"Documento original en mal estado"

investment and foreign interest payments as well as some principal, so that debt begins to decline absolutely. Sooner or later, creditworthiness is re-established,[6] and flows of voluntary private lending to the borrower resume. At this point the consumption constraint can be relaxed, allowing real per capita consumption growth to take place.

The above model depends on several important technical assumptions, starting with an achieved target GDP growth rate of 4% per annum, and including a constant and reasonably low incremental capital-output ratio (reflecting the relative efficiency of domestic investment), and a constant real rate of interest (determined by the international capital market). Finally, the model admits the necessity for imports to *increase* in the short run to allow critical inputs to be sourced abroad as part of the initial recovery program. This, of course, increases the financial requirements in the workout program (prior to attaining current balance), or, alternatively, it puts a greater onus on satisfactory export performance. If financial requirements increase, however, so does the indebtedness of the country and its debt service obligations.

Hypothetical simulations which trace the progress of the workout model over time indicate that the period elapsing, before the point of current account balance is reached, could be between five and seven years with a constant real interest rate, but can be as short as four or five years with a real interest rate declining from 8% to around 6%. However, the simulations show that creditworthiness in certain countries, especially those with a heavy initial debt overhang — those countries, such as Jamaica, Côte d'Ivoire and Chile, in which the Debt to GDP ratio is 80% or more — may not be restored for up to a decade or more. Sensitivity tests indicate that the "workout period" could, in fact be as long as 15-17 years in these countries if some per capita consumption growth is allowed (1% or 3% aggregate consumption growth) or if investment is inefficient, reflected in a higher incremental capital-output ratio.

Finally, during the workout period it is assumed that the rather vigorous growth in exports required from the debtor countries — estimated to be in the order of 8.5% to 12% annually during the workout period — can be absorbed by the world market (primarily the industrial countries).

The model also generates estimates of financial requirements which flow from the period in which net borrowing is positive, that is, when domestic savings are less than the sum of investment and interests payments on the debt (a situation which occurs until the current account becomes positive). Applied to fifteen major debtor countries,[7] real financial requirements amount to anywhere between *$75 billion and $100 billion* (expressed in constant 1986 dollars) spread out over a four year period. Nominal borrowing requirements would be significantly higher — as a first approximation, in the $ 150 billion range.

6 This is assumed to occur when real interest payments fall below 3.8% of GDP.

7 Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, Yugoslavia. These were also the countries singled out as examples of heavily indebted countries warranting concerted action by U.S. Treasury Secretary Baker in October 1985 in Seoul.

III. SOME COMMENTS ON THE MODEL

A. Differences Between the Adjustment Strategy of the World Bank and the IMF

A central feature of the model is the constraint on per capita consumption levels over a period which could last from 5 to 10 years or even more. Given this lengthy period of austerity, which in many cases must come hard on the heels of 3 or 4 years of austerity already imposed under IMF programs, one could well ask what distinguishes the Bank's approach from that of the IMF, except perhaps that it appears to take much longer to work.

Admitting that the two institutions share this rather dubious distinction, it is important to bear in mind certain key differences in their approach to adjustment. First, the IMF relies much more on demand compression to attain external balance, even though expenditure switching from imports to exports and domestic import competing industries (normally via devaluation) is a common feature of IMF programs. Investment expenditures, particularly those financed by government, are often a casualty of such programs — not at the behest of the IMF but more typically because the government finds these expenditures easier to reduce than current expenditures or social programs

In contrast, the Bank's approach is oriented much more explicitly to expenditure switching and *growing* aggregate demand. The areas of growth, moreover, are investment and exports, not consumption Thus, Bank adjustment programs invariably contain detailed measures to stimulate both investment and exports, through appropriate measures such as budgetary reform (leading to curtailment of current rather than of "vital" capital expenditures) and fiscal or tariff reform (such as export taxes and import restrictions which impede the export sector). Administrative reform, involving the rationalization of bureaucratic procedures such as licensing (often a wellspring for corruption) is also typically on the agenda. The objective here is to reduce the disincentives for private agents to invest, expand production, and export.

Secondly, the Fund follows an "availability" approach to financing the adjustment process whereas the Bank's approach is that of identifying the "resource requirements" for adjustment That is, the IMF takes as given confirmed ("available") flows of finance in calculating the amount of demand compression required to close the balance of payments gap.

The Bank, in contrast, starts with a growth target, factors in a minimum import level consistent with it, and derives the financing required to support such a program The difference between the two — the Fund's "available" finances and the Bank's "required" finances — is often referred to by the Bank as the financing "gap " This the Bank tries to bridge by encouraging increases in donors' bilateral ODA, in official credits from export credit agencies, and in new exposure or rescheduling from the commercial banks — the appropriate combination depending on the borrower in question. One of the current problems with the Bank's approach is that the financing gap is invariably *not* bridged, and there is at most an imperfect idea of what a "fallback" adjustment strategy should be (lower growth in the medium-term? a longer workout period? or both?)

B Long-run Structural Transformation

Some other comments are in order First, the Bank's approach to adjustment is, by nature, long-term. It aims to build up and diversify exports as well as underwrite investments. Both of these endeavours can take a long time to fructify. For example, the Bank often advises its clients to diversify out of non-agricultural commodities (such as copper) facing secularly declining terms of trade and very dismal market prospects. But the task confronting commodity producers (such as Zambia) is a very daunting one, since it is not easy to "sprout" new industries which both command comparative advantage and can replace the foreign exchange earnings of commodity production. Similarly, the Bank relies a great deal on price incentives to stimulate producers to allocate resources and switch outputs to exports. Even though producers may be willing to respond to such incentives, however, they may be unable to do so, due to other constraints (for example, input supply) which are not relaxed over the medium-term.

C. Alternative Workout Strategies

Second, the Bank's approach to adjustment takes as given that outstanding debt has to be promptly and completely serviced. This seems like a tall order for the heavy-debt overhang countries, which according to the Bank's own model must undergo a severe adjustment period of a decade or more. Alternative solutions, which may involve selective or partial writedowns, do not form part of the Bank's workout strategy even though in such cases these alternatives make a certain amount of sense. This is likely due to the fact that the Bank does not wish to impair its credibility with the commercial creditors, who look askance at such proposals, or to undermine the possibility of attracting new financing, which the Bank feels it is more able to do only if existing debt is fully serviced. However, it may well turn out that there is no alternative to selective writedowns for the most heavily indebted countries. Under these circumstances the Bank would be well advised to play an active co-ordinating role to ensure that such writedowns are negotiated and implemented both efficiently and equitably.

One of the dilemmas facing the Bank is that of how best to restructure debt portfolios, particularly of the middle-income countries. Accepting that the share of privately held debt must decline (because of manifest unwillingness by commercial lenders to increase their exposure in these countries), the problem is: what is to take its place? ODA is earmarked for the low-income countries, and undue reliance on the multilateral development banks rigidifies debt servicing obligations since, on account of their "preferred" status, the MDBs' debts cannot be rescheduled. This puts a heavy onus on official creditors such as export credit agencies, which, however, seem to have revealed themselves to be averse — as are their private commercial counterparts — to increasing their exposure in developing countries. Thus, the lack of alternative sources of finance would also seem to point in the direction of selective writedowns.

Finally, both the plausibility and the feasibility of the Bank's workout strategy can rightly be questioned. The strategy implies marginal savings rates in the order of 40% over an extended period of time (that is, 40% of incremental income must be saved), with average savings ratios increasing from the 15% level to the 35% level over 15 years. The implied

8 It is also possible to criticize the Bank's workout model as being unduly pessimistic. For example, "creditworthiness" is deemed to be restored only when real interest service payments fall from levels of around 5-8% of GDP to 3.8%. Some may feel this is arbitrary and places too high an onus on this indicator alone. These critics might argue that "creditworthiness" might be restored well before this point is reached. For example, if the borrowing country achieves a 4% growth rate over a period of five years or more and services its debts fully, there could be a presumption that such a country should be creditworthy for new lending.

performance of exports has already been mentioned. In addition, capital flight is assumed *not* to take place; if it does, savings and export performance requirements are correspondingly higher. Skeptics may easily conclude that in the real Third World, such prodigious efforts are not possible,[8] and even if they were, the financing required to meet the net borrowing needs of the debtors during the workout period is unlikely to materialize.

The skeptics may be right in some cases, and wrong in others. The essence of the Bank approach, however, is not to generalize but to examine each case on its merits. The purpose of the Bank's workout model is not to generate a prototypical solution, but rather to provide an analytical framework within which individual workout strategies may be assessed.

A detailed case by case assessment is likely to reveal that the prospects for a satisfactory workout program are much lower in the high debt overhang countries than in the others. These tend to be the smaller countries, such as Jamaica, Bolivia, Costa Rica, Côte d'Ivoire, Chile, Morocco, and Perú, rather than the "super-debtors" Mexico, Brazil and Argentina. Nonetheless, a viable workout strategy is required for these smaller debtor countries, both for their own economic stability as well as the financial stability of the world as a whole. The outstanding debt of these seven high-overhang countries collectively amounted to some $68 billion in 1985, greater than Argentina's ($51 billion) and exceeded only by Mexico and Brazil.[9] Attention to resolving the debt overhang of this second tier of (predominantly smaller) countries should therefore be given top priority on both research and policy agendas, and the World Bank is in a unique position to co-ordinate debt relief measures to these countries if agreement can be reached on the nature and scope of such measures.

9 Note that in Secretary Baker's proposals, only some $40 billion was expected to be forthcoming over three years from the commercial banks ($20 billion in new exposure) and the multilateral banks ($27 billion in gross disbursements or about $20 billion in net disbursements). While the MDBs show evidence of meeting their end of the bargain, the commercial banks do not.

FEATURE

Third World debtors take on bankers in W. Berlin

The recent World Bank and International Monetary Fund (IMF) meetings in West Berlin brought several activists from Third-World debtor countries to the city to give their views of the IMF and the bank. The views were not complimentary writes *PERI BATLIWALA*

No real money lender tells people how to get out of the money lender's claws." This was how Vandana Shiva, of India's Chipko Movement - whose women once hugged trees to stop foresters cutting them down - voiced her mistrust of the World Bank and the International Monetary Fund whose recent role has been to promote economic "structural adjustment" in the Third World.

Shiva was one of about 20 Third World NGO members in West Berlin last month to attend, the Counter Conference, a Counter press and a mock trial - the International Permanent Peoples Tribunal - to examine the effects of World Bank and IMF practices on the lives and landscapes of heavily indebted developing nations, while bank and IMF officials and government delegations held their annual meeting nearby.

Reactions

The choice of West Berlin for the bank and IMF meeting set off mixed reactions. West Germany's chancellor Helmut Kohl praised as symbolic of post war reconstructing after destruction. He thought it apt for the task now facing many debtor nations.

On the other hand, Abdullah Babu, a former Tanzanian Government Minister, referred to Berlin as the site of the 1884 declaration which "marked the carving up of Africa for colonial exploitation".

Babu noted several ironies in the international community meeting there 104 years later to discuss what he and some others saw as the "neo-colonial" business of development and indebtedness.

Protestors felt that the Berlin events, in which the non governmental organisations (NGOs) and the bankers were mostly kept far apart, had demonstrated the existence of a new Berlin Wall - between the bankers and protestors.

Nevertheless, mounting international disquiet about environmental degradation in the Third World led the World Bank some months ago to set up an Environment Department to institutionalise environmental advocacy", and the department's head, Kenneth Piddington, did enter the lions' den to attend one of the alternative conferences.

Piddington acknowledged that "at present the world is in the midst of an environmental crisis that even environmentalists 10 years ago did not foresee"

But too much lipservice was paid to the environment, conservation and poverty alleviation the protestors said. They wanted positive proof that the World Bank would use the grassroots knowledge of non governmental organisations (NGOs) at the planning stage and that in return a strong NGO caucus would be involved in World Bank meetings, with access to those bank policy documents - presently confidential - which concerned their areas of interest.

The World Bank wasn't reacting quickly enough in its environmental assessment procedures, or effectively enough to the causes of destruction, according to the Berlin protestors.

Jose Lutzenberger, of AGAPAN, a Brazilian environmental NGO, described the biological holocaust" which was taking place in Amazonia and Rondonia regions of Brazil where smoke had recently closed down airports and obscured the sun. He demanded that the World Bank be accountable to the people whose lives were affected by the programmes they assisted, and that effective compensation schemes be implemented.

Speaking for those victims, Jaime de Silva Araja, chairman of the Council of National Rubber Collectors of Brazil, explained what the clearing of forests in Amazonia for dams, roads and mines funded by World Bank sectoral loans meant to his community: "With these forests our habitat is destroyed, because the inhabitants are very tied to the jungle - the environment is us."

Susan George, author of the book *A Fate Worse Than Debt*, argued that the World Bank viewed peasant production systems as "obstacles to its view of the development process", while Vandana Shiva saw the development process itself as Northern technocratic interference with traditional systems.

Confrontation

Apart from confrontation with the bank and the IMF, what emerged from the alternative "fringe" was some solidarity between European and Third World NGOs. They all expressed commitment to the idea of counter-meetings to coincide with the annual official World Bank/IMF meeting, to continue the debate started in West Berlin this year.

Piddington offered an optimistic view in his assertion that "the bank has learnt that it can achieve economic development without causing environmental damage" But many left West Berlin unconvinced. PANOS)

SURPLUS AND STARVATION, DEBT AND DEVASTATION

by Jose Lutzenberger

"The present level of debt service of many countries, especially in Africa and Latin America, is not consistent with sustainable development. Debtors are being required to use trade surpluses to service debts, and are drawing heavily on non-renewable resources to do so." OUR COMMON FUTURE, p. 18

***Porto Alegre, Brazil* — After nearly 40 years of field experience and extensive travel in three continents as an agronomist, I conclude that if there had been no agronomists, agricultural research and extension services during the last 30 years, the evolution of traditional peasant cultures would have continued**

The intrinsic wisdom of small farmers - and their use of local means - would have meant continued improvement as in the past. There would be little starvation in the world today in spite of growing population. We would have better, healthier, more diversified food. The calamity of Ethiopia and other such disasters might not have happened because traditional cultures usually know how to cope with drought. And more often than not, starvation is due to existing power structures, not to lack of soil or lack of knowledge on how to grow food

This kind of statement provokes vehement disagreement. After all, the Green Revolution has brought high-yielding varieties and previously unheard of production. But who benefits? In the European Economic Community (EEC) nearly forty billion dollars of taxpayers' money have to be spent each year to use... [illegible] by unwanted food [illegible] can buy while hundreds of millions of people in the world... are either starving, underfed or malnourished. Surpluses are largely produced with imports such as soybean meal, tapioca, peanut cake and others. Agricultural restructuring policies for the production of export cash crops have meant millions of small farmers losing their land. These policies also triggered-off the invasion, devastation and sometimes total destruction of vast areas of wilderness which until then had not been threatened and which never need have been sacrificed if the aim was to feed humanity well. The indigenous people of these areas have been exterminated, driven out or made miserable. Many cultures, languages and an immeasurable store of wisdom are lost forever

In the far south of Brazil where I come from, more than 100,000 square kilometres of subtropical rainforest have been razed. Brazil's relatively healthy and sustainable peasant cultures which had been develop over a period of 150 years by German, Italian and Polish immigrants have been ravished. What is left has little to do with peasant culture. The remaining small farmers grow cash crops and buy their food in town shops. Most of them are in deep financial trouble. The restructuring of agricultural policies was not done to feed hungry Brazilians, but to feed cows. Cows that produce the so-called 'butter mountains' of the European Community. And it has not helped European farmers either. A few million of them have already lost their land. Many more are in [illegible] trouble and will soon join the millions of unemployed

This is not the end of the destruction. The millions of landless people, when not swelling the festering slums of vast conurbations, migrate into what is left of the wilderness. When this is not done in an uncontrolled, chaotic way, the people are lured into official settlement schemes that are even more destructive of the jungle. This is the case in the Polo Nordeste P[illegible] in Rondonia, funded by the World Bank with First World taxpayers' money and Brazilian inflation money. Brazilian inflation mostly hurts those Brazilians who have already lost two-thirds of their buying power as the vast majority of the population live on small salaries

Ten years ago, the State of Rondonia, which is about the size of the United Kingdom, was virgin tropical rainforest with some ten per cent of the area made up of natural savannahs and swamps. It is likely that it will be totaly devastated by about 1990. Most of the cleared forest has already been abandoned... the poor forest soils, settlers and ranchers can only survive by cutting down more forest every year. Some of the large plantations of perennial crops such as rubber, cocoa and coffee were a total loss. Hordes of settlers are now resettling in the neighbouring state, Acre. The same destructive process has started there, and will probably not be stopped. Satellite pictures show that in the Amazon region as a whole about 100,000 square kilometres of forest are now destroyed annually

Soon the world's climate will change because of the wholesale destruction of the world's rainforests. This is expected to have the greatest impact in subtropical and [illegible] regions - so affecting [illegible] productivity where it will hurt most

There are winners though: the agrichemical, farm machinery and food processing industries as well as big government and technocracy in general

The way agriculture has gone wrong is only one example of how industrial society in its present form has become a worldwide predatory process that cannot be sustained very much longer

But all over the world there is a growing awareness of what is wrong. In Brazil, indians, rubber tappers and other forest people are getting politically organised to fight for their world. And it is not only the poor who have begun to react. A major Brazilian news magazine recently reproduced part of a confidential World Bank document giving the reason why a new loan [illegible] to the Brazilian government has been held back: " Resources have not been effectively targetted to the poorest and most vulnerable segments of the population, and, in fact, a large share of social expenditure actually subsidises higher income groups and resources are poorly managed ..."

Perhaps it's not too late

JOSE LUTZENBERGER is a Brazilian agronomist and environmentalist

Debt Swaps: Buying in Means Selling Out

by George Ann Potter

The latest fad solution for the international debt crisis is swaps-debt for equity; debt for nature; and most recently, debt for development. Advocates claim these are win-win-win arrangements in which the commercial banks, debtor countries and transnational interests in foreign investment, environmental conservation and Third World development all benefit. Opponents, however, raise a series of doubts, ranging from the technical to the esoteric. This article will review both kinds of critiques and also elevate the debate to include ethical concerns, while calling into question the fundamental issue of what is development.

Debt/equity, the original form of swaps, provides the model for the other kinds, as well as raising most of the basic concerns. Initially banks swapped bad risk debts among themselves to put some order into their loan portfolios thrown together during the late '70s. Now, however, the most common form of swap involves a bank selling a debt owed by a Third World nation to a multinational corporation (MNC) seeking to invest there. The debt is bought at discount and then exchanged for up to full value of local currency payment and negotiation fees as well as profit loss tax cuts; the fsoreign investor gets cheap local currency; and the Third World debtor reduces its debt burden. So why the criticism?

Basically, the problem is two-fold: 1) promotion of a harmful development model; and 2) deception of the U.S. public. Many analysts arague that the Third World's debt has already been settled after more than five years of usurious debt service payments and capital flight to the North. Moreover, there is no longer any realistic chance that Third World sovereign debtor loans can be repaid in full, under current conditions. But it is useful for the industrialized country governments to maintain the fiction that they will be, and hope that the commercial banks will sustain their stake in the Third World with new loans for development purposes The next question must then be, what kind of development?

Debt and Development - who pays/ who benefits

On this question the banks, the U.S. government, and MNCs all concur. Privatized, foreign invested, free market, export production will turn the international debt crisis around, and debt swaps are a handy way to achieve this. The seldom declared, but explicit objective of such a development model is to expand private U.S. labor and taxpayer implications, not to mention Third World interests.

How are Third World interests not served in debt swaps? Early cautions regarding the possible negative economic consequences of swaps for debtors have now been confirmed by the U.N. Economic Commission for Latin America. Swaps can: 1) be inflationary when sovereign debtors simply print more currency to pay off the notes; 2) result in increased domestic debt and higher interest rates if the government borrows from scarce local sources for the currency (Mexico recently suspended swaps after determining they were contributing to a 135% annual inflation rate, 3) reduce sources of new hard currency since foreign investors are redeeming debts not dollars; and 4) run the risk of increasing capital flight as the short-term debtor benefit of reduced interest payments is offset by mid-term profit remittance outflows by the foreign investors to their home countries.

Swaps also mean pre-payment of loans, when a country uses scarce local budgetary resources to cancel debts, often at full value, despite the intermediaries' secondary market discount In essence, the foreign investors are getting good assets for bad loans. But of equal concern is what happens to the debtor's national budget? Are public health, education, and welfare programs, already severly cut under IMF structural adjustment agreements, further constrained as debtor governments seek local currency sources to pay the foreign investor "owners" of their debt? The U.S Agency for International Development is currently promoting swaps as a maior policy tool and financial mechanism for advancing the development model described above. Jointly controlled, U.S. aid-generated local currencies (especially from PL-480 food program) are being used to encourage reticent Third World debtors to adopt swap programs. Were the previously programmed uses of these funds not developmental enough?

Finally, swaps seriously imperil Third World debtors' political and economic sovereignty as they exchange their debts for foreign ownership of productive assets (including land), and First World control over national macroeconomic policy. Otherwise, why would the banks not allow sovereign governments to buy back their own discounted debts, which is prohibited under recent debt rescheduling agreements?

The above discussion attempts to explain how swaps are driving a development paradigm which is antithetical to Third World interests, but it remains to be shown that this model is not in the U.S. public interests either. First, it is the U.S. taxpayer who is bearing the brunt. Due to recent Treasury and Federal Reserve rulings, U.S. banks are not only given tax breaks on debt swap "losses," but the government-funded Overseas Private Investment Corporation will both ensure the dollar value of a debt/equity investment by a U.S. MNC and make additional loans to it-at taxpayer expense. Moreover, revised "Regulation K" rulings now allow U.S. banks to invest in swaps up to 100% equity in foreign non-financial companies. The primary objectives of these legal interpretations are to diversity and protect U.S banking and MNC interests in privatized Third World investments. But none of the ansticipated profits accrue back to the U.S. public. Indeed, as more and more tax and bankng regulations encourage private U.S. financial investment activity overseas, we lose jobs at home, U.S. labor suffers and our trade imbalance deteriorates.

Give me your tired and poor-land

After the banks and MNCs the next U.S. group to see certain benefit in swaps has been the environmentalists-hence the phrase "debt for nature swaps." From a sincere but limited understanding of development politics, various U.S. ecology groups have entered the swap fray. They correctly recognize that Third World countries are constrained form pursuing ecologically sound policies because of their debts. Using marginal farmland and tropical forests to produce monocrop cash exports for hard Currency debt servicing, MNC in vestment in these same areas, and reducing debtor government budgets for conservation, all take their ecological toll.

The most publicized debt/nature swap to date shows how these concerns may be exacerbated rather than alleviated with swaps. Conservation International recently bought $650,000 worth of Bolivian debt for $100,000, which was "redeemed" with the Bolivian government in exchange for the creation of a buffer zone around the Beni Biosphere Reserve. The government of Bolivià has also allocated $250,000 in local currency for cash costs associated with the program. What is the problem?

First, the buffer is not a wilderness preserve, but rahter an area where export cattle production and lumbering are being promoted. Secondly, the $250,000 in local currency supplied by the government of Bolivia, represents the entire budget for the national park system (Robbing Peter to pay Paul?) Next is a fundamental question of perceived sovereignty. What right does even a well meaning U.S. group have to determine how Bolivia uses almost 4 million acres of its national territory? As one eminent U.S. international lawyer points out, how would we feel if the Japanese decided they don't like the way the U.S. is protecting the Grand Canyon and used their leverage as our largest foreign creditor to assume responsibility for its care? And what about other nature swaps like a recent deal in Chile wehere an Australian woodpulp company will exchange $160 million of purchased secondary market debt for 79,000 acres of forest? -

Join the Debt Crisis "Cheap"

The latest, and perhaps most insidious, chapter in the debt crisis saga is "debt for development," involving First World private voluntary organizations (PVOs) in swaps. Many such PVOs are religiously affiliated and up to now their parent denominations (i.e. the churhces) have represented the most articulate voices for a just resolution to the debt crisis. Hence the title of this article - get these organizations to buy into the crisis (and benefit farom it) and they will have sold their ethical/moral ground to speak out against palliative solutions.

In a 1987 Policy Statement, the U.S. based coalition, Interfaith Action for Economic Justice, declared that "debtor countries should not be required to sacrifice their right to political self-determination or to abandon efforts toward economic self-reliance as they struggle to pay their debts. Because debt swapping involves the transfer of ownership and a significant measure of control of assets to foreign hands it should not be regarded as a solution to the debt problem." It is ironic at best that a debt option deemed to be inappropriate for MNCs is now being seriously considered, and in some cases already used, by PVOs.

In addition to the macroeconomic and sovereignty questions raised above, debt/development swaps cause further alarm by coopting the PVO community from its ability and responsibility:

* to address the structural conditions responsible for the immediate exigency while seeking equitable solutions for alleviating this crisis and preventing future ones. The struggle for a new international economic order will not be helped by debt swaps.

* to work for reducing the level of Third World debt rather than transfering ownership of it from commercial banks to First World private groups. Sovereignty is no less jeopardized if Citicorp, Ford Motor Co., or a PVO demand resource payments which a country cannot afford.

* to safeguard PVO's own special independent status vis-a-viz their own and debtor country governments. If U.S. AID has successfully pressured a debtor country to promote export production growth, then a PVO may well find itself supporting sectoral projects which undermine instead of enhance sustainable, self-reliant development

* to define development as "empowerment" rather than a now discredited notion that North/South resource transfers are the solution. What the Third World does need is the economic and political space to develop self-reliant determination.

Debt swaps in general, and debt/development swaps specifically, would in isolation be little more than footnotes in this crisis if it were not for the fact that they represent a pattern of attempted cooptation. Those PVOs which agree to do so will be lending their support to

structural adjustment policies which hurt the poor. First World influence in the Third World is no less onerous when it comes from a well-meaning PVO than when it is imposed by a First World government or MNC.

Swaps are creatures of the moment, created by those with strong interests in promoting a public perception that the debt crisis is being handled intelligently and fairly. However, as some Brazilian opposition economists have observed, swaps are part of an overall realignment of world capitalism, brought on by the decline of the U.S. economy. But rather than solving the problem, swaps reduce the political and moral pressure for more meaningful solutions. If the northern PVOs heed their Third World church, labor and other popular movement partners then they cannot possibly buy into the current swap mania.

In a recent joint statement, the Bolivian and Brazilian Catholic bishops declared the debt to be unpayable and immoral, especially when the debtors are treated with damaging and humiliating conditions, when there is no spirit of equality in the negotiations, when the terms of the repayment are unreasonable and when the human condition is ignored. The World Council of Churches has said that current attempts are nothing but "palliatives to safeguard the present system" and it rejects strategies which enhance dependency on global market dominance by MNCs. The debt has been paid and any further servicing-in hard or local currency-whether to the banks, MNCs or PVOs, is immoral. If PVOs buy in - they sell out.

THE NEWSPAPER OF THE WORLD DEVELOPMENT MOVEMENT

Justice for the world's poor

October 1988

Poor pay rich more than ever

LAST year poor countries paid a record amount more to rich countries than they received from them – and for the first time the World Bank has been part of this process according to figures published in its annual report last month.

They show that in contrast to the popular [illegible] of the West as a [illegible] giver to the Third [illegible] poor countries in fact sent $39.1 billion (£23,300 million) more to the rich countries in debt repayments than they received [illegible] aid.

The size of the net negative transfer as it is known has grown by a

By Ben Jackson

massive $7.8 billion since 1986. World Bank experts had been predicting a much lower figure at the beginning of this year. The massive drain of resources leaves poor countries with less and less of the money needed for economic recovery and development.

Financial flows to poor countries are 'inadequate to meet the needs for economic growth, poverty alleviation, environmental conservation, structural adjustment, and the resolution of debt difficulties' says the report.

[illegible] is really embarrassing the World Bank is that for the first time ever the main part of the World Bank (the International Bank for Reconstruction and Development or IBRD) itself received $1.9 billion more in repayment from [illegible] countries than it lent. It is only when lending to the poorest countries via the Bank's International Development Association is added to the total that it turns to a modest outflow to the Third World.

Urgent

The report also spells out what the Bank is doing on poverty alleviation, women in development and environmental aspects of development – all areas of current concern to development campaigners.

'The severity of poverty and its persistence require [illegible] and sustained action,' says the report. It admits that economic growth alone is not enough and that programmes must be carefully designed to ensure the benefits of growth reach the vast numbers of poor in developing countries.

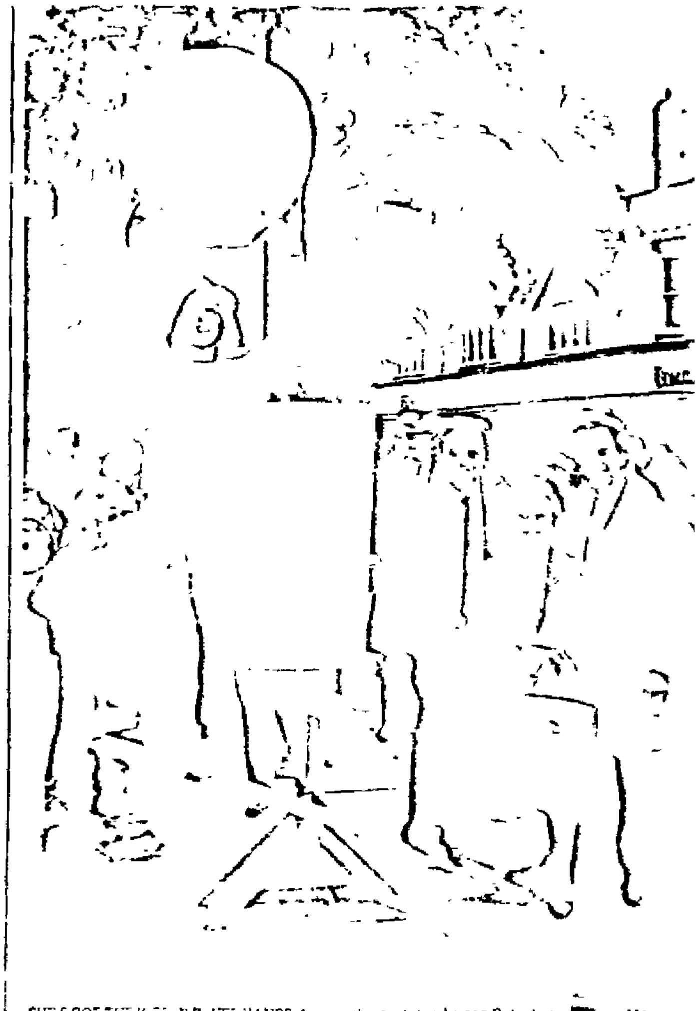
Social services

An internal bank document has recommended a greater stress on support ing social services and making sure that they reach the poor. It emphasises 'greater participation by the poor in project design and implementation'.

A task force on poverty alleviation to eliminate the worst forms of poverty in the poor countries of Asia by the year 2000 has been established by the World Bank. In Africa the Bank says it plans to find ways of ensuring that the adjustment policies prescribed for debtor countries do not hurt the poor. How all these recent moves will actually change the way in which the Bank works on the ground in poor countries remains to be seen.

The [illegible] says the Bank's approach to women in development is now moving beyond studies and staff training and is aiming to become more 'operational'. However, in its detailed list of activities there is still a considerable emphasis on research, documentation and the preparation of 'action plans'.

Environmental considerations should be part of *all* development planning the report says. The Bank now has an environmental unit in all four regional offices and a central environmental department has been set up. However critics say that there are still World Bank projects going ahead which pose considerable environmental problems and threaten the way of life of indigenous peoples



SHE'S GOT THE WORLD IN HER HANDS A street theatre group helped Oxford's [illegible] and Mayor to launch a programme of [illegible] the interdependence of rich and poor countries. [illegible] during One World Week this month.
Picture: Oxford & County Newspapers

Politicians press World Bank on help for the poorest

LEADING politicians wrote to the President of the World Bank just before its annual meeting in Berlin last month reaffirming their call for major changes in the Bank's policies towards the world's poorest countries.

Their letter followed up the approach made earlier in the year by over [illegible] members of the [illegible] parliamentary bodies of West Germany, the United States, the United Kingdom, Canada and Australia (see July/August *Spur*). Barber Conable's reply to that letter came in July and said

- the World Bank *would* be implementing the guidelines to try and make sure the poor did not suffer when economic austerity measures were imposed on indebted countries
- it was for the governments who contribute money to the Bank [to] decide whether [it] should give grants [to] the poor or loans, a[nd] this would come up [in] the negotiation[s] towards the nin[th] replenishment of th[e] International Develo[p]ment Association (th[e] part of the World Ba[nk]

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LEARNING TOGETHER. Academ[illegible] development is a process [illegible] rich and poor alike are involved in *page 2*

EEC CAMPAIGNS A [illegible] Campaigns Officer starts work for the World Development Movement *page [illegible]*

BANGLADESH. Last of Robert Burden's articles on the textile industry *page 4*

ENVIRONMENT. Deforestation is tackled at a human level by direct action in India *page 7*

AID Britain's aid has dropped and MPs want a date for reaching the official target *page 8*

WESTLAND Most of the helicopters bought for India by British aid are used to carry VIPs about *page*

Two views on Debt

The following two views on debt – by the director of an African organisation and by a senior World Bank official – were contributed to the Roundtable on Debt organised by War on Want and WDM for the Council of Europe earlier this year. The full proceedings are available from WDM, price £2.95

When I was a student in Paris, there was a very big strike, a strike of all boat builders, and after one month's strike, everyone said that the Japanese would take the market and Europe wouldn't have part of this market, and their price is too low etc. What I saw in a little article in the newspaper was that the French government was lending 8 billion francs to the Senegalese government, and was also participating in a joint venture with the Senegalese government for 8 billion francs, to buy ships from this company who were on strike. The manager of the new joint venture had to be a Frenchman, the captains of all 12 boats to be produced by this company would be French, and the mates would also be French. So the strike stopped, the boats were produced very quickly, the company worked for 5 or 7 years and collapsed and now Senegal has to pay the debt....

The same thing happened with ground-nut oil production when Senegal was second only to Nigeria as a world exporter of ground-nuts. People persuaded us to build factories to produce oil. We built many factories with the debt. Now we are able to process one million tonnes, but we have destroyed our environment and our production cannot reach more than 400,000 tons. So our factory cannot work at full capacity, and we cannot pay the debt because the debt was supposed to make production of one million tonnes a possibility, but we have 400,000 tons only. We cannot pay, that is the situation.

Mazide Ndiaye

The finance ministers, the planning ministers and a lot of others are far too busy trying to gather whatever money is needed for tomorrow's debt service and don't give sufficient time to things like population growth and nutrition and education, and so on. The process of development is almost at a halt.

Shahid Husain (World Bank)

Drought brings new debt for poor farmers

by Ann Davison

WHEAT and sugar prices are up, but most experts believe surpluses will soon build up again, and farmers in poor countries will suffer.

Third World countries importing wheat face unexpected debt as world grain prices (up by half in the last year) reflect the drought which has reduced the US crop by 13½% on last year.

The US has responded to the drought by increasing the acreage planted with wheat and, like the EEC, it continues to subsidise wheat exports. The world market is likely to be in glut again in a year or two, when Third World government will be tempted to import cheap cereals again at the expense of their own farmers.

For sugar, the surplus will probably re-emerge even more quickly. World prices at their peak this summer were double last year's, though still only 30% of the prices paid within the EEC. The cause of the recovery is a Chinese shortfall in production combined with the impact of the US drought on maize sweeteners which compete with sugar. With a number of cane producing countries so desperate for foreign exchange that they regularly export onto the world market when prices are below the cost of production, sugar planting is likely to increase rapidly in response to higher prices and plunge the market back into crisis again.

World development, consumer and environment groups are campaigning to end overproduction in the industrialised nations to allow developing countries the opportunity to develop their own agriculture.

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which lends to the poorest countries),

- there were difficulties in using social indicators such as child mortality to monitor the condition of Third World countries and to plan the Bank's operations in those countries.

Now some of those who wrote to Mr Conable have written back, welcoming the positive steps being taken by the Bank and urging that social indicators be used not only for measuring the impact of individual social-welfare projects but as tagets for improving the country as a whole.

'We accept the Bank's comments about the difficulties of measuring some social indicators' said the September letter, though these comments could be applied to economic indicators as well. However reliable data on key social indicators, such as child mortality does exist in many recipient countries.'

The politicians welcomed the news that reports to the World Bank board on adjustment programmes now had to comment on the programmes social impact on the poor, and noted that measures were to be built in to 'benefit as well as protect the poor'.

'We look forward to learning from the Bank of the practical benefits to the poor,' they said.

Learning about development: a lesson the rich must heed

By Geoff Tansey

DEVELOPMENT is about change throughout the world – not just in the Third World – and we in Britain have things to learn from the 'developing countries'. So said some of the 150 participants at this year's Development Studies Association annual conference in Birmingham last month.

Dynamics

Development studies should examine 'the dynamics of growth and change wherever they occur in its non economic as well as its economic dimensions' according to Tony Killick senior research fellow at the Overseas Development Institute in London.

In his presidential address he called for a redefinition of 'development economics as the study of development wherever it occurs and as a continuing process. Development economics saw the process of growth as all important, and the futility of 'talking about efficiency in abstraction from who gains and loses'.

The restriction of development studies to the Third World was 'a hangover from the colonial origins of the subject, according to keynote speaker Robin Murray from the Institute of Development Stuides in Sussex University.

David Marsden from the Centre for Development Studies at Swansea said he too felt that 'development studies could no longer be confined to the underdeveloped parts of the world.

If the widely accepted social indicators of development – in reducing poverty, unemployment and inequality – were applied in Britain said Diane Conyers also from Swansea, it would be clear that Britain had experienced planned underdevelopment. After years working overseas she had spent a year on a British social and community programme and had seen the value of using the experience and insights from developing countries in understanding change in the UK.

This experience stimulated the imagination in new directions, rather than providing models, she believes.

The West Midlands had a lot to learn from developing countries experience, according to

There are no developed countries – only countries involved in a development process.

Andrew Nickson lecturer at the Institute of Local Government Studies at Birmingham University. It had come as a great shock to him that in Latin America where he worked there was a long tradition of the public regularly coming to local government not just to listen as in Britain, but to participate.

He was concerned, however, at an unfortunate spin-off from Sport Aid Live Aid etc which tended to reduce the willingness of people here to believe they had things to learn from people in countries they perceived as poor and more backward than here.

Threat

Substantial restructuring of development studies to encompass one world is not imminent however. Not everyone wants it and some fear dilution of the Third World focus of their work – where without doubt the problems are more immediately threatening.

The Association itself could be more vigorous. Membership, mainly academics and students is down to about 350 from a peak of about 500 in the early 1980s and many of its study groups have waned.

Rich and poor

For the DSA and the rest of us the message is clear. There are no developed countries – only countries involved in a development process. Some are rich some poor, some industrialised some not, but as a whole, they make up the developing world.

DEBT, ADJUSTMENT AND THE NEEDS OF THE POOR
A UN - NGO Workshop held in Oxford (UK)

A UN-NGO Workshop on the theme "Debt, Adjustment and the Needs of the Poor" was held in Oxford (UK) from 19 to 22 September, co-organized by the UN Non-governmental Liaison Service of Geneva and two Oxford-based institutions, OXFAM and Queen Elizabeth House. It was attended by 58 representatives of Northern and Southern non-governmental organizations involved in education and campaigning, research and training and/or operational work, six organizations from the UN family and one governmental aid agency (CIDA).

The Workshop programme covered four main themes: i) impact of debt and adjustment on the poor; ii) responses of the multilateral and NGO communities to the crisis; iii) alternative approaches and strategies; and iv) proposals for future action. A *Final Statement* of the NGO participants describes the nature and dimension of the crisis and its impact on the poor, and makes proposals for action at the international level (debt and debt management) and at the domestic level (adjustment policies taking into account the needs of the poor), for monitoring the adjustment process, and for NGO action in both North and South.

Some of the proposals for NGO action are reproduced below.

NGOs should support Third World government initiatives to launch a process of debt relief through the imposition of ceilings on their debt service bill and the adoption of measures to ensure that foreign exchange is allocated to priority development efforts designed to reduce poverty;

Through a consultative process, NGOs should develop a code of conduct or framework of ethical principles to govern debt management. This code should also address Northern governments' responsibility vis-à-vis commercial banks and official financial transactions;

NGO should campaign for increased responsibility on the part of commercial banks for the social effects of their loans to Third World countries; in these efforts, NGOs should establish relations with socially-concerned shareholders who can campaign for the introduction of such control mechanisms;

A campaign should be launched to mandate the International Court of Justice, or a specially constituted international tribunal, to adjudge the possibility of repudiating loans for ill-advised development projects, not incurred by the governments currently charged with honouring the debts, and to allocate the financial burden to those banks and industrial corporations identified as being at fault,

NGOs should use the occasion of the Annual Meetings of the International Monetary Fund and the World Bank, and the Paris Club meetings on the official debt of developing countries, to present their evidence of the impact of the debt crisis on the poor and to lobby for appropriate debt relief,

NGOs should explore the possible advantages and disadvantages of "debt-for-development" swaps and examine the conditions under which Northern governments and NGOs can use such mechanisms to benefit the poor;

NGOs should exert increased pressure on Northern governments for them to honour commitments entered into with Third World governments through multilateral negotiations, in particular those made in the Substantive New Programme of Action for the Least Developed Countries, the United Nations Programme of Action for African Recovery and Development and the Final Act of UNCTAD VII;

Third World NGOs should, wherever possible, bring to the attention of the governments of their countries the alternative policies identified above in the section on action at the domestic level, and endeavour to convince these governments of the need to pursue inward-looking strategies towards self-reliance and the satisfaction of basic needs. Northern NGOs should campaign for increased support from Northern governments for the implementation of such strategies,

Copies of the *Final Statement* of the NGOs attending the Oxford Workshop are available from NGLS/Geneva, Palais des Nations. Translations into Danish, Dutch, French, German, Japanese, Portuguese, Spanish, and Swedish are planned.

At the Workshop, the representative of UNCTAD made a statement which reflects, in summary, the organization's analysis of the debt problem and its recommendations for policy orientations on which a growth-oriented debt strategy should be based. This statement is reproduced below.

UNCTAD has been interested in the debt problem of developing countries even before the debt crisis broke in 1982. Since then, it has focused on the underlying causes of the problem and on assessing the validity of the international response. The results of this analysis have been published regularly in the Trade and Development Report and, more recently, in the document prepared for the seventh session of the Conference (UNCTAD VII).

UNCTAD's analysis has since the early days of the crisis pointed to the inadequacy of the so-called case-by-case approach and also of the recessionary adjustment which it entailed It argues that, because of the heightened interdependence of national economies and of sectors in the world economy, adjustment via import compression by developing countries is only compounding the negative impact on these countries of the deflationary macroeconomic policies pursued by the industrialized countries. At the same time, the simultaneous attempts of a large number of developing countries to achieve export-led growth tend to reduce export prices, particularly of commodities, and also give rise to increased protectionism in traditional markets.

This view was subsequently borne out by the recognition in the Baker initiative of the need to associate economic growth with adjustment. Since then, the secretariat has continued to assess the effectiveness of the international debt strategy. UNCTAD's publications have also expressed concern at the disproportionate burdens which adjustment programmes often imposed on the poorer sections of the populations of debtor developing countries and at the limitations they place on human resource development. The secretariat's documentation for UNCTAD VII went beyond analysis to provide a number of policy options for consideration by the Conference (see Bulletin No 232)

The *Final Act* of the Conference was a source of satisfaction for the membership of UNCTAD at large. In the area of debt it acknowledges the overall validity of the secretariat's analysis and of many of its policy recommendations. The *Final Act* states that the response to the debt crisis should continue to evolve, through continuous dialogue and shared responsibility between debtors and creditors, public and private. This is important language, particularly in a consensus document, clearly indicating the need to adjust current strategies to allow for stronger growth in debtor developing countries. Furthermore, for the first time, the document outlines, albeit guardedly, some of the elements on which a co-operative, growth-oriented debt strategy should be based.

As for specific measures, the *Final Act* contains some important indications concerning the directions in which the debt strategy might evolve. For example, it calls for growth-oriented adjustment programmes to be formulated in a medium-term context which takes account of a country's investment requirements and of its debt-servicing capacity. There is also a call for the terms agreed at both private and official debt restructuring negotiations to pay due regard to the need to allow both governments and enterprises in debtor countries "a planning horizon" adequate for the pursuit of the new strategy. Moreover, there is a reference to the need for due weight to be given in such arrangements to unforeseen changes in a country's external pa[illegible] to exogenous factors. All of these provisions represent an important advance on prevailing positions

On the subject of renegotiation of official debts, there is also a specific reference to the need for longer repayment and grace periods as part of the terms agreed for the poorest countries Furthermore, the *Final Act* recommends that consideration be given to the possibility of cuts in interest rates on the debt of such countries. In recognition of the long-term and intractable character of many debt problems, the *Final Act* recognizes the need to explore possibilities for transforming bank debt so as to reduce its burden, including the use of debt-equity swaps and other instruments devised by banks and debtors to take advantage of the discounts at which such debts are being sold on the secondary markets This, too, represents an important step forward in the debate concerning ways of reducing the debt burden. Another constructive development is the request made to governments to encourage commercial banks to approach the debt problems of developing countries with flexibility and innovative measures, so that debtor countries as well as lending banks should benefit from the greater room for manœuvre resulting from banks' strengthened financial ratios and increased loan loss provisions

UNCTAD has also achieved some practical results for the benefit of debtor countries As a result of Trade and Development Board resolution 165 (S-IX), something like \$6.5 billion worth of official debt has been cancelled by creditor governments. Participation in meetings of the Paris Club (the official creditors' forum for rescheduling of official developing country debt), has enabled UNCTAD to make the case for debt relief in the context of the structural problems and medium-term development prospects of the debtor country. It has, for some time, been calling for longer repayment and grace periods and is gratified to see that the Paris Club has recently moved in this direction In 1987, Paris Club creditors have gone beyond the traditional limit of 10 years, and have rescheduled debt service payments over 15 years for three countries and 20 years for one country.

Finally, the representative of UNCTAD said that the organization has also been active in the field of debt through its technical assistance activities, in particular through its computerized Debt Monitoring and Financial Analysis System – a comprehensive management system for the registration, monitoring and analysis of external debt and other financial flows. The System is both powerful and flexible and has been implemented both on personal computers and in mainframe environments. Some 20 developing countries utilize UNCTAD's software, as well as its advice, to set up and run this data-monitoring system for debt management. □