

***Does Adjustment Lending Work?
Policy Reforms in the Wake of
Program Finance***

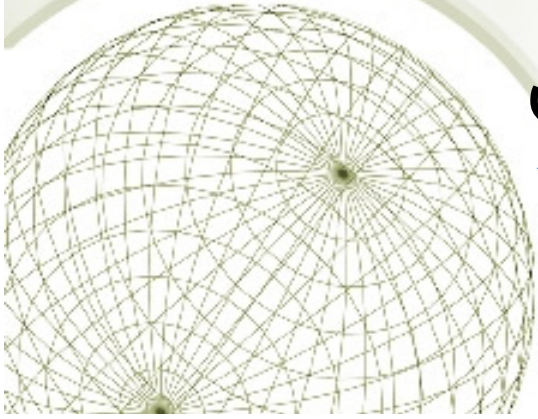
Joshua Loud

joshua.loud@gmail.com

Daniel L. Nielson

dan_nielson@byu.edu

Brigham Young University



Prior Work

- ◆ Conventional Dependent Variable:
 - ◆ Economic Growth
- ◆ Independent Variable:
 - ◆ IMF Programs
(sometimes w/World Bank)

Prior Results

- ◆ Structural adjustment programs promote growth regardless (Hansen and Tarp 2001)
- ◆ SA programs work only in conjunction with good policy (Noorbakhsh and Paloni 2001)
- ◆ SA programs undermine growth (Przeworski and Vreeland 2001)
- ◆ Growth equations notoriously hard to specify



Problems with Prior Work

★ Very long causal chain

★ IMF program → BOP crisis resolution →
Policy reform → Investment → Growth

★ Effect very distant from cause

★ Empirics miss many adjustment programs

- ★ Only IMF (& sometimes WB) considered
- ★ But other MDBs provide significant SA finance
- ★ OECD governments do many SA programs



Our Contributions

- ★ **Bigger donor dataset**
 - ★ Comprehensive Project-Level Aid (PLAID) data
 - ★ Includes IMF, WB, ASDB, IADB, AFDB, EBRD, UN, USA, Germany, Japan, France, UK
- ★ **First differences in policy dependent variables**
 - ★ Changes in inflation rates
 - ★ Changes in budget deficits
 - ★ Changes in exchange rates



The Argument: Structural Adjustment Feckless

- ◆ Prior work argues that
 - ◆ Relieving poverty demands future loans
 - ◆ IFIs exist to move money
 - ◆ IFIs need recipients to justify existence
- ◆ Upshot: Conditionality not credible



Our Addition: Conflict of Interest

- ★ Recipient countries help form *collective principal*
 - ★ Lyne et al. (2006) provide evidence that developing countries proved pivotal in shift to social projects at MDBs
 - ★ Example: At IADB, developing countries together hold 50% of vote shares
 - ★ Significant voting weights → Potential for collusive coalition building on executive boards
 - ★ Self enforcement = cheap talk
- ★ Hypothesis: Adjustment loans → no policy change

Data & Methods

- ◆ 160 countries, 1980-2000
- ◆ Pooled time-series - cross-sections
 - ◆ PCSEs, AR1, & fixed effects for recipients
- ◆ Dependent variables first differenced
- ◆ Testing effects of different IFI & bilateral adjustment packages on subsequent policies



Three Specifications

- ★ For each dependent variable (Δ Inflation, Δ Exchange Rate, Δ Deficit)
- ★ 1. Total structural adjustment dollars & Total number of SA programs
- ★ 2. Adjustment dollars by donor & Number of programs by donor
- ★ 3. Dummies indicating whether or not a loan was received from each donor

Results for SA Programs Overall

| Variable | ² Inflation | ² Exchange Rate | ² Budget Deficit |
|--------------------------------------|------------------------|----------------------------|-----------------------------|
| Structural Adjustment dollars | 0.000 (0.00) | 0.000 (0.00) | -0.185 (0.22) |
| Number of Projects | -10.160 (14.00) | -115.200 (684.00) | 0.000 (0.00) |
| Struct. Adj. dollars (lagged) | 0.000 (0.00) | 0.000 (0.00) | 3674 (2447) |
| Number of Projects (lagged) | -0.363 (15.40) | -644.800 (664.00) | -5968 ** (2496) |
| Exchange Rate | 0.000 (0.00) | | -0.001 (0.00) |
| Population Growth | -12.220 (27.30) | 104.300 (738.00) | -5593 (3450) |
| GDP Growth | -7.456 * (4.09) | -109.000 (267.00) | 459 (389) |
| GDP in Millions | 0.000 (0.00) | 0.087 ** (0.04) | 0.000 (0.00) |
| External Debt | 0.000 (0.00) | 0.000 (0.00) | 0.000 (0.00) |
| Constant | -3.961 (51.10) | 1277 (3178) | -8336 (5462) |
| Number of Observations | 2126 | 2185 | 960 |
| Number of Recipients | 120 | 109 | 77 |
| R-squared | 0.000 | 0.01 | 0.1 |



Results for Individual SA Lenders

- ◆ For Δ Inflation, only Japan significant
- ◆ For Δ Exchange Rates, no donor significant
- ◆ For Δ Deficits, multiple donors significant:
 - ◆ EU, IMF, World Bank, and UK
 - ◆ But substantive effects miniscule



Results Summarized

- ★ Little evidence that structural adjustment projects lead to policy reforms.
 - ★ Results robust to various specifications
 - ★ Not driven by few influential data points
- ★ Little evidence that Structural Adjustment projects even *dampen* economic policy trends, let alone reverse them.



Future Iterations

- ★ Hazard models
 - ★ Time until policy targets are achieved.
- ★ Interaction effects
 - ★ Country size (population and GDP) x fixed effects for lenders
 - ★ Country size x value of projects
 - ★ IFI vote share x value of projects
- ★ Case studies to demonstrate plausibility