WORLD BANK AND STRUCTURAL ADJUSTMENT

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Contents

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KEPA

KEHITYSYHTEISTYÖN PALVELUKESKUS
SERVICECENTRALEN FÖR UTVECLINGSSAMARBETE
SERVICE CENTRE FOR DEVELOPMENT COOPERATION
ADDRESS: Sörnäisten rantatie 25 FIN-00500 Helsinki
PHONE: +358 9 584 23 000 FAX: +358 9 584 23 200
INTERNET: www.kepa.fi eMAIL: kepa@kepa.fi

1.

THE WORLD BANK AND THE STATE OF STRUCTURAL ADJUSTMENT

Emmanuel Akpa, World Bank

Introduction

Structural adjustment is the package of policies which we work out with our client countries, comprising a view on restoring macroeconomic balances, as this is often the genesis of the problem, and creating an incentive environment that builds on a stable macroeconomic environment and facilitates growth.

As said, structural adjustment is a package of reform measures which is adapted by our partner country in order to reduce economic imbalances and improve economic incentives, which are both necessary to bring about sustainable growth and development and poverty alleviation. It is an endeavour in which the World Bank works very closely with the International Monetary Fund (IMF). In this co-operation the IMF pays more attention to stabilisation. That is to say, the IMF works around the issues of curbing inflation, public finance deficits, balance of payment deficits as well as around the issue of imbalances that are triggered within domestic banking systems, either because of public finance problems, repeated inflation, or money and credit policy. This is done in order to be able to curb the rate at which inflation occurs, to allow the budget and the external balances to become sustainable. As such, when there is a current account deficit of a certain magnitude, the financing of that current account gap does not entail the creation of further problems as heavy indebtedness, especially indebtedness at terms which will create more problems down the road.

The IMF works around the totality of these issues and the World Bank focuses on the structural change that is necessary to create the basis for sustainable growth. Usually in a given country, prior to the initiation of the structural adjustment package that the World Bank supports, the IMF collaboration creates the basis for an IMF supported programme, usually of the Structural Adjustment Facility (SAF) variety or the Enhanced Structural Adjustment Facility (ESAF) variety or prior to that, of the standby variety. This proceeds ahead of the structural adjustment loan or credit that the World Bank puts together with the partner country, in the hope that the structural changes that this Bank supported will come at a time when the macroeconomic imbalances are narrowing down. The two have to go together in order to create the basis for strong growth and poverty alleviation.

How did we get into structural adjustment?

Structural adjustment began in 1979. This was soon after the second oil shock, which created rising import bills in the developing countries importing oil. It also coincided with the end of a commodity boom, which occurred in the mid 70's, so that commodity prices dropped. All around the world, with the increase of oil prices, there was a spurt of inflation. The link between inflation and interest rates is that when inflation begins stocking-up, nominal interest rates begin to rise, because lenders want to preserve real interest rates. Interest rates were thus rising at this time.

A complicating factor was that many of the developing countries had ventured into the Eurodollar market which was recycling petrodollars funds at the time. Many of them borrowed from commercial banks, at variable interest rates and very short maturity terms. Some of this funding went into direct consumption or they built assets which were not capable of quickly generating returns, to serve the debt. Some of them built houses, bought presidential jets, or built industrial assets, but this happened at a time when governments were trying to industrialise faster than was probably justified by the fundamentals.

In many places there were thus sugar plants created before the ecological conditions had been tested for the feasibility of the sugar production. Very often the plants would have sizes far above the demands of the national economy, which presumed that market openings had to be sought abroad even if production could be handled sufficiently at home.

As a result, very large gaps emerged because imports became more expensive as commodity prices were falling. The receipts for exports were falling at a time when they had to service a growing external debt, much of it commercial and thus with high interest rates. As such there were major imbalances abroad.

In the domestic economies there were also reflections of the same misalignment. There were mounting deficits, especially public finance deficits. This was partially so because of the boom in the mid 70's and the availability of ready money from the commercial banks (the recycling of the Eurodollars). In this environment, many governments expanded the scope of activities very rapidly, as such increasing the number of civil servants, and creating state enterprises to run the industries that were built. The consequence was that public finance went into deficit.

In order to fund this deficit, there was a lot of drawing of money from the banking systems, which became very fragile. At the same time, the differentials in the inflation rates at home versus abroad meant that the exchange rates could not be sustained at their existing levels. However, the governments were hesitant to adjust the levels of the parities. We have to bear in mind that this was before flexible exchange rates became popular. Many countries thus experienced the overvaluation of exchange rates.

Public expenditure was often also lop-sided. Powerful constituencies at home managed to get the jobs, positions. When we look back at this, there were gross inefficiencies in public outplays, but also gross inequities. These events happened mainly in the urban centres, favouring urbanisation to the detriment of the people in the rural areas. The latter, because of their stage of development, were often the ones who could use the cocoa, the coffee , the rubber, the oil palm, which at that point in time were exported but internally didn't earn enough in local currencies because of the overvaluation of the exchange rates. So there was gross inequity in terms of how new resources brought from abroad were used and in how public finance expenditures affected people but also in terms of the distribution of returns to the commercialisation of the domestic product.

In order to curb these inequities, the World Bank initiated structural adjustment. In a sense, structural adjustment and what it tries to do is not new in its totality. Prior to the advent of structural adjustment lending as an instrument by itself, we had individual projects. And for projects to work, we had policies prescribed, including attached conditionalities. The advent of structural adjustment brought the possibility for the World Bank and for the partner countries, to look at issues on an economy wide basis. Issues concerning price level, domestic finances, external finances, the exchange rates etc. and these could be looked upon across the border.

Summarising this: structural adjustment financing and the package enables a country to work towards the creation of a stable macroeconomic environment, which is the basis for sustainable growth and poverty alleviation. Often they promote openness of the economy. As said, in the 70's, it happened that with the attempt to rapidly industrialise, imports were sometimes banned or quantitative restrictions were set, which created a hot house environment for domestic industrialisation. However, the impact of this attempt was furthermore to close off much of the economy to the rest of the world, which is often the basis for inciting people to be more innovative and more productive in order to be more competitive.

Structural adjustment tries to reopen the economy and link it with the wider world. It tries to improve transparency and efficiency in resource allocation. It improves the scope for private sector development. Quite often, when the government in the late 70's tried to force the pace of industrialisation, it decided to create monopolies. As was said: once there is a cement plant, there will be no other cement producer, no import of cement. When the plant as such is created, and the company which produces the product is in the public sector, it means de facto that the door is closed to any private initiative, trying to get a foothold and to set up a plant of its own. There were many cases like that across the border.

Structural adjustment also creates the opportunity for institution building and policy analysis. How does this happen? After several visits by IMF and World Bank missions to the countries, we focus on issues which are critical, which are inhibiting growth and progress. We work together to identify those measures which can relieve the strains on growth. This is the basis for packaging the programme, which is supported in the case of the World Bank by a structural adjustment credit or loan. This process thus helps to create institutions, helps in strengthening policy analysis. In fact, we make sure that there is a counter part arrangement in the country, meaning a group of technical ministers, who are very close to the day to day management of the economy, and which constitute a senior committee. They work with a technical secretariat, made up of senior directors, who are as working very closely on the policy issues. And we keep this partnership going in such a way, that over time, by the end of the first adjustment programme, and possibly before the creation of the second adjustment programme, there is enough home grown input in the preparation of the content of the subsequent adjustment programmes.

Structural adjustment of the variety I have just described, has been going on since our fiscal year 1980. In terms of their characteristics, one can break the foregone period into three subperiods.

Phase 1: Structural Adjustment in 1979-1985

Phase one, which is not strictly defined, is used for our own convenience, for the purpose of analysis. We have our own evaluation office, which is independent and reports only to the president of the institution. They have done about three exposed reviews on our structural adjustment programmes. The first review was conducted in 1986. We therefore define the period 79-85 as phase one.

This period was characterised by a number of programmes that focussed on the critical issues of the day, being macroeconomic imbalances, public finance deficits, trade imbalances and the large balance of payment problems. Many of these programmes were called import programme loans or trade policy loans, and in the initial days they were made to countries as Bangladesh, Pakistan and Turkey, in Africa for instance to Cote D'Ivoire, and in Latin America to Bolivia.

They often were trade loans, because typically these countries were often experiencing exchange rate overvaluation, which was holding back their exports and indirectly encouraging the consumption of imports (which by that time had become expensive). As such, there was unmanageable pressure on the external balances. External reserves were declining under pressure, and with the government being often hesitant to change the exchange rates, favourable conditions were created for the consumption of imports, the hold back of exports, therefore making it impossible for many countries to pull themselves up by the usage of their comparative advantage.

The focus was also on industry, because, coming out of the 70's with its development thinking, if one wanted to undo some of the damage that had been done, one had to focus on industrial policy and trade policy. Again, because the problem was poor performance of exports, due to the misalignment of incentives, there was a lot of attention paid to the incentive structure at the time.

We were working at the aggregate level, because of the nature of the problems. Structural adjustment thus was economy wide. However, later on, as time went by, and the conditions showed that one could take a sector and focus on its problems exclusively, we developed what were called sector adjustment loans (SECALs). Progressively SECALs became important and were used often to address issues in the trade, industrial or agricultural sector.

One other characteristic of phase one, was the priority given to grapple with macroeconomic imbalances, to create a new incentive environment, which would permit the economies to adjust to new international conditions and pick up growth again. We focussed so much on growth, that there was not enough attention paid to who actually benefits from growth. When we look at the first generation of structural adjustment programmes, the implications of structural adjustment in terms of social progress were subsumed to be the result of growth and distribution. No specific attempt was made to either soften the impact of the changes induced on the poor or to deliberately create avenues for those people who are not able to participate in growth directly.

Phase 2: Structural Adjustment in 1986-1990

The period 1986-1990 can be seen as phase two. In phase one we were just experiencing the phenomenon, and we often overestimated the capacity of the countries to implement the measures. They themselves, not having tested the instruments, were not aware that we were overestimating the implementation capacity. So, after that first phase, one of the lessons we learned was to be more modest about the implementation capacity.

Also we had to be more realistic about the lag between the creation of new policies and the generation of results. Conditionality, related to fiscal policy, increased during this time. We moved from the preponderance on Structural Adjustment policies (SAP) to using SECALs. SECALs went particularly to the agriculture sector. This was because there were deep rooted problems within agriculture and it was thought, that after dealing with the broad exchange rate type issues in agriculture, when one focussed on the particular needs of the sector, one could remove some of the constraints on growth.

State enterprises were also a major problem rising out of the enthusiasm of the mid-70's. In many countries we found there could be an excess of 60 state enterprises in a country with a population of only 5 million. Half of this country's population would be under the age of 14, leaving only about 2 million people from which to select talents to manage the many state enterprises we found in the countries. Because of the problems of training and education, one is bound to run into constraints of human capacity to run the enterprises.

So, very often the management was weak and the ability to fund the enterprises not there. Therefore one other element in the switch of the preponderance from SAPs to SECALs, was to create a number of state enterprise reform programmes. We performed detailed studies of state enterprises, and classified them together with our partner countries into, for instance, a category of enterprises that hadn't had the chance to survive either because equipment had been obsolete or that equipment was so ill adapted.

Very often in the case of sugar, one found sugar estates created in areas where the rainfall would never be sufficient. Some of them were even set up on land that wasn't easily accessible for irrigation facilities. In these cases, even when assuming that the resources would be available to procure energy and pump water, the gradation of the land did not allow access to irrigation facilities. These were classified as having to be eliminated.

We had a segment that could be of interest to the private sector and as such could be placed on the market for the entry of private partners, fully or in part. We also realised that some could be preserved in the state portfolio, and endowed with whatever it took that made them function properly. The SECALS, for this type of segment, address these issues.

Another important thing we did in the second phase, was to emphasise government ownership. Governments in the first phase were facing serious macroeconomic problems, which sometimes went so far as that they were not able to meet the payroll of a civil servant, who therefore wasn't willing to work and went on a strike. This could lead to the fact that government officials had to abandon any long term future plans and had to focus on how to move from day to day, how to keep the government working, how to keep the schools open. We realised that in the first phase, in the heat of trying to identify solutions for serious macroeconomic problems, we put together solutions quite rapidly sometimes with a small team, a committee of ministers supported by a committee of technicians and that there was not enough broad debate and internalisation.

We thus in the second phase tried to create conditions under which the identification of the problems and the rational for putting a package of solutions together was shared more broadly. Except in the case of very sensitive issues, we encouraged the participation of various groups as the media and Non-Governmental organisations (NGO's) in the debates.

Another element we paid attention to was the social impact of adjustment. In fact, already in the later stage of phase one we created units in the Bank which focussed on social impact. In phase one, the social impact of adjustment was responded often to by the creating of an accompanying programme to deal with the negative effect of structural adjustment on the poor. By the time of the second phase, we made an effort to mainstream it and make it part of the parcel of the adjustment package.

Phase 3: Structural Adjustment in 1991-

Phase three had an increased focus on the institutional capacity of the partner country. We have gone beyond the creating of provisions for dealing with the negative effects by actually designing programmes in such a way that they tackle poverty.

We realise growth has no purpose in our partner countries but for social progress. We want structural adjustment programmes to be focussed on poverty. Poverty is alleviated from growth, because growth is the means for generating more goods and services. When distribution is neutral, it means that as long as growth is higher than the demographic growth rate, everybody benefits. Preferably distribution should be conducted in a manner that as much of the benefit goes to the poor as possible. There is therefore the need to make sure that the policies are such that they create avenues and opportunities for greater participation by the poor. Growth is the number one element through which poverty can be reduced.

We also realise, that a supporting element is the provision of public goods and services. The quality of public expenditure is important. Leading to the preparation, there are usually a number of public expenditure reviews, to see where the government stands. In particular primary health and primary education are the segments which touch the poor very closely and help to create human capital and enable them to participate in the economy once it takes off. So progressively in our programmes we try not only to protect social spending, but we also make sure that as long as the resources that are allocated actually get spent the way they should be, the allocation for primary health and education is protected and augmented.

Finally a third segment is a social safety net. There are always going to be people who need help over and above what growth provides, and what direct access to public services could provide. In all structural adjustment programmes, we ask ourselves what can be done to provide a safety net for those who due to their location or natural endowment are not able to look after themselves.

What has been happening in terms of the magnitude of structural adjustment? When structural adjustment began, only 3% of the World Bank lending was in this area. It went as high as about 29% in the fiscal year 1988-89. In 1986 there were other problems with commodity prices and with the terms of trade in our countries. These problems had to be dealt with. Policies had to be provided to weather the events that were forced on the countries by the rest of the world but also to provide financing to cushion the path through very difficult times.

The regions of structural adjustment

A first group is to be found in Sub - Saharan Africa, which went through the first, second and third phase. The second group comprises the Middle East and North America. They don't use adjustment lending very much, not because they are out of the woods where development is concerned, but some of them do not have an active relationship with our institutions. Furthermore, their oil resources can somewhat balance their external accounts. Latin America is an active participant in structural adjustment operations, from the first to the third phase. Another group is eastern Europe and central Asia.

Conclusions

I already have made comments about the degree of attention we pay to health and education.

We take the country assistance strategies (CAS) very seriously. For all the borrowing members of the World Bank, we conduct a country assistance strategy at least once a year, or once every two years and for those that are not active once every three years. We realise that regarding structural adjustment, one can adapt the policies according to the evolution of the international economy and create the basis for growth. One can use public expenditures to influence the provision of good quality public services, to help progress and in particular to deal with the issues of poverty.

But we also know that in the entire package that is proposed as assistance to a country over a given period, one can not put everything on structural adjustment. There is the need to provide direct lending to critical sectors which by themselves can make their own contribution to poverty alleviation. We lend therefore to the social sector, we lend for infrastructure, because its no good to create the right incentives to produce cocoa and coffee, if there are no routs to get them to the poor. So we look at the entire package once every year for very active large countries, to make sure that the package contains elements that are mutually reinforcing, that create growth, reduce poverty but also provide infrastructure that enables policies to achieve their goals.

Whether it be in our studies, economic analysis or lending, poverty alleviation and equity objectives are the main elements. We want to discuss the role of the state and its co-operation with the private sector to move the economy forward. We want our programmes to be built on realistic and concrete information, but we also want to use that information base to provide the material for our monitoring performance in order to adapt the package to suit the evolution of the situation. We want to improve the sequencing of our action and at all costs work in co-ordination with the IMF, bilateral partners and other agencies of development, NGO's included, for the efficient delivery of our systems to our partner countries.

This is where the World Bank stands today. Not growth for the sake of growth, but for the principle aim of poverty alleviation.

2.

HAS STRUCTURAL ADJUSTMENT SOLVED THE PROBLEM OF POVERTY IN TANZANIA?

Christopher Mwakasege,
Tanzania Social and Economic Trust, Tanzania

Introduction

Recently I attended a meeting in which some people from a European Country participated in when they visited our country. During the course of our discussions on the trends of our national economy, they asked me the following question: "What is your opinion on the performance of structural adjustment in Tanzania?"

The answer to this question has been the inspiration for the thoughts presented in this paper. In this paper I have decided to deal with the relationship between structural adjustment and poverty. Dealing with poverty is at the heart of Tanzanian development efforts. Any measure, which is introduced in order to increase national economic growth, fails if it does not deal with the poverty issues which face the majority of Tanzanians.

Tanzania is a low income country with an estimated income per capita of USD 200 according to the Revised National Accounts of May 1997. Historically, the country made progress in economic and social development as GDP growth averaged 4.7% per annum in 1968 - 1978. Primary School enrolment tripled, access to health services improved, life expectancy improved from 41 years during the 1960s to 47 years during the 1970s and infant mortality declined from 147 during the 1960s to 122 (per 1000 births) during the late 1970s. However, starting in 1979 until the early 1980s, the average GDP growth rate dropped to less than 1per cent per annum as the economy was faced with multifaceted economic problems. These problems were characterised largely by the declining real per capita income, large fiscal and balance of payment deficits.

A series of economic reform measures were undertaken by the government to try to redress the deteriorating socio-economic situation. Between 1981 and 1985 a National Economic survival programme was adopted and was followed by structural adjustment programmes which were domestically initiated. These policy programmes were useful in identifying the nature and gravity of the economic crisis facing the country. However, they could not be as effective as intended because they lacked the critical resource injections from the donor community and the private sector.

From 1986 till the present (1998), the country has been implementing structural adjustment initiatives as directed by the IMF and the World Bank. This wasn't the case in 1994 and 1995 when the country went off-track as far as IMF benchmarks were concerned. Before the government signed the agreement with the IMF, the President (by that time former President Ali Hassan Mwinyi) told the public that it was necessary for the country to adopt the structural adjustment free market economic policies as a condition for receiving more foreign financial assistance. Although adjustment programmes differ slightly from country to country, they typically include currency devaluation, trade liberalisation, cuts in social spending, privatisation of government-held enterprises, wage suppression, business and financial, restrictions on credit and higher interest rates.

How can we assess the performance of the structural adjustments in Tanzania? Have they helped in dealing with the poverty problems? I would like to look at two sets of indicators; first of all the financial economic indicators, and secondly the social economic indicators.

The Financial Economic Indicators:

GDP Growth:

The GDP annual growth rate, at 1992 constant prices, averaged 3.6per cent from 1985 to 1990. This was followed by a low growth rate of 1.6per cent from 1991 to 1994. In 1995, the rate was 4.05per cent , and 4.16per cent in 1996. The performance in output, though still unstable and low, compares favourably with the late 1970s and first half of the 1980s.

Agriculture expanded at an annual average rate of about 3.4per cent from 1986 till 1990 and 3.6per cent from 1991 till 1996. This growth rate in the agricultural sector is still small in absolute terms when compared to the rate of 3per cent during the decade prior to the start of reforms in 1986. Production in the manufacturing sector increased with an annual average growth rate of 3.1per cent during the period of 1986-91, but declined with an average annual rate of 1per cent during the period from 1992 to 1994. The slow response from the manufacturing sector reflects the difficulties involved in the restructuring process. The effect of measures taken can only be seen on a medium and long-term basis and the private sector is only evolving at a slow pace.

Balance of payments

A progressive development has been observed in the balance of payments. Export has improved during the 1990's, rising from 407.8 million USD in 1990 to 761.6 million USD in 1996. This represents an average annual increase of 14per cent. This positive performance in export earnings was mainly because of non-traditional exports and the increasing volume and world market commodity prices of coffee, cotton, sisal, tobacco and cashewnuts and tea. Earnings from non - traditional exports exceeded those of traditional exports for the first time in 1990 and since then their contribution to total exports has ranged between 40 and 50per cent. Import increased slightly from 1,23 billion USD in 1990 to 1.34 billion USD in 1995 before dropping to 1.21 billion USD in 1996. Thus exports accounted for 62per cent of imports in 1996 compared to 33per cent in 1990. The overall balance of payment deficit improved from 634.4 million USD in 1990 to 223.90 million USD in 1996 and the foreign reserves position improved from 29 weeks of imports in 1993 to 16 weeks of imports in June 1996.

Fiscal policy and budgetary management

Since 1986, fiscal policy and budgetary management have aimed at improving the budgetary situation. Aim was to create conditions in which tax and non-tax sources of revenue could fully finance the government's recurrent projects as well as part of the development budget. The reform process entailed increased efforts concerning expenditure controls and tax administration, including the establishment of the Tanzania Revenue Authority (TRA). Following these measures, budgetary performance improved slightly. Fiscal deficit related to GDP declined from 10.6per cent during 1981-1985 to 3.7per cent during 1994-95. This was mainly due to a decline in expenditure relative to GDP. The fiscal situation remains difficult as revenues are not able to cover all the critical budgetary requirements. This situation is compounded by the growing burden of debt servicing, which also imposes a heavy burden on the budget as we will see later in the presentation.

Financial sector restructuring

The Banking and Financial Institutions Act introduced in 1991 ushered a new era in Tanzania by liberating the banking sector. The objective was to introduce competition and thereby improve the quality of services offered to clients through the participation of private banks and other financial institutions. Between 1991 and 1996 a total of 17 new private-owned banks and financial institutions were licensed and most of them are operational. Public banks and financial institutions have undergone intensive restructuring. However, most of the private banks introduced are operational only in Dar es Salaam - the former capital city of Tanzania. No private bank is operating in the rural areas where the majority of the Tanzanians live. The official exchange rate is now determined by the daily trading procedures at the Interbank Foreign Exchange Market (IFEM) where the Bank of Tanzania, commercial banks, financial institutions and authorised Bureaux de changes freely trade in foreign exchange. The tight monetary and fiscal policies of 1995-1996/1996-1997 have reduced the growth of broad money supply from 37.1 per cent in 1995 to 27.8 per cent in 1996. As a consequence the inflation rate decreased from 29.3 per cent in 1995 to 16.4 per cent in June 1997.

The Government dilemma

The government of Tanzania is faced with a big dilemma. The slight improvement, as measured by the macro level indicators, has yet to trickle down to the general public whose poverty situation has remained rather unaltered. The technical jargon of macro level economics is not a language common people understand. Let us see now how structural adjustments have had an effect at micro level with a special focus on how they have dealt with poverty.

The socio-economic indicators:

The adoption of tight monetary policy and fiscal discipline combined with strict adherence to the cash budgeting system have led to macro-economic stability which has impressed Tanzania's major donors. While macro-economic indicators show an impressive performance, the overall economic and social welfare of the people has not improved significantly as a result of this. Let us look into some areas which shows this contradictory trend.

The debt-burden is increasing

Since Tanzania signed the structural adjustment agreement with the IMF in 1985, the foreign debt burden has been increasing. Tanzania's total external debt has been growing consistently from 3.5 billion USD in 1985 to a peak level of 7.8 billion USD in December 1997. Actual debt service expressed in terms of an export ratio of goods and services has increased from 6 per cent in 1986 to an average of 27 per cent during a period of 1986-1997. Since 90 per cent of the foreign debt is owned by the government, the fiscal impact of debt is very high. For example, during 1996-97 the government used almost 35 per cent of its annual revenue for foreign debt servicing. This is done at the expense of other sectors especially the social sector.

Example 1 - Education

Adult literacy has declined from 90 per cent in 1989 to 70 per cent in 1996. Adult female literacy has shown a decline from 80 per cent in 1989 to 60 per cent recorded in 1996. In the past decade life expectancy has stagnated at 52 years. Primary school enrolment has fallen from 90 per cent to 74 per cent and secondary school enrolment remains the lowest in East Africa. Secondary school enrolment is 24 per cent in Sub-Saharan Africa, 13 per cent in Uganda and only 6 per cent in Tanzania. Available data shows that only 65 per cent of the people in urban areas and 46 per cent of the people in rural areas have access to safe water.

Example 2 - Employment

About 40 per cent of private sector jobs were pruned in the past three years as a result of high taxes and heavy debt repayments at a national level. In most businesses, when dealing with debt in the form of taxation, it is the labour portion of its capital layout which carries most of the burden. Should the donors not help Tanzania by reducing the debt burden, the social sector is likely to continue its decline. The government could be forced to resort to other means of obtaining revenue, which could mean an intolerable rise of taxes. Whatever the scenario would be, it would impede the flow of investments to the country and end its competitiveness in the regional and world markets. The debt situation would only become worse.

Example 3 - Health

Because of the decline of the budgetary allocations to the health sector, Tanzania occupies globally a 29th position with regards to under-five mortality rates. According to the 1998 World's Children report, the current infant mortality rate (under 1 years of age) is 93 per 1,000 while the under-five mortality rate is 144 per 1,000. About 2.5 million Tanzanian children under five years of age are malnourished. Malnutrition contributes to the deaths of at least 450 children every day. One out of every three children under five in Tanzania is underweight and 43 percent are stunted. Nearly half of the under-five are anaemic, which contributes to a loss of intelligence of about 9 IQ points.

The Tanzanian Currency is still being devalued

1. The structural adjustment policy of devaluation (aimed at stimulating an increased cash crop production for exports by increasing prices in the local currency) has forced our shillings to be devalued by over 1500 per cent since June 1993 (1 USD = 500 Tshs). A further devaluation occurred setting 1 USD to Tshs.640 in march 1998.

Some of the negative effects of the devaluation are visible in the following areas:

- The eroding of real purchasing power of the majority of the people despite the increase in salaries. For example, in 1985 lower income earners in Tanzania were getting an average salary of Tshs. 1,500/per month and in 1993 they were getting an average of 30,000. If one calculates these figures in USD the following, sad picture is exposed:
- In 1985 they received 86.70 USD per month when 1 USD was equal to Tshs. 17.30
- In 1993 they received 14 USD per month when 1 USD was equal to Tshs. 500 (Bureau de change– rate)
- 1998 they received 45 USD per month when 1 USD is equal to Tshs.640.

Although in Tshs. this shows an increase in the salary of the people, in USD it shows a decrease in the salary of the people per month. Since the Tanzanian economy is pegged to the USD and not to the Tshs., the figures depict a decrease in the real purchasing power of the people. This also shows why most of the Tanzanians are not able to buy the flooded items in shops because of the high prices.

2. The real prices of crops have not increased as much as expected which puts farmers into a very bad situation concerning the meeting of ever increasing production costs of the crops.

For example, a farmer of Arabica coffee was given Tshs. 50.75 per kilogram in 1986 and Tshs. 230 per kilogram in 1993 and 1200 Tshs in 1997. If one calculates these figures in USD, one sees the following disturbing picture.

- In 1986 they received 1.24 USD per kilogram of coffee they sold (1 USD was equal to 40.19 Tshs.)
- In 1993 they received 0.46 USD cents per kilogram of coffee they sold (1

USD was equal to 500 Tshs.)
- In 1998 they received 1.87 USD per kilogram coffee they sold (1 USD is equal to 640 Tshs.)

This clearly shows that in real terms the Tanzanian coffee farmers are earning almost the same amount per kilogram of coffee as they earned 12 years ago in 1986. Can we say devaluation has helped the farmer? Not very much. This also shows that our coffee at the world market is still cheaper now than it was in 1986.

Conclusions

I have tried to highlight some of the effects of the structural adjustments in Tanzania. I would like to draw some conclusions.

1. While the structural adjustments have generally shown positive results at the macro-level, they have so far failed to alleviate the poverty of the majority of the population.
2. The process by which the IMF and the World Bank reaches structural agreements with the government is not open for popular participation. Usually the government announces what has been agreed upon after the agreement has been signed. Initial observations show that the international financial institutions are not very keen to become transparent, as far as public accountability is concerned. It is my opinion that political democracy without economic democracy results in the violation of the very basic human political right of decision making.
3. Linking structural adjustments and debt relief packages have not shown the desired results. Out of the total external debt, the Paris club debt accounts for 60 percent of the principle and interest arrears despite the rescheduling operations Tanzania has received since 1985 up to 1997. This clearly calls for the rethinking of the linkage between structural adjustments and debt relief packages.
4. Any country needs some kind of structural adjustments in order to have sustainable development. However, the people concerned should be allowed to decide on the extent and the timing of these adjustments in order to avoid disappointments.

3.

HEALTH AND EQUITY IMPLICATIONS OF DEBT AND STRUCTURAL ADJUSTMENT

Dorothy Logie, MEDACT, UK

Introduction

I would like to start with describing what has happened globally in the area of health from the 1980's up to the 1990's. I'm very grateful to the last speaker for emphasising what happened in the 1960's-70's because during this period the health situation in Africa really wasn't too bad and has got worse since then.

I want to use Sub-Saharan Africa, in particular Uganda and Zambia, as an example, as I am familiar with these countries. Furthermore, these countries face probably the most extreme conditions concerning health in Sub-Saharan Africa. I want to look at the health consequences of structural adjustment and user fees, after which I will briefly comment on a possible way forward.

The lost decades

I am a primary care physician and you might be wondering how I got involved. I'm certainly not an economist and can't speak about all the financial figures. In 1989 on a visit to Brazil - at that time a lot of killings of street children took place and a lot of Nordic NGO campaigns drew attention to this - we went to see a project where a paediatrician was working with these children and I was very shocked when he asked me: " why are you in the North so interested in the death of a few dozen children - admittedly a few dozen too many - when you, because of your economic policies, kill hundreds of thousands of children in Brazil? ". This was 1989 and Brazil at that time had the largest debt in the world. A huge financial haemorrhage was taking place out of Brazil. And in spite of the fact that Brazil was the second largest exporter of grain, one third of the children in the country were malnourished.

The average income in Latin America in the 1980's fell by 10 per cent and in Sub-Saharan Africa by 25 per cent. An increase in preventable diseases could be seen as a translation of this. There was a large cholera epidemic along the seams of the Amazon into the cities, as well as a rise in malnutrition particularly among children and falling school enrolments.

In 1989, the Royal Soc. of Tropical Medicine and Hygiene in London described how after decades of improvement, infant mortality rates were rising again in a few countries. The number of low birth weight babies was rising, mainly in Brazil, Barbados and Jamaica. So my paediatrician friend was actually asking the same question as President Nyerere of Tanzania a few years earlier: " Do you want us to starve our children in order to pay our debt?" I'm afraid our answer has been: yes, we do.

What has happened concerning these matters in the 1980's in Sub-Saharan Africa? Spending on education fell by a third and spending on health fell very dramatically. Africa now spends four times more on debt service than on health service.

In 1989, at the end of what was called the lost decade, Oxfam did some work in Zambia and showed that protein malnutrition amongst the under five years of age was rising. Furthermore, hospital admissions and child deaths caused by malnutrition rose. Also in Lusaka, hospital admissions for children suffering from malnutrition rose between 1982 and 1987. It was also in 1989 that the annual State of the World's Children Report stated that in 37 of the poorest countries of the world, during the 1980's, spending per head on health was reduced by 50 per cent and on education by 25 per cent.

Zambia had a comparatively good education situation in the beginning of the 1980's but deteriorated during this decade. The health situation at this time couldn't be called satisfactory, however the situation has nonetheless got worse (according to figures of the World Bank).

The current situation

According to a UNDP (United Nations Development Programme)diagram, which describes the worlds population separated into quintiles, we are of course right on the top but all the countries that I have mentioned are on the lowest quintal. These are the 1.3 billion people who live on less than one dollar per day and who don't have sanitation, modern health care (50 per cent of Sub-Saharan Africa), safe water (70 per cent of Sub-Saharan Africa), and have a lack of family planning and poor education. This lowest quintal accounts for only 1 per cent of the global spending on health.

These countries spend on health per capita, per year the following amounts: Uganda 2 USD, Tanzania 1.3 USD, Kenya 6 USD, Zimbabwe 14 USD and Botswana 29 USD. In the UK we spend 1200 USD per capita, per year, which is not even totally sufficient. This was supplemented in Africa by aid programmes. The World Bank and World Health Organisation (WHO) decided that 12 USD per capita annually is the very minimum to deliver basic health care. Many countries don't reach this level at the moment.

Uganda

In Uganda, at the moment, maternal mortality is 500-1000 per 100 000 live births (as to 8 per 100 000 in Europe). This is a dreadful figure because they concern young healthy women. This is linked very closely to the fact that three quarters of the women in Uganda have not completed their primary education. Half of the children below 5 years have a stunted growth and the under 5 mortality rate is 185 per 1000. That is a figure that shows the general standards of healthcare, the nutrition levels and the immunisation levels. At the moment, in Uganda, this situation is however improving. Life expectancy at 47 has now dropped back to 42, which is probably an effect of the HIV-AIDS epidemic. Sixty per cent of the population is poor, meaning without adequate shelter or nutrition and twenty per cent constitutes what could be called the core of the poor, with their incomes being half of the average poor.

Low expenditure on health

A significant reason for this is the increasing debt (about 300 billion USD) of Sub-Saharan Africa. Africa is unable to pay its debt, which is two and a half times its export earnings. Health comes under attack from two fronts: firstly, impoverished countries will cut back on their health budgets and secondly, debt brings along structural adjustment which leads to a reduction of social spending, of subsidies on food, of the available land to grow food, etc.

Impacts of Structural Adjustment Programmes

Health

The World Bank report of 1993 was quite a critical report. We paid a lot of attention to the sections on health. They said that adjusting is more beneficial to health and welfare than not adjusting. However, they also saw the negative impact as temporary and limited. We have had 15 years of adjustment in which we haven't seen the development that was promised. Structural adjustment programmes now seem to be a way of life for Sub-Saharan Africa.

How do these adjustment programmes affect health? This is a difficult issue. Many surveys have been made, showing a lot of confounding factors. Structural adjustment is not uniform or consistent, even within countries. There is no baseline. We could pose a counterfactual question: what if there hadn't been structural adjustment, what then would've happened in the area of health?

Household coping strategies are often not measured when one measures the outcome of adjustment. People for instance may pay for health services, but how does that actually have an effect at household level? A significant issue is that the time lag, for example a nutritional one, may be very long and may even be intergenerational. For instance, when a woman is malnourished during her pregnancy and has a small baby, the time lag for something to happen to that child could be quite lengthy and very often this is not measured.

Data is not disaggregated by social- and economic groupings. When statistical data is given of a country, they often concern the entire population. However, it are the rural poor who have been mainly affected by adjustment and their health figures are difficult to analyse. We are struggling even in the UK with data on health outcomes and the quality of data from Sub-Saharan Africa makes it even more difficult. Often data are very old. Measuring health effects is thus very difficult. There are so many confounding factors and of course other factors like war and drought have to be somehow taken into consideration. In Zimbabwe, in 1992, a major structural adjustment programme was introduced at the same time as a profound drought occurred. How does one in this case distil the affects structural adjustment has on health?

When analysing health, one has to take into account various factors of impact. For example buildings, equipment and maintenance. In many African countries, health centres, hospitals and their equipment have been run down. Import problems hamper the availability of spare parts or cut backs in government personnel lead to a poor quality of maintenance. The same could be concluded for schools, of which Mozambique is a classical example, and yet Mozambique has had several structural adjustment programmes.

More could be said on the issue of infrastructure, which is of course very important when considering health. In a huge country as the Republic of Congo, there are too little roads. Spare parts for necessary vehicles might not exist, or fuel prices might be too high. Most of the health expenditures go to the benefit of the big hospitals in major centres.

Another side-effect of adjustment has been on the wages of health personnel as doctors, nurses and technicians. There has been a big exodus of doctors out of Africa because the wages that they've been paid have not been sufficient even to live on. Aid workers are often paid more in their own country, which is a source of grief to them. In our hospital in Scotland we now have four South African doctors. The reality is that Sub-Saharan African doctors are going to South Africa and the South African doctors are trying to come to Europe and North America. In Zimbabwe, after a structural adjustment programme, they lost 10 per cent of their nurses and 200 of their medical staff left the country, leading to considerable pressure on those doctors and nurses who stayed .

As to other factors that influence health: the status of nutrition is of course to be mentioned. If one doesn't pay much attention to health but if sufficient nutrition is available, people can be resistant to illnesses (as shown in China and Cuba). Structural adjustment, bringing about rising basic food prices and other effects, has certainly effected nutrition as I have mentioned.

Concerning the ease of the utilisation of health services, questions can be asked regarding location, access and user-friendliness. This concerns in particular women. Due to adjustment programmes, women have had to cope with considerable burdens as they have had to work harder and for longer hours. Are health services in the right places for them? Are the opening hours right? Is the personnel user-friendly? Sometimes health personnel do not seem to be too sympathetic, particularly to the needs of women. Preventive and public health measures have suffered under structural adjustment.

Environmental factors

Some of the local government maintenance plants have suffered from lack of personnel and lack of purification of water. This had been a problem particularly in Zambia and because of this cholera has become an annual event in Lusaka. Mining and coastal pollution is resulting from prevailing pressures to export more and more. The disappearing of firewood can be a problem to nutrition, reducing the number of meals a day. Sanitation becomes a problem as people move around and into the cities. The big agribusiness's certainly pollute and expose people to pesticides, noise, heat, overcrowding etc.

Behavioural factors

There have been changes in sexual behaviour. In Africa, there has been an increase in urbanisation, migration, truck drivers moving around, people looking for work in cities and an increase in prostitution as people become more impoverished and particularly as women get thrown out of the economy. Women will take to the streets to feed themselves and their families. This then results in the terrible figures we have on unsafely conducted abortions and on maternal mortality.

Sexually transmitted diseases are a big problem in Africa. In 1995 there were 75 million new cases of treatable, sexually transmitted diseases. In Tanzania, the Medical Research Council of the UK (MRC) conducted a control trial on two sets of villages. In one set of villages they treated sexually transmitted diseases at low costs for about a year. The other set of villages wasn't interfered with. The result was a reduction of HIV-AIDS by 40 per cent in the treated villages. This thus points out that if vaginal ulcers, chlamydia, and all other at low cost treatable transmitted diseases are attended to, cases of HIV and AIDS can be reduced considerable. There are now 30 million cases of HIV in the world, 20 million are to be found in Sub-Saharan Africa.

In 1983, the first case of HIV was identified in London. It was at this same time that the first case of HIV was identified in Kampala, Uganda. What has happened to the two epidemics? Because of poverty, lack of health service and lack of health education, the epidemic took off in Uganda. Especially in Scotland, we have more or less contained the epidemic very well and there are figures confirming this. I know that big campaigns have been conducted in Uganda and the epidemic is beginning to tail off, however one tenth of the population has been infected with HIV.

Other behavioural factors with an impact on health should be noted. For instance, the increasing domestic violence as people become more poor or move around. The consumption of drugs and alcohol are other factors. The lack of child care as families split up is another element as well as the frequently occurring accidents in big agribusiness's which are under the pressure of export targets.

Education

Education is one of the biggest factors influencing health. If women can read or write, they are likely to have a much safer pregnancy. They furthermore will tend to delay the pregnancy until they are mature, and to use family planning. Also they are likely to nurture their child in a better manner nutrition wise. As such, even when health expenditure is low but women are taught to read and write, the health situation of a country will ameliorate considerably. In Uganda, 19 per cent of the women can read and write. There are literacy programmes, but so far they haven't had much of an impact.

Diseases

The common diseases are becoming more frequent, meaning diarrhoea's, respiratory diseases, cholera. Malaria is the biggest killer in Africa and it accounts for one third of all childhood deaths. Tuberculosis is a huge global problem, which is worsening dramatically. It is linked to HIV and AIDS but it is also deteriorating apart from that. One third of the whole global population has now been exposed to tuberculosis. Not all exposed will actually contract the disease, but the exposure presents tremendous risks. Multi-drug resistant tuberculosis is a big worry. Furthermore, there are new emerging diseases as the ebola virus in the Congo, Rift valley fever in Kenya, haemorrhagic dengue in Mexico, bubonic plague in India and cholera.

User fees

Thirty Sub-Saharan African countries now have introduced official user fees. I believe there are also unofficial fees, which are partially related to the poor pay of doctors and nurses and as such, as in Uganda, the doctors and nurses are actually demanding payments from patients.

What is the effect of user fees on the utilisation of health services? They create a bias towards curative healthcare and as such against preventative healthcare. The paying of the fees certainly effects the rural poor, as they constitute the majority of the impoverished population. They effect women and children in particular. User fees also encourage polypharmacy, which means that doctors and nurses give out several drugs to make more profit. Furthermore, they also encourage inadequate drug regimes (people buy for instance only half of the prescribed amount of tablets). This is a very worrying trend as this is certainly a factor with an impact on the resistance of diseases to drugs.

Long term household coping strategies

Can the poor afford to pay for health services? Many surveys have come to the conclusion that they can. A UNICEF survey stated that 40-70 per cent of the patients are able to pay the full fee. However, a consultation can cost as much as one day's wage of a poor worker. In Nigeria, the cost of one uncomplicated caesarean section is 279 USD, which equals nine months average wage. It's not just the consultations. If one needs an operation, one may have to buy the surgeons gloves, needles etc. themselves.

Even when people pay, how do they raise the money? They may raise it by selling savings and cattle or they may borrow in order to pay. By merely mentioning the fact that people will pay when they are desperate, the long term effects of this payment aren't taken into consideration. Exemptions are bureaucratic. The World Bank says that the poor can have exemption programmes. However, these are bureaucratic, expensive to implement and in fact they just don't work.

Maternity services, which could be seen as preventive services, are particularly vulnerable. Women don't want to spend money on their own health and they don't see pregnancy as an illness so they don't attend to antenatal care.

Research on user-fees

There are many examples of research on user-fees. I have chosen four from different countries. In Kenya, one study in 1992 came to the conclusion that after the implementation of structural adjustment programmes, the utilisation of a clinique for sexually transmitted diseases fell by 40 per cent. This was a disaster, so they cancelled the user-fees. In spite of this, the utilisation of that clinic did not go back to normal and still, 18 months later, it was considerably lower than it had been in the past.

In Nigeria, in 1992, a decrease in antenatal bookings and hospital deliveries was recorded. In Swaziland, government facilities and health facilities fell by 34 per cent - following the increase of fees. A lot of research has been conducted in Zimbabwe. A friend of mine, Ann Renfrew, who was working in a mission hospital, very carefully recorded the number of people who were coming for antenatal care. There was a 33 per cent drop in visits after fees were introduced and an increase of babies born before reaching a hospital.

The recovering of costs

Do the user-fees recover the cost? One theory, which came into existence under circumstances in Mali, states that if the decision on how the fees will be spent is made by for instance a local committee, people will actually make more use of health facilities. This was visible in Mali. However, the problem is that the fees don't remain locally, they get swallowed up by ministries of health or finance. Fees haven't contributed greatly in meeting current health costs. For instance, in Senegal only 7 per cent of costs have been met by the fees and in many other countries this figure is much lower.

Quality

Why is health service so poor in Africa? As health service is of a poor quality, it will be under-utilised. This leads to people calling on traditional healers or on private, uncontrolled clinics which can vary enormously in standards. User fees as mentioned have hindered utilisation. There is a tremendous lack of primary care in Africa. Most of the health financing has gone into big hospitals, usually in capital cities. There's an inability of families to meet the health care costs, not just financially, but also time wise. This is particularly the case for women. They can not afford to take a day off, to sit and wait in a queue for a clinic.

The economic cost of health

Health has imposed enormous economic costs in Africa. The World Bank states Africa must improve its productivity and export more. How can this be done when a large number of the productive population is sick? African productivity could increase by 15 per cent if illness and disability were tackled sufficiently. The economic cost of malaria is estimated at 1 per cent of GNP and the cost of treating AIDS in Rwanda is estimated at 60 per cent of the health budget.

These figures do not refer to the treatment of AIDS as we know it. None of the African countries can even begin to look at the utilisation of drugs like short, intense courses of AZT to prevent vertical transmission, being the transmission from mother to child. If a short course of AZT is given antenatally and during labour, the transmission can to a great extent be prevented. Treatment here thus means palliative care, antifungals, the treatment of perhaps chest infections and tuberculosis.

The World Bank

The World Bank is now the largest external financier of health services in the world and has taken up a leaderships role on global health policy. This role has been taken from the WHO, mainly because of WHO's low financing. It however still remains to be seen whether the recent change of leadership in the WHO will bring a turn around.

I would give the World Bank's new role a medical diagnosis: schizophrenic. On the one hand, the World Bank has good health and poverty reduction programmes, yet on the other hand it searches for economic results and imposes its structural adjustment programmes. The two objectives somehow don't match. The structural adjustment programmes have wiped out virtually all of the educational and health gains of the 1960 and 1970's.

A question I would like to pose here is: Does the World Bank (or can it be expected to have) the quality of vision, the sufficient expertise, to deal with all the complexities of public health issues ?

Recently, the World Bank has adopted a new sector strategy called Health, Nutrition and Population (HNP), which is a welcome initiative. However, this approach and for instance the Highly Indebted Poor Country initiative (HIPC) all still depend on the economic push from structural adjustment.

Personal solutions:

1. Cancel the debt and spend more on health, especially on primary health.
2. Re-examine the social cost of structural adjustment programmes
3. Re-examine the effect of user-fees. Abolish them completely.
4. Promote self-sufficiency in food and clean water. Africa can feed itself.
5. Promote education, including health education.
6. Promote community participation in deciding on health priorities and on the implementation of solutions

Words of a Zimbabwean woman: "We used to fight for health as a right: now we beg for it as a privilege."

4.

DISCUSSION I

Emmanuel Akpa: Firstly I would like to comment upon the terminology of adjustment. It is almost unfortunate that the term adjustment has become so 'institutionalised' and it probably gives rise to wrong implications. What we call adjustment simply refers to a package of policies which serve to adapt the economy in order for it be able to cope with economy-wide problems. If we look around the world, whether to Europe, Latin America or Asia: countries have to adjust in order to confront the problems that arise.

Dr Logie quite rightly talked about the inability to use the counterfactual setting in order to see whether structural adjustment is doing more harm than good or if the reverse is the case. This is the problem facing the entire development community.

For instance, let us take the example of Benin. I worked around this country during the very early stages of their transformation from what can be called Marxism/communism to where they are today. The public sector had taken over everything. The economy had come to a halt. Before they were fully convinced of trying other ways, the banks shut down. Nobody could withdraw any money. The cotton sector, which was providing resources nation-wide, had frozen. This was the backdrop of the first structural adjustment programme in Benin. However, Benin is one of those cases where the accompanying operations, including in the case of health community health exercises, have helped to produce an entire spectrum of changes, so that at present Benin does not need another structural adjustment programme. The farmers are enjoying rising incomes and community services have become stronger. In the cities, as well as in the rural areas, there has been a complete turn around.

What would have happened if Benin had not adopted structural adjustment programmes? In the absence of the counter factual situation we can only guess. It probably would have meant that the banking system would have remained locked. The 60 all state enterprises would have continued, maybe broke, but present anyway, and they would not have been receiving any new resources in terms of talent, capital or inputs etc.

The second thing I would like to mention is that fortunately, in the about 16 countries of Africa that have stuck to the course, a change is clear: as prof. Mwakasege just has mentioned, macroeconomic improvements have occurred and in the last three years the average growth rate has pushed past the 5per cent. We only worry about the benefits: are they being equally distributed? What is the effect on employment ? Are the poor gaining opportunities in order to generate incomes?

The third point that I would like to make is the following: When speaking of results, which are generated through policy change, we have to take into account elements as ethnic fighting, tribal war or military build-up because of military activity in a neighbouring country. Dr. Logie rightly pointed this out to us. As such, in spite of good intentions to allocate resources towards public services, preventive health care and primary education, these elements intervene and resources will not be going where they were intended to go. Nevertheless, at present, in countries as Mali, Mauritius, and Tanzania, we are seeing progress. These are countries where over time we have seen continuing compliance, the willingness to adjust the policy package to circumstances as well as the willingness to pay attention to the social consequences. This is the kind of progress we would like to see continuing.

On the other hand, if we take a country as Zimbabwe, which we classify in our group of weak compliants, or for that matter Nigeria, the macroeconomic difficulties are continuing. It is true that sometimes there is an overemphasis on the export sector, but this is precisely because one needs to buy medication, inputs, even food sometimes because of draught. The starting point then will be the climate, the favourable soil and the people. One has to use these endowments. However, as prof. Mwakasege indicated, one also has to keep a transition in mind, in order not to remain a producer of coffee forever (a product which is acquiring lower and lower returns on the international market). A smooth transition can be made as we have seen in south-east Asia, where over a period of 30 years whole societies have moved five fold forward. Furthermore, in spite of the recent setbacks during the financial crisis, there is every indication that they will continue to make progress.

The bottom line is that every country needs to adapt its policy environment in order for its economy to move forward. When institutions as the IMF and the World Bank work with their partner countries, the belief is held that together with home-grown knowledge, internalisation, broad discussion, participation and consultation, the package that results will be the best that can be put together at the moment. This then is thanks to the ownership, close participation and involvement of the local people.

Dorothy Logie: If all is so well, then why are the rates of school attendance, nutrition and health indices in Africa still falling? Why is there the great difference in actual social spending between the 70's and the 80's as some of the graphs indicate?

The policies are not working in terms of health and education.

Maisa Tapio, Institute of Development Studies, Helsinki: I am a cultural economist and I feel that there are three issues which do not figure prominently enough on the agenda of the World Bank at the moment.

The first issue is that of household food security. I think there is very strong evidence confirming that the nutritional situation of expecting mothers and infants up to two years old, are absolutely decisive for the whole development of the human being, both mentally and physically. Children who don't get enough food in the two years following their birth, are prone to diseases. Furthermore, from middle age onwards, they will be prone to problems like heart diseases. As the whole development of society is very much dependent on the human capacity, these first two years of a child are indeed decisive for development.

The second issue concerns the issue of land in Sub - Saharan Africa, which is at a very critical stage. Most of the countries I am referring to, are predominantly rural and are at the moment changing the tenure of land from traditional to private. Terrible things are happening. Huge areas of communal lands are devoted to private interests and one can see how in Mozambique, Zambia and Tanzania, mainly South African private interests are involved. This is something which needs to be tackled.

The third issue concerns the overall export strategy. What happens to prices if everybody is encouraged to export more and more of the same traditional export crops ?

EMMANUEL AKPA: You are right as to the critical early years of the development of children. Over the years, we have moved across the spectrum of thinking about food security.

Concerning land tenure, there is a difficulty. People who have studied related investment issues have come to the following conclusion: when the investor, or the farmer who invests, does not have the assurance that within the next 5-10 years he or she will be able to reap the benefits of what is invested in, they will be hesitant to do so. As such, they will exploit the land fully and use it up. The nitrates will be gone. Therefore it is assumed, that if there is a sale mechanism or at least a long term lease, this would encourage farmers to husband their lands better and make those investments.

RAOUL GARCIAS, CAMEROON: As a citizen, I have been witnessing structural adjustment programmes without understanding them. In spite of the explanations given today and on other occasions, I view them as having been failures. I see the clients of the World Bank as guinea pigs on which the World Bank has been trying out solutions. Even when there is some indication of progress, I do not believe there will be a trickle down effect to alleviate poverty. Unaccountable governments embezzle the benefits. We know of the conditionality of good governance attached to loans. However, when for instance in my country the opposition boycotts elections, the World Bank and IMF will give loans to the unaccountable government. How can one expect such loans to be profitable to the people?

I want to mention a case concerning the cashew industry in Mozambique. The issue was that the World Bank had planned something that couldn't work. Is the World Bank accountable to this, and does it intend to readdress similar cases which other clients could bring up?

EMMANUEL AKPA: It is true that Cameroon is not one of the best performers among the African countries. The home governance situation is probably a strong explanatory factor. They buy into a policy package, yet are not able to follow through and therefore they will not able to get the benefits. Furthermore, even benefits accruing will as such have difficulties in reaching the poor. When no benefits occur at all, it is clear that the poor are going to suffer.

I would like to bring to attention the issue of selectivity. The World Bank has to listen to every member that has a claim on its services, but the bank itself has to make a judgement on whether or not the established package is good enough and will have a chance of success. This judgement is often not very clear cut. A government will have understood or have explained what has failed the first time around. It will have changed its team and will have made commitments to try to do it better this time. This is the reason why our institution gives them another chance, because after all, one is not just helping the five people who comprise the head of affairs, or the cabinet around them. One is hoping that the 8-10 million people in the case of Cameroon will receive the benefits. However, I do know that Cameroon is amongst our worst compliants and the issue of governance plays a big role in this.

Concerning Mozambique, the issue was that the farmers, mostly women, were getting only 14per cent of the value of their cash crops, because previous policies protected the industrial processing of cashew nuts. The World Bank's approach was to open up the market and create competition, so that those who bought the cashew from the women who produced them, would have to compete with others. The result was that, even though there was a lot of screaming and shouting, today the farmers get as much as 40 per cent of the value of their crops and to the extent that they are women, we believe that it is one of the better cases of successful policy. A positive impact resulted, output increased and the returns reached those who matter the most, namely the poor. We then hope that means better standards of living for children as well.

QUESTION: Would it be possible to try to start working for a kind of Africa which tries to conduct most of its trade on its internal markets, so that the Africans and not we would be the benefitors of their trade ?

Emmanuel Apka: It is true that most of the activities in Africa today are either exploitation of mines or basic agricultural production. For the average country about 15 per cent of the domestic production, which is generated through industrial activity, is for the domestic market. Only a few countries like Mauritius, have been able to break into external markets and have markets in Europe and the USA

Concerning the creation of markets at home, we are encouraging regional integration. This is not externally imposed. The African economies want to hook up and take advantage of the economies of scale. As such, in the West-African zone, there is the West-African economic union. The Francophone parts of it have a West-African economic and monetary union. The monetary union has been there since colonial days, and was retained during post-independence. In 1994 then, mechanisms have been put in place to convert the monetary union into an economic and monetary union with ground rules permitting the greater exchange of goods and services amongst the members. In the East and Southern coasts, there is the so-called cross border initiative that has led to the creation of the beginning of a common market. It covers at the moment 15 countries, from Eritrea all the way down to Sudan and beyond Kenya all the way on to Mauritius.

There are discussions taking place with Southern-Africa and the Southern-African cone to link this group with the Southern-Africa Economic Union.

These efforts are taking place at present. The World Bank is a strong supporter of this development and the hope is held that the resulting larger economic space will enable Africa to produce more and sell more at home. As such Africa will not be obliged to always look to the exterior for its markets.

Question: You mentioned in your paper the improvement of the transparency in the incentive system. This seems to me some kind of allegory. Could you explain briefly whether you use some kind of mechanism in order to prevent the existing incentive mechanisms related to privatisation?

EMMANUEL AKPA: There are two sides to the transparency issue. Firstly, we want to achieve that the economic values that guide choices and resource allocation, are out in the open so that when people react, they react in true value. Those who follow the economic thinking will agree with me upon the following: when the true prices approximate social unit costs, in the end, the choices that are made and the allocations that result, will be optimal. When one applies this principle to the domain of industrial progress and for instance to investment incentives, we have seen over time that there is a weakness if government authorities have investment codes that create grey areas. Investors will take advantage of these areas. Some times this will occur with regards to revenues, import regulations and practices etc. In order to reduce the economic costs that a society suffers, we believe that in many of these cases, where the tax system is still under reform and where there is the thinking to offset some of these incentive effects of the tax system, it is sensible to make provisions encouraging investors to come in and to state the previous explicitly rather than implicitly. Because, we do know that when one gives some of these privileges, they tend to be open-ended, to generate grey spaces and as such they are open to abuse. To the extent that everything can be out in the open, and prices reflect unit costs that are social, resource allocation becomes optimised.

QUESTION: I would like to second the opinion on structural adjustment in Bangladesh concerning the water sector. Since its inception, the World Bank structural adjustment programme for the water sector in Bangladesh, has brought the country almost to an absolute catastrophical state. Increasingly, poor people are finding their job opportunities decreasing day by day, whether in fisheries or even regarding the yielding of crops. For that reason, a lot of experiments and studies have been conducted in that area, even on a parliamentary level as supported by green and socialist groups as late as 1996. In spite of the above, the World Bank will continue to be adamant in the enforcing of their package. Even when they are withdrawing their funds, they will still be making some 'cosmetic changes', changing names of programmes. Regarding these people of Bangladesh, who are often without public representation or participation, how should one view structural adjustment in Bangladesh?

DOROTHY LOGIE: What I want to say goes back to the 'not meeting of minds': the language of economics is interesting but excludes so much. It excludes social well-being. It excludes for example women's' work. Books need to balance, that is what matters. It is like we are speaking different languages.

5.

THE WAY YOU TALK: NOTES ON THE MANNER OF CONDUCTING AID POLICIES IN TANZANIA

Pekka Seppälä and Timo Voipio, University of Helsinki

Introduction

In the history of development cooperation, aid given to Tanzania has always been a highly debated case. There are several reasons for this. One obvious reason is the large number of donor agencies working in the country. Another reason has been the willingness of the Tanzanian government to accommodate various kinds of policy experiments. We do not aim to present the history of development cooperation in Tanzania. Instead, we focus on the manner the various donor agencies engage in cooperation with Tanzania.

In the Tanzanian discussion, two balancing operations emerge throughout the history:

- equity versus efficiency, and
- contextualised/tailored experiments versus international standard solutions

Both balancing operations have a common feature: they present a problem of choice. The world is loaded with good aims but often these good aims are incompatible with each other. There are always trade-offs between the various needs, which necessitate balancing. When donors make their decisions on these issues, it is not only important what their choices are but also how they are reached. The manner of formulating policies has direct impacts on the support for the policies amongst the counterpart (in this case the government of Tanzania) as well as the citizens.

We claim that the World Bank social sector agenda in Tanzania has:

- many advantages at the very general policy level, but
- drawbacks because of its insensitivity and the top-down manner of conducting the policy dialogue.

We argue that it would be possible for the World Bank satisfy most stakeholders' expectations about equity if the World Bank conducted its analysis in a less ideological tone. It would be possible to avoid insensitivity if a more democratic practice of negotiation were adopted.

We also claim that the World Bank agenda for economic liberalisation is very risky for many countries.

Case: Tanzania

We use Tanzania as a case for our analysis. Tanzania is historically a place for experimenting development policies:

- the Nordic countries and the World Bank were supporting the state-centred social welfare and planning orientation in the 1970s
- the World Bank has been the lead donor, although supported by many others, for experimenting structural adjustment since 1980s.

Due to its history, Tanzania is an interesting case for the analysis of the World Bank and the Nordic models of social service provisioning. Tanzania has been a major recipient of Nordic aid. Aid money made it possible for the government of Tanzania to expand the provisioning of social and economic services during the 1970s. However, the socialist policies of channelling these services through an increasingly centralised bureaucracy soon proved to be very costly and inefficient. During the early 1980s Tanzania had entered a deep economic crisis. Tanzania has witnessed rough times during the past two decades.

If we simplify the situation we can say that the government of Tanzania opted for equality during the 1970s. It did not focus on the efficiency of the selected policies. It was expected that the emphasis on equality would, sooner or later, pay off. It was expected that the investments into basic education, health services and water supply, together with the radical rural policy and the import-substituting industrialisation policy, would change the living conditions of the masses for the better. The policy was based on the understanding that the majority of citizen are, and will remain, rural and fairly uneducated.

It is wrong to say that the policy experiment of 1970s was based on the Nordic model of state-guaranteed and tax-financed social service provisioning. However, Nordic aid agencies did participate in the policy experiment. Nordic aid agencies thought, during those times, that Tanzania was an exemplary case. But also the World Bank was heavily involved in the policy formulation in Tanzania in the 1970s. The World Bank, in the self-analysis of its relation to Tanzania during these years, notes that its own analysis was biassed towards some economic indicators with a total disregard over socio-cultural and political issues.

Kleemeir (1989), in his perceptive analysis of the aid policies in Tanzania, argues that the bilateral donors and the World Bank shifted their focus in the early 1970s towards 'poverty alleviation', thus emphasising rural development and employment generation. They provided a proportionately large amount of aid to Tanzania because the government of Tanzania had policies, which were congruent with their own priorities. Kleemeir argues, however, that the way the government of Tanzania operationalised the policies deviated in many crucial aspects from the ideals of supportive policy environment. The actual policies were not supportive in the fields of 1) providing price incentives and appropriate technology to small holders, 2) institutions and official encouragement for popular participation, 3) administrative decentralisation of government, 4) a government commitment to make substantial investments in the rural sector especially for social services. According to Kleemeir, "Donors in the 1970s felt justified in building up their assistance to Tanzania without resolving this issue of the relationship between domestic policy and donor strategy". (Kleemeir 1984, 172) While interpreting the Government policies, the donors "confused policy initiatives with policy outcome" (ib. p. 195). According to Armstrong (1987), the project level interventions relied upon social constellations, which were inherently unviable. After the 1970s, several donors turned their whole attention towards the overall policy framework while some intensified their control over project-level variables.

The 1980s brought the structural adjustment. For a few years, the government of Tanzania resisted, with the support of the Nordic countries, to implement reform, but soon it was drawn into the structural adjustment programmes. Later on, the government of Tanzania and the Nordic donors shifted their attitude and became staunch supporters of structural adjustment. Currently the government of Tanzania has been classified by the World Bank as one of the obedient pupils. (Hyden 1993; Sarris and van den Brink 1993; Bienefeld 1995; Kiondo 1995; World Bank 1994; World Bank 1996)

During the past ten years, the government of Tanzania has largely accomplished the economic liberalisation of external trade, domestic trade and financial institutions. Major reforms in the social sector are under way.

Can we now say that all these reforms are conducted as an integral part of structural adjustment programmes? Can we say that the Tanzanian economy is singularly governed by the neo-liberal economic ideology and practice? Can we say that the time for ideological debates is over and the 1990s have merely been a decade for implementing the generally accepted policies? No sensible observer would argue that the government of Tanzania has not implemented major policy changes. Major changes have been accomplished, and they have been geared towards a capitalist economy. In this sense, the structural adjustment has been the order of the day. However, the debate continues on the interpretations of how a capitalist society functions. More precisely, the debate concerns the supportive role of the state administration in a capitalist society.

The Dar es Salaam Consensus: between the Nordic and the neoliberal models

The so-called Nordic Model is based on the idea of a 'social contract' between the citizen and the state. The government has the responsibility of providing social services and social security for all citizens. The citizens have the responsibility to follow the rule of law and to pay taxes obediently. According to this social contract, a large part of resources are circulated through the state but they are used efficiently and fairly equitably. An essential part of the Nordic Model is the inclusion of civil society organisations into the policy formulation through institutionalised channels. For example, the salary negotiations are often conducted through national level discussions where the trade unions and the employer's unions play a central role. The manner of making policies is thus open, corporatist and inclusive.

The neoliberal model argues that the state is, by definition, an inefficient provider of any services. The role of state should be limited to a controlling agency that merely sees that law and order are sustained. Civil society organisations and citizens are expected to make their own decisions rather than to work in liaison with the government.

As far as the current policy debate in Tanzania is concerned, both Nordic countries and the World Bank fall between these two positions. The Government of Tanzania is also advocating a middle ground between state-led corporatist model and neoliberal thinking. While still two years ago the three parties expressed different views on the major social sector policy issues, the views have now converged.

Education sector reform is an example of the increased. Buckert cites a Tanzanian government official who tells us that ”there used to be antagonism between the World Bank and the Tanzanian Government and between the World Bank and other donors in Tanzania; now there is a marriage of convenience”. (Buckert 1997, 64)

There seems to be consensus on the following issues:

- a market system requires an active support of state administration. State administration needs to be strengthened. The strengthening should be primarily qualitative. In other words, we need fewer administrators, who are more professional and committed to their work,
- the government has still a central role in the service provisioning. However, new kinds of partnership arrangements need to be created for administering the services. Service provisioning needs to make use of household level user fees, community level labour input and district level politics,
- in order to manage these tasks, the state needs to increase taxation. Tax collection needs to be more efficient and less corrupt.

We call the consensus between the government of Tanzania, the World Bank and the Nordic donors the Dar es Salaam Consensus.

The Nordic donors and the World Bank have fairly similar views on the role of state, especially when the social sector reforms are discussed. Both agree that programme aid is a convenient way for allocating the external inputs into the social sector reforms. Programme aid is administered through the central government and its direct effect is the strengthening of the state. (World Bank 1996; Buchert 1997)

We have discussed above the triangle of the government of Tanzania, the World Bank and the Nordic countries. We have argued that the three parties had a fairly similar approach in the 1970s and that, after a period of debate, all three parties have shifted their position regarding the role of market forces considerably.

Differences in the manner of making policies: The Nordic model versus the World Bank approach

It is another thing to discuss the past history from a point of view of a political analyst. In the following we present a few critical remarks on the Dar es Salaam Consensus.

In general, the donors discuss the policy issues with administrators at the top level. In formal terms, the procedure is quite democratic. However, in practise more openness would help to make the reforms more popular. Currently, the Parliament of Tanzania has been denied a meaningful role in debates about the reforms under preparation. Also, the competent mass media is kept aside during the planning phases.

To simplify the situation, the differences of approaches within the Dar es Salaam Consensus do not concern so much the aims of policies but the manner of decision making. Here we can see that, although all donors have rather similar tools and instruments for policy work, they differ in terms of their emphasis on democratic decision-making and openness towards civil society. Here the Nordic cultural tradition differs from the World Bank style.

The World Bank's style in decision-making is:

- too top-down oriented, regardless of democratic pretensions towards 'partnership'
- too secretive, by-passing the democratic debate,
- too hurried, causing a problem with the sequencing of the reforms
- too hurried, causing problems with adapting legislation.

The differences between the Nordic and the World Bank approaches can be understood through the following two figures which link policy implementation with the creation of trust in society.

Taking the education reform again as an example, we can readily note that the World Bank took an initiative of writing a social sector review, which it used as a basis for guiding the government's formulation of a social sector strategy. This planning work, while good resources and based on high-quality groundwork, was seen by other donors as a case of imposing policies upon the government. (Buckert 1997, 51-58) When the planning advanced to details like funding primary education through the so called Community Education Fund, the other donors felt that the World Bank was bypassing the local governments in this issue and it was not considering the experiences of other donor education programmes.

As mentioned, the World Bank, on the one hand, and the other donors and the government, on the other, have recently managed to locate common grounds in these issues through compromising but the World Bank's manner of making high-level decisions, based on 'studies' and loan conditionalities, is bound to create less democratic political processes.

What is behind this problem? The World Bank guidelines, procedures and staff incentives still make it difficult for the World Bank to get rid of the much criticised loan culture with systemic incentives to increase loaned volumes more rapidly than the sustainable "go-at-the-pace-of-learning" -approach requires. Bank-wide quality-targets push the World Bank staff to rapidly increase the proportions of loans that can be statistically recorded as "basic services". This creates temptations for the World Bank staff to push for nation-wide solutions to be rapidly replicated from superficially tested and evaluated pilot cases. The World Bank's presence on the local levels outside of Dar es Salaam, and consequently the World Bank's understanding of the field-level realities, is extremely low. In spite of some excellent research funded by the World Bank on the local level realities (e.g. the Participatory Poverty Assessment, PPA), in its operational decision-making the World Bank seems to lack sensitivity to the particularities of local contexts. In terms of operations and policy-making it has not had a constructive role in building up capacities and democratically accountable structures from bottom-up - starting from the disaggregated analysis of intra-household and intra-community equality issues up through the village, ward and division to district level structures and processes that are needed for local communities to analyse and to negotiate sufficiently efficient and appropriately equal solutions for the management of common resources and service provision needs and responsibilities.

Let us discuss the manner of policy formulation in more detail. The World Bank strategy for discussing policy formulations is based on a two-fold strategy. On one hand, it is active in commissioning research on various policy issues. Much of the research related to the social sector reforms has been very high quality work. The problem of the research is the very restricted circulation of results to a limited number of governmental officers and the other donor agencies. Those studies, which become official publications are few and could be described as policy-supportive PR-work. On the other hand, the World Bank is engaged in high-level policy negotiations, where it directs much of it talk, directly or circulated through the recipient government, to other donor agencies. Both the research and the policy work are conducted in a way that they marginalise the local stakeholders. The local stakeholders cannot emerge as actors for corporative policy negotiation. The representatives of the local stakeholders are marginalised from the effective policy forums.

The role of the World Bank as an international financial institution could be explicated by comparing it to private banks. Usually, bankers are sitting in their offices and waiting for customers to come with detailed proposals for loans. In comparison, the World Bank is engaged in walking to the customer, locating potential objects for loans, writing the proposals, running the loaning negotiations and then providing the loans. Since the World Bank tries to be a financially accountable international bank, its strategy is rather strange. The strategy is bound to lead to problems, which then need to be dealt with through extensive conditionality into which other donors are drawn. Paradoxically, the other donors support the World Bank because they adhere to the policy ideas represented in conditionalities, rather than to past World Bank funded projects.

This strategy has a definite drawback. It reduces commitment to the policy by the local stakeholders. It reduces trust in the existing policies. The economic analysts have found that trust is a crucial factor for economic growth. The manner of making policy decisions has a direct impact on the level of trust among actors in a society. When the style of policy-making enhances trust on national leaders this creates dynamic multiplier effects in other sectors of a society.

In this respect, one can see a cultural difference between the World Bank and the Nordic donors. The Nordic donors repeatedly emphasise the importance of involving local stakeholders in the policy formulation in an open manner. The Nordic experience of actively involving labour movement, co-operatives, churches and similar stakeholders has shown that trust can be built through open state-civil society -agreements. In other words, the Nordic countries are interested in combining economic and political dimensions while the World Bank is more interested in reducing political issues into technical or administrative issues. Following the World Bank's style of making policy decisions, the societal trust on economic policy is reduced.

Mushi has analysed the history of Nordic development cooperation in Tanzania. He maintains that the Nordic countries created a 'cordial' relationship with Tanzania during the 1960s – a relationship, which has had special effects to the present day. Mushi commends the Nordic donors for having established a manner of providing aid, which emphasises dialogue. Mushi takes up four features in this respect:

1. the dialogue method or 'quiet diplomacy';
2. the use of the multilateral voice;
3. support for political parties, human-rights groups, and civic organisations; and
4. support for specific measures for economic and political reform.(Mushi 1995, 240)

The above analysis shows that while the Nordic countries have some capacity to adapt the policies towards the local conditions, the World Bank is more rigid. For this reason, it shows:

- insensitivity towards local needs
- insensitivity towards regional policy and equality
- insensitivity towards the social sustainability of development efforts

In the discussion above, we have observed the policies in the social sectors. The World Bank has shown capacity to adjust its policies towards a constructive direction. Outside the sphere of social reform packages, we would like to make major reservations concerning the other part of structural adjustment, namely the economic liberalisation policies. Although economic liberalisation may have slightly increased economic growth, this has mainly taken place in the field of the extraction of natural resources. There are still very few, and contradictory, signs that the smallholder agriculture and the informal sector - two sectors, which provide the income for some 90 persons of citizens, - would have benefited from the economic liberalisation. The poorest section of the society has not benefited from economic growth (World Bank 1993; World Bank 1996). In other words, the quality of the economic growth has been poor and unsustainable.

Conclusion

The only important aspect is not only what kind of policy lines are advocated but also how the policy reforms are managed. When it comes to the policy debates at a country level, the World Bank has a lot to learn. We are not claiming that the Nordic corporatist model of negotiating is the most suitable for countries like Tanzania. However, some elements of the Nordic principles of inclusiveness, openness and compromising would certainly be beneficial for the World Bank's approach. Such elements enhance trust in the national policies. The increase of trust on national policies has important multiplier effects throughout the society.

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6.

THE WORLD BANK AND UGANDA

Fred Kalibwani, World Vision, Uganda

The situation before

Uganda went through more than one attempt at recovery by means of an IMF programme. The first recovery programme under the leadership of Yoweri Museveni started in May 1987 - some 18 months after taking power. His government was committed to socialism and self reliance. It regarded the recovery under Obotes second regime as having been based on a large inflow of funds spent on consumer goods, resulting in an increase in foreign debt for which there was nothing to show. Meanwhile, however, the IMF, the World Bank and other donors were withholding aid, without which recovery seemed impossible. Grants recovered in 1986, but were still only half the level in 1981. The IMF agreement of May in 1987 was regarded by the government as very much an intervention of the IMF.

Perhaps surprisingly, in these circumstances, the government succeeded in eliminating the budget deficit in the first few months after the May 1987 devaluation. The government actually repaid a small amount to the banking system in the second half of the year, compared with a 60per cent increase in credit to the government in the previous six months. This was greatly helped by the one-off receipt of a 30per cent tax on currency exchange.

Unfortunately, credit to the private sector increased rapidly, with severe inflationary effects. Coffee producers received higher prices after devaluation, and this induced a 50per cent increase in the volume of coffee bought by the Marketing board. So there was a sudden and large increase in the spending power of the farmers. There was the normal delay in receiving foreign exchange and ordering imports, and the government compounded this factor by spending only 17per cent of official foreign exchange on consumer imports.

Most consumer demand had, therefore, to be satisfied in the parallel market for goods and foreign exchange. Within seven or eight months the cost of unofficial foreign exchange rose from a small 17per cent premium after the May 1987 devaluation, to be three or four times the official rate. The rate of inflation accelerated to the point where the new Uganda shilling was again grossly overvalued by the end of 1987.

This re-established all the earlier incentive to avoid official markets, and confirmed the government in its distrust of IMF policy recommendations. A second large devaluation was implemented in 1988, but was much further from approaching the unofficial rate than 1987. Meanwhile, action on the unmanageable size of the public sector was postponed by commissioning further studies; and people employed in the public sector were paid so little that they were unable to devote much time to their jobs. It would have been difficult, therefore, for the government to work out its own preferred policy changes, even if it had wanted to do so (source - Charles Harvey - IDS conference 1988)

The situation to date

Over the last decade Uganda has emerged as the most consistent performer in Africa. Following a long period of social and political turmoil and economic decline, the government under President Yoweri Museveni has established a record of solid economic reform and sustained growth, particularly since 1992. GDP growth has averaged 6.4per cent during the past decade and 8.1per cent over the past three years.

The most substantial structural and institutional reforms carried out since 1987 include substantial import liberalisation, the opening of export markets to competition, foreign exchange liberalisation, privatisation of public enterprises, revamping of tax administration, financial sector reform and down sizing the civil service. A considerable demobilisation of the army has also taken place. Further structural reforms are needed in Trade policy, the financial sector and public utilities. The government has made less progress in ensuring compatibility between incentives in the civil service and achieving improved service delivery. This risks constraining progress towards a substantial reduction in poverty.

Structural Adjustment Programs

The support of IMF since 1987 has been critical. Under the Structural Adjustment Facility (SAF) The Enhanced Structural Adjustment Facility (ESAF) and CCF, resources totalling about USD 446.3 million were disbursed between 1987 and 1994. Over the same period, the World Bank group disbursed loans totalling approximately USD 1.4 billion. In September 1994 the IMF Executive Board approved a new ESAF arrangement for a three year period: 1994/95-1996/97 amounting to about USD 168.7 million and additionally on May 10th 1994 the World Bank approved a second structural adjustment credit of USD 80 million. Uganda´s turnaround has been impressive by any standard.

Despite all achievements, Uganda still has a long way to go to ensure sustained growth and development, with a view to attaining external viability in the long run. In particular GDP remains very low and given the high population growth of 3per cent Uganda needs to raise its GDP to a higher path. This requires continued improvements in the efficiency of resource allocation and increase in public and private saving rates to raise significantly the investment - GDP ratio. To facilitate further in economic performance, greater attention needs to be paid to infrastructure investments, as well as investments in human capital, and to upgrading the social well being of the citizens. An improved domestic performance will undoubtedly contribute to external viability and in this context Uganda´s external debt must be addressed.

Broad policy objectives:

The Broad policy objectives of Uganda reform effects were focussed on:

1. the need to stabilise the economy, in part through the restoration of fiscal and monetary discipline, not withstanding demands for considerable outlays to restore and rehabilitate the devastated infrastructure.
2. the liberalisation of consumer and producer prices, with the objective of realigning process in the favour of export oriented production and import substitution.
3. the progressive movement towards a realistic; market determined exchange rate within a system free of exchange restrictions.
4. the strengthening of balance of payments and the normalisation of relations with external creditors.
5. the removal of trade restrictions.
6. the privatisation and rationalisation of state enterprises.
7. the downsizing of the civil service and the army.
8. the liberalisation of interest rates within a restructured and more efficient financial system capable of mobilising savings and increasing investment, with a view to raising the rate of economic growth.

Debt relief

In April 1998, Uganda is on track to become the first recipient of a debt relief amounting to USD 337.6 million in net present value (NPV) terms. It becomes the first Sub-Saharan country to qualify under the World Bank/IMF sponsored Highly Indebted Poor Countries (HIPC) debt relief initiative launched in 1996. The World Bank is excepted to contribute over USD 160 million, IMF USD 68,9 million Paris Club USD 44 million and the bilateral creditors USD66 million.

Uganda has been paying over USD 150 million per year. The debt relief excepted will reduce debt service by about USD 30 million per year. Uganda will, however, not receive this amount in cash but will be paid to a trust fund or holding account controlled by donors and will be used to pay the amount due for debt service when such debts mature.

Do SAPs benefit the poor in Uganda?....SAPRI?

Faced with the question, the World Bank set out the review the effects of SAPs on civil society through a global network of NGOs and other civil society organisations. A Structural adjustment participatory review initiative (SAPRI) was launched in a global forum held in Washington - July 14-18, 1997.

Seven countries were selected for review including: Ghana, Mali, Uganda, Zimbabwe, Ecuador, Hungary and Bangladesh. Two other countries representing large emerging markets would be added to this sample. Following the launching of SAPRI by the World Bank in July the selected countries have gone ahead with the laid down procedures.

In Uganda, a national steering committee for the national review work is in place and a civil society steering committee, which has the agenda of ensuring that civil society and people´s organisations are at the centre of the review process.

The process of selecting three adjustment policies for review and prioritising them took two and a half months. The process began by identifying the social issues that structural adjustment policies have had an impact on. The Ugandan experience was that it was not logical in the Ugandan context to identify and prioritise adjustment policies to be reviewed without initially identifying and prioritising the social sector issues on which national adjustment policies have had an impact.

The final consensus is that the policies that Uganda will review are the policies that have had an impact on basic rights e.g. the right to services such as education, health and food security. Under macro-economic stabilisation the impact of monitory policy will be reviewed. The adjustment policies to be reviewed include;

- the reduction and control of government expenditure
- liberalisation and de-regulation
- privatisation

The review will track the impact of these policies directly down to the micro-level of society in Uganda and indirectly their macro or other intermediary effects.

Conclusions

1. Whatever the outcome of SAPRI, the World Bank must ensure that a bottom-up policy making process is established to avoid adverse effects on the beneficiaries. Participatory processes that include the civil society will be extremely critical in future.

2. The role of NGOs and people´s organisations in shaping global economic policies must be strengthened. They have the civic competence to question the relevance of adjustment policies on social issues.

3. In dealing with governments, the World Bank must continue to develop its linkages with NGOs because these now provide the entire spectrum of social services that would be provided by the governments. NGOs have invested huge amounts of money in development initiatives supplementing World Bank/IMF initiatives to the extent that the World Bank can no longer overlook these partners in development.

4. As the World Bank seeks to reach the poor in the rural areas, it must invest directly in NGOs not simply as vehicles for governments. The World Bank has to date asked governments to implement social programmes through NGOs but has not provided the matching administrative budgets to the NGOs. This has tainted the World Banks relationship with the NGOs.

5. As NGOs continue to uphold the social service sector, the governments have abounded their role yet they continue to receive taxes. The World Bank needs to discuss with governments the possible contracting of social services to line NGOs. And hence paying them for services rendered on their behalf

6. Given the model of development brought to grass-roots level by the NGOs, the World Bank should seriously consider putting in place a policy for gov-

ernments to contract NGOs to eradicate poverty. The key to poverty eradication lies in the NGOs capacity to organise rural people into viable entities.

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7.

THE IMF AND ESAF: HOW TO STABILIZE AND ADJUST THE IMF AND ITS ADJUSTMENT LENDING

Ted van Hees, Eurodad, Belgium

Introduction

Maybe I should first explain what Eurodad stands for: Eurodad stands for European Network on Debt and Development. It is a network of NGO's in sixteen European countries; working on debt, adjustment (IMF/World Bank policies) and financial markets (on how to regulate them in such a way that they don't jeopardise sustainable human development). The latter is a new issue we have been taking up before the outbreak of the Asian crisis.

We work closely with our colleague organisations in Southern countries, this being NGOs, social organisations and their networks in Africa, Asia and Latin America. Emphasis is laid on Africa. Because we work on global issues, we also have a close collaboration with colleague organisations in the USA, Canada, Japan and Australia. Eurodad is a big network with a small secretariat: four people working in Brussels. Our strength clearly has to do with the vast network of NGO's in the sixteen European countries and our contacts in the South. In Finland Kepa is our major member.

My job is to discuss with you ESAF, which stands for Enhanced Structural Adjustment Facility and which is the main instrument of the IMF regarding structural adjustment in the South. I have three questions to discuss with respect to the larger issue of how to adjust the IMF and its ESAF instrument. The first question is: how many structural adjustment programmes (SAPs) can a country have at the same time? Secondly, what do the various evaluations of ESAF teach us? There has been a constant internal evaluation process by the IMF itself. However recently, for the first time, an external evaluation was discussed at a board meeting of the IMF. Thirdly, what role should the IMF and ESAF play in the poorest developing countries?

How many structural adjustment programmes can a country have at the same time?

Regarding the first question, I'd want to start with the following statement: no country can have more than one SAP at any given time. However, in practice this is not as obvious as it sounds. There are many fora where SAP's are debated upon and designed. Sometimes this is done together with recipient governments. However often this is done without them, let alone the involvement of the civil societies of the countries in question.

To mention six principal fora: First of all the World Bank itself, where a few years ago the new concept of Higher Impact Structural Adjustment (HISA) or Higher Impact Adjustment Lending (HIAL) was launched, which entailed a search for a more successful approach to ownership and conditionality. Ownership is a keyword in my presentation and deals with the question of who owns the programme. Is the government, the society which the SAP effects in charge or is it an imposed programme, meaning owned by someone else? HISA was also to be more result oriented.

A second major forum is to be found in the Structural Adjustment Participatory Review Iniative (SAPRI) This is a major effort of NGOs with the World Bank and Southern governments, currently taking place in eight countries. It is a process that started in 1996, when Wolfensohn became the president of the World Bank. It was launched last year, and is operating in most of the eight countries. At the moment it is a problem to get the major departments of the World Bank involved in this exercise. Eurodad is the European member of the steering committee of the SAPRI experience. The majority of the members of the steering group are representatives of the countries where the SAPRI exercise is executed.

A third major forum where structural adjustment is discussed, is the Special Programme for Assistance to Africa (SPA). This is an important donor forum as this is where the OECD governments, together with the World Bank and IMF, discuss their views on structural adjustment and co-ordinate their funding to structural adjustment. The typical thing is that this is a forum without any involvement of recipient countries. This has received a lot of criticism. Therefore the World Bank (as leading agency of this forum) invited on a few occasions speakers from Africa, to hear at least an African voice in this forum. Also there have been some working group meetings of the SPA with the participation of civil society organisations in Africa, which in particular was an initiative of the EC. In the context of SPA, there is an important experiment conducted in Burkina Faso. A so called new approach to adjustment is being tested, which differentiates between the several parts of a programme and the financial flows attached to them. This is a response to the recurring 'stop and go-practice' of the IMF, which refers to the total stoppage of the financial flows by the IMF when a country fails to meet the targets of its macroeconomic policy but performs well on for instance structural reforms or health and education.

A fourth forum where structural adjustment is debated (or rather should be debated, as this is hardly the case) is the future of the collaboration between the EU and the ACP-countries, the future of Lomé. Twentyfive to thirty percent of the funds of the EU goes to structural adjustment, but in all the policy papers that have been produced to prepare the new Lomé agreement, there is very little mention of structural adjustment.

The fifth forum is the HIPC (Highly Indebted Poor Country) initiative, a mechanism where debt relief is linked to conditionality, in particular to ESAF. Countries have to comply with ESAF in order to get debt relief. This takes often two ESAF programmes, meaning that countries have to perform well for two times three years in order to get debt relief.

The sixth forum would then be the IMF, ESAF itself, which as said has been recently evaluated, with both internal and external reviews.

There are, as mentioned, so many places where structural adjustment policies are discussed, evaluated and made. As a policymaker, whether from the North or

South, one needs to know the approaches of these various fora in order to be competent. Policymakers can't work on all these areas, but they should know about the major debates and programmes in other areas, as it influences their own view. This should be the case whether they are policymakers, civil society organisations in the South or in the North, since this is where often decisions are being made.

The IMF was for instance invited to take part in the SAPRI initiative, but so far it has declined this invitation. The Lomé debate is hardly on adjustment, although adjustment will be a major element of Lomé. I remember a few months ago participating in a discussion with the major policymaker in the German Ministry of Finance about structural adjustment, in particular about ESAF and the HIPC initiative. We asked him whether he was informed about the pilot project in Burkina Faso and the thinking within SPA. His response was that he was part of a creditor forum, a finance ministry and as such not to be confused with those dealing with foreign affairs, development co-operation. He clearly was not even interested in these issues, although the IMF plays a crucial role in these issues.

If policymakers are not reshaping their attitudes regarding joint effort in the area of structural adjustment, it is maybe our role as NGOs to make them aware of the need for this. We need more consistency, more coherence, more co-ordination to have indeed one adjustment programme and not an inconsistent parallel adjustment programme which doesn't work, if only because different actors have different programmes which are linked with different conditionalities. We know the example of Zambia, which had to comply with five hundred different conditions attached to their aid and debt relief programmes, which not only were inconsistent but often even contradictory, a job no government can fulfil.

The HIPC initiative for instance depends for a great deal on how structural adjustment finally will look like. We have a major opportunity at the moment to redefine the formulation of stabilisation and structural adjustment. In particular this points to an opportunity to discuss the role of the IMF in ESAF, which is very crucial. I believe the IMF in the whole scene of structural adjustment plays the key role. The ESAF instrument is the major instrument used by the IMF to measure whether or not a country is ready for debt relief. However, for many people who have studied the problem of debt in relation to the problem of economic reform, economic reform is only efficient if it is combined with debt relief. We heard from people of the World Bank that because of problems with ESAF programmes, the three plus three years that countries need to comply in order to get debt relief easily can become five plus five years, which renders the whole HIPC scheme even more obsolete.

What do we learn from the IMF's ESAF evaluations?

First of all the Internal Review: The analysis of the results of the internal review shows that the IMF adjustment or stabilisation programmes have not achieved their stabilisation and growth objectives. The last internal review, which was finalised in September last year, shows that programmes have only been marginally successful in achieving their aims.

A few points of importance: There is a small negative impact on growth from ESAF programmes in general. There is little effect on other macroeconomic variables. Poverty reduction is clearly a secondary aim. Only a quarter of the ESAF programmes are finalised. Three quarters of the programmes are interrupted so that countries go 'off-track', meaning that they lose the approval of the IMF at that moment and thus lose also the financial flows towards them. Merely the fact that only one quarter of the programmes is finalised shows that ESAF is not a very successful policy programme. A major reason often given for the interruptions is the policy disagreement between the IMF-staff and the governments, a conclusion also drawn by the external reviewers of the IMF.

The External Review is all the more interesting as it was for the first time people from outside the IMF were asked to evaluate their programmes (although they were scholars representing mainstream economic thinking). The External Review focussed on three points:

– the social impact of ESAF programmes
– external viability: to what extent do ESAF programmes enable countries to become financially sustainable
– the issue of ownership.

First point: social impact of ESAF:

The reviewers sketch a rather mixed picture of the social impact of ESAF programmes. The basic assumption in their approach is that economic growth leads to less poverty, and to more social development (this coincides with the thinking within the IMF and the World Bank).

They analysed the impact of ESAF programmes in two ways, first the impact of ESAF on real private income. The conclusion is that the major impact on poverty is not resulting from an increase of GDP, from the share of government expenditure in the GDP or from a change in the composition of public expenditures. The major impact on poverty results from the change in relative prices: the cut in subsidies for instance food, health and education resulted in higher prices for these goods and services and since these eat up a large part of the poor's income they can be worse off. Further, this it is offering a mixed picture. In some countries some groups are better off than others. The general conclusion on the social impact of ESAF programmes is that important subgroups do not benefit from economic growth

The reviewers do mention that there should be more specific attention to subgroups in a population which are suffering from ESAF programmes. Furthermore, the reviewers conclude the IMF is weak on poverty analysis and policy, and should therefore use the expertise of the World Bank. I would like to add here the expertise of medical doctors, of people who study the effects of the programmes at grassroots level, although I know that there are currently studies conducted in such manner. Doctor Logie showed some of the data coming from the World Bank Apparently they have the figures, the question then to be asked is what is done with these figures.

Furthermore they advice the use of social safety nets and compensation programmes. They also mention that in certain cases financial liberalisation has been premature. The opening-up of capital markets, the inflow of capital, couldn't be controlled by governments. In countries like Zambia and Zimbabwe, policy mistakes have been made in this respect. Also they advice on matters as fiscal policy collaboration between the macro approach of the IMF and the micro approach of the World Bank and they provide a more explicit analysis of the trade-offs between short term and long term effects of the ESAF programmes on poverty.

An interesting point of discussion is a possible extension of the role of the IMF: In the post-stabilisation stage, the IMF is advised to take the lead in signalling to investors that they should come to the countries and invest their money. So far, the IMF hasn't had this role.

My comment to this analysis of the social impact of the ESAF programmes is that the poverty programme should not be an additional element, an add-on, as a social safety net or as a compensation measure, but should be the core of any macroeconomic programme or stabilisation programme. As such, human resource development is the core of macroeconomic growth. This should be the basic assumption of such a programme. Of course, there can be a difference as to how one views the role of human beings in development. One can see them as human capital or as human beings in terms of a need as such for their development. But even if one sees human beings as human capital, one should make them core of macroeconomic programmes. We therefore don't understand why the IMF and the external reviewers merely respond to the issue of poverty in terms of a compensation or social safety net approach.

Another key question we have, concerns the extent to which the IMF should play a role in the post stabilisation stage because the IMF doesn't have a lot of expertise on these areas.

Second point: external viability

Regarding the major indicator which is used to measure financial/debt sustainability (meaning in short the level of debt that is affordable for a country), the external reviewers (and we agree with this) come to the conclusion that the indicator measuring the debt burden is biassed. The major indicator is debt service to exports: debt service on an annual basis, how much one earns from exports and how these two quantities relate. The external review states that debt service to export ratios and debt to export ratios are less reliable indicators than debt service to GDP and the debt to GDP ratios because the ratios related to exports are overly sensitive to the openness of an economy. If a country is capable of exporting and earning export income, there is a bias. We have therefore stated to be in favour of using an indicator that relates repayment of debt to other major parameters of the government budget: how much debt (interest, principal) is repaid compared for instance to investment in health, education, sanitation, basic infrastructure. This could maybe combined with an indicator that relates to earning foreign currency because one's debt needs to be paid most of the time in foreign currency. But in stead of gross exports in the denominator of the debt (service) to export ratio, we propose to use the concept of net exports, i.e. gross exports minus necessary imports, and import related exports. We thus agree with the reviewers but regard their advice as insufficient. However, the use of a GDP related indicator would be a good step. The GDP indicator has already been used for decades, but in the HIPC initiative the IMF and the World Bank have not adopted it. Furthermore, we would want to promote the use of a human development indicator to measure the debt. In the analysis of the debt problem, it should also be possible to look at the level of human development in a country and to give debt relief accordingly. We, and others, have made proposals to the

World Bank/IMF in this debate and concerning the HIPC initiative. So far, we haven't had much response.

Third point: ownership of ESAF and adjustment programmes.

This issue is a rather strong element in the analysis of the external review. The external review identifies lack of ownership as the principal weakness of IMF programmes. The external evaluators see a positive correlation between the degree of ownership and the success of the implementation of adjustment programmes. Countries that have more ownership of their programmes are more successful in implementing the programme. They advice the IMF to have a sincere dialogue with the government as well as with civil society. The latter they define as representatives from labour and entrepreneurs, not so much as social organisations. I believe that relevant social organisations should also participate in such a dialogue. Anyway, basically they make the right point.

The external evaluators also mention that the IMF should present alternative scenarios to introduce an element of choice in ESAF, not impose something which has to be agreed or not agreed upon, and which has to be negotiated with an IMF, that is very powerful. Governments find themselves often in a weak position because of the pressure of the IMF and the donors. Relevant players should thus be involved in the design of ESAF. IMF and government could organise consultations, for instance in the form of national conferences, that debate alternatives and trade-offs of different scenarios and programmes. They propose the formation of an Economic Management Team (EMT), that needs to define a mid term and long term vision and policy agenda. Such an EMT should not only incorporate relevant other ministries, but also experts and representatives from civil society.

The response of the IMF staff to the external review, in two meetings of the IMF-Board at the end of March, has been quite defensive. They more or less tried to play down the criticism on the weak results of ESAF and put forward a more positive assessment. However, they didn't do so on the issue of ownership, which thus points to their awareness of the need to improve the implementation and the success rate of ESAF.

I like to end with a brief presentation of our view on how we see the role of the IMF and ESAF:

In principal we note as a preliminary assessment (as we want to discuss this also with colleagues in the South and also in our own network) that the IMF should stick to matters it is qualified for, and not get involved in areas where it has no experience or expertise. Like the external evaluators also conclude, the IMF is not a development finance institution and should not become one. This is a kind of baseline we could agree upon. However, the external reviewers make some recommendations as for instance the involvement of the IMF in the area of investment, which we do not want to support. In general, we state that the IMF could play a considerable role in the monitoring, surveillance and analysis of the global economy as well as in the disseminating of information. This should be a role also in the future for the IMF.

The second point which we have our reserves about is not just related to ESAF, but is a wider issue in particular related to the current discussion on how to look at the Asian crisis. The IMF is seeking to extend its mandate to capital account liberalisation. In order to achieve this aim it uses the argument that in the past it had a mandate on trade liberalisation and now it wants to extend this to a mandate on capital account liberalisation. The IMF itself is admitting that, at the moment, it has more questions than answers about this whole issue. We therefore believe that as long as there are no clear answers to these questions, there shouldn't be the demanded extension of the mandate. This being the case, we should advice our policymakers not to accept the argument used by the IMF to achieve this extension. The IMF is not ready for this. It needs first of all to conduct a prudent analysis and present better advice on this issue.

A few points with regard to ESAF:

In principal there is a big problem with the IMF in terms of the ambiguous role it is playing. We see that most clearly in the HIPC initiative. The IMF has a role as creditor and like every creditor it wants its money back, but at the same time it is the major arbiter making the assessment whether or not a country is performing sufficiently. As such, this presents a conflict of interests, and the IMF should not be put in this role. The IMF should not be playing such a crucial role in the HIPC initiative or in the programming of conditionality linked to debt relief and linked to aid programmes.

What we want from the IMF :

They probably should have a role in the short term stabilisation of for instance a country, which is in shambles regarding its inflation budget deficit and its balance of payment. The IMF could have a role here of co-designing with the government a macroeconomic programme. However, as we have learnt from the speech held by Stiglitz, the chief economist of the World Bank, here in Helsinki in January, the targets set by the IMF and often also by the World Bank are much too ambitious. The inflation target is not per definition to be brought to a single digit, 40 percent or below that is in many cases a reasonable target. The budget deficit shouldn't always be given priority. If a government needs to make expenditures regarding production, investment or the social sector, these shouldn't always be lowered in order to reach these very high targets that are set on the budget deficit. Stiglitz also mentions that currently liberalisation has become an end in itself.

I mentioned the issue of ownership and the involvement of civil society, interest groups, NGOs, academics, parliamentarians. They all should be involved in designing the programmes.

Regarding the question of the role of the IMF in the post-stabilisation phase:

After the first generation of adjustment programmes, we see the IMF moving into new areas where they are trying to impose their programmes. This is for instance the case with issues of good governance, of capital account liberalisation and, as the external reviewers mention, also on investment. We have big doubts on whether or not the IMF has a role to play there. If it has a role in these matters, it should be a shared role with other national and international players. One could imagine a forum of a so called consultative group or a donor group, which is called together by the World Bank or by the UNDP. The IMF would in this forum get together with these various actors and give its advice as the World Bank, UNDP, national players and civil society would be doing. Then a discussion could be following on how the resulting programme or policy could be financed, supported and which conditionalities should be attached. Thus, this should not be such a central role for the IMF.

8.

DISCUSSIONS - II

SAARA KOIKKALAINEN, INTERNATIONAL SOLIDARITY FOUNDATION: To Mr. Kwalibani, I would like to ask you something about Uganda. About ten months ago, I spoke with the Finance minister of Uganda who seemed to be quite confident about the benefits of debt relief. He believed that all the money saved by the relief of debt would be invested in the social sector. What is your view on this, will this benefit the people of Uganda?

FRED KWALIBANI: I believe this is going to be a long debate. When one studies the whole debt relief plan, one comes to the conclusion that it is going to benefit Uganda in maybe 30 years from now. It is a long process and as I have said in my paper, the money is not even going to pass on to Uganda as such. The thinking is that it will eventually reach the health and education sector, but unfortunately not in any immediate present. Today, the debate includes whether it would be possible to reschedule debt relief so that it will be able to see the benefits at least in ten years or so. This debate is going on between NGOs and civil society organisations, who are in fact doubting whether debt relief really is going to benefit the people of Uganda. The plan is there, but the process is very long.

EMMANUEL AKPA: First, I want to say something on the SAPRI (Structural Adjustment Participatory Review Iniative) experience. I did not mention SAPRI explicitly, because there were so many things to say. The SAPRI experience is something to which the World Bank has great attachment . Recently, this was taken one step further by an adopted resolution of the board of executive directors, which will allow access to government documents for the purpose of analysis. As such, there is a disclosure arrangement that makes certain documents, once they are legally cleared, available to the external community. Some of these documents are established with sovereign governments. They have to go through the board to become available. This resolution was adopted in the third week of February and now in each of the residents' missions for the countries selected, there will be a depository where the PFP (The Policy Framework Paper), the CAS (Country Assistance Strategy), the president's memorandum and the appraisal report for all the adjustment programmes ,which are to be reviewed sectorial as well as economy wide, will be made available. This is moving forward and it is not that oblivious to wait.

Secondly, I want to discuss what we used to call the loan or lending culture, which made people focus on the numbers of loans actually given out. Sometimes, even if on the side of the borrowing countries there was enthusiasm to accept the loans, we realised that the pace at which the loans were put through sometimes did not allow enough prior thinking which made it impossible to achieve the goals set. If one has kept up with the communications and even the practices in recent times, it will be known that we have tried to soften this considerably.

For instance, in February, I went along on a mission to one of our countries where the issues were pressing and where the government would like the appraisal of the adjustment package that we were putting together to take place in April. We responded to this by saying that, in order to have parliament and civil society on board as well as to get the general media to be part of the awareness and consensus building process, we did not think we could come up for appraisal before July. The government's worry was as to when exactly they were going to be able to 'get the show on the road', to show that they are sustaining the enthusiasm and the momentum of reform. Their worry in part was also as to how fast they will get the resources flowing. But we try to balance the two imperatives, and do the best we can.

Most adjustment programmes go in place much slower than even the borrowing countries would like and we make sure that consultation is conducted and documented, that enough awareness building takes place and that there is a consensus. In this documentation one actually has to show that one has analysed the point of view of those who are likely to loose, as they have privileges which will disappear, and of those who are likely to gain, because they are being excluded. Also, one has to document what measures have been taken in order to diffuse any possibilities of resistance that will cripple the relation later on. This is a good proceeding.

I was gratified to hear Mr Kwalibani from Uganda explaining the track record and the performance of the Ugandan economy over a whole decade, in which a solid 6per cent growth in real terms has been sustained. I am also gratified to hear that those in the NGO community want to see this going even higher. This is the way to go: a 6per cent rate or better. Because, if you take into consideration the population growth rate, there is not going to be very much left for further investment. Knowing that foreign flows to our countries are going to diminish, growth rates of this magnitude will be critical.

Maisa Tapio, University of Helsinki, comment to Pekka Seppälä: You talked in yours and Timo's paper very nicely about 'the Nordic view'. However, in my opinion, the specificity of this view is more a question of rhetoric's. It concerns the theory of Nordic aid, but the practice is very different and does not differ at all from the other donor countries. It is as top down as any of them, and the Nordic countries are as keen as others to see that before they release any aid money, countries will accept the World Bank conditionalities.

Pekka Seppälä: In some issues Finland and the Nordic countries have been indeed supporting the World Bank line in terms of the general conditionalities. However, the difference is first of all that the Nordic countries have been directly supporting those projects which concern civil society and democratic processes, and in this way they have been able to bring the political debate closer to the World Bank policy formulation.

The second difference is that, in recent years, there has been a policy shift, even during the 1990's: the Nordic donors have started to systematically ask for the inclusion of aid into the national budgets. Furthermore, they want to see it debated and they want to pull down the space of implementation so that these things can be managed. Because the Nordic donors are not the only ones, because they support the single country strategy and because of the need to avoid too much separate conditionalities, the Nordic countries are giving aid to the sort of broader donor coalition. However, if one looks at the nuances, the style, the intenseness, one will see that the Nordic countries are having indeed a different kind of policy. They are not able to always follow their ideological tone. I nevertheless believe there is a difference worth noticing.

9.

GLOBALIZATION, DEMOCRACY AND THE INTERNATIONAL FINANCIAL INSTITUTIONS

Stephen Gill, York University, Canada

Introduction: Globalization and Democracy

In this talk, I will sketch aspects of economic globalization in historical perspective in order to establish what is different about economic globalization today.

I will then analyse the relationship between new constitutionalism and globalization in order to identify the role of the international financial institutions (e.g. World Bank and IMF).

First, some definitions. Economic globalization is a process that is based on the spread of free markets or free enterprise in a Political Economy in ways that seek to privilege the mobile investor as the dominant political and social subject. Democracy, in contrast, seeks to privilege the citizen as the dominant political subject.

Any system that operates systematically in favour of some interests relative to others is undemocratic, in so far as democracy implies equality of political subjects and popular sovereignty in the making of policy.

In today's world, therefore, the central political question raised by globalization, in so far as globalization systematically favours investor interests, does not simply concern the ability of governments to channel, regulate, resist or to accept it. Rather, it centres on the question whether economic globalization is in fundamental contradiction with democracy, and opposed to the notions of equality of citizenship and popular representation.

So how is the investor privileged in this system?

- The first way is through strong protection for property rights both nationally and internationally. One aspect of this protection is the freedom for investors to move their capital, or property, to any jurisdiction they choose, without hindrance from any government, that is free capital mobility.
- A second way is through the state's pursuit of policies such as wage restraint and other measures to ensure price stability, and fiscal restraint to ensure low taxes - in other words the policies which protect investors' capital, which the international financial institutions call "sound macroeconomic policy".

- The question from the investor's viewpoint, is how can policies be guaranteed politically when governments can change and democratic forces may press, for example for higher wages? In today's world, the dominant argument that is made is that the confidence of investors (that is policies that reflect investor interests) are served when binding constraints are placed on the ability of governments to interfere with property rights or to deviate from "sound policies".
- The international financial institutions, make adoption of such policy a condition for loans. Thus they actively support globalization and act as agents in the subordination of aspects of democracy. This involves a set of policies and initiatives that I call "new constitutionalism". What is being attempted is the creation of a political economy and social order where public policy is premised upon the dominance of the investor, and reinforcing the protection of his/her property rights. The mobile investor, rather than the citizen becomes the sovereign political subject in the making of economic policy.
- Thus central to the politics of globalization in the 1990s are legal and constitutional strategies to attempt to limit democracy in ways that insulate economic policy-makers from popular accountability. This is a means for governments to deliver "credibility", that is a commitment to deliver free capital mobility and sound macroeconomic policy. These strategies, which involve the restructuring of the state, correspond to changes in the global political economy associated with, on the one hand, the renewed dominance of the USA, and on the other, the reconstitution of capital on a world scale: a world increasingly dominated by giant transnational corporations and institutional investors.
- New constitutionalism involves, therefore, a particular form of the separation of the "economic" from the "political" to support and protect investor interests and transnational corporations from democratic control and accountability.
- Nevertheless, unlike earlier periods of economic globalization such as in the nineteenth century, liberal constitutional innovations today must confront the fact that formal democracy is ever-more institutionalized on a world scale. What may be novel therefore, about new constitutionalism is that it requires not simply suppressing, but attenuating, co-opting and channelling democratic forces, so that they do not coalesce to create a political backlash against economic liberalism and build alternatives to this type of socio-economic order. Thus some of the effort made by the international financial institutions to promote neo-liberalism is also politically defensive: in Polanyian terms, it is intended to prevent a second "double movement" of the twentieth century - that is a political mobilisation of both left and right against economic liberalism as took place in the 1930s (see Polanyi, 1944).

Economic Globalization in Historical Perspective

Here it is worth remembering how the international financial institutions actually came into being - they were created after World War II with the memory of the Great Depression, and the dislocations of liberal globalization, such as mass unemployment that gave rise to the political challenges from right and left that contributed to the most devastating war in history.

More specifically, in the 1920s and 1930s, the attempt to create a global free market that prioritised investor interests - what Karl Polanyi called haute finance - produced enormous political turmoil, and significant challenges to economic liberalism from right and left. Indeed, such was the outrage against the dislocations of the free market that Keynes, amongst others, called for the euthanasia of the rentier, and the need to control international movements of capital which destabilized production and the normal patterns of trade. These arrangements were institutionalised for the capitalist world at Bretton Woods in 1944 and the IMF and World Bank were subsequently created.

Whilst it may not be the case that in the 1990s we are in a situation that might lead to fascism, and, of course, communism is on the retreat, it can be argued nevertheless that these policies cannot be sustained in a democracy because of their socially atomising and disintegrative effects - for example higher unemployment and increased inequality. As in the 1930s, then, the politics of neo-liberal globalization is being and will be resisted by citizens through their ability to apply democratic political pressure.

Indeed, in contrast to the 1930s, economic globalization today confronts a world in which democracy is much more widely institutionalised. Thus it seems likely that the contradiction between economic globalization and democracy will characterise central political struggles of the twenty-first century

Historical aspects of the links between economic globalization and democracy

In the rest of this section we will seek to explain the historical links between economic globalization and democracy. Let me begin by saying that economic globalization is not new: for example in the nineteenth century, the world economy was based upon an international monetary system known as the gold standard. It was characterised by the economic policies which are similar to those which exist today and which are designed to serve the interests of investors. These include capital mobility (in both trade and finance) as well as the pursuit of price and exchange rate stability which was ”locked in” by the gold standard system of fixed exchange rates. Today we also have capital mobility in both trade and finance as well as a seemingly relentless quest for price and exchange rate stability by governments under the banner of low or zero inflation policies - for example in the European Union in preparation for EMU. In other words, key aspects of what we today call economic globalization existed in the nineteenth century.

So what is different about economic globalization today? And what are its political and constitutional implications? And how do we know that economic globalization requires policies to limit democracy?

The key difference between the nineteenth century and today is a political one and by this I mean democracy in the sense that, at least formally, a majority of the world’s population now has the right to vote in elections, on the principle of full adult suffrage. In the nineteenth century gold standard era, democracy was very limited and was, at the very least, not institutionalised in the form of mass suffrage or the existence of well-organised social movements.

Indeed, democracy in the first half of the nineteenth century largely meant democracy for property holders to protect them from arbitrary actions by the aristocracy, and as the century progressed it served to protect the propertied from democratic forces from below in the form of workers movements for example. More to the point, it did not mean democracy for average people and, in fact, was specifically designed to prevent policy makers from being subject to pressure from the popular masses.

When we move back to the question of economic globalization, the absence of democracy, or the institutionalisation of constraints within democracy was important for the sustainability of monetary and financial aspects of economic globalization because it meant that governments had the domestic autonomy that enabled them to maintain their commitment to price and exchange rate stability.

Technical aspects of the relation between democracy and capital mobility

(a) In the nineteenth century international gold standard system:

Because governments didn't have to worry about the ability of organised democratic resistance to alter their low inflation policies, their commitment to maintaining price and exchange rate stability was seen as being 100 per cent credible in the eyes of investors.

As a result, if the government let its exchange rate fall or let inflation rise, investors were confident that the government would take measures to correct the situation (such as raising interest rates).

Because of this 100 per cent credibility, investors would purchase the currency because they assumed its value would rise when the government intervened to defend it

This then absolved governments of the need to actually intervene because as more and more investors purchased the currency its value would rise back to a stable exchange rate and this, in turn, would serve to dampen inflation.

In other words, the international gold standard in the nineteenth century was automatic because a fall in the currency would induce inflows of capital in search of profits based on the expectation that the currency would appreciate in value: this meant that the government would not have to intervene because the capital inflow would produce a self-correcting appreciation in the currency.

(b) In the era of mass democracy, after World War I.

Today, in contrast, investors do not view governments as perfectly credible and this is because of democracy: investors worry that governments won't have the necessary fortitude to defend a currency because they will come under pressure from those who elected them who tend get upset at having higher unemployment and lower growth just to satisfy the interests of investors

As a result, if a government lets its exchange rate drop and the potential for inflation to rise, investors will sell the currency - rather than purchase it as they did under the gold standard system - because they don't trust the government to resist democracy

In fact, this is exactly what happened after the first world war when mass democracy became more institutionalised. So, whereas under the international gold standard of the nineteenth century governments were perceived by investors as fully credible, that is, willing to pursue policies in defence of the currency, almost regardless of the economic consequences for workers, after world war I and the Russian revolution, this was clearly no longer the case.

So, whereas in the nineteenth century, a fall in the value of the currency would lead investors to buy the currency, since they expected the government to intervene by raising interest rates to restore the value of the currency, by the 1920s, investors would tend to sell a currency that was falling in value because their expectation was that the government would not raise interest rates since this would tend to lead to higher unemployment, and they assumed that in a democratic society, the threat of higher unemployment would cause pressure from below on governments to expand the economy with lower interest rates, thus undermining the value of the currency. It was not until the 1930s, however, that the commitment to the international gold standard was finally broken.

(c) Democracy and capital mobility: the lessons from the 1930s

One of the lessons learned in the Depression was concerned with the ways governments dealt with this fundamental incompatibility between democracy and capital mobility: put differently, the policy independence needed to pursue national monetary and fiscal policies necessary to respond to popular demands for full employment and social welfare was deemed to be incompatible with full and unrestricted capital mobility.

Yet another way to put the same point is to say that to frame economic policy in a democratic way, therefore, requires that the government interferes with some of the rights of property holders, specifically, their ability to transfer their capital from one currency to another, or from one financial system to another (for example free capital mobility under the international gold standard)

Therefore, the framers of the Bretton Woods system dealt with this problem by imposing controls on capital mobility, and justified this in the name of protecting national economies and promoting production and trade. - in other words, finance was made the servant of production in the Bretton Woods system. In turn, Bretton Woods was based upon a fixed exchange rate system, anchored in the U.S. dollar, which was deemed convertible at the price of USD 35 per ounce. These restrictions were linked to the processes of post-war reconstruction since they gave governments the policy independence necessary to construct the welfare state: Keynesian macroeconomic policy was based on this independence.

For the rest of my talk, I want to show how economic globalization and the specific role of the international financial institutions is associated with three sets of processes:

1. the adoption of neo-liberal policies such as capital mobility
2. the locking-in of these policies by limiting democracy and, finally,
3. the attempt to deal with some of the dislocations produced by economic globalization

Adopting neo-liberal policies

The adoption of neo-liberal policies is what is most often associated with the process of economic globalization. At the global level, it has involved the liberalization of capital controls, the adoption of tight monetary and fiscal polices and measures to protect the property rights of international investors. This, combined with advances in information technologies, the liberalization of capital controls has led to a massive increase in capital mobility

Thus governments have allowed capital mobility to again emerge. This is creating the need to limit democracy so that governments can once again be credible to investors, in a global economic system that is dominated by transnational corporations and institutional investors.

Here two points are important and they relate to:

1. The structural power of capital: material and normative aspects

The ability to rapidly move their capital across borders has served to increase the structural power of investors, or more generally the structural power of capital, which includes the ability to narrow the range of policy choices open to states. This contrasts with the post-World War II era where the Bretton Woods monetary order, which involved controls on the movement of capital. This enabled governments to have a stable exchange rate and the macroeconomic independence necessary to pursue Keynesian demand management (for example to reduce unemployment) and to provide the New Deal-style social programs associated with the welfare state.

Today, capital mobility has forced states to choose between having either an independent monetary and fiscal policy or having price and exchange rate stability: they cannot have both simultaneously. And, with the policy choices of governments narrowed to either monetary and fiscal independence or price and exchange rate stability, states were encouraged to choose the latter by the international financial institutions and more generally the financial institutions of the Group of Seven, and other of private and public organisations, for example the Bank for International Settlements and the private World Economic Forum.

In the Anglo-Saxon countries this was accomplished through the promotion and gradual acceptance of market-monetarist ideas about the necessity of low inflation; in those countries where such ideas were less accepted - such as parts of Continental Europe, Asia and the less developed countries - market-monetarism was imposed from outside, and it is here that the international financial institutions such as the International Monetary Fund and the World Bank have played a key ideological and political role.

Indeed, both the IMF and World Bank were heavily influenced by the United States due to the US's larger contribution of resources and subsequent voting rights. Moreover, these agencies were generally staffed by officials trained in the economics departments of United States Ivy League universities, as well as Oxbridge, who were associated with the promotion of a shift of objectives away from Keynesian or State Capitalist Political Economy towards liberalization and market-monetarism around the world, or what today is called neo-liberalism..

2. The debt crisis of the early 1980s and its significance

Possibly the best example of these efforts occurred in the aftermath of the LDC (Least Developed Countries) debt crisis of 1982 when the IMF promoted structural adjustment programs as a condition for loans. Rather than reviewing the history of the debt crisis, what is important for our purposes are the following points:

Liberalization not only allows for lending under stringent conditions, it also allows for lending of an imprudent kind: whilst less developed countries borrowed heavily in the face of balance of payments problems occasioned by oil price increases, the glut of funds in the Euromarkets that recycled petrodollars meant that banks were all too willing to lend.

Financial liberalization, therefore, initially offered a substantial carrot, before the big stick: at the end of the 1970s, oil prices rose once again because of the Iranian revolution, and the U.S. in the face of declining confidence in the dollar increased its interest rates, producing a massive hike in world-wide interest rates

Here, the IMF stepped in as LDCs found debt service increasingly difficult as interest rates rose and revenues from commodity exports declined - in virtually all cases the IMF and the World Bank pressed for macroeconomic stabilization and structural adjustment

Further liberalization in the LDCs became the quid pro quo for the IMF's strategy relative to the biggest private banks: the banks were forced to lend more to the LDCs to prevent a liquidity problem from becoming a financial collapse - this strategy was possible because of the character of international finance at the time i.e. it involved bank lending, and a relatively small number of banks (an intermediated system), so the IMF could centralise the response of finance and thus solve what would have been a collective action problem - put differently, the rational course of action for a bank acting on its own would have been not to lend any more funds, and perhaps to cut its losses - this would have created a bandwagon effect which would have resulted in mass defaults and the possible collapse of the world financial system

Thus, although the international financial institutions imposed tough medicine on the LDCs, and forced the banks to see their own collective self-interest, the effect of IMF policies was to protect the world economy from a catastrophic financial collapse, and, significantly, it was able to do so without using enormous financial resources of its own - or more accurately, the funds which it holds in trust on behalf of the world's citizens or taxpayers

Further however, the IMF and the World Bank were able to seize the opportunity that the crisis created to reassert a central role in the management of the global political economy and to prioritise liberalization of trade and capital flows as well as macroeconomic stabilisation as the central pillars of economy policy: that is, what today is known as neo-liberalism

"Locking-in" neo-liberal policies

In a world that is dominated by the interests of large investors there are two questions to ask:

– What do investors want from governments? And the question that follows on from this is:
– What mechanisms are available to deliver what investors want from governments?

Whilst much has been made of the desirability of globalization and liberalization from the viewpoint of investors, the most important requirement for investors is a suitable investment climate, that is, one that provides security for their property - i.e. protection from expropriation, the erosion of capital through inflation and excessive taxation, other things being equal - central, therefore, is the provision of "sound" macroeconomic policies and security of property rights. In terms of the former, capital mobility serves as a means of last resort to exit from jurisdictions where these conditions no longer hold, or may not hold in the foreseeable future

Many governments, under conditions that force them to seek assistance from the international financial institutions may readily agree to liberalization measures - after all, they may have little choice in the matter. Nevertheless, this does not mean that their agreement to liberalise will be maintained in the future, since political circumstances as well as economic conditions may change. What may be a rhetorical, or indeed and ideological, commitment to liberalization, may not be enough for investors to feel that their capital is secure - in other words, the power of ideas is not enough to secure compliance to the imperatives of a liberalising world economy.

This is the reason why the international financial institutions, acting to secure investor interests have sought to devise mechanisms that politically and constitutionally 'lock-in' both capital mobility and a commitment to sound, low inflation macroeconomic policies - thus, while neoliberal ideas and arguments made by politicians seeking to attract investment into their countries may be persuasive, they are rarely decisive from the viewpoint of investors: investors want political guarantees

1. The IMF and Locking in the Liberalisation of Capital Flows

In terms of liberalised capital flows, such guarantees have taken the form of international agreements, such as those associated with the international gold standard , in the nineteenth century, and after World War II, compliance with Article VIII of the Articles of Agreement of the IMF (obligations of convertibility of currencies for current account transactions) - the acceleration of this form of liberalization is reflected in the fact that the number of countries which ascribe to Article VIII has risen from 35 in 1970 (30 per cent of IMF members) to 137 in 1997 (76 per cent of IMF members) [IMF, 1997, World Economic Outlook : 46] .

In the wake of the East Asia financial crisis of 1997-1998, considerable discussion took place concerning the desirability of liberalisation of capital accounts. In light of criticisms of freer movement of capital because of the instabilities it might generate, the IMF held a seminar in Washington in March 1998. The fund announced it is drafting an amendment to its Articles of Agreement to give it responsibility for capital account liberalisation: "The IMF would in effect police a country's transition to a liberalised capital market"(Financial Times, March 11, 1998). Lawrence Summers, the deputy secretary of the U.S. Treasury, pressed at the seminar for the 182 member countries of the IMF for an acceleration in the pace of liberalisation. Summers linked liberalisation to the need for rapid development of sound domestic financial systems, improved supervision and regulation. Summers stressed that capital controls reflected ”the wrong policies”. He pressed for ”greater transparency” based upon generally accepted accounting principles, principles that needed to apply to both corporations and to central banks. He also stressed improved prudential standards, a ”credit culture”, bankruptcy laws and a judiciary to enforce them, including procedures for countries who have problems with their sovereign debt. ”We need systems that can handle failure because until the system is safe for failure, we will not be able to count on success”. (Lawrence Summers, ”Go with the flow”, Financial Times, March 11, 1998)

Other examples that relate to the locking in of liberalisation are: the OECD Code of Liberalization; the Multilateral Agreement on Investment, GATT, NAFTA, the World Trade Organisation (these agreements and organisations do not focus entirely on monetary and financial issues per se, but link the free convertibility of currencies to the liberalization of different types of investment and trade flows, for example foreign direct investment. Foreign direct investment is a particular form of capital mobility usually linked to the acquisition or development of productive capacities.

2 (a) Locking In the Prioritisation of Macroeconomic Stability: Technical Argument

In terms of macroeconomics, large investors tend to favour governments that prioritise macroeconomic stability - this is particularly since governments may change over time in ways that may lessen the commitment to stability - in other words, governments have a choice under conditions of liberalization and capital mobility: they can have either price and exchange rate stability or monetary and fiscal policy independence - they cannot have both

The technical explanation for this is as follows: if government wants to stimulate the economy through a macroeconomic expansion, domestic interest rates will drop below foreign rates leading to an outflow of capital and to a depreciation of the currency: that is, a drop in the value of the currency.

Therefore, if a government wants to maintain a stable (or fixed) rate of exchange, it would be structurally prevented from stimulating its economy because the exchange rate would fall out of the fixed band - however, if the government didn’t care if the value of the currency went down (i.e. they were willing to let the exchange rate float), the depreciating currency would actually reinforce the stimulation by leading to an increase in exports as the country’s goods became cheaper on world markets

In a democratic world, where the political ideology and priorities of governments may change, whereas one government may stick to rules associated with fixed exchange rates and macroeconomic discipline, another in similar circumstances may seek to exercise policy discretion - investors are thus faced with political uncertainty that may threaten their property, in so far as inflation and/or taxes depreciates their capital - increasingly, therefore, large investors have pressed governments to commit credibly to the locking-in of macroeconomic stability.

2 (b) Mechanisms for Locking In Macroeconomic Policies

In this context, the international financial institutions and the Group of Seven have pressed for constitutional and legal changes to insulate macroeconomic policy from democratic pressures, or indeed any form of political influence that could cause a deviation from "sound" principles - there are several mechanisms to lock-in macroeconomic stabilisation policies, to prevent governments from choosing policy autonomy over macroeconomic stability. These mechanisms are both fiscal and monetary in form.

The monetary mechanisms include the creation of independent central banks which have a requirement to maintain price stability, and where the goal of full employment is removed from their institutional mandate. Other mechanisms include currency boards, or the fixing of exchange rates relative to a leading currency such as the American dollar. Also, appointments to central banks favour conservative bankers. Indeed, the World Bank advises governments to favour credibility with investors over the ability to respond to external shocks.

Fiscal mechanisms include making the budget process transparent, that is open to the scrutiny of both investors and international financial institutions, insulating the Finance Ministry from other political pressures so that decision making in the budget process is top-down, and finally, balanced budget amendments, or externally determined fiscal targets such as those associated with the European Union's proposals for economic and monetary union.

3. Locking In Protection for Property Rights

From the viewpoint of investors the issue of property rights is similar to that concerning international capital mobility, which itself is a form of property rights. Seen differently, from a liberal perspective the institution of property rights is a key measure in the construction of markets. Governments can change, for example following a revolution, or after a long political struggle such as that connected to the overthrow of apartheid in South Africa. Uncertainty over changes or political regime mean that investors have an interest in political structures that both define and that legally guarantee private property rights internationally.

For example in the period prior to industrialization in England, property rights were redefined so that common property, for example access to grazing lands, forests, and water resources, known at the time as "the commons" became alienated, or redefined as private property under the control of land owners. This led to the capitalization of agriculture, on the one hand, and also, on the other hand, to the displacement of the peasantry from the land. In the present day, we may also be able to speak of a new enclosure movement, for example with respect to intellectual property rights. These rights have come to encompass, not only control over seeds but also over human tissue and parts of the human genetic structure. Some of these reforms are coming to be institutionalized in the new World Trade Organization, for example Trade-Related Intellectual Property Measures, as well as in the new Multilateral Agreement on Investment. Such arrangements also involve the adoption of standards and product rules that condition the terrain of global competition.

Put differently, patent rights over human genes and tissue, plants, seeds and animal hybrid say, are obtained routinely by pharmaceutical and agricultural corporations including the DNA of ”endangered peoples” (that is, of the aboriginal or native peoples). These rights are now legally institutionalized whilst there has been a relatively little political debate over the repercussions of biotechnology and genetic innovation, or indeed the privatization of life-forms.

As will be clear from the preceding examples, the nature of property rights it is a highly political matter. Indeed the constitutional protection of property rights was central to the American Constitution, which Karl Marx described as the first fully bourgeois republic. Marx was not the first to note this aspect of American constitutionism. Indeed, as Adam Smith noted in 1776 at the birth of the American republic, ”civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all” (cited in Hill, 1967: 287). Writing in 1944, Karl Polanyi also noted the way that the American Constitution:

..isolated the economic sphere from the jurisdiction of the Constitution [and thus] put private property ... under the highest conceivable protection, and created the only legally grounded market society in the world. In spite of universal suffrage, American voters were powerless against owners (Polanyi, 1957: 225-6)

Of all the major capitalist countries, the constitutional protection of property rights has been institutionalized for the longest period in Britain and the United States. However in many of the post colonial nations of the third world, and in the post communist countries, constitutional structures are relatively underdeveloped with respect to the protection of property. This makes property rights vulnerable to expropriations, from nationalistic leaders on the one hand, and popular-democratic forces on the other. Thus from the perspective of investors, once measures that lock in liberalization, macroeconomic stability are in place, a further layer of locking in is seen as necessary by the World Bank.

Specifically, governments are encouraged to restructure their legal and political systems along the lines set out in the American Constitution: that is, the creation of an independent judiciary to ensure that governments cannot interfere with private property rights, in a system of government based on a separation of powers (of the executive, legislative and judicial functions). In practice, this type of system is one of overlapping powers and multiple veto points that make constitutional change very difficult. This means, amongst other things, that once property rights have been defined and protected in a liberal constitution, they are difficult to change or to challenge. When this principle is extended to encompass macroeconomic policy or capital mobility it means that a domestic political-constitutional anchor is created in support of neoliberal political economy. The World Bank has noted this as a key mechanism for reinforcing the new constitutionalist lock in measures discussed above. The Bank notes that an independent judiciary also provides a mechanism for investors to appeal (and have overruled via judicial review) any infringement on their property rights.

The mechanism of judicial review has been reformulated internationally in the creation of dispute -resolution mechanisms, such as those in international agreements such as NAFTA, World Trade Organisation, and such mechanisms under consideration in the Multilateral Agreement on Investment. Most fundamentally, as the World Bank also notes, ”the broader the separation of powers, the greater will be the number of veto points to be navigated to change any rule-based commitments. Thus the separation of powers increases confidence in the stability of rules” (World Bank, The State in a Changing World, 1997: 100-1).

The Chinese character for crisis combines the characters for danger and opportunity. It is commonly acknowledged that some of the restructuring of the global political economy in the past two decades has accelerated the mobility of capital and liberalisation process in ways which have gone beyond the capacity of the international financial institutions, and many developing countries to cope with the rapid and often destabilising change. This issue became clear in the Mexican financial crisis of 1994/5, and in the present-day Asian financial crisis.

This poses the question, crisis for whom? In today's world, the effects of currency crises are widespread, affecting the entire asset structure in particular nations. Adjustment to the effects of currency and financial crises has uneven impacts upon the population.

More broadly, neo-liberal globalization has coincided with an enormous growth in global economic inequality, rapid increases in unemployment, and dislocations in social life. However, crisis also provides an opportunity, at least for some, such as investors who can profit amid conditions of rapid economic restructuring, as well as the new political leaders who have embraced neoliberal globalization.

Moreover, as in the Latin American debt crisis of the 1980s, the international financial institutions have taken advantage of their role in dealing with dislocation to press on with their agenda to develop the global political economy along the lines of disciplinary neo-liberalism. Crises allow for the deeper penetration of liberalising forces and for the further institutionalisation of new constitutionalist political and legal structures. In this section, therefore I will analyse the dislocations associated with three dimensions of alienation and commodification: money, land and labour. My analysis will highlight issues relating to money and finance, and to labour and democracy.

Throughout the World Bank 1997 World Development Report, the Bank's authors deal with some of the causes of dislocations in many parts of the world where priorities are shaped by a combination of market forces and ineffective state forms. Many problems are attributed to neglect of the "basics" (that is sound policies) in developing nations, but in fact many of these problems can be traced to the contradictions associated with the processes of economic globalization.

1. Money.

Here the international financial institutions emphasise two things:
-mechanisms to guard against systemic failures and
-crisis management.

Guarding against systemic failures includes the importance of prudential regulation of banks, the role of international agreements (for example. The Bank makes suggestions to increase capital adequacy ratios to 20 per cent in some (Third World) banking systems - that is it goes well beyond the Bank for International Settlements standard of 8 per cent); it also advocates more systematic surveillance practices (transparency) with respect to the finances of both public and private agents in the financial markets - that is to protect against the contradictions associated with aspects of the commodification of capital.

Crisis management supplements this. Nevertheless, due to the earlier efforts of the international financial institutions and subsequent economic globalization, it has been altered in form. A central reason for this is that as capital markets have become more liberalised, capital flows are increasingly disintermediated: that is, lenders and borrowers interact directly without the involvement of a centralising intermediary such as a bank. As a result, there is no central site at which international financial institutions can intervene, as occurred in the 1982 LDC debt crisis, to co-ordinate banks and force them to reschedule debt and engage in "involuntary lending". Accordingly, the international financial institutions are put in a position of having to restore investor confidence through the mechanism of ever-increasing bail outs to countries rather than by forcing investors to do what is in their own interests.

In this context, the managing Director of the IMF, Michel Camdessus referred to the Mexican peso crisis of 1994/5 as "the first financial crisis of the twenty-first century". This comment was intended to reflect a recognition of how both the nature of financial crises and the management of them has changed. The Mexican crisis required an historically-unprecedented bail-out which was, in turn, surpassed only by the vast sums of money required to restore the confidence of private investment in the aftermath of the South East Asian crisis.

What is crucial to stress here is that whilst the cost of the bail outs was enormous, the political payoff from the viewpoint of not only investors but also the Group of Seven nexus and especially the United States which gave its full and unqualified support to the IMF, was significant. Although dealing with the Asian countries on a case by case basis, the IMF has demanded a fundamental liberalisation of their economies - that is economies that have been relatively closed to foreign investors, for example in South Korea. Whilst it remains to be seen whether liberal reforms will be delivered, the fact is that the crisis has provided the IMF with the ability to become a Trojan horse that may lead to the collapse of corporatist and authoritarian, indeed dictatorial political regimes in the region. At the same time, as in the Latin American debt crisis of the 1980s, the burden of adjustment will fall most heavily on the least powerful members of these societies.

2. Land.

Here I do not intend to discuss the issue of the dislocations caused by the commodification of land in detail, except to say that some of the effects are comparable to those caused by the Enclosure movement in Britain between the sixteenth and eighteenth centuries: massive displacement of the peasantry, the dominance of large agricultural enterprises, and the over-exploitation of non-renewable ecological resources. Of the international financial institutions, the World Bank has been most sensitive to measures to deal with environment, that is with the repercussions of the commodification of land: indeed the 1997 World Development Report deals throughout with environmental questions, and it points to some real environmental concessions that have been made via international agreements, such as the Rio meeting in 1992. Indeed it can be argued that the World Bank has made significant progress in making its projects greener than was the case 15-20 years ago. Much of this change is due to pressure from NGOs and environmentalists more generally as well as due to institutional changes in the bank that reflects new thinking there.

3. Labour

The 1997 World Development Report also suggests measures to deal with the commodification of labour. Labour conditions and practices were the subject of the 1995 World Development Report: Workers in an Integrating World. In the 1997 Report the main focus is the social reproduction of labour, including welfare provision, which is the main focus of what follows.

On the question of basic services and infrastructure, the Report points out that nearly 1 billion people in Third World lack access to clean water and 1.7 billion have no sanitation - water born diseases are thus pervasive. Education in the Third World is often poor yet the returns to education especially high at the primary level are, especially among girls - better education links to improved health for women and children and lower fertility rates (p. 52). Yet, as the Report stresses, in many Third World countries resources do not go to basic services - often they are wasted on defence and in state enterprises, or they are misallocated within sectors for example in education over-investment in higher education increases inequality (especially in Africa); health expenditure patterns which predominate worldwide are focussed on clinical services that tend to benefit the rich (World Bank 1997:52-3).

The World Bank's solution to these problems is the market: to "unbundle" services to allow for delivery through private markets, the use of vouchers, private contracting etc., so as to bridge public and private sectors, and to open up competition in provision and lastly to increase transparency of uses (World Bank 1997: 54).

Above all, change requires "empowerment" of the users themselves (54). In this regard the Bank outlines a series of mechanisms that could be introduced to increase the participation of both the private sector and NGOs in the shaping and prioritisation of provision, although at no point are NGOs (what the Bank calls "civil society") called upon to help shape macroeconomic or strategic policy, which under the Bank model, still remains beyond direct popular (or even parliamentary) scrutiny and accountability. Here the Bank's rhetoric would be more convincing if it began to substantially restructure its own lending priorities and programmes to invest in education, empowerment etc. Many of the Bank's efforts to promote structural adjustment of state and economy have failed, in some cases quite miserably. This led to criticisms of both the IMF and the Bank and questions about their future direction in the mid-1990s. Yet the initiatives of these institutions reflect on the one hand, the market logic associated with modern financial markets (the World Bank carefully guards its impeccable "Triple A" credit-rating) and the political interests of key shareholders (the United States and G-7 members predominate).

On the question of "protecting the vulnerable", the Report is concerned to deal with the fiscal crisis of the state. It differentiates between social insurance - which is cyclical and circumstantial help for example to the unemployed (no reference is made to structural unemployment) - and social assistance - that is help for the poorest who are unable to help themselves (p. 55). The Bank points out that the welfare state blurs this distinction, and the spectre of deepening fiscal crisis is linked to growth in state pension costs which have tended to creep up in OECD as a percentage of GDP (from c.5 per cent in 1965 to c.12 per cent in mid-1990s). Here, as in many countries, the bank argues that programmes fail to help the truly vulnerable and instead transfer real resources to elite groups with "fiscally destabilising consequences" (p. 57). Thus in many developing countries social insurance policies have wreaked havoc with fiscal policy - many countries liabilities far outweigh "any reasonable" tax-raising capabilities of governments (see World Bank 1997:: Table 3.2, p. 57). Worse still, demographic pressures will intensify - for example China's over-60 population will double from 9 per cent to 18 per cent in 30 years - a transition that took 100 years in France and Britain (p. 57).

The Bank thus argues that it is imperative for governments to distinguish between insurance and assistance so that private competition can come into play in insurance and the state can provide residual assistance. In this way savings can be privately managed and made to become self-financing for the majority of the population, provided there is an enforceable legal framework.

Conclusion: Politics in a globalizing world

The essay has explored the recent proliferation of policies and legal measures pressed for by the international financial institutions are intended to reinforce the rights and political representation of investors, and in so doing to strengthen the power of capital on a world scale. This process also involves dominant state apparatuses in the G7, large investors and transnational corporations. And in that context, the discourse of disciplinary neo-liberalism shapes the neo-liberal strategy for creating what Karl Polanyi called the 'stark utopia" of a market society on a world scale. This is justified and legitimated by suggesting that what is being created is an "enabling state". However, we need to ask enabling what and for whom, and for what purposes? The form of state that is prioritised by the international financial institutions enables the power and prerogatives of investors to be institutionalised and protected on a world scale.

As I have argued, the justification for this is that the dominant political subject in the neo-liberal universe is the investor, who becomes both the de facto and in some sense the de jure political sovereign - at least with respect to economic life. In this sense, new constitutionalism is a conscious strategy to constrain the democratisation process that has involved struggles for popular representation for several centuries. As such it has an authoritarian and coercive dimension, justified by claims that neo-liberalism promotes greater market efficiency, economic growth, and progress in the form of a cornucopia of commodities.

Neo-liberal legitimation and incorporation of opposition

This lecture has not discussed either the genesis of the dominance of neo-liberalism, or explored resistance or alternative social projects. Nevertheless, one way to understand many of the measures discussed by World Bank is as part of a strategic effort to contain social and political conflict through limiting democracy and preventing a second Polanyian double movement: a counter-action on a world scale against economic globalization similar to that which occurred in the 1930s.

Whereas the "locking-in" measures are a coercive way of preventing a second double movement (i.e. by insulating states from popular demands) measures dealing with dislocations are, to a certain degree, the consensual counterpart in that they seek to reduce the demands for other types of reform in the first place.

With regard to ideas and perceptions, central material concessions had to be made to the post-war working-class (for example the welfare state). Thus new ideas are required to legitimate the privatisation of risk and to sustain minimum consent necessary for social order. A careful reading of the 1997 World Development Report indicates that the international financial institutions are attempting systematically to co-opt and channel forces of civil society: a tactic to legitimate the actual attenuation of democracy in economic policy by increasing participation, but only safely channelled areas that do not affect what the Bank calls the ”fundamentals”.

The priorities in the Bank's agenda for participation and democracy make this clear - proposals are least participatory in the most central areas of economic governance (property rights and macroeconomic policy), as well as in the area of strategy. The Bank offers no historic compromise on ”the fundamentals”, that is general stewardship of the mode of production. The World Bank´s strategy is, in other words, what Gramsci called trasformismo or co-optation. Thus the Bank stresses that ”In the technical and often sensitive area of economic management, for example, some insulation of decision-making from the pressure of political lobbies is desirable”. Elsewhere this is equated with insulation ”from political pressure” (p. 117). In discussing decentralisation the Bank's advice is to proceed with caution because of dangers of ”local capture”: fiscal problems can be caused if control is not exercised over macroeconomics from the centre (p. 128).

Yet greater participation especially by women - but by no means anything approaching direct democracy - is encouraged by the Bank in education (e.g. as school trustees), in health, in the social sector and in the environment (for example grazing lands, wildlife, forests and water sources). The Bank justifies this not in terms of the educative and developmental aspects associated with democracy by nineteenth century liberals like John Stuart Mill, but as a means to increase economic effectiveness, reduce transaction costs and to provide feedback mechanisms as well as to generate more openness and transparency (p. 116-8). Returning to the ”fundamentals”, the Bank continues to emphasise that government needs to sustain these possibilities by ensuring the foundations of the rule of law are in place to protect ”both persons and property” which is crucial for a ”vibrant civil society” (p. 119).

The false hypothesis of the ”retreat of the state”: the restructuring of the state

In sum, new constitutionalism is a subtle attempt to legitimate neo-liberal globalization. It mandates a particular set of state policies geared to maintaining business confidence through the delivery of a consistent and credible climate for investment and thus for the accumulation of capital. It relies on a combination of political and economic discipline and ideas concerning efficiency, welfare and democracy. In similar ways to FA von Hayek and Milton Friedman, it stresses the Rule of Law. It does not, however, signal the ”retreat of the state”.

Rather, we are witnessing an expansion of state activity to provide greater legal and other protections for business, and effort to stabilise the investment climate world-wide. Many governments have sought to expand the scope of free enterprise as the primary motor force of accumulation, and at the same time, to roll-back other aspects of the state's responsibilities by de-socialising risk provision. In this way there is a change in the institutional balance between state and civil society (for example through privatisation in pensions, health, education), but the new liberal state forms are highly active and more extensive than was envisaged in earlier thinking from the international financial institutions which tended to stress the market at the expense of an analysis of the state.

Thus it may be misplaced - as some scholars have done - to argue that we live in an era characterised by the ”retreat of the state”, in so far as this suggests that liberalization somehow reduces the size and scope of the state in economic and social life. What may be occurring then is not the ”retreat of the state”, but the redefinition of global governance. It may also be erroneous to argue that somehow authority has shifted significantly from the state towards important non-state actors such as big transnational companies. Democracy and The State in a Changing World: towards an ”enabling state” or a ”democratic”state?

In conclusion, what seems to be emerging within state forms (state-civil society complexes) is a pattern of governance in which capital has greater weight and representation, restraining the democratisation process that has involved struggles for representation for hundreds of years. So whilst the international financial institutions may be attempting to restructure state forms so that they will become ”enabling”, the key question is enabling for whom and in what ways?

And as I hope to have demonstrated, we should not confuse the notion of an enabling state with a democratic state - in the enabling state the dominant political subject is the investor. This is in a global political economy where the UNDP Human Development Report, 1996, noted that 358 billionaires had combined assets that exceeded the total annual income of 45 per cent of world’s population, that is of 3.2 billion people. Indeed, in one day in mid-July 1997, the personal wealth of Bill Gates, now the richest man on earth, rose by well over one billion dollars (to about $37 billion) simply because of appreciation in the stock market value of Microsoft. Indeed the real wages of the majority of Americans have stagnated or fallen over the past 10 years. Similar, though less extreme examples can be found in the European context and the situation is much worse in many other parts of the world.

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10.

DISCUSSION - III

QUESTION:. I'd like to ask the World Bank economist how they see world economics becoming effective if the underdeveloped highly indebted countries would join together and not pay debt service any longer, and instead concentrate on taking care of their own national economics and development.

STEPHEN GILL : In the 1930's there were an enormous amount of defaults on debt. In the 19th century, when the US was itself a developing country, there were periodic economic crises and many of the states of the American Union defaulted on their debts. What is curious about the present era is the question why there haven't been more defaults. The answer to it was partly in the explanation I gave of the international debt crises, where the IMF was able to bring together the banks and get the banks to lend more so that they could role over the financial problem to keep the financial system going. It would be an interesting proposition if a number of countries would say we don't pay anymore. The key thing to bear in mind is what I said about the state, state forms and political aspects of the world economy. Because, what the IMF and World Bank are doing, as was clear from the earlier presentations this morning, is that they are creating cadres of people within government, who are responsive to thinking that comes from the IMF and the World Bank. It is sort of contained in that notion of ownership. These cadres will have close ties with dominant coalitions and are strong enough to sustain a regime as which we see in the African case. A continent is being bled dry in terms of debt repayments, and there is a huge social crisis. Nevertheless, the dominant political coalitions are prepared to sustain those relationships. I think it raises bigger questions of politics. The 'what if...' requires a change in the internal politics of many countries for them to move to the point that they say: enough is enough.

ANNIKA LYSÉN, SWEDISH CHRISTIAN COUNCIL. I would like to bring up the notion of the development of political parties in this process. When we speak of democracy, the notion of political parties is very important, at least if we speak of parliamentary democracy. I notice that in our discussions we paint civil society as a wholesome concept. We seldom define what we mean with civil society. We must bear in mind, that if we mean by civil society NGOs in the South, which are funded by the North, aid money is thus tied to this civil society which is supposed to the vibrant democratic aspect in relationship to the state and the government.

STEPHEN GILL: I think one of the great philosophers of the 20th Century is A. Gramsci, who was the head of the Italian communist party, and who was incarcerated by the Italian Fascists during the 1920's-30's, and died shortly after release from prison. Gramsci thought of civil society very much in the way that you're describing it. Civil society has all kind of agents in it. Some of them may be very progressive, some may be rather reactionary. The church is an agent of civil society. Political parties of course can be of different complexions politically. Trade Unions are agents in civil society. I think that when thinking of the broad process of politics, one has to pay attention to these agents, because some of the agents of civil society are in fact intimately connected to the state. And the state will prefer some agents relative to others. In other words, the political parties may be institutionalised in terms of their relationship to the state, the educational system may be something that is private or may be public. So there are many complex relationships.

Gramsci said, with regards to political parties, that there are many political parties, but they are not necessarily called political parties. In fact he thought of Bernadetto Croce, who was an idealist philosopher, as being a political party. Of course, Bernadetto Croce never carried the card of any political party, but he was regarded as such because firstly, his ideas were taken up by the liberals and more importantly, they were taken up by the fascists, as justification for some of their strategies. Therefore, political parties can exist in the form of a set of ideas, whether these are institutionalised politically or not.

If we look at political parties globally, the strongest political party in the world doesn't call itself a political party, but it calls itself the Trilateral Commission. It is a meeting of very powerful agents in civil society, from the most developed parts of the world. These agents are the heads of big TNCs, giant media organisations, universities, or people who have served intelligence agencies or defence ministries and so on. They are connected to particular ideas on globalization. They don't necessarily share views or cooperate on everything, in fact they conflict a lot. But they form a consensus on what is desirable. One dimension of that consensus has been called the Washington Consensus. If one thinks about political parties, one has to think about them in the way I've just described.

I've never known capitalists to unite very successfully, but of course they do have their political parties.

Eeva Simola, Kepa: I'd like to ask something about the Washington Consensus. I think it is no wonder that both the GATT agreement and the human rights declaration of the UN will have their 50th anniversary this year. I feel that there are all the time two parallel trends. One is the trade and investment trend, which is trying to isolate itself and then there is the trend towards civil society, where the basis of the subject should be.

I am worried about the Trilateral Commission and the Washington Consensus. Globalization and localisation are often very much positioned against each other. However, do you see anywhere sufficient counteracting trends to the Washington Consensus or to globalization, which is often presented as some sort of natural law? By the latter I mean that globalization is being presented as if it was like acidification, or desertification, which are natural processes.

As soon as the major forces of the world are going to feel the effects in a fundamentally negative way of the policies, then they will react. In Europe, in the pursuit of the Holy Grail of the economic and monetary union and whilst adopting the austerity programmes that are required, there is a situation of mass unemployment. The stronger members of the working classes in Europe, the public sector, unions and so on have largely tended to ignore the plight of the unemployed. However, now, the pace of the changes and the restructuring that comes along with globalization, is actually beginning to attack the most privileged workers. People are getting more and more disturbed about certain tendencies.

It is only a matter of time before people will get organised politically. There are alternatives. There is the workers party in Brazil for instance, which is a broad alliance of the peasantry and the workers, a very progressive platform, very ecologically sensitive, thoughtful and with an inspirational leader whom Gramsci would call an organic intellectual. There are worldwide for instance feminist movements as well as other movements, which are weaving their way across the world as they try to create alternatives to the orthodoxy. I therefore don't think it is unreasonable to assume that these forces will reshape world politics in coming years

RAOUL GARCIAS, CAMEROON: A friend from the World Bank once told me that if their clients paid all their debt overnight, the World Bank wouldn't be satisfied because all their personnel would be jobless and that would mean significant problems for them. Another point: when talks are conducted on globalization, regarding which I have attended a number of seminars, I don't hear Africa mentioned. If Africa is left out of the globalization process, would this favour democratisation in Africa or would Africa lag behind and plunge deeper into authoritarianism?

STEPHEN GILL: The World Bank is a bank, and banks make money from lending money and they will presumably find ways to continue to lend it, provided the major governments want to see it in place. The key thing about the World Bank is that it is a bank. One of the reasons why it is pursuing the policies that were talked about in Africa, which in effect are bleeding the country dry, is their mandate, which is to have these debts repaid. The structural pressure that lays behind this, is that the Bank wants to maintain its triple-A credit rating on the international capital markets. If its debts don't get repaid, than that credit rating is going to be affected and therefore the cost of borrowing from the Bank is going to go up. It is as such structurally constrained by the nature of the financial markets and by the way that they're organised.

As far as Africa is concerned, an Ethiopian friend of mine called Fantu Cheru (with whom I wrote an article) has often criticised the predatory state forms that are found in Africa. Again, this might be a situation where that if the Bank didn't simply cooperate with the odious dictators but sought to actively replace them, than it would be carrying out an enormous service to the people of Africa. But what Fantu argues is that in fact most people in Africa don't look to the state for any form of democracy or democratisation. The state is the enemy. They thus opt out, and pursue a kind of silent revolution, in which they find ways to cope with their everyday lives themselves, creating their own networks and possibilities. The organised forms of politics have been their enemies, and are associated with the dissemination of their communities and with repression. Let's hope that the 15 years of structural adjustment operations have delivered the people of Africa from some of those forces.

QUESTION. I would like to raise attention to a specific problem that is facing the Middle-East. What has occurred in the Middle East, was the rise of middle classes or petite bourgeoisie in the state. Before this, the bourgeoisie was quite unable to challenge the state, however from the 30-50's until now, we have the phenomenon of a state which is dominated by bourgeoisie. These kind of states are quite populist and by populist I mean that they don't have any specific policy on land reform or tax and so on. In the light of this, I am wondering on how one could fit this onto your model. Actually, what we are facing in the Middle East is the disintegration of the state. On the one hand we have the middle classes which are unable to respond to neo-liberalisation and on the other hand the reaction from under-employed or the long time proletariat which are not established in the production process. My question then is, how can you fit this kind of trend into your own model?

Stephen Gill: One can't simply explain the political development in a particular context through the lens of the theoretical apparatus that I am developing. I am trying to identify general patterns and trends. As such, there are bound to be exceptions from those trends. However, I can identify from your question one of the sources of potential opposition towards some of the aspects of globalization that we have been describing. It may not be very coherent, but it may be linked to, as it were, a reassurance of right wing populism. Therefore, you get someone like Doctor Mahathir in East-Asia, who is always criticising the international financial institutions because it's a kind of nationalist, populist project. This does not mean he is against capitalism. Rather it means that he wants to have a particular national forum linked to his own particular ideology. Therefore, one of the forms of the resistance to an opposition to the globalisation processes that we are talking about, can come from these right wing forces of different kinds. These are manifest today in the debates on the East-Asia crises.

Having said that, what the IMF and the World Bank are trying to do is in a certain sense is akin to the service that Mrs. Thatcher did to the Argentinean people when she went to war against the military junta in Argentina. Not that she actually did that to liberate the Argentinean people, she did it to shore up her domestic support and to whip up genuine fervour under the flag of rule Britannia. Nevertheless, if one can get rid of a few odious dictatorships, and lets say that the Suharto dictatorship in Indonesia is a fairly substantial, odious and genocidal one, then it's not a bad thing. So, although I have criticised aspect of the Washington consensus and the operations of the international financial institutions, they may unwittingly be helping to liberate people in certain countries. This remains to be seen.

Teivo Teivainen, Univeristy of Helsinki: What do you think will become of the World Bank 20 years from now? What do you wish that would become of it? To what extent do you think it is possible to bring democracy to a global level or is the global level to hard to cope with through democratic measures in any foreseeable future? So, if its undemocratic, is the solution to get rid of global institutions like that, or to democratise them and so yes, what kind of mechanisms should be used?.

Stephen Gill: I believe the World Bank in its current form will try to continue as the facilitator of market forces and acting as the agent of global investors. If it is subjected to the democratic pressures I have spoken about, then it will start to work with a different kind of mandate and it will start from the bottom up, rather than from the top down. I wish it would not be a capitalist tool, but a socialist tool and as such be one mechanism that might bring more democracy on a global level. However, one thing that I think of democratisation, is that it needs to be understood in terms of the long sweep of history. It is something that can't be contained. It can be repressed for a certain period and it can be channelled. But it is something that can not be suppressed forever. The contradictions of the kind of development that we are seeing in the world, are not producing a sustainable system . The development is in my view incredibly myopic, ecologically and economically, and tries to turn everything into a commodity and is furthermore based upon greed and profit. As such, it won't be allowed to be politically sustainable by democratic forces.

Kalle Sysikaski, Suomen Sadankomitealiitto. When you spoke about the contradictions between democracy and IMF policies, I was thinking about my discussions a few weeks ago in Indonesia with local human rights groups. They were disagreeing on whether or not to accept IMF policies. Some of them thought that the IMF just gives more time to the Suharto family and the dictatorships. However, other groups thought that by liberalising the economy, the more democratic movements could get more political space to act and influence the decisions made. They furthermore even thought, that if they would gain power, they could renegotiate with the IMF about the solution to the debt problem. Also they figured they would be able to get the international institutions to order the Suharto family to take up part of their responsibility to the payment of the debt. I therefore think one can not just apply your model to all countries, because the circumstances in various countries might be different.

Stephen Gill: I agree upon this. I think the case you have described does fit into some of the ways I have tried to put the issue. For a large country like Indonesia, the strategy that you are talking about might work, because it could have a relative degree of self-sufficiency.