

THE OTHER SIDE OF THE STORY:

THE REAL IMPACT OF WORLD BANK AND IMF STRUCTURAL ADJUSTMENT PROGRAMS

- **Report on the 1992 International NGO Forum
on World Bank and IMF Adjustment Lending
Washington, D.C., 17-24 September 1992**
- **Resource Guide to the Citizens' Movement
Challenging Structural Adjustment Programs**
- **Case Profiles of Adjustment Programs**

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Organizers of The 1992 International NGO Forum on World Bank and IMF Adjustment Lending

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FORUM ORGANIZERS

The Development Group for Alternative Policies (The Development GAP) has worked on World Bank-related issues since its founding in 1976. After working as consultants on World Bank projects demonstrating how to involve popular organizations in seven countries, it joined both the NGO-World Bank Committee and the environmentalists' multilateral development bank campaign as critics of structural adjustment programs. Currently, it manages the NGO Center for Action on Structural Adjustment (on behalf of Third World Network), works with groups in the South to challenge adjustment by providing them information and a platform for their views in the U.S. government and media, and writes extensively on the issue.

Friends of the Earth-U.S. (FoE) has been directing the IMF structural adjustment campaign in the United States, educating the public about the devastating social and ecological impacts of IMF policies and the institution's lack of accountability. FoE has campaigned to condition U.S. approval of the IMF quota increase on significant reforms in the structure and functioning of the Fund. Due in large part to that lobbying effort, the U.S. Congress in 1992 appropriated the money but tied future quota increases to stringent environmental and social conditions. Currently, FoE is producing country case studies -- beginning with Russia -- to directly challenge the IMF and is preparing for the 50th anniversary of the Bretton Woods institutions in 1994.

The Office on Development Policy of Church World Service/Lutheran World Relief has advocated, in the U.S. Congress and the Department of the Treasury, for a more flexible U.S. policy on adjustment and an overall reduction in adjustment lending. It has arranged meetings for visiting NGO leaders with the World Bank and U.S. Congressional staff and helped design an assessment of USAID-promoted reforms in Africa. It participates in the adjustment working group of the NGO-World Bank Committee and meets with World Bank staff to encourage them to take a more flexible and participatory approach to reform in Central America and Africa.

Greenpeace International has been researching the environmental and social impacts of adjustment policies on the energy sector in Mexico, as well as the potential impact of the North American Free Trade Agreement (NAFTA) on the environment. The findings will be used to inform Greenpeace campaign work in Canada, Mexico and the United States on energy, toxic trade and forest issues. Greenpeace International is also supporting partners in Guatemala investigating the impact of structural adjustment on small farmers and sustainable agriculture.

Third World Network is a coalition of groups and individuals in different regions involved in development, environment and Third World issues. It is a member of the World Bank-NGO Committee and has been involved in developing a critique of Bank/IMF structural adjustment policies. It has also published a paper on structural adjustment and the environment and will be publishing a more detailed analysis of the impact of SAPs in the Third World. It is interested in developing systematic critiques and campaigns on adjustment policies together with other groups.

The European Network on Debt and Development (EURODAD) has made structural adjustment one of its program priorities for the next three years. A working group on adjustment has been formed to share information and strategies and to avoid duplication in the increasing amount of research taking place on the effects of adjustment. One of EURODAD's tasks will be to coordinate activities around the 50th anniversary of the Bretton Woods institutions. NGOs already involved in the working group include the Berne Declaration, Christian Aid, InZet, NOVIB and WEMOS.

PREFACE

As the World Bank and International Monetary Fund approach their 50th birthdays, an assessment of their contributions to the world's economic, social and environmental crises is long overdue. Although environmentally damaging projects financed by the Bank have occasionally captured headlines, there is increasing awareness that the economic-reform programs promoted by both these institutions often drive these projects and have overall consequences that are much more far-reaching for the people and natural environment of the Third World.

While Northern policymakers and the media have largely ignored the devastating impact of these 'structural adjustment' programs, a worldwide citizens' movement has been growing to challenge the imposition of adjustment policies by the Bank and the Fund. Today, armed with overwhelming evidence that these programs are undermining the well-being of families, food producers, workers and the natural environment, as well as the viability of fragile democracies, this movement is attempting to force a fundamental shift in development thinking in both the North and the South. The recent change in Administration in the United States may present the best opportunity in years for a full and objective review of these failed policies.

The 1992 International NGO Forum on World Bank and IMF Adjustment Lending brought together over 100 representatives of some of the leading citizens' groups working on this issue around the world. This report on the Forum attempts to capture the energy and commitment of these organizations in their fight for economic and social justice and a more ecologically sound planet. It also includes case studies that provide detailed information on the nature and impact of adjustment programs.

The organizers of the Forum would like to thank the many funders whose support made the week's activities possible and helped strengthen this movement for change. The views expressed herein, however, do not necessarily reflect the positions of the funding organizations. We would also like to express our appreciation to the many individuals who contributed their time and energy to this endeavor and helped make it a success.

**Doug Hellinger
Managing Director
The Development GAP**

on behalf of the Forum organizers

March 1993

INTRODUCTION

Since the early 1980s, the World Bank and the International Monetary Fund (IMF) have imposed structural adjustment programs (SAPs) in debt-strapped countries in the Third World and, more recently, in Eastern Europe. Despite the failure of these programs to achieve their stated macroeconomic objectives and in the face of their devastating social, economic and environmental impacts, the World Bank has declared that adjustment lending will continue to be a major part of its operations in the 1990s. In Washington, London, Bonn and other Northern capitals, these policies have won the unquestioning support of policymakers, who continue to utilize both bilateral and multilateral aid to ensure the implementation of adjustment programs.

Development and environmental non-governmental organizations (NGOs) around the globe know first-hand the negative effects of these programs on their constituents. Southern NGOs have pinpointed SAPs as a major contributor to growing global poverty and environmental degradation and have challenged these programs, often with alternative development strategies. In response to pressure from their Southern counterparts, Northern NGOs have in the past few years increased their advocacy efforts on the adjustment issue, trying to hold the international financial institutions, as well as their respective governments, accountable to both local populations in the South and Northern taxpayers.

It is in this context that the 1992 International NGO Forum on World Bank and IMF Adjustment Lending was held in Washington, D.C.. Sponsored by The Development GAP, Friends of the Earth-U.S., Church World Service/Lutheran World Relief (Office on Development Policy), Greenpeace International, Third World Network and EURODAD, the Forum was timed to coincide with the Annual Meetings of the Bank and the IMF.

What set the 1992 Forum apart from previous NGO conferences around the Annual Meetings was the focus on action. There was a sense of urgency and responsibility among participants to understand the fast moving and complex changes taking place under adjustment, move decisively to stop them, and create the political space for the emergence of a new economic paradigm that puts the needs of the majority of the world's population first. At the Forum, NGO representatives were given the opportunity to develop effective strategies with which to challenge adjustment programs and to present to policy- and opinion-makers views on SAPs and alternative development models that are seldom heard in Northern capitals. Some 100 NGO representatives (including over 40 women) from 46 countries in Africa, Asia, Latin America, the Caribbean, Europe and North America participated in the Forum. In addition, there were over 50 observers.

Q. What is a Structural Adjustment Program (SAP)?

A. "Structural adjustment" is the name given to a set of 'free market' economic policies imposed on countries by the World Bank and the International Monetary Fund (IMF) as a condition for receiving financial assistance.

Structural adjustment programs are designed to improve a country's foreign-investment climate by eliminating trade and investment regulations, boost foreign-exchange earnings by promoting exports, and reduce government deficits through cuts in spending. These measures are supposed to put countries on a path to sustainable growth.

Although adjustment programs differ slightly from country to country, they typically include: currency devaluation; trade liberalization; cuts in social spending; privatization of government-held enterprises; wage suppression; business deregulation; restrictions on credit; and higher interest rates.

At the end of 1991, 75 countries in Africa, Asia, Latin America, the Caribbean and Eastern Europe had received adjustment loans totalling more than US\$41 billion.

FORUM ACTIVITIES

The Forum began with a **three-day strategy session** from 17-19 September. The first half of the session consisted mainly of panels designed to impart information and stimulate participants to think strategically about directions for action. The panels covered such topics as: debt, trade, workers and adjustment; women and SAPs; protecting the natural-resource base against SAPs; and the impact of adjustment on democracy and human rights. In response to Southern demands at previous NGO forums, there was also a special presentation by grassroots activists from the United States and Canada, who made the link between the effects on the poor of structural adjustment in the South and supply-side economic policies in the North.

In plenary, participants also **shared information on campaigns** challenging SAPs in their respective countries before breaking into sub-groups devoted to strategy discussions. Joint activities designed to challenge the imposition of adjustment programs were planned in the areas of information sharing, research, devising development alternatives, strengthening local movements and mounting an international campaign. In the final plenary, this work was synthesized and commitments were made by various groups to carry out follow-up activities.

Further campaign planning took place in regional and other **workshops** over the following four days. In all, over 25 workshops were conducted by participants, Forum organizers and other U.S. NGOs. Topics included: trade, gender and SAPs; development alternatives; population and adjustment; the campaign to limit the IMF-quota increase; commercial-bank debt; SAPs and basic needs and services; collaborative research; and a variety of environmental issues, most notably the Bank's refusal to withdraw from the Sardar Sarovar dam project in India.

Teams of Southern and Northern NGO representatives met with over twenty Executive Directors from the World Bank and IMF to inform them of the results of the Forum and lobby them on a number of related issues, including the adjustment program in Brazil and a controversial road-building program in Cote D'Ivoire. U.S. Congressional staff hosted a luncheon for a small group of Forum participants at which presentations were made about the impact of, and alternatives to, SAPs in different regions of the world. During the week of the Forum, participants also held numerous interviews with the U.S. and international press. In addition, the NGO newsletter, **BankCheck**, covered the proceedings and devoted much of its fall issue to the topic.

A public event, entitled "**The Other Side of the Story: The Real Impact of World Bank and IMF Economic-Reform Programs**", was attended by over 350 people at the Washington Hilton Hotel on 21 September. Both the World Bank and the IMF, citing busy schedules, had refused an NGO invitation to engage in a public debate on adjustment during the Annual Meetings. In order to raise the public profile of the issue, journalists from The Washington Post, the Financial Times, National Public Radio and Inter Press Service were invited to question a panel of 12 NGO activists from different regions of the

world on the impact of, and alternatives to, structural adjustment programs. **C-Span**, the Congressional cable channel, provided same-day, nationwide coverage and has since rebroadcast the Forum several times during prime-time (see *centerspread*). Fifteen other journalists also covered the Forum, and numerous articles on the week's activities have appeared in the press.

Q. Have Structural Adjustment Programs been effective in achieving their stated objectives?

A. No. While adjustment programs have enabled creditor banks to continue receiving interest payments on their loans, they have not enabled these countries to stabilize their economies. GNP per capita stagnated or decreased in indebted middle-income countries where adjustment programs were actively applied during the 1980s, according to World Bank data. And throughout the Third World, debt and debt-service ratios became worse.

The total debt of the countries of the developing world now equals about one half their combined GNP and nearly twice their total annual export earnings. Adjustment policies have created a new outflow of wealth from the South to Northern industrialized countries: between 1983 and 1990, developing countries sent an average of US\$21.5 billion annually to the North.

FORUM ISSUES

During the course of the strategy discussions, a number of key themes emerged:

- **SAP/Free Trade Links.** Institutional reforms wrought under SAPs are transforming the state into an instrument for ensuring that "the market" works, preparing domestic economies for their integration into the global economy. Adjustment policies force the nations of the South to increase their commodity exports in the face of declining world prices and to allow in cheap imports and unregulated foreign companies. This has wiped out small producers, accelerated environmental degradation, and increased control of the market by transnational corporations.

- **Wages and Income Distribution.** Decreasing wages and a widening gap between rich and poor are a hallmark of SAPs in almost every country. Increased poverty is the result, especially among women, whose wages are lower than men's and who must compensate for both their own lost income and that of their partners by working longer hours, often in the informal sector where wages are extremely low and working conditions difficult.

- **Reduced Social Expenditures.** SAP-mandated cuts in health and education services contribute to increased poverty and misery. Women disproportionately suffer from these cuts because of the direct impact on their own health and because women must increase their labor burden to compensate for decreased health and education services for their family. In effect, SAPs have shifted onto women the entire burden of having, caring for and educating children. This constitutes a direct subsidy from poor women to the state. In many countries undergoing SAPs, social-sector expenditures are being reduced at the same time that budgets for the military and police are growing.

- **Food Security.** The emphasis of SAPs on agricultural exports over domestic food production has diverted resources, including women's labor, from local production and processing activities. This has led to decreased per-capita food production, especially in Africa. The resulting shortage of resources, combined with decreased wages and income, means that the poor can neither produce nor purchase enough food to meet their needs.

- **Environment.** Export-promotion strategies and deregulation have led to the over-exploitation of natural resources, such as timber, land and water, and to a shift in control of these resources away from local populations. The competition to attract industry has forced countries to lower environmental standards, shifting the costs onto the poor who live around and work in these industries.

- **Survival & Resistance Strategies.**

People have devised a number of strategies to cope with increased hardships under SAPs, including the fostering out of children, selling food on the streets, and forming de facto consumer cooperatives by collectively purchasing educational materials and food. More desperate and ultimately destructive strategies are also used by women, men, and children to survive, such as thievery, prostitution, and drug production and sales.

Q. How have Structural Adjustment Programs hurt the poor?

A. Mandated cuts in government spending have severely reduced public-health services and primary education on which the poor depend. In the drive to make Southern economies more "competitive", adjustment programs have led to increased unemployment and falling wages. In Mexico, for instance, real wages have dropped some 50 percent during the country's decade-old adjustment program.

Small producers have been hurt by restrictions on credit, the redirection of resources into the export sector, higher input prices and competition from cheap imports due to trade liberalization measures. In many countries, food prices have skyrocketed due to SAP-mandated reductions in food subsidies, higher producer prices, decontrolled consumer prices and currency devaluation.

In more than half of the countries receiving SAP loans between 1980 and 1987, the availability of food per capita declined, according to the U.N. Development Program.

• **Sovereignty.** The institutional changes brought about under SAPs have diminished the role of the state in determining the allocation of resources, threatening the sovereignty of nations and severely undermining people's rights to economic self-determination and their ability to hold their governments accountable. Even well intentioned governments must often comply with harsh adjustment conditionalities or face a total cut-off of funds.

• **Linking the South and North.** Trends clearly evident in the South, such as deregulation, privatization, cuts in social services and environmental racism, are occurring in the North, as well. In the United States, community institutions have been dismantled and poor areas, such as parts of the Southeast, provide cheap labor and natural resources, as well as the principal sites for toxic-waste dumping. At the same time, racism and sexism remain major obstacles to building strong popular movements.

• **Official Information on SAPs.** World Bank biases and outright misrepresentations have been repeatedly noted in its reports designed to convince people that SAPs are working, and, even more astonishingly, that they must be at the center of any "poverty reduction" strategy. Like the Bank, borrower governments keep the details of adjustment program planning secret, denying citizens access to critical economic decision-making processes.

• **World Bank Anti-Poverty Programs.** Participants were skeptical, at best, about the Bank's 'anti-poverty' programs. Many of the Bank-financed loan funds for women, landless peasants, micro-entrepreneurs, etc. are used to co-opt NGOs into supporting adjustment programs. Yet, these programs do not even begin to deal with the increased poverty that SAPs themselves have created.

• **Good Governance.** Only the people in each country, rather than external institutions, have the right to determine what constitutes "good governance". The Bank's and IMF's insistence on good governance contrasts sharply with the lack of accountability, transparency and democratic principles that characterizes the operations of these institutions.

Q. How have Structural Adjustment Programs hurt women?

A. Because of their multiple responsibilities, women carry a disproportionate share of the misery imposed by adjustment. Cuts in public-health spending force them to spend more time caring for sick family members; resource shifts to the export sector threaten women's food production and thus household nutritional status; and the slashing of jobs and wages throughout Southern economies has forced many women to enter the workforce at extremely low wages and under bad conditions in order to ensure the survival of their families.

FORUM FOLLOW-UP

The participants at the meetings laid the groundwork for extensive follow-up to the NGO Forum. Building on national and international campaigns already underway, Forum participants committed themselves to a concerted program of action and agreed upon a number of themes that must govern the effort to challenge and establish alternatives to structural adjustment. The most important of these was the need to ground all of this work in the needs and reality of people at the local level. To do this will require that gender, race, and class biases are broken down in order to ensure that representatives of all affected groups not only have a place at the table but also have an equal say in the critique and formulation of strategies and alternatives. In other words, the internal processes of the campaign against adjustment should reflect the wider vision of equality and respect for political, economic and human rights that people rightly insist upon from the international financial institutions.

Below is a brief synthesis of actions to be taken over the next two years:

Research on Adjustment and the Development of Alternatives

- ◆ Organizations with research programs agreed to concentrate on the global context within which such adjustment policies as privatization, deregulation, import liberalization and export promotion are formulated, as well as on the local-level impact of these policies on food production, the social sectors and various population groups. The results, disaggregated by gender, will be shared through regional networks.

- ◆ Other topics for future research include: the links among bilateral aid, adjustment and the role of private banks; the theoretical and ideological bases of SAPs; the link between research institutions and the World Bank; country case analyses of SAPs; the relationship between SAPs and fundamentalist religious agendas; and cultural and social changes that are being accelerated by SAPs.

- ◆ Regional collaboration in devising macroeconomic and sectoral alternatives will be particularly important. It is expected that initiatives similar to that being taken by the Latin American and Caribbean participants in this area (see Regional Work below) will also be undertaken by NGOs in other regions

- ◆ To facilitate collaboration and reduce duplication, an inventory of current research projects will be assembled.

Q. How have Structural Adjustment Programs damaged the natural environment?

A. SAPs call for increased exports in order to augment foreign-exchange earnings. Developing countries' most important exports are derived from their natural environment – timber from their forests, cash crops from their fields, and fish from their seas. The resulting acceleration of commodity production is not ecologically sustainable. Natural resources continue to be undervalued, as environmental destruction is not accounted for in GNP calculations and the loss of future productive capacity is disregarded.

In addition, reductions in government spending means less money for enforcement of environmental laws. And efforts to reduce costs in order to make business more competitive internationally usually lead to the removal of regulations designed to protect the environment. Finally, by intensifying poverty, SAPs have forced people to move onto marginal lands and overuse scarce natural resources in order to survive.

Strengthening Information Sharing

The stranglehold on information that the World Bank and IMF currently enjoy needs to be broken by actively informing the media and general public about the impact of adjustment programs.

- ◆ Southern and Northern grassroots, research and advocacy groups will work in alliance to strengthen one another's understanding and analysis of structural adjustment, to devise suitable alternatives, and to bring this information to policymakers. Collaboration with trade unions, political parties, women's organizations, cooperatives and other groups will also be strengthened.
- ◆ The new NGO Center for Action on Structural Adjustment (NGO CASA), established in Washington by Third World Network and The Development GAP, will obtain Bank and Fund adjustment-related documents for NGOs, analyze public reports released by these institutions, and make available in usable form the vast array of material being contributed daily to its files from groups around the world. NGO CASA will produce an annotated bibliography of materials received and will send regular information packets to 40-50 regional organizations, which will then be responsible for disseminating them to their respective networks.
- ◆ An electronic bulletin board has been created on the IGC Network (entitled "econ.saps") to further facilitate the exchange of information among groups.
- ◆ BankCheck, an NGO newsletter on the multilateral development banks, will also serve as an important conduit of information on adjustment and related issues.
- ◆ Country committees will be established to coordinate strategy and disseminate information and analysis about SAPs and alternatives. Exchange visits between countries will also be encouraged.

Lobbying & Campaigning on Adjustment

- ◆ Organizations in various countries committed themselves to pressure their governments on the issue of adjustment and to organize national days of action against adjustment programs.
- ◆ A coordinated set of activities will take place in 1994, the 50th anniversary of the Bretton Woods institutions. Preparatory work will include a more aggressive use of the media and a focus on the legislatures of the Group of 7 countries, which provide most of the capital and policy direction to the Bank and Fund. National and regional coordinating bodies will be identified or established. Northern groups committed themselves to financially supporting staff positions in the South to carry this work forward.

Q. How have Structural Adjustment Programs threatened human rights and democracy?

A. Programs that feature as their main components wage restraint, trade liberalization, agricultural incentives that favor exports over local food production, and the lifting of subsidies on basic food items are not likely to garner much support from other than narrow commercial interests in any country.

Adjustment programs designed in Washington, D.C. by the international financial institutions remove much of the decision-making authority over a country's development from citizen influence, with the result that governments are increasingly accountable to the World Bank and IMF rather than to their own people.

Governments, which have little choice but to implement unpopular measures or else face a total cut-off of external finance, have prevented public discourse on the design of adjustment programs and have increasingly suppressed public criticism.

♦ A more critical examination and public exposition of the use of these institutions' finances will be undertaken, as Northern and Southern NGOs collectively tackle such issues as the IDA-10 replenishment and the IMF-quota increase.

♦ Upcoming international meetings, such as the Spring Meetings of the IMF and the World Bank, the U.N. World Conference on Human Rights and the 1993 Group of 7 meeting in Tokyo will be used by NGOs to press the adjustment issue.

♦ Some groups will begin to explore new mechanisms that can be established either inside or outside the Bank to hold the institution accountable to the people of the South and the taxpayers of the North.

Regional Work

In the regional workshops that were held after the strategy session, participants made specific commitments to coordinate their work on adjustment over the next year.

♦ In *Africa*, groups present "...committed themselves and their organizations to begin or further, within their own countries, planning for a national-level meeting of NGOs, trade unions, women's groups, and other interested civic organizations, to discuss structural adjustment and propose actions and alternatives." They also lent support to the Forum of African Voluntary Development Organization's (FAVDO) January 1992 Harare Declaration to make SAPs a priority issue and urged other regional networks to do the same. Participants from three women's organizations in West Africa joined with African and U.S. women at the University of Amherst to form the core of a working group to study alternatives to structural adjustment in Africa.

♦ In *Asia*, NGOs will form a regional forum on Debt and Development, promote exchange visits of activists and economists between India and the Philippines (to take place in early 1993), and share information and policy analysis on a regular basis throughout the region. Both the Asian and African groups will also undertake lobbying and advocacy work with regional financial institutions (such as the Asian and African Development Banks) and national governments.

♦ In *Latin America and the Caribbean*, plans are underway for a regional workshop on economic alternatives emerging from grassroots groups and popular organizations. The results will then be transmitted to policymakers, both North and South, and will provide the basis for further coordinated work in the region.

Q. Why blame the World Bank and IMF when it is governments that implement these programs?

A. Without the "seal of approval" of the World Bank and IMF, Third World countries are denied access to commercial loans and credits, debt relief and multilateral aid. Furthermore, most industrialized countries now condition their bilateral assistance upon a country's adoption of an adjustment program.

Q. Why should citizens in the North concern themselves with Structural Adjustment Programs?

A. For years, billions of dollars of Northern taxpayer money have been spent on foreign aid, ostensibly to benefit the Third World poor but in reality to promote adjustment policies and other programs and projects that have further enriched a privileged elite in these countries, including foreign companies. Large segments of the population have been forced to produce drugs, degrade their environment or migrate northward in order to survive. If the public were fully aware of the use and impact of their tax dollars, it would be outraged, just as it has been by the immorality of similar economic policies that have widened the gap between the "haves" and the "have nots" in the United States and other Northern countries. Furthermore, SAPs have helped create the conditions overseas for the effective implementation of free-trade agreements that will facilitate the movement of companies and jobs to low-wage areas in the Third World.

NGO PROFILES

One of the most inspiring aspects of the 1992 Forum was the realization among participants that they were not alone in their respective struggles against adjustment. People working in different regions and sectors had the opportunity to exchange experiences and plan collective action. The organizers had asked participants to bring to the Forum a written description of the work their organizations were doing on the adjustment issue. Below is just a sampling of some of this creative work:

AFRICA

In **Kenya**, The *National Council of Churches of Kenya (NCCCK)* has been raising awareness at the grassroots level about the country's structural adjustment program. In 1991 it organized a national consultation on debt and structural adjustment attended by churches, NGOs, government departments and businesses. It is currently investigating the links between good governance and economic development.

In **Senegal**, the *Association for the Promotion of Senegalese Women (APROFES)* supports women's groups and cooperatives in a variety of sectors, including sustainable agriculture, family planning, community health, environmental protection and income generation, as well as in the provision of credit, training, appropriate technology and other services. APROFES is working with focus groups on the effects of adjustment (high cost of living, degradation of social services, unemployment, and the impoverishment of the population) and will be conducting research with women in the Kaolack region to study the effects of adjustment on women.

In **Tanzania**, the *Development Department of the Evangelical Lutheran Church of Tanzania (ELCT)* has investigated the production and pricing of primary commodities and has also carried out a study on the debt crisis in Tanzania and how it has affected development programs in that country. Currently, it is studying the impact of adjustment policies on church health programs in Tanzania, a critical issue since approximately 75 percent of the health services in the country are provided by churches. ELCT also targets policymakers by sending NGO delegations to meet with heads of state when they visit and by involving local elites in roundtable discussions on SAPs.

In **Zimbabwe**, the *Zimbabwe Congress of Trade Unions (ZCTU)* is leading a campaign against aspects of the country's structural adjustment program, including the rise in health-care fees, the over-reliance on exports and the privatization of some of Zimbabwe's public institutions. ZCTU has a membership of over 450,000 in 35 affiliated unions. Also in Zimbabwe, the *Organization of Rural Associations for Progress (ORAP)*, an NGO whose operations cover about 1.5 million people, has sought to expose the adverse effects of structural adjustment at local and international fora. In April 1992 it published a preliminary study on the combined effects of adjustment and drought on relief and development efforts.

In **Africa**, the *Women's Desk of the All-Africa Conference of Churches* has been empowering church women on economic-justice issues at the regional and continental levels. Among other activities, it has organized a workshop in Zambia on economic justice and women and trained economic-literacy facilitators in Zimbabwe. It has also produced a video, "To Be A Woman", with an accompanying teaching guide, to educate community leaders about Africa's economic crisis and the response of women to SAPs.

ASIA

In **Bangladesh**, *Policy Research for Development Alternatives (UBINIG)* is an organization designed to serve the research and informational needs of grassroots movements of women, farmers and workers. UBINIG monitors the economic, social and environmental effects of export-oriented industrialization and stabilization programs. Through its trade-union education center, UBINIG is working with leading unions to prepare a common position on the country's adjustment program. In the rural areas, UBINIG helps to mobilize peasants, weavers and others against the policies that are threatening the subsistence of rural families.

In **India**, the *Public Interest Research Group (PIRG)* is establishing regional clearing houses on SAPs in ten state capitals. These centers will carry out educational and campaign activities in the local languages. PIRG will provide information to these regional centers, which in turn will feed to PIRG first-hand information gleaned through systematic monitoring of the impact of the country's adjustment program. Also in India, *Ankur* has been conducting seminars, study groups and workshops for their field workers and slum-dwellers on the adjustment program. It has developed materials for dissemination at the grassroots, e.g., posters, cartoons, songs, pamphlets and plays. Ankur has also conducted meetings and in-depth discussions with small groups of slum dwellers, with special reference to rising prices and unemployment, curtailment of the subsidized Public Distribution System (of food grains) and the increasing burden on women – all problems intensified by the SAP. Ankur has also mobilized women from the slums for demonstrations and rallies for Bhopal Gas victims and against big World Bank-funded projects, like the Narmada dam. Finally, the *Voluntary Action Network India (VANI)*, an umbrella group of development and social-service NGOs, has initiated a program of education, monitoring and lobbying on current SAP policies.

In **Japan**, the *Pacific-Asia Resource Center (PARC)* conducts research on Japan-based transnational corporations in the Third World. It will be hosting a parallel meeting to the 1993 Group of 7 meeting in Tokyo to further the campaign against adjustment.

In the **Philippines**, the *Freedom from Debt Coalition*, an alliance of more than 250 people's organizations, is leading a nationwide campaign against the country's adjustment program. Key components of this campaign are mobilization, education, research and advocacy. The main campaign demand addressed to the government is for increased public spending for health, education and other essential services. The network has written a primer on adjustment and is currently preparing a case study on the impact of adjustment on the health sector. Regional seminars and consultations will be held around the country in order to come up with a strategic action plan for the campaign.

LATIN AMERICA & THE CARIBBEAN

In **Bolivia**, the *Centro de Comunicación y Desarrollo Andino (CENDA)* publishes a bilingual (Quechua/Spanish) newspaper and produces radio programs in Quechua, analyzing aspects of Bolivia's adjustment program and disseminating the campesinos' vision on the current policies. Also in Bolivia, the *Centro de Investigación y Promoción del Campesinado (CIPCA)* has worked in the Bolivian peasant sector for the past 20 years. It has worked together with other NGOs to critique the structural adjustment programs sponsored by the World Bank and the IMF and to elaborate, with respect to rural experiences and with the participation of those sectors affected by the SAPs, alternative strategies, policies and methodologies to the neo-liberal development model.

In **Brazil**, the *Instituto Brasileiro de Análises Sociais e Econômicas (IBASE)* has joined forces with trade unions and other popular groups to develop alternatives to the current industrial policy, which is eliminating workers' protection, as well as to the MERCOSUL, the Southern Cone regional integration project, which is closely linked to the country's adjustment program.

In **Colombia**, the *Instituto Latinoamericano de Servicios Legales Alternativos (ILSA)* promotes networking among Latin American legal-service groups. Together with CUSO and CRIES, ILSA publishes "Free or Fair Trade?", a bulletin which analyzes the rapidly changing trade and investment policies in Latin America from the perspective of the popular sectors.

In **El Salvador**, the *Fundación Nacional Para el Desarrollo (FUNDE)* advises social and popular movements on the characteristics of adjustment and its socio-economic impact. It is currently conducting a research project on alternative development strategies in El Salvador and Central America and is formulating an alternative macroeconomic plan for El Salvador.

In **Honduras**, *Asociación Andar* supports the growth of women's and grassroots groups. With counterpart organizations in Costa Rica and Guatemala, Andar promotes educational activities for popular sectors on structural adjustment programs and their impact.

In **Jamaica**, the *Association of Development Agencies (ADA)* is focusing its 'Freedom From Debt Campaign' on alternative economic policies. Existing proposals are being collated for both public education and policy-advocacy purposes on strategies for a "post-IMF" Jamaica (referring to the government's claim that the current IMF loan will be the country's last). ADA is also training community leaders in the use of educational materials, including videos on the debt crisis that have already been produced, and is working to strengthen the efforts of a coalition of Jamaican social-sector organizations to grapple with the effects of SAPs.

In **Mexico**, *Equipo PUEBLO* has conducted workshops with women, peasants, workers and other popular groups to analyze the impact of economic policy. It has run a workshop on the impact of agricultural credit policy, helped articulate local labor views on privatization and other issues to the press, and popularized local researchers' work on the effects of SAPs. It is currently doing three case studies on adjustment in the state of Chihuahua (with small farmers), in Mexico City (with women in poor neighborhoods) and in Tabasco (with workers in the oil industry). Also in Mexico, *Mujer a Mujer* is helping to develop a gender analysis and strategies for confronting the economic situation in Mexico for Promotoras Internacionales, a grouping of 12 labor and community organizations and Christian base communities.

In **Peru**, the *Centro de Estudio y Promoción de Desarrollo (DESCO)* organizes peasants and popular sectors around agriculture, trade and development issues and is currently conducting research on development alternatives, structural adjustment and the privatization of public companies.

In **Uruguay**, the *Instituto del Tercer Mundo (ITeM)* publishes Third World Network Features and magazines in Spanish, operates an electronic communications node of the APC network, and hosts NGONET, a clearinghouse of environmental and development information for NGOs. In 1991 it organized a seminar entitled "World Bank Policies: the Social and Environmental Impact in Uruguay", attended by economists, civil servants affected by privatization, members of agricultural and housing cooperatives, rural workers and environmental groups.

In **Central America**, the *Coordinadora Regional de Investigaciones Económicas y Sociales (CRIES)* is currently carrying out six research projects which deal directly with various aspects of SAPs.

EUROPE

In the **Netherlands**, *NOVIB*, in cooperation with its partners in the South, monitors the effects of SAPs on the poor, especially women. The focus is mainly on African countries, including Uganda and Senegal, and on future World Bank policy in South Africa. A public debate on several NGO country case studies, designed to influence policymakers on the adjustment issue, is scheduled for September/October 1993. Also, the *Working Group on Health and Development Issues (WEMOS)* seeks to raise awareness about the impact of adjustment on health and health care by publishing case studies, providing information to the media and engaging in policy advocacy. A recent focus of WEMOS' work has been on Bank-financed compensatory programs intended to cushion the impact of adjustment on the poor, especially those in the health sector.

In **Switzerland**, the *Berne Declaration* worked on a referendum opposing the country's entry into the IMF and World Bank. Since a slim majority voted for Switzerland's joining these institutions, monitoring Swiss actions in the Fund and Bank will be a high priority in the organization's future work. Also in Switzerland, the *Swiss Aid Agencies Coalition* has been criticizing the economic and social consequences of SAPs for many years and has been campaigning on the issue in relation to Swiss co-financing of SAPs and Switzerland's membership in the Group of Ten (1983) and the IMF and World Bank (1992). It is currently preparing to monitor Swiss participation in the Bretton Woods institutions. As one element of this monitoring, it will be writing a Policy Framework Paper (such as those developed for Third World countries by the IMF) for Switzerland to underline the necessity of adjustment in the North.

In the **United Kingdom**, *Christian Aid's* campaign on structural adjustment will focus on specific country case studies, using information from partners to provide a critique of the macroeconomic analysis of the World Bank and IMF. The campaign will also address the lack of accountability of these institutions to Parliament. A major media event is planned for 1994 to coincide with the 50th anniversary of the Bretton Woods institutions. Currently, Christian Aid convenes the Structural Adjustment Working Group, composed of major environmental and development NGOs in the U.K.

Also in **Europe**, the *European Network on Debt and Development (EURODAD)* has made adjustment one of its program priorities for the next three years (see page i).

NORTH AMERICA

In **Canada**, the *Steelworkers' Humanity Fund* has embarked on a research project that is looking at the impact of structural adjustment policies on local communities in Peru, Bolivia, Nicaragua, Mozambique and Zimbabwe. These micro-level studies are using a participatory research model in order to strengthen the community organizations involved in carrying out the studies. The findings will be fed back directly to the local communities and presented in popular formats for sharing with other grassroots communities and in a more academic format for policy dialogue and debate with their respective governments. Also in Canada, the *Inter-Church Fund for International Development* has conducted a study of the linking by the Canadian International Development Agency (CIDA) of bilateral assistance to IMF conditionality. It will be co-sponsoring (with CIDA) a two-day Round Table in April 1993 to highlight the experience of selected Southern NGOs in the rural-development and social-service sectors. The discussion will focus on the policy lessons to be drawn from these experiences in order to improve the economic-reform policies promoted by the World Bank and IMF. Paralleling this endeavor will be a nationwide public education program to highlight these issues. Finally, *CUSO CANADA* has lobbied Canadian parliamentary committees on debt and adjustment and published numerous articles in the media on these issues.

in the United States, three of the Forum organizers – *The Development GAP*, *Friends of the Earth-U.S.* and the *Office on Development Policy of Church World Service/Lutheran World Relief* – have all made structural adjustment a major work priority (see page i). *Oxfam America* supports projects to counteract SAPs, including research on its adverse effects and practical measures to counteract the damage at the local level. In Senegal, for example, it supports a local NGO's research on the impact of adjustment on women. It also encourages South-South and North-South exchanges on adjustment. *Oxfam* will continue to discuss alternatives to SAPs in its advocacy efforts to revamp the U.S. foreign aid program and in discussions with the U.S. Congress. Also, the *Columban Campaign on Debt and Development Alternatives (CODDA)* collects information on local policy impacts, educates the wider public (particularly Church members) in the North and advocates for equitable, sustainable and participatory development strategies with bilateral and multilateral agencies. *Alternative Women-in-Development (All-WID)* is a working group of Washington, D.C.-based women researchers and policy advocates which has focused on structural adjustment, both in the South and in the North, by publishing briefing papers and articles, convening public events, participating in coalitions on policy issues, and educating its members' respective organizations and constituencies. Finally, the *Center of Concern* has done research, education and advocacy work related to the impact of structural adjustment on the most disadvantaged populations. It will be publishing case studies on Zambia and Peru in early 1993, followed by one on Zimbabwe later in the year.

INTERNATIONAL

Public Services International (PSI), a trade-union confederation composed primarily of public-sector unions, has worked with its affiliates to oppose structural adjustment policies through union education, research demonstrating the negative impact of these policies around the world, national-level campaigns in opposition to the policies, protests to the IMF and World Bank, and linkages with other concerned non-governmental organizations. Both *Third World Network* and *Greenpeace International* have also launched work on SAPs (see page i).

Note: The Forum organizers welcome from other groups descriptions of the work they are doing on adjustment, as well as any adjustment-related materials they have produced.

CASE STUDIES

- Chile
 - Costa Rica
 - Ghana
 - Zimbabwe
 - Philippines
 - SAPs and the Environment

The following case profiles of adjustment programs were prepared by a team of Forum organizers in conjunction with their Southern partners. The team included Chris Cobourn, Ross Hammond, Karen Hansen-Kuhn, Doug Hellinger, Lisa McGowan, Mary Peniston and Marijke Torfs.

CHILE

Chile, with a growing export-oriented economy, is often cited as "South America's tiger", a comparison with the experiences of Korea and Taiwan. Since the mid-1980s, the economic indicators of Chile's "success" include a steady growth rate, a rapid rise in exports, a positive trade balance, increased foreign investment and a relatively low inflation rate. These have often been paraded as proof that policies associated with structural adjustment programs (SAPs) can, indeed, bring about a healthy, sound economy.

But a closer look at the numbers leads to a strikingly different conclusion. The alleged "successes" of Chile have been enjoyed primarily by the economic elite and have led to an increasing concentration of income. In addition, despite its growth and improved trade balance, the country has fallen deeper into the debt trap; total external debt, including IMF credits and other short-term loans, rose from US\$4.8 billion in 1976 to US\$19 billion in 1990. At the same time, investment in environmental protection has been minimal. In sum, Chile's growth is a product of an export model that is economically unsustainable, socially destructive and environmentally unsound.

Two Decades of Economic Adjustment and Shock Treatments

Chile's experiment with a more self-reliant development program under President Salvador Allende was abruptly put to an end by a bloody coup led by General Augusto Pinochet in 1973. The military regime enthusiastically embraced free-market policies and privatization and committed itself to eliminating "suffocating statism" by promoting the creation of a new economic elite. Most state enterprises were sold at rock-bottom prices or returned to their former owners. Exports and foreign investment were actively encouraged. Capital markets were liberalized and the currency devalued.

Shock treatments were applied in 1975 and 1982, causing the economy to contract 12.9 and 14 percent, respectively. Despite its adherence to market-oriented policies, fiscal austerity and export promotion, Chile struggled for more than ten years to gain some semblance of economic stability. Even Milton Freidman and his fellow monetarists were eventually forced to temper their claims that Chile was an "economic miracle". Chile was in no better position than its Latin neighbors when the debt crisis hit in 1982 and, like many others, turned to the IMF for financial assistance. The conditionality that accompanied these funds assured further belt tightening for the poor.

The Financial Dam Breaks

Chile had begun accumulating massive amounts of debt during the late 1970s. New private financial and industrial conglomerates blossomed under a shower of foreign credit, which was considerably cheaper than local capital. With easy access to external financing, not only was this new elite – the *grupos* – able to concentrate wealth in a few hands, they also contributed to an enormous increase in foreign debt. Private-sector external debt grew from US\$1.6 billion in 1978 to US\$8.1 billion in 1981. In 1982 the bubble burst. A financial crisis was provoked by the overextended *grupos*, a drop in copper prices and poor foreign-exchange-rate management. The government unilaterally decided to assume responsibility for the private debt, which represented 65 percent of total debt in 1981, even though it had never guaranteed those loans. Chile logically turned to the IMF during this credit crunch.

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the peso and instituted strict demand-management policies, including the elimination of wage indexation and the lowering of the wage floor. Through the rest of the decade, IMF and World Bank assistance to Chile totaled US\$3.7 billion.

Benefits for the Elite Paid for by the Poor

Although Chile's economy showed a more consistent growth pattern by the mid-1980s, only a very few have benefitted from the upturn. Most Chileans have had to bear a high cost for the prescribed shock therapies, while the economic benefits have not trickled down. Instead, the IMF programs have resulted in a larger concentration of income, further widening the gap between the rich and the poor.

In 1978 the richest 10 percent of the population enjoyed 37 percent of Chile's national income, while the poorest 50 percent of the population had 20 percent of that income. By 1988 the top 10 percent had 47 percent of the income and the poorest only 17 percent. Consumption patterns followed the same trend. In 1969 the poorest 20 percent consumed 7.6 percent of the country's output; this share dropped to 4.4 percent in 1988. Meanwhile, the rich saw their share increase from 44.5 percent in 1969 to 54.6 percent in 1988.

Although GDP per capita has been rising slowly (from US\$1,207 in 1979 to US\$1,318 in 1988), this figure disguises the price the poor have paid to make that growth possible. Over 40 percent of Chile's 14 million citizens live in poverty and some two million in extreme poverty. The restructuring of the Chilean economy throughout the 1970s and early-'80s led to high unemployment and contributed to a severe decline in real wages. Labor was unable to protect itself since trade unions were systematically repressed under the Pinochet regime.

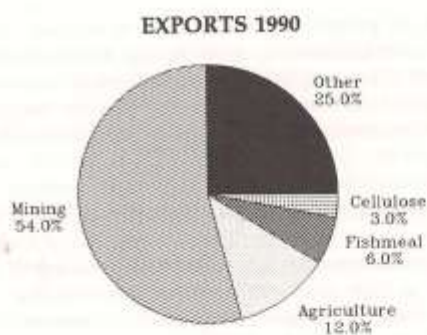
Unemployment officially peaked at around 20 percent in 1982; it would have reached 30 percent if it had not been for an emergency employment program financed by a military government increasingly concerned about the political implications of severe unemployment. The projects funded, however, only provided temporary work at sub-minimum wages, sometimes as little as one-quarter of the official minimum wage. Wages declined dramatically during this period, not only because of high unemployment but also because export growth was predicated on it. The IMF, in fact, included 'wage restraint' as one of the conditions of its 1985 structural adjustment loan, which also included shifting expenditures from social services to export-oriented infrastructure.

Under adjustment, the quality of life for the poor further deteriorated with the increasing privatization of education and health care. Public funds are now being used more and more to subsidize private health care and education. Currently, an employee may apply the mandatory seven percent deduction from wages for health care towards a public or private program. The rich invest this money in private programs, while the poor must rely on an increasingly pauperized public-health sector. Even Finance Minister Alejandro Foxley, at a 1991 IMF meeting, openly acknowledged the deteriorating situation, noting the poor conditions that existed for public-health and education workers.

The Promotion of 'Cheap' Exports Plunders the Country's Natural Resources

Chile's structural adjustment programs have concentrated upon the elimination of trade barriers, the promotion of private domestic and international investment, and the diversification of export production. The country has seen an increase in its export earnings, which grew from US\$3.8 billion in 1985 to US\$8.3 billion in 1990. Although it has also been able to reduce its dependence on mining from 86 percent of export earnings in 1970 to 54 percent in 1990, most of its exports are still primary products or minimally processed ones. And, in promoting exports, the government has eagerly invested in infrastructure, such as roads and ports, to facilitate this exploitation. These investments and the rapid extraction of resources have often had deleterious effects on the natural environment.

The avid promotion of private control over "non-traditional exports", for instance, has resulted in enormous environmental damage. The development of cellulose and wood products has led to massive deforestation, not only destructive to the environment and indigenous peoples, but also damaging to the future productive capacity of the forestry sector. The government received a one-shot source of income by selling off huge tracts of forests to a small number of local and foreign investors. Since then, up to 40,000 hectares of native forest have been felled and replanted with non-native pine and eucalyptus plantations, causing serious ecological damage through soil erosion and the increased use of pesticides and agrochemicals. The Perhuenche Indians not only lost an important source of income with the felling of the araucaria trees, but they also lost access to native lands.



Similarly, the export of fishmeal has been developed by a modern fishing industry that has overharvested Chilean coastal waters, which, when combined with the dumping of toxic wastes, is squeezing out small-scale, sustainable fishing. The fruit industry, the major agricultural export earner, is also creating enormous unaccounted environmental costs, since it relies heavily on chemical fertilizers and pesticides. It is also one of the industries most susceptible to the whims of the international market: a whole year's crop was lost in 1991 as U.S. consumers joined in a boycott of Chilean fruit caused by rumors of poisoned grapes.

How Healthy Is an Economy Based on Exports?

Chile, like all developing countries, is vulnerable to price fluctuations in the world market for its primary exports. Ironically, a state-owned company, CODELCO, is responsible for most of the country's copper production and remains a key source of foreign-exchange revenue for the government. In recent years, Chile has compensated for declining world prices by rapidly expanding copper production. Its economy has evolved from one in which 33 percent of its total production was oriented towards exports in 1960 to 57 percent in 1990.

Furthermore, Chile is relying increasingly on foreign capital to expand its export sector, with more than half of all foreign investment going to mining projects. Foreign capital has been attracted by extremely liberal laws regulating investment and the repatriation of profits. And once the profits have been extracted, particularly in the case of non-renewable raw materials, investors typically move on to greener pastures.

Buried under a Continuing Burden of Debt

Chile's debt peaked in 1987 at over US\$21 billion. Financing from the IMF and World Bank gave it sufficient breathing room to develop strategies to reduce its overall debt by about US\$3 billion by 1989. The government employed aggressive export-promotion policies and, between 1985 and 1991, eliminated a significant amount of debt through debt-equity swaps through which foreign companies gained important access to land and mining interests. With the stamp of approval from the IMF, the country was also able to ease short-term pressures by rescheduling US\$12 billion of its commercial debt in 1987 and another US\$1.8 billion in 1990. In addition, commercial banks have granted new credits, since U.S. banking authorities have upgraded Chile's credit rating.

In June 1991 Chile became the first country to obtain a reduction of its official debt to the United States – US\$16 million was written off of its outstanding US\$40 million PL-480 debt, as it was seen as the only country that was involved in "economic revitalization under the auspices of the IMF, the World Bank and the IDB" and was improving relations with commercial banks, while opening up to foreign investment.

None of these measures, however, has fundamentally resolved Chile's debt problem. The debt-swap program has essentially run its course, the rescheduling of commercial debt has only postponed repayment, and the debt-reduction plans have involved only token amounts of debt. Furthermore, debt has been climbing again and is likely to pass its 1986 high point. After two decades of economic stabilization and adjustment under the watchful eyes of the IMF and the World Bank, the Chilean people and their environment continue to pay a price for a policy that has served a very different set of interests.

Sources for this case study include: *Business International, Country Profile*, 28 July 28, 1991 (its source is Banco Central de Chile); CRS Report to Congress, *World Bank/IMF Adjustment Loans and the Poor in Developing Countries*, 1 February 1991; V. Bachetta, "Chile: Un modelo económico para quienes", *Third World Network Features*, 2 February 1992; "Chile: Poor Schools, Poor Health Care, People Crammed into Slums", *Miami Herald*, 10 May 1992; Wilfredo Marcel and Cesar Padilla, "El Medio Ambiente y la Iniciativa Bush" en *Por Una Iniciativa de los Pueblos de las Americas*, December 1991; US Embassy Santiago, *Market Reports*, December 1991.

COSTA RICA

Having entered the 1980s with an economy in crisis, Costa Rica became the first country in Central America to undergo a structural adjustment program. After over a decade of stabilization (designed to lower inflation and government deficits) and adjustment (geared towards increasing exports), Costa Rica is often cited as an economic success story. Economic growth has resumed, unemployment has fallen, and its debt-service burden has been reduced.

Other measures of the country's well-being, however, paint a more troubling picture. Costa Rica's trade deficit, for example, has increased to unprecedented levels despite aggressive export-promotion programs, and the fiscal deficit and inflation continue at historically high levels. Income distribution has become increasingly skewed in the last ten years, particularly in the rural areas, where many farmers have been badly hit by the government's new agricultural policy.

Background

Costa Rica has a distinctive tradition of democracy unique in Central America. Its post-war development model emphasizing agro-exports and import-substitution industries created enough wealth to fund an extensive social-service system. However, by the end of the 1970s consumption by the middle and upper classes raised demand for imported goods, and the light assembly plants that dominated the manufacturing sector were also heavily import dependent. Adding to the strain on the country's foreign-exchange reserves, world prices for coffee (Costa Rica's main export earner) plummeted.

Faced with these multiple crises, President Rodrigo Carazo met with the International Monetary Fund (IMF) in 1980 and agreed to an austerity plan that included currency devaluation and cuts in government expenditures in return for a two-year, US\$79 million standby arrangement. Over the next three years, Costa Rica carried out limited, short-term stabilization programs designed to bring down inflation and restore growth. In 1985, in addition to signing a new standby agreement with the IMF, the government received its first structural adjustment loan from the World Bank.

Ignoring Costa Rica's vulnerability to unstable agricultural export markets and prices, the adjustment programs promoted by the Bank and the Fund during the second half of the decade continued to focus on export promotion, including non-traditional exports. A second Structural Adjustment Loan (SAL II) in 1989 increased the emphasis on these exports within the new agricultural policy, known as the "Agriculture of Change". In addition, both structural adjustment loans mandated "industrial reconversion", i.e., reorienting industry away from producing for the domestic market towards producing for export.

USAID Weighs In

Although the IMF, the World Bank and the Costa Rican government have been the main architects of the country's structural adjustment program, the U.S. Agency for International Development (USAID) has also played its part. The bulk of USAID funding to Costa Rica in the 1980s supported the development of non-traditional agricultural exports, subsidized imports of basic grains under the Food-for-Peace program (P.L. 480) and promoted the privatization of state-owned marketing boards. USAID money has also been used to leverage compliance with World Bank and IMF conditions, with disbursements often held up until these conditions were fulfilled.

Between 1948 and 1980, U.S. bilateral economic assistance to Costa Rica totaled just US\$282 million. This figure skyrocketed to a total of US\$1.33 billion between 1980 and 1990, leading to the creation of what many observers are calling a "parallel state". As budgets are cut or government agencies privatized to reach macroeconomic performance targets set under the adjustment program, USAID has funded private agencies to perform some of the same functions, including road construction and business promotion. These well funded private agencies are accountable to USAID rather than to the Costa Rican government or public.

The Real Record

After more than a decade of structural adjustment and stabilization, huge amounts of foreign aid and significant sacrifices on the part of its citizens, Costa Rica's macroeconomic performance – the principal focus of the policy reforms – is, at best, mixed. Average growth throughout the period is just slightly higher than that for Latin America and the Caribbean as a whole. GDP per capita only managed to achieve 1980 levels in 1990. Inflation has started to rise again, reaching 25 percent in 1991, its highest level since 1982. In spite of the massive amounts of money and technical assistance that have been poured into export-promotion programs, the country's trade deficit has increased, growing from US\$135 million in 1984 to US\$569 million in 1991, more than a 250-percent jump. Export volumes, especially of non-traditional products, have increased considerably, but imports have expanded even more, as trade barriers have been eliminated under the adjustment program. While Costa Rica's debt-service burden has been reduced, its total debt increased from US\$2.1 billion in 1980 to US\$3.8 billion in 1991 despite participation in the U.S. Brady Plan.

Ottón Solís, Minister of Planning under President Oscar Arias during the 1980s, has expressed deep concern that the period since 1985 is the first time in the country's history that GDP has grown while wages have decreased. He believes that this model has created a vicious cycle that will continue to widen the gap between rich and poor. According to Mario Lungo of the Centro Superior Universitaria Centro Americana (CSUCA), "[t]he 1980s generated a high proportion of jobs of inferior quality, of great instability and low income...[E]mployment levels have recuperated (to their 1980 levels) while income fell and poverty increased".

Agriculture, the Environment & Health

In the agricultural sector, government support has shifted away from small-farm agriculture towards export production by large-scale domestic and foreign investors. Few small farmers have benefitted from the "Agriculture of Change" program because the start-up costs related to non-traditional export crops are high and access to credit has been severely restricted. As a result, the share of the country's agricultural production controlled by large landowners and foreign investors, such as Del Monte and Dole, has grown substantially. Farm leader Carlos Campos claims that there has been a "frightening concentration of land ownership" since the new policies went into effect in 1986 as more and more farmers are forced to sell their land and become landless workers on corporate plantations. The World Bank itself acknowledged this danger in a 1988 memorandum on Costa Rica, stating that "...small holders unable to move into the new (non-traditional) activities might have to sell their land and become landless workers."

Many farmers' organizations that object to the overemphasis on export production point to the country's deepening dependence on imported food, including subsidized imports, for its basic food supply. In July 1990, leaders of 32 farmers' organizations sent a letter to the Committee on Foreign Affairs of the U.S. House of Representatives, declaring that the structural adjustment measures imposed by the World Bank and the food aid administered by USAID in Costa Rica had led to "...the reduction of our earnings, hunger and suffering for our families, and the loss of our nations's food security."

For at least 80 indebted governments around the world struggling to pay the interest on old loans means securing new loans, and securing new loans means following new rules. Those rules usually include reducing the state's role in the economy, lowering barriers to imports, removing restrictions on foreign investment, cutting wages, devaluing the currency, and promoting production for export rather than for local consumption.

Liberalization, economic policy reform, debt restructuring with conditionality, structural adjustment policies or "SAPS" for short – call them what you will. The measures, insist the rulemakers, will strengthen economies, fuel growth and help the poor.

In September 1992, while the rulemakers met at the annual meeting of the World Bank and IMF, more than 100 representatives of citizens' organizations from around the world met across town to tell their side of the story. Twelve of them spoke to a national television audience and to a panel of journalists from the Washington Post, National Public Radio, the Financial Times, and InterPress Service. Here is some of what they had to say.



THE WORLD BANK, THE IMF, AND STRUCTURAL ADJUSTMENT

THE OTHER SIDE OF THE STORY

■ Colonialism

David Abdullah, Trinidad and Tobago, Head of Education and Research at the Oilfield Workers' Trade Union

"During the 1980s under structural adjustments, instead of flowing North to South through loans and aid investment, more money flowed from South to North in debt servicing, capital flight, and profits from transnational corporations and the privatization of state-owned companies. In truth and fact, the countries of the South are subsidizing the countries of the North. We are helping to subsidize the United States deficit."

Martin Khor, Malaysia, Director of Third World Network

"Structural adjustment is a mechanism to shift the burden of

economic mismanagement and financial mismanagement from the North to the South, and from the Southern elites to the Southern communities and people. Structural adjustment is also a policy to continue colonial trade and economic patterns developed during the colonial period, but which the Northern powers want to continue in the post-colonial period. Economically speaking, we [countries in the South] are more dependent on the ex-colonial countries than we ever were. The World Bank and IMF are playing the role that our ex-colonial masters used to play."

■ Environment

Maria Onestini, Argentina, Co-director of Centro de Estudios Ambientales

"The Rio conference on environment and development constantly referred to 'sustainable development.' But we in the South would rephrase that in light of policies such as structural adjustment, because what they actually promote is unsustainable underdevelopment. The adjustments that really need to be made are adjustments in production, consumption, and distribution patterns. These patterns need to promote social and ecological justice.

That social and environmental injustice is currently a condition of the South is simple to see. Take for example the import in the South of wastes and pesticides banned in the North. The pesticides help to produce food for export, reinforcing consumption patterns that we know need to be changed. Twenty per-

cent of the world consumes eighty percent of the natural resources; this too was often said in Rio. In the South, the defense of our economic base isn't merely for ethical or theoretical reasons. We are defending our ability to live off of our own commodities. To do so necessitates commodity markets that truly reflect environmental degradation."

■ Women

Diana Lima Handem, Guinea-Bissau, founding member of Associaçao de Estudos e Alternativas

"Behind structural adjustment there is a model for the development of our society. It is a model to reorganize society and natural resources that has two fundamental characteristics. One is the reinforcement of an elite that will increase exploitation of producers. And the second is the reinforcement of the patriarchy."

Peggy Antrobus, Barbados, Founder and Tutor-Coordinator of the Women and Development Institute

"Underlying these policies is a set of assumptions about

women's work: that women are housewives, do not work and, therefore, that women can fill the gap created by cuts in social services. Of course, [the policy is] labeled 'privatization.' The governments must not spend money on [education, health, and human infrastructure], this must be left to the private sector or to the household, meaning to women. The foundation is that women's time and labor can be exploited."

Narda Melendez, Honduras, Coordinator of Asociación Andar

"To minimize the social impacts of structural adjustment, women become the administrators of resources. The logic is this: if the national education budget is reduced, the mothers will find ways to meet the educational needs of the children."

■ Democracy

Leonor Briones, The Philippines, President of the Freedom from Debt Coalition

"The very logic and framework of structural adjustment policies require the repression of democratic rights. This is because these policies demand drastic fiscal, monetary, and economic measures which cannot help but raise very strong reactions from the public. And such reactions have to be repressed. It is not surprising that many structural adjustment programs are successfully implemented in countries like my own, under a dictatorship. We shouldn't let our own governments off the hook when they have blindly and slavishly implemented these programs at the expense of the interests of their own people. When we complain to the World Bank and the IMF, they tell us, 'So sorry, we don't talk to people. We only talk to governments. We only talk to your president. We

only talk to your central bank governor. We only talk to your minister of finance.' This is a joint production of the international finance community with the cooperation of local elites and leaders in our own country. The majority of the people are shut out of the negotiations."

Narda Meléndez, Honduras

"The term 'democracy' is used so much that it is incredible to me. I agree that we need to demand more democracy by our governments. And we are clamoring for this. But this form of democracy, in which the meaning of the word means only to vote for elected officials, is ironic and burlesque. It does not guarantee civil or political rights, or our right to popular demonstrations. Economic tactics like those of the US government actually aid the repression that we experience at home. Why did the US government deny a visa to a union leader invited to come to this conference? Because she was fighting against the anti-democratic actions of her government in Honduras. We can't talk about true democracy - only of a democracy which is manipulated."

■ Who Benefits

Kavaljit Singh, India, Coordinator of the Public Interest Research Group

"In the eighties, we can clearly see that structural adjustment policies have benefited the rich, the upper class, because we can see the import of luxury goods such as color televisions, VCRs, washing machines, and microwaves. Forty-six percent of our population is below the poverty line. They don't have access to clean drinking water. They don't have access to education, or to hospitals. What is happening is the privatization of profit, and the nationalization of losses."

Martin Khor

"I think the main beneficiaries of structural adjustment are the international commercial banks and the major multinational companies. These institutions were in large part responsible for the debt crisis because they made unviable loans. Now they want their money back, but many of the countries owing are bankrupt. So there is an adjustment to be made. Either the banks' profits will fall, or they will get those loans back even if they cannot be repaid, by giving new options to the Third World countries. That is, new loans to pay back the old loans to prevent a banking crisis

What is the alternative? There is no question that reforms are needed, but these reforms should be initiated by the countries themselves, not by external institutions like the World Bank and the IMF. Such programs should be initiated with a view to cushioning, to softening, to protecting those who are most helpless."

Atherton Martin, Dominica, Director of The Development Institute

"The alternative begins to emerge when one agrees to change the assumptions of the model which measures economic growth in terms of export-led growth, foreign



exchange earnings, jobs created in free zones, et cetera. If these are the only criteria that are applied, then the model has its logic. But when one adds the kind of criteria that include human conditions - the conditions of the women in the free zones, workers on the farms, the small farmers producing food the deterioration of the environment - the model has no logic. The alternative has to be a model based on enhancing and improving the human condition. Education, housing, health, training; these are the elements of an alternative that are discarded by the structural adjustment model. Hence the disaster." ■

■ Alternatives

Leonor Briones

"There are losers and there are winners in structural adjustment. The losers are those who are already losing. The winners: the banks, the businessmen, the politicians. Those who are helped by structural adjustment are those who are least deserving.

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The environmental impacts of adjustment have been equally severe. Production of the new export crops in Costa Rica typically involves extensive use of agrochemicals because many of the crops are not native to the country and thus are highly susceptible to pests and diseases. At least 1,500 farm workers seek medical attention each year, though government officials say that even that number seriously underestimates actual cases of poisoning. In a 1990 survey conducted by the Centro de Capacitación para el Desarrollo (CECADE), 70 percent of melon producers using such agrochemicals as Tamaron, Paraquat and Lannate (Metomil) reported seeing animals die after spraying and 58 percent of them knew of water supplies poisoned by the agrochemicals. Hilly areas have become severely deforested by farmers who have had to move on after exhausting their lands by overusing agrochemicals.

Historically, Costa Rica has had a strong social-service sector. Over the past decade, however, spending has been cut as a condition of the adjustment loans. The tax structure has become increasingly regressive, while underemployment has grown and real wages have fallen. Sources within the Ministry of Labor recently leaked a confidential study showing that the number of people living in poverty has increased to 28 percent of the population since the adjustment program began. The report concludes that the groups benefiting most from the adjustment measures are exporters of non-traditional products, importers and those linked to the financial-services sector.

Health conditions have also deteriorated. A Ministry of Health report in 1985 indicated significant increases in intestinal parasitic diseases, rheumatic fever and alcoholism, which it linked to the worsening economic conditions. Conversely, the public-health system's ability to cope has been seriously compromised due to cuts in the government health budget.

The Threat to Democracy & the Popular Response

The social and economic decline in Costa Rica could have profound implications for the country's democratic system. In the past, rising real wages both in the urban and rural sectors raised standards of living throughout the country and brought a relative degree of social harmony. Today, with worsening economic conditions, there is a growing sense of unease and distrust that could jeopardize this peace. The independent Costa Rican Human Rights Commission recently issued a report indicating a sharp rise in human rights abuses in Costa Rica. Incidents of arbitrary arrest and police brutality, virtually unheard of in the past, have increased dramatically. While other social services were being cut, the budget for police forces jumped 32 percent in 1989 and another 10 percent in 1990.

Popular opposition to adjustment policies has grown throughout the country. Proposed cuts in public-sector employment have elicited strong reactions from unions, which have organized a series of national strikes, work stoppages and demonstrations. Their demands include salary increases to offset a 25-percent decline in the purchasing power of their wages over the last four years and a halt to further layoffs. Resistance among rural people has also become highly organized, with squatter invasions of empty lands and demonstrations against declining services and access to credit widespread. Farmers have held demonstrations across the country, occupying government buildings and blocking highways.

Costa Ricans from all walks of life are advancing alternative proposals for the development of their country. Plans have been proposed by farmers' unions, organized labor and environmentalists, as well as academic groups. The Concejo Nacional de Pequeños y Medianos Productores "Justicia y Desarrollo", a coalition of 95 fishing, farming, forestry and other producers' groups, have proposed three goals for a policy of rational agricultural transformation: 1) food "sovereignty" (i.e., national control over food supply), not just in food grains, but in all basic food groups; 2) vertical integration of production, so that farmers participate in and benefit from all stages, from purchasing inputs to exporting crops; and 3) agricultural development which is socially, economically and ecologically sustainable. UPANacional, Costa Rica's largest farmers' union, has presented a plan that focuses on a fair return to producers, with a guaranteed price based on the cost of production. Both groups are continuing negotiations with the government.

All of these alternative proposals share a commitment to self-determination and broad-based, sustainable development. They rest on the assumption that the neo-liberal model has failed and that plans should be devised to meet domestic needs rather than foreign obligations. They do not propose returning to the past, but, recognizing the limitations of the prior import-substitution model, they suggest working toward a future in which all citizens benefit from economic growth.

Sources for this study include: World Bank, 1991 World Tables; Economic Commission for Latin America and the Caribbean, Preliminary Overview of the Economy of Latin America and the Caribbean, 1991, December 1991; William Reuben Soto, Los Campesinos Frente a La Nueva Decada: Ajuste estructural y pequeña producción agropecuaria en Costa Rica, 1989; Alvaro Rivas Villatoro, "Las Exportaciones Agrícolas No Tradicionales Costarricenses (1989-1990)", 1991; and April 1991 interviews with Ottón Solís, Jorge Hernández (UPANacional) and Carlos Campos (Concejo Nacional de Pequeños y Medianos Productores "Justicia y Desarrollo").

GHANA

Ghana's structural adjustment program, one of the longest-running IMF/World Bank-initiated economic-reform programs in Africa, is regularly cited by Fund and Bank economists as the prime example of how SAPs cure failing economies and place them on a path to sustainable growth. Although there is overwhelming evidence of the program's failure, it continues to be used to legitimize adjustment programs elsewhere on the continent.

By 1983 the Ghanaian economy had reached a state of virtual collapse, the victim of falling cocoa prices, decreased government revenue, spiraling inflation and political instability. At the same time, US\$1.5 billion in loan repayments fell due as debts rescheduled in 1974 matured. Faced with possible bankruptcy, the government of Flight Lieutenant Jerry Rawlings undertook a series of structural adjustment programs designed and financed by the World Bank and the IMF. The programs became known collectively as Ghana's Economic Recovery Program (ERP), which was divided into three phases: Stabilization, Rehabilitation, and Liberalization and Growth.

STATED GOALS OF THE 'ECONOMIC RECOVERY PROGRAM' (ERP)

ERP I (1984-1986): Stabilization

- arrest and reverse the decline in production
- control inflation
- reform prices and restore production incentives
- restore overseas confidence in Ghana
- mobilize both domestic and foreign resources to restore the living standards of Ghanaians
- improve the overall availability of foreign exchange and improve allocation mechanisms

ERP II (1987-1989): Rehabilitation

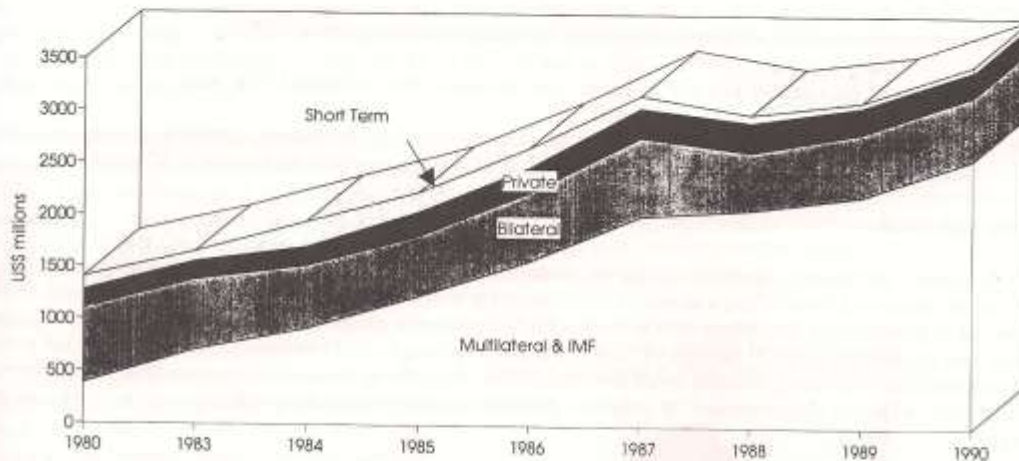
- ensure substantial economic growth (around 5%)
- stimulate substantial increases in the levels of savings and investment
- place the balance of payments on a sounder footing
- improve public-sector management

ERP III (1989-1993): Liberalization and Growth

- ensure an average annual growth of 5%, or about 2% per capita
- reduce inflation
- generate a substantial balance-of-payments surplus
- promote private investment
- promote growth in the agricultural sector

In its quest for economic recovery, Ghana has drawn upon virtually every funding mechanism available at the Bank and Fund. By the end of 1990 the government had contracted over US\$1.75 billion in Bank loans and credits. In fact, by 1988 Ghana was the third largest recipient in the world of credit from the International Development Association (IDA), the Bank's soft-loan window. Only India and China, with a combined population of two billion, received more than Ghana, whose population is only 15 million. IMF funding under the ERP has totalled over US\$1.35 billion, and total financial resources from bilateral and multilateral sources amounted to US\$8 billion over the first seven years of the program, making Ghana one of the most favored aid recipients in the developing world.

GHANA: Total Debt Stock
(World Bank Debt Tables)



Macroeconomic Failures of the ERP

Despite massive amounts of foreign financing, Ghana can claim little real progress under its SAPs. The most regularly cited indicator of success – real GDP growth averaging 3.88 percent annually between 1983-1990 – is a decided improvement over the negative growth rates experienced in the immediate pre-adjustment period. However, this figure looks less impressive when one takes into account population growth (3.1 percent a year), huge inflows of foreign exchange from donors, relatively good weather conditions over the adjustment period, and the initial goodwill of the Ghanaian people towards the ERP. Furthermore, an examination of the sectoral distribution of GDP growth shows that:

- growth has taken place principally in those areas receiving direct financial/investment support;
- while the minerals and forestry sectors have been growing, manufacturing has been declining;
- the performance of the domestic food and livestock sub-sectors, critical to the well-being of most Ghanaian consumers, have been on balance negative; and
- the service sector, especially the transport and wholesale and retail sub-sectors, has grown from a 37-percent share of GDP to 42.5 percent, indicating that the economy is increasingly becoming a "buying and selling" one.

The evidence clearly indicates that growth in Ghana is aid driven and, as such, is fragile and skewed toward those areas in which the donors are interested – such as natural-resource extraction – rather than towards domestic capacity building.

The goals of the latest phase of the ERP are to reduce inflation, generate a substantial balance-of-payments surplus, promote private investment, and stimulate growth in the agricultural export sector. These goals have remained elusive, however:

- by 1990, real annual growth of GDP had fallen to 2.7 percent, down from over six percent in the mid-1980s;

- inflation, which dropped from 123 percent in 1983 to 25.2 percent in 1989, jumped to 37.7 percent in 1990;
- the country's balance-of-payments deficit has been increasing since 1983;
- the ratio of investment to GNP is lower than it was in the 1960s and '70s; and
- the tightening of credit (designed to control inflation) has decreased domestic investment and increased reliance on foreign borrowing; by 1992 the interest rate had risen to 37 percent.

Cocoa over Food

The growth of Ghana's agricultural export sector has been chief among the successes claimed for the ERP by the Bank and Fund. The volume of cocoa exports rose by over 70 percent between 1983 and 1988, the result of government incentives that included higher producer prices and increased investment. Cocoa is now responsible for over 70 percent of Ghana's export earnings. Unfortunately, the world market price of cocoa has been dropping steadily since the mid-1980s. According to a U.S. Congressional study, world consumption of cocoa has increased by only two percent annually while supply has grown by six to seven percent.

The emphasis on cocoa production has exacerbated local and regional income disparities. While approximately 46 percent of government expenditure in the agricultural sector has been invested in the cocoa industry, cocoa farmers comprise only 18 percent of Ghana's farming population and are concentrated primarily in the South, which has traditionally been favored by both government and donors over the disadvantaged Northern savannah region. Growing inequity within the cocoa-producing population has also been documented since the 1970s. The top seven percent of Ghana's cocoa producers own almost half of the land cultivated for cocoa, while 70 percent own farms of less than six acres.

The economic incentives extended to those involved in export production have not been available to Ghana's food producers. The government has failed to promote food security through appropriate measures to raise productivity, yield and storage. As a result, Ghana's food self-sufficiency declined steadily during the 1980s and the per-capita income of non-cocoa farmers stagnated. Producers of rice, vegetable oils and other cash crops were hit hard by a flood of cheap imports, the product of trade-liberalization measures and exchange-rate adjustments.

Bearing the Burden of Adjustment

The impact of adjustment on the fishing industry has been equally devastating. As a result of a series of currency devaluations, inputs have become more expensive, particularly for small-scale operators who fish to meet local needs. Increased production costs are then passed on to consumers, whose real wages have been falling, in the form of higher prices for fish. Since Ghanaians obtain 60 percent of their protein from fish and fish by-products, the decrease in fish consumption has contributed to increased rates of malnutrition in the country.

The costs and burdens of structural adjustment have fallen in other ways on the poorer sections of the population. Partially as a result of cuts in wages and public expenditures, currency devaluation, and the introduction of user fees for health and educational services, illiteracy and drop-out rates have risen and malnutrition and illness among the poor have increased. When the minimum daily wage of 218 cedis (Ghana's currency) was announced in 1990, the Trades Union Congress calculated that an average family needed 2,000 cedis a day for food alone.

The elimination of thousands of government jobs under the adjustment program has also had a deleterious effect on the economy and the people. Aside from the direct impact these cutbacks have had on urban unemployment rates, second-tier effects are being felt by the dependents of the newly unemployed, many of whom have been forced to take to the streets in search of income for their families. It is estimated that in Ghana an average of 15 people are at least partially dependent on each principal urban wage earner.

In contrast, rich Ghanaians have fared quite well under adjustment. Data generated by the 1987 Living Standards Measurement Survey indicate an increase in income inequality in the 1980s compared to the 1970s. Land holdings and agricultural export earnings have become more concentrated in fewer hands, especially in the cocoa sector. Import-liberalization measures have led to increased food imports, producing the illusion of a greater availability of food. The rich, with money to spend, have more access to a wider range of food products, while more of the poor are going hungry.

Cutting Down the Forest for the Trees

The economic-reform program has also promoted the export of timber, Ghana's third most important export commodity after cocoa and minerals. Major overseas aid and credit packages have been arranged from a variety of sources, including IDA, with foreign exchange provided to timber companies to enable them to purchase new materials and equipment. As a result, timber exports, in terms of volume and value, have increased rapidly since the start of the ERP, rising from US\$16 million in 1983 to US\$99 million by 1988.

Such a quick-fix solution to Ghana's need for foreign-exchange earnings has contributed to the loss of Ghana's already depleted forest resources and undermined the country's economic recovery. Between 1981-1985, the annual rate of deforestation was 1.3 percent, and current estimates are as high as two percent a year. Ghana's tropical forest area is now just 25 percent of its original size. The impact of deforestation is widespread, affecting the livelihoods of local people, disrupting important environmental functions and severely disturbing the biological integrity of the original forest ecosystem. Timber companies and fly-by-night contractors have cut down the Ghanaian forests indiscriminately. Widespread deforestation is leading to regional climatic change, soil erosion and large-scale desertification.

Deforestation also threatens household and national food security now and in the future. Seventy-five percent of Ghanians depend on wild game to supplement their diet. Stripping the forest has led to sharp increases in malnutrition and disease. For women, the food, fuel, and medicines that they harvest from the forest provide critical resources, especially in the face of decreased food production, lower wages and other economic shocks that threaten household food security. This resource is lost when trees are cut for export.

Ghana's Original Forest Cover (top)
Compared to What Remains Today (bottom)



(only southern Ghana shown)



As Ghana Goes, So Goes the Continent

After nine years of economic recovery programs and huge amounts of foreign aid, Ghana's total external debt has risen from US\$1.4 billion to almost US\$4.2 billion. Current investment and savings are too low to sustain the GNP growth rate (in the absence of foreign funding), and capital flight has become a serious problem. Since 1987, Ghana has paid more to the IMF than it has received from it. Environmental degradation is fast-paced and is exacerbated by the policies of the ERP. All of these indicators point to the fact that the long-term prospects for Ghana's recovery are bleak.

And yet The Washington Post reported (on 7 September 1992) that "Western creditors argue that the rest of Africa should copy Rawlings' budget-cutting, free-trade ways." The article quoted a Western diplomat as saying, "We need a winner in Africa, and we are all hoping that Ghana is the one." The question for Ghana and other African countries undergoing adjustment is not whether they can win the game, but whether they can survive it.

This case study is based upon the following documents: Charles Abugre, "Behind the Crowded Shelves: An Assessment of Ghana's Structural Adjustment Experience, 1983-1991" (1992 draft); Friends of the Earth International, Plunder in Ghana's Rainforest for Illegal Profit: An Expose of Corruption, Fraud and Other Malpractice in the International Timber Trade, 1991; Charles Abugre, "Ghana's 'Model' SAP Crumbles", BankCheck, Fall 1991; and "Ghana: Adjustment Comes to Africa", in Funding Ecological and Social Destruction: The World Bank and the International Monetary Fund (Washington: Bank Information Center, 1990).

ZIMBABWE

Zimbabwe, long considered one of Africa's economic success stories, has lately fallen onto hard times as a result of the deadly combination of a devastating drought and the Economic Structural Adjustment Program (ESAP) that it has been pursuing for the past three years. During 1991 the country's inflation rate rose to around 50 percent, while the people's average income fell from US\$600 to US\$430; currently, close to 70 percent of the population lives under the poverty line. These economic hardships threaten to destroy the relative stability that Zimbabwe has enjoyed in a region torn by armed conflicts.

Background

After sharp disagreements with the International Monetary Fund (IMF) in 1984 over the level of social spending and its policy of allocating foreign exchange to import-substitution industries, the Zimbabwean government embarked on what it termed a 'home-grown' structural adjustment program. Although the government program did impose a certain amount of austerity and unemployment rose, it was credited with boosting small-holder production and protecting the health and education programs in which President Robert Mugabe had invested so much political capital. Between 1984 and 1990, the country posted an average annual growth rate of 3.1 percent in the face of recurrent drought and destabilization by South Africa.

Despite these impressive growth figures, Zimbabwe began to experience foreign-exchange shortages as a result of declining world prices for its major agricultural exports, chiefly tobacco and cotton. Among other problems, this constraint limited the ability of manufacturers to import the machinery needed for expansion. Desperate for foreign exchange, the government quietly began negotiations with the Bank for a structural adjustment loan in 1989.

Finance Minister Bernard Chidzero has fought consistently for the deregulation of the economy and has been clear from the beginning about the need for an open capitalist strategy. Meanwhile, Mugabe's fixation on state-controlled solutions and his team's resistance to a loss of control have blinded them to alternatives which give ordinary citizens a greater role in the formulation and implementation of economic policy. As a result Chidzero, long a darling of the World Bank, has strengthened his hold on the country's economic-planning process.

In early 1991 the government abandoned its 'home grown' adjustment program and adopted one with its roots clearly in Washington. The new ESAP includes: trade liberalization, including the lowering of import tariffs; currency devaluation; the lifting of most price controls; restrictions on domestic credit; privatization of parastatals, including agricultural marketing boards; an elimination of the minimum wage; "cost sharing" in health and education; and a 25-percent reduction in civil-service employment by 1995.

The key element of Zimbabwe's ESAP is trade liberalization, which, it is hoped, will boost the manufacturing sector by making badly needed imports more readily available. The expectation is that the resulting investments will boost job creation; unemployment currently stands at 25 percent and 200,000 school-leavers join the labor pool each year. But critics point out that the manufacturing sector is relatively capital intensive and that opening up the country to imports could wipe out infant industries that have benefitted from government protection.

'Extended Suffering for African People'

Problems in the agricultural sector, already severe due to the drought, have also been exacerbated by the ESAP. In the drive to boost foreign-exchange earnings, the government has increased producer prices for crops such as tobacco, cotton and cut flowers. Similar incentives for maize, the country's staple crop, have not been forthcoming. As a result, many commercial farmers have moved out of maize production and into the production of export crops. Once a surplus maize producer, Zimbabwe ran a deficit of one million metric tons in 1991 and, for the first time, had to import maize from South Africa. In 1992, more than half of the population required food-aid assistance.

Adding to the food shortage has been the IMF/Bank requirement that the Grain Marketing Board (GMB), the parastatal that handles most grain transactions, balance its books every year. This condition led the GMB to sell 1991's surplus, with the result that in February 1992, even when the extent of an impending crop failure was clear, the GMB was still exporting grain to honor previous sales contracts.

An ESAP-mandated currency devaluation of 45 percent in late 1991 was designed to increase export competitiveness and decrease the importation of luxury goods. The immediate impact of the devaluation, however, was a price-rise shock, with the cost of a bag of maize, for instance, increasing nearly 300 percent. As the Organisation of Rural Associations for Progress (ORAP), a major Zimbabwean NGO, stated in an April 1992 report, the devaluation exacerbated an already difficult situation:

...[T]he impact of increased prices for food and for transportation which ESAP has meant are especially important. In many areas, food is only available in towns, and for rural dwellers transportation costs can effectively double the cost of grain. Soaring food costs take place in the context of household budgets already strained by the increased school fees and health services costs which are also a part of ESAP. In addition, ESAP is expected to bring the retrenchment of large numbers of urban workers, who often support large extended families in the rural areas.

Though store shelves are now full of goods, they are too expensive for most people to afford. With inventories full, but local purchasing power limited, local investment in production for the domestic market is shrinking. This is no accident, as producers are being pushed towards producing for export markets, a tendency reinforced by government foreign-exchange allocations.

As the ORAP study noted, the ESAP has also led to rising costs for health care and education as a result of the adoption of cost-sharing formulas. Increasingly, children are being withdrawn from school by parents who cannot afford school fees or uniforms, while in the health sector the number of clinics and the availability of medical drugs have been declining. No wonder then that the ESAP has been dubbed "Extended Suffering for African People" by slum residents in the capital, Harare.

Land and the Environment

The intensification of poverty that the ESAP has brought about among the poorer sections of Zimbabwe's society has also had a disastrous effect on the country's natural environment. For example, a growing number of people, lacking sufficient land, seeds, fertilizers and other agricultural inputs have sought out the more fertile stream banks to grow their crops. This has led to a shortage of water and often dried-out conditions downstream.

What Zimbabwe desperately needs is land reform. Some areas are burdened by five times their carrying capacity, and inhabitants lack food and water, while good land nearby is either used for such things as ostrich farming or not used at all. Though the government has recently tabled a bill in Parliament calling for mandatory acquisition of White farms, many question the commitment of the

government to genuine land reform, since it is cash strapped and could not possibly compensate the White farmers as called for in the legislation. Meanwhile, peasants have been accumulating a growing amount of debt due to the rise in the cost of inputs and are in serious danger of losing their lands.

Conclusion

The government says it is too early to evaluate the macroeconomic effects of the ESAP, blaming the drought and the world economy for the poor performance so far while counselling patience. It claims that inefficient parts of the economy will die out and resources will increasingly be fed to the more efficient. It isn't clear yet, however, just what percentage of the population the government, the IMF and the Bank consider 'inefficient'.

Alternatives to the current adjustment process must come from the people, based upon their needs and priorities. Sweeping land reform, extensive investment in women's food cultivation designed to improve their children's nutrition, and further investment in rural infrastructure and small-scale businesses are some of the elements of an alternative program being discussed by the Zimbabwean people. Unfortunately, the peasantry, the urban poor, women and small entrepreneurs do not wield the clout that donor countries and their agents, the World Bank and IMF, do.

Sources: The 1992 Drought and the Structural Adjustment Programme in Zimbabwe: A Preliminary Report (Bulawayo: ORAP, April 1992); The Financial Times, 16 April 1992; The New York Times, 17 March 1992; BankCheck (Winter 1992).

PHILIPPINES

The Philippines is often referred to as the sick man of Asia. The country labors under the weight of a US\$29 billion foreign-debt burden and a US\$9 billion domestic debt. Payments on the foreign debt have amounted to US\$18 billion since 1986, yet total debt has increased over the same period by more than US\$3 billion.

A seemingly permanent regimen of International Monetary Fund (IMF) stabilization and World Bank adjustment programs has been imposed, designed primarily to ensure continued payment to the country's external creditors, including the international financial institutions. The IMF's insistence that debt payments take priority is mirrored in a Marcos-era decree, still in force, which provides for automatic appropriations for debt servicing. This means that every year, roughly 40 percent of the national budget and 31 percent of export earnings are devoted to debt payments. Unless debt servicing can be trimmed to a sustainable level, resources simply will not be available for economic growth.

No-Growth Policies: The Consequences of Odious Debts

The people of the Philippines have suffered from both the effects of a debt-dependent development strategy and macroeconomic policies that have favored the wealthy, particularly those close to government. Heavy borrowing during the Marcos administration mostly financed inefficient industrial investments or disappeared through capital flight and corruption. IMF and World Bank stabilization and structural adjustment policies, designed to raise the revenues needed to pay these debts, have favored industry and agribusiness – neither of which are labor intensive – over food-crop agriculture. Every year, 900,000 young people enter the job market. With unemployment and underemployment standing at roughly 48 percent, there is little hope that these people can be absorbed into the work force.

Economic growth has also been a victim of these policies. While inflation has decelerated to about 12 percent, the current-account deficit has been reduced, and international reserves of the Central Bank have recovered substantially, the tight fiscal and monetary policies which led to these successes have also resulted in severe recession.

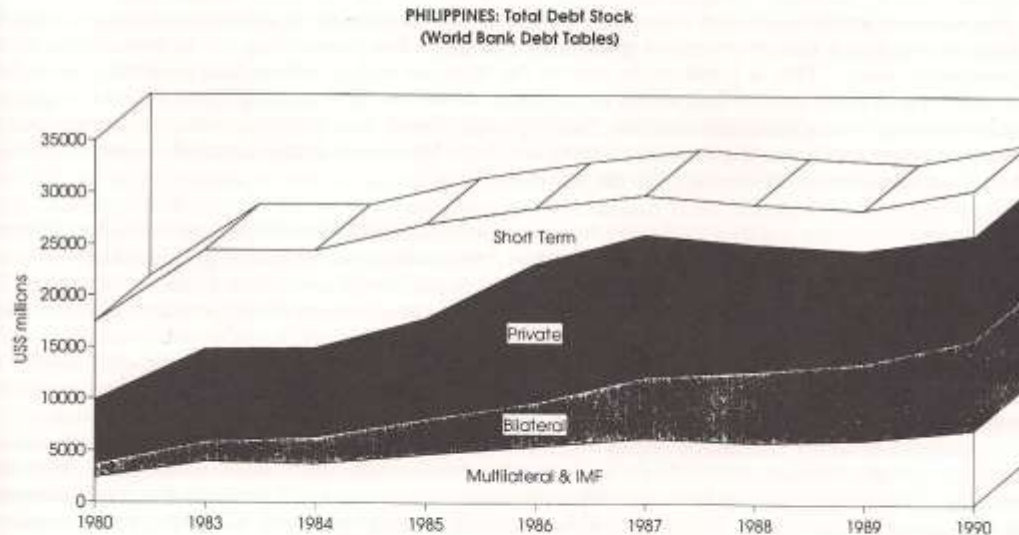
IMF Success Means Suffering for the Poor

Stabilization programs to treat balance-of-payments crises have been regular features of Philippine economic planning since the early 1960s, and the World Bank implemented at least two major structural adjustment programs (SAPs) in the 1980s. Yet the economy continues to be characterized by periodic balance-of-payments problems and excessive dependence on imports.

Stabilization policies in the Philippines have focused on restricting domestic demand so as to ensure adequate resources for foreign-debt servicing. They have included such measures as slashing government expenditures, increasing taxes and tax collection, and reducing subsidies to dissuade people from consuming artificially cheap goods.

Although the IMF stabilization programs instituted since 1984 have been successful in meeting their objectives of increasing international reserves and decreasing inflation and the budget deficit, they have had a devastating impact on the majority of Filipinos. While IMF stabilization policies were not solely responsible for the economic crisis of the mid-1980s, the constriction of demand which these policies fostered, and the lack of measures to cushion the impact on the poor, caused severe hardship for millions.

According to a recent World Resources Institute (WRI) study, "Real wages in both agricultural and non-agricultural activities declined every year from 1980 until economic recovery started to take hold in 1987, falling by about 25 percent between 1981 and 1987....Rising unemployment and falling real wages raised the percentage of population living in poverty since the poor had nothing to offer except their labor."



Underemployment and unemployment have been particularly severe in rural areas. The landless poor have tried to survive by migrating to marginal uplands and coastal areas which the government insists on controlling, but has failed to protect. The result has been serious deforestation, destruction of fisheries, soil erosion and the consequent smothering of coral reefs, and the siltation of dams and irrigation systems. More recent stabilization programs have likewise stifled economic growth, which was less than one percent in 1991.

Liberalization and Recession

The first structural adjustment program in the Philippines, implemented between 1980-83, was designed to promote exports, liberalize the tariff structure, simplify import procedures and restructure selected industries. A loan of US\$200 million from the World Bank helped pay for industrial inputs, including raw materials and capital goods. The second SAP, launched in 1984, included reforms in industrial incentives and the extension of on-going trade-policy reforms.

Structural adjustment policies, though never fully implemented, exacerbated the economic crisis of the mid-1980s by supporting the disinvestment in agriculture and wrenching the unprepared Philippine manufacturing sector open to global trade. Domestic producers were not provided with incentives to encourage them to improve production methods and reduce the social costs of domestic industrial adjustment. Trade liberalization, it turned out, was no substitute for direct industrial reform, the real need in the Philippines.

According to a study led by author Walden Bello, the first World Bank structural adjustment loan led to "...the concentration of capital through new banking laws, the channeling of capital to the export sector leading to financial loss, plant closings and bankruptcy for many local businessmen....By the Bank's own estimates, roughly 100,000 workers in 'inefficient' garment and textile firms would lose their jobs. This amounted to about 46 percent of the work force in the garment and textile sectors and about five percent of total employment in manufacturing."

The failure of stabilization and adjustment policies in the Philippines is due in part to their failure to address the country's deeper structural problems of inequity and dependency, or to consider social or environmental costs. This is particularly true in the agrarian sector, where land ownership is highly concentrated and small farmers lack access to the credit, as well as the technological and market expertise needed to benefit from a liberalized market. The WRI study found that "...stabilization policies that sharply increased poverty and unemployment accelerated the degradation and deforestation of upper watersheds and the over-exploitation of coastal fisheries and mangroves."

The removal of price controls and subsidies under successive adjustment programs has had a harsh effect on small farmers and consumers. The lifting of price controls on the sale of processed rice resulted in a near doubling of price between 1985 and 1986. Because small rice farmers sell an average of 90 percent of their crop, they are as vulnerable as non-farming consumers to shifts in market prices for this most basic of commodities. When subsidies for production were removed, farmers were forced to reduce the amount of land under cultivation and/or limit the use of material inputs. Both responses resulted in decreased production. In the case of rice production, there is now a shortfall of about 15 percent in annual consumption needs.

Tight monetary policies have led to high interest rates, which have severely curtailed domestic borrowing. The majority of poor farmers compete for scarce money with industrialists and larger farmers, who pose less of a credit risk. With little collateral, small farmers are forced to borrow from usurers at interest rates of 50 to 400 percent. Rice traders generally provide loans for production inputs and then extract payment at harvest time. The lack of affordable credit has forced many small farmers to lose their mortgaged land. With an increasing number of landless laborers in the countryside, real rural wages and income have declined, and the incidence of starvation has doubled since 1985. The latest figures indicate that approximately 75 percent of rural households live in abject poverty.

The removal of the government subsidy on imported oil, demanded by the IMF, has been beneficial for the environment, but has had a harsh impact on the poor. This measure, along with a one-percent tax on oil imports and a temporary nine-percent import levy on all goods (including oil), has been an easy way for the government to reduce the budget deficit and has curtailed environmentally harmful activities in the forestry, fishing and mining sectors. But, in the absence of policies to cushion the impact on the poor, small farmers and fishermen have suffered disproportionately. The imposition of "Green Revolution" techniques in rice farming has locked farmers into buying fertilizer (an oil-based product) and gasoline for irrigation pumps. Depletion of coastal fishing stocks has forced fishermen to travel farther to find fish, increasing their fuel costs. Increases in transportation costs also raises the cost of most consumer goods and travel for the poor majority.

A People's Alternative

Structural adjustment programs in the Philippines have promoted agricultural exports at the expense of food security. The WRI study concludes, however, that adjustment should promote labor-intensive food-crop production in lowland rainfed areas and tree-cropping in the more fragile and erosion-prone upland areas. Resource rent taxes and environmental charges are policy reforms that can help alleviate or reverse the adverse environmental effects of adjustment programs. Changes in land tenure and property rights

are institutional reforms that can, by giving households a more secure stake in resource management, mitigate rural environmental degradation associated with structural adjustment and promote productivity, equity and resource conservation. In the economic model used by the WRI researchers:

Both output and employment...increase under the assumption of land reform, as does [sic] agricultural and fisheries production. Manufacturing sector output also expands in response to the increase in consumer demand. Income distribution improves markedly: incomes of the poor rise by 14 percent while those of the rich fall by 5 percent. Land prices rise relative to other factor costs. Land shifts into lowland crop production, not into erosion-prone crops or timber production. Energy use rises marginally.

In addition to advocating different development policies, groups in the Philippines have been pushing for an alternative debt-management strategy. The Freedom From Debt Coalition (FFDC), a network of over 200 citizen-action groups, advocates limiting debt-servicing to ten percent of export earnings. Based on calculations of 1989 exports, this would have freed up an estimated US\$1.74 billion, which could have been used to stimulate domestic economic development. According to the Coalition, the money should not be used for military expenditures, other unproductive budget items such as discretionary (pork barrel) funds, or non-fiscal transactions like the oil price stabilization fund subsidy, debt buy-back operations and interest payments on maturing government securities.

The FFDC promotes specific policy changes, including alternative stabilization and adjustment measures, structural reforms, and new social policies. They include: 1) reform of the existing regressive tax system; 2) creation of a leaner and more efficient bureaucracy; 3) expansion of basic social services that improve human capital and promote production activities; 4) greater public investment in the rural areas; 5) new monetary policies and related institutional changes, such as lower interest rates, abolition of the existing banking cartel and expansion of credit to the rural sector, possibly through strengthening the network of cooperatives; 6) abolition of all but 'natural monopolies' (which should also be properly regulated); 7) industrial-output promotion; 8) appropriate trade policies to complement new industrial policies; 9) currency devaluation to promote exports, but accompanied by measures to soften the inevitable impact on an import-dependent economy; 10) an agrarian-reform program; and 11) protection of the rights of workers to join unions, to strike and to enjoy humane working conditions.

Support for the Coalition's proposals would provide funds for the kinds of structural transformations which the Philippines so desperately needs. Increased funding for education, health and nutrition, science and technology is also needed to promote greater productivity and to increase equity. As Leonor Briones, the President of the Coalition has stated, the country's adjustment policies need to be transformed so that people are no longer "...adjusted out of jobs, homes, schools and in extreme cases, out of existence."

Sources for this study include: Wilfredo Cruz and Robert Repetto, The Environmental Effects of Stabilization and Structural Adjustment Programs: The Philippines Case, (Washington, DC: World Resources Institute, 1992); The Freedom from Debt Coalition's Legislative Agenda on the Foreign Debt and the Economy (1991); Walden Bello, David Kinley and Elaine Elinson, Development Debacle: The World Bank in the Philippines, (San Francisco: Institute for Food and Development Policy, 1982).

SAPS AND THE ENVIRONMENT

The environmental impacts of macroeconomic policies have been systematically ignored by World Bank and IMF policymakers. In addition, their accounting methods have failed to account for the loss of environmental resources upon which the future productive capacity of many borrowing countries depends.

The World Bank's claim that ten percent of its staff time is spent on environmental issues ignores the reality that it is paying little or no attention to the environmental implications of its structural adjustment programs (SAPs). The IMF, after having been scrutinized for several years by environmental and development NGOs, has changed its rhetoric but has failed to implement any serious reforms that would enable the institution to become more responsive to environmental concerns.

Structural adjustment programs have fostered environmentally unsound economic policies, causing irreversible ecological damage. Chile, the so-called economic miracle of Latin America, is now confronted with the social and environmental by-products of its "success". The country's rare hardwood forests are chopped into chips and shipped to Japan, copper mines operate without environmental safeguards, pulp mills dump waste into the waterways, and pollution in Santiago is worse than in Mexico City, considered one of the most polluted cities on earth.

Recently, several studies have been published on the adverse environmental effects of the macroeconomic policy instruments used in adjustment programs, including taxes, interest rates, tariffs and exchange rates, as well as shifts in the level of public expenditures. Although the numbers and conclusions differ from country to country and depend on the sectors being examined, there are at least three ways SAPs deplete natural resources:

- by intensifying poverty, SAPs have forced people to move onto marginal lands and overuse scarce natural resources;
- by increasing exports of natural resources, SAPs have escalated deforestation, soil erosion, desertification and water pollution; and
- by slashing government funds for environmental protection, SAPs have led to lax, if any, enforcement of environmental regulations.

The Growth of Poverty

Structural adjustment programs have led to increases in poverty and unemployment. Workers and landless farmers, confronted with declining wages or joblessness, migrate to ecologically fragile or marginal lands. In some cases, these lands are rainforests or indigenous peoples' territories that are not protected from encroachment by recognized land titles or other tenure instruments. The poor cannot move to more productive land since it is owned predominately by a small number of wealthy families or is devoted to large-scale crop production for export. Pushed onto marginal lands, the poor are concerned primarily with survival, even though in the short term this may mean damaging or depleting the natural resources upon which they depend for a living. Poor farmers lack the resources to invest in conservation measures or to grow crops which take a long time to mature. The destruction of the environment further impoverishes farmers, making survival more difficult and uncertain.

In the Philippines, according to a recent study by the World Resources Institute, the trade regime, investment incentives, and credit policies have all favored capital-intensive industries, and institutional financing has gone to industrialists and to larger farmers. Unequal distribution of both private and agricultural holdings and use rights to public lands deprived most rural residents of access to public resources. Only the marginal resources in the public domain -- forests, mangroves and fisheries -- remained available to the rapidly growing pool of landless workers.

Meanwhile, in Costa Rica, export promotion required by the country's structural adjustment program has contributed to further inequity in land ownership. By the mid-1980s, six percent of the farms in Costa Rica occupied 61 percent of the available land. Increasing numbers of landless families have had no alternative but to carve out a living by invading marginal lands and national parks.

Increasing the Export of Natural Resources

Existing patterns of overconsumption in the North are draining resources out of the South. These resources are often non-renewable, and their loss is not reflected in traditional GNP calculations. By forcing countries to export many of the same commodities, adjustment programs help to drive prices down as world markets are flooded. In effect, the poor are continuing to subsidize consumers in the North, particularly the rich and the middle class.

Not only have countries been forced to accelerate the exploitation of their natural resources, they have also eliminated or delayed the implementation of conservation measures or sustainable development policies that would reduce long-term resource degradation. Examples of this exploitation include: timber extraction without replanting; conversion of mixed farmlands to massive unsustainable cash-crop monocultures; conversion of forests to agriculture or ranching uses; and the elimination of valuable wetlands for fish farms and other aquaculture activities. The resulting environmental devastation reduces the long-term potential for sustainable development in the agriculture, forestry, fisheries and mining sectors.

Agricultural expansion alone is responsible, for instance, for as much as two-thirds of annual deforestation worldwide. Meanwhile, in Latin America, and especially Central America, cattle ranching for export has been on the rise. Cattle ranchers are clear cutting the rainforests and are occupying lands that could be used for the cultivation of food for local consumption. Ironically, domestic beef consumption in these countries has been declining.

Ecuador, a highly indebted middle-income country, has been forced to increase oil drilling in the Amazon region in order to obtain foreign currency to service a foreign debt of US\$12 billion. Oil exploration in the region currently covers approximately 3.5 million hectares of forest, causing enormous environmental damage. Oil extraction has opened access deep into the forests, paving the way for uncontrolled timber harvesting and spontaneous colonization by poor migrants desperate for land. The damage from oil spills and toxic residue from drilling sites is widespread: water containing chemical residues is being poured into pits and is leaking from there into rivers, while pipelines leak oil on the way to the coast. The damage suffered by local people, dependent on forest resources for survival, is immeasurable. Furthermore, it is estimated that Ecuador's oil reserves will only last for another ten years.

In order to increase export production, governments have provided tax breaks, investment credits and other incentives to potential investors. Multinational corporations are mainly responsible for the unsustainable exploitation of natural resources. Timber, oil and mining companies work under contract for national governments or have bought cheap concessions that guarantee them the exclusive right to exploit resources and repatriate all profits. Neither commercial logging nor oil exploitation has alleviated the poverty of local populations. The only benefit for the poor is short-term employment, while the resources upon which their future livelihood is based are rapidly diminishing.

Reduction of Government Expenditures

Reducing government expenditures and cutting subsidies are core requirements of any adjustment program. The IMF claims that cuts in government subsidies can have a positive environmental impact, for instance by reducing pesticide use. This is partly correct, as increases in the price of chemical fertilizers and pesticides has put these inputs out of the reach of the many small farmers made dependent upon them as part of donor-promoted "Green Revolution" agricultural packages. These same farmers, however, have not been assisted in switching over to more organic farming methods. Larger farmers, with more access to credit, can purchase these inputs and therefore keep up production. Due in part to liberalized import laws and the removal of environmental regulations mandated by adjustment programs, many U.S. companies have been able to dump their cheap – and often banned – pesticides on developing country markets. An estimated 75 percent of the pesticides in Central America are either banned, restricted or unregistered in the United States.

Even though IMF officials themselves claim that cutting what are usually quite small environmental management and conservation budgets will have little impact on reducing overall public expenditures, governments target these programs over large-budget items, such as the military. Slashing funds in such essential areas as sewage treatment, natural-resource protection, the regulation of toxic-waste dumps, and the monitoring of industrial pollution will decrease a government's expenditures in the short run but will increase its environmental debt and health costs over the long term.

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