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Richard Gerster

STRUCTURAL ADJUSTMENT IN DEVELOPING COUNTRIES: A SWISS NGO-PERSPECTIVE

1. Why the environment is so important

1.1. Debt relief measures

In the 1980's, new aid money under the label of adjustment financing often made possible only the payment of interest and the repayment of old debts, instead of paving the way for true development. The drain of resources caused by debt service negatively affected the effectiveness of development aid. For example, in the Philippines, debt service devours 44 percent of the government's budget and only three percent is available for education and health care; in Madagascar, every second franc earned from export trade goes for interest and amortization payments. Indonesia uses approximately 10 percent of its national income for debt service. According to the structure of the indebtedness, the danger exists that with low interest or non-repayable contributions from official sources, the service of costly commercial credit is improved and thus the socialization of private losses is given preference. So the question arises: is the effectiveness of structural adjustment programs secured through the longest-possible rescheduling and debt relief, including the clarification of illegitimate debt?

* This question is unfortunately usually still of a rhetorical nature, since in the best scenario a few timid steps have been taken (debt rescheduling in the Paris Club for the poorest countries; countries such as Mexico, the Philippines and Costa Rica which benefit from the Brady Plan; individual cases such as Bolivia). The long-term (30 years) and extremely advantageous debt rescheduling (repayment, yes, but mostly waiver of interest payments) of 1970 for Indonesia because of geostrategic reasons has remained unique.

* Without debt relief, it will never be possible to get a handle on and reverse the senseless net capital outflows from the South to the North (in 1988 alone, approximately \$50 billion in commercial flows). Debt service constitutes often 5% and more of the Gross National Product (GNP), while the richest country on earth, Switzerland, finds it difficult to provide even an amount of development aid equal to the average of the other Western industrial countries, i.e., 3.5% of its GNP.

- * The importance that Swiss Non-Governmental Organizations (NGO's) attribute to this environment is clear from the petition entitled "Development Requires Debt Relief." The Federal Council and Parliament are called upon in 1991 on the occasion of the 700th anniversary of Switzerland to create a debt relief fund of a minimum of Sw F 700 million. More than 250,000 Swiss have signed this request. However, the proposal contained in the petition represents just one element among many for making progress in the debt question; there is no simple solution.

1.2. Compensation for losses in export earnings

It is still the case that the poorer developing countries are especially dependent on the export of a few raw materials. Any negative factor, such as price collapses in key export items, can totally sabotage the success of a reform policy or efforts in the direction of structural adjustment. For that reason we must ask: Does the developing country have the possibility of making up for possible undeserved losses in export earnings by compensatory financing (Stabex, IMF, other) to an adequate extent or is it exposed without any protection to the inequities of the world market and the climate?

- * This question can usually be answered only in an unsatisfactory way because the compensation for export earnings on the part of the IMF and the EC (Stabex) are totally inadequate. How should Burundi, for example, be able to successfully carry out an adjustment program if 85% of its export earnings depend on one single crop (coffee!), this export is at the same time the most important financing source for the government budget, and coffee prices collapse?
- * It is an old demand of Swiss aid organizations that the Swiss confederation also compensate for losses in export earnings. The first steps were undertaken in 1989 with several of the poorest countries. In this, need was not taken as a guideline; instead, approximately Sw F 40 million over 3 years was taken as a framework, a figure which will be increased to Sw F 90 million over the next four years. However, if compensatory payments just for coffee and cocoa were to be paid to more than just the poorest countries, a multiple of this figure would be required. These compensatory payments are usually implemented for projects involving raw material processing and the diversification of exports, so that no undesirable preservation of structures results. In the mid-term, ways and means are to be sought to shift these compensatory payments for export earnings to consumers, rather than taxpayers.
- * It should be mentioned *pro memoria* that these compensatory payments represent the paltry remains of an idea which emerged in the 1970's: the concept of a new world economic order. Political obstacles and eco-

nomic problems resulted in the fact that, in the 1980's, possibilities were no longer sought to adapt the global economic order to the needs of the developing countries as the weaker partners. Instead, it is now expected that the developing countries adapt themselves to the structures of the global economy. This is the point of departure of structural adjustment.

1.3. Free trade on the part of the industrial countries

Exports create jobs and earnings. The global competition for export trade is based on this insight. Overindebted developing countries are urged as a matter of course to undertake export-oriented structural adjustment. This requires open markets on the part of the potential importers, the industrial countries. However, it is well known that protectionism, e.g., in the textile sector, represents a major obstacle.

With regard to protectionism, Switzerland does fairly well in the industrial realm. Its position in the agricultural realm is less agreeable. This makes it all the more regrettable that an opportunity was recently missed, whereby the EC would have been replaced by the Third World as a partial source for sugar through long-term sugar trade agreements with developing countries. This type of adjustment would have done Switzerland credit.

For further information, reference is made to Section 44.

2. The Content of Structural Adjustment Programs

2.1. A Look Back

How does it happen that there is a need at all for adjustment: A country lives beyond its means, it imports more goods and services from abroad than it sells there. For some time, it may be possible to finance the import surplus with the country's own currency reserves, with development aid or with commercial loans. A mountain of debt is built up. If an ongoing disequilibrium is involved, one day these avenues will no longer be available: the country will have to adapt to its new situation. The International Monetary Fund and the World Bank are available for the formulation of a reform policy.

In the relationships between external and domestic economies, the IMF has for decades linked the granting of loans to stabilization programs. Influenced by conditions in the industrial countries, the IMF recipes were oriented to very short term solutions and attempted to return the national economy to a stable course primarily by throttling demand. Many mista-

kes, economic recessions and widespread impoverization were the results of the application of this medicine to the Third World.

And so it was that the structural adjustment programs of the World Bank came about as new *second generation recipes*: instead of 18 months as at the IMF, a time-frame of 5-7 years was now adopted. Measures aimed at slowing demand are now combined with expansive measures which are intended to stimulate economic growth. The IMF, for its part, included no expansive measures in its repertoire, but it granted the poorer developing countries an extension of the duration of the program to three years and more favorable financing conditions.

To be sure, the World Bank should have known at the latest since the 1960's, a period with strong faith in economic growth, that the new wealth does not automatically trickle down to the poor, and that growth is not the same as development. Not only that: while the austerity measures usually had a full impact on the population, little was to be felt for large segments of the population of the expansive impulses, a fact that had a negative impact on the success of the efforts at rehabilitation. As a result, a new course correction has taken place since 1986/87. The IMF and the World Bank recognize the need to alleviate the structural adjustment programs on the social level, of shielding poorer segments of the population from the worst consequences of economic rehabilitation. An effort is now underway in Ghana, Senegal and Bolivia to implement this *third generation* of structural adjustment programs, with Swiss participation. However, this new approach should not remain restricted to a few lateral measures, while the structural adjustment programs continue to be implemented as before.

For it would be short-sighted simply to want to make up for the direct social and ecological consequences. The basic concept of the priorities of the program, the direction of development that a country takes, will have to be examined in depth. If an undogmatic approach is taken, structural adjustment can become an opportunity for development policy rather than an ineluctable necessity. So we shall hopefully achieve in the future a *fourth generation* of structural adjustment programs which facilitate access by the poor to productive resources such as land, water, capital and work. The World Bank project "Social Dimensions of Adjustment," which is financed by Switzerland and other countries, is working in this direction. The most recent World Bank report on Africa states: "The most important challenge of the project will be to integrate the objective of fighting poverty into the design of the macroeconomic strategies, to redirect official spending on behalf of the poor, and to encourage the participation of local groups and non-official organizations in the implementation of economic policy and planning" (World Bank, 1989, p. 188).

2.2. The Adjustment Menu

Without differentiating in detail between the stabilization programs of the IMF and the structural adjustment supported by the World Bank, the following areas and measures are stressed, as a rule:

Reestablishment of Foreign Trade Equilibrium

- * Devaluation of currency in order to lower the price of exports, to raise the price of imports and to make it more expensive to export capital (flight money!).
- * General liberalization in foreign trade (elimination of customs duties and export tariffs, etc.)
- * Encouragement of exports and a more attractive climate for foreign investment.

Reestablishment of healthy state finances

- * Introduction of ceilings for government expenditures and/or establishment of maximum deficits in order to restrict spending.
- * Establishment of money supply target figures in order to prevent an inflationary financing of government budget deficits via the expediency of printing new money.
- * Fiscal reform.

More Market Economy, Less State Intervention

- * Market-oriented price fixing (e.g., of currency, government services, agricultural exports, interest rates).
- * Privatization of state-owned enterprises.
- * Liberalization of all areas of the economy.

Although this focus for adjustment has positive aspects, it nonetheless leads astray if it is seen as a final solution to the problems associated with adjustment and development. In the 1960's, market economy ideas were very much in vogue. As a reaction to the inadequacy of these ideas in the face of extreme inequality and poverty, there came about in the 1970's a fundamental basic needs strategy and a call for a new economic order. Since the 1980's, the market economy is once again being treated as an export item - but its prerequisites and limits should not be forgotten, even if this sounds almost heretical in view of the radical transformation occurring in Eastern Europe. The reference to the successful countries in Eastern Asia is misleading, since the city states of Hong Kong and Singapore are special cases. In Taiwan and Korea, on the other hand, the economic rise was preceded by far-reaching land reforms, which were looked for in vain in other countries. Moreover, the state there plays the first violin that clear-

ly guides the economy - in total contradiction of market economy text books.

Fighting Poverty - Encouraging Development

The Bretton Woods institutions profess also today the objective of "fighting poverty - encouraging development." In its answer to the criticism of the non-governmental organizations, the World Bank has stated quite clearly that "structural adjustment directed at reestablishing financial stability and broadly-based economic growth alone is not enough," (Answer of 3/13/90, p. 11). The new report of the World Bank on sub-Saharan Africa, which takes a long-range approach, attempts to address this topic.

While these points were neglected for many years in the framework of structural adjustment, they are now taken into consideration at least in an ancillary way within the framework of the third generation of structural adjustment programs. Encroaching on the basic needs of the population should remain a taboo in negotiations, similar to the way in which there is a non-debatable minimum level of existence allowed for debtors in international debt and bankruptcy law. The World Bank project "Social Dimensions of Adjustment," which leads to the next, fourth generation of programs, goes even further, as mentioned above (cf. Section 21). International, government-affiliated institutions find it very difficult to deal with problems which cannot be solved primarily by an infusion of more money, but require structural, power-related changes. This is one of the reasons why it is so important to incorporate into the programs access by the poor to the productive factors such as land, water, education and credit; this is a key component in development. It is probably not coincidental that the very detailed answer of the World Bank to its critics (which was cited above) is very weak in the chapter on land reform as condition for structural adjustment loans.

2.3. The Economic Criticism

The structural adjustment programs aim at increased integration of the developing countries into the global economy. However, it is doubtful in many cases that a general liberalization in foreign trade is beneficial for the development of a country. On the contrary, the onesided adjustment of the developing countries to a world economic order which favors economically strong participants and puts weaker partners at a disadvantage can exacerbate the crisis and undermine the effectiveness of a structural transition in the direction of sustainable development.

The export-oriented economic policy widely propagated by the IMF and the World Bank neglects the development of domestic markets. It also frequently encounters limits in the form of the protectionism of the industrial countries. In the case of agricultural goods, a ruinous competition can come about among sellers who in the hunt for foreign currency expand their supply of cocoa or coffee, for example, but because of a less elastic demand only cause a price collapse and thus are usually unable to increase their export earnings. The sole beneficiaries are the consumers in the industrial countries.

The limits of export-oriented development as a general recipe become clear if one compares *per capita* exports of the East Asian "tigers" being often treated as models with those of other developing countries. In the case of Hong Kong, per capita export levels were at \$8,570 (1987), Korea \$1,360 (1988). On the other hand, the comparable figure is only \$184 in the case of Brazil, \$100 for Indonesia, and \$16 for India. If the export strategy of Korea or Hong Kong is recommended to all countries, it is not hard to see that, even without protectionism, markets do not exist to the extent that would be necessary. To raise Indonesia's exports alone, for example, to the level of Korea would correspond to 10% of total world exports of \$2.4 trillion (1987). In other words, the strategy of export-oriented development lives not only from open markets, but also from the fact that it is realized only in individual cases. If export-oriented measures represent the heart of the adjustment agenda, this serves as a warning and signals the need for a critical analysis of the program. Because of the debtor position of the majority of countries in the IMF and the World Bank, the danger of distortion exists. Achieving development via foreign trade as an engine has been successful only in exceptional cases; even less frequent are those cases in which a way can be found by these means out of the debt crisis to the path of development - in this regard, Mauritius represents an exception. As a rule, foreign trade plays only a supportive, complementary role vis-à-vis the domestic economic sector. In this regard, the new long-range World Bank report on sub-Saharan Africa (World Bank, 1989) is disappointing: in the final analysis, all recommendations originate from the environment of market economic thinking and world market integration as an engine for growth.

2.4. The Social Criticism

"The solvency of countries such as Brazil and Mexico can actually be defined only in political terms. How low can the standard of living drop in order that international obligations be met, without collapse on the part of

the political system?" This is the way in which the Swiss Bank Bär in its weekly report of 9/3/87 formulated the key question of indebtedness. A decline in the standard of living results if the export sector is favored in the competition for limited resources over economic activities which meet the basic needs of the people of a country. A drop in the standard of living also results, however, from a reduction in government services, including health care and education, because the state has to do some belt-tightening. For example, *per capita* spending for health care in Madagascar fell from Sw F 10.70 in 1980 to Sw F 2.70 in 1987; only two months out of the year are health care stations equipped with a modicum of medications.

The justification for this social criticism can be seen in the reaction of the IMF and the World Bank. This criticism has already resulted in the introduction of compensatory social programs; the discussion of a fourth generation of adjustment programs will go even further.

Of course, it must be noted that the criticism has sometimes missed its mark. For example, from a development policy point of view it would be premature to simply oppose a reduction in personnel spending by the state, e.g., by a hiring stop or through firings. For, especially in Africa, a parasitic state has often financed itself on the backs of the farmers, without offering a counter-service to the rural regions; public investments can often not be financed until after spending cuts have been implemented. With regard to cuts in food subsidies and expenditures for education and health services, not only the volume, but also their qualitative orientation must be factored in. The introduction of tuition charges in the primary school is questionable in terms of development policy, while the elimination of a cost-free university education is certainly feasible, given the possibility of scholarships. For example, the bundling of subsidies for food, electricity, oil products and agricultural credits to poorer segments of the population can hardly be criticized. Nor are the effects of currency devaluations on poverty, income distribution and development to be judged in a generally negative sense; they will vary from case to case. It is obvious that the IMF and the World Bank are paying more attention to these qualitative concerns.

2.5. The Ecological Criticism

The pressure to export as a result of the debt crisis, which is fully integrated into the adjustment program, results in a disregard of the need for sustainability in favor of higher foreign exchange earnings. The export of tropical woods is increased, instead of being decreased to a level at which the forests can regenerate themselves. Unless the debt question is resolved, the preservation of the tropical rain forest remains an illusion. Incenti-

ves for the cultivation and export of corn in Madagascar are part of the export-oriented logic of the adjustment programs, even if the farmers burn off forests in order to obtain more land. The desire of the Madagascan government to increase the export of crocodile skins to an extent that would endanger the survival of the animals is another form of the same basic problem.

The World Bank has created an Ecology Department which even has a veto power. It is to be hoped that the adjustment programs will be effectively influenced in an ecologically compatible direction and that the "greening" of the World Bank does not exhaust itself in a few additional loans for nature-oriented projects and programs. In any case, it should also be pointed out that the pressure for government spending cuts results in a reduction in subsidies for artificial fertilizers and pesticides, and that they therefore become more expensive and are used less. Indonesia is a well known example of this. The way in which the new ecological influence will impact in overall terms on the adjustment programs cannot yet be conclusively determined.

2.6. The Political Criticism

If an adjustment program is forced onto a country from the outside, the government will bail out at the first available opportunity, e.g., if an unexpected increase in raw material prices creates additional revenues and thus a new set of options. A forced adjustment not only impinges on sovereignty, but it is also not very effective. The often praised "political dialogue" is all too often misused by the industrial countries as an instrument for putting through their own ideas, such as a liberalization of markets, including their own export markets. A genuine dialogue, on the other hand, requires time-consuming, broad-based negotiations. In addition to the finance minister, negotiations should include not only the various special ministries, but also representatives of socially relevant private groups, such as unions and farmers.

Experiences in Burundi (cf. Egger/Stöckli 1990) have shown that structural adjustment is politically less feasible if the dominant ethnic minority of the 16% Tutsis determines the fortunes, for good or ill, of the suppressed majority of the Hutus. Structural adjustment thus offers an opportunity for the discussion of human rights. Case studies in Mauritius and Turkey (Shams 1989) document just how important the broadest possible consensus is for the success of adjustment policy. A participatory, democratic opinion-shaping in the developing country and a clear commitment on the part of the government are the keys to successful implementation of ad-

justment policy, which then no longer represents a structural adjustment imposed from the outside, but rather aims at autonomous structural changes.

However, it would be wrong to simply adopt the often-heard complaint of the governments of developing countries concerning intervention by the IMF. The governments use negotiations with the IMF in order to shift to Washington responsibility for unpopular but unavoidable measures. This lightning rod function is part and parcel of the political services provided by the IMF, which for many years endured criticism of itself without responding. Only recently has the IMF begun in public no longer to allow all criticism to go unchallenged (e.g., in the case of Venezuela). Above all, it would be good if the IMF would call attention to other types of adjustment measures, such as budget cuts in the military instead of in the social sphere, instead of remaining a silent accomplice of the given power structure.

In addition, negotiations are made more difficult by the fact that, despite their technical expertise, the dominance of the industrial countries in the IMF and the World Bank cannot be overlooked. Instead of being able to appear as honest brokers, the gentlemen in Washington suffer from a lack of democratic legitimacy. Not that it would be meaningful to allow each country to have the same vote, similar to the United Nations Organization; that would create an unrealistic common denominator. But the current voting rule is based on the slogan: Whoever has the money calls the tune. In the first years after its founding, the democratic element in the IMF's voting rules (each country received a base of 250 votes), was of much greater importance than today. For the plutocratic element, the quota-dependent vote (one vote per 100,000 special drawing rights in paid-in quotas) became more important with each quota increase over the course of several decades. For that reason, a revaluation of the basic voting structure would be meaningful to the same extent that quotas have been increased since the IMF was founded. On the basis of the basic votes alone, the developing countries would be able to greatly strengthen their influence on the IMF and the World Bank, without completely depriving the "donors" of their importance - the balance of power would only be more equalized and the IMF's prescriptions would have gained in terms of democratic legitimacy.

2.7. The Degree of Success

The World Bank writes about the success of its structural adjustment programs: "Adjustment efforts supported by the World Bank were moderately successful in improving the overall economic performance" (World Bank response to NGO criticism of March 13, 1990, p. 8). Measured in

terms of economic growth and equilibrium in the balance of payments, the countries with structural adjustment loans are better off than the others, the World Bank states (cf. World Bank/UNDP 1989). If the question is studied in greater detail and criteria other than purely macroeconomic considerations are used, the statements of the World Bank become much more differentiated, unadorned, and sobering (cf. World Bank 1988). The World Bank's own assessments have not gone unquestioned, e.g., by the UN Commission for Africa (cf. ECA/UN 1989).

Outside studies carried out by the British Institute for Development Studies in seven countries (Ghana, Togo, Sierra Leone, Malawi, Madagascar, Zambia and Algeria) in 1988 concluded that, despite many changes, most structural adjustment programs have not even been successful in terms of their own criteria. Follow-up analyses by UNCTAD in 12 countries confirm this conclusion (The Courier, Nov/Dec. 1989, p. 97). The frequent review and supplementation of important program elements by the World Bank itself indicates that reports of success should be taken with a grain of salt. The frequent delay in the disbursement of loan tranches because of non-performance points to widespread difficulties. Official agencies dispense with this caution regarding the question of success at the latest when it comes time to justify additional requests for financing. For example, the structural adjustment chapter in the message of the Swiss Government of February 21, 1990, must be described as all too glowing and optimistic. It is undoubtedly true that success is mixed, depending on country and criteria, and the search for better recipes must continue.

Moreover, experience has shown that structural adjustment should not be reduced to the economic dimension alone, but should also encompass non-economic factors, be they of a social, ecological or a political nature. These factors should be taken into consideration not only as bothersome obstacles, but as independent aspects of different life styles and cultures.

2.8. Alternatives?

If a lasting foreign trade imbalance exists and financing sources are exhausted, there is no alternative to structural adjustment for a given country. A balance of payments cannot be achieved without sacrifice. Yet discussion will continue to focus on such questions as: who will bear the burden of structural adjustment as costs and benefits are distributed; to what kind of future does adjustment lead a country; what pertinent global economic measures are necessary? From a development policy perspective, the interests of the low-income population groups and ecological sustainability (cf. p. 18) are in the foreground. Criticism of IMF and World Bank recipes

for structural adjustment is based on this perspective. It is concerned with the nature of the adjustment and the lack of adequate international protection for reform measures.

It must give pause for thought that a country such as *Tanzania* resisted prescriptions from Washington for several years, only to finally gave in. *Nigeria* is keeping a rhetorical distance from the IMF, but is carrying out a structural adjustment policy on its own volition that could well be in conformity with the IMF. A recent example is *Zambia*, which broke with the IMF in 1987 but is now once again signalling rapprochement. An analysis of the situation in 1987 shows that the respective positions of the *Zambian* government and the IMF did not basically diverge; differences concerned the time-frame for decisive measures such as cuts in subsidies. A lack of flexibility on the part of the IMF resulted in unnecessary conflict. This was exacerbated by the *Zambian* government, which suspended repayments to the World Bank, so that its unflagging willingness to continue work in *Zambia* could no longer be maintained.

The negotiating power of an individual country vis-à-vis the Bretton Woods institutions depends to a large extent on its political importance and the point in time at which the adjustment measures are under discussion. If a country turns to the IMF and the World Bank only in a hopeless crisis, the latitude for negotiations is correspondingly small. *Zambia* was able to go it alone for a time, thanks to an increase in the price of copper, which brought in the most necessary foreign exchange earnings. Aside from such exceptions, a developing country that is not, like *Brazil*, *Nigeria* or *India*, one of the largest cannot avoid recourse to the IMF and the World Bank. This is a lesson that the past ten years have shown.

Another experience is, however, that the IMF and the World Bank are not monolithic blocs lacking any capacity to learn. The recipes of structural adjustment are undergoing a process of transformation: It is important to support this transformation, which is also fed by a mixed outcome, so that the structural adjustment programs result in a development policy opportunity. This transformation is expressed in the fourth generation of structural adjustment programs, as outlined in Section 21. This is the same direction that is taken in the proposal worked out by Africans themselves for an alternative adjustment (ECA/UN framework 1989), which addresses such sensitive topics as land reform, cuts in military spending, consistent fiscal policies, and encouragement of investments by local entrepreneurs. When this African concept of structural adjustment was discussed in November 1989 within the framework of the United Nations, the United States refused to give its approval as a basis for a constructive dialogue. This indicates just one aspect of the difficulties encountered on the road to the fourth generation of structural adjustment programs.

The calls for a more favorable environment, particularly with regard to economic questions (cf. Section 1) and the adjustment of the North, particularly of a surplus country such as *Switzerland* (cf. Section 44) must be understood not as an alternative to internal reforms in the developing countries but rather as a supplement to such reforms.

3. Impact on Work of the Aid Organizations in Foreign Countries

It goes without saying that development cooperation is affected in many ways by the fundamental changes that structural adjustment programs bring in their wake. A few examples:

- * The adjustment programs prescribe a much more restricted role for the state. This results in a weakening of social services, e.g., in the areas of health care and agriculture. For example, many more inquiries concerning the social area have been received by Helvetas, Swiss Association for Development and Cooperation.
- * Austerity measures of the government of *Trinidad and Tobago* as a consequence of the structural adjustment program deprive the Helvetas project partner Servol of a contract for the delivery of school lunches. Servol had financed its education projects with the earnings from this contract. Thus Servol will have to limit its educational services, or become increasingly dependent on foreign donors.
- * In *Niger*, government spending is being limited as a result of structural adjustment. For example, there is no longer any money for spare parts for trucks for the agricultural extension services. Swissaid now pays the costs for spare parts for trucks so that the transport of stones, cement, wire screen, etc., can be continued for the construction of wells, a cost previously borne by the government.

In view of the far-reaching changes which accompany structural adjustment programs, the question is raised not only of the impact of the work abroad, but also of the reactions on the part of the private aid organizations:

- Have the aid organizations become agents of structural adjustment programs?
- Is the work like that of a repair shop which tries to correct the worst excesses of structural adjustment?
- Are the aid organizations also in the changed environment becoming partners which reposition themselves with an eye to the 1990's?

This discussion is far from being concluded. The following comments are thus of a provisional nature:

— The question of whether the *traditional project approach* still corresponds to the present and future situation should be discussed in detail. The rapid change has resulted in a loss of relevance for individual projects, to the extent that their role in the larger context has not been precisely clarified, whether it be a conscious adaptation or a counter-movement. If government services are cut as a result of austerity measures, these services should not be blindly compensated but must be rethought in terms of their long-range sustainability and priority. If foreign "donors" attempt to compensate blindly for negative changes in the conditional framework, they create structures that are not viable in the long term, with the result that development projects themselves become a problem and are dependent on foreign countries. The need for coordination of the individual projects increases and the question of program financing would have to be discussed at greater length.

— With the revaluation of program financing in general, not only on the part of the aid agencies, a question arises of looking at the individual projects with new urgency. The fight against bad investments (including corruption) must be taken up on a new basis. One would have to ask whether a network of "Investment international" should be established, analogous to Amnesty international, that systematically criticizes overblown individual projects to all participants. This would also include an approach similar to that of critical shareholders in the industrial countries. It is likely that only the private aid organizations could be the somewhat independent sponsoring organizations.

— Economic liberalization in many countries provides new opportunities, above all if the political climate also becomes more liberal and allows more space to private partners. This climate may be favorable for new private initiatives and so could give rise to *new potential partners*. Finally, the impoverization of segments of the population, which often leads to new forms of self-help, also works in the same direction. An active search for strong private partners is for this reason even more important.

— *Activity in the area of ecology* is increasing. As a rule, environmental considerations are pushed aside as a dispensable luxury in adjustment efforts. In view of Swiss experience in the environmental sphere where private organizations have exercised strong political pressure on government environmental policy, ecologically-oriented citizens' initiatives should be strengthened in developing countries.

— Within Swiss private aid organizations, one should seriously consider setting up a *consulting unit for structural adjustment questions*. The personnel shortages at the Swiss Directorate for Development Cooperation guarantee a genuine market opportunity to the extent that the required qualified manpower is available. Additional benefits may well accrue to the

private aid organizations through cross-fertilization with other projects abroad.

— The *personnel profile* should be reconsidered for the project coordinators in the head offices of the aid organizations. It is likely that some staff members are posting pleasure gains in macro-economic thinking. Today's personnel should be encouraged to seek further education in macroeconomic issues. Because it is known that everyone is already overburdened with everyday commitments, this requires management-level decisions.

— The *concrete experiences of development cooperation* by the aid organizations should be better assessed, prepared and put into service for the development policy debate in Switzerland. This postulate is an ever-green principle. But for the importance of the aid organizations as partners in development policy questions, improvements could well be of decisive importance.

Beyond their work abroad, the *development policy role of the aid organizations in Switzerland* is of increasing importance under the new framework conditions. We now come to the demands which we submit to the development cooperation of the Swiss Government in the matter of structural adjustment.

4. Demands placed on Switzerland

4.1. Conformity with the Principles of Development Policy

In the development aid committee of the OECD, the Swiss delegation stated in December 1987 that: "The decisive aspect of adjustment programs must be their attempt to improve access by the poor to the means of production and markets. For that reason, it is important that the donors in each country agreeing to a reform policy identify the major economic, administrative and institutional obstacles which stand in the way of support to disadvantaged groups, particularly small farmers." This unmistakable statement shows that the adjustment programs co-sponsored by Switzerland must be compatible with Article 6 of the Swiss Law on International Development Aid and Humanitarian Assistance, the guiding principles of Swiss development policy. An overview of the structural adjustment programs cofinanced by Switzerland is included in the Annex.

Task and reality would well be worth a discussion, here. Above all, the social alleviation measures in individual countries such as Ghana are welcome, to be sure, but they are not adequate to meet the task at hand. Rather, Switzerland must work towards a fourth generation of adjustment pro-

grams which in their objectives prioritize access by poorer segments of the population to land, water, credit and work.

4.2. Active, Independent Role for Switzerland

As a rule, bilateral donors are all too glad to accept analyses and conclusions of the IMF and the World Bank without critical examination. Both the required conformity with the specific development policy principles of Switzerland as well as the disputed and modest degree of success of the adjustment programs make it appear inevitable that Switzerland play an active and independent role.

This must be based on a solid knowledge of the country and matter at hand, which must exist at least for the focal countries of development co-operation (cf. Frieden 1990). This requires an early and circumspect gathering of information not only from government agencies and international organizations, but also from farmers and their organizations, trade unions, private groups and aid organizations active in the country, as well as from any political opposition. This should be followed up by frequent evaluations that are independent of the World Bank and commissioned by Switzerland, which not only serve to provide Switzerland with better information, but can also help strengthen the negotiating position of the developing countries.

Independent assessment of structural adjustment programs includes in principle the political willingness of Switzerland to continue its contribution even in the case of a conflict between the developing country and the IMF or the World Bank. Not that a continuation *a priori* would be meaningful, but a serious analysis is more appropriate in the event of a conflict than blind support. After all, in the final analysis it is a question of structural assistance to the poor and not of bonbons from Bern for docility in economic policy.

4.3. Internal administrative prerequisites

Such qualitative requirements placed on Swiss cooperation in structural adjustment programs affect the administrative handling of these questions. Above all, the following are required:

- * adequate, competent personnel - a prerequisite that to date has not been adequately met;
- * integration of the Swiss contributions to structural adjustment into the country programs, including sectoral focal areas;

Something that is regrettable from the perspective of the aid organizations is the form of a lump sum contribution by Switzerland to the Enhanced Structural Adjustment Facility (ESAF) of the IMF. Analogous to the procedure at the World Bank affiliate IDA, a bilateral approach would certainly have been possible which would have permitted greater influence on the allocation of the approximately Sw F 400 million - but that would have meant much additional work for the Swiss administration.

4.4. Structural Adjustment of Switzerland

In the more balanced descriptions of structural adjustment problems, allusion is often made of the need for adjustment in the North. This usually refers to the above-mentioned fight against protectionism (cf. Section 13). In concrete terms it is important to demand that *Switzerland strive for a negative balance of trade vis-à-vis the Third World*, viz., through a corresponding increase in imports. Switzerland today finances approximately one-third of her balance of trade deficit with the EC with a surplus of almost Sw F 7 billion from trade with the Third World. This is a fact that makes no sense at all in terms of development policy.

Perhaps attention should also be paid to the asymmetrical adjustment mechanism of the world monetary system, which places the entire burden of adjustment onto the deficit countries, while the surplus countries get away scot free. Perhaps attention should be paid to the country with the highest level of debt in the world, the United States, which has been able to avoid pressure to adjust by virtue of the privilege of being able to cover any number of foreign debts with its dollar-denominated local currency. Should Switzerland become a member of the International Monetary Fund, from a development policy point of view it would have to address both the one-side burdening of the deficit countries as well as the need for change in US policy.

Moreover, for Switzerland an expansion of the international judicial assistance would be an important contribution to deter and repatriate illegal flight money. A systematic examination of development policy considerations in the encouragement of exports (Export Risk Guarantee) and imports belongs to this. However, guidelines in a Swiss adjustment program point beyond the purely economic context.

The pressure of migration from the poor South to the wealthy North could be considered under the aspect of structural changes, for example. The developing countries would have good reason to encourage a liberalization in the movement of people and the possibility of travel to the industrial countries as the North encourages liberalization in the movement of

trade and capital. This is just as unpopular in the North as subsidy cuts and other adjustment measures are unpopular in the developing countries.

However, the adjustment of Switzerland to the dictates of a "One World Policy" will entail drastic changes, especially in the area of ecology. If we want to put a stop to the legal and illegal export of wastes to the Third World, what will help most of all will be a transition to lowwaste products, aside from simply doing without. Adjustment in the matter of energy consumption would have to head the agenda. Will we soon have to read the following press report?

"(sda) The Brazilian government has expressed to the Swiss Bundesrat its concern over the increasing energy consumption of Switzerland. The excessive consumption especially of fossil fuels constitutes a danger to all of humanity because of the long-range warming of the atmosphere. If serious measures are not undertaken to lower the level of consumption and to adapt requirements to the needs of a stable, global eco-system, the Brazilian government will consider suspending debt service to Swiss creditors. The Bundesrat has rejected this diplomatic move of Brazil as intervention in the internal affairs of Switzerland.

A number of politicians called to mind the freedom of Swiss citizens to choose their style of living and the requirements of our economy, which depends on an ever-increasing supply energy."

ANNEX

Swiss Participation in the Financing of Structural Adjustment Programs (1986 - 1989)

In recent years, Switzerland has supported economic adjustment programs coordinated by the World Bank in the partner countries of Swiss co-operation, with the following measures of development cooperation and humanitarian assistance:

1. macro-economic program assistance: cofinancing of structural adjustment programs of the World Bank/IDA;
2. bilateral balance of payments assistance: parallel financing of structural adjustment Programs;
3. sectoral program assistance; also cofinancing of programs of the World Bank/IDA;
4. measures to reduce the debt burden;
5. measures of technical cooperation and financial assistance in the area of the general and sectoral management of economic policy, including education;

6. financial assistance to alleviate the social costs of the adjustment process;
7. measures of humanitarian aid to alleviate the social costs of the adjustment process;
8. compensation for export losses of raw materials earnings.

In this Swiss involvement, the following focal areas are to be underscored, on which Switzerland has concentrated its support for structural adjustment since 1986:

- * Switzerland has concentrated its support for structural adjustment on the poorest developing countries and, with the exception of Bolivia, exclusively on Africa.
- * Swiss bilateral balance of payments assistance for these countries has been integrated into the structural adjustment programs coordinated by the World Bank/IDA.
- * The instrument of repurchasing debt has been used twice, in the case of Bolivia (cf. Section B).
- * Beginning in 1987, the DEH increasingly limited its support for structural adjustment programs to the focal areas of its technical cooperation and financial assistance.
- * In the area of financial assistance, Switzerland has been involved in two major areas: first, in the general support for macroeconomic and sectoral structural adjustments and, second, in programs to alleviate the social effects of structural adjustment and to meet the basic needs of the poor segments of the population and to enhance their economic opportunities.

The following table provides an overview of the implementation of these measures in the respective partner countries from 1986 to 1989. Only contributions of Sw F 1 million and more which are expressly oriented to the objectives of structural adjustment programs are listed:

Country	Year/Duration	Measure category (1-8, cf. above)	Contribution in million Swiss Francs	Responsible Swiss agency
Benin	1985-91	3	15	DEH
Senegal	85	1	13.5	BAWI
Guinea	86	1	10	BAWI
Burundi	86	1	15	DEH
Tanzania	86	1	15	DEH
Bolivia	86	2	10	BAWI
Ghana	86-87	2	10	BAWI
Guinea-Bissau	87	1	8	DEH
Senegal	87	1	12	DEH
Mozambique	87	1	27	DEH/BAWI
Tanzania	87	2	10	BAWI
Madagascar	87	7	1	DEH
Chad	87	2	5	DEH
Bolivia	87-89	6	45	DEH
Ghana	88	1	15	BAWI
Madagascar	88	1	10	BAWI
Madagascar	88	2	10	BAWI
Bolivia	88	4	5	BAWI
Uganda	88	1	10	BAWI
Ghana	88	2	10	BAWI
Benin	89	3	15	DEH
Bolivia	89	5	4	DEH
Mozambique	89	1	20	DEH
Senegal	89	1	10	BAWI
Mozambique	89	1	5	DEH
Uganda	89	2	7	BAWI
Uganda	89	1	8	BAWI
Not geographic	87-92	2	5	DEH
SDA*	89	2	2.5	DEH

* SDA, Social Dimension of Adjustment: a program launched by the World Bank, the UNDP and the BAD which has as its goal the inclusion of the social dimension of adjustment into the planning and implementation of economic policy, the establishment of programs favoring socio-economically weak population groups and, finally, the improvement of the national information systems regarding the economic and social situation in the countries in question. Note: In Nepal, Switzerland did not participate for various reasons directly in the structural adjustment program of the government and the World Bank, but through its involvement in technical cooperation in road maintenance and technical training makes an important contribution to the rehabilitation of these two sectors. Source: Message of the Swiss Government of 2/21/90. p. 156ff.

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B. S. Baviskar **INDIAN SUGAR: POWER TO THE PEASANTS**

I. Introduction

In this paper I propose to place the Indian sugar economy in the global context and to highlight its distinguishing features. I would also like to discuss the changes which took place during the post-war period analysing their implications and consequences. At the end I have attempted some general observations about the future developments in the Indian sugar economy.

During the last many years scholarly studies of sugar economy have tended to concentrate on the international dimensions of the commodity.¹ They have dealt with such problems as the expansion of the sugar industry in the Third World during the colonial period, the international forces affecting the relationship between the importing and exporting countries, and the impact of recent failures in arriving at international agreements regarding trading of this commodity. Not many studies have paid careful attention to the conditions under which sugarcane is grown. Leaving aside beet sugar for the time being, sugarcane is grown in different parts of the world by millions of farmers under varied conditions. The price of the raw material, i.e. sugarcane, constitutes a major item in the cost of production for the final product, i.e., sugar. However, not many studies have paid attention to the plight of sugarcane growers, their problems and their attempts to survive in the changing situation. This paper will, therefore, pay some attention to the role of cane growers in the India sugar economy.

Some scholars have also tended to concentrate rather exclusively on the international dimensions of the commodity. However, considering the facts that sugar is produced in many countries for the main purpose of domestic consumption, and the recent tendency to acquire self-sufficiency in this regard, one should pay greater attention to such cases among which India is an important one. Although India is the largest producer of sugarcane and sugar in the world, serious scholarly study of its sugar economy has been neglected largely because the country has not figured prominently in the international transactions of this commodity.

Unlike many other countries sugarcane and sugar are not recent entities for India. They have existed for thousands of years. Indians like to believe that their country was the original home of sugarcane from where it spread