Making Adjustment Work for the Poor
Tony Killick

This series of Poverty Briefings aims to provide up-to-date insights on the issue of poverty, including the state of current understanding or opinion. Each paper covers new as well as old thinking on the issue, areas of debate, new approaches which are being tried, the options available, and the recent findings of research and experience.

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The picture in brief

Many developing countries are engaged in structural adjustment programmes (SAPs) sponsored by the IMF and World Bank. Evidence about the effects of these programmes on poverty remains tentative but it suggests:

- SAPs have revealed little ability to reduce poverty by accelerating growth, partly because of extensive slippage in implementation.
- SAPs have often been associated with growing inequalities or have been unable to prevent them. Most measures have impinged particularly adversely on the urban working poor, but devaluation, import liberalisation and export promotion measures have benefited a number of poor groups.
- Programmes are somewhat peripheral to the causes of poverty and are therefore unlikely to make a large impact in either direction. They do try to tackle some sources of low incomes and to stimulate job-creation, but results have been disappointing.
- SAPs have not made a decisive difference to social service provision, which has generally been among the more protected categories of government spending. However, there is little evidence of a shift in the composition of such spending towards primary level services which are more beneficial to the poor.
- Safety nets – intended to protect retrenched civil servants and other vulnerable groups – have had an improving record but are subject to severe limitations.
- Political realities usually do not favour the poor and many governments have proved reluctant to give high priority to poverty reduction. Policies based on the existing distribution of power often cannot easily be changed because those who benefit are often influential enough to block reform.

Overall, the strongest criticisms that SAPs cause poverty are not born out, and concern about poverty effects is not a sufficient reason for deferring adjustment. But SAPs have done avoidable harm and could made be more pro-poor.

Some challenges

- SAPs should be designed to minimise the costs and maximise the benefits to poor groups and pro-poor measures should be integral to the design of programmes. Particular care is needed when changing government spending patterns and with other fiscal measures. Safety nets should be improved particularly in the participation of, and accessibility to, poor groups.
- Even the most poverty-sensitive SAPs cannot be more than a modest part of an attack on poverty. The causes of poverty are better treated if governments adopt comprehensive longer-term anti poverty strategies rather than concentrating on improving SAP design. The need is for positive rather than ameliorative measures; improving rural infrastructure, providing better primary health and education services and treated water etc.
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Have SAPs caused poverty? or decrease in poverty?

around two questions: detriments that differ across groups. Note, however, that and price-raising effects, giving rise to net benefits or and benefit others. Often, measures have both income-raising of a devaluation. Most measures stand to harm some groups and benefit others. Often, measures have both income-raising and benefit others. Often, measures have both income-raising and price-raising effects, giving rise to net benefits or detriments that differ across groups. Note, however, that rural communities, changes in rural policies are likely to be major differences in impact as between urban and rural liable to be differences in impact on those who are net buyers of the currency depreciation, while the effect on rural food-poor are likely to suffer because of the inflationary effects and the urban unemployed. Against this, the urban working prices. It may also increase the prospects for employment in poor farmers producing cash crops, who will enjoy higher the effects of a devaluation. This can be expected to benefit according to the ways in which they fit into the economy class of 'the poor' and poverty groups must be defined particularly strong influences. A further complication is that IMF programmes exert restraint on domestic credit, although they do strongly influence exchange rates. There is also quite a strong association with reform of other price variables, such as interest rates. But SAPs have much greater difficulty in influencing institutional change, e.g. financial sector reforms and privatisation programmes.

Distribution effects have been obscure: Changes in income poverty can be broken down into changes resulting from the growth of incomes and from changes in the distribution of incomes. The evidence suggests that growth effects generally dominate but also that the responsiveness of poverty to economic growth is adversely influenced by the extent of inequality at the beginning. Unfortunately, there is little convincing evidence that they have. Neither the IMF nor the World Bank have been able to demonstrate a convincing connection, in either direction, between SAPs and economic growth; most independent research similarly does not find a systematic connection. On this evidence, SAPs have little effect on poverty by stimulating growth - or by holding it back

This conclusion needs to be qualified, though, for there is evidence of positive association between SAP implementation and economic outcomes well executed programmes are associated with faster growth. Implementation is often weak, however. One symptom of this is that SAPs have high mortality or interruption rates. Well over half of IMF programmes break down before the end of their intended life and, on average, Bank programmes take twice as long to complete as intended. Both shortcomings are largely due to non-implementation of policy conditions.

A further symptom of poor implementation is that programmes have only modest impact on key policy variables, even less on institutions. There is little evidence that IMF programmes exert restraint on domestic credit, although they do strongly influence exchange rates. There is also quite a strong association with reform of other price variables, such as interest rates. But SAPs have much greater difficulty in influencing institutional change, e.g. financial sector reforms and privatisation programmes.

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Incomes and productivities: Since economic growth is the dominant influence, poverty should be seen as resulting from inadequate incomes and productivities, particularly in agriculture and other rural activities and in the urban informal sector. The poor have inadequate access to educational and other services, leaving them with few modern skills. Largely as a result, the assets of the poor have low productivities, reflecting weak ability to participate in modern production processes and little access to formal sector credit.

Socio-political factors: Economic dependency is a factor perpetuating poverty, i.e. a concentration of the un- and under-employed in poverty households, and exceptionally large family sizes resulting in heavy child dependency. Political fragmentation and civil strife are other potent forces. There is also the issue of power. The poor have little market power and this, in combination with often undemocratic political structures, feeds into weak political power. Additionally, political traditions are often top-down, excluding participation of the poor even in programmes intended to assist them.

Inequality: For a given total national income the amount of poverty will be a rising function of the degree of inequality. Inequality is typically large in many African and Latin American countries, with a more mixed picture in Asia. Capital-intensive growth, with a weak growth in job-creation, perpetuates poverty because access to jobs is of enormous importance to the poor, as a direct source of income and as the basis for the urban-to-rural remittances which are so important to many poor rural households.

Inequalities within households are a further aspect. These often disadvantage women, who frequently have fewer rights to productive resources and household income, are expected to shoulder a disproportionate share of housekeeping and child care, have poorer diets, suffer from greater insecurity, and often have an inferior say in household decision-making. In consequence, the gender dimension of poverty is now universally accepted as requiring special attention.

Have SAPs protected the poor?

There are two chief aspects to look at here: (a) the ways in which the composition of government spending has been changed by the introduction of SAPs, particularly the social services, and (b) the effectiveness of ‘safety-net’ provisions designed to alleviate programmes’ possible poverty-worsening effects.

SAPs have not made a decisive difference to social spending: To summarise drastically, research on the effects of SAPs on state spending points to the following conclusions:

- The interest cost of servicing public debt, domestic and external, has been rising in many countries, placing a squeeze on non-debt spending.
- When faced with the necessity to cut (non-debt) spending, governments generally try to protect social spending, with the heaviest cuts falling on capital budgets and economic services, so that social spending actually tends to claim a rising share of total non-debt spending.
- This relative protection has not prevented large absolute declines in social service provision in some (especially African) countries. This has often been worsened by a deteriorating quality of services (schools without books, clinics without medicines...). However, IMF data show increasing real per capita social spending in its programme...
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Poverty reduction policies... of the poor is not a good reason for rejecting adjustment, more could be done to reduce programmes' ill-effects on vulnerable people. Some principles of policy are suggested:
- SAPs should be consciously designed so as to minimise the costs and maximise the benefits to poor groups – a principle that the IMF, in particular, has never accepted – and pro-poor measures should be integral to the design of programmes. Particular care should be taken with measures changing government spending patterns, and with other fiscal measures.
- Positive measures are better than ameliorative responses: strengthening the rural infrastructure, provision of primary health and education, and of treated water. Export promotion also has a good pro-poor record.
- Safety net provisions should continue to be improved in the light of emerging experience, particularly to improve participation of, and accessibility to, targeted groups.

Lastly, it is important to appreciate that even the most poverty-sensitive SAPs cannot be more than a peripheral part of an attack on poverty and that the cause of poverty reduction is not best served by excessive concentration on improving their design. What is needed most of all is for adjusting governments also to adopt comprehensive anti-poverty strategies, of which SAP measures can then form part.

References
This paper is based on Killick, T (forthcoming) Adjustment, income distribution and poverty in Africa: a research guide. Nairobi: African Economic Research Consortium. It provides full citations for the studies referred to. Mimeographed copies are available from ODI (£2.00). Other recommended readings include:

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