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ADJUSTING TO RECESSION: WILL THE POOR RECOVER?

Most developing countries (ldcs) have increasingly found it necessary to adjust their economies to adverse developments in the world economy. Since the first oil price rise in the early 1970s, devaluations and cutbacks in public expenditures have been commonplace. Whilst the recent falls in the oil price have provided some relief to non-oil producing countries, their prospects continue to be uncertain. Most commodity prices are depressed, debt servicing costs are still at a high level in relation to export earnings and the outlook for aid and other financial flows is at best unpredictable. 'Adjustment' therefore remains firmly on the policy agenda of most ldcs. Moreover, the oil producing ldcs themselves are now being forced to take painful adjustment measures.

In framing balance of payments adjustment policies, little attention has been paid to their effects on poverty, and few adjustment programmes have incorporated measures to cushion their impact on the poor. Because of external economic circumstances, ldcs have been obliged to implement austerity programmes which have hit the living standards of the poor. More recently, changes in the leadership of both the International Monetary Fund (IMF) and the World Bank open up the possibility of a shift in policy, placing greater emphasis on the needs of the poor. This briefing paper examines these issues and highlights the opportunities presented for the alleviation of poverty in the context of adjustment.

Adjusting to Economic Shocks

Changes in the world economy are transmitted to ldcs through fluctuations in their export earnings and their import costs, as well as changes in the volume and composition of capital flows. Governments attempting to deal with adverse external economic developments have three strategies available to them. First, they can attempt to finance their higher current account deficits by international commercial borrowing and seeking concessional import support from aid donors. Second, they can apply trade and capital restrictions to limit imports and capital outflows in line with the available finance and their own reserves. Finally, they can attempt to **adjust** their economies to the new circumstances through 'macro'-economic measures such as devaluation, and 'micro'-economic measures such as pricing and investment policies (see Box 1).

In practice, ldcs usually apply some combination of these three strategies, reflecting domestic political considerations as well as the influences of the IMF and World Bank. Policy changes may also be required where previous policies have contributed to economic difficulties, or have reduced the economy's ability to deal with external shocks —for example over-expansionary monetary policies or the neglect of important sectors through 'inappropriate' pricing policies.

Adjustment by individual countries must also be set in the context of current international financial arrangements. First, ldcs have been forced to take on a greater burden of **global adjustment** because developed countries have been unwilling to undertake greater adjustment themselves[1]. Second, most bilateral donors are unwilling to expand their financial support for adjustment by the poorest countries, although many of these countries have now implemented many of the 'reforms' advocated by the donors. For example, at the UN General Assembly's Special Session on Africa in May 1986, the developed countries again urged ldcs to undertake greater policy reform, while most refused to make available sufficient assistance to permit such reforms to succeed. Finally, there are doubts about how effective the adjustment policies of the poorer countries can be given their dependence on primary product exports, at a time when world demand for primary products is growing very slowly. As countries try to expand primary exports, they may only succeed in undermining the adjustment efforts of others, by further depressing world commodity prices. Additionally, the volatility of commodity prices plays havoc with attempts at orderly adjustment. The adjustment policies of countries with a manufacturing export base are also constrained, as protectionism in the developed countries becomes an ever more serious obstacle to growth in world trade.

The effect of all these factors has been to give ldcs little room for manoeuvre in correcting their imbalances in external payments. Typically, given their limited resources and the need to act quickly, they are obliged to place too much emphasis on expenditure cuts. If they could be given more time and more secure and greater finance, ldcs would not only be able to tackle the problem of adjustment more effectively, but they would have greater prospects for protecting growth and attending to the needs of their most vulnerable groups.

Crossing the Desert

Adjustment has been likened to the experience of 'crossing a desert'. It involves a period of hardship and difficulty before the benefits of growth may be enjoyed. Such a 'crossing' can be extremely hazardous for the poor, for whom the promised benefits are also uncertain. Moreover, experience to date suggests that the 'crossing' is unlikely to be short, so compensatory measures may be required to tide over the most vulnerable groups until growth can be re-established.

To what extent is adjustment a harsh experience for the poor? Adjustment policies affect the poor in three broad ways: first, they affect their incomes, either through changes in wages and employment, or through shifts in prices, altering the returns from their productive assets; second, they change the prices of their most important purchases; and finally, they shift the level and composition of government expenditures, particularly those in the social sector.

1. See *The US and International Financial Reform*, ODI Briefing Paper, May 1986.

Box 1: Adjustment

Two basic sets of adjustment policies are available:- **Stabilisation** policies seek to achieve their balance of payments and inflation objectives mainly through demand management involving fiscal and monetary restraint. They function chiefly through reducing real incomes (and therefore the domestic demand for imports and goods which can be exported). Such programmes are generally designed to achieve their objectives over a short period (usually one or two years). Devaluation is frequently used — but, in the short term, this mainly works by means of reducing real incomes, rather than through encouraging the output of 'traded' goods (import substitutes and exports). Expansion of these activities generally takes much longer in low-income countries which are primary producers than in the semi-industrialised or developed economies. Stabilisation measures are emphasised in IMF-supported programmes. The IMF argues that accepting short term austerity, in order to achieve external and internal economic 'balance', provides the basis for restoring long term growth. Critics of stabilisation policy reply that the austerity generated by stabilisation often undermines the prospects for long term growth (for example by discouraging investment).

Structural adjustment policies seek to reduce the current account deficit primarily through expanding and diversifying the production of traded goods. Such programmes aim to attain their balance of payments objectives over the medium term (three to five years), stressing the achievement of both adjustment and growth. Emphasis is placed on altering prices with 'economy wide' effects such as exchange rates, state controlled prices, and interest rates, and on supporting the reallocation of resources through investment in key sectors. The World Bank's Structural Adjustment Loans (SALs) typify this approach. But policy makers continue to argue over the responsiveness of aggregate output to price changes alone. Different sectors display varying abilities to expand output and reallocate resources. Within agriculture, output expansion may be slow and constrained by insufficient resources. Industry may be able to redirect output to foreign markets at the expense of the home market, but substantial investments may be required for output expansion.

These are not exclusive policy categories, and actual programmes often contain combinations of both stabilisation and structural adjustment measures, with the availability of external finance being an important determinant of the choice. However, many ldcs retain import and capital restrictions as a means of balance of payments management, partly because of the reluctance of some governments to pursue adjustment measures. But this also reflects the size of the external economic shocks of the 1980s, and the lack of success that many ldcs have had with past adjustment programmes.

Available evidence suggests that these factors generally cause a deterioration in the welfare of the poor — that is, incomes fall, consumer prices rise and government social services are cut. But the extent to which this deterioration is the result of adjustment policies, rather than the recession itself, is not clear. The IMF and the World Bank have frequently asserted that the poor might have been significantly worse off under a no-adjustment scenario. Moreover the poor in ldcs are a heterogeneous group. Some have benefitted from increasing real incomes during the adjustment process, notably small farmers who gain from higher producer prices. But, others, especially the urban poor and the landless, have faced a serious erosion in their real incomes, often because of the same price increases.

Income Changes

Because they have little time to restore external balance, ldcs have generally been obliged to over-emphasise demand restraint, mainly through fiscal and monetary control. For example, in **Chile**, a severe fiscal squeeze applied between 1975 and 1976 (partly to correct a previously over-expansionary policy) achieved some success in curbing hyper-inflation but at the cost of substantial falls in real incomes and employment. Since many of the poor in Chile are concentrated in the informal sector, and depend on the ebb and flow of urban incomes, there was a corresponding increase in poverty. The ranks of the existing poor had then been swollen by the unemployed 'new' poor. Similarly in **Jamaica**, where poverty is largely urban, cuts in public expenditure and employment during the 1980's have increased urban poverty. In **Sub-Saharan Africa**, where the rural poor are mainly dependent on subsistence agriculture and pastoralism, demand management measures taken after the 1973 and 1979 oil price shocks seem to have had the greatest impact on wage earners. Subsistence farmers and pastoralists have been afforded some protection, either by virtue of their lack of integration into the 'money' economy, or by the increases in producer prices which have raised farm incomes.

Much of the reduction in demand has been achieved through cuts in real wages, brought about by **wage freezes** (eg.in **Jamaica** and **Zimbabwe**), with urban areas hardest hit. Adjustment has therefore led to a redistribution of income away from the urban sector towards agriculture. Between 1980 and 1984, the World Bank[2] estimates that there was a 5% increase in real farm incomes in **Tanzania**, while urban wage earners faced a 50% fall in real incomes. In **Ghana** farm incomes stagnated (but are now increasing) while urban real incomes fell by 40% over the same period. Similarly, the urban-rural income ratio in **Côte D'Ivoire** fell from 3.5 to 1 in 1980 to 2 to 1 in 1985. Similar trends can be found in other developing regions. For example, rural incomes have increased relative to urban incomes in **Brazil**, **Chile** and **Mexico**.

In **Latin America**, real industrial wages fell by 2.6% in 1982 and by a further 6.6% in 1983. While those in formal sector jobs in ldcs are often relatively better off, real wage falls of the magnitude of 17% in **Peru** and 16% in **Argentina** in 1985 have certainly led to an increase in poverty. Similarly in **Mexico** by the end of 1985, minimum urban wages were 72% of their 1980 level in real terms and further falls were expected as the effects of adjustments to the loss of oil revenues made themselves felt. Urban unemployment in 1985 was at least 17% in **Chile** and about 16% in **Peru**, although the region's unemployment level was down from its 1984 peak[3].

But not all the poor have experienced falling incomes during adjustment. Some have actually benefitted from increases in agricultural producer prices, caused either by direct intervention (where prices are controlled) or by devaluation. Even where agricultural activity is dominated by plantation production (as for example in **Central**

2. World Bank: *Financing Adjustment with Growth in Sub-Saharan Africa, 1986-90*. Washington DC, 1986; p 19.

3. ILO-PREALC estimates, April 1986.

America, the **Philippines** or **Sri Lanka**), the poor may benefit from the expansion in production which generates increased demand for their labour. Shifts in income distribution away from urban and towards agricultural sectors are largely the result of such price policies introduced under an adjustment package. But there are doubts about the effectiveness of producer price changes per se in reducing poverty. Many of the poor are located in areas ill served by rural infrastructure, input and capital availability and marketing facilities. Increases in output prices may not be of much benefit to them if their capacity to increase output remains severely restricted (when compared with wealthier groups).

Consumer Price Increases

The price increases brought about under structural adjustment which benefit agricultural producers can also harm domestic consumers. **Food price increases** in particular can hit the poor, since they spend, on average, a high proportion of their incomes on food. So whereas some producers may benefit from food price increases, other groups, particularly the urban poor, the landless and food-deficit smallholders, face critical declines in their real incomes. For example, the real incomes of farmers in Brazil benefitted from increases in prices over the 1980s, but farm labourers, who must purchase most of their food needs, were hit — real agricultural wages fell by 30% between 1981 and 1984. Poor urban consumers were similarly affected[4]. Even increases in the domestic price of exportables can harm the poor where such commodities are staple foods — as for example in the cases of rice in **Thailand** and beef in **Argentina**.

Food price increases are brought about in a number of ways. **Devaluation**, which is frequently used as an instrument of adjustment, raises the domestic price of imports and can have a severe effect on poverty. In **Jamaica**, devaluations since 1984 have generated large food price increases. Since imports constitute a high percentage of food consumption, the nutrition of the poor has been seriously affected. Similarly the 1986 devaluation in **Guinea** quadrupled the price of imported rice, a basic staple.

But food price increases can also be brought about through direct policy interventions, either by changes in the pricing policies of state marketing boards which often *implicitly* subsidise the domestic consumer, or by reductions in the level of *explicit* food subsidies. Pressure for the latter arises from the need for many ldcs to reduce their budget deficits under adjustment programmes. Whilst **food subsidies** are generally an inefficient way of helping the poor (since higher-income groups also gain), their removal can quickly increase poverty and malnutrition. For example, in **Sri Lanka** there is evidence that the reduction in food subsidies, beginning in 1977, has resulted in increasing malnutrition. In **Zambia** the price of maize meal (the main consumer staple) was raised in one step by 50% in 1985, as the first stage in removing the subsidy, with adverse effects on nutrition of the urban poor. However, in **Tanzania** the removal of the maize meal subsidy in 1984 did not have a significant impact on nutrition because a high proportion of the commodity was being traded in parallel markets at 'free market' prices. If price controls do not operate effectively, their removal will not have a significantly adverse effect on poverty.

4. World Bank: *Poverty in Latin America: The Impact of Depression*. Washington DC, 1986.

Cuts in Social Services

In support of fiscal stringency governments have to choose which expenditure items to cut and which taxes to raise. Their choices have different effects on different social groups depending on their use of government services and the incidence of taxes and benefits. But where governments cut social expenditures as part of an austerity programme, the poor are likely to suffer disproportionately. Government expenditures in social sectors have fallen in both real and per capita terms in many ldcs. In some the cuts have been severe. For example, in **Jamaica** social service expenditures fell by 44% in real terms between 1981 and 1986, with most of that fall concentrated in the period since a deflationary budget in 1984. Even in countries with strong commitments to welfare provision, adjustment has forced cuts in social sectors. For example in **Costa Rica** such expenditures fell by 30% per capita between 1979 and 1983. Moreover, the quality of services usually deteriorates by more than such figures suggest. The provision of items such as drugs and school materials is particularly susceptible to cuts.

Cuts in **health budgets** can have severe effects on the poor, and will usually intensify existing inequalities in health care — for example priority is often first given to maintaining urban hospitals rather than to protecting the expansion of rural health services, to which the poor have the greatest access. In **Ghana** cuts in primary health expenditure during 1984-85 contributed to a rapid increase in the incidence of infectious diseases and related mortality.

Likewise cuts in **education budgets** reduce the ability of the poor to develop their 'human capital', and therefore raise their incomes. Government action to increase educational cost recovery may assist fiscal restraint, but introducing or raising charges for education usually reduces the access of poor children to education. In **Nigeria**, state governments have imposed fees on both primary and secondary education and made parents responsible for the entire cost of school books, without providing any compensating protection for poor families. Consequently, the enrolment rate among poor children has fallen drastically. In contrast, university education (which mainly benefits wealthier families) remains largely free.

The **overall impact** of adjustment on poverty therefore depends on the type of adjustment measures chosen (and the magnitude of the policy changes), the structure of production and asset ownership and the survival strategies open to the poor. Possession of savings, capital assets, and scarce skills will both cushion any adverse effects of adjustment and allow their owners to take advantage of any new opportunities that adjustment creates. Access to political patronage plays a similar role.

Among the poor the most vulnerable to the common adjustment measures are often those in the 'wage' economy, particularly in urban occupations, and landless rural workers. Moreover, during economic recession the ranks of the poor will be swollen by those on the margin of poverty, for example, skilled workers whose wages or employment falls, and relatively advantaged workers — e.g. those losing jobs through public sector rationalisation.

Those outside the wage economy may be less affected either by economic recession or adjustment policies — for example, pastoralists or subsistence farmers who only infrequently enter the market for their income or consumption needs. They are more vulnerable to the effects of drought and other forms of environmental deterioration. These groups may be affected by cutbacks in the provision of economic and social services but, in many ldcs, the rural poor receive a small proportion of such services. However, in Sub-Saharan Africa the recent droughts and the near destruction of some local subsistence economies have forced previously self-sufficient groups into a dependence on outside assistance. This is at a time when the international recession has left many national economies least able to help them.

Adjustment with Equity

To protect the poor during the process of adjustment, strategies of **adjustment-with-equity** are required. Central to these strategies are policies designed to encourage the participation of the poor in the adjustment process, and thereby raise their incomes. At the same time vulnerable groups (such as children and the elderly) who cannot be drawn into the production system and who are likely to be harmed by adjustment policies, require some form of support. And even the working poor may require some compensatory assistance, at least during the harshest part of the adjustment process.

Many adjustment programmes can have directly beneficial effects on the incomes of the poor. The general dismantling of price controls, frequently used to support urban incomes, can raise agricultural output and the incomes of the rural poor. Adjustment frequently means raising prices and the returns to assets held by the poor.

But not all poverty groups benefit from these price increases. For these, additional forms of assistance may be necessary to encourage their productive participation in adjustment. For example, measures can be taken under an adjustment programme to improve their access to productive assets, especially land. Landlessness is a critical determinant of rural poverty in many ldcs, so that **land reform** can be an effective means of alleviating poverty. In **Thailand**, concern with the harmful effects of rice price increases on rice-deficit farmers in the North-east region, led to the inclusion of a measure of land reform in a World Bank structural adjustment agreement[5]. These reforms did not go so far as to grant legal ownership, merely providing right-to-farm certificates, but they illustrate the potential of land reform measures to provide assistance to rural poverty groups during adjustment. This is not to suggest that land reform provides an easy solution to rural poverty. It is a politically sensitive issue, in which most governments are reluctant to get involved (see Box 2).

Programmes can also be implemented to increase employment, and specifically to enhance the **occupational and geographical** mobility of the poor. Adjustment generates incentives to move from the production of 'non-traded' to 'traded' goods. These incentives can be enhanced, for example, by assisting the urban poor to move into agricultural activities, or by absorbing redundant public employees into the private sector. In **Guinea-Bissau**, the ILO is currently assisting in two programmes designed to assist workers laid off under public-sector retrenchments. In one programme, workers are being assisted to move into farming; in another, retraining programmes are being provided for employees of parastatal organisations. Similar programmes to assist workers to gain productive employment are being implemented in **Senegal**, **Mali**, **Niger**, and **The Gambia**.

Alternatively employment can be generated by **labour-intensive public works**, such as road construction and irrigation schemes. The fiscal costs of such programmes are high, and can be difficult to finance during periods of fiscal austerity. But they can serve a useful purpose in providing some short-term alleviation of the unemployment problem. In **Chile**, **emergency employment schemes** were providing jobs to nearly 14% of the labour force in 1983 (the peak unemployment year). But the Chilean schemes also serve to illustrate some of the weaknesses of these employment programmes. As work discipline has been relaxed, they have tended to degenerate into mere mechanisms of income transfer, albeit involving extremely low payments.

Compensating the Poor

In so far as the income of some of the poor can be raised, there is less need to support them through transfers, which can then be concentrated on the most disadvantaged. The basic difficulty about compensating the poor during adjustment is that while at this time their needs are greater, government resources are scarcer. To resolve this conflict will inevitably demand both an increase in government revenues, and better targeting and improved delivery of social expenditures.

Whether it is possible to **increase public revenues** without hurting lower-income groups largely depends on the time allowed for adjustment. In IMF programmes, where there are strict annual performance indicators for the public sector deficit, or where the external position demands rapid stabilisation, the tax objective is dominated by the need to increase revenues rapidly. In such cases there is less scope for incorporating provisions to minimise the poverty impact. Moreover, it is often easier for governments to raise revenue through regressive taxes such as sales taxes on basic goods or poll taxes. From the perspective of equity, revenues from proportional taxes on income and property as well as selective consumption taxes on 'luxury' items, are to be preferred — although the limitations of administrative resources may constrain fundamental reform of the taxation system, even where the political will exists.

Raising **user charges** provides one means of increasing revenues, and it is sometimes possible to impose selective charges which minimise cost increases for low-income groups. Thus when electricity and water tariffs were recently raised in **Jamaica**, there was a smaller increase in charges for those at minimum consumption levels to allow the poor continued access to a basic level of services. Greater increases in user charges can also be levied on wealthier urban areas than on low-income housing areas.

In **restraining public expenditures** a government can attempt to balance the maintenance of such expenditures necessary to support adjustment (eg. infrastructure) against the protection of expenditures serving the poor. While this implies that there is some trade-off in expenditure decisions between the needs of adjustment and poverty alleviation, this trade-off can be reduced by improving the efficiency of all public expenditures.

Social expenditures, on education, health and sanitation can be given priority before defence and 'prestige' urban projects. The adjustment programme initiated in **Indonesia** in 1983, while constraining public expenditure growth, has increased the share of the social sectors in the development budget, giving more resources to child immunisation and family nutrition. However, this is now threatened by a further fall in oil revenues. **Zimbabwe** has also negotiated a difficult adjustment period (during the early years of its independence) whilst increasing real expenditures on health and education. In 1985, **Brazil** initiated a social priorities programme emphasising the poor (especially health services to the poorest rural areas) which is co-ordinated with a growth-orientated adjustment effort, and

5. D Beckmann: 'The World Bank and Poverty in the 1980's'. *Finance and Development*, September, 1986.

Box 2:
The Politics of Poverty

Since economic adjustment involves both gainers and losers, it demands difficult political choices. The poor often lack political influence, especially if they predominate in unfavoured ethnic groups. Protecting their welfare may require redistribution from more favoured classes who support the political base of the government. This may make the most effective poverty alleviation measures politically impossible to implement. In **Kenya**, for example, proposals in World Bank Structural Adjustment Loans (SALs) for modest land reforms have not been taken up by the government. Even where governments are committed to poverty alleviation, powerful vested interests can still obstruct reform — e.g. the Brazilian Government has now given political priority to land reform, but it has met with strong opposition from the landed oligarchy.

Moreover, aid donors and other agencies are often wary of giving advice about poverty alleviation measures. The IMF's official position is that the Government's distributional objectives are an internal political matter and therefore outside the scope of an international organisation. This leaves the Fund open to the charge that it tacitly accepts the distributional policies of the government, whether it likes them or not. The Fund argues that focusing its policy conditionality on broad instruments such as the budget deficit leaves governments a wide policy menu of choice over which expenditures to cut and which taxes to raise[1]. Hence, if governments wish to alleviate poverty, they can reorder their fiscal priorities to reallocate benefits from the wealthy to the poor. Critics reply that although some reordering of expenditure priorities may be possible, in practice the size of the expenditure cuts required by the IMF leaves little room for manoeuvre.

The IMF has staunchly maintained that responsibility for any adverse effects of Fund supported programmes on poverty must be attributed to the underlying economic situation which produced the need for corrective action, and cannot be blamed on those who assist governments to implement the remedial measures. However, the Fund is now coming under increasing pressure from members of its own governing board to clarify its position on distributional issues. Since many IMF programmes break down because the government concerned is unable to manage the distributional ramifications, greater attention by the Fund to this issue could assist the success of its operations. Recent statements by the outgoing managing director, Jacques de Larosière, have revealed a softening of the IMF's position, giving a new emphasis to the impact of adjustment on vulnerable groups. This, in turn, partly reflects the influence of UNICEF's lobby, as well as the resistance to harsh conditionality by the ldcs themselves.

In the 1980s the World Bank has given more priority to adjustment *per se*, and less to poverty concerns, compared to the 'McNamara years', when it promoted 'redistribution with growth'. But, the Bank, too, has been coming under increasing pressure to restore its poverty concerns. In his first speech, the World Bank's new president, Mr Barber Conable, put greater emphasis on issues of poverty, particularly citing women as 'among the poorest of the world's poor'. The Development Assistance Committee, which reports to the main OECD donor agencies, has asked the World Bank to prepare a study on poverty and adjustment. Within the Bank there is now an active debate on how poverty concerns can be better incorporated into its adjustment activities — either, as at present, co-ordinating SALs with poverty projects, or perhaps changing the nature of SAL policy conditionality. These recent developments may herald a new emphasis on poverty in Bank activities. However, much depends on the response of the developed countries, and whether they are prepared to put up the finance which will allow 'adjustment-with-equity' to become a reality.

1. C A Sisson: 'Fund-Supported Programs and Income Distribution in Ldcs'. *Finance and Development*, March 1986.

which is now receiving increased World Bank project support.

However, protecting social expenditures can only be part of adjustment-with-equity. Both UNICEF and the World Bank have advocated **restructuring social expenditures**, to raise their efficiency and to direct them towards the poor. UNICEF's proposals centre around primary health care, based on rural and urban community clinics, in preference to expensive urban hospitals which are often inaccessible to rural people[6]. It further recommends the training of more para-medics and traditional midwives in preference to specialised doctors, the substitution of drugs from the WHO basic drugs list for other often ineffective and expensive drugs and the reduction of import bills by using the WHO/UNICEF Drugs Procurement Facility. In conducting rehabilitation of the social infrastructure, UNICEF urges that priority should be given to community health clinics, water systems and primary schools. WHO is also increasing its efforts to improve the design of cost-effective health care service delivery.

UNICEF recommends a series of **low-cost child survival and development activities**, including immunisation to control the six most deadly childhood diseases; oral rehydration therapy (involving the administration of a solution of salts, glucose and water) — a cheap treatment for the dehydration caused by diarrhoeal diseases, which are one of the main killers of young children; and growth monitoring of children to give warning of malnutrition. Whilst these policies are appropriate at all times, their significance is heightened during periods of austerity. Moreover, adjustment can act as a catalyst in encouraging governments to pay greater attention to the needs of the most vulnerable.

Under an adjustment-with-equity strategy, before reducing **food subsidies**, other subsidies should be cut first (e.g. those on energy or those directed to public enterprise industries such as national airlines). More importantly, food subsidies can often be redesigned to increase their benefits to the poor, while cutting costs. The largest subsidies are often applied to foods consumed mainly by middle and higher income families — e.g. in the

6. See UNICEF: *Within Human Reach; A Future for Africa's Children*, and *The State of the World's Children 1986*, both New York 1985.

Box 3: Recent Initiatives

During 1987 the international agencies have been paying closer attention to the impact of adjustment on the poor. The debate has been given fresh impetus by the publication of a major study by UNICEF which charts a deterioration in child welfare in many developing countries, and which presents a strategy of 'Adjustment with a Human Face' involving a comprehensive set of remedies which UNICEF is now promoting among governments and agencies[1]. The World Bank together with the United Nations Development Programme (UNDP) and the African Development Bank (ADB) has established a $10 mn facility to assess and improve the social dimensions of adjustment in Africa. The facility will strengthen the capacities of African governments to alleviate poverty during adjustment. Data on poverty will be collected in the participating countries (at least sixteen so far), and will be used to identify the most cost-effective way of helping the poor. Across the regions the Bank is now directing more of its resources at projects targeted to the poor. For example in Bolivia an Emergency Social Fund has been established by the government with assistance from the World Bank and other agencies[2] The programme is intended to deal expressly with the social costs of adjustment, and aims to help poor people find productive employment and self-employment. Bilateral and multilateral donors are currently negotiating a package of poverty-alleviation measures with the Government of the Ghana in response to the concern shown by government leaders over the social impact of their adjustment programme. The breakdown of the donor-supported adjustment programme in Zambia after attempts to remove food-subsidies has illustrated to governments and agencies alike the dangers of ignoring the social consequences of adjustment.

A number of other agencies are devoting considerable attention to the plight of the poor, especially in Africa. Major research studies by the International Fund for Agricultural Development (IFAD) and the OECD are currently in the pipeline. In November 1987 the ILO sponsored a meeting on structural adjustment and employment which was attended by governments and organisations from both North and South. Non-governmental organisations such as OXFAM have entered the debate and they are financing local initiatives to help the poor cope with adjustment.

1. G. A. Cornia; R. Jolly and F. Stewart (eds) *Adjustment with a Human Face, Volume 1: Protecting the Vulnerable and Promoting Growth*, Oxford, Clarendon Press for UNICEF, 1987.
2. L. Demery and T. Addison *The Alleviation of Poverty Under Structural Adjustment*, Washington DC., World Bank, 1987.

Philippines, only 16% of the beef subsidy benefits the low income group.

Better targeting requires identification of those needing nutritional support, and the type of food required — e.g. in **Brazil** subsidising legumes would transfer about 39 per cent of the benefit to the low income groups (compared to 18% of the bread subsidy)[7]. Targeting can be further refined by restricting the sale of subsidised foods to areas where better-off groups are unlikely to buy food, e.g. to remote and poor rural areas or through shops in poorer urban communities. Alternatively, food stamps can be issued to target groups for exchange in shops, although these schemes have had mixed success. **Jamaica** introduced a food stamp scheme in 1984 to offset the nutritional impact of food price increases resulting from the stabilisation programme. This scheme currently covers some 9% of the population, but to meet the minimum nutritional requirement its value would have to be doubled. In **Argentina** a National Food Program periodically distributes food packages to some 5.5 million people.

7. World Bank: *Poverty and Hunger: Issues and Options for Food Security in Developing Countries*. Washington DC, 1986; p 38.

Resources spent on food subsidies can often be better applied through **direct feeding schemes** (e.g. via health clinics or schools). Food supplementation for vulnerable groups during periods of seasonal food and employment shortage can also be undertaken. **Jamaica** now has a school feeding scheme (supported by food aid) which provides free lunches to some 500,000 children, whilst clinics distribute food supplements to mothers, and pre-school children. Where resources are very stretched, weight monitoring can be used to screen children for admission to supplementary feeding — as in the World Bank assisted programme in Tamil Nadu, **India**. In **Zimbabwe** a supplementary feeding programme was conducted between 1980 and 1983, eventually covering 270,000 children. This programme was primarily a response to the drought, but it coincided with a stabilisation programme launched in 1982. There is no reason why such schemes cannot be directed to protecting nutrition during adjustment as a primary objective.

Conclusion

Most developing countries are currently experiencing the 'desert' of recession and adjustment. To a large extent, the poor are being left to their own devices, to follow whatever survival strategies are to hand. Yet they have been the least able to bear these burdens. Since structural adjustment inevitably forces governments to review their past policies, and to consider fundamental policy reforms, it presents governments with fresh opportunities to tackle poverty alleviation. These consist of increasing the economic participation of the poor and improving their access to compensating services. Whether these opportunities can be taken, however, will depend on the flexibility permitted to developing countries by the availability of finance. With more finance they can take the route of structural adjustment rather than the more treacherous path of stabilisation. But, hard political choices have to be made, both to finance and to implement economic recovery with the participation of the poor.

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