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 (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 (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

Variable	² Inflation	² Exchange Rate	² Budget Deficit
Structural Adjustment dollars	0.000	0.000	-0.185
	(0.00)	(0.00)	(0.22)
Number of Projects	-10.160	-115.200	0.000
	(14.00)	(684.00)	(0.00)
Struct. Adj. dollars (lagged)	0.000	0.000	3674
	(0.00)	(0.00)	(2447)
Number of Projects (lagged)	-0.363	-644.800	-5968 **
	(15.40)	(664.00)	(2496)
Exchange Rate	0.000		-0.001
	(0.00)		(0.00)
Population Growth	-12.220	104.300	-5593
	(27.30)	(738.00)	(3450)
GDP Growth	-7.456 *	-109.000	459
	(4.09)	(267.00)	(389)
GDP in Millions	0.000	0.087 **	0.000
	(0.00)	(0.04)	(0.00)
External Debt	0.000	0.000	0.000
	(0.00)	(0.00)	(0.00)
Constant	-3.961	1277	-8336
	(51.10)	(3178)	(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 ΔInflation, only Japan significant
- For ΔExchange Rates, no donor significant
- For ΔDeficits, 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