INTRODUCTION, BACKGROUND AND RATIONALE

The chapter presents the concepts of structural adjustment, the claims being advanced about its detrimental impact on health, the theoretical underpinnings and components of the adjustment program.

The structural adjustment policies refer to a set of macroeconomic measures designed to address the underlying structural problems that led to the economic collapse of several developing countries in the 1980s and 1990s. These policies usually start by a stabilization package financed basically by the International Monetary Fund (IMF) to cut the budget deficit and control the inflation rate. This initial stabilization is then followed with structural reforms to reduce the state involvement in the productive, financial and social fields and to encourage the private and non-governmental sectors to replace the state in these fields. Governments are required to bring in new legislative and legal frames required to put the adjustment activities into action. These activities include privatization of the state-owned enterprises, elimination of control over prices, liberalization of the trade and financial regimes and cutting back governmental expenditure. The ultimate goal of the structural adjustment is to achieve positive economic growth rates.

The structural adjustment policies were introduced in the early 1980s, when developing countries were hit with three major shocks and the curtailment of external funding that came with the debt crisis in 1982. The three shocks were the global recession of 1979-82, the increase in real interest rates to positive levels for countries that had become accustomed to cheap financing, and the decline in the terms of trade for producers of oil and primary commodities. These shocks led to
large and growing internal and external imbalances just when external financing declined sharply because of the debt crisis. Since 1981, structural adjustment has moved from a vehemently contested set of proposals to a widely if grudgingly accepted reality for most states in the third world. This development has been endorsed by the failure of the socialist economic model and the predominance of the neoliberal model in the globalization era.

The impact on health of the structural adjustment policies has emerged as a controversial debate in international health. Some economists and public health researchers and some government and non-government commentators allege that the structural adjustment programs have had a detrimental health impact. Some have even alleged that the health outcomes of the structural adjustment programs have been so adverse as to reverse many of the gains made in the earlier post world war II decades. The World Bank has been criticized as negligent about the health impact of the structural adjustment programs it sponsors. Further, in its response to this criticism, some contend that the World Bank has in general conducted face saving activities instead of remedial action grounded in a solid scientific basis. This impact was even criticized by several international agencies like UNICEF, WHO and NORAD.

Furthermore, the role of the World Bank in health sector financing and reform in developing countries has significantly increased throughout the last two decades. World Bank's lending to health sector has been tied to the structural adjustment reforms and has stipulated a policy package for health policy reform. As a result, the World Bank has become the world largest international health agency and the major player in the international health scene, eclipsing, in certain domains, the position of WHO and UNICEF. Several analysts have raised concerns over this role and warned that concentrating in a single institution impressive financial resources and heavy political weight might be detrimental. The argument has been advanced that the blanket policy prescriptions of the World Bank are not grounded in the specific history, history, experiences and problems of a particular country. Furthermore, since lending loans are tied to structural adjustment policies, most countries are unable to negotiate the attendant conditionalities as equal partners with the Bank. The conditionalities of structural adjustment have been blamed meanwhile to have diverted government revenues away from education and health care and toward debt repayment and the promotion of exports. This was described to have given the World Bank and IMF a degree of control that even the most despotic of colonial regimes rarely achieved.

Furthermore, the structural adjustment policies are being heavily criticized by the public, press and non-governmental organization. The public response is so strong that peaceful as well as violent demonstrations against these policies have accompanied all meetings of the World Bank and IMF in the last few years. International alliances and fronts against these policies are actively voicing
opposition and calling to stop the World Bank's "crimes against humanity" in developing countries.

The opponents of the structural adjustment including the World Bank argue that these claims are not based on an empirical bases and therefore lack the scientific evidence. They stress that it is impossible to attribute with confidence any of these claims to the structural adjustment policies. They indicate that the adoption of these policies came in the wake of economic difficulties, their implementation has taken place at a time when developing countries face an increase in the incidence of absolute poverty, environmental degradation, deterioration of housing conditions and nutritional standards, emergence and resurgence of infectious diseases. These are the circumstances that made the adjustment necessary and attributing them to adjustment is a misconception of what the cause and the effect are.

Recognizing the importance of the current debate, a review of all the available literature on this subject revealed that there is a severe shortage of solid research in this area. Furthermore, the extant set of studies suffer from several shortcomings. First, they are too general in their analysis, with the result that their conclusions and/or proposed solutions too often blur what is desirable with what is feasible in health outcomes, and are more in the nature of wish lists. Second, they were mainly designed in a way that is more suitable for polemics in a polarized debate between defenders and opponents of structural adjustment programs - more suitable for providing confirmation of an ideology rather than making objective tests between reasonable alternative explanations of the observed health outcomes. Third, they lack a systematic comprehensive framework for separating the effects of background conditions and other external shocks from those of the structural adjustment program itself. Fourth, they fail to analyze the distinct components of a structural adjustment package, with the consequence that they lack estimates the relative importance of the (often countervailing) effects that each distinct component of the package has on health outcomes. Fifth, they fail to trace the intermediate links between external shocks and policies on the one hand, and the health outcomes on the other hand. Sixth, they are too imprecise in their methods of quantifying the magnitudes and time lags of the variables in each stage of the causal chain. Seventh, they fail to identify early warning health indicators of respectively the short, medium and long run health (and hence economic productivity) outcomes that are attendant on a structural adjustment program.

The conclusion from this review is that no solid conclusions can be drawn on whether the structural adjustment programs have been highly damaging, somewhat deleterious or overall roughly neutral, in their health outcomes. Furthermore, given the economic necessity of restructuring, information about its undesirable health side effects is of limited use to policy makers unless accompanied by information on how to intervene to alleviate them. The issue is how to intervene so as to reduce or
eliminate the negative impact on health costs while yet reaping benefits from economic reforms.

This study was undertaken to ascertain and identify means of improving the impact on public health in developing countries of their structural adjustment programs. The study has basic three features. First, analysis toke place within a consistent causal model: rich enough to be comprehensive in causal factors— including background conditions and other external shocks as well as the structural adjustment program, be able to identify the separate contribution of each key component of a country’s structural adjustment program, and be attentive to the time path of health effects, distinguishing between the short, medium and long run. Such a comprehensive disaggregate consistent framework is required to sort out which causes contribute to each health outcome, and where there are multiple causes, the differential magnitudes of their respective contributions.

Second, Emphasis on the intermediate causal links between structural adjustment programs and health outcomes. These are where a scope for intervening is anticipated to alleviate or even reversing adverse health impacts. Third, emphasis on early warning indicators that can be used in assessing the detrimental effects of the structural adjustment program on health, distinguishing between short, medium and long run effects, and the effectiveness of interventions in alleviating those detrimental effects. Selecting health indicators that precede health outcomes is essential if we are to act in the foreseeable future, rather then leave the task of assessing the health outcomes from structural adjustment programs as a task for future economic and health historians. Likewise, it is of limited value to design preventive or remedial interventions whose effectiveness we can only assess in the distant future.

The Evolution of Structural adjustment

No doubt that the debt crisis which hit the third world in 1982 was the birth date of the structural adjustment policies. As many third world governments have sought help from the international financial institutions, namely the International Monetary Fund (IMF) and the World Bank, a prescriptive formula for macroeconomic stability and recovery has been put as a condition for fund eligibility. The conditionalities of the international institutions have not only included measures to attaining short-term macroeconomic stability, but they obliged debtor countries to carry out structural changes to achieve real growth rates. These conditionalities have constituted the core components of the structural adjustment programs (SAPs). The prescriptive nature of the SAPs implies that without understanding the systematic as well as the contextual and circumstantial factors that led to the international debt crisis in the 1980s, evaluating the impact of the SAPs will just be more than guesswork.
The following sections present for the causes and historical development of the
debt crisis in the third world and discuss in details the cases of Sub-Saharan Africa
and Latin America where almost all the heavily indebted countries lie and also
where the debt crisis has resulted in the worst impact. Furthermore, it is the debt
crisis in these two regions which has stimulated the structural adjustment programs
and influenced their nature.

The 1982's debt crisis resulted from a complex interaction of many factors, which
were described to be several and interlinked that appropriate weights cannot be
assigned to them. Likewise, there is little agreement on the roots of the crisis as
some analysts defines the 1970s as a start point while others return back to the
economic order in the colonial era. [Decoodt, 1986]. However, a considerable body
of the economic research defined the 1970s as the point of departure. The
contribution of these factors notwithstanding, it should be pointed out that the
ultimate causes lie beyond these. They are both exogenous and endogenous! The
discussion begins with the exogenous factors.

Some economists contend that the roots of the debt crisis in 1982 can be traced the
colonial economic order, which forged one-product economic regimes to satisfy
their economic demands. This created a state of dependency, in which prices were
dictated by institutions in the colonizing state. [Amin,1974]

The Post-war II economic order has been also blamed to have crippled the
economies of developing countries through rendering them less competitive on the
global market. [Pradip, 1984] For example, trade protectionism was exercised
against processed products from developing countries and exports from these
countries were subject to quotas and minimum price rules in Europe. [Pradip, 1984]
Trade protectionism has resulted in a sharp fall in the commodity exports prices
with severe cuts in exports revenues, even when it reached record levels in 1987.

It is the inherently unequal balance of trade between the predominantly agricultural
and pre-industrial economies of the third world and the industrial economies of the
first and second world that caused of the perennial indebtedness. The third world
economies, oriented to the production of raw materials, agricultural products and
low value added semi-manufactures were not able earn enough foreign exchange to
pay for capital and consumer goods they had to import from the industrial
countries. More over the falling prices of primary products from the third world
necessitated periodic devaluation of their currencies, which mad exports cheaper.
Therefore, developing countries had to produce more exports to earn the same
amount of foreign exchange. This caused inflationary spirals in the domestic
economy and the balance of payment deficit deteriorate.

This chronic budget deficit was covered by the infusion of fresh loans to allow
developing countries to continue importing goods from the industrial countries and
to service the foreign debt. The primary source of these loans were official development assistance budgets of the industrial countries and the IMF and the World Bank. However, before the first oil shock in 1973, the burden of the indebtedness in developing countries was not felt because incomes of most developing countries were stable since prices of exports rose in the late 1960s and early 1970s, reducing the burden of debt. [Sanchez, 1982] Furthermore, overseas workers' remittances (labor export) and a surge in foreign direct or portfolio investments helped postpone the financial crisis.

The first oil crisis in 1973-74 resulted in a 400 percent increase in oil prices, resulting in an unprecedented boom in the revenues of the OPEC countries and simultaneously in a severe economic stress to the economic of the Non-OPEC developing countries [Hartland, 1980]. OPEC countries deposited their huge earnings accruing from oil sales in Western banks.

Paradoxically, the dramatic increases in oil prices was not accompanied by an increase in other commodities produced by developing countries such commodities as cocoa, coffee, tea, sugar, ground nuts, sisal, phosphate, and uranium. Instead, the prices of such commodities catapulted and then dropped steeply. Several of the affected countries responded to the initial commodity price increases by expanding public expenditure. When the commodity prices came tumbling down, expenditures were not curtailed commensurately, and previous loans were often supplemented with new loans to maintain expenditure levels. [Green, 1982]

The demand for loans by developing countries was appreciated by international banks and financial institutions, which were seeking new loan markets in these countries. The goal was to solve the problem of increased liquidity created by the oil revenues. The lending strategy was so successful that the OPEC surplus had dwindled from more than $68 billion in 1974 to $3 billion in 1979. This policy trend was described in an analysis in the following paragraph.
... the banks were emboldened to extend loans even to dubious recipients and projects such as the Bataan Nuclear Power Plant, which the banks knew, was Marcos’ milking cow from its inception. All the actors in the lending scheme including the administrators of apartheid in Africa to the military dictators of Latin America and the autocratic dictatorships in Asia had their own roles to play to keep the system afloat. Their corruption and indiscretion were part of the lending system at this particular juncture in history but did not by themselves, cause the rapid spiraling of the debt much less were its fundamental cause. Of course, they were the frontliners in the "containment" of communism and the national liberation movements as well as loyal clients of international finance capital. And in the process too, they enriched themselves at the expense of their own people. Through out the seventies the IMF and World Bank too increased lending to the third world to finance large-scale infrastructure projects (e.g. dams) including prestige projects of autocratic and dictatorial regimes in the third world. It also refinanced the maturing loans from the commercial banks. Hence, loans from these multilateral institutions grew rapidly and put them in a more powerful position, vis a vis the debtors.

The governments of developing countries welcomed the loans for several reasons: they needed funds to pay the huge costs of oil imports. Secondly, they needed funds to finance productive development projects. Finally, they borrowed because, at least in the beginning, the money was cheap. In the 1970s, interest rates were never much higher than, and often below, the rate of price inflation. Therefore, developing countries that borrowed could repay their debt obligations at a “real” interest--borrowing costs minus the inflation rate--that at the time was zero and often times negative. The fact of the matter is that these loans were contracted under floating interest rate agreements under which debtors' payment obligations fluctuate along with changes in market interest rates. It needs to be pointed out here that beyond the apparent low cost of borrowing, the other obvious attraction for debtors in developing countries was simply having so much money to spend. [Polin, 1986]

However, corruption and mismanagement in developing countries led to wasting these external financial resources. The loans, taken primarily for purposes of
expanding export capacity, provided the additional foreign exchange necessary for servicing the resulting external indebtedness. Taking Africa as an example, between 1975 and 1979, the debt expanded by 25 percent annually, while exports stood at 22 percent. [Thunberg, 1989]

The second oil crisis resulted in a 200 percent increase in world oil prices in 1978-79. This shock, which was claimed to produce the most severe recession in the industrialized countries in nearly half a century, was the result of panic among oil buyers in countries highly dependent on oil imports, basically Germany and Japan. Increased demand in the spot market caused spot prices to rise. The industrialized countries, particularly the United States responded toughly by tightening their macroeconomic policy, especially monetary. Interest rates started to rise, GNP declined and unemployment mounted and the world settled into recession. [Thunberg, 1989]

This recession meant that export markets for NOPEC developing countries crashed; falling by an average of 30 percent in 1981-82. Furthermore, it was accompanied with an unprecedented increases in real interest rates. In summary, the recession in industrialized world dampened the demand for third world products and prices of these products tumbled, which made the servicing of the debt difficult, and dried up the sources of new loans to the third world.

A huge chunk of existing debt of African and other developing countries was contracted for the purpose of financing stepped-up levels of military expenditure.[Heller and Frankel, 1982] In fact, for most developing countries, a large part of the military equipment budget is spent on imported armaments. Weapons imports by developing countries rose from $1,559 million in 1965 to $10,450 million in 1980—all in 1975 constant prices. This trend coincided with the rapid overall buildup of developing countries' debt. However, arms imports declined to $9,551 million in 1983 and $7,519 million in 1984, a period characterized by increased reluctance on the part of international lenders to increase lending to developing countries.[Looney, 1986] It is estimated that 20 percent of Africa's debt burden of about $230 billion has been incurred through arms purchases.

Figure 3. External debt relation to export

![Figure 3. External debt relation to export](image_url)
Africa's growing birth rate has also been mentioned as a contributory factor to the debt crisis. Africa's population, which currently exceeds 450 million, represents a threefold increase since 1900. In fact, Africa is the only region in the world where the rate of population growth is still increasing. It rose by 2.4 percent a year in the 1960s and 2.8 percent a year in the 1970s. The annual growth projection is 3.3 percent between 1980 and 2000. Surprisingly, just a quarter of the potential arable land of Africa is being cultivated currently. Even here, an increasingly high proportion of the cultivated area is assigned to cash crops for exports. [Makin, 1984] This, compounded by an aging agricultural workforce has hampered Africa's ability to feed itself. Since the early 1960s, the production of food per person has been falling in Africa. It declined in thirteen countries during the 1960s, and in thirty-two during the 1970s. Since Africa's nutritional levels have always been inadequate, the result of falling food production per person has inevitably been a rise in imports financed largely through foreign borrowing. Between 1961 and 1971, Sub-Saharan Africa imported an average of 1.2 million tons of food grains a year; in 1977-79 the imports doubled to 2.4 million tons a year and then peaked at 8.7 million tons annually in 1980-82. In monetary terms, Africa spent $1.1 billion a year in 1969-71 on agricultural imports; by 1980-82, the average annual cost had reached $6.8 billion over and above food aid received. [Makin, 1984]

Another important link in the chain of endogenous factors of causality is the absence of statutory taxes, the lack of a tax base, and the notoriously inefficient tax administration in African countries. This state of affairs has led to the serious lag behind spending of public income, culminating in sharp rises in public sector deficits which have had to be financed through foreign borrowing and domestic bank credit and inflationary monetization of the debt. [Fried, 1989] Several African countries lacked a savings base and others did not have efficient and cost-efficient national banking systems--indispensable ingredients for the cheap and quick transfer of savings to productive investments.

Compounding these problems also, is the fact that corruption is widespread in developing countries, especially the poorest of them, which has been an important
cause of unnecessary foreign indebtedness. The costs of adjusting to financial disorder like everything else, have also been distributed highly unequally. Indeed, the rich of Africa have largely prospered since 1982. A classic example is Zaire where President Mobutu spirited an estimated US$5 billion from the Zairean treasury, an amount roughly equal to the country's total external debt.[Pollin, 1986] This is a reflection of the quality of leadership in many developing countries.

Eventually, Third World debt became so large that default of several developing countries was inevitable. Mexico, was the first country to consider default in 1982. The rescue plan for Mexico from its crisis included conditions. These conditions were devised by two U.S. Treasury secretaries and took their names; "Baker" and "Brady" plans in Mexico. When these conditions were applied to other developing countries, they became known as "structural adjustment". Adherence to these conditions has become the prerequisite qualifying to any further credits from the IMF and World Bank.

Structural adjustment was supposed to help recover the deteriorating economies of developing world to become able to be back their debts. Paradoxically, Third World debt doubled to almost $1.6 trillion by 1990 and exceeded $2.0 trillion in 1997. As a result, proposals are being discussed to drop some of the debts owed IMF and World Bank by the poorest and most indebted countries. The list includes 40 countries. The IMF and World Bank attributing the failure of developing countries to solve the debt problem to incomplete adherence to the structural adjustment reforms has put as a condition that the a country must show compliance with adjustment for six unbroken years before dept relief is considered.

**Theoretical foundations and components of Structural adjustment**

The term "structural adjustment" have been used in the literature to refer to different and sometimes contradictory concepts. Inconsistency and variability in definitions stem from the fact that in the debate over structural adjustment advocacy has been seldom decoupled from policy analysis. Therefore, certain components of the adjustment package are emphasized more than other according to the political position of the researcher. For example, some researcher focus more on the stabilization measures, while others stress structural transformations. Opponents of structural adjustment presents it as the new tool of imperialism to impoverish developing countries and vanish their development prospects. Proponents construe adjustment as the process to empower the poor in developing countries and their only hope in prosperity and well-being.

Furthermore, there have been different generation of structural adjustment, whose emphasis and premises are quietly different. For example, while the first generation of adjustment policies ascribed importance to the stabilization measures, the
second-generation progeny brought to a focus the structural and institutional reforms. The current third-generation adjustment policies is placing a special emphasis on poverty reduction, transparency, accountability and democracy.

This section seeks to operationally define structural adjustment policies and to identify their core components. The theoretical foundations of these components are also traced and discussed. The goal is of this review is not to provide a theoretical account on the economic foundation of adjustment. Instead, it attempt to analyze the distinct components of a structural adjustment package in order to estimate, later on the study, the relative importance of the (often countervailing) effects that each distinct component of the package has on health outcomes. Furthermore, identifying these components is very crucial to typify the intermediate links through which these components can affect health and test them later in the analysis.

**The Neoclassical Underpinnings of Adjustment**

This section discusses the theoretical underpinnings of the structural adjustment policies and presents the paths these policies to development and poverty reduction. Furthermore, it summarizes the critique being advanced to these policies. Although the “Bretton Woods twins” – the World Bank and the IMF – have seldom mentioned the theoretical foundations of their stabilization and adjustment proposals, a huge body of the economic literature indicated that these proposals are largely grounded in the neoclassical economic theory.

The core concept of the adjustment policies was described to be the neoclassical belief that public sector enterprise deficits are the main culprits responsible for rising budget deficits. To finance these fiscal shortages, governments have to resort to increasing the money supply or borrowing, often from foreign sources, which leads to a rapid rise in inflation. Public borrowing on a large scale also promotes high interest rates with adverse implications for private investment. Inflation, in turn, makes traded goods more expensive relative to imports. This results in balance-of-trade deficits. In this line of analysis, the twin deficits (in budget and in trade) and inflation are all related and emanate mainly from budget deficits of public sector enterprise, which, in the eyes of neoclassical economists, is inherently less efficient than private enterprise.

The neoclassical theory further argues that highly protective trade regime, necessary for the support of public sector industries, creates a group of privileges elite. Consisting of businessmen, politicians and civil servants, this elite is mainly interested in maximizing rents, rather than productive economic activities. Furthermore, highly protected trade regimes usually divert scarce resources from export sectors and agriculture to import-substituting ones, leading to resources misallocation and loss of any gains from trade.
The World Bank chief economist indicated, however, that views about development had changed in the Bank from a narrow economic perspective to a wider developmental one.

Today, there is a concern about broader objectives, entailing more instruments, than was the case earlier. Development is concerned not only with increasing GDP, but also with raising living standards more broadly. It is concerned with democratic, equitable, and sustainable development. Development is seen as a transformation of society: a dual economy is not a developed economy, and many of the earlier strategies did little to promote this broader transformation of society. It is true that earlier strategies diverged markedly in their views concerning the role of the state: they varied from the planning approaches that characterized development strategies within the Bank while Hollis Chenery served as Chief Economist, to the focus on trade liberalization and privatization in the years in which Anne Krueger served in that same capacity, and later to the emphasis on macro-stability as a succession of macroeconomists held the position. What all of these approaches had in common was a belief that solving certain technical problems that might result in a more efficient allocation of resources was the key to successful development. But successful development requires not only addressing these technical issues, but a broader transformation that has educational and political development at its center.

Nevertheless, this shift to developmental approaches did not reflect, according to several economists, any commutation from the neoliberal foundation of adjustment policies. Stein [1995] and Nissanke [1993] contended that five neoclassical economic components are embedded at the core of the adjustment theories: homo-economicus, rational deductivity, methodological individualism, axiomatic reasoning and the acceptance of equilibrium as a natural state. Homo-economicus, as described by Stein [1995] and Nissanke [1993], posits a rationally calculating individual maximizing his or her welfare. Methodological individualism assumes that maximization of benefits begins with choices at the individual level and ends with the maximization of the social welfare. Therefore, the neoliberal theory assumes it is the price mechanisms, the market, that determines the optimum allocation of resources among various productive uses and the distribution of goods and services among consumers. Therefore, equilibrium, according to Stein and Nissanke [1999], arises in the sense that the market clears and optimal choices are made. Moreover, in this ideal world unfettered markets normally will lead to indicators that reflect scarcity and choice. Decisions based on markets under these conditions will lead to efficient choices on what and how to produce that reflect of the endowment of societal resources. Thus the outcome is consistent with the natural underlying conditions. Equilibrium is a natural state. They stated finally that the thinking behind the model is also rational-deductive and axiomatic in the sense
that the behavior of agents is predetermined by a set of rules that are deductively posited.

These neoclassical underpinnings of the structural adjustment policies attribute the economic crisis of developing countries ineluctably to the role of the state and how it affects the economy. Adjustment policies aims therefore at minimizing the role of the state as possible since economies are driven by exchanges, which arise out of the spontaneous interaction of self-seeking individuals. This role should optimally be confined to guaranteeing property rights and controlling the transfer of money as a neutral body without distorting the market mechanisms. Adjustment is driven by the principle of creating state neutrality and minimalism in the belief that once prices reflect their scarcity values the real sector will respond accordingly. Hence, enormous static efficiency gains can arise from liberalization, privatization and stabilization. Adjustment places a great emphasis on the creation of a static equilibrium state where rational private actors make marginal changes in reaction to undistorted prices to maximize their individual utility. [Stein and Nissanke, 1999]

Adjusting economies under crisis starts with an initial stabilization phase achieved by a combination of expenditure-reducing policies and expenditure and production switching policies. The initial stabilization is followed by an adjustment package to achieve sustained economic growth. These strategies were indicated to be guided by aggregate demand models\(^1\), which incorporate a full employment assumption.

These aggregate demand management models incorporate a full-employment assumption. An economy is postulated to experience disequilibrium in external and internal balances because of the misalignment of domestic absorption levels from a full-employment equilibrium. Whether shocks to the equilibrium originate externally or domestically, the models dictate that policy responses to deficits must be deflationary through expenditure-reduction using fiscal retrenchment and domestic credit contraction. This is usually combined with substantial currency devaluation to effect expenditure switching and a shift in production towards tradeables. The short-term effect of currency devaluation in developing economies is also known to be contractionary as well as stagflationary due to manufacturing's high input dependence on imports. [Stein and Nissane, 1999]

In order to counterbalance these short-run contractionary effects, the supply-side policies are supposed to initiate structural reforms through liberalization and privatization. Since these models aims at removing price distortions, a Pareto efficiency in resource allocation can be expected with a resultant economic growth and social welfare-maximizing. Therefore, once the state retracts from direct

\(^1\) These as described by Stein and Nissanke are (1) the single-good model typified by the (IMF) financial programming model a la Polak with some extension incorporated in the World Bank's Revised Minimum Standard Model (RMSM) and (2) the two goods model (traded and non-traded goods) a la Salter-Swan.
intervention in economic activities and resource allocation, private agents would react favorably to changed incentives and a more competitive environment by investing in and producing internationally tradeable goods and services, thereby raising savings and earning more foreign exchange. Thus, deregulation of goods and factor markets and trade liberalization are supposed to result in a removal of the structural causes of macroeconomic imbalances.

The conclusion from this review is that the neoclassical underpinnings of the adjustment policies attribute the economic crisis in developing countries to the role of the state in the economic and the social field and assumes therefore that a transformation to a free-market economy is the solution. In this free-market economy, the state plays a minimal judiciary and financial controller roles and the rational private and non-governmental sectors play the main roles in the productive, financial and social fields. The market mechanisms will lead to optimization in resource allocation, production and consumption with maximization of the welfare from the individual level to the social level. Throughout this course, a time horizon is needed to trickle down prosperity from the have to the have-not.

**Components of the Adjustment Package**

The World Bank's rationale for adjustment lending, which was described as to provide medium-term financing over a finite period to help developing countries undertake needed economic restructuring, which involves policies to achieve changes in internal and external balances and changes in the structure of incentives and institutions. The World Bank featured six policy areas in the design of adjustment programs: fiscal policy, trade, finance, public sector management, agriculture, and industry.

**Components 1. Reforming Public Finance**

This component of structural adjustment targets the fiscal crisis in the form of large budget deficits, which is believed to be the primary cause of macroeconomic instability in many developing countries. The premise of this component is that a large budget deficit adversely affect three key macroeconomic targets: debt, inflation, and the economic growth rate [Buiter 1985; Anand, Chhibber, and van Wijnbergen, 1990; and World Bank 1988]. These problems usually arise from the method governments use to finance the budget deficit. For example, financing the budget deficit through external borrowing aggravates the debt problem, with its grave short- and long-term consequences. Similarly, financing schemes through monetary creation leads to inflation. Finally, domestic borrowing to reduce the deficit from the banking system or non-bank sources dries up the credit sources for the private sector and increase, as a result, the real interest rate, which reduces private investment and future output growth.
### Table 1. Assessment of Reforms in the Major Policy Areas
Affected by Adjustment Programs, 1981-88

<table>
<thead>
<tr>
<th>Policy area</th>
<th>Extent of reform</th>
<th>Assessment</th>
</tr>
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<tbody>
<tr>
<td>Overall reforms</td>
<td>External adjustment rapid, internal reforms adjustment often unsustained, institutional reforms slow</td>
<td>Policies have mattered a great deal, but constraints include conflicts in design (for example, between fiscal and trade policies)</td>
</tr>
<tr>
<td>Fiscal</td>
<td>Initial deficit reductions not sustained Some success in rationalization of public investment (as in Pakistan and Turkey) Tax reform not comprehensive and with limited success; Indonesia, Mexico, and Turkey are exceptions</td>
<td>Expenditure cuts could not be maintained More careful scrutiny of current expenditure needed Short-run revenue concerns have dominated</td>
</tr>
<tr>
<td>Trade</td>
<td>Progress in exchange rate flexibility and export incentives Progress in replacement of quantitative restrictions by tariffs and in tariff reform, but import liberalization slower</td>
<td>Strong responses in export volume, but nonprice factors need greater emphasis (as in East Asia) Greater liberalization constrained by stabilization requirements and internal opposition; export response assists in import liberalization (as in Korea and Turkey)</td>
</tr>
<tr>
<td>Financial</td>
<td>Reforms initiated in only a few cases, but receiving greater</td>
<td>Reforms often protracted and require sound macro framework attention (as in Chile and Turkey)</td>
</tr>
<tr>
<td>Public sector management</td>
<td>Institutional reforms and divestiture slow, particularly Sub-Saharan Africa Some reduction in enterprise losses</td>
<td>Introduced in almost every In adjustment program Gains more from price increases than from improvements in efficiency</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Visible improvements in price policy Reform of parastatals slower</td>
<td>Improvements especially strong in Sub-Saharan Africa Supply response to price constrained by institutional factors</td>
</tr>
<tr>
<td>Industry</td>
<td>Focus on trade policy and its impact on industry</td>
<td>Reforms specific to industrial sector not given sufficient attention</td>
</tr>
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The structural adjustment reduces the budget deficit through reducing expenditure and/or increase in revenue. Reduction in expenditure, which has been the primary tool used by developing countries to lower budget deficit, was done through heavily cutting the public investments in areas like social services, health care, subsidies and supposedly military spending.

Therefore, countries undertaking adjustment reforms are required to bring considerable changes in government expenditure policy both to reduce fiscal deficits and to enhance the impact of public spending on growth and income distribution. Thus adjustment programs have devoted considerable attention to four broad issues of public expenditure: (1) the level and composition of recurrent expenditures, (2) the size and allocation of public investment, (3) institutional
Almost all developing countries have been made significant cuts in every category of expenditure. A special attention is given to subsidies and social benefits as they involve large amounts of money. Cost-recovery schemes were employed to finance these items. Elimination of subsidies for food stuffs and fertilizers has been, however, very problematic and heavily criticized. The budgetary cutbacks usually leave lesser resources for public investment and require, therefore, a systematic process for priority setting and evaluation of public projects, a capacity many developing countries lack. Therefore, budgetary reforms, particularly improvements in the process of investment planning and priority setting and in capital budgeting and control, are widely emphasized in adjustment programs and loans.

The World Bank observed that budget significant budgetary resources are drained to finance investment outlays of public enterprises or their operating losses. Accordingly, the reform of public enterprises, including investment size and financing, budgetary transfers, pricing, personnel, and divestiture, is an important component of fiscal reform and conditionality in structural adjustment loans.

Adjustment programs have come increasingly to include elements of tax reform. The objectives of these reforms include revenue generation, efficiency and administrative simplicity. Revenues generated through the tax reform are used to reduce the budget deficit. There are aspects of the tax reform the World Bank related to equity. For example, shifting away from taxation of production to taxation of consumption, broadening personal income taxation to include income from all sources and eliminating the double taxation of dividends. [Vinod et al., 1991]

Components 2. Reforming Trade Policies

The aim of the trade policy reforms as proposed by the World Bank was to persuade developing countries to open up their economies and exploit their comparative advantage through lessening the trade restrictiveness and eventually removing the tariff and non-tariff barriers. The main components of trade policy proposals under adjustment lending included a reduction in restrictions on exports and imports and greater reliance on the price mechanism, that is, on exchange rate depreciation and the use of tariffs in place of quantitative restrictions. The proposals intended basically to reduce direct impediments to exports and restrictions on imported inputs for export production and to reform exchange rate policy. [Vinod et al., 1991]

A review of the World Bank's lending proposals revealed that almost all loans supported a greater use of price mechanisms, as well as reductions in the level and dispersion of tariff rates. Proposed reductions in quantitative restrictions on imports
were large in some cases but modest on average in the case of items both competitive and noncompetitive with domestic production. There has been less attention, however, to reforms that would promote greater internal competition. Because most proposals were put together quickly, as is usual in loans for direct balance of payments support, they often included plans for studies to identify needed future actions. Not much evidence is available for assessing progress on these studies. Proposals to reduce protection for import substitutes have been cautious. [Williamson, 1985]

Most programs envisioned that some level of effective protection would continue indefinitely. In some cases, particularly in Sub-Saharan Africa, additional incentives were introduced for import substitution—for example, higher duties on imported inputs that compete with domestic production. (Increasing the duties on imported inputs reduces the protection provided to finished goods that use them.)

The extent of implementation of trade policy reforms has varied greatly among countries and policy areas. Overall, price reforms have been relatively substantial under trade adjustment programs. Examples include removal of export taxes, introduction of duty drawback schemes for exporters, and more uniformity in tariffs. But there has been less success in institutionalizing and sustaining some of the price changes. By and large, institutional reform has been limited. There are many instances of abandonment, reversals, and flip-flops in price policies. Despite modest goals, Yugoslavia abandoned reforms, Cote d'Ivoire and Kenya made slow progress, Morocco and Thailand partially reversed their tariff policy reform, Argentina reversed its reform of quantitative restrictions, and Sierra Leone, Somalia, Uganda, and Zambia reversed their policies of exchange rate auctions.

**Components 3. Reforming Financial Sector**

The adjustment programs diagnosed three problems in the financial systems in developing countries. First, many financial institutions are extremely unsound; second, control over interest rates and the direction of credit is often excessive; and third, amounts to repression of the financial systems; and deposit money banks dominate the financial systems while the non-bank financial sector has been neglected. These problems have led to a situation of technical insolvency of the financial institutions in these countries. The structural adjustment of financial sectors in developing countries were directed toward restoring the solvency of the banks, freeing up the financial system, and developing a capital market. [Atiyas, 1989]

Restoring financial systems to a solvent state has been approached through three reform’s aspects. The first includes measures to determine the state of bank portfolios and the necessary provisions and write-offs. These measures include the strengthening of accounting and auditing systems and skills, implementation of external audits, and classification of the portfolio according to loan quality. The
second includes measures to implement provisioning rules for less severely affected banks and to require weaker banks to clean up their loan portfolios and install new management. The third includes measures to improve bank supervision and regulation for the system as a whole to ensure timely provisioning against losses and provide information for both bank management and regulators. [Vinod et al., 1991]

Freeing up the financial system is accomplished through a reform package aiming at using broad market signals wherever possible to improve the effectiveness of the financial sector in mobilizing and allocating resources. These package includes removing all interest rate controls on deposits, withdrawing interest subsidies and cross-subsidies, reducing the complexity of sectoral credit targets and their deviation from uncontrolled levels, removing credit ceilings in favor of broad instruments of monetary control, allowing commercial banks to engage in underwriting or to invest in private corporate securities, limiting entry barriers to those required by prudence, reducing fiscal or quasi-fiscal burdens on the financial sector such as those caused by low remuneration of heavy reserve requirements, and liberalizing foreign exchange controls. [Gelb, 1989]

The development of a capital market involves four main areas of policy reforms. First, legislation is needed to establish an adequate regulatory framework for both primary and secondary markets so that a variety of securities can be sold. Second, taxation reform is needed to reduce disparities in the effective rate of taxation of different types of security in order to reduce fiscal disincentives, especially to the use of equity and long-term debt. Third, technical assistance and training are needed for the establishment of necessary institutions and intermediaries. Fourth, an appropriate framework is needed for providing adequate liquidity to the market. This might, for example, include increased authority for banks to participate in securities markets.

Components 4. Reforming the Public Sector

Review of the public sector reform packages in developing countries revealed three general areas for reform. The first includes reforms of the macroeconomic policy and financial frameworks affecting public enterprise performance. The second includes reforms of the institutional framework, the ways in which the government guides, supervises, and evaluates public enterprises. The third deals with the issues of divestiture.

Reform of the policy framework includes typically the reduction of the role of the state both the productive and the service sectors. This involves (1) analyzing and clarifying which economic activities are appropriate for state involvement; (2) classifying enterprises on the basis of whether they should be retained, restructured, sold, or closed; and (3) identifying specific enterprises to be sold or closed, subsectors in which privatization will take place, and measures to facilitate or support the sale of enterprises. Furthermore, labor policies are reviewed to combat
excess staffing and substantial layoffs is required to cut costs considerably. The resulting savings in the wage are then directed to reduce the budget deficit and to motivation schemes to the remaining labor force.

The second area in reforming public enterprises includes reform of the institutional framework and rehabilitation of enterprises. This achieved through desegregation of these enterprises into many parts and the creation or improvement of control and guidance agencies in the central managing organization in the technical ministries, particularly industry and agriculture; or in holding companies. Strengthening of information and monitoring systems to provide the data on public enterprises needed to guide and evaluate their performance is an essential area of reform. Rehabilitation of individual public enterprises starts with diagnostic studies for individual firms. Management and financial audits frequently follow the diagnostic studies, followed in turn by recovery plans or rehabilitation programs. [Vinod et al., 1991]

Divestiture, which is an essential part of the public enterprises reform refers to the full range of mechanisms by which the state reduces its direct involvement in the economy; the full or partial sale or transfer of ownership, the sale of assets, leasing arrangements, contracting out, and liquidation. Other divestiture actions include leasing arrangements and management contracts.

Components 5. Reforming Agricultural Sector

The crisis of the agricultural sector in developing countries is attributed to the fact that since the 1950s industrial development was financed through schemes that adversely affected agricultural development. These include taxation of agriculture, pricing policies that depressed food and agricultural commodity prices so that wages could be kept low, overvalued exchange rates and commercial policy that discriminated against exports, establishment of parastatal agencies to carry out government policies in all sectors, and heavy borrowing from abroad. [Rodtik, 1988]

According to the World Bank, the inflow of foreign capital, invested to a large extent in the industrial sector, led to further overvaluation of the real exchange rate and shifted the internal terms of trade against agriculture. As a result, by the late 1970s many developing countries had large foreign debts to service, little potential for growth because industrial sectors had failed to develop as planned, and agricultural sectors that were functioning poorly after years of hostile policies. In low-income Sub-Saharan Africa, for example, the agricultural growth rate fell from 2.6 percent a year in 1965-73 to 1.4 percent in 1973-84 [World Bank, 1986].

It soon became clear that World Bank project lending in this distorted policy environment further discouraged agricultural growth by perpetuating overvaluation through the provision of foreign exchange and by indirectly sanctioning the
continuation of anti-agricultural policies. To foster macro-level and sectoral reforms while providing countries with the foreign exchange they urgently needed to carry out these reforms, the World Bank included reforms of the agricultural sectors as an integral component of the structural adjustment. This reform includes the areas of pricing and institutional reform.

Reforms of agricultural pricing policies include those affecting the level and stability of prices, liberalization of agricultural trade, and reduction in government involvement in the marketing and distribution of agricultural outputs and inputs. The goals are to relinquish control of agricultural markets over producer process, to decontrol of consumer prices, to eliminate or at least reduce subsidies to agricultural products and to increased prices or reduced subsidies for the three most important agricultural inputs—fertilizer, water, and credit. Policies for trade liberalization are also required. This involves removing restrictions or reducing taxes on exports of agricultural products or imports of agricultural inputs. [Sturzenegger, 1992]

The two main subcategories of institutional reform are privatization and deregulation of markets. Privatization aims at addressing two essential problems featuring the performance of public agricultural companies in developing countries. First, the legal monopoly power enjoyed by these companies usually leads to inefficient operation and large fiscal losses. Second, they are the instrument through which the state carries out the pricing and regulatory policies that have done so much harm. Therefore, countries were required to achieve one of the several forms of privatization. First, private sector should be allowed to compete with the public enterprises in a particular market or that some public enterprises be divested or closed. Second, the public enterprises should be reorganized so that they operate more efficiently. Third, some divestiture is required. Fourth, public enterprises is abolished and completely privatized or withdraw from direct participation in the market. Deregulation requires the removal of any sort of market controlling exercised by the state.

**The Claimed Impact on Health of Structural Adjustment**

The first significant account on the impact on health of structural adjustment policies is the UNICEF-supported “Adjustment with a human face” [Comia et al., 1987]. Based on case studies of 10 countries, the report expressed concerns about the social cost of adjustment policies. With respect to health, a general deterioration of major indicators of child health was observed, including child survival and malnutrition. For example, the decline in infant mortality rates witnessed in almost all developing countries before 1982 was shown to reverse or to slow down. The reverse was indicated to be more significant in Sub-Saharan Africa. Likewise, malnutrition were indicated to had been on the increase in almost all developing countries in Africa, Asia and Latin America. This increase mounted to 50 percent in
Ghana and Peru. Finally, deteriorating levels of mortality and morbidity to communicable diseases were reported in several countries. In summary, the situation was described to be devastating.

Whether the economic crisis or the adoption of structural adjustment policies was the reason for such a deterioration was not the intention of the study. Furthermore, it was indicated that the economic crisis was recognized as the primary cause of the downward economic pressures on the human situation in most of the countries. However, the report defined several ways through which adjustment policies could have contributed to the deterioration in child health. These included 1) an indiscriminate cuts in governmental health expenditure, 2) a radical reduction in real food subsidies, 3) sharp increases in food prices and 4) the often-regressive fiscal policies of orthodox adjustment programs.

However, the “Adjustment with a Human Face” has several limitations. First, it analyzed only in the earliest phases of adjustment policies, and therefore focused primarily on stabilization rather than structural adjustment. Second, its case-study approach limited the extent to which the observed changes in health status could be linked to particular aspects of economic policy. Notwithstanding, it remains the only in-depth empirical study of and the first to draw attention on the potentially detrimental impact on health of structural adjustment.

Since then, a growing body of literature has been pointing to adjustment policies as the main cause of failure in reversing the deteriorating health indicators in developing countries. Irrespective of the strength of the epidemiological evidence, a state of consensus has been reached about the detrimental impact on health of adjustment program. This can be exemplified by the following statement of ##, who referred to adjustment in his article as globalization.

> Everyone agrees that the process of globalization has made the gap between rich and poor greater, both within and between countries. This factor alone has had serious consequences for the health of the poor. In India, for example, while the elite and the middle class have grown over the past decade, malnutrition among the children of the poor has not improved, and may have worsened. In sub-Saharan Africa, one of the poorest regions of the world, declining economic conditions have resulted in mortality rates actually rising in some countries.

The initial response of the World Bank to these remarks was skeptical and included several concerns about the strength of evidence, the quality of data and the appropriateness of the methodology. Adjustment was largely believed to be benign or even beneficial to all groups and any negative drawbacks is essentially transitional and will quickly be reversed by the economic growth generated by adjustment.
Focusing on Africa, the Unicef produced a second report in 1992 with updated new country case studies. The report documented further deterioration in child and maternal health in adjusting African countries and suggested interventions to mitigate this deterioration. Nevertheless, the report avoided making any link between such a deterioration and structural adjustment.

Ever since the second Unicef report was published, criticism has intensified over the resultant negative effects on health. Child and maternal health continued to be the two areas where the impact of adjustment was believed to be significant. The perceived negative impact was voiced in a harsher manner by an observer in the following paragraph.

Today in Ethiopia a hundred thousand children die annually from easily preventable diseases while debt repayments are four times more than public spending on health care. In Tanzania, where 40 percent of people die before the age of 35, debt payments are six times greater than spending on health care. In Africa, where one in every two children of primary-school age is not in school, governments transfer four times more to northern creditors in debt payments than they spend on the health and education of their citizens. Truly dreadful things are being done in the name of debt repayment that would otherwise have to be recognized for what they are: the grossest abuse of even the most elementary requirements of human dignity.

In a more concrete manner, a contributor of the prestigious Lancet wrote that structural adjustment policies in his country have become "too painful to bear" and that the health gains, especially in maternal and child health, of the 1960s and 1970s have been lost. The World Bank was even claimed to be the only responsible for the ill-health and suffering of millions of people in developing countries. This was voiced by another contributor of the Lancet in the following sentences.

The economic hardliners at the Bank (and they are still in the majority) would do well to remember how much pain could have been avoided, and how much of the health gains of the 1960s and 1970s could have been preserved, if they had listened to their in-house experts and kept the human element firmly in view.

However, this pessimistic view in modeling the effect of adjustment programs on child health was not shared by a number of reviews carried out after the "Adjustment with a Human Face". Through modeling the trends of infant mortality in adjusting and non-adjusting countries, these reviews concluded that there was not evidence to support the previously contended detrimental impact. Although data from Sub-Saharan Africa showed that childhood mortality might have stalled or even reversed, there has been no change in the overall pace of mortality decline in the developing world over the last three decades. Furthermore, data from individual
countries which have undertaken adjustment programs show conflicting trends, with the majority of these countries have continued to show steady declines in infant and child mortality.

Studies of the World Bank went this line by revealing that the infant mortality remained lower during the 1980s than it had been in the 1970 in the intensively adjusting countries, and that it continued to improve modestly. Others contended that the overall pace of decline slowed down in the intensively adjusting countries till 1987 only because of Chile and that it accelerated elsewhere. In addition, evidence was given by other to the notion that adjustment and recession did not impede progress in reducing infant and child mortality.

Others asserted that it is the debt size and the economic crisis and not the structural adjustment that determined the trends of childhood mortality. This was supported by the finding that the decline of infant and child mortality accelerated in adjusting and non-adjusting with low levels of debt and remained simultaneously unchanged or reversed in severely indebted adjusting and non-adjusting countries.

With Respect to maternal health, structural adjustment has been blamed to cause reversals in maternal mortality and morbidity in developing countries. Women [and children] were indicated to be the first groups to feel the detrimental effects of adjustment. Vulnerability of women is attributed to their weak position in the existing power relations in the developing societies. A review describing these reversals as "SAPing maternal health" presented to this impact in the following paragraph.

Maternal health, we pointed out, had been particularly hard hit by macroeconomist-driven policies designed to restructure the financial outlook of ailing governments. [Structural adjustment] must shoulder a large part of the blame. [Adjustment] is prejudiced against social welfare and has thereby helped to precipitate a catastrophe in which virtually all economic, social, educational, and public health gains made in the 1960s and 1970s have been wiped out. SAP may work in countries that already have a good administrative infrastructure and high levels of literacy but not where these basic elements are lacking. Expert predictions are that, if such policies continue, it will take another 30 years to attain the living standards of 25 years ago.

A recent study in Tanzania made structural adjustment responsible for the deterioration in maternal and child health indicators and for bad performance of the health system at all levels. These indicators include maternal mortality, infant and under 5 mortality, malnutrition, anemia and AIDS. An improvement in maternal and child health was indicated to be impossible if structural adjustment was not removed or at least reviewed. The following paragraph shows the extent of the claimed impact of adjustment on the health system.
Structural Adjustment and Health

It is now evident in Tanzania that SAPs have done and continue to do more harm than good to the general population. As far as the health sector is concerned, the basic right to good health has been curtailed and women and children are suffering most as a result. Liberalization of health and medical services in Tanzania constitute a health hazard. Quality control of both drugs and services becomes problematic in a situation where services are scarce and people are desperate. Cases of expired drugs being sold after faking labels seems to be the order of the day. The number of private clinics being opened, some of which are housed in unhealthy environments, continues to increase. The medical and health personnel working in these clinics leave much to be desired. Some cleaners and nurses pose as competent doctors and prescribe medicine. The activities of these fake personnel flourish because of widespread ignorance on the part of patients, the elitism that characterizes the structure of health care services, the cheapness of services offered by quacks and their make-shift dispensaries, and the problems of access to genuine personnel given the present economic crisis. Self-medication and non-compliance with medical instructions are also widespread. The reasons are many: ignorance, the high cost of consulting a doctor, lack of access to medical facilities, the time lost in hospitals by those who have no 'connections' with staff, very easy access to drug stores and hawkers, and reliance on 'cure all' capsules.

In response to the growing criticism, the World Bank carried out several studies evaluating the social impact of adjustment using some health indicators. The Bank acknowledged in some of these studies that adjustment has had negative impact, but described this impact to be short-term and minimal. They acknowledged therefore the need to protect government expenditure on health and to run programs to support the poor during adjustment. A commentator described the behavior of the World Bank and the Unicef after this shift in the following paragraph.

This shift has taken place primarily since the publication of (and largely in response to) Adjustment with a Human Face; and the World Bank appears to believe that it has resolved the problem. Unicef also seems largely to have accepted that the face of adjustment is now relatively human, although it continues to call for further changes in the adjustment process.

However, recently a growing body of literature has postulated that structural adjustment has been one of the strongest causes of spreading HIV hindering malaria control in developing countries. Structural adjustment was linked to increased rates of migration from rural to urban areas. This was explained by the claim that structural adjustment benefits cities at the expense of rural areas, causing a migration of jobs and resources to urban centers. Men who migrate to work in cities were suggested to be sexually promiscuous. They usually attract the infection there and transfer back to their villages. Since the women in rural areas remain
dependent on their male partners for financial support, they are limited in their ability to negotiate for safe sex when men return to the villages. Also, the women who remain in rural areas for long periods without their husbands may be more likely to take other sex partners, thereby increasing their risk for HIV infection.

Furthermore, structural adjustment was conjectured to help spread AIDS by giving women incentives to move to urban centers, where they often become prostitutes. This argument was exemplified with Thailand, where structural adjustment policies have promoted tourism and caused many Thai women to enter the commercial sex industry. These adjustment induced developments were claimed to have raised the prevalence of HIV among the one million Thai prostitutes to 65 percent in 1994.

The role of structural adjustment in spreading HIV was further postulated by researchers from the University of California San Francisco (UCSF) who stated that the IMF and the World Bank had created social and economic forces that may had contributed to the spread of HIV infection in developing countries. They attributed the failure of HIV prevention efforts in these countries to their focus on changing the risk behavior of individuals, overlooking socioeconomic factors, especially structural adjustment that have contributed to the spread of HIV.

Structural adjustment was suggested to have resulted in four phenomena that placed populations at risk of HIV infection. First, currency devaluation, investment concessions, and other efforts to increase exports led to the declining sustainability of rural subsistence economies. This led to increased migration rates. Second, the development of transportation infrastructures mandated by the adjustment programs to support the export economy gave rise to the infamous truck routes along which HIV tends to be spread. Third, cuts in government spending on health and social services under adjustment policies weakened the capacity of the health system in responding to the HIV threat.

In addition to HIV, malaria control in Nicaragua was suggested to be hurt by structural adjustment policies, which established, a voluntary retirement plan to decrease public payrolls. This resulted in the elimination of a large number of nurses and doctors, experienced in malaria control. The technical expertise available to the malaria control program was claimed to have been significantly weakened. Furthermore, adjustment caused migration from rural areas to industrial cities, where they reside into slums near a large lake that is the northern border of the capital Managua. As a result, Managua became a major focus for malaria transmission. Furthermore, adjustment dictated cuts in the budget devoted to the control activities and a decrease in the number of volunteers. All these made the authors conclude that the contra war was less of a barrier to effective malaria control than the structural adjustment program of the 1990s.