

# Background Paper

Exploring the role of structural  
adjustment in alleviating poverty  
in Pakistan

## **Abstract**

While the structural adjustment approach has been guiding the orientation of International Financial Institutions (IFIs), namely the International Monetary Institute and the World Bank's, approaches to poverty reduction in much of the developing world, the evidence that it actually brings about poverty reduction remains controversial. Such debate provides the premise for this background paper which will examine the specific relationship between the structural adjustment mechanism and poverty alleviation.

Since IFIs use structural adjustment in most parts of the 'developing' world, this paper begins by examining the literature more generally to see how this mechanism has been used by the IFIs to address the problem of poverty in an international context. Then a conceptual background for the case study is provided to introduce the history of structural adjustment in Pakistan. In particular, the ways in which the mechanism has proposed to deal with the prevailing poverty in the country will be identified. Governmental approaches to poverty alleviation before the introduction of structural adjustment in Pakistan will be mentioned to accentuate the IFI influence in dealing with this problem.

Thereafter, the background paper considers the implementation hurdles, accomplishments, failures and tensions in the ongoing implementation of structural adjustment leading up to formulation of the Pakistan Government's Poverty Reduction Strategy Paper. The paper concludes by highlighting the need for infusing participation within the IFIs approach towards poverty alleviation in developing countries like Pakistan.

## 1. Introduction

The International Financial Institutions (IFIs) - specifically the World Bank (WB) and the International Monetary Fund (IMF) - have great influence in formulating and funding poverty reduction efforts across the world. The WB articulates its priorities in this regard as follow:

The primary focus of the World Bank is on helping the poorest people and the poorest countries. It uses its financial resources, its staff, and extensive experience to help developing countries reduce poverty, increase economic growth, and improve their quality of life (WB, 2000c, 1)

IFIs use a mechanism called structural adjustment to introduce policy and institutional reforms in poor countries which are recipients of their loans. Introduced in 1980, structural adjustment quickly became a vital development instrument of the IFIs. According to WB records, 144 adjustment lending operations were undertaken in 53 poor countries between 1980 and 1993 (WB, 2000a).

Structural adjustment lending specifically finance major macroeconomic and structural policies and programmes that cut across sectors, and deals with issues concerning trade, resource mobilization, public sector management and private sector development (WB 2001d). While adjustment lending has been in use since the 1980s, the IFI management recently replaced the term 'adjustment lending' with 'development policy support lending' to signal the eventual shift of structural adjustment from a short-term macroeconomic focus to a longer-term developmental and institutional focus (WB, 2002c, 9). This led to introduction of Poverty Reduction Strategy Papers (PRSPs) by the IFIs in September 1999. PRSPs are proposed to go beyond the structural adjustment approach to further accentuate the IFI focus on poverty reduction (This paper will however use the term structural adjustment to refer to all IFI policy-based lending operations since 1980).

The structural adjustment mechanism has focused on restructuring the economies of poor countries in an attempt to facilitate sustainable growth and help them rise out of poverty. Initially, IFIs used structural adjustment to facilitate growth-led development strategies for poverty alleviation, but this approach faced a barrage of criticism for aggravating impoverishment. The reforms accompanying structural adjustment loans have adverse effects on the lives and livelihoods of the poor, but such reforms have been considered necessary to ensure long term growth of poor countries. Structural reforms have also been supplemented by design of specific measures known as social safety nets. In addition, the IFIs have begun advocating the promotion of institutional

reforms to manage the human and natural resources available for productive use so as to raise the productivity of these resources (WB, 2001g). While the IFIs propose intricate nuances of using an increasingly 'pro-poor' approach to achieving growth, there is a range of criticism concerning the contradictions and inadequacies of IFI precepts in dealing with the persisting levels of poverty. The main aim of this paper is to identify the salient features of these contending arguments concerning the role of structural adjustment in poverty alleviation and to relate the implications of implementing this approach to their consequent results on the ground.

While the structural adjustment approach has been guiding the orientation of IFIs to poverty reduction in much of the developing world, the evidence that it actually brings about poverty reduction remains controversial. Such debate forms the backdrop for this paper. The paper proposes to examine the specific relationship between the structural adjustment mechanism and poverty in Pakistan leading to overall reflection on the suitability of this mechanism as a means to reduce chronic and widespread poverty. Pakistan provides a particularly interesting case study for considering this relationship between structural adjustment and poverty due to the high incidence of poverty prevailing in the country and the chequered history of measures guided by structural adjustment to address this problem.

IFIs use structural adjustment not only in Pakistan but in most parts of the 'developing' world. This therefore begins by examining the literature more generally to see how this mechanism has been used by the IFIs to address the problem of poverty in an international context. Then a conceptual background for the case study will be provided to introduce the history of structural adjustment in Pakistan. In particular, the ways in which the mechanism has proposed to deal with the prevailing poverty in the country will be identified. Government approaches to poverty alleviation before the introduction of structural adjustment in Pakistan will be mentioned to accentuate the IFI influence in dealing with this problem. This background section will incorporate a diverse range of perspectives concerning the use of the mechanism in Pakistan's specific socio-economic and political environment.

Before analysing the Pakistan-specific experience of structural adjustment, the approach undertaken for doing so, including its constraints, will be explained. Thereafter, the paper will commence by considering the implementation hurdles, accomplishments, failures and tensions in the ongoing implementation of structural adjustment leading up to formulation of the Pakistan Government's Poverty Reduction Strategy Paper in 2003. Based on an assessment of the Pakistani experience, conclusions about the accuracy and/or appropriateness of using the mechanism for poverty alleviation will be offered.

The crux of the controversies surrounding the use of structural adjustment is whether the underlying assumptions guiding this mechanism in fact represent the most feasible means by which developing countries can achieve sustainable and pro-poor growth. Assessing credibility in this sense is not a straightforward task because, according to the IFIs themselves, the reforms initiated by the mechanism keep evolving and are moreover are not consistently applied. Conversely, critics blame the mechanism for its intrinsic inability to live up to the pro-poor rhetoric that it employs. Discerning the essential imperatives of structural adjustment and their translation into policies, practice and effects in terms of poverty reduction thus becomes the main issue for this paper.

## **1.1 Methodological Approach**

Given the multifaceted nature of poverty it is difficult to attribute outcomes to specific operations, including adjustment lending. Therefore ascertaining the impacts of structural adjustment on poverty is by no means a straightforward task. In approaching such a topic, it is vital to utilize diverse opinions and sources of data. The juxtaposition of perceptions of different stakeholders is vital to the objectivity of the analysis. These varied viewpoints also require comparison with the concrete conditions on the ground, so as to enable informed analysis of what remains a controversial topic.

The aim of this paper is to ascertain the role of structural adjustment in reducing poverty in Pakistan. This implies examination of the impact of structural adjustment - in isolation from other concurrent initiatives - in alleviating poverty within the country. For this purpose, a literature review has been conducted to identify a comprehensive range of poverty specific implications associated with this mechanism, not only in Pakistan itself but across much of the developing world. Alongside a review of IFI policies under structural adjustment, attention has been paid to the theoretical underpinning of the mechanism itself, particularly how it influences the IFI approach to poverty. IMF and World Bank operations as documented by an array of working papers, policy and project documents and other publications, have been analysed to ascertain the essential features of the IFI approach to poverty alleviation. However, this paper is not confined to analysis of the institutional perspective of the IFIs. It has made use of viewpoints of other relevant stakeholders in order to compare and contrast stated IFI positions on the mechanism as well as its role in poverty alleviation. This has involved a review of secondary sources such as academic journals and books dealing with the subject of poverty and the IFIs.

Sections 3 and 4 of this paper deal with the case study and the sources of information used in these sections are mostly Pakistan specific, be they IFI or GoP documentation or other secondary sources including academic and NGO publications. Section 4 in particular considers the implementation and effects of

the following poverty-focused programs guided and supported by the mechanism: (i) Social Action Plan Pakistan (SAPP) I and II, and (ii) I-PRSP and the Final PRSP of Pakistan.

To ensure validity of data, the empirical sections in this paper rely on a mix of authoritative sources including GoP, IFI, UN sources or the findings of researchers well established in their disciplines. NGO sources are used to not only attest local reactions to the mechanism but also to verify claims made on their behalf by the GoP or the IFIs, specifically in the context of participation and consultation with civil society in recent poverty alleviation attempts. Opinion pieces in newspapers are used as a source of information, but to convey a sense of popular opinion, rather than as sources of statistical data.

Although, this methodological approach does not imply use of primary data, the diverse collation of perspectives concerning structural adjustment and the problem of poverty reduction in Pakistan and their subsequent analysis, will lead to well informed conclusions concerning this topic.

### **1.3 Constraints**

There are some constraints faced in the conduct of this study which are intrinsic to the nature of the material. A theoretical study of this kind will always confront the problem of isolating the effects of structural adjustment from the complex reality of poverty on the ground. Instead of attempting to devise an independent approach to resolving this issue, this paper has instead relied on results of other studies (in certain instances mentioning how they were undertaken) and focused on providing a comprehensive cross-comparison of these findings concerning structural adjustment impacts on poverty.

As for methodological limitations, the paper relies on qualitative rather than quantitative methods. Although statistical data has been used to augment and illustrate qualitative arguments it has been gathered from secondary sources. Similarly, information on the mechanism, its implementation and impact on poverty in Pakistan has similarly been obtained through secondary sources rather than through field research soliciting first hand information from policy makers and implementers. However an effort has been made to utilise a broad range of views that have in turn been compared and contrasted to enable in-depth analysis.

## **2. Structural adjustment and poverty alleviation**

Structural adjustment guided by neo-liberal assumptions remains an important instrument used by the IFIs for dealing with poor countries. This section begins by highlighting the mutually reinforcing relationship between structural adjustment and neo-liberalism; one that identifies neo-liberal influences on structural adjustment while at the same time illustrates how structural adjustment itself perpetuates the neo-liberal paradigm in the developing world as the means to achieve growth and alleviate poverty. Focusing on neo-liberalism is important because it has influenced the IFIs' notion of how development should occur and also led to the adoption of the structural adjustment mechanism as a means to promote this kind of development. The review will conclude by considering a range of impacts of this subsequent approach on vital aspects of poverty.

### **2.1 Neo-Liberalism, IFIs and structural adjustment**

Neo-liberal theory considers market forces guided by competition within and between states as the most effective means for achieving economic growth (Krueger, 1997). The failure of state structured economic action to secure long-term economic growth had led to the neo-liberalist ascendancy by the 1970s. Economists of the prominent 'Chicago School' utilized neo-liberal assumptions concerning the efficiency of the market mechanism to argue against the interventionist role of the state in economics (Commack, 1998). Ultimately it was propagation of the market mechanism to as many areas of social and economic existence and interaction as possible that has become the defining feature of neo-liberalism (Andesine, 2002).

The global recession and mounting debt crisis of the late 1970's in much of the developing world caused an increased reliance on IFI assistance. Increasingly, the deterioration of economic conditions in developing countries led to the use of structural adjustment as the means for achieving development goals. It was neo-liberalism that provided the justification for the restructuring of 'developing' nation economies to promote growth. Acceptance of this approach to development, in turn became, a precondition in order to receive IFI support (Bull, 2002).

The endorsement of the neo-liberal approach by the IFIs is widely known as the 'Washington Consensus' (George & Isabella, 1994; Ones, 1995; Stilts, 1998). Williamson (1994) identified the following list of essential principles of the Washington Consensus which are tied to neo-liberal influenced IFI policy reforms:

1. Fiscal Discipline

2. Redirection of public expenditure priorities towards health, education and infrastructure
3. Tax reforms, including the broadening of the tax base
4. Unified and competitive exchange rates
5. Secure property rights
6. Deregulation
7. Trade liberalisation
8. Privatisation
9. Elimination of Barriers to Foreign Direct Investment
10. Financial Liberalisation

The adherence to the 'Washington Consensus' by the Ibis has implied overt emphasis on the above set of policies to promote growth. Privatization, for example, is meant to remove industrial ownership by the state, with the goal of providing better management to privatised firms and of strengthening the market by removing unfair competition that is a financial burden for the state. Reform of the tax system aims to bolster the economy by creating or strengthening incentives for investment and marketisation and implies introduction of the market into the public sector; for example in education, health care and housing (Strum, 1998). Based on the assumption that both developed and developing countries would potentially benefit by focusing on production and export of goods in which they have an existing advantage, protectionist tendencies of the state are strongly discouraged and liberalisation of the trade regime is considered a win-win situation for both exporting and importing countries (Colclough, 1991; Riain, 2000). The IFI focus on these neo-liberal economic policies has been reiterated in the structural adjustment mechanism and furthermore considered vital to reducing budget deficits and achieving economic growth. The Operational Direction 8.60 of the WB states that "stabilization, structural adjustment, and growth go hand in hand" (WB, 1992, 1).

With a shared belief in the neo-liberal approach, the ensuing delineation of responsibilities between the IFIs has inclined the IMF towards provision of short term assistance to address recipient government balance of payments difficulties through stabilization loans, whereas the WB focuses on longer term corrections of the economy through structural adjustment loans (Partick, 1999; WB, 2001e). However, there are evident institutional complementarities between the IFIs that enable them to place mutual emphasis on stabilization and structural aspects of reforms to their borrower countries (Patrick, 1999; Grasco *et al*, 2003). The increasingly integration between the IFIs has been made explicit in the *Comprehensive Development Framework Approach* formulated in 2001 to "strengthen the collaboration of WB and IMF staff on country programs and conditionality for policy-based lending" (WB, 2001c, 2). The WB describes conditionality as follows:



Conditionality should be understood as a credible indicator of commitment by the Bank and its partners to support a mutually agreed reform process, not an attempt to force externally designed policy changes on unwilling governments' (WB, 2001c, 9).

IFI economists and management justify the need for conditionalities associated with adjustment lending, by maintaining that it stabilises the economy by reducing government expenditures and increasing its revenue (WB, 2001f; 2001g; Grasco *et al*, 2003). A host of fiscal and monetary reforms are thus encouraged alongside the proscribed neo-liberal reliance on market mechanisms to enable resources to be allocated more efficiently, so as to accelerate growth.

The manner in which neo-liberal assumptions have become the precondition for initiating IFI development policy dialogue has raised several objections. Neo-liberalism in this view is described as an ongoing political project explicitly and implicitly concerned with normalizing and naturalizing conditions such as free trade, flexible labor, public-sector austerity, and low inflation (Peet & Hartwick, 2000). Other authors with similar opinions point out that neo-liberalism is not an inevitable result of global economic circumstances, but rather a strategic inculcation of an economic ideology from the more 'developed' to 'developing' countries, one that cedes government control over macroeconomic policies to the IFIs (Onis, 1995; Gill, 1999; Peck, 2001). Any negotiations between IFI and recipient countries are considered limited in scope, since neo-liberal assumptions implicit in conditionalities of IFI assistance are not up for debate.

The extent to which reform processes associated with IFI conditionalities are considered negotiable is polarized by its contestations. These polarizations will be analysed further in Section 5, with particular reference to the experience of Pakistan.

## **2.2 Poverty and the IFIs**

'The ultimate objective of adjustment lending, as of all Bank support, is to reduce poverty' (WB, 2001b, 13). To measure poverty, the WB has devised income based poverty lines and has set the international poverty line standard at US \$1 per day measured in 1985 international prices and adjusted to local currency using purchasing power parities (WB, 2000c). According to this estimate, 1.2 billion people in the world lived on less than US \$1 a day in 1999. Forty four percent of these 1.2 billion people, living on less than US \$1 a day, were South Asians (WB, 2001f, 3).

The idea of stimulating economic growth in order to alleviate poverty has been a standard argument of the IFIs (Dollar & Collier, 2001; WB, 2001e; 2001g;

Milanovic, 2002). More recently, however, direct pro-poor benefits of economic growth are being stressed by IFIs, again predicated on the neo-liberal belief that poverty reduction can best be realized in well-functioning private market economies that are open to trade and investment (Dollar & Kray, 2001).

However, diverse voices have raised concern about the implausibility of IFI claims that increased openness of economies benefits the poor. The IMF has been directly blamed for causing the 1997 East Asian financial crisis by pressuring openness of local financial markets to large inflows of private investment that flowed out rapidly, causing in its wake currency collapses and financial panics that threw the whole region into a downward spiral (Sen, 1999; Wiesbrot *et al*, 2000; Watkins, 2002a; 2002b). The Sub-Saharan experience with structural adjustment has not proven positive either and been severely criticized. UNICEF directly blamed structural adjustment for its myopic focus on getting relative prices right, paying too little attention to the social impact of countries' economic adjustment and to evident institutional constraints in adjusting countries (Cornia *et al*, 1987).

Since the early 1980s adjustment policies have focused on reducing public spending and on simultaneously targeting public expenditure towards the social sector (WB, 2001e). Yet, if public spending is stagnant or falling, it is next to impossible politically for governments to shift funds to social services - particularly to basic social services - without criticism from powerful lobby groups with much more influence than the poor (UNDP, 2003b). The overt emphasis of adjustment on achieving macroeconomic stabilization in effect has translated into cut backs in employment opportunities and lesser spending in social sectors, such as health and education, which disproportionately disadvantage the poor (Streeten, 1994; Crisp & Kelly, 1999). Increased inflation, often accompanying financial sector liberalization, has made hunger a much bigger threat for those with little purchasing power. Agricultural reforms under the mechanism have further been blamed for diminishing food security by shifting attention away from food production for domestic consumption to export needs (Thomas, 1998; Maxwell, 2001).

IFIs claim credit for drawing millions of women into employment by increased job creation for females working in industry and small-to-medium enterprises (WB, 2000c). However, this increase in income generating opportunities is considered to have come at a cost of extreme forms of exploitation in the workplace, the erosion of rights and increased vulnerability to global markets (Sandler, 1997; Evers, 2002). Gideon (2000) argues that the blinkered focus on economic growth under neo-liberalism has shifted the gender debate away from more problematic concerns such as asset redistribution. She draws attention to land reform as an issue where greater gender-equity remains pending despite its

potential role in improving food security, improving women's status in society and overcoming poverty.

The vulnerability of the urban and rural poor to environmental degradation and pollution is reiterated by most UN and other multilateral environmental organisations and increasingly by the IFIs themselves (FOE, 1999; UNEP, 2000; WB, 2003a). It is estimated that almost 900 million poor people living in rural areas depend on natural products for much of their livelihoods and up to a fifth of the disease burden in poor countries may directly be linked to environmental risk factors (UNDP, 2003b). Environmental organizations worldwide consider economic policies of IFIs to have given impetus to extractive activities, such as logging and mining, leading to deforestation and mining pollution and subsequent reduction in and degradation of land which can be used for livelihood activities by the poor (Barbosa, 1996; Pandey & Wheeler, 2002) An extensive study commissioned by the WB - using a 38-year socio-economic reference database for 112 developing countries - found devaluation and changing terms of trade to have increased the exploitation of forest resources (Pandey & Wheeler, 2002).

The WB claims a multifaceted goal with emphases on the need for sustainable productivity increases, improving livelihoods and reducing the vulnerability of the poor (Barett, 2003). However, such goals remain subsumed by neo-liberal precepts. Consider for example its water resources strategy, in which the WB (2003c, xii) reiterates the indispensable need "in attracting much-needed investment by the private sector". According to the UNDP (2003b), private sector involvement in provision of water services for poor communities often causes large-scale corruption and backtracking on agreements with governments.

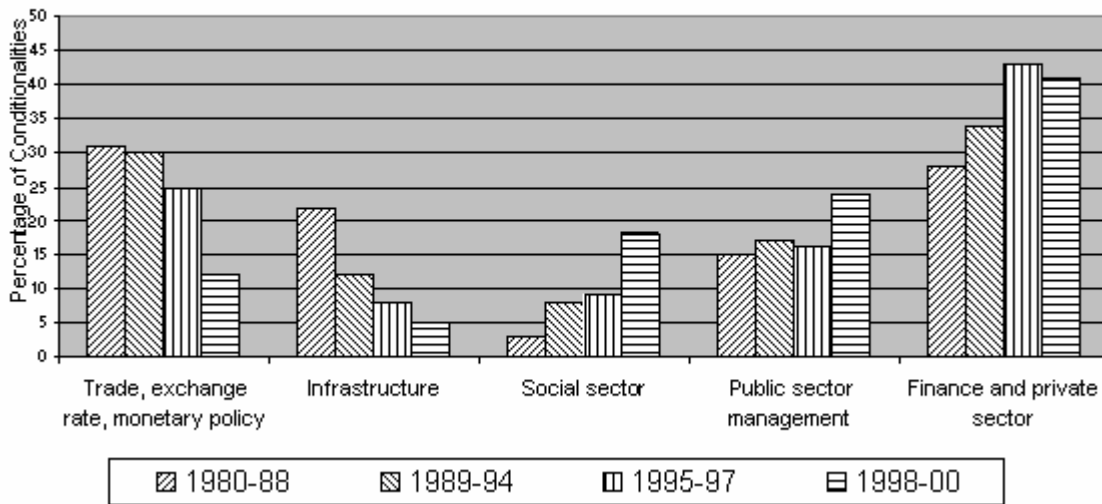
The detrimental effects of IFI induced liberalisation on issues pertaining to food security, gender and environmental concerns worsens conditions for the poor, who are considered particularly vulnerable to such adversities.

### **2.3 Is the IFIs approach to poverty evolving?**

The IFIs maintain that the content of adjustment lending has evolved in line with changing needs of developing countries. While initially meant to help developing countries adjust their balance of payments after the 1979 oil shock, in the later 1980s it began focusing on fiscal adjustment in response to external shocks and on removing obstacles to growth. In the 1990s, adjustment lending was meant to be focused on poverty reduction and institution building to enable more complex social and structural reforms (WB, 2001a; 2001c). Thus, IFIs maintain that adjustment lending has evolved to become much more poverty focused than it was in preceding decades.

The *World Development Report 1990*, first highlighted the need for adjustment operations to provide greater protection for the poor and vulnerable (WB, 1990). The Operations Evaluation Department of WB maintains that the design and implementation of adjustment operations has improved markedly since then, as experience accumulated and has been incorporated into new programs (WB, 2001c; 2001g). The increased attention to poverty reduction, support for sustained social and structural reforms, and capacity and institution, is considered by the WB to have significantly improved the overall quality of adjustment lending. The Operations Evaluation Department cites that almost 80 percent of all WB adjustment lending operations closed in financial years 1999-2001 had satisfactory outcomes, compared with 60 percent in financial years 1980-89 (WB, 2001c). The shifting focus of WB loan conditionalities is also indicated by the increasing percentage of its conditionalities being tied to social sector and public sector management reforms, although finance and private sector reforms remain by far the most influenced by these conditionalities as shown in Figure 1.

**Figure 1: Evolution of Conditionality Financial Years 1980-2000**



Source: WB 2001c

In the effort to improve the record of the social impacts of adjustment, increasing support for poverty-reduction and social sector programs became an integral part of IFI assistance to adjusting countries. In the late 1980s, the WB introduced social safety nets in developing countries undergoing adjustment (WB, 1997). Social safety nets were means by which the IFIs tried to mitigate and compensate for the market failures that perpetuate poverty, such as removal of subsidies (Muscat, 2002; Ravillion, 2003). These 'nets' involved use of direct cash transfers, subsidies on basic goods and services, social infrastructure development in deprived areas, employment-generating public works schemes,

targeted nutrition programs, employment services and retraining programs, and direct delivery of basic goods and services to the poor (WB, 2001g). However, the effect of safety nets is considered insignificant in comparison to the scale of adversities brought about by dismantling of public social sectors as a direct result of adjustment (Toye, 1995). A report published by the UN Research Institute for Social Development prior to the World Summit on Social Development in 1995 (Vivian, 1994), found that social nets were failing to serve the poorest members of society, particularly women, in countries undergoing adjustment. The WB's redesign of social safety nets attempted to improve outreach, but remains hindered by the added emphasis on cost effectiveness, so that the safety nets are less of a burden on public finances and public sector institutions (WB, 2000a). Furthermore, the problem of efficient outreach of safety nets is considered a particularly difficult task in economies with high inequalities and insufficient outreach of public sector institutions (Adams, 1998).

Social Action Plans (SAPs) were also introduced during the early nineties with the particular objective of increasing the access of the poor to basic social services. SAPs are recognised for their potential to increase collaboration between IFIs and governments in undertaking participatory social development (Toye, 1995). However, there remain several inherent flaws in the design of SAPs that hindered not only their implementation but also their perceived social outcomes. The funding mechanisms of SAP are particularly faulted for placing an unrealistic reliance on governments to set aside social development expenditures. Government commitments to SAPs have been premised on overly confident projections of economic growth and in disregard of the contradictory pressure on them to curtail deficit spending (Toye, 1995; Pasha H *et al*, 2002). Both these aspects concerning the defective design of SAP funding mechanisms will be examined in greater detail with specific reference to the case study of Pakistan.

In 1997, the World Bank funded the Structural Adjustment Policy Review International Network (SAPRIN, 2002). This network facilitated NGOs in six borrowing countries to engage in adjustment policy debate and research. In collaboration with participating governments, multi-stakeholder committees were formed. Studies undertaken by this network have found gaps in knowledge concerning the effects of structural adjustment policies on poverty and social indicators. The lessons learnt from this exercise were used by the IFIs in designing the PRSP, particularly in terms of highlighting the need for country ownership and participation (World Bank, 2001a). Joseph Stiglitz (1998), the Bank's Senior Vice President and Chief Economist, has become a strong advocate of using IFI policy instruments to pursue the objectives of IFI goals of sustainable growth and poverty reduction through greater public management of economic processes. While advocating the interconnectedness of economic and social development goals, Stiglitz (2002) has stressed the need for greater transparency and accountability in both the corporate and government sectors

instead of relying entirely on the market mechanism to achieve optimal social outcomes.

PRSPs were officially launched by the IMF and the WB at their Annual Meeting in Washington in September 1999. PRSPs are intended to become the basis for all foreign aid to poor countries. By April 2003, 28 countries had completed a PRSP and another 45 countries had produced an interim document. Interim-Poverty Reduction Strategy Papers (I-PRSP) give a preliminary analysis of poverty within particular countries and provide a road-map towards completion of the final PRSP (WB, 2002c). The IMF and the Bank have also renamed their lending facilities for poorer countries. The IMF has replaced its Enhanced Structural Adjustment Facility (ESAF) with the Poverty Reduction and Growth Facility (PRGF). Countries previously receiving ESAF loans receive PRGF loans instead (WB, 2002c; Bretton Woods Project, 2003).

Both WB and IMF staff maintain that the PRSPs mark a major shift in the way that poverty is now addressed, since borrowing countries are being encouraged to design their own development strategies, with an explicit focus on poverty reduction (WB, 2002c; IMF, 2002b). Yet without a positive 'Joint Staff Assessment' of specific PRSPs by the IFIs, the government in question risks not only denial of IFI but bilateral funding as well (Pender, 2001; Bretton Woods Project, 2003). In view of the aid dependency of developing countries and the consequences of being denied this aid, critics doubt the extent to which such a program can be truly government-owned. Yet even a government-owned programme would not be considered country-owned without broad based participation of civil society (WDM, 2000; Bretton Woods Project, 2003). Yet networks of international development NGOs consider the involvement of civil society in formulation of PRSPs in most poor countries limited to provision of information and to the need for endorsement of preconceived policies rather than providing the basis for policy formulation (WDM, 2000; EURODAD, 2001; Bretton Woods Project, 2003).

The IFI instigated independent review of the PRSPs found this new approach preoccupied with economic growth without explaining how this growth is to be redistributed to the poor (Whaites, 2000; FAO, 2001). The core macro-economic elements of the PRSPs were seen to follow the same economic liberalization imperatives as the old structural adjustment programs. Typical adjustment reforms, such as instilling user charges for essential services and the thrust towards privatisation, subsequently remain evident in the 'new' PRSP approach (Whaites, 2000; Barrett, 2003). The 2001 Report of the United Nations Commission on Human Rights presented to the Economic and Social Council, based on a study of the experiences of nine African countries vis-à-vis the PRSP process, concluded that the broad macro-economic objectives of the majority of the countries studied are inconsistent with their poverty reduction goals (Cheru,

2001). This report stressed that all the PRSPs it reviewed were emphasizing the need for restructuring, downsizing, cost-recovery and paying teachers less, and questioned how such conflicting measures could be used to eliminate poverty.

While the United Nations Development Program maintains that the PRSP approach has ushered in a new culture in the Bretton Woods Institutions in terms of pro-poor thinking, much of its own assessment of the PRSP process undermines this enthusiasm (UNDP, 2001). Besides highlighting the major problem of country ownership and inadequate participatory processes, UNDP points to weak institutional linkages between local ministries and inadequate prioritization of poverty reduction strategies within the broader economic reform agenda (UNDP, 2001). How the PRSP approach of the IFIs will impact poverty in the future remains to be seen, however in view of the fact that there is no significant departure in IFI policies.

## **2.4 Concluding remarks**

Neo-liberalism is seen to yield tremendous influence on IFI development policies. Initially this approach relied exclusively on growth-led strategies guided by the market mechanism to achieve growth and reduce poverty. Although there is evidence of minor shifts in adjustment policies, such as the changing nature of conditionalities and the adoption of the PRSP approach, these are not considered by many analysts as presenting a significant departure from essentially neo-liberal imperatives due to their continued adherence to privatization and liberalization. The most prominent feature of this evolving approach is that the IFIs are no longer trying to minimise the role of the state in economic processes. Instead the IFIs have begun a process of institutional reforms in order to make the state itself more receptive to the market mechanism. Structural adjustment is steadily justified as the most appropriate means by which to achieve 'a world free of poverty' (WB, 2003c, 1).

### **3. The state of poverty under structural adjustment in Pakistan**

The intent of this section is to introduce the specific experience of structural adjustment in addressing poverty within Pakistan. For this purpose, a description of the poverty situation in Pakistan is important, as is an understanding of the mechanism's influence on attempts to deal with this problem. An introduction to the essential debate within Pakistan concerning the value of structural adjustment in reducing poverty is also of relevance to this topic.

Subsection 3.1 outlines the extent of the poverty with which the mechanism must contend and how it to attempts doing so. To discern the mechanism's influence on the poverty situation in Pakistan, a distinction is made between government attempts to reduce poverty before and after the introduction of the structural adjustment. After this historical review of government approaches towards poverty in subsection 3.2, the main arguments emerging from the experience of using structural adjustment for poverty reduction in Pakistan will be identified in subsection 3.3. These three subsections will provide a backdrop to the more specific analysis being undertaken in Section 4.

#### **3.2 Structural adjustment and poverty reduction**

The structural adjustment mechanism has come to play a major role in formulating government development policies and in determining the Government of Pakistan's (GoP) approach to alleviating poverty (Banuri *et al*, 1997). While being at the forefront in terms of a response, this increasing use of structural adjustment in dealing with prevailing poverty conditions in Pakistan remains problematic.

World Bank assessments of poverty in Pakistan found that 'one third of the population could be classified as poor in 1999, and somewhat more in rural areas' and that this level of poverty had not 'appreciably changed' over the last ten years (WB, 2002b, 10). The GoP concurs there is 'considerable agreement' over the trends in poverty and also that the 'momentum gained in the fight against poverty during the 1980's was lost during the 1990s' (GoP, 2001, 8). This loss in momentum in poverty reduction is reflected by Pakistan's ranking on the UNDP Human Development Index. In 2003 it was ranked 144<sup>th</sup> out of 177 countries; according to the basic aspects of human development: longevity, knowledge, and a decent standard of living (UNDP, 2003b).

The World Bank further notes that in comparison to other countries of its income level, in 1999 Pakistan had 42% lower health spending per capita, 23% lower share of population with access to sanitation, 40% fewer girls of elementary school age enrolled in primary school, and a 24% lower rate of literacy among



adults (WB, 2002g, 10). The poor in Pakistan therefore have not only low incomes but they also lack access to basic needs such as education, health, clean drinking water and proper sanitation. Such is the nature of deprivation that structural adjustment must contend with in order to achieve its ambitious goal of reducing poverty in Pakistan.

While poverty remains a chronic problem in Pakistan, the country has been recipient of both IMF and WB loans since the 1950s. The WB itself is the largest provider of development finance to Pakistan and it now accounts for around 20% of the country's total external public debt (WB, 2003a, 5). It was in the late 1980s that Pakistan became subject to IFI conditionalities. Certain elements of IFI conditionalities, particularly the increasing focus on privatisation were evident in sectoral IFI loans for the agriculture, industry, energy and the financial sectors. Yet such conditionalities remained sector specific, so that there was no cross-sectoral conditionality. However, since the introduction of structural adjustment, the use of conditionalities has become much more pervasive in effecting broad economic and social development policies in Pakistan, including those concerning poverty reduction (Khan S, 1999b; Burki, 2000).

The introduction of comprehensive structural reforms in Pakistan was initiated towards the end of the financial year 1987-1988, when the government in power ratified the first three-year Enhanced Structural Adjustment Facility (ESAF) for US \$2.1 billion. This GoP ratification was prompted by the need for direct IFI assistance to reinvigorate economic growth and curb the mounting budget deficit of 8.5 percent of the Gross Domestic Product. The budget deficit had been growing unsustainably due to public expenditure and debt servicing costs accumulating since the early 1970s. Favorable international circumstances, including generous aid flows from the US and remittances from Pakistani workers in the Middle East helped bolster the economy and kept poverty in check during the early 1980s. Foreign remittances back to poor households even improved income distribution. However, when the foreign assistance tied to Pakistan's involvement in the Afghan war ended, coinciding with the waning of foreign remittances due to the falling demand for Pakistani labour abroad, the economy was hit by the record level budget deficit. By the end of the 1980s, it was this macro-economic imbalance which compelled the Pakistan government to seek greater support from the IFIs (Banuri *et al*, 1999; Tahir, 1999; Burki, 2000).

The initial phase of structural reforms began in 1987-1988, when the GoP began to negotiate with the IFIs for disbursement of a series of adjustment loans. These reforms primarily called for substantial reduction of the budget deficit and proposed doing this, by extension of general sales tax, other tax reforms and through curtailing the expenditure by reduction of subsidies. For resource mobilization, withdrawal of exemptions from customs duties and imposition of user charges were proposed (Khan S, 1999a; WB, 2002f). The GoP instituted a

series of economic reforms but these remained largely unsuccessful in achieving the performance criteria set by the IFIs. Subsequently, the government negotiated a one-year extension for meeting specified targets. The second ESAF approved in February 1994, had more stringent conditionalities, with particular emphasis on trade reforms. The other conditionalities related to further financial liberalisation, privatisation of the public sector and more sustained expenditure on social sectors (Looney, 1997; WB, 2002f). Most of these conditionalities have been directly blamed by economic analysts for aggravating the poverty situation in the country during the past decade (Kardar, 2003; Hussain, 2003).

The decline in remittances and disruption of trade with the Middle East due to the Gulf War and political differences with the United States (US), resulting in termination of bilateral aid from the US. The dearth of available funds compelled the GoP to generate additional revenues and it thus defected on the IFI liberalisation conditionality while framing the 1994-95 budget. The further GoP failure to reduce the budget deficit led to cancellation of the ESAF by the IFIs. Pakistan immediately experienced rapid declines in foreign exchange rates and the stock-market index, as well as a downgrading of Pakistan's credit rating. A stand-by loan arrangement was given by the IFIs to provide balance of payment support to Pakistan, but on more costly terms. It is important to note here that the cancellation of the second ESAF loan by the IMF was primarily due to GoP's renegeing on financial rather than social sector conditionalities. This IFI action is often quoted by analysts as the main reason why Pakistani governments feel reluctant to deviate from macroeconomic conditionalities of the IFIs above and beyond any other consideration, including the need to divert more efforts towards alleviating poverty (Banuri *et al*, 1999; Khan S, 1999a)

To deflect growing criticism in the international and domestic sphere, an attempt has been made by IFIs to mitigate the negative effects of structural reforms in Pakistan. This attempt is particularly evident since approval of the second tranche of structural adjustment loans in 1994 (Khan S, 1999a). The IFIs have particularly endorsed the need for redirection of public expenditure priorities of the GoP towards investing resources in the poor (WB, 2002g). The WB's conditionalities initiated investment into social services through basic education, health sanitation and physical infrastructure projects. Both the IFIs further recommended use of targeted and prudent programs for directly benefiting the poor, albeit guided by the all-important need for them being less, not more of, a drain on the exchequer (Banuri *et al*, 1997; WB, 2002f).

The third structural adjustment program for Pakistan was negotiated with the IFIs in October 1997. This program introduced further taxation reforms, including reduction of tax rates, broadening of the tax base and reduction of import duties. The GoP made commitments during this particular phase of adjustment to pay greater attention to governance reforms. This focus on

governance was reiterated during the formulation of the I-PRSP and PRSP initiated in December 2000. The PRSP claimed to make poverty reduction the very criteria by which qualification for IFI loans is to be determined (Looney, 1997; Khan S, 1999a; WB, 2002f). After approval of the I-PRSP, GoP has begun working on the PRSP and circulated. It circulated the Draft-PRSP to the IFIs in May 2003 and finalized it in December 2003, subsequently sharing it with the donor community in February 2004 at the Pakistan Development Forum held in Islamabad.

The IFIs themselves perceive no real contradiction between their macroeconomic policy advice to Pakistan and its stated social development goals. IFI advice has remained grounded in the implicit neo-liberal assumption that liberalization and reliance on the market mechanism enhances efficiency in allocating resources. The IMF has maintained that in the case of Pakistan, such economic policies will lead to more robust competition that in turn is meant to remove price distortions that hurt the poor (IMF, 2002a). An IMF paper made explicit its neo-liberal policy bias by stating that 'macroeconomic stability, competitive markets and adequate public investment in the physical and social infrastructure are important requirements for sustained economic growth and human development' (Khan M, 2002, 32). Yet, given the prevailing level of deprivation that exists in Pakistan, the positive impact of structural adjustment on alleviating poverty has been far from evident.

### **3.3 Government approaches to poverty and the increasing IFI influence**

The GoP is the most influential and relevant actor responsible for dealing with the problem of poverty in the country. It is also primarily responsible for implementing policies of the structural adjustment mechanism negotiated with the IFIs, including the measures recommended for reducing poverty. While the IFI influence in determining the approach to poverty alleviation has kept increasing, the GoP remains the main force in operationalizing this approach. It is thus necessary to focus on the GoP's role in poverty reduction. A historical review of this role will also make more apparent the growing influence of IFIs in reducing poverty in Pakistan.

During the initial period of Pakistan's independence (post-1947), no poverty studies were undertaken. Due to its lack of resources, the GoP relied on the existing traditional family support networks and the respective voluntary and obligatory religious institutions of *zakat* and *sadqa* rather than attempting to pursue poverty reduction through the creation of livelihood opportunities (Tahir, 1999). Policy planners made little effort to provide the poor with access to growth-creating assets, in the form of physical capital, financial credit or knowledge. The agricultural growth experienced during this time was due to

increased use of fertilizers and augmented by the use of tube wells supported by subsidies. The benefits of these technologies did not, however, reach the small and subsistence farmers (Tahir, 1999; Kemal, 2001). Similarly, in industry it was not the small or even medium enterprises but the small elite private industrialists, who received the attention of government officials. The macro level achievements of these growth-led policies - such as the GDP growth rate of nearly 8% by the late 1960s - largely bypassed the poor (Pasha H *et al*, 2002).

During the 1970s, Pakistan's development strategy changed radically. The populist Pakistan Peoples Party (PPP), which ruled from 1972 to 1979, adopted a Keynesian-populist approach towards development planning. The PPP managed to reduce poverty at a time when the economy was experiencing stagflation and economic trends were worsening (Banuri *et al*, 1997, 102). The share of the social sector in the 1972-77 Five-Year Plan (17.6 percent), reached a historical high, and this populist tenure has been termed the most optimistic time for the poor of the country (Tahir, 1999).

With the exception of this period, the GoP often cut social sector spending during times of economic hardship as part of financial austerity (Tahir, 1999). Proposals for rural development and for urban works programs were also not given the required attention when it came to allocation of funds. The development expenditure on social sectors, as a percentage of GDP, had declined from 9.3 percent in 1979-80 to 6.8 percent in 1987-88 (Tahir, 1999; Hassan, 1998).

By 1988, IFI conditionalities under structural adjustment became a major factor in influencing both government development policies and its poverty reduction approach (Banuri *et al*, 1997; Khan S, 1999a). While the IFIs reiterated the need for channelling public expenditure towards the social sectors, the inability of the GoP to widen the tax base and speed up privatization led to an increasing imbalance between government expenditure and government revenue. This gap between expenditure and revenues forced the GoP to reduce social sector expenditures in order to manage the deficit. Social sector expenditure declined further during the structural reform period. In the 1989-1990 financial year, for example, social sector expenditures averaged 6.4 percent of GDP compared to the 6.7 percent average for financial years 1985 to 1988. This was not the intention of the GoP planners or of the IFIs, who had envisaged social sector expenditures rising faster than total expenditures to form a base of almost 7 percent of GDP (Looney, 1997; WB, 2002f). However, faced with the simultaneous pressure to stabilise the budget deficit, the GoP reduced its development expenditures and the IFIs did not prevent it from doing so. This is the trend that has repeatedly been followed in Pakistan (Jafri, 1999). As a percentage of GDP, social sector spending subsequently declined to 3.4 percent by 1999-2000 (Kemal, 2001; WB, 2002f).

The GoP approach towards poverty reflect the predominance of growth-led strategies. While, the expectation that poverty could be alleviated by economic growth alone did not materialize, the need for IFI envisaged 'pro-poor growth' has gained increasing recognition amongst GoP policy planners (GoP, 2003). Yet the achievement of these pro-poor objectives remains constrained by IFI imperatives for creating an enabling environment that is conducive for macroeconomic stabilization as well as for poverty reduction. Such 'pro-poor growth' strategies of the IFIs have prompted the GoP to initiate reforms for privatisation of the social sector and for increasing efficiency in the use of public resources in order to lessen its operational costs (WB, 2002f; 2003a). Structural adjustment programs undertaken by the GoP have emphasised the need for a low cost business-operating environment. This approach has also resulted in the introduction of user charges for social services, like provision of health services and primary education (Sharjeel, 2003).

While the inequality of growth was evident in the several earlier phases of Pakistan's economic growth, the government could intervene directly to alleviate poverty through increased public expenditure. However, falling growth rates during the 1990s and the fiscal austerity constraints imposed by the IFIs, prevented it from alleviating poverty through such unsustainable expenditures (Pasha H, 2001; Pasha H *et al*, 2001). Instead, the GoP has been guided by IFI conditionalities calling for curtailing public expenditure to, and more recently by the IFI endorsed Poverty Reduction Strategy Paper for Pakistan. Now that the growth rate has picked up again, there are calls for the GoP to become more assertive to reduce poverty, yet the government is investing all its energies in a PRSP which the cynics feel is not as participatory and effective as it claims to be.

### **3.3 Emerging contentions**

There are evidently more contentions than consensus concerning the effects of IFI policies on poverty. Although the macroeconomic performance of Pakistan is hardly praised by IFIs, Pakistan is mentioned amongst countries where income distribution, growth and poverty reduction did improve between 1980 and 1993 according to records of the Operations Evaluation Department at the WB (WB, 2001c). Bank documents also acknowledge policymakers in Pakistan responded well to IFI advice by initiating important liberalizing reforms designed to modernize the economy, for example, by freeing interest rates, privatizing state industries, reducing protection and reforming the banks (WB, 2000b; 2001a). However, the results of such reforms in terms of poverty alleviation remain disappointing.

This failure to alleviate poverty has prompted many stakeholders and analysts to question why IFI-guided structural reform yielded so little benefit in the 1990s. The IFIs maintain that this failure was because the reform program was only

partially implemented; it failed to address the fiscal problem, or to create the fiscal space for launching a serious attack on lagging social indicators in health, education and population management. Increasingly, the need for institutional reforms is also being highlighted by the IFIs as a necessary prerequisite to benefit from liberalization (WB, 2001e; 2002f; 2003c). The corruption of politicians, the bureaucracy and even the police and judiciary are blamed for having deprived Pakistan of the sound institutional infrastructure needed to provide a foundation for a market economy. The *Country Assistance Strategy for Pakistan: 2002-2004* (WB, 2002e), for example, has highlighted the problems of bad governance, corruption, political instability, and deterioration in government institutions, considering them to have severely curtailed the potential for poverty reduction.

Conversely, economists in Pakistan consider the IFI focus on lowering the deficit to have compelled the GoP to in turn curb its public sector development programs (Kemal, 2001; Pasha H *et al*, 2002). Many of the resulting problems of increasing poverty occurring over the last decade in the country have further been tied to this reduction in public expenditure. Kemal (2001), for example, argues that public investment tends to fall when government expenditure is suddenly reduced and this has multiple impacts on employment and poverty, since public investment (particularly in Pakistan) focuses on construction projects that are labour-intensive. Whereas public investment averaged roughly 8 per cent of GDP in the 1980s it came down to almost 4 per cent of GDP by the end of the 1990s. He further points out that public investment is critical to providing vital social services, - health, education, clean water, for example - and thus plays a significant indirect role in poverty alleviation. However since correction of the budget deficit is the most important conditionality of IFIs, removal of public sector investment also leads to removal of an indirect cushion of poverty alleviation and in Pakistan this became an important factor for the increased poverty (Kemal, 2001; Anwar, 2001a).

Other research has drawn specific links between structural reforms and increasing unemployment, diminishing food security and increasing environmental degradation that disproportionately effects the poor (Pasha H, 2001a; Khan T, 2002; Saeed, 2001). Hence, statements like "reducing poverty in Pakistan will require faster economic growth" or "the World Bank has been actively supporting GoP in trying to stimulate economic growth and set in place policies and activities that will help reduce poverty" (WB, 2001g, 2-3) are viewed with much cynicism. At times, this cynicism has brought protestors to gather outside the WB building in Islamabad with banners saying: IMF: International Monetary Fraud, and, World Bank policies: poverty elevation or alleviation? (WDM, 2002).

The fact remains that the IFIs continued to fund structural adjustment programs

in Pakistan and the GoP continued to agree to the conditionalities tied to these loans. The implementation of implied reforms and perceptions concerning their effects vary. It is this experience and effects of the mechanism on the prevailing poverty conditions in Pakistan that will be the focus of Section 4.

#### **4. Structural adjustment in Pakistan from a poverty perspective**

The influence of structural adjustment in determining the approach to poverty in Pakistan has grown steadily since the late 1980s. Consideration of the direct experience of IFI guided poverty reduction initiatives is of foremost relevance in ascertaining the role of the mechanism in poverty alleviation. Yet in order to assess the overall impact of structural adjustment, it is imperative to consider coinciding poverty trends since the mechanism was first introduced in the country. While establishing causality is not easy, it is possible to identify poverty-specific impacts of structural adjustment reforms. It is also important to take into account views of different stakeholders in assessing the overall impact of the mechanism in the context of poverty reduction in Pakistan.

Subsection 4.1 begins by considering the major poverty alleviation programs initiated under the mechanism. Subsection 4.2 then describes the poverty trends which have prevailed in Pakistan under structural adjustment, whereas subsection 4.3 focuses on implications of structural reforms on specific aspects of poverty such as unemployment rates and food security concerns of the poor. Thereafter, civil society views concerning poverty reduction and the use of the mechanism are discussed in subsection 4.4, to provide another perspective on GoP and IFI initiatives. Finally, subsection 4.5 assesses the strengths and weaknesses of the mechanism in alleviating poverty within Pakistan.

##### **4.1 Implementing poverty alleviation: SAPs II & II and the PRSP**

The structural adjustment experience in Pakistan has led to the introduction of two major poverty alleviation initiatives, based on the advice and partial support of the IFIs. The first of these has been the Social Action Program - Pakistan (SAPP). SAPP was divided into two phases; SAPP-I was operational from 1993/94 to 1996/97 and SAPP-II from 1997/98 to 2001/02 (Mallick, 2002). The Poverty Reduction Strategy Paper (PRSP) for Pakistan is meant to cover the period from 2002/03 to 2005/06 (GoP, 2003). The SAPP and PRSP have provided a common platform for integrating IFI and government efforts to address the poverty issue under the rubric of structural adjustment.

The WB Pakistan Poverty Assessment Report of 1995 described the envisioned role of SAPP-I, the largest SAP undertaken by the IFIs in the South Asian region, as being 'the key component of a comprehensive poverty reduction strategy' for Pakistan (WB, 1995, p.7). SAPP I aimed to improve the lagging social indicators of the country by increasing access to and improving the quality and efficiency of social services. It was specifically concerned with the elementary education, primary health, rural water supply and sanitation, and population welfare sectors, with a particular focus on women and children (Mallick, 2002). SAPP II also stressed the need to improve social indicators but contained an added



dimension of correcting service delivery weaknesses. This emphasis on institutional reforms within SAP II coincided with the IFI shift towards increased public sector economic management under the Post-Washington Consensus (Mallick, 2002; WB, 2003a). In their policy documents, both SAPP I and II highlighted the need for decentralization and community participation as necessary means to improve social indicators (WB, 1994; 1998).

Both SAPP I and II were designed to channel GoP expenditure towards the social sector within a broader structural reform environment that was trying to curb overall government spending. The total financial outlay of SAPP-I was US\$ 4.02 billion, of which about 76 percent was to be financed by the GoP while the remaining was to be provided through donor funding. The total outlay of SAPP-II was US\$ 10.561 billion, with the GoP share being close to 80 percent (Mallick, 2002, 8; WB, 2003b). Coinciding with a decline in economic growth rates, the GoP contribution to SAPP declined from 1996/97 onwards and reached a low of 1.46 percent of GDP in 1998/99 as against the target of 1.85 percent (Mallick 2002, 8). Subsequently, the performance of both SAPP I and II remained far below their potential (Mallick, 2002).

In addition to the lack of funds, there were other impediments inextricably linked to the mechanism that proved to create hurdles in achieving the stated SAPP objectives. The need to reduce its public expenditure had prompted the GoP to place a ban on public sector recruitments in 1991 (Khan S, 1999b). It was only during implementation of SAPP II that implications of this ban on public sector recruitments were realised as obstacle to improving the quality of social service delivery:

An important reason underlying weak outcomes of SAPP-II was a failure to functionalize all the facilities established during SAPP-I as a result of continued recruitment bans (resulting in around 20% of health outlets being without a female health worker, and hundreds of closed schools due to lack of teacher appointments) (WB, 2003a, 15).

While the job recruitment ban was placed by the GoP to reduce expenditures and reduce the deficit in accordance with broader adjustment conditionalities, the consequence of this ban delayed the hiring of service delivery staff within SAPP and thus undermined the very purpose of creating additional service outlets to improve the lagging social indicators and expedite development in the country.

The disappointing performance of SAPPs can be gauged by their resulting impact on the elementary education sector, which had been allocated the bulk of SAPP funds. While the SAPPs aimed to increase the gross enrolment rate (GER) at primary level from 73 percent in 1991/92 to 88 percent by the year 1997/98, the GER had actually declined to 69 percent by 1998/99 (Mallick, 2002, 17).

As mentioned in the literature review, the IFIs formulated and launched the PRSPs in 1999, which have since been used to channel much of the development assistance in poor countries. Besides the 24 highly indebted countries which are required to produce a PRSP to obtain concessional lending, countries like Pakistan which receive a blend of concessional and non-concessional lending have also been encouraged to prepare PRSPs as a basis for their assistance programmes (IMF, 2002a). The PRSP is an exhaustive policy document aiming to tackle poverty in Pakistan through broad ranging measures ranging from use of a food support program to the provision of micro-finance to the poor (GoP, 2003).

The Ministry of Finance and Planning Division of the GoP jointly prepared and submitted the Interim-PRSP in November 2001 to provide a preliminary analysis of poverty to assist completion of the final PRSP (GoP, 2001). After receiving the consent of the IMF/WB Boards that this document provided a basis for the development of a full PRSP, the Final Poverty Reduction Strategy Paper (PRSP), which was circulated at the Pakistan Development Forum in Islamabad in 2004 (IMF, 2001; GoP, 2003). The PRSP has since been implemented in the country and will be due for an update in June 2006.

The real test of any poverty reduction strategy ultimately lies in its impact on lives of the poor. Besides the lingering challenge of sustained expenditure and adequate implementation, if the experience under structural adjustment and the SAPPs is anything to go by, another serious question for our policymakers is whether the PRSP is even capable of delivering the goal of poverty alleviation in Pakistan, particularly when it does not present a serious departure from the tried and tested structural adjustment approach. This is a problem to which this paper will return again in subsections 4.4 and 4.5.

## **4.2 Poverty trends under structural adjustment**

Poverty is a complex phenomenon, the causality of which cannot be tied exclusively to structural adjustment. Yet, in view of the explicit poverty reduction goals of the mechanism, it is reasonable to consider the prevailing poverty trends in Pakistan since its introduction in 1988. According to WB estimates concerning the poverty gap (which reflect changes in poverty of individual poor households) and in terms of the severity of poverty (which reflect the shift of poor households from a relatively better off to a relatively worse off category), indicate a virtual stagnation of poverty in Pakistan after 1992. Conversely, the GoP poverty line estimates considers poverty to be steadily increasing since 1990-1991. Both WB and GoP estimates concur that poverty has increased in Pakistan since the mid-1990s.

The Poverty of Opportunity Index, a composite of deprivation in three vital dimensions, health, education and income is useful in further capturing vital dimensions in which poverty manifests itself (MHCHD, 1999). Whereas about one-third of Pakistan's population is considered to be living below the poverty line if poverty is defined in terms of income based measures, nearly one-half suffer from serious deprivation of the most basic opportunities of life according to Poverty of Opportunity Index (Syed,1999, 124).

There is consensus amongst these poverty estimates to indicate that the incidence of poverty has not really lessened despite a decade of structural adjustment in Pakistan. However, the WB's Poverty Assessment for Pakistan (2002e) does not mention the structural adjustment mechanism and instead considers the declining growth performance of Pakistan to have led to a worsening of poverty. According to this perspective, it is the 'obstacles in public policies' and 'the range of barriers to market access confronting the poor' that have prevented Pakistan from 'making better use of its limited resources' (2002e, ii). There is considerable conformity in trends to indicate that poverty has increased in Pakistan since the past decade, alongside the growing influence of structural adjustment in the country. It is further instructive to consider how reforms implemented under the mechanism have influenced the lives of poor people, which will be done in the following subsection.

### **4.3 Implications of structural reforms on the poor**

In order to demonstrate the ways in which structural adjustment has affected the poor in Pakistan, this section will consider specific reform imperatives of the mechanism of particular salience due to their poverty related implications.

The IFI reform imperative of privatisation and downsizing of GoP public sectors, has lead to a reduction in public sector employment costs, which decreased as a percentage of total public sector expenditure costs from 35.3 percent in 1987 to 28.7 percent in 1994 (Khan S, 1999a, 15). In view of public sector inefficiency in Pakistan, downsizing of government departments may have proved useful if the private sector was able to absorb this surplus labour (Anwar, 2001a; Khan S, 1999a). However, unemployment rates have risen from 3.1 percent in 1989 to 6.1 percent in 1996 (Kemal 2001). According to the NHDR (UNDP, 2003a), about 500,000 persons, who comprise 40 per cent of all new entrants to the labour force, are added to the ranks of the unemployed every year.

An extrapolation of GoP administered Labour Force Surveys revealed that female participation in the civilian labour force had increased threefold from 5.1% in 1987-88 to 14.6% 1993-94 period (Khan S, 1999a, 93). Such observations are confirmed by more recent NHDR (UNDP, 2003a) survey results, which estimate that women in many poor households make a substantial contribution to family

income, ranging up to 25 per cent of the monthly income. Yet, while more women have entered the labour market during this last decade while the country was undergoing structural adjustment, researchers identify decreasing household incomes and the need to compensate for male unemployment as primary reasons for this increased female employment (Banuri *et al*, 1999; Khan S, 1999a). Moreover, if wage work were to lighten the domestic debt burden of child and home care, it would be welcomed but this is not possible given the cultural milieu of Pakistan (Khan T, 2002). Also according to NHDR assessments (UNDP, 2003a), women's control over intra-household consumption decisions is still relatively restricted. NHDR estimates that despite increasing burden of contributing to household incomes, 45 percent of women in the child-bearing age (15 to 49 years) suffer from malnutrition. It is thus reasonable to argue that structural adjustment in Pakistan, like in many other parts of the world, has not alleviated the hardships for women even if it has compelled more of them to enter the labour force due to a changing economic environment. Women in Pakistan are unfortunately worse off amongst the poor, in comparison to men.

Moreover, export-oriented agricultural practices encouraged by structural reforms have been criticised for increasing food insecurity in the country. Analysis of data obtained from *Agricultural Statistics* and *Economic Surveys of Pakistan* implies that the country has started relying more on imports of wheat, edible oils and pulses since the introduction of structural adjustment (Khan S, 1999b). Wheat in itself accounts for about 55 percent of caloric intake and 70 percent of protein intake and is thus central to food policy. Yet the area committed to these food crops has increased by only 22 percent in the 1970-1990 period, while that devoted to cash crops increased by 47 percent (Khan S, 1999b, 170). From a neo-liberal perspective it may be argued that cash crop export earning could be used to pay for food imports. However, since Pakistan suffers from a chronic trade deficit, food imports to the country have to compete with other imports which are backed by powerful political lobbies demanding industrial and military purchases. Given the limited amount of imports that can be purchased, food imports are not always given the utmost priority (Banuri *et al*, 1999). In this context, the influence of structural adjustment reforms on cropping patterns has increased the threat of food insecurity, particularly for those with little purchasing power.

On the other hand, increasing unemployment further erodes both the entitlements and capabilities of the poor to ensure food security (Sen & Derese, 1995; UNDP, 2003a). The provision of micro-credit has been endorsed by the IFIs to help extend access of credit facilities to poor farmers so that they can become more efficient producers for the market (WB, 2000b). The PRSP for Pakistan aims to use micro-credit facilities to help ensure the empowerment of not only the rural but also the urban poor (GoP, 2003). However, the latest National Human Development Report (2003, 115) estimates that only 35 percent

of the poor population of Pakistan borrows money at all and of these, more than 80 percent of loans rely on friends and relatives instead of approaching lending institutions of any kind. In view of these prevailing trends, the potential of using micro-credit as the means to reduce poverty in Pakistan may prove to be overrated.

However, the tax reforms initiated under the structural adjustment mechanism have had a much more serious impact on the lives of the poor. Kemal (2001, 20) has calculated that over the ten-year period from 1987/88 to 1997/98, the tax burden on the poorest increased by 7.4 percent while it has declined by 15.9 percent for the richest households. While the GoP had employed a progressive tax structure pre-SAP period, by 1997-98, had taxation become regressive (Khan S, 1999b). The IFI insistence on widening the tax base in order to increase revenues has led to an inordinate share of this burden being passed onto the poor.

The impact of structural reforms on the poverty situation in Pakistan is not limited to direct poverty alleviation measures but is also influenced by the broader neo-liberal reforms initiated by the mechanism. The emphasis on privatization and downsizing has increased unemployment and placed a greater burden on women, whereas the increased liberalisation of the agricultural sector has lessened the food security of the poor. While privatisation and liberalisation reforms are a vital component of structural adjustment, in the case of Pakistan, the effects of these measures on poverty has not been positive.

#### **4.4 Civil society responses to structural adjustment**

There is growing recognition of the need for civil society participation in development processes. Research papers published by a Karachi based think-tank, Sustainable Policy Development Centre (SPDC), highlight the need to involve communities and NGOs in poverty reduction attempts and to help them create further opportunities for adequate empowerment of the poor, so as to ensure that the benefits of growth are not largely pre-empted by the rich (Pasha H *et al*, 2000; Pasha H *et al*, 2002). The Operations Evaluation Department of the WB has further maintained that active involvement of the recipient in program design is crucial to ensuring borrower ownership. Its research indicated that if the borrower perceived the program to be supply or donor driven, this resulted in a negative impact on effectiveness (WB, 2001b). Yet, the question remains as to whether the IFIs have been able to involve recipients in the project design of their poverty alleviation efforts. In this regard, it is particularly useful to consider civil society perceptions concerning the extent to which they have been involved in IFI programs.

While still nascent, the NGO sector has gained increasing influence in Pakistan. The Draft PRSP highlights a need to forge 'a broad-based alliance' to reach out to the poor (GoP, 2003a, 2). The IFIs also reiterated the need for greater government cooperation with NGOs, since they have closer connections to the grassroots level (WB, 2000b; 2001h). The lack of building effective partnerships with NGOs is identified as a major reason for the SAPPs' inability to secure community participation (Mallick, 2002; Khan T, 2002). Moreover, even well established NGOs in Pakistan remain sceptical about the extent of government commitment to forge 'a broad based alliance' with them, often citing the evident hostility and mistrust of government functionaries towards them as a cause of their pessimism (SDPI, 2003). The reluctance of government functionaries to involve NGOs is indicated by the following remark (of an anonymous GoP functionary) recorded during the PRSP consultation meetings:

Consultations with civil society would take too long and NGOs would stall reforms because of politics. We need the participation of officials and agencies affected by reforms, not just civil society. Consultation cannot just be with NGOs.... Consultative processes should be left to government as they should know and be able to decide what segments of society they need to deal with (WB, 2002d, 4-6).

The IFIs' interaction with NGOs can be categorised into distinct spheres of engagement. Firstly, this interaction is at the level of direct assistance to NGOs. The WB directly funds several development projects/programmes and prominent NGOs in Pakistan, the most successful amongst these is the Aga Khan Rural Support Programme operating in the Northern Areas of the country since the 1980s. Secondly, the IMF and the WB have both begun stressing the need for involving NGOs and community organisations in helping the government develop a participatory approach towards poverty alleviation (IMF, 2001). While the realisation of this partnership between the government and NGOs remains to be seen, there is another emerging category of IFI involvement of NGOs in its own policy formulation. This movement towards involving NGOs not only in operationalizing development programs but in the formulation of development policies seems significant, due to its potential for giving a greater voice to those working in close collaboration with the grassroots.

However there are sharp divergences in opinions concerning NGO experiences of the IFI initiated consultative processes. The WB first initiated this consultative process in developing the Country Assistance Strategy 2001-2004 (CAS) for Pakistan. Subsequently the IMF has endorsed the importance of consultation during the I-PRSP and PRSP formulation process in Pakistan (IMF, 2001; WB, 2002b). WB sources mention that consultations with NGOs have been successfully ongoing since October 2000 (WB, 2002d; 2002e). But reactions of prominent NGOs to the outcome of these 'consultations' seem much less

satisfied. For example, there was a staged walkout from a public consultation meeting with the WB by 24 prominent NGOs and CBOs from the National Institute of Public Administration in Karachi on May 17th, 2001 (Bretton Woods Project, 2001). The WB meeting minutes of the same consultation process give no indication of this walkout nor does it identify how many and which NGOs it consulted with for devising its CAS 2002, instead it quotes comments of an anonymous NGO source as follows: "we are impressed with the consultation process and the fact that the Bank is going to people to help frame the issue" (WB, 2002d, 2).

While the PRSP may have taken the rhetoric of participation beyond the SAPPs, and even though the PRSP document suggests that extensive public consultation took place in the preparation stages, there is not much independent evidence confirming this claim. According to its critics, the only "participatory" meetings that took place were those involving government functionaries and this sort of involvement should not be translated into the claim that the views of people at the district level have been solicited (SDPI, 2003). The lack of consultation with political parties or with other civil society organisations such as trade unions, people's movements, civic and professional bodies, academics, or other potential stakeholders has also been highlighted (Lohano, 2001; Khan T, 2002). A letter sent to IFIs and to the PRSP Secretariat at the Ministry of Finance by the Islamabad based NGO research and advocacy think-tank, Sustainable Development Policy Institute (2003), takes issue with the content of the PRSP, and firmly rejects the essentially neo-liberal stance of the document:

We dispute the effectiveness of imposed privatisation, liberalization, removal of price supports, and regressive indirect taxation, and do not believe they are legitimate and rational policies that will strengthen Pakistan's economy and reduce poverty... we reject the PRSP, both as a process and in its content.

Pakistani civil society actors remark that even when they are brought into consultative processes, such as during the consultative phase of the Pakistan Country Strategy 2002 or for formulation of the PRSP, it is more for the sake of formality. They also object to the fact that they are invited to participate when the policies have been decided and moreover there is no binding obligation on the IFIs or the GoP to listen to their recommendations (Khan T, 2002; SDPI, 2003).

Despite the rhetoric of participation, adjustment operations have been considered to remain closely controlled by the Pakistani Government and the IFIs (Khan T, 2002; Saeed, 2002). Even the monitoring mechanism of PRSP with its specific output and outcome level indicators is criticized since its tracking is to be done by the government and reported directly to the IFIs, without any provision

of participation from civil society or the actual stakeholders at grassroots level (Saeed, 2002; Zehra, 2002). This lack of civil society participation indicates a potential lack of acceptance, demand and/or support for IFI sponsored initiatives. Whatever the reason for this lack of participation, it carries with it a serious threat to the success of even the latest IFI attempts to reduce poverty in Pakistan, in much the same way as earlier processes. Therefore, the IFI approach to poverty reduction does not appear as popular and uncontested as euphemistic slogans like 'increased interaction' and 'partnerships' and 'shared vision' for alleviating poverty in Pakistan might indicate (IMF, 2001, 3).



## 5. Conclusion

Using the example of Pakistan, this paper has examined the theoretical assumptions of the structural adjustment mechanism as it translates into practice, first in a wider and then a country-specific context. Several of the problems arising from the use of the mechanism for reducing poverty that are discussed internationally have also become evident within Pakistan. In Pakistan, the introduction of the mechanism has become even more controversial due to the decline experienced in economic growth and an increase in poverty during the past decade. Although the economic situation has improved in the current decade, the decline in poverty is not taking place at a similar pace.

While the IFIs argue that they have made the voice of the poor more audible in the development agenda of Pakistan by recasting development policies to directly involve the poor, their own approach towards poverty remains confined by their own theoretical assumptions. If the political economy of a particular country - be it Pakistan or another developing country - does not demonstrate the capacity to implement these reforms in their entirety or remains unable to restructure its institutions accordingly, then a repeated insistence on tried strategies itself becomes counterproductive.

While the rhetoric of structural adjustment keeps changing, critics still view these as cosmetic rather than substantive changes which do not adequately realise the circumstances of the poor, nor offer them solutions suitable to their particular requirements. IFIs also remain reluctant in acknowledging negative impacts on the lives of the poor that are inextricably tied to structural adjustment processes, such as a massive decline in public expenditure and its implications for the poor. While, the IFI-espoused neo-liberal discourse seems to create its own counter paradigm seeking to redress the failures of the prevailing approach, this counter paradigm rarely challenges the fundamental basis of IFI policy prescriptions. It develops alongside and in harmony with, rather than in opposition to, official IFI policies. Its role is to generate a semblance of critical debate sensitive to the needs of those being exploited by the global market system (Chossudovsky, 1997). The adoption of social safety nets to counter poverty and the diversion of public expenditures to the social sector are outcomes of this counter paradigm, since they do not challenge the underlying assumptions of the mechanism. Stiglitz's (1998) proposals of bringing the state back in to supplement the market mechanism are also not a radical departure from the 'Washington Consensus', rather a tacit compromise with some of the criticism that the neo-liberal approach had solicited after the Asian financial crisis (Pietrese, 1998; Phillips & Higgott, 1999; Pincus, 2001). The IFIs may be in the process of reinventing themselves by placing a greater focus on making the poor 'better market players' and the state a 'better market manager' under the 'Post-Washington Consensus' (Khan S, 1999a, 8). Yet a basic problem of this approach remains the same for

the poor in Pakistan as in the world over; if the poor could be effective market players they would not be poor in the first place.

Given that the structural adjustment mechanism was unable to remove poverty in Pakistan, the PRSP in its present form must be radically altered to become more pro-poor and the only way to do this is to significantly increase the level of participation in it.

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