

# IMF Policy Discussion Paper

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## Poverty and Social Impact Analysis in PRGF-Supported Programs

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**IMF Policy Discussion Paper**

Fiscal Affairs Department

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**Abstract**

The views expressed in this Policy Discussion Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Policy Discussion Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

This paper aims to inform on the status of Poverty and Social Impact Analysis (PSIA) in IMF-supported programs, detailing the results presented in the recent review of PRGF-supported programs. The review showed that more needs to be done, both in undertaking PSIA when necessary, and in reporting the policy tradeoffs in program documents. Policy design should be continuously informed by the results of PSIA.

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## I. INTRODUCTION

**Poverty and social impact analysis (PSIA) is the assessment of intended and unintended consequences of policy interventions on the well-being of a country's social groups, with a special focus on the vulnerable and the poor.** Understanding the impact of policy changes on different groups is critical in designing effective poverty-reduction strategies. PSIA enables countries to evaluate different policy options before they are implemented, modify ongoing policies, or design countervailing measures to alleviate any adverse impact on poorer groups of the population.

An important feature of the IMF's Poverty Reduction and Growth Facility (PRGF) is to include poverty and social impact analysis of measures that may have significant adverse effects on the poor. The recent PRGF review has documented the progress in implementing this key feature.<sup>2</sup> The purpose of this paper is to inform on the status of PSIA in PRGF-supported programs and to provide details of the analysis presented in the recent PRGF review, with the aim of drawing lessons from the experience to date.

## II. BACKGROUND

**The IMF has taken a progressively more active stance on social policies over the years, to ensure that they are well integrated into IMF-supported programs and IMF policy**

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<sup>2</sup> See Gupta and others, 2002.

**advice.**<sup>3</sup> In the early 1990s, IMF staff increasingly sought to incorporate social safety nets into adjustment programs, an approach that was endorsed by the IMF Executive Board in 1993. The purpose was to mitigate the adverse effects of program design on the poor. In 1997, IMF staff were issued guidelines for monitoring of social expenditures and social indicators, including the core set of international development goals. Programs supported by the Enhanced Structural Adjustment Facility (ESAF) sought general budgetary allocations for social safety nets. By the late 1990s, there had been some use of structural benchmarks and performance criteria to secure social protection objectives.<sup>4</sup>

**The IMF has essentially relied on other institutions for advice on social issues.**

Collaboration with the World Bank has been critical for the implementation of the Highly Indebted Poor Countries (HIPC) Initiative, and more recently, in encouraging countries to develop country-owned Poverty Reduction Strategy Papers (PRSPs).<sup>5</sup> More broadly, the IMF has intensified collaboration with other international agencies having social policy expertise and engaged representatives of civil society groups in dialogue on social concerns (see below).

**Despite the IMF's increased involvement in social issues, a 1997 review of ESAF-supported programs concluded that more was needed to be done to ensure that**

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<sup>3</sup> For a review of the evolution of the IMF's social policy advice see Gupta and others, 2000.

<sup>4</sup> Ibid.

<sup>5</sup> For a description of the PRSP approach see <http://www.imf.org/external/np/exr/facts/prsp.htm>

**macroeconomic, structural, and social policies complement each other.** In particular, both an internal review and external evaluation of the ESAF found that there was need for more comprehensive ex ante analysis of the likely social impact of key macroeconomic and structural reform measures.<sup>6</sup> In addition, the internal review noted the need for appropriate social policy instruments before economic reforms are implemented, and for adequate follow-up of performance and monitoring of social safety nets during program implementation.

**The Poverty Reduction and Growth Facility (PRGF) replaced the ESAF. A key feature of PRGF-supported programs is the inclusion of poverty and social impact analysis (PSIA) of major macroeconomic adjustment and structural reforms.**<sup>7</sup> Under the PSIA framework, analysis is undertaken with the objective of continually informing policy dialogue, choice, and implementation, within the broader objective of promoting sustainable poverty reduction and social inclusion.<sup>8</sup> This represents a departure from previous practice, where the costs of social safety nets were incorporated into program targets as a way to mitigate the adverse impact of policies on vulnerable groups, but did not necessarily continually feed into the decision-making process, during and after program implementation.

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<sup>6</sup> See IMF, 1998; and Abed and others, 1998.

<sup>7</sup> See IMF, 2000.

<sup>8</sup> See IMF and World Bank, 2001a.

**PSIA would need to be integrated into poverty reduction strategy papers, since it enables countries to weigh the trade-offs of reforms, and to take ownership for the policies to be implemented.**<sup>9</sup> As a result, it is critical that country authorities take the lead in PSIA. However, given the data and technical capacity constraints in many developing countries, substantial technical assistance will be required.

### **III. PSIA IN PRGF-SUPPORTED PROGRAMS TO DATE**

**How has PSIA been implemented in PRGF-supported programs to date?** As detailed below, although there has been an improvement over ESAF-supported programs, there is scope for significant improvement.

#### **A. Methodology for the Review**

The PRGF review analyzed programs approved or reviewed by the Executive Board between July 1, 2000 and September 30, 2001. The sample includes countries that started a new three-year PRGF-supported program (19 cases of “new” PRGFs). It also includes countries that had ESAF-supported arrangements but were then “transformed” into PRGF-supported arrangements through two or more reviews or a review supported by a full PRSP during this period (16 cases of “transformed” PRGFs). For comparison purposes, the review also included the last annual arrangement under ESAF-supported programs for the same sample of countries.

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<sup>9</sup> See IMF and World Bank, 2001b.

The review first took stock of reforms that could potentially have a negative impact on various groups in countries with PRGF-supported programs. Then, it sought to identify instances where PSIA had been undertaken. However, this task is inherently complex, since there could be cases where PSIA could have been undertaken, but not reported in program documents. As a result, two definitions were adopted. The first defines PSIA broadly to include instances where social consequences of policies were considered in program documents, whether these were based on a simple qualitative analysis or supported by analytical studies. Whenever IMF program documents made reference to potential social consequences of policy actions, it was assumed that PSIA was undertaken. Because such analyses were inferred from reports, the possibility of over- or underestimating PSIA cannot be ruled out. In the second definition, PSIA is accounted for in instances where analysis supported by rigorous analytical studies are mentioned in IMF program documents.<sup>10</sup>

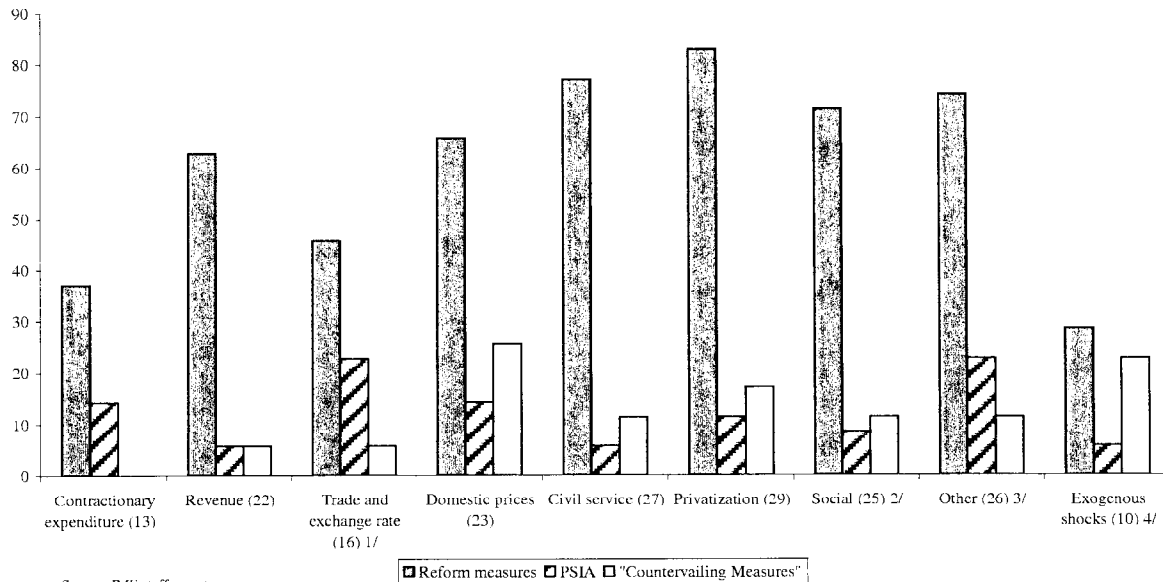
## **B. How Prevalent Are Measures with Potentially Negative Social Impacts?**

**All PRGF-supported programs have at least one type of reform with potentially negative effects on the poor** (Figure 1). In particular, 94 percent of PRGF-supported countries included at least one type of macroeconomic reform; 100 percent included at least one type of structural reform; and 29 percent had to face an exogenous shock.

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<sup>10</sup> This approach did not assess the extent of public debate on PSIA and the associated risks, or the quality of the PSIA, but rather focused on quantifying the number of instances where PSIA was present. For an in-depth review of the broader issues involved in PSIA, see World Bank, 2002.

Figure 1. Reforms in PRGF Countries and Poverty and Social Impact Analysis  
(In percent of PRGF countries, number of countries undertaking reform in parentheses)



Macroeconomic reforms included measures in revenue, expenditure, exchange rate, and international trade policies. On the structural front, the most common measures include privatization, civil service reform, and changes to domestic prices.

**Among macroeconomic reforms, common measures include reforms in tax policy (63 percent of PRGF-supported countries) and expenditure policy (74 percent of PRGF-supported countries).** Interestingly, new PRGF-supported programs more often contain increases in public spending than transformed PRGF-supported programs do. This coincides with the finding that PRGF-supported programs are accommodating higher public spending than ESAF-supported programs (Table 1 and Figure 1).<sup>11</sup>

<sup>11</sup> See Gupta and others, 2002 (forthcoming).

Table 1. Policy Reforms in ESAF- and PRGF-Supported Programs  
(Percent of countries)

Policy choices	Reform Measures		Countries Undertaking PSIA		Countervailing Measures	
	PRGF	ESAF	PRGF	ESAF	PRGF	ESAF
All reform measures	100	100	63	9	69	56
Contractionary expenditure	37	53	14	0	0	0
Revenue	63	85	6	3	6	3
Trade and exchange rate 1/	46	79	23	3	6	3
Domestic prices	66	50	14	0	26	12
Civil service	77	85	6	0	11	15
Privatization	83	100	11	3	17	18
Social 2/	71	68	9	0	11	0
Other 3/	74	94	23	3	11	12
Exogenous shocks 4/	29	35	6	0	23	15
Number of countries	35	34	35	34	35	34

Source: IMF staff reports.

1/ Includes reforms in international trade policy and exchange rate adjustments.

2/ Includes health, education, and pension reforms.

3/ Includes agricultural, financial, and legal reforms; changes in user fees; and decentralization measures.

4/ Includes terms of trade shocks, natural disasters, and security/refugee crises.

### C. Poverty and Social Impact Analysis

**The review found that over half of all PRGF-supported programs include some form of PSIA for one or more measures.** When using the first definition described above, about 63 percent of program documents include instances of PSIA. About 40 percent of the documents make reference to PSIA either on macroeconomic measures and/or structural measures.<sup>12, 13</sup>

**Qualitative analysis has taken many forms.** For example, in Guinea, formal PSIA was not conducted, but IMF staff held a series of limited consultations with the government and stakeholders (including trade unions) before its current PRGF-supported program, therefore providing a qualitative assessment of the potential impact of reforms. In The Gambia, IMF

<sup>12</sup> Examples of PSIA in PRGF documents are given in Appendix Table 3.

<sup>13</sup> Note that in some instances countries undertook PSIA for more than one measure, therefore numbers do not necessarily add up.

staff discussed the potential impact of some of the key policies contained in the PRGF-supported program as a first step toward a qualitative analysis. The next step is to work closely with the government, as part of the full PRSP, in developing some quantification of the impact of individual policies, using data from both the household surveys and the participatory poverty assessments.

**PSIA based on rigorous analytical studies were referred to in 34 percent of PRGF-supported programs.**<sup>14</sup> In particular, 17 percent of the programs mention studies on the impact of macroeconomic measures, while 23 percent of programs mention studies on the impact of structural measures.<sup>15</sup> Examples of these more rigorous studies include a joint World Bank-government analysis of the impact on employment of state-owned enterprise reform in Vietnam. In Chad, the government undertook PSIA on the consequences of reform in the cotton sector. In Mozambique, the Food and Agriculture Organization (FAO) undertook a cost-benefit analysis of the proposed elimination of import surcharges for sugar, while the World Bank sponsored an assessment of competitiveness and employment in the cashew-processing industry.

**A focus on the number of countries undertaking PSIA for one or more measures could overstate the prevalence of PSIA.** This is because some country programs could have many measures with potentially negative effects where PSIA would be required. In this light, the

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<sup>14</sup> The analysis could be extended beyond economic groups, to different social groups, and there are different tools and techniques for undertaking this analysis. However, this paper does not review these tools and techniques, but rather takes stock of whether any type of analysis was undertaken at all.

<sup>15</sup> Note that in some instances countries undertook PSIA for more than one measure, therefore numbers do not necessarily add up.

review found that under the first definition, PSIA was undertaken for less than half of each particular reform measure (Table 2 and Figure 2).

Specifically:

- As noted earlier, macroeconomic reforms were undertaken in 94 percent of all PRGF-supported programs, of which 18 percent were accompanied by PSIA, and 12 percent by countervailing measures. Depending on the composition of the expenditure, contractionary expenditure policy can have a negative impact on the poor. Although the potential negative effects are discussed in 38 percent of countries undertaking contractionary expenditure policy, none of the PRGF-supported program documents present a rigorous study assessing the poverty and social impact. Given the broad nature of these reforms, there are no specific safety nets incorporated in programs to protect the most vulnerable. However, 77 percent of the programs that include expenditure cuts mention increases or protection of social spending as a way to offset the negative impact of lower overall spending.
- Trade and exchange rate measures were undertaken in 46 percent of all PRGF-supported countries, of which 50 percent had some form of PSIA but only 13 percent incorporated a safety net. On the structural front, despite the large number of countries undertaking some form of civil service reform (77 percent of programs) and privatization (83 percent of programs), program documents report some form of PSIA in only 7 and 14 percent of these cases, respectively.

Table 2. PSIA and Safety Nets in ESAF- and PRGF-Supported Programs  
(Percent of reforms)

Policy choices	Countries Undertaking PSIA		Countervailing Measures	
	PRGF	ESAF	PRGF	ESAF
Contractionary expenditure	38	0	0	0
Revenue	9	3	9	3
Trade and exchange rate 1/	50	4	13	4
Domestic prices	22	0	39	24
Civil service	7	0	15	17
Privatization	14	3	21	18
Social 2/	12	0	16	0
Other 3/	31	3	15	13
Exogenous shocks 4/	20	0	80	42
Total countries	35	34	35	34

Source: IMF staff reports.

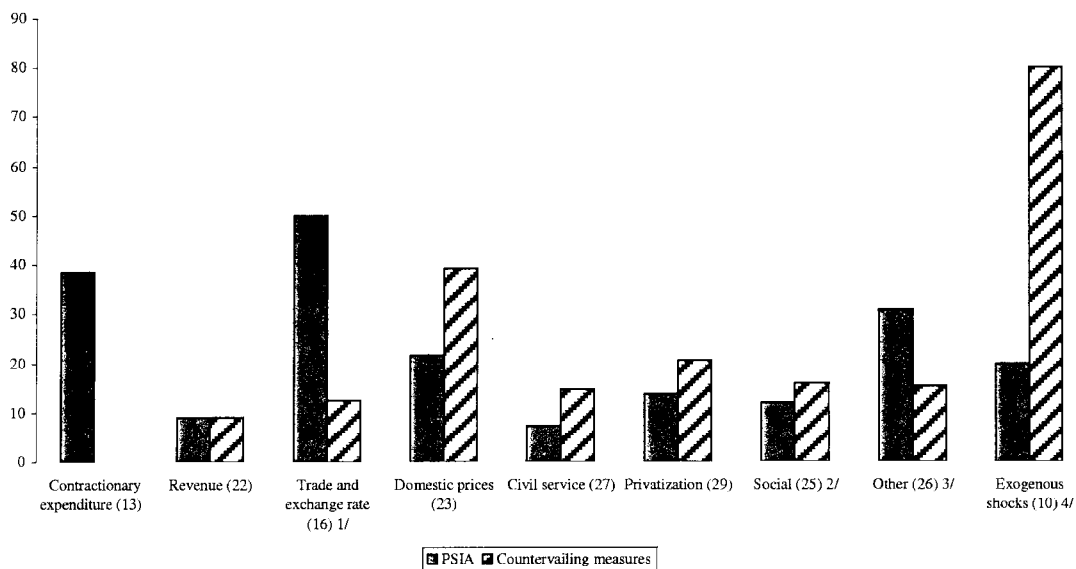
1/ Includes reforms in international trade policy and exchange rate adjustments.

2/ Includes health, education, and pension reforms.

3/ Includes agricultural, financial, and legal reforms, changes in user fees, and decentralization measures.

4/ Includes terms of trade shocks, natural disasters, and security/refugee crises.

Figure 2. Poverty and Social Impact Analysis (PSIA) in PRGF-Supported Programs and Countervailing Measures  
(In percent of countries undertaking reforms, number of countries undertaking reforms in parentheses)



Source: IMF staff reports.

1/ Includes reforms in international trade policy and exchange rate adjustments.

2/ Includes health, education, and pension reforms.

3/ Includes agricultural, financial, and legal reforms, changes in user fees, and decentralization measures.

4/ Includes terms of trade shocks, natural disasters, and security/refugee crises.

These results show the substantial scope for improvement in undertaking and reporting on PSIA in PRGF-supported programs. As shown in Figure 2, PSIA is conducted for less than 50 percent of all reforms with potentially negative social effects.

**Notwithstanding the above, PSIA is more common in PRGF-supported programs than it was under ESAF-supported programs.** The latter very rarely reported social impact analyses or discussed the potential social implications of policy measures. Only 3 to 4 percent of the ESAF-supported programs reviewed discuss PSIA undertaken for revenue measures, trade and exchange rate, privatization, or other structural reforms (Table 2). More striking is the fact that no ESAF-supported program reports on any PSIA related to contractionary expenditure policies, although 53 percent included such policies. However, 61 percent of these cases also included measures to protect or increase social spending. This compares to 77 percent of the cases in PRGF-supported programs. Although this is not a targeted countervailing measure, the aim was to partly ameliorate the potential negative impact of adjustment.

#### **D. How Has PSIA Influenced Program Design?**

**PSIA has increasingly influenced programs in both the design of economic policies and the formulation of countervailing measures.** In some cases, this has led to a modification of policies. For example, in Senegal, a 15 to 20 percent subsidy was maintained due to concerns regarding the impact of higher prices on the poor. In Mauritania, basic items (such

as wheat, medications, and minimum levels of electricity and water consumption) were exempted from the VAT to protect the poor.

**In other cases, PSIA has influenced the pace of implementation of reform measures.** For example, in Cambodia, the large-scale retrenchment of civil servants was delayed until a safety net could be put in place. In Cameroon, the authorities advocated a gradual pass-through of higher world oil prices in order to cushion the impact on the poor. In Uganda, removal of the protection accorded to the sugar industry was delayed after PSIA outlined the potential negative social impact.

### **E. Countervailing Measures**

**About two-thirds of PRGF-supported programs include countervailing measures.** In fact, one or more countervailing measures are present in 69 percent of PRGF-supported countries, up from 57 percent under ESAF-supported programs (Table 1). Countervailing measures are most common for structural reforms such as domestic prices or privatization, or in cases where there has been an exogenous shock (Table 2).<sup>16</sup>

**The design of countervailing measures varies according to the type of reform.** For example, most countervailing measures accompanying civil service or privatization reforms include some form of severance payments (Kenya, Vietnam, Mongolia). Tariff and other domestic price reforms are commonly accompanied by a safety net that could include cross-

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<sup>16</sup> Examples of countervailing measures in PRGF documents are given in Appendix Table 4.

subsidies for poorer consumers (Albania, Ghana), or targeted poverty benefits in cases where individual information is available (Azerbaijan, Georgia). Finally, in cases where there is an exogenous shock, such as a drought or the end of a war, safety nets are put in place to give food aid or provide resources for demobilization.

**When compared to ESAF-supported programs, PRGF-supported programs introduce countervailing measures more frequently for all types of reforms.**<sup>17</sup> About 56 percent of the ESAF-supported programs include some type of countervailing measure, with 18 percent aiming to ameliorate the impact of macroeconomic measures, 41 percent to reduce the negative impact of structural measures, and 15 percent to counteract negative exogenous shocks. In contrast, about 69 percent of PRGF-supported programs include countervailing measures, with macroeconomic (11 percent), structural measures (54 percent), and negative exogenous shocks (23 percent).<sup>18</sup> It should be noted that in some cases, ESAF-supported programs have implemented general safety nets not in response to any specific reform, but intended nevertheless to protect the poor.<sup>19</sup>

**Some PSIA in PRGF-supported programs is accompanied by specific countervailing measures, while in other cases no social impact analysis is discussed but countervailing measures are adopted.** This may indicate that some qualitative assessment was undertaken,

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<sup>17</sup> For examples of PSIA and countervailing measures under ESAF-supported programs, see Appendix Table 3.

<sup>18</sup> Countries could have countervailing measures for more than one measure. Therefore, the numbers do not necessarily add up to the totals.

<sup>19</sup> See examples in Appendix Table 4.

but not reported. It is possible that the proportion of programs with PSIA is underreported. In particular, countervailing measures were reported in some cases where there were increases in domestic prices, civil service reform, privatization, and changes in user fees, but there is no evidence of any PSIA (Table 2).

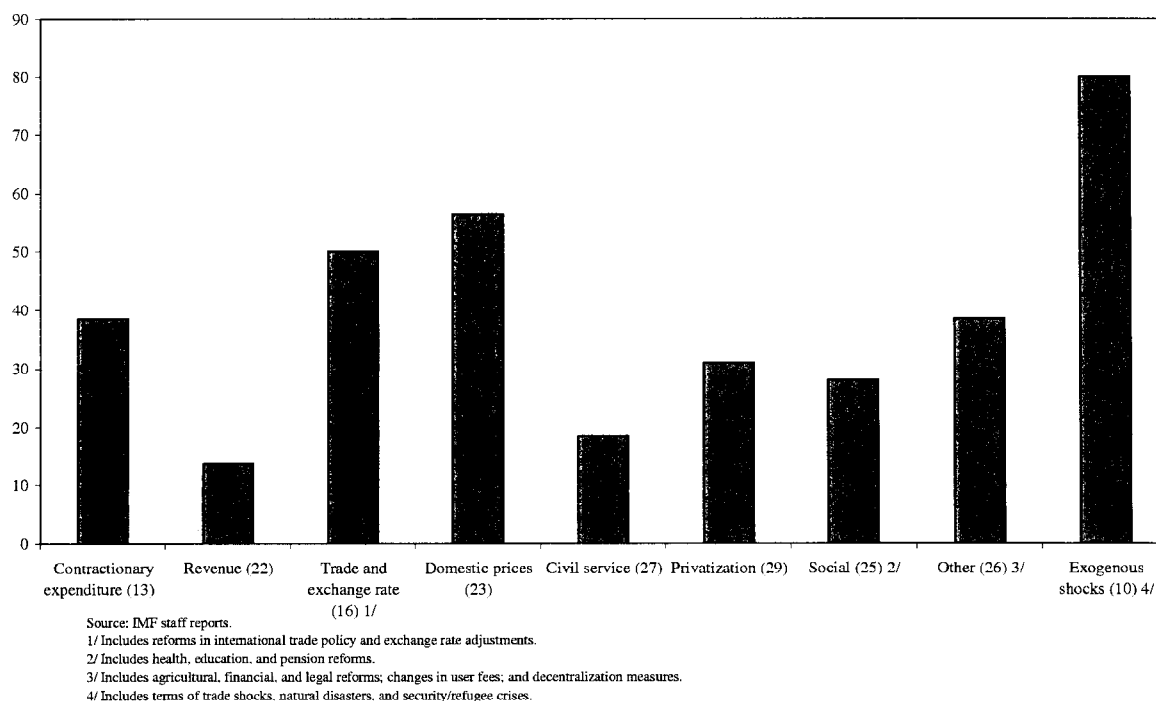
**A broader definition of poverty and social impact analysis might address the possibility that there was some PSIA in countries that implemented countervailing measures.** This broader definition counts the instances when there was either some kind of PSIA, or a countervailing measure, or both. The results reported in Figure 3 paint a more positive picture than presented under the second definition, but continue to show that less than 60 percent of measures were subjected to PSIA and/or a countervailing measure

#### **F. Regional Comparison of PSIA**

**There are some important differences across regions in terms of PSIA.** First, PSIA (broadly defined) is more common in African countries than transition economies. In particular, 78 percent of the reforms in Africa contain some form of PSIA, compared to 27 percent for transition economies (Figure 4). Both qualitative and rigorous types of PSIA are more frequent in Africa.

**Countervailing measures, on the other hand, are more common in transition economies,** with 73 percent of reforms accompanied by a safety net, versus 65 percent for African countries. This could reflect greater resource constraints in African countries, the availability

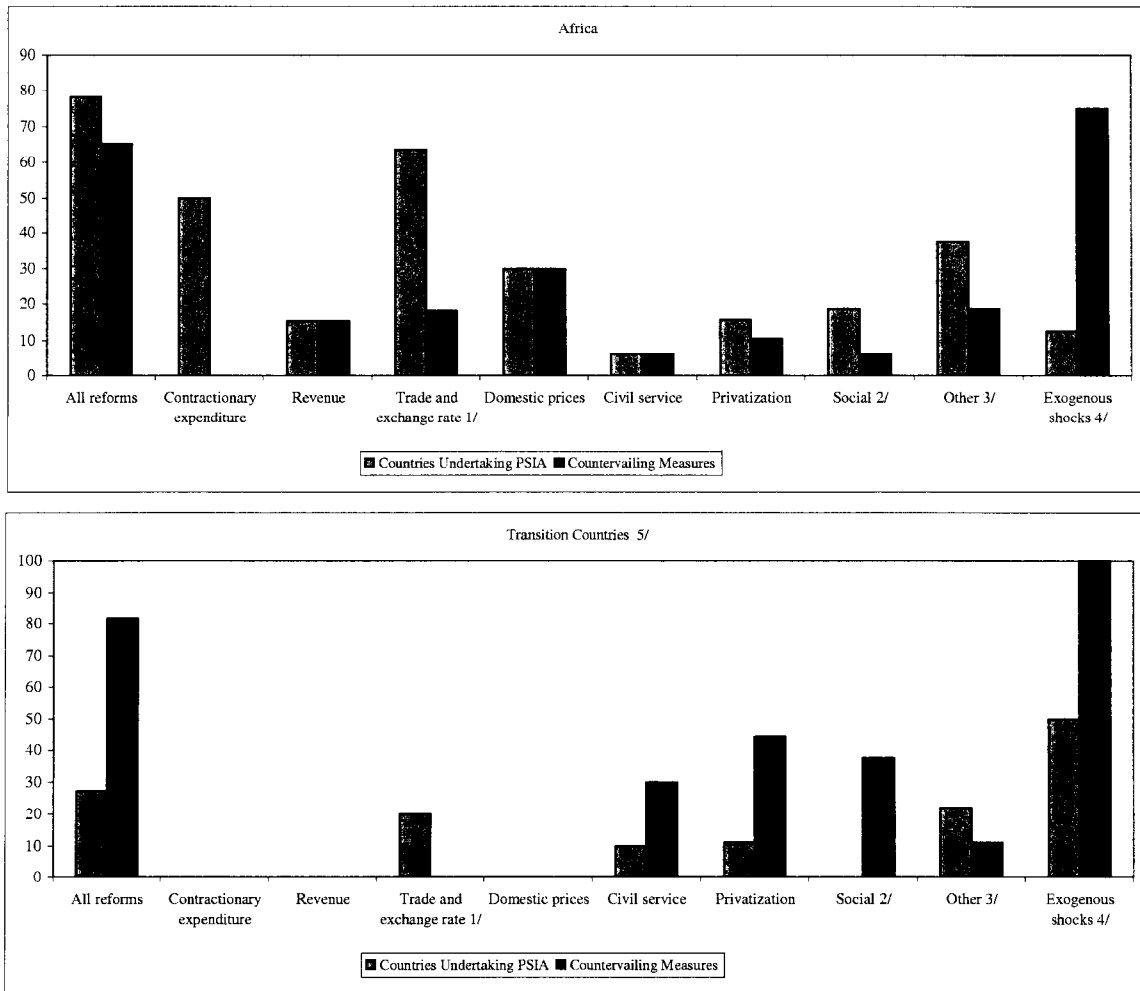
Figure 3. PSIA or Countervailing Measures  
(In percent of countries undertaking reforms, number of countries undertaking reforms in parentheses)



of more social policy instruments (such as social insurance programs and social assistance), and the active involvement of the World Bank in transition economies. It could also indicate that some form of PSIA was carried out prior to the introduction of safety nets in transition countries but was not reported in IMF program documents. Finally, several PRGF documents for transition economies refer to general social safety nets that cannot be attributed to any single reform measure.

**Countervailing measures vary across regions.** Most of the safety nets in transition economies are related to reforms of the civil service, privatization, and reforms in the social sectors—consistent with the types of reforms they were undertaking. In contrast, the

Figure 4. PSIA and Countervailing Measures  
(In percent of reforms)



Source: IMF staff reports.

1/ Includes reforms in international trade policy and exchange rate adjustments.

2/ Includes health, education, and pension reforms.

3/ Includes agricultural, financial, and legal reforms; changes in user fees; and decentralization measures.

4/ Includes terms of trade shocks, natural disasters, and security/refugee crises.

5/ Includes Albania, Armenia, Azerbaijan, Cambodia, Georgia, Lao PDR, Macedonia FYR, Moldova, Mongolia, Tajikistan, and Vietnam.

implementation of safety nets in African countries is more widespread across different reform measures. In all regions, most programs have provided safety nets for cases where there have been exogenous shocks, such as natural disasters, security or refugee crises, or terms-of-trade shocks.

#### **IV. SUMMARY**

The review of PSIA in IMF program documents found that over half of the PRGF-supported countries had some form of PSIA, broadly defined to include simple qualitative analysis as well as more rigorous qualitative and quantitative approaches. However, when looking across reform measures, it is clear that much more remains to be done as countries typically undertook more than one measure with potential negative impacts. There is room for improvement, both in undertaking PSIA when necessary and in reporting the policy trade-offs in program documents. Countervailing measures are common in PRGF-supported countries, even when there is no PSIA reported in IMF program documents, pointing to the possibility that some form of PSIA took place, but was not discussed. Finally, the review found that there are some regional differences, with PSIA being more common in Africa, and countervailing measures being more common in transition economies, particularly for privatization, civil service reform, and the social areas. These results point to the need for policy design and implementation to be more explicitly informed by the results of PSIA.

In future, PRGF-supported program reports are expected to include a description of PSIA being carried out in the country and a summary of IMF staff discussions with the country

authorities, indicating how these have affected policy choices and the design of any accompanying countervailing measures.<sup>20</sup> Several PSIA pilot studies have been undertaken by the World Bank and the Department for International Development (DFID) over the last few months.<sup>21</sup> The results of these studies should be useful in guiding the program design and implementing countervailing measures in the context of a sustainable macroeconomic framework.

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<sup>20</sup> See IMF, 2002a.

<sup>21</sup> The World Bank is conducting PSIA in Chad, Guyana, the Kyrgyz Republic, Malawi, Mongolia, Pakistan, and Madagascar. DFID is supporting studies in Rwanda, Mozambique, Uganda, Honduras, Armenia, Indonesia, and in the State of Orissa, India.

Table 3. Examples of Social Impact Analysis in Recent PRGF-Supported Programs

Reform Measure	Country	Impact Analysis
Macro-economic reforms	Ethiopia	The authorities intend to conduct a social impact analysis of the main macroeconomic and structural measures envisaged in the full PRSP. In this effort, they are setting up a welfare-monitoring system to analyze the impact of public policy on the poor, based on annual household-welfare-monitoring surveys and other information.
	Guinea	A preliminary examination of the social impact of policies proposed in the new program indicates that the effect of most policies in the program on vulnerable groups should be largely positive.
Exchange rate adjustment	The Gambia	The poor who are involved, especially in the groundnut, tourism, and reexport sectors, tend to benefit when the dalasi depreciates, resulting in larger export proceeds and increased employment.
	Ghana	The depreciation of the cedi should benefit both farmers and the government financially through cocoa exports. Given the smallholder structure of agriculture, the strategy of using the private sector as the source of growth has direct benefits for some of the poorest elements of society. Recent reforms in the cocoa sector and growth in nontraditional exports appear to have benefited the poor, and both of these developments will continue and be deepened.
Expenditure reform	Bolivia	The reductions in spending under the program are being planned with a view to minimizing the impact on poverty-related expenditure. Some impact may be unavoidable in view of the large proportion of public investment that falls within the priority areas identified in the PRSP.
	Mali	The fiscal program includes measures that will have a multifaceted positive social impact, while preserving long-term macroeconomic stability. The civil service wage bill will increase by 12 percent from its 2000 level, with the main benefit targeted to workers in the key social sectors (education and health). Magistrates will also benefit from the proposed wage increase, the social impact of which should be to improve the climate for governance within the judicial system.
Revenue measures	Mauritania	Simulation of the rate unification indicates that the VAT will become more efficient and more equitable.
International trade	Madagascar	The lowering of the external tariff should not have a significant impact on the consumption pattern of the poor, as it involves mostly nonessential products.
	Mozambique	The Food and Agriculture Organization (FAO) undertook a cost-benefit analysis of upholding import surcharges, including its impact on the poor, coming out in support of the government's approach. The staff accepted this position but recommended that the additional protection granted in September 1999 be cut back again over a preannounced period of five years, broadly in line with the time investors thought necessary for the rebuilding of the industry. The government did not accept the staff's recommendation and instead retained discretion to review annually the level of protection based on domestic and international sugar market developments.
	Rwanda	The government will first carry out background studies on transportation costs and the impact of lower tariff rates on domestic industry and fiscal revenue. On the basis of the findings, it intends subsequently to submit a formal request to the European Union (EU) and other donors for access to the compensation fund and will set a timetable of implementation.

Table 3. Examples of Social Impact Analysis in Recent PRGF-Supported Programs (concluded)

Domestic price increases	Chad	As a result of the liberalization of domestic petroleum prices, prices in the formal sector are expected to rise, while those in the informal markets are expected to fall. Therefore, overall, this measure is not expected to have a significantly negative impact on poverty.
	Lao PDR	The authorities have committed themselves to conducting a study on electricity tariff increases by mid-2001 to achieve fuller cost recovery starting in 2002. This study will include an evaluation of the social impact.
Financial markets	The Gambia	Financial sector policies and reforms, complemented by fiscal reforms, should reduce financial intermediation costs and interest rates, which in turn should benefit the public, including the poor. However, these policies are likely to become effective only gradually.
Civil service reform	Cambodia	The authorities were reluctant to commit to any targets for downsizing before completing a number of studies and simulations concerning the civil service. Against this background, it was understood that no further wage increase would be granted until a reform strategy is formulated, in consultation with the World Bank, taking into account the results of these studies.
Privatization/enterprise restructuring	The Gambia	The expected outcome from the privatization of Alimental assets is a considerable improvement in the production and marketing of groundnuts, which should benefit the poor households and help to reverse the major increase in the incidence of poverty experienced between 1992 and 1998.
Education reforms	Benin	World Bank and IMF staffs expressed concern that some of the increased outlays (for instance, for equipment in ministries and for the university) would not have a significant impact on poverty reduction.
Agriculture	Senegal	The reduction of the producer price for groundnuts in line with world market prices, while in the short run likely to reduce income in rural areas (where an estimated 70 percent of the poor are located), will help ultimately return the groundnut sector to sustainable production levels and reduce future income fluctuations for farmers. Given the low value added from rural areas, owing to the vertical integration of the groundnut sector's activities, the planned liberalization of the sector could increase resources available to the poor despite lowering producer prices.
Pension reform	Zambia	The government will commission a study to establish the modalities for moving to a pay-as-you-go system consistent with the recommendations of the World Bank, and with reference to the recent actuarial study of the pension fund.
Other	Burkina Faso	Methods used for assessing the impact of the various sectoral action plans on the poverty situation and on the poorest groups will be strengthened to ensure close monitoring of poverty reduction efforts and of the results obtained.

Table 4. Examples of Countervailing Measures Implemented  
in Recent PRGF-Supported Programs

Reform Measure	Country	Social Safety Net
Revenue measures	Mauritania	To protect the poor from the adverse impact of increased taxation, some basic items (such as wheat and medications) and a minimum level of electricity and water consumption will be exempted from VAT.
	Burkina Faso	For social reasons, the rate for the withholding tax on cola nuts is being lowered.
International trade	Mozambique	To facilitate the restructuring of the cashew-processing industry, the government expects to transfer about Mt 100 billion to various companies to pay for accumulated liabilities to the labor force before the end of this year.
	Uganda	Removal of the protection accorded to the sugar industry was delayed to safeguard significant social benefits provided by the sugar industry.
Domestic price increases	Cameroon	The authorities proposed temporarily to limit the pass-through effect of higher world oil prices. This system will be examined at the time of the midterm review, with a view to raising the cap and phasing it out.
	Georgia	The impact of higher electricity tariffs will be counteracted through increased targeted poverty benefits. The main examples of such benefits are family allowances for poor families, and free electricity, up to a limit, to the poor.
	Ghana	The government sought to alleviate the impact of the recent increases in petroleum and utility prices on poorer consumers through cross-subsidies and targeted tax relief. Increases for kerosene and gas oil (used more intensively by lower-income groups) were limited. The increase in electricity and water tariffs for domestic consumers with usage below a prescribed minimum was about two-thirds of that for large industrial users. This minimum is VAT exempt.
Financial markets	The Gambia	The authorities have targeted reforms in microfinance as a faster way of helping the poor improve their income-generating activities and ability to withstand economic shocks.
Civil service reform	Kenya	Retrenched civil servants will be provided with adequate severance pay, determined in close consultation with the World Bank, DFID, and the EU.
Privatization/ state-owned enterprise restructuring	Vietnam	Safety nets for labor redundancy (approximately 13 percent of state-owned enterprise employment) will be covered by the government's own and external concessional resources.
	Mongolia	Social safety nets were introduced to moderate the impact of enterprise restructuring on unemployment and poverty, with a six-month cap on severance pay.

Table 5. Examples of PSIA and Countervailing Measures Implemented  
in ESAF-Supported Programs

PSIA	
Cameroon	The ESAF-supported program noted that the privatization program reflected the findings of a recent study that assessed the social costs of privatization for 1999/2000-2001/02 at CFAF 75 billion. This amount was expected to cover compensation packages for retrenched workers in the context of the privatization of public utilities, and public enterprises in the agro-industry and transport sectors.
Ethiopia	The ESAF-supported program noted that the revenue measures adopted with the program were likely to reduce the high variability of incomes, and therefore were likely to have a particularly beneficial effect on the poor, who lack consumption-smoothing mechanisms.
Malawi	IMF staff noted that the devaluation of the kwacha was implemented after the tobacco season and raised the concern that the producers who had sold their crops prior to the devaluation would have to reckon with the sharply increased cost of imported inputs. In response, the authorities noted that the government was consulting with representatives of the international community on practical ways of facilitating the financing of fertilizers and other agricultural inputs for the following crop season.
Countervailing Measures	
Azerbaijan	To mitigate the impact of civil service retrenchment, the program envisaged the establishment of a targeted severance pay scheme.
Bolivia	To ameliorate the adverse impact on the poor of the hydrocarbon price increases in December 1997, the government continued its limited subsidy on cooking fuel used by the poor.  Severance payments were envisaged for restructuring of public enterprises. The sale or liquidation of Vinto was a prior action for a new arrangement, but the authorities and staff agreed to a further delay given the small size of the enterprise and the fact that its closure involved complex social problems.
Madagascar	The government addressed social aspects of the privatization program by (1) making provisions for severance pay (0.5 percent of GDP) in the 1999 budget; (2) establishing a regional development fund; and (3) setting up a privately managed share-warehousing fund, endowed with equity participation in privatized companies that is to be gradually sold to small local investors.
Tajikistan	In the face of an increase in tariffs for communal services (rent, transportation, water and heating) a special social compensation was to be provided in the 2000 budget to protect the most vulnerable groups, to be defined on the basis of the results of the 1999 household poverty survey.

Table 6. Examples of General Social Safety Nets Implemented in Countries with ESAF-Supported Programs

Country	Social Safety Net
Armenia	<p>The authorities recognize the need to protect the most vulnerable groups of society. However, given Armenia's limited fiscal resources, efforts to strengthen the social safety net are focused on a better use of available funds. Resources released will be reallocated to increasing the benefits to the most vulnerable recipients. The government will introduce a single means-tested vulnerability benefit targeted to needy families as of January 1, 1999. The draft budget includes an increase of about 50 percent in timing for poverty benefits, which together with the better targeting will allow for a noticeable increase in the real level of benefits. Furthermore, the government is finalizing a comprehensive law on social assistance transfers which will introduce proxy means testing as a primary targeting tool.</p>
Lesotho	<p>To assist the targeted groups, the projects to be financed from the safety net will be identified in conjunction with the local nongovernmental organizations (NGOs) and the resources will be allocated by September 1993 (structural benchmark). Given the success in 1992/93 of the program's social safety net to mitigate the adverse impact of adjustment on the most vulnerable groups, the social safety net for 1993/94 will be increased.</p>
Macedonia, FYR	<p>The government has improved the adequacy and targeting of the means-tested social assistance program for persons capable of work. The government plans to (1) equalize, in a budget-neutral way, rural and urban budget assistance levels based on a new single national poverty line; (2) revise and simplify scale rates; (3) remove exact percentages and rates from the law; (4) increase penalties for fraudulent claims; and (5) introduce incentives to return to work by limiting full benefits to two years and reducing benefits to 50 percent over the next 2 years. After four years, individuals would requalify only after two years of nonreceipt of benefits.</p>
Mongolia	<p>The government is committed to alleviating the social costs of the transition to a market economy. Consistent with the overall strategy, emphasis is being placed on market-oriented measures, including expanded training programs to promote labor mobility and facilitate small business creation. Comprehensive, donor-supported restructuring programs are already underway in the health and education sectors. These programs are being supplemented by targeted programs of direct assistance to the most vulnerable groups under the National Poverty Alleviation Program.</p>
Sierra Leone	<p>Initial provision is for a social safety net geared toward channeling funds to NGOs that can provide training and skill-building opportunities to the most vulnerable groups.</p>

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