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Vpliv neoliberalizma preko Brettonwoodskih institucij - Svetovne banke in Mednarodnega denarnega sklada na stopnjo revščine v Južni Ameriki

The impact of neoliberalism on poverty levels in South America through the Bretton Woods institutions - the World Bank and the International Monetary Fund

Magistrsko delo

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Neoliberalizem je bil kot politična in ekonomska ideologija prvič predstavljen v Južni Ameriki v 70ih in 80ih letih 20. stoletja, in sicer v Čilu, v 80ih in 90ih letih pa se je razširil po celotni celini. Glavna nosilca neoliberalne politike v Južni Ameriki sta bila Svetovna banka in Mednarodni denarni sklad. Njuno spodbujanje neoliberalizma je vključevalo predvsem pogojevanje določenih politik ob zagotavljanju različnih programov za pomoč zadolženim državam. Od držav se je pričakovala uvedba številnih ekonomskih in političnih reform. Magistrska naloga raziskuje vpliv teh politik na raven revščine v regiji, s poudarkom na treh primerih: Boliviji, Venezueli in Ekvadorju. Čeprav so prvi izvajani ukrepi, ki so dosledno sledili duh neoliberalizma v obliki strukturnega prilagajanja prinesli negativne učinke na južnoameriško družbo, so kasnejše reforme v okviru prilagojenega neoliberalnega okvirja povzročile rast in zmanjšanje revščine.

Ključne besede: revščina, neoliberalizem, Svetovna banka, Mednarodni denarni sklad, Južna Amerika.

The impact of neoliberalism on poverty levels in South America through the Bretton Woods institutions - the World Bank and the International Monetary Fund

As a political and economic ideology, neoliberalism was introduced to the continent of South America during the 1970s and the 1980s. It was firstly introduced into Chile, and during the 1980s and the 1990s it has spread throughout the entire continent. Main promoters of neoliberalism and its policies in South America were the World Bank and the International Monetary Fund. Their promotion of neoliberalism focused on requesting specific policy shifts as a condition to provide various aid programs to the indebted countries. Numerous economic and political reforms were expected from those countries. The thesis explores the impact of the imposed policies on poverty levels in the region, with a special emphasis on the three case studies: Bolivia, Venezuela and Ecuador. The first applied measures, strictly following the neoliberal philosophy in the form of structural adjustment, brought negative effects to South American societies, whereas the reforms applied later, under the modified neoliberal framework, turned into growth and poverty reduction.

Key words: poverty, neoliberalism, the World Bank, the International Monetary Fund, South America.

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Acronyms and abbreviations

CPS	Country Partnership Strategy
ECLAC	Economic Commission for Latin America and the Caribbean
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IFI	International financial institution
IMF	International Monetary Fund
ISI	Import Substitution Industrialization
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Policy
UN	United Nations
UNDP	United Nations Development Programme
USD	United States Dollar

1 Introduction

The 1970s for South America have marked the beginning of a new era in its economy and politics. That was the decade in which the development of the continent moved in a different direction in comparison with years after the 1930s and the Second World War. Namely, from the 1930s until the 1980s the countries of South America have all implemented the import substitution industrialization (ISI) model in their economies. That strategy implied replacement of imports with domestic production and thus contrasted with export promotion (Brian 2009, 88).

The trade and economic policy of ISI was gradually abandoned by these countries in the 1980s and 1990s. Instead, neoliberalism with strong emphasis on export-oriented strategies took over, supported by the international financial institutions (IFIs). The insistence of the World Bank and the International Monetary Fund (IMF) was directed at imposing various economic and political reforms as part of their Structural Adjustment Policies (SAPs) (Colas 2005, 77). South American countries had to adopt and apply the SAPs as conditions for receiving new loans from the two international financial institutions (*ibid.*). The implementation of the SAPs also represented a way of reducing countries' fiscal imbalances. Hence, these countries faced significant reformation when it comes to their economy. The implied reforms included: trade openness and liberalization, privatization, deregulation, cutting off a number of public job positions, reduction of social policies, reduction or even elimination of the state intervention in trade, reduction of the overall role of the state and cuts in public spending (Colas 2005, 78). During the 1980s and 1990s, however, many countries across the continent demonstrated unsuccessful economic and social performance. In most of them, the growth of poverty and inequality had also been recorded (PovcalNet 2016).

Countries throughout the continent have applied these strategies independently, in different periods and in diverse manners. Some of them, such as Chile, have witnessed a significant economic growth but in some periods faced also a decline in their economies and overall development (Davis-Hamel 2012, 80). On the other hand, countries such as Venezuela and Bolivia have not shown satisfactory results by applying the SAPs and thus they have decided to retreat, at least partly, from this kind of economic program (Ellner 2014, 82; Haarstad and Andersson 2009, 20). Some of them, as the aforementioned Venezuela and Bolivia, have even chosen a predominantly different kind of political-economic system, by adhering to leftist regimes and socialist modes of organization.

Approaching the end of the millennium, the World Bank has shifted its efforts from large-scale, growth-oriented projects towards programs and projects, which more explicitly incorporate the goal of poverty reduction (Stiglitz 1999, F580). When it comes to the IMF, its mission has remained concentrated on stabilization of the monetary system and the world economy, but it has also evolved towards assistance to the countries in transition and to less developed countries (*ibid.*, F581). In 1996, the World Bank and the IMF started the Heavily Indebted Poor Countries (HIPCs) initiative (Bond 2005, 232). Further on, in 1999, the two organizations introduced Poverty Reduction Strategy Papers (PRSPs), replacing the SAPs. That step represented a new approach to tackling the challenges of poverty alleviation and economic development among their low-income clients (Craig and Porter 2002, 53). Hence, the two IFIs decided to introduce a somewhat milder form of structural programs and this can be recognized as the beginning of a new approach of the World Bank and the IMF to development of the global South, by emphasizing some crucial obstacles to development and growth, such as poverty, inequality, hunger and concentration of wealth (Easterly 2003b, 361). By putting poverty in the spotlight of their strategy, they recognized that the performance of the SAPs in tackling and reducing poverty in the region was insufficient. After the introduction of the United Nations Millennium Development Goals in 2000, these social and economic phenomena have been given a greater importance, placing poverty and hunger eradication at the first place of all eight goals (United Nations Millennium Declaration 2000).

The imposition of neoliberal policies in the countries throughout the South American continent, since the beginning of the implementation of the SAPs and later the PRSPs, affected their poverty levels (World Bank 1992, 13). The starting point for this research was the analysis of previous state of affairs in the observed countries (prior to the 1970s and the 1980s) when the poverty levels increased and the overall development of the continent was in decline (ECLAC 1981; ECLAC 1990). The expectations of the IFIs were that with a move towards market-based (neoliberal) economic policies the growth will pick up and thus also the issues like poverty would be resolved (the trickle-down approach) (Todaro and Smith 2012, 127). It is therefore necessary to make a thorough and comprehensive analysis of the neoliberal programs reflected in the economic, political and social organization, in order to obtain valid data on socio-economic effects of the neoliberal policies. On this basis, the comparison of the poverty levels from the previous period (pre-1980s) and the neoliberal one (from the 1980s to 2015) has been done. The research is focused on seeking answers to the following question: how the neoliberal policies of the Bretton Woods institutions affected poverty levels in South America? The thesis thus examines if the neoliberal strategy, promoted by the IFIs, was primarily promoting the maximization of profit of a part of society, while a much greater part of the society was pushed in the state of poverty.

According to some critics, neoliberalism had brought about catastrophic consequences, such as an increase in social and economic inequality, growing poverty levels in the world and unstable global economy (Chomsky 1999, 8). Leech (2012, 82) says that instead of achieving planned goals regarding economic growth and stability, these policies, promoted by the World Bank and the IMF, had deepened poverty in developing countries. The thesis questions these assertions, trying to figure out whether they are in accordance with the objective indicators. The thesis seeks to examine if there are any other factors that influenced poverty levels in the region, providing an answer to the extent of their impact. A better understanding of the factors impacting poverty in South America would enable the development of appropriate development strategies, which would focus primarily on the poverty reduction.

The relevance of the thesis for the discipline of International Relations can be observed from several aspects. Firstly, the thesis analyses neoliberalism as an approach for describing international political and economic relations. Secondly, it makes a contribution to the International Relations discipline since it reflects on poverty as a global issue and obstacle to the economic development. Thirdly, it investigates the political-economic strategies applied in South America during the last three decades and therefore contributes to the discipline by assessing effectiveness of diverse approaches to development. Finally, it explores how prevailing the neoliberal policies had been for South American countries in their path to development, and assesses the efficiency of neoliberal strategy when it comes to poverty reduction.

After the introduction, the second chapter of the thesis concerns neoliberalism as a political and economic theory. It provides a detailed theoretical analysis of this ideology and all its components, in order to probe the very core of its policies and programs applied in South America. The goal of this chapter is to further analyze all the expectations from neoliberalism, as well as how this ideology was meant to answer to the global development problems. The following chapter is devoted to the Bretton Woods financial institutions - the World Bank and the IMF, *i.e.* to explain why their role in setting the development strategies in developing countries is so important. Two issues are especially highlighted: on one hand, the IFIs' promotion of neoliberal policies was based on the so-called counter-action by the neoclassical theory of growth (Todaro and Smith 2012, 110) where several most influential positions in the IFIs were occupied by neoliberal economists. The second issue is high debt growth of many developing countries following the increased price of oil in the late seventies. Both determined the pattern of action of IFIs in the eighties.

The fourth chapter focuses on the analysis of South America under neoliberalism. The analysis of the acceptance and implementation of neoliberalism through the SAPs is needed to explain why the countries had to accept such string external influence on their economic policies. One after another South American country had to embrace the neoliberal reforms, so they spread across the continent. Under the criticism of various international organizations as well as individual authors (Chomsky 1999; George 1999; Klein 2008), the World Bank had to change its strategies and embarked on the poverty reduction strategies (PRSs). In the fifth chapter, I look in detail at three case studies - Ecuador, Venezuela and Bolivia. The countries are selected due to a high level of similarity of initial IFIs' approach, although they experienced different development outcomes. I wish to detect which were the policy changes, which caused a particular development to see if there is a positive lesson to be learned. I synthesize the findings in the last chapter providing the answer to the research question of the thesis and comment on the possible options for poverty reduction within a modified neoliberal approach.

In the thesis I used different scientific-research methods. The analysis so far is based on review of the existing literature and compilation of relevant country statistical data. The analysis and interpretation of secondary sources, such as published studies, books, academic articles, policy reports, dealing with the assessment of the effectiveness of neoliberal approach to growth, was used in all chapters of the thesis. Neoliberalism as an economic-political theory was approached by analyzing and confronting the views of different scholars, and therefore assessed by consulting the secondary sources. In describing the World Bank and the IMF, I did the analysis and interpretation of primary sources, including their programs as well as their reports. In order to analyze the SAPs and PRSPs, as the specific strategies of the two IFIs, I did the overview of the primary sources, such as the reviews of these strategies provided by the IMF and the World Bank. I also analyzed the reviews of these strategies, which were made jointly by the individual countries and the World Bank and the IMF, respectively.

The three country cases were selected because they have a number of equal or at least similar characteristics, especially when it comes to their natural resource-based economies. They were also selected due to a high level of similarity of initial IFIs' approach, yet with different outcomes in terms of development results. The case studies were investigated through engaging statistical data analysis, including various indicators. I analyzed the primary sources such as statistical yearbooks for specific countries. I used the quantitative methods as well, by using the online analysis tool PovcalNet for poverty monitoring, which enabled me to compare poverty levels of the South American region in different periods. This tool allowed me to analyze what the effects from the application of neoliberal policies in the three countries from the case studies were. Also, I analyzed the official documents of individual countries, which showed what experience these countries were facing due to the application of the strategies proposed by the Bretton Woods institutions.

2 Neoliberalism as a political-economic theory

The origins of neoliberal theory can be predominantly attributed to the works of Friedrich von Hayek from the University of Freiburg and Chicago in the 1940s and later works of his student Milton Friedman from the Chicago School of thought in 1960s and 1970s (Munck 2005, 60). As Clarke (2005, 57) says, neoliberalism represents a reassertion of the fundamental beliefs of the liberal political economy which was the dominant political ideology during the nineteenth century, above all in Great Britain and the United States. Lapavitsas (2005, 30) argues that neoliberal belief in the free markets, as the optimal organizing mechanism for market economies, has undoubtedly marked mainstream economic theory during the last three decades.

As a descendant of liberalism and as a political-economic philosophy, neoliberalism promotes *laissez-faire* economy model, and consequently the reduction of state intervention into economic, financial and even social affairs, relying on privatization policies and following capitalist paths of free trade and market expansion (Davis-Hamel 2012, 80). It also advocates neoliberal economic globalization, which leads to the removal of national borders, in order to allow market forces to drive the global economy. The main characteristic of neoliberalism is the conviction that free markets provide the optimal organizing system for capitalist economies (Lapavitsas 2005, 30). Moreover, Todaro and Smith (2006, 120) argue that the leading argument of neoliberal *i.e.* neoclassical idea is that underdevelopment is a result of poor resource allocation, which can be attributed to incorrect price policies and too much state intervention. Neoliberal thinkers thus criticize overly active governments of developing nations, explaining that their constant involvement in economy and market prevents an effective resource allocation. On the other hand, they promote *laissez faire* model by saying that economic growth and economic efficiency will be achieved only after allowing free markets to operate alone, without any external intervention (*ibid.*). Also, they argue that it is necessary to privatize state-owned enterprises, promote free trade and export expansion, allow investments from developed world and eliminate price distortions in product and financial markets in order to get full economic efficiency (*ibid.*).

Another argument that may go in favor of neoclassical challenge to the prevailing interventionist arguments is the free market analysis which states that markets alone are efficient: "product markets provide the best signals for investments in new activities; labor markets respond to these new industries in appropriate ways; producers know best what to produce and how to produce it efficiently, and product and factor prices reflect accurate scarcity values of goods and resources now and in the future" (Todaro and Smith 2006, 120).

Anwar Shaikh (2005, 41) explains the theory and practice of neoliberalism, saying that it dominates modern globalization. He adds that according to neoliberal thinking, markets are optimal and self-regulating social structures and if they were allowed to function without limits, they would optimally serve all economic needs (*ibid.*). Moreover, without any restraints, markets would efficiently utilize all economic resources and provide full employment (*ibid.*). Hence, the globalization of markets would then be the best method to reach the extension of these benefits to the whole world, which represents the first axiom of neoliberalism (*ibid.*). The second axiom of neoliberalism is rooted in the belief that the existence of poverty, unemployment and financial crises in the modern world is a consequence of market constraint affected by the state, labor unions and social practices (*ibid.,* 41–42). The solution is thus to privatize state enterprises and to open up domestic markets to foreign capital and foreign goods (*ibid.*).

On the other hand, there are a number of authors who describe neoliberalism as a system characterized by elite domination, forced policy homogenization, favoritism towards transnational corporations over local solutions and incorporation of national elites into global structures (Murphy 2008, 715). George (1999) sees it as a doctrine which point is that the market mechanism should be allowed to direct the fate of human beings. Moreover, neoliberalism promotes a model in which economy should dictate its rules to the society, not the other way around. Because of that she cited Karl Polanyi, saying that this doctrine is leading us directly towards the 'demolition of society' (*ibid*.). Her main argument is the connection of the triumph of neoliberalism with the economic, political, social and ecological disasters in the world today (*ibid.*).

Besides free market, which is in the spotlight of neoliberal ideology, a special emphasis is put on the individual as well. This individual is supposed to act in order to gain as much benefits as possible. Hence, the market is seen as the natural terrain of economic activity for the individuals, to which they bring commodities to be exchanged for those of others (Lapavitsas 2005, 35).

Clarke (2005, 58) argues that neoliberalism is not merely an ideology; its ideological sense lies in the scientific foundations of modern liberal economics. The essence of neoliberal model is not in its tendency to describe the world as it is, but the world as it should be (*ibid.*). "The point for neoliberalism is not to make a model that is more adequate to the real world, but to make the real world more adequate to its model" (Clarke 2005, 58). Hence neoliberalism should not be considered merely as an ideology, but as a very real political project that has been implemented throughout the developing world, by promoting opening of the markets, privatizations and liberalizations.

After the Second World War, economies in all areas of the world had been governed by state-centered regulatory regimes (Evans and Sewell 2013, 1). Such a mode of organization implies that the state is a regulator of economy, *i.e.* the first and last instance when it comes to economic and political organization. The state interferes in the market and regulates conditions for its functioning. At the Conference on Economic Sovereignty in a Globalizing World, Susan George (1999)[1] provided an excellent insight on how the countries functioned like in that period:

> In 1945 or 1950, if you had seriously proposed any of the ideas and policies in today's standard neo-liberal toolkit, you would have been laughed off the stage at or sent off to the insane asylum. At least in the Western countries, at that time, everyone was a Keynesian, a social democrat or a social-Christian democrat or some shade of Marxist. The idea that the market should be allowed to make major social and political decisions; the idea that the State should voluntarily reduce its role in the economy, or that corporations should be given total freedom, that trade unions should be curbed and citizens given much less rather than more social protection - such ideas were utterly foreign to the spirit of the time. Even if someone actually agreed with these ideas, he or she would have hesitated to take such a position in public and would have had a hard time finding an audience.

Up until the 1970s and 1980s, the capitalism has been therefore configured as the 'Keynesian compromise', and that period was characterized by large growth rates, sustained technological change, increase in purchasing power, development of a welfare system and low unemployment rates (George 1999). The essence of the Keynesian system was on its tendency to regulate government economic intervention (Lapavitsas 2005, 32). Government involvement in economy included measures that boost public expenditure, cut taxes and lower interest rates, along with strengthening aggregate demand and reducing unemployment (*ibid.*). State intervention limited the excesses of private capitalism, eliminated unemployment and provided welfare support for all, which implied unemployment benefits and health, education and housing security (*ibid*.).

However, during the 1970s, the world economy entered a 'structural crisis' because of the decline of the profit rate (Dumenil and Levi 2005, 9), together with the persistent combination of high unemployment and high inflation (Lapavitsas 2005, 33). A dramatic contrast with the previous period can be reflected in the devastating aspects which followed up during these years: diminished growth rates, a wave of unemployment and cumulative inflation (Dumenil and Levi 2005, 9). There was a need for a new approach to economic management and that was the moment of emergence of a new social order.

In economic theory, main opponents to Keynesianism were the protagonists of Milton Friedman's monetarism (Dumenil and Levi 2005, 34). Friedman saw inflation as the key economic problem of

[1] George's speech was presented at the Conference on Economic Sovereignty in a Globalizing World, Bangkok, 24–26 March 1999.

the 1970s, and he treated it as a purely monetary phenomenon resulting from too much money in combination with too few goods (*ibid.*). He claimed that it was not possible for governments to choose among combinations of inflation and unemployment (*ibid.*). Since capitalist economies have a ‘natural rate’ of unemployment, any attempt to move it below the ‘natural’ would consequently lead to inflation (*ibid.*).

The rise of neoliberalism in practice is associated with the mandates of Margaret Thatcher, Prime Minister of the United Kingdom from 1979 and Ronald Reagan, President of the United States of America from 1981 (Munck 2005, 62). But the first phase of the spread of neoliberalism to the developing world had began even earlier, in 1973 in Chile (*ibid.*). Namely, 1973 brought the Pinochet military coup and the overthrow of democratically elected President Salvador Allende. During his mandate (1970–1973), Allende promoted socialism, nationalization of industries and collectivization and social welfare system. His gradual path towards socialism bothered domestic business elites in Chile, which initiated the coup. All the left-wing social movements and political organizations in Chile were pushed down, and all forms of popular organization were destroyed (Harvey 2005, 7). The neoliberal reforms immediately started to be implemented: all regulatory or institutional limitations, such as trade union power, were removed from the labor market (*ibid.*). The ISI policies that have been applied before immediately went into oblivion.

Then the ‘Chicago boys’ project, implemented by a group of Chilean economists, who were trained at the University of Chicago in the spirit of neoliberalism and Friedman ideas, followed (Munck 2005, 62). Pinochet, Reagan and Thatcher started to slowly abolish state interference and establish free market mechanisms (*ibid.*). Namely, Pinochet involved the economists from the Chicago school in the government, so that Chile was able to negotiate loans with the IMF (Harvey 2005, 8). The cooperation with the IMF implied the restructuring of the economy according to neoliberal theory: the nationalizations were stopped and the privatizations of public goods were put on the table; national resources such as fisheries and timber were opened to private exploitation; social security was privatized and foreign direct investment was pushed forward (*ibid.*). Regarding the labor market, it was also aimed to be deregulated, so that the labor become more ‘flexible’ (Munck 2005, 63).

Although neoliberalism was pushed from the United States and the United Kingdom, it was gradually exported to the periphery in the following years. Namely, neoliberals obtained support and even controlling votes on the boards of the two most important IFIs - the World Bank and the IMF (Todaro and Smith 2006, 120). Together with their support and the simultaneous influence provided by the International Labor Organization (ILO), the United Nations Development Program (UNDP) and the United Nations Conference on Trade and Development (UNCTAD), the idea of neoliberal economic organization spreaded all over developed world (*ibid.*). After that, the Washington consensus[2] started to dominate development thinking, mostly within the World Bank, the IMF and other international organizations (Lapavitsas 2005, 30). During the 1980s and 1990s, they have spread neoliberalism through developing world (especially throughout Latin America and Sub-Saharan Africa), by imposing various political and economic reforms to individual countries, in exchange for their loans and other assistance. The most influential programs imposed by the two financial institutions were the SAPs and the PRSPs.

3 The Bretton Woods Institutions as the main promoters of neoliberal programs

The agreement on the establishment of Bretton Woods Institutions was drawn up and signed in 1944, at the Conference organized in Bretton Woods, New Hampshire (The World Bank 2013, 1). The Bretton Woods Conference, formally named the United Nations Monetary and Financial Conference, gathered governments of 44 countries, including not only world powers such as United States or USSR, but also a number of countries from developing world, such as Venezuela, Bolivia, Paraguay and Iran (*ibid.*).

The two financial institutions, the International Bank for Reconstruction and Development (IBRD, later renamed into World Bank) and the IMF were set upon the agreement of regulation of the international monetary and financial order. The motive for their establishment may also be seen in the need for the reconstruction of many countries in the world, especially those in Europe, after the

[2] The Washington consensus represents a set of neoliberal ideas, which request from developing countries that they achieve macroeconomic stability, by cutting government spending, eliminating social welfare systems and subsidies to the poor, deregulate their domestic markets, privatize state companies, and open their economies to foreign trade and finance (Lapavitsas 2005, 30). It is actually a practical development strategy of neoliberalism as an ideology, i.e. neoliberalism in practice. Its implementation can best be seen through the work of IFIs - the World Bank and the IMF.

Second World War. Thus it was necessary to support a number of countries with financial aid as well as with infrastructural projects for restoration. While the IMF was seen as supplier of financial loans for indebted and poor countries, the World Bank was given the task of facilitator and provider of financial sources for the infrastructural projects such as constructions and restorations of roads, railways, electrifications and ports. It can be concluded that the two institutions have clearly different roles when it comes to the promotion of development policies throughout the world, because of their specific mandates and structures, which will be discussed in the next two chapters.

3.1 The World Bank

The World Bank is an IFI which provides technical and financial support to developing countries around the world (The World Bank 2016). Nevertheless, it does not represent a bank in the ordinary sense, but a partnership of five institutions which are managed by their member states. These five organizations are: the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes. Regardless of this complex internal structure and organization, the World Bank functions as a unique institution (*ibid.*).

The World Bank was initially created to assist the redevelopment of Europe after the Second World War. During the years, its mission significantly evolved; it advanced from a facilitator of post-war reconstruction and development, and its present day goal is worldwide poverty alleviation and shared prosperity (The World Bank 2016). Its work is being increasingly focused on reduction of poverty through assisted development. While in the first years after the foundation the Bank’s projects were focused on heavy infrastructure investment, nowadays the focus of its investments is significantly broadened, since it includes projects in agriculture, health, education and other aspects of social sector (*ibid.*).

When it comes to its relevance on a global scale, it represents a significant stakeholder which promotes various development policies and programs in almost every region of the world. A number of countries in the developing world rely on the World Bank when it comes to financial help and in particular to infrastructure investments. Its importance and influence is especially recognizable in Latin America and Sub-Saharan Africa, but also in the rest of the developing world.

The rise of the World Bank influence in the world had been recorded in early 1980s. At that period this financial institution represented an important support in spreading neoliberalism around the world. Namely, in 1980s, the World Bank and the IMF invented and started to implement SAPs, which gave the international dimension to the spread of neoliberalism (Colas 2005, 77). The SAPs were implemented as a condition for receiving loans from the IFIs (*ibid.*). Their essence lied in the fact that the Third World countries were in a serious debt crisis during the 1980s (*ibid.*, 78). The implementation of the SAPs implied several deep reforms such as cutbacks in public spending, currency devaluation, export promotion, opening up of trade and capital accounts, privatization and tax reductions (*ibid.*). Hence, the aim of the policy was the structural regulation of developing countries, with special emphasis on market liberalization and removal of the state interference into market questions. It can be concluded that the powerful stakeholders at the time aimed to establish the new global order with a neoliberal framework, which would allow the markets to function and interact freely, without boundaries and without the states as intermediaries among them.

The first Structural Adjustment Loan (SAL) was approved to Turkey, in 1980, for an amount of 200 million USD (The World Bank 2013, 206). This loan, *i.e.* the project, was aimed to support structural adjustment policies, which were planned to be adopted by Turkey (*ibid.*). The policies were planned to be imposed in order to promote greater reliance on market forces, reduction of state intervention and control, increased export orientation and increased utilization of domestic resources (*ibid.*). Also, the loan was aimed to finance high priority imports so that the fuller utilization of productive capacity in agriculture and industry can be achieved (*ibid.*).

When it comes to the World Bank's attitude towards poverty reduction in the world, it is noticeable that over the years this issue has been gaining not only ever growing relevance but it has been put on the top of the scale of obstacles to development in the world. The slogan of the World Bank, built into its lobby wall, states: "our dream is a world free of poverty" (Easterly 2003b, 361). The projects aimed to the developing countries are significantly concentrated at the reduction and elimination of poverty, so that the economic growth and development can be reached at a higher level. For example, in December 1986, the World Bank introduced a special Poverty Task Force, which was comprised of senior staff, in order to review the Bank's work on poverty and to propose new programs concerning this issue and create a program of action so that its poverty focused operations around the world achieve more effectiveness (The World Bank 2013, 231).

Next year, in September 1987, the World Bank, the African Development Bank and the UNDP introduced the Social Dimensions of Adjustment Initiative, which was launched as their joint undertaking (The World Bank 2013, 237). The scope of this Initiative was actually to address the problems of the poor and vulnerable groups because they undoubtedly bear thick consequences from the application of structural adjustment and economic reforms (Skogly 1994, 48).

In 1991, the World Bank's president at the time Lewis Preston opened the Annual Meetings in Bangkok by saying that the reduction of poverty is the primary objective of the Bank (The World Bank 2013, 266). Also, in May 1992 he stressed out the importance of sustainable poverty reduction, by saying that: "sustainable poverty reduction is the overarching objective of the World Bank. It is the benchmark by which our performance as a development institution will be measured" (*ibid.*, 272). It is thus clear that this point represented the beginning of a change of the World Bank's direction.

At the end of the millennium, there was a significant shift of the World Bank direction, moving towards putting poverty eradication in the center of its focus. In accordance with the determined Millennium Development Goals, the Bank's mission was also seen as substantial when it comes to poverty reduction in the developing countries. Joseph Stiglitz[3] stressed that in 1999 the Bank's core mission was the promotion of economic growth and the eradication of poverty in the less developed countries (Stiglitz 1999, F580).

During the years the instruments used to pursue these objectives have evolved too, leading to the shift of the Bank's projects from the large-scale and growth oriented towards projects which more

[3] Joseph Stiglitz was the World Bank Chief Economist from 1997 until 2000 and its senior vice president. In 2001 he received the Nobel Memorial Prize in Economic Sciences.

explicitly stress the poverty reduction goal (Stiglitz 1999, F580). Moreover, its focus became even narrower when assessing the individual governments' activities, putting the accent on support for the goal of poverty reduction (*ibid*.). In accordance with it, the overall lending portfolios of the Bank have been approved based on indicators of macroeconomic and sectoral policies and institutions, showing the efforts and the performance on poverty reduction (*ibid*.). Finally, poverty assessment has been involved in all of the periodic Country Assistance Strategies which are crucial for the World Bank lending program in each country (*ibid.*). In order to provide it, the Bank increased availability of poverty data, by collecting the data from the household surveys (*ibid.* F580–F581). Along with the World Bank's aforementioned shift, it has introduced the PRSPs through which it planned to implement poverty reduction reforms in the developing world together with the IMF. In order to assess the World Bank's work and its overall performance it is necessary to analyze its projects and the results that they achieved in the developing world.

3.2 The International Monetary Fund

The IMF was established in order to ensure monetary stability in the world. Its main purpose is to achieve the stability of the exchange rates and international payments system so that the countries and their citizens may transact with each other (International Monetary Fund 2016). The 44 countries which participated at the Bretton Woods Conference, when the Fund was founded, aimed to make an institutional framework which will foster economic cooperation in the world. Namely, the prime purpose of this establishment was to try to avoid a repetition of the competitive devaluations that had contributed to the Great Depression of the 1930s (*ibid.*). In the late 1950s and during the 1960s the membership of the IMF began to expand because many African countries at that moment gained independence and afterwards accessed it. However, its expansion was partly limited due to the consequences of the Cold War and the subsequent division of Europe. As a consequence, almost all countries which were within the Soviet bloc and under its sphere of influence did not join the Fund.[4]

[4] Its membership consists of 188 countries, which makes it near-global. The main activities that the IMF carries out are focused on enhancing international monetary cooperation, securing financial stability and fostering international trade. It promotes full employment and sustainable economic growth. A special emphasis in its projects is put on poverty reduction and elimination around the world, particularly in the last two decades. In 2012, its mandate was broadened so

The IMF carries out its fundamental mission *i.e.* ensures the stability of the international monetary system in three ways: by keeping track of the global economy and the economies of its member countries, by lending money to countries with difficulties of balance of payments and by providing practical help to its members (International Monetary Fund 2016). In case when countries face difficulties with balance of payments, the IMF provides financial assistance to its member states and gives them a chance to correct these problems.[5] Therefore, in those circumstances national authorities create adjustment programs aimed at overcoming problems with balance of payments but in close cooperation with the IMF. Consequently, the Fund provides financial assistance to those countries, but this support is conditional: the IMF requires an effective implementation of the designed programs in order to lend funds to them. It also provides technical assistance to its member states so that they become able to create effective economic policies which will ensure economic growth and to manage their financial business efficiently (*ibid.*).

As already mentioned, in 1999 the World Bank and the IMF have jointly introduced the PRSPs as a response to development problems in low-income countries. The poverty reduction strategies (PRS) are central in the IMF's economic and financial programs in poor countries. The PRSPs assess poverty challenges and show how macroeconomic, structural and social policies can affect growth and reduce poverty (*ibid.*). Also, they highlight the external financing needs and all additional sources of necessary financing.

In 2009, the IMF has improved its lending mechanisms to low-income countries. The reason for that lied partly in the global economic crisis of 2008 which had a significant impact to the economies of these countries. They became more vulnerable and thus needed emergency support from the IMF (International Monetary Fund 2016). The Fund recognized their need for short-term emergency

now it includes all macroeconomic and financial sector issues which affect international stability (International Monetary Fund 2016). In addition to all these competences, the IMF has one more aim that is often addressed for by its member states which experience difficulties with balance of payments (*ibid.*). Actually, the Fund provides financial assistance to the countries so that they can rebuild their international reserves, stabilize their currencies and create conditions for fostering economic growth (*ibid.*).

[5] Most of the resources by which the Fund disposes of are provided by its member countries, mainly through the system of quotas. Namely, each member country of the IMF is given a quota depending on it position in the world economy (International Monetary Fund 2016). That means that each member state provides assets in order to create resources for the Fund so that it can supply those countries in need for financial assistance with loans. Of course, every loan that the IMF provides is given along with specific conditions regarding its utilization and repayment.

support and tried to address them more directly by facilitating its lending instruments. Due to their growing financial needs, the IMF concessional lending engagement increased significantly after the global economic crisis. During the period from 2009 to 2014 their lending commitments reached a sum of 11 billion USD (*ibid.*). Following that direction, the Fund has established the Poverty Reduction and Growth Trust in order to make its financial support to low-income countries more flexible and sensible to their diversity (*ibid.*).

According to the data provided by the IMF, many low-income countries have recently improved their macroeconomic stability.[6] Considering the fact that during the 1990s a number of these countries were combatting serious and devastating economic problems, it was obvious that they needed radical policy changes. Nevertheless, due to liberalization of markets and implementation of numerous policy reforms in these countries, their economies now record increasing success followed by their openness and integration into the world economy (International Monetary Fund 2016).

The role of the IMF in the developing world is of undoubted importance since it provided financial assistance to its countries when they recorded greatest need for help, during the debt and financial crises. Still, its role needs yet to be assessed by analyzing the results of its programs in the low-income countries such as those from South America.

3.3 Critical assessment of the Bretton Woods Institutions

Despite the significant efforts that the Bretton Woods Institutions made towards helping low-income countries in overcoming the economic crisis and towards supporting them financially, there is a lot of criticism addressed to them. These criticisms agree on a number of points, but are mainly based on the statements that they do not fulfill their intended objectives.

[6] The IMF stabilization program consists of four basic components: abolition or liberalization of foreign exchange and import controls, devaluation of the official exchange rate, a domestic anti-inflation program as well as the greater hospitality to foreign investment and a general opening of the economy to international commerce (Todaro and Smith 2006, 680).

For example, Amin (1997, 18) states that the IMF failed to maintain monetary stability from 1967 onwards. He adds that the US did not in effect want to create a world central bank which would be more effective and decentralized, but a weaker institution which is heavily dependent on them (*ibid.*). Stiglitz (2001, 14) says that the IMF has failed to perform its main tasks, for which it was designed. He states that the institution needs a thorough reform in order to create conditions for a more stable global environment (*ibid*.). Despite the Fund's main mission of reaching the global monetary stability, some of the policies which it promoted brought instability (*ibid*.). Premature capital and financial markets liberalization in the developing world were one of the major causes of the crises and the instabilities of the global market in the last quarter of the twentieth century (*ibid.*).

Regarding its affairs in the Third World countries, the Fund did not succeed to carry out its objective of preventing debt from reaching high levels during 1970s or from reducing it afterwards (Amin 1997, 18). "Its job is to manage the debt by imposing structural adjustments designed for this exclusive purpose (servicing the debt) even if they are detrimental to economic growth" (*ibid.*, 18–19).

Naomi Klein (2008, 156) is another author who criticizes the work of Washington institutions, claiming that these institutions implemented a shock doctrine throughout the Third World countries, in order to spread Chicago School policies. Namely, she says that the great part of the developing world (particularly Latin America) was going towards hyperinflation during the 1980s. Klein attributes the cause for such crisis to Washington financial institutions' engagement, both the IMF and the World Bank. The first reason for this lies in their insistence on transmitting the old debts, which were accumulated under dictatorships, to new democracies in the developing countries (*ibid.*). The second reason was that at the time the U.S. Federal Reserve allowed interest rates to soar, which brought to a massive growth of those debts (*ibid.*). Klein (*ibid.*) attributed the entire responsibility for the crisis in the 1980s to the Bretton Woods institutions, for inserting the necessary measures in the developing world and applying a shock therapy, which brought numerous devastating consequences. She adds that the 'debt shock' was imagined as a huge gun fired from Washington which seriously and negatively affected the developing world. Furthermore, soaring interest rates implied higher interest payments on foreign debts; consequently in order to meet the higher payments, developing countries had to take more loans (*ibid.*). Hence, these developing countries did not have much choice; in order to overcome the crisis and repay the debt to the IFIs they had to play by Washington's rules (*ibid.*, 161). "The principle was simple: countries in crisis desperately need emergency aid to stabilize their currencies. When privatization and free-trade policies are packaged together with a financial bailout, countries have little choice but to accept the whole package" (*ibid.*, 164).

In general, Klein (2008, 162) sees the IMF as a global shock absorber which promotes economic policies that reduced financial speculations and market volatility. In case when the conditions for financial crisis are evident in a country, the role of the IMF is to enter into the country with stabilizing grants and loans, working to prevent a crisis before it actually happens (*ibid.*). Another critique of its work arises when it comes to the allocation of power within the Fund and the Bank. The power within these two institutions is not allocated to every country equally, but on the basis of their economic power (*ibid.*, 163).

According to Todaro and Smith (2006, 681), observers who are less radical view the IMF neither as a developmental nor as an antidevelopmental financial institution. Rather, they see it as an institution which is trying to perform its function in holding the global capitalist market together (*ibid.*). "Its primary goal is the maintenance of an 'orderly' international exchange system designed to promote monetary cooperation, expand international trade, control inflation, encourage exchange-rate stability, and help countries deal with short-run balance of payments problems through the provision of scarce foreign-exchange resources" (*ibid.*).

4 South America under neoliberalism

The continent of South America includes twelve sovereign states, which all have specific histories and paths of economic development. During the 1970s and 1980s, due to the severe debt crisis (Tables 4.1 and 4.2[7]), a process of intense economic and market reforms has begun. All countries across South America were unadjusted for the crisis and instead used to borrow constantly in order

[7] The data about Suriname were not available in the source.

to have access to foreign currencies and to overcome the crisis. This led to a high level of indebtedness and weakness of their economies. It was evident that a certain reform was necessary.

Table 4.1: Countries of South America - economic indicators (GDP and GDP *per capita*)

Countries of South America - economic indicators						
Indicators	**Total GDP, at constant market prices (millions of USD at 1980 prices)**			**GDP *per capita* (USD at 1980 prices)**		
Year	**1975**	**1980**	**1985**	**1975**	**1980**	**1985**
Argentina	75,705.4	84,988.5	74,519.4	2,905.9	3,009.8	2,456.9
Bolivia	3,957.4	4,380.0	3,934.6	808.6	786.4	617.6
Brazil	172,398.6	243,848.2	258,003.4	1,595.8	2,010.5	1,903.2
Chile	18,315.8	25,792.0	25,476.8	1,769.6	2,314.2	2,101.7
Colombia	25,162.0	32,479.0	36,821.2	1,048.8	1,207.1	1,232.3
Ecuador	8,445.7	11,489.9	13,077.4	1,200.5	1,414.5	1,403.6
Guyana	552.5	529.1	436.0	708.3	611.7	457.5
Paraguay	2,500.2	4,067.5	4,575.6	932.2	1,292.5	1,239.0
Peru	17,897.4	20,581.1	20,367.5	1,180.5	1,190.0	1,034.0
Uruguay	5,632.6	7,027.7	5,960.5	1,991.0	2,411.7	1,981.5
Venezuela	45,567.1	50,738.7	47,004.9	3,597.9	3,377.2	2,714.4

Source: ECLAC (Statistical Yearbook for Latin America 1981 and 1990).

Table 4.2: Countries of South America - economic indicators (level of debt burden and trade balance)

Countries of South America - economic indicators						
Indicators	**Level of debt burden (balance at the end of the year in millions of USD)**			**Trade balance (goods and services, in millions of USD)**		
Year	**1975**	**1980**	**1985**	**1975**	**1980**	**1985**
Argentina	3,022.9	27,162	49,325	-825.6	-3,190.6	4,767.0
Bolivia	797.0	2,340.0	3,294.0	-132.0	199.0	13.5
Brazil	13,618.4	70,565.0	105,126.0	-4,906.3	-5,935.0	10,735.2

Chile	2,348.0	11,207.0	20,403.0	-211.3	-1,055.5	547.3
Colombia	3,730.9	6,805.0	14,063.0	99.6	-126.2	-617.3
Ecuador	456.7	4,167.0	8,111.0	-185.2	-60.1	1,119.0
Guyana	291.4			0.4	-85.0	-51.1
Paraguay	188.1	861.0	1,772.0	-60.2	-275.4	-178.2
Peru	2,980.1	9,595.0	13,877.0	-1,348.9	661.1	996.0
Uruguay	616.5	2,138.0	4,900.0	-125.2	-617.7	220.0
Venezuela	1,261.5	29,608.0	33,362.0	2,245.0	4,839.1	5,933.6

Source: ECLAC (Statistical Yearbook for Latin America 1981 and 1990).

4.1 The 1980s - acceptance and implementation of reforms

Since the debt crisis had left negative effects to the economies of South American countries, in terms of their GDP *per capita* and their debt burden, they desperately looked for an alternative in order to fix their currencies, free themselves of the debt, reduce the inflation and consequently revive their economies. The application of neoliberal policies was seen as a method to overcome the crisis while the Bretton Woods institutions were seen as the only saviors who would bring additional financial resources and support necessary infrastructural projects in their countries.

The first step towards the intrusion of neoliberal program was made by introducing the IMF on the continent. In the countries, which faced serious shortages of foreign exchange, the Fund was seen as an optimal facilitator in overcoming the debt crisis, by offering them a relief from debt. In turn, the IMF utilized the delegated power of 'liberator of debts' to implement a rapid neoliberal market reform across the entire region. Another external factor, which boosted the neoliberal turn in South America was the international policy shift towards the free market ideology, under the influence of globalization. The discourse about globalization effect was used in order to naturalize neoliberalism, so that it looks as it was a natural historical step onwards and as it was inevitable (Munck 2003, 496). In accordance with it, the neoliberal ideology as such was not significantly challenged by any other world-view until the 1990s.

The first country in South America, which applied neoliberalism was Chile. Due to the political circumstances, it represented a very fertile ground for the implementation of such policies. In 1973, after the violent overthrow and assassination of democratically elected President Allende, a dictatorship headed by general Pinochet has begun. Thanks to that factor, the path towards introducing neoliberalism was open. Pinochet abolished every mode of socialist organization and soon created conditions for welcoming and applying economic and political policies fueled by Chicago School (Davis-Hamel 2012, 81).

The very fact that from 1973 onwards Chile was led by military dictatorship significantly facilitated the implementation of neoliberalism in that country. The establishment of military dictatorships had been recorded in other South American countries as well, during the 1960s and 1970s. This adherence was present in Brazil (1964), Bolivia (1971), Uruguay (1973) and Argentina (1976).

Nevertheless, none of the countries of South America has applied the complete neoliberal recipe in their economies (Green 1996, 110). Some of them, such as Mexico, Venezuela and Chile, have kept the strategically important state enterprises under the government control. Chile has kept the copper industry, while Mexico and Venezuela retained oil enterprises under the government control (*ibid.*). It is evident that these countries still kept some of the previous economic policies, mostly by keeping government control in some of the most lucrative economic sectors.

When analyzing the South American region as a whole and its overall economic performance during this period, it can be divided into three phases (Green 1996, 110). The first period is thus characterized by deep recession in early 1980s, and is predominantly linked to 1982 and 1983. It seemed as if the IMF's recipe, which was applied to all South American countries, failed to meet its intended goals at the very beginning. Country after country went into devaluation and consequently recession (*ibid.*, 111). However, the IMF persuaded these countries to open their economies, control import and focus on exporting. This brought certain success to the region, considering the fact that the trade surplus rose from 9 billion USD in 1982 to 31.5 billion USD in 1983 (*ibid.*). Nevertheless, the trade surpluses and the export incomes were not noticeable in the state budgets, since the private sector in each economy held most of the export dollars. Rare exceptions were states as Mexico, Venezuela and Chile, which maintained important state enterprises (oil and copper industry, respectively) under government control. Thanks to that, their governments earned a significant part from the export income.

The next phase, from 1984 to 1987 was a period of stabilization programs led by Argentina and Brazil, but nevertheless represented a false dawn in these countries (Green 1996, 112). These programs were characterized as heterodox stabilization programs, since they included some intervention of government. It was reflected in cutting the fiscal deficit or putting temporary government freezes on wages for example (*ibid*). They were aimed at finding alternative to end inflation, but without provoking more recession. These plans have not brought the intended success, but they produced a short-time boom. For example, the Brazilian Cruzado plan led to an 8.1 percent growth rate in 1986 (*ibid.*, 113). In Argentina, the Austral plan produced a 1986 growth figure of 5.8 percent (*ibid.*). However, it was not possible to sustain the initial growth. Brazil recorded a drop in inflation from 228 in 1985 to just 58 percent in 1986, but in 1988 it was back to almost 1000 percent (*ibid.*). Hence, although these heterodox programs seemed to bring some success to the region at the beginning, later it turned that they were not enough to overcome the crisis. The last phase, which lasted from 1988 to 1995, was colored by stagnation, along with implementation of the SAPs in the entire region.

During the 1980s, the most successful economy on the continent was Chile. Since Chile was the ‘poster child’ of the Chicago School of economics, it has consequently implemented almost the full neoliberal program, under both General Pinochet and President Aylwin. Indeed, the success of the country at the beginning of neoliberal path was evident. It was the period when Chile recorded a significant growth of its economy. After applying the necessary neoliberal reforms, its economy was successfully integrated into the global market. From 1977 to 1981, the country achieved an aggregate economic growth, increasing annually by some 8 percent (Davis-Hamel 2012, 80).

4.1.1 The Structural Adjustment Programs

The last phase of economic reforms in South America during the 1980s, embodied in the application of structural adjustment, is the most relevant for this research since it includes a conjoint project of both the IMF and the World Bank.

The SAPs were introduced in February 1980 by that time president of the World Bank Robert McNamara (Easterly 2003a, 1–2). The proposal was approved by the World Bank Board; therefore they launched a new instrument consolidated in the SAL (*ibid.*). The creation of SAPs was a result of the second oil shock in 1979, and intended as an instrument, which would prevent further shocks and crises. Their objective was preventing an increase of the current account deficits of many developing countries, which could seriously obstruct the implementation of the investment programs (*ibid.*, 2).

Although the IMF had already been providing conditional loans to the developing countries, in 1980s it further expanded the number and types of its loans. Moreover, the loans, which the IMF provided, used to represent a precondition for the approval of adjustment loans by the World Bank (Easterly 2003a, 2). In general, the SAPs represented the loans provided by both the World Bank and the IMF to developing countries, especially those experiencing economic crisis. First, they ought to serve for achieving macroeconomic stabilization in the developing countries, mainly reflected in fiscal adjustment and inflation stabilization (*ibid.*). The core of the SAPs consisted in the conditionality imposed on the countries, which asked for loans. These policies predominantly contained the neoliberal concept of economic organization. Furthermore, the countries had to apply the required policies in their own economies and the overall administration, in order to obtain new loans from the two financial institutions. This conditionality consisted mainly of opening their markets and integrating into global market.

Several policies imposed by the SAPs stand out the most. First, the SAPs were created in order to reduce the borrowing country's fiscal imbalances, and to adjust its economy to the long-term growth. Second, the goal of the SAPs was to open the developing countries to the global market and make them more market-oriented. The free market approach implies the *laissez faire* principle.

Third, by implementing the SAPs the IFIs intended to consolidate liberalization, deregulation and privatization in the developing countries.

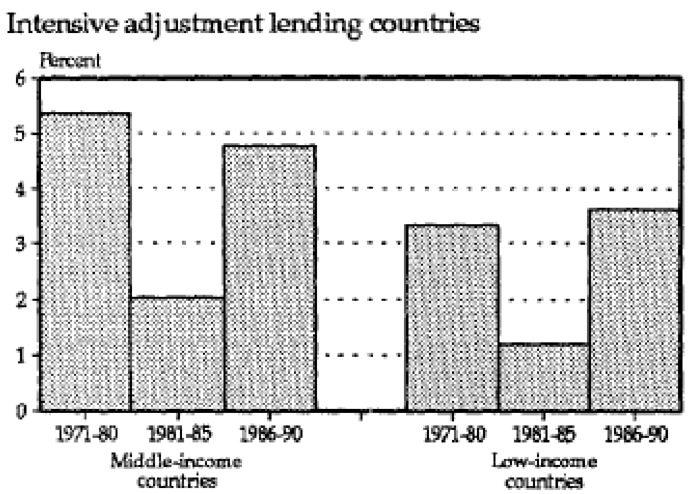
In order to assess either the success or the failure of the structural adjustment at the Southern American continent, it is necessary to look back at the outcomes that they made throughout these countries. However, it is not simple at all to measure the success of the SAPs. As Easterly (2003a, 3–4) claims, using the methodology of comparing results to intended objectives, the final conclusions are not very favorable to the success of the structural adjustment policies (*ibid.*). Structural adjustment brought certain recovery to the region, but also a number of radical changes, which would significantly affect its population. The UN ECLAC (1993, 35) wrote that the 1980s had brought some 60 million of new poor, together with 46 percent of the population (nearly 200 million people) which lived below the poverty line. Almost half of them lived in the conditions of extreme poverty, barely having an income of less than a USD a day (*ibid.*).

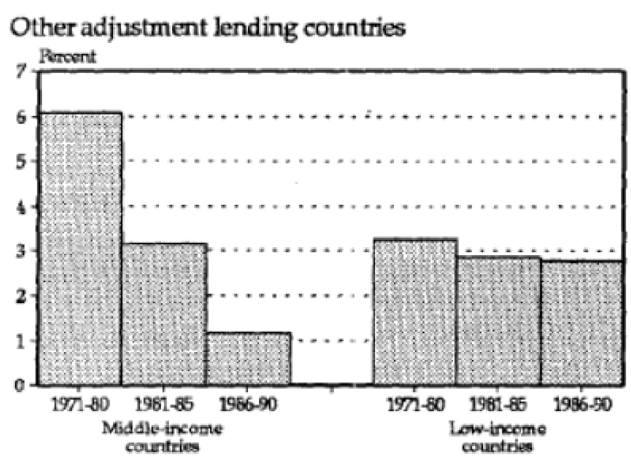
The overall development of the region has to be measured by taking into account the rise of poverty and inequality. The implemented reforms, which included cuts in social spending, reduction of social security and social welfare, together with labor deregulation and strengthening of private sector, brought certain shortcomings to the overall growth of South America. It is also evident that the reforms implied numerous benefits to a part of population, which became richer and richer, while the gap between them and the poorest ones increased significantly. The study from 1992 showed that top 5 percent of the population got richer, even during the worst years of the debt crisis, while the bottom 75 percent lost income (Green 1996, 113). In addition, the number of Latin American billionaires rose from 6 in 1987 to 42 in 1994 (*ibid.*).

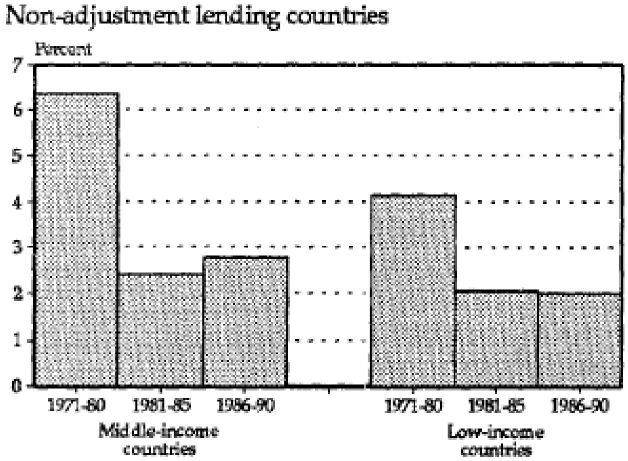
On the other hand, the World Bank’s analysis should also be considered. According to its analysis, the effective implementation of adjustment policies as well as the ability of a country to adjust should be taken into consideration when assessing the SAPs’ impact on the poor. Namely, the World Bank classified countries, which applied structural adjustment into three categories, based on how intensively a country used adjustment lending (Figures 4.1, 4.2 and 4.3). Among all 77 countries from the analysis, South American countries are found in each group. The first category belongs to *intensive adjustment lending countries*, with Bolivia, Brazil, Chile, Colombia and Uruguay (World

Bank 1992, 15). This group of countries had used the SAPs more intensively and they had received two structural adjustment loans or more adjustment operations effective by June 1990 (*ibid*.). The second category comprises *other adjustment lending countries*, or those, which had received at least one adjustment loan effective by June 1990 (*ibid.*). It includes Argentina, Ecuador, Guyana and Venezuela. The third category, which belongs to *non-adjustment lending countries*, includes Paraguay and Peru (*ibid.*). These countries had not received adjustment lending by June 1990.

Figures 4.1, 4.2 and 4.3: Average annual growth in GDP, 1971–90







Source: The World Bank (1992, 2).

The review provided by the World Bank says that adjustment policies help most of the poor. On the other hand, recessions that are associated with adjustment caused temporary falls in welfare for the rest of the poor (World Bank 1992, 3). More directly, at least some of the poor suffer while the country's economy is being adjusted. According to the World Bank, countries that failed to implement structural adjustment in the 1980s, such as Peru, recorded an increase of poverty (*ibid.*). However, in cases where adjustment programs were implemented, the poor mostly evidenced improvement of their welfare, thus showing that their conditions would have been worse without any adjustment efforts (*ibid.*, 4). They compare the structural adjustment effects on the poor with the failure or success of a country to adjust. There are also cases, such as Brazil, which witness a growth of poverty due to some distributional shifts. In the case of Brazil the poverty increase was a result of both policy changes, designed poorly, and failure to adjust (*ibid.*). Moreover, when it comes to the analysis of income aspects of poverty, the Bank evidence shows that adjustment is much better for the poor than non-adjustment (*ibid.*, 19).

A significant factor of poverty increase in countries facing structural adjustment represents also a transition, which follows economic measures and reforms. In countries where structural adjustment was followed by quick transition, poverty continued to decline (World Bank 1992, 13). On the other hand, in the early 1980s countries with severe transitional costs and a crisis in economy, poverty increased almost everywhere (*ibid.*). Finally, in cases where countries abandoned adjustment programs, such as Brazil, the poor suffered significantly (*ibid.*, 14). It can be concluded that the

Bank's and the Fund's attitude towards causes of poverty levels in 77 countries was actually connected with the implementation of the SAPs, the consistency with the SAPs and the commitment to apply necessary reforms. In other words, the two institutions believed that countries, which abandoned or did not even try to implement the SAPs faced severe problems, which were reflected in increase of poverty.

As Todaro and Smith (2006, 681) claim, between 1982 and 1988 the IMF implemented its strategy in 28 of the 32 countries of Latin America and the Caribbean, and it looked as if the strategy was not working. During the period of six concerned years, Latin America financed 145 billion USD in debt payments (*ibid.*). However, this financing was carried out at a cost of economic stagnation, rising unemployment and a decline in *per capita* income of seven percent (*ibid.*). As the authors state, although these countries adjusted, they did not grow.

In order to assess the effects of the structural adjustment in 1980s, it is necessary to analyze poverty rates in South America during that decade. The number of poor in Latin America and the Caribbean had been mostly varying during the 1980s (Table 4.3). The highest number of poor was reached in 1984, when it was recorded at the devastating point of 90 million. Even the headcount rates, showing the percentage of population living in households with consumption or income per person below the poverty line (1.9 USD per day[8]), show that 1984 reached a high record when it comes to poverty rates: it was recorded at 23.01 percent. Nevertheless, there is another indicator, which should be taken into account when analyzing poverty trends: the growth of population. It is of high importance, since it undoubtedly affects the overall development and consequently the increase of poverty. Generally, the assessment of the data from the Table 4.3 leaves the impression that poverty in South America had been varying during the 1980s.

[8] PovcalNet is an online analysis tool for global poverty monitoring and includes the calculations made by the World Bank's researchers in estimating the extent of absolute poverty in the world and was developed for the sole purpose of public replication of the World Bank's poverty measures for its widely used international poverty lines, including 1.90 USD a day (The World Bank PovcalNet).

Table 4.3: Latin America and the Caribbean - the World Bank Regional aggregation (1981–1987)

Latin America and the Caribbean[9] - the World Bank Regional aggregation using 2011 PPP[10] and 1.9 USD/day poverty line					
Year	**Poverty line (USD per day)**	**Headcount (percentage)**	**Number of poor (mio.)**	**Population (mio.)**	**Survey coverage (percentage)**
1981	1.90	19.65	72.16	367.21	55.46
1984	1.90	23.01	90.00	391.14	71.47
1987	1.90	16.72	69.45	415.36	92.10

Source: PovcalNet (2016).

After considering several sources, it can be concluded that the SAPs' success depended on a number of factors, such as the ability of a country to adjust and the speed of transition in the countries facing adjustment. Also, some components of the SAPs included very radical reforms, such as cuts in social spending and reduction of social security and social welfare, which inevitably had to lead to the shock in form of increase or stagnation in poverty levels. Besides that, it is perhaps exactly the radicalness of the applied policies, which affected their weak performance in the 1980s.

4.2 The 1990s - the effectiveness of neoliberal policies

The 1990s have marked the spread of neoliberal policies across the South American continent. The IMF and the World Bank have provided financial assistance and supported various infrastructural projects in a number of countries. At the beginning of the last decade of twentieth century it seemed as neoliberalism was spreading on a large scale and thus becoming usual in almost every economy in South America. It had also spread throughout Central America, except for Cuba, which remained inclined to socialism.

[9] Although the thesis is concerned solely on South America and its countries, the only data available provided by the PovcalNet and the World Bank researchers refer to Latin America and the Caribbean as a region. Since South America constitutes its major part, this table illustrates poverty trends in South America, too.
[10] Purchasing power parity is calculated by simultaneously comparing the prices of similar goods and services among a large number of countries (The World Bank 2016).

However, in the early 1990s it seemed as if it came to the symbolic violence of the Washington Consensus (Lapeyre 2004, 7). The beginning of a new decade was a period of global utopia, while the 1980s have been attributed as the ‘lost decade’ (*ibid.*, 8). Namely, the eighties led to stagnation in output, increase in unemployment, a decrease of wages, reduction in public expenditure on social services and a deterioration of poverty (*ibid.*, 9). According to the analysis, for several consecutive years, the heavily indebted middle-income countries have witnessed negative resource flows.

Lapeyre (2004, 11) discusses that the Bretton Woods policy package had brought little growth to many of the poorest countries, and also fostered increasing inequalities within them. He adds that the poor could not access the whole potential of any improvement in living conditions that would have been associated with a higher growth rate. It means that although the growth has been recorded in some countries, living conditions of the poor have not improved adequately. The poor thus received a smaller share of the benefits of growth than they would have obtained with a better designed policy package (*ibid.*).

Despite the aforementioned projects introduced during the 1990s, the neoliberal experiment in Latin America had been failing. Stiglitz (2003, 8) explains this by referring to a slow-down of the growth, which was recorded in this decade, especially in its second half. Although Latin American countries witnessed a brief spurt in growth in the early 1990s, shortly thereafter they had to cope with recessions, depressions and crises. For example, Argentina, the A+ student of the first three quarters of the decade, had become vilified beyond measure (*ibid.*). Brazil, which was also rated as an excellent student of reform, faced a crisis at the end of the millennium. The 1990s and the reform implementation had thus brought about insufficient growth throughout almost the entire region. Moreover, it had brought about increased poverty and inequality (*ibid.*).

Looking at the poverty reduction, Stiglitz (*ibid.*, 30) claims that the Washington Consensus policies did not pay much attention to this issue, probably because the benefits of growth themselves should have fostered reduction of poverty. On the contrary, Stiglitz claims that these policies almost surely worsened poverty issues. According to his view, the first item of any anti-poverty agenda should be commitment of government to create jobs for everyone (*ibid.*). It is thus necessary to make a shift from one-sided focus on fighting inflation towards promoting growth and job creation (*ibid.*).

Promoting equity and fighting poverty has to begin with education and health programs for children, but it has to be lifelong (*ibid.*, 31). Also, success in the fight for equity and against poverty requires economic empowerment as well as political empowerment (*ibid.*).

According to the World Bank report, between 1987 and 1998 the share of population in developing and transition economies living on less than 1 USD a day fell from 28 percent to 24 percent (World Development Report 2001, 21). Looking solely at Latin America and the Caribbean, the number of poor people in this period rose by about 20 percent (*ibid.*, 22). In 1987 there was 15.3 percent of the overall Latin American population who lived on less than 1 USD a day (*ibid.*, 23). In 1990 it was 16.8, while in 1993 it dropped to 15.3 percent (*ibid.*). In 1996 this number increased again at 15.6 percent and it stayed unchanged two years later (*ibid.*).

Table 4.4: Latin America and the Caribbean - the World Bank Regional aggregation (1990–1999)

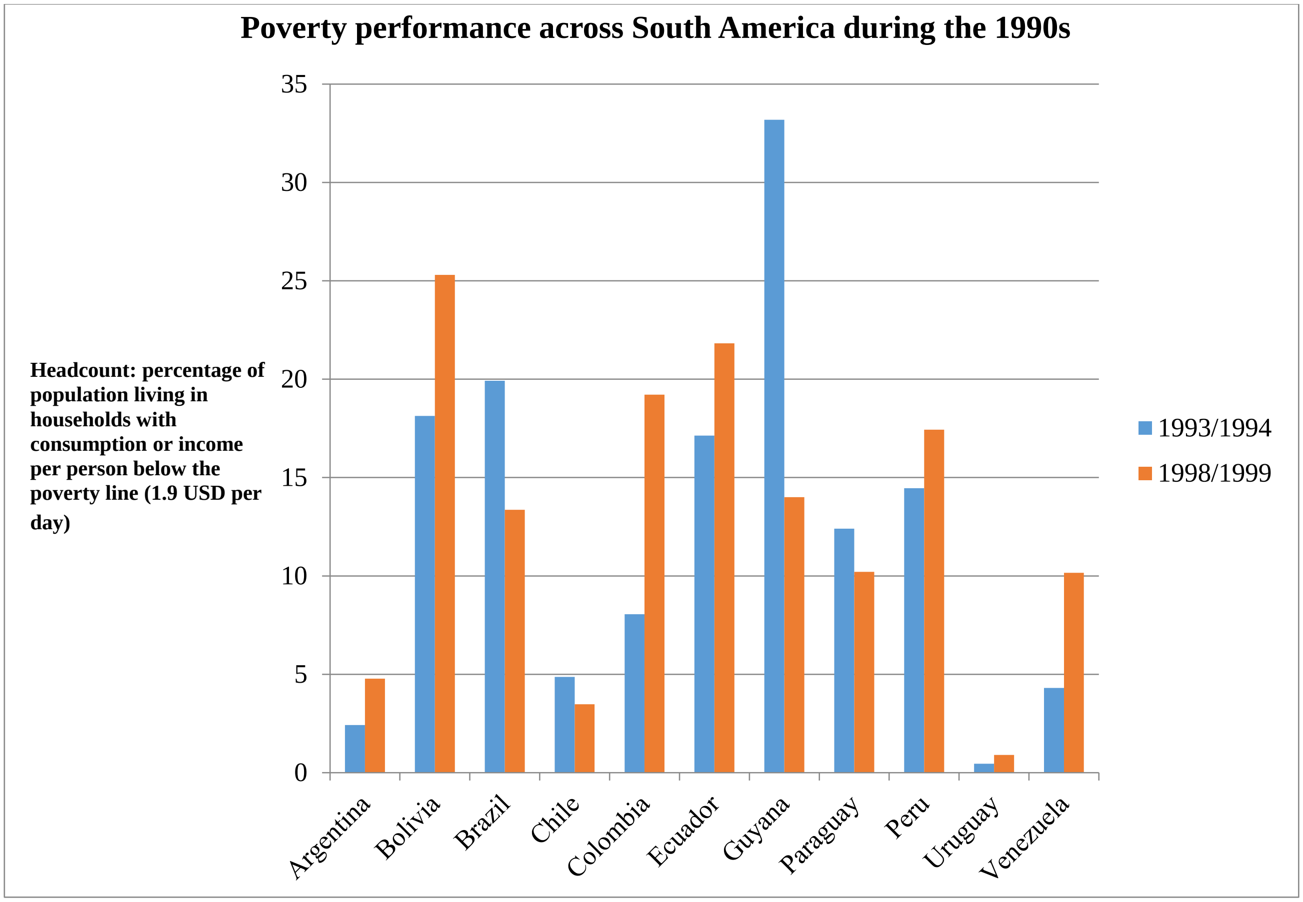
Latin America and the Caribbean - the World Bank Regional aggregation using 2011 PPP and 1.9 USD/day poverty line					
Year	**Poverty line (USD per day)**	**Headcount (percentage)**	**Number of poor (mio.)**	**Population (mio.)**	**Survey coverage (percentage)**
1990	1.90	15.47	68.04	439.80	94.64
1993	1.90	14.38	66.77	464.34	91.59
1996	1.90	14.11	68.96	488.75	95.71
1999	1.90	13.87	71.11	512.66	97.50

Source: PovcalNet (2016).

On the other hand, using 1.9 USD/day poverty line, the analysis of the poverty levels in Latin America during the 1990s shows that they were relatively stable (Table 4.4). It shows both increasing and declining trends of numbers of poor, but without large amplitudes. Although the indicator showing number of poor does not go in favor of poverty reduction in the region, the indicator showing poverty headcounts opposes it. It may be concluded that the growth of population should be considered as proportional to the number of poor, making poverty headcount more relevant and competent when it comes to the assessment of poverty reduction outcomes. Considering the fact that the analysis using 1.9 USD/day is comparable to the previous analysis of the poverty levels from 1980s, it can be concluded that the 1990s have brought about a relatively positive change when it comes to poverty reduction in the region.

However, if the countries of South America are taken individually, there are variations in poverty performance among them (Figure 4.4).

Figure 4.4: Poverty performance across South America during the 1990s



Source: PovcalNet (2016).

Brazil has made significant improvements in social indicators during the 1990s. For example, enrollment in primary education increased from 88.2 percent in 1992 to 97.1 percent in 1997 (World Development Report 2001, 32). Also, infant mortality fell from 62 per 1,000 live births in the 1980s to 38 in the 1990s (*ibid.*). In addition, urban infrastructure significantly helped poor people since new programs guaranteed minimum spending for basic health care and minimum per student spending in primary schools (*ibid.*). However, although certain progress has been achieved, the inequalities in health and education remained great. The poorest fifth of the population had three years of education, and the top fifth more than nine years (*ibid.*). Also, reduction of income poverty had been difficult because in the unstable macroeconomic environment of the 1980s and early 1990s poverty rose (*ibid.*).

4.3 The change of strategies of the World Bank and the International Monetary Fund

The 1990s have marked a need for a change of Bretton Woods institutions' strategy. They realized that a new approach to development and the overall growth was necessary. The most needed reform was how to tackle poverty issues in the developing countries so that the poor people can be reached more profoundly and more adequately. From the beginning of the 1990s, it was evident that the two IFIs started moving towards programs, which were related to poverty alleviation and eradication. During this decade, they initiated the Highly Indebted Poor Countries Initiative, aimed at helping the poorest countries to free themselves of the unmanageable debts. In addition, at the end of the decade, the two financial institutions launched a new initiative with the main purpose of reducing poverty at the global level. The initiative was the Poverty Reduction Strategy, introduced in 1999.

In September 1999, the objectives of the IMF's concessional lending were broadened to include an explicit focus on poverty reduction in the context of a growth-oriented strategy (Easterly 2003b, 361). The IMF committed itself to support, along with the World Bank, strategies elaborated by the borrowing country in a PRSP. A joint statement, which was issued by the President of the World Bank and the Managing Director of the IMF in April 2001, stated that poverty was the greatest challenge, which the international community was facing (*ibid.*). "The poverty issue is so red-hot that IMF and World Bank staff began to feel that every action inside these organizations, from reviewing public expenditure to vacuuming the office carpet, should be justified by its effect on poverty reduction" (*ibid.*, 361–362).

4.3.1 Poverty Reduction Strategies

The PRSP initiative was seen as a joint, mutual strategy, which would be implemented by both IFIs throughout the developing world, in order to cope with poverty issues more thoroughly than before. It was the developing countries, which were seen as implementers of the PRSPs, whereas the Bank and the Fund were imagined as facilitators in that process, as well as forces which would drive those countries in the direction of reducing their poverty levels.

There are some crucial elements of the PRSPs. Firstly, it is conceived as a strategy process led by a country itself. A PRSP is a government document, prepared by the national authorities of a country. A country itself sets its time for preparation of the document. It includes a comprehensive understanding of poverty and other concerned factors. When the poverty reduction strategy is being prepared, it must be based on a medium or a long-term approach (Lapeyre 2004, 16). Hence, it shall include consideration of all performance criteria, monitoring arrangements and all additional sequences.

When it comes to assessment of efficiency of the poverty reduction programs, the first evaluations of the PRSPs showed that they managed to make a difference in designing structural adjustment in poor countries (Lapeyre 2004, 17). The most important achievement of the PRSP was perhaps the mainstreaming of poverty reduction policies in national policy processes (*ibid.*). It has contributed to shifting policy priorities towards satisfying the needs of the poor. Moreover, they represented an important contribution to the integration of the NGOs and civil society organizations in national policy-making processes. Regarding the ideological doctrine enshrined in the PRSPs, they certainly did not represent a major change with regard to the past, *i.e.* with the SAPs. Namely, they were also based on the belief that openness to international trade as well as liberalization affects growth. Consequently, growth itself is good for the poor (*ibid.*).

According to the World Bank review from 2001, the aim of the PRSP was also to describe a country's macroeconomic and structural policies and programs for a period of three years or longer, to promote growth and to reduce poverty (Craig and Porter 2002, 53). This policy represented a country driven approach to poverty, reflecting three or four practical approaches when it comes to poverty reduction (*ibid.*). First, the PRSPs promoted opportunity, broad-based growth or the 'pro-poor growth' (*ibid.*). Second, they facilitated empowerment by promoting good governance and excluding anti-corruption (*ibid.*). Third, the PRSP enhanced security, particularly by investing in health and education sectors (*ibid.*). The fourth element was enshrined in financial arrangements, which served as social protection for those who were affected by adjustment policies (*ibid.*, 53–54).

The PRSP reflected the viewpoint, which supports global market integration, disciplined governance and wise utilization of human and social capital. If all these aims are achieved, the PRSP intended to generate sustained growth, social and economic stability and include the poor in emerging structures, which reflect opportunities (*ibid.*, 54). By introducing the PRSPs, it was not intended merely to reduce poverty, but also to promote sustained growth, which then should have been followed by implied poverty reduction and human capital development. Inclusion of the poor was thus a central element of the designed strategies, shifting them ideologically towards inclusive neoliberalism.

It is evident that the PRSPs have brought about significant achievements. Although they varied across countries and regions, mostly in advancement of the poverty reduction processes, there are four points in which they overlap. First of all, there has been recorded a growing commitment to poverty reduction processes by both the governments and civil society organizations in these countries (IMF and International Development Association 2002, 5). Together with this commitment, most governments which dealt with these processes evidenced a growing sense of ownership of their poverty reduction strategies (*ibid*.). If these achievements are taken into account, it can be concluded that the new orientation towards reducing poverty has affected governments to put a lot more efforts in these processes in comparison with the past.

Another achievement may be recognized in creation of more open dialogue between governments and civil society, as well as within the governments themselves (IMF and International Development Association 2002, 5). Thirdly and very importantly, with the establishment of the PRSPs all issues related to poverty reduction had become more relevant. "In policy debate, poverty reduction is now understood more broadly, extending beyond social sector interventions, with data collection, analysis, and monitoring becoming more systematic" (*ibid.*). Fourth achievement lied in the fact that even the donor community, as well as international organizations in general, had adopted the new approach and its principles. They proved to be very committed to these principles, but also helped countries in PRSP preparation. Moreover, donors had shown their intention to align their assistance programs to support PRSPs (*ibid.*).

According to the IMF and the World Bank review on PRSP (2005, 17), after five years of implementation of this policy there was evidence in many countries that the PRS approach has helped put poverty reduction at the center of the public policy debate. Moreover, this process highlighted the need to identify specific constraints of each country to more effective development, raised awareness of the need for better analysis to support policy choices and reinforced the incentives to monitor the results of public actions (*ibid.*).

However, despite its thorough and comprehensive approach to poverty reduction, the PRSPs were implemented in only two countries of South America: Bolivia and Guyana. While Bolivia introduced its PRSP in 2001, Guyana did it in 2000 with an Interim PRSP and in 2002 with its final PRSP (International Monetary Fund 2016).

Ruckert (2009, 57) states that Latin American PRSP experience has not resulted in much gains regarding poverty reduction despite its strong emphasis on innovative social policy tools. In her opinion, the PRSP architecture in general tended to prolong the hegemony of neoliberal policies in developing countries by implementing combination of both coercive and consensual political strategies (*ibid.*). Although their introduction was greeted with great hope by international community and by civil society, the evaluations of the PRSPs' results have not rated them as satisfactory. Ruckert (*ibid.*, 58) also suggests that rather than empowering the poor and addressing their plight, the PRSP process has intensified neoliberalization in the developing world and also added disciplinary elements to the World Bank arsenal of policy weapons.

When it comes to the conditions attached to debt relief in developing countries, they have become more extensive than ever (Ruckert 2009, 63). They have also shown an increased entering into the realm of social policy (*ibid.*). One of the most important conditions of HIPC debt relief is that governments demonstrate an increase in poverty reduction expenditure as a share of total government expenditure (*ibid.*). By this innovation it was meant to ensure that the debt relief resources are predominantly invested in poverty reduction programs (*ibid.*). Indeed, pro-poor spending and overall social expenditure has increased significantly during the PRSP period (2000–2005), especially when compared with the SAP period (*ibid.*, 70), which was a very positive step towards reducing poverty. It was evident that by introducing this mechanism social policy and especially poverty has been given huge importance, which was lacking earlier.

The achievement of the PRSP at the continent during the 2000s cannot be measured by analyzing regional poverty levels since they had been implemented in only two countries, Bolivia and Guyana. Nevertheless, it is necessary to analyze poverty trends in the concerned period in order to be able to assess the development of the region (Table 4.5). Although this decade brought about enormous growth of population, increasing from 512.66 million people to 603.58 million reached in 2012, it nevertheless did not cause growth of the poor. On the contrary, number of poor had been significantly decreasing during those years. Even the poverty headcount rates prove to be a strong indicator in favor of poverty reduction. Looking at the regional level, it is evident that, in spite of fact that the PRSPs were not applied to all countries from the continent, the reduction of poverty occurred anyway.

Table 4.5: Latin America and the Caribbean - the World Bank Regional aggregation (1999–2012)

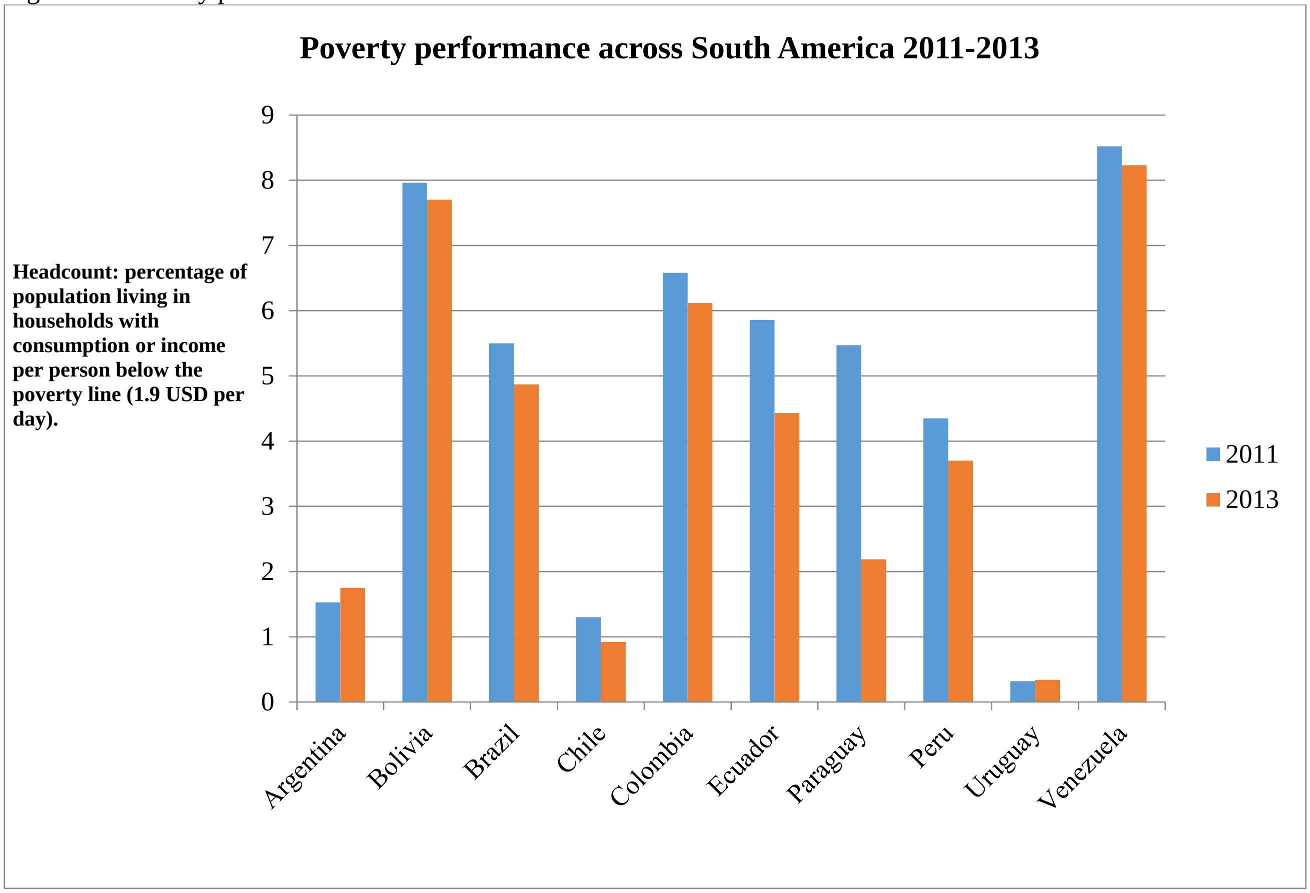
Latin America and the Caribbean - the World Bank Regional aggregation using 2011 PPP and 1.9 USD/day poverty line					
Year	**Poverty line (USD per day)**	**Headcount**	**Number of poor (mio.)**	**Population (mio.)**	**Survey coverage (percentage)**
1999	1.90	13.87	71.11	512.66	97.50
2002	1.90	13.17	70.49	535.23	97.31
2005	1.90	9.90	55.09	556.46	93.44
2008	1.90	7.12	41.06	576.66	95.32
2010	1.90	6.45	38.06	590.01	93.10
2011	1.90	5.92	35.33	596.77	92.14
2012	1.90	5.58	33.68	603.58	91.16

Source: PovcalNet (2016).

According to the ECLAC (2014, 15), in 2010 *per capita* GDP in Latin America and the Caribbean grew by 4.5 percent. In 2011 it grew by 3.2 percent, while in 2012 it grew by only 1.9 percent since that year recorded the crisis in the world economy (*ibid.*). Moreover, the purchasing power of average wages in the region stayed stable or even rose in most of its countries, which kept inflation at the low level. Actually, the simple average of inflation fell from 7.1 percent in 2011 to 5.4 percent in 2012 (*ibid.*). When it comes to poverty, in 2012 28.2 percent of the population of the region was living in poverty (*ibid.*). 11.3 percent out of this percentage lived in extreme poverty or indigence (*ibid.*). Expressing it in numbers, 164 million people were poor, of which 66 million were extremely poor (*ibid.*). Analyzing it from the wider time perspective, poverty has fallen by 15.7 percent since 2002 (*ibid.*). Regarding extreme poverty, it has also fallen significantly, by 8 percent (*ibid.*). Hence, it can be concluded that the last decade was successful in terms of poverty reduction, despite the downturn in economy of 2012, which significantly affected the overall development. It can also be concluded that the success achieved in reducing inflation in the region also contributed to reducing poverty.

A causal link of the overall growth of the region may thus be established. By raising GDP in South America average wages increased, along with their purchasing power. Consequently, increase of average wages' purchasing power affected stagnation or decrease of inflation, which affected the levels of poverty. There are a number of other important factors, which affect the state of poverty in a region or a country, including social policy in general, commitment to social welfare and inclusion of vulnerable social groups, but the aforementioned causal link unavoidably led to poverty reduction.

Figure 4.5: Poverty performance across South America from 2011–2013



Source: PovcalNet (2016).

As it can be seen from the Figure 4.5, all South American countries, except for Argentina and Uruguay, have recently witnessed decrease in poverty, *i.e.* in the period from 2011 until 2013. Some of them have experienced huge decline in poverty, such as Paraguay, Ecuador and Peru, whereas some others, such as Bolivia and Colombia, have recorded inconsiderable decrease.

Hence, South American experience in implementing neoliberal policies has proven to be positive, with regard to the desired economic and social development. Although the first applied measures, in form of structural adjustment, have not fulfilled the desired expectations in raising standards of life of South American countries' citizens, the later applied reforms have borne fruit and reduced poverty levels.

In order to provide a comprehensive and thorough picture of the implementation of neoliberal experiment in the individual countries of South America, and to have insight into how it affected their poverty levels, three case studies will be discussed in the next chapter.

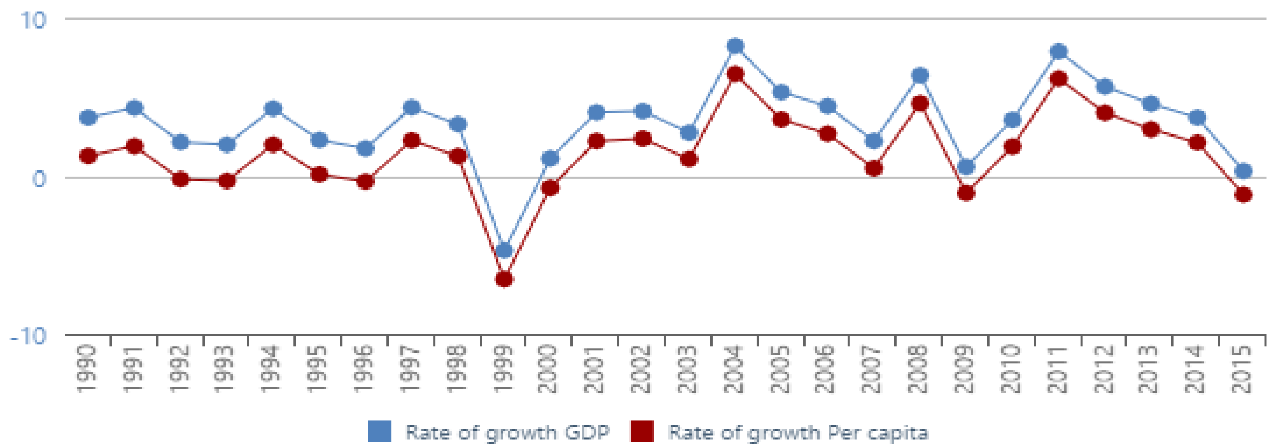
5 Case studies

The three South American countries, which will be analyzed through case studies, are **Ecuador, Venezuela** and **Bolivia**. Despite facing different circumstances during the last three decades, these countries adhered to quite similar economic strategies. All three states are rich in natural resources: Bolivia in natural gas, Venezuela in oil, while Ecuador is rich mostly in petroleum and hydropower. Consequently, the economies of all three countries are resource-based. They all have implemented the ISI model since the Second World War, and have relied on state intervention for a long time. However, during the 1980s and 1990s they have started to apply neoliberal programs in their economies. Despite achieving a considerable growth, they had to cope with serious issues in their societies, such as increases in poverty, inequality and unemployment. Also, these factors caused other issues such as aggravation of their health and education systems. In the second half of the 1990s and during the 2000s these countries considerably changed their direction in economic terms. The three countries recorded violent protests against neoliberalism, followed by the overturn of their governments. Subsequently, by electing the presidents from predominantly leftist, socialist parties, they chose to adhere to socialist modes of organization, albeit keeping some elements from their previous neoliberal arrangements.

5.1 Ecuador

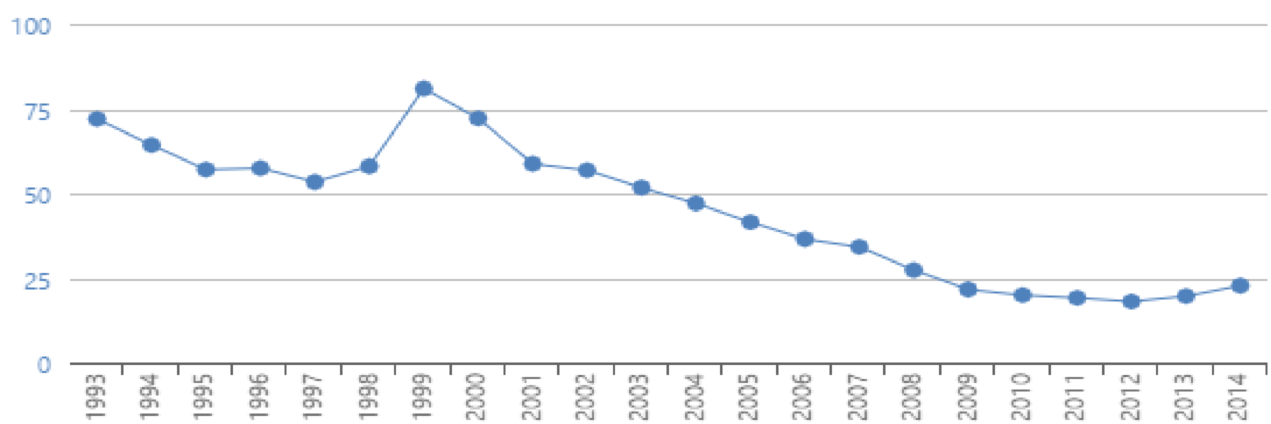
Ecuador, or officially the Republic of Ecuador, is a South American country situated on its north-western coast. It is surrounded by Colombia on the north, Peru on the east and south, and the Pacific on the west. According to its economic indicators, the Ecuadorian economy is the eighth largest in South America (Figures 5.1 and 5.2). It is based mainly on commodities, mostly petroleum and agricultural products. Ecuador is also the first South American country which adopted the USD as its own currency, in 2000 (Larrea 2006, 8). In 2013, the headcount of its population living on less than 1.9 USD per day was recorded at 4.43 percent (PovcalNet 2016).

Figure 5.1: Annual growth rates at constant prices of 2010: Total GDP and GDP *per capita*



Source: CEPALSTAT (2016).

Figure 5.2: Total external debt as percentage of GDP



Source: CEPALSTAT (2016).

In the early 1980s, the country faced the crisis in balance of payments, which was caused by the oil shocks of the previous decade. Given that Ecuador is rich in oil, it had prospered significantly thanks to the exports in this field in the 1970s. Since oil prices recorded a boom during those years, Ecuador consequently increased its production and afterwards witnessed a considerable economic growth. However, the growth and prosperity did not last long. Together with creating revenues from oil production and exports, the country had also increased direct and indirect subsidies (SAPRI 2001, 4). These costs had been covered by the revenues from oil industry, but only up to a certain point. Shortly afterwards, these revenues started to lag behind the costs of state spending, and the public debt increased, with private sector debt increasing as well. Consequently, Ecuador witnessed a severe crisis in its balance of payments (*ibid.*). The situation worsened due to the flood season, drops in oil prices and soaring inflation. Hence, it was evident that a certain reform was necessary in order to overcome the crisis and recover the Ecuadorian economy.

The neoliberal era in Ecuador started in 1980. The country accepted the SAPs along with transition to the regime of free and open market. In 1981, its poverty headcount was recorded at 17.71 percent, which constituted 1.43 million of people living on less than 1.9 USD per day (PovcalNet 2016). The administration of President Osvaldo Hurtado (1981–1984) thus applied several reforms in order to deal with the crisis and its effects. It announced the first structural adjustment package in Ecuador, known as the "Social and Economic Stabilization Program" (SESP) (SAPRI 2001, 5). They have cut the public spending, removed subsidies for food, oil and other social sector expenditures. They also decreased public spending for health, education and community development. Along with the applied reforms, the government established first arrangements with the IMF in order to fix its debts and refresh its finances. Of course, seeking for the loans from the IMF implied certain conditionality, which was reflected in the SAPs (*ibid.*). Similar to the situation in other countries, the SAPs in Ecuador called for abandonment of protectionism in economy, reductions of barriers to transnational trade and investment, privatization of state-owned companies and industries, and finally the elimination of price controls.

The first effects of implementing neoliberal policies, enshrined in the SAPs, were mainly positive. Ecuadorian oil prices stabilized and its GDP *per capita* increased for about 70 percent from 1970s until 1981 (International Monetary Fund 2000, 11). It seemed as if the applied reforms together with the financial injection from the IMF bore fruit for the recovery of the its economy. However, from 1982 onwards, social inequality, exclusion and poverty rates in Ecuador remained high. Its GDP *per capita* has been stagnant, declining in the first half of 1980s and then growing back slowly (*ibid.*).

The SAPs in Ecuador have therefore succeeded to stimulate the economic growth, enshrined in the recovery of its GDP. On the other hand, the period of structural adjustment did not bring much benefit to Ecuadorian people in terms of their standard of life, because it undoubtedly led to an increase of poverty levels (Table 5.1). From 1980s to 2000s, the number of poor people constantly grew, but the overall population grew along with it too, thus moderating the increase of poverty headcount.

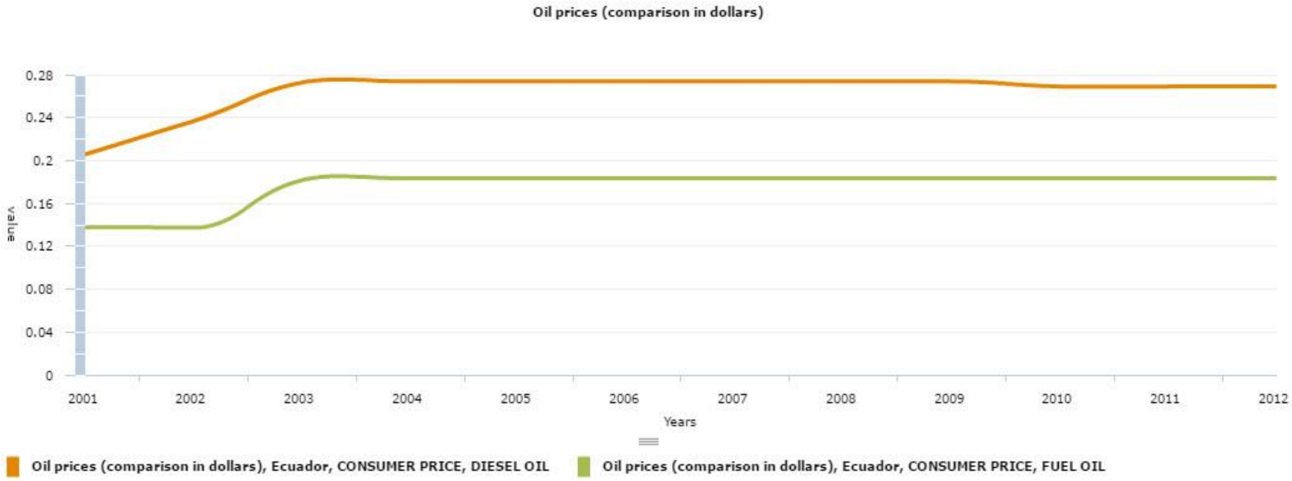
The next Ecuadorian President, Leon Febres Cordero, who was elected in 1984, also continued to implement neoliberal program in the country. Shortly after his election, Ecuador signed two new agreements with the IMF, seeking its financial support (SAPRI 2001, 5). The IMF required that Ecuador undergoes a number of structural adjustment reforms: more spending cuts, elimination of price controls and deregulation of interest rates in the country (*ibid.*). Several subsidies were removed, such as petroleum subsidies, which caused an increase of gas prices. The applied measures also implied the price corrections of services that constitute the basic needs of Ecuadorian citizens.

Given that prices of oil in the country stabilized during the next few years (1985, 1986 and 1987), the production of oil returned to its previous levels, which significantly contributed to the recovery of the Ecuador's economy. However, the Ecuadorian government had massive deficits of around 500 million USD in 1988 and 1989, which affected the new government led by President Rodrigo Borja to renew the agreement with both the IMF and the World Bank. The new packages included very extensive neoliberal reforms. The government gradually increased the price of gas, electricity, water and phone services, in order to mitigate the impacts of adjustment on the middle classes and the poor (SAPRI 2001, 6). The Borja Administration's macroeconomic policies helped to consolidate the export-oriented model of growth (*ibid.*). However, during his mandate the Ecuadorian currency, the sucre, dropped at a dramatic rate and depreciated by 400 percent (*ibid.*).

Beginning with the 1990s, the government headed by President Durano Ballen implemented new reforms aimed at increasing the production of oil and fostering foreign investment. The undertaken measures contributed to the process of integrating Ecuador into the global market, as well as to attracting foreign investors into the country. Finally, the increase of oil production enhanced the expansion of the domestic oil industry. During these years, Ecuador was gradually moving towards the neoliberal economic model, which included the acceptance of free market principle and the rejection of previously established protections and restrictions in the economy, as well as the reduction of state intervention.

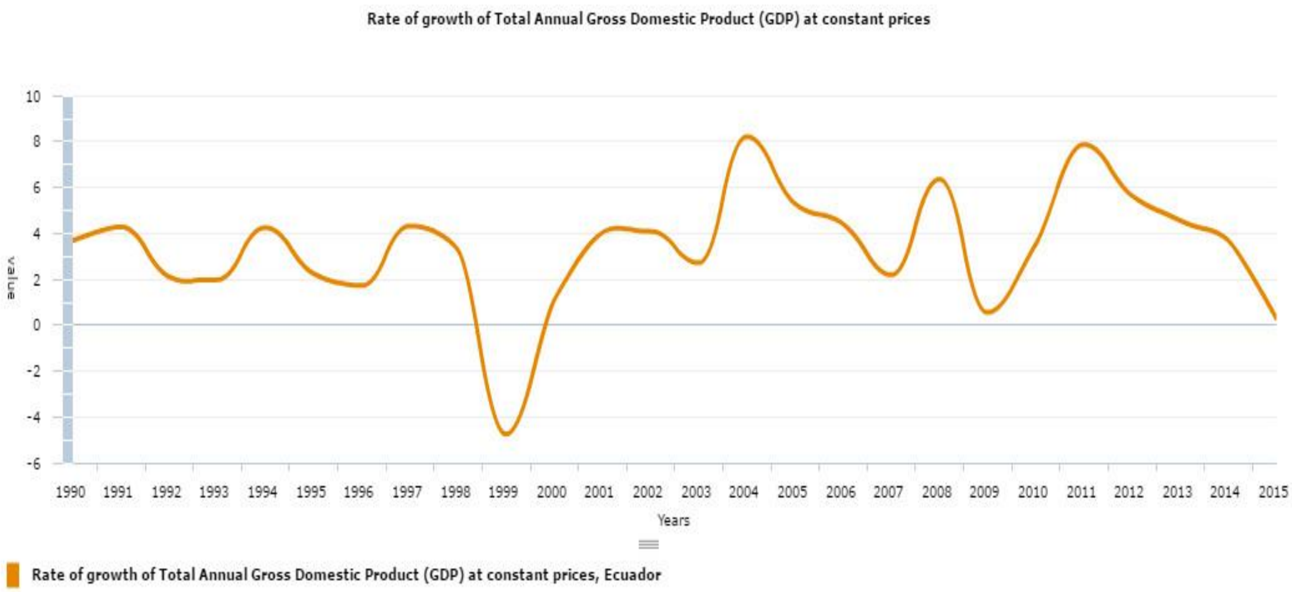
There are a number of events which occurred during the late 1990s and led to the serious economic and social crisis in this country. These events include floods, which were caused by the devastating effects of the *El Niño* meteorological phenomenon. The consequences of the floods were devastating, since the most of the Ecuador's export bulks are located on the Coast, which was worst affected. They included huge economic and social costs, such as destruction of roads, crops and infrastructure, as well as the spread of various diseases. Another shock for its economy came from the fall of oil prices, from 18 USD per barrel in 1996 to 9.2 USD in 1998 (Larrea 2006, 8). Considering the fact that oil accounts for 40 percent of all resources in Ecuador, *i.e.* represents the main source of its fiscal revenues, the fall of oil prices had a huge impact on the country's economy. The third factor was the international financial crisis which started in 1997. It caused the withdrawal of capital from South America and the consequent drop of *per capita* income, by 9 percent in 1999, resulting in the cost of the crisis of about 22 percent of Ecuadorian GDP (*ibid.*). As the crisis undoubtedly led to a devaluation of the national currency, the Ecuadorian government abolished it and instead in 2000 adopted the USD as the official currency (*ibid*.). Hence, the socio-economic conditions caused by the crisis have been unfavorable for the implementation of structural adjustment.

Figure 5.3: Oil prices - comparison in current USD per liter, Ecuador



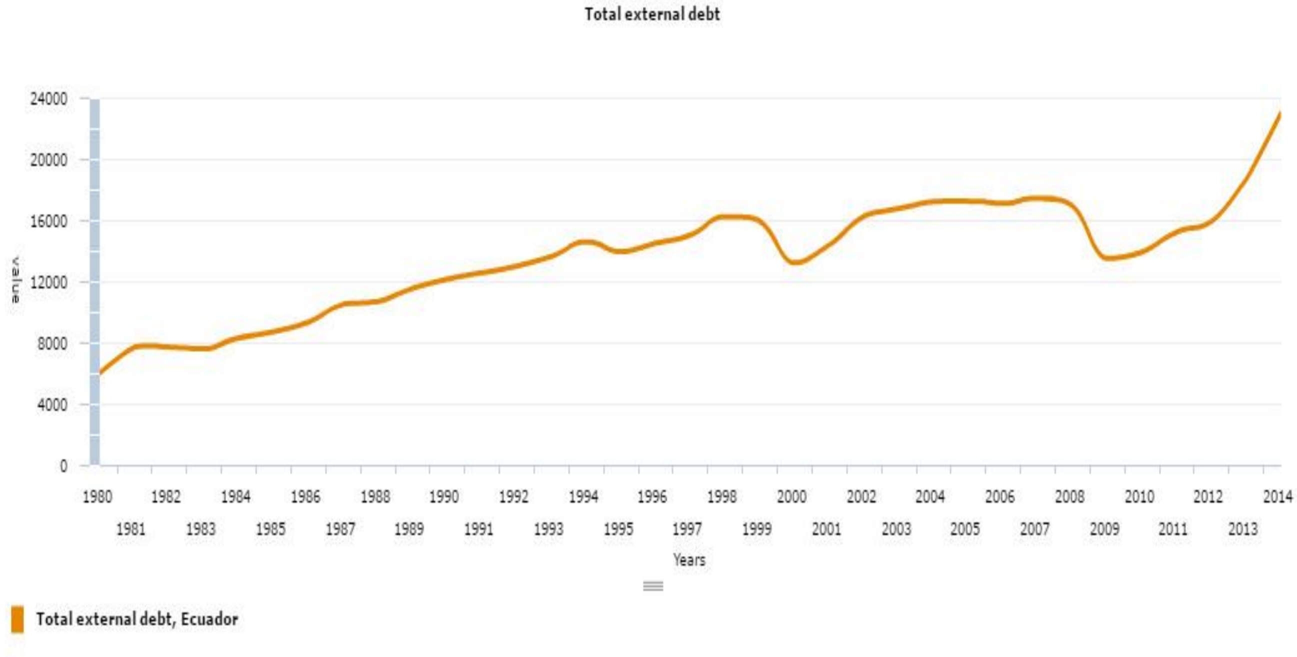
Source: CEPALSTAT (2016).

Figure 5.4: Rate of growth of Total Annual Gross Domestic Product (GDP) at constant prices (percentage), Ecuador



Source: CEPALSTAT (2016).

Figure 5.5: Total external debt in millions of current USD, Ecuador



Source: CEPALSTAT (2016).

In 2006, Rafael Correa was elected President. His election caused the introduction of a certain degree of adherence to socialism. Correa was reelected as President of Ecuador at the 2009 elections, when he began his second term. His third presidential term started after the 2013 elections, extending his presidency until 2017. In spite of adhering to socialism, Correa did not completely reject the capitalist economic model. As Becker (2014, 132) states, “he embraced the humaneness of socialism while pursuing the efficiency of capitalism”. Before the 2013 elections, however, he increased subsidies for single mothers and small farmers and also tripled spending on education and health care (*ibid.*), implying that his support for strong social policies has also been considerable.

The last decade brought certain convenience to the Ecuadorian economy and development generally. From 2003 onwards, thanks to high oil prices (Figure 5.3), which Ecuador took advantage of, the rate of growth of its GDP was constantly positive, even reaching 8 percent in 2004 and 2005 (Figure 5.4). Although it was continuously volatile, growing and dropping from year to year, its GDP growth averaged at 4.6 percent (The World Bank 2016). The Ecuadorian government used this advantage in order to increase its social spending. As it can be seen in the Table 5.1, the trend of poverty had been rising up to 2002. From 2002, however, this trend started to decline very rapidly. It seemed that mainly the high oil prices and the consequent GDP growth benefited the poor in Ecuador. The drop in poverty had been very significant, considering the fact that from 2008 it fell even under 10 percent, reaching the headcount of 4.43 percent in 2013. On the other hand, from 1980 onwards, there has been a constant trend of growth of external debt in Ecuador (Figure 5.5). Only in 2000 and 2010 it inconsiderably declined, but shortly thereafter it continued to grow. This fact explains the country's continuous need for financial support from the IMF and the World Bank.

Table 5.1: Ecuador - the World Bank data collection

Ecuador - the World Bank data collection using 2011 PPP and 1.9 USD/day poverty line				
Year	**Poverty line (USD per day)**	**Headcount (percentage)**	**Number of poor**	**Population (mio.)**
1981	1.90	17.71	1.43 mio.	8.11
1984	1.90	19.15	1.70 mio.	8.74
1987	1.90	18.47	1.74 mio.	9.42
1990	1.90	18.92	1.91 mio.	10.12
1993	1.90	17.89	1.93 mio.	10.84
1996	1.90	17.61	2.03 mio.	11.56
1999	1.90	21.82	2.68 mio.	12.29
2002	1.90	17.86	2.32 mio.	13.03
2005	1.90	13.60	1.87 mio.	13.78
2008	1.90	8.96	1.30 mio.	14.51
2010	1.90	7.05	1.06 mio.	15.00
2011	1.90	5.87	894,400	15.25
2012	1.90	5.87	909,300	15.49
2013	1.90	4.43	697,000	15.73

Source: PovcalNet (2016).

The aforementioned trends of poverty should also serve as an important indicator of the performance of the applied policies at the time. It was evident that, in absence of the PRSP program in Ecuador, poverty levels during 1999, 2002 and 2005 were very high. The fact that Ecuador did not submit its PRSP nor participated in the program undoubtedly affected so high poverty levels during these years, especially when comparing them with the poverty levels of the entire region (Table 4.5). However, it should be noted that after 2005 a fast and constant drop in poverty occurred. In only six years, from 2005 to 2011, the number of poor people was reduced for an entire million. Hence, this undoubtedly speaks in favor of significant overall growth, which is attributed to high oil prices. The success in reducing poverty in case of Ecuador should also be attributed to proper social policies applied in the country. Given that the major decrease in poverty had begun from 2005 onwards, a great contribution to that success should be attributed to the Correa government (starting from 2006), which took advantage of GDP growth and distributed the resulting benefits throughout the society.

In March 2016, the Country Engagement Note (CEN)[11] has been approved for this country (The World Bank 2016). Moreover, the World Bank in Ecuador financially supports seven other projects, totaling 868 million USD (*ibid.*). These projects concern education reform, wastewater management, support for the construction of irrigation systems, improvement of transport infrastructure and construction of metro line in Quito (*ibid.*). All in all, it is noticeable that Ecuador relies significantly on the financial and infrastructural support from the World Bank. Despite its adherence to socialism, Ecuadorian government often and willingly embraces cooperation with the IFIs in order to receive funds. Given that in April 2016 an earthquake hit this country, leaving devastating consequences, the government of Ecuador sought a new credit from the Bank, which will be able to solve some of the issues caused by the earthquake. The financial agreement accounts for 150 million USD (*ibid.*).

As of April 2016, according to the World Bank, Ecuador must adapt to the new international context in an organized way to maintain economic stability, resume strong growth in the medium term and protect the important social advances made during the past decade (The World Bank 2016). In order to achieve all this, it is essential to strengthen the efficiency of and gradual increase in public

[11] The concerned document establishes the framework for action agreed by the Government of Ecuador and the World Bank. It will be in effect until June 2017 (The World Bank 2016). Two main pillars of the agreed framework action are maintenance of the advances created in basic service delivery and promotion of the diversification of the Ecuadorian economy (*ibid.*). The World Bank will support government efforts to maintain social services for the most vulnerable populations, improve quality of infrastructure and identify ways to promote economic diversification (*ibid.*).

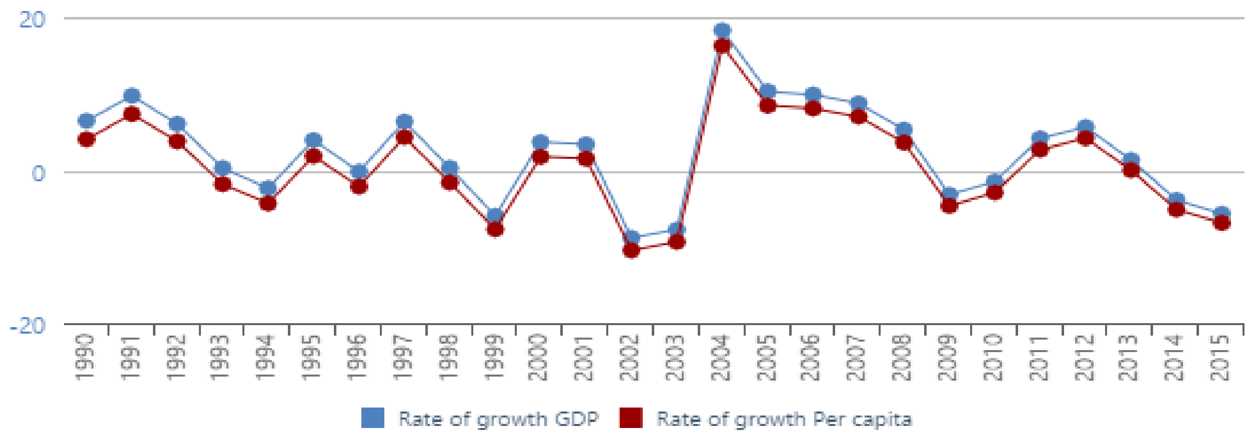
spending, in order to ensure that fiscal consolidation does not threaten poverty reduction or the most important investment projects (*ibid.*). Finally, the World Bank believes that the country must improve the investment climate in general, as well as confidence levels of private investors, in order to revitalize private investment. More robust private sector activity would also help to diversify the Ecuadorian economy and increase its productivity (*ibid.*).

5.2 Venezuela

Venezuela, officially the Bolivarian Republic of Venezuela, is a South American country located on its northern coast and surrounded by Colombia, Brazil and Guyana. Its economy relies mostly on oil, since it has the world's largest oil reserves and is consequently one of its world's leading exporters. The governments of Venezuela tried to utilize this advantage in order to secure social welfare. This included spending large amounts of money on various public programs, such as healthcare, education, transport and food. However, Venezuela missed many opportunities in achieving social welfare, since high levels of poverty and inequality are still present in the country.

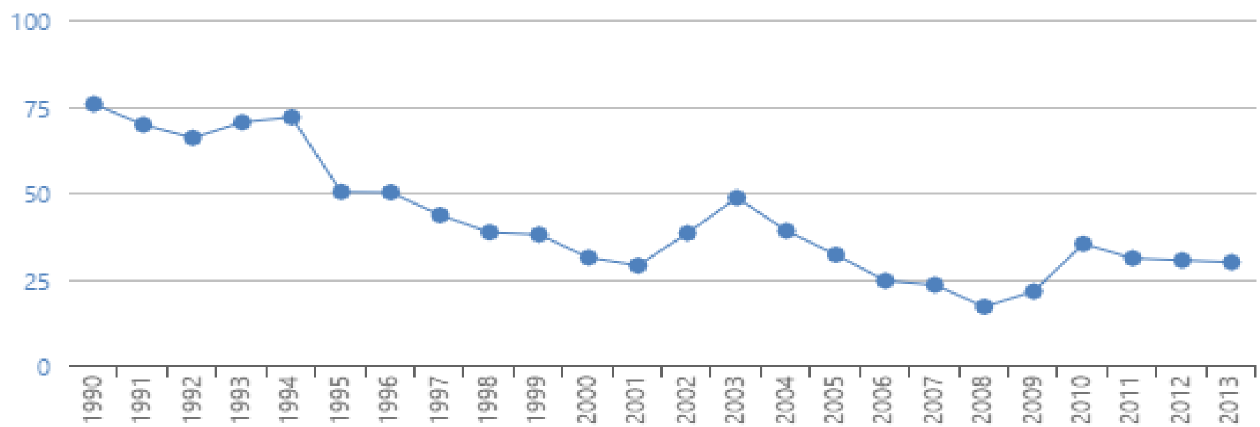
During the 1980s, oil prices dropped due to the oil glut. It caused the debt crisis and the economic crisis. They led to a massive increase of inflation and rise of poverty. Also, they caused a huge decline in GDP and high external debt during the 1990s (Figures 5.6 and 5.7). In 1994, Venezuela experienced a banking crisis as well (Molano 1997, 4). These crises created fertile ground for the introduction of neoliberal experiment, which brought a number of structural reforms to the Venezuelan socio-economic system.

Figure 5.6: Annual growth rates at constant prices of 2010: Total GDP and GDP *per capita*



Source: CEPALSTAT (2016).

Figure 5.7: Total external debt as percentage of GDP



Source: CEPALSTAT (2016).

According to the World Bank, the main obstacles to growth in Venezuela were seen in the lack of a coherent and viable long-term development strategy (The World Bank 1989, 2). The main critics were also directed towards a highly complex set of regulations and subsidies in the Venezuelan economy, because they affected a number of distortions (*ibid.*). Additional criticism from the World Bank came because of the consequence of these policies, which made Venezuela dependent on petroleum and highly vulnerable to changes in the petroleum markets (*ibid.*). Its institutions remained weak and ineffective. Finally, Venezuelan government had failed to address the problems of poverty in its development efforts. Its social indicators were poor for a country at its level of *per* *capita* income (3,230 USD *per capita* in 1987), with rates of infant mortality, incidence of malnutrition, population increase (2.72 percent a year), and illiteracy all being high (*ibid.*). It seemed as if substantial structural changes and reforms were necessary for the recovery of its economy.

The neoliberal restructuring in Venezuela began in 1989. Beginning with that year, the IMF and the World Bank started providing technical and financial assistance to the Bolivarian Republic. In the 1990s, its government has started to shift its economy towards reliance on market forces and the private sector. The principal aims of this strategy were opening the Venezuelan economy to the global markets and attracting foreign investors.

The loan that the World Bank provided to Venezuela in 1989 amounted to 402 million USD (The World Bank 1989, 1). It was intended to support the government's SAP, starting from February 1989. As written in the World Bank's report, the program's principal objectives were to restore competitiveness in the Venezuelan economy by removing distortions and administrative restrictions imposed on the allocation of resources, laying the foundations for sound public management and stimulating productive activity (*ibid.*). Also, the intended goal of the program was to establish the basis for sustainable economic development by introducing basic changes in the macroeconomic framework and management, promoting greater economic competition, more efficient management of public investment and public enterprises, and laying the groundwork for developing well targeted and effective social programs (*ibid.*). Hence, by the SAP application in Venezuela, it was intended to achieve a balanced and sustainable economic growth.

The recommendations prepared by the World Bank's economists included several reforms. First of all, they noticed a need for implementation of a balanced program that would aim for feasible external accounts (The World Bank 1989, 6). Second, they recognized a need for the establishment of a rigorous system for evaluating public investments on the basis of rational economic criteria (*ibid.*). The establishment of a price regime reflecting true economic costs was also necessary, so that public enterprises could be reformed (*ibid.*). Fourth, in order to stimulate private investment, there were a number of reforms essential for the exchange rate regime, interest rate policies, taxation system and trade regime (*ibid.*, 7). Finally and most importantly, there was a need for a reform in the approach to poverty alleviation.

A special emphasis in the Venezuela's SAP has been put on the social plan. The poverty alleviation was seen as the critical area for policy reform in Venezuela (The World Bank 1989, 18). The main problem were poorly designed and poorly targeted social programs, with much of the expenditures for general subsidies for food or agricultural inputs (*ibid.*). The government led by Carlos Andres Perez (1989–1993), decided to reject this kind of the social system because they believed that the subsidy programs have actually mostly benefited the rich segments of society (*ibid.*, 19). Instead, they decided to use direct, targeted social programs in order to benefit the poorer parts of society (*ibid.*). It was intended to use the savings from abolishing the indirect subsidies in order to shift them to direct programs. The targeted social programs, which have been given the priority, were school-feeding programs and programs that operate through health clinics in the barrios.[12] The Bank also planned to protect the poorer segments of society from some adverse effects of the applied reforms, believing that at the beginning new policies would surely negatively affect the vulnerable parts of society. They also recognized the need to overcome some of the previous shortcomings in targeting, coverage, and administration of social services (*ibid.*, 12).

Finally, in order to create an effective social program, the World Bank recognized the need for building government's capacity, in order to be able to evaluate the effectiveness of the programs, as well as to design new and more efficient ones (The World Bank 1989, 19). It was necessary to monitor the effects of the applied programs on poverty too. The huge contribution from the World Bank in this field has been made by providing the technical assistance under the SAL, so that the program implementation could be significantly facilitated.

Regarding the relationship with the IMF, Venezuela had never used the Fund resources before 1989. Until 1989, they only had the arrangement regarding economic surveillance of Venezuela, under which some economic targets were set and the Fund's role was to review the progress in reaching these targets twice a year (The World Bank 1989, 32). The Venezuelan government has therefore circulated these reports to the banks. From 1989, however, they entered into a more formal phase of their relationship. The Letter of Intent was signed in February that year, and the Fund has thus

[12] Barrio is a Spanish word refferring to a quarter, neighborhood, slum, or simply part of a municipality.

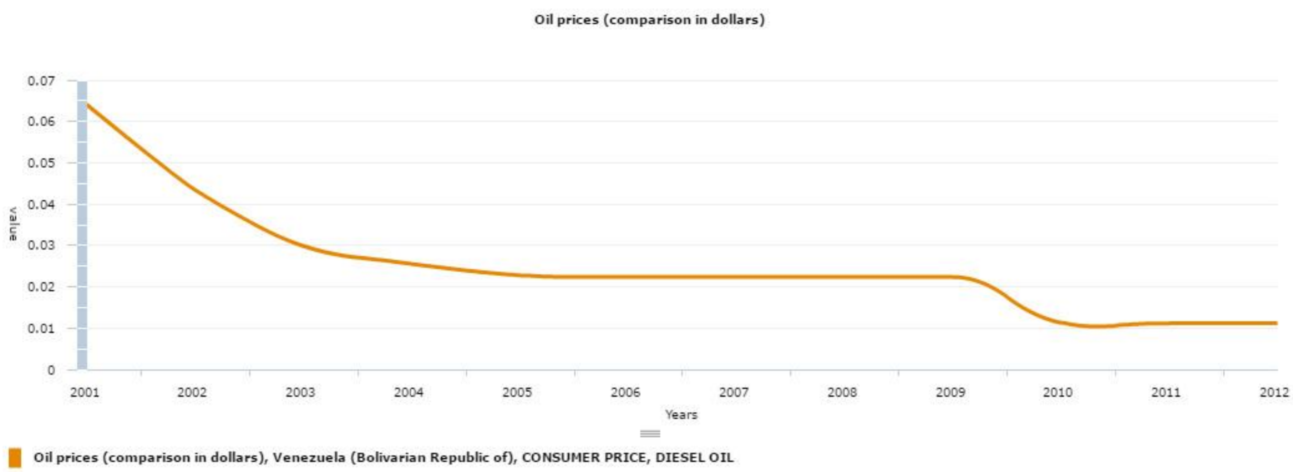
provided the First Credit Tranche to Venezuela, of approximately 450 million USD (*ibid.*). The IMF was also supporting Venezuelan stabilization and adjustment programs.

In 1997, the World Bank prepared Country Assistance Strategy for Venezuela, with the intention to cover the second half of Caldera's mandate (The World Bank 1989, 1). Also, it was aimed at providing the basis for the Bank's strategic intervention during the first year of the subsequent administration (*ibid.*). The strategy's focus was mainly directed at enhancing sustainable growth, promoting social development and modernizing the public sector-objectives that were not achieved (*ibid.*). However, this was not so easily achievable. The main obstacles to full and effective implementation of the strategy were weak governance, inefficient public sector expenditures and general economic mismanagement (*ibid.*). One of the issues which led to the economic mismanagement and bad results is of course a great reliance and high level of dependency on oil revenues, which are inclined to fluctuate, and remained volatile during the observed period. All these factors, headed by the ineffective economic performance, caused the growth of poverty (Table 5.2). It was thus impossible to implement a suitable development agenda that could efficiently utilize the country's enormous potential (*ibid.*).

The appropriate development has therefore not been achieved. According to the World Bank's report (2002, 7), during the period from 1990 to 2002, poverty had increased, which is attributable to the economic decline (*ibid.*). The results were visible in the standard of living as well, given that real *per capita* income and employment have decreased (*ibid.*). Another factor which did not go in favor of growth in Venezuela was its dependence on the capital-intensive oil sector and lack of export diversification, since the share of non-oil exports to total exports has remained below 25 percent (*ibid.*). In addition, real wages have fallen significantly and unemployment has risen during this period: average real wages fell by about 25 percent, while unemployment increased by about 4 percent (*ibid.*). It was generally an unsuccessful decade for the Venezuelan people, since all socio-economic indicators of the country have deteriorated. The failure cannot however be attributed to the neoliberal policies themselves, because none of the Venezuelan governments during this period has fully implemented the neoliberal program.

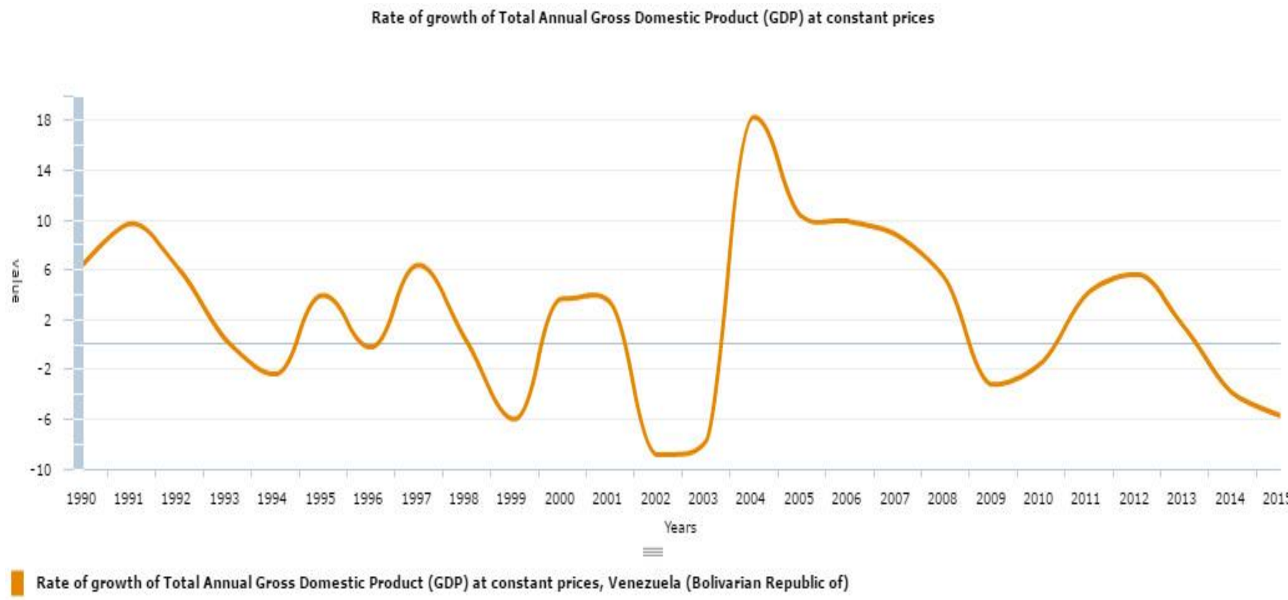
Starting from the end of 1998, with the election of Hugo Chavez as the President of Venezuela, a number of structural changes started to be applied in its economy. Namely, by adhering to socialist principles and relying on the ideas of Bolivarian Revolution, the Chavez government nationalized key industries (steel, electricity, telecommunications) which had previously been privatized (Ellner 2014, 82). It implemented social programs in order to secure access to food, basic services, housing and education to Venezuelan people. The advantage, which went in favor of applied reforms during those years, was the oil boom which took place in the 2000s, thanks to record-high oil prices that have been reached (Figure 5.8). The record-high oil prices also went in favor of growth of Venezuelan GDP (Figure 5.9). Its rate of growth reached a record 18 percent in 2004 and 2005. However, although the increase in GDP occurred in the 2000s, its rate of growth had not been as constant; on the contrary, it was marked by constant fluctuations.

Figure 5.8: Oil prices - comparison in current USD per liter, Venezuela



Source: CEPALSTAT (2016).

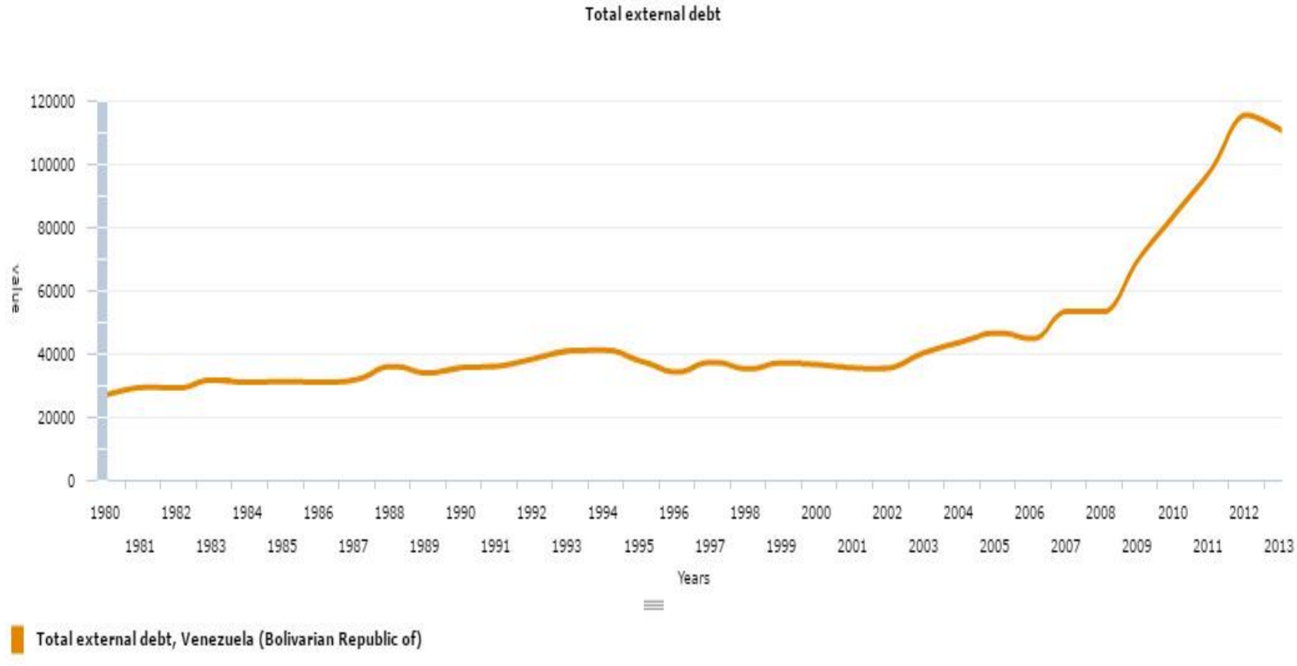
Figure 5.9: Rate of growth of Total Annual Gross Domestic Product (GDP) at constant prices (percentage), Venezuela



Source: CEPALSTAT (2016).

When it comes to the total external debt in Venezuela, it can be noticed that from 1980s until the end of 2000s it has been constant, without any rises and falls (Figure 5.10). Only from 2009 onwards, it started to grow significantly. The increase of external debt may be attributed to the drop in oil prices, which occurred in 2009. This also affected the fall of GDP, since in the same year it dropped notably, even making its rate of GDP growth negative. Low oil prices in the last few years (from 2009 onwards) affected the decrease of GDP growth and increase of external debt. Hence, the dependence and reliance of Venezuelan economy on incomes from oil production and export was evident. This serves to showcase the problematically low level of diversification of Venezuelan economy.

Figure 5.10: Total external debt in millions of current USD, Venezuela



Source: CEPALSTAT (2016).

The revenues from the oil production exports should have been aimed at the implementation of social programs initiated by Chavez government. However, the poverty rates during the first half of 2000s did not speak in favor of proper social policies led in the country (Table 5.2). The economic expansion in the 2000s, due to the boom in oil prices, did not bring about success in reducing poverty, since its rates were very high - the poverty headcount was 16.03 percent in 2002, and even 17.01 percent in 2005. The increase in poverty thus demonstrated huge structural problems, which existed in Venezuelan society and economy, as well as that the poverty alleviation issues were not tackled properly in the first period of Chavez government.

Table 5.2: Venezuela - the World Bank data collection

Venezuela - the World Bank data collection using 2011 PPP and 1.9 USD/day poverty line				
Year	**Poverty line (USD per day)**	**Headcount (percentage)**	**Number of poor**	**Population (mio.)**

1981	1.90	1.27	196,700	15.55
1984	1.90	1.72	290,164	16.87
1987	1.90	0.82	149,900	18.28
1990	1.90	6.83	1.34 mio.	19.74
1993	1.90	5.12	1.08 mio.	21.16
1996	1.90	10.27	2.31 mio.	22.56
1999	1.90	10.16	2.43 mio.	23.95
2002	1.90	16.03	4.06 mio.	25.33
2005	1.90	17.01	4.55 mio.	26.73
2008	1.90	8.23	2.31 mio.	28.12
2010	1.90	8.67	2.51 mio.	29.04
2011	1.90	8.52	2.51 mio.	29.50
2012	1.90	8.23	2.46 mio.	29.95
2013	1.90	-	-	31.40

Source: PovcalNet (2016).

The high poverty rates may also be attributed to the absence of the PRSP program in Venezuela. It was obvious that Venezuela faced serious problems when it comes to poverty reduction during almost the entire decade. Only from 2008 onwards, the poverty levels dropped significantly, but still they remained almost unchanged during the next four years. It should be also borne in mind that the Venezuelan population grew constantly, from 1981 until 2013. Starting with 15.55 million of people in 1981, it reached even 31.40 million of people 32 years later. Hence, the population had more than doubled during this period, which had a great impact on poverty levels in the country.

On the other hand, significant successes have been achieved in other fields, such as access to healthcare and education. The fact, which speaks in favor of this, is certainly the number of primary care physicians, which increased up to 12 times from 1999 to 2007, thus providing healthcare to millions of Venezuelans who previously did not have access to it (Weisbrot *et al*. 2009, 3). It was the result of the agreement made with Cuba within the 'oil for doctors' program[13] (Huish and Kirk 2007, 80). With regard to education, there had been some substantial gains, especially in higher education. Namely, gross enrollment rates more than doubled from 1999–2000 to 2007–2008 (Weisbrot *et al*. 2009, 3). Regarding unemployment, it dropped from 11.3 percent to 7.8 percent during the 2000s.

These data represent an important indicator of the outcomes of the policy implemented in Venezuela over the past three decades. It is thus obvious that the structural changes, which were applied, did not actually bring about much positive effects and benefits to the Venezuelan people. However, it stays unclear why these indicators were so high during the 2000s, because this was the decade when important reforms have been implemented by Chavez government. It is especially illogical if some of the efforts made by his government in reducing poverty are taken into consideration. Also, it was the decade which recorded record-high oil prices, which contributed significantly to the overall economic growth. Still, poverty remained very high throughout the entire decade, which demonstrates huge problems when it comes to the distribution of goods through the Venezuelan population and also the negative effects caused by not applying the PRSP program. Despite the fact that the growth of its population was also very intensive during the last two decades, the numbers indicating poverty levels are a cause for great concern and call into question the correctness of the implemented policies. However, there is an achievement, which can be attributed to Chavez government from 2008 onwards. Although in 2009 oil prices dropped and led to a consequent decline of GDP, poverty rates in the country remained unchanged. This trend shows that the impact of oil price oscillations started to be more isolated from the poverty levels, which represented a huge improvement in comparison with the similar situations in the past.

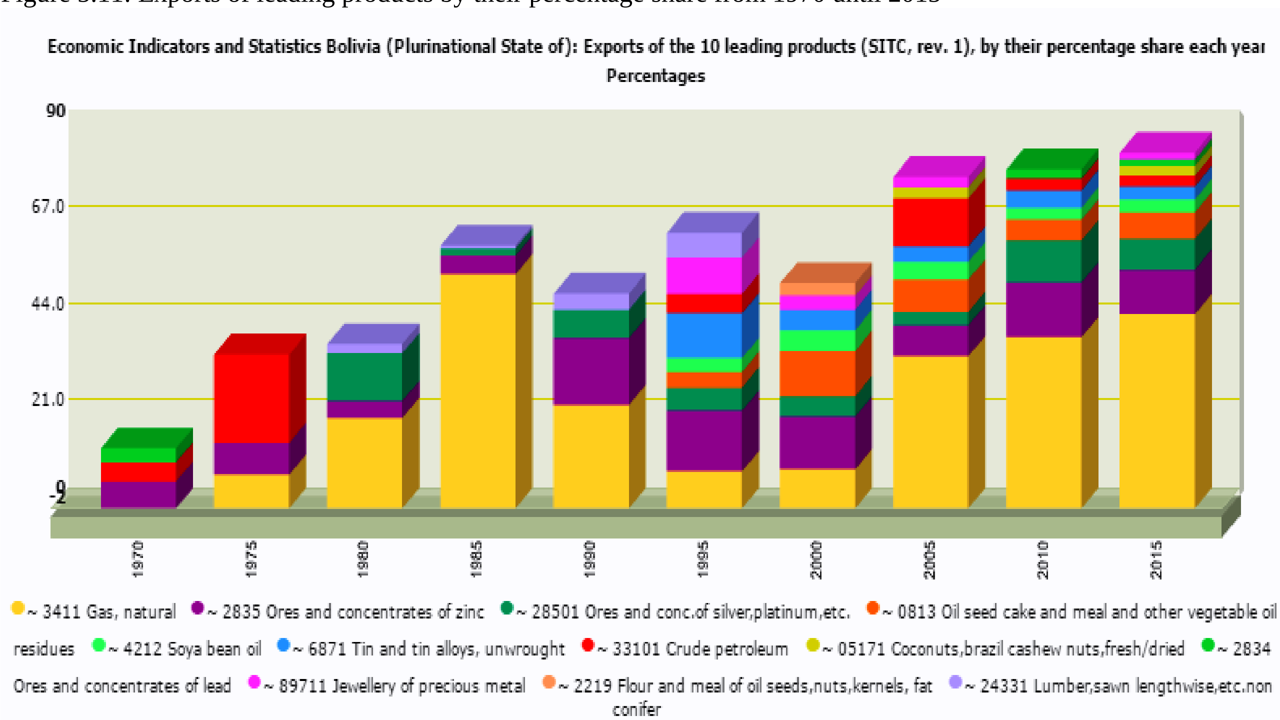
Regarding the relationship between Venezuela and the World Bank in 2016, the Bank currently has no active lending portfolio in Venezuela. Namely, Venezuelan government settled its debt with the World Bank in 2007 (The World Bank 2016).

[13] The agreement between Cuba and Venezuela, under the 'oil for doctors' program, is an example of strong solidarity between the two countries, under which Cuba receives 100,000 barrels of petroleum daily at preferential rates, whereas Havana sends health personnel to Venezuela, in turn (Huish and Kirk 2007, 80).

5.3 Bolivia

Bolivia is a landlocked country located in western-central part of South America and surrounded by Peru, Brazil, Paraguay, Argentina and Chile. Bolivian economy is based mainly on agriculture, forestry, fishing, mining and manufacturing (Figure 5.12). The country is very wealthy in minerals, and its main natural resource is natural gas, which its economy heavily relies on.

Figure 5.11: Exports of leading products by their percentage share from 1970 until 2015



Source: CEPALSTAT (2016).

The beginning of the 1980s was marked by the debt crisis in the South American region. The causes of the debt crisis in Bolivia, as well as in other countries of the region, lie in the increased public borrowing during the 1970s petrodollar boom, the rise in interest rates on US loans, and in the corruption in the military governments from the 1970s (Kohl 2006, 310). The consequences of the crisis were evident because between 1981 and 1986, the period during which the GDP declined every year (*ibid*.). The country was in a serious economic and financial crisis, and needed a solution in order to overcome it, which was the most appropriate moment for the introduction of the SAPs.

The neoliberal restructuring in Bolivia therefore started in 1985, with the New Economic Policy (Kohl 2006, 310). Actually, it was the structural adjustment that was enshrined in the New Economic Policy, adapted to the circumstances in Bolivian country. At the time, the President of Bolivia was Victor Paz Estenssoro, who was the leader of the 1952 revolution. The New Economic Policy included various reforms such as: closing state mines, allowing the currency to float against the dollar, privatizing state-owned companies, increasing foreign direct investment as well as ending with protectionism and the ISI (*ibid.*). Many successive Bolivian governments privatized a number of the most important state companies, such as oil and gas company, the national mining corporation, railroads and telecommunications. The privatizations also implied a considerable amount of exploitation of its natural resources. Measures that had been applied were a part of structural adjustment with numerous reforms and institutional changes, which started to take effect, such as the reductions in public sector employment, an increased role for private companies and flexible wages (Haarstad and Andersson 2009, 11).

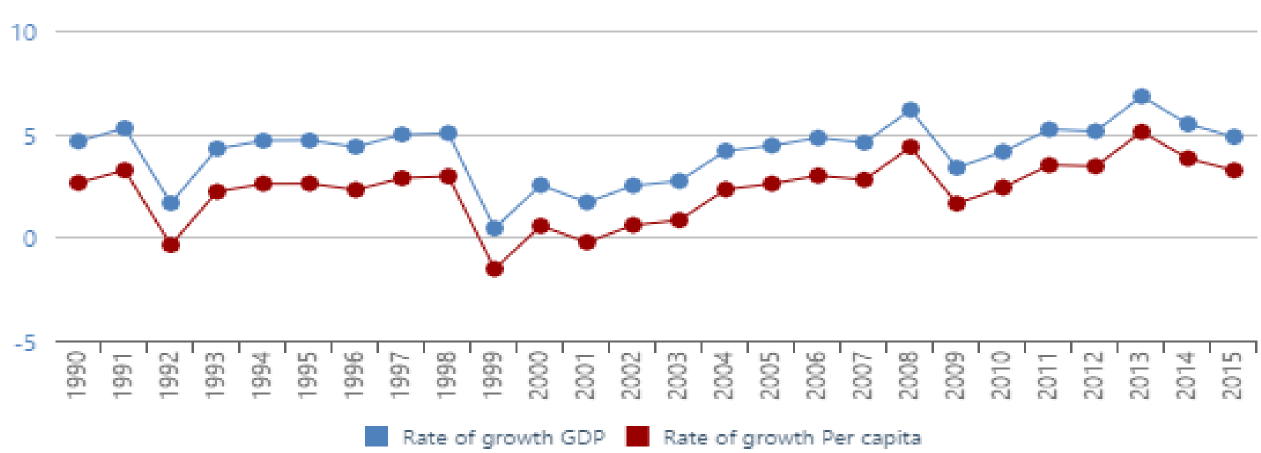
The neoliberal reforms in Bolivia were among the most radical ones, or even the most radical after Chile (Kohl 2006, 305). In addition, Bolivian neoliberal restructuring was one of the most innovative in the world, because the programs introduced in Bolivia were later adopted in other developing countries as well. The restructuring of Bolivia can be separated in three distinct periods. The first one refers to the SAP phase, from 1985, during which the country applied structural adjustment, which served primarily to halt the inflation (*ibid.*). The second period, from 1993 to 1997, was characterized by the consolidation of neoliberalism, which began with the introduction of the Plan of all (*Plan de todos*) (*ibid.*). It included the reforming of the country by privatizing state owned companies, rewriting the constitution, decentralizing some 20 percent of national revenues and transferring them to the municipal governments (*ibid.*). The beginning of the third period was related to the Cochabamba water war from 2000. It was mainly characterized by the social unrests and civil opposition to neoliberalism, reflected mostly in protests against water and gas privatizations.

The SAPs brought initial success to the Bolivian economy, mostly due to their strong support to the business sector (Kohl 2006, 310). Despite the stabilization of the economy, some of the fundamental economic problems remained unsolved. In a year after the introduction of the New Economic Policy, twenty thousand miners lost their jobs (*ibid.*, 311). The World Bank therefore introduced a Social

Emergency Fund in order to mitigate the devastating social impact in Bolivia (*ibid.*). The Fund spent 239.5 million USD in a period of four years, mainly focused on small projects. Four years afterwards, it was evident that the implemented policies did not actually bring long-term job growth (*ibid.*, 312).

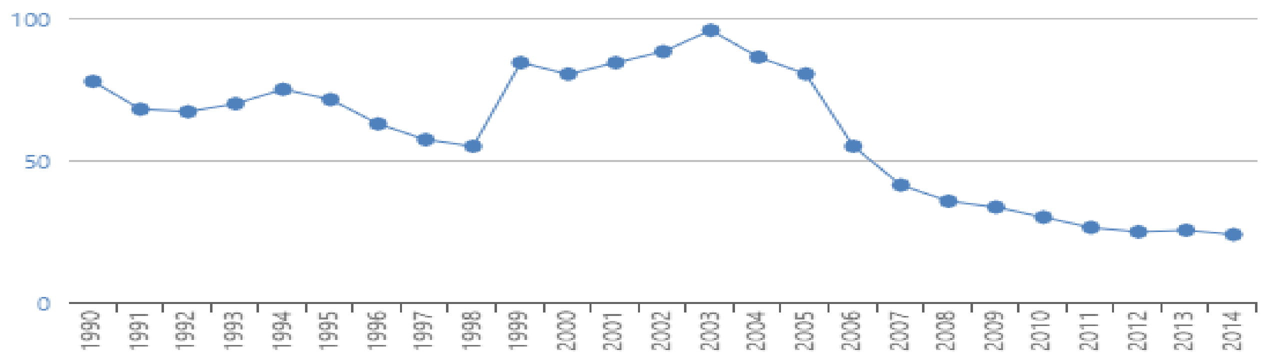
Structural adjustment in Bolivia implied certain reforms in macroeconomic policies as well. It was planned to stabilize the economy and create conditions, which will accelerate its growth (Bolivian PRSP 2001, 18). The government interference into economic issues and especially market-related issues had been reduced. Bolivian market was liberalized for goods and factors, the economy was opened to foreign trade, while the financial system had also been liberalized (*ibid.*). These reforms promoted stability and led to the economic recovery (Figures 5.12 and 5.13). Their implementation brought significant results, since in the 1990s the Bolivian economy expanded by about 4 percent annually (Bolivian PRSP 2001, 16). The economic growth of Bolivia during the 1990s was primarily based on successful performance in the capital-intensive sectors, mainly electricity, transportation and financial services (*ibid.*, 21).

Figure 5.12: Annual growth rates at constant prices of 2010: Total GDP and GDP *per capita*



Source: CEPALSTAT (2016).

Figure 5.13: Total external debt as percentage of GDP

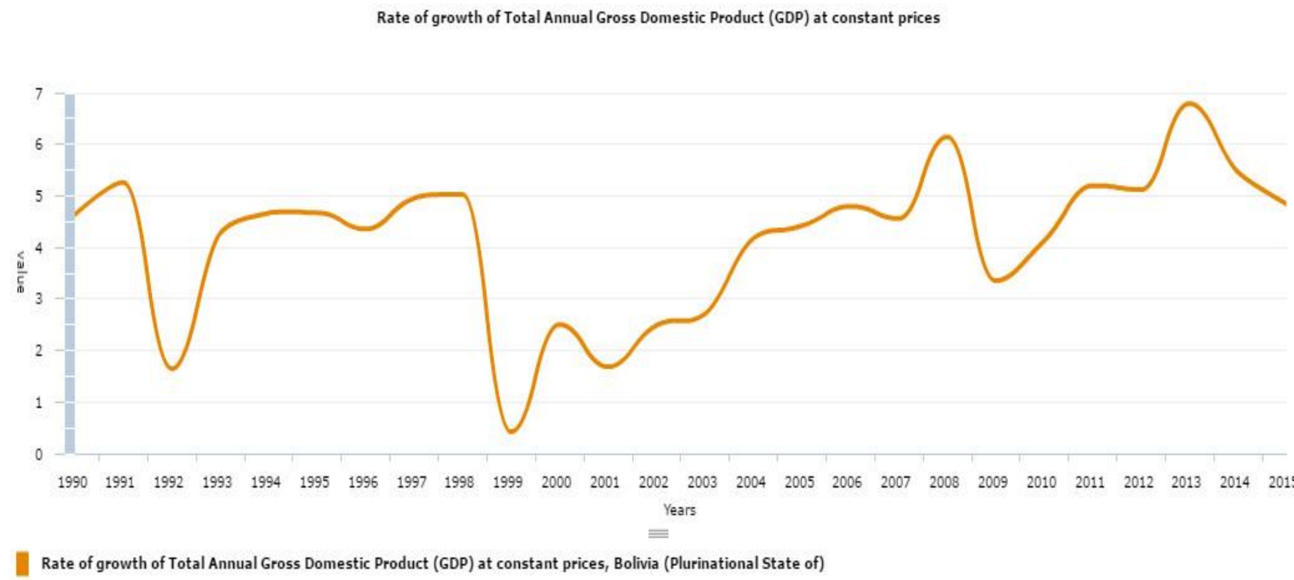


Source: CEPALSTAT (2016).

The second phase of restructuring in Bolivia took place from 1993 until the end of the 1990s. This phase was characterized by the introduction of Plan for all, designed by the government led by Gonzalo Sanchez de Lozada. It also included administrative and fiscal decentralization, the agrarian reform and the reform of education. The Plan influenced the consolidation of neoliberalism in Bolivia, but also represented a source of new tensions when it comes to the neoliberal hegemonic regime (Kohl 2006, 313–314). The reforms included privatization plan, by which 50 percent of the state industries, which constituted 60 percent of all government revenues, were sold to multinational corporations (*ibid.*, 314). The introduction of the Plan was predicted to create hundreds of thousands of jobs for Bolivians, attract foreign investors to the country, bring technology and management systems and foster economic growth of about 11 percent (*ibid.*). Instead, although foreign investment had indeed increased, labor was still mainly concentrated in the informal sector, a number of workers lost their jobs in the privatized companies, while economy did not record a significant increase (*ibid.*).

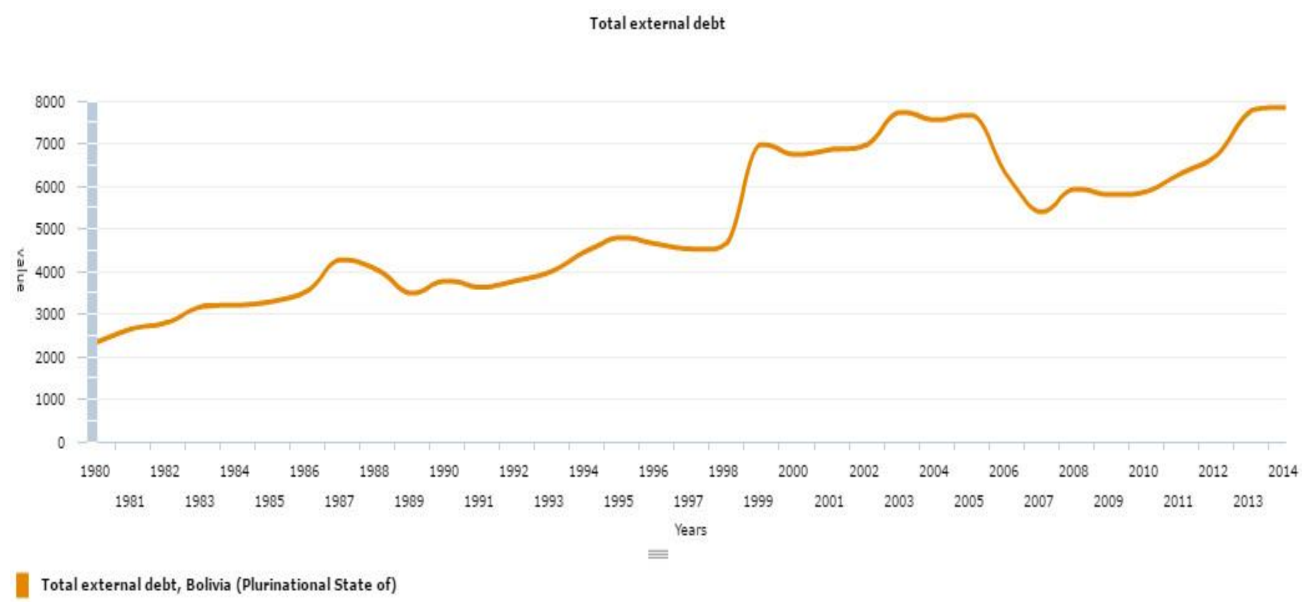
Still, figures 5.14 and 5.15 show that, during the 1990s, rate of growth of Bolivian GDP and its external debt remained stable. Although a significant economic growth had not been achieved yet, its GDP was at a constant level during almost the entire decade. At the beginning of the 1990s it was low but afterwards started to increase, not having any larger fluctuations until the end of 1990s. This does speak in favor of implemented reforms under the Plan, especially if taking into consideration the results of the earlier decades.

Figure 5.14: Rate of growth of Total Annual Gross Domestic Product (GDP) at constant prices (percentage), Bolivia



Source: CEPALSTAT (2016).

Figure 5.15: Total external debt in millions of current USD, Bolivia



Source: CEPALSTAT (2016).

Regarding its attitude towards social policies, since the end of the 1980s the Bolivian government had started establishing a policy framework for education, health and basic sanitation (Bolivian PRSP 2001, 17). During the 1990s municipal governments were given greater authority when it comes to providing basic services, which influenced an increase in the social investment and the broadening of the basic social infrastructure (*ibid.*). However, despite the successful performances achieved by the Bolivian economy, its poverty level was one of the highest in Latin America (*ibid.*, 21). According to the data from its PRSP prepared in 2001, 63 percent of Bolivians were living below the poverty line in 1999, which was considerably higher in comparison with the rest of the region, which recorded 36 percent of the same indicator.[14]

The fact which supported the decision to continue with the adjustment was the success achieved in the field of macroeconomic stability. Namely, the first generation of reforms had brought some signs of macroeconomic stability with growth rate staying at about 4 percent (Bolivian PRSP 2001, 21). Hence, the IMF believed that the second generation of reforms was necessary in order to strengthen the growth in Bolivia. However, the IMF program documents about Bolivia state that the lack of social integration and the lack of integration with indigenous population represented the first obstacle to growth (*ibid.*, 21). Moreover, the IMF documents show that low growth should not have been linked only with macroeconomic stability, but also with low agricultural productivity, rural poverty and poor social infrastructure (*ibid.*). Poverty was recognized as vital to the development and also discussed in relation to the IMF's goals for the first time. It was evident that the sustained economic growth depended on alleviation of rural poverty, social inclusion, and development of human resources (*ibid.*).

In October 1999, Bolivian government had allowed the process of privatization of Bolivian water supplies. As early as April 2000, Bolivian people, especially those from the city of Cochabamba, who were particularly struck by the water privatization, organized massive popular demonstrations. The coalition of protesters, which included urban workers, rural irrigators, students and other citizens, managed to achieve their goal - Bolivian government retreated from the agreement with the consortium of the water project developers. It seemed as if Bolivians managed to confront the

[14] This poverty index defines poor as those persons whose *per capita* family income is less than the cost of a basic basket of goods and services (Bolivian Poverty Reduction Strategy Paper 2001, 21).

advance of neoliberalism in their country. The core of their struggle was against the privatization of their basic need - water, because it implied an imminent increase in the costs and more expensive life.

In 2000 Bolivia qualified for the Enhanced HIPC debt relief Initiative and subsequently was expected to elaborate its PRSP (Ruckert 2009, 62). It quickly developed its national PRSP and submitted it, so in the summer of 2001 the World Bank approved it (*ibid.*). If analyzed from the macroeconomic perspective, the Bolivian PRSP reflected slight deviation from the neoliberal policy advice of sound macroeconomic management, which was applied throughout developing countries during the SAP process. Its PRSP promoted a development model, which focused on the private sector and on exports (*ibid.*). Moreover, it emphasized the need for the private sector involvement in the delivery of social services as well as in the allocation of domestic resources (*ibid.*).

The Bolivian PRSP consisted of four strategic components, *i.e.* goals which needed to be achieved in order to alleviate poverty. These were: firstly - the enhanced employment and income opportunities; secondly - building the productive capabilities of the poor; thirdly - enhanced security and protection and finally - promotion of social integration and grassroots participation (Bolivian PRSP 2001, 17). Looking at priority actions individually, this framework implied support to rural development, the development of micro-enterprises and small enterprises, technical assistance, road infrastructure, along with education, primary health care, basic sanitation and comprehensive attention to youth (*ibid.*).

A moment, which can be considered as a break point with neoliberalism in Bolivia is certainly the election of Evo Morales as President in 2006. Morales was elected when popular mobilization around gas and water privatization, as well as around indigenous rights, was ongoing in Bolivia. “The presidency of Evo Morales was partly a result of popular mobilization around the issues of gas and the rejection of neoliberal privatization, and has, as such, been interpreted as a manifestation of the backlash against neoliberalism” (Haarstad and Andersson 2009, 20). The new economic program differed significantly from a neoliberal orientation, especially when it comes to its attitude towards the extraction of natural resources (Raby 2014, 49). The aim of the new government had thus been directed at fostering nationalization and industrialization of natural resources, most importantly gas, in order to enable the Bolivian resources to stay within the country and to be distributed to its people, including the indigenous majority, which was mostly excluded during the history. The natural resources were planned to be used for greater social spending.

It was evident that the Bolivian government started to ‘shy away’ from the neoliberal orthodoxy, at least by trying to stipulate one-year arrangements with the IMF instead of agreeing on long-term adjustment programs. On the other hand, the IMF accepted increased social spending, a greater role for the state, as well as the attitude that the economic policies should be based on compromise with popular demands (Fuentes 2014, 18). In successive years, the relationship between Bolivian government and the IMF remained close, but in a specific manner. Namely, Bolivia does not have program obligations with the IMF, but the Fund nevertheless performs its consultations which include annual evaluations of its economy and economic policies (*ibid.*, 21). By providing the IMF reports on its economic performances, a necessary trust of the donors was ensured.

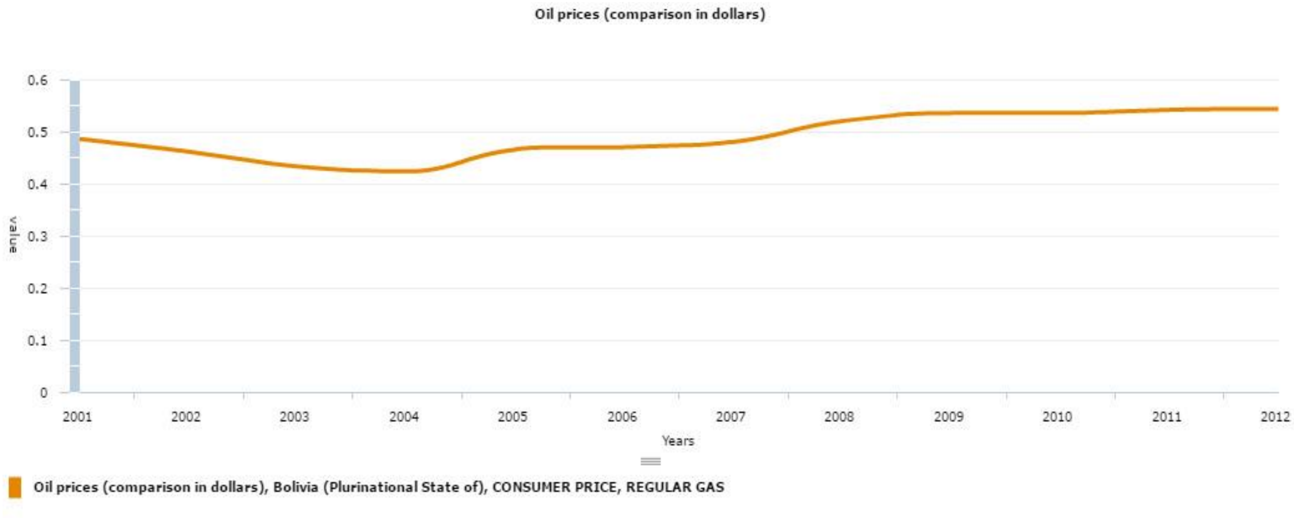
Table 5.3 shows the poverty trends in Bolivia during the last three decades. This analysis should serve as a strong indicator of the efficiency of the policies applied in the country from 1981 until 2013. Beginning with the analysis of 1981, it is evident that state of poverty in the country was at a quite stable level throughout the rest of the decade. The 1990s brought about a large increase in poverty, which was a consequence of inappropriate social policies that were in effect. Nevertheless, another factor should be taken into consideration – a growth of population, which, in case of Bolivia, was very drastic. From 2005 onwards, however, poverty started to decline, which can be attributed to a number of factors. The gas prices in the country stabilized during the 2000 (Figure 5.16). It affected GDP growth, which recorded a constant trend of growth during the 2000s (Figure 5.14). Although the population continued to grow, it did not affect poverty levels, because the Morales government applied adequate social policies in order to tackle poverty. Moreover, the application of the PRSP in Bolivia from 2001 onwards brought about positive changes in reducing poverty. Although at a slow pace, from 1999 onwards poverty levels started to drop, down to 11.91 percent in 2008. Implementation of this program in Bolivia was undoubtedly significant, and proved to address the poverty issues in an adequate manner.

Table 5.3: Bolivia - the World Bank data collection

Bolivia - the World Bank data collection using 2011 PPP and 1.9 USD/day poverty line				
Year	**Poverty line (USD per day)**	**Headcount (percentage)**	**Number of poor**	**Population (mio.)**
1981	1.90	5.40	297,000	5.50
1984	1.90	9.45	557,550	5.90
1987	1.90	8.16	516,528	6.33
1990	1.90	8.44	557,000	6.79
1993	1.90	18.13	1.32 mio.	7.29
1996	1.90	21.24	1.54 mio.	7.81
1999	1.90	25.30	2.10 mio.	8.32
2002	1.90	24.93	2.20 mio.	8.84
2005	1.90	20.38	1.91 mio.	9.35
2008	1.90	11.91	1.17 mio.	9.83
2010	1.90	10.14	1.03 mio.	10.16
2011	1.90	7.96	821,100	10.32
2012	1.90	9.07	952,400	10.50
2013	1.90	7.70	821,800	10.67

Source: PovcalNet (2016).

Figure 5.16: Gas prices - comparison in current USD per liter, Bolivia



Source: CEPALSTAT (2016).

When it comes to the World Bank program currently being implemented in Bolivia, it is enshrined in the new 2016–2020 Country Partnership Strategy (CPS). The strategy is mainly based on operations in the area of transportation, climate change, disaster risk management and rural and agricultural management (The World Bank 2016). Also, the strategy is aimed at strengthening statistical capacity, energy, urban development, as well as employment and social protection. Generally, the Bolivian CPS focuses on promoting broad and inclusive growth and supporting fiscal and environmental stability (*ibid.*).

6 Conclusion

Neoliberalism - the political and economic school of thought, which represents a theoretical foundation of the neoliberal model of social organization, was mostly implemented through the engagement and commitment of the IFIs established in Bretton Woods: the World Bank and the IMF. Since the countries across South America were unadjusted for the crises of the 1970s and the 1980s, they used to borrow constantly, which led to a high level of indebtedness and weakness of their economies. That circumstance represented the motive for the involvement of the two IFIs. The research for the thesis was focused on seeking answers to the question of how the neoliberal policies implemented by the Bretton Woods institutions affected poverty levels in South America. Their engagement throughout South America is comprised in the implementation of the SAPs during the 1980s and 1990s, and the PRSPs from 1999 onwards.

The economies of South America are predominantly natural resource-based, so their linkage to the global economy has always been reflected in the field of primary commodity exports. When economic and debt crisis occurred in the 1970s and the 1980s, almost all countries of the region witnessed a deterioration in their trade and economies, since the prices of their commodities dropped significantly. The crisis caused the slowdown of economic growth, resulting in what can be described as the lost decade. These circumstances represented a very fertile ground for the introduction of policy reforms imposed by the World Bank and the IMF, in return for the financial and other assistance provided by them. The main goal was achieved: the economies of the region integrated into the global economy, all of them representing emerging market economies.

The policies promoted by the World Bank and the IMF, under the neoliberal framework, included *laissez-faire* economy model, the reduction of state intervention into economic, financial and social affairs, relying on privatization policies and following capitalist paths of free trade and market expansion. Neoliberal policies advocate economic globalization, leading to the removal of national borders. According to neoliberal thinkers, free markets provide the optimal organizing system for capitalist economies.

There are some external circumstances and factors, which make it impossible to clearly conclude what the efficiency of the neoliberal policies applied in South America was. Considering the fact that the three countries from the case studies are very dependent on the commodity prices of their main exports, the fluctuations of the price of oil and gas certainly had an impact on their capacity to deal with social challenges.

A thorough analysis of the neoliberal programs applied in South America allowed me to obtain valid data on the socio-economic effects of the neoliberal policies. The comparison of the poverty levels from the period prior to the neoliberal policies' implementation and consequent neoliberal one has demonstrated that the effects of these programs for the poverty reduction in South America were in the first instance negative, whereas their later, somewhat modified application brought positive effects in the form of poverty reduction. The first negative effects to the growth and the poverty levels can be attributed to the immediate shock in the economy and the society due to the imposed reforms. These reforms were quite radical, especially the cuts in social spending and the reduction of social security and social welfare. However, the next decades brought a significant shift in the studied economies towards improved growth. By raising the GDP in South America, the average wages increased, along with the purchasing power. The consequent increase of the average wages' purchasing power combined with the stagnation or even decrease of inflation, resulted in decreased levels of poverty.

The three country cases have a number of equal or at least similar characteristics, especially when it comes to their natural resource-based economies, which is the reason why they were selected to be the case studies. Considering the fact that their economies were not diversified enough, these countries remained highly dependent on production and exports of oil and gas, respectively. The oscillations in oil and gas prices have significantly affected their GDP growth and consequently the poverty levels in the three countries. However, even at times when the prices of their commodities were very high, as in Venezuela at the beginning of the 2000s, their governments did not utilize this opportunity to distribute the benefits to the society. They lacked a good social policy which would tackle poverty with a lower dose of dependence on their commodities' prices. As soon as these countries started to isolate their social policies from the oil and gas prices, and apply the appropriate measures in combatting poverty, the results arrived. Another factor, a growth of population, has also affected the poverty levels in the three countries. However, when the proper social policies started to take effect, the influence of this factor on reducing poverty performance was diminished. Population continued to grow, but it affected poverty levels to a much lesser extent. The application of the PRSP in Bolivia positively affected the reduction of poverty as well.

Ecuador recorded a significant decrease in poverty of an entire million of its citizens from 2005 to 2011, which speaks in favor of the overall growth, due to high oil prices. The combination of external factor, such as high oil price, with the economic policies applied in that period, brought about a significant poverty reduction. However, the success should also be attributed to proper social policies applied in the country. This can be attributed to Correa government, starting in 2006.

Thanks to the growth in GDP, the government was able to distribute the benefits of growth throughout the society.

This leads to the conclusion that while some of the conditions for poverty reduction are fulfilled by the economic growth (as a result of neoliberal policies), proper social policies in the country are inevitable in order to achieve lasting poverty reduction. On the other hand, the economic expansion in Venezuela in the 2000s, due to the boom in oil prices, did not bring about success in reducing poverty, since its rates were very high - the poverty headcount was 16.03 percent in 2002, and even 17.01 percent in 2005 (Table 5.2). This situation demonstrated huge structural problems, which existed in Venezuelan society. We can also conclude that the poverty alleviation issues were not tackled properly. Again, the lack of adequate social policies largely influenced the poverty levels in this country. In the case of Bolivia as well, the 1990s brought about a large increase in poverty, which was a consequence of inappropriate social policies that were in effect. However, when during the 2000 the gas prices in the country stabilized, and the Morales government applied adequate social policies in order to tackle poverty, the poverty levels started to drop, reaching 11.91 percent in 2008 (Table 5.3).

The research has shown that theory and practice do not always overlap. On the contrary, it has demonstrated that the theoretical assumptions of the World Bank and the IMF regarding the appropriate development of the South American region have not been confirmed in practice. Although the IFIs believed that neoliberal approach to development and growth was the most appropriate one, the experience from South America shows that that process is not so simple; on the contrary, finding an appropriate policy in order to affect growth in a country is a very complex question. Moreover, this issue differs from one country to another and cannot therefore be implemented as a universal model, applicable to every country equally. Each country represents a unique case, possesses its own specificities, and therefore needs a particular strategy for its own economy and society which takes all these factors into account.

According to the data obtained from both qualitative and quantitative analyses, the thesis has shown that implementation of neoliberalism in South America, in the form of the SAPs and the PRSPs, affected the poverty reduction in the region. Although the reduction of poverty did not occur in the first years of structural adjustment application, after 1985 the poverty levels started to decline gradually. However, these reforms did not have the equal effect in every country of the continent. As it was seen in the case studies, Ecuador, Venezuela and Bolivia experienced different performance in reducing poverty during the last three decades. Still, all three countries recorded significant poverty reduction as soon as they started to implement appropriate social policies.

The present thesis has also examined if there are any other factors that have influenced poverty levels in the region. It shows that the extent of the impact of other factors is not negligible. A better understanding of the factors influencing poverty in South America would enable the development of appropriate development strategies, which would focus primarily on the poverty reduction. The influence of external factors, such as the fluctuation of the price of oil and gas respectively, was visible in every case study. As soon as the three countries started to isolate their economic performance and particularly poverty reduction performance from the oil or gas price fluctuations, their poverty levels dropped.

This research leads to a conclusion that the neoliberal model remains influential in many countries, but to contribute successfully to poverty reduction, certain modifications, identified in the case studies, are recommended. In connection with this, adequate social policies should be put in place, in order to properly deal with the issue of poverty. Another sphere for improvement is also the capacity to deal with the social challenges in times when the prices of commodities, such as oil and gas, fluctuate.

This is important for our understanding of international relations. The thesis presents neoliberalism as an approach in describing international political and economic relations from the 1980s onwards. The thesis gathers, describes and analyzes the different scholars' perceptions on the theory of neoliberalism and therefore contributes to the International Relations debate. Its contribution to the discipline consists also of gathering the perceptions of various scholars on the work of the Bretton Woods institutions, which were mostly perceived through promoting neoliberalism in the developing countries. It also reflects on poverty as a global issue and an obstacle to the economic development, portraying it from the perspective of South American continent and its individual countries. In connection with this, the thesis tries to find an answer to the issue of tackling with poverty in the context of different political and economic circumstances. It therefore makes a significant contribution to the discipline in practical terms, by putting poverty on the International Relations policy agenda. Furthermore, it assesses different approaches to development, *i.e.* various development strategies and evaluates their effectiveness. This dimension perhaps represents the most visible contribution to the discipline of International Relations, since the research approaches neoliberal policies in the light of different political and economic as well as national and international circumstances. Taking these factors into account, together with some of the external circumstances, such as the price of oil, the thesis tries to establish what the appropriate approach to tackling the issue of poverty could be. Finally, it explores how prevailing the neoliberal policies had been for the countries from South America in their path to development. Therefore, is represents an assessment of efficiency of neoliberal economic strategy applied in the three case studies, when it comes to poverty reduction.

7 Long Slovenian Abstract

Neoliberalizem je bil kot politična in ekonomska ideologija prvič predstavljen v Južni Ameriki med leti 1970 in 1980, in sicer v Čilu. Med leti 1980 in 1990 pa se je razširil po celotni celini. Glavna nosilca neoliberalne politike v Južni Ameriki sta bila Svetovna banka in Mednarodni denarni sklad. Njuno spodbujanje neoliberalizma je vključevalo predvsem pogojevanje določenih politik ob zagotavljanju različnih programov za pomoč zadolženih držav na celini. Od držav se je pričakovala uvedba številnih ekonomskih in političnih reform. Magistrska naloga raziskuje vpliv teh politik na raven revščine v regiji, s poudarkom na treh primerih: Boliviji, Venezueli in Ekvadorju. Čeprav so prvi izvajani ukrepi, ki so dosledno sledili duhu neoliberalizma v obliki strukturnega prilagajanja prinesli negativne učinke na južnoameriško družbo, so kasnejše reforme v okviru prilagojenega neoliberalnega okvirja prinesle rast in zmanjšanje revščine.

Magistrska naloga torej preučuje, če je neoliberalizem, ki so ga spodbujale mednarodne finančne institucije, spodbujal tudi maksimiranje dobička za del družbe, in sicer na račun preostanka celotne družbe, ki je ranljiv in živi v skrajni revščini. Naloga se osredotoča tudi na vse druge dejavnike, ki so vplivali na stopnjo revščine v regiji, ter poskuša oceniti obseg njihovega vpliva.

V drugem poglavju naloge je predstavljena poglobljena teoretična analiza neoliberalizma kot politične in ekonomske teorije. Osredotoča se na proučevanje bistva neoliberalnih politik in programov, uporabljenih v Južni Ameriki. V tretjem poglavju so podrobno predstavljene ustanovitev, funkcije, programi in politike Svetovne banke in Mednarodnega denarnega sklada. Četrto poglavje pa se osredotoča na analizo Južne Amerike v okviru neoliberalizma in je razdeljeno na tri podpoglavja, ki proučujejo sprejemanje in izvajanje neoliberalizma skozi programe strukturnega prilagajanja, širjenje neoliberalnih politik po vsej celini in spremembo strategij Svetovne banke, ki so bile zajete v strategiji za zmanjšanje revščine. Peto poglavje je razdeljeno na tri podpoglavja in se v celoti osredotoča na analizo študije primerov Ekvadorja, Venezuele in Bolivije. V zaključnem poglavju so predstavljene ugotovitve, ki izhajajo iz rezultatov predhodnih analiz in odgovarjajo na raziskovalno vprašanje magistrske naloge.

Izvajanje neoliberalizma v Južni Ameriki na osnovi programov strukturnega prilagajanja in strategijo za zmanjšanje revščine je vplivalo na zmanjšanje revščine v celotni regiji. Čeprav zmanjšanje revščine ni bilo uspešno v prvih letih uporabe programov strukturnega prilagajanja, pa je po letu 1985 stopnja revščine začela postopoma upadati. Te reforme sicer niso imele enakega učinka v vseh državah celine, a v treh analiziranih državah je zabeleženo znatno zmanjšanje revščine sočasno z začetkom izvajanja ustreznih socialnih politik.

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