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SOCIAL DIMENSIONS OF STRUCTURAL ADJUSTMENT AND STABILISATION PROGRAMMES IN OIC MEMBER COUNTRIES*

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Economic crises in the form of deteriorating balance of payments, increasing budget deficits and foreign debt, high inflation, and falling economic growth hit many developing countries during the late 1970s and 1980s. As a result, the economies of many of these countries were in a slump throughout the 1980s, living standards fell, and poverty increased. In response, many countries have engaged in structural and sectoral reforms through the Stabilisation and Structural Adjustment Programmes (SAPs) of the IMF and the World Bank to bring their economies back into line with international economies and to set the conditions for sustained long-term economic growth. However, SAPs affected not only economic growth but also social welfare and living conditions. The economic conditions in many adjusting countries did not improve to reach the desired levels. In addition, poverty increased and social conditions continued to deteriorate, particularly on the African continent, where the numbrer of poor has been growing rapidly. This paper attempts to identify the notable negative impact of SAPs on developing countries, and the OIC member countries in particular; and to recommend some policy measures that might be useful in redressing the social impact of policy reforms.

1. INTRODUCTION

1.1. Collapse of world prices of many primary products, deteriorating terms of trade, droughts, expansionary fiscal policies, and the unsustainable debt burden have been among the notable factors responsible for sluggish economic growth in many parts of the developing world. The consequent worsening of economic conditions in these countries necessitated the adoption of far-reaching policy reforms to regenerate sustainable economic growth. Countries responded to the economic crises by putting in place a multitude of policy reforms covering most economic sectors, with the assistance of the World Bank and the International Monetary Fund. Indeed, policy reforms were

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needed and implemented in both developed and developing countries. For instance, Great Britain started its policy reforms in the 1970s.

1.2. While the adoption of policy reforms was inevitable and necessary for many developing countries, after decades of policy reforms and the execution of structural adjustment programmes (SAPs), the economic conditions in the majority of developing countries did not improve to reach the desired levels, particularly in the African continent. In addition, the execution of the policy reforms has resulted in immense social and political problems. This paper attempts to identify some of the notable social effects of structural adjustment programmes and to recommend a few policy measures that might be useful in redressing the negative social impact of policy reforms. The paper does not intend to assess the relevance and appropriateness of the SAPs themselves but aims to identify their social impact on developing countries, and the OIC member countries in particular; the analysis will not cover the case of developed countries which adopted policy reforms.

1.3. The paper is organised as follows: The subsequent section briefly reviews the main factors that necessitated the implementation of policy reforms. Section 3 enumerates the basic features of structural adjustment and stabilisation programmes implemented in many developing countries. Section 4 then reviews the impact of policy reforms on the economies of developing countries, and OIC member countries in particular. Section 5 tackles the social dimension of policy reforms and explains the mechanism through which SAPs exert a negative impact on the social sector. Section 6 of the paper outlines some of the policy measures that were undertaken to reduce the social impact of policy reforms. Section 7 reviews the roles of the Organisation of the Islamic Conference (OIC) and the Islamic Development Bank (IDB) in the promotion of the social sector. The final section summarises the findings of the paper and draws some lessons for implementation of policy reforms in the OIC member countries with a "human face" in the future.

2. THE NEED FOR POLICY REFORMS

2.1. Buffeted by an adverse international economic environment in the 1970s and 1980s (rises in oil prices during 1974-1979, deteriorating terms of trade, and rising interest rates), heavy debt burdens, excessive fiscal imbalances, droughts and other natural calamities, and political and civil strife, many developing countries were confronted with the formidable challenge of achieving a satisfactory and sustainable economic growth to meet the needs and aspirations of their rapidly growing population. The adverse developments in the world economy and the widespread restrictive demand management measures implemented in the 1970s and early 1980s exposed the weakness of many developing countries, particularly in Africa, Latin America and parts of

Asia. They also exposed their vulnerability to external shocks and the unsustainability of existing economic policies to address such change. Imbalances in major macroeconomic economic variables then began to emerge and economic growth decelerated. However, the period following the 1981-1985 period saw a massive deterioration in most macroeconomic variables.

2.2. GDP per capita declined in many parts of the developing world since the mid-1970s, particularly in most of the African countries. Economic conditions deteriorated further in the 1980s when export levels declined, agricultural exports slipped, and most countries failed to diversify their export base. Agriculture deteriorated more than other sectors and the physical infrastructure worsened further from lack of maintenance and also the quality of government services deteriorated. The public sector enterprises failed to meet their objectives and constituted considerable and continuous drain on government finances. Government deficits increased and many governments resorted to deficit financing which led to increased imbalances and resulted in inflationary pressures. Because of the above-mentioned factors, many developing countries had to adjust.

2.3. Thus, the need to restore the various macroeconomic balances was recognised and short-term standard (demand-management-based) stabilisation policies were initially implemented in many developing countries. However, by the mid-1980s a shift in economic policies occurred by moving towards more comprehensive structural adjustment programmes (SAPs), with the assistance of international financial institutions (notably, the Breton Woods institutions). The purpose of these reforms was to assist countries to re-structure their economies, make them more competitive and put them on a path of resumed sustainable growth.

2.4. Basically, structural adjustment and transformation policies were needed to alter the production pattern in favour of increased production of tradables at the expense of non-tradables and to increase the aggregate production potential of developing economies. The need for these policy reforms was felt by developing countries at different times according to the severity of the external factor facing individual countries and the nature of economic policies adopted in these countries. The intensity and deepening of policy reforms also varied considerably among developing countries according to the economic conditions as well as the socio-political environments they faced.

3. THE DESIGN AND IMPLEMENTATION OF STRUCTURAL ADJUSTMENT PROGRAMMES (SAPS)

3.1. To tackle the deep-rooted structural problems and financial imbalances and to counter the adverse effects of a difficult external environment, a number of developing countries, including a number of OIC member countries, embarked on policy reforms and adopted structural adjustment programmes, with the assistance of the Breton Woods institutions. The IMF supports reform, in poor countries in particular, through its Enhanced Structural Adjustment Facility (ESAF). Under ESAF, the IMF extends support for 3-year SAPs aimed at fostering economic growth and strengthening the country's external position. Based on their *per capita* incomes, 79 IMF member countries are now eligible for ESAF assistance, and the IMF is currently supporting ESAF programme in 34 countries.[1]

3.2. The key objectives of SAPs are the achievement of a satisfactory sustainable rate of economic growth, reduction of inflation, and the attainment of a viable balance of payments position over the medium term.[2] In the design of these programmes, achieving domestic and external financial stability was seen as the more important ingredient for a sustainable rate of economic growth. Although the programmes were designed within a medium-term framework, most were geared towards enhancing economic growth even over the short run. The programmes involve: (a) structural measures to increase productivity and promote capital formation by reducing distortions and physical bottlenecks; and (b) macroeconomic policies to align aggregate demand with the available resources, mobilise saving and investment and release resources to the private sector.

3.3. SAPs contain at least four major components: (i) "getting the price right" to reflect the scarcity of foreign exchange, capital and domestic output; (ii) reducing the role of the State in the economy by public sector reforms and liberalisation of the financial sector; (iii) erosion of urban bias to achieve growth with equity; and (iv) the adoption of a shock-treatment approach to adjustment.

3.4. In addition to depreciation in the real exchange rates, SAPs involve a combination of supply-side and demand-side policies. The demand-side measures include monetary, fiscal, and wage restraints. The budgetary and wage restraints are believed to have wide effects on government services. The

[1] IMF (1997; 32).
[2] See Nsouli (1993).

supply-side measures include policies to restore the incentive structures in favour of exportables and efficient import substitutes. Currency devaluation and trade liberalisation have been the key policy instruments in the supply-side measures designed by SAPs. Supply-side measures also include the reduction of intra-sectoral price distortion and other measures to improve efficiency and create an institutional environment conducive to growth. Demand-side measures (or stabilisation) policies are contractionary in effect and they act rapidly, while supply-side measures are usually expansionary but require time to take effect.

3.5. The experience of developing countries with the implementation of SAPs has been mixed. While a few countries maintained a systemic implementation of reforms, others have slipped in the reform process and some policy reversals were noted in a few countries. Moreover, some aspects of the reform process were implemented more successfully in comparison to some others. For example, tightening of fiscal policies, trade liberalisation, elimination of price controls, and depreciation of currencies were implemented systematically in a number of countries. However, policy reforms related to public enterprises and the financial sector lagged behind.[3]

4. ECONOMIC IMPACT OF POLICY REFORMS

4.1. Most of the adjusting countries, particularly those in Africa, have made significant progress in liberalising their economies (pricing and market policies). Exchange rates have also been adjusted in many developing countries to reflect market conditions.[4] In addition, SAPs brought fiscal and monetary balances under control. Consequently, balance of payments situation improved in many of the adjusting countries. The programmes included also actions to rehabilitate, privatise or liquidate public enterprises, which constituted a drain on their economies.

4.2. A number of empirical studies were undertaken to evaluate the economic impact of policy reforms in developing countries. However, the evidence emanating from these studies has not been conclusive. Although there has been a remarkable improvement in macroeconomic variables in adjusting countries, some of these variables have deteriorated even after the sustained implementation of reforms. For example, Nsouli (1993) examined the performance of 30 Sub-Saharan African economies before and after policy

[3] For an extended review of the implementation of policy reforms in Africa, see World Bank (1981, 1989, 1990 and 1994) and Elbadawi (1994).
[4] See Nsouli (1993; 21).

reforms. His results show that for the group of countries with sustained programme implementation, the current account balance deteriorated as much as in countries with interruption in the programme implementation. His analysis shows, however, an improvement in GDP growth and reduction in inflation in countries with sustained implementation of policy reforms.

4.3. The World Bank's 1994 study also assesses the impact of SAPs on 29 Sub-Saharan Africa countries that were undergoing policy reforms during 1987-1991.[5] It concludes that SAPs were working in African countries with sustained policy reforms while economic performance was poor in countries that did not improve their macroeconomic policies.[6] However, the World Bank study asserts that SAPs would not put countries on a sustained, poverty-reducing growth unless they were combined with long-term development plans with more emphasis on human and physical capital.

4.4. The IMF (1) assesses the economic performance of 36 developing countries benefiting from ESAF assistance under SAPs over 1986-1994. Sixteen countries of those included in the sample of the IMF's study are OIC members.[7] The general conclusion of the study is that gains under ESAF have helped improve growth and living standards and achieve progress toward external viability. However, the study also recognises that the gains could be attributed to the improved international economic environment during the last three years of the period under analysis. It also notes that progress was uneven, reflecting in large part policy weaknesses, and that most countries continued to fall short of their potential. The study adds that, on average, only half of the targeted reduction in budget deficits was achieved. Performance varied widely and almost half of the programmes produced no improvement with respect to fiscal consolidation. With regard to economic growth, the study asserts that not all ESAF countries shared equally in the recovery and most African countries in the sample experienced only a small degree of convergence toward the average growth rate of the developing world.

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[5] The sample included: Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo, Cote d'Ivoire, Gabon, Ghana, Guinea, Guinea-Bissau, Kenya, Liberia, Mali, Malawi, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Sierra Leone, Senegal, Tanzania, the Gambia, Togo, Uganda, Zambia, Zimbabwe.

[6] For a review of the World Bank's (1994) study, see Mohammed (1994 a).

[7] The sample included the following OIC member countries: Benin, Burkina Faso, Mali, Niger, Senegal, the Gambia, Guinea, Mauritania, Mozambique, Sierra Leone, Togo, Uganda, Bangladesh, Pakistan, Albania, and the Kyrgyz Republic. See the IMF (1997)'s study for further details.

4.5. Annex 2 shows that the 16 OIC-member countries included in the IMF's study made little progress in improving the state of their human development since the 1960s. More importantly, these countries, after implementing SAPs and benefiting from ESAF, did not manage to increase GDP per capita for their population. For instance, GDPs per capita in Niger and Senegal in 1993 were lower than the levels attained in 1990, 1980, 1970, and even 1960. In Benin, GDP per capita in 1980 was lower than those levels achieved in 1980 and 1970. GDPs per capita attained in Albania and the Gambia in 1993 were lower than those attained by the two countries in 1990 and 1980. Similarly, GDPs per capita achieved in Guinea and Sierra Leone in 1993 were lower than those attained in 1980 and 1970. In the Kyrgyz Republic, GDP per capita in 1993 was less than half of the level achieved in 1990 and lower than those levels achieved in 1980 and 1970 (see Annex 2).

4.6. The data contained in Annex 4 also show that the trend of other macroeconomic variables in the 16 OIC countries during 1984-1994 has not been encouraging. Both the Gambia and Guinea had average annual inflation rates in excess of 10% while the average rates had been in excess of 50% in Mozambique, Uganda, and Sierra Leone during the same period. The percentage annual growth rate of exports (as percentage of GDP) had been negative over 1980-1993 in Benin, Burkina Faso, Niger, Togo, the Gambia, Mozambique and Sierra Leone. In addition, the overall budget deficit (as percentage of GNP) increased in Pakistan from –5.8% in 1980 to –6.9% in 1994 (see Annex 4).

4.7. The experience of other OIC member countries has been contrary to those in Sub-Saharan Africa. For example, the implementation of policy reforms in Tunisia in the 1980s, and in Syria since the mid-1980s, and other Asian countries such as Jordan, has been marked with success. Most macroeconomic variables have improved in these countries with GDP growth rates higher than during the periods before policy reforms.

4.8. A major shortcoming of SAPs, which has been noticed in most of the adjusting countries and in various regions of the developing world, has been their failure to revive saving and investment rates in adjusting countries to reach even pre-crisis levels. Without higher rates of domestic resources mobilisation, developing countries are unlikely to embark on a sustainable path of economic growth and development.

5. SOCIAL EFFECTS OF SAPS

5.1. Overview

5.1.1. When SAPs were first introduced in the early 1980s, no measures to protect the poor and vulnerable groups in developing societies were explicitly incorporated in their design with the assumption that any negative social impact would be of a short-term nature.[8] The social effects of policy reforms, however, have since then become a rallying point for the critics of SAPs, and the extent of these effects is gaining recognition even among the international financial institutions and adjusting developing countries.

5.1.2. Academic researchers, non-governmental organisations (NGOs) and development financial institutions, undertook a number of empirical studies on the social impacts of SAPs. These studies varied also in their coverage, time frame of the analyses, methodology, and, consequently, in their conclusions. However, the emerging evidence tends to suggest that the impact of policy reforms is affecting disproportionately the poor and vulnerable groups through a multitude of channels and policies resulting from the implementation of SAPs.

5.1.3. The importance of the social sector to the process of sustainable economic growth and development needs to be highly emphasised. While human welfare is considered to be the objective of any development process, any effects on the welfare of the whole population or some segments of the society are contrary to the basic objectives of sustainable economic development. More importantly, as economic growth itself is not an objective of economic development *per se*, for economic growth to be sustained in the medium and long-terms, human resources need to be enhanced and promoted.

5.1.4. The importance of the social sector and human resource development for economic development is generally recognised by developing countries, development financial institutions and other development partners. A major international conference was held in Khartoum, Sudan, 5-8 march 1988 to assess the human dimension of Africa's reform programmes and the conference issued what is known as the 'Khartoum Declaration'. The Declaration emphasises the importance of the human dimension for the process of economic development and stresses that the entire process of monitoring the stabilisation and SAPs must incorporate the social aspects and criteria. The delegates to the conference assert that:

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[8] UNICEF (1987).

> "the human dimension is the *sine qua non* of economic recovery. We, the delegates here assembled, will not abide economic rationale, will not tolerate economic formulas, will not apply economic indices, will not legitimise economic policies which fail to assert the primacy of the human condition. This means, quite simply, that no structural adjustment programme or economic recovery programme should be formulated or can be implemented without having, as its heart, detailed social and human priorities. There can be no real structural adjustment or economic recovery in the absence of the human imperative" [United Nations (1988; 23)].

5.1.5. The African Development Bank, for example, in its review of policy reforms in Africa concluded that:

> "While countries that adopted adjustment programmes in the 1980s could, a decade later, point to some progress in the fiscal and monetary areas, as well as in their balance of payments, few could, with any degree of confidence, point to a significant improved situation for their poor and vulnerable groups" [African Development Bank (1995; 237)].

5.1.6. To assess the effect of SAPs on social sector spending, the World Bank carried out a review in 1993 of 16 countries, which have received adjustment lending, and 13 that have not. The results of the review indicate that while levels of public spending have decreased in the adjusting countries, misallocation of public spending remains a problem.[9] Outlays for important but politically less visible operations and maintenance – such as provision of drugs and supplies for health clinics and road repairing – have been reduced. Allocation within the social sectors continued to be skewed away from high-return, equitable primary services such as primary education, and preventive health care toward tertiary levels, particularly universities and hospitals. And little progress has been made in reducing excessive public sector employment.

5.1.7. The channels through which SAPs are believed to exert a negative impact on the social sector are numerous. The most important conduits for the social impact of reforms are their effect on: (i) poverty; (ii) human resource development (education and health services in particular); (iii) disproportional effects on women; (iv) population dislocation, migration and brain drain; and (v) civil unrest and conflict. Although most of these conduits are inter-linked, the subsequent sections of this paper attempt to identify ways through which SAPs exert their impact on each individual category.

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[9] See Pardhan and Swaroop (1993).

5.2. SAPs and poverty

5.2.1. After the implementation of reforms in many developing countries, particularly in Africa and Latin America, incidence of poverty increased. This could be stressed despite the facts that data on the poor and their livelihood are often of poor quality, making an accurate assessment of household impacts rather difficult. Nonetheless, in Africa, for instance, it was estimated that the number of the poor reached 180 million in 1985 (47% of the population) and is expected to increase by a further 100 million by 2000.[10]

5.2.2. Out of 21 OIC member countries for which data on poverty levels are available (see Annex 1), nine countries had more than half of their population, in 1994, in absolute poverty (Turkmenistan, Kazakhstan, Kyrgyz, Bangladesh, Uganda, Senegal, Guinea-Bissau, Niger and Sierra Leone).

5.2.3. Whether to relate this increase in levels of poverty to SAPs or deteriorating economic conditions that could have prevailed even in the absence of policy reforms, has been an issue of policy debate for some time. It has also been claimed that it was difficult to trace the link between policies at the macro level and the responses at the micro level. However, some obvious mechanisms through which SAPs could lead to increases in the level of poverty can be identified.

5.2.4. First, the creation of employment has been a major goal of structural adjustment. SAPs affect employment and earnings through product, labour and capital markets. In the product market, contractionary fiscal and monetary policies such as devaluation and reduction in budgetary allocations for infrastructure rehabilitation reduce aggregate demand. In the labour market, the changes in the process of private and public sector wage determination affect employment opportunities together with the retrenchment of public sector employees. In the capital market, alterations in the price of capital to producers and the elimination of financial repression also affect employment opportunities.[11]

5.2.5. The record on job creation in most of the adjusting countries has been disappointing, and a sharp decline in public sector employment has been noticed in many countries.[12] Indeed, SAPs have resulted in the retrenchment of

[10] Ferroni and Grootaert (1993; 1).
[11] For the direction of these effects on labour markets, see Addison (1993; 79-90).
[12] See ILO (1993).

public sector employment while the low levels of domestic investment (a failure of SAPs) prevented the growth of a strong private sector to fill the vacuum created by this retrenchment. The informal sector has also been limited in its ability to absorb excess labour. Therefore, SAPs did not generate the required employment opportunities which were essential for the reduction of poverty in adjusting countries.

5.2.6. Second, the bulk of the population in developing countries depends on agriculture for their livelihood. Given the fact that poverty in most developing countries is a rural phenomenon, despite the existence of urban poverty, SAPs accorded agricultural reforms a high priority. Agricultural reforms were carried out through increases in producers' prices resulting from price liberalisation. This was supposed to shift the terms of trade in favour of rural areas and represent an equity-enhancing measure.

5.2.7. Agricultural reforms in many developing countries, however, resulted in adverse effects on poor smallholders of land for the following reasons. First, reduction in input subsidies had adverse effects on low-income producers, raising their cost of production. Second, big landowners and urban elites, who took advantage of the improved price incentives instead of poor farmers, control most of the cash crop and export sectors. Third, small farmers have little room to increase their production, partially for their inability to obtain more land. Fourth, increased demand on labour in the local economy increased wages and, consequently, the cost of production. Fifth, increased food prices affected the landless agricultural workers. Sixth, reduction of acreage under food crop in favour of cash crops increased the vulnerability of the farm household (food insecurity). Seventh, SAPs have not addressed non-price constraints (e.g., land and property rights). These factors have meant that the impact of SAPs on the rural poor who rely on agriculture for their livelihood had been adverse in most of the adjusting countries. In many cases these measures led many small farmers to be bought out by bigger landowners, migrate, or become rural landless.[13]

5.2.8. Third, in urban areas of the developing countries, most of the people have fixed incomes (i.e. wages and salaries) as they resort to employment in public or private sectors. The reduction in the real wages and purchasing power of employees resulting from depreciation of national currencies, removal of subsidies for essential goods and services and increases in the prices of food stuffs and other imported commodities have led most employees

[13] See African Development Bank (1995; 237-255).

to join the reserve army of the poor (the new poor).[14] In many adjusting countries, real income and salaries after the implementation of reforms fell to less than US$ 1 per day in comparison with income levels before the introduction of reforms. Therefore, poverty, which was mainly a rural phenomenon in most developing countries, has now spread to urban centres where minimum wages fell below the poverty line. This has given rise to new social phenomena such as moonlighting of employees, deterioration in government services such as education and health and, more importantly, led to the brain drain of the most qualified professionals to developed countries or richer developing countries.

5.2.9. Most of the available empirical evidence tends to suggest that the introduction of policy reforms led to a deterioration in the quality and coverage of social services and increased poverty, with few exceptions. For instance, the World Bank's (1994) study concludes that SAPs have contributed to faster GDP *per capita* growth in half of the African countries examined and, thus, helped the poor because of the strong linkage between growth and poverty reduction.[15] It also argued that real depreciation of national currencies and agricultural reforms had little impact on the consumption of the poor. However, the study recognised that there is no evidence that the composition of government spending has improved in favour of the poor in any of the adjusting countries.

5.2.10. Although economic growth is a necessary condition for poverty reduction, it is not a sufficient one. Furthermore, there are significant doubts about the link between SAPs and economic growth as presented in the World Bank's study since the study showed evidence that economic growth did not increase in about half of the adjusting countries. More importantly, poverty cannot be reduced only because GDP *per capita* increased. Income distribution has to improve and social services have to be maintained to assume that higher economic growth led to reduction in the level of poverty. The empirical evidence suggests that income distribution, induced by SAPs, favours only a small segment of the population who is related to the export/import sector. [16] Out of the 18 OIC countries for which data on the GDP per capita for the richest 20% and the poorest 20% during 1980-1994 are available, six countries

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[14] Demery (1993; 61).

[15] The Study ignored the fact that SAPs did not increase GDP per capita in half of the African adjusting countries.

[16] For a critical evaluation of the World Bank's (1994) study, see Mohammed (1994 a; 64).

had the income of the richest 20% exceeding that of the poorest 20% by more than 10 times (see Annex 1).

5.2.11. Apart from the World Bank's studies, there is now an extended empirical literature which supports the argument that SAPs retarded social services and development. Rasheed (1993) summarised 17 empirical studies, which concluded that the poor have been bearing the brunt of adjustment. The author also showed that SAPs have contributed to environmental damage in Africa because the scale of forest depletion became critical in most of the African countries in their effort to increase exports. Increased incidence of rural poverty has also led to over-exploitation of natural resources.

5.2.12. Annex 1 shows that 22 of the OIC member countries had witnessed depletion of forest and woodland during the period 1980-1993. The percentage change during the above period had been in excess of 10% in nine countries: Turkmenistan (-14.9%), Uzbekistan (-45.8%), Azerbaijan (-15.9%), Kyrgyz (-13.6%), Nigeria (-24.2%), Bangladesh (-13.3%), Benin (-14.4%), Togo (-11.8%), and Yemen (-50.7%).

5.2.13. The casual interlinkages between poverty, environmental degradation and SAPs have also received the attention of researchers. For instance, Ali (1993) explored the relationship between SAPs and the environment in Sub-Saharan Africa (SSA) through an intermediate variable of poverty. He used the World Bank's own proposition of the existence of a strong relationship between poverty reduction and environmental stewardship. The poverty-gap index was used as a proxy for environmental performance. The author then went on to evaluate the impact of SAPs on the environment by the "before-after" approach for policy evaluation. He reported his results about poverty in the rural sector in 11 African countries in the period between 1965 and 1988, and concluded that:

> "poverty has increased in all adjusting countries except for Tanzania (where it declined), while poverty has declined in the two non-adjusting countries. So that using the before-after methodology we can argue that at least a *prima facie* case exists for saying SAPs have increased poverty in SSA. Now using the World Bank "strong relationship between poverty and environmental stewardship", we can also argue that SAPs have had a negative impact on the environment during the 1980s" [Ali (1993; 41)].

5.3. Effect of SAPs on education and health services

5.3.1. The reduction of the government deficit has been a major component of stabilisation policy. Therefore, the burden of policy reforms hits hard social services and public investments in adjusting countries, given the fact that the government is the provider of most of these services in developing countries. The taxable capacity is very limited in most of the developing countries and governments can only resort to cuts in spending rather than increasing government revenues to reduce budget deficits.

5.3.2. Many governments, which witnessed excessive and increasing public deficits, resorted to reduction in government spending, and these fiscal austerity measures curtailed social sector spending, particularly for health and education. For instance, the reduction in fiscal deficits in SSA during 1987-1991 was mainly due to reduction in spending,[17] particularly cuts in social and capital spending. As poor people rely mainly on government provision of social services (education and health), the impact of budget cuts on the poor has been disproportionate. Furthermore, as a result of these cuts, the number of children attending school has stagnated (as in a few African countries),[18] while the quality of education received in schools and health services has deteriorated.

5.3.3. Many adjusting countries reduced public spending for the social sector as a ratio of central government expenditure or as a ratio of GDP or even in absolute monetary terms. For instance, the World Bank's (1994) study showed that Tanzania reduced health expenditure as a percentage of GDP from 1.3% in 1981-1986 to 0.6% in 1987-1990. Similarly, health expenditure as a percentage of GDP in the Gambia fell from 2.3% in 1981-1986 to 1.5% in 1987-1990, while education expenditure as a share of GDP fell from 4.6% in 1981-1986 to 3.3% in 1987-1990. In Burkina Faso, health expenditure as a share of GDP fell from 0.7% to 0.6% between the same periods. Moreover, the mean for health spending for all African countries with large improvement in macroeconomic policies fell from 1.5% to 1.4% during the period between 1981-1986 and 1987-1990. This clearly contradicts the argument that SAPs did not affect social spending.[19]

5.3.4. Annex 4 shows that public expenditures on education (as percentage of GDP) declined in two countries over the period between 1980 and 1993/94. In Mali it declined from 3.8% in 1980 to 2.1% in 1993/94 while it declined in the

[17] World Bank (1994).
[18] African Development Bank (1995; 243).
[19] See Mohammed (1994 a; 63) and World Bank (1994).

Gambia from 3.3% in 1980 to 2.7% in 1993/94. Figures also show that public expenditure on education remained stagnant in Niger over the same period.

5.3.5. New investments in human resource development in adjusting, developing countries have also been affected by the reduction in capital and development expenditures because of the immense political and social sensitivities of reducing current expenditures. During periods of fiscal austerity, governments find it easier to cut capital spending than to reduce current expenditures (especially, salaries and wages). Deferring or cancelling a capital-intensive public project is a much softer option than laying off government workers. Therefore, a sharp cut in capital spending as a percentage of GDP has been noticed in most of the adjusting countries. The overall impact of reduction in social sector spending has been the deterioration in health services, particularly community-based primary care and preventive services. Standards of education declined as a result of the deterioration in the physical infrastructure of schools, shortage of education materials and books, and the decline in the real wage of teachers which forced many of them to quit the job or to migrate.

5.3.6. For instance, the gross enrolment ratios for all levels (% age 6-23) remained stagnant in some OIC member countries during the period between 1980 and 1994. In addition, the ratio has declined in three OIC countries as shown in Annex 3. It declined from 61% in 1980 to 50% in 1994 in Togo, from 29% in 1980 to 25% in 1994 in Mozambique, and from 30% in 1980 to 28% in 1994 in Sierra Leone.

5.3.7. Some of the ambitious social programmes, which emerged in the 1970s, were abandoned after the introduction of SAPs because of the tight fiscal constraints in which governments found themselves in the 1980s. Campaigns for the eradication of illiteracy and social funds for unemployed graduates are obvious examples of these programmes. The reduction of fiscal deficits have also meant that budgetary allocations for other government ministries responsible for sports, youth, culture and arts have been reduced. Therefore, the overall evidence tends to support that the impact of policy reforms on the social sector has been negative in most of the adjusting countries.

5.4. Gender impact of SAPs

5.4.1. It is widely believed that SAPs are not gender-neutral and in few cases their implementation has been at the expense of women. The argument is based on the fact that most of the women are employed in the agricultural sector in developing countries and thus the negative impact of agricultural reforms has affected women more than men.[20] Furthermore, given the structural rigidities and sex discrimination in many developing societies, as household budgets were squeezed or the cost of social services increased (e.g., education), female children had to remain at home but not their brothers.

5.4.2. SAPs have also favoured sectors which are dominated by men such as cash crop farming where women are heavily involved in the production of staples on a subsistence basis. Furthermore, in many developing countries the employment of women has been larger in the public sector and, thus, they have been mainly affected by public-sector retrenchment relatively more than men. In addition, the reduction in community-based health and nutrition services has increased the burden on women.

5.4.3. However, agreement on the effect of SAPs on women has been less than universal. Some advocates claim that SAPs led to the social empowerment of women in many cases as men left the civil services to migrate or to join the private sector leading to an increase in the number of women employed in the public sector. The decline in household income also led many women to work in private, public and informal sectors. Furthermore, it is argued that price liberalisation in few cases led to an increase in the income of working women, particularly in the agricultural sector as some women abandoned subsistence farming and started growing cash crops.

5.5. Civil unrest and conflicts

5.5.1. While it is difficult to attribute civil unrest and conflicts in developing countries to the implementation of SAPs, there is evidence that policy reforms have worked together with other factors in fuelling civil unrest in these countries. Given the causal interlinkages between poverty and economic decline, environmental degradation, and militarisation, it is difficult to ignore the impact of policy reforms on civil unrest in many developing countries. As evidence suggests, there are some links between policy reforms and increases in levels of poverty and environmental degradation, while military spending has been resilient during fiscal austerity.

5.5.2. Rural-urban migration, which is mainly caused by deterioration in the agricultural production in many developing countries due to natural calamities or due to the negative impact of policy reforms on small farmers, has led to

[20] For example, 50% of the working women in Syria are employed in the agricultural sector. See *Al-Sharq Al-Awsat,* no. 7175, Tuesday 21/07/1998, p.23.

overcrowding in urban centres. Given the limited social services available in urban settlements, overcrowding has led to increases in the rates of crimes and the emergence of other social problems. Furthermore, the environmental degradation caused by overexploitation of natural resources, often exacerbated by the need to increase exports to reduce balance-of-payment deficits, has led to many civil conflicts in rural areas due to migration and dislocation of tribes within national borders.

5.5.3. The downfall of many regimes in developing countries has been mainly spearheaded by riots over increases in prices of essential goods or the removal of government subsidies as prescribed by SAPs. Some critics have even attributed the reversal of the process of democratisation and political reforms in parts of Africa, for example, to the implementation of SAPs. The reform package is politically and socially sensitive and many elected democratic governments hesitated to undertake sweeping reforms because of the immense pressures from trade unions, parliaments, and other political organisations during democratic rule. The failure to undertake the reforms motivated some military officers to overthrow these regimes by *coups d'État* to assume the responsibility of policy reforms. In few other cases, it is argued that the military intervened in the political arena after the introduction of reforms with the claim of taking the side of the poor masses who were hurt by fiscal austerity measures.

5.5.4. The 1997 IMF study cited above states that one-fourth of ESAF countries included in the sample (totalling 36 countries) experienced war or civil strife during the period of analysis (1986-1994), making it difficult to formulate, much less to implement, policy reforms. Although the IMF's study did not attribute the recurrence of the civil strife to SAPs, the intensity of the strife, however, gives some ground for the importance of assessing the causal interlinkages between SAPs and civil strife.

5.6. Population dislocation, migration and brain drain

5.6.1. SAPs are supposed to reverse rural-urban migration because of the implied urban-rural differential in favour of rural employment. In reality, however, the failure of supply-side measures to increase agricultural production in rural areas, due to the existence of structural rigidities and the mushrooming of the informal sector as an alternative to the earnings of fixed-income earners, have led to population dislocation. Rural-urban migration increased, urban centres became overcrowded, and traditional agriculture was abandoned.

5.6.2. The annual growth rates of real earnings per employee during 1980-1992 declined significantly in many OIC member countries. For instance, real earnings declined during the above period by 6.8% in Iran, 3.3% in Jordan, 3.6% in Egypt and 0.7% in Bangladesh.[21]

5.6.3. The decline in the real income of employees led to massive migration to the developed world and the resource-rich developing countries. University professors and graduates, physicians, and engineers sought employment in the international market to ensure decent living standards for their families. As a result, the most qualified cadres deserted their national countries and the quality of social services and the standards of the civil services declined. Paradoxically, the capacity of governments to execute and implement policy reforms to redress the negative social impact of SAPs was jeopardised because of these trends in the labour force.

6. POLICIES TO REDUCE THE SOCIAL IMPACT OF POLICY REFORMS

6.1. The debate about how to address the social dimensions of SAPs, despite the recognition of the causal adverse link, is marked with confusion and uncertainty. The shortage of reliable data (particularly at the household level) has further hindered attempts to quantify how the various groups in society have been affected by policy reforms. While there is a general consensus that a sound macroeconomic framework is essential for poverty alleviation, agreement on the best ways of addressing the social impact of policy reforms, particularly their effects on the poor and other vulnerable groups, was not reached.

6.2. At the theoretical level, two views have been expressed on the impact of SAPs on poverty. The first argues that any treatment for the issue of poverty will weaken the effectiveness of the policy reforms and accordingly poor people cannot be assisted except with short-term compensatory projects. The recent second view claims that there is a possibility of designing SAPs that can reduce the incidence of poverty through protection of poor people during the transitional period and through protecting their rights in the long run. Therefore, and based on the later view, a number of programmes have been initiated to mitigate the adverse social impacts of SAPs in the developing countries. Governments of developing countries initiated some of these

[21] UNDP (1997; 182-183).

programmes and others have been introduced by development financial institutions. Therefore, policy reforms in many developing countries have increasingly included specific measures to protect the vulnerable groups.

6.3. As argued before, public spending cutbacks under SAPs affected disproportionately the poor and vulnerable, and as a remedy for these adverse effects, poverty alleviation programmes and projects to mitigate the impacts of SAPs have been implemented in a large number of developing countries. These included: (i) the social dimensions of adjustment (SDA); (ii) the special poverty alleviation programmes; and (iii) the broad community-based efforts of the NGOs.

6.4. Furthermore, developing countries and their development partners have often supported special "social funds" and "action programmes" that finance short-term interventions and targeted projects. Several other countries have tried to design social welfare nets. For example, Senegal started the AGETIP programme in mid-1980s, which is an employment-generating public works programme.[22] Other initiatives to mitigate the adverse social impacts of SAPs included the establishment of comprehensive safety net systems (e.g., Tunisia), direct cash transfers (e.g., Algeria and Jordan), improved targeting of food subsidies (e.g., Jordan), and food-for-work programmes (e.g., Mauritania). Some countries have also set up social funds which, with assistance from external donors, seek to finance projects earmarked for dislocated groups of the labour force (e.g., the social funds in Yemen and Egypt and the Employment and Development Fund in Jordan).[23]

6.5. The impact of policy interventions to minimise the negative impact of policy control and cushion the vulnerable groups in the society varied from one country to another. However, most of the studies, which attempted to evaluate their effectiveness, have reported only limited success.[24] The conclusion of most of these studies is that these programmes are not a substitute for the fundamental restructuring of social sector spending that is necessary to increase production and alleviate poverty.

6.6. The IMF (1997) also assesses the effectiveness of some devices adopted to enhance the social sector during reforms such as the "core budgets" for the protection of social spending. It concludes that while the devices have been

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[22] See African Development Bank (1995; 238).
[23] El-Erian and Tareg (1993; 19).
[24] See African Development Bank (1995).

useful in some circumstances, they cannot be a substitute for careful monitoring of the delivery of the social services.

6.7. For various reasons, the programmes of social welfare (or safety nets) have made little success in alleviating poverty in developing countries. Among the most important impediments of the effectiveness of the social programmes have been the insufficiency of resources for the programmes to cater for all the needy and vulnerable segments of the society, the unsustainable nature of the programmes as most of them were externally-financed and witnessed delays in replenishment, and the political considerations which influenced their nature and location.

7. THE ROLES OF THE OIC AND THE IDB IN THE PROMOTION OF THE SOCIAL SECTOR

7.1. The Seventh Islamic Summit endorsed the two documents “Strategy to Strengthen Economic Cooperation Among OIC Member Countries” and the “Plan of Action to Strengthen Economic Cooperation Among OIC Member Countries” in December 1994.

7.2. The Strategy emphasises strongly the importance of cooperation between member countries, particularly when it is based on the promotion of the private sector, economic liberalisation and integration in the world economy. The Strategy also stresses that cooperation between member countries will bring about structural transformations in the OIC economies to attain economic efficiency and social welfare through economic liberalisation.

7.3. The OIC Strategy emphasises that OIC economic cooperation will embrace the basic requirements for human development and well-being by means of a comprehensive approach designed to solve the problems of immediate concern to member countries, with particular attention to the special problems of the Least-Developed member countries. The Strategy also stresses that economic cooperation will aim at facilitating the diversification of trade and production of goods and services in member countries, through an enhanced role by the private sector and more efficient, rational operation of public enterprises in order to increase complementarities and facilitate access to international markets. In addition, the OIC Strategy asserts that economic cooperation will aim at enhancing the development of human resources in the member countries.

7.4. The OIC Plan of Action identifies raising the standards of living of the Muslim population with special emphasis on the eradication of poverty and improving the quality of human capital as key objectives of the Plan. In the area of food, agriculture and rural development, the Plan of Action calls for cooperation to help reduce and, eventually, eradicate mass rural poverty. It identifies the improvement and functioning of the overall market systems through appropriate economic policies and measures to help overcome the biases that impede agricultural production, development and foreign investment in agriculture.

7.5. In the area of human resource development, the Plan of Action considers human welfare as the ultimate objective of effective development so that the policies to be conceived would be human-centred, offering equal opportunities to all the people with full participation in economic, social and cultural life. It calls for containment and eventual eradication of poverty by, *inter alia*, gradually reducing the urban rural and intra-country regional income disparities. It also calls for the eradication of adult illiteracy and putting more emphasis on basic education and, in particular, primary education as well as strengthening primary health care in member countries.[25] A number of concrete modalities for the implementation of the objectives of the Plan of Action have been endorsed and they are currently under implementation by the various OIC organs and member countries.

7.6. The Islamic Development Bank (IDB) has, since its inception, been according the social sector, and human resource development in particular, a high priority in its development financing and assistance to member countries.

[25] See OIC (1997).

7.7. The IDB's Strategic Agenda for the Medium-Term, endorsed in 1994, aims to establish a framework within which IDB can identify actions needed to improve its ability to fulfil its basic mission in a changing global environment. The Strategic Agenda emphasises that a major consideration determining the nature of operations undertaken by the Bank will be the theme of cooperation and regional integration. The sectoral priorities identified by the Agenda include food security, poverty alleviation, human resource development, development of technology, private sector and the preservation of the environment.[26]

7.8. The Strategic Agenda, in identifying sectoral priorities, emphasises that alleviation of poverty will be a key theme running through IDB's development assistance. In developing and designing projects, the Bank will specifically target those areas of support which benefit the poorer segments of the population, raise the productivity of their physical assets through the provision of adequate infrastructure and provide access to appropriate financing. In addition, the Agenda stresses that the Bank will make conscious efforts to develop projects that have direct poverty alleviation elements, particularly in the Least Developed Member Countries (LDMCs).

7.9. The Agenda also recognises the importance of a healthy, educated and trained population as an indispensable condition for sustained economic growth and the Bank will, consequently, act as a catalyst in helping member countries develop the needed skills in these key sectors of the economy. IDB assistance to the social sector will focus on primary education, vocational training and preventive and primary health care. Furthermore, the Agenda calls upon the Bank to expand its social sector assistance to provide a sharper focus on rural development. The complementarities between projects that strengthen food security and poverty alleviation, such as the enhancement of incomes of small farmers and the rural poor need to be enhanced.

7.10. The IDB's strategy in supporting the social services sector accords a high priority to primary health care, basic education and vocational training. In addition to new constructions or the rehabilitation of existing facilities, the Bank has increasingly gone into providing medical equipment and supplies.

7.11. Although, prior to the Strategic Agenda, the IDB has set a target of 10-15% of total project financing and technical assistance for the social sector, in

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[26] IDB (1994).

practice, it has even exceeded this target as the social sector received about 16% of total project financing and technical assistance in the period 1396-1416H. After the adoption of the Agenda, allocations for the social sector have consistently been more than 20% of total project financing and technical assistance and in 1417H and 1418H the percentage has been more than 27% (see Annex 5).

7.12. In the period between 1396H and 1418H, IDB financed 173 projects in the social sector with allocations reaching ID 715.18 million. This represents about 19% of total IDB project financing and technical assistance allocations.

7.13. In addition to the financing of the social sector, the most distinguishing feature of IDB financing in 1417H-1418H has been its direct targeting of poverty alleviation. In 1417H, the Bank financed the Khulna District poverty alleviation project in Bangladesh as well as the reconstruction of the Social Infrastructure project in Benin. In 1418H, IDB financed a Social Safety Net Package project in Jordan.

7.14. IDB also provides special assistance to the Least-Developed member countries (LDMCs). This assistance focuses on the social sectors (health and education), agriculture, food security, and feeder roads. All the assistance to the LDMCs is by way of concessional financing either from the Ordinary Capital Resources or from the Special Account for the LDMCs. The Special Account has a wider scope on the type of projects to be financed and carries some more favourable terms and conditions of financing. The cumulative aggregate financing approved by the Bank for the LDMCs during the period 1396H up to the end of 1418H amounts to about ID 2.489 billion (US$ 3.055 billion), representing about 20% of aggregate financing approved for all types of operations.

7.15. In recognition of the importance of women in the process of economic development, the Bank has set in its organisation structure a Women and Development (W&D) Unit to develop policies and procedures for the effective assistance of women in participation and in benefiting from the process of economic development. The Unit gives special emphasis to the area of poverty alleviation, income-generating projects and entrepreneurial skills development. In addition, and in recognition of the important role that NGOs can assume in fostering economic development, IDB has recently established an NGOs Unit. The Unit enables the Bank to assist effectively the poor and disadvantageous groups in member countries to meet their basic needs. It gives special attention to financing for micro-enterprises and vulnerable groups.

8. SUMMARY AND CONCLUSIONS

8.1. It is beyond doubt that there is now a general consensus among those involved in the process of economic growth and development on the need for policy reforms in developing countries to ensure that they embark on a sustainable path of economic development. In particular, minimising the role of the State in the economy; creating a stable macroeconomic environment marked by low inflation, competitive exchange rates, and sustainable current accounts; allocation of resources by competitive markets which are the general precepts of SAPs are essential for sustainable economic growth. There is, however, also a growing recognition that there are missing links in the design and implementation of the current SAPs which include the appropriate role and size of the State in developing countries, importance of domestic resource mobilisation, assuring the foundation for long-term economic growth, poverty alleviation, the sequencing of reforms and insufficiency of external resource requirements.[27]

8.2. While policy reforms may have contributed to improving the macroeconomic variables and financial balances of many adjusting countries (lower budget deficits, narrower current account deficit, and reduced inflation rates), they have yet to result in the types of economic turnarounds that have been witnessed in other regions of the world. Evidence also suggests that SAPs themselves, while necessary, are not sufficient for countries to sustain economic growth. The debate has now centred on the appropriate long-term policies that can reverse the decline in economic conditions in most developing countries. Analysis of the current policy reforms have also pointed to some missing links in both the design and implementation of SAPs that developing countries and international financial institutions have to tackle in future reforms.

8.3. The outcome of the reforms in developing countries has been mixed. Although some of the macroeconomic variables have improved, growth of GDP *per capita* is not yet sufficient to ensure improvement in the living standards of many developing countries. It has even declined in many developing countries, including OIC member countries, with sustained implementation of SAPs.

8.4. Recognising the inevitability of policy reforms, the question of the social dimension of policy reforms and their effect on poverty alleviation has

[27] For an extended analysis of those missing links in current SAPs, see African Development Bank (1995).

surfaced as a subject of policy debate in recent years. Evidence tends to suggest that one of the major policy links in the design of SAPs has been its failure to incorporate the human dimensions in the reform process.[28] This does not mean, however, that adjusting countries would have been better-off without the programmes. Nor does it mean that all components of the adjustment programmes should be discarded. Thus, it is important to reconsider SAPs by identifying the missing links that should be considered for incorporation.

8.5. The incidence of poverty increased in many adjusting countries as a result of low economic growth, falling *per capita* incomes, and deterioration in the employment situation. Social services, which are essential for the development of human capital, suffered during the periods of implementing SAPs. The reform process adversely affected women more than men. Demographic characteristics of most developing countries have changed as a result of policy reforms with increased rural-urban and international migrations which themselves led to deepen social crises in developing countries. Emerging evidence, though yet controversial, emphasises the impact of policy reforms on democratic transformation, civil strife and conflicts.

8.6. Developing countries and financial institutions have set a number of specific projects to cushion the poor from the adverse effects of SAPs. Although these initiatives are important, their effect has been limited in the majority of cases. Evidence suggests that social sector development needs to be put at the centre of the reform process rather than designing limited projects to address the social dimension of the reform process.

8.7. The OIC recognised the importance of the social sector and in particular the importance of human resource development in its Strategy and Plan of Action to strengthen economic cooperation between member countries. Specific modalities for implementing the objectives of the Plan of Action are designed and they are currently under implementation by both member countries and the various organs of the organisation.

8.8. Since its inception, the IDB has accorded the social sector a high priority in its development interventions in recognition of the importance of the sector for the process of sustainable economic development. In addition, the Bank's Strategic Agenda for the Medium-Term identifies human resource development and poverty alleviation as priority sectors. Since 1396H and until

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[28] See African Development Bank (1995; 231).

the end of 1418H, IDB has accorded the social sector more than 19% of its project financing and technical assistance and the ratio increased significantly after the adoption of the Agenda. During the last two years, the ratio has surpassed 27% of the allocations.

9. POLICY RECOMMENDATIONS

9.1. The above review on the social dimension of structural reforms and stabilisation programmes in OIC member countries warrants the conclusion with some policy recommendations:

(a) Policy reforms are necessary for accelerating economic growth in developing countries, including OIC member countries. Their design and implementation, however, need to be continuously adjusted to cater for deficiencies and the missing links that appeared during implementation, particularly the social impact of policy reforms.

(b) If poverty is to be reduced, the goal of policy reforms should be to return the economies of adjusting countries to sustainable and rapid growth. Economic growth is necessary, though not a sufficient condition, for poverty reduction. Growth with equity, which benefits the masses of population and the vulnerable groups, will ensure the reduction of poverty.

(c) In line with the Khartoum Declaration, it is important to incorporate the human dimension in the assessment of SAPs. It is not enough simply to inject social policies into the existing SAPs to cushion the poor from the adverse effects of reforms. What is needed is to ensure that short-term adjustment measures are consistent with long-term development objectives. Otherwise, developing countries, including many OIC member countries, will be mortgaged to a state of permanent underdevelopment.

(d) Social spending is of considerable importance, given that rapid population growth and inadequate investment in human capital appear to be the dominant factor in the developing countries' relatively sluggish economic growth.[29] Therefore, while the quality of social spending needs to be improved, its quantity needs to be increased.

(e) Given the strong and positive correlation between human capital accumulation and economic development, there is a need for a conscious reallocation of resources towards social services. In particular, social services benefiting the mass of the people should be accorded a higher priority. Furthermore, social spending policy needs

[29] IMF (1997; 35).

to emphasise basic health and education services (e.g., community-based health services versus hospital structures, and primary schools versus tertiary levels).

(f) In reducing deficits, efforts towards increasing government revenues and making efficient uses of the available resources should be given higher priority than that given to reducing government spending. Given the weakness of the private sector and the informal sector in most developing countries, the public sector has still a role to play in generating employment for a wider segment of the society, particularly in areas which crowd in rather than crowd out private initiatives.

(g) Efforts to enhance the private sector should be sustained, as this sector is perceived to be the engine of growth in the next century. Financing is essential to private enterprises to promote their role in the development process, particularly micro-enterprises.

(h) To surmount some of the structural rigidities in the agricultural sector, SAPs should focus more on non-price measures, such as extension services, packaging, storage and improving the quality of products.

(i) Improved and more transparent budgeting and expenditure-control systems are needed in adjusting developing countries.

(j) Project financing by multilateral development banks (MDBs) should focus more on poverty alleviation, income distribution and environmental sustainability of projects in developing countries. More emphasis on rural development projects and financing to micro-enterprises will assist governments' efforts to promote the social sector.

(k) Community-based organisations, local NGOs and women should be involved in development projects as a means to promote the effective participation of beneficiaries in project sustainability.

(l) In line with the objectives set in the OIC Strategy and the Plan of Action to strengthen economic cooperation between OIC member countries, financial institutions, including the IDB, should sustain their efforts for the development of human resources and for the alleviation of poverty directly and indirectly. Efforts of member countries to deepen policy reforms should also be assisted by ensuring that the flow of resources is sustained and increased, particularly for the LDMCs.

(m) Increasing the Intra-OIC trade will enhance the prospects of economic growth among member countries and all efforts to increase the flow of trade between member countries should be further enhanced and promoted.

(n) More efforts are needed to operationalise the various proposals made to utilise the Islamic instruments (e.g., Zakat, Awqaf, and Sadagat) for the benefit of the poor and vulnerable groups in Islamic societies. Some of these proposals call for the establishment of Islamic Funds to cater for the needs of the poor within national borders while other proposals call for the establishment of Ummah-wide funds (e.g., Bank of the Poor, Islamic Zakat Assistance Fund, etc.) to use the resources of the rich for the benefit of the poor in other countries.

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Annex 1: HDI and a Profile of Human Poverty in OIC Member Countries

Country	HDI Rank, out of 175	HPI rank, out of 78	People Not Expected to Survive age 40 (%)	Population without Access to Health Services (%), 1990-1996	Adult Literacy Rate (%), 1995	Children not Reaching Grade 5 (%), 1990-1995	Forest and Woodland (% change), 1980-1993	Real GDP per Capita (PPP$) for the poorest 20%, 1980-1994	Real GDP per Capita (PPP$) for the Richest 20%, 1980-1994	Population in Poverty (%), based on 1$ a day, 1989-1994	Population in Poverty (%) based oin National Poverty Line, 1989-1994
1. Bahrain	43	..	6.5	..	14.8	1	..	..	..	..	..
2. U. A. Emirates	44	14	3.6	1	20.8	1	0	..	..	..	..
3. Kuwait	53	..	3.8	0	21.4	1	0	..	..	..	..
4. Qatar	55	..	7.4	..	20.6	2	..	..	..	..	..
5. Malaysia	60	..	7.2	..	16.5	2	5.5	1923	22447	6	16
6. Libya	64	21	16.2	5	23.8	..	40.0	..	..	..	..
7. Lebanon	65	..	8.4	5	7.6	..	-5.9	..	..	..	..
8. Suriname	66	..	7.8	..	7.0	..	0.7	..	..	..	..
9. Iran	70	27	11.7	12	31.4	10	0	..	..	..	..
10. Saudi Arabia	73	..	8.8	3	37.2	6	50	..	..	..	..
11. Turkey	74	..	13.1	..	17.7	11	0	..	..	..	..
12. Syria	78	24	10.3	10	29.2	8	39.5	..	..	..	..
13. Tunisia	81	31	10.5	..	33.3	8	25.2	1460	11459	4	14
14. Algeria	82	37	10.6	2	38.4	8	-8.8	1922	12839	2	..
15. Jordan	84	8	9.2	3	13.4	2	11.1	1292	10972	3	15
16. Turkmenistan	85	..	13.6	0	..	..	-14.9	1048	6694	48	..
17. Oman	88	..	8.8	4	..	4	..	..	..	..	..
18. Kazakhstan	93	..	9.3	..	..	..	-9.4	1391	7494	50	..
19. Indonesia	99	23	14.8	7	16.2	8	-5.0	1422	6654	15	8
20. Uzbekistan	100	..	9.9	..	..	0	-45.8	..	..	29	..
21. Albania	102	..	6.1	..	..	8	3.4	..	..	..	..
22. Azerbaijan	106	..	7.3	..	..	7	-15.9	..	..	..	..
23. Kyrgyz	107	..	9.9	..	..	..	-13.6	..	..	76	40
24. Egypt	109	44	16.6	1	48.6	2	0	1653	7809	8	..
25. Maldives	111	..	18.0	..	6.8	7	0	..	..	..	..
26. Morocco	119	55	12.3	30	56.3	20	15.2	1079	7570	1	13
27. Iraq	126	39	13.6	7	42	28	0	..	..	..	..

Annex 1: HDI and a Profile of Human Poverty in OIC Member Countries (Continued)

Country	**HDI Rank, out of 175**	**HPI rank, out of 78**	**People Not Expected to Survive age 40 (%)**	**Population without Access to Health Services (%), 1990-1996**	**Adult Literacy Rate (%), 1995**	**Children not Reaching Grade 5 (%), 1990-1995**	**Forest and Woodland (% change), 1980-1993**	**Real GDP per Capita (PPP$) for the poorest 20%, 1980-1994**	**Real GDP per Capita (PPP$) for the Richest 20%, 1980-1994**	**Population in Poverty (%), based on 1$ a day, 1989-1994**	**Population in Poverty (%) based on National Poverty Line, 1989-1994**
28. Cameroon	133	41	25.4	20	36.6	34	0	..	..	..	..
29. Pakistan	139	64	22.6	45	62.2	52	22.1	907	4288	12	34
30. Comoros	140	..	26.3	..	42.7	22	14.3	..	..	..	..
31. Nigeria	141	54	33.8	49	42.9	8	-24.2	308	3796	29	21
32. Bangladesh	144	67	26.4	55	61.9	53	-13.3	606	2445	29	48
33. Benin	146	..	29.5	82	63.0	45	-14.4	..	..	..	33
34. Togo	147	49	28.4	..	48.3	50	-11.8	..	..	..	17
35. Yemen	148	66	25.6	62	..	..	-50.7	..	..	..	..
36. Mauritania	150	65	31.7	37	62.3	28	-2.7	290	3743	31	57
37. Sudan	158	57	25.2	30	53.9	6	-7.5	..	..	..	..
38. Uganda	159	53	39.0	51	38.2	45	-9.2	309	2189	50	55
39. Senegal	160	68	25.3	10	66.9	12	-5.5	299	5010	54	..
40. Djibouti	162	..	35.6	..	53.8	6	0	..	..	..	..
41. Guinea-Bissau	163	58	43.2	60	45.1	80	0	90	2533	87	49
42. Chad	164	..	34.0	70	51.9	54	0	..	..	..	..
43. Gambia	165	..	40.6	7	61.4	13	0	..	..	..	64
44. Mozambique	166	72	43.8	61	59.5	65	-9.4	..	..	..	..
45. Guinea	167	71	41.3	20	64.1	20	-4.7	270	4518	26	..
46. Mali	171	74	28.4	60	69.0	15	-4.9	..	..	..	..
47. Burkina Faso	172	76	36.1	10	80.8	39	0	..	..	..	..
48. Niger	173	78	43.2	1	86.4	18	-3.9	296	1742	61	..
49. Sierra Leone	175	77	52.1	62	68.6	..	-3.5	..	..	..	75

Source: UNDP (1997).
..: not available.
HDI: Human Development Index.
HPI: Human Poverty Index.
Countries in **bold** are those defined by the UNDP as having high HDI.
Countries in *Italics* are those defined by the UNDP as having low HDI.

Countries without bold and Italics are those defined by the UNDP as having medium HDI.

Annex 2: Trends in Human Development and Per capita Income for Selected OIC Member Countries (those benefiting from ESAF Lending)

Country	**HDI, 1960**	**HDI, 1970**	**HDI, 1980**	**HDI, 1994**	**GDP per Capita (1987 US$), 1960**	**GDP per Capita (1987 US$), 1970**	**GDP per Capita (1987 US$), 1980**	**GDP per Capita (1987 US$), 1990**	**GDP per Capita (1987 US$), 1993**
1. Benin	0.130	0.162	0.197	0.368	320	356	359	353	362
2. Burkina Faso	0.086	0.116	0.151	0.221	173	185	219	245	253
3. Mali	0.083	0.102	0.146	0.229	217	240	288	260	248
4. Niger	0.090	0.134	0.163	0.206	556	552	455	308	275
5. Senegal	0.146	0.176	0.233	0.326	713	723	663	687	615
6. Togo	0.123	0.183	0.255	0.365	320	356	359	353	362
7. The Gambia	0.068	0.107	0.148	0.281	189	240	289	296	268
8. Guinea	0.083	0.111	0.148	0.271	..	..	..	403	397
9. Mauritania	..	..	..	0.355	359	581	523	472	494
10. Mozambique	0.169	0.248	0.247	0.281	..	..	129	111	133
11. Sierra Leone	0.095	0.155	0.177	0.176	119	164	159	147	145
12. Uganda	0.183	0.213	0.215	0.328	..	..	..	462	511
13. Bangladesh	0.166	0.199	0.234	0.368	146	162	142	183	196
14. Pakistan	0.183	0.244	0.287	0.445	135	206	251	349	373
15. Albania	..	..	..	0.655	..	..	696	639	526
16. Kyrgyz	..	..	..	0.635	435	655	814	1075	497

Source: UNDP (1997).
.. : not available.
HDI : Human Development Index.

Annex 3: Trends in Human Development for Selected OIC Member Countries (those benefiting from ESAF Lending)

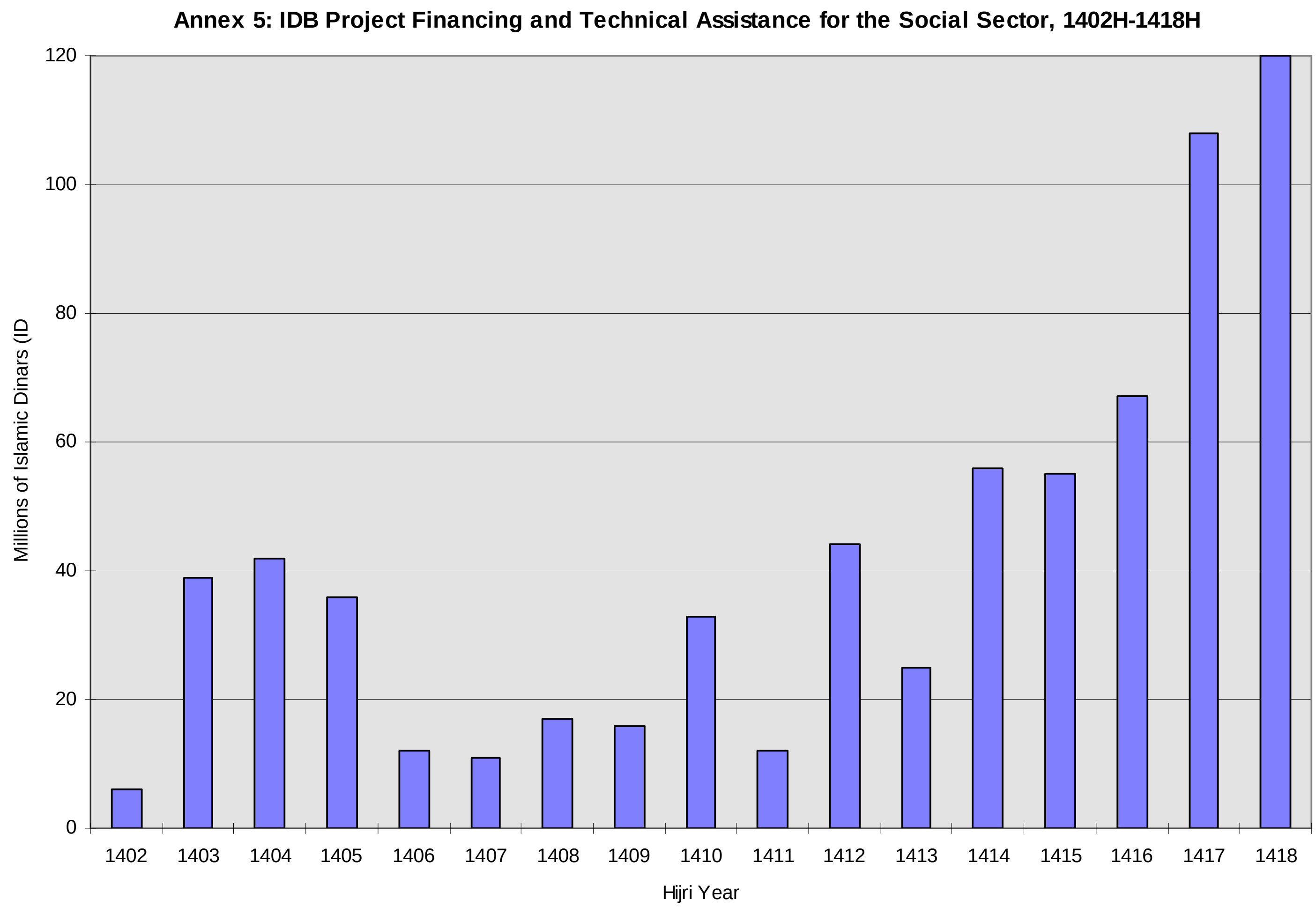
Country	Infant mortality rate, 1960	Infant mortality rate, 1994	Adult Literacy Rate (%), 1970	Adult Literacy rate (%), 1994	Gross Enrolment ratio (%), 1980	Gross enrolment ratio (%), 1994	Population with Access to Safe Water (%), 1975-1980	Population with Access to Save Water (%), 1990-1996
1. Benin	179	87	16	36	34	35	34	50
2. Burkina Faso	186	101	8	19	8	20	25	78
3. Mali	209	156	8	29	..	..	..	..
4. Niger	191	121	4	13	12	15	..	..
5. Senegal	172	66	12	32	24	31	36	52
6. Togo	182	89	17	50	61	50	16	63
7. The Gambia	213	129	..	..	23	34	..	..
8. Guinea	203	131	14	35	21	24	14	51
9. Mauritania	177	98	..	..	19	36	..	..
10. Mozambique	190	116	22	40	29	25	..	..
11. Sierra Leone	219	200	13	30	30	28	14	34
12. Uganda	133	121	12	32	24	31	35	38
13. Bangladesh	156	85	24	37	30	39	..	..
14. Pakistan	163	80	21	37	19	38	25	74
15. Albania	..	..	..	..	..	..	..	..
16. Kyrgyz	..	..	..	..	..	..	..	..

Source : UNDP (1997).
.. : not available.
HDI : Human Development Index.
Infant morality rates are per 1000 live births.
Gross Enrolment ratios are for all levels (% age 6-23).

Annex 4: Trends in Economic Performance and Spending Patterns in Selected OIC Member Countries (those benefiting from ESAF Lending)

Country	Average Annual Inflation Rate (%), 1984-1994	Exports as a % of GDP (% annual growth rate, 1980-1993)	Overall Budget Surplus/ Deficit (% of GNP), 1980	Overall Budget Surplus/ Deficit (% of GNP), 1994	Expenditure on Education (as % of GNP), 1980	Expenditure on Education (as % of GDP), 1993-94	Public Expenditures on Health (as % of GNP) 1960	Public Expenditure on Health (as % of GDP), 1990	Defense expenditures (as % of GDP), 1985	Defense Expenditures (as % of GDP), 1995
1. Benin	2.9	-4.6	..	..	..	..	1.5	2.8	1.1	1.3
2. Burkina Faso	1.6	-1.5	0.2	..	2.6	3.6	0.6	0.7	1.1	2.4
3. Mali	3.4	3.6	-4.7	..	3.8	2.1	1.0	2.8	1.4	2.4
4. Niger	0.2	-4.1	-4.8	..	3.1	3.1	0.2	3.4	0.5	0.9
5. Senegal	2.9	0.4	0.9	..	..	..	1.5	2.3	1.1	1.9
6. Togo	3.3	-3.3	-2.0	..	5.6	6.1	1.3	2.5	1.3	2.5
7. The Gambia	10.1	-0.3	-4.7	3.6	3.3	2.7	..	..	1.5	3.8
8. Guinea	18.6	..	..	-3.3	..	..	1.0	2.3	1.8	1.4
9. Mauritania	7.2	0.6	..	..	..	..	0.5	..	6.5	1.9
10. Mozambique	53.2	-2.6	..	..	4.4	..	..	4.4	22.5	3.7
11. Sierra Leone	67.3	-6.6	-13.2	-6.1	3.8	..	..	1.7	1.0	5.7
12. Uganda	75.4	..	-3.1	..	1.2	1.9	0.7	1.6	1.8	2.6
13. Bangladesh	6.6	3.9	2.5	..	1.5	2.3	..	1.4	1.4	1.8
14. Pakistan	8.8	3.5	-5.8	-6.9	2.0	2.7	0.5	1.8	3.0	2.5
15. Albania	..	..	..	..	..	..	..	..	..	..
16. Kyrgyz	..	..	..	..	..	..	..	..	..	..

Source: UNDP (1997).
.. : not available.
HDI : Human Development Index.


Annex 5: IDB Project Financing and Technical Assistance for the Social Sector, 1402H-1418H
Millions of Islamic Dinars (ID
0
20
40
60
80
100
120
1402
1403
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Hijri Year