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

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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 (Noorbakhshsh 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 $\rightarrow$ BOP crisis resolution $\rightarrow$
    Policy reform $\rightarrow$ Investment $\rightarrow$ Growth
  - Effect very distant from cause
- Empirics miss many adjustment programs
  - Only IMF (and 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 (ΔInflation, ΔExchange Rate, ΔDeficit)

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

<table>
<thead>
<tr>
<th>Variable</th>
<th>(^2) Inflation</th>
<th>(^2) Exchange Rate</th>
<th>(^2) Budget Deficit</th>
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<tr>
<td>Structural Adjustment dollars</td>
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<td>0.000</td>
<td>-0.185</td>
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<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.22)</td>
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<td>Number of Projects</td>
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<td>-115.200</td>
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<td>(14.00)</td>
<td>(684.00)</td>
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<td>Struct. Adj. dollars (lagged)</td>
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<td>Number of Projects (lagged)</td>
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<td>-5968 **</td>
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<td>(15.40)</td>
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<td>Population Growth</td>
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<td>(27.30)</td>
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<td>GDP Growth</td>
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<td>(4.09)</td>
<td>(267.00)</td>
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<td>R-squared</td>
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Results for Individual SA Lenders

- For $\Delta$Inflation, only Japan significant
- For $\Delta$Exchange Rates, no donor significant
- For $\Delta$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