FORUM

Structural adjustments and their impact on health and society: a perspective from Pakistan

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In the back streets of one of Karachi’s sprawling squatter settlements, the weary faces of manual labourers lined up for work, tell the tale. Mostly young men from the northern plains and mountains of Pakistan, they descend upon Karachi, the largest port city and the economic hub of the country, in search of employment. For most regular, uninterrupted work is a thing of the past as private construction and public work projects have gradually dwindled to a halt. While the majority are oblivious to the ongoing debates in Davos and Seattle, some are indeed aware of the existence and relevance of the International Monetary Fund (IMF). On probing the rickshaw driver guiding my visit to the area, he thought for a moment before musing that the ‘IMF probably represents the big oil producers’, especially as their visits and Pakistan’s agreements with them ‘are always followed by a rise in the price of petrol!’ Few among the intelligentsia in Pakistan, who do know a fair bit about the World Bank and the IMF and the sequential agreements of the government of Pakistan with them on restructuring its debt burden are convinced that the decade-old structural adjustment programs (SAP) have brought about any economic benefit or respite for the common man.

Why adjust?

The long-standing World Bank/IMF sponsored SAP refer to a set of measures that countries need to implement in order to qualify for loans from these agencies. In 1987 these SAP were expanded to create an enhanced structural adjustment facility, with the facility for developing countries to borrow from it subject to their agreement to accept the IMF conditionalities. These include all or most of the following measures:

- Privatization of government owned enterprises and government-provided services.
- Reduction in government spending.
- Orientation of economies for the promotion of exports.
- Liberalization of trade and reduction of tariffs for imports.
- Increase in interest rates.
- Elimination of state subsidies on consumer items such as foods, fuel and medications.
- Taxation increase.
- Currency devaluation and control of monetary supply.

In contrast to other bank policies, the SAP are primarily geared towards achievement of fiscal and balance-of-payment stability, rather than stimulation of economic growth. The ostensible purpose of these economic measures is to improve debt repayments, reduce fiscal deficits, encourage private sector investment and move towards an export-oriented economy. The measures are targeted to allow the governments to undertake better long-term planning. It is thus anticipated that the consequent improvement in national economic efficiency will lead to stimulation of growth with subsequent ‘trickle-down’ benefits to the poor and vulnerable groups of the population. While the arguments supporting the association between long-term growth and reduction of poverty in developing countries are persuasive,1,2 the evidence supporting the benefit of SAP on reduction of poverty and socio-economic inequalities is at best tenuous. In particular, there are few data on the benefits of SAP on sustainable economic growth in the long term.3

Pre-requisites for SAP and social safety nets

In general many of the premises of SAP make intuitive sense and are overtly geared towards improving the general socio-economic conditions and indirectly, the health of the population.4 In parts of the developing world, many state-sponsored or subsidised industries do produce low quality non-competitive goods with little market competition. While they provide employment, the long-term sustainability and economic viability of such an industrial base is often questioned. In general this is the very basis for policy shifts in the development process that favour agriculture over industrialization in much of the developing world.

It must be emphasized that there is little inherently wrong in the principles that underlie SAP, and that in an ideal and equitable world the ‘trickle-down’ benefits of fiscal discipline and growth would be shared by the masses.5 In reality however, we hardly live in an ideal world and most of the countries targeted by the Bretton Woods institutions, namely the World Bank and the IMF, are either under autocratic rule or boast fragile democracies. Thus several pre-requisites of ensuring that the burdens of structural adjustment and austerity measures are equitably distributed do not exist. These pre-requisites include social justice, good governance, true democracy (as opposed to the sham democracy of the privileged elite or feudal class) and gender equity. Other factors determining a just sharing of the benefits and burdens of socio-economic change in

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many countries include the level of corruption, monitoring of social welfare programmes and systems for redressing grievances.

In a response to the call from UNICEF for ‘Adjustment with a Human Face’, several social safety nets were introduced in many developing countries to mitigate the effect of SAP. These include adequate budgetary allocations for health and education, food subsidies, social action programmes etc. In the absence of these safety nets, it is not too difficult to imagine that the economic burdens would be passed disproportionately to the most vulnerable in society, namely the women and children. However, despite the presence of these measures, their protective benefit and impact on alleviating poverty and protecting child health is questionable. A major problem with the way SAP work is that while the IMF and World Bank make the requisite loans and agreements, there is little room for monitoring and oversight of the associated social safety nets and safeguards. In the words of one of the World Bank’s senior economists, while explaining the assistance to South Asia, ‘we go there three times a year and we sit round the table to discuss progress, and if it is good then we continue assistance’. Unfortunately this system of monitoring progress by remote control hardly paints the true picture, and is entirely dependent upon the level of integrity of the reporting mechanisms. This failure of the proponents of SAP to adequately assess and monitor social safety nets and evaluate the grassroots impact of such programmes is one of major reasons for the disquiet surrounding them.

Global evidence of the impact of SAP

Has the SAP strategy worked successfully elsewhere in the developing world? In an internal evaluation of the impact of SAP, the IMF concluded in general that the overall economy and social sector spending improved in 23 countries following the introduction of SAP. However, these very findings have been seriously questioned on their content and the methodology employed. It is important to point out that the landmark UNICEF publication on the impact of SAP also referred to an earlier stage of these programmes and only evaluated short-term impacts. Little has happened over the entire 1990s to indicate that the promise of sustained benefits of SAP has borne fruit. To illustrate, UNICEF’s hope for a positive outlook for African economies in the post cold-war era, have not only been misplaced but in many instances the converse has happened.

In an evaluation of the impact of SAP in various parts of Africa, Loewenson concluded, ‘there was a deep contradiction between SAPs and policies aimed at building the health of the population’. Other studies indicate a close link between structural adjustments and increase in poverty in Ghana and its widespread consequent negative social impact. In an in-depth analysis of the socio-cultural context of such programmes, Kanji et al. argue, ‘SAPs serve to exacerbate inequalities and threaten to reverse the social gains of the majorities achieved through the struggle for independence, in the interest of the indigenous capitalist class’. Across the Atlantic, the evidence from the economic crisis of the 80s in Brazil clearly indicates that there was a major and perhaps disproportionate effect of SAP on the health and welfare of children.

SAP and their impact in Pakistan: the evidence

At a macroeconomic level the basic thrust of SAP in Pakistan has been to improve its balance of payments position by improving exports of cash crops, closure of public sector industries and removal of subsidies on food items and utilities. Although it is evident that the benefits of such a fundamental shift in policy must be closely intertwined with the prevalent system of land ownership and agriculture, in Pakistan’s predominantly feudal system with large-scale land holdings by a privileged few, it is unlikely that the benefits of increasing agricultural support and subsidies will automatically translate into benefits for the largely poor and disenfranchised farmers. It has been argued that true liberty and democracy in many developing countries must be coupled with an egalitarian society and equitable distribution of income and assets. This has hardly been the case in Pakistan.

The recent socio-economic trends in Pakistan starkly illustrate the point. Pakistan has been a signatory to the structural adjustment programme of the IMF for almost 10 years. Despite assurances to the contrary and the imposition of IMF conditionalities, the same period has seen a dramatic rise in the proportion of national budget devoted to debt servicing and a corresponding rise in the incidence of poverty (Figure 1). While there is a paucity of reliable information on whether this increase in poverty has led to an increase in rates of malnutrition, at the very least available data indicate that trends in critical nutrition indicators such as childhood malnutrition and maternal anaemia have hardly changed20,21 (Figure 2). There is a clear link between household income and food intake and enough evidence exists that when purchasing power is limited, food quality and intake of the vulnerable suffers. The evidence pointing to the association between increasing poverty and debt with maternal and childhood malnutrition from other parts of the world is well documented, and there is little reason to doubt that Pakistan will be any different. Perhaps the most poignant and readily evident effect of this socio-economic change is the dramatic increase in the rate of suicides directly attributable to unemployment and financial difficulties. These have registered a dramatic increase in Pakistan over the last few decades26–28 (Khan Murad, 2001 personal communication).

As part of SAP, many developing countries with predominantly agrarian economies are encouraged to move away from

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**Figure 1** Recent economic trends in Pakistan

industrialization to cash crop farming and agricultural exports. This suggested shift away from basic industrial production to agriculture under the guise of globalization, does reflect a mind set that most developing countries cannot develop a stable and competitive industrial base, and would therefore need to depend upon raw material and agricultural exports, usually of cash crops. This economic dogma has often been labelled as competitive industrial base, and would therefore need to set that most developing countries cannot develop a stable and standby agreement, will not only translate into a gradual units in Pakistan, as desired by the IMF prior to the current which are frequently too fickle and volatile. In the wake of the confidence in prevalent international markets and supply, of cash crops. The current economic dictates of the IMF also imply a great deal of the preva lent industrialization to cash crop farming and agricultural exports. Such a trend is already evident in the field of pharmaceuticals and biotechnology. From a situation where much of the vaccination needs of Pakistan for basic EPI (Expanded Program for Immunizations) vaccines were met internally in the 1980s, today the country is entirely dependent upon external aid and subsidies for the supply of even basic oral polio vaccines. The irony is that in response to a proposal for revitalizing a once vibrant and effective vaccine-production capacity, the cash-starved Pakistan government has seriously questioned the very need to have an indigenous vaccine production facility, under the notion that subsidized and donated vaccines may be available ad infinitum.

The contrast with India is striking, where a fledgling indigenous pharmaceutical industry was supported for decades by state subsidies and protection and can now not only meet national needs but also hold its own against competition in the region. In comparison to the vibrant industry in India, the pharmaceutical industry in Pakistan is largely import-dependent and despite various price control mechanisms, has been unable to provide low-cost medications to the common populace. Although several additional factors are involved, these issues may have a bearing on the relatively faster decline in infant mortality rates in India, which currently stand at 70 versus 90 per thousand live births in Pakistan. Table 1 indicates the comparative local prices for several essential medications and childhood vaccines in the local market over the last 15 years in Pakistan, in comparison with Rupee/Dollar parity, per-capita income and average annual inflation rates.

It can be argued that this economic downturn reflects a general deterioration in the country and that in the absence of an IMF sponsored restructuring programme, the rate of economic deterioration would have been much faster. It is this writer’s considered opinion that this assumption is without a sound basis. There is usually an unholy nexus between rampant corruption, vested interests and economic mis-management. Pakistan received approximately US$31 billion in external assistance and IMF loans between 1985 and 2000, yet the amounts actually spent on infrastructure and the social action programme during this period have been miniscule in comparison. By some accounts, an amount roughly equivalent to the entire national debt lies in personal bank accounts in Switzerland and USA. Although the actual perpetrators in most instances are corrupt politicians and bureaucrats, the international lending institutions and the IMF are equally culpable for having turned a blind eye to this plunder and exploitation of the ordinary people of Pakistan.

Thebulk of the impact of recent structural adjustments in Pakistan has been largely felt by the common people because of an immediate significant increase in the cost of utilities, higher fuel costs and withdrawal of food subsidies. It is hardly surprising to see that the privileged traders and industrialists are able to cushion these by transferring the burden to the consumers through price hikes. The feudal agriculturists and landlords are also protected by inexplicable exemptions from income tax, whereas the ruling elite and bureaucrats are largely provided facilities of free utilities and fuel by the State. There is thus little to no empathy on the part of the policy makers and power brokers as to the impact of these policy changes on common people. In response to IMF conditionalities and the lack of will to curtail current non-developmental expenditures, the development outlay has come down to a paltry 3.2% of GDP compared to almost thrice that figure from 1980 to 1981. Admittedly an elaborate social action programme is in place to

Table 1 Comparative trends of selected indicators in Pakistan

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<tr>
<td>Rupees (Rs) per US$ parity</td>
<td>16.0</td>
<td>22.0</td>
<td>33.0</td>
<td>59.0</td>
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<td>Annual devaluation of Rupee (%)^a</td>
<td>8</td>
<td>10</td>
<td>10</td>
<td>26</td>
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<tr>
<td>GNP per capita income (US$)</td>
<td>380</td>
<td>400</td>
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<td>470</td>
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<tr>
<td>Annual inflation rate (%)</td>
<td>8.53</td>
<td>6.15</td>
<td>11.47</td>
<td>8.30</td>
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<tr>
<td>Cost per litre gasoline fuel</td>
<td>5.50</td>
<td>10.25</td>
<td>14.71</td>
<td>27.50</td>
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<tr>
<td>Amoxicillin oral suspension</td>
<td>8.50</td>
<td>8.50</td>
<td>12.70</td>
<td>16.60</td>
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<td>Augmentin oral suspension</td>
<td>11.12</td>
<td>11.12</td>
<td>12.80</td>
<td>27.23</td>
</tr>
<tr>
<td>Cefotaxime injection</td>
<td>137.30</td>
<td>168.04</td>
<td>215.00</td>
<td>240.00</td>
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<tr>
<td>Ceftriaxone injection</td>
<td>196.80</td>
<td>287.40</td>
<td>416.5</td>
<td>477.70</td>
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<td>Methotrexate injection</td>
<td>610.00</td>
<td>779.00</td>
<td>916.60</td>
<td>1227.00</td>
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<tr>
<td>Ventolin inhaler/unit</td>
<td>47.50</td>
<td>47.50</td>
<td>62.80</td>
<td>82.30</td>
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<td>Measles Mumps Rubella vaccine</td>
<td>180.00</td>
<td>230.00</td>
<td>280.00</td>
<td>390.00</td>
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NB: All price estimates are based on daily dose requirements for a 10 kg child in Pakistan Rupees.

^a Rates estimated as average for preceding 5 years.
provide basic amenities and social support services at the community level, it is dysfunctional and inefficient.

While considerable demands are made in successive IMF agreements to increase tariffs on utilities and fuel and to withdraw food subsidies, we have never seen an IMF conditionality demanding a 100% increase in the health or social action programme budgets in Pakistan! Instead, the most recent agreement by the World Bank to accept the contention by government officials that funds for the social action programme may only be available according to Pakistan's fiscal position, does not portend well for any change in this status-quo. In the exact words of a responsible government official ‘We have told the donors that we have to allocate resources for the social action program according to our own financial position and as such we should not be pressurised that we must arrange equal amount every year for this purpose’.32 As always, the governments’ contingency plans to meet the revenue targets for the IMF will continue to be a further reduction in the public sector development programme, rather than defence spending or non-developmental expenditure.19,33

It is important to understand the consistent failure of successive versions of SAP in Pakistan against the background of a climate of poor governance.34 This combination of poor governance, lack of representation, institutionalized corruption and economic stagnation are potent ingredients for societal breakdown, disillusionment and the growth of militancy. The unemployed youth of Pakistan, who see little hope in traditional politics or way of governance, are attracted to the missionary zeal of the religious right wing. The rapid growth of Islamic militancy and obscurantism in Pakistan,35,36 is a direct consequence of poor governance and economic stagnation, and in no small measure to the failure of the international financial institutions to provide firm and consistent support to Pakistan geared towards human development, rather than mere avoidance of loan defaults. There are no mechanisms in place to even remotely gauge these societal impacts of structural adjustments.

A way ahead

While a case has been made for achieving both the requisite structural adjustments while alleviating poverty, this is rarely evident in agreements drawn up in the relative comfort of offices and hotels far removed from the misery and squalor housing the bulk of the populace. If the IMF and World Bank are serious in financing and supporting economic change for human development in Pakistan then they must also face up to their responsibility of ensuring that the brunt of the burden of these structural adjustments are not borne by the impoverished and voiceless masses. I feel that this is possible. When a hiatus in governance exists, as it does in Pakistan today, then instead of focusing primarily on the narrow issue of solvency and debt repayments, there should be a deliberate investment in small-scale development projects at a local government level, rather than grandiose and limited high-profile programmes.37 It is incongruous that a country that has a third of its population living below the poverty level and the highest infant mortality rate in south Asia, should also boast the most modern motorway in the region that no common person can afford to pay the Rs 300 ($5) toll-tax for!

This challenge of linking social development at the grass roots with the requisite measure of accountability, is decried by many a vested interest group who instead favour a controlled top-down approach. This devolution of assistance and social safety nets to local governments and representatives of civil society may stimulate financial growth and enterprise, while maintaining social security. As I pen these lines, the World Bank and Pakistan have finally agreed to salvage the much-maligned social action programme by transferring its control to local governments as part of the devolution plan.38 Perhaps there is hope yet.

References

31 Sultan A. Going deeper into debt. Daily Dawn February 8, 2001 [http://www.dawn.com/2001/02/08/op.htm].