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Jürgen Zattler*

The Effects of Structural Adjustment Programmes

Many developing countries are trying to improve their economic conditions by means of structural adjustment programmes. The following article points out the weaknesses of such programmes and draws conclusions about the support that should be given to economic reform in developing countries in the future.

Experience with development co-operation to date has shown that project lending can be expected to achieve lasting success only if the recipient country pursues a consistent development strategy. In many countries, however, the success of projects is jeopardised by adverse economic conditions.¹ As a rule, the true obstacles to development cannot be tackled at the project level. Development projects themselves can even become a problem, since they tend to compensate for underlying economic shortcomings, thereby creating an "artificial" environment. This may manifest itself in a variety of ways: the administrative resources of the country are often absorbed by the implementation of development projects, thus impeding the successful formulation and implementation of national sectoral policies; furthermore, the projects often have high running costs, by far surpassing the development budget of the country; and in addition with their usual high import contents (especially if the domestic currency is overvalued), they create the problem of financing the running foreign exchange costs. In this way scarce financial and administrative resources may be bound by the projects to an extent not corresponding to the actual development needs of the country.

In cases such as these there can be no guarantee as to the sustainability of project activities. A concentration of donor-financed activities, such as can be observed in most Sub-Saharan African countries and some Latin American and Asian countries, tends to deprive the countries of control over their own destiny because they

are not equipped to perform the necessary management and co-ordination functions. Hence the developing countries' ability to solve problems, which is arguably the most important objective of development assistance, is not only not improved but may actually be reduced.²

When the limits of project lending have been reached, the question arises whether development objectives can be pursued in different ways. Many developing countries are now trying to improve their underlying economic conditions by implementing structural adjustment programmes. These adjustment programmes put together by the international financial institutions are aimed at reducing macro-economic imbalances, stimulating sustainable economic growth and integrating the countries' economies more fully into world markets. Such programmes display two fundamental weaknesses, which will be illustrated below; first, the problem that adjustment measures can be considered sustainable only if they are accompanied

¹ On the basis of a comparative assessment of evaluations and inspections carried out in 1987, the German Federal Ministry for Economic Co-operation ascertained that in 38% of such projects an over-optimistic assessment of the political and administrative conditions or a deterioration in the situation during project implementation jeopardised the success of the project. In 19% of the projects a marked deterioration in economic conditions occurred during the course of the project, similarly calling into question whether the objectives would be achieved.

² This does not mean that project aid in general is pointless if the economic environment is adverse. In such cases, however, activities should be confined to maintaining the infrastructure relevant to development over the long term (health care, education, protection of resources). But even in these areas an adequate self-help potential should be a precondition, though with certain reservations as concerns measures to protect resources. In addition, the running costs and especially the foreign exchange costs of these projects should be kept as low as possible and projected over the long term.

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by social change and are fully assimilated, and secondly the foreign trade concept underlying structural adjustment programmes. On this basis the objectives of previous structural adjustment programmes can then be examined and four conclusions drawn with regard to the support that should be given to economic reform in developing countries in future. The remarks that follow focus mainly on the difficulties of the poorest developing countries, primarily in Sub-Saharan Africa.

Adjustment as a Social Process

One of the basic problems with structural adjustment programmes is that the economic imbalances cannot be eliminated by economic means alone, since the country's entire model of society (production and consumption patterns and social regulatory mechanisms) needs to be rectified. Those who hold the reins of the ailing economy usually represent interest groups that are still powerful and also have a symbiotic relationship with the political leadership. Measures to eliminate economic imbalances must tend to be directed against the interests of those sections of society that benefited from the situation hitherto. The economic crisis therefore inevitably has political implications and its solution requires the formation of new political alliances.³ The transition is easier if the economic crisis has already largely eroded the power base of the political elite or has even led to a change of government by destroying the legitimacy of the governing class.⁴ There is a certain interface between economic and political reform which seems to make it extremely difficult for economic change to get too far ahead of political change, since it undermines the power base of the old political system without laying the foundations for a new social order.

The government's commitment to reform and the support it receives from important social interest groups can be regarded as the deciding factor in the success of reform programmes. If structural adjustment programmes enjoy only half-hearted support, the measures are often carried through very slowly and

³ See in this connection the examples of Mauritius, Kenya, Bolivia and Haiti, in: R. Shams: *Adjustment Constraints in Developing Countries*, in: *INTERECONOMICS*, Vol. 24, No. 2, 1989, pp. 71-78.

⁴ It appears to be of only secondary importance for the success of structural adjustment programmes whether the government can rely on the support of a broad cross-section of the population or only a relatively small reform-minded group, provided it is strong militarily and represents the interests of the politically less articulate rural population. The latter model, as exemplified by Ghana, is probably the more realistic for Black African countries. In Ghana and Burkina Faso the sympathy of large sections of the population could be won by mounting a determined campaign against corruption and the inappropriate life style of the previous political leadership.

bureaucratically, without the full involvement of the government. In Togo, for example, it was only after seven years of hesitant adjustment that the third structural adjustment programme managed to turn the tide against the blatant interest groups opposed to reform, which were associated with the import monopoly of the state company SONACOM and the other quasi-governmental trade organisations such as OPAT, TOGOGRAIN, OTP and SOTOCO.

In the search for a new relationship between the state, business and society the simple solution of "less state, more private sector" is of little help. It overlooks the fact that the "enlarged state sector" (including the single party, state co-operatives, state trade unions, etc.) performs important regulatory functions in African societies, replicating the balance of power between different regions and ethnic groups.

The analytic division into state and private sector fails to recognise that the real problem of many developing countries lies in the underdeveloped and ill-functioning area between the two. In industrialised countries, and especially in the Federal Republic of Germany, this ground is filled by a highly developed web of institutions (professional associations, interest groupings, regional organisations, free trade unions and co-operatives, etc.) that provide a link between the national/central regulatory level and individual economic agents. This important regulatory mechanism – which may also be termed *società civile* (Gramsci), the third sector or intermediate institutions – must be nurtured at the same time as rolling back the "state". If this does not happen, there can be little hope of extending the activities of the private sector. For example, the retreat of the state sector in Ghana at the end of the sixties did not lead to an increase in private investment, so that the economy went into recession.⁵

Underlying Foreign Trade Concept

One of the aims of adjustment programmes is to make the national economy more competitive. The liberalisation of foreign trade and re-orientation of the national economy to take advantage of its "comparative cost advantages" play an important role in this. The rapid development and export success of the South-East Asian "tigers" is often cited in this connection.

Many observers deny that the success of these

⁵ Cf. P. Waller and W. Zehender: *Erfolgsfaktoren für Strukturanpassung in westafrikanischen Ländern*, Deutsches Institut für Entwicklungspolitik, Berlin 1989, p. 16. Of course, to make the private sector play its role, other components of an "enabling environment" like credit facilities, infrastructure, etc. are also required.

countries stems from the application of the theory of comparative cost advantages, and doubts in this regard are even more apt in the case of the poorest developing countries. Of course, in every country there are products that it is advantageous to produce in preference to others, but the question is whether these relative production advantages are sufficient to make the products in question competitive in the world market despite natural geographic and other permanent disadvantages by comparison with other producing countries. The extreme locational disadvantages of the Sahel countries are a case in point. It is difficult to identify products from these countries that could potentially compete in world markets; even the extraction of minerals is unviable in most cases because of high transport costs.⁶ The German Institute for Development Policy rightly points out that "exports of finished goods from Black African countries are likely to grow only marginally for many years, since by comparison with South-East Asia, for example, wage costs are higher, product quality is lower, the innovative capacity at governmental and company level is still rudimentary and the transport infrastructure is bad".⁷

On top of that, the terms of trade of the Third World – expressed as the ratio of the prices of exports of raw materials to those of imports of finished goods – seem to be on a structurally downward path, in contrast to earlier speculative increases in world market prices. In real

terms the developing countries' earnings from commodity exports were 50% lower in 1986 than they had been in 1975. There are several reasons for this.⁸ On the demand side, a number of factors have caused a steady decline in the demand for raw materials from the Third World, despite continued though weaker economic growth in the industrial countries. New production techniques requiring smaller quantities of raw materials have been developed and natural products have been partly replaced by synthetic materials. Consumption of many food products from the Third World, such as chocolate and coffee, has reached saturation point in Europe and North America. The income and price elasticities of world market demand for most commodities traditionally exported by poor developing countries are not only low but even appear to be declining further.

On the supply side, the need to earn foreign exchange has intensified, not least owing to high debt servicing obligations. In recent years many of the poorest

⁶ The poor transport situation in most Sahel countries increases the cost of exports of bulk goods by between US\$ 60 and 80 a ton.

⁷ See P. Waller and W. Zehender, *op. cit.*, p. 55.

⁸ The cumulative loss sustained by the developing countries on all primary products except petroleum was US\$ 57 billion in the period 1981-85 by comparison with 1980; this represented 54% of their 1980 export receipts. See C. Fortin: *Importance et conséquences de la chute des prix pour les exportations des PVD*, in: *Le Courrier*, No. 116, 7/8 1989.

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In time for the direct elections to the European Parliament the Hamburg Institute for Economic Research (HWWA) published this book containing a series of lectures held at Hamburg University in the winter semester 1988/89. It presents a wide range of views and opinions on central questions which dominate the current discussion on Europe.

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developing countries have seen their export earnings decline despite an increase in the volume of exports; this "fallacy of composition" had its greatest impact on the group of around forty developing countries that depend on a single commodity for more than half of their total export earnings.

If structural adjustment programmes encourage the growing of these products, competition among developing countries themselves intensifies and a further fall in prices is inevitable. Furthermore, the promotion of these crops generally goes hand in hand with a corresponding retargeting of state promotional instruments. For example, in most African countries the agricultural advisory services are reorganised as part of the structural adjustment programme and geared towards providing simple advice by means of the "training and visit" method. Such a strictly hierarchical advisory system may have advantages for promoting single crops for export, but it is not suitable for systems of integrated land use producing food crops nor can it adequately deal with problems such as that of decreasing soil fertility. The emphasis on producing for export is in practice often at odds with ecological requirements and there is a danger that although exports will prove successful in the short term the natural conditions for production will deteriorate over the long term.⁹ Rapidly declining soil fertility has already become the major problem with increasing agricultural production in many regions.

Given the scale of the necessary improvement in the trade balance of the poorest developing countries and the prospects of growth in the world markets in their traditional exports, hopes of a sufficient increase in exports are misplaced. Hence it is certainly no accident that an improvement in the trade balance has generally been achieved by reducing imports, not by increasing exports.

The retargeting of import duties under structural adjustment programmes is designed to deregulate import transactions (removal of state monopolies and quantitative import restrictions), to integrate the national economy more fully into world markets by introducing relatively uniform and low rates of import duty and to minimise distortions due to differing effective protection levels for the products in question. At the same time, the

⁹ For example, in recent years the growing of cotton has been promoted very strongly in most West African countries. The decline in soil fertility has been barely apparent so far owing to the use of fertilisers, but since in many cases these crops have not been integrated into a crop rotation system aimed at long-term soil stabilisation and including appropriate fallow periods and since the agricultural advisory system is not even geared to that purpose, a visible degradation of the soil must be expected in future.

measure is aimed at maintaining or if possible increasing the volume of customs and tax revenues. In accordance with this objective, the recently agreed structural adjustment programme for the West African state of Benin provides initially for the introduction of a uniform tax on domestic turnover and imports. At a later date a uniform rate of customs duty will also be levied on imported goods.¹⁰

Since in the past many developing countries discriminated against imports by imposing quantitative restrictions and exchange controls, the introduction of adjustment measures can be expected to lead to an increase in imports. This is particularly true of countries in the franc area, since here imports cannot be made more expensive by simultaneously devaluing the currency. It can be expected that the additional imports will comprise not only inputs required for national production but also consumer and luxury goods.

The decision not to apply a policy of selective import controls stems from the World Bank's concept of the neutrality of industrial and trade policy, as expounded in the World Development Report 1987. The Bank recommends that all industrial and trade measures affecting production for the domestic and export markets and the use of domestically produced and imported goods should be neutral in their effect. Reference is repeatedly made to the success of the newly industrialising economies in South-East Asia in this regard. Apart from the fact that the initial situation of this group of countries was only partly comparable with that of most of today's poorest developing countries in terms of natural resources and socio-economic structure, these countries have pursued a systematic policy of export promotion (often promoting those manufacturing industries in which the income elasticity of world demand was high), selective protectionism and import substitution.

Objective of Structural Adjustment

In view of the inadequacies of the structural adjustment concept portrayed above, it appears necessary to clarify the ultimate objective of the adjustment process. It cannot realistically be assumed that economic adjustment will enable the countries of Southern Africa to integrate into the world market and gradually to attain the economic power and living standards of the Western industrial countries, following the example of the newly industrialising economies of

¹⁰ Cf. J. Zattler: Konzeptionelle Schwächen, Erfahrungen mit dem Struktur Anpassungsprogramm Benin, in: epd – Entwicklungspolitik, No. 13, 1989.

South-East Asia. And even if it worked it would probably have disastrous ecological consequences.

The report "Africa's Adjustment and Growth in the 1980s" published recently by the World Bank and the UNDP paints a relatively favourable picture of the development of Sub-Saharan Africa (excluding the five oil-exporting countries). Between 1985 and 1987 the countries of the region achieved economic growth averaging 2.9% a year. Leaving aside the question of whether the figures have been "enhanced" by a judicious choice of the base year and exchange rate for conversions, as has been claimed in several quarters, this rate of growth is hardly enough to offset the increase in the population. Even on the basis of heroic assumptions, it is therefore improbable that during the next generation per capita growth in Sub-Saharan Africa will be more than 1 or 2% a year. The income gap between developing and industrialised countries would therefore not narrow but widen further.

This assessment is confirmed by the World Development Report 1989, published by the World Bank in September. This shows that the gross national product of African countries South of the Sahara rose by barely 0.5% in 1988. An average economic growth rate of 3.1% a year is forecast for the period from 1988 to 1995, based on the assumption that African countries do not take adequate adjustment measures (variant I). The rate of growth in GDP would rise only marginally to 3.2% a year if appropriate adjustment measures were implemented (variant II). Africa could therefore expect to gain little from rigorous adjustment in accordance with the recommendations of the World Bank and the IMF, in contrast to the situation for most Asian and Latin American countries, for which the figures under variant II are significantly higher than those under variant I.

There may well be a few exceptions in Black Africa. For example, the prospects for growth continue to be good in Ghana, the model pupil who has achieved relatively high rates of growth in recent years, not least on account of foreign aid totalling US\$ 2.5 billion since 1983.¹¹ It should be borne in mind, however, that Ghana differs from most countries in Black Africa in that it is rich

in human and natural resources and has a high development potential and relatively low debt; its downfall was due primarily to domestic causes.

It can therefore not be expected that countries South of the Sahara will be able greatly to improve their growth prospects, even by means of far-reaching adjustment. Indeed, many developing countries face a further passive disengagement from the world market, a decline in their material and social infrastructure, the decay of state institutions and their ability to exercise control, growing social and political tensions accompanied by civil wars, large-scale movements of refugees, famines, uncontrolled population growth¹² and ecological disasters.

In a preliminary draft of an internal strategy paper on the development of Sub-Saharan Africa up to the year 2020¹³ the World Bank has set the goal of closing the "social gap" between the region and the rest of the world within that time span. This entails eliminating malnutrition and providing basic health care (with an average life expectancy of 70 years) and a minimum standard of education. It is not yet clear whether this apparently realistic definition of the development goals for Sub-Saharan Africa will be combined with a partial revision and refinement of structural adjustment measures that take better account of specific obstacles to development than in the past.

What consequences flow from this as regards future support for the poorest countries, mainly in Black Africa, against the background of these flaws in the concept of structural adjustment as it has been applied hitherto? Four points are of importance in this context.

Strengthening the Recipient's Responsibility

Even when adjustment measures are at the drafting stage greater attention should be paid to their socio-economic implications and steps taken to strengthen the power base of the "forces for reform" and to involve the existing ruling elites. As a rule it helps if the various stages of adjustment and their implications are widely discussed in advance. In this way, sections of the population who will benefit from the measures, particularly the rural population, can be mobilised and the chances of success improved. In the same way public opinion as to corruption can be sharpened and mechanisms of social control established. Instead, the

¹¹ Cf. *Neue Zürcher Zeitung*, 5th January 1989.

¹² The German Institute for Development Policy points out in a study produced for the German Federal Government that in the year 2020 there are expected to be some 60 million people without an income base in the Sahel (including Sudan) if current economic and demographic trends continue. It also predicts that an enormous potential flow of emigration would develop, exerting pressure on neighbouring states to the South and Mediterranean countries. See H. Brandt and H. Lembke: *Entwicklungshilfe als Dauerzuwendung am Beispiel der Sahelländer*, Deutsches Institut für Entwicklungspolitik, Berlin 1989, p. IV.

¹³ See R. Barthelt: *Afrika darf kein 'Sozialfall' werden*, in: *Entwicklung und Zusammenarbeit*, No. 2, 1989. The final version of the strategy paper mentioned by Barthelt has now been published; see World Bank: *Sustainable Growth with Equity. A long-term perspective for Sub-Saharan Africa*, August 1989.

planned measures are usually kept secret as long as possible so that they can be introduced without warning. The argument that announcement and prior discussion reduce the effectiveness of adjustment measures really applies only to devaluation of the currency.

Moreover, the prospects for successful adjustment should improve if important socio-economic groups are heavily involved in implementing the reforms. Trade unions have a key role to play in this respect. In many cases it has not been possible to win their support; in Benin, for example, their right to a say was greatly reduced. There is no provision for them to participate in a committee to be formed to promote the private sector, composed of representatives of the state, businessmen, the banks and other interested groups. Marginalising the trade unions positively provokes their opposition. By contrast, gaining their participation by making some concessions to their interests succeeded in Costa Rica and the Dominican Republic and in the initial phase in Ghana.

In general the objective should be to strengthen the autonomy of the state and enhance its ability to steer the economy, thereby overcoming the predominant emphasis on skimming off economic rents. In this connection it seems to me to be of decisive importance whether over the medium term the above-mentioned intermediate layer of institutions between the nation state on the one hand and economic agents on the other can be strengthened. For example, by holding local elections the Ghanaian Government won a political mandate for its economic programme aimed at promoting the rural regions by decentralising power and strengthening regional representation. By establishing new district assemblies, the Government created local representative bodies with their own budgets who were given the task of formulating development objectives and strategies and putting them into practice.¹⁴

At the same time, one must be clear that the current financing of structural adjustment by means of loans in return for promises of economic reform by the

governments in question tends to cast the lender in an active role and the borrower in a passive one. In order to improve the assimilation of programmes, the World Bank is considering giving ex-post support to successful reform efforts.¹⁵ This could take the form of financing part of the development budget or the budget of individual sectors. The borrower's sense of responsibility would be greatly increased, since it would have sole jurisdiction over the formulation and implementation of policies. Control over the use of funds would no longer be exercised by closely tying them to specific purposes or monitoring compliance with conditions. Inefficient resource use would affect the scale of future support from the international donor community and gross misuse of donor resources could be publicly censured. This kind of ex-post support seems an appropriate way of countering the increasing tendency for donors to assume responsibility for implementation at project level and to formulate and impose conditions, thus strengthening responsibility on the part of recipients.

Moving away from the present ex ante financing of economic reforms would also necessitate establishing new forms of dialogue on development policy between the lending institutions and the governments of developing countries. This would primarily be the responsibility of the multilateral lenders. In April 1989 a paper drawn up by the Economic Commission for Africa and entitled "Alternative Framework for Adjustment and Transformation" was discussed at a conference of African ministers of planning and finance. It suggests that adjustment programmes might provide for the introduction of multiple exchange rates and interest rate differentials in order to exert more direct influence over the allocation of foreign exchange and capital. The proposals are still couched in relatively general terms, but they deserve to be examined closely by donors and discussed with African governments.

Greater Emphasis on Longer-term Structural Policy

Measures to reduce domestic demand are usually a central element in adjustment programmes, reflecting the belief that a deficit in a country's current account stems from an excess of domestic demand over domestic production. The alternative to this, namely expanding domestic production to meet the level of demand, is generally considered effective only in the long term. Measures to cut domestic consumption often concentrate on the state, which generates domestic demand and fuels inflation by printing money.

¹⁴ R. Bodemeyer rightly points out that in African countries "a centralised, sectorally fragmented bureaucracy is a functional requirement resulting from a particular way of establishing and preserving political domination". However, to conclude from this that "reform strategies that break down the concentration of power and/or sectoral power bases, ... [are] likely to jeopardise the system of domination in developing countries" (see R. Bodemeyer: *Dezentralisierung in Afrika – eine realistische Strategie?*, in: H. F. Lilly and B.-O. Bryde: *Staat, Verwaltung und Recht in Afrika 1960-1985*, Berlin 1987, p. 169) misses the point. As shown above, economic reforms are bound to have political implications. Decentralisation offers the chance of providing political underpinning for economic reforms aimed at countering the "urban bias". Decentralisation can therefore be a means of ensuring that the reforms occur against a background of political stability.

¹⁵ R. Barthelt, *op. cit.*

Adjustment measures should take account of the indicated obstacles to development in Sub-Saharan Africa, which are largely socio-political in nature and to some extent stem from natural locational disadvantages. This means that the predominantly short-term stabilisation measures must also be consistent with measures that are more effective over the longer term to overcome specific obstacles to development. Where stabilisation measures limit the development potential, priority should be given to structural reforms.

Instead of focussing on reducing domestic demand primarily by cutting state expenditure, which is effective in the short term, greater emphasis should generally be laid on making the tax system function. This entails widening the tax base in order to halt the printing of money as a means of indirect taxation via inflation. There is still considerable scope for increasing revenue from the taxation of certain imports and monopoly income, such as ground rents. This would take account of the fact that the adjustment measures have virtually destroyed the economic basis of the state (profits from state enterprises, the ability to print money) and that a new tax base must be created to provide for the state's future role.

The domestic saving potential must also be tapped more effectively. For this purpose the present highly inadequate financial sector must be developed, entailing the reorganisation of central banks and bank supervisory authorities and fostering an independent financial sector.¹⁶ This could help eliminate the domestic savings gap in a sustainable way, increase the self-financing of development investment, reduce inflation and at the same time develop the domestic market.

Development of the Domestic Market and Regional Integration

An increase in interlacing in the domestic market provides an important basis for developing and strengthening management of the economy, a cultural identity and orientation of the state towards development objectives. Given the poor export prospects for African products, large trade imbalances and the close correlation between growth and import requirements, development of the domestic market is

an economic imperative for African countries. The extremely small size of the economies of most countries in Sub-Saharan Africa is a serious obstacle in this regard; closer regional integration is the most obvious solution. It is true that similar attempts in the past have often failed, but today there is a more urgent need to reduce the pressure on the trade account in view of the increasingly acute shortage of foreign exchange and the limited scope for exports to industrial countries. Obviously, the development of a regional market will be a very protracted process, because the economic structure of these countries is traditionally geared towards the former colonial powers.

Economic recommendations should therefore be aimed more strongly at promoting economic integration at regional level, for example by levying lower import duties on goods from countries in the region and by preferential utilisation of such goods for the implementation of development projects. The regional orientation is a realistic alternative to gearing output to the world market on the basis of theoretical comparative cost advantages, with all the associated problems described above.

Social and Ecological Profile of the Measures

For some time the World Bank has been trying to accommodate the criticism of previous structural adjustment programmes for their sometimes adverse social and ecological impact. In some countries packages of measures have already been devised to offset these effects, but they have the disadvantage that they cost money and are usually no more than short-term palliatives.¹⁷ There have rightly been calls¹⁸ for the adjustment measures themselves to be made more socially and ecologically sound, rather than simply offsetting their harmful effects by means of measures such as job-creation schemes and reforestation.

It would therefore be a question of removing the latent conflict between combating poverty and carrying out adjustment by ensuring that the adjustment measures increased the primary income of the poor, which does not automatically result from the elimination of economic distortions. What is important in this context is improved access to the means of production (by means of land reform, for example) or the selectively targeted

¹⁶ See W. H a n k e l : Zur Geld- und Kreditpolitik der Entwicklungsländer unter dem Aspekt der Stabilisierungspolitik, in: GTZ: Stabilisierungs- und Strukturanpassungspolitiken in Entwicklungsländern, pp. 62 ff., Rossdorf 1988.

¹⁷ This is particularly problematical if such compensatory programmes are financed by credit.

¹⁸ See G. L a c h e n m a n n : Anmerkungen zu den gesellschaftlichen Aspekten der Strukturkrise in Afrika, Deutsches Institut für Entwicklungspolitik, Berlin 1987.

¹⁹ In recent years Togo's structural adjustment programme gave priority to the promotion of cash crops, exacerbating the food situation for the poor in certain areas; a special programme has now been launched to increase output and productivity in food production.

improvement in conditions for food producers.¹⁹ Furthermore, the budget crisis offers the chance to re-examine the structure of public income and expenditure according to social criteria. Increases in expenditure on basic health care and education have already been included in some of the more recent structural adjustment programmes. There still remains considerable potential for further action on the revenue side, however. Widening the tax base is only one of the possible ways of increasing government revenue. It has already been mentioned that the World Bank generally refrains from recommending a selective structure of import duties. It is incomprehensible why imports of luxury goods and subsidised food products that compete with domestic products should not be subject to a significantly higher rate of duty. The import regime should obviously be kept simple for developing countries with small customs authorities in order to reduce bureaucratic costs and the scope for abuse, but this does not justify largely renouncing the use of a policy of selective import management.

It is argued that such selectively high import duties would penalise the consumer or impair the efficiency of foreign exchange allocation; one can only reply: So what? Discrimination against the consumers in question is deliberate and the efficiency with which foreign exchange is allocated would be impaired only if one assumes that the market is always the most efficient way of distributing foreign exchange. Such a selective import policy can increase government revenue and make socially harmful cuts in expenditure unnecessary. It would also be appropriate to the nature of the crisis, which not only reflects economic imbalances but is also a crisis of the model of consumption and society.

The UNDP/World Bank programme "Social Dimensions of Adjustment" recently launched tries to identify the impact of adjustment measures on vulnerable groups and to formulate adequate measures in order to counteract these effects. It is to be expected that those elements of structural adjustment programmes discriminating the poor will be revised in this context. Besides, proposals should be discussed to strengthen the lobby of the underprivileged groups on an institutional and sustainable basis.

It is also a question of building ecological aspects into adjustment measures and into developing countries' development plans and economic policies in general.²⁰ In view of the rapid decline in soil fertility in many tropical

regions, it is increasingly important to develop sustainable systems of land use. Export crops must be integrated into such a system (with appropriate fallow periods being respected and leguminous crops being rotated with cereals) and the advisory service must be organised accordingly.

Adjustment not a One-Way-Street

The dominant influence of world market forces on the success of structural adjustment programmes is becoming increasingly clear. There is also a growing realisation that the life style and production model of the industrialised countries cannot be applied worldwide on ecological grounds, quite apart from other reasons. The donor organisations' demands for adjustment therefore lack credibility as long as the industrial countries themselves do not display economic and ecological responsibility. Development aid appears as a figleaf to mask such a deplorable state of affairs.²¹ The further development of the structural adjustment concept along the lines sketched above can succeed only if the industrial countries set an ecological example, eliminate the distortions in agriculture and make their contribution to solving the debt problem.

Furthermore they have to make their contribution to solving the problems of indebtedness and capital flight (especially by obliging their banks to inform in certain cases about big bank accounts held by citizens of developing countries, and by implementing appropriate measures to discourage the underlying capital flows; public information on and the denouncement of some big cases of capital flight could have an enormous effect).

Germany has an additional obligation to reduce its balance-of-payments surplus. Such action could strengthen the world economy, reduce the pressure on commodity prices and counter the rising trend in real interest rates, emanating mainly from the USA. Germany's scope for action on the trade front thanks to its large trade surplus should be used to foster development. For example, it could cease to promote exports of military equipment and luxury goods to developing countries via the HERMES credit insurance scheme. Shipments of such goods often jeopardise the success of structural adjustment programmes and prevent the developing countries' scarce foreign exchange from being used for priority development purposes.

²⁰ Initial operational considerations along these lines were made for the World Bank by Stein Hansen: *Structural Adjustment Programs and Sustainable Development*, May 1988, and by Robert Repetto: *Economic Policy Reform for Natural Resource Conservation*, May 1988.

²¹ The World Bank has calculated that the annual welfare loss suffered by developing countries as a result of protectionism by industrial countries is roughly twice as large as total official development aid worldwide.