Evaluating World Bank Structural Adjustment.

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Evaluating World Bank Structural Adjustment

A Master’s Thesis submitted to
The Faculty of the Master of Science in International Studies Program
In Candidacy of the Degree of
Master of Science in International Studies

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The purpose of this paper is to examine the World Bank’s structural adjustment lending program during the 1980s and 1990s and evaluate its impact on the population. In a time of massive debt, the World Bank used structural adjustment to reform the economic systems of nations facing a balance-of-payment crisis. While the goal of structural adjustment was to create economic growth and maintain a nation’s debt payments, the actual impact of the World Bank’s policies were far more expansive and damaging. Instead of helping indebted nations, the policies advocated by the World Bank led to economic hardship, social unrest, poor health, and environmental destruction. In response to these failings, the World Bank modified its adjustment lending policies; but even these measures do not go far enough. A more recent overhaul of adjustment lending finally appears to have rectified the failings of previous adjustment policies, but only time will tell.
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1. Introduction

In 1976, Zaire was the first to halt debt payments followed shortly thereafter by Peru, Turkey, Iran, Poland, and the largest, Mexico, in 1982. It was the largest debt crisis the world had experienced and it threatened to disrupt the world’s banking and economic system, collapse governments and economies, and sending millions into abject poverty. What was the problem? These countries and many more throughout Latin America, Africa, Eastern Europe, and Asia did not have the money to repay loans carelessly taken out years before. Debtor countries had a choice: either accept foreign aid, and its conditions, or default and face economic isolation and unrelentless depression.

Although balance of payment crises are generally seen as the purview of the International Monetary Fund, the World Bank believed it had more of a role than simply funding specific projects, as it had done since its inception in 1945. The World Bank claimed it could help end the balance of payment crisis, restore economic growth, and reduce poverty by reshaping the financial, economic, and political systems of these floundering countries. But how could the World Bank do this?

In 1980, the World Bank initiated a program called structural adjustment lending. The purpose of this program was to provide short-term loans to countries facing a balance-of-payment crisis. These countries would in return adopt policy reforms of a World Bank structural adjustment program that Bank experts believed would return the recipient to economic growth and stability. With this new philosophy and mission in place, the World Bank began the process of issuing structural adjustment loans. With each loan, the recipient country had to change laws and policies, restructure institutions, and adopt new governing and regulatory systems in accordance with the World Bank structural adjustment program.
Over the years, structural adjustment lending has amassed a great deal of criticism. Many critics argue the conditions the World Bank tied to structural adjustment loans caused more damage than good. Others believe the World Bank's austerity program was the only way debtor nations could modernize their economies and political systems. After evaluating the impacts of World Bank policies in debtor nations, it can be concluded that structural adjustment loans caused greater poverty, economic decline, environmental degradation, poorer education, and substandard health care. The mounting criticism caused the World Bank to initiate a new program in 2004 called development policy lending. The effectiveness of the new program is still unknown. Only time will tell if it fully addresses the failures of structural adjustment lending.

The purpose of this paper, then, is to examine the objective of the World Bank's structural adjustment lending program and discuss the programs effects. In the first section, I will explore the impetus for structural adjustment reforms; I will take a close look at the debt crisis of the 1980s and what caused it. In the next section, I will explore how and why the World Bank became involved in the debt crisis. I will examine the reforms proposed by the World Bank to solve the debt crisis and the rationale behind those reforms. Then in the following section, I will consider the impact of those reforms. It will be evident that structural adjustment caused more harm than good for many countries. Finally, the World Bank's response to the plethora of criticism that came from its structural adjustment reforms will be evaluated. Before discussing the World Bank's structural adjustment program and its impact, we must first investigate why these countries needed structural adjustment. To do this, we will examine the debt crisis of the 1980's and the economic conditions that led to it.
2. The Debt Crisis

In August of 1982 Mexico revealed it was suspending its debt payments shaking the financial world to its core. This, however, was only the beginning. Numerous countries throughout Latin America, Asia, and Africa would suffer similar circumstances. The debt crisis had begun. What caused this crisis? How did these countries arrive at this situation? Although the circumstances for every country that faced a debt crisis are unique, some general causes can be identified. Uninhibited bank lending, irrational fiscal policy within the debtor countries, and world economic shocks formed a volatile combination that brought about the debt crisis.

The events that started the debt crisis can be traced back to the oil shocks of the 1970s. The OPEC oil embargo caused oil prices to skyrocket. For a developed nation, the price shocks were manageable but for a developing nation short on cash the price shock was lethal. Developing nations were forced to run up huge budget deficits to afford oil. In 1973, non-oil-exporting developing nations had a current account deficit of $11 billion. That number soared to $37 billion in 1974 and $46 billion in 1975. The cost of oil as a percentage of total spending rose from 6% in 1973 to 21% in 1981 in non-oil-exporting developing nations.¹ How could an impoverished third world nation sustain these deficits?

The difficult choice was between cutting expensive imports and borrowing more money to finance their increasing shortages. Choosing to borrow more money to pay for the growing deficits was a much easier option than cutting imports. Fortunately, for non-oil developing nations, the same oil embargo that was squeezing them financially also made OPEC countries incredibly rich. Eagerly in search of way to invest this surplus capital, the international banking system issued loan after loan to the deficit ridden non-oil developing nations. As oil costs

increased, non-oil developing countries borrowed more money from the very countries and banks that were reaping the windfall of the higher oil prices. This *petrodollar recycling* became a standard practice during the 1970s.

2.1 “A Happy State of Affairs”

This entire process was appealing because interest rates were at phenomenally low levels during the 1970s creating what Jeffery Sachs called “a happy state of affairs.” Non-oil developing nations could borrow as much money as was available because, at the time, the export growth rate was greater than the interest rate. In other words, the money collected from exports covered the costs of the loans; non-oil developing nations were paying nothing from their own resources for their loans, hence the “happy state of affairs.” Export growth was not the only way to pay for loans. Incredibly, some countries took out new loans to cover the costs of old loans! How to pay these loans back simply wasn’t a concern to debtor countries or to the banking community. As these conditions persisted, non-oil developing nations took out loans with impunity. By 1986, Third World debt exceeded $600 billion from only $100 billion in 1973. This happy state of affairs would not continue indefinitely though.

If the export growth rate were to drop below interest rates the situation would change drastically. In this instance, non-oil developing nations would have to take money out of their own resources to cover the costs of the loans. Had bankers considered the possibility of this event and examined the resources of the debtor countries, they would never have issued so many

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loans to these Third World countries. They had no true way of paying back the loans but this was of little concern to the banking community during the 1970s.  

2.2 Nearing the Precipice

If the debt crisis is broken into stages, the oil shocks of 1973 and the ensuing petrodollar recycling can be considered the first stage. Stage two occurred with the 1979 OPEC oil shock, the resultant petrodollar recycling, and a worldwide economic downturn. This time, however, the low interest rates of the 1970s had disappeared. A worldwide economic recession, rampant inflation, and high unemployment in the United States led the Federal Reserve to take far-reaching steps to stop the economic slide. These steps resulted in higher world interest rates. Until this time, debtor nations could borrow money risk-free because the interest payments were covered by revenue from exports. Now with higher interest rates and a worldwide recession, export revenue was not enough to cover debt payments. As the cost of loans increased the ability of debtor nations to pay decreased.

Debtor countries did not arrive at this position by themselves. The reckless behavior of lending banks holds some of the blame for this situation. One would assume that creditors would re-evaluate debtor countries’ financial situation in light of higher interest rates. Banks however continued to issue loans to non-oil developing nations at an alarming rate. “In the two years after the rise in real interest rates, the commercial banks made about as many net loans to the major debtors as during the entire period 1973-1979.”  

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exceeded export growth rates for most non-oil developing nations and the financial resources of these nations were in poor condition, these were obviously poor choices.

Irresponsible fiscal policies as well as political instability in debtor nations also aggravated the problem. Some countries facing balance-of-payment problems took aggressive action by cutting budget deficits and devaluing the currency. Other countries, however, did the opposite. Budget cutting policies in Brazil were highly criticized so the government, succumbing to political pressure, abandoned them for more spending. In the face of a balance of payment crisis, Argentina and Mexico expanded their fiscal deficits. Political chaos in Bolivia immobilized the government from taking any action. Political conflict and corruption, especially in Latin America, left governments weak and narrow minded. Often, massive public spending was the only way for a government to survive political opposition regardless of the economic impacts.

Debtor nations and the international banking community were nearing a critical juncture. Developing nation’s ability to service their debt was becoming more and more difficult. By 1982, Latin American debt totaled $327 billion. The years where developing countries could take out limitless loans to finance their deficits were coming to an end. Debtor nations now had to start paying back more money than they had available to service their loans. The floor fell out in August of 1982 when Mexico suspended debt payments. Mexico was not the first country to suspend debt payments but it was the largest. “By year-end approximately 40 nations were in arrears in their interest payments, and a year later 27 nations - including the four major Latin

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American countries of Mexico, Brazil, Venezuela, and Argentina - were in negotiations to restructure their existing loans.”\textsuperscript{10} The decade of international debt had begun.

2.3 The Floor Falls Out

The repercussions were immediate as new bank lending all but dried up. Debtor nations who survived on the flow of loans now faced a serious crisis. Without new loans, debtor nations could not finance government operations, pay the interest on old loans, or obtain the foreign exchange needed for imports.\textsuperscript{11} Outright default on a loan was an undesirable option because virtually all sources of financing would vanish. Debtor nations were forced to balance budgets which meant massive cuts in government spending. Social services were scaled back. Public sector investments were almost completely eliminated. The crisis made inflation rates skyrocket; Argentina, Brazil and Mexico faced triple-digit inflation levels.\textsuperscript{12} It became clear that debtor nations would not be able to get out of this situation on their own. In addition, the developed world, who had lent so much money to the debtor nations, would face a massive banking crisis if their loans were not serviced. It was in their best interest to act quickly. The International Monetary Fund, whose main task is dealing with these types of crises, with the support of the United States, was the first to act. In the case of Mexico, the IMF helped reschedule the country’s outstanding debt and receive new long-term low-interest loans. Mexico had to agree to the IMF’s conditions, however, which prescribed a specific set of economic reforms meant to stabilize and salvage the Mexican economy and financial system.\textsuperscript{13} The IMF would go on to help more countries in a similar manner, but it was not enough. The largest fiscal crisis since

\textsuperscript{10} Ibid., p. 16.
\textsuperscript{11} See Woodward, Debt, Adjustment and Poverty in Developing Countries Vol. 1, p. 34.
\textsuperscript{13} Ibid., p. 25.
WWII would not be the IMF’s problem alone. The World Bank soon joined the fray with its own plans and ideas.

3. The World Bank

The World Bank was created in 1945 as a multinational institution for war reconstruction. The Bank, known at the time as the International Bank for Reconstruction and Development or IBRD, was primarily concerned with providing low-interest, long-term loans for the specific task of rebuilding war ravaged nations. For roughly fifteen years, the IBRD assisted the rebuilding of war ravaged Europe and helped secure democracy against communism. By the 1950s, economic prosperity had returned and Europe no longer needed IBRD assistance. The IBRD was in search of a new mission.¹⁴

They found that task in the 1960s when the focus shifted to assisting underdeveloped nations to join the ranks of the developed world. The IBRD accomplished this by financing specific projects that were intended to improve the developing world’s living standards and modernize their economies. For example, the IBRD financed the building of roads, bridges, electrical transmission lines, telephone lines, dams, electrical generation plants, water purification plants, gas pipelines, ports, cargo-handling facilities, and agricultural projects. They also constructed pesticide factories, meat packing plants, crop-processing facilities, fertilizer plants, irrigation projects, and live-stock facilities. For twenty-five years, the World Bank issued project loans to the developing world with varying success.¹⁵ The real impetus for change came with the selection of a new president.

In 1968, Robert S. McNamara became the president of the World Bank. He had an ambitious goal of creating “a political, social, and economic environment in which individual men and women can more freely develop their own highest potential.” McNamara carried out the task of Bank president as he had in his previous appointments at the Department of Defense and Ford Motor Company. He poured over statistical evidence, analyzed countless reports, traveled the world, and “preached” about the moral obligation man had to help the poor and destitute. In McNamara’s eyes, the World Bank wasn’t doing enough. Its development policies had failed to stop poverty and the growing income gap. The miniscule amount of money the World Bank had to work with simply could not dent the world poverty problem. He pushed for vast increases in the number of projects the Bank financed. He asked the World Bank staff to pull out every project that had been previously shelved and reevaluate it. As a result, more money was allocated for nutrition, education, family planning, and rural development. The largest expenditures went to agriculture programs such as new irrigation projects, improving crop productivity, modernizing farming equipment, and developing new farming methods. The Bank also financed projects to alleviate urban poverty. ^17

In McNamara’s enthusiasm for approving new financing, the fine print of projects was often ignored. Numerous projects were financed simply to meet a quota for issuing loans regardless of their prospects for success. Many Bank financed projects failed. They were looted and plundered by corrupt administrators or government regimes, or the conditions of the loan were ignored by the receiving country. McNamara’s agricultural projects often assisted large, rich land owners and corporations rather than the poor, small farmer and rancher who were the

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^16 Ibid., p. 97
^17 Ibid., pp. 106-121
intended targets. These failures and weaknesses did not faze McNamara; he continued to issue project loans in a haphazard manner.\textsuperscript{18}

\subsection{3.1 Enter the World Bank}

When the 1970s rolled around and the spate of uninhibited bank lending began, the World Bank and Robert McNamara were complicit. McNamara encouraged private banks and the developed world to open the loan spigots to developing countries. The more money flowing into the developing world the better; the fact that most of these loans went to debt servicing and raising foreign exchange instead of development was of little concern. The Bank disregarded the developing world's growing external debts. In fact, McNamara believed the debt problem was manageable. By the late 1970s, numerous bankers and financial organizations began to sound alarm bells about excessive lending to the developing world, however, few listened and the lending continued.\textsuperscript{19}

When the debt crisis finally struck, the International Monetary Fund was the first to act. The IMF assisted debtor countries by rescheduling outstanding loans and by loaning debtor nations enough money to keep interest payments flowing. The IMF also helped secure new private lending. In return, debtor nations agreed to implement an IMF austerity program. IMF austerity programs were focused on macroeconomic adjustment of the debtor country's economic policies. This involved "cutting the budget deficit (by reducing government spending, increasing taxes, and/or reducing the losses of state-owned enterprises); reducing inflationary financing of the deficit; and generally raising real interest rates." Exchange rate devaluation was also a major part of IMF austerity programs. By devaluing the exchange rate, the relative cost of

\textsuperscript{18} Ibid., p 125.
\textsuperscript{19} Ibid., p 126.
imports increases, dropping its demand, and the competitiveness of exports increases, with any luck increasing its demand. IMF austerity programs were short-term processes designed to end a debtor country’s balance-of-payments crisis. Although the goal was to stabilize the country and get them out of a balance of payment crisis, keeping debt payments flowing to financially vulnerable banks was of main concern. If an indebted country defaulted, its lending banks would most certainly fold; this was not an acceptable situation.\(^{20}\)

The IMF only had so much money, however, and could not resolve the situation alone. Private banks and governments, especially the United States, appealed for financial assistance. Billions of dollars were at stake and the financial viability of many banks was in question. The World Bank’s reputation was on the line because it vigorously encouraged others to lend to the developing world and vehemently denied there was a debt problem; not to mention the Bank’s own project loans were also in jeopardy. When the call came, the World Bank was ready to participate.

### 3.2 Structural Adjustment Lending

Before McNamara left the Bank in 1981, he created a tool that would allow the World Bank to funnel vast sums of money to countries facing debt crises. This new program called *structural adjustment lending* allowed the World Bank to make large, quick-disbursing policy based loans, rather than project based loans, that were meant “to assist countries... to meet an existing or to avoid an impending balance-of-payments crisis. [These] *structural adjustment loans* would only be available to countries that agreed to reform their economies in line with the Bank’s advice.” The loans would extend “over several years, and would provide direct support

for specific policy reforms decided upon during ‘dialogue’ with the borrowing country."^{21} The Bank would not focus on macroeconomic adjustment as the IMF did. Instead, it would focus on making fundamental changes to a country’s economic, social, and political systems; it would carry out structural adjustment. The differences between the two are subtle as there are many similarities between IMF and World Bank reforms. Before getting approval for the plan, McNamara had to convince a skeptical Board of Directors. Some believed the Bank was interfering in the IMF’s territory, and others argued that structural adjustment loans were mere bribes “that would open the Bank to charges of meddling, however ineffectively, in the internal affairs of its borrowers.”^{22} McNamara prevailed, however, and the Bank agreed to create a program to issue structural adjustment loans that totaled no more than ten percent of World Bank financing to aid nations facing balance of payments crises.

The debt crisis coincided with a new presidential administration in the United States and the World Bank and with McNamara’s retirement in 1981, US President Ronald Reagan appointed Alden Winship “Tom” Clausen president of the World Bank. With these new administrations came a new economic theory, supply-side economics.^{23} The World Bank’s structural adjustment program became the perfect vehicle for implementing supply-side beliefs. The problems debtor nations “faced – inflation, unemployment, underinvestment, poor public services, inefficient public bureaucracies, unsustainable debt burdens, and even lack of personal freedom” could be solved by simple free market economics in Clausen’s view. The World Bank adopted these ideals in its structural adjustment programs. “For the marketplace to operate

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^{23} Supply-side economics focuses on lowering taxes, government spending, and government regulation. It is believed these actions will encourage business investment which will lead to economic growth, higher productivity, and higher employment. This is the mindset which Clausen and other conservatives had as they tried to find a solution to the debt crisis of the 1980s.
efficiently, it [the World Bank] believes, countries must reduce public spending, lift trade restrictions, remove prices subsidies, and create the legal and financial mechanisms necessary to a free-market economy." These reforms became known as the ‘Washington Consensus’ because they were devised by the main international multilateral agencies (IMF, World Bank, Inter-American Development Bank) headquartered in Washington, D.C. For many countries, these signified dramatic changes from established policy. That is, no gradual changes were allowed: it was sink or swim. Clausen believed that loans attached to these reform measures could bring the debt crisis under control in a few years.

There are three basic beliefs, drawn from supply-side theory, which underlie World Bank structural adjustment policies in debtor nations. First, reducing the role of government is a main concern of structural adjustment reforms. The World Bank believes that “private sector commercial operations are generally more efficient than those of the public sector, and that private markets result in a more efficient allocation of resources than public provision.”

Second, rather than arbitrarily fixing prices or setting interest rates and exchange rates, forces of the free market should be allowed to realize the prices and rates best suited for the economy and its current situation. “Economic efficiency in the economy as a whole can be maximized by allowing prices and incomes to respond freely to market forces.” Finally, a country’s economy should be open to foreign trade and investment. In the World Bank’s view, “free access to imports and the discipline of foreign competition improves the efficiency of domestic production; and… foreign investment helps to relieve the scarcity of capital and encourages the

26 Ibid., pp. 168-169.
transfer of technology into the country." With an understanding of the principles of the World Bank in creating its structural adjustment program, what policy reforms did the structural adjustment program actually make?

3.3 The Reform Measures

Every country in the structural adjustment program had different economic and political frameworks. Consequently the reforms undertaken differed from country to country. In general terms, structural adjustment reforms included:

- Trade reform (cutting restrictions or tariffs on imports, and reducing or eliminating export taxes)
- Reforming the tax system to increase efficiency of tax collection, broaden the tax base (i.e., make more people pay tax) and reduce tax rates
- Market deregulation (e.g., the removal of subsidies, price controls and rationing systems, the relaxation of government regulations such as minimum wage legislation, etc.)
- Strengthening the financial position of public enterprises (e.g., by raising the prices to market levels, cutting subsidies, closing down or rationalizing unprofitable plants or services, reducing staffing levels, and where possible privatization)
- Making the economy more open to foreign investment, by easing restrictions, simplifying bureaucratic procedures, improving the access of foreign investors to foreign exchange, etc.

\[^{27}\text{Ibid., pp. 168-169.}\]
- Reforming the financial system (e.g., by reducing the restrictions imposed on banks by the government, cutting or eliminating measures aimed at directing credit to specific sectors or areas, cutting credit subsidies, etc.)

- The removal of distortions in important productive sectors of the economy (e.g., agriculture, coal, steel, etc.), according to the specific problems faced by the sector in the borrowing country.\(^{28}\)

The justification behind these reforms can be traced back to the time’s prevailing supply-side economic views. The World Bank believed that rationalization of the trade regime “which contains measures such as the elimination of import quotas, the reduction and unification of tariffs, and removal of special tariff concessions and exemptions,” would eliminate a barrier toward exports and encourage the creation of an export-oriented economy in developing nations.\(^{29}\) The World Bank argues that export oriented economies are the best able to raise foreign exchange which debtor nations greatly needed. These reforms are intended to make domestic producers more competitive on the international market. The Bank, however, did not fully account for the intense competition a developing country’s weak businesses would face on the open market.

The World Bank argued for financial and tax reforms because the systems of many debtor nations were extremely corrupt and complex. They lacked any significant oversight controls and were marred by a myriad of bureaucratic levels. Powerful interest groups were also able to manipulate a state’s financial system to their own benefit which deterred foreigners from entering the local economy. Tax collection in many developing countries is used as a political

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weapon. Those in power and their supporters often get away with paying little to no taxes while political enemies are heavily taxed. The World Bank argued that reducing the inefficiencies in the financial system would attract foreign investment and integrate debtor nation’s financial systems with the rest of the world. Ending state control of banks and allowing market forces to decide interest rates and exchange rates was also a major concern of financial reforms. Furthermore, ending the politicalization of tax collection and bringing equity and efficiency to the system would increase government revenue.  

So how does the World Bank’s structural adjustment program actually work? Before going to the World Bank, a country facing a balance-of-payment crisis must enter an IMF stabilization program, the contents of which were discussed earlier. Once a country is in an IMF program it can submit a reform program to the World Bank. The reform program is technically decided upon by the submitting country with advice from the World Bank. However, since debtor nations were in such a perilous situation they often agreed to any reform measures suggested to them by World Bank advisors. Therefore, experts at the World Bank created the reform program with very little input from the indebted country. The impact of this approach will be seen later.

The World Bank implements these reforms through two kinds of loan programs, structural adjustment loans and credits (SALs and SACs), and sectoral adjustment loans and credits (SECALs). SALs and SACs are wide-ranging loans that support many different reforms across the economy. SECALs, on the other hand, target specific sectors of the economy, such as mining and agriculture. Once the World Bank approved the country’s reform program it issued SALs, SACs, and SECALs to finance the reform measures.  

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30 Ibid., pp. 72-75.
4. Impacts and Results of World Bank Structural Adjustment

Now that we have an understanding of why the World Bank became involved in the debt crisis and what solutions the World Bank offered to solve the crisis, we must consider the impacts and results of the World Bank’s structural adjustment programs. The following discussion is based on the findings of a number of evaluations of structural adjustment and on a number of country studies. First, we will look at the findings of the World Bank’s general evaluations, then at the conclusions of a group of economists outside of the World Bank. Following that, we will take a closer look at some specific information that is not included in the general evaluations. One point must be made about the dates used with the following discussion. Countries underwent structural adjustment at different times so there appears to be a disconnect in comparing the effects of adjustment from one country to the effects of adjustment in another country. However, the policies implemented by the World Bank are generally similar from country-to-country. Therefore, comparing the effects at different times is not a problem in that regard. Let’s begin by examining the findings of the general structural adjustment evaluations.
4.1 Evaluations of Structural Adjustment

The World Bank has issued two exhaustive reports that evaluate its structural adjustment programs. The first report issued in 1988 titled Adjustment Lending: An Evaluation of Ten Years of Experience, compared a number of economic factors between countries that received adjustment lending (AL countries) and countries that did not receive adjustment lending (NAL countries). The report gave a generally positive appraisal of its adjustment lending thus far. It concluded “that the average performance of AL [adjustment lending] countries was better than that of NAL [nonadjustment lending] countries: that is, the average improvements in growth and the resource balance [current account] were greater for AL countries than for NAL countries.”32 This report is overly optimistic in that it does not fully address the negative implications of structural adjustment lending. Also, the World Bank’s method of comparing countries that received adjustment loans to those that did not receive adjustment loans ignores the differing social, political, and economic conditions present in adjustment countries compared with those in non-adjusting countries. Comparing economic indicators using this methodology exaggerates the success of adjustment lending without fully appreciating the negative impacts of adjustment lending at levels other than GDP growth and balance-of-payment status. A second report issued in 1990, Adjustment Lending: How it has Worked, How it can be Improved, repeated the findings of the 1988 report but addressed some of the methodology complaints made against the earlier report. This report, nevertheless, still does not give a full accounting of structural adjustment’s impact other than on GDP growth and the current account status. That is structural adjustment involves much more than these economic indicators.

An outside study of World Bank adjustment lending was conducted by economists Paul Mosley, Jane Harrigan, and John Toye. *Aid and Power: The World Bank and Policy-Based Lending* concludes that structural adjustment “was almost always favorable to export growth and the external account [current account]... the influence on... national income and on financial flows from overseas is, on balance, neutral.”33 The authors also properly address the difficulties in conducting an accurate analysis of structural adjustment which the World Bank reports do not fully speak to. The data used in the above studies supports the conclusion that economic growth materialized. Still, these reports almost completely overlook the negative household impacts of structural adjustment just as the World Bank studies do. The evaluators have taken a myopic statistical approach to analyzing structural adjustment utilizing GDP, import and export growth, and investment to draw their conclusions. Therefore, to fully understand the impacts of structural adjustment, one must look at other indicators such as unemployment, poverty, malnutrition, reduction in social services, and environmental damage to name a few. Before moving on to these aspects of structural adjustment, let’s take a closer look at the findings of this particular study to find out exactly what impact structural adjustment had on GDP growth, export and import growth, and investment.

a. GDP Growth

A major goal of structural adjustment is to return an adjusting country to favorable economic growth that can sustain the operations of government and provide a healthy living standard for society. For the purposes of our research, we will utilize the study conducted by Paul Mosley, Jane Harrigan, and John Toye because it offers the most complete analysis of

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structural adjustment’s impacts, and uses a methodology that accounts for the inevitable variables when comparing countries. The study in *Aid and Power* consisted of a statistical analysis of a number of economic indicators for SAL receiving countries and non-SAL receiving countries.\(^\text{34}\) The analysis comes to some interesting conclusions.

Taking 1976-9 as the pre-SAL period and 1980-6 as the SAL period... [the analysis] shows that for both groups of countries annual average GDP growth rates fell significantly during the latter period... annual average GDP growth rates for the SAL countries fell from 4.5% in the 1976-9 period to 2% in the 1980-6 period, i.e. a growth rate decline of 56%... by contrast, the annual average growth rates for the non-SAL control group fell from 3.8% in the 1976-9 period to 2.7% in the 1980-6 period, i.e. a decline of 28%.\(^\text{35}\)

The period 1980-6 saw increasing oil prices, rising interest rates, and a world economic recession; consequently, one may conclude the analysis’s findings are connected to the general economic situation of the time. However, structural adjustment loans were introduced to resolve the problems cited above, one would think the drop in growth would be less severe in SAL receiving countries than non-SAL countries. This, however, was not the case.

**b. Balance-of-Payments**

The Mosley, Harrigan, and Toye analysis found that countries receiving SALs improved their balance-of-payment on the current account compared to non-SAL receiving countries.

“*The current account deficit as a percentage of GDP remained fairly constant between the 1976-

\(^{34}\) To examine the impact of structural adjustment, Mosley, Harrigan, and Toye set up a comparison of countries receiving structural adjustment loans to countries not receiving structural adjustment loans. The countries were paired together based on similar sized economies to help reduce the effect of outside variables. This study is different from previous World Bank approaches because it takes into account what might have happened if no structural adjustment reforms were present. The authors concur that no completely accurate statistical analysis can ever be conducted due to the differing social, political, and economic conditions from country to country; the approach they have endorsed however best mitigates those variables.

\(^{35}\) See Mosley, Harrigan, and Toye *Aid and Power*, pp. 192-193.
9 and 1980-6 periods, falling from 6.5% to 6.1%. By contrast, for the non-SAL [countries], the deficit deteriorated quite sharply between the two periods, rising from 5.4 to 8.7%36. Structural adjustment loans were successful in reducing the balance-of-payment problems of debtor nations, a main goal of the adjustment process.

c. Exports

As was previously discussed, the World Bank believed an export-oriented economy was the best way to integrate debtor nations into the world economy and to raise foreign exchange. To achieve this goal, the Bank prescribed sweeping trade reforms: countries accepting structural adjustment loans to bring down trade barriers, eliminating tariffs, reducing restrictions on imports, and abolishing export taxes (among other measures). These reform measures had mixed success. Again, the Mosley, Harrigan, and Toye analysis can be of assistance. "Between 1976-9 and 1980-6, the average export growth rate in the SAL group fell from 14.9 to 4.9%, i.e. a decline of 67%. For the non-SAL control group, the corresponding fall was from 19.0 to 0.2%, i.e. a decline of 99%."37 In a time of economic recession, it is not surprising that export growth rates declined; however, it is noteworthy that countries receiving adjustment loans did not suffer as severe a drop in export growth rates as non-SAL countries. In this case, adjustment loans softened the blow of economic recession on exports.

d. Imports

Another key aspect of structural adjustment is reducing imports. This is important because imports require foreign exchange that debtor nations do not have. By reducing the value

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36 Ibid., p. 200.
of imports, pressure on the current account is lessened. The data on imports is mixed. “For the SAL group as a whole, the import growth rate fell from 14.8% in 1976-9 to 1.8% in 1980-6, i.e. a decline of 88%, whilst for the non-SAL [countries], it fell from 11.0 to 3.4%, i.e. a decline of 69%.” 38 This data suggests that structural adjustment was successful in limiting the value of imports to a debtor nation. However, data from later periods suggests that imports picked up in intensity after the economic recession abated causing an enormous strain on the balance of trade. Imports to Ecuador nearly tripled over an 8 year period from 1990 to 1998. With an annual export growth rate of only 5.6%, the growth of imports outpaced the growth of exports causing a severe trade imbalance. The Philippines experienced an increase of imports as a percentage of GDP from 28% in 1982 to 84% in 1997 also causing a serious trade imbalance and severely straining foreign exchange reserves. 39 Initially, structural adjustment policies were successful at reducing imports, however, as time progressed and a consumer market developed in debtor nations, imports increased resulting in trade imbalance.

e. Investment

A final interesting result of the Mosley, Harrigan, and Toye study is structural adjustment’s impact on investment. Attracting foreign direct investment to a poor debtor nation was a vital goal of structural adjustment. With few available domestic resources, the growth of the economy relied heavily on foreign investment. The analysis shows that “adjusting countries suffered a much sharper decline in investment (as a percentage of GDP)” than non-adjusting countries. 40 Given the tumultuous political, economic, and social upheavals occurring in many of these indebted nations, it is not surprising that foreign investors shied away from entering these

fragile unpredictable markets. It also remained to be seen how effective structural reforms in banking, the law, and business would be in ending corruption and graft that many investors feared.

Overall, this study shows that structural adjustment has had limited success with respect to economic growth, investment, and export growth. Adjustment has, however, led to a better situation in balance-of-payments and a reduction in imports in most countries. Based solely on this study or the World Bank studies, one may conclude that structural adjustment was not very successful. Now let's take a closer look at some information that was not included in the general studies that will clarify structural adjustment's failure.

4.2 Household Impacts

a. Inflation

One major impact of recession, debt, and structural adjustment policies was skyrocketing inflation in most indebted nations, especially in Latin America. Monetary devaluation was the main cause of rising inflation but populist policies also contributed. Inflation rates in Bolivia shot up to 11,748% in 1985. Argentina saw inflation rates soar to 3,079% in 1989, and Peru's inflation rates reached 7,482% in 1990.41 Many other Latin American and African countries suffered similar inflation rates. This is important because basic goods, such as food and clothing, became too expensive for many to afford. Poor and low-income families who were already reeling from recession were burdened even more. The impact of these inflation rates can be seen in the growing number of people below the poverty line, a decrease in the general health of certain sectors of society, and an increase in the number of malnourished people.

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b. Manufacturing

In many countries, the manufacturing sector took a hard hit from trade liberalization. In Zimbabwe, manufacturing as a percentage of GDP averaged 25% during the 1960’s and 1970’s. In the 1990’s, after structural adjustment reforms, manufacturing fell below 16%. In Bangladesh the manufacturing sector grew, however, there were only marginal gains in growth of manufacturing as a percentage of GDP. In Ghana, manufacturing dropped below 10% of GDP in 1987 after an initial expansion of 20% to 1985.\textsuperscript{42} It should be noted that World Bank trade policies stressed the production and export of primary commodities, such as minerals and agricultural products, over manufactured goods. Many countries shifted output of manufactured goods to the output of raw materials and agricultural goods. Wages and job security in these sectors are much lower than in the manufacturing sector. Thus, many people lost their jobs in high paying manufacturing businesses and were displaced by low paying farms and mills with unsafe working conditions; this is certainly not an improvement.

c. Unemployment

Rising unemployment has also been a harsh effect of structural adjustment. This was caused by privatization, recession, and the inability of businesses in newly adjusted economies to compete in the world market. In Ghana, an estimated 140,000 to 150,000 people lost their jobs in 1990 after a World Bank structural adjustment program.\textsuperscript{43} The adjusted Philippine economy has been unable to keep up with the growth of the population leaving countless unemployed. The number of unemployed increased from 600,000 to 1.4 million in a 6 year period in Bangladesh. Between 1990 and 1997 a mere 140,000 jobs were created in Zimbabwe, well

below the growth rate of new job market entrants, estimated to be 183,000 per year.\textsuperscript{44} The general employment trend in Latin America was away from large and medium sized businesses to smaller and more informal businesses. These small and informal businesses did not provide the high wages or job security that large and medium enterprises did.\textsuperscript{45} Businesses in structurally adjusted economies could not compete on a level playing field with their developed neighbors; the result was business failures and unemployment.

d. Business Failures

Businesses that could not compete under the new freer trade regime folded. In Mexico, it is estimated that "17,000 to 20,000 small businesses had been forced into bankruptcy as a result of trade and financial sector liberalization." Hungary suffered a similar fate; "tens of thousands of small shops lost their viability as suppliers...with the demise of much of the small and medium-sized enterprise sector at the hands of the country's fast-paced open-trade policy."\textsuperscript{46} 20,000 people in Zimbabwe lost their jobs when the textile industry was unable to compete on the international market without trade protection. Ecuador did not escape comparable employment difficulties; "The jobless rate was 6% in 1990, 9% in 1992, 10% in 1996, and 14.4% in 1999." In Hungary, 1.5 million lost their jobs between 1989 and 1995.\textsuperscript{47} Adjustment eliminated trade barriers that protected domestic businesses from the fierce competition of the world market. With these trade barriers gone, the highly technological, highly efficient businesses of the developed industrialized world could easily eliminate the weaker competition in the developing world. Businesses that were financially unviable closed, sending countless

\textsuperscript{44} See Structural Adjustment Participatory Review International Network, \textit{Structural Adjustment}, pp. 63-64.
\textsuperscript{46} See Structural Adjustment Participatory Review International Network, \textit{Structural Adjustment}, p. 56.
\textsuperscript{47} Ibid., p. 64.
people into the ranks of the unemployed. The World Bank never investigated what impact trade liberalization would have on unemployment in these economies. It also made little to no effort to set up programs to assist these people in finding new work or to support them while unemployed.

e. Poverty

Poverty has greatly increased as a result of economic recession and structural adjustment policies. This increase is not unexpected due to the world economic downturn, but in many cases World Bank policies on currency devaluation and government spending cuts exacerbated the problem. Currency devaluation was a requirement of virtually every structural adjustment loan issued. By devaluing the currency, tradable goods become more profitable and improved the country’s balance-of-payment situation. For currency devaluation to be effective, though, real wages must also be reduced to fight an inflationary cycle. Many, but not all countries undergoing structural adjustment mandated a reduction in the minimum wage. Reducing wages and monetary devaluation lowered the take-home pay of countless people forcing them to survive on less. The result was an increase in poverty. 15% of the population in Hungary lived below the poverty line in 1991. That increased to 35%-40% in 1996. In Latin America, the percentage living under the poverty line increased from 26.5% to 31% from 1980 to 1989. The number living in poverty in Mexico rose from 6 million to 30 million from 1994-2000.

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49 See Structural Adjustment Participatory Review International Network, Structural Adjustment, p. 68. It is important to note that different countries underwent structural adjustment at different times (Latin America and Africa during the 1980s and Asia and Eastern Europe in the 1990s). This accounts for the discrepancy in time periods being discussed but the policies we are discussing remain the same from period to period.
50 See Morley, Poverty and Inequality in Latin America, p.35
51 See Structural Adjustment Participatory Review International Network, Structural Adjustment, p.105
Ecuador, “about two thirds of workers were either un- or underemployed, with 66% of the population living on less than two dollars a day.”

f. Government Spending Cuts

Another major aspect of World Bank structural adjustment is reducing government spending. Some of the worst effects of structural adjustment are seen with this single policy measure. By reducing government budgets, imports tend to decrease and this helps solve a balance-of-payment problem. Also, many in the World Bank at the time believed government was a bloated inefficient bureaucracy that simply interfered in the operations of the economy. Therefore, reducing government spending limited how much the government could interfere. The World Bank’s assessment of government employment turns out to be completely wrong for Africa and some other nations. African governments are not bloated bureaucracies that cause inefficiency. In fact, the size of African civilian government is relatively small compared to other portions of the world.

The effect of reducing government spending was quite negative. Expenditure on public health per capita fell in fourteen Latin American countries, seven African countries, and three Middle Eastern countries. Education per capita dropped in a third of African countries, ten countries in Latin America, and two countries in the Middle East and Asia.

These cuts had a significant impact on the population. The number of people immunized against polio dropped 10% in fourteen sub-Saharan African countries from 1990-1992. In

52 Ibid., p. 98.
Ghana, government cuts reduced the number of people immunized against yellow fever. Government vehicles were short of fuel and could not transport needed medical supplies. Refrigerators that preserved food, blood, and vaccinations broke down and could not be repaired. Infant mortality increased in Ghana after falling steadily during the 1970s. More than half of the doctors working for the government were cut in Ghana. 7,000 teachers were fired in Zaire and primary school students in Addis Ababa were forced to share one text book with four other students. Throughout Africa, the maintenance of transportation systems, roads, railroads, and waterways, declined significantly. Funding for medical clinics declined as well as construction of new schools and the hiring of new teachers.

In the state of Sao Paulo, Brazil, reductions in health spending had a serious impact on the health of the young. Infant mortality increased harshly in 1984 after a measles epidemic broke out and attacked a malnourished child population. Preventive care decreased throughout Brazil leading to a rise in the number of emergency room visits. In Jamaica, the number of malnourished children doubled and children suffering from malnutrition-related gastro-enteritis tripled. In the Philippines, the number of underweight five year olds increased exponentially.

In Mexico, a reduction in infrastructure spending left telephone lines, roads, bridges, and the public transport system in a state of disrepair, all of which are vital to a growing economy let alone the well being of the population. In Senegal,

Civil servants, teachers, nurses, and factory workers have all been laid off. Health spending as a proportion of gross national product dropped between 1978 and 1988, and per capita spending on health fell in the decade up to 1988-9. As usual

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57 See Giovanni Andrea Cornia, Richard Jolly, and Frances Stewart, Adjustment with a Human Face, pp. 73-74.
58 Ibid., pp. 112-118.
the poor were hit hardest by these cuts, and the decade saw an increase in a number of diseases, including malaria, tuberculosis, and diarrhea.\textsuperscript{59}

\textbf{g. Medical Fees}

In Zimbabwe, structural adjustment imposed fees on medical supplies and medical care, things that were previously supplied free of charge. This resulted in a decline in the number of patients going to medical clinics for vital medical checkups. The numbers of children born outside of a hospital increased greatly after medical fees were imposed and maternal deaths nearly doubled. A reduction in funding has led to a fleeing of doctors, nurses, and midwives from Zimbabwe leaving the medical system near collapse.\textsuperscript{60}

\textbf{h. AIDS/HIV}

All of this compounded the growing AIDS epidemic that has now become a crisis. It is believed that the AIDS epidemic accelerated because of government cutbacks dictated by structural adjustment.

The spread of HIV/AIDS in Africa has been facilitated by worsening poverty and by the conditions of inequality intensified by World Bank and IMF policies. Economic insecurity has reinforced migrant labor patterns, which in turn have increased the risk of infection. Reduced access to health care services has increased the spread of sexually transmitted diseases and the vulnerability to HIV infection.\textsuperscript{61}

\textbf{i. Food Subsidies}

Food Subsidies were also reduced as part of structural adjustment. This measure adversely impacted the poor which relied heavily on government assistance for food supplies.

\textsuperscript{60} Ibid., p. 41.
Programs in Bangladesh, India, Morocco, Brazil and Pakistan provided wheat rations at reduced prices. Colombia and Sri Lanka operated food stamp programs for low income and rural households and Mexico provided tortilla subsidies to urban households.\textsuperscript{62} These subsidy and food stamp programs, along with others, were phased out as part of structural adjustment. Without government assistance, numerous households could not afford food. Without subsidies, the cost of maize in Zambia increased 500\% for low income workers. This led to increased rates of malnutrition, starvation, and civil unrest. Food riots broke out in Nigeria, Zambia, Morocco, and Cote d'Ivoire.\textsuperscript{63}

Following the elimination of food subsidies, many poor families had to reduce the number of meals per day from two to one... malnutrition resulted in low birth weights among infants and stunted growth among children in many countries. It is currently estimated that one in every three children in Africa is underweight. In general, between one-quarter and one-third of the population of sub-Saharan Africa is chronically malnourished.\textsuperscript{64}

The World Bank's requirement for government spending reductions had a negative and somewhat disastrous effect on health and education. The cuts in medical care caused an increase in diseases, malnutrition, infant mortality, and general poor health. Education cuts lefts children without schools, teachers, and books leading to increased illiteracy.

\textbf{j. Privatization}

Privatization of formerly state run services is also a main goal of structural adjustment. The government in many adjusting countries provided free health care to their citizens; structural adjustment mandated that these services be privatized because it was thought that private

\textsuperscript{62} See Giovanni Andrea Cornia, Richard Jolly, and Frances Stewart, \textit{Adjustment with a Human Face}, pp. 83-84.
\textsuperscript{63} See Logie and Woodroffe "Structural Adjustment..." p. 41.
\textsuperscript{64} See \url{http://www.africaaction.org/action/sap0204.htm} Accessed on 20 June 2005.
business operating on market principles could offer better care at a lower cost. This, however, has not been the case. Places throughout Africa that privatized parts of the health care system saw a dramatic decline in the number of patients. A private system simply cannot survive when the vast majority of the population is severely impoverished. In Hungary, after adjustment privatized the dental system, dentists reported a substantial decline in the number of patients they saw. Equally, the number of people with poor teeth increased at the same time. Hungary abandoned the system shortly after it began.\(^{65}\)

Privatization impacted areas other than health care. Throughout Eastern Europe and Latin America utility companies were sold off to the private market with a resultant increase in utility rates. El Salvador reported a 47% increase in electricity rates. Poor families have since been forced to rely on dirtier and unsafe energy sources such as firewood and coal. Many Eastern European countries reported higher utility rates once utility companies were sold off to private firms. The impact on middle-income and high-income families was negligible but lower income families have extreme difficulty in affording utilities.\(^ {66}\) Privatization is also inexorably linked to unemployment. Virtually every business that underwent privatization eliminated jobs. In Bangladesh some 89,000 lost their jobs from 1995-1997 after state run enterprises began the process of privatization. It’s estimated that nearly 40% of workers in previously state-owned enterprise lost their jobs in countries undergoing adjustment.\(^ {67}\)

**k. Food Insecurity**

Structural adjustment policies also impacted agricultural production. As was previously discussed, creating an export economy was important for a nation to raise foreign exchange and


\(^ {66}\) Ibid., p. 125.

\(^ {67}\) Ibid., pp. 122-123.
integrate with the world economy. For agriculture, this meant shifting production from domestic crops to crops that could be exported. Zimbabwe shifted from food crops for domestic consumption to cotton and paprika. Uganda shifted to coffee production from maize and beans. Similar events occurred in Mexico. These shifts have resulted in an increase in food insecurity. Basic food staples are in short supply and some families often can not afford the high cost of scarce foods. In addition, many poor farmers do not have the money to purchase the required seed, fertilizer, and farm equipment needed to raise export crops. These people either left farming altogether or were on the brink of insolvency. Compounded with other fees for education and health care, low income households were severely strained.68

1. Environment

The environment did not escape damage from structural adjustment either. To raise foreign exchange, many indebted countries opened their natural resources to foreign businesses. These businesses mined, cut, pumped, and scrapped every last drop and shred of valuable natural resource from the land and sea leaving environmental devastation behind. In the Philippines, fishermen began intensive shrimp farming after structural adjustment. The nearby mangroves were destroyed by converting them to fishponds. Local water systems were polluted with chemicals, pesticides, and antibiotics. Large scale banana farming operations have left the soil depleted and irrigation for export crops has sapped water resources from local crops growers. In Bangladesh, fertilizers were used without controls leading to ground water pollution and arsenic poisoning. Many dense forests and jungles in South America and Africa were cut down for lumber; a process that continues today. Uganda’s fish stocks have been depleted because of over

harvesting that resulted from the removal of government controls on the fishing industry. The European Union banned Uganda fish due to pollution run-off and unsanitary conditions in the fish markets. The growth of large scale farming firms after adjustment in Mexico has led to soil degradation and soil erosion. Small farmers are finding it more and more difficult to get water resources that legislators are directing to large scale farming firms.⁶⁹

Mining of natural resources was an excellent method of raising foreign capital, structural adjustment policies pushed indebted countries to allow mining operations in jungles and forests. Strip mining and open-pit mining left massive swaths of land useless for farming and grazing. Deforestation grew at a precipitous rate as more and more land was exploited for mining, farming, and grazing. As one industry moved in the others were forced to relocate. Indigenous people have been forced off the familial lands they lived on for centuries so miners, cattle grazers, farmers, and lumber firms could utilize the land.⁷⁰

The chemical byproducts of mining are extremely harmful. Cyanide and mercury poisoned surface and groundwater rendering them toxic. Soil is polluted and rendered worthless for farming. Heavy metals destroyed potable water resources. Wildlife habitats were ruined. The air did not escape either. Dust, sulphur dioxide, nitrogen dioxide, carbon monoxide, and black smoke polluted the atmosphere. All of these environmental impacts had adverse health effects on humans, not to mention the health of animals living in polluted lands. Diseases such as malaria, tuberculosis, asthma, skin and eye diseases, and mental illness all cropped up.⁷¹

m. Political Reforms

Another major problem with structural adjustment was who carried the policies out. In many cases, the World Bank created adjustment policies then handed the reform measures over to the very people that bankrupted the country in the first place. Time and again, incompetent African leaders that mismanaged the government and economy were handed large loans to carry out structural adjustment reforms. Corruption and failure were all but guaranteed.\textsuperscript{72}

Also, structural adjustment polices rarely sought out input from the very people who would be most impacted by the policies. Of all the expatriate management consultants the World Bank employed in Africa to investigate structural adjustment reforms, less than 0.1% are Africans. It worked the same way for Latin America and Asia. Then, how could the World Bank fully understand the reforms a country needs to undertake or what the impact of its policies will be if it does not employ people who live in that country? Policy decisions dictated from Washington, DC with no input from the adjusting country are doomed to fail and cause irreparable harm to the social, political, cultural, and economic fabric of a country.\textsuperscript{73}

Furthermore, much of Africa is characterized by dictatorships and authoritarian regimes. These types of political systems have no respect for a legal system or the rights of the people. African dictators have implemented adjustment reforms during times of crisis not to help the people but to stay in power. When the crisis subsided, they reasserted their control and reversed existing reforms. Such was the case in Sudan, Equatorial Guinea, Zaire, and Liberia. Latin America also followed a similar pattern of reform implementation and reversal.\textsuperscript{74}

\textsuperscript{73} Ibid., p. 112.
\textsuperscript{74} Ibid., p. 112.
5. The World Bank’s Response

A new president came to the World Bank in 1986. Barber Conable believed that the World Bank’s structural adjustment program had moved too far away from poverty reduction and was taking too long and becoming too costly in solving the debt crisis. Conable ordered World Bank managers to do a better job of assessing the impacts of structural adjustment on poverty and the environment. He along with the IMF set up new loan programs to ease indebted nations out of the red. Conable’s actions helped improve the success rate of structural adjustment and lessened its impacts on society and the environment. These changes, however, were not enough and criticism persisted.

The next president of the World Bank, Lewis Preston, made poverty reduction a main goal of Bank lending. The debt crisis had essentially faded by this time but the Bank continued to lend countries money on a conditional basis that they reform outdated, corrupt, and closed political and economic systems. Preston also focused efforts on reducing environmental damage from Bank lending. In 1999, under the direction of another new World Bank president, James D. Wolfensohn, a new program called Poverty Reduction Strategies was created to work in conjunction with adjustment lending. The idea was to better address the impacts on health, poverty, education and the environment.

Poverty Reduction Strategy Papers (PRSPs) are prepared by governments in low-income countries through a participatory process involving domestic stakeholders as well as external development partners, including the IMF and the World Bank. A PRSP describes the macroeconomic, structural and social policies and programs that a country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing.75

To receive adjustment lending, a heavily indebted country must submit a PRSP. The aim of PRSP is to get countries involved in the decision making process of reform, a major criticism of structural adjustment. The argument was that if a country took part in designing its own reform measures they would have ownership of those measures and would more likely implement them as opposed to having reform measures dictated to them by the World Bank. This plan has also found disapproval. Critics argue PRSPs are just repackaged structural adjustment programs. The reform measures remain the same and using PRSPs simply attracts popular support. It gives the receiving country the feeling that it has a say in its reform proposals but in reality the proposals are the same “Washington Consensus” beliefs from a decade before. The country knows it will not receive aid if it submits a PRSP that does not address the World Bank’s and IMF’s concerns; in the end, they adopt any policy that will get them much needed aid.\footnote{See http://www.50years.org/cms/ejn/story/159 Accessed on 6 July 2005.}

5.1 Success or Failure?

From this research we can clearly conclude that structural adjustment was not successful but what accounts for its unfulfilled goals? Were structural adjustment policies simply poorly created and implemented or were conditions in the receiving country so backward and corrupt that no policy reform would have been successful? Perhaps both contributed. The success of structural adjustment reforms rested on the domestic political and economic conditions of a country. Some countries were in such economic and political disarray that no reform measure supported by the World Bank would have been successful. All the money in the world could have been thrown at them and the reforms still would have failed. If structural adjustment is to
be successful the World Bank needs to identify countries and leaders that are able to undertake reform measures.\textsuperscript{77}

A World Bank study \textit{What Explains the Success or Failure of Structural Adjustment Programs?} conducted in 1998 by David Dollar and Jakob Svensson, identified a number of variables that impact the success or failure of structural adjustment. Countries that have democratically elected leaders had a much better success rate than undemocratic countries. The length of time the leader was in power when reforms were implemented also affects the success of adjustment. The longer a leader is in power the less likely reforms will be successful. Also, the ethnic divisions in a country impacted the success of adjustment. The more fractured and divided a country is along ethnic and racial lines the less likely structural adjustment will be successful. How often a government changes due to political crises and the number of economic crises present before a reform period also show a negative relationship with adjustment’s success. By using these variables to identify good candidates for adjustment, the success rate of adjustment can be increased.\textsuperscript{78}

In addition to these measures, the World Bank must also take into account the social and environmental effects of its policies. These effects come simply from poor policy creation and implementation. A thorough review of reform measures should be taken to better understand how the people and land will be impacted, preferably by an outside agency. Negative impacts such as those discussed will only make the World Bank less popular. So how did the World Bank respond to the outpouring of criticism of structural adjustment?


5.2 A New Policy?

Today, structural adjustment lending continues, however, the term 'structural adjustment' is no longer used. The previously discussed effects have given the term such negative connotations that the World Bank completely overhauled their adjustment lending guidelines in 2004 and renamed it. Adjustment lending is now called Development Policy Lending. The new policy went through two years of consultations and discussions with member parties, non-governmental organizations, and aid agencies to address the criticisms that had been directed at adjustment lending over the past two decades. The new policy abandons the one-size-fits-all approach of the old policy. Previously, an indebted country had to accept the World Bank’s reform recommendations regardless of the different social, political, and economic conditions present. The Bank did not allow for special circumstances within a country; they either accepted the loan and the World Bank’s conditions or they lost all financial assistance. The old system also did not allow for local input or consultation on the policy recommendations; it was simply dictated to them from Washington, DC. Furthermore, the old system did not take into account the effects of civil wars, cultural customs, lack of infrastructure, or outdated economic and government structure on the ability of a country to implement the Bank’s conditions.

Development Policy Lending attempts to alter these failings. The new policy appreciates the differences present in a country and allows the country to create a program that best suits it. Certain reforms that are not suitable for one country may be for another; the new policy allows for this differentiation. Development Policy Lending recognizes that if some countries lack any type of infrastructure or are heavily ravaged by war and disease, the reform measures can facilitate these conditions. The new policy also hands ownership of the reforms to the country.
This means the country will be responsible for the creation and implementation of the reform program, with the Bank only providing advice.

An integral part of Development Policy Lending is poverty reduction and identifying the social and environmental impacts of reform measures. The Bank wants to ensure that the social and environmental damages connected with the old policy do not reappear. A full analysis of reform measures will be conducted to better understand and predict the social and environmental impacts of its lending. Finally, the new policy entails measures to increase the transparency of its operations. The old policy resulted in back-room closed-door meetings that left those impacted most in the dark about what was happening. The new policy hopes to end that. The new policy fixes many failings of the old policy but since it is so new it remains to be seen how effective the changes will be.

6. Conclusion

From this consideration of existing research we can conclude that structural adjustment did no succeed. Few of the Bank’s objectives were achieved and the immense and devastating negative impacts of adjustment far outweigh any successes. The World Bank attempted to recast the economic and political systems of indebted nations without fully understanding the long-term impacts of its policies. It dictated policy from afar with no input from the receiving country, no analysis of the reforms effects, and no examination of the probability of success. The result was an increase in economic hardship, poverty, environmental destruction, and decaying health.

This is not to say that, in general, adjustment is a bad policy. Adjustment is a process that many poor and indebted countries should undertake. Many of the suggestions of the “Washington Consensus” can lead to economic success. What must be changed is the manner in
which adjustment reform measures are implemented. They must be adopted and executed with the full understanding of their social and environmental impacts. Adjustment is also a long term process that takes years of prudent changes. It cannot be implemented in a few short months. There will also be inevitable hardships with adjustment, but that can be alleviated with proper safety nets. The World Bank attempted to push adjustment upon the indebted world as quickly as possible with no safety nets, causing more harm than good.

The recent changes within World Bank adjustment policies, i.e. Development Policy Lending and PRSPs, are helpful in mitigating the failures of the 1980s. We will not know the impact of these changes for some time, but, in making them, the Bank has taken the first step in fulfilling its mission. The World Bank is a noble institution that can offer a unique service to the impoverished and destitute. With a full understanding and recognition of the hardships and hurdles these people face, the Bank can have a positive impact on the world.
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