a cut in their benefits. Popular pressures, which often translate into administrative and legal bottlenecks, make progress in pension reform slow, protracted and painful.

III. Protecting the Poor and the Vulnerable During Reforms

3.1 Economic reforms are aimed at promoting sustainable growth with low inflation and external viability. Sustained growth helps reduce poverty over time. Economic reform measures also benefit many poor groups immediately: for example, removing controls on agricultural prices often directly benefits rural small farmers. However, some reform measures adversely affect certain poor groups. When subsidies are curtailed, the buyers of previously subsidized goods--including the poor--sustain losses in real incomes. The closure of inefficient enterprises, as a result of cuts in subsidies or a reduction in protection following trade liberalization, may result in the loss of livelihood for many workers.

3.2 An appropriate mix and phasing of adjustment policies could help reduce adverse effects on the poor. For instance, strong revenue efforts or cuts in unproductive expenditures could allow gradual cuts in subsidies that directly benefit the poor. Tax increases on basic food items might, at least temporarily, be avoided. An increase in pro-poor social expenditure could also temper the adverse impact of adjustment. Nonetheless, there will be instances where the adverse impact would be too large to be absorbed through the policy mix and, as discussed above, existing formal (or informal) social

protection arrangements may be inadequate. In such cases, additional measures in the form of social safety nets to mitigate these effects should be considered.

3.3 Integrating social safety nets into economic reform programs could not only ease the transition for the poor, but also serve to enhance the social and political support for reform programs. For example, large increases in the prices of staple foods may not be practical without measures to cushion their adverse effects on poor groups. It may be difficult to retrench public sector workers without some form of assistance to those who are likely to lose their jobs. This will call for early preparation and schemes designed for quick implementation, so that the timing of such intervention is consistent with that of the macroeconomic adjustment program. However, care should be taken to ensure that the schemes are so designed that the poor graduate out of the safety net quickly, and begin to rely on mainstream economic activities.

3.4 Given resource constraints, however, there is a tension between protecting the poor and mitigating the policy-induced losses of other groups. These latter groups are often more crucial for strengthening political support for reforms; but compensating such groups could be at the expense of measures to help the poor.

A. The Range of Instruments

3.5 A range of social safety net instruments is available to developing countries. The appropriate choice in any particular country depends on the country situation, the mix of adjustment policies, including the speed and sequencing of measures, the composition of target groups, existing institutional arrangements, data availability, administrative capacity, the available financing and the policy preferences of the authorities. These factors are discussed in more detail in Section B below. Typically, balancing the policy mix of reforms could help to mitigate the impact of certain measures on the poor, as could an increased focus on pro-poor spending.

3.6 Nonetheless, social safety nets for mitigating major transitory adverse effects of economic reform measures on vulnerable groups are an important means of both addressing concerns for the poor and enhancing the political viability of economic reforms. Such measures could include:

3.7 *Targeted subsidies*. Reform policies frequently include a gradual phasing out of subsidies, as for example, on food, fertilizers and energy. In some cases, it has proven difficult to curtail subsidies rapidly during the initial period of reforms (FSU countries), while in others subsidies have been contained in relatively shorter periods (Algeria, Bulgaria, Jordan, and Poland). This approach allows consumers time to adjust, but is unavoidably generalized and could be more costly than more targeted approaches.

3.8 In some cases, generalized subsidies were replaced by specific subsidies (such as on specific varieties of staple foods that are normally consumed only by low-income households, as in low-grade maize in Zambia). Such measures, where available, could offer more cost-effective assistance, but should remain temporary given the dangers of overconsumption of the subsidized goods.

3.9 More targeted assistance requires the ability to identify recipients, administrative capacity (particularly at the local level) and a political willingness to target.[6] For countries in this position, a further possibility includes distributing vouchers and food stamps redeemed through private traders without distorting market prices (for example, Jordan). This approach obviates the need for two separate markets, helps ensure the minimum consumption of basic items, and is amenable to a more pointed geographical or categorical targeting to food-deficit regions, the elderly, children, and the unemployed. In-kind transfers of certain food items could also be effective when they use existing channels (such as milk through school feeding programs, preventive health care through clinics, and local women's groups). In many cases, however, the distribution cost tends to be high, and state provision can be very inefficient.

3.10 *Cash compensation.* An alternative form of targeted subsidy is to provide limited cash compensation at the time of subsidy removal, as in some FSU countries (such as Kyrgyzstan) and Eastern Europe. The advantages of cash compensation are that the recipient is free to choose priorities, the cost to the budget is known with greater certainty, and the administrative requirements may be less stringent. There is a danger, however, that the value of the benefit is eroded during periods of rapid inflation. Some low-income countries have provided targeted income supplements to poor households (for example, Mozambique), but these schemes have tended to have limited coverage and considerable administrative costs.

3.11 *Severance pay and retraining.* Where policy reforms give rise to unemployment, resulting from public sector retrenchment and public enterprise reforms, and formal unemployment compensation systems are not present, social safety nets could include cash benefits in the form of severance pay (for example, in low-income countries such as The Gambia, Ghana, and Sri Lanka). This could be combined with the retraining of redundant workers (as in the FSU and Eastern European countries). Such retraining is both good social policy and an investment in human capital. While it may not immediately create jobs, it can alleviate skill shortages in growth areas with an indirect

[6] Switching from generalized to targeted subsidies can reduce budgetary costs by more than half, though this could be partly offset by an increase in administrative costs; the administrative costs of targeted transfers have been estimated at between 5 and 30 percent of the subsidies involved.

effect on employment. Another option is the extension of credit to enable the retrenched to find alternative employment opportunities or to start small-scale enterprises, though the latter can lead to abuses.

3.12 *Public works*. When the reform process entails major short-term unemployment, social safety nets could include labor-intensive public works to create job opportunities for the poor (as in Chile, Bolivia, India, and Mozambique). These have often used small-scale contractors as intermediaries (for example, Bolivia and Honduras). However, whether introduced as a general poverty alleviation strategy or as transitory safety nets, public works are effective in targeting benefits to the poor or retrenched worker only if low wages are offered, and employment is only provided for a short time (as in Chile). The payment for work can also be made, wholly or partially, in-kind through, for example, food-for-work programs (Bangladesh and India). Efficiently run public works could strengthen existing infrastructure, improving the supply response from the economy. The Chilean public works program at its peak provided temporary benefits to more than 10 percent of the labor force and cost the equivalent of some 1.4 percent of GDP.

3.13 *Adapted social security arrangements*. Where policy reforms involve adaptation of social security arrangements to help meet macroeconomic objectives and attain fiscal stability, these modifications could be in ways that best shield the vulnerable during the transition period (for example, FSU countries). As noted earlier, in the short term and given the macroeconomic constraints, a restructuring of the eligibility, benefits, and duration of benefits means that for both the unemployed and pensioners, the average benefits would have to be modest--not very far from the minimum. The restructuring would aim at bringing about fiscal stability, as well as ensuring protection to those who need it most: low-income workers, pensioners, and workers who are unemployed or to be unemployed. A flat-rate benefit structure for unemployment compensation (such as in Poland) and for pensions (such as for nonworking pensioners in Latvia), despite its actuarial unfairness, would appear a reasonable option during the transition.

3.14 *Increasing the level of pro-poor/social expenditures*. Where the impact of reforms on the poor is more diffused and difficult to measure, an effective social protection may be through increasing pro-poor public spending. This approach can help to mitigate some of the adverse effects during the reform period, particularly in cases where reform has progressed beyond the early, major price realignment phase. It builds on existing institutional/ budgetary setups and is suited particularly to the low-income countries facing technical constraints in adopting the targeted compensation approach or with limited administrative capacities. In these cases, reform programs could aim at changing the composition of expenditure, shifting toward primary health and education, and improving access of the vulnerable, including women, to these services (for example,

Ethiopia, Ghana, and Malawi). And such core expenditures should be protected during fiscal adjustments.

B. Factors Influencing the Choice and Scope of Social Safety Net Instruments

3.15 The choice and scope of instruments depend primarily on **country circumstances**. These tend to vary greatly, particularly in terms of demography (for example, the proportion of the elderly or young children), the extent of the economic crisis to which the reforms are responding, and the extent to which formal social security arrangements protect the poor and the vulnerable.

3.16 In *low-income countries*, where absolute poverty is widespread, it is difficult to limit target groups. Data and administrative difficulties are aggravated by the existence of many of the poor in the informal sector. Financing constraints are particularly acute, although foreign grants may play a significant role. In these countries, there is a particular dilemma between targeting social programs to the poor in general and those adversely affected by economic reform. In those countries where the initial reform phase of major price adjustments has passed, the emphasis now tends to be on public sector reform. In the absence of formal social security arrangements, this suggests that social safety net measures should focus on severance pay, retraining, public works, and other ad hoc measures building on existing institutional structures. There are many other low-income countries, however, where major pricing reforms are still to come. In these countries, there may be a need for well-targeted measures to mitigate the initial effects of real income losses arising from price increases.

3.17 Countries of the *Middle East* and *North Africa* face two problems related to social security and protection of the poor. First, many countries, but especially Algeria and Egypt, have unusually large public sectors. Modernization and privatization can be expected to lead to lay-offs at a time when these economies are already experiencing high rates of unemployment. Thus, compensation and retraining programs will be required. Second, there is a need to reduce general food subsidies in response to fiscal concerns. This implies the need to devise more targeted schemes depending on specific country circumstances.

3.18 In countries of the *former Soviet Union*, and some countries of *Eastern Europe*, major price adjustments are still taking place, and the role of the public sector is being reduced in favor of the private sector. While absolute poverty may not be as widespread as in low-income countries, both changes in relative prices and increases in unemployment will continue to be major sources of adverse social effects. While many FSU countries now have relatively low officially registered unemployment, enterprise reforms are likely to increase unemployment substantially. The existing social protection arrangements are costly and inefficient. This suggests that protection for the poor in these

countries can best be provided by reforming existing social security systems to make them more cost-effective and better targeted, while mitigating the adverse effects on vulnerable groups through well-targeted assistance for major price increases of essential foodstuffs or energy. These measures should include support for pensioners and the unemployed, retraining and public works.

3.19 Middle-income developing countries, such as those in *Latin America*, have mostly passed the reform phase of price adjustments, but still face major macroeconomic adjustment problems, in part arising from the existing social security arrangements. While formal social security arrangements exist, they often do not function properly, with limited coverage and high administrative costs. This suggests that the focus should be on enhancing the functioning and coverage of existing social protection arrangements and making them more cost-effective. This should include support for the unemployed and improved training.

3.20 The choice of instruments is a function of a number of factors:

3.21 *The mix of reform measures.* Upfront price liberalization, particularly of food (as in countries under transition), would initially require measures to mitigate the resulting real income losses, such as targeted subsidies or cash compensation. Retrenchment of public sector workers in response to subsidy cuts or trade liberalization (as in Africa) might require measures to deal with joblessness, such as unemployment benefits, severance pay, retraining, or public works. In countries where reform programs have progressed, the focus of social safety net measures has moved from the former to the latter area.

3.22 *Composition of target groups.* A large elderly population requires pensions whereas a high proportion of young children requires other types of measures, such as child allowances or school lunch programs. Targeted in-kind transfers, such as the provision of health care for the elderly or of milk for children, could be useful. High unemployment suggests the need for targeted employment programs.

3.23 *Existing institutional arrangements.* Instruments should build on, and complement, existing arrangements, both formal (see Section II above) and informal. Extended families help their members during economic crises, community-based mechanisms allow members to pool risks, and non-governmental organizations target their help to the vulnerable.

3.24 *Data availability.* Targeting of safety nets requires timely identification of adversely affected groups and their members. Experience has shown that it is often difficult to identify the poor because of the lack of household survey data in some countries. Income- or asset-based means-testing may be difficult when such data are

unavailable or unreliable. In such circumstances, it may be possible to design programs targeted to certain regions or categories of the population (for example, drought-stricken areas, the elderly, and children) or targeted to the poor through some degree of self-selection, such as public works on projects with wages sufficiently below market levels.

3.25 *Administrative capacity*. Where central or local governments are weak, local communities and non-governmental organizations can be reliable intermediaries but they may need governmental support; and good coordination with the central government is essential. Local governments generally have more facility to target and have a better understanding of the poverty situation in their geographical areas, particularly in large countries.

3.26 *Financing*. The availability of financing is an obvious constraint which may affect the choice of instrument or the extent of coverage. This constraint can be eased by cutting unproductive expenditures or raising revenue. In some low-income countries, foreign financing could play some role, at least temporarily, in financing social safety net expenditures.

3.27 *Policy preferences*. Policy preferences may vary between authorities but generally include a desire to protect certain urban groups from relative increases in agricultural prices and to provide compensation for retrenched workers. Various authorities have been reluctant to target assistance solely to the poor.

3.28 In **conclusion**, the need for social safety net measures depends on country circumstances and the mix and phasing of reform measures. While it is both possible and necessary to try to tailor reforms to reduce the adverse impact on the poor, the reform program should be aimed at achieving efficient macroeconomic and structural adjustment with the possible adverse impact of certain measures on the poor mitigated by social safety net measures. The greater targeting of subsidies to poor groups will increase the number of the poor helped by a given budgetary outlay. However, many countries lack the necessary data or (local) administrative capacity, or political willingness for such targeting and, where feasible, it may be costly. Possible alternatives are targeting benefits to certain geographical regions and/or to certain population groups (such as the elderly, children, and the unemployed). Public works programs paying low wages may provide a cost-effective, if more limited, alternative with administrative costs reduced through self-selection. In general, more lasting social protection can result from an increase in pro-poor public spending, such as primary health, education, and nutritional programs, and improving the access of the vulnerable to these services.

IV. The Role of Governments, Donor Agencies, the Bank and the Fund

4.1 **Perspectives for Governments.** Reforming social security systems and establishing social safety nets are inherently complex. They involve political choices which threaten vested interests, as well as difficult technical issues. These decisions will likely involve some trade-off between protecting the poor and vulnerable groups and compensating the other more politically influential groups for policy-induced losses. Furthermore, the imperative for such reforms is typically heightened by macroeconomic difficulty, so that inevitably they tend to be conceived under tight financial constraints. Yet, equally, delay in tackling these problems is only likely to exacerbate the underlying imbalances.

4.2 Feasible approaches to reform of social security systems and safety nets will vary between countries depending upon the range of factors noted earlier, including socioeconomic conditions and the nature and size of the problems and distortions. Key elements in successful reforms and the introduction of social safety nets include:

- building political consensus on the need for reform given the difficult decisions involved;
- improving administration and the data base over time, to permit fine-tuning as reforms proceed;
- for social safety nets, ensuring that certain transitory measures do not become permanent;
- securing financing for social safety nets normally from domestic resources through increasing revenue or cutting other spending, including unproductive expenditure;
- for FSU, Eastern European and Latin American countries where adapting social security systems is crucial, early measures to reduce the level of entitlements and extend coverage to poor groups; and,
- improving the regulation of financial markets and private pension providers.

4.3 **The Role of Donor Agencies.** The role of bilateral donor agencies may be critical in the development and financing of social safety nets in poorer countries. There is a role for technical assistance in reforming social security systems in many countries; donor participation towards this end is on the rise in Eastern Europe and the FSU countries. Bilateral grants from some countries are already playing a role in the preparation of projects involving reform of social insurance systems in Eastern Europe. Coordination of donor activity is essential to avoid duplication of effort, especially in such areas as food aid. The implications of food aid to finance safety nets need to be fully analyzed, as some countries are relying almost exclusively on such aid to establish safety nets during transition. In such circumstances, if food aid is withdrawn suddenly, the entire social assistance program in the recipient country can be thrown out of gear. The

implications of food aid for local agriculture should also be taken into account. Monetization of food aid through the budget is critical if resources are to be generated for financing safety nets. For these reasons, careful donor assessment of the effect of in-kind assistance on recipient countries is critical.

4.4 **The Role of the Bank.** Given the Bank's overarching goal of poverty reduction and broad-based human resource development, its role is to establish a policy dialogue with member countries on rendering the existing permanent social security arrangements more equitable, relevant to the poor, cost-effective and efficient, and to support reforms through appropriate lending. In addition, the Bank continues to provide technical assistance to strengthen administrative capacity by training the staff in relevant institutions. For example, a recent Bank loan to Hungary will improve the institutional capacity of the social insurance system to manage its financial resources more effectively and strengthen the policy-making and evaluation capabilities of Hungarian policymakers and managers.

4.5 The Bank has also supported a relatively small but growing number of transitory safety net interventions (either as free-standing operations or as components of projects) for the vulnerable groups. The most common safety nets have been labor-intensive public works (for example, Mali, Honduras, Senegal), nutrition programs (Bolivia), targeted food subsidies, or converting open-ended, untargeted schemes into targeted ones (Tunisia) and retraining of workers retrenched as a result of adjustment programs (as for example, the National Renewal Fund in India and programs in FSU countries and Sub-Saharan Africa). Social funds are an increasingly common instrument through which the Bank has supported safety net interventions to protect specific vulnerable groups from the short-term adverse impact of adjustment programs (Honduras, Bolivia). In the context of its programs, the Bank will give greater attention to cost-effective social safety nets.

4.6 In collaboration with the IMF, the Bank will continue dialogue with member countries on cost-effective approaches for converting generalized subsidies into targeted safety nets for the poor and the vulnerable, using various channels and opportunities including the Policy Framework Paper process.

4.7 The Bank will, in its economic and sector work, deepen understanding of the links of safety net interventions with human resource development strategies and broad-based poverty reduction strategies. Such an analysis should ideally precede safety net projects, including social fund projects, although the need for a quick response often makes this difficult. Studying the potential impact of safety net interventions **before** they are implemented will indicate their possible interface with other programs to reduce poverty, thereby enabling governments to identify and exploit the synergies between safety net projects and other poverty reduction strategies, and reduce the duplication of effort.

4.8 The Bank is currently synthesizing the analytical and empirical aspects of reforming social insurance systems.[7] The Bank will also document the lessons learned from evaluation of ongoing and completed programs and projects on social safety nets. Once these lessons have been consolidated, the challenge for the Bank will be to use the lessons of past experience to strengthen the links between safety nets and the design of country policies, and to help shape the policy dialogue with member countries on an overall program of assistance.

4.9 Over the past fifteen years, the Bank has done much to help countries collect household-level data to form the basis for its work on poverty. Living Standards Measurement Surveys have been conducted in many countries in Africa, Asia and Latin America. In collaboration with the UNDP, the Bank supported the Social Dimensions of Adjustment initiative in Sub-Saharan Africa which has vastly increased the amount of household-level information available for poverty analysis, as well as improved the data-collection capacity in the countries.

4.10 To facilitate work in the reform of social security arrangements and in the establishment of social safety nets, the Bank, in collaboration with bilateral donors and multilateral agencies including the International Labour Office, will continue to help borrowers enhance their capacity to analyze and monitor emerging developments through household income/expenditure surveys and social indicators (for example, the Russian Statistical Bureau, **Goskomstat**, has just carried out such a household survey for Russia with Bank-financed assistance in design, implementation and analysis; a similar survey is about to begin in Kyrgyzstan).

4.11 **The Role of the Fund.** Given its principal mandate, the Fund intends, in its policy advice and financial assistance to member countries, to continue to focus on promoting sound macroeconomic policies aimed at sustained growth, price stability, and balance of payments viability. Ill-designed social security arrangements are a major source of fiscal imbalance, while economic reforms give rise to the need for social safety nets. In both areas, the Fund's main focus will continue to be on advising member governments on assessing the macroeconomic and budgetary implications of the various options developed in collaboration with the Bank. In particular, in the context of Fund programs, especially those supported under the Enhanced Structural Adjustment Facility (ESAF), greater attention will be given to appropriately designed social safety nets.

4.12 Fund staff will continue to advise member governments on the fiscal implications of the reform of social security arrangements, particularly in the context of

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[7] A Policy Research Study on *Old-Age Security* will be completed by the Policy Research Department in FY94.

Fund-supported economic reform programs. The Fund's limited technical assistance program will continue to play a role, in close cooperation with the World Bank and other institutions, in helping countries to design efficient and cost-effective social security reforms.

4.13 Fund staff will continue to assist country authorities to devise policy mixes that minimize the adverse effects on the poor/vulnerable, while still maintaining the Fund's focus on the restoration and maintenance of macroeconomic balance to foster sustainable growth. Working closely with the Bank and other institutions, the staff will continue its efforts to assist the authorities in assessing the adverse effects of the reforms that still remain for the poor, with the objective of integrating social safety nets into programs. Particular attention will be given to domestic financing for social safety nets, from increased revenue collections, enhanced efficiency of public expenditures, and reductions in unproductive expenditures, and to increasing the level and improving the mix of essential social expenditures, as well as the access of the poor to essential public services. Resources permitting, technical assistance on social safety nets will be continued, where Fund expertise provides a useful complement to the work performed by the Bank and other institutions. The practice of disseminating the experience gained in this area to member country officials will be maintained.

PROGRESS REPORT ON THE WORLD BANK'S ACTIVITIES ON WOMEN IN DEVELOPMENT

1. This is a report on the progress made by the Bank, in collaboration with borrowers and other external donors, in implementing the operational strategy on Women in Development (WID). The Development Committee endorsed the initiative in 1990 to ensure that women's needs are appropriately integrated into development policies and programs. A progress report was prepared in 1991 to highlight achievements in FY90-91.

2. This paper reports on the progress in FY92-93. During this period, there has been a shift in the conceptual framework in some parts of the Bank. The Women in Development approach, which looks at women's issues in isolation, has evolved to a Gender and Development approach which addresses women's issues in social relation to those of men. The first part of the paper will highlight the progress made since 1991 in Bank operational work, staff training and disseminating activities, and the institutional arrangements in the Bank. The second part will outline the regional action plans and pending issues.

HIGHLIGHTS OF PROGRESS SINCE 1991

Advancing the Analysis of Gender Issues in Development

3. **Economic and Sector Work (ESW).** Since the last progress report, the Bank has continued to make progress in integrating WID issues into its work. A bankwide review of economic and sector reports in FY92 showed that 46 percent of all reports contained WID-related analytical work, which is about the same level as in FY91 (48 percent). This analysis has been carried out more in the social sectors than in other sectors. However, WID issues are increasingly being addressed in areas such as agriculture, labor markets, credit, rural services, natural resource management, water supply, transport, urban infrastructure and energy.

4. WID country assessments deserve special mention among the economic and sector reports as they are comprehensive and draw heavily on work done by local researchers and analysts. They provide the basis for the dialogue that the Bank and other donors have with governments and for the design of action programs to assist countries in enhancing women's opportunities in both the social and the productive sectors. The first series of WID assessments covered 31 countries, including 19 in the Africa Region. Four were published (Kenya, Bangladesh, India and Pakistan). During FY92-93, the report on women in Turkey has been published, and about 10 more reports are either in the process of being prepared or being discussed with the respective governments.[1/] The Women's Country Assessment for Honduras was discussed at a public meeting held in the Honduran Congress. All the recommendations were supported by the audience, which consisted of legislators and officials both of the government and of nongovernmental organizations.

[1/] *The 10 WID country reports are: Central African Republic, Guinea-Bissau, Nigeria, Mali, Mauritania, Senegal, Zambia, Russia, Honduras and Venezuela.*

Follow-up activities are being coordinated by the Congressional Committee on Women's Affairs.

5. Gender issues are usually addressed in country economic reports in broad terms. In cases where data exist, these reports present social indicators by gender, thus revealing the disparities that exist between males and females in such areas as literacy, school enrollment levels and wage rates. The recently published country economic report for Uganda addresses gender issues explicitly in the country strategy for growth and poverty alleviation. The Regions have also increasingly addressed gender issues in poverty assessments, particularly in countries where the number of female-headed households are disproportionally high, such as those in Sub-Saharan Africa, and where there are significant discrepancies in social indicators between males and females.

6. **Special Studies.** In addition to ESW, the Bank has conducted a number of special studies, both formal and informal, that focus on particular issues. For example:

- In the Latin America and the Caribbean Region (LAC), studies have been done on Women's Employment and Pay in Latin America, and Women's Earnings and Participation in the Labor Force. These have been useful sources of information for those engaged in both policy and operations in the area of human resources development.

- In the Africa Region, the legal status of women is being studied. This study consists of a conceptual phase, during which links between law, gender, and economic development will be examined, and an operational phase, which will recommend country-specific law reform. Work has also begun on examining the links between gender and the environment in Africa such as the role of women in natural resource management.

- In the Asia Region, a technical study on enterprise development and financial services for women gathers information on lessons learned from a decade of Bank experience and suggests ways in which future assistance may be most usefully provided in this area.

- In the Europe and Central Asia Region (ECA), a study of women in Russia identifies the critical issues for women in transition economies; these issues are now being studied in further detail in a number of countries (see Box 1).

- In the Middle East and North Africa Region (MENA), work has begun on a regional study of rural women in the Maghreb countries.

- A review of the Bank's ESW and lending experience for women in ECA and MENA highlights the constraints faced by women in these two regions and

suggests lessons learned from past projects that could be applied to future projects.

7. **Policy and Research Work.** These were mainly produced by the Bank's central WID thematic group in the Human Resources Development and Operations Policy Vice Presidency (HRO) and include papers on examples of best practice in the areas of education, agriculture, forestry and safe motherhood. These papers have documented the economic and social benefits that result from addressing gender issues in these sectors, and suggest promising approaches that might be useful to operational staff in their policy dialogues and in the design of their projects.

Box 1: Profiles of Women in Europe and Central Asia

The transition that Eastern European countries are currently making from command economies to market economies has led to a new area of focus for the Bank. The issues faced by women in these countries tend, with a few exceptions, to be different from those facing women in developing countries in other parts of the world. In the Eastern Europe and Central Asia (ECA) region in the past, women had equal access to education and health services. They participated fully in the labor force and were provided with child care and kindergarten facilities. The economic transition is having a negative effect on these traditional services. For example, as unemployment grows, women tend to make up 70-80 percent of the total unemployed and tend to stay unemployed for longer periods of time than men. This is due to the fact that despite being highly educated, women have high rates of participation in the lowest paid sectors of the economy. As a result they tend to be the first to be laid off. This is particularly true of the Central Asian countries where women unemployment reaches 89 percent of the total pool of the unemployed. In addition, access to training in Central Asia is also made easier for men than for women.

Another issue is women's declining health as health services are finding it increasingly difficult to survive the transition period. Maternal and infant mortality rates have risen during the last 5 years in the ECA, particularly in the Central Asian countries, and especially in rural areas. While fertility rates are declining in Russia, they continue to be high in Central Asian countries, producing a natural rate of increase of the population of 2.2 percent annually. Other deteriorating health conditions include high rates of abortion, absence of family planning (particularly in Central Asian countries), large percentage of anemic pregnant women, problems of sanitation and poor water conditions, iodine and iron deficiencies, and high incidence of cardiovascular, respiratory, and non-communicable diseases.

The increasing poverty of women is another important aspect of gender issues in the ECA region. Women are found in disproportionate numbers among the poor households, such as single mother households, households with many children, student households, unemployed women, and women pensioners. This is being exacerbated since women are facing an erosion of family allowances and other benefits under market reforms. In addition, services formerly provided by enterprises are shrinking because enterprises are not able to sustain traditional extensive social programs. This feminization of poverty is of a particular concern in Central Asian countries with multi-children households, and significant portions of the female population living in rural regions where the incidence of poverty is higher.

Addressing these issues in Eastern Europe and Central Asia will require a different approach than has been used in other developing countries where the priority issues are women's limited education and access to agriculture services. The region is in the process of developing its lending portfolio and is conducting ESW to help define the priority issues faced by women and possible solutions.

Source: B. Dabrowska, A. Wheeler and Maria Gracheva: Memorandum on Women in Development in EC1, EC2, and EC3.

Integrating Gender Into Lending Operations

8. The annual reviews of the Staff Appraisal Reports (SARs) for Bank operations that were approved in FY92 and FY93[2/] show that the overall proportion of projects containing specific activities designed to help women has increased. In FY91 and FY92, around 40 percent of projects targeted women as beneficiaries; in FY93 that figure rose to 45 percent. In FY93, an important goal was reached, in that now all sectors in which the Bank is engaged in lending include some projects that have WID components. In some sectors, this has reached impressive proportions. For example, in the social sectors (population, health and nutrition, and social funds) and in human resource development (training and employment), virtually all projects address women's needs and roles. In agriculture, almost two out of every three projects approved in FY93 contain WID components. In the education sector, two out of every three projects contain specific measures to improve female enrollment and retention in primary and secondary schools as well as in nonformal and vocational education. Beyond these sectors that have traditionally paid more attention to the specific needs of women, it is interesting to note the efforts to address gender issues in areas such as employment, environment, infrastructure and institutional development. (See annex for examples of projects.)

9. Of all the regions, Africa has traditionally had the largest proportion of projects with WID components. In FY92, almost half of the projects in Africa contained WID components and, in FY93 the figure was almost two-thirds. These projects mainly focus on agriculture and human resources, but there are also a growing number of projects with WID components in environment and rural financial services. The Asia Region has consistently addressed gender issues in between 30 and 40 percent of its lending operations for the past four years, mostly in agriculture, water supply and sanitation, education, population, health and nutrition and microenterprises. The Europe and Central Asia Region had fewer than a quarter of its projects with specific actions targeting women in FY92, but this increased to one-third in FY93. This was achieved despite the fact that the Region is still in the process of developing its lending strategy and building up sectoral knowledge via intensive ESW. The LAC Region has included gender issues in approximately one-fourth of its projects until FY93 when this increased to 40 percent, these projects being in human development resources, agriculture, environment, and water supply and sanitation. In MENA, about one third of the projects in the lending portfolio included WID-specific actions, mostly in the agriculture and social sectors.

[2/] *The review of SARs for FY93 covered only the first half of the year.*

Lessons Learned

10. Over the past two years, the Bank has continued to make progress in addressing gender issues in its analytical work and lending operations. A number of lessons were also learned from the preparation of the best practice papers on education, agriculture, safe motherhood, enterprise development and financial services. For example, to increase female participation in primary and secondary education, it is necessary to address all of the various constraints to increasing girl's access to schooling. Thus, projects need to include measures such as scholarships or subsidies for school uniforms to reduce the cost of sending girls to school. Effective approaches have also included providing an appropriate environment by making separate hygiene facilities available for boys and for girls, by employing more female teachers and by shifting resources from large centralized schools to small community-based schools so that problems of distance and time can be solved.

11. In agriculture, it was found that targeting special services to women does not guarantee success. It is more effective to ensure that women's programs become part of the mainstream extension services, and that women farmers are encouraged to participate in the design of these services. Projects also need to be tailored to specific country or regional circumstances so that women's roles and needs can be properly taken into account. Some of the measures that could be adapted in specific situations are: i) to increase the relative importance assigned to crops that tend to be grown by women; ii) to appoint female subject matter specialists and to use women as contact farmers; iii) to identify a time and place at which women congregate and to use these gatherings to pass on relevant information; and iv) to improve access to residential training for women farmers by providing child care or separate boarding facilities for women.

12. Lessons learned from those Bank operations designed to improve women's reproductive health confirm the need to ensure that women have access to good, community-based health care. This should be backed up by an efficient referral system in the event of birth complications. Safe motherhood involves a whole range of health services from pregnancy monitoring, referral and prompt treatment to deal with complications as they develop, whether expected or not. Successful contraception programs tend to be linked to other health services, such as post-partum, mother-child check-ups, which is when women are particularly receptive to advice on family planning.

13. The review of a decade of lending for enterprise development and financial services to women in Asia suggests that successful projects share three characteristics: i) enterprise training services that take women's needs and constraints into account; ii) female staff members to promote and implement project services; and iii) the involvement of NGOs that have well-developed community-level networks and experience of working with women clients. A project may be successful in reaching women clients but fail to

become institutionally and financially sustainable if it has a welfare rather than a business orientation. There are different stages of enterprises which are defined by the entrepreneur's access to credit. In order to design projects with appropriate mechanisms for the delivery of assistance, it is necessary to decide which combination of services are most effective in a given setting. For example, subsistence enterprises which consist of seasonal, part-time diversified economic activities and are typically operated by women in risk-averse low-income households would require a targeted approach. Established enterprises which tend to benefit from financial systems which require clear legal title to physical collateral to back a loan may need institutional solutions such as group lending or collateral substitutes.

14. Experience shows that many elements go into producing a successful project. These elements must generally be included in the design of the project if it is to be implemented successfully. The most important element would be a commitment on the part of the borrowers and implementing agency to pursue gender issues and to provide the necessary for implementing that commitment. Second, it is crucial to use female workers whenever possible, both in the government and in the project team, to provide a focus for gender issues. Third, in targeting beneficiary populations, it helps to have a good body of gender analysis or of baseline data. All of these elements were evident in the Bolivian Social Investment Fund, a project that has successfully implemented WID components (Box 2).

15. Cooperation between the Bank and bilateral donors, multilateral donors, and NGOs has been extensive. This cooperation has worked at two levels. The WID initiative within the Bank has been enriched with bilateral support. Most major WID assessments have been undertaken with joint support from the Bank and trust funds from Norway and Netherlands. Africa and Asia gender teams benefit significantly from support from Norway. The local staff for WID in Indonesia and one of the local WID positions in India have also been financed from bilateral resources. Also, the background work for the policy framework has been jointly financed by bilateral donors and the Bank. Conversely, bilateral donors have found that, by pooling financial and human resources with the Bank, they can have a greater impact in this area. The Bank has also increasingly devoted resources to address gender issues and mainstream them in Bank operations such as the case of the regional WID fund in ECA and MENA.

Box 2: Bolivia – Social Investment Fund Project

The Social Investment Fund (SIF) Project in Bolivia is an example of a project that has included effective mechanisms for integrating women's issues in project design. Certain key elements were evident during the design and preparation of the project that made it easier to implement the project later:

- The SIF was able to build on the experience of its predecessor, the Bolivia Emergency Social Fund, in design services and investments for women such as day-care centers and health and literacy programs for low-income women.
- The government was committed to the project from the start and had agreed to include its expenditures on important health and education services for the very poor in its public sector investment program.
- The objectives of the project and subprojects were clearly articulated and the scope of the activities and interventions affecting women was specified.
- The project used a database of community information to identify needy communities. Targeting mechanisms to identify vulnerable populations – which tended to include a disproportionate number of mothers and children – were used.
- Women's groups and community organizations were involved early in the process of designing the project which helped to identify needs for subprojects providing day-care, health, nutrition and practical training.
- Local NGOs were used, particularly in areas of weak institutional capacity, which were usually the poorest regions. NGOs operating in these areas were given institutional support to formulate and execute projects.
- In additional to being targeted as beneficiaries, women were involved in delivering health, nutrition and day-care services, and some women even helped to construct facilities.

Source: Sayeeda Chaudhry, "WID Update for IDA Technical Note." June 23, 1993.

16. In addition, the cooperation of NGOs and local support groups have contributed to the success of many programs. NGOs know which are the areas of critical need within countries because of their involvement at the community level. They can provide valuable assistance in supervising and monitoring projects. Collaboration with multilateral donors is less common. However, in those cases where collaboration has been appropriate (such as the cooperation between the Bank and United Nations Development Fund for Women (UNIFEM) (Box 3), the experience has been rewarding for both sides.

Staff Training and Dissemination Activities

17. While it is important for the Bank to continue to demonstrate its institutional commitment to WID concerns, many practical steps must also be taken to translate this principle into action. Staff are generally aware of the importance and value of integrating

gender issues in Bank operations, but lack practical knowledge of applying them in traditional Bank operations. Therefore, increased training resources and systematic training programs are needed to overcome this problem.

Box 3: India National Sericulture Project

The National Sericulture Project is a good example of the collaboration of the Bank with outside agencies. In India, sixty percent of the sericulture and reeling sector workforce are women. The United Nations Development Fund for Women (UNIFEM) had supported a small sericulture project in one district in India. Through years of working with women, UNIFEM had developed an innovative project that combined income-generation with environmental regeneration and health, population and education activities. Discussions between UNIFEM and the Bank were initiated when the Bank was requested to help finance a national sericulture project.

UNIFEM staff were able to provide the Bank with information and expertise derived by using its localized experience as a basis for learning how to promote women's involvement in sericulture. The Bank was able to draw on this expertise to design a project which included multiple methods for including women both as sponsors and beneficiaries of the project and to train its project staff.

Source: Anderson, Mary. 1993. *Focusing on Women: UNIFEM's Experience in Mainstreaming*. New York: United Nations Development Fund for Women.

18. Some regions have developed their own training programs to ensure that their staff use a common approach to taking gender issues into consideration. Building on the experience of other development agencies, the Africa Region has developed training materials for operational staff in the strategic sectors of health, education, agriculture and industry/energy. In addition, all WID staff in the region have been trained in assisting project designers in distinguishing between the two type of gender needs of importance to women: i) practical gender needs, formulated from the concrete conditions women experience and largely aimed at addressing inadequacies in living conditions such as the need for water; and ii) strategic gender needs, derived from the socially-structured subordination of women to men, and aimed at addressing systemic social biases in the gender division of labor, discrimination, legal status and rights, political equality, etc. The Asia Gender and Poverty (GAP) team, in collaboration with the UNDP/World Bank Water and Sanitation Program, designed and ran a two-day workshop called Participatory Design of Demand-responsive Water and Sanitation Projects: Focus on Gender. The training approach that has been designed for the Bank's Operational staff in the Asia Region has been published in a facilitator's manual. Using the manual as a guide, this approach will be adapted for use by project implementors in the borrowing countries in the region. The GAP team has also held a number of informal seminars on issues of finance and microenterprise development. These have proven to be very effective and, in the future, the team plans to concentrate on this kind of small-scale presentation.

19. The WID thematic group in HRO has also run three bankwide workshops on female education, credit and entrepreneurship, and AIDS. The female education workshop discussed the constraints to girls' education, the benefits derived from increasing girls' schooling, and promising ways to overcome the obstacles in sending girls to school. The credit and entrepreneurship workshop, conducted in collaboration with the Asia GAP Team, examined case studies where constraints on women's access to credit and other services for small enterprise development had been overcome successfully, and discussed effective approaches to assisting women entrepreneurs within the context of Bank operations. The workshop on AIDS discussed the epidemiology of AIDS among women, and policies and programs targeted to women aimed at preventing AIDS.

20. The Economic Development Institute (EDI), in conjunction with the United Nation's Development Program (UNDP) and the Food and Agriculture Organization (FAO), has developed a "Collaborative Socioeconomic and Gender Analysis Training Program". This program trains the staff and officials of national governments, NGOs and multilateral and bilateral aid agencies in the design and dissemination of gender analysis and planning mechanisms. EDI is also running two major Women's Enterprise Management Training Outreach Programs (WEMTOP) in Africa and in Asia for training instructors and women entrepreneurs. These courses focus on business management skills.

21. WID-related information is disseminated by various organizational units throughout the Bank. HRO produced a newsletter called WID Link to inform staff about innovative operations addressing gender issues. News in the regions tends to be passed on at periodic meetings and seminars where practical knowledge is exchanged, thus increasing general awareness of WID issues. The WID team in the Africa Region produces information sheets on gender analysis. It also prepares periodic technical notes on the progress of gender-related work in the region and fact sheets on the individual countries in the region. The ECA and MENA Regions also produced newsletters in FY92 to pass on lessons learned from various operations. An informal bankwide group called Gender and Poverty also meets periodically to exchange information on WID-related issues from inside and outside the Bank.

Institutional Arrangements

22. In 1993, the Bank created a Vice Presidency for Human Resources Development and Operations Policy to provide leadership to all aspects of the Bank's work on human development, including women in development. Women in Development is now a thematic group within the Education and Social Policy (ESP) Department, and is headed by a Manager. The "flat" structure of the Department (i.e., no formal divisions) is designed to facilitate the collaboration of staff working on different, cross-cutting issues, and thus, to strengthen the relation between gender analysis and policy and Bank policy

analysis of poverty, labor markets, social safety nets, and education. Staff in the thematic groups within ESP are assigned primary responsibilities for their own area, but they also have some secondary responsibilities for issues in other areas in ESP.

23. The WID group in HRO is the institutional focal point for gender issues. Its responsibilities include, *inter alia*: i) providing intellectual leadership and conducting analytical studies on gender issues; ii) designing guidelines for Bank policy on the integration of gender issues into Bank country assistance strategies and operations; iii) providing staff training and disseminating examples of best practice; iv) liaising with the regions and providing support for their strategies and work programs; and v) monitoring and evaluating the Bank's progress in integrating gender into its operations.

24. Each region has WID coordinators as the focal points for the departments or the region. However, how each region deals with WID issues depends on the strategy and the focus of each region. For example, both the African and Asian Regions have proactive units that both provide support for and review the functions of WID initiatives, while also conducting their own regional studies. In LAC, the WID initiative has been incorporated into various operations, and the departmental coordinator acts as a focal point for all gender-related information. In ECA and MENA, while WID coordinators are the focal points, task forces have been set up to explore particular issues in depth and the overall WID strategy.

25. Country departments are responsible for implementing and monitoring the WID initiative. Quality control is exercised through the reviews of economic and sector work, project preparation and appraisal documents, and supervision reports. The WID group in HRO provides quality enhancement through operational support, peer reviews, and dissemination of best practices to regional staff. The WID group in HRO has been monitoring WID activities in the Bank at the ESW and project levels. This activity will now be combined with poverty monitoring to cover a wider range of issues and documents. This is essential as gender issues will be increasingly addressed in country assistance strategies and poverty assessments.

FUTURE AGENDA

Work Program

26. Africa. The Africa Regional Program (Gender-responsive Actions for Development (GRADE)) comprises three inter-related activities. The first of these is to provide direct operational support to country departments. This includes reviewing all Initiating Executive Project Summaries (IEPS) and Final Executive Project Summaries (FEPS) in key sectors and helping to prepare country economic and sector work, papers on gender issues and poverty assessments by carrying out gender analysis of household

survey data. This also involves ensuring that explicit attention is given to gender issues in the project cycle, particularly in the implementation and monitoring phases. The second task of the program is to encourage operational research on gender policy issues. This includes preparing a policy framework for gender-responsive development in Africa, continuing case studies on women's legal status, and supporting reforms of laws that do not discriminate against women. It also involves carrying out analysis of policy and operational issues affecting women's entrepreneurship and access to finance in the region. The third task is to develop a gender training program for regional staff, using materials relevant to the Bank's work and covering conceptual, policy, management, technical/ sectoral and country-specific issues. Also, the region has established a Country Operations Support Facility (COSF), which will attract multi-donor support for operational projects that address women's issues in Africa and which, in turn, will ensure that more systematic attention is given to gender in the region's operations.

27. Asia.[3/] The Gender and Poverty (GAP) team in the Asia Regions has been given a mandate to address two closely-related areas of critical concern to the Bank -- Women in Development and poverty reduction. The GAP team has focused on a few key sectors and on developing practical ways to ensure that Bank projects do a better job of reaching women and the poor. The team will continue its sectoral focus and will work to increase women's productivity in the two key areas of agriculture and resource management and finance and microenterprise. The team will support country departments by providing hands on assistance with project design and supervision and also by shifting and disseminating knowledge on best practice from Bank and non-Bank experience. The team will also continue to review all projects at the IEPS stage to ensure that gender issues are addressed. It is at this early stage in the project cycle that task managers are most receptive to new approaches and ideas. These projects will then be tracked throughout their various stages. The IEPS review has recently been expanded to include a range of other social dimensions, such as resettlement and participation of beneficiaries and of indigenous people. It is intended to expand the review process to cover existing country strategies, poverty assessments and key ESW work. This expanded review process will be carried out jointly by the GAP Team and the larger Social Development Team in the Asia Technical Department.

28. Europe and Central Asia. WID activities in the ECA Region concentrate on those areas in transition economies that must be reformed if the needs of women are to be met. These areas include maternal health, employment and child care, training and education, poverty and old age and legal protection and practice. In several key areas, such as health and employment, progress has been made in incorporating gender issues in the region's work. The Region aims to support substantive WID work and to raise consciousness of the importance of taking into account the female perspective. A fund has been established in the Chief Economist's office for supporting gender work. The objective of the fund is

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[3/] *The Asia region was divided into two regions in FY92 -- East Asia & the Pacific and South Asia.*

to provide financing for studies in thematic areas critical for women during transition that are emerging and to mobilize the best available talent -- from both inside and outside the Bank -- to participate in this work. These studies would be used as background for both project development and economic/sector work. Periodic reviews of the ECA approach to WID would be carried out to outline lessons learned, to identify areas that require further work, and to assess budgetary implications.

29. Latin America and the Caribbean. In LAC, efforts to improve conditions for women are focused on increasing women's human capital. All LAC projects in the social sectors either have specific WID components or indirectly address issues that have an impact on women. In addition, WID components are increasingly incorporated in the projects in other sectors. Project supervision includes monitoring indicators that measure progress towards WID objectives. This includes the gathering of baseline data in the form of Living Standards Measurements Surveys to provide detailed household consumption information and to help the government in assessing the effectiveness of its social policy interventions. LAC will continue producing focused studies that provide specific recommendations to be incorporated in the design of new projects. For instance, studies such as Legislation and Women's Employment and Pay will help Bank staff in designing projects that address legal restrictions for women in the labor market, thus confronting not only the existing problems in the sector but some of their underlying causes.

30. Middle East and North Africa. In MENA, WID issues are integrated into the sector and lending work in the social and human resources sectors and, increasingly, in the agriculture sector. The region is committed to building on past successes and to expanding its initiatives. Each department has appointed a WID coordinator, and the Region recently decided to establish a special fund to provide resources for new WID initiatives in FY94. In addition, the Regional vice president has established a Task Force to propose a strategy on WID/gender issues and to explain the staffing/resource implications of the recommended strategy. The Task Force has yet to complete its work, but it is considering taking a number of different actions, including: i) reviewing the gender aspects of ESW and lending until gender issues are fully incorporated into all aspects of the region's work; ii) holding high-level seminars for country officials to raise consciousness of the importance of gender issues in borrowers; iii) making gender a topic for discussion at a meeting of the Region's Council of Advisors in 1994; iv) carrying out a regional gender study; and v) increasing the number of staff in the region with experience of gender work.

31. Human Resources Development and Operations Policy. The WID thematic group in HRO has begun work on a policy paper on Gender and Development, which will be presented to the Board in March 1994. The paper will propose a set of policies to ensure that gender issues are better integrated into the Bank's operations. The WID group is also currently working on a comprehensive Special Study that will synthesize the analytical work undertaken over the last five years, both inside and outside the Bank, on the returns

to investing in women and improving their access to education, health services, agriculture, finance and entrepreneurship, and labor markets. The Study will also review implementation experience to identify lessons learned from the Bank, other donors, NGOs, and local support groups' project experience, with the aim of identifying "promising approaches" to addressing gender issues in project work and country assistance strategies. The Study will be a contribution to the World Conference on Women in 1995 and will be disseminated worldwide. It is expected that the Study will be a useful input into policy dialogues with policymakers and practitioners in developing countries.

32. In addition to the Special Study, HRO will also expand its analytical framework to examine emerging issues in the international agenda such as the links between environment and gender, the differential impacts of economic reforms, if any, on gender, and legal barriers to women's participation in economic development.

33. The work program in HRO will also focus on implementation through support to the Regions in the following areas: surveys and gender-disaggregated statistics, institutional development, education, health, finance and entrepreneurship, and labor markets. The support will take the form of applying knowledge and lessons learned from the Special Study to specific country and project situations. In cases, where experience does not yet exist, the WID group will support the development of pilot programs in collaboration with donors and the concerned country departments.

34. HRO is also planning an expanded training program to assist Bank staff in integrating gender issues and discussions in country assistance strategies, and in specific sectors. Training will focus on "how-to" tools and "promising approaches" to provide Bank staff with practical knowledge in applying gender analysis to their particular environment. To assist Bank staff in overcoming the institutional constraints in implementing gender-specific activities "on-the-ground," HRO is developing a data bank of information on NGOs specialized in WID issues, and helping Bank staff to draw upon these resources in their operational work. HRO is also working with NGOs to provide them with knowledge of how the Bank works, and "how-to" tools for designing gender specific components.

35. Finally, HRO is strengthening its monitoring functions to respond to growing experience with the implementation of WID initiative in Bank operations. The expanded poverty/gender monitoring unit in HRO will track the incorporation of WID issues in country assistance strategies and in the design and implementation of projects. A key objective of this expanded unit is to move beyond simple quantitative tracking of projects and to increase attention on how **effective** the projects have been, including supporting impact evaluations of particularly innovative approaches. The unit will also monitor the extent to which gender issues identified in country assistance strategies are actually addressed in our country dialogue and followed up in our lending.

36. The Operations Evaluation Department is planning a long-term program to evaluate the treatment of gender issues in the Bank's lending from 1975 to 1992. The Environment and Sustainable Development (ESD) Vice Presidency is planning to include gender issues in its guidelines for social assessments that are due to the Board in FY95. Work has also begun on integrating gender analysis in the urban and infrastructure sectors.

Pending Issues

37. Review of the WID initiative over the last two years indicates that the Bank has continued to make progress in integrating gender issues into its operations. While progress has been made in identifying women as project beneficiaries and ensuring their contribution and access to project components, the integration of gender issues into overall country dialogue needs more attention. Bank staff are becoming more aware of the need to incorporate gender issues in Bank operations and to make use of best practice examples. But even in those cases where gender issues are addressed, inconsistencies between ESW recommendations and project design persist, as is the inadequate attention that is often given to supervision of gender-related activities while the project is being implemented. Weak institutional capacity at the borrower level remains a major problem, and the difficulty of getting various government agencies to give the same weight to the concerns of women as they do to other areas poses a great challenge for the Bank.

38. The explicit and consistent integration of gender issues into the Bank's overall policy dialogue and assistance strategies to the borrowing countries is perhaps the most significant measure of progress for the Bank in implementing WID initiative. One way to increase borrowing countries' attention to gender issues is to explicitly address these in Bank country assistance strategies for poverty reduction.

39. The link between sector work and project design needs to be strengthened. One approach is to carry out studies that address not only the problems but also the underlying causes of those problems. The forthcoming report on Legislation and Women's Employment and Pay in LAC aims to assist the Bank's staff in designing operations that address legal restrictions for women in the labor market. Another approach would be to assign priorities among various gender issues and then to provide sufficient resources to ensure that significant progress is made in incorporating those with the highest priority into the mainstream work of the Bank; this is the strategy being pursued in the ECA Region.

40. Both the design and the supervision of projects need to be strengthened. Because of the need to take local socio-cultural and institutional factors into account, it makes sense to involve local people who have a direct stake in the success of the project in its implementation. Therefore, the use of local resident staff, NGOs and local support groups

should be explored and expanded. Local supervision of projects by beneficiaries also increases accountability, as was the case with the Decentralization and Regional Development Project in Mexico. Another experimentation in the MENA Region which has proven useful is the thematic supervision technique (Box 4). This technique enables staff to examine common issues across projects and enhances supervision efficiency.

Box 4: Thematic Supervision

Thematic supervision focuses on one component or issue and identifies common features and general trends on that one issue among a group of projects. Thematic supervision has several advantages. It focuses on issues that might be overlooked during supervision of individual projects, it facilitates the transfer of knowledge among projects, it identifies gaps in the supporting institutional structure, and it assesses whether constraints are unique to a particular project or whether they are shared by a number of projects.

Thematic supervision has worked extremely well for those WID components which:

- Constitute small or pilot parts of the overall project and, therefore, do not justify the cost of an expert on individual supervision missions.
- Require highly specialized expertise.
- Are innovative and require intensive supervision.
- Are implemented in geographic areas that require public segregation of the sexes, where male staff have difficulty supervising activities for women.

Source: "Implementing Agricultural Development for Women in Yemen." *Women in ECA & MENA*. March 1992.

41. Implementing all of the actions outlined above will require increased staff awareness and involvement at all levels. Staff training and the dissemination of guidelines, best practice examples and how-to documents will be a high priority of HRO. Whenever possible, local staff in resident missions should be trained and given responsibility for preparing and supervising any WID-related components in a project. It is also necessary to train independent local consultants on gender issues and on the way the Bank works. As gender issues are more socio-culturally embedded than many of the development problems that the Bank faced in its first several decades of work, the skill mix issue needs to be addressed through increased recruitment of social scientists as well as staff training in integrating gender issues in the Bank's work. However, we need to recognize that these initiatives will only bear fruit to the extent that borrowers themselves increase their awareness of, and the importance given to, gender issues. Achieving this -- particularly in those countries where gender disparities are most severe -- is inherently a long-term process. The Bank's efforts are important for ensuring the effectiveness and equity of our own operations in contributing to poverty reduction and, through our country dialogue, for sensitizing borrowers to the economic and social costs of gender inequity. But the responsibility for change rests ultimately with governments themselves.

EXAMPLES OF PROJECTS

Turkey -- Employment and Training Project

Although the Turkish Constitution does not discriminate against women, their participation in the labor force is about half that of men, and most of the women are engaged in the agricultural sector. Yet there is widespread support among Turkish women for doing work outside the home, and the government is committed to improving women's productivity and employment.

The overall objectives of the Employment and Training Project are to improve the training available to the labor force, to provide methods for unskilled unemployed workers to gain employment and to improve the efficiency of the labor market decisions of both employers and employees. Employment services have been instructed to stop designating various jobs as being for men or women only. Within this context, women's access to jobs that offer the prospect of career growth -- including jobs that have traditionally been male-dominated -- will be expanded. All of the services to be provided under the project will be open to women, and women will be actively encouraged to participate. Job vacancy listings will be gender-neutral and gender stereotyping will be eliminated from career counseling materials and procedures.

In addition, a fund will be established to support research on female employment issues, to document the factors that either impede or promote women's access to productive employment and to improve women's productivity and earnings.

Source: Staff Appraisal Report, Republic of Turkey, Employment and Training Project, November 6, 1992.

Sri Lanka -- Community Water Supply and Sanitation Project

In Sri Lanka, women are usually responsible for collecting and managing the use of domestic water, for family hygiene and for maintaining a clean household. Despite this, women have rarely been involved in the planning or the operation and maintenance of water supply and sanitation schemes. Women's groups in other developing countries have initiated or managed their own systems, which shows that the potential exists for involving women in these areas. Where systems are managed by a group that consists of both men and women, the women are often put in charge of fee collection, bookkeeping and supervision of the water system. Elsewhere, women have also been trained to repair and maintain pumps. It has been observed that women are quicker to respond to

complaints about water schemes than their male colleagues as they are often the first to suffer from interruptions in supply.

In this project, several steps are being taken to ensure that the benefits received by women are maximized. These include recruiting women to the Community Water and Sanitation Program Unit (CWSPU) and making special efforts to involve women in the community discussions of all aspects relating to water supply and sanitation schemes. It is also intended that gender issues be included in all base-line surveys and project proposals and in all relevant training activities for politicians, community leaders, CWSPUs, Partner Organization (PO) staff and Community-based Organization (CBO) members. Among the potential partner organizations being considered for this project is the Girl Guides Association,which has carried out many community development activities including building water supply and sanitation facilities. They have built wells throughout Sri Lanka in cooperation with UNICEF, the NGO Decade Service and the Canadian International Development Agency.

Source: Staff Appraisal Report, Sri Lanka, Community Water Supply and Sanitation Project, November 16, 1992.

Egypt -- Matruh Resource Management Project

This project is designed to implement a program of sustainable natural resource management in order to conserve the water, land and vegetative resources of the area. It is also designed to alleviate poverty and to improve the quality of life of the local Bedouin population by developing a structure within the traditional tribal system which would serve as an effective mechanism to encourage active participation by the local Bedouin Community in the sustainable management of their natural resource base.

Women have important economic roles in the project area and fully participate in all aspects of farm management. Women not only play active roles in livestock and agricultural/horticultural production, but are also involved in non-agricultural income-generating activities as well as in infrastructure (e.g. dike construction). They are also participants in traditional community management through well-defined channels. Given the critical role women play in rural production and environmental management, the project would work closely with the community groups to define the needs of women, ensure female participation in the preparation and implementation of local resource management plans, and to identify income-generating activities for women. Traditionally acceptable mechanisms for women's participation in project preparation and implementation are available and would be integrated into the project's organizational arrangements. Provision of gender training for project staff will be one of the early project activities. A female extension agent would be based in each of the Subregional Support Centers and would interact with local rural women. They would deal with on-farm and off-farm activities such as small livestock, vegetables, olive pickings and fig drying. Their work would be coordinated by a Female Extension Coordinator at the

Project Coordination Unit level. The multi-media information facility would assist in producing audio visual materials directed towards rural women's needs. The project would also provide credit to assist women in income-generating activities.

Source: Memorandum and Recommendation of the President of the World Bank, Matruh Resource Management Project, May 3, 1993.

Mozambique -- Public Sector and Legal Institutions Development Project

Currently, there are approximately 90 fully qualified lawyers in Mozambique to serve a population of 16 million people. Almost one-third of these lawyers are female professionals. The nation's law school at the Eduardo Mondlane University estimates that approximately 1,200 graduates will be needed by the year 2000 to meet the needs of both the government and the private sector for legal services. MULEIDE, the Women's Association for Law and Development, has been established as a private organization to provide services to women through studies, legal assistance and civil education. In August 1992, a small office was opened to provide legal services to poor women.

This project's main objective is to increase the supply of well-trained senior planners, policy analysts, managers and technicians and to enhance the pay and other incentives and conditions of employment of senior civil servants. Its specific objectives include: i) creating a group of competent lawyers capable of designing and implementing a sophisticated legal and regulatory framework underpinning a market-oriented system and to build a corps of lawyers, paralegals, judges and court officers to ensure the proper administration of justice; and ii) to bolster the Government's efforts to strengthen public sector management through both civil service reform and through the training of civil servants. Particular attention will be paid to promoting the career development of women within the civil service, by taking steps to increase their opportunities to participate in training (both local and overseas). For example, the project will provide supplemental payments to women with family obligations to assist them with family or child care while they are studying abroad.

Source: Memorandum and Recommendation of the President of the World Bank, Capacity Building: Public Sector and Legal Institutions Development Project, October 29, 1992.

This progress report was prepared by Minh Chau Nguyen with the assistance of Diane E. Steele, Education and Social Policy Department, World Bank.

IMPROVING THE EFFECTIVENESS OF FINANCIAL ASSISTANCE FOR POLICY REFORMS

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My argument can be summarised in the following propositions:

1. The policy thrust of the adjustment programmes of the IMF and World Bank (hereafter the IFIs) is generally sound.

2. But there is little evidence of strong programme results in low-income countries (hereafter LYCs).

3. This is partly because conditionality has a modest revealed capability for achieving improved economic policies.

4. Constraints acting upon the IFIs seriously reduce the effectiveness of their conditionality.

5. In any case, imposed change rarely works; the most effective reforms are home-grown.

6. A reconsideration of the link between supporting finance and policy reform in LYCs is therefore desirable.

The policy thrust of the IFIs is generally sound

The IFIs have been correct to advocate decisive adjustment measures in the face of turbulence in the world economy, the accelerating pace of structural and technological change, and the often adverse effects of past government interventions in economic life on their ability to satisfy the material aspirations of their peoples. There is ample evidence of the decisive influence of the policy environment as a determinant of countries' economic performance and the importance, therefore, of getting policies right. There is a positive association between economic growth and the types of policy reform incorporated in IFI adjustment programmes.

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* The author has participated in two major studies of the policies of the IMF in developing countries. He is also a close observer of World Bank structural adjustment programmes and author of a recent book, commissioned by the Economic Development Institute of the Bank, on the design of adjustment policies in low-income countries. He alone is responsible for the views expressed here.

More specifically, the IFIs are right to urge the importance of effective macroeconomic management, implying fiscal and monetary discipline; the desirability of working through market forces rather than against them; and the often undesirable effects of a multitude of policy interventions by an over-stretched state. IFI adjustment programmes seek to address these problems and therefore deserve support. I therefore support the general thrust of their policy recommendations.

Unfortunately, however:

There is little evidence of strong results from adjustment programmes in LYCs.

Assessment of the impact of an IFI programme is fraught with difficulty, particularly because we can only guess at the counterfactual. However, enough expertise has been developed, and enough evidence accumulated, to provide some firm indicators.

One is that it is not adequate simply to compare the growth rates of adjusting countries with those of non-adjusters, as is done in the Joint Bank-Fund *Issues Paper*. It is necessary to adjust for differential initial conditions, the influence of external and other shocks, and the beneficial effects of the additional financial inflows into the adjusting countries. Once such adjustments have been made, it is good practice to subject any remaining differences in growth rates (or other performance indicators) to standard tests of statistical significance. It appears that no adjustments and tests were undertaken for the results reported in the *Issues Paper,* which results should, therefore, be discounted. In any case, the paper only claims that the adjusting LYCs achieved growth about in line with the expansion of population, leaving per capita incomes static.

The staffs of the IFIs and others have, however, undertaken more rigorous testing. What do the results tell us, as regards LYCs?

(a) *Programmes have high mortality or interruption rates.* Half of all IMF programmes broke down before the end of their intended life in 1980-90; two-thirds in 1987-90. Three-quarters of World Bank adjustment loans had instalment tranche releases delayed because of non-implementation of policy condition in 1980-88; an equivalent figure is not available for later years, although improved compliance is reported.

(b) *Programmes strengthen the balance of payments.* There is consistent evidence for both the IMF and World Bank that programmes are associated with improvements in export performance and other balance of payments indicators. On the other hand, there is little evidence that programmes result in reduced inflation.

(c) *Programmes do not make much difference to economic growth in LYCs.* In the case of the IMF, most tests indicate no significant correlation between programmes and changes in GDP growth. Evidence on Bank programmes is more mixed: some tests show a similar absence of significant association; others indicate more positive results. So far unpublished evidence on Africa indicate as many adjusting countries slipping back as those accelerating their growth.

(d) *Programmes are associated with reduced investment levels.* There is strong evidence for this, both for the IMF and World Bank, a joint result of reduced public investment levels and sluggish private sector response to the improved policy environment.

(e) *The outcomes tend to be less favourable for low-income (or African) countries than for middle-income countries.* In the case for the IMF, the statistical evidence for this is rather old, with more recent tests inconclusive. For the Bank, most (but not all) tests point to less favourable outcomes in LYCs, although it may be that the main problem is with Africa than with LYCs as a whole. Hence the title of a 1992 World Bank *Working Paper*: 'Why structural adjustment has not succeeded in sub-Saharan Africa'. One clear additional lesson of experience is that structural adjustment takes longer in LYCs than was originally anticipated.

Even though it is impossible to do justice to the range and complexity of the evidence here, it appears that adjustment programmes in LYCs have an only modest capacity to improve economic performance. The implication is that some of the financing made available in support of these programmes has produced poor returns.

Various factors have contributed to these rather weak results. In some cases the large magnitude of the problems confronted has been disproportionate to the weakness of the policy instruments available to tackle them. Unexpected movements in countries' terms of trade, or other 'shocks,' have also pushed programmes off track. The IFIs often point to lack of political will as a source of programme breakdown (I return to this shortly). Finally, there are faults in the conceptualisation of the programmes. In particular:

The absence of strong results is partly because conditionality has a modest revealed capability for achieving improved policies.

Adjustment programmes seek to raise economic performance principally through the reform of policies and institutions. However, the evidence suggests a limited leverage on policies. The empirical evidence on programme effects summarised above also throws light on their ability to improve policies. In brief and taking the IFIs together, it suggests:

i There is little evidence that programmes exert restraint on the core IMF programme component of domestic credit. There is mixed evidence from the IMF and World Bank of effects on the fiscal outturn but there is much slippage in the implementation of fiscal conditionality.

ii IFI conditionality does, however, exert a decisive and sustained influence on the exchange rate. There is also quite a strong association with reform of other price variables, such as increased agricultural producer prices and decontrolled consumer prices.

iii They have far greater difficulty in influencing institutional change, e.g. in financial sector reforms and privatisation programmes.

Even the above limited claims probably over-state the degree of programme influence because some of the changes would have been introduced in any case - see below on 'ownership.' Moreover, a good many of the reforms are not sustained and some governments regress, reverting to old practices or introducing equivalent interventions through the back door. Thus, an unpublished World Bank assessment suggests about a third of 'adjusting' African countries still combine poor macroeconomic policies with extensive interventionism; and the number of African countries which have persisted with reform is quite small.

It is, then, easy to exaggerate the degree of leverage exerted through conditionality. One reason for this is that:

Constraints acting upon the IFIs seriously reduce the effectiveness of their conditionality.

First, the IFIs suffer from ***resource problems.*** Arguably the most serious of these is **INADEQUATE KNOWLEDGE.** The circumstances of each country differ. Each economy has its special structural characteristics and problems. Policies and other economic variables interact with each other in complex ways. To be effective, adjustment programmes must be tailored to these local particularities. A great deal of in-depth country knowledge is hence necessary for well-founded programmes - more knowledge than it is often reasonable to expect of hard-pressed IFI staffs in Washington.

In the face of inadequate knowledge, the danger is that they will fall back on institutional orthodoxies and more-or-less standard prescriptions. The managements of both the IMF and World Bank deny any mechanistic application of standard formulae and insist that their staffs tailor programmes to country circumstances. But there is a frequently-complained-of gap between management aspirations and what

happens in practice, to which there is no easy solution. It is an intrinsic difficulty with conditionality as a mode for achieving change.

The danger, of course, is that some programmes turn out to be ill-fitting or unrealistic, and that they result in avoidable 'adjustment costs' - another recurring LYC complaint.

The knowledge constraint is compounded by problems with **STAFFING** - problems of numbers and of turnover (not competence, which is generally high). The numbers aspect has particularly affected the IMF, which in recent years has seen a large increase in the number and labour-intensity of its programmes (particularly since the introduction of SAF/ESAF, the associated Policy Framework Paper mechanisms, and the Fund's welcome increased use of review missions) while being prevented by their Boards from recruiting parallel increases in professional staff. The turnover aspect of the problem refers not so much to movements out of the IFIs (although their terms and conditions have become somewhat eroded, also because of Board pressures) but to movements within each institution. Developing country officials complain often and strongly about the delays and other costs imposed by the frequent necessity to induct new mission chiefs and others into their countries' realities. In addition to these extra costs, high turnover and the erosion of mission self-confidence that results aggravates the knowledge problem and can lead to the appearance of IFI inflexibility and arrogance in negotiations.

FINANCE is a third constraint. This is too large a subject to go far into here, so I will make just three points. First, it is too widely believed that an IFI 'seal of approval' has a powerful catalytic effect on other financial inflows. The IMF regularly claims such an effect but the evidence does not bear it out. Econometric studies have found no systematic correlation between IMF programmes and capital inflows. Experiences vary widely. In some cases there clearly is a catalytic effect. In others, IMF money has, in effect, been used to increase debt servicing payments. In probably a majority of cases there has been little net effect on capital account (to say nothing of the persistent net return flow from LYCs to the IMF in recent years). Programmes predicated on a strong catalytic effect are thus apt to be unrealistic, of which there are a good many examples, resulting in unanticipated adjustment costs and programme dislocation.

Second and relatedly, the joint *Issues Paper* may leave a misleadingly optimistic impression on two aspects of official financing: (a) it may be difficult to achieve the levels of grants and aid loans assumed in Table 2 of the paper in the face of what some now refer to as an 'aid crisis' - the pressure on aid budgets in the face of current budgetary difficulties in several of the most substantial donor countries; and (b) there is World Bank and UNCTAD evidence that even the 'enhanced Toronto' debt relief terms now available fall well short of the needs of a substantial proportion of LYCs, prompting the latest edition of *World Debt Tables* (p.10) to

conclude, "This raises the issue of whether more comprehensive measures are needed ..."

Third, there remains a mis-match between the time needed for structural adjustment in LYCs and the programme planning horizons of the IMF and Bank. Programme horizons are still too short, especially in the IMF, and a major reason for this is the limited concessional finance available to them: recognition of the need for longer-term programmes would carry the corollary of larger concessional finance needs.

A further constraint might be called the ***rigour problem,*** meaning pressures from major shareholders or managements for programme measures to appear tough and far-reaching. Associated with this is a trend towards the proliferation of conditionality, with the numbers of prior actions and performance criteria applied by the IMF and Bank increasing substantially over time, often aggregating to impossibly large numbers of commitments.

These features have various adverse consequences. They discourage governments from seeking assistance (a large problem for the ESAF take-up rate) or lead them to delay until all other options have been exhausted, so that programmes too often have to address crisis situations. They strain the limited policy implementation capabilities of LYCs, causing 'noncompliance' and suspicions of bad faith.

Alternatively, when combined with continuing pressures on staff to maintain the level of adjustment lending, they give rise to 'paper programmes' - the penning of ambitious commitments to reforms which it is tacitly understood by both parties can or will not be implemented. Members of this Committee will know that there is pretence in conditionality - paper agreements which the IFI staffs know cannot stick but which are intended to impress managements and boards and to 'keep the money moving,' or just to give the appearance that debtor governments are being treated equally.

In both these types of situation a consequence is to reduce the credibility of programme reforms, reducing their capacity to influence expectations and investment decision-making, and prejudicing the prospects for good responses to future reforms. This helps explain the sluggishness of private investment response, reported earlier.

Finally, there is what can be called the ***unequal treatment*** constraint. This takes two forms. One is unequal treatment among borrowing governments, chiefly as a result of lobbying on behalf of favoured countries (ex-colonies, strategic allies) by major-shareholder governments. This has been particularly a problem for the IMF, on which there are several well-documented cases, but it has also affected the Bank more as it has moved into policy-related lending.

The second form of unequal treatment is one of asymmetry between developing and developed countries, with borrowing countries among the former required to endure a degree of IFI involvement in policy formation that would not be tolerated for a moment by OECD governments, who frequently disregard the 'surveillance' advice of the IMF. Note that this is not strictly an asymmetry between deficit and surplus countries, as the deficit position of the USA demonstrates.

Both these forms of inequality undermine the legitimacy of IFI conditionality, weakening the motivation of governments confronted with genuinely rigorous demands to implement their commitments, and further reducing the credibility of programme measures.

In short, the IFIs are subject to a number of shortcomings which contribute to the limited effectiveness of their conditionality in LYCs. However, these are only part of the story. I also question the appropriateness of conditionality as a modality for achieving policy and institutional reform, because:

Imposed change rarely works; the most effective reforms are home-grown.

What the World Bank calls 'ownership' is the crucial factor: the extent to which the government regards an adjustment programme as its own, which it has a commitment to implement. Surprisingly little attention has been paid to the findings of a recent Bank OED report which provided substantial, statistically highly significant, evidence to back previously held intuitive beliefs in the importance of this factor. Further details are set out in the Appendix. Briefly, it found that the extent of government ownership predicted the satisfactoriness of adjustment programme outcomes in three-quarters of all cases, with most 'deviant' cases explained by exogenous shocks. Ownership was high in most programmes achieving good outcomes and low in most unsatisfactory programmes. In the absence of ownership, governments evade commitments and regress when opportunities arise.

Unfortunately, conditionality, being essentially coercive,* undermines ownership. Its imposed nature can result in resentments by the ministers and officials who must implement the measures - and live with their consequences. In the more extreme cases, public perceptions of imposition can undermine the legitimacy of programmes and strengthen opposition to reform. (For this reason IFI complaints of 'weakness of political will' on the part of governments can be superficial.)

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* I anticipate objections to a description of conditionality as coercive. But conditionality requires governments to take measures they otherwise would not choose (if not, it is redundant) against the threat of the withholding of financial help. This is <u>not</u> the same as saying that IFI-government relationships are coercive, which is the exception rather than the rule.

Spokespersons of the IFIs deny that programmes are imposed but I submit that the degree of imposition is more common than they are willing to admit. This is strongly confirmed by the evidence in the Appendix that government ownership was regarded *by Bank staff* as 'low' or 'very low' in half of programmes (40/81), and 'very high' in only a fifth (16/81).

There are large advantages to 'home grown' programmes. Being a product of domestic political and policy-formation processes they more faithfully reflect domestic goals and priorities, and are less likely to be sabotaged during the implementation phase. In the ideal case, the programme will be consensual, based on wide consultation and popular education. With more controversial programmes, the government will take into account how the resulting social costs and political opposition are to be managed - something the IFIs are not well placed to do. By definition, such programmes are tailor-made to suit local circumstances, and they tap the superior knowledge of local conditions. The probability of sustained government commitment to the chosen path of reform is enhanced.

A reconsideration of the link between supporting finance and policy reform in low-income countries is therefore desirable.

The IFIs and major shareholders should more fully recognise the limitations of conditionality as a means for linking financial assistance to adjustment reforms. The emphasis should rather be upon the persuasion of governments, to take further what Managing Director Camdessus calls the 'silent revolution' in government attitudes towards economic management. The IFIs should refuse to play the 'paper conditionality' game; their staffs should be assessed on the quality of the lending they undertake, not the volume.

The implication is that the IFIs should be willing to say 'No' more often to governments with weak commitment to reform and should insist that programmes be prepared by the borrowing governments. The willingness of governments to draft their own letters of intent or of development policy should be a minimum obligation; they should *never* be prepared by IFI staffs in Washington. The same, of course, also goes for the PFP process, although here there has been more progress in the recommended direction.

Some implications of this suggestion are:

1. A reallocation of financial resources is likely to occur, away from reluctant adjusters and client states. This will release more for the committed adjusters, leading to a wholly desirable improvement in aid effectiveness.

2. It is important not to confuse unwillingness to adjust with the inadequate technical capabilities of some LYC governments. Technical assistance to

enhance such capabilities should be even more freely available *but:* it should be independent of the IFIs, so as to minimise conflict-of-interest problems; and this assistance should *never* be imposed - imposed advisers are no more effective than imposed policy reform.

3. Insistence on home-grown reform programmes will require the IFIs to be more pragmatic and pluralistic in their assessments of the adequacy of the programmes submitted. Willingness on the part of the World Bank to countenance programmes of the type associated with Japan, Korea and Taiwan are an example.

4. Greater country selectivity will necessitate restraint on the part of major-shareholder governments in lobbying on behalf of favoured applicant countries. Hopefully, the end of the Cold War will facilitate such restraint.

August 1993

APPENDIX

The following table is reproduced from p. 177 of a report by the World Bank Operations Evaluations Department, *World Bank Structural and Sectoral Adjustment Operations: The Second OED Overview* (June 1992, chapter 10 and Annex 8). This assessed programme 'ownership' by the extent to which the initiative for the programme's policies was local or external, the level of intellectual conviction in the appropriateness of its measures, the extent of support from the top political leadership, and efforts towards consensus-building among the wider public and tested for correlation between this variable and its assessment of the satisfactoriness of programme outcomes. The results are reproduced in the table.

The significance of the revealed correlation was confirmed by various statistical tests. Of course, correlation should not be confused with causality and OED did not undertake causality tests. On the other hand, given the way the tests were structured, it is not clear how causality could have run from effectiveness to ownership, and OED interpreted the results to indicate that effective programmes are a *consequence* of borrower ownership, which was found strongly predictive of programme success in 73% of all cases, with most 'deviant' cases apparently explained by the intervention of exogenous shocks. The support of, or lack of opposition from, key interest groups was identified in the evaluation as probably the single most important influence.

Correlating programme outcome with borrower ownership

	Programme outcome				
Borrower ownership	*Highly satisfactory*	*Satisfactory*	*Unsatisfactory*	*Very unsatisfactory*	*Total*
Very high	9	6	0	1	16
High	6	15	2	2	25
Low	4	10	6	3	23
Very low	0	3	7	7	17
Total	19	34	15	13	81

REFORMING SOCIAL SECURITY AND SOCIAL SAFETY NET PROGRAMS IN DEVELOPING COUNTRIES

Gary S. Fields (Cornell University) and Olivia S. Mitchell (University of Pennsylvania)

1. Introduction

Developing country governments around the world, as well as the development agencies advising them, have become increasingly alarmed about the cost of social security systems and social safety net programs and economic inefficiencies resulting from these programs' operation. Taken together, both social security and safety net programs may be jointly referred to as "economic security programs". In this paper we identify the main sources of economic insecurity facing developing country populations, highlight the ways in which existing social safety net and social security programs meet (or fail to meet) these risks, and draw out some high-priority reforms required to help such programs meet the challenges of the 1990s and beyond. Finally, we enumerate several steps that international agencies could take which would dramatically enhance the environment in which these reforms are carried out.

2. Economic Insecurity in Developing Countries

Economic insecurity is endemic everywhere. The major causes of economic insecurity are the same around the world. They include

- individual inability to command resources (e.g. un-/under-employment, low and unreliable pay, infirmity, death)
- family transitions (e.g. divorce, arrival of children, migration)
- industrial shocks (e.g. decline in prices of traded goods, loss of former markets, sudden changes in industrial ownership and control)
- regional/national events (e.g. inflation, bank failures, natural disasters, political crisis)
- international events (e.g. worldwide depression).

What is common to each of these sources of economic insecurity is they inflict economic losses on part or all of a population. In some cases, these causes of insecurity may be longstanding enough that they imply severe consumption deficits for long periods of time.

It is well known that some of these factors generating economic insecurity can be circumvented if people have access to and acquire private insurance. For example, in developed countries with strong private insurance markets, workers purchase private insurance to guard against their premature death and the consequent loss of family income. As another example, many private companies in the OECD nations offer corporate disability and old-age pensions, making it possible for employees to obtain income

insurance at attractive group rates. In many countries, the family plays a role as well: throughout Africa and Asia, children regularly support their elderly parents, providing yet another a private vehicle for old-age economic security.

In general, private insurance has worked better when there is good information about potential risks and losses (e.g. mortality statistics), the existence of strong and long-term ties between people (e.g. families, clans, work groups), and large enough groups over which to pool risk. Often, private coverage adequately protects well-off people against economic insecurity, because they are able to pay for the coverage directly, and because they can afford to obtain it indirectly via foregone wages or other transfers when security is provided by companies or in the family setting. Conversely, people with permanent health problems or low incomes tend to not be able to afford, or even obtain, private insurance, a problem which is especially marked in countries where few insurance institutions exist. For these reasons, social programs to provide economic security may be needed in instances where the private market for insurance is seen as inadequate.

3. How Economic Security Programs Operate in Practice

Government-run economic security systems around the world differ in their emphasis on social assistance versus social insurance, depending on the country's ability to pay, as well as the economic and political pressures to "tilt" one way or the other. In addition, coverage patterns can vary even within a given country. For example, many republics in the former Soviet Union promised generous pensions to workers from key occupational groups such as the military, civil servants, and miners; retirees not in these groups receive little or nothing. In contrast, the Australian Social Security system provides pensions primarily to the poor under its government-run old age system, and supplies health care benefits irrespective of income. To some extent, the redistributive pattern depends on whether the government actually operates the system itself or contracts out: for example in Chile, the national pension system relies on private investment managers to invest workers' contributions in a way to maximize earnings replacement after retirement.

Despite these differences, the common feature of economic security systems is that they are deemed to be long-term institutions, part of the social contract between generations. This implies that they differ from social safety net programs at least conceptually, because safety-net programs are usually seen as short-term measures "mitigating major transitory adverse effects of economic reform measures on vulnerable groups" (Joint Issues Paper 8/2/93). Programs meeting this criterion are varied, and are generally thought to include targeted transfers of cash, food, or other services, and sometimes public employment.

Partly because they are conceived as short-term measures, safety-net programs have tended to be implemented hurriedly without considering their long term consequences for labor market behavior or their ultimate budgetary impact. Thus in the 1980's, for example, many European nations offered special unemployment bonus schemes to redundant older

workers which enabled them to remain unemployed until they attained eligibility for early retirement pension benefits. Once in place, however, these redundancy schemes garnered political support and came to be viewed as long-term entitlements, making it extremely difficult to change or eliminate the subsidies. A related problem is that the programs themselves can engender long term changes in behavior, as occurred when unemployment schemes encourage earlier and more costly claims on the national old-age pension system.

Social security and safety net programs have many positive features. Only with a national, mandatory system can a government provide social assistance transfers to groups that others would not willingly pay for. Only governments have the taxing authority to spread income variability risk across generations. For instance, many developed economies' social security systems grew during the world-wide Depression of the 1930's, in order to transfer income from active workers to the unfortunate generation reaching retirement age with no assets. At the same time, however, the shortcomings of these schemes are many, and include high costs, inequitable provision of benefits, and often undesirable effects on the labor market and other markets. Too often, benefits are seen as an entitlement rather than insurance, producing a clash in perspectives leading to opposing conclusions. For example, from an insurance point of view, in the Eastern European countries displaced civil servants would not be entitled to benefits if they had not paid into an unemployment insurance system, but under an entitlement perspective they might receive benefits if their jobs were declared redundant.

Below, we detail reform priorities. Before we do, however, it is important to acknowledge that all forms of economic insecurity cannot be insured against, either in the private market or by national government Social Security and safety net programs. For example, collapsing political and economic institutions (as in times of war or political upheaval, or during hyperinflation) can seriously curtail real consumption for many segments of the population. In this instance, better diversified and more global institutions could help provide some of the social transfers and social insurance required to reduce economic insecurity.

4. Issues in Designing Economic Security Programs

Social security and safety net programs have been asked to address many diverse problems. Here we contend that economic security systems have a single primary purpose: to assume adequate consumption. Hence the goals of reform as stated in the Joint Issues Paper are perfectly consistent with this purpose: "to (a) minimize allocative distortions and contribute to macroeconomic stability by reducing fiscal imbalances, and (b) promote equity, both inter-generational and between income groups, particularly to ensure maximum protection against life-cycle risks and unemployment at minimum cost" (Joint Issues Paper). To this end, very important decisions need to be made regarding what standard of adequacy to adopt, how to design appropriate programs for each target group, and how to allocate budgetary resources among different programs. We take up each in turn.

Determining the standard of adequacy: Even if a country's economic security system seeks to assure adequate consumption, it remains to be determined what standard of adequacy is used in practice. A standard of absolute adequacy might be set, as in the case of a national poverty line; this is the amount below which an individual or a family in a particular country is said to be poor. Alternatively, a standard of relative adequacy might be adopted where adequacy could be judged relative to one's level of consumption prior to the event precipitating economic insecurity (retirement, unemployment, etc.). As indicated below, it makes a difference which standard is chosen.

Deciding whom to insure: Careful attention must be paid to the choice of a target group. In this regard, three groups should be distinguished: the poor, the vulnerable, and the losers. While some analysts speak of the "poor and vulnerable" as if they were the same people with identical economic security needs, this is frequently inaccurate. Some of the poor have an assured level of income which is simply very low. Conversely some of the vulnerable are quite well-to-do, yet are vulnerable because their incomes are variable. Because some, but not all, or the poor are vulnerable, and some but not all of the vulnerable are poor, policymakers must decide which of these groups should be the targets for economic security programs. As for the losers, some of the largest losers are those who start in the best initial position, and hence have the most to lose.

After clearly distinguishing among these groups, the country must then decide for whom the economic security program is intended: the poor, the vulnerable, or the losers? Appropriate program design requires delineating who is, and who is not, in the target group.

Designing appropriate programs: Having decided whether to adopt an absolute adequacy target or a relative adequacy standard, and having decided whether to target on the poor, the vulnerable or the losers, a country is then in a position to design its economic security program. Suppose that a country's goal is to provide a floor of economic protection for the poor. This may be achieved by transferring cash or benefits in kind to those falling below the minimum standard of consumption (i.e. those suffering from absolute inadequacy). This is commonly called "social assistance", consisting of needs-based transfers aimed at reducing poverty. Such efforts encompass food relief, cash welfare payments, and/or housing subsidies.

If the country's goal is to design a system which protects the vulnerable, a very different approach is called for. For example, rich and poor alike face the economic risk of outliving their working years and therefore needing old-age economic security programs. People in all economic strata are vulnerable to this risk, and old-age pension systems can be devised to insure against it. Since the typical beneficiary of such a system is not poor, it is better seen as an insurance program rather than an anti-poverty scheme. If private insurance markets are absent or incomplete, a public system may help overcome undesirable market failures.

As for plans which compensate the losers, political considerations sometimes dominate economic ones. In developing countries on every continent, employees of governmental agencies and parastatal corporations are highly-paid relative to other workers with similar qualifications in their countries. Furthermore in many of these same countries, public employment rolls are being subjected to cutbacks. When an economic reform package requires employment cuts, those who lose public sector jobs suffer a very real loss, precisely because the jobs available elsewhere are not as remunerative as the jobs they held.

Facing the fiscal tradeoff: The Bank and the Fund, along with other development agencies, have devoted considerable staff effort and loan monies to programs aimed at compensating the losers. Such programs are often justified as the price that must be paid for client countries to undertake an otherwise desirable reform. Still, it must be asked how scarce budgetary resources should be divided among the poor, the vulnerable, and the losers. At the moment however, no one even knows how economic security expenditures are currently divided among these groups. It is also necessary to bear in mind constantly that social security systems and social safety net programs require real resource transfers, and that budgetary limitations imply often hard tradeoffs between economic security and other programs, as well as between one economic security program and another.

5. The Reform Agenda

We now offer several propositions to help guide policy discussion.

PROPOSITION 1: The decision of what economic security benefits to offer should be made concurrently with the decision of how to pay for them. Governments should not promise nor mandate benefits that the country cannot afford now and in the future.

PROPOSITION 2: The poor, the vulnerable, and the losers, are not the same groups of people. Separate systems need to be designed to provide economic security to each. Social insurance and social assistance programs should be run independently, though in coordinated fashion. Social assistance programs, targeted at the needy, should not be confused with benefits for which all may apply.

PROPOSITION 3: Public and private systems each have their advantages and disadvantages. Most countries' systems are a mix of the two. The appropriate blend depends on the objectives of the government in question, on the government's skill and commitment to efficient management of development, the country's ability to pay, and the existence of the necessary private sector institutions.

PROPOSITION 4: Policymakers should agree that the primary purpose of government-run economic security programs is to insure adequate consumption by the poor, where "adequacy" is defined relative to an absolute standard such as a nationally-determined poverty line. Because the poor lack the ability to pay for such

programs themselves, it is necessary for others to pay for them. (If the poor could pay for them, the programs would not be needed in the first place.) In many cases, it is efficient for social assistance payments to be targeted or self-targeted so that it is the poor and only the poor who receive benefits (to the extent possible).

PROPOSITION 5: Another objective of economic security programs is to provide insurance against possible income-reducing events such as old-age, disability, and unemployment. Such programs should be regarded as insurance against relatively inadequate consumption, and should be paid for in advance by the insured group itself. Sound insurance principles can and should be used to set premium rates of sufficient magnitude to assure these programs' financial soundness. Governments may be able to help facilitate the development of private insurance groups to protect against diversifiable risks.

PROPOSITION 6: If voluntary insurance programs are created, people may lack the self-control needed to look out for their own best long-term interests. In order to prevent people from underinsuring and thereby turning to government-funded programs when adverse economic events befall them, it is appropriate for the government to require such insurance. Whether this is more efficiently done through government-run or through government-run privately operated programs depends on individual country circumstances.

PROPOSITION 7: Some social safety net programs have been targeted on neither the poor nor the vulnerable, but instead on the losers. For example, powerful groups in some countries have demanded and received unemployment benefits as the price for agreeing to economic reforms and structural adjustment. These people are not usually the most needy in society. Governments and international agencies should resist using such programs to gain political support, because these programs can be quite costly and hard to shut down, and because giving in to some may encourage others.

6. Roles for International Development Institutions

As the developing nations design and reform their economic security systems in the larger context of making their economies more productive, each will shape its program to meet its own institutional capacity and priorities. Still, there are important ways in which international development organizations can help streamline this process.

Perhaps the most important role for the Fund, the Bank, and the other international agencies is to provide technical assistance to the developing countries' economic security administrations. The benefit and financing structures of social security systems and social safety net programs influence the economy through labor markets, capital markets, and other arenas such as insurance markets. These effects are often predictable (e.g., payroll taxes discourage employment in covered sector jobs, generous old-age benefits encourage earlier retirement), and outside experts can help officials in the developing countries take

account of them. These technical experts can also help design reforms by drawing on the lessons from other countries' systems. For example, they could point out the large and long-lasting costs imposed on the public resulting from the Chilean and U.S. government's decisions to guarantee private pension benefits.

Another thing that all developing countries need is a standardized framework for reporting and disclosure of social assistance and social insurance benefits and financing. International agencies could develop and implement international standards for the audit of such systems. They could also supply additional technical sophistication in a number of areas such as evaluating benefit structures (e.g., in defined benefit plans, computing the actuarial value of contributions), financing systems (what contribution rates are required to generate benefits of a certain size), money management practices, and recordkeeping practices.

Another area in which international agencies can help is establishing an agency which can oversee private insurance and capital market regulation, so as to take some of the burden off developing countries' public sectors. An international administrative structure like the U.S. Securities and Exchange Commission could oversee and regulate the quality and conditions of investments in developing world, and a similar organization is needed with regulatory and audit control over international insurance standards and practices. These oversight agencies could establish and supervise the growth of new banks and investment firms, and supervise the growth of new insurance companies.

Finally, prefunded economic security programs require an investment vehicle, yet few developing countries have the necessary capital market structures to make future benefit promises credible. This is particularly a problem in times of high inflation. We suggest that international financial institutions consider making it easier to access a portfolio of developed country bonds, real interest rate insurance, and other improved investment opportunities. These steps would vastly enhance the environment for economic security systems operating in the developing world.

SOCIAL SECURITY AND SOCIAL SAFETY NETS IN DEVELOPING COUNTRIES

A Note on the Approach and Activities of the International Labor Office

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The following note summarises the current approach of the International Labour Office towards the development and reform of social security and social safety nets in developing countries[1]. It is to be emphasised that although the note covers the views and activities of the Office, it does not commit the official organs of the International Labour Organisation itself, or necessarily reflect their views. The note is brief, but some of these reflections have already been circulated in a number of recent publications and internal documents and this note draws substantially from them. A selection of these will be available at the meeting of the Committee.[2]

1. General issues

Almost all countries now possess some form of institutionalised social security system. However there is considerable variation between groups of countries, between regions, and between individual countries as to the contingencies and population covered, as to the level of benefits, and in the efficiency and effectiveness with which the schemes operate.

Social security schemes in developing countries are of fairly recent origin. A number of schemes were established in Latin American countries during the 1920s and 1930s, but for most developing countries social security schemes were not developed until the end of the colonial era, in the 1940s, 1950s and in some cases 1960s. In contrast to

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1 Countries in transition from a planned to a market-oriented economy, mostly Eastern and Central European economies, constitute a separate group which is not discussed in this note. Although there is also an urgent need for the reform of social security and social safety nets in these countries, their characteristics differ substantially from those prevailing in most developing countries, particularly in terms of their administrative capacities, in their history of universal provision, and in the structure of their labour markets. As a result the general problematique, policy strategy and reform options are also different.

2 In particular: Social security and social protection, Report of the Director General (Part I) to the 80th International Labour Conference, Geneva, June 1993; Social security and the process of economic restructuring, Report of the Director General (Part II) to the 13th Conference of American States, Caracas, October 1992; Health care and pensions in developing countries: the basis for strategy, articles by Gillion, Otting, Cichon and Iyer, International Labour Review, Vol 132, No2, 1993; Social protection, safety nets and structural adjustment (Nov 1991) and Social protection and safety nets (Nov 1992), Papers prepared for the Employment Committee of the Governing Body.

the success achieved in developed countries[3], and even after several decades of experience, social security schemes in developing countries are deficient in a number of major respects. In part, the deficiencies reflect problems arising from the inherent economic structure of the countries concerned, often compounded by a chronic weakness in administrative and financial capacity. But they also reflect the economic difficulties and crises faced by developing countries over the last decade or so and problems associated with programmes of structural economic adjustment. In contrast, the demand for effective programmes of social protection has grown, in response to both economic and social changes. The dichotomy between what is available and what is desired has resulted in an increasing questioning of the design, operation and appropriateness of the schemes and a greater willingness on the part of governments and the social partners to contemplate major reforms to existing schemes or, in some cases, a complete recasting of the framework of social protection.

However, in approaching the question of reform, developing countries face three major constraints which do not apply, or apply with much reduced severity, to the social security programmes in developed countries.

One of the most important constraints concerns the proportion of the labour force employed in the formal or modern sector of the economy, where workers and employers can be identified, earnings monitored, contributions and taxes collected, and entitlements recorded. In developing countries this proportion can be very low. For the African region, less than 10 per cent of the active population is employed in the formal sector. In other regions the proportion is higher. But developing countries as a whole face the simple arithmetic dilemma of possessing neither the basic framework to establish a self-balancing network of contributors and beneficiaries, nor a revenue base from general taxation which is sufficient to provide benefits on a universal basis. What is particularly worrying is that over the last decade or so, and under the pressure of adverse conditions, the size of the formal sector has declined and with it the proportion of the population which can be covered by social security.

The second major constraint is essentially social and political. Income in many developing countries tends to be more unevenly distributed than in developed countries, and this is often reinforced by a disproportionate access to political power and influence. Where the development of a social security system implies the redistribution of income

[3] To some extent, the experience of the developed countries represents a benchmark of what might eventually be achievable in developing countries. Social security schemes in developed countries are large-scale, universal, efficiently operated and have achieved considerable success in providing high quality health care, in reducing poverty in old age, and in providing basic income support for individuals excluded from employment and earnings. But they are expensive, and some of their impact, scale and financing is now being questioned.

from one economic or social group to another -- for example in the provision of generalised health care services or in protection against poverty -- tensions are likely to arise and it becomes difficult to persuade those in a comfortable position to push for the extension of social security to the excluded and significantly poorer sections of the community who are unlikely to be able to pay their own way. Obviously, the existing and accepted distribution of income places cultural and social limits on the amount of solidarity which it is possible to build in to social security programmes.

A third constraint concerns the efficiency and effectiveness of the social security institutions charged with collecting contributions and paying benefits. The administration of social security programmes is inevitably complex, in terms of the records which must be kept, the efforts needed to ensure the compliance of employers and employees, in terms of financial management, the control of provider and independent agencies, and in terms of the regulatory structure. In many developing countries these arrangements do not function, or function so badly that the scope and effectiveness of the schemes fall far short of full coverage of even the formal sector. Such deficiencies may not be insuperable, but until they can be overcome they represent a major obstacle to the operation of social security schemes.

The approach of the ILO to these questions and to the momentum for reform derives from both technical considerations and from its normative appreciation of the issues. From its beginnings, the ILO has viewed the provision of social insurance and social protection both as a human right and as an essential element to be embodied in concepts of international labour standards. The International Labour Conventions and Recommendations -- which consitute the ILO's mandate in the area of labour and social policy -- and the publications arising from them reflect many of the concerns being raised in the current policy debate. In the form of international legal instruments, the international labour standards reflect the normative view of the world community on the question of minimum measures of social protection. They have evolved over time and, together with other declarations of human rights which touch upon questions of social protection, they remain a basic criterion of the need for reform and for the directions which reforms might take.

Subject to these constraints, and within the context of its normative mandate, the ILO is adopting a pragmatic, flexible and gradualist approach to questions of reform.

2. Pensions and the financing of health care

As far as health care and pensions are concerned, there are a number of common threads. Questions of the efficient management and administration of social security

schemes are placed at the top of the list of improvements which need to be achieved. But even if such schemes were to operate efficiently, a pluralistic and flexible structure of benefits, services and their financing appears to offer the greatest potential to societies which, because of the structure of their labour markets and because of their great disparities in incomes and wealth, are not yet able to establish the basis for uniform social provisions. In this framework, the State has a mixed role to play: on the one hand it must provide basic benefits for the population as a whole and must ensure contribution-based entitlements for those in formal employment; on the other hand it must regulate and supervise social protection which might be provided through non-public schemes. Such developments may require institutional changes, particularly in terms of the creation of supervisory bodies placed in between the Government, the social security institutions and private sector providers and agencies. A principle concern is that improvements in the operating efficiency of schemes should go hand-in-hand with any necessary changes in their structure or institutional framework: one without the other is insufficient.

Issues and problems

The principal deficiencies observed in retirement pension schemes in developing countries include the following:

- In spite of initial intentions, the schemes have made hardly any headway in extending their coverage beyond the formal sectors of the economies concerned. This means that substantial sections of the population remain without any form of protection against the long-term contingencies.

- There are major gaps in compliance: revenue from contributions is frequently much less than it should be; employers (including the government and often with the connivance of employees) do not pay the contributions they should, or understate the earnings on which contributions should be based;

- Investment income in real terms is frequently lower than it should be, and is sometimes negative. This can arise from the absence of properly functioning financial markets or from implicit or explicit appropriation by the government of social security reserves;

- Administrative costs tend to represent a high proportion of revenue: because of general management inefficiencies or because of excessive staffing and/or salaries within the social security institutions;

- Where they exist, direct transfers from public budgets, particularly those needed to fund flat-rate anti-poverty pensions, have been eroded over the last decade or so by overall budgetary constraints and by a failure to give them adequate priority in total

public expenditures;

- Administrative deficiencies, in particular the absence of efficient record keeping and processing of claims, frequently means that benefits are paid late, are underpaid, or are not paid at all;

- High inflation levels coupled with revenue problems and the absence of indexation procedures have meant that initial benefit levels and their subsequent real value have been substantially devalued, in some countries to derisory levels.

The financing and organisation of health care systems in developing countries face a similar range of problems. Typically such systems include three main components:

- a public system financed from general revenues, in principle universally available and intended for those who cannot afford, or do not have access to, other forms of health care;

- a small but well equipped private delivery system, available to clients who can pay or who have access to private health insurance;

- between these two extremes, a range of health insurance schemes available to workers and their families in the modern, formal sector. In many cases this tier is organised as part of a formal social security scheme and is financed by contributions from workers and employers

In addition to weaknesses of management and administration similar to those described for pension schemes, health care systems face other problems:

- health care programmes, in total, are generally underfunded. The total level of resources directed towards health care is less than even their low incomes might lead one to expect and substantially lower than would be warranted by their value as an investment in human resources and hence in economic and social development;

- there is an absence of planning, supervision and allocation of resources across the health sector as a whole. In particular, there is a lack of coordination and proper allocation of resources, especially personnel, between the separate tiers of the health care structure.

- services, particularly in the public and social security components, are frequently of low quality, access is often limited, queues may be long, especially in regions outside the capital and principal cities;

- there is a misallocation of resources, with excessive concentration on curative care, and within curative care, on expensive hospital-based care, to the detriment of preventive measures. Excess capacity in some areas contrasts with inadequate facilities and services in other areas. There can often be undue emphasis on high-technology treatments at the expense of more simple, more cost-effective, and more widely-available services using cheaper technology;

- all components face rapid increases in costs, stemming largely from increases in provider reumeneration but also reflecting difficulties arising from the supply and cost of pharmaceuticals;

These and other considerations imply that, for both pensions systems and in the financing of health care, there is a major need for reform and development.

Operational efficiency

First priority needs to be given to improvements in the management, administration, planning and operation of health care and pension schemes. This is obviously likely to involve a lengthy and evolutionary process rather than radical or sudden change, but what is chiefly required is the fixing of management targets, responsibility for them, and accountability for their achievement. Key areas include:

- the improvement of financial management, especially concerning the investment of pension funds;

- regular actuarial monitoring of the schemes;

- the development and implementation of electronic data processing techniques and their application to record keeping;

- more rigourous monitoring of employment and earnings and the pursuit of compliance by employers and employees who are in default;

- implementation of training and personnel development programmes;

- more effective relationships between headquarters, regional and local offices;

- the improvement of client relationships, greater transparency of operation, and better information services to contributors and beneficiaries as concerns obligations and entitlements;

- improved services for forecasting and policy analysis capable of providing both

management advice and of ensuring better coordination with public services generally and in particular with ministries of labour, finance, economic planning and social welfare

- closer monitoring, planning and control of the supply of health care professionals, their remuneration, and their distribution both between the various health care sectors and between different regions;

- improved purchasing and price monitoring of pharmaceuticals.

The structure of the schemes

In addition to improvements in operational efficiency, reforms may also be required in the structure of both health care and pension schemes. In general terms, the principal objectives should include at least three main components: the provision of basic universally available services for the population as a whole, which would guard against poverty in old age in the case of pensions, and which would provide basic access for all in the case of health care; old-age pensions which would provide a replacement income in old age and health care services of good (but not excessive) quality for those who are in a position to contribute to social security schemes; and the creation of an environment for the development of additional voluntary retirement income and access to private health services for those who can afford them. The resources needed to meet the basic objectives derive from three channels: direct transfers from public budgets and funded by the tax system; benefits provided by social security schemes financed by earnings-related contributions; and the income derived from savings accumulated over a working life. The most straightforward approach is through the adoption of a tiered system which, for both health care and pensions, would match financing sources to the separate objectives along the following lines:

- a basic tier, providing flat-rate benefits and basic health services, universally available and funded on a pay-as-you-go basis from taxation;

- a social security tier, financed from employer and worker contributions, which would provide a defined-benefit pension and health care services to contributors;

- a voluntary complementary tier, based on individual and supplementary pension schemes and supplementary health care insurance, operating on a fully funded basis and administered and provided by private sector organisations.

An infinite variety of different structures are possible within this broad framework, but in assessing the merits of any particular structure priority needs to be given to those structures which will enable the coverage of social security schemes to be extended to the,

at present uncovered and largely poorer, population in the informal sector of developing economies. In turn, this means that the financing and delivery of benefits must contain a substantial degree of solidarity between income and social groups. In part, such solidarity might be provided by tax-based revenues and their disbursement. But limits on the tax base of developing countries almost inevitably mean that (compulsory) social security systems will be needed alongside tax-based and privately funded schemes in order to achieve a proper balance between the three main objectives. It also implies that efforts along normative lines must be undertaken to persuade the better-off sections of the community to accept the redistribution of income and benefits necessary to reach the poor.[4]

The role of the state

Whatever the particular structure of health care or pension schemes, the State will necessarily assume a primarly responsibility for the competent performance of the schemes for whose delivery it is directly charged, and for the monitoring, supervision, regulation and coordination of schemes operated by social security institutions or non-public agencies. Both tasks are invevitably complex, questions of regulation and supervision no less than those of direct management and operation, and they require a cohesion between the social policies of government and its financial and economic policies.

Partly because of the pluralistic structure of retirement provisions and of health care financing mechanisms, and partly because the State is itself a principal actor in these two areas, there may be a strong case for some separation of institutional functions between the government, social security institutions and any private sector agencies responsible for complementary schemes. The different tiers need to be coordinated, planned and regulated in order to ensure that the system as a whole functions as desired and this may best be achieved by entrusting a greater degree of control to a single supervisory authority which is, to a substantial degree, constitutionally separate from the different agencies affected by the schemes and which is governed by representatives of those most directly affected -- employers and insured persons as well as government representatives. The need for such a supervisory authority is particular evident in the areas of financial management and in terms of overall planning and coordination between the different components of social protection.

3. Social safety nets

The provision of social safety nets takes on a particular aspect in the context of developing countries where a large proportion of the active -- as well as the inactive --

[4] And also, of course, that it is in their self-interest to improve the living standards, health care, education and employability of those outside the formal, modern, sector.

population is poor and is excluded both from employment in the formal sector and from the social protection which attaches to it. Conventional programmes of unemployment compensation and income maintenance, such as those which exist in the developed economies, are either infeasible or are unable to cope with the dual nature of economies with large informal sectors and widespread under- as well as open- unemployment. Nor can they replace anti-poverty policies where, for mainly structural reasons, large proportions of the population live in conditions of endemic poverty. In these circumstances, social protection against economic shocks, at either a micro- or a macro-economic level, assumes a correspondingly dual character.

On the one hand, it may be possible to put in place a combination of passive income support and active labour market measures designed to provide income protection for those becoming unemployed from the formal sector and to encourage their reinsertion into employment and, where appropriate, to provide the necessary retraining. The package of measures available for this purpose is by now well understood from experience in developed countries. It includes:

- unemployment compensation and unemployment insurance programmes (and/or lump sum redundancy payments) intended to cushion the initial loss of earnings from unemployment and to facilitate job search;

- minimum income provisions, and family support, once entitlement to unemployment compensation has been exhausted;

- the continuation of health care coverage, at least for a certain period following redundancy;

- a range of employment services;

- training programmes, both basic and vocational, designed to improve the employability of redundant workers;

- for younger entrants to the work force, support, both in terms of training and in terms of income, in their efforts to embark upon a mainstream career;

- for older workers, enlarged possibilities of early retirement;

- increased availability of credit for the establishment of small enterprises;

- general measures aimed at the promotion and creation of employment;

- subsidised employment and/or public employment schemes, where such schemes can

also be justified on grounds of need and efficiency.

Measures along these lines are particularly relevant where programmes of economic restructuring are in place and involve, sometimes large-scale, dismissals from the public service and parastatal enterprises as well as from inefficient and uncompetitive private sector enterprises. However the capacity of developing countries to embark on such programmes is restricted in a number of ways. A chief constraint is finance, especially where structural adjustment programmes may simultaneously involve a reduction in public expenditures. Such measures are also weakened by the proximity of substitute unemployed from the informal sector, sometimes by skill mismatches and a lack of adaptability on the part of those becoming unemployed, by their need to be largely self-financing, and by the need for equity between those who have lost jobs and those who never had them at all.

On the other hand, the (usually much poorer) population in the informal sector, both rural and urban, frequently requires a safety net of a different kind. In this case protection is required against abrupt changes in the prices of basic and subsistence commodities, against income shocks arising from changes in import and export prices, exchange rates, interest rates, or from the removal of subsidies and/or price controls on basic necessities of food, heating or housing. The range of measures in this case may involve maintaining subsidies, providing support in particular for households with children, and giving greater priority to social expenditures within national budgets.

Such generalised measures face a number of other constraints, not least of which, as with other social programmes, is the administrative capacity to ensure their implementation and appropriate targeting. The constraints may be more severe where countries are undertaking programmes of structural adjustment, not only because of the additional restrictions which a frequently placed on public budgets during such programmes, but also because moves towards increased liberalisation of the economic structure, including the removal of subsidies and price and quantitative restrictions, may themselves be a cause of adverse impacts on the poorer sections of the community. In these circumstances it is essential that both the speed and severity of the economic reforms be modified to alleviate their impact on the poor, that budget priorities be re-shaped to give greater priority to anti-
poverty measures, and that measures of social protection be integrated into the basic design of structural adjustment at their outset.

4. Activities of the ILO

The ILO has a long-standing history of involvement in the promotion of social insurance and social protection, dating back to its beginnings in 1919. Over the last forty years or so, this work has emphasised the promotion of social security schemes, anti-

poverty measures, social safety nets and employment generation in developing countries. Both this past work and the ILO's current programme -- which covers the activities of several different ILO Departments -- are set out in detail in a number of its current publications and annual reports[5]. The main components include:

- Normative and standard-setting activities, which promote and monitor the application of International Labour Standards in member countries, with particular relevance, in this case, to the promotion of standards concerned with social protection, unemployment and the generation of employment. Also involved are a number of ILO activities concerned with the promotion of tripartitism, especially as it affects the management, control and development of social security programmes.

- Research and analysis into problems of social security, employment, training and poverty alleviation, mainly carried out as part of the Office's Regular Budget programme;

- Training activities, both in terms of developing vocational programmes in developing countries as part of employment promotion measures and also, more specifically, in the training of personnel from social security and employment services in developing countries;

- Technical assistance activities (usually fairly short) which provide policy advice to member countries over a range of social and labour issues. These include actuarial advice (including training) on financial planning and management and assistance in the drafting of legislation;

- Larger scale technical cooperation activities. In the field of social security these may range in scope from the complete design of social security systems, to detailed assistance in the development of data processing services, the organisation and management of social security institutions, and the financing of social security schemes. In the employment and training area they include measures to improve the labour market position and access of women, migrants and other target groups, various forms of social funds and compensatory programmes (especially in the context of structural adjustment programmes), advice on labour market legislation, the development of labour market information services, the modernisation of employment services and measures to enhance the social protection and labour market integration of workers in the informal sector.

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5 See for example, Report of the Director General to the International Labour Conference 1993, Part II: Activies of the ILO, 1992, which gives an account of new technical cooperation projects approved in 1992, and the ILO Programme and Budget for the Biennium 1994 - 1995.

The ILO possesses only limited funds of its own for these purposes. Most of the larger scale activities are funded by outside agencies (or by the countries themselves) with the ILO acting as executing agency. The United Nations Development Programme has been a principal source of external funding, but substantial outside funding on a number of projects has also been obtained from the World Bank, from bilateral or multilateral donors, or from other international agencies. In many cases the ILO has worked closely with such agencies, on substantive and analytical questions as well in terms of project administration and financing, and it is expected that such arrangements will both continue and expand.

JOINT DECLARATION BY MR. MICHEL CAMDESSUS, MANAGING DIRECTOR, INTERNATIONAL MONETARY FUND, MR. LEWIS PRESTON, PRESIDENT, WORLD BANK, AND MR. PETER D. SUTHERLAND, DIRECTOR-GENERAL, GATT

We, the heads of our respective Institutions, join the Ministers in their unanimous conviction of the critical importance their governments must give to the successful conclusion of the Uruguay Round by the end of this year. The actions required by participants are clear--and amount to changing policies detrimental to both growth and social welfare in their own countries. The result will be a much needed strengthening of growth opportunities everywhere. The time to act is now.

The growth of world trade and financial flows over many years has provided an important basis for the development of nations; in the past year it has provided virtually all growth in the industrial nations. The opportunity to enhance the contribution of trade to overall economic activity in the decades to come, through providing greater stability by updating and strengthening multilateral trading rules and liberalizing trade in all sectors is within grasp. We, thus, have decided to stress jointly that the cooperative strategy toward expansion of growth and employment requires decisive action by our governments now if the opportunity provided by a successful Uruguay Round is not to pass.

With the need to strengthen economic activity, and particularly job creation, a successful Uruguay Round would do much to remove uncertainty and increase business opportunities. Failure to conclude the Round would lead to greater protectionism and loss of confidence, with major economic and social implications for high and low-income countries alike. It could also put at risk the new democracies in Eastern Europe and the countries of the former Soviet Union, for which economic reform and assimilation into the global economic system are vital to political stability and economic growth.

Failure to conclude would validate the rising wave of protectionist rhetoric and increase the danger of a vicious circle in which heightened protectionism impedes economic recovery, and the lack of recovery in turn feeds protectionist pressure. Experience shows that defensive measures to protect positive industries may preserve jobs in those industries for a short time, but will destroy jobs elsewhere--nationally and globally--through increased prices and taxes, lower wages, and lower job growth. Liberal trade, based on clear and predictable rules, on the other hand, leads to a virtuous circle of lower prices, higher wages, and more vigorous job growth.

Uncertainty about industrial nations' commitment to the multilateral trading system puts at risk he success of many countries that have unilaterally liberalized their trading regimes in recent years and discourages others from following in their footsteps.

Continued opening of markets--their own and those of industrial economies--is critical to the growth of lower-income countries. Higher-income countries, rather than fear such growth, should encourage it as it expands the market for their own export industries. Resistance to competition has never led to enduring income growth. This, the positive response is restructuring industry and retraining labor, which is the route to higher living standards for all.

With so much at stake, political hesitations and vested interests must be put aside. Courageous and visionary decisions need to be made quickly to conclude the Uruguay Round and thereby contribute to a return to substantial and sustainable economic growth.

DEVELOPMENT COMMITTEE

JOINT MINISTERIAL COMMITTEE
OF THE
BOARDS OF GOVERNORS OF THE BANK AND THE FUND
ON THE
TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES

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September 27, 1993

COMMUNIQUE

1. The 47th meeting of the Development Committee was held in Washington DC on September 27, 1993 under the chairmanship of Mr. Rudolf Hommes, Minister of Finance and Public Credit of Colombia. [1] The Committee extended its thanks to the retiring Chairman, Mr. Ricardo Hausmann of Venezuela.

GAZA AND THE WEST BANK

2. The Committee welcomed the outstanding contribution to the Middle East Peace Process made by the World Bank in preparing the ground for a coordinated program of financial support for Gaza and the West Bank.

WORLD ECONOMY

3. The Committee reviewed the impact on developing countries of recent trends in the world economy. It renewed its call for a fresh impetus to growth in the industrial countries, and for a successful conclusion of the Uruguay Round by the end of 1993 on the basis of a comprehensive and balanced agreement; this is crucial to the growth prospects for industrial and developing countries alike. It therefore welcomed the joint statement by Mr. Sutherland, Mr. Preston, and Mr. Camdessus, issued on the morning of its meeting.

ADJUSTMENT EXPERIENCE OF LOW-INCOME COUNTRIES AND THEIR FINANCING NEEDS

4. The Committee recognizes that many low-income countries have found it hard to make the economic adjustment necessary to achieve economic and social progress. There

[1] Mr. Lewis T. Preston, President of the World Bank, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. Peter Sutherland, Director-General of the GATT, Mr. Mohammed Imady, Minister of Economy and Foreign Trade of Syria and Chairman of the Group of 24, and Mr. Peter Mountfield, Executive Secretary, took part in the meeting. Observers from a number of international and regional organizations also attended.

are several reasons: the main ones are poor initial conditions; lack of domestic savings; lack of adequate institutional and administrative capacity; inappropriate policies which take time to correct; and an unfavorable external environment. Progress in most directions has been slower than among the middle-income countries, but the preliminary evidence suggests that countries which sustain strong adjustment policies do better than the rest. In these countries there has been significant progress with macro-economic stabilization and outwardly orientated policies, and in decontrolling domestic prices, particularly in agriculture. But even there, financial-sector and public-enterprise reforms have lagged behind, and private investment has responded only with a considerable lag. As a result, improvements have not yet led to a sustained increase in income per capita, and success in reducing poverty and in protecting the environment has been uneven.

5. The Committee welcomes the broadening political consensus on adjustment strategies which stress stabilization and market-friendly measures, combined with human resource development and poverty alleviation. It believes such strategies will succeed over time, if implemented consistently and backed up by structural reforms consistent with long-term sustainable development. It therefore urges countries which have not yet embarked on the adjustment process to formulate and implement their own programs accordingly. The design of adjustment programs and of external assistance needs to reflect the socio-political background and institutional capacity of the countries concerned. It follows that the best programs are those which are home-grown. The Bank and the Fund (as appropriate) in their relations with the borrowing countries, will do more to address the impact of macro-economic and adjustment measures and their sequencing on poverty, employment, investment and the environment. Some of the lessons of the East-Asian experience may be relevant to today's low-income countries, particularly those of macro-economic policy, export orientation, human resource development and the training of a professional civil service.

6. In many cases, low-income countries will need to supplement domestic savings with foreign investment and with substantial and timely concessional financial support, together with necessary and appropriate relief of bilateral debt. To sustain the required levels of external support and investment, they will have to maintain their commitment to economic reform, poverty alleviation, environmental soundness, public participation and good governance. Donors should focus concessional assistance on the low-income adjusting countries. They should complete ratification of IDA-10 as early as possible, agree to the broadest possible spectrum of contributors to the ESAF successor, work for its rapid implementation, and make significant bilateral contributions to the SPA.

SOCIAL SECURITY REFORM AND SOCIAL SAFETY NETS

7. The Committee looked at the continued need for social support, both to meet life hazards and to help those hurt by necessary adjustment measures. Many existing

insurance structures have created unsustainable burdens on the government budget and the competitiveness of the formal sector, while failing to cover important groups of the population. Existing entitlements may now have to be reviewed. In many countries, including economies in transition, a system combining elements of public and private provision will be appropriate, but the mix will vary from case to case. The international institutions can help by continuing to provide technical assistance and policy advice.

8. In addition to these classical social security systems, countries engaged in adjustment or systemic transformation may require well-designed extra social safety nets, integrated into their poverty-reduction strategy, involving schemes such as labor-intensive public works, nutrition programs, targeted food subsidies, retraining of dismissed workers, and "social funds". But governments should avoid creating new long-term entitlements which might build up future budgetary problems. The appropriate mix of measures depends on data availability, administrative capacity, and financial resources. Budget outlays should where necessary be reallocated to provide financial resources, both for safety nets and for other pro-poor social spending. The poorest among them may require continued technical and financial support for such schemes from the World Bank and from donors. The Committee welcomes the constructive part played by the Bank and the Fund in their respective roles, in supporting social security system reforms and establishing and financing safety nets as part of their adjustment lending.

WORLD BANK WOMEN-IN-DEVELOPMENT STRATEGY

9. The Committee welcomed a report on the World Bank's attempts to integrate gender issues into its overall development strategy. It commends the progress made, and welcomes the President's commitment to a further strengthening of the Bank's operations in this area. It notes that the Bank's Executive Board will be reviewing the strategy in the Spring of 1994.

THE COST-EFFECTIVENESS OF AID

10. The Committee believes it is more than ever important to enhance the effectiveness of development assistance, welcomes recent steps taken by the World Bank in this context, and proposes to address this matter next year. In order to provide maximum help to recipients, donor agencies and multilateral institutions need to maintain and improve their cost-effectiveness.

NEXT MEETING

11. The Committee will meet again in Washington DC on April 26, 1994, when it will discuss population and migration issues.

DEVELOPMENT COMMITTEE

(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

DC/93-19

September 7, 1993

NOTICE OF MEETING

The 47th meeting of the Development Committee will be held on Monday, September 27, 1993, commencing at 9.00 a.m., in the Meeting Hall of the International Monetary Fund, Washington, D.C.

PROVISIONAL AGENDA

1. Main papers for discussion: 1/

   (a) Adjustment Experiences in Low-Income Countries and Implications for Financing Needs

   (b) Social Security Reforms and Social Safety Nets in Reforming and Transforming Economies

2. Progress Report on the World Bank's Activities on Women in Development 2/ (to take note)

3. Other Business

1/ These joint World Bank/IMF issues papers were requested by the Committee in para.12 of the May 1993 Communique.

2/ This report, to be prepared by the World Bank, was requested by the Committee in para.22 of the October 1991 Communique.

In addition, three Supplementary Papers (DC/93-24, DC/93-25 and DC/93-26) dealing with the principal topics above, are also available.

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Appendix B

MEMBERS OF THE DEVELOPMENT COMMITTEE

List of Countries Represented by them and their Executive Directors
at the World Bank and the International Monetary Fund

(as of September 20, 1993)

	Members	Executive Directors	Countries
1.	Mohammad Abalkhail Minister of Finance and National Economy Saudi Arabia	Muhammad Al-Jasser (Fund) Ibrahim A. Al-Assaf (Bank)	Saudi Arabia
2.	Ibrahim Abdul Karim Minister of Finance and National Economy Bahrain	A. Shakour Shaalan (Fund) Faisal Abdulrazak Al-Khaled (Bank)	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Socialist People's Libyan Arab Jamahiriya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen
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