THE POLICY ROOTS OF ECONOMIC CRISIS AND POVERTY

A Multi-Country Participatory Assessment of Structural Adjustment

Based on Results of the Joint World Bank/Civil Society/Government Structural Adjustment Participatory Review Initiative (SAPRI) and the Citizens' Assessment of Structural Adjustment (CASA)

Executive Summary

Prepared by
the Structural Adjustment Participatory Review International Network (SAPRIN)

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Chapter 1: The SAPRI/CASA Experience

The Structural Adjustment Participatory Review Initiative (SAPRI) began with a challenge to James Wolfensohn when he became World Bank president six years ago. At that time, popular protests were already abounding across the countries of the South against policies of structural adjustment prescribed by the Bank and the International Monetary Fund. The groups that met with Wolfensohn and his staff sought to engage the Bank in an exercise with civil-society organizations in the South to help bring them and their constituencies into the economic decisionmaking process at both the national and global levels. Wolfensohn accepted the challenge and requested that a mechanism be designed and established for carrying forth with such an initiative.

SAPRIN, a three-tiered global network of civil-society groups, and the Bank's Development Economics Vice-Presidency (DEC) negotiated a program plan that, while including a field-research component, was consultative at its core in order to ensure that civil-society groups, their knowledge and experience would be at the center of the process. Toward that end, it was planned for country research to be bracketed by two public fora so that citizens' organizations could present their experience with and analysis of specific adjustment policies that had directly affected their lives and then assess the research undertaken to deepen the understanding of the issues originally raised. Central to the Bank-SAPRIN agreement was a commitment to discuss, at the highest levels of the Bank, concrete changes in macroeconomic policy and policymaking based on field findings and conclusions.

By the time the Initiative was completed, it had come to include thousands of local organizations participating in some ten national field exercises on four continents, the majority of which were carried out jointly with the Bank and the national government. The parties investigated, in a highly participatory fashion, the impact of a broad range of economic adjustment policies, such as trade liberalization, financial-sector reform, agricultural-reform measures and the privatization of public utilities.

SAPRI Design and Preparation

Taking a variety of criteria into account, SAPRIN and the Bank selected Ecuador, El Salvador, Mexico, Bangladesh, the Philippines, Ghana, Mali, Uganda, Zimbabwe and Hungary as a representative list of countries to participate in the Initiative. The Bank did little, however, to pursue the approval of governments in the emerging-market nations of Mexico and the Philippines. Later, when the governments of El Salvador and Zimbabwe halted their respective participation, the Bank unilaterally dropped out of those exercises without engaging SAPRIN and the governments in conflict-resolution procedures designed for such anticipated situations. Unwilling to desert its colleagues in those countries, the SAPRIN global steering committee continued to support the two SAPRI exercises while also launching a full Citizens' Assessment of Structural Adjustment (CASA) in both Mexico and the Philippines, using the same SAPRI field methodology.

Independent SAPRIN teams and committees were organized in each of the ten countries, as were tripartite committees in each SAPRI undertaking. While the SAPRI exercises were organized to be joint ventures, SAPRIN insisted that civil-society outreach, mobilization and organization be carried out under the auspices of its local teams without interference on the part of the Bank or government. It also ensured that it and the Bank controlled their own respective financing, half of which was raised together from European governments and half raised by SAPRIN alone.

Civil Society Mobilizes and Presents Its Experience

The civil-society mobilization and organizing processes covered the respective countries' major geographic subregions, economic and social sectors and population groups. District, provincial and/or regional meetings attracted hundreds, and as many as 2000, participants and set the stage for the selection of priority adjustment issues to be assessed at national public fora. A similar number of civil-society organizations became part of the respective national SAPRIN networks, either directly or through coalitions, and, through their steering committees, they took the lead in organizing the fora.

In 1998, a series of seven First National Fora were launched, beginning in Hungary and Uganda in June and ending in Ecuador in January 1999. Delays, due mainly to government inaction, pushed off the other three fora until later in 1999. Between 100 and 350 people, representing a wide range of civil-society organizations, as well as government and World Bank counterparts, participated in each of the ten fora. Participants typically included representatives of trade unions, small-business associations, farmers' organizations, indigenous-peoples' and environmental groups, religious and human-rights organizations, women's and community groups, and teachers' and youth organizations, plus representatives from specific economic sectors. The Bank, government and/or national legislators participated even in the fora in which there was no formal official involvement.

The fora were designed for the presentation and discussion of civil-society's experience with and perspectives on specific economic adjustment measures and their respective impacts. The impact of trade liberalization policies -- on local industries, small enterprises, rural producers, the agricultural sector, employment and workers -- was selected by civil society as one of the three or four most problematic issues for discussion in nine of the ten countries. Privatization of public utilities and services and other state-owned entities was selected by civil-society groups as a priority area in six countries, as was agricultural-sector reform policies, while the impact on workers of labor-market reforms and the liberalization of the financial sector and the problems of credit access for local producers were each discussed in four. Social-expenditure-reform issues also emerged as a priority in seven national exercises, but, overall, the emphasis was on the problems, dislocations, increased poverty and inequities generated by economic adjustment policies as they affected the domestic productive sectors and gainful employment.

Although Wolfensohn and the Bank, in engaging in SAPRI, had acknowledged the critical importance of consultation, local knowledge, experience and analysis to the formulation of economic policies, the Bank demonstrated that it was not prepared to learn from the fora output. Little of the analysis made its way into country programming or back to Washington; none made its way into the Bank's own adjustment assessments, much less into adjustment operations themselves.

Field Investigation

SAPRIN and the Bank developed a global methodological framework for the research that emphasized participatory techniques, the use of qualitative and quantitative information, and a gender-sensitive, political-economy approach. The country studies were thus based on an understanding of the structures and relations in society that have shaped adjustment programs and through which these measures have impacted peoples' lives. The local technical and research teams -- the latter chosen jointly by the Bank and SAPRIN -- developed a variety of means they deemed best suited to their local context for applying this non-traditional methodology.

The research itself, operating under resource constraints, took longer than had been anticipated in the original design and stretched over nearly two years in most countries. Both the participatory and the tripartite nature of the research process meant that extensive discussions and many workshops were required to move the research forward and review its results. Some delays resulted from differences over research design, and, in one case, Mali, the inadequacy of the design ultimately brought an end to the national exercise. For the most part, researchers were hired as consultants by tripartite teams that oversaw their work. Once draft reports were submitted, the reports were reviewed and feedback was given by the World Bank and SAPRIN technical teams, as well as by the broader civil-society network, often in economic-literacy workshops across the country. Finally, the research product was submitted for consideration at second national fora, where additional feedback was given and revisions made. The research reports were then finalized, though in some cases a final country report was prepared by the tripartite team in lieu of individual research documents.

World Bank Resistance

Despite the comprehensiveness and depth of the joint field research and consultations, Bank resistance to SAPRI findings continued. Although there were varying degrees of openness on the part of local Bank staff to learn from the Initiative, in no country did the Bank commit to following up concretely on core SAPRI results. The real opposition continued to center at the vice-presidential level in Washington, where DEC, uncomfortable with the outcome of the Initiative, went to extraordinary lengths to bury SAPRI and its findings within the institution, as well as to lower its profile to the outside world. After insisting on joint actions throughout the exercise, management decided to write its own final report, which focused as much on its own in-house research as on SAPRI field work. Furthermore, most Bank staff were not informed of the scaled-down second global forum at which SAPRIN representatives presented the synthesized field findings, and agreements to have the Bank's president and other senior management present were not honored.

The Bank was ill prepared for the forum, and Washington staff did not address the critical assessments of the impact of its adjustment policies that were presented. Rather, at the conclusion of the forum, it immediately closed down the SAPRI process without any commitment to follow-up or any trace of the multi-year SAPRI analysis in any of its internal documents. In so doing, the Bank and its president have demonstrated the disingenuousness of their claims that they are interested in engaging civil-society groups in meaningful endeavors to attend to the issues that have driven so many to the streets in the South and the North.

SAPRIN, for its part, will, through its network structure, broadly disseminate the findings of the joint SAPRI exercise and build alliances with other official institutions, as well as other social movements, that are seriously interested in addressing the issues raised in the SAPRI/CASA process. Those results, articulated in the next seven chapters in summary form, present a direct challenge to the Bank, the IMF and other promoters of adjustment policies, for they present evidence from studies in which the Bank was involved of the negative impact of its policies on the real economies of poor, emerging-market and transition nations. Chapter 9 represents a challenge to development agencies around the world to address these core economic-policy issues in official poverty assessments and strategic plans. Chapter 10 summarizes recommendations for new departures in economic policy drawn from the SAPRI/CASA country exercises and creates a framework within which future SAPRIN work on pro-poor economic-policy alternatives will be carried out at the national, regional and global levels.

Chapter 2: Trade Liberalization Policies and Their Impact on the Manufacturing Sector

Trade-policy reform, a key element of the structural adjustment package, was intended to spur export-led growth and generate foreign exchange by reducing and eventually eliminating barriers to trade that were seen as maintaining an anti-export bias in trade policies. In addition to measures that support the export sector, the trade-reform package has typically included the removal of protection and support for firms producing for the domestic market, with the intent of eliminating those that are inefficient and non-competitive and that divert resources from export production. Toward these ends, quantitative restrictions on imports have been eliminated, import tariffs reduced, and a flexible exchange-rate policy typically put into effect.

Beginning in the mid-1980s, trade liberalization measures have been implemented in seven countries examined by SAPRIN: Bangladesh, Ecuador, Ghana, Hungary, Mexico, the Philippines and Zimbabwe. While these countries are diverse with regard to their income levels and economic conditions, they have had one thing in common during this period: the value of their imports of merchandise has been higher than that of their exports. Although exports have increased in most of the countries studied, imports have experienced greater growth. As a result, trade and current-account deficits have increased, causing higher levels of foreign debt. This situation has been made worse by declining terms of trade, which has meant that more exports have been required to purchase the same amount of imports. Furthermore, most export growth has been typically based on a just a few resources and items produced with low-skilled labor. In many countries the benefits of export growth have gone primarily to transnational corporations to the detriment of domestic producers.

The failure of many local manufacturing firms, particularly innovative, small and medium-sized ones that generate a great deal of employment, is one of the key findings of this study. In several cases, leading manufacturing activities have suffered from indiscriminate import liberalization, provoking a reduction in output, bankruptcy of enterprises and loss of employment. The decline in domestic manufacturing has followed the flooding of local markets with cheap imports that have displaced local production and goods, and has been exacerbated by the absence of an industrial policy to support domestic firms in dealing with new conditions or with shocks in international markets.

In **Ecuador** during the period of liberalization from 1990-1998, imports grew at an annual average rate of 15%, far outpacing exports, which grew at a rate of 5.6%. The value of consumer goods imported during this period grew six-fold, and firms increased significantly their imports of final goods, excluding raw materials, which could easily have been produced locally if there had been adequate conditions in support of domestic industry. The industrial sector owned 40% of total assets in 1985 and 24% in 1998. Industrial sales declined from 40.4% to 31.4% of total sales in the same period, indicating that overall industrial production has shrunk significantly following liberalization.

In **Zimbabwe**, manufacturing value added peaked in 1991, when trade liberalization commenced, and fell by 12% in the last seven years of the decade. High interest rates and the cost of foreign currency have penalized manufacturing, which suffered a decline in output of more than 20% between 1991and 2000.

Also contributing to the devastation of local industry has been the lack of access to affordable credit and to technology transfer, as well as depressed demand resulting from loss of employment and a fall in wages. In addition, exchange-rate depreciation, unable to contribute effectively to the export competitiveness of domestic industries for which it was intended, has increased the price of imported inputs and raised production costs, which particularly hurt firms producing for the domestic market. The destruction of local enterprises is reflected in the insufficient increase in employment necessary just to keep pace with new job seekers. The limited employment that has been generated is concentrated in export-oriented industries that use low-skilled labor, often assembly plants in export-processing zones, or in services. Overall, real wages have tended to decline, income inequality has increased, and job insecurity and “informalization” have become more pervasive. The concentration of export growth in a few activities that do not create links to the local economy to stimulate domestic production has served to exacerbate inequalities.

Simply stated, the joint studies show that import liberalization can destroy domestic productive capacity and reduce the purchasing power of large segments of society, thereby overriding presumed consumer benefits from the opening up of trade. Export-led growth has not become a driving force in the countries reviewed, and foreign-debt levels have remained high or have increased. SAPRIN believes that trade reform should serve to build a strong industrial sector that can provide the base for economic development, while the inefficient operation of local enterprises should be remedied through judicious policy interventions and institutional and organizational changes.

In conclusion:

- **Trade liberalization has been pushed through indiscriminately, allowing import growth to surpass that of exports and destroying the conditions necessary for the sustainable growth of domestic firms.** The failure of local enterprises has led to employment loss in important sectors of local economies, while gains from export growth have tended to be concentrated in few hands, often benefiting transnational companies and exacerbating existing inequalities. A level playing field is required to ensure that domestic enterprises can face competition from imports.

- **Trade liberalization should not be implemented before an industrial policy is in place to address the structural constraints causing inefficiency and enhance the competitiveness of domestic enterprises.** Industrial inefficiency should not be solved by killing industries through imports. Rather, efficiency-enhancing measures should be adopted to enable industries to confront import competition successfully.

- **Future trade-reform measures should take into account the conditions of domestic producers and should be paced and sequenced in order to create a level playing field that will help to stimulate local production.** In each country, certain industries and sectors of the economy are an important source of employment and play a key role in domestic development, particularly for poor and middle-income segments of society. Trade policy should support a country's strategic sectors and should be nuanced rather than indiscriminate.

- **Lack of meaningful participation of national stakeholders in the articulation, design and implementation of trade policies have rendered these measures technically inefficient and socially costly.** Future reform processes should be designed by governments with the participation of a wide range of sectors and population groups to ensure that policies are consistent with national development aspirations.

> In **Ghana**, there has been a decline in the growth rate of domestic manufacturing since the mid-1980s, characterized by a decrease in the volume of product output, the contraction of product markets, more business closings than openings and limited emergence of new enterprises. This was attributed overall to the high costs of production and competition from imports. Medium-scale firms were adversely affected by trade liberalization, as these were the most dependent on imported inputs and lacked the flexibility to adapt. The textile industry, in particular, was severely overwhelmed by competition from imports. Conditions were not created for capacity building and financial support measures to enhance the competitiveness of domestic manufacturing.
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> In **Bangladesh**, small and cottage industries have been adversely affected by import liberalization, and there has been an overall lack of industrial growth and a decline in import-substituting manufacturing. Increased imports have been mostly in consumer goods, while there has been a deceleration in the growth of capital-goods imports and a decline in the share of imports of intermediate inputs. From 1992-1998 the production of cotton textiles, sugar and paper shrank by 24.2%, 14.8% and 48.0%, respectively. At the same time, manufacturing exports have become secularly concentrated in the ready-made garment sector, which is to a large extent responsible for the growth in large-scale industries. Output climbed from 54.6% to 75.8% of total manufacturing exports, made possible because of the quota system of the Multi-Fiber Arrangement that is due to expire in 2005. This sector is primarily responsible for the observed growth in medium and large-scale industries.

Chapter 3: Financial Sector Liberalization, Effects on Production and the Small Enterprise Sector

Financial-sector liberalization was an integral part of the structural adjustment package in four of the countries studied -- Bangladesh, Ecuador, El Salvador and Zimbabwe. The major motivation behind the shift towards a more market-driven system of financial management was the failure of previous policies that had placed the financial sector largely under state control to stimulate economic growth. The reform strategy promoted by the World Bank involved the liberalization of interest rates, the removal of entry barriers into financial markets, an end to directed lending, a restructuring of the financial sector and the adoption of measures to improve its supervision.

In practice in the countries studied, financial-sector reform turned out to be a shortsighted process that focused primarily on the liberalization of interest rates and capital accounts while weakening or dismantling existing regulations and controls. Such structural reform benefited only a few private elite entities, which, in seeking to increase profits, have essentially become monopolistic. As a result, liberalization has neither improved economic efficiency nor engendered macroeconomic stability and, instead, has reinforced the structural weaknesses in national economies. The liberalization of the sector has also increased social exclusion and produced political destabilization. The country studies evidenced the following consequences.

> Following reforms in **Bangladesh**, 1% of borrowers have accessed more than 70% of available banking funds, while 95% of borrowers accessed only 14%. Less than a third of SMEs who seek finance for their working-capital needs from banks succeed in obtaining loans as a result of high interest rates and inability to fulfill loan requirements. Allocation of credit to productive sectors continues to be weak in spite of reforms.
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> In **Ecuador**, 1% of borrowers have accessed 63% of loans since 1995. As a consequence of the high costs of financial transactions resulting from financial liberalization, the money paid in interest and commissions for loans by all registered firms in 1996 alone was greater than all labor costs that these companies had and more than five times the income-tax revenue they paid to the government. In the 1990s, the amount of funds transferred from productive enterprises to the financial system, plus the amount of public funds used to bail out the banking system, were about equal to the country's total $13 billion foreign-debt burden.

- **Financial assets have become more concentrated.** Instead of helping producers that need capital to maintain or expand their operations, financial intermediaries have directed financing toward large (usually urban) firms and extended the largest share of loans to a few, powerful economic agents. This has hindered the development of small and medium-size enterprises and rural economies as a whole, thereby exacerbating existing inequalities. In concentrating lending activities in geographical regions where upper-income groups reside, banking systems have also discriminated against producers in low-income regions, thus further reinforcing patterns of unequal development.

- **Important sectors of the economy and population groups have been unable to access affordable credit.** Small and medium-size firms (SMEs), rural and indigenous producers, and women have very limited access to the formal financial system, as high interest rates resulting from liberalization and difficulties in meeting standard loan requirements have prevented them from borrowing. Access to long-term loans has become particularly difficult for small and medium-scale businesses, as liberalization policies have reoriented national productive systems away from long-term, non-export-oriented activities and stimulated short-term investment. Furthermore, reforms have not taken into account the fact that standard procedures established by private financial institutions are not capable of dealing with the diversity of economic situations and borrower needs. Many small-scale enterprises have gone into bankruptcy or been forced to seek credit through non-formal means, such as moneylenders, in order to survive.

- **In practice, reforms have promoted short-term speculation and investment in non-productive activities, as well as borrowing for the purpose of consumption.** They have facilitated the search for quick profits and have helped channel resources away from productive sectors. At the same time, the liberalization of interest rates and capital accounts has contributed to economic crises and increased vulnerability to external shocks. Consequently, the structural weaknesses of national economic systems have been reinforced.

- **The removal of public controls has weakened the state.** Financial liberalization has strengthened small, private-interest groups that are not prone to comply with state authority and reinforced patterns of economic growth based on non-competitive practices. Oligopolies have been preserved and in many cases enhanced. The institutional framework created through the reform process has failed to provide effective oversight of private financial intermediaries. Yet, governments have been left without the authority and legitimacy to pursue complementary and corrective measures to regulate private-sector control over financial resources or to curb speculative behavior.

- **Economic efficiency within the financial sector has not improved.** The gap between borrowing and savings rates of interest has increased in all four of the countries studied, indicating that liberalized banking systems are either not capable of lowering their operational costs despite reform or are reaping exceptional profits. This has meant losses for both consumers and producers.

> From 1987-1999 in **Ecuador**, nearly 34% of loans from the banking system were extended to the trade and service sectors and 28% were destined for consumption. About 90% of loans were granted in the two geographical regions where the most wealthy and powerful reside, effectively excluding SMEs that tend to be located in other areas from accessing loans. Long-term investment in production was not possible given that 95% of loans from 1995-1999 had a maturity of less than one year.
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> Following privatization of the banking system in **El Salvador**, the financial system came under clear oligopoly control, as five banks control the large majority of the financial market. Less than a quarter of the total loan portfolio of the banking system has been directed to SMEs. Restructuring to do away with developing banking and rely on a second-tier state bank has favored commercial banks and large firms to the detriment of SMEs.

Alternatives to financial liberalization must address specific conditions in each country and should be developed with broad participation by affected population groups and economic sectors. Measures need to be put in place to ensure that financial systems serve the interests of national development above those of small private groups. It is also necessary to create conditions to enhance financial services that reach not only formal, large-scale economic entities but also small, informal ones. This requires regulatory and supervisory frameworks that allow financial institutions capable of serving the poor to enter into and survive in the formal financial system. Furthermore, policies are needed that promote investment in production, particularly for the domestic market where small and medium-scale enterprises that account for much of a country's employment generation operate. Such policies should facilitate lower interest rates, reduce the gap between savings and borrowing rates, and include support for employment-generating enterprises through the establishment of development banking mechanisms.

Chapter 4: Employment under Structural Adjustment and the Effects of Labor Market Reform on Working People

While adjustment policies such as privatization and trade and financial-sector liberalization have had widespread impacts on employment in all countries, including those studied, structural adjustment programs have not directly addressed employment problems. Nor have they included explicit strategies to stimulate production in those sectors that would generate high levels of employment. Furthermore, specific policies to reform the labor market, which have been implemented as a part of market-liberalization strategies to end public regulation of employer-employee relations, have had adverse employment effects.

"Flexibilization" policies have undermined the standing of workers generally. Labor-market reform has treated the labor market as one more commodity market to be liberalized in order to optimize its operation. With wages reduced through the interplay of supply and demand, it was assumed that a country would become more competitive and attract investment because of low labor costs, despite the fact that competitiveness established on this basis can only be short term and quite tenuous, as labor costs may suddenly be lowered elsewhere. It also comes at the cost of deteriorated working and living conditions, a loss of collective capacity to defend workers' rights and declines in family income, purchasing power and demand for local goods. Meanwhile, long-term competitiveness based on product quality, labor stability and good living standards for workers becomes more remote.

In **Ecuador**, open unemployment more than doubled under adjustment from 6% in the late 1980s to 14.4% in 1999. The poorest 20% of the population saw unemployment rates rise from 10 to 24%, while the situation of the richest 20% remained unchanged at less than 5%. In addition, underemployment rose from 45.5 to 50% during the same period. While the economy has been incapable of creating jobs, labor reforms have increased the precarious nature of existing jobs by allowing the use of hourly and temporary contracts and making it easier to fire workers. During the last half of the 1990s, 72% of large and medium-sized firms and 16% of small firms surveyed have turned to employing temporary workers, while 38% of firms have laid off permanent staff.

In **Zimbabwe**, the rate of growth of employment decelerated following reforms in 1991. Average annual employment growth dropped from 2.4% in the period 1985-1990 to 0.8% during 1991-1995, then improved somewhat to 1.5% during 1996-1999. The rate of employment growth in manufacturing during these periods fell from nearly 3% to negative 1%, then improved slightly before dropping to negative 3% in 1999-2000. This is of particular concern given that the manufacturing sector was expected to benefit most from flexibilization policies that removed market "distortions".

The specific impact of labor-market reform policies on working people and employment was reviewed in four countries -- Ecuador, El Salvador, Mexico and Zimbabwe. Policy shifts have included the modification of the legal framework in the form of changes to labor codes to remove special protections for workers, as well as changes in regulations governing employer actions. These legal reforms, as well as *de facto* changes in labor practices, have facilitated the reduction of labor costs in order to increase competitiveness. Reforms have led to fewer regulations concerning labor stability and firing practices, thus facilitating widespread use of temporary contracts and leaving workers with little recourse when employers choose to reduce their work force. Labor rights have been affected by restrictions placed on the right to strike and to bargain collectively, as well as by the weakening of the ability of workers to organize, for example, by increasing the hiring of temporary workers or the use of individual contracts.

In sum, the country studies have revealed the following:

- **Employment levels have worsened.** New jobs have not been generated to keep pace with new job seekers, and there has been a critical loss of employment in economic sectors on which low and middle-income groups depend. The concentration of growth in export-oriented production has contributed to the low levels of job creation, as this sector tends to have weak links with the domestic economy, and to keeping wages down.

- **Real wages have deteriorated and income distribution is less equitable today than before adjustment policies were implemented.** The studies show that the share of wages in gross domestic income has declined while the share of profits has increased markedly during reforms. More workers have been employed without job security or benefits and underemployment has increased. The lowest income groups are those who have tended to experience the largest increase in unemployment and the greatest deterioration in their wages. The reduction in purchasing power and the further concentration of income is evident in all the countries studied.

- **Employment has become more precarious.** Flexibilization has been applied on a non-level playing field in the labor market. Employers have been given the means to hire and fire workers at the least possible cost and with minimal social responsibility. Workers, particularly in low-skill and labor-intensive sectors, are in oversupply, face depressed wages, and are in a weak position in salary and contract negotiations. There were no cases observed in which steps have been taken to improve working conditions, include workers in decision-making processes or link the purchasing power of wages to increases in productivity. Thus, workers worry increasingly about losing their jobs and, as a consequence, are now more likely to renounce their labor rights or refrain from joining unions.

- **Reforms have also allowed employers greater flexibility in establishing employment conditions**. This greater employer flexibility has been reflected, for example, in the increased use of hourly labor and in contracts permitting numerous worker functions. Lower direct labor costs have also been achieved through reduced wages and benefits.

- **Women have suffered the most as a result of labor-market reforms.** Women tend to be the majority of those employed in low-skill jobs and have been disproportionately affected by job insecurity and policies that have made employment conditions more flexible. In some cases, such policies have eliminated special protections for women, such as a defense against layoffs due to pregnancy and benefits such as maternity leave.

> In **El Salvador**, legal reforms annulled clauses containing protections for women, such as those outlining special conditions for pregnant women. It is common in *maquila* plants that women must prove they are not pregnant before being hired or sign contracts agreeing to be laid off if they become pregnant.
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> In **Mexico**, about two-thirds of the country's work force of approximately 40 million people received no benefits (social security, health insurance, vacation) in 1997, an increase of 2.5% from 1993 when NAFTA was introduced. The purchasing power of wages fell by 75% in the 18 years following the implementation of adjustment policies in 1982, after having risen by 54% during the previous 45 years.

- **There has been an increase in work by children and senior citizens as a response to the decline in household income by primary wage earners.** An increase in the number of hours worked per week has also been documented, for example, in Ecuador. These family survival strategies have had negative impacts on levels of education and health and have led to deterioration in the quality of life.

- **Productivity and competitiveness, sought through labor-market flexibility and related adjustment policies, have not been achieved overall.** Although export sectors may have experienced growth through the use of new technology or lower-cost labor, any such productivity increases have tended to be confined to specific economic sectors or regions. Any benefits of growth in these limited areas have been offset by deteriorating labor conditions associated with an expansion of the informal economy, underemployment, and the shift of labor to low-productivity sectors.

In order to address these problems, an employment-intensive growth strategy should be pursued, with an employment policy that will stimulate job creation by supporting productive sectors that generate employment, particularly small and medium-scale enterprises that serve the domestic market and fuel the local economy. In addition, a wage policy is needed to determine and establish clear criteria for salary increases. Tripartite commissions involving workers, employers and government can be established to seek consensus on an adequate regulatory framework for labor and employment practices. Reforms should ensure labor rights, including the right to unionize, and ban discrimination against women and minority groups, as well as strengthen protections for workers with regard to job security and employment conditions.

Chapter 5: The Economic and Social Impact of Privatization Programs

Historically, state ownership has been based on the need to control strategic sectors, provide essential services, strengthen domestic economic growth and ensure key investments that the private sector was unable or unwilling to make. Over the past two decades, as countries have experienced growing fiscal crises and foreign debt, state enterprises and services have increasingly been labeled as inherently inefficient, an obstacle to free competition and a constraint to private-sector-led growth. Privatization has been indiscriminately advocated as a way to enhance a country's economic performance at both the macro and the micro, or enterprise, level, as well as improve a government's fiscal position.

Privatization has been an important component of structural adjustment programs and has often been a pre-condition for loans from the World Bank and the IMF, regardless of the extent or effectiveness of public ownership in a particular country. Four countries -- Bangladesh, El Salvador, Hungary and Uganda -- opted to carry out specific field studies on the impact of privatization as part of SAPRI. Although these countries are quite different, their experiences with privatization have been very similar.

SAPRIN civil-society groups drew a distinction between the privatization of enterprises involved in industrial production and those delivering essential services, such as water and electricity. As far as the latter category is concerned, in the three countries where there was a review of the privatization of public utilities, access to affordable quality services did not improve for the societies as a whole and, in some cases, they worsened. Privatization measures exacerbated inequality and failed to contribute to macroeconomic efficiency. The general outcomes can be summarized as follows.

- **Utility-rate increases following privatization created further hardships for the poor and low-income segments of society.** Electricity rates rose significantly in both Hungary and El Salvador, with the increases seven times greater in the latter after privatization in the 1990s than they had been a decade earlier. Furthermore, the rate structures of private companies often established higher-than-average cost increases for those who consume the least. In El Salvador, these consumers saw their bills rise at nearly twice the pace of increases for high-end consumers.

- **Privatization of electricity has increased the burden on women and has led to further environmental degradation.** Dramatically higher electricity costs following privatization in El Salvador, particularly for the rural poor, have created the need for families either to earn more income or to substitute other energy sources, such as firewood, for electricity. In many families this has meant a 20-30% increase in the hours of domestic work by women. At the same time, the increased use of firewood has translated into greater pressure on the country's natural-resource base within the context of an already high level of national deforestation. Contamination from the burning wood has also affected the health of the population, reflected in an increase in respiratory infections.

> Rate increases following the privatization of electricity distribution in **El Salvador** seriously affected rural residents, who also suffered from price rises in other services that depend on electricity -- such as deep-well pumps for potable water that are used in many communities. Users with low levels of consumption, particularly the poor, who constitute the majority of the population, saw their rates increase by 47%, while high-end users experienced an average of 24% rate hikes. No significant improvements in service quality or coverage were observed in the two years following privatization, however.
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> Following the privatization of the gas and oil industry, energy, and water and sewage services in **Hungary**, rates increased much more than did wages. As a result, large segments of society have experienced severe difficulties in paying their utility bills. At the same time, there was no observed improvement in the quality of services. Over 40% of public utilities is now owned by foreign state utility companies, which have no vested interest in the social welfare of Hungarian citizens.

- **Fiscal benefits from privatization have been at least in part derived from eliminating subsidies that allowed the poor to access services.** In some cases, state subsidies remained in place in order to ensure the supply of services to the poor and those living in remote areas, essentially eliminating the presumed fiscal benefits from removing government from ownership and management functions.

- **The anticipated increase in efficiency of utility companies, when it did occur, in most cases did not result from improved operations.** Rather, the ratio of revenue to expenses rose as a result of price increases facilitated by virtual monopoly situations and weak government regulatory mechanisms.

- **Privatization has placed strategic services under foreign control.** Most of the privatized assets in the countries studied have been purchased by foreign companies, some of them public enterprises. As a result, the provision of services such as electricity, water and telecommunications in these countries now responds to the interests of foreign capital rather than to local needs.

In regard to the privatization of industrial enterprises in the countries reviewed, there was also a distinction made between large and small firms. In a transition country such as Hungary, small companies had been in state hands, and the privatization of these enterprises was assessed as an essentially positive experience. Management, formerly centralized, was transferred to each firm, which became more effective at meeting local needs, though these businesses have had difficulties competing with large, transnational companies. The privatization of large enterprises, however, was found to have had mixed results, depending on a range of pre-existing conditions. Some firms saw a growth in profits, others sustained or even increased losses, and some have gone out of business or have been shut down following privatization.

Conclusions from the review of the privatization of industrial enterprises in the countries studied can be summarized as follows.

- **There is no evidence that the form of ownership determines the level of efficiency of a particular enterprise.** Overall, the increased profitability of privatized enterprises observed is due to circumstances that can exist under either private or public ownership. In some cases, increases in productivity at the microeconomic level can be attributed to the liberalization of capital flows and to the fact that transnational firms with ready access to capital had become the new private owners.

- **At the macroeconomic level, the real rate of growth in gross domestic product in the countries studied revealed no trend toward acceleration resulting from privatization.** Even though the experience of individual countries varied depending on political or economic circumstances, privatization in itself showed no sign of leading to an increase in overall macroeconomic efficiency.

> In **Bangladesh**, an assessment of privatization in the jute sector showed that private and public firms were equally sustaining losses. It concluded that the problem lies not in the ownership form but in the policy regime and management. Additionally, industry-wide labor-productivity data showed that worker productivity did not depend on ownership but rather on managerial efficiency.
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> In **Uganda**, while the privatization of large productive enterprises improved the efficiency and profitability of individual firms, benefits to the wider society have been questionable. The financial costs to the state of privatization were found to have outweighed the fiscal benefits. The sale of state assets was marred by corruption. No property-owning middle class was created, and a large share of the value of assets sold is now owned by foreigners. Workers laid off during the privatization process suffered from inadequate compensation and retraining, while those who kept their jobs experienced greater job insecurity and income inequality within the firm. There was limited employment generation in privatized firms, mostly in low-paying jobs.

- **Foreign ownership increased as a result of privatization.** While this may bring advantages such as advanced technology and new knowledge and products, the dominance of foreign capital tends to obstruct the development of local industries or crowd out existing ones. Furthermore, because foreign firms are volatile, seeking higher profits from lower labor costs, they have in some cases suddenly decided to relocate and lay off employees, causing serious problems locally. At the macroeconomic level, the repatriation of profits or the withdrawal of capital have caused current-account problems and, in the worst of cases, destabilized the local currency.

The effects of privatization programs on the distribution of wealth are a central concern raised in the country studies. Privatization has not improved the socio-economic welfare of the majority population in these societies, as the main benefits have flowed instead to a small group of the already privileged. In the privatization of both utilities and industrial enterprises, the following problems were observed at the national level:

- **Unemployment and job insecurity have increased overall.** Layoffs accompanied privatization across the board, and new employment generation did not always compensate for jobs lost. Privatization has fostered discontent among those workers who did not lose their jobs, as workloads have increased, employment has become less secure, and the power to organize and negotiate with employers has been weakened.

- **Privatization has contributed to increasing inequality.** Income distribution has worsened as large numbers of low-skilled, low-wage workers have been the first to be laid off. This has been particularly detrimental for minority groups and women, who tend to lack specialized skills. Job-training or other similar programs, where they existed, were either ineffective or insufficient to address the problems of the newly unemployed. While new employment generated in privatized firms has tended to be better paid, these jobs have required higher skills levels.

- **Privatization processes have lacked transparency.** Governments have often poorly managed privatization programs and failed to involve workers and citizens' groups in these processes, while regulatory mechanisms have proven ineffective in ensuring adequate oversight. In SAPRI countries, taxpayers have felt robbed of their public assets, and governments have been unable to raise the levels of revenue anticipated from enterprise sales because many were undervalued when sold. Furthermore, the anticipated creation of a strong property-owning middle class through privatization has not occurred. Overall, wealth has become more concentrated.

Public enterprises very often serve social and national objectives, so a decision on privatization should not be based on narrowly defined measures of efficiency or profitability. A mix of different ownership forms, based on each country's unique set of social, economic, political and cultural circumstances, can best serve the development needs of that country. This mix of private, state and cooperative ownership should be determined by each country. Foreign loans and aid should not be tied to any precondition regarding ownership structure. In addition, essential public utilities should remain under state or local government control in order to best ensure the provision of affordable, quality services to all segments of the population. Although the benefits of foreign investment and ownership are recognized, measures should be taken so that transnational companies do not displace local firms through privatization processes. Priority should be given to support the development of domestic industries to meet local needs. Finally, mechanisms of citizen participation should be developed and supported in order to facilitate a transparent flow of information, which would in turn diminish corruption and give citizens greater influence over decision-making processes.

Chapter 6: The Impact of Agricultural Sector Adjustment Policies on Small Farmers and Food Security

Agricultural-reform policies have been implemented as part of the structural adjustment process in countries where agriculture plays an important role, particularly in terms of exports. The policies pursued have varied from country to country, depending on the principal reasons deemed to be inhibiting higher production levels and improved earnings in the sector. They have generally included: removal of subsidies on agricultural inputs and credit; liberalization of producer prices; privatization of state entities involved in marketing and the distribution of inputs and produce; liberalization of trade in agricultural inputs and commodities; and currency devaluation. SAPRIN civil-society networks chose to examine the economic and social effects of agricultural reform as part of SAPRI in Bangladesh, Uganda and Zimbabwe, as well as in Mexico and the Philippines.

There were no clear trends identified by the studies with regard to the impact of these policies on agricultural production. It increased in some countries and declined in others, and within each country the same was true for the production of various crops. At the same time, however, the studies revealed that the reforms had differentiated impacts along socio-economic lines, increasing rural inequality. The real income of most farmers, particularly small-scale ones, either did not improve or deteriorated, generally as a result of price increases for farm supplies. Only those producers with previous access to resources and economies of scale were able to benefit. Food security -- meaning access to adequate and nutritious food by all people at all times -- worsened. In addition, environmental degradation resulted from new production patterns.

> In **Uganda,** differentiated access to productive resources, roads and markets for various groups of farmers conditioned their response to the price incentives for export production created by agricultural liberalization. For instance, increased producer prices for coffee benefited only those farmers with the land and other resources to expand coffee production. Small farmers with limited land were unable to take advantage of such opportunities, and they fared worse since they faced the same increases as large-scale farmers in the cost of inputs. Differences in regional development within the country were another important factor that led to differentiated impacts and tended to exacerbate existing inequalities.

In short, the following conclusions can be drawn:

- **Agricultural reform has not improved the income of farmers overall.** This has primarily been due to cost increases associated with agricultural production (i.e., seed, fertilizer, irrigation and equipment), as production costs tended to remain higher than income from sales even in those cases where produce prices increased. Small-scale farmers were particularly affected because, as a result of the reforms, production subsidies were removed, public expenditure on extension services declined, and obtaining credit became more costly. In addition, liberalization increased the reliance of these producers on middlemen who market both farming supplies and produce. This increased the costs and lowered the income of these farmers, whose marketing options are limited due to lack of information and resources.

- **Food security has declined in most countries.** The impact of reform policies on food supply and accessibility has varied depending on socioeconomic conditions, with the rural poor tending to be the most affected. Reforms were undertaken with the assumption that local supply is not important, as access to food can be obtained through the market. However, the reduction of local food supplies has not been paralleled by increased market access by the rural poor who lack the means to purchase food, with the result that many rural residents have suffered from inadequate food intake and increasing malnourishment. In some countries, a major cause of food insecurity has been low yields, which have been linked to reform policies that have reduced state support for extension services and production costs. Farm supplies, such as hybrid seeds and fertilizers, have been rendered unaffordable for small-scale farmers, encouraging unsustainable farming practices that reduce soil fertility. The situation in most countries is exacerbated by increasing concentration of landholdings and landlessness and the lack of land redistribution. Total acreage under food production has declined in some communities, even as more and more people have become dependent on agriculture due to population growth and declining employment in other sectors.

- **Reforms have exacerbated inequalities and led to further environmental problems.** Export promotion, import liberalization and the withdrawal of government support in the agricultural sector have served to reinforce differentiated access to resources for production. Where exports have expanded and earnings increased despite being subject to world price fluctuations, much of the economic benefits have accrued only to large-scale producers, as small farmers lacked equal opportunities to enter and gain within a liberalized market. Constraints such as lack of rural infrastructure, particularly in more remote areas were the poor are concentrated, were inadequately addressed in the reform process. In addition, the concentration of land use for large-scale production of export crops has replaced cultivation of food crops for local consumption and has tended to push small farmers to overexploit marginal-quality land. These new patterns of agricultural production have polluted land and water with chemicals, depleted water tables through irrational use of irrigation, led to loss of bio-diversity, caused soil erosion and exhausted vital natural resources.

In **Zimbabwe**, small-scale and communal farmers who produce for the domestic market have suffered hardships as a result of the removal of subsidies on agricultural inputs, a reduction of public expenditure on extension services and the high cost of credit, which increased the cost of production and also reduced the returns to most farming activities. Furthermore, the withdrawal of the state from the marketing of farm inputs and produce forced smallholders to become dependent on middlemen. This placed these farmers at a disadvantage in terms of determining the price of their produce, as they lacked information and resources to seek other marketing options. As a result, many small farmers have sold their produce at below-market prices.

- **The design of reforms did not take into consideration gender issues, and the policies have had substantial differentiated impacts on men and women.** The existing gender-based division of labor, access to and control of resources (e.g., land and credit) by women, and the position of women in different cultures were found to be important factors determining how women have been affected differently than men as a result of agricultural policy reforms. In Uganda and Zimbabwe, for instance, women have a primary role in agriculture among smallholders, mostly in the cultivation of food crops, while they tend to face discrimination in access to credit and land ownership. The problems faced by smallholders as a result of reforms and the intensification of production for export in these countries have placed greater burdens on women, who tend to be responsible for household food consumption in addition to their domestic and childrearing responsibilities, while men have sought wage labor or cultivation of cash crops to supplement family income.

In light of these findings, some initial recommendations can be made. The policy approach in countries in which agriculture is an important sector should be reoriented to give priority to production geared toward supplying the domestic market and ensuring food security. While agricultural exports are an important element of most countries' development strategies, policy choices and investment decisions must take into account the differentiated ability of certain groups -- particularly women and smallholders -- to access new market opportunities and improve their access to land and other critical resources. Likewise, trade policy in the sector should be nuanced, allowing for countries to pursue some degree of self-reliance, stimulating production by marginalized farmers in order to support the rural poor in accessing affordable food. The implementation of effective steps to support small producers and achieve food security should precede, and then be integrated with, the opening of the sector and the promotion of exports. As part of such a rural development policy, the state should provide the support needed to ensure these farmers' access to affordable agricultural supplies and extension services, improvements in rural roads, further development and regulation of irrigation systems, and promotion of land-tenure reforms. Furthermore, formal institutions should be in place, with state support, to provide equal access for all producers to information and markets, as well as to ensure environmental oversight and address negative impacts.

In general terms, agricultural policies should be designed to reduce existing inequalities by boosting the capacity of small and medium-scale producers and helping subsistence farmers to build sustainable livelihoods in the rural sector. Toward this end, policies should emerge from a participatory process involving all stakeholders, and environmental and socioeconomic factors, including gender considerations, should be integrated into policy design.

Chapter 7: The Socioeconomic and Environmental Impact of Mining Sector Reform

With its emphasis on the private sector and export orientation as the engines of growth within the structural adjustment paradigm, the World Bank significantly increased its investments in and its lending and guarantees to the resource-extractive sector. It has also supported policies designed to liberalize and deregulate the mining sector, privatize state mining interests, attract private investment and enable a more favorable climate for foreign investors. SAPRIN has studied the economic, social and environmental impacts of these policies in two countries -- Ghana, in conjunction with the World Bank, and the Philippines. Ghana has large deposits of gold, diamonds, bauxite and manganese, while gold, copper and nickel are found in the Philippines.

The major finding of this research and the national consultations has been that the policy reforms, while contributing to a large increase in mining investments, production and foreign exchange earnings, have not benefited either the national economy or the communities located near the mines. Instead, benefits have accrued largely to mining companies, most of them foreign, which have taken advantage of attractive investment policies and weak environmental regulations. The impact at the national level has been a minimal contribution to government revenue and net foreign-exchange receipts, while at the local level the consequences have been deepened health and environmental crises, social upheavals and economic deprivation.

The following is a summary of the conclusions:

- **Liberalization, deregulation and privatization of the mining sector have enabled transnational corporations to remove resources and profits from countries while failing to generate sustainable economic growth that is of net benefit to national or local economies.** These reforms and the legislative changes through which they have been put into effect have granted generous incentives and tax breaks to investors and allowed them to retain the bulk of their export earnings in foreign accounts. While the sector's contribution to government revenue has been minimal because companies are generally not required to pay corporate income taxes, growth in the mining sector has contributed very little to national economies. Furthermore, the privatization, deregulation and liberalization of the mining sector have not generated new employment because surface mining operations have relatively low labor requirements. At the same time, privatization of formerly state-owned mines and the persistent decline of commodity prices have resulted in cost-cutting, which has often meant massive layoffs. In addition, mining has taken away large tracts of land from farmers but has not provided enough jobs to offset subsequent unemployment in agriculture.

- **Reforms have allowed large-scale mining to expand without effective environmental controls, thereby polluting local and regional environments and degrading sensitive, biologically rich zones.** Mechanisms to conduct environmental impact assessments exist in both Ghana and the Philippines, but adjustment measures have left the governments of those countries with little capacity to enforce this requirement effectively or to ensure compliance with environmental quality standards. As a result, mines have often lowered water tables, diverted watercourses, and caused water pollution through the use of chemicals and the unleashing of heavy metals. The widespread removal of trees and vegetation has also resulted in soil erosion and decreased soil fertility, which have made land unsuitable for agricultural purposes. In addition, mining operations have also destroyed traditional, ecologically-sound systems of shifting cultivation by reducing fallow periods as a result of the reduction in land available for cultivation. Furthermore, mining and related activities have contributed to air pollution through the release of particulate matter and emissions of black smoke.

> In **Tarkwa, Ghana** the environment is undergoing rapid degradation due primarily to the high concentration of mining activities. Agricultural lands are degraded and the traditional bush fallow system, which adequately recycled substantial amounts of nutrients and made the next cycle productive, can no longer be practiced due to the inadequacy of the land. Large-scale mining activities have reduced the vegetation of the area to levels that are destructive to biological diversity.

- **Reforms have allowed the expansion of large-scale mining without safeguards, provoking adverse effects on the health of local populations.** Vector-borne diseases, such as malaria, and respiratory-tract illnesses, such as tuberculosis, as well as skin and eye diseases, have been documented over the years as common mining-related problems in Ghana. Mercury and cyanide poisoning have also been observed. Constant high-pitched noise and vibration from mining machinery and air blasts have damaged hearing and caused stress and discomfort. In addition, accidents and injuries have frequently occurred in mining areas without safeguards.

> On the **Philippine island of Manicani**, mining activities have decreased the fertility of farmland and increased the island's vulnerability to landslides and floods. Water pollution prohibits residents from using rivers and streams for recreation, fishing, and drinking water, while deforestation has made firewood difficult to obtain. The destruction of plants used for weaving mats has eliminated a source of supplemental income for many families. During open-pit mining activities, many children suffer from respiratory ailments.

- **The unregulated expansion of large-scale mining has had negative social impacts.** Such mining operations have forced many local residents to migrate in search of new farmland or be resettled by the mining companies, both of which have weakened the family as a social unit. The growing displacement of communities has pushed youth into towns, where frustration over unemployment has often resulted in problems such as drug abuse and prostitution. When male heads of households have opted for cash compensation instead of resettlement, they have sometimes abandoned their families, deepening the plight of rural women and children. Another problem has been the increased cost of living in communities near mines, which has compounded the loss of traditional sources of livelihood. Harsh economic conditions have pushed school-age children into menial jobs, with the result that child labor and school dropout rates are notably high in mining communities.

- **The structural adjustment policy framework has allowed large-scale mining to expand unabated, threatening the traditional land rights of indigenous peoples and weakening community control over land and resources.** Marginalized from the decisionmaking processes that determine the location and operation of mines, local populations have been displaced from their traditional lands and communities. Information on environmental and social impacts has been largely inaccessible to them because of a lack of effective dissemination in rural areas, the compilation of impact-assessment reports in technical language, and the confidentiality of audit reports that measure a company's compliance with established standards. Mining companies have often promised social services in return for a community's consent to locate, pitting pro- and anti-mining groups against one another, and they have tended to dispense favors to their supporters while leaving general promises unfulfilled.

In light of the findings from these studies, it is recommended that the World Bank cease its lending for large-scale mining activities and stop supporting the wholesale liberalization, deregulation and privatization of the mining sector pending a full review and cost-benefit analysis of these policies, mining-sector operations and the role of the World Bank Group. This assessment should take into account the net effect of these policies on national and local economies, factoring in the environmental and health damage, as well as the social crises arising from the mining activities. Full consideration should also be given to alternative development strategies.

Furthermore, the national institutions and regulatory mechanisms, weakened under adjustment, that serve to limit or reduce the negative impacts of large-scale mining, must be refortified. Legal and policy frameworks, for example, should be overhauled so that mining companies have greater responsibility and accountability with regard to environmental and social issues. Environmental legislation should be strengthened and appropriate penalties applied for violations, and environmental impact assessments should be fully implemented and their results made public. Clear and fair guidelines should be established for obtaining community consent prior to undertaking mining activities, and communities should be empowered to recommend the rejection or termination of mining agreements where negative impacts have been ascertained. Finally, internationally accepted "best practices" should be applied in the mining industry in developing countries, including an end to open-pit mining practices in populated areas.

Chapter 8: The Effects of Public Expenditure Policies on Education and Health Care Under Structural Adjustment

Fiscal reforms have been a central part of structural adjustment packages, involving public-expenditure controls and, more often, cuts in spending on social services as a means of curbing budget deficits and reining in inflation. Yet, reforms have gone beyond cutbacks in social spending and have been applied to transform the social sector from one in which the state plays a major redistributive role to one that is subject to free-market forces. The consequent decline in the state's ability to allocate resources to the social sector, as well as the general deterioration in access to affordable quality services by important population groups, has resulted in a worsening of poverty and inequality.

Education and health care are essential social services affected by public-sector reforms and were areas of particular concern in several of the countries studied. Investigations in Ghana, Zimbabwe, Mexico and Hungary focused primarily on the impact of reforms on access to and the quality of these services, while the Uganda and Philippines assessments looked at the impact on spending for education and health care. The review in Ecuador focused on social subsidies, addressing the more overarching issue of the role of the state in the social sector and the question of state support for universal *vis-a-vis* targeted coverage.

In general, the investigations concurred in their conclusions that reforms have weakened the role of the state in the social sector by limiting its functions and reducing its expenditures for education and health care, or at least failing to improve their allocation and effectiveness. As a result, market forces, for which the only criterion for success is profit maximization, have been left to determine the access that much of the population can gain to essential services such as education and health care. SAPRIN found that, in the face of low wages and high unemployment levels, the imposition of user fees and the rising cost of services have increased hardships on the poor. The strategy of targeting subsidies to benefit only those in extreme poverty has failed to address the broader problems of the poor or to stop the growth of poverty and inequality. Specific conclusions are as follows:

- **Structural adjustment programs have led, in the worst of cases, to a sharp deterioration in public spending for health care and education, while, in the best of cases, there is inadequate improvement in spending levels.** In Hungary and Zimbabwe, where the state had been extensively involved in the universal provision of social services, public spending for education and health care has dropped precipitously as a result of expenditure controls under adjustment, which caused a deterioration in both access to and the quality of these services. The real value of spending dropped by one third for education and by 20 percent for health care in Hungary in the 1990s. In Ghana, spending on health care and education stagnated in real terms following reforms, while the rapid growth and demographic structure of the population indicate that higher spending levels are necessary to maintain the same level of services, without even considering investment for quality improvement. In Uganda, the only sample country that has seen an increase in spending on education and health care, in large part due to debt reduction under HIPC, the review showed there has been no improvement in the allocation of resources within each sector to ensure service quality, while relative prices for education and health care have increased.

- **Servicing the foreign debt has been given priority over spending for social-service provision.** A large and, in some cases, growing portion of national budgets has been dedicated to paying off debt at the expense of social programs. Where social spending has been preserved or even increased, as in the case of Uganda, it has tended to be funded largely through debt relief and foreign aid. The value of education and health care as social goods that transcend benefits provided to the individual and serve the interests of society and future generations has been disregarded in the interest of satisfying creditors. Instead, reforms have redefined the role of the state in the social sectors as facilitating market functioning and providing survival support to those on the margins whom the market does not reach.

- **The imposition of cost-sharing and revenue-generating schemes has created additional constraints to access by the poor to quality services.** As a result of the increase in fees, school dropout rates have risen in most countries, particularly among girls, exacerbating a disturbing gender gap that increases at higher levels of education. Fees for health services were found to limit access by the poor to timely care, particularly in rural areas. (See box.)

> In **Uganda**, user fees have been found to have a gender bias and to particularly affect the poor. In education, preference has often been given to boys when a family could not afford to pay fees for all children, and access to higher levels of education has continued to be more limited for girls and for the poor overall. Fees for health-care services have led women, in particular, to forego medical care.
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> In **Zimbabwe**, the introduction of user fees and a rise in prices have reduced the utilization of services. For example, it was found that women seeking maternal care have been turned away by health facilities if they could not pay the required fee.
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> In **Ghana**, the system established in 1985 of fixed fees for consultation, examination, laboratory and diagnostic procedures, as well as charges for medicine at full cost, has prevented many from seeking health care. The SAPRI assessment revealed that the exemption program for the poor, which accounts for about five percent of the health budget, has not been very effective in providing free care to those who need it. Many potential beneficiaries were unaware of the policy and wound up paying for their health care, and only a small number have actually benefited from exemptions.
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> In the **Philippines**, public-health institutions have been forced to adopt measures to generate revenue as if they were profit-making corporations. For example, indigent patients are required to pay a deposit before treatment is administered, and all patients must purchase any medical supplies needed for their treatment.

- **Educational quality has worsened as a result of budget constraints.** In general, the quality of education provided, particularly in rural areas and poorer regions of the countries studied, was found to be woefully inadequate. In many places, school infrastructure has deteriorated or is entirely lacking due to insufficient investment, while shortages of educational supplies such as textbooks and didactic materials are widespread. Although recurrent spending on salaries tends to make up the vast majority of education budgets, real wages for teachers have dropped while student-teacher ratios have increased. Teacher training, important for improving educational quality as well as for keeping experienced teachers, has been inadequate and underfunded. In the Philippines, for example, there has been a dramatic increase in the number of teachers seeking jobs as domestic workers abroad where wages are higher. In Uganda, where a universal primary education program was established, coverage has improved at the primary level while quality has worsened as the increase in teachers and materials has not kept pace with the dramatic rise in enrollment.

- **The quality of available health care has not improved and has worsened in some regions, and large disparities persist between rural and urban areas.** In Zimbabwe, the drop in public spending for health care and the introduction of user fees have resulted in the deterioration of health facilities, shortages of essential drugs and insufficient medical staffing, particularly in rural areas and at the district level. In Ghana, more than a third of the population has no access to the public-health system, and large disparities were observed between rural and urban areas. Similar conditions were found in the Philippines, where primary-health facilities in rural areas have suffered from shortages of medicines, supplies and competent medical staff. The rising cost of health services and medicines to patients was found to be a major factor in decisions by the poor to self medicate and delay seeking professional care, often exacerbating health problems and making treatment more costly. In Uganda, where greater public spending has increased the number of health facilities, shortages of medicines, staff and recurrent funds for maintenance have prevented an improvement in services. Furthermore, maternal health services, it was found, are limited for a majority of women in rural areas.

- **The elimination of universally provided subsidies for essential goods and services has negatively affected the quality of life of the poorest.** The study in Ecuador showed that the removal or reduction of subsidies for essential services, such as electricity, affects those with the lowest income the most. When this policy was combined with a reduction in government spending for education and health care, there was a severe increase in the number of poor as well as a deepening of poverty. These impacts were found to be more pronounced in rural areas and female-headed households. The subsequent targeting of subsidies through direct transfers was found to be ineffective in reaching many of those most in need, though the transfers did help those able to access them maintain basic nutrition levels. The Ecuadoran study concluded that the policy of targeting is rendered unviable when the majority of the population is poor and becoming poorer, and it does not compensate for the failure of macroeconomic policies to reactivate national production, generate employment opportunities and increase incomes.

In conclusion, there is an important redistributive role for the state, exercised through budgetary formulation and public policy, to provide universal access to affordable quality services. To this end, user fees and cost-recovery schemes for primary and preventive health care and basic education should be abolished. Furthermore, the targeting of state subsidies to the poor while allowing service delivery to be governed by the market, which does not recognize social value, is not an effective policy instrument to address poverty and has only perpetuated inequality.

Increases are required, in real terms, in budgets for health care and education. An emphasis should be placed on improving allocation to ensure the efficient use of resources, as well as the quality of services and equitable service delivery. The expansion of service coverage should not lead to a decline in service quality. Overall, more spending is required for supplies and maintenance, as well as for improvement in infrastructure and the training of personnel, that will improve the quality of health care and education. An emphasis on primary and preventative health care and basic education is key, but this should not occur at the expense of curative health facilities or secondary and tertiary education, which are also of prime importance for human and economic development.

Finally, social expenditures should be protected from cuts during times of fiscal crisis and should not be sacrificed to service the debt or maintain defense spending. Toward this end, the budget formulation process should be democratized to allow for meaningful participation of civil society.

Chapter 9: Structural Adjustment, Poverty and Inequality

Structural adjustment policies, designed to increase competitiveness and stimulate investment through the restructuring and expedited opening of national economies, have also had the ostensible purpose of reducing poverty by engendering growth and development. The efficiencies and competitiveness that were to have been achieved, however, through such measures as trade and financial-sector liberalization, privatization, and labor-market, agricultural-sector, mining-sector and public-expenditure reform have in most cases failed to materialize. In the countries examined by SAPRIN, reforms have, for example, simply increased the profit margins of lending institutions. The privatization of public utilities and services has often failed to increase competition and has generally resulted in an increase in prices. Wage-suppressing reforms have not generated the increase in jobs projected.

Separately and together, these adjustment measures have had high social costs. Sectoral reforms in such areas as agriculture and mining, as well as labor-market flexibilization, have depressed working conditions and employment and caused other social dislocations that have led to extensive migration. Financial-sector reforms and the precipitous removal of import barriers have undermined small and medium-size producers and torn at the heart of economies and the social fabric. Privatization and agricultural and other sectoral reforms have concentrated productive resources and wealth, while the increased costs of health care, education and other essential services have contributed to the sharp decline in the well-being of the already disadvantaged. Profits and the concentration of income have increased markedly as wages and employment among the lowest-income groups have dropped significantly.

Perhaps the impact of these reforms that has had the most far-reaching social consequences is their destruction of national productive capacity. Financial deregulation has diverted capital to speculative, consumptive and other non-productive activities. Much of the productive investments that have been made have been in the export sector, including export-processing zones (EPZs) or assembly enclaves, without significant linkages to the domestic economy. De-industrialization, the disarticulation of national economies, and food insecurity have resulted. The combination of the rapid influx of cheap goods due to premature trade liberalization, the lack of access to affordable credit, a decline in incomes and purchasing power due to labor-market and other adjustment measures, and the removal of government support have wiped out massive numbers of farms and enterprises that have employed large portions of the population. Lower-skilled, lower-income people have been particularly hard hit in this regard, and many have migrated abroad or moved into the informal sector, crime or other survival modes.

The working poor who have retained their jobs have also suffered. Temporary labor contracts and other flexibilization measures that reduce the rights, benefits, security and bargaining power of workers, have depressed wages and expanded work loads and hours, placing added pressure on families. Often, additional family members have to enter the work force in an effort to increase family income, intensifying in many countries the grave problem of child labor. Small farmers and farm workers, already suffering from an insufficiency of the productive resources needed to take advantage of export opportunities and from the impact of imports now flooding the market, have, in some countries, been further damaged by the deregulation of mining and other extractive endeavors. Farmland has been lost outright and through environmental destruction caused by pollutants. Along with the loss of land, livelihoods have been destroyed, diseases have proliferated and the cost of living (especially food, water and health care) has risen markedly. But even in non-mining areas, the increased reliance on food imports has often decreased the nutrition, health and food security of poor households.

Poverty has been intensified and expanded by privatization, as well. Many workers have been laid off as a result of the wave of sell-offs of public assets in recent years, and owners of the privatized firms have often replaced employees with temporary workers. In the case of privatized utilities, rates, now subjected to market forces, have generally increased and most sharply among those, particularly the poor, who consume the least but who can least afford the higher prices. For the same reason, many low-income people, especially those in rural areas, are denied access by privatized companies altogether.

Where service provision has remained in the hands of the state, governments, having been pressured to reduce deficits and prioritize paying off their debt, have usually taken a large and sharp knife to social spending. Free social services on which the poor have depended have been pared back in scope and quality or are available now only on a cost-recovery basis. User fees for education and health care, for example, have been instituted during a period when the suffering of the poor has intensified and social services are most needed. Hence the poor are paying twice, through their taxes as well as fees or lost services, for a debt that they had no role in incurring.

Declining public investment in education and health care are relegating the poor to another generation of poverty. Deteriorating infrastructure, a decline in teachers' salaries and training, inadequate supplies and the introduction of fees have contributed to, among other things, a decline in educational quality and access and higher dropout rates, especially among girls. Similar problems exist in the health field, leading to reduced access to care in hospitals and clinics. There has been an increase in the resort to home care and self-medication, a decline in maternal health care, rising child malnutrition, and a persistence or return of infectious diseases.

The increased impoverishment caused by structural adjustment has in a number of ways befallen women even more than it has men. Trade liberalization and the influx of imports that have followed, as well the deregulation of lending institutions, have been particularly damaging to the many women with small and micro businesses. Bankruptcies of local businesses and privatizations have led to a large number of lay-offs among women, especially the less educated without special skills, and forced many into the informal sector. Flexibilization and work rules in EPZs have also had profound effects on women; in EPZs, where women constitute the majority of the work force, they often are denied benefits or lose their jobs if they become pregnant.

In the agricultural sector, as in urban centers, women, generally confined by lack of opportunity to produce for the domestic market, have suffered increasingly under adjustment. In mining areas, the extra burdens caused by the damage done by pollutants to water and human health, for example, have fallen on women as home keepers and care givers, roles that have expanded in all areas due to the reduction in free public services and the high cost of private ones. Overall, the failure to integrate local input, and thus an understanding of local conditions, including resource allocation and access, into the design of economic-reform programs has had an even more deleterious impact on women than on men because of existing gender-based differences in resource control, productive and reproductive roles, and other economic and social factors.

The intransigence of international policymakers as they continue their prescription of structural adjustment policies is expanding poverty, inequality and insecurity around the world. These polarizing measures are in turn increasing tensions among different social strata, fueling extremist movements and delegitimizing democratic political systems. Their effects, particularly on the poor, are so profound and pervasive that no amount of targeted social investments can begin to address the social crises that they have engendered. Only the restructuring of the productive sectors through more appropriate public policy can ensure that economic opportunities, resources and benefits accrue to all segments of the population.

Chapter 10: New Directions in Economic Policy

The nine-country SAPRI assessment of the economic, social and environmental impacts of a broad array of adjustment measures points to the need for new approaches to economic policy. To help reduce poverty and economic inequality, policy programs must, at a minimum, engender healthy and growing domestic economies that produce good jobs at decent wages, enhance the rights and purchasing power of workers, support small-scale agriculture and food security in an environmentally sustainable manner, and ensure that basic services are accessible to the entire population. The experience of the past two decades shows that this will require a significant shift away from the structural adjustment paradigm.

For most countries, emphasis should be on the development of well-integrated economies in which there are strong linkages within and among the agricultural, industrial and other economic sectors. Trade policy should serve to build a strong manufacturing sector and support agro-industrial production, rather than destroy these sectors through a flood of cheap imports in the name of eliminating inefficiency. Trade liberalization should not be implemented before an industrial policy is in place to address the structural constraints causing the inefficient operation of local enterprises. Technological upgrading, technical assistance in the areas of product quality and marketing, and other efficiency-enhancing measures should be the focus of efforts to help firms successfully confront import competition. Regional trade and integration among relatively equal partners can provide the basis for a more paced integration into global markets and give local enterprises an opportunity to adjust to foreign competition.

In each country, certain industries and sectors of the economy are an important source of employment and play a key role in domestic development, particularly for poor and middle-income segments of society. Trade policy should support a country's strategic sectors and should be nuanced rather than indiscriminate. Small and medium-scale enterprises are particularly important, as they create the vast majority of jobs and generate and spread innovation. Access by these firms to long-term loans at affordable interest rates should be a priority of economic policy, and modest rates would also serve to redirect investment toward productive endeavors and away from short-term speculation, which has become rampant under adjustment.

Financial-sector policies, in addition to facilitating the lowering of interest rates, should be geared to reduce the gap between savings and borrowing rates and reintroduce development banking mechanisms to support employment-generating enterprises. Governments require the authority and legitimacy to regulate private-sector control over financial resources, curb speculative behavior, and expand lending broadly across all population groups, types and sizes of enterprises, and regions of the country. Regulatory and supervisory frameworks are also required that enable financial institutions capable of serving the poor, particularly those outside large urban areas, and their more informal undertakings to enter into and survive in the formal financial system.

While export production is clearly important, care should be taken to encourage those investments that create local economic linkages and that are not import-intensive so to avoid growing current-account deficits. Agro-industry, for example, can add value to exports while reducing dependency on imports. Other local industries can be successful in both domestic and foreign markets without competing on the basis of cheap labor or environmental exploitation. Likewise, a policy in regard to transnational companies should discriminate in favor of those investments that contribute needed capital, technology and know-how to the national development strategy, help diversify exports while creating local linkages, and neither crowd out domestic enterprises nor reduce national economic sovereignty. At the same time, import bills can be further reduced by applying a heavy tax on luxury goods.

Significant investments must also be made in the agricultural sector prior to import liberalization in order to ensure the viability of small farms as well as food security, particularly in rural areas. Rural development policies are needed that give priority to food-based agriculture as an important factor ensuring food security and local livelihoods instead of relying on food imports. Policy and investment initiatives in support of small-scale agricultural production for the domestic market should include active government involvement to facilitate small farmers' access to affordable agricultural inputs and credit and to markets, improve rural roads and transportation, further develop irrigation systems, and promote land-tenure and land-distribution reforms. Export-crop production should not be promoted at the cost of the further marginalization of small farmers, in many cases women, producing for the local market or land degradation. It is crucial that these and other environmental and socioeconomic factors, including gender considerations, be integrated in all aspects of agricultural development policies.

Similarly, in the mining sector, the legal and policy framework should be overhauled so that companies have greater responsibility and accountability with regard to environmental and social issues. Environmental legislation should be strengthened and impact assessments fully implemented in order to protect against water and other pollution, various health problems and the destruction of agricultural lands and local communities. To this end, clear and fair guidelines should be established for obtaining community consent prior to the undertaking of mining activities. Pending these changes, a full review of the impact of adjustment on the sector, and consideration of alternative development strategies, international development banks should stop lending for large-scale mining operations and cease supporting the wholesale liberalization, deregulation and privatization of the mining sector.

The regeneration of local economic activity geared for both the domestic market and export will require, however, more than supportive trade and financial-sector policies and an enhanced regulatory and planning role for the state. Demand for local goods and services should be generated by increasing local purchasing power through an employment-intensive growth strategy that includes an active employment policy. Job creation should be stimulated through the support of labor-intensive productive sectors, particularly small and medium-scale enterprises with strong domestic linkages. Long-term competitiveness in these sectors will be enhanced, in turn, by a wage policy that establishes a fair wage structure and creates labor stability. Tripartite commissions involving workers, employers and government can be established to seek consensus on an adequate regulatory framework for labor and employment practices. Reforms should ensure labor rights, including the right to unionize, and ban discrimination against women and minority groups, as well as strengthen protections for workers with regard to job security and employment conditions.

Employment policy should also ensure that, when workers, particularly those with low skill levels, are laid off as result of privatization or civil-service reform, they are assured either secure employment and basic workers' rights or access to effective job-training programs. Privatization should not be indiscriminate; all forms of ownership should be considered and determined on the basis of local conditions and development needs, and measures should be taken so that transnational companies do not crowd out national ownership. Where privatization is called for, mechanisms of citizen participation should be developed and supported so as to facilitate transparent processes to diminish corruption and give citizens greater influence over decisionmaking.

Public utilities and basic social services should ideally remain under state or local government ownership in order to best ensure the provision of affordable, quality services to all segments of the population. The public provision of essential and strategic services, such as water and electricity, at affordable rates contributes to the reduction of poverty while also reducing the pressure on the environment and additional burdens on women. Furthermore, universal, rather than targeted, subsidies will usually be more effective in providing access for the large numbers of poor people in most countries. A sufficient level of health-care and education spending must be maintained to ensure universal coverage and improved infrastructure, supplies and personnel training, with an emphasis placed on the enhancement of service quality and equitable service delivery. User fees and cost-recovery schemes for primary and preventative health care and basic education should be abolished, but investments at this level should not be emphasized at the expense of curative health facilities and secondary and tertiary education.

While universal access to affordable social services is critically important, the national SAPRI and CASA findings consistently centered on the regeneration of domestic economic activity and the creation of gainful employment -- both currently being destroyed systematically by adjustment programs -- as the basis for reducing poverty and inequality and stimulating sustainable development. From local-level workshops to the national public fora to the participatory field research, local citizens and civil-society organizations repeatedly stressed in the SAPRI and CASA exercises the need for economic opportunity, for dignified employment and for tackling poverty at its economic roots.

These broad-based national initiatives have also demonstrated what SAPRI was established to prove: that civil society, including the poor, can mobilize and organize itself to contribute timely, effective and well-informed input into national economic policymaking. In fact, the participants in these initiatives have shown that their contributions are indispensable to charting a constructive economic course in their respective countries. For this reason, the SAPRIN global network is now moving to the participatory development, at the national, regional and global levels, of specific policy alternatives within the framework presented above so as to help ensure that citizens worldwide participate in the shaping of the next generation of economic policies.