STRUCTURAL ADJUSTMENT REVIEW: A CIVIL SOCIETY PERSPECTIVE

•SAPRIN SECRETARIAT

SAPRIN is a global network with 1200 participating civil–society organisations. The Network's principal purpose is to challenge the imposition of structural adjustment programmes (SAPs) on national governments by the international financial institutions. While SAPRIN recognises the role played by national governments in implementing adjustment policies, it also understands that, more often than not, governments are forced to respond in the first instance to the demands of their creditors rather than to the needs of their own people.

While SAPRIN is now forming new relationships with other social movements and official institutions, including United Nations agencies, it took its name from the Structural Adjustment Participatory Review Initiative (SAPRI), which it launched publicly in 1997 with the president of the World Bank. In the last two years, forward–looking, participatory reviews of adjustment programmes have begun in eight countries–Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mali, Uganda and Zimbabwe–in which the government has agreed to participate as the third party in the national exercise. SAPRIN is organising similar field exercises in four additional countries and stands ready to assist any inclusive and participatory civil–society effort to carry out challenges to structural adjustment programmes in other nations.

This initiative clearly coincides with the 10 commitments adopted at the Copenhagen Summit. Governments agreed at the Summit to «review the impact of structural adjustment programmes on social development» in order to ensure that «social development goals, in particular eradicating poverty, promoting full and productive employment, and enhancing social integration» be included in the SAPs already undertaken. To achieve these goals of poverty eradication and full employment, governments committed to assume a series of measures and initiatives that would place human development at the centre of the national policy agenda and, inter alia, reduce inequalities, give priority to the needs of the disadvantaged sectors of society (including improved access to productive resources) and allow for civil–society participation in social and economic policy and programme formulation.

The original NGO purpose in engaging the World Bank in the endeavour now known as SAPRI was to legitimise a role for civil society in the formulation of economic–reform programmes by demonstrating the contribution, in the form of local grassroots knowledge and experience, that organised civil society can provide to the economic review and decision–making processes. At the country level, citizens' groups saw a great opportunity to engage or strengthen their ties with their respective governments and, within the context of World Bank–endorsed exercises, convince them to respond in the first instance to the needs, priorities, experience, knowledge and analysis of their own people. Within SAPRI, the common objectives among civil society, governments and the Bank were to tap into local knowledge in order to make appropriate and necessary changes in existing economic programmes, as well as to learn how to include civil society in economic decision–making processes.

SAPRI's most important accomplishment in the initial phase, however, has been the impressive, and, in some instances, quite extraordinary, cross–sectoral mobilisation and organisation of civil society around the issues of economic policy–making. This mobilisation and organisation has become one of the major objectives of SAPRIN. Perhaps spurred by the lack of viable and reliable political mechanisms in their respective countries through which to participate in the important decisions which determine economic policy, civil–society organisers have utilised regional and sectoral meetings, the media, and the process of preparing public fora to mobilise dozens, and, in some countries, hundreds, of organisations from across a broad spectrum of social sectors. These alliances chose lead organisations, formed steering committees, selected priority adjustment issues, and engaged the Bank and government in National Steering Committees in preparation for a participatory review of adjustment polices using a methodology which includes a set of two public fora that bracket an eight–month period of innovative field research.

This article represents the analysis and perspectives of civil society, organized through SAPRIN, as presented in the initial national fora that were held in five countries during the second half of 1998. The other three opening SAPRI fora, as well as those associated with the exercises being launched in Mexico, the Philippines, Honduras and Canada, will be held in early 1999. To date, there has been a consistency among the exercises in terms of the policies selected for assessment and the citizen articulation of the effects of those policies.

For the purposes of this article, we have grouped the issues addressed into three major categories: privatisation of both the industrial and infrastructure sectors; liberalisation of trade, prices and the financial system; and fiscal policy reform, particularly the imposition of user fees. An assessment from El Salvador on the effects of the labour–market reform programme is also included. We have compiled this report directly from the presentations and discussions at each of the country fora. Keeping in mind the commitments from the Copenhagen Summit, emphasis is placed on the effect of adjustment policies on poverty, income distribution, basic services, and employment and workers' rights, as well as their impact on small–scale producers, women and disadvantaged groups.

The economic and social effects of these adjustment policies are extensive and are indicative of the civil–society critiques of similar policies across much of the rest of the world. Although it would be premature to draw definitive conclusions before the research phase of all the country exercises has been completed, it is possible to identify clear trends.

Under privatisation policies there has been an increase in unemployment and job insecurity, workers' rights have been weakened, regulatory efforts have been ineffectual, user costs have increased while service quality has declined, and service expansion has not met needs. In some cases, privatized industries have proven to be more inefficient than public enterprises. Liberalisation policies have had a significant negative impact on agricultural production and the rural sector, women, unskilled workers, and small and micro–enterprises, thereby exacerbating inequalities and leading to a further concentration of wealth. Local industry has suffered, and priority has not been given to reorienting and strengthening local productive capacity. Fiscal policy reform, in the form of public expenditure cuts and imposition of user fees, has led to reduced access by the poor and disadvantaged groups to quality health care, education and housing.

These effects–identified by SAPRIN–affiliated civil–society organisations in public fora held in Bangladesh, El Salvador, Ghana, Hungary, and Uganda–should raise concern, not only because of the hardships they represent for increasing numbers of poor and low–income people in many developing countries, but because they indicate a lack of progress in compliance with commitments made at the Copenhagen Summit. The following sections of this article briefly describe some of the effects of structural adjustment programmes in those five countries.

PRIVATISATION – OF INDUSTRY AND PUBLIC UTILITIES

Privatisation in Uganda has resulted in some 350,000 people being retrenched, a failure to increase industrial efficiency, and, with the private sector not expanding fast enough, a sharp increase in unemployment. Those laid off were not prepared for life in the private sector, as no training was provided. Some did not even receive severance packages, and for all those who did, the packages were too small, according to participants at the SAPRI forum. One result has been an increase in informal–sector activity. Meanwhile, among the employed, expatriates have received the higher–level jobs, leaving Ugandans with the low–level posts.

Civil–society representatives complained that the new owners of the privatised enterprises underpay their employees, offer no job security, and do not follow labour regulations. These participants pointed out that employers have defied the country's Constitution by not recognising trade unions and that any worker seen organising a union is fired. With the Ministry of Labour reduced to the status of a department, officials have been unable to do much, and the laws that protect the rights of workers are weak or non–existent.

Participants at the SAPRI forum argued that the very threat of unemployment has led workers to compromise their rights when employers do not follow the law. With the economic architects not wanting to slow down the process of privatisation, employers have proceeded to sweep aside trade unions. Payment of salaries is often late and, with no limit on overtime, employees are generally overworked, according to labour representatives. In addition, they explained that safety standards are low, with most privatised firms unwilling to adhere to safety regulations or to adequately invest in plant improvements.

In Bangladesh, forum participants noted that newly privatised firms experienced an increase in non–performing loans and defaults. Failure to assess the capacity of the local private sector, which in Bangladesh is highly underdeveloped, meant that many of the recently privatised industries have either shut down, are struggling, or grossly exploit labour. Privatisation in the jute sector was disastrous. Because jute represents the lifeblood of Bangladesh's industrial sector, demise of the jute sector has had negative ramifications throughout the entire economy. Privatisation of the sector led to a 50% decline in gross production. Most jute factories closed and 39,000 workers were laid off. Meanwhile, many of those who bought the jute mills at bargain prices are major loan defaulters.

Participants at the SAPRI forum partly blamed the World Bank for this mess since it had given incorrect advice, and said that the Bank should be held accountable when it provides faulty advice. In conclusion, participants felt that the economic reform process should be re–designed to boost indigenous–led industrialisation, since this could lead to industrial dynamism and higher employment. They also insisted that all stakeholders need to be involved in this process because one of the reasons for the failure of the past and current economic reforms has been the exclusion of workers from the decision–making process.

The privatisation process in Hungary is highly unpopular because of its negative impact on workers and on the value of firms. In 1994, only 35% of the population approved of the process. Between 1990 and 1996, 11% of state–owned firms (in terms of total equity capital) were liquidated, and another 20% of the value of the original equity capital was lost due to the privatisation process. As a result of privatisation, automation and the loss of the Soviet market, there has been a 30% reduction in the country's workforce, effected in part through early retirement. Romas, or gypsies, have been hurt the most, as they historically performed the dirtiest work at the lowest pay. They were forgotten during the privatisation process and were thrown back into hopelessness.

Participants at the SAPRI forum pointed out that many people have lost their jobs in the on–going process of infrastructure privatisation. Local governments are looking to privatise water and other utilities, but the experience in Budapest, where officials sold the water utility at 25% of its nominal value, does not inspire confidence in these plans. Furthermore, at the national level, it was charged that the government did not live up to the commitments it made to the unions. As a result, maintenance people have been laid off, thus also negatively affecting consumers, who have lost services.

The privatisation of electricity distribution in El Salvador has resulted in increased rates, reduced access for low–income people and a notable decline in the quality of service. A lack of transparency in bidding processes and an overall lack of regulation of the private sector providers has contributed to these negative results.

To pay for increased rates, families have been forced to cut back on other expenditures and ration their use of electricity. Women often bear the greatest burden of increased prices because they have greater domestic and child–rearing responsibilities, often in addition to paid work outside the home. In an effort to ration electricity use, many rural families are resorting to more traditional energy sources–especially collecting and burning wood–which contributes to deforestation and generates a significant additional workload (mostly for women). Children have also been negatively affected by price increases, since families have reduced their expenditures for education and recreation. In an effort to supplement family income, children are sent to work, contributing to an increase in child labour. The impact of price increases is also seen among micro and small enterprises, many of which have been forced to close down because they can no longer afford to pay their electricity bills.

Access to electricity has also been restricted. Participants at the SAPRI forum noted that low–income communities in rural areas have been hardest hit since the newly privatised electric companies do not see most rural areas as sufficiently profitable and therefore prefer to export power to neighbouring countries. Such a profit–driven mentality, forum participants argued, has overshadowed concerns about quality and expansion of services. As a result, the quality of service has dropped considerably. There are regular and prolonged blackouts in some areas, customer complaints are not addressed, customers are not provided with basic service and billing information, and overcharging is a common practice. Cases like the over–exploitation of geothermal energy in the town of Berlin and the massive deforestation caused by CLESA (a private electricity distributor) in Usulutan province were used to illustrate the need for environmental impact assessments to block the ecologically destructive activities of the electric companies.

LIBERALISATION POLICIES – IN THE AREAS OF TRADE, PRICES AND THE FINANCIAL SECTOR

In Uganda, Finance Ministry and other official representatives argued that the agricultural–sector liberalisation policy package–which included the elimination of price controls, the abolition of marketing boards, the reduction or removal of export taxes, the elimination of import controls, and the liberalisation of interest rates and the capital account–has led to a steady growth in agricultural output (in part through expansion of land under cultivation), including food production, as well as crop diversification and increased food security. They acknowledged, however, that the terms of trade for food producers had fallen, that there have been negative effects at the local, or household, level, and that poor rural physical and financial infrastructure has limited the presumed benefits of liberalisation.

Civil–society representatives pointed to other problems associated with the liberalisation of the sector. The government has not consulted local producers in the process of policy formulation, and has instead imposed policies that do not address micro–level dynamics. With the elimination of government extension programmes, farmers have been left ignorant of current world trends and prices for crops, and thus are vulnerable to exploitation by middlemen. This problem is exacerbated by the displacement of small–scale traders, which is reducing competition in the sector. In addition, with the liberalisation of input markets, private traders now play the role of extension workers, advising on the farming methods such as the use of chemicals. There have been disastrous consequences, pointing to a need for a programme to promote organic fertilisers and sustainable farming methods.

Liberalisation has not turned the terms of trade in favour of agriculture, and relative prices have not improved for producers in spite of increases in farm–gate prices. Instead, agriculture and rural production are heavily taxed through high transport prices, due in part to impassable roads. Petty trading has become a more profitable pursuit, with transport owners profiting from a retail price mark–up in the capital, Kampala, which can reach ten times the farm–gate price. Reduced profitability for agricultural producers contributes in large part to the very high poverty level in villages. As a result, participants in the SAPRI forum said, liberalisation is benefiting urban dwellers but not farmers.

Meanwhile, indigenous subsistence crops, such as millet, are disappearing because of the desire, it was explained, to produce cash crops such as bananas and maize. As a result, despite the government's view that there is an abundance of food, malnutrition is increasing in Uganda, according to civil–society participants. Furthermore, since women continue to produce the lower–income crops, it was argued that liberalisation and privatisation have benefited men more than women.

As far as the small and medium–scale industrial sectors are concerned, it was felt that liberalisation may be destroying local manufacturing, textiles being a case in point. High interest rates have discouraged small–scale enterprises, and stipulations in the investment code, it was argued, also effectively exclude local entrepreneurs. Finally, liberalisation policies have not been supported by other necessary programmes, such as skills training.

Small and medium–sized enterprises involved in production and retail services in Hungary have been badly hit, and many eliminated, by that country's open–trade policy. Civil–society participants at the SAPRI forum argued that these firms, which employ about 70% of all Hungarian workers, deserve, but have not received, special consideration. The retail–trade sector, in particular, suffered a crisis with the arrival of supermarket chains, often from abroad. Without forward linkages to Hungarian outlets, it was explained, food production is also being destroyed. The entry of supermarket chains and cheap goods from abroad, facilitated by the privatisation process, has distorted national consumption away from local products, like milk, that are of high quality in Hungary.

The plight of small producers has been greatly exacerbated, participants explained, by the growth of unemployment and poverty and the reduction in effective demand. Under liberalisation, not only has supply dropped considerably, but domestic demand fell about 15% from 1989 to 1994, with per capita food consumption down sharply. This drop in consumption, disposable income and domestic demand is explained by the fact that some 1.5 million Hungarians have lost their jobs, minimum salaries are being taxed, and utility rates, pharmaceutical costs, school–related expenses and other household expenditures are all substantially higher because of the country's budget cuts resulting from fiscal policy reform. People were unprepared for the high unemployment caused by the reforms, and the country is badly in need of a real social policy, it was argued, but little is being done about the growing impoverishment of a significant segment of the population.

An estimated 80% of Bangladesh's population makes a living from agriculture, making this sector extremely important to any discussion of national development. Participants at the SAPRI forum expressed their concerns over the fact that liberalisation measures included in the structural adjustment programme had resulted in a disproportionately high increase in the price of inputs (including fertilisers and other import–dependent inputs such as seeds and irrigation), while agricultural product prices have stagnated. The Agriculture Minister acknowledged that the sector had been neglected as a result of the SAP and that privatisation of the fertiliser sector had led to adulteration and cheating and placed the government in the position of having to protect corrupt business people from attack by angry farmers whose crops had failed. Civil–society participants noted the polarisation and pauperisation of the peasantry as a result of the SAP and emphasized the devastating impact of the withdrawal of subsidies for the poor.

Civil–society participants at the forum in Ghana noted that under the country's SAP there has been a shift in agricultural production, with more land and resources devoted to export crops and less to domestic food production. This has led to a decline in domestic food production, reduced food security for the poor, lower agricultural investment, and increasing income disparities between export and domestic food producers, exacerbating inequalities. The removal of subsidies and cutbacks in social services have had different impacts on women and men. Women, who produce 60% of food, have suffered disproportionately from the elimination of subsidies, the drying up of credit and the surge of food imports as a result of trade liberalisation.

The flood of cheap imports along with higher input prices (resulting from the removal of subsidies) have harmed local food producers. These measures, together with high interest rates and the privatisation of the agricultural development bank, have contributed to a substantial reduction in agricultural investment, leading to declining productivity among food producers. In addition, devaluation and domestic inflation have led to higher food prices, which have not been matched by similar increases in wages. For those who still have jobs, real wages have not yet regained their 1970–74 levels. And, with increasing layoffs, the one–third of rural households which are net consumers of food are getting poorer and hungrier.

In El Salvador, the SAPRI forum addressed the issue of liberalisation of the financial system and its impact on access to credit by micro and small enterprises. It was agreed that financial sector liberalisation has led to increased intermediation costs and a reduction in credit for small and micro–enterprises, which is contributing to a concentration of wealth.

Since the structural adjustment programme was initiated, active interest rates (charged on loans) have gone way up, while passive rates (given on savings) have declined. There is also a problem with special «moratorium» rates, which are imposed on overdue loans, and the practice of charging interest on the interest on loans. This has forced many businesses into bankruptcy as their debt spirals out of control. Another result of liberalising the financial system has been the concentration of credit in the commercial and service sectors, which now get favourable treatment from financial institutions. Very little credit is channelled to strategic, although less directly profitable, sectors such as agriculture (along with other rural enterprises) and infrastructure, and the role of development banks and agencies that support these and certain industrial sectors has been considerably weakened.

Participants at the SAPRI forum argued that since the structural adjustment programme was introduced more collateral is required to receive credit, and long–term loans are harder to obtain for small–scale enterprises. For example, artisans have serious difficulties in accessing credit, even when they present national and international purchase contracts, because the banks refuse to recognise these contracts as collateral. Women also have a harder time getting credit because of the strict requirements set by banks. The financial system offers no special programmes for small–scale or women–owned enterprises, further contributing to the concentration of credit in the hands of a small number of already favoured businesses and economic sectors.

LABOUR MARKET REFORM – INCREASED FLEXIBILITY FOR EMPLOYERS AT WORKERS' EXPENSE

The policy of introducing more flexibility into the labour market in El Salvador has had a number of negative consequences for workers and their families. The policy encourages increased use of temporary, part–time workers, which has made employment more unstable. Work hours have also become more «flexible», often leading to longer work days with no overtime pay. A recurring problem, according to forum participants, is the firing of union workers and their replacement soon after with non–union employees. In the countryside, there is an increasing reliance on temporary day labourers, creating greater instability for rural families. In response, family members are migrating in larger numbers to already overcrowded urban areas, exacerbating social and environmental problems. It was pointed out that women are usually the greatest victims of labour violations after migration since they are forced to work in maquila assembly plants or as domestic workers, where even basic labour laws are often unenforced.

The policy of liberalising wages has resulted in declining purchasing power. There were numerous complaints among forum participants that companies, taking advantage of the abundance of manual labour, do not comply with minimum wage laws. What's more, increased efficiency and productivity is rarely rewarded with higher wages. Low salaries and long work days are having a harmful effect on workers' health and nutrition and making it increasingly difficult for workers to find affordable housing. More and more children are now entering the labour force in an effort to supplement declining family incomes. These children are usually forced to drop out of school to take jobs that pay «apprentice» salaries far below the minimum wage, although their duties are similar to those of regular, adult employees.

FISCAL POLICY – USER FEES AND PUBLIC EXPENDITURE CUTS IN EDUCATION AND HEALTH CARE

Civil–society participants in the SAPRI forum in Uganda indicated that cost–sharing policies for service provision represents a major problem, rendering hospitals and institutes of higher education too costly for the poor. People testified that those who cannot pay for critical health care simply die. Cost–sharing is also poorly administered in the hospitals. In areas where people are unable to pay, local hospitals are closed down. It was also pointed out that low morale exists among civil servants due to the absence of a living wage, job insecurity and freezes on salaries and wages. Current budget ceilings also constrain the ability to respond to the need to improve poor quality services.

Social expenditures in Hungary fell, as did their real value, through 1996. With social services cut, more family needs have had to be covered by household funds. At the same time, however, incomes decreased and some 70% of the Hungarian people lost at least 40% of their real wages. Many are now spending as much as 80% of their income on rent. Some households went «bankrupt» as their incomes fell, many people are living off their assets or savings, and many pensioners have been forced out of their homes.

Public expenditure cuts have had additional and far–reaching negative effects in specific areas of activity, including housing, education and health. Low–cost housing loans have been eliminated, constraining housing construction despite population pressures. In the area of social services, cuts in education spending radically reduced teachers' salaries by 40% from 1992 to 1997 and 8,000 employees were dismissed, undermining the viability of the education system. Public expenditure on health–care has been reduced to a ranking of 21 out of the 26 Hungarian budget sectors, meaning, among other things, that there is a huge problem due to reliance on out–dated equipment. Finally, public–sector lay–offs are sharply increasing unemployment among women, many of whom have been unable to find their way back into the labour market, according to forum participants.

In Bangladesh, the SAPRI forum presented a summary of the key issues that had emerged from regional and focus group consultations. These issues included: cutbacks in public services in the social sector; increased income inequality; and reduced access by poor and vulnerable groups to health and education as a result of a greater emphasis on private providers and increased user fees.

Civil–society participants in the forum in Ghana noted that the overall quality of the country's educational system has declined since the onset of the adjustment programme. The imposition of user fees has led to reduced enrollment rates, particularly in rural areas. There is a 40% drop–out rate in primary school, while total enrollment at the tertiary level is under 50,000. Many children have been pulled out of school to contribute to family income, leading to concerns that by the year 2020 Ghana's population will be largely illiterate. In addition, user fees have led to even greater inequalities both between and within communities, as the better–off increase their educational levels and the poor fall even farther behind. Those families who do manage to scrape together the money to pay the fees find that they have to cut back on essential household expenditures.

Retrenchment in the civil service and a decline in the real wages of teachers have led to higher student–teacher ratios. Reforms did not address the difficult working conditions teachers face, which have led to declining morale. Meanwhile, budget cuts have caused widespread shortages of textbooks. These factors, combined with the imposition of user fees, have led to an erosion of confidence in the public school system, causing those parents who can afford it to send their children to private schools, further undermining the viability of the public school system. The impact of these policies is often more severe for women and girls. A government representative acknowledged that because women are the poorest of poor, SAP policies have contributed to reduced education for girls and increased their poverty, often driving them to prostitution.

While funding for health care increased in the early years of the SAP, it has since declined. According to the civil–society participants, most of the country's improvements in life expectancy and infant mortality can be attributed to programmes and policies promoted by UNICEF and WHO. The quality of health care has also been undermined by retrenchment. There are large discrepancies in the quality of care between rural and urban areas, as well as a large north–south divide. Access to services is still limited. Meanwhile, cost–recovery measures in the health–care sector were implemented at a time when many people had been laid off and income levels were extremely low. The introduction of user fees has thus led to reductions in outpatient attendance by up to 33%, particularly in rural areas. Many poor people are turned away for lack of funds. The payment arrangements are cumbersome, too much staff time is devoted to collecting fees, and the funds that are collected are often misused. The poor are simply being priced out of hospital care, and a two–tiered health–care system now exists, with better facilities for those who can afford to pay. Once again, women often bear the brunt of these policies. According to official surveys, poor women access government services and subsidies much less, and the official social safety net has not helped change this situation. A government representative stated that the effects of the adjustment programme have rekindled the need for social equity to be a key part of health care policy. No one should be denied health services because of their inability to pay.

NEXT STEPS

As public fora are held during the first quarter of 1999 in Ecuador, Mali and Zimbabwe, participatory field research that looks into the «hows» and «whys» of adjustment impacts is being conducted in the other five SAPRI countries. At the end of the year, research and fora findings will be presented to a second set of national gatherings. It is expected that findings backed by strong evidence will lead to changes in both the content and process of economic programming at the national level, as well as in the degree of flexibility that the World Bank allows governments so that the latter can fulfill their commitments to greater economic justice made to their respective citizens, including those made at the Copenhagen and Bejing Summits. Meanwhile, SAPRIN will support the search for better economic alternatives in countries around the globe.

- The Structural Adjustment Participatory Review International Network, SAPRIN, is working with citizens' groups worldwide to organize public processes to determine the real impact of World Bank– and IMF–supported economic–reform programs and to chart a new course for the future. The SAPRIN Steering Committee is comprised by representatives of 23 organisations and coalitions, two–thirds of which are from the South. Daily management authority is delegated to an Executive Committee, three Regional Centres (El Salvador, Ghana and Thailand) and a coordinating Secretariat based in Washington.