



Structural Adjustment Programs & Poverty Reduction Strategy

By Carol Welch, Friends of the Earth

Since the late 1970s the U.S. has been a principal force in imposing structural adjustment programs (SAPs) on the governments of the global South. Formulated as loan conditions by Northern governments and the international financial institutions (IFIs), SAPs require recipient countries to change their economic policies, generally to encourage greater economic deregulation ("liberalization") of trade, investment, and finances.

Bilaterally, Washington attempts to restructure the economic policies of developing nations through its aid programs and trade negotiations. Multilaterally, using its influence in international financial institutions like the World Bank and International Monetary Fund (IMF), where it has the largest voting share of all countries, the U.S. also promotes a restructuring agenda. In addition, debt relief for the poorest countries is contingent upon

successful completion of structural adjustment programs.

Imposed by both the IMF and the World Bank, SAPs usually include several basic economic stabilization components. Crafted by the IMF, these are geared toward bringing an economy into balance through, typically, reducing inflation and decreasing budget deficits while meeting debt payment schedules. They also contain structural and sectoral policies, required by both the World Bank and the IMF. These are aimed at integrating countries into the global economy by promoting exports, reducing state activity, and liberalizing trade, investment, and finance. They generally entail

reductions in government spending and employment, higher interest rates, currency devaluation, sale of government enterprises, reduction of tariffs and other trade barriers, and liberalization of foreign investment regulations and labor laws.

The debt crisis of the early 1980s made SAPs virtually synonymous with IFI lending. This debt crisis and the consequent drying up of North-South private capital flows increased the IFIs' ability to use their lending capacity to leverage policy reforms. The World Bank championed SAPs as comprehensive, long-term solutions for debtor nations. The IMF stepped in to set up a system of debt repayment, but made SAPs a prerequisite.

In 1986, the IMF established its own structural adjustment lending program. Structural adjustment continues to be a mainstay of these institutions' activities. In fact, the World Bank increased its lending for structural adjustment from 39% of its total lending portfolio in fiscal year 1998 to 63% of its loans for fiscal year 1999.

Despite its potential impacts, this lending is not subject to the World Bank's policies on environmental and social assessment.

Since virtually all developing countries have implemented or are in the process of instituting SAPs, the economic policies dictated by the IFIs and Washington have further integrated developing countries into the global economy. SAPs have also generally succeeded in shrinking government budget deficits, eliminating hyperinflation, and maintaining debt payment schedules. However, although SAPs may improve government balance sheets, they often cause poverty and unemployment rates to increase. In restructuring economies, SAPs do not establish a base for increased per capita incomes or for sustainable and locally-driven economic development. To mitigate these harsh restructuring impacts, the IFIs have created social investment funds. These funds alleviate some hardship through temporary job and social service programs but leave the structural reasons for poverty untouched. In fact, SAPs can add to the structural causes of poverty by advancing reforms that deregulate labor, weaken environmental laws, reduce the state's role in social programs, and promote rapid privatization of government enterprises, allowing well-connected elites to reap the monetary benefits.

The growing civil society movement coalescing around issues of international debt and the role of the IFIs has increasingly challenged the premises and supposed benefits of structural adjustment. Increasingly embattled and forced to defend their unimpressive track record, the World Bank and IMF have tried to allay criticisms of their structural adjustment lending. The IMF renamed its structural adjustment facility the Poverty Reduction and Growth Facility (PRGF). In 2000, borrowing countries began preparing Poverty Reduction Strategy Papers (PRSPs) as a prerequisite for a World Bank/IMF adjustment loan. These PRSPs are supposed to outline—after a broad consultative process—a country's poverty-reduction priorities and the economic policies needed to achieve them. These PRSPs should then serve as a framework for all IFI and bilateral donor lending. However, many NGOs and civic groups in PRSP countries argue that these changes are mere palliatives and the fundamentals of SAPs remain unchanged.

Key Points

- The U.S. uses its dominant role in the global economy and in the IFIs to impose SAPs on developing countries and open up their markets to competition from U.S. companies.
- SAPs are based on a narrow economic model that perpetuates poverty, inequality, and environmental degradation.
- The growing civil society critique of structural adjustment has forced the IFIs and Washington to engage in national debates regarding SAPs, though these have not led to much change in bank policy.

Problems with Current U.S. Policy

Few would deny that budget deficits, high inflation, and inefficient government enterprises require policy reforms. Nor can lenders be expected to extend loans with no assurance of how money will be spent. However, SAPs are driven more by ideological principles than by objective evaluations of a country's specific economic situation. SAPs also include policy requirements that serve to strengthen the hand of Washington and the IFIs. The IMF, for example, was originally designed to lend to countries experiencing short-term balance of payments problems, not longer-term restructuring. With SAPs, however, the IMF has increased its leverage over countries, enabling it to demand policy changes in areas far beyond its mandate and expertise. While the IMF has stated an intention to "streamline" conditions, it retains the right to set policy in any area it deems to have macroeconomic significance.

SAPs often succeed in achieving specific objectives such as privatizing state enterprises, reducing inflation, and decreasing budget deficits. However, the GDP growth of countries undergoing structural adjustment is routinely limited to a few sectors, most typically raw materials extraction or goods produced with cheap labor. Thus, even when a SAP-driven economy grows, such growth is generally environmentally unsustainable and fails to generate significant employment or increase incomes, particularly at a rate sufficient to keep up with population growth and compensate for SAP-induced layoffs.

Reforms aimed at opening countries to foreign trade and investment may result in increased exports and greater access to capital, but they also flood countries with imported luxury goods and undermine local industry, both of which serve to constrict local buying power. SAPs benefit a narrow stratum of the private sector—mostly those involved in export production and trade brokering. Those involved in these growth sectors are usually well-connected elites and transnational corporations.

Layoffs of government workers, wage constraints, higher interest rates, reduced government spending, and the shutdown of domestic industries all contribute to the shrinking of the domestic market. The weak state of the domestic market exacerbates deteriorating socioeconomic conditions. Although there may be a new dynamism in certain sectors, social and economic insecurity deepens for most people in countries subjected to SAPs. The result can be increasing political instability, including anti-government protests and riots over price increases.

The emphasis placed by SAPs on increased exports can hasten the destruction of ecosystems by accelerating extractive enterprises such as the timber, mining, and fishing. In agriculture, SAPs serve to undermine peasant agriculture while reinforcing export-oriented agribusiness (and its dependence on dangerous agrochemicals). The insistence of SAPs on the deregulation of laws and the downsizing of enforcement agencies further obstructs government capacity to protect the environment.

Although reduction of world poverty is proclaimed as a major goal of U.S. and multilateral lenders, SAP policies often hit the poor hardest. Increased unemployment and shrinking government services are the most direct hits on the poor, who are also adversely affected by SAP-directed tax policies that emphasize easy-to-collect, regressive sales taxes. In addition, user fees often imposed for health care, education and other basic social services marginalize the poor. Tightened credit requirements and higher interest rates make it virtually impossible for small farmers and businesses to invest.

The failure of structural adjustment can be attributed both to its specific policies and to the process by which SAPs are implemented. Structural adjustment loans are inadequately scrutinized and assessed, and they are largely imposed on countries in an undemocratic and nontransparent manner. Unlike project lending, structural adjustment lending at the World Bank is not subject to social or environmental impact assessments. It is clear from experience, however, that SAPs often negatively affect social groups and impact the environment. Without a social and environmental assessment policy, these impacts are not taken into account. A 1999 World Bank desk review found that even cursory environmental assessments rarely occur in the bank's adjustment lending, and social impacts were not reviewed at all. The IMF has no formal process to assess impacts. In 2001, the World Bank and IMF agreed to conduct a social impact analysis (SIA) of adjustment programs in a handful of pilot countries. However, the SIA proposal is narrowly conceived regarding social assessment, and excludes environmental assessment.

Information disclosure on structural adjustment lending is also inadequate. Structural adjustment program documents are not released by the World Bank or IMF until they are approved by the board of executive directors, making it extremely difficult for civil society groups to have input and affect the final outcome.

More fundamentally, structural adjustment programs fail because they are largely imposed on countries. The IFIs usually negotiate SAPs with a small set of government officials from the finance ministry, central bank, or planning ministry. Often, important ministries are excluded from loan negotiations, as are key members of parliament, despite the fact that parliaments must implement new laws and measures to comply with any structural adjustment package. The PRSP process was supposed to change this situation. Instead, while the PRSP national forums discuss social impacts and the poverty situation, a SAP is being negotiated in a secret and parallel process that excludes civil society.

Key Problems

- SAPs have major social and environmental implications, yet Washington and the IFIs fail to formally assess these impacts.
 - SAPs may achieve narrow economic objectives, but many economic gains are based on unsustainable natural resource extraction and exploitation of cheap labor, thereby perpetuating poverty.
 - SAPs have been negotiated in secret with a small circle of government officials, triggering civic protest against these undemocratic and nontransparent programs and leading to high rates of program failure.
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Toward a New Foreign Policy

At the 1999 World Bank/IMF annual meetings, the institutions launched with great fanfare the new poverty reduction initiative. Under this initiative, each country receiving IFI loans prepares a Poverty Reduction Strategy Paper (PRSP) which outlines a country's objectives with regard to poverty reduction and stipulates the

policies needed to achieve these goals. The PRSP is a framework to which all IFI and bilateral donor lending in a country should conform. The document is to be formulated based on a national, consultative process that features a public forum in which civil society, the government, the World Bank, and the IMF all participate and debate the appropriate policies to achieve poverty reduction.

Clearly instituted in response to the widespread criticism of both SAPs and the lending agencies' lack of transparency, the PRSP process has, so far, failed to change structural adjustment programs or to force the IFIs to prove how their policies will help poor

people and promote sustainable development. In addition, many borrowing governments have excluded trade unions and other critical civic actors from the PRSP process. Given that the World Bank and IMF boards must approve the PRSPs, governments typically write the PRSP with IFI approval in mind. And the IFIs themselves have failed to demonstrate much flexibility on alternative economic policies. An additional problem is that the process retains a key role for the IMF in structural adjustment, despite the fact that the IMF is not a development agency and was created to lend only for short-term external imbalances.

The U.S. should lead the effort to make sure that the PRSP initiative fulfills its potential and provides a genuine opportunity for citizens to affect the direction of their country's economic development strategy. Washington, through its financial clout in the IFIs, its central role in shaping global economic integration, and its own bilateral lending programs, has the power to change or eliminate SAPs.

From a policy standpoint, the U.S. should ensure that the PRSP process facilitates the development of economic policies that promote greater equity, employment generation, and sustainable and locally-based development. Economic policies that are explicitly pro-poor should be encouraged. For example, new research suggests that economic growth geared toward inequality reduction is more likely to alleviate poverty than growth that does not consider income distribution. Inflation and growth trade-offs should also be explicitly analyzed. Trade liberalization policies should clearly benefit the poor, and trade liberalization in the South should not be encouraged in economic sectors where the U.S. and Europe retain trade barriers. And the U.S. should then encourage that the IFIs recognize the need for selective government economic intervention to regulate and guide sustainable and equitable growth.

From a process standpoint, the U.S. should clarify the roles of the IFIs in adjustment lending. According to its original mission, the IMF is an institution dedicated to maintaining international macroeconomic stability during short-term balance of payments imbalances. It should return to that role and stop adjustment lending, limiting itself to advising the World Bank on the macroeconomic policies contained in SAPs. The U.S. should use its influence within the World Bank to seek the adoption of a policy of social and environmental assessment of structural adjustment options. These should be public assessments that would identify potential negative social and environmental impacts. These should suggest modifications to the program to avoid these adverse effects or, alternatively, to scrap a program if the impacts are too severe.

In addition, the U.S. should lead the way for greater information disclosure about structural adjustment. Drafts of structural adjustment loans should be publicly available so that people have an opportunity to voice their concerns and opinions. Since they have effects that transcend the concerns of finance ministries and central banks, SAP negotiations should be dramatically broadened to include the full range of government ministries and key parliamentarians. If more officials were involved, including parliamentarians (who must often pass the required measures set out in SAPs), the programs would likely be better formulated, have greater success, and enjoy more domestic support.

Carol Welch is deputy director of international programs at Friends of the Earth in Washington, DC, where she specializes in international financial institutions.

Key Recommendations

- The U.S. should work to refocus the IMF on short-term lending, and ensure that PRSPs provide for genuine country-driven economic development plans.
- Washington's priority should be the encouragement of sustainable, equitable development that benefits local people rather than transnational corporations.
- The U.S. should push for greater transparency and for social and environmental impact assessments of adjustment lending. The U.S. should also insist on delinking structural adjustment conditions from debt relief.

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