THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES

THE DEVELOPMENT GAP

CIVIL-SOCIETY PERSPECTIVES ON IMF AND WORLD BANK STRUCTURAL ADJUSTMENT PROGRAMS

Statement of Doug Hellinger
Presented at the First Public Hearing of the
International Financial Institutions Advisory Commission
U.S. Department of the Treasury
Washington, DC

20 October 1999

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Good afternoon, and thank you for the opportunity to address the Commission.

The Development GAP was established almost a quarter of a century ago to ensure that the women and men of the Third World -- urban workers, farmers, small businesspeople, the poor -- have the opportunity and means to influence the economic decisions and programs in the North that directly affect them, their communities and their nations. Since the mid-1970s, we have worked in some 50 countries with local organizations on foreign aid programs and issues, trade policies and structural adjustment programs (SAPs). We have consulted at the World Bank on field projects and currently coordinate a multi-country civil-society assessment, in conjunction with the World Bank and its president, Jim Wolfensohn, of structural adjustment policies.

Since those most affected by IMF- and Bank-imposed policies are not represented on the Commission, our objective in being here today is to provide, to the best of our ability, local-level perspectives on the impact of those policies. The Structural Adjustment Participatory Review Initiative (SAPRI) taken with the Bank has already yielded a rich supply of information and analysis from a broad array of citizens' organizations in eight countries on four continents. These national exercises, as well as two similar but independent civil-society endeavors in Mexico and the Philippines, epitomize the type of public consultation and participation now called for by the two major international financial institutions (IFIs). This Initiative has also confirmed our previous learning in these and many other countries over the past decade.

It would be fair to say that a combination of stabilization, structural and sectoral adjustment policies -- the conditions attached to Fund and Bank credits -- have had, across the board, a devastating impact on a large number of sectors and population groups. A review recently completed by The Development GAP of data from a number of official and academic sources on a total of 83 Third World countries that have received substantial IMF financing during the past 20 years supports what people living around the world under IMF-financed programs already know first hand. In most of the countries studied, unemployment increased,

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real wages fell, income distribution became more unequal, poverty rose, food production per capita declined, external debt grew, and social expenditures were cut during those years between 1978 and 1997 in which these countries received resources from the Fund's General Resources Account (GRA) and/or loans from its Structural Adjustment Facility (SAF), Enhanced Structural Adjustment Facility (ESAF) and/or Trust Fund.

Broad-based consultations have yielded similar findings in the SAPRI national exercises. Under privatization policies there has been an increase in unemployment and job insecurity, workers' rights have been weakened, regulatory efforts have been ineffectual, user costs have increased while service quality has declined, and service expansion has not met needs. In some cases, privatized industries have proven to be more inefficient than public enterprises. Liberalization policies have had a significantly negative impact on agricultural production and the rural sector and on women, unskilled workers, and small and micro-enterprises, thereby exacerbating inequalities and leading to a further concentration of wealth. Local industry has suffered, and priority has not been given to reorienting and strengthening local productive capacity. Labor-market reform programs have lead to greater job instability, poorer working conditions and a higher incidence of labor-rights abuse. A fall in real wages, declining purchasing power and greater inequality in the distribution of income have also accompanied this move to greater labor-market flexibility. Fiscal-policy reform, in the form of public-expenditure cuts and the imposition of user fees, has led to reduced access by the poor and disadvantaged groups to quality health care, education and housing.

The following overview of the impact of adjustment programs will not do justice to the country-specific effects or to the richness of analysis provided by our overseas partners and their constituencies. We will therefore make available to the Commission a number of papers from the SAPRI process and other field investigations and consultations, as well as the names of organizations and people in a number of countries whom the Commission may want to contact.

1. The destruction of domestic productive capacity, including small and medium-sized businesses

Over the past two decades we have seen a steady deindustrialization of many of the countries undergoing structural adjustment. Small and medium-sized enterprises, which provide the bulk of employment opportunities in most nations, have been particularly hard hit by adjustment measures. Trade liberalization policies have strengthened the position of foreign producers before local firms have had time to become competitive, while, at the same time, local interest rates have increased and both consumer demand and government support for these enterprises have significantly diminished.

In Nicaragua, IMF-prescribed financial-sector deregulation, narrowly focused and without adequate prior institutional reform, has stimulated the flow of capital to short-term, high-interest deposits at the expense of productive investment, particularly the activities of small-scale producers in both the agricultural and manufacturing sectors. Interest rates have risen to very high levels, and the new institutional structure favors short-term credit for speculative purposes rather than longer-term investments for productive purposes. Agricultural and industrial

production groups that have been displaced by or subordinated to financial groups do not have many opportunities, especially medium-sized and small-scale producers. As a result, the boom that took place in private finance and in certain extractive activities -- with high short-term profitability and minimal investment -- contrast with the stagnation of domestic production and the generalized deterioration in the conditions of that production.

In Bangladesh, many of the recently privatized industries have either shut down, are struggling, or grossly exploit labor. Privatization in the jute sector was disastrous. Because jute represents the lifeblood of Bangladesh's industrial sector, demise of the jute sector has had negative ramifications throughout the entire economy. Privatization of the sector led to a 50-percent decline in gross production. Most jute factories closed and 39,000 workers were laid off. Meanwhile, many of those who bought the jute mills at bargain prices are major loan defaulters.

In Uganda, liberalization may be destroying local manufacturing, textiles being a case in point. High interest rates have discouraged small-scale enterprises, and stipulations in the investment code also effectively exclude local entrepreneurs. Finally, liberalization policies have not been supported by other necessary programs, such as skills training.

In El Salvador, financial-sector liberalization has led to a reduction in credit for small and micro-enterprises, which is contributing to a concentration of wealth. Since the structural adjustment program was initiated, active interest rates (charged on loans) have gone way up, while passive rates (given on savings) have declined. There is also a problem with special "moratorium" rates, which are imposed on overdue loans, and with the practice of charging interest on the interest on loans. This has forced many businesses into bankruptcy as their debt spirals out of control. Another result of liberalizing the financial system has been the concentration of credit in the commercial and service sectors, which now receive favorable treatment from financial institutions. Very little credit is channelled to strategic, although less directly profitable, sectors such as agriculture (along with other rural enterprises) and infrastructure, and the role of development banks and agencies that support these and certain industrial sectors has been considerably weakened.

Since the structural adjustment program was introduced, more collateral is required to receive credit, and long-term loans are harder to obtain for small-scale enterprises. For example, artisans have serious difficulties in accessing credit, even when they present national and international purchase contracts, because the banks refuse to recognize these contracts as collateral. Women also have a harder time getting credit because of the strict requirements set by banks. The financial system offers no special programs for small-scale or women-owned enterprises, further contributing to the concentration of credit in the hands of a small number of already favored businesses and economic sectors.

In Ecuador, trade-liberalization policies and the export-oriented strategy under the adjustment program have severely affected production and employment and resulted in a process of de-industrialization. The country has lost productive capacity and the ability to feed itself. Both the agricultural sector and national industry have been unable to compete with cheap imports or generate conditions that would improve production in order to compete effectively in foreign markets. In fact, Ecuador's international competitiveness has depended on currency

devaluations instead of on the expansion of domestic productive capacity. Trade liberalization has boosted not the levels of production for export, but rather the profits of large exporters, who have benefitted most from devaluations under adjustment. Meanwhile, restrictions on foreign investment have been eliminated, placing domestic producers at a further disadvantage.

Deregulation of the financial sector and the accompanying monetary and financial measures have also negatively affected national production, particularly in the agricultural and small-business sectors. Financial bailouts have benefited private banking interests -- which have favored big business -- while the National Development Bank has been forced into bankruptcy, making access to credit by small and medium-scale enterprises even more limited. Devaluations have negatively affected purchasing power, particularly that of low-income families. In addition, the lack of price controls has led to abuse by speculators, who reap large profits, particularly where monopolies exist. Interest rates are reaching as high as 70 percent and are engendering further speculation while devastating national production.

With the IMF as its guide, Hungary has been in the lead of the reform process in Eastern Europe, similarly liberalizing its trade regime, tightening its money supply and selling off assets (on questionable terms) to foreign interests with little concern for the productive contributions of workers and domestic producers in the "real" economy. As a result, an increasing portion of resources are being directed away from investment in human capital and infrastructure formation and toward unemployment benefits and payments to wealthy bondholders.

The main goals of the IMF-promoted monetary policy have been to curb inflation and improve the current-account balance. Beginning in 1992, this policy was tightened considerably, pushing interest rates well above profit rates in industry, thus discouraging productive investment and preventing any consistent economic growth. This problem has been exacerbated by the privatization process, in which many firms were artificially "damaged" on the books so they could be sold at lower prices. Some were purchased by Western European competitors and dismantled so as to open a market for them under the newly liberalized Hungarian trade regime. Industrial output fell by 34 percent between 1992 and 1996 and then rebounded slightly on the back of export sales from Hungary's duty-free zones, which have few linkages to the Hungarian economy as a whole.

In Zimbabwe, trade liberalization, through the removal of tariffs and quotas, was an integral part of the structural adjustment package introduced in 1991. It was designed to open the country to foreign goods, introduce its products to the international market, and increase output, earnings and employment in both the industrial and agricultural sectors. Prices would fall, it was projected, as local businesses were forced to become more competitive. However, Zimbabwean businesses were ill prepared for the global marketplace and, hence, the nation's products have failed to find significant external markets or bring in the anticipated foreign currency. The failure to modernize technologically also devastated local industries hit by a flood of cheap imports, as well as by the loss of government subsidies, high interest rates and the increased cost of raw materials. As a result, the Zimbabwean retail market has become dominated by imported goods. Small and medium-sized industries have been forced to reduce production, go out of business or switch from manufacturing to importing, leading to a large drop in manufacturing output. With companies forced to lay off workers, employment dropped sharply between 1991 and 1998, accompanied by a significant erosion of wages.

The textile industry has been particularly hard hit. Imported second-hand clothing flooded the local market at a time when wages were falling and consumers were forced to seek the cheapest products available soon. Locally manufactured textiles were pushed out of the market, and the promise of external markets never materialized. As textile firms cut back production or closed their doors, 12,000 jobs were lost in the sector. Electronics manufacturers suffered similar losses.

Zimbabweans have argued that there should have been a serious assessment of the ability of local industry to compete internationally before trade barriers were dropped. These industries were experienced in supplying a protected market, but they were unaccustomed to the culture of exporting. It was pointed out, however, that even those firms that did prepare themselves for the economic opening by investing in new equipment were crippled by the need to borrow heavily and by the high interest rates that constituted another part of the adjustment package.

In addition, the removal of interest-rate restrictions on banks has led to rates rising five-fold to nearly the 50-percent level since the adjustment program was launched almost a decade ago. While even larger businesses cannot afford these rates, they can at least retain and use earnings from previous years. It is smaller businesses and those in the growing informal sector, which desperately need start-up loans, that are most affected. The high-interest-rate environment created by adjustment has also led people, as well as the unregulated banks, to invest in speculative money markets rather than in productive, employment-generating endeavors. For the reforms to work, training in business skills and credit management, as well as other attendant programs and policies, were necessary, yet none have been provided.

2. The diminishing of small-farm viability and food security

A majority of developing countries implementing IMF programs experienced a negative average annual growth rate in food production per capita between the years 1979 and 1993. According to the World Bank's *World Development Report 1995*, 39 of the 69 countries for which there is data suffered from declining food production. For most poor countries, a scarcity of foreign exchange and other vulnerabilities mean agricultural self-reliance is more a necessity than a choice. Sustained food production is essential to preventing a rise in hunger.

For example, Tanzania, which was forced by the Fund to adopt a program of trade liberalization, devaluation, tight monetary policy and the dismantling of state financing and marketing mechanisms for small farmers, has experienced expanding rural poverty, income inequality and environmental degradation amidst growing agricultural export trade. Food security, housing conditions and primary-school enrollment have fallen, while malnutrition and infant mortality have been on the rise. The country, under Fund supervision, is today more dependent than ever on foreign aid.

The country's adjustment policies have increased the price of inputs for the production of both food and export crops. Between 1989 and 1992, for example, the price of fertilizer increased between 183 and 412 percent, depending on the type. At the same time, producer prices for food crops decreased. Between 1985 and 1991, these prices fell for maize (30 percent), paddy (11 percent), cassava (32 percent), sorghum and millet (40 percent) and beans

(6 percent). Although there have been increases in nominal producer prices for a number of crops during the decade of the '90s, devaluation and persistent inflation have more than wiped out these gains.

Since state marketing and pan-territorial pricing programs were ended, small farmers in remote areas have found it especially difficult to market their crops. The World Bank reports that, while "...rich farmers negotiate selling prices with private traders, the poor sell in smaller quantities and at lower prices." Despite these problems, the IMF's Policy Framework Paper for 1995/96 to 1997/98 focuses on improving "marketing efficiency" rather than on fairness. Meanwhile, the demand of the IMF for a tight monetary policy have contributed to raising informal-sector interest rates as high as 100 percent. These high rates, coupled with the privatization of the Co-operative and Rural Development Bank, have meant that credit for small-scale agriculture has virtually disappeared. According to the Fund, the private (mostly foreign) banks now operating have restricted their activities "...mostly to trade financing in Dar es Salaam, avoiding for the most part domestic lending activities." Under the IMF program, food security in Tanzania has diminished considerably.

In Senegal, as a result of the devaluation and the elimination of key government programs, few farmers are able to afford agricultural inputs, such as seeds and fertilizers. The support that is provided has been directed to the cultivation of groundnut and other export crops to the detriment of production of such basic food crops as vegetables, corn and millet. In 1990, 33 percent of the population was classified as hungry. By 1992, this figure had increased to 40 percent. In 1996, the Senegalese Ministry of Planning estimated that 22 percent of children suffered from chronic malnutrition.

In Uganda, liberalization has not turned the terms of trade in favor of agriculture, and relative prices have not improved for producers in spite of increases in farm-gate prices. Instead, agriculture and rural production are heavily taxed through high transport prices, due in part to impassable roads. Petty trading has become a more profitable pursuit, with transport owners profiting in the capital, Kampala, from a retail price mark-up that can reach ten times the farm-gate price. Reduced profitability for agricultural producers contributes in large part to the very high poverty level in villages. Meanwhile, indigenous subsistence crops, such as millet, are disappearing because of the desire to produce cash crops such as bananas and maize.

Mexican agricultural producers were expected to respond to new economic signals coming from the liberalized agricultural markets. The same adjustment program that liberalized trade, however, required cuts in credit, technical assistance and subsidized inputs. Particularly hard hit have been corn producers, as imports from the United States have brought the retail price down, turning commercial production into an unprofitable venture. As a result, millions of farmers, particularly poor farmers producing food for the local economy, have been pushed out of agriculture altogether.

An estimated 80 percent of Bangladesh's population makes a living from agriculture, making this sector extremely important to any discussion of national development. Liberalization measures included in the structural adjustment program have resulted, however, in a disproportionately high increase in the price of inputs (including fertilizers and other

import-dependent inputs such as seeds and irrigation), while agricultural product prices have stagnated. The current Minister of Agriculture has acknowledged that the sector had been neglected as a result of the SAP and that the privatization of the fertilizer sector had led to adulteration and cheating.

Under Ghana's structural adjustment program there has been a shift in agricultural production, with more land and resources devoted to export crops and less to domestic food production. This has led to reduced food security for the poor, lower agricultural investment, and increasing income disparities between export and domestic food producers, exacerbating inequalities. The flood of cheap imports along with higher input prices (resulting from the removal of subsidies) have harmed local food producers. These measures, together with high interest rates and changes in the lending policies of the agricultural development bank, have contributed to a substantial reduction in agricultural investment, leading to declining productivity among food producers. The removal of subsidies and cutbacks in social services have had different impacts on women and men. Women, who produce 60 percent of food, have suffered disproportionately from the elimination of subsidies, the drying up of credit and the surge of food imports as a result of trade liberalization.

Agriculture is the mainstay of the Zimbabwean economy, providing a livelihood for 70 percent of the nation's population, 40 percent of export earnings and many of the raw materials used by its industries. With the advent of structural adjustment, trade barriers, price controls, subsidies and production quotas were removed. Farmers were no longer required to produce food for local consumption. Fixed prices were abolished for all crops except maize and wheat. The government privatized the marketing boards so that millers could buy directly from producers. Deregulation freed producers and middlemen to mark up prices at every step of the marketing process.

In the mid-1990s, the government still anticipated that its reform program would transform the nation's small-scale, subsistence agriculture into widespread commercial farming and generate annual agricultural growth greater than the rate of population growth. Part of the plan, according to participants, was to develop fully the necessary physical and social infrastructure in rural areas, but little of this has happened. With budget allocations for rural infrastructure and other capital projects down, farmers lack the roads and adequate transport systems, as well as the processing, storage and distribution systems they require in order to be competitive. Other key problems faced by farmers under adjustment include the continued lack of access to land, difficulties with the availability and price of farm inputs, the loss of important and timely information previously provided by the marketing boards, high interest rates, and insufficient technical services due to inadequate budgetary financing.

So, while new producers have entered the market and the freeing of prices has helped some farmers (though high inflation has eroded many gains), the majority of rural Zimbabweans have not benefitted from the liberalization of the agricultural sector. Overall food production during the 1990s has not kept up with population growth, further adding to a food shortage. The land-reform program has progressed very slowly, so most rural people still do not have access to land on which to grow commodities to feed themselves and to sell. Furthermore, with the opening of import-export trade and the push of Zimbabwe into the global market, large-scale

farmers quickly converted their operations away from food crops to high-revenue-generating export crops, such as paprika and cotton; this has shifted land away from the cultivation of maize, particularly hurting small woman farmers, creating shortages of basic staple foods and further raising consumer prices. Today, the country is forced to import food from Mozambique, South Africa and Kenya, adding to the national debt.

Many Zimbabweans argue that, through the country's adjustment program, their nation jumped feet first into the international agricultural market, a system it did not understand and in which it did not have the capacity to operate. They say that the country should have eased more gradually into this global market and urge the adoption of a comprehensive national agricultural plan, one that would provide farmers with adequate land, affordable interest rates, stable prices, basic infrastructure and the other support required to enable more Zimbabweans to engage in commercial farming.

In the Philippines, adjustment policies liberalizing the agricultural market have had a negative impact on small-scale farmers and food security. Of major concern is the lowering of tariff and non-tariff barriers to food and other agricultural imports under an indiscriminate trade liberalization program. As a result of cuts in government spending for agricultural-support services under previous stabilization programs, domestic food production cannot compete with cheaper imports. This has affected the income of small and, particularly, of poor farmers, who have thus had to convert to production for export.

This phenomenon, along with a government bias toward cash-crop production, has also undermined food security. Insufficient state support for infrastructure services, such as irrigation, post-harvest facilities and farm-to-market roads, has meant that small-scale farmers are unable to improve productivity levels or get their products to market at prices that cover their costs. Liberalization of prices following privatization of the marketing board has also negatively impacted farmers. Cultivation of rice and other staples is on the decline, and small-scale farmers who cultivate food crops are finding themselves further marginalized. The lack of access to formal credit is a key problem for farmers, whose only option is the informal market, which offers short-term credit at exorbitant rates.

Large-scale farmers have been converting land to the cultivation of export crops, such as bananas, and public resources for services, such as irrigation, are being oriented to these cash crops. Philippinos stress, however, that international price fluctuations can strongly affect gains made in this sector and that this conversion and cultivation have imposed extensive social and environmental costs on large segments of the population. The displacement of rural communities and the consequent massive urban migration that has resulted from the further impoverishment and marginalization of small-scale farmers, as well as the disproportionate burden on women of a loss of food security, are important social impacts emphasized. Environmental impacts include soil degradation and the loss of biodiversity as a result of the extensive use of chemicals on export crops, such as bananas, and large-scale monocropping.

3. Declining wages, employment opportunities, working conditions and worker rights and security

A review by The Development GAP of 43 countries on which the International Labour Office (ILO) has published statistics, found that 31 countries, or 72 percent, suffered a rise in

unemployment during periods of IMF funding between 1978 and 1995. The Central African Republic, for example, experienced an approximate 20-percent increase in unemployment between the years 1985 and 1994, a period in which that country received considerable IMF support. Ghana suffered an even greater increase -- nearly 56 percent -- between 1986 and 1994, during which time the country was continually under IMF-financed structural adjustment porgrams. The Inter-American Development Bank (IDB) reports that more than one half of the 20 Latin American countries for which it has official data experienced rising unemployment in the 1980s and the first half of the 1990s, during which time these countries have received considerable and ongoing IMF lending. These figures probably underestimate the problem.

As far as wages are concerned, despite a scarcity of data and inconsistencies in that which is available, the overall picture is clear and discouraging. Employed individuals in the majority of developing countries for which there is data have seen their real wages decrease.

According to a study by British economist Frances Stewart, average real wages declined in 26 out of 28 African countries, and the real minimum wage fell in 22 out of 29 countries, during the 1980s, a period of considerable IMF funding. The United Nations Development Programme (UNDP) reports that real earnings per employee fell, between 1980 and 1992, in nine of the eleven IMF-funded Latin American and Caribbean nations for which it has data. This decline was more than two percent on average over that period for Venezuela, Brazil, Uruguay and Argentina. Furthermore, the real minimum wage is lower today than it was in 1980 in 17 of the 19 nations studied by the IDB.

Senegal is one of the many countries in which unemployment has grown during the adjustment period. In Dakar, joblessness increased from 25 percent in 1991 to 44 percent in 1996. The use of child labor has intensified, as parents, laid off in the name of budget equilibrium, have attempted to supplement reduced family incomes. According to the ILO, ten percent of Senegalese children are providing paid labor. A survey by the Senegalese Office of Forecasts and Statistics found that 82 percent of girls work in agriculture or domestic tasks. More and more little girls are deprived of their right to education and are sent to work in families as housekeepers, working long hours under very stressful conditions and are often exposed to sexual or other physical abuses.

Privatization in Uganda has resulted in some 350,000 people being retrenched and -- with a failure to increase industrial efficiency and the private sector not expanding fast enough -- in a sharp increase in unemployment. Those laid off were not prepared for life in the private sector, as no training was provided. Some did not even receive severance packages and, for those who did, the packages were insufficient. One result has been an increase in informal-sector activity. Meanwhile, among the employed, expatriates have received the higher-level jobs, leaving Ugandans with the low-level posts.

The new owners of the privatized enterprises often underpay their employees, offer no job security, and do not follow labor regulations. The very threat of unemployment has led workers to compromise their rights when employers do not follow the law. With the economic architects not wanting to slow down the process of privatization, employers have proceeded to sweep aside

trade unions. Payment of salaries is often late and, with no limit on overtime, employees are generally overworked. Safety standards are low, with most privatized firms unwilling to adhere to safety regulations or to adequately invest in plant improvements.

In Hungary, real wages fell by 24 percent between 1989 and 1996. They did increase five percent in 1997, but this recovery was not enough to stem the drop in living standards for the majority of the population or the growing disparities among sectors. The average net wage in 1996 was US$200 per month. The highest wages are found in the financial-intermediary sector (US$320), while the lowest are found in the textile and building industries and in health care (US$150). Meanwhile, unemployment increased from zero percent in 1989 to 13 percent by 1993 and currently hovers around ten percent.

The policy of introducing more flexibility into the labor market in El Salvador has had a number of negative consequences for workers and their families. The policy encourages increased use of temporary, part-time workers, which has made employment more unstable. Work hours have also become more "flexible", often leading to longer work days with no overtime pay. A recurring problem is the firing of union workers and their replacement soon after with non-union employees. In the countryside, there is an increasing reliance on temporary day laborers, creating greater instability for rural families. In response, family members are migrating in larger numbers to already overcrowded urban areas, exacerbating social and environmental problems. Women are usually the greatest victims of labor violations after migration since they are forced to work in *maquila* assembly plants or as domestic workers, where even basic labor laws are often unenforced.

The policy of liberalizing wages has resulted in declining purchasing power. Companies, taking advantage of the abundance of manual labor, often do not comply with minimum wage laws. Increased efficiency and productivity is rarely rewarded with higher wages. Low salaries and long work days are having a harmful effect on workers' health and nutrition and making it increasingly difficult for workers to find affordable housing. More and more children are now entering the labor force in an effort to supplement declining family incomes. These children are usually forced to drop out of school to take jobs that pay "apprentice" salaries far below the minimum wage, although their duties are similar to those of regular, adult employees.

The policy of labor-market flexibility in Ecuador has led to greater job instability, poorer working conditions, and weakened respect for workers' rights. The use of part-time employees, who receive no benefit packages, has become increasingly commonplace. These problems are most often present in the growing number of jobs located in *maquila* factories and free-trade zones. Meanwhile, wage policy has contributed to the insufficiency of salary increases to compensate for the inflationary effects on the cost of basic goods and the continuing rate increases for public services. Real wages have fallen precipitously during the adjustment decades of the 1980s and 1990s. At the same time, Ecuador has one of the highest levels of income inequality in Latin America, and under adjustment the distribution of income has become increasingly regressive. Wages, which in 1980 accounted for 32 percent of GDP, currently comprise less than 15 percent of national income. Adjustment has taken away more than one half of workers' incomes and has substantially increased unemployment and underemployment.

Official figures show that open unemployment has risen from a level of four percent in 1980 to reach 13 percent of the economically active population, while underemployment is now over 55 percent. In addition, recent estimates show that rural underemployment has reached 68 percent.

In Zimbabwe, the government, upon signing its first stabilization agreement with the IMF in 1983, abandoned the relatively high minimum wage that it established, along with laws supporting collective bargaining, shortly after independence three years earlier. By the end of the decade and with the institution of an adjustment program, wage "flexibility" was introduced, some restrictions on worker lay-offs were abolished, and competition in the area of labor organizing was promoted.

The average rate of employment growth during the adjustment period is one half the growth rate of the labor force, meaning that new jobs are not being created fast enough to absorb new entrants into the labor market. By focusing exclusively on the formal sector as the engine of growth, the economic-reform program has neglected the sectors with the greatest potential for job creation - - the informal and small and medium-sized enterprises. Furthermore, with the reduction or elimination of subsidies under structural adjustment, private companies have been forced to reduce costs in order to remain competitive. Deregulation has allowed them to make increased use of temporary, part-time contract workers who do not receive benefits and have no job security.

These changes have increased unemployment and decreased real wages. Those workers who do find full-time jobs are no longer guaranteed a living wage, and the effects of this reduced income have been made even more potent by rising prices. (Inflation rose from 15.5 percent in 1990, when the first IFI adjustment program was implemented, to 42.1 percent in 1992; by August 1999 it had reached 68.8 percent.) The collapse of wages has meant that many workers live far below the poverty line. This has created a recessionary spiral, with falling purchasing power resulting in depressed demand. Meanwhile, profits as a share of gross domestic income rose from 46 percent in 1987 to 61 percent in 1997, while the share of wages and salaries declined from 54 to 39 percent. With the burden of adjustment thus falling largely on workers and peasants, Zimbabwe has experienced growing inequality.

Due to the removal of labor regulations and the increase in part-time employment, working conditions have also declined. There is no longer a functional grievance system for workers' complaints. Women experiencing sexual harassment are far less likely to report an incident for fear of retrenchment, as employers now can easily fire people.

In the Philippines, the adjustment package of reforms that comprises deregulation, trade liberalization, capital-account liberalization that relaxes restrictions on the flow and movement of foreign capital, sweeping privatization and labor flexibilization have contributed to the collapse of domestic industries or their takeover by foreign firms, growing unemployment and the trend toward "jobless growth", violation of labor standards and destruction of unionism.

New labor-flexibilization rules and the drive to increase competitiveness have led industries to cut costs through various job arrangements, such as contractualization and casualization. While often in violation of Philippine labor standards, these labor-flexilibization

schemes are particularly prevalent in the textile and garment industries. Few factories in these industries hire regular workers, and, in fact, many shut down, fire workers and then rehire them on a contractual basis. Whereas the minimum wage is 198 pesos/day for a regular worker, contract workers receive 140 pesos/day without any benefits or job security. Different factories within an industry will often exchange their workforces in order to get around the law limiting contractual hiring to no more than six months when the position is "usual and necessary to the production process." In addition, safety standards as stipulated in the Labor Code are frequently violated in garment factories, and forced overtime is common. Furthermore, contractual hiring and other labor-flexibilitation schemes destroy unions and reduce bargaining power.

Seventy-five percent of workers in the textile and garment industry are women, who are generally most prevalent in low-skilled jobs and contractual work. In addition, women tend to suffer the greatest impact of trade liberalization, as they carry the greatest burden in compensating for a decrease in household income and purchasing power due to low wages and greater unemployment.

4. The deterioration of education, health care and other social services

According to the United Nations Conference on Trade and Development (UNCTAD) in 1995, the failure to protect health and educational budgets in the least developed countries from general fiscal retrenchment was a serious policy error in the design of adjustment programs. It pointed to the adverse consequences for social welfare and how these effects in turn impinge on the economic productivity of human resources.

Under the adjustment program in Senegal, for example, the government has cut education expenditures. The average number of students per elementary class increased from 55 in 1985 to 62 in 1993. Teachers' unions have denounced the declining quality of education, as school equipment, tables, chairs, teaching materials and buildings are in short supply. Health-care expenditures have also been falling under the adjustment program.

As a result, Senegal, an IMF pupil for 18 years, has experienced declining quality in its education and health-care systems and a growth in maternal mortality, unemployment and the use and abuse of child labor. Official IMF statistics underestimate the real inflation rate faced by most of the population, while economic growth has not effectively reached the poor. As women constitute the vast majority of the poor and depend more on social services, experience lower education and literacy rates, and are less likely to receive support for their agricultural (food-crop) activities than are men, they have suffered disproportionately under the adjustment program.

In Uganda, cost-sharing policies for service provision represent a major problem, rendering hospitals and institutes of higher education too costly for the poor. Cost-sharing is also poorly administered in the hospitals. In areas where people are unable to pay, local hospitals are closed down. Low morale exists among civil servants due to the absence of a living wage, job insecurity and freezes on salaries and wages. Current budget ceilings also constrain the ability to respond to the need to improve poor quality services.

Social expenditures in Hungary fell, as did their real value, through 1996. With social services cut, more family needs have had to be covered by household funds. Public-expenditure cuts have had additional and far-reaching negative effects in specific areas of activity, including housing, education and health. Low-cost housing loans have been eliminated, constraining housing construction despite population pressures. In the area of social services, cuts in education spending radically reduced teachers' salaries by 40 percent from 1992 to 1997 and 8,000 employees were dismissed, undermining the viability of the education system. Public expenditure on health-care was reduced to a ranking of 21 out of the 26 Hungarian budget sectors, meaning, among other things, that there is a huge problem due to reliance on out-dated equipment. As a result, the quality of social services, such as education and health (including infant and maternity care), has declined, hitting women, who make up the vast majority of the poor, particularly hard. In addition, public-sector lay-offs are sharply increasing unemployment among women, many of whom have been unable to find their way back into the labor market.

The overall quality of Ghana's educational system has declined since the onset of its adjustment program. The imposition of user fees has led to reduced enrollment rates, particularly in rural areas. There is a 40-percent drop-out rate in primary school, while total enrollment at the tertiary level is under 50,000. Many children have been pulled out of school to contribute to family income, leading to concerns that by the year 2020 Ghana's population will be largely illiterate. In addition, user fees have led to even greater inequalities both between and within communities, as the better-off increase their educational levels and the poor fall farther behind. Those families who do manage to scrape together the money to pay the fees find that they have to cut back on essential household expenditures.

Retrenchment in the civil service and a decline in the real wages of teachers have led to higher student-teacher ratios. Reforms did not address the difficult working conditions teachers face, which have led to declining morale. Meanwhile, despite the imposition of user fees, there is still a widespread shortage of textbooks. These factors have led to an erosion of confidence in the public school system, causing those parents who can afford it to send their children to private schools, further undermining the viability of the public school system. The impact of these policies is often more severe for women and girls, contributing to reduced education for girls and increasing the poverty of women, who are already the poorest of the poor.

While funding for health care increased in the early years of the adjustment program, it has since declined. The quality of health care has also been undermined by retrenchment. There are large discrepancies in the quality of care between rural and urban areas, as well as a large north-south divide. Access to services is still limited. Meanwhile, cost-recovery measures in the health-care sector were implemented at a time when many people had been laid off and income levels were extremely low. The introduction of user fees has thus led to reductions in outpatient attendance by up to 33 percent, particularly in rural areas. Many poor people are turned away for lack of funds. The payment arrangements are cumbersome, too much staff time is devoted to collecting fees, and the funds that are collected are often misused. The poor are being priced out of hospital care, and a two-tiered health-care system now exists, with better facilities for those who can afford to pay. Once again, women often bear the brunt of these policies. According to official surveys, poor women access government services and subsidies much less, and the official social safety net has not helped change this situation.

Under the adjustment program in Ecuador, social spending has been cut, with per capita spending for health and education reduced to one of the lowest in Latin America. In 1980, 38 percent of the national budget was dedicated to social spending, but the figure for the current fiscal year has dropped to about 20 percent. The elimination of social subsidies in Ecuador has generated a chain of negative effects. Inflation has escalated, the price of basic goods and services has suffered proportionally higher increases, and producers have transferred cost increases to consumers. The income level of more than 60 percent of households in Ecuador does not cover the cost of a basket of basic goods. The elimination of subsidies for electricity, gas, oil and transportation has also been a major factor in raising the cost of living. It has reduced the limited purchasing power of low-income households by some 45 percent and has devastated small producers, such as those in the fishing sector, who rely on these inputs to make a living.

In the Philippines, budget allocations for education have not kept pace with growing need. There are problems related to the quality of and limited access to education, and there is a deficiency of schools and teachers as well as of books and teaching aids. There are also significant differences in the services provided in predominantly poorer regions of the country, such as areas of Mindanao, where drop-out rates in primary school reach as high as 50 percent. Poor families are often unable to cover the increased costs of sending their children to school because, although primary and secondary education are free in theory, authorized fee collections for materials, vaccinations and meals amount to user fees that the poor cannot afford.

In the area of health care, there has also been a deterioration in services provided over the past 20 years as a result of insufficient expenditures and the ineffective allocation of the limited available funds. Liberalization of the health-care sector under the adjustment program in the 1980s led to the deregulation of pharmaceuticals and an increase in hospital and doctor fees. Privatization, manifested in the contracting out of services by hospitals, has reduced accessibility by increasing costs to consumers. Public clinics often lack medicines, and public services provide more curative than preventative care. Decentralization of health-care services in the 1990s has not been accompanied by the necessary transfer of funds and capacity to manage services at the local level.

In El Salvador, the privatization of electricity distribution has resulted in increased rates, reduced access for low-income people and a notable decline in the quality of service. A lack of transparency in bidding processes and an overall lack of regulation of the private-sector providers have contributed to these negative results.

To pay for increased rates, families have been forced to cut back on other expenditures and ration their use of electricity. Women often bear the greatest burden of higher prices because they have greater domestic and child-rearing responsibilities, often in addition to paid work outside the home. In an effort to ration electricity use, many rural families are resorting to more traditional energy sources -- especially collecting and burning wood -- which contributes to deforestation and generates a significant additional workload (mostly for women). Children have also been negatively affected by price increases, since families have reduced their expenditures for education and recreation. In an effort to supplement family income, children are sent to work,

contributing to an increase in child labor. The impact of price increases is also seen among micro and small enterprises, many of which have been forced to close down because they can no longer afford to pay their electricity bills.

Access to electricity has also been restricted. Low-income communities in rural areas have been hardest hit since the newly privatized electric companies do not see most rural areas as sufficiently profitable and therefore prefer to export power to neighboring countries. A profit-driven mentality overshadowed concerns about quality and expansion of services. As a result, the quality of service has dropped considerably. There are regular and prolonged blackouts in some areas, customer complaints are not addressed, customers are not provided with basic service and billing information, and overcharging is a common practice.

5. Growing poverty and inequality

Poverty has increased in most Third World countries during the years of IMF support. Data published for the period 1980 to 1990 by the ILO show that rural poverty increased in 21 of the 34 IMF-supported countries for which statistics exist and that the situation in urban areas was only marginally better. In Ghana, for example, which has been receiving IMF loans throughout most of the 1980s and '90s, rural poverty increased from 37 percent in 1980 to 54 percent in 1990. Countrywide, devaluation and domestic inflation have led to higher food prices, which have not been matched by similar increases in wages. For those who still have jobs, real wages have not yet regained their 1970-74 levels. And, with increasing layoffs, the one-third of rural households which are net consumers of food are getting poorer and hungrier.

In fact, in the two regions with the highest incidence of income poverty -- Sub-Saharan Africa and South Asia -- poverty is increasing in both absolute and relative terms, according to the UNDP's 1997 *Human Development Report*, and the majority of countries in these regions have received substantial IMF funding. As noted above, women have suffered disproportionately under adjustment programs. In Uganda, for example, with women producing lower-income crops, liberalization and privatization policies have favored men. They have also contributed to rising malnutrition in the country. In Tanzania, the World Bank's 1996 Country Economic Memorandum reported that food intake levels had stagnated due to the "...limited accessibility to food and the rising cost of living." Currently, over 40 percent of all Tanzanian children under five years of age had stunted growth and 90 out of 1,000 children born in the country die before their first birthday. Despite modest gains in real GDP growth, the Bank reports that such basic human-welfare indicators as infant mortality, nutrition, housing conditions and primary-school enrollment "...appear to be stagnant or worse, compared to the level of the 1970s or early 1980s."

The IMF has not spared the middle-income nations, either. For example, Mexico, recently on the verge of achieving "developed country" status, saw the number of its people living in extreme poverty jump from 11 to 15.8 million during the decade ending in 1995.

Poverty has also increased in Hungary with child malnutrition, which was previously unknown in that country, becoming a new and growing phenomenon. Under liberalization, not only has supply dropped considerably, but, with the growth of unemployment and poverty, domestic demand fell about 15 percent from 1989 to 1994, with per capita food consumption

down sharply. This drop in consumption, disposable income and domestic demand is explained by the fact that some 1.5 million Hungarians have lost their jobs, minimum salaries are being taxed, and utility rates, pharmaceutical costs, school-related expenses and other household expenditures are all substantially higher because of the country's budget cuts resulting from fiscal policy reform.

At the same time that social services were cut in Hungary, incomes decreased and some 70 percent of the Hungarian people lost at least 40 percent of their real wages. Many are now spending as much as 80 percent of their income on rent. Some households went "bankrupt" as their incomes fell, many people are living off their assets or savings, and many pensioners have been forced out of their homes. A more fragmented and troubled society has emerged in which other big losers include: the elderly, who often cannot afford the cost of medicines or home heating; pensioners, whose stipends will further decrease; gypsies, who are losing access to jobs and public housing; youth, who face decreased access to education and employment, particularly in rural areas; and children, who, for the first time, are experiencing malnutrition as poverty expands in Hungary.

At the same time, that poverty has increased around the world, income inequality has also been exacerbated. In IMF-supported countries, particularly in Latin America and the Caribbean, inequality in income distribution has worsened considerably. Statistics from the Economic Commission on Latin America and the Caribbean (ECLAC) bear proof of this growing disparity: in seven of the 11 cases for which data is available between 1979 and 1992, the percentage of wealth controlled by the poorest 20 percent of the populations fell.

In Mexico, income and wealth distribution had deteriorated significantly even before the economic crash of 1994-95; between 1984 and 1994, the share of national income received by the top ten percent of the Mexican population increased from 34 percent to 41 percent, while the share held by the poorest 40 percent fell from 13 to 11 percent. In El Salvador, during the high-growth period of 1988-1991, the share of national income received by the poorest ten percent decreased by almost one half and that received by the poorest 40 percent dropped by one third; according to the research center, FUNDE, all the population deciles but the highest two experienced a decline, while the top decile's income increased dramatically from 27 to 38 percent. In Chile, the richest 20 percent of Chilean households further expanded their share of national income during the first half of this decade; in contrast, the poorest 20 percent suffered a loss of their income share, with the poorest ten percent suffering an absolute decrease in income of 6.6 percent between 1992 and 1994 alone. In Argentina, the percentage of poor people has nearly doubled, while the share of national income received by the richest ten percent of households has increased sharply over the past two decades.

Growing inequalities in income have been experienced elsewhere in the world. In Tanzania the problem of food insecurity has been exacerbated by the high and worsening degree of income inequality. The IMF's program has failed to benefit those who most need a boost in income and in fact has worsened the economic situation for Tanzania's poor. Between 1983 and 1991, the better-off saw their incomes from agriculture rise by 279 percent, while the poor and very poor experienced income decreases of 42 and 60 percent, respectively. In 1983, the average adult equivalent of income for the richest income group was 24 times greater than that for the

poorest group. By 1991, that figure was 1,454 times greater due to the large proportion of the population with zero or even negative incomes. Those living in households with income below the "hard core" poverty line (over eight million people in 1991, or 42 percent of the population) had lower incomes in 1991 than in 1983.

6. The degradation of the natural environment

Adjustment programs have also had a devastating effect on the environment. Growing poverty is part of the problem, a case in point being Tanzania, where, as people have become more desperate in rural areas, they have begun to produce on any lands available, no matter how fragile. The drive to export is another factor, as is deregulation and the lack of budgetary resources to oversee investment projects.

The Philippines is an interesting case in point. The restructuring of the mining industry in that country since the mid-1980s and, in particular, the Mining Act of 1995 -- part of the foreign-investment liberalization process designed ostensibly to foster national development -- has contributed to a deteriorating situation. The government, by opening the borders and enticing foreign capital through industrial deregulation and liberalization measures that opened certain industries to foreign ownership and raised foreign-equity participation and through the passage of legislation providing incentives for foreign investment in mining, expanded mining activities in a way that has negatively impacted important segments of the population.

The shift in particular from tunneling to open-pit mining in the latter half of the 1980s has had disastrous effects on indigenous peoples and other communities and on the environment. Furthermore, the impetus under adjustment to draw foreign direct investment into hard-currency-generating industries led to the adoption of the 1995 Mining Act. This effective liberalization of the mining industry allowed an extensive opening to foreign capital for use, management and control of mining lands. Mining firms can now be fully foreign-owned and enjoy investment incentives such as tax holidays and tariff-free imports, full repatriation of investments, full remittance of earnings and freedom from expropriation. Applications for mining rights are pending for nearly one quarter of the country's total land area. Seventy percent of these lands border on, or are located within, areas occupied by indigenous peoples.

These adjustment policies have generated little employment, caused environmental destruction, created health problems and endangered lives, violated human rights, exacerbated women's oppression, dislocated indigenous peoples and Moro communities and violated their rights, and provided no compensation for residents of affected areas. While liberalization policies have benefitted large-scale strip mining, small-scale miners, many of whom are indigenous peoples, have been displaced. The physical and cultural dislocation of indigenous peoples and the disregard for their right to their ancestral domain is not just an environmental issue, but a critical land-tenure issue closely linked to the liberalization of the mining sector.

There has also been an increase in disease in areas of open-pit mining, especially among women and children. A rise in the incidence of skin disorders, and deaths from poisoning have been reported. Additional environmental problems include the destruction of bio-diversity, soil degradation, increased toxicity of the fish catch, and the depletion of water sources.

At the household level, there are several negative impacts from the liberalization of mining. There has been greater economic dislocation or loss of livelihood as a result of the shift away from tunnel mining, as well as the edging out of small-scale miners, which has led to greater family indebtedness. Indigenous people have turned to agriculture as a livelihood option, but this has proved unviable because of soil degradation resulting from strip mining. In addition, there has been a shift in the gender division of labor, with women taking on a double burden. The role of women in production has increased as men lose their sources of income, yet women's workloads in the household remain the same or even increase as certain tasks require more time and effort. As an example, water scarcity due to environmental degradation means that it becomes more difficult to provide for household water needs, a task that is traditionally the responsibility of women.

7. The growth of foreign-debt burdens

Development in most countries in the South has been made even more difficult by the increase in foreign debt that they have experienced while the IMF has involved itself in the management of their economies. A Development GAP study of 71 countries that between 1980 and 1995 adopted structural adjustment programs prescribed by the IMF and the World Bank shows a positive correlation between the number of years that a country had an adjustment program in place and an increase in debt as a percentage of GNP. The average (mean) increase in the debt/GNP ratio among these countries was 49 percent, with the typical (median) country experiencing a 28 percent increase

The World Bank's own figures show that 63 out of 69 countries have experienced an increase in their external debt while implementing SAPs. On average, debt increased nearly 78 percent in these 63 countries during those years, 1980-95, in which SAPs were in place. These figures are all the more striking in light of the fact that it has been a principal goal of the IMF to have countries put their internal and external accounts in balance and decrease their foreign obligations. The record also seriously calls into question the long-term effectiveness of any debt-reduction plan that conditions country participation on the implementation of Fund-promoted adjustment programs.

Conclusions and recommendations

These devastating effects on local economies and on the increasing number of poor people around the world living under IFI adjustment programs are only now being acknowledged by the World Bank and the IMF. What they have refused to acknowledge is the causal relationship between their policies and this impact. Yet the record is clear. After two decades, adjustment programs have not only failed to achieve their stated objective of putting countries on the path to sustainable development, they have, quite predictably, undermined progress in country after country.

The IMF claims that it is not a development assistance agency, and its track record proves its point. Yet, while destroying the basis for sustainable, equitable and stable development around the globe with the imposition of both stabilization and adjustment measures, the Fund has also greatly increased economic and financial vulnerability. By opening the door prematurely to

fickle and unregulated international capital flows, by indiscriminately liberalizing trade and investment regimes and pushing up interest rates to attract bondholders without adequate support for local production, by developing cheap production bases for foreigners and export at the expense of domestic demand and the natural environment, and by rewarding speculators instead of financing critical social investments and equilibrium, the IMF has demonstrated both its biases and its ignorance of local conditions. It should be neither a guide for the market nor a dictator of national development programs. At this point in history, the less influence, the less money, the less power it has, the better.

Appropriating funds for the IFIs on the condition that they subsequently implement prescribed reforms has proven to be an ineffective means of inducing change. History is littered with failures on the part of the World Bank and IMF to adopt reforms requested by Congress once they have received their funding. The only way to hold the IFIs accountable, therefore, is to treat them as they do client governments: by requiring compliance with a set of established conditions *before* funding is provided and by tranching the release of those funds to ensure continued compliance with the imposed conditions. These conditions must include, at a minimum, the following requirements:

1. that the IFIs make their operations, their internal and external decisionmaking processes, and their relationships and agreements with governments transparent to legislatures and the general public in their member countries;

2. that the IFIs democratize and enhance the policymaking process by consulting regularly with the major sectors of civil society in each country in which it operates and by integrating their input systematically and in an accountable manner in all program and policy negotiations, design, implementation, and evaluation;

3. that the IFIs remove structural adjustment conditionalities from their country lending programs, as well as from their debt-cancellation programs, and that the Fund close down its Enhanced Structural Adjustment Facility after utilizing remaining resources in the Facility for debt reduction among the poorest countries;

4. that the IFIs help, first and foremost, to develop strong domestic economies with expanding productive capacity supported by rising wages and local demand and by local savings and affordable credit so as to enable countries to engage on more equal terms in the global economy while reducing their dependence on foreign capital;

5. that the IFIs ensure conformance with internationally recognized labor rights as set forth by the International Labour Office;

6. that short-term stabilization measures agreed to by government and the Fund in return for Stand-by credits be consistent with those nations' respective development priorities as determined by their citizens, and that IMF financing and approval no longer be a condition placed on development financing from other official institutions; and

7. that the Fund's Board reject its Interim Committee's recommendation to expand the institution's mandate to "make the liberalization of capital movements one of the purposes of the Fund" and, rather, submit to the U.S. Treasury a plan for regulating the volatile global flow of speculative capital.

Demonstrated commitment in the form of effective action in these seven areas should be the minimum condition for continued funding of the IFIs. Short of full and rapid compliance, the role and funding of the IMF, in particular, should be steadily diminished so that its level of intervention in client countries is likewise decreased. Current plans to empower the Fund to oversee poverty-reduction programs in these nations are absurd and dangerous and must be reversed, as the institution would use its new authority to strengthen its imposition of poverty-inducing adjustment programs.

While most of us can agree what the indicators of a healthy economy are, how each country gets there, and thus qualifies for continued IFI financing, must be the prerogative of the country itself. The past 20 years has seen the creation of a massive cartel representing international financial interests. Led by the IMF and including the other IFIs, the G7 governments and the world's major banks and finance houses, it has withheld funding from any government that does not accept its dictates. The results, we can also agree, have been disastrous. Not only is the world staggering from one financial crisis to another and national economies left tottering, but democratic processes have also been undermined. It is well past time that the power of the IFIs, and particularly that of the IMF, is sharply curtailed and that citizens reclaim their right to shape their own economies and inject local realities and priorities into the economic policymaking process.