III. The BWIs and Economic Development

i. Overview

The BWIs impinge directly upon the development of the countries to which they lend in two principal ways: through the productivity of the financial (and technical) assistance they provide, and through their influence on the policy choices of the governments of those countries. Indirectly, as shown in Part II, they also impinge through such influence as they have on policies within industrial countries, and on the workings of the international trading and financial 'system', but we confine ourselves here to their direct effects.

They impinge but to what extent do they improve? A wide range of criticisms has been levelled in the past, from different points on the spectrum. It has been complained that:

- World Bank projects have had a bias towards large scale, have produced weak results, particularly for the poor, and have done environmental damage.
- IMF stabilisation programmes have been inappropriately designed for developing-country conditions, have imposed excessive costs in terms of lost output and employment, diminished welfare of vulnerable groups and political destabilisation, and have not induced compensating economic benefits.
- The approaches to policy in the adjustment programmes of both BWIs have been doctrinally biased towards monetarist and market-based approaches, and have taken a too exclusively negative view of the role of the state. Alternatively, others have argued that, because they deal almost exclusively with central governments, the BWIs have exerted a pro-state centralising influence, supporting public actions where private enterprises or NGOs would do better.
- The BWIs' lending operations (particularly those of the IMF) and preferred creditor status add substantially to the debt problems of low-income countries; and the post-1982 global debt management policies in which the BWIs were active participants imposed one-sided costs on debtor countries. Alternatively: the growth and increased efficiency of world capital markets has rendered the BWIs' lending operations largely redundant, causing public capital to compete inefficiently with private markets, and creating severe moral hazard problems.
- Many of these alleged negative effects arise because the BWIs are structurally ill-suited to

BWIs impinge, but do they improve?

the tasks of promoting welfare in developing countries, and they have been unable to adapt adequately to changing global economic realities. In the case of the IMF, it is alleged that there is a fundamental mismatch between its design as a short-term monetary institution and the long-term structural nature of developing countries' payments problems. In the case of the Bank, its cumbersome centralised structure impedes it from reaching the poor.

This is a considerable catalogue of criticisms, several of which were made in the 1983 Commonwealth report. Some of them are taken up in succeeding sections. In the following paragraphs we confine ourselves to briefly reviewing the evidence relating to the productivity of past BWI lending.

SAPs have done poorly in Sub-Saharan Africa

First, **World Bank projects**, which even at the peak of structural adjustment financing still comprised the bulk of its lending. There is unfortunately no consensus on the economic, social and environmental effects of Bank projects nor any solid body of independent evidence on them. Widely differing views are held. Earlier Bank *ex post* evaluations generally reported fairly high proportions of projects achieving satisfactory rates of return, while also drawing attention to imperfect implementation and/or diminishing sustainability over time. However, others have criticised these results as biased or methodologically suspect (Riddell, 1987).

Recently, much attention has been paid to a 1992 report by a Bank Task Force (the *Wapenhans Report*) reporting a sharp rise in the proportion of projects judged to be in serious difficulty, from 11% in 1982 and 13% in 1989 to 20% in 1992, and with only 63% of projects completed in 1991 regarded by Bank staff as satisfactory (see also Wapenhans, 1994). In consequence, various projects were cancelled (including a reported $1.3bn-worth in India) and major changes announced in project management structures. As to environmental damage, while the more sweeping allegations are much exaggerated, there have been well-publicised controversial cases, including various projects in the Amazon. In fact, the Bank admits that it is only in the past few years that it has begun to give environmental considerations much weight in project decision-making.

One reason why even apparently well-designed projects do not yield expected developmental benefits is that they often function within an unsupportive policy and institutional environment. Growing realisation of this was a major motive for the Bank's move into 'structural adjustment' lending in the 1980s. This then brings us to **the effectiveness of adjustment programmes**, for these are intended to improve the policy environment.

Remaining with the Bank for the moment, various empirical investigations point to broadly the same conclusions: that **Bank structural adjustment programmes** (SAPs) are associated with accelerated growth of export volumes and some improvement in the BoP; reduced levels of investment; and no significant change in economic growth, positive or negative.

Another consistent finding is that SAPs have done particularly poorly in Sub-Saharan African countries. Nooter and Stacy (1990) utilised in-depth studies of seven African countries, concluding that only three of the seven (Ghana, Guinea and Madagascar) had implemented satisfactory adjustment

measures. Of the three, only the Ghanaian programme has since remained on track. An internal evaluation of experiences with adjustment lending (World Bank 1992b, Chapter 1) found markedly weaker results for African and other low-income countries than for middle-income adjusting countries. Another Bank study has the frank title, 'Why structural adjustment has not succeeded in Sub-Saharan Africa' (Elbadawi *et al*, 1992). Most recently, a Bank report on *Adjustment in Africa* (1994a), while concluding that steady implementation of adjustment measures had resulted in improved economic results, judged only six African governments to have made large improvements in their macroeconomic policy stances since the early 1980s (Burkina Faso, The Gambia, Ghana, Nigeria, Tanzania and Zimbabwe), although the Nigerian situation has since changed. Only in Ghana did the report rate macroeconomic policies by the early 1990s as better than 'fair'.

What now of **the effects of IMF programmes?** The main results of a survey by Killick *et al* (1992a and b) were that:

- Fund programmes (like those of the Bank) are generally associated with a strengthening in countries' export and BoP performances but that this result was not strongly correlated with the extent of programme implementation.
- Inflation was not much affected, with disinflationary and price-raising effects tending to cancel out.
- GDP growth was also not much affected, in either direction.
- Fund programmes were liable to have appreciable effects on the distribution of income but these were complex and varied between countries. There was no evidence that Fund programmes had resulted in systematic political destabilisation. In fact, IMF support may have had the contrary tendency, by supporting incumbent governments.
- Since 1980 half of IMF stand-by programmes have broken down before the end of their intended life, a proportion which rose to 61% in 1991-93 and as at April 1993 only five out of a total of 25 ESAF programmes had been completed within the originally intended period. There was much other evidence of incomplete programme implementation.
- Programmes did not appear associated with large changes in fiscal and monetary policy outcomes, although they *were* associated with substantial and sustained exchange rate depreciations.

Reform programmes are essential for sustained growth

The Fund has recently published a review of its experiences with ESAF programmes (Schadler *et al*, 1993). While apparently conveying satisfaction with general outcomes, this evaluation did not establish any link between programme implementation and economic results. It also contained evidence suggesting ESAF programmes may result in reduced growth rates, when compared with SAF programmes (Killick, forthcoming).

The records just summarised thus provide ammunition for both the BWIs' critics and their defenders: their programmes appear to contribute only modestly to improving economic performance, but there is little evidence of any large damage. The conclusion of a senior member of the Fund's research staff sums it up and is also valid for the World Bank's SAPs (Khan, 1990): '... one would be hard-pressed to extract from

existing studies strong inferences about the effects of Fund programs on the principal macroeconomic targets.'

Quite apart from the large methodological difficulties of arriving at firm conclusions about programme effects (especially the basic imponderable of what would have happened in the absence of a SAP), supporters of the BWIs can also object that this type of research overlooks the less tangible influence of both institutions on policies in developing countries, through their advice and publications, described above as the second major way in which the BWIs impinge upon economic development. This is a valid defence. As argued later, the stabilisation and adjustment promoted by the BWIs are necessary for the successful adaptation of economies to external shocks and changing needs.

Their influence on the general climate of opinion as well as on the specifics of policy, is undoubted. IMF Managing Director Camdessus can plausibly claim there to have been a 'silent revolution' in developing country attitudes towards macroeconomic management, and to this the Fund's advice and persistence have made a large contribution. Similar claims could be made for the influence of the World Bank, not least through its research and publications programmes.

Has there been a silent revolution in attitudes?

In the remainder of Part III we take up some of the more specific areas of concern about BWI adjustment programmes in developing countries: about the effectiveness of conditionality; the balance to be struck between the public and private sectors; the impact of the BWIs on poverty; and their contributions to low-income countries' debt problems.

ii. The paradox of strong conditionality but weak results

The past one-and-a-half decades have seen a cascading of BWI conditionality, with World Bank structural adjustment lending conditions adding to the stipulations of the IMF. Bank data (1992a, Table A1.2) show the annual average of adjustment-related loans in Africa alone to have increased from three in 1980-82, involving $190 million, to 15 in 1991, involving nine times as much ($1,732 million). Its SAP conditionality is wide-ranging and its staff's tendency to be over-ambitious in programme stipulations has been regularly identified as a weakness in internal Bank evaluations. This self-criticism has not, however, prevented an ever-increasing number of policy conditions, with the same source showing the average number of binding policy stipulations per SAP as rising from 21 in 1980-88 to 35 in 1989-91. A specific but not exceptional illustration is provided by a Bank report on a Commonwealth African country which is still trying to rebuild its public administration. This sets out a total of *eighty-six* specific policy commitments for 1991/92 to 1993/94, of which *seventy-nine* should have been undertaken or initiated in FY 1991/92 alone.

There has also been a similar tendency in the IMF, most notably in its ESAF programmes. There has been extensive use of preconditions and the average number of performance criteria per programme rose from under six in 1968-77 to nine-and-a-half in 1984-87 (Polak, 1991). Furthermore, there has been evident, but not transparent, cross-conditionality between the BWIs, with the Bank commonly requiring an IMF programme to be in place before it is willing to approve a structural adjustment credit.

In the face of this proliferation, the question arises why programme effects are not stronger than those reported in the previous section.

Various factors contribute. It is not feasible for the staff of the BWIs to obtain and absorb the vast amount of information about the workings of each of the economies in which they are lending, for them to be able to design optimal adjustment programmes. There are problems with insufficient staffing (largely at the insistence of G-7 shareholders) and high turnover. Quite often an inadequate amount of supporting finance is available. There are problems with political interference in country lending decisions by major-shareholder governments. There are frequent and major problems with what the BWIs call the 'political will' of governments to implement the measures they have promised, but what might more helpfully be thought of as the internal political conditions bearing on programme execution. To this can be added the problem of implementation overload resulting from the cascading of conditionality just described. Even more important, there is the supervention of adverse terms of trade and other 'shocks', which often knock the best-laid adjustment programmes awry.

We suggest, however, that what the Bank calls 'ownership' is even more crucial: the extent to which a government regards a programme as its own, which it has a commitment to implement. Surprisingly little attention has been paid to the findings of a Bank report (1992a) which found that the extent of government ownership predicated the satisfactoriness of SAP outcomes in three-quarters of all cases, with most 'deviant' cases explained by exogenous shocks. Ownership was high in most programmes achieving good outcomes and low in most unsatisfactory programmes. In the absence of ownership, governments evade commitments and regress when opportunities arise.

'Ownership' of programmes is crucial

Conditionality, being essentially coercive, undermines ownership. Its imposed nature can result in resentments by the ministers and officials who must implement the measures – and live with their consequences. In some cases, public perceptions of imposition can undermine programme legitimacy and strengthen opposition to reform. The BWIs deny that programmes are imposed but we suggest that the degree of imposition is more common than they are willing to admit. This was strongly suggested by evidence in the Bank study just cited, showing that government ownership was judged by *Bank staff* as 'low' or 'very low' in half of programmes and 'very high' in only a fifth. The problem is particularly acute in the smaller countries with weak bargaining power: the negotiating position of a government such as India's (whose current reform programme appears to have been largely home-designed) is altogether more favourable than that, say, of Zambia or Guyana.

There are large advantages to 'home grown' programmes. Being a product of domestic political and policy-formation processes, they more faithfully reflect domestic goals and priorities, and are less likely to be sabotaged during implementation. Ideally, the programme is consensual, based on wide consultation and public information. Even with more controversial programmes, the government will have considered how the resulting social costs and political opposition are to be managed – something the BWIs are not well equipped to do. By definition, such programmes are tailor-made to suit local circumstances, and they tap a superior knowledge of local

Home-grown programmes have proven their worth in East Asia

conditions. The probability of sustained government commitment to the chosen path of reform is enhanced.

A recent comparative study of the liberalisation of cereals marketing in various African countries (Coulter, 1994) provides an interesting microeconomic illustration of the importance of ownership. Mali's experience was found to be the most positive – a result attributed to 'the more secure macroeconomic and policy environment, and a high degree of consensus about the reform within Mali, between the Government and the donors, and between the various donors supporting the process.' This experience is contrasted with less positive outcomes in Kenya and Malawi, where the reforms are described as having been instigated by the BWIs 'in the face of considerable government reluctance.'

At another level, there are the remarkable adjustment successes of the East Asian 'miracle' countries (for example, South Korea's successful response to its large debt problems of the mid-1980s) *whose efforts owed little or nothing to BWI adjustment programmes.* Indeed, in important and well-known ways most of them departed from BWI orthodoxies. The same is true of the reform process in China. These countries worked out *for themselves* approaches which appeared best suited to their own traditions and circumstances, and these succeeded in combining successful adjustment with improving income distributions.

The implication of this line of argument is that the BWIs and major shareholders should more fully recognise the limitations of conditionality as a way of utilising financial assistance for adjustment reforms. The emphasis should rather be upon 'policy dialogue' and persuasion. The BWIs should refuse to play the 'paper conditionality' game; their staff should be assessed on the quality of the lending they undertake, not the volume.

A further implication is that the BWIs should be willing to say 'No' more often to governments with weak commitment to reform and should insist that programmes be prepared by the borrowing governments. The willingness of governments to draft their own 'letters of intent' should be a minimum obligation; they should *never* be prepared by BWI staff in Washington. Where countries have difficulty in doing this, appropriate technical assistance should be made available, preferably of an independent nature so as to avoid conflict of interest.

This suggested reorientation would have a number of additional consequences:

1. There would be a shift of financial resources away from reluctant adjusters and client states. This would release more for the committed adjusters, raising aid effectiveness.
2. If it is correct that domestically designed adjustment programmes would be more effective, they should induce larger additional inflows of foreign capital, private and public (as apparently exemplified by the 'home grown' East Asian and Latin American programmes).
3. It would be important not to confuse unwillingness to adjust with the limited technical capabilities of some developing-country governments. Technical assistance to enhance such capabilities should be even more freely available. *But:* it should be independent of the BWIs, so as to minimise conflict-of-interest problems; and it should *never* be imposed. Imposed advisers are no

more effective than imposed policy reforms, as forcefully conveyed by the World Bank Vice-President responsible for Africa (Jaycox, 1993):

> Donors also relied too heavily on foreign experts, even when qualified Africans were available. This did little to foster a receptive environment for the transfer of skills. In fact, it was often bitterly resented. Over-reliance on technical assistance also brought many difficulties. Expatriates were frequently chosen for their technical skills rather than their ability to pass on those skills. This, coupled with operational difficulties, pulled foreign consultants into operational support at the expense of capacity building.

4. Greater reliance on domestically designed programmes would require the BWIs to be more pragmatic and pluralistic in their assessments of the adequacy of the programmes submitted.

5. Greater country selectivity would necessitate greater restraint on the part of major-shareholder governments in lobbying on behalf of favoured applicant governments. Hopefully, the end of the Cold War would facilitate such restraint.

The suggested shift towards insistence on ownership would, moreover, be strongly consistent with the rhetoric of the Bank's recent 'vision statement', setting out its own view of the future adaptation of the Bank (World Bank, 1994c), which emphasises selectivity, partnership and client-orientation. The IMF, on the other hand, has been notably silent on such matters.

iii. The limitations of the policy consensus

There is today more agreement about the desirable orientation of development policies than ever before. Most would now agree that the BWIs have been correct to press for adjustment in the face of turbulence in the world economy, the accelerating pace of structural and technological change, and the often perverse effects of past government interventions on economic life. There is ample evidence of the decisive influence of the policy environment as a determinant of countries' economic performance and the importance, therefore, of getting policies right. The importance of tackling the foreign exchange constraint, with all its implications for investment, capacity utilisation and human welfare, is self-evident. Similarly, there is accumulating evidence that rapid inflation, usually born of monetised budget deficits, impedes growth (e.g. Fischer, 1994) and worsens inequalities.

Many governments now agree that the BWIs are right to urge that priority should be given to macroeconomic management, implying fiscal and monetary discipline; liberalising and deregulating the economy to allow markets to work more effectively; the often undesirable effects of a multitude of policy interventions by an overstretched state; and (to quote the 1994 Volcker Report) to 'provide an institutional and policy environment in which the private sector can flourish – in ways that alleviate poverty and meet other critical development goals.'

BWIs are right to press for adjustment in the face of rapid change

However, the extent of consensus should not be overstated. In particular, there remain considerable disagreements about where

the balance should be struck in the respective roles of the public and private sectors. There are persistent complaints that the BWIs place too much reliance on what can be achieved through market forces and are excessively negative about what the state can and should do.

Various Commonwealth examples can be given. In the area of the **liberalisation of agricultural services**, the recent (1994a) World Bank report on Africa urges that 'the elimination of agricultural marketing parastatals is high on the adjustment agenda' but there remains much controversy about both the desirable extent and pace of liberalisation. Here a great deal hinges on the availability of private enterprise and capital to take over from (or compete with) state corporations, and the extent of ensuing competition. For example, Cromwell (1992) concludes from her examination of the liberalisation of seed services in Eastern and Southern Africa that:

None of the reforms have actually increased effective competition in the seed sector, according to the available evidence. On the production side, where public sector monopolies have been disbanded they have been replaced by private ones... On the distribution side, private sector traders do not appear to offer any better service than public sector outlets, at least in part because in most rural areas they enjoy an element of monopoly power because of the poor level of rural infrastructural development... (p.81)... *general macro-economic and agricultural sector reforms fail to tackle the more fundamental structural reasons for underperformance in the seed sector* (p.9).

A balance must be struck between public and private sectors

The movement towards **privatisation** is not, of course, limited to agricultural marketing. It is the classical cockpit within which controversies about the roles of the state and private sector are being played out. The BWIs are strongly in favour; others are less sure. A study of privatisation in Jamaica, Kenya, Malawi, Malaysia, Papua New Guinea, Sri Lanka and Trinidad and Tobago (Adam *et al*, 1992) draws out the difficulties of adopting blanket 'pro' or 'anti' positions on this. It had worked quite well in Jamaica and Malaysia, they found, less so in Kenya, Sri Lanka, Malawi and Papua New Guinea.

Here, too, the breadth of the private sector and availability (and nationality of ownership) of private capital were key determinants, as also was the size and development of domestic capital markets. It is no accident that Jamaica and Malaysia are relatively 'developed' by comparison with most of the other countries studied. The credibility of the government, the state of public opinion towards privatisation, the clarity of programme objectives (especially as between maximising receipts for the Exchequer and promoting economic efficiency), and the capacity of the state to enforce public regulation of newly-privatised concerns were further important influences. The authors attribute the relative lack of success in Sri Lanka, for instance, to limited competition within the private sector, low state capacity to regulate private monopolies, and the narrowness of the capital market and low domestic savings rates (in addition to the difficulties created by the civil disturbances).

Controversies about the place of the state also surface in the connection with **industrial policy**. The essential question here is whether this should largely be confined to trade liberalisation, relying on the efficiency-raising and export-expanding effects of increased openness, which is broadly the position taken by the BWIs. In this context, there has been

much controversy about a recent (1993a) World Bank report on the East Asian 'miracle' countries. These countries, most notably South Korea, co-ordinated investment decisions at the national level and supported infant industries with the ultimate aim of penetrating new export markets.

Governments went beyond protection, however, and provided various support services, in the areas of information, technology and marketing. However, the Bank study dismisses these interventionist approaches, claiming that the resulting pattern of industrialisation in South Korea would have occurred in any case and that the various interventions imposed substantial costs on the South Korean and other economies. Others have strongly rebutted the Bank's critique, pointing out that South Korea's textile and garment sectors are far larger than would be predicated by market conditions, and that there are good reasons for disputing whether industrialisation could have been so successful had it been left to market forces. Nevertheless, a similarly free-market line is taken in the Bank's more recent *Adjustment in Africa* (1994a) report. BWI adjustment programmes rarely contain much by way of an industrial policy apart from the liberalisation of trade and investment regimes, but critics contend that in low-income countries industrial firms often do not have the managerial and technical capacity to be able to stand up to, and take advantage of, greater openness, with the heightened competition from imports it brings.

In summary, then, the suspicion is that the BWIs have reacted too far and too ideologically against the inefficient state interventionism of the past. There is also a suspicion that they sometimes try to achieve an unrealistic pace of adjustment, imposing avoidable social costs and political management problems.

iv. The BWIs and poverty

The reduction of poverty is an essential component of any adequate view of economic development, so we should now examine the impact of the BWIs on the poor. Here again, we start with the effects of their adjustment programmes.

During the course of the 1980s it became apparent that, like short-term stabilisation, structural adjustment was by no means painless. There was growing concern that a disproportionate share of the burden may be falling on the most vulnerable – a concern culminating in a widely publicised call by Unicef for *Adjustment with a Human Face* (Cornia *et al,* 1987).

Writing in the mid-1980s, the Unicef team was concerned at the insensitivity of both the Bank and Fund to the distributional consequences of their programmes. At that time the standard IMF position was that it was a matter for governments to attend to the distributional impact of programmes and that the Fund should not involve itself in such matters. It was as good as its word, for a review of 30 stand-by programmes implemented during the 1960s and 1970s found that only one contained provisions to protect the poor against possible adverse consequences (Killick *et al,* 1984).

This position has gradually changed. Fund missions now commonly discuss distributional aspects with governments when preparing programmes and the Policy Framework Papers prepared in connection with SAF/ESAF programmes are required to 'identify measures that can help cushion the possible adverse effects of

An unrealistic pace of adjustment could impose avoidable costs

certain policies on vulnerable groups.' An increasing number of programmes now contain safety-net provisions, although the chief examples so far have been in Eastern European countries. Two recent events illustrate the Fund's changed attitudes. First was the provision in the recently agreed expansion of the ESAF that programmes should pay greater attention to social safety nets, including contingency provisions. The second development was the announcement by the Managing Director of the Fund, in connection with the devaluation of the CFA franc, that the IMF would accept budgetary subsidies on some basic foods (and even on petrol) to protect the poor from the price-raising effects of the devaluation.

The Bank has gone through a similar transition. When structural adjustment lending was introduced there was a shift away from priority given to poverty reduction as had been the case with Bank policies in the 1970s. Early SAPs emphasised macroeconomic measures and the Bank's 1990 *World Development Report* (p.103) admitted that 'when structural adjustment issues came to the fore little attention was paid to the effects on the poor.'

This neglect was reflected in its programme conditionality. Kakwani *et al* (1990) found that only 1% of total SAP policy conditions related to 'subsidies' and 'social sectors' – by no means all of which were necessarily favourable to the poor, especially as regards subsidies. It has been estimated that social policy reforms accounted for under 3% of all SAP conditions up to 1987. Like the IMF, the Bank has since softened its stance, however, including the introduction of a special 'Social Dimensions of Adjustment' programme in 1987. The Bank has reported that the share of adjustment loans which include social sector conditionality has increased from under 5% of all SAPs in 1984-86 to almost 30% in 1990-92. Addison (1993) also reports that poverty-related provisions are now more frequently included in programmes, sometimes as preconditions for release of loan tranches. The Bank's recent 'vision statement', *Learning from the Past, Embracing the Future*, identifies reducing poverty and improving living standards as its overarching objective.

The Fund and the Bank have softened their stance on social issues

What, now, does the evidence on the poverty effects of BWI programmes show? Killick's 1994 survey reaches the following conclusions:

1. The issues are too complex and the obscurities too large to permit simple generalisations.

The database for research remains deplorably inadequate. Moreover, the impact of SAPs varies across different poverty groups. There are likely to be major differences in results as between urban and rural poor, with larger burdens being borne by the former, who tend to be the more affected by retrenchments, and cuts in subsidies and government services. The poorest of the poor, being marginalised, are less at risk. It is 'the not quite so poor' who are most at risk – and who stand the best chances of gaining.

2. The poor often are put at risk by the provisions of SAPs.

There are documented cases of programmes having poverty-worsening effects. The living standards of the poor can be eroded by measures, such as devaluations and price deregulation, which raise prices. Reductions in government subsidies for food and other items hit the real incomes of the poor, even though they typically receive only a modest share of such subsidies. Loss of jobs is also a threat, as is the depression

of the real wages of those who remain in work.

3. However, the negative effects of adjustment programmes have commonly been exaggerated.

Devaluation and other export promotion measures can create new employment and raise smallholder incomes. These and other measures are also likely to raise the cost of capital relative to labour, helping to create employment. Improving the efficiency of public sector service delivery helps the poor who use such services. The same applies to reducing the protection of domestic manufacturers. It is partly a matter of timing: the 'pain' comes first and the 'gain' later; there can be long time-lags before living standards begin to improve. Because there are both adverse and beneficial effects, studies find mixed results and no simple statement like, 'adjustment is bad (or good) for the poor' can be sustained by the evidence.

The inaccurate attribution to adjustment of hardships which are actually the result of the initial economic crisis helps explain the unduly bad press received by SAPs. The widespread belief that adjustment programmes result in particularly deep cuts in social spending is an example of this. Research on the incidence of government spending cuts shows that social services are among the more protected categories. There have been serious declines in health and education services in Africa and Latin America in response to fiscal crises, but most studies do not find a connection between these declines and the adoption of SAPs.

A further reason for doubting that SAPs result in major impacts on the poor is that they do not directly affect the prime sources of poverty: the distribution of assets and political power, access to services, and a pattern of demographic dependency which perpetuates poverty. Concentration on SAPs diverts attention from the more fundamental causes of poverty.

Adjustment is necessary for the attack on poverty

4. Properly understood, adjustment is a necessary condition for an effective long-run attack on poverty.

Structural adjustment should be seen as a response to a *permanent* need to keep abreast of changing patterns of world demand, output and competitiveness, technological change and unforeseeable shocks. No nation can sustain economic growth unless it can adapt and in poor countries growth is indispensable if poverty is to be eradicated. The policy task is one of achieving structural adaptation in a cost-minimising manner.

Quite apart from its obvious effects on investment, employment opportunities and incomes, growth can benefit the poor by easing the fiscal constraint – broadening the tax base, raising revenues and easing the credit situation. Improving the flow of services to the poor ceases to be a zero-sum game, making it politically easier. But trickle-down cannot be relied upon. Growth has to take forms that increase the access of the poor to productive assets and income-raising services. A special effort has to be made to include the *very* poor in the benefits of adjustment and economic expansion.

The East Asian economies are exemplars of pro-poor approaches to adjustment, although they had little recourse to the BWIs and departed from standard 'Washington' prescriptions. These countries have been the adjusters *par excellence:* adapting continuously and of their own volition to changing circumstances, diversifying and transforming their productive structures, *and achieving these results while reducing poverty.* Income

distribution and a wide range of welfare indicators have improved considerably, with major improvements in life expectancies and in access to water, food and shelter.

5. National governments have the prime responsibility for protecting the poor during adjustment.

BWI programmes are politically sensitive because of their impact on the distribution of income. Existing policies reflect the distribution of power within a country. Even the most perverse policies bring wealth to some, and beneficiaries resist attacks on their privileges. Similarly, the common bias towards urban dwellers reflects the greater power of those living in the towns.

Policies based on the existing distribution of power therefore often have large inertial force. A coalition for reform has to be assembled and nurtured. Adjustment thus requires political skills and leadership. The politics of compensating losers rarely favours the poor, almost never the *very* poor. The difficulties are the more acute because some governments reveal little concern for the poor.

6. Nevertheless, the BWIs must also share the responsibility.

The spread of adjustment programmes means that the BWIs also have obligations to protect the vulnerable. Despite past insensitivity, these are obligations which the Fund and Bank now acknowledge. Both, as we have seen, have altered their positions, but many doubt the extent to which the changes in message from the top have affected actual operations in the field – doubts accurately reflected in the Commonwealth Secretariat report on mitigating the social costs of adjustment presented to the Kuala Lumpur Finance Ministers meeting in October 1991. Overall, it seems that rather little may have actually been achieved thus far and that neither institution is yet systematically adopting a cost-minimising approach to SAP design, nor setting its efforts within anti-poverty strategies.

Governments must protect the poor during adjustment

Looking beyond the effects of SAPs, the Bank has been through distinct cycles in the priority it has given to poverty alleviation. Under its first presidents the Bank adopted a rather narrow bankers' viewpoint but during the 1970s, under Robert MacNamara, there was a major reorientation in favour of social sector and other pro-poor projects. During the 1980s, as shown above, the poverty-alleviation objective was effectively downgraded again, but recently the Bank has again turned more of its attention to the poverty task.

How much difference these ebbs and flows have made to the poor is unclear. There are a number of problems. *(a) Everyone* finds it very difficult to reach the very poor, and a Washington-based institution has no comparative advantage in that task; aid in general does not have a very good record in reaching the poor. *(b)* Most of the poor live in rural areas and virtually all evaluations are agreed that agricultural and other rural development aid projects have among the lowest success rates. *(c)* There is an oil-tanker effect which makes the Bank's project selections only slowly responsive to changes in management policy, creating a gap between formal policy and actual practice. *(d)* The centralised structure of the Bank, with the great bulk of its staff still Washington-based, is an obstacle to reaching the poor effectively, even at one remove by working through NGOs (Clements, 1993), for there is now a consensus that effective anti-poverty action requires a highly decentralised, participatory approach. The Bank's

management has clearly signalled a higher priority for poverty alleviation and is making efforts to translate this into effective action (World Bank, 1993b) but it, and the Fund, need to go further, e.g. in making it a minimum programme requirement that essential social services to vulnerable groups be maintained and in setting specific safety-net provisions into the context of a broader anti-poverty strategy.

v. The BWIs and the debt problem

Substantial progress has been made in reducing the debt burdens of low-income countries, particularly with the adoption of the so-called 'enhanced-Toronto' terms. Moreover, a bilateral creditor consensus is apparently emerging on the need to travel further down that road, reflected in the Communiqué of the July 1994 G-7 summit. At the same time, however, the BWIs (together with other multilateral agencies like the African Development Bank) have long been criticised for not contributing adequately to debt-relief efforts.

The multilateral aspect of low-income countries' debt problems is of growing importance and the debt policies of the BWIs are thus coming under increasing scrutiny. The agencies themselves have been reluctant to engage in public discussion of this topic but a recent (1994b) Bank paper has admitted that 'the large and growing level of multilateral debt could be seen as a sign that there is a multilateral debt-service problem on the horizon.'

The facts relating to 'severely indebted low-income countries' (or SILICs) point strongly in that direction:

The share of multilaterals in total SILIC debt is rising, and in 1985-92 accounted for 35% of the total *increase* in SILIC debt. The servicing of these debts represents a growing claim on debtor resources, with the share of total debt servicing attributable to the multilaterals rising from 16% in 1985 to 30% in 1992. Guyana, Tanzania, Uganda and Zambia are among the countries with particularly heavy multilateral debt burdens.

Multilateral debt problems are becoming important

A substantial problem of country arrears to the BWIs and other multilaterals has emerged and is persisting, where previously it was almost unknown.

These manifestations have occurred despite innovative efforts by the BWIs to refinance past debts and bring greater concessionality to their new lending. The capacity of the BWIs to provide greater relief has been inhibited by their preferred lender status. Moreover, the IMF's Rights Accumulation Programme, to deal with the problem of arrears, is not working well, so that Sierra Leone is the only low-income country which has been able to clear arrears by this means (although other ways have been found in some other cases).

Past approaches to the multilateral debt problem have shifted much of the burden of relief to bilateral creditors/donors, some of whose aid budgets, however, have been cut and who are resistant to further erosion of the genuinely bilateral components of their programmes.

If the BWIs are to retain their preferred lender status (ruling out the rescheduling or writing-off of past loans), more of the spotlight is bound to fall on greater use of the BWIs' own resources to provide greater relief: the Bank's accumulated prudential reserves (of ca. $20 bn) and the Fund's gold stocks ($35-40 bn).