STRUCTURAL ADJUSTMENT PROGRAMMES:

Their origin and international experiences

Background paper

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Structural adjustment programmes (SAPs) have been implemented in many 'developing' countries since the 1980s. They were designed by the International Monetary Fund (IMF) and the World Bank and imposed as a condition for further loans. This paper will give a brief background of the events that led many countries to accept SAPs. It will describe how SAPs are being implemented and what results they have produced over the past 20 years. The paper will also give a short analysis of the roles of the World Bank, the IMF and the local political elites in this process.

1. Structural Adjustment and the Debt Crisis

SAPs were born as a result of a debt crisis that has hit especially developing countries since the 1980s. This debt crisis has its origin in the early 1970s when oil-producing countries that had united in the Organisation of Petroleum Exporting Countries (OPEC) increased the oil price to gain additional revenue. Most of these profits were invested with banks in industrialised countries. These banks, in turn, were interested to lend this money to developing countries to finance the purchase of products from the industrialised countries. In this way, the loans given to 'developing' countries helped to stimulate production in the North (see Toussaint and Comanne 1995: 15). At that time. both private and public institutions encouraged the South to borrow. Even the World Bank 'preached the doctrine of debt as the path towards accelerated development'. As a result, huge amounts were borrowed by the political elites, often wasted on luxuries, 'white elephant' projects or stolen by corrupt officials. Very little was invested productively with a view of achieving sustainable economic growth (see George 1995: 21).

During the 1970s loans were given freely at very low interest rates but this situation changed dramatically in the early 1980s. The USA pushed up interest rates drastically in an attempt to stop inflation. 'Developing' countries that had taken out loans with US banks now had to pay huge interests. The major lending banks in Europe followed suit and the debt crisis was born (see George 1995: 21). 'Developing' countries were unable to repay their loans and were forced to take up new loans to pay the interest.

In 1980 the total debt of developing countries stood at US$ 567 billion. Between 1980 and 1992 these countries paid back US$ 1662 billion. However, because of the high

interest rates, the debt increased to US$ 1419 billion in 1992 – despite the repayments! The rising interest rates forced developing countries to take pout new loans to avoid bankruptcy. Debt repayments drain about US$ 160 billion each year from 'developing' countries. This is 2,5 times the total development aid that these countries receive! Since the 1980s, debt repayments are a major mechanism of transferring wealth from the South to the North. The former French President Francois Mitterand admitted this when he said in 1994:
'Despite the considerable sums spent on bilateral and multilateral aid, the flow of capital from Africa toward the industrial countries is greater than the flow of capital from the industrial countries to the developing countries' (see Touissaint and Comanne 1995: 10-12).

Despite the fact that 'developing' countries have long paid back their initial loans, they are still highly indebted and are dependent on new loans. This paved the way for the IMF and World Bank to come 'to the rescue'. They were given the task to make sure that 'developing' countries will continue paying their debt by offering new loans – to countries who accept certain conditions: structural adjustment.

2. The role of the IMF and World Bank

Initially the idea behind the World Bank and IMF, also called the Bretton Woods institutions, was widely supported. The Bank was given the task to rebuild first Europe and then other countries after the Second World War. The IMF was supposed to facilitate trade and to make short-term loans available to countries with temporary balance of payment problems (see George 1995: 19).

Today the IMF and the World Bank are much more powerful than its founders could have imagined. Both have over 170 member countries whose power is determined by the amount they pay in subscriptions. This system of 'one dollar – one vote' has meant that the rich industrialised countries control these institutions today (see the description of the IMF and World Bank attached). The IMF and World Bank are far from democratic and their policies are shaped by their principal shareholders – the powerful industrialised countries.

The IMF and World Bank today have a strong influence over economic policies in many countries. The inability of many countries to repay their debt has made them dependent on new loans. The IMF has the power to declare countries credit worthy – or not. To get the seal of approval countries have to accept the conditions of structural adjustment programmes. They have to restructure their economies according to IMF/World Bank guidelines – otherwise they will have virtually no chance to get loans from private or public creditors anywhere (see George 1995:19-21).

3. The Implementation of Structural Adjustment Programmes

SAPs are built on the fundamental condition that debtor countries have to repay their debt in hard currency. This leads to a policy of 'exports at all costs' because exports are the only way for 'developing' countries to obtain such currencies. A first feature of SAPs is therefore a switch in procuction from what local people eat, wear or use towardes goods that can be sold in the industrialised countries. Since the 1980s dozens of countries have followed these policies simultaneously. They often exported the same primary commodities, competed with each other and then suffered because of declining world market prizes for their commodities. Between 1980 and 1992, 'developing' countries lost 52% of their export income due to deteriorating prizes (see Touissant and Comanne 1995: 12; George 1995:22; Bournay 1995: 51).

SAPs have **4 fundamental objectives** according to which they are shaped:
1. Liberalisation: promoting the free movement of capital; opening of national markets to international competition.
2. Privatisation of public services and companies.
3. De-regulations of labour relations and cutting social safety nets.
4. Improving competitiveness (see Toissant and Comanne 1995:14)

Based on these objectives, SAPs prescribe nearly always the same measures as a condition for new loans. These are:
- reduction of government deficit through cuts in public spending (cost recovery programmes);
- higher interest rates
- liberalisation of foreign exchange rules and trade (deregulation);
- rationalisation and privatisation of public and parastatal companies;
- deregulation of the economy, for example:
    - liberalisation of foreign investment regulations
    - deregulation of the labour market, e.g. wage 'flexibility'
    - abolishing price controls and food subsidies
- shift from import substitution to export production (see Isaacs 1997: 135)

These measures forced countries on a path of deregulated free market economies. The IMF/World bank basically determine countries' macro-economic policies, they take control over central bank policies and over public expenditure through the so-called 'Public Expenditure Review'. SAPs promote the principal of cost-recovery for social services and the gradual withdrawal of the state from basic health and educational services. Under its 'Public Investment Programme' the IMF even decides what type of infrastructure should be built while an imposed system of international tender ensures that public-works projects are carried out by international construction and engineering firms (see Chossudovsky 1995: 59).

Although several countries were sceptical about such neo-liberal policies (designed along the ideas of the Reagan and Thatcher administrations) they were forced to abandon socialist or even social democratic ideas. In this way, the debt crisis has provided the IMF and World Bank with a very effective instrument of disciplining rebellious countries. Debtor countries are kept in a ‘strait-jacket’ which prevents them from implementing their own economic policies (SEE George 1995:21; Chossudovsky 1995:57).

4. The Results of Structural Adjustment Programmes

Despite the IMF and World Bank claims of SAP successes, it is widely acknowledged that SAPs have failed to achieve their goals. They have not created wealth and economic development as unregulated markets did not benefit the poor and failed to protect the delivery of social services. The IMF/World Bank believe that the elimination of protective tariffs will make domestic industries more competitive. In reality, domestic manufacturing often collapsed and imported consumer goods replaced domestic production. Other results of SAPs were:

- Privatisation allows international capital to buy state enterprises at very low costs.
- Tax reforms under SAPs (like VAT) place a greater tax burden on middle and low-income groups while foreign capital receives generous tax holidays.
- Deregulation of the banking system leads to very high interest rates which makes most goods unaffordable to the majority.
- Elimination of subsidies and prize controls, covered with devaluation lead to price increases and reduce real earnings in the formal and informal sectors.
- Free movement of foreign exchange allows foreign companies to repatriate their profits. It also allows the ‘laundering’ of ‘dirty money’ from offshore banking accounts.
- Cost-recovery programmes in the health sector increased the inequality in health care delivery, reduced health coverage and increased the number of people without access to health care. Diseases like cholera, malaria and yellow fever are on the increase again.
- Various NGOs funded by international aid agencies have gradually taken over government functions in the social sector.
- Cuts in public sector employment (for example 300 000 civil servants were retrenched in Zaire - now DRC - in 1995), coupled with bankruptcies of local companies has led to large increases in unemployment.
- Liberalisation of the labour market leads to the elimination of cost of living adjustment clauses in collective agreements and to the phasing out of minimum wage legislation.
- Export orientation in agriculture is eliminating subsistence crops and accelerates the exodus of the unemployed towards the cities. (See Touissant and Comanne 1995: 9; Chossudovsky 1995:58-64)

Even in those countries that are singled out as success stories, SAPs imposed severe hardships on the poor. In **Uganda**, for example, the government obediently followed the World Bank/IMF policies and implemented far-reaching liberalisation such as:

- Privatisation of government institutions
- Reducing the size of the civil service and the army
- Liberalisation of foreign exchange
- Decentralisation of services to local authorities
- Cuts in government spending on social services

Despite some (statistical) economic growth, these policies resulted in:

- Drop in formal sector employment to less than 14% of the economically active population
- Retrenchment of more than half the civil service (170 000)
- Lack of equipment and medication in government health facilities
- Collapse of small enterprises
- Declining co-operative movement
- Trade Unions lost 60% of their members since 1990

SAPs had a detrimental effect on social services. In the **education** sector, for example, they led to:

- Increasing class size (student-teacher ratios)
- Increasing school fees as part of cost-recovery programmes
- Reduction in the number of teachers and/or wage freezes
- Introduction of 'double shifts'
- Drop in the standard of public education due to deteriorating facilities
- Increase in private schools for the wealthy
- Increasing inequalities in the standard of education between poor and rich communities
- Lower enrolment at schools as the poor have to choose between feeding their children and paying for school uniforms, stationery and school fees.
- Finance-driven education reforms under SAPs often reversed the gains made by African countries after independence.

SAPs meant that most countries had to make major cuts in their education budgets and the world-wide rate of illiteracy began to grow again after a long period of decline (see Bournay 1995: 51). The poor and vulnerable groups in society are always the hardest hit by the SAP measures. SAPs have had a particularly negative effect on **women** because:

- Privatisation of social services like health and education makes these services unaffordable for the poor. As a result, women are often forced to take on these responsibilities, for example tacking care of the sick.
- Cuts in education services lead to an increase in illiteracy among women and girls. Under SAPs, the drop-out rate for girls is increasing.
- Reduced spending on health leads to an increase in maternal deaths.
- The elimination of food subsidies coupled with falling (real) wages reduces women's buying power.
- Unemployment is increasing as a result of public sector 'restructuring'
- 'Labour flexibility' may result in more jobs for women at the expense of men. These jobs, however, are usually poorly paid and insecure.
- The reduction of formal sector jobs drives women into the informal sector.
- In Zambia, the hardships caused by SAPs led to an increase in divorces. Men left their homes because they were unable to look after their families. As a result, more women were forced to look after their children on their own.

5. SAPs in Southern Africa

The results of SAPs in Southern Africa were similar to those of the programmes elsewhere. The effects of these policies are visible in all countries of Southern Africa, although the manifestations are different. In **Angola**, the war sponsored by the CIA and South Africa during the 1970s and 1980s has devastated the country. Virtually the entire industrial production base was destroyed and Angolans have to fight a daily battle for survival. In the late 1980s the World Bank and the International Monetary Fund (IMF) enforced SAPs resulting in what was described as "wild capitalism" (Brittain: 3-7). These policies have done nothing but exacerbate the already devastated economic and social structures of Angola.

In **Zimbabwe** and **Zambia,** SAPs placed severe hardships on the population while failing to lead to the promised economic recovery and reduced unemployment. ESAP, the abbreviation for 'Economic Structural Adjustment Programmes' is now seen as the abbreviation for 'Ever Suffering African People', as these programmes resulted in popular protests and food riots after subsidies for basic food items were withdrawn. The Zimbabwe Congress of Trade Unions (ZCTU) has pointed out that ESAPs worsened poverty and that export orientation further disadvantages small-scale communal farmers who still have no adequate access to suitable land (Goncalves: 6)

After 5 years of SAPs, **Zimbabwe's** external debts had increased dramatically due to heavy SAP-related borrowing. It now stands at more than 100% of the GDP and the domestic debt is even higher. Due to currency devaluations the real foreign exchange value of exports in Zimbabwe declined by 2,7% a year while it had grown by 9% before SAPs were introduced. Economic growth was slow and 60 000 workers were retrenched (Saunders: 9; Goncalves:70).

In 1995 the IMF suspended the lending programme and called for even bigger sacrifices to be imposed on the population. SAPs forced the government to concentrate on budget deficits at the expense of creating employment and improving social services. Unemployment stands at 50% in some sectors and only 16 000 jobs are created per year for 220 000 school leavers. Since the early 1990s 130 companies were liquidated and a process of de-industrialisation is underway in a country that once had a relatively self-contained and integrated economy (Saunders: 8-11).

Zambia took the most dramatic steps to fully implement ESAPs and has seen whole industries disappear as protective measures were dropped. External debts are strangulating the country and between 1990 and 1993 the Zambian government spent 35 times more on debt repayment than on primary school education! (Goncalves: 7)

Mozambique is often regarded as one of the poorest countries in the world with foreign assistance accounting for two-thirds of its GDP. After 20 years of South African sponsored war, the state has virtually been destroyed and is presently trying to establish some kind of political stability.

During the 1980s the Mozambiquen leadership tried to find a way of protecting social achievements when dealing with external financial institutions like the IMF and World Bank. This did not last long and a process of 'recolonisation' unfolded. Privatisation hit every sphere of the country's social and economic life: banking, cotton industry, agriculture, health and education.

Today Mozambique is dominated " not by the agents of a colonial power, but by the technically sophisticated and politically disinterested economists of the IMF , the World Bank and of bilateral aid agencies whose prescriptions are determined by economic analysis" (Plank). They portray Mozambique's subordination as a natural consequence of global economic trends. A Mozambiquen MP admitted that "our budget is really set by donors at the annual Paris conference" (Saul: 12-17). Privatisation which was meant to improve efficiency and reduce budget deficits often results in massive retrenchments. According to Mozambique's trade union federation OTM, of the 502 companies which were privatised since 1989 only 25% are still operational and 37 000 workers have been retrenched (Goncalves: 6).

Under pressure form international donors, the **Malawi** government removed fertiliser subsidies in 1995. As a result, small-scale farmers could no longer afford fertilisers or were forced to sell their food stocks. This poses a serious threat for the country's food self-sufficiency.

Although **Namibia** and **South Africa** are not heavily indebted and were not forced to implement SAPs, there are indications that these countries are following similar policies. After decades of sanctions and partial isolation, **South Africa** is re-integrating into the global economy. This is changing its domestic economy which had been characterised by protective tariffs and import substitution. It now has to face global competition. As a signatory to the General Agreement on Trade and Tariffs (GATT) and member of the World Trade Organisation (WTO), South Africa has started to dismantle tariff barriers. The government sees this as a necessary step to make domestic industries internationally competitive. The macro-economic plan known as "Growth, Employment and Redistribution" (GEAR) shows many similarities with the structural adjustment policies of other countries.

So far, the harshest effects of trade liberalisation are experienced by workers in South Africa's clothing and textiles industry. 80% of workers in the clothing sector and 50% of those in the textile sector are women. Between 1991 and 1997, 50 000 out of a total of 200 000 workers have lost their jobs. South African companies were unable to produce goods as cheaply or at the same quality as competitors from South-East Asia and had to close down. The industry proposed a more "flexible" labour force (i.e. wage cuts) to tackle the crisis, and some companies have initiated plant-level restructuring accompanied by retrenchments, casualisation and decentralisation of production (Macquene). Another prominent feature in South Africa is the privatisation of state assets similar to what has happened in other African countries as part of SAPs. Despite opposition from the labour movement, the South African government seems to follow the demands of national and international capital to speed up the process of privatisation.

In **Namibia**, the government is still spending a large portion of the national budget on social services like education and health, but there are signs that cuts are imminent. The Ministry of Education, for example, has already cut down on expenditure for school hostels by reducing and sometimes even abolishing the subsidies. Several hostels were privatised and the Ministry now wants to implement a programme known as “staffing norms’. This programme aims to achieve a uniform teacher-student ratio across the country and claims to achieve the following: financial sustainability; enhanced educational quality; and equity among regions and schools. The Ministry targets teacher learner ratios of 1:40 for primary schools and 1:36 for secondary schools by the year 2002 (NANTU 1997:13).

Other signs of structural adjustment policies are the government’s commitment to sweeping privatisation which is justified as a means of making state-run and state-owned companies more efficient. ‘Commercialisation’ is mentioned almost daily in the media and has become the ‘religion’ of economic policy. The Namibian government is also determined to reduce the size of the civil service and believes that economic development can only be achieved through foreign investments and export-led growth. These are definite signs that structural adjustment has arrived.

6. SAPs and Globalisation

Overall, SAPs have reversed some of the gains made by ‘developing’ countries in their attempt to find an autonomous development process that would suit local conditions. The rolled back some of the achievements made by African states in the post-colonial era (see Goncalves: 6-8). Countries like India, Mexico, Algeria and Brazil are now returning to their former dependency on and subordination to the industrialised world (see Toussaint and Comanne 1995: 17). Chipeta points out that this is no accident as ESAPs were not designed to promote genuine economic development. “Each policy is designed to fail so that the implementing country can enter into another programme”. In other words, an implementing country becomes permanently locked into ESAPs which are designed by the industrialised blocks to shape developing countries according to their needs (Chipeta: 11).

SAPs as a part of the broader process of globalisation have increased the manoeuvring space for Transnational Corporations to an unprecedented level. They could utilise the opportunities created through privatisation and the general economic liberalisation. However, it is important to point out that the political and economic elite of ‘developing’ countries has also played a crucial role in the adjustment process. These elites often used the initial loans for their own benefits. They continued a life in luxury while telling their people to tighten their belts. Even under structural adjustment they were hardly the ones who suffered and sometimes even benefited from SAPs. When public services deteriorate or disappear they can afford private schools and hospitals. They often benefited from privatisation by obtaining functioning enterprises at give-away prices and

they benefit from low labour costs as a result of labour flexibility. Susan George has accurately summed up the results of SAPs and globalisation when she wrote about the global apartheid economy:
‘The Bretton Woods twins have become the managers of a global apartheid economy in which the transnational elite from both “North” and “South” plays the role of the “whites”; a shrinking and anxious middle class the role of the “coloureds”; and finally, at the bottom, the vast sea of wretchedness made up of “blacks”, whatever their literal skin colour’ (1995:23).

The failure of SAPs have often led to violent protests that were often repressed with great brutality. The IMF/WB have ignored all critics for years and even today continue to argue that the situation would have been worse without SAPs. In recent years, they tried to respond to public criticism by moving towards adjustment ‘with a human face’. They are now prepared to look at a very basic safety net and have allowed some countries (e.g. Egypt) to maintain some subsidies on essential food products. However, the basic philosophy and the believe in the unregulated free market have remained unchanged (see Bournay 1995: 52).

7. Conclusion

Although the relative share of the ‘developing’ countries’ debt in the world’s debt has declined, the people of those countries still have to suffer under structural adjustment programmes. They still have to pay a heavy price to ensure that the debt is paid. The same is now happening in the former countries of the Soviet bloc that are also forced to undergo structural adjustment. Debt is even becoming an issue in the rich industrialised countries as people there are now also experiencing austerity measures that are similar to structural adjustment. Industrial countries justify cuts in social spending as necessary to reduce the public debt. Toussaint and Commanne pointed out that: ‘While austerity measures imposed in the North do not have tragic consequences equal to those in the South and East, the results are nonetheless destructive’ (1995:18).

The World Bank and the IMF have repeatedly come under sharp criticism over the failure of their SAPs. Under mounting pressure, Social Dimension Funds (SDFs) were introduced in recent years to cushion the blows and hardships of ESAPs. However, they have been ineffective and insufficient to offset the damages caused. ‘Adjustment with a human face’ did not address the fundamental flaws of SAPs but the Bank and the Fund still believe that the solution to the world’s problem lies in continued liberalisation of economies. They still believe that SAPs short term pain will lead to long term gain. Rhetorical commitment to ‘poverty alleviation’ did not change the SAP principle of systematically withdrawing the state from delivering social services. According to the IMF and World Bank, these services are meant to be cost effectively managed by ‘civil society’(see Chossudovsky 1995: 64). During a seminar in Namibia in 1998, IMF officials confirmed that:

‘Structural Adjustment programmes have become the main vehicle for the IMF’s support in Africa.’

Reinhold van Til, IMF

'Under structural adjustment, Ghana and Uganda 'experienced a sharp improvement in competitiveness, trade, investment, and economic performance.'

'The 'right' economic policies will automatically lead to economic growth and prosperity. Investors will reward countries with good economic policies and punish those with bad ones.'

'Liberalisation of the trade system is a key element of reform if Africa is to take advantage of increasingly global patterns of production and trade….this must be accompanied by a liberalisation of exchange rates.'

Robert Sharer, IMF

Government intervention must be limited to 'areas of market failure and to the provision of the necessary social and economic infrastructure'

Alassane D. Quattare, IMF

In theory, SAPS are meant to assist countries to return to economic recovery. In practice the opposite has happened. SAPs have destroyed any chance to achieve sustainable economic development that would meet national priorities. Chossudovsky pointed out that the '…IMF-World bank reform package constitutes a coherent programme for economic and social collapse…They destroy the entire fabric of the domestic economy' (1995: 66).

Whenever SAPs fail, the IMF and World Bank blame the host government which they accuse of incompetence or insufficient motivation. 'IMF riots' have happened in more than 30 countries, sometimes in the form of violent protests against the hardships caused by SAPs. The host country's governments were always left to deal with the uprisings that were often brutally suppressed. However, initial protests against SAPs were hardly followed by a systematic initiative to build the political capacity to replace SAPs with a different development strategy. Even the political leaders of 'developing' countries have become quiet on the debt issue and are no longer campaigning for the cancellation of the debt. In most cases they have become a corrupt elite that is no longer interested in establishing a new and more just world order. It will therefore be left to those organisations that represent the increasingly impoverished majority to actively campaign against structural adjustment policies and to develop alternative policies that will be able to solve our problems.

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