World Bank is party to damning investigation of adjustment policies

Findings from four continents published in a new book highlight the increased poverty and inequality generated by structural adjustment and its destruction of the productive sectors of domestic economies. Despite the extensive involvement of both civil society and the World Bank in the SAPRI initiative, Bank management has taken no meaningful action.

IN the context of increasing protests against structural adjustment by civil society and a growing recognition in official circles of the failure of these policies to deliver on their promise by the mid-1990s, a number of non-governmental organisations (NGOs) challenged incoming World Bank president Jim Wolfensohn to involve his staff in an exercise with citizens' groups in the South in order to bring critically important knowledge, perspectives and analysis into the formulation of Bank economic advice and policy-making. It was felt by these organisations that, not only would such an endeavour legitimise a voice for civil society in economic policy-making and enable the mobilisation of local organisations around the issue, it would also, if professionally and objectively carried out in a truly participatory manner, yield findings that reflected the experiences and perspectives of people struggling under adjustment programmes.

Thus was born the Structural Adjustment Participatory Review Initiative (SAPRI), a joint five-year, multi-country participatory investigation into the effects of specific structural adjustment policies on a broad range of economic and social sectors and population groups.

Financed by generous contributions from five European governments, the European Union, the United Nations Development Programme and various foundations and NGOs, SAPRI was a tripartite arrangement involving national governments and World Bank teams in Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mali, Uganda and Zimbabwe, along with national networks of hundreds of civil society organisations that mobilised around the opportunity to influence the economic course of their respective countries. These networks, as well as those that launched independent initiatives in Mexico and the Philippines when the Bank and government refused to participate, form the national chapters of the Structural Adjustment Participatory Review International Network (SAPRIN), the three-tiered structure that was built originally around this engagement with the Bank and that coordinated civil society's participation in SAPRI.

The SAPRI process

A great deal has been learned from this Initiative, not only with regard to the impact of structural adjustment programmes, but also about the mobilisation, organisation and participation of civil society in matters related to international economic policy-making, as well as about the Bank itself and its much-vaunted but highly problematic relationship with civil society. Two principal characteristics made SAPRI unique: the joint, if difficult, nature of the exercise with the Bank and the highly participatory and inclusive nature of the methods employed by civil society independently and with their Bank and government counterparts.

SAPRIN set out from the beginning to maximise the levels of inclusiveness, participation, decentralisation, communication and collective decision-making within the Initiative. To ensure meaningful participation, clear and firm steps were taken to distance the Bank and governments from the process of local outreach to, and selection of, civil society organisations that would participate in SAPRI. This placed pressure on the local teams to live up to SAPRIN's commitment – to the Bank and government, as well as to local populations – to ensure inclusion of a broad cross-section of organisations in the respective exercises. Other guidelines were established to level the playing field in programme decision making by giving civil society the power to select the major issues to be investigated and to organise the national public fora that bracketed the participatory field investigations carried out by consultants selected jointly by the local SAPRIN, Bank and government committees.

Such mechanisms and other vehicles of participation were built into all the stages of the country exercises, as reflected in the large and diverse turnouts and the broad array of citizens' presentations at the national fora and the broad-based feedback received on the interim and final research reports at economic literacy workshops and at the Second National Fora.

The preservation of local choice was at the heart of the participatory nature of SAPRI. As it turned out, the impact of trade liberalisation policies – on local businesses, employment and incomes – was selected by local organisations as one of the three or four most problematic issues for discussion in almost all the 10 countries. Privatisation – of public utilities and services and the mining and industrial sectors – was another prioritised problem area identified by citizens' groups. Agricultural sector reform policies, the impact on workers of labour market reforms, and the liberalisation of the financial sector and the consequent problems of credit access for local producers were also discussed in a handful of countries. In addition, public-expenditure reform issues – including user fees, the elimination of subsidies, and the impact of reform on healthcare and education, social services, family economic security and social development – also emerged as a citizen priority.

The findings

There was extensive evidence in the country investigations that liberalising reforms in trade policy and in the financial sector have combined to destroy domestic productive capacity, particularly among the small and medium-sized enterprises that are at the core of national economies and that employ the large majority of their workforces.

The orientation in bank lending and government policy has been toward financing and facilitating export production, but there has been limited linkage in much of this production to the local economy and local producers. At the same time, the latter have been by and large unprepared to compete against the influx of imports that has come with the lowering of trade barriers. The result has been a large increase in unemployment and a loss of income, most notably among poor, unskilled workers, particularly women and those living in low-income rural areas.

Coupled with trade liberalisation measures, financial sector reforms have had a particularly devastating impact. High interest rates and other obstacles to borrowing by some sectors have been particularly debilitating for small firms that do not generate sufficient internal savings to satisfy their need for long-term working capital. Most lending has been directed to larger companies in the export sector and to non-productive activities instead of to broad-based production needed to stimulate national economies and especially economic activities in poor rural areas. Women and indigenous producers have had particular difficulties accessing affordable credit, or credit at any price, from formal lending institutions.

Trade liberalisation, agricultural reforms and other sectoral and structural adjustment measures have also served to marginalise the poor in rural areas, reduce the availability of productive farmland for cultivation for the local market, and undermine food security. The design and implementation of the agricultural sector reform, it was found, failed to take into account existing socioeconomic differentiations, and, as a result, poverty and rural inequality have worsened.

The more well-to-do, large-scale producers with access to productive resources, particularly those producing for export, have generally benefited from the liberalising reforms. Small farmers, particularly those producing food for the domestic population, have seen their costs skyrocket and their access to credit, land and markets become more problematic. These policy effects have been felt strongly, in particular, by women, who are bearing a heavier burden under the reforms. The cost of living in rural areas has risen while incomes have fallen. These problems have been compounded by the impact that the privatisation, liberalisation and deregulation of the mining sector and other extractive industries have had on land use and the environment.

The removal or reduction of barriers to the influx of cheap agricultural goods, of controls on interest rates, of regulations on financial institutions, of subsidies on agricultural inputs, and of government involvement in the production, distribution and marketing of inputs and commodities has greatly increased the costs and inaccessibility of productive resources for most farmers. This increase in costs of inputs and marketing has outstripped the increase in the prices of the goods produced, causing a decline in incomes. Without government regulation and services, farmers are operating without adequate information, in a market that is neither competitive nor efficient.

While employment levels and wages have been affected by a range of adjustment measures, employment has become more precarious and generally less remunerative with the increase of privatisation and the introduction of labour market reforms in a growing number of countries. Greater discretion in the determination of wage and job levels has been placed in the hands of private employers with the selling off of state enterprises and public utilities and with the liberalisation of labour laws and regulations. Employees have lost much of their bargaining power and protection. Family incomes have fallen as a result, and more members must work longer hours to sustain the household.

The SAPRI investigations found that, since adjustment measures have been implemented, wages have declined, worker purchasing power has been reduced, and income distribution is now less equitable. The use of temporary, individual employment contracts and other forms of labour 'flexibilisation' have helped suppress incomes so that they now frequently do not cover a family's basic needs. This problem is exacerbated by the common absence of benefit packages in these contracts and by a loss, as a result of the reforms, of protections of the right to organise and bargain collectively. The relaxation of hiring and firing constraints and of labour market regulation generally has given employers added leverage in determining wages.

Income distribution has worsened as large numbers of low-skilled, low-wage workers, especially minorities and women, have been the first to be laid off by privatised firms. Job training has not adequately addressed the problems of the newly unemployed. The new jobs created in the private companies are generally well-paying, but have required higher skill levels.

At the family level, the loss of wages and gainful and secure employment has resulted in the modification of survival strategies wherever these reforms and related adjustment measures have been adopted. Many heads of household have had to take second and third jobs, usually in the informal sector where they are available, and additional family members have often had to join the workforce. Increasingly, children have had to drop out of school to supplement declining family incomes by taking jobs that pay salaries that are usually far below the minimum wage.

The privatisation of public utilities, including such essential services as the provision of water and electricity, has led to significant rate hikes and has increased financial pressure on poor families. Such privatisations also tend to discriminate against the poor with regard to price, access and consumer choice, thus exacerbating existing economic inequalities.

At the same time, stabilisation and structural adjustment programmes have generally led to a sharp deterioration in public spending on social services, often during economic downturns, while debt obligations continue to be paid. In most places, particularly in rural areas and poorer regions, educational quality was found to be woefully inadequate. The decentralisation of services and their management to the regional and local levels, a key feature of reforms in this sector, has proven to be disastrous because it has often been accompanied by inadequate funding. Reductions in public spending on healthcare have also left countries with public health budgets insufficient to meet health needs. The imposition of cost-sharing schemes created serious constraints to access by poor people to healthcare and education. School drop-out rates, for example, have risen in most of the countries, particularly among girls, where user fees have been charged.

Weak macroeconomic performance under adjustment

The World Bank and other advocates of adjustment policies have increasingly acknowledged that many of these adjustment measures have generated losses among the poor. In fact, it was concern about the connection between adjustment programmes and growing poverty and inequality that led President Wolfensohn to accept the NGO challenge and undertake the SAPRI investigation.

The Bank claims, however, that the macroeconomic gains from the implementation of adjustment policies offset any short-term losses among certain population groups and sectors by setting countries on the path toward sustainable growth. This is part of its implicit argument for its lack of attention to the adjustment-poverty connection in the Poverty Reduction Strategy Papers (PRSPs) mandated in the poorest countries by the international financial institutions (IFIs) and for insisting that the Bank/IMF economic framework provide the parameters of any poverty reduction programme.

Civil society actors have not accepted these arguments for several reasons. First, the losses to the poor and working people around the globe – including those within the SAPRI countries – have not been short-term. In fact, because of the certain differentiated impact that they would have on disparate population groups and sectors, it was predictable that many of these policies would have an immediate and long-time negative effect, and the predictions based on this analysis turned out to be correct.

Second, after two decades of adjustment, it is clear that there is nothing intrinsic to the policies assessed in SAPRI that would lead one to believe that they will eventually work their magic in the market and reduce poverty and inequality, rather than continue to increase both of these negative phenomena.

Third, the evidence does not indicate that the macroeconomic benefits claimed to be derived from adjustment policies and programmes have been achieved at anywhere close to the levels assumed by their advocates. Thus, the trade-off – short-term pain for long-term gain – has little basis in empirical fact.

The economic policies that comprise the core of structural adjustment programmes have failed to engender the healthy economies promised by their architects. To the contrary, as judged by the experience of the countries involved in SAPRI, the overall impact of adjustment policies has included: the generation of increased current-account and trade deficits and debt; disappointing levels of economic growth, efficiency and competitiveness; the misallocation of financial and other productive resources; the 'disarticulation' of national economies; the destruction of national productive capacity; and extensive environmental damage. Poverty and inequality are now far more intense and pervasive than they were 20 years ago, wealth is more highly concentrated, and opportunities are far fewer for the many who have been left behind by adjustment.

Despite extensive export promotion, export revenues have for the most part been outpaced by the rising cost of imports. Nor has foreign investment proven to be the panacea in this area. With foreign firms often the beneficiaries of the privatisation of state holdings, dual economies have emerged or become more pronounced and the development of local industries has been threatened. The increased ease of profit repatriation, capital withdrawal and, in many sectors, plant relocation has also had a strong destabilising effect.

Overall, economic restructuring, after two decades of adjustment, has not led to greater modernisation and competitiveness. The growth of GDP has been irregular and insufficient and has been concentrated in exports and in other favoured sectors, businesses and regions to the detriment of large, important and increasingly impoverished economic sectors. Production for the domestic market, especially in agriculture, has often suffered, as has food security.

New patterns of agricultural production, particularly for export, have, in an environment of liberalisation and deregulation, polluted land and water with chemicals from intensive fertiliser use, depleted water tables through the irrational use of irrigation, caused soil erosion and exhausted vital natural resources. Reforms favouring large-scale monoculture have led to the loss of biodiversity. Small farmers and the poor have been pushed in the process onto marginal lands, which they have had to overexploit in order to survive.

Shaping a different future

For the dozens of countries that have travelled down the adjustment road, the problem is not that the reform process has failed to generate some benefits. It is that these benefits have tended to be concentrated in a relatively few hands, both domestic and foreign, while millions of other people have increasingly been deprived of the resources and opportunities they require to move out of poverty.

To understand the dynamics that make such results a virtual certainty requires a radical shift in perspective. A major policy change made by a country of the South to meet a World Bank or IMF loan condition may look benign and, in fact, universally beneficial to a banker sitting in London, but to a poor farmer in the South who has come to understand how local, national and even global systems, structures, institutions and markets work to reward the more powerful and influential, expectations may be much lower.

This shift in perspective was at the core of the SAPRI design and experience. The voices that were sought, and heard, were those of local populations often living and working at the margins of their respective societies. The issues that were selected for investigation were those that they had prioritised. And their analysis was based on an intimate knowledge of their own circumstances and on an understanding of the political economy of their respective communities and countries. Unlike the current PRSP processes, SAPRI encouraged and supported the broad-based mobilisation of civil society and people's efforts to explain the connection between economic policies and their own respective economic and social situations.

While political democracy has been promoted, albeit selectively, from the North, real democratic choice for both civil society and governments in the arena of economic policy has been severely limited by the IFIs and their Northern board members. Governments have been urged to improve their governance, but not so that they will better respond to the interests of their own people when the most important economic decisions that affect the latter are being formulated.

Meanwhile, the Washington-defined concept of 'country ownership' of economic programmes has meant little more than government acceptance of IFI-promoted policies rather than a national consensus developed around a home-grown policy programme. And the increasingly common processes of consultation with civil society organisations on development programming rarely cover these policies in any comprehensive way and almost always lack follow-up mechanisms of accountability to those consulted.

The SAPRI experience demonstrated that mechanisms for meaningful popular participation in economic decision-making can be established. In countries on four continents, civil society organisations representing a wide range of population groups and economic and social sectors came together to produce collective analyses of adjustment programmes that point the way to new directions in economic policy.

Through negotiated terms of engagement, a level playing field was created in each country so that citizens had the freedom, the resources and the power to develop their own processes of outreach and cooperation, to select priority policy issues for analysis, and to build local analytical capacity where needed. These decentralised processes were matched in their effectiveness by the formation of well-organised civil-society and tripartite committees that can provide the fora for the development and implementation of new economic options.

Despite IFI claims to the contrary, such options, old and new, continue to exist, much as they have for the countries of the North, as witnessed by the diverse policy choices taken during the process of economic development in Europe, the United States, Japan and other East Asian nations over the past two centuries. The lack of diversity in the economic policies implemented across much of the South during the past generation is a direct result of IFI conditionality, not of an absence of policy alternatives. The consistent nature of the policy programme imposed on borrowing countries has also engendered a similarity of problematic results at both the sectoral and macroeconomic levels.

In the field investigations, it is striking that the SAPRIN civil society networks consistently focused their attention on the policies that directly impacted the domestic productive capacity of their respective countries. While fiscal and social policies were by no means ignored and the efficacy of the privatisation of essential services was challenged, the major emphasis was on the need for policy shifts in key economic sectors and on the enterprises in which most of the working poor are engaged in order to better meet local needs and provide decent jobs and incomes.

In the public fora, gainful employment and the creation of healthy and productive local economies – through changes in prevailing trade, monetary, sectoral, labour and fiscal policies – were emphasised over the Bank's far more narrow approach to poverty reduction, which precludes alternatives to these basic adjustment measures. The state's role was seen by civil society as being critically important, not only in providing essential services and in protecting the environment, labour rights and vulnerable population groups, but also in levelling the economic playing field so that local enterprises can compete in the national as well as global marketplace.

Follow-up and conclusions

Media coverage and public debates involving SAPRIN members and top government officials around the release of the SAPRI report in Europe highlighted the failures of adjustment programmes and forced the Bank and its president to re-engage SAPRIN after almost a year of ignoring the results of the joint SAPRI initiative. However, a subsequent Wolfensohn proposal to involve SAPRIN and other civil society organisations in the shaping of economic policy through PRSPs and the Bank's own Country Assistance Strategy (CAS) processes in the SAPRI countries was not implemented by the Bank after a series of delays by its managers.

The fact that SAPRI participants have subsequently witnessed the continuation of Bank-promoted adjustment programmes in their respective countries has underscored the importance of expanding the mobilisation, educational efforts, capacity building and advocacy upon which the SAPRIN network was built. This enhanced strength will be necessary, for, if there is to be constructive change and democratic choice in economic policy-making, civil society will have to make its way on its own into the centre of the decision-making process. ◆

The above is extracted from Structural Adjustment: The SAPRI Report; The Policy Roots of Economic Crisis, Poverty and Inequality *by the Structural Adjustment Participatory Review International Network (SAPRIN) (published in 2004 by Zed Books and Third World Network). For more information, please visit SAPRIN's website, www.saprin.org. To purchase the book, please refer to the advertisement on this page.*