

*Sustainability,
Poverty and
Policy
Adjustment:
From Legacy
to Vision*



Naresh C. Singh and
Richard Strickland

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Decision-makers Summary

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PREFACE

The International Institute for Sustainable Development's Poverty and Empowerment Program currently focuses on four major result areas: (i) the integration of poverty and empowerment concerns into all IISD program areas; (ii) the conduct and review of case studies of poverty alleviation to understand ways of integrating concepts of sustainable development; (iii) the examination of macro/micro policy adjustments (especially structural adjustment) and their implications for poverty and sustainable development relationships; and (iv) processes and strategies of empowerment for sustainable development. The program area addresses issues of impoverishment, empowerment and sustainable development, highlighting the importance of linkages among these processes and the formation of partnerships aimed at poverty alleviation and sustainable development.

This document consolidates results of work done at IISD with the ideas and discussions of participants at an international conference on sustainable development, poverty eradication and macro/micro policy adjustment, convened by the International Institute for Sustainable Development in December 1993 in Winnipeg, Canada. The list of participants is attached. Relevant works from the IISD include: *Impoverishment and Sustainable Development: A Systems Approach*, by Gilberto C. Gallopin (1994); and two working papers, "Empowerment for Sustainable Development" by Naresh Singh and Vangile Titi (1993), and "Sustainable Development, Poverty Eradication and Macro/Micro Policy Adjustments" by Naresh Singh and Richard Strickland (1993). Two comprehensive documents incorporating the full materials and discussions from two recent IISD conferences on poverty, empowerment, macro/micro policy adjustment and sustainable development are currently in press.

INTRODUCTION

Worldwide, there has been growing concern over the environmental consequences of economic development and adjustment processes, with increasing recent interest in their implications for sustainable development. This has included a special focus on the persistence of poverty and the effects of economic and environmental change upon low-income populations, particularly during periods of comprehensive macroeconomic and microeconomic policy adjustments. These adjustments have been applied primarily within the context of developing countries in pursuit of economic equilibrium and renewed economic growth, mainly taking the form of structural adjustment packages. As a legacy of current policies and processes, these countries are now saddled with the interlocking triangular crisis of worsening poverty, economic decline and environmental degradation on the one hand, and an often conflicting response package of adjustment programs and sustainable development prescriptions. The sustainable development prescriptions were indeed being viewed by decision-makers in these countries as luxuries of the North, distant from their immediate realities in both time and space. The result is growing suspicion and fragmentation among developing country governments, developed country governments, the Bretton Woods Institutions, NGOs and the research community, all in the name of sustainable development.

A clear need existed for an effective articulation of the systemic interactions among the identified problems and their proposed solutions, defining alternative processes which would channel society toward a new vision based on the principles of sustainable development. Concrete recommendations for action by a range of decision-makers towards change in a coordinated manner was now required. Such change had to be based on participatory endogenous approaches to be consistent with sustainable development principles. The range of decision-makers identified in the study includes senior officials of governments (of both developing and developed countries), multilateral institutions, NGOs and the research community.

To assist in the effective review and analysis of the subject, the IISD convened an international conference on the subject in Winnipeg during 2-4 December 1993 to further examine and develop the relationships between economic policy decisions, poverty eradication and sustainable development and to establish a framework toward future policy formulation. Participants included academics from the fields of economics, ecology and political science, consultants in areas of economic development and social change, members of bilateral and

multilateral organizations devoted to programs and research in international development, and representatives of NGOs.

While there seems to be greater consensus among those advocating sustainable development (including the World Bank) around the need to understand and monitor effects of structural adjustment on both poverty and the environment, attention to date has tended to focus on simple two-way channels of causation (e.g., between poverty and environmental degradation); inadequate recognition has been given to the need to study possible interacting cross-linkages between all three. To this end, the conference achieved the following:

- Highlighted the cause and nature of macro/micro policy adjustments, linkages between various policy instruments, and consequences as measured by indicators of poverty, impoverishment processes and sustainable development;
- Identified problem areas in which orthodox policy prescriptions fall short of promoting sustainable development or openly serve to aggravate existing social, environmental or economic inequities thwarting such development;
- Defined alternative policy instruments more supportive of the principles of sustainable development, the appropriate direction of a future research agenda, and the definition of the future role of IISD-type institutions in further work in the field.

This report consolidates results of IISD's other initiatives with the outcome of the conference and highlights essential findings. Concepts of sustainable development, poverty and impoverishment are operationally defined and their interdependency briefly described. This is followed by a review of the outcomes of adjustment programs. The need for alternatives includes a discussion of business as usual as well as approaches for mitigating adverse impacts of current approaches and proposes a new endogenous, participatory approach towards integration of efforts at economic adjustment, poverty eradication and sustainable development.

Specific recommendations for action towards change are then directed to decision makers in developing country governments, developed country governments, the Bretton Woods Institutions, other agencies of the UN system, non-governmental organizations, civil society and the research community.

The report concludes with a clear integrated statement on how the adjustment process might be transformed from narrow economic impositions to an endogenous participatory process towards sustainable development.

SUSTAINABLE DEVELOPMENT: FROM CONCEPT TO PRACTICE

Sustainable development contains two key concepts around which balance must be sought: the “needs” among the world’s population, and the limitations associated with current states of technology and social organization and their relationship to the capacity of the ecosphere to satisfy present and future demands. In 1987, the World Commission on Environment and Development (the “Brundtland Commission”) led the way in framing a working concept, stating that in essence, “sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations” (WCED, 1987: 46).

Development as such would thus meet the needs of the present without compromising the capacity of future generations to fulfill their own needs.

The transition to sustainable development requires:

- **Full and true valuation** of the natural, built and cultural environments;
- **Longer time horizons** reflecting both medium- and long-term interests;
- **Greater equity** among members of present societies in terms of access to economic, social and political rights and resources; and
- **Greater intergenerational equity** across time promoting fair treatment of future generations in their access to the means for sustainable development.

There has been a growing realization in national governments and multilateral institutions that it is impossible to separate economic development issues from environment issues; many forms of development erode the environmental resources upon which they must be based, and environmental degradation can undermine economic development. Poverty is a major cause and effect of global environmental problems. It is therefore futile to attempt to deal with environmental problems without a broader perspective that encompasses the factors underlying world poverty and international inequality.

WCED (1987:3)

The complexity of the system of cause and effect, within which problems of development and the ecosphere are linked, requires that several different problems must be attacked simultaneously. Environmental and economic problems are further linked to important social and political factors, suggesting the importance of power and influence within most environmental and developmental challenges. Ultimately, the systemic features of environment-economy linkages operate on national, international and global levels. New approaches must be developed in support of development processes which integrate production with resource conservation and enhancement, with assurances of adequate livelihoods and equitable access to resources.

This leads to consideration of matters of environmental justice on a global scale, integrating concepts of social justice with principles of sustainable development. Within the interactive relationship between poverty and environmental degradation, poverty should not be seen as a cause in itself, but rather as the outcome of inequitable structures, uneven development patterns and constraints imposed by ruling elites. Often, environmental degradation is related to inequitable social structures and resource control, consumption patterns of the affluent, production patterns in developed countries and distortions arising from dominant growth models. A vicious cycle of degradation and inequity becomes established (Figure 1), being exacerbated by fallacious assumptions of “trickle down” economics, flawed international investment patterns and contributing ecological and technological factors (Thrupp, 1993). Ways to correct the current inadequate models of growth and development, to alter flawed policy designs and to promote the adequate investment of economic and non-economic resources toward a positive “virtuous” cycle of sustainable development (Figure 2) were among issues addressed by the IISD conference.

The notion of equity is central to sustainable development and implies a more equal distribution of assets and the enhancement of capabilities and opportunities of the most deprived. At the practical operational level, sustainable development seeks to ensure:

- Self-sustaining improvements in the productivity and quality of life of communities and societies, including access to education, health, nutrition, shelter, sanitation, employment and food-self-sufficiency;
- Production processes which do not overexploit the carrying and productive capacities of the natural resource base, compromise

the quality of the ecosystem, or limit the options of present and future generations; and

- Basic human rights and freedoms for people to participate in the political, economic, social and environmental spheres of their communities and societies.

Indicators of Sustainable Development

- *Maintenance of a constant natural capital stock and environmental sink capacity, including preservation of the renewal potential of natural resources.*
- *Improvements in the quality of life through entitlements to the means of production, political and social organization, and basic needs satisfaction.*
- *Processes of economic development addressing underconsumption and overconsumption.*

Singh and Titi (1993)

We therefore stand at a juncture between a received legacy built upon the past application of growth strategies, harvesting the consequences of misguided policies and shortsighted aims for a purportedly improved quality of life, and the vision of a new path toward sustainable development founded upon principles of equity and the integrity of the ecological, social, economic, cultural and political environments. Some remain committed to the viability of the old ways, seeking to adjust policies and practices at the margin in an effort to correct for their negative consequences. Others follow a more visionary track, wholly convinced that a successful transition to sustainable development requires a radical break from former models and behaviors and a new conceptualization of an improved and future society. The challenge certainly lies in closing the gap between the two. To bridge the legacy and the vision requires the definition of processes which promote the analysis of the current trajectory and foster the transformation toward new ways of thinking, consuming, producing, relating, organizing, governing — indeed, all the actions which comprise the experience of life on earth toward the full realization of human potential within the framework of sustainable development.

Figure 1

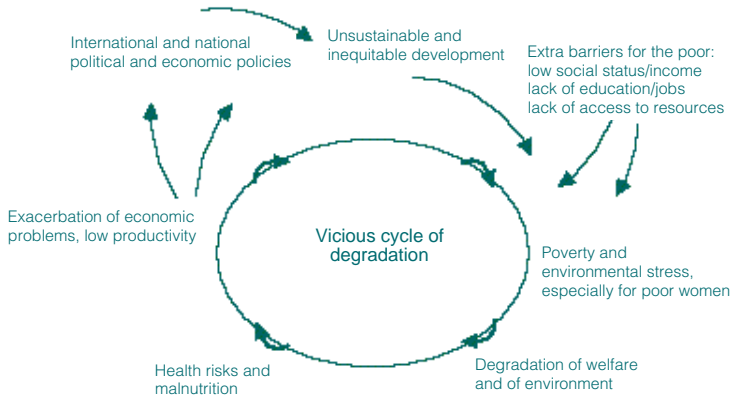
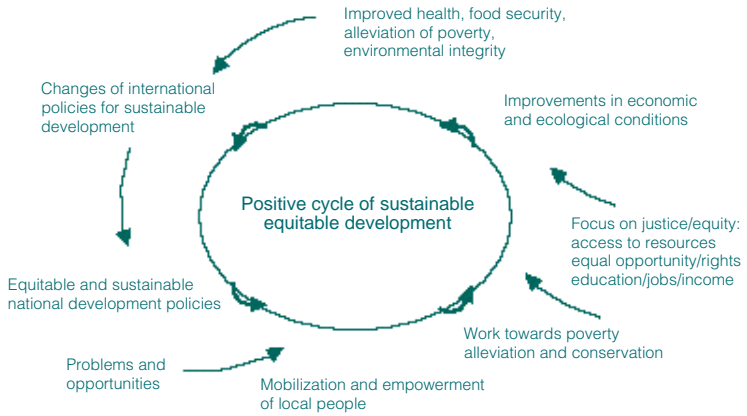


Figure 2



Source: Thrupp (1993).

CONCEPTS OF IMPOVERISHMENT AND EMPOWERMENT

As the World Commission on Environment and Development has observed, a world characterized by endemic poverty will always be prone to ecological and other catastrophes. Poverty reduces people's capacity to use resources in a sustainable manner, intensifying pressure on the ecosystem. Reversing negative growth trends and raising per capita incomes in developing countries are fundamental preconditions for eliminating absolute poverty, and yet are not in themselves sufficient for achieving the task. The content of growth itself must also change in order to support sustainable development, becoming less material- and energy-intensive and more equitable in its impact. The entire process of economic development must be more soundly based upon the realities of the stock of capital sustaining it.

Poverty, defined in many different ways, may be conceptualized around the identification of the poor through the specification of a set of basic or minimum needs and their inability to meet those needs, complemented by aggregation of the characteristics of this set of poor people into an overall image of poverty (Sen, 1981). Some key definitions and measurement concepts are presented below.

Selected poverty concepts

- **Poverty line:** *The minimum level of socially acceptable household consumption, often calculated on the basis of an income two-thirds of which is spent on essential food items at lowest cost.*
- **Absolute poverty:** *The state in which income falls below the minimum standard of consumption (the poverty line).*
- **Relative poverty:** *A state of deprivation relative to existing social norms of income and access to social amenities, not necessarily below the poverty line.*
- **Seasonal poverty:** *Poverty associated with the fluctuation of seasons, often harshest before the first harvest and characterized by food shortages, high prices, hard work and increased illness.*
- **Structural poverty:** *The state of deprivation which persists over time and which cannot be eliminated without comprehensive long-run expansion of the economy and change in production processes.*

- *The "newly poor": These are direct victims of recession and austerity programs, as well as vulnerable groups pushed into absolute poverty by the interaction between economic problems and reform policies (e.g., social expenditure, consumer pricing).*
-

“Poverty” here is based on the nutritional status of those receiving less than the level of caloric intake needed to function fully and in good health. Endemic poverty as found in developing countries virtually does not exist in the developed world, where otherwise “straitened circumstances” are relieved by income and employment guarantees through state-supported public welfare and social security systems. For present purposes, poverty shall be defined as a condition of lack of access to options and entitlements which are social, political, economic, cultural and environmental (Singh and Titi, 1993).

Traits of the Poor

- *Isolation, due to peripheral location away from centers of trade and information.*
- *Vulnerability, due to lack of buffers against contingencies such as disasters, social conventions, physical incapacity and exploitation.*
- *Powerlessness, due to ignorance of rights in the face of abusive exploitation by elites, lack of access to legal advice, and inability to bargain.*

Chambers (1983)

The poor are found in diverse socio-ecological communities, from arid and semi-arid lands to humid rainforests, in river and lake basins, on estuaries and coasts, in mountain communities, on small islands, in the slums and shanty-towns of Third World cities, on large agricultural plantations and isolated small farms, on the prairies and in urban areas of the developed countries (Singh and Titi, 1993). They include peasants, landless rural laborers, those displaced by famine and war, the aged and infirm, nomadic and indigenous peoples, urban unemployed workers, slum and shanty-town dwellers, fishermen, petty traders, farmers, women, children and infants. Current estimates indicate that the total world population below the poverty line numbers more than one billion, of which about 939 million are in rural areas (Jazairy et al., 1992).

Different groups experience poverty for different reasons. Smallholder farmers (numerically the most important group) often work marginal areas with low yields and suffer from lack of services and access to markets; the most marginal of such farmers may eventually join the ranks of the landless. Lacking adequate resources to respond effectively to change, both groups are disproportionately affected by environmental degradation, natural disasters, policy biases, commercial pressures and civil strife. Other groups on the periphery (e.g., indigenous peoples, artisanal fishermen and pastoralists) similarly suffer from such structures and processes. Across all such groups, the situation of women requires special attention since they are often doubly disadvantaged as poor and as people marginalized by sex-biased political and economic structures. Female-headed households now account for 20% of all rural developing country households (excluding China and India) and are usually among the “poorest of the poor”; the number of rural women living in absolute poverty has risen 50% over the last twenty years compared to a 30% increase for men (Jazairy et al., 1992).

Impoverishment is an active process leading to diminished access to options and entitlements, occurring in both developing and developed countries. Closely tied to the concept of poverty, impoverishment is continuously reproduced and generated by a number of currently active global mechanisms including environmental degradation, resource depletion, inflation, unemployment and debt. These mechanisms have set in motion the erosion of safety nets and the widening gap between rich and poor nations. In developing countries, processes of impoverishment arising from patterns of colonization and commodity exploitation were aggravated by subsequent post-colonial attempts at modernization approaches based upon industrialization and trade dependent upon imported technology and capital. This has contributed to increased stress on natural resources and patterns of production and consumption incompatible with the long-term requirements of sustainable development, including rising landlessness, alienation from productive resources, and increased migration to urban areas already under stress from economic and environmental stress.

Impoverishment occurs within both the human subsystem and the ecological subsystem (Gallopín, 1994). Human impoverishment relates to a reduction in one or more of the following:

- The availability or value of resources (e.g., economic, human, environmental) necessary to satisfy human needs and aspirations;

- The capacity to make adequate use of available resources (e.g., due to prolonged illness, malnutrition, lack of access to information);
- The autonomy to use resources and make decisions;
- The capacity to respond and innovate towards internal and external changes; and
- The capacity to sustain a future-directed orientation toward social options and natural resources.

Impoverishment of the ecological subsystem can result from a reduction in its productive and reproductive capacity (e.g., degradation of current conditions), its homeostatic capacity (i.e., capacity to adjust to change), and/or its evolutionary capacity. Linkages between these factors underscore the necessity to consider issues of poverty eradication and sustainable development in tandem, recognizing the role of power and of access to instruments of decision making in determining the relationships between poverty and development.

Empowerment builds the capacity of communities to respond to a changing environment by inducing appropriate, innovative change internally and externally. Its processes foster critical consciousness about inequality, social support to overcome self-blame, and the perceived power to effect change (Morrissette, McKenzie and Morrissette, 1993). Drawing from a “bottom-up” approach to development, Singh and Titi (1993) associate empowerment with:

- Good governance, legitimacy and creativity for a flourishing private sector;
- Transformation of economies to be self-reliant, endogenously defined, and human-centered;
- Community development through process-oriented self-help;
- Collective decision-making and collective action; and
- Popular participation.

Prerequisites for Empowerment

- *Direct participation in community decision making and representative government, particularly by women and youth.*
- *Provision of space for cultural assertion, spiritual welfare, experiential social learning, and the articulation and application of indigenous knowledge.*

- *Access to entitlements to natural resources, change-oriented education, housing and health facilities.*
- *Access to opportunities for generating income, assets and credit.*
- *Access to knowledge and skills (endogenous and external) to maintain natural capital stocks and environmental sink capacities.*

Singh and Titi (1993)

This leads to the affirmation and realization of the principles of inclusiveness (i.e., engaging the relevant stakeholders in a process), transparency (i.e., openness) and accountability (i.e., giving legitimacy to any process and decisions reached), which are held in common with notions of democracy and sustainable development as articulated at the 1992 Earth Summit and have come to be known collectively as “the Rio way”. Conceptually, this includes enabling people to understand the reality of their environment (social, political, economic, ecological and cultural), to reflect on the factors that shape the environment, and to take steps to effect changes to improve their situation. Toward reversing impoverishment processes, empowerment embodies: (i) greater consciousness, group identity and practical realization of the creative potential of the poor; (ii) reconstruction of group identity by upgrading the skills and knowledge base and assets of the poor, as they become initiators and thus subjects (rather than objects) of interventions; and (iii) participation by the poor exercising power for themselves through collective decisions, organizations and actions (Independent Group on South Asian Co-operation, 1991).

To understand how empowerment might serve to mutually support poverty eradication and sustainable development, we must consider how impoverishment processes might be reversed. Mutual and dynamic interactions between social, political, cultural, economic and ecological factors mean that a change in one element or factor will likely trigger changes in others. Such a chain reaction can be triggered by both external macro-level conditions (e.g., a fall in the terms of trade) and internal conditions (e.g., discriminatory economic policies contributing to production and/or market distortions), leading to disempowerment and impoverishment of communities at a local level. Reversal of this process begins by increasing options available to the poor, allowing them to engage their true capacity to cope with a changing environment, to be self-reliant and to endogenously define goals, priorities, identities and values.

It seems thus clear that the analysis of impoverishment and sustainable development must take into account the multi-level nature of the problem: changes in local socio-ecological systems contribute to global ecological changes, and also to international political and economic changes; and changes in the global socio-ecological systems generate opportunities or constraints for the sustainability and development of the local socio-ecological systems.

Gallopín (1994)

Figure 3 schematically represents the linkages between impoverishment and unsustainable development, tracing the path between changing environmental conditions (including the economic, socio-political and ecological) and the processes leading to disempowerment and impoverishment. Following from external and/or internal macro changes generating unstable and unsustainable socio-economic conditions, adjustments in the form of increased borrowing and structural reforms may lead to new patterns of economic, social, political and ecological activity. This may in turn generate unsustainable shifts in production reliant upon overexploitation of the natural resource base, while curtailing options for social and economic policy at national and local levels. As a result, disempowerment may occur as local independence and control over livelihoods is reduced; the diminished access to options will reinforce the downward spiral of impoverishment.

Empowerment, then, becomes crucial to the task of breaking the path toward impoverishment and thereby eradicating poverty. Previous poverty alleviation strategies typically aimed narrowly at urban development (e.g., focused on improved housing and reliant upon modernization and trickle-down paradigms) or rural development (e.g., resettlement or integrated rural development) have failed to empower the poor or eradicate poverty because they have lacked an interactive process to learn from the poor about their needs, aspirations and knowledge; and to build upon opportunities for the poor to solve basic problems for themselves. Furthermore, they have failed to identify the national and international structural problems impacting on poverty alleviation processes.

Alternative development thinking focuses on transformation of economic, political, environmental and societal institutions and values through empowerment. This requires growing social awareness, higher levels of social participation, and new insights on ecological processes of change and self-renewal. Empowerment strategies

advancing methods of appraisal, planning, implementation, and review directed at improving the livelihoods of the poor have stressed the importance of fact-finding, education and evaluation, with the poor themselves engaged in the processes of development planning and action (Singh and Titi, 1993). Alternative education creates conditions for full and equal participation of people in discussions and decisions, enabling them to critically evaluate and understand themselves and the world around them and to actively engage in self-determined cultural and social development.

Actors in Sustainable Development

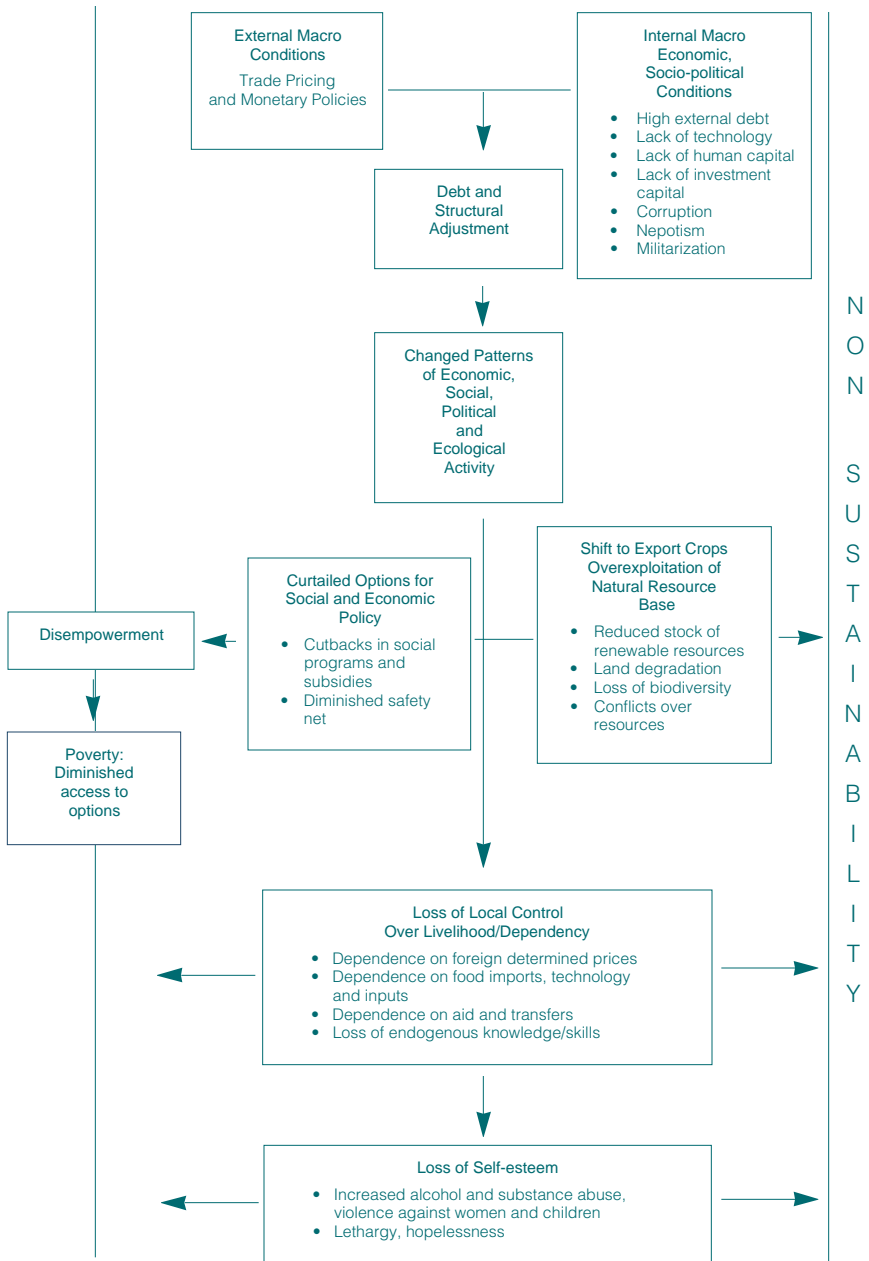
- *The poor themselves*
- *National governments*
- *Non-governmental organizations (NGOs)*
- *Business and transnational enterprises*
- *Development multilaterals (UNDP, UNICEF)*
- *Financial multilaterals (IMF, World Bank)*

(Singh and Titi, 1993)

How the various actors relate one to another within the framework of empowerment and sustainable development will be determined by the level of political will and the scale of the long-term vision on the part of all such institutions. The Earth Summit in 1992 underscored the need for reform and transformation of existing global systems of governance, finance, trade and debt in support of sustainable development. The body of evidence growing out of the work of the International Fund for Agricultural Development (IFAD) helps to define the direction of such new approaches to poverty eradication through empowerment. IFAD strives to perceive the rural poor as actors rather than objects in development.

Empowerment for poverty alleviation and sustainable development has been limited by persistent patterns of resource distribution and communities' limited access to their own internal resources. Further intervention requires a greater network of linkages between the various levels of actors and the policy initiatives adopted. Sustainable development requires putting greater emphasis on the dynamics between national and international spheres, incorporating larger institutional and structural factors that inhibit local change. There is need for reform within national and international institutions towards

Figure 3
Impoverishment, and Non-sustainability Linkages
(Economic/Socio-political/Ecological)



decentralization and distribution of economic power, support for cultural diversity, and greater transparency and accountability in the development and implementation of policies directed at sustainable development. Recent discussions at the IISD Toronto workshop on empowerment, poverty alleviation and sustainable development underscored the strategic importance of education and institutional change to break the path toward impoverishment and to support the principles of sustainable development (IISD, 1993).

Poverty should be confronted directly at its roots by overcoming the constraints that give rise to it rather than merely treating the symptoms of poverty through welfare transfers. It means listening to the poor and learning from them. It means enlisting their participation in projects from the design stage through to evaluation. It means greater specificity in understanding the needs of the poor and sharper focus on the poverty processes that create those needs. It means different instrumentalities — for example, more dedicated volunteers of the kind associated with NGOs and fewer transient “experts” who advise and depart without impact. It means an internalization of the development process which strives to make poverty internally solvable by tapping the wasted resources of the poor and building on them from the grassroots up.

Jazairy et al. (1992)

REVIEW OF POLICY ADJUSTMENT OUTCOMES

The pattern of macroeconomic policy reforms in developing countries since 1980 has its origins in global oil price shocks and the extended global recession during the latter 1970s. Deteriorating barter terms of trade during the 1970s and 1980s led to falling prices and reduced earnings for many traded commodities exported by developing countries; by the end of the 1980s, commodity prices of all food exports and of metals and minerals represented 61% and 80%, respectively, of their mid-1970s values (World Resources Institute, 1992). As world interest rates rose, borrowing countries faced increased burdens reflecting the rising cost of dollar-denominated debt service payments. Many countries also experienced increasing socio-economic instability exacerbated by persistent internal economic distortions related to uneconomic state enterprises, inefficient loans, political bias in banking and marketing, inequitable internal terms of trade favoring urban areas, and public employment and services shaped by political rather than economic rationale.

Under such circumstances, the choice facing a country experiencing a balance of payments crisis is not between adjustment and non-adjustment but rather between different forms of adjustment. (Killick, 1993) observes that all countries experience changing demands and opportunities through both automatic market forces and deliberate policy manipulation; defining adjustment as adaptation to such change, he distinguishes between that which is “induced” and that which is “planned.”

In the case of “induced” adjustment, although a government seeks to avoid hard policy decisions regarding previous policy mistakes and the consequent need for reform, the economy will continue to respond and change. However, erosion of its international creditworthiness, loss of foreign exchange and reduction of imports will force the economy to function suboptimally with whatever reduced volume of imports it can afford, with heavy avoidable costs for the country’s citizens. In such cases, “adjustment” takes the form of reductions in output, income, employment and living standards.

Conversely, pursuit of “planned” adaptation via adjustment relies upon instruments purposely employed to achieve desired change and enhance the national capacity to respond to future changes. Despite continuing debate over the desirable nature of specific adjustment policy instruments themselves and the continuing threat of short-term economic contraction, there is currently general consensus that orderly adjustment to economic crisis is preferable to disorderly adjustment.

According to established policy orthodoxy, structural adjustment will restore economic growth in a context of internal and external balance; as a prerequisite for growth, balance is achieved through the reduction of inflation, fiscal deficits and gaps between savings and investment. Greater equity in the distribution of income and alleviation of poverty is assumed to result from trickle-down processes. The injection of resources associated with a structural adjustment loan (SAL) from the World Bank (instituted in 1980 and subsequently augmented by the more focused sectoral adjustment loan, or SECAL) has traditionally been conditional upon government efforts to restrain domestic demand through cutbacks in public expenditure and through monetary policies controlling the money supply. Demand restraint has been reinforced by exchange rate adjustments, market liberalization and subsidy removal (“getting the prices right”), and measures to switch expenditure toward a more efficient allocation of productive resources.

Tools of Policy Reform

- *Exchange rate adjustment*
 - *Limits on credit expansion*
 - *Total bank credit*
 - *Credit to central government*
 - *Mobilization of domestic savings*
 - *Restraints on government expenditure*
 - *Current account*
 - *Capital account*
 - *Transfers and subsidies*
 - *Price and wage guidelines*
 - *Flexible pricing structures*
 - *Agricultural reforms*
 - *Producer prices*
 - *Farm subsidies*
 - *Institutions and markets*
-

Global economic developments and structural adjustment policies have led to changes in incomes and the incidence of poverty. While changing patterns of labor flexibility, international competition and technological change have led to a rise in casual, part-time and informal employment, reductions in social expenditure and increased

reliance on indirect taxes have generated regressive changes in fiscal policy. In developing countries, economic stagnation has contributed to increased impoverishment as debt burdens, falling terms of trade and reduced flows of international capital led to net resource transfers out of developing countries. Stabilization and adjustment efforts have further reinforced poverty and inequalities through the removal of consumer subsidies, greater use of user charges, and higher real interest rates (Ghai, 1992).

Evidence is mixed on the environmental impact of adjustment measures in themselves. The impact of higher agricultural producer prices will be determined by the nature of the crops enjoying price increases. Evidence to date suggests that adjustment lending has encouraged environmentally benign crops (i.e., perennials with continuous root structure and canopy cover) over more erosive ones (Pearce and Warford, 1993). Such benign crops include many destined for export (e.g., bananas, cocoa, coffee, tea) but exclude many traditional food crops grown for domestic consumption (e.g., cassava, maize, millet and sorghum). This suggests differential income effects based upon the nature of the producer groups; small-scale women farmers represent a disproportionately greater share of the producers of traditional crops and may therefore fail to benefit from the sectoral adjustment. While price and environmental impacts of currency devaluations also relate directly to the range of crops being encouraged, policy implications of devaluation remain obscure. Environmental consequences of ensuing crop substitutions will depend on the nature of the higher priced crops, while the effects of any aggregate increase in supply will depend on whether the increase is achieved by breaking new land or using land more intensively. Reducing subsidies on various farm inputs (e.g., pesticides, fertilizers, machinery, energy) can lead to a more rational, appropriate and environment-friendly use of existing resources.

The focus of macroeconomic policies in the Third World must extend beyond the immediate crises and encompass longer-term goals of sustainable development. At present, stabilization programs do not. Structural adjustment programs, even though they are intended to create an appropriate policy framework for long-term growth, also omit crucial environmental safeguards. Macroeconomic policies determine patterns of production, trade, investment and income distribution. For good or ill, they therefore inevitably also influence how natural resources and the environment are used.

Cruz and Repetto (1992:67)

While noting several potentially positive environmental effects from policy reforms, policy makers should be aware that a relative shift in production from nontradables to tradables is likely to be environmentally damaging if there is intensified cultivation, accelerated exploitation of nonrenewable assets and greater industrial pollution (Killick, 1993). The short- and medium-term nature of adjustment programs supported by the international financial institutions may create detrimental pressures for quick results, especially in exports, overlooking environmental concerns in the bid to meet financial targets. Pressures for the state to disengage from the economy may also serve to dissociate the state from proper roles of intervention addressing environmental externalities and long-term planning.

Since the effects of adjustment measures on the ecosystem are mixed, the risk of inadvertent damage to environmental quality underscores the need to ensure that they are monitored and evaluated for such effects, designed specifically to enhance environmental quality and address specific local environmental conditions (Pearce and Warford, 1993). Given the variety of structural, political and environmental characteristics across the range of adjusting countries, the goals and implementation of adjustment policies must be considered on a case-by-case basis as a function of the socio-political milieu of each country. This will ensure that specific adjustment measures accurately reflect the national context of environmental conditions, incidence of poverty and relevant factors supporting the nation's sustainable development.

Poverty impacts and micro-level effects of adjustments are significantly determined by the pattern of public expenditure reductions adopted by the government to control the deficit. While costs and benefits associated with lowered expenditure on tradables (i.e., largely imports in developing countries) are relatively straightforward, those associated with expenditure reduction on nontradables (i.e., domestically produced goods and services for domestic consumption) may have more profound local consequences in terms of incomes and measures of welfare. Heavily concentrated in services, the nontradable sectors tend to be more labor-intensive than tradable sectors; a significant negative impact upon employment and incomes may thus result in the event of reduced expenditure on nontradables (including publicly provided services).

Where attempts are made to divert expenditure to agricultural support and extension, forestry and development of the rural infrastructure, the adjustments may be environmentally beneficial. However, any loss of welfare services to the poor resulting from reduced expenditure may increase pressure already exerted on free

natural resources, generating negative environmental consequences. Designing adjustment programs which include environmental protection and other tools to cushion the impact on the poor would effectively serve to incorporate principles of sustainable development into traditional adjustment strategies.

Making fiscal deficit reduction sensitive to issues of poverty requires:

- Analysis of human costs of cutting government expenditures;
 - Avoiding inefficient across-the-board cuts;
 - Timely response for those left unemployed by reforms; and
 - Targeted assistance to those in greatest need of: employment, income, nutrition, education, and health care.
-

All else being equal, macroeconomic contraction will worsen poverty; at the same time and to the extent that government expenditure is more equitably distributed than private expenditure, reductions in public spending (as opposed to private) are more likely to harm the poor (Helleiner, 1990). Cuts in dispensary health care, primary schooling, school feeding programs, community water supplies, and key public health interventions are particularly critical for the poor. At the same time, changes in the composition of public expenditure may be as important as changes in aggregate amounts; the poor receive far less benefit from secondary and tertiary level services than they do from primary education and primary health care. Targeting expenditure cutbacks and increasing taxes or user fees to minimize effects upon the poorest becomes a critical technical issue in the design of adjustment measures (Helleiner, 1990).

Sectors with low political visibility or serving disparate populations are more vulnerable during adjustment and expenditure reduction exercises. Spending on social services and programs with little organized popular support is more easily targeted for reduction, thus jeopardizing primary social services, remote rural areas, capital expenditure and non-wage recurrent expenditure. Such allocation of public expenditure cuts threatens low-income groups reliant upon publicly provided goods and services for even the most basic needs. Particularly in areas of health and education, short-term gains won by expenditure reduction may be outweighed by long-term costs to human resource development and the quality of life (Cruz and Repetto, 1992).

Gender is an important issue throughout all such changes since any reorientation of production entails a parallel reorientation of family labor and the household distribution of resources. Where women have been marginalized in decision making processes and the allocation of productive resources, they may suffer negative consequences arising from policy adjustments. Wherever reform measures may lead to reduction in a group's access to options and resources, the adjustment process feeds into the process of impoverishment and may thereby impede progress toward sustainable development.

The effects of monetary contraction, credit ceilings and associated policy instruments are mediated through systems of credit rationing and financial markets, least affecting those with the greatest access to assets and options at the outset (i.e., those able to finance themselves). Those most dependent on credit with less flexibility, access to assets, and influence on financial institutions will suffer more. Financial liberalization may encourage the flow of savings into formal financial institutions, reduce capital flight abroad and even promote inflows of previously expatriated capital. However, the consequences for allocation, stability and equity are not immediately clear; the potential reduction of curb markets, of total loanable funds and of the role of the state in credit rationing may be detrimental to the welfare of low-income groups (e.g., small enterprises and marginal farmers) as credit allocation mechanisms change. Consequent lack of access to financial resources may lead to alternative strategies for short-term survival which ignore long-run impacts and thereby threaten the integrity of the environment.

Changes in tradable and nontradable production, arising from exchange rate adjustments and relative price changes, will imply changing levels of income and well-being related to the different productive sectors and the participating producers in each. In many rural areas, female-headed households tend to be engaged in small-scale subsistence farming rather than larger-scale commercial production, largely a function of women's limited access to productive resources (e.g., land, agricultural credit, farming inputs). They have less capacity (i.e., less access to options) to respond to price incentives associated with exchange rate adjustment and subsequent price changes for inputs and outputs, impeding them in the shift toward the more profitable production of tradables. This is especially true where women produce traditional food crops outside official markets and for smaller profits than the leading commercial crops. In such cases (e.g., Zambia), agricultural reforms may disproportionately benefit a minority of commercially oriented farmers (Strickland, 1989; Cornia and Strickland, 1990). Measures aimed at broad

sectoral changes without accounting for the stratification of producers may contribute to the impoverishment process if they do not include improved access to inputs and the necessary infrastructure for small-scale producers.

The final distributional implications of adjustment and restructuring depend upon which productive activities are expanding (i.e., tradables) or contracting (i.e., nontradables) and their relative labor intensities. Expenditure switching to tradables (generally less labor-intensive than nontradables) may result most notably in lower wages and levels of employment in government and other organized services; much will depend upon the intersectoral mobility of labor and other inputs. Strategies for poverty alleviation are not compatible with just any kind of economic growth; they require implementation of mutually consistent and reinforcing multifaceted programs which ensure that growth will alleviate poverty and promote access by the poor to assets and jobs without degrading the natural environment. The choice of policy instruments used to achieve each element of the package (an inherently political process) must be tailored to a given country's particular initial conditions, resource base, asset distribution, institutional structure, socio-political condition, and experience of external conditions.

While it is important to recognize that there is a high price to pay for delayed or inadequate adjustment to economic crises, there is a growing body of evidence indicating that the traditional structural adjustment package of policy reforms fails to give needed attention to issues touching on impoverishment, the ecosphere or sustainable development. The complementarity of development and environment (rather than development versus environment) points the way toward sustainable development. Environmental quality enhances economic development, especially as development is defined in more inclusive terms of social indicators and quality of life. Traditional measures of economic growth generated from the national accounts are increasingly misleading in that they inaccurately reflect the standard of living of the population (associated with changing environmental conditions) or the depreciation of the natural capital stock (Pearce et al., 1989). As the WCED has eloquently argued, economic and ecological considerations must be integrated into decision making processes, requiring a change in attitudes and objectives, new institutional arrangements at every level, and an increase in community knowledge and public participation in decisions affecting the ecosystem.

Orthodox and alternative adjustment strategies must be located within the context of sustainable development. The most successful

reform efforts will be those with measures promoting an equitable model of development ensuring that both future and present needs are reflected in the exploitation of resources, the pattern of investments, the nature of technological development, and the process of institutional change. There is now general consensus that matters of environmental integrity and poverty eradication must be incorporated into structural adjustment processes; the compelling question remains as to how the interests of the poor and measurement of economic success might be better incorporated into a macro policy structure that is consistent with the principles of sustainable development.

NEED FOR ALTERNATIVES

Having considered the integrated linkages between sustainable development, poverty eradication and economic policy, it becomes easier to examine the impacts of macroeconomic and microeconomic policy reforms associated with structural adjustment programs and their implications for poverty reduction and processes of development. Notable among commonly expressed concerns is the fundamental question concerning the very premise of development when based upon assumptions of continued global economic expansion. Traditional models of economic growth have in fact led to the current stalemate confronted by developing countries and, by extension, by developed countries as well. Within the confines of current technological capacities, endless expansion of the global economy is not viable.

Community participation and local engagement in the processes of policy implementation and structural adjustment are critical elements of what has been called a sense of program “ownership” (i.e., identifying with and having a sense of investing in the reform process). Without this, policy reform is unlikely to last over time. Political will and the commitment of national governments to persevere through the negotiation and implementation of policy changes are also key for sustaining the reform process over time. If local action and participatory decision making are the building blocks of the policy process, then the resulting popular support for government decisions will lead to the kind of stable policy environment necessary to support sustainable development. Community participation is also central to the principles of sustainable development. Concentrated control over the resource base threatens the short- and long-run welfare of the wider community; such threats can be defused through greater democratization and community control of resources (e.g., natural resources, information resources, means of production).

The Need for Adjustment in Northern Countries

- *Disproportionate consumption of global resources*
 - *Ecologically unfriendly lifestyles*
 - *Limited openness of Northern markets to Southern exports*
 - *Direction and level of capital flows between South and North*
-

There is concern about the capacity or willingness of Northern economies to adjust, and the limitations of traditional adjustment models toward sustainable development as long as the North fails to make necessary adjustments in their own economic activities and institutions. In a related way, the structure of global (and domestic) political relations, rather than the economic content of specific policy measures, is a key determinant of the condition of the poor during adjustment. Global cultural assumptions concerning modernization further contribute to patterns of environmental degradation. The environmental and developmental consequences of structural adjustment cannot be dealt with in isolation from the larger context of international political economy relating the experience of Southern economies to Northern institutions in terms of debt, capital flows, trade, technology transfer and migration.

To help frame assessment of the policy options and anticipated outcomes facing national governments, it is useful to first consider the range of objectives or interests being pursued at the national level and the ways in which these might be satisfied. Priority interests and reasons for engagement in the policy process will vary as a function of the income level of a given country. By focusing on the group of low-income countries (or countries experiencing deteriorating economic conditions), objectives, relevant interest groups and key policy opponents might be identified as shown in Table 1. Similar tables could be developed to consider the policy objectives for middle and high income countries. However, within the present context of adjustment processes, the most immediate attention is to be given to low-income countries with deteriorating economic conditions since they are more likely to be undertaking adjustment of some kind. Such an analysis permits the recognition of potential proponents and opponents of different aspects of a policy package and allows the design of a compromise “first step” initiative which seeks the “buy-in” of diverse interest groups and sets the stage for the design of a package consistent with sustainable development.

It is also relevant to consider what kinds of changes might be required at the global or international level in order to facilitate policy change at the national level in support of sustainable development. Obstacles to policy change at this level would derive from large vested interests among certain private sectors and transnational corporations, and from the imbalance of power which would allow some governments greater weight in decision making. Limits to international financial capital (whether arising from economic or political constraints) would also affect the process.

Table 1.
Low Income Countries

| Objective/Interest | Key Interest Groups | Opponents |
|--|---|---|
| Short-term economic growth at any cost | Government, private sector multilateral institutions | NGOs, the poor |
| Poverty alleviation | UN agencies, World Bank, NGOs, poor communities | Not openly recognizable |
| Equitable development | Government, multilateral institutions, NGOs, the poor | Private sector, political groups |
| Sustainable development | UN agencies, World Bank, NGOs, poor communities | Those seeking conceptual clarity and operational precision |

Such issues lead to the expansion of the concepts surrounding structural adjustment as an exercise in policy reform devoted to development and change. Most structural adjustment programs lead governments to pursue multiple policy objectives to raise market efficiency, stimulate saving and investment and promote industrialization or commercial agriculture. It may, however, be more useful to envision such processes as subsidiary objectives contributing to the fundamental capacity of governments to initiate and implement economic adaptation in response to change in their wider economic, ecological and social environment (Killick, 1993). Additional government objectives might logically include the growth and redistribution of income. The capacity to be flexible and to adapt policy to changing circumstances is fundamental to sustainable development and represents the manifestation of empowerment of national governments in their own sustainable development.

International factors affecting domestic policies

- *Structure and activity of international markets.*
- *Availability of external resources.*
- *Social and political linkages between national and international actors.*
- *Power relations defining national leverage on international issues.*

Haggard and Kaufman (1992)

Toward this end, the orthodox adjustment model itself must be altered. There is a basic need to broaden the concept of adjustment, to recognize the wider range of factors and influences to which the economy must adapt than is usually applied by the international financial institutions, including climatic changes, technological innovations, fundamental and long-term shifts in demand, and the host of environmental, social and economic variables. Killick (1993) disputes the view of the international financial institutions holding structural adjustment as the “economics of transition” and as thus preliminary to the resumption of development and the management of shocks. Rather, he suggests that we must strive to perceive structural adjustment as a long-term process inseparable from development and not merely a transitional phase. We must consider carefully the nature and purpose of “development” itself toward which adjustment-related changes are made. In this sense, it is critical to understand adjustment processes and the ways in which they might be better aligned and integrated with the fundamental principles of sustainable development.

DECISION MAKING CONTEXT

Common concerns are now emerging over the orthodox approach to policy adjustment as currently practiced, suggesting ways in which research and reform proposals might contribute to a pattern of macro/micro policy adjustment which more successfully integrates principles supporting sustainable development and poverty eradication. The summary of some key themes here provides the context for an agenda of research and reform measures relevant to the various groups of key policy makers which follows.

Key Contextual Points

- *Price corrections are essential yet not sufficient*
 - *Choose wisely from a range of adjustment tools*
 - *Engage the poor as subjects in the process of change*
 - *Strive to ensure domestic economic and political stability*
 - *Correct inequitable resource and production structures which discriminate by sex, social group or region*
-

Fundamentally, generalizations of country experiences are difficult. Each unique situation must be confronted with an understanding of the inherent dangers and opportunities. To get through the crisis with a minimum of poverty and suffering, there is the need to raise the efficiency of expenditures on health, nutrition and primary education (e.g., by improving administration and the quality of personnel) and to implement policies assisting those in the informal sector to raise their productivity and to help them adapt to the strains of adjustment. “Getting the prices right” might be a necessary part of adjustment but is not in itself sufficient for poverty alleviation or environmental sustainability. Much more information is needed regarding non-price constraints and their relation to prices, including lack of rural credit at reasonable rates of interest, inadequate land tenure arrangements, and large tax or trade margins.

Equitable sustainable development requires wise choice among the variety of adjustment tools available and the need for technologies which address poverty while being environment-friendly. Efforts must be made to interrupt policies clearly working in the wrong direction. Reform of adjustment approaches should incorporate technologies which are:

- Labor intensive (given levels of surplus labor in developing countries);

- Environment-friendly;
- Society-friendly;
- Competitive with other production options; and
- Monitored for environmental impacts.

Related to the adoption of technologies in the course of adjustment and sustainable development, the choice of production patterns and direction of economic activities should reflect:

- Balance between intensive and extensive production practices, with an understanding of how these will be influenced by export promotion and trade provisions of adjustment programs;
- Anticipated policy impacts on the exploitation of renewable and non-renewable natural resources, and the extent to which reforms might encourage replenishment and sustained yields;
- Support for local control over the stock of natural resources;
- The role of the informal sector in providing employment and production alternatives (easing pressures of subsistence or resource-dependent primary production); and
- Integration between agriculture and industry, with backward and forward linkages which simultaneously strengthen both sectors.

Standard *laissez-faire* market-oriented strategies have on occasion served to reinforce an economy's rigidities and imperfections, acting to marginalize and impoverish the majority of the population in informal sectors and degrade both human and physical capital. Current pressures of orthodox structural adjustment may drive several "poverty traps" which exacerbate the condition of the poor, including:

- Privatization of benefits and externalization of costs of resource use;
- Greater household self-exploitation;
- Increased gender inequalities; and
- Heightened pressures to produce more children (with particularly negative consequences where land is scarce).

Toward reducing negative impacts and strengthening the synergism of adjustment-related change, empowerment becomes essential to reversing processes of impoverishment and promoting sustainable development. Local participation is increasingly identified as fundamental to the successful design and implementation of anti-poverty programs working in conjunction with an extended open-market structural adjustment approach. Rather than objects of development strategies, engaging the poor as subjects of the processes

of sustainable development is key to the vision of a society integrating overarching macroeconomic strategies with underlying pro-poor strategies, drawing upon the resources and strengths of local communities. For adjustment processes to address such issues of poverty and social organization, greater clarity is required around the following issues:

- The structure and dynamics of rural and urban poverty and inequality;
- Patterns and rates of population growth and migration between rural and urban areas, and the implications for production patterns;
- Factors which enhance the coherence and viability of the reform process itself, including issues of domestic economic and political stability; and
- Empowerment, local participation, and engagement of the poor in adapting to change.

It is difficult to treat issues of the environment and development (especially within the context of adjustment policies) in isolation from the larger context of international political economy and the problems of debt, capital flows, trade, technology transfer and emigration restrictions. For this reason, the framework of global discourse itself must be addressed. Current models overlook or underestimate the complexity and magnitude of the problem, ignore the fact that the exceptional “ideal” conditions required for the success of the theoretical approaches rarely exist in economies characterized by short economic time horizons, and give inadequate weight to the non-financial cultural and social objectives of structural adjustment programs. Renewed visionary leadership and new institutional arrangements are required to re-structure the global system and halt the slide toward polarization and social disintegration. In an effort to realize the “international public good,” cooperative efforts must be joined to:

- Reverse the flow of capital by which poor countries currently export the basis of their own development;
- Lower real rates of interest;
- Increase the openness of borders to trade; and
- Widen the conceptual basis of adjustment to include cultural perspectives which underlie the present global discourse and to thus build genuine consensus, nationally and internationally.

RECOMMENDATIONS FOR DECISION MAKERS

Drawing from the leading issues and suggested reforms of adjustment policies in the transition to sustainable development, the following policy recommendations can be identified which relate to the various policy actors and institutions engaged in the processes of development and structural change. This does not represent an exhaustive list of recommendations but draws from the experience and work of the IISD to highlight those areas most relevant to the issues and objectives of sustainable development. Nor are some of the recommendations particularly novel; many have been suggested in the past but have not yet been implemented. That they continue to emerge as proposals for the reform of adjustment policy underscores their essential contribution to the broader goals of sustainable development and their attention to linkages between the economic, social and environmental spheres.

Developing Country Governments

- Build a political constituency supporting the reform process and drawing upon domestic professional capacities. Prior to consultation with donors, present proposed reform packages to parliament and civil institutions in a public dialogue to establish consensus. Enhance stability in government policy by fostering popular understanding of and support for decisions adopted as part of adjustment programs and by nurturing local participation in national decision making in a process that is inclusive, transparent and accountable.
- Redistribute resources and re-allocate public funds to increase productive capacity, through human resource development and the empowerment of persons and institutions. Include the poor actively as actors and resources in economic and social development.
- Guarantee the rights of the poor to participate in decisions affecting their lives, to have access to food, employment and information stocks, and to satisfy basic human needs through the provision of adequate education, health care and shelter.
- Give priority to agricultural development which emphasizes food production and household food self-reliance while respecting environmental integrity.

- Re-design adjustment programs to give more attention to balanced growth within the agricultural sector, increased access to land by the poor, and greater productivity of land already under cultivation.
- Adopt strategies supporting small-scale, labor-intensive industrialization, as a function of product mix, technology choice, scale of activity and supporting institutions.
- Build the capacity to regulate, monitor and enforce environmental standards, checking the impacts upon local patterns of poverty and economic well-being and drawing upon substantial local input. Capacity building of this sort might be done in league with Bank and Fund staff in an attempt to make adjustment measures more environment-friendly.
- Raise the domestic savings rate generally and mobilize the savings of the poor in particular, whose assets are largely determined by their surplus labor rather than traditional monetary instruments. Promote investment by the poor through measures to maximize their human resources, improve their social and physical infrastructure, and increase their access to investment capital.

Developed Country Governments

- Adopt measures to reduce the disproportionate consumption of global resources and the ecologically unfriendly aspects of Northern lifestyles, by introducing “green” taxes, applying polluter-pays principles and removing subsidies for unsustainable patterns of resource consumption.
- Remove obstacles to open trade and drop barriers to goods exported from developing countries in support of market liberalization and export promotion measures associated with structural adjustment.
- Support policy-oriented research to clarify concepts and contradictions of the macro framework for development thinking and practice, refine the transitional strategy toward poverty eradication and sustainable development in the South, and encourage further research and education addressing adjustment problems that the Northern economies must confront.
- Respect and seek to reinforce the research and information systems of the South, building new capacities used in the transition to poverty eradication and sustainable development.

- Support and organize high-level policy dialogues among governments, donors, academics and NGOs on the concepts and practices in support of sustainable development. These would be most effective if located in the South and engaging actors from developing countries in a cross-fertilization process as actors and institutions learning from their similar experiences and contexts.

Bretton Woods Institutions

- Write down Third World indebtedness to reduce pressure on countries to increase export earnings (and thus ease demand on the natural environment) and to allow governments a greater variety of options with which to address poverty.
- Nurture the capacity of developing country governments through appropriate institutional and staff development to monitor and enforce environmental standards and to check the policy impacts as these relate to specific adjustment measures.
- Reverse the current pattern of multilateral capital flows from South to North by reducing or writing off outstanding debt and encouraging lower interest rates on international capital.
- Drawing upon the East Asian development successes, apply Bank/Fund expertise to re-examine such experiences and formulate transformative adjustment strategies for African countries. This might incorporate state-led market-friendly interventions designed to strengthen linkages of inward- and outward-oriented strategies, boosting both industrial and agricultural development, and insuring the participation and sharing of benefits by the poor.
- In league with the wider research community, continue to focus the research capacities of the World Bank and IMF on the environmental and social consequences of economic processes and adjustment measures in developing countries to refine the definition and measurement of sustainable development. The institutions are also well placed to bring balance in the work on sustainable development by studying unsustainable aspects of lifestyles and resource exploitation in developed countries and identifying corrective measures.

Other Agencies of the UN System

- Personnel in the UN agencies must strive to integrate principles of sustainable development with the goals and objectives of their specific program areas. The indivisibility of society, economy and environment requires that the agencies recognize the interactive linkages between poverty eradication, economic advances and environmental integrity.
- Continue to support efforts promoting empowerment of local and national communities as a strategy to reverse processes of impoverishment and social disintegration.
- Provide a forum for the discussion and exchange of ideas refining the tools and objectives of sustainable development, sharing country experiences and designing alternative adjustment programs.

Non-governmental Organizations

- Abandon the traditional NGO shyness to deal with policy issues of the environment and sustainable development. Rather than serving as part of the exogenously determined reform process, NGOs need to integrate themselves into the dynamics of the domestic economy.
- Mediate relations between the poor and the state, and between the poor (as producers and consumers) and the corporate sector through the market. In the role of enabling institutions of civil society, foster the consciousness and mobilization of the poor.
- Define links between economic policy reform and issues of populations, social institutions and patterns of community organization.
- Maintain a focus on the ways in which adjustment policies impact upon various social groups, and document gender and equity implications of economic changes occurring in the wake of adjustment programs.
- Catalyze the processes of empowerment by imparting skills upon clients served and building upon their change-oriented capacities. In this process, NGOs also effectively empower themselves as organizations in the broader social discourse that accompanies the adjustment process.

Civil Society at Large

- Civic institutions and instruments of information dissemination shape popular perceptions of government policy and help to build a sense of public ownership of the intended reform programs. Given the importance attached to popular support for government policy and local participation in national decision making, community groups should seek to engage in policy dialogue through the channels such institutions provide.
- To the extent that sustainable development requires greater inclusiveness, accountability and transparency in matters of policy definition and implementation, development and adjustment processes will more likely endure and be sustainable if the society is characterized by pluralist democratic institutions with people at their center.

The Research Community

- Experiential learning and exchange between action researchers and NGOs in the South and the North can be used to relate micro-level experiences to the emerging macro framework, integrating the open economy with pro-poor planning.
- Senior action researchers need the capacity to reflect on their own experiences and interact with their peers across national frontiers, to refine methodologies of social mobilization and participatory development toward replicating successes in poverty eradication. Through their efforts, ways might then be found to support the poor in their contribution to growth, achievement of human development and experience of greater equity.
- Further research is required to determine linkages between adjustment processes and population growth, since the latter has a critical influence on sustainable development. It is unclear whether adjustment programs lead to population growth (via higher GDP growth and higher fertility rates) or population decline (via reduced social expenditure, increased poverty and higher mortality rates).

- An agenda for future action-oriented research considering linkages between sustainable development, poverty eradication and macro/micro policy adjustment might be divided into the following components:
 - At a superstructural level:
 - Alternative perspectives on the present crisis
 - Role and nature of markets in relation to sustainability
 - Re-thinking the methodology of action research
 - Systems of knowledge and sustainability
 - At a structural level:
 - International relations, including debt cancellation, structural adjustment and the environment, food self-reliance, and ecology and empire
 - Governance and collective decision making
 - Poverty alleviation
 - At a substructural level, documenting the environmental scale of the crisis, monitoring the ecosystem in its entirety and communicating the ecological side to the development side.

REFORM OF THE ADJUSTMENT POLICY PROCESS

Following from a review of the issues as presented at the IISD conference, an alternative approach to the process of developing a structural adjustment package can be outlined which might fundamentally alter the goal of the package, encouraging people and governments to become involved and develop a sense of ownership in the process and its results, while recognizing the realities and interests of the multilateral institutions. This potential direction for reform should be of interest to policy makers in both national governments and the multilateral institutions.

Within the current adjustment framework (i.e., the current process), one option for the country confronted by deteriorating economic conditions would be the acceptance of a package of stabilization and structural adjustment policies as prescribed by the World Bank and the IMF. In that case, and given the desire to correct current flaws, government negotiators and those working in support of the nation's bid to pursue sustainable development must seek to intervene to influence the existing policy model toward inclusion of measures addressing poverty eradication and sustainable development. These must effectively modify the current policy mix by agreement with the Bank and the Fund.

As a second option, the country might seek to develop a completely new and unique approach to the economic crisis using a multi-stakeholder process. Fundamentally, this would be an endogenous process requiring a new strategy for negotiation with all the relevant parties or stakeholders on the basis of local interests, institutional capacities, resources and goals. By breaking away from the standard premises of World Bank and IMF packages as the accepted starting point, this strategy would encourage discussion of all the options free of initial presumptions, adopting a participatory and inclusive approach to decision making. Such a process is likely to better accommodate political pressures associated with adopting policy changes and generate a truly endogenous adjustment process effectively sustained by the investment of local interests and commitment to development. However, it may also prove to be cumbersome and slow in dealing with the crises associated with rapid economic transformation, and be greeted warily by the established financial community.

A third option might be a compromise strategy located somewhere between these two options, beginning with the generic elements of the current adjustment package but submitting them to a review process effectively tailoring them to the specific policy needs of a

particular country. This would assume that the basis of the standard structural adjustment model is sound; the approach would however seek to include local realities and mitigate impacts on the environment, vulnerable groups, cultural and social structures. In essence, this would seek to endogenize the structural adjustment program in ways to integrate sustainable development principles.

Given the common array of economic planning instruments, national governments would do well to develop an integrated strategy incorporating current elements of national development plans, environmental impact assessments, macroeconomic adjustment strategies and plans for social development in new ways toward a co-implementation of policy supporting sustainable development. By beginning with routine environmental impact assessments as a fundamental tool, these assessments might be modified to include social, cultural, political and equity impacts (the other pillars of sustainable development). They would then qualify largely as an assessment of the sustainable development potential of the project. Proceeding from assessment of projects to the assessment of policy would correct the problem by which unintegrated environmental impact assessments fail to link their separate findings and inaccurately reflect the comprehensive environmental consequences. If integrated assessments can be generated at the project level, then an effort to amalgamate them at the program level (as a series of projects) and then to the policy level (reflecting a series of programs) might lead to the realization of a strategy to assess policy in terms of sustainable development.

The strategy should include an integrative framework/feedback loop which allows the integration of sustainable development principles which are revealed as absent by the previous steps. These might include poverty impacts, equity issues (both intergenerational and intragenerational), and the environmental, economic, social, cultural and political issues underlying the principles of sustainable development, and reflect national and local realities, desires and goals. Such a strategy could result in a “sustainable development adjustment program” (SDAP). This would be a policy package designed to move a country and consequently the planet (i.e., its people, economy, society and ecology) to a path of sustainable development, serving to cure the root cause of economic ailments rather than merely treat the symptoms, as much of current policy practice does.

If such an agenda for research is pursued and a subsequently enlightened policy reform process is activated, then many of the current problems associated with structural adjustment can be addressed and action to correct current flaws in orthodox approaches

can be defined. However, new information detailing complex economic, political and environmental systems must be matched by a formidable measure of political will if we are to successfully bridge current gaps between the legacy and the vision. Herein lie the greatest challenges for makers of policy and all those engaged in promoting the transition toward sustainable development.

ATTACHMENT

List of Participants at the IISD International Conference on Sustainable Development, Poverty Eradication and Macro/Micro Policy Adjustment, 2-4 December 1993 in Winnipeg:

Stephan Barg, IISD (Canada)

Fikret Berkes, University of Manitoba (Canada)

Albert Berry, University of Toronto (Canada)

Ralph Chipman, UN Secretariat of the World Summit for Social Development (USA)

Aaron Cosbey, IISD (Canada)

Dharam Ghai, UN Research Institute for Social Development (Switzerland)

Peter Hardi, IISD (Canada)

David Korten, People-Centered Development Forum (USA)

Kari Levitt, McGill University (Canada)

John Loxley, University of Manitoba (Canada)

Gary McMahon, International Development Research Centre (Canada)

Guy Mhone, Southern Africa Regional Institute for Policy Studies (Zimbabwe)

Morris Miller, University of Ottawa (Canada)

Syed Sajjadur Rahman, Canadian International Development Agency (Canada)

William Rees, University of British Columbia (Canada)

Fernando Reyes, Permanent Mission of Chile to the UN (Chile)

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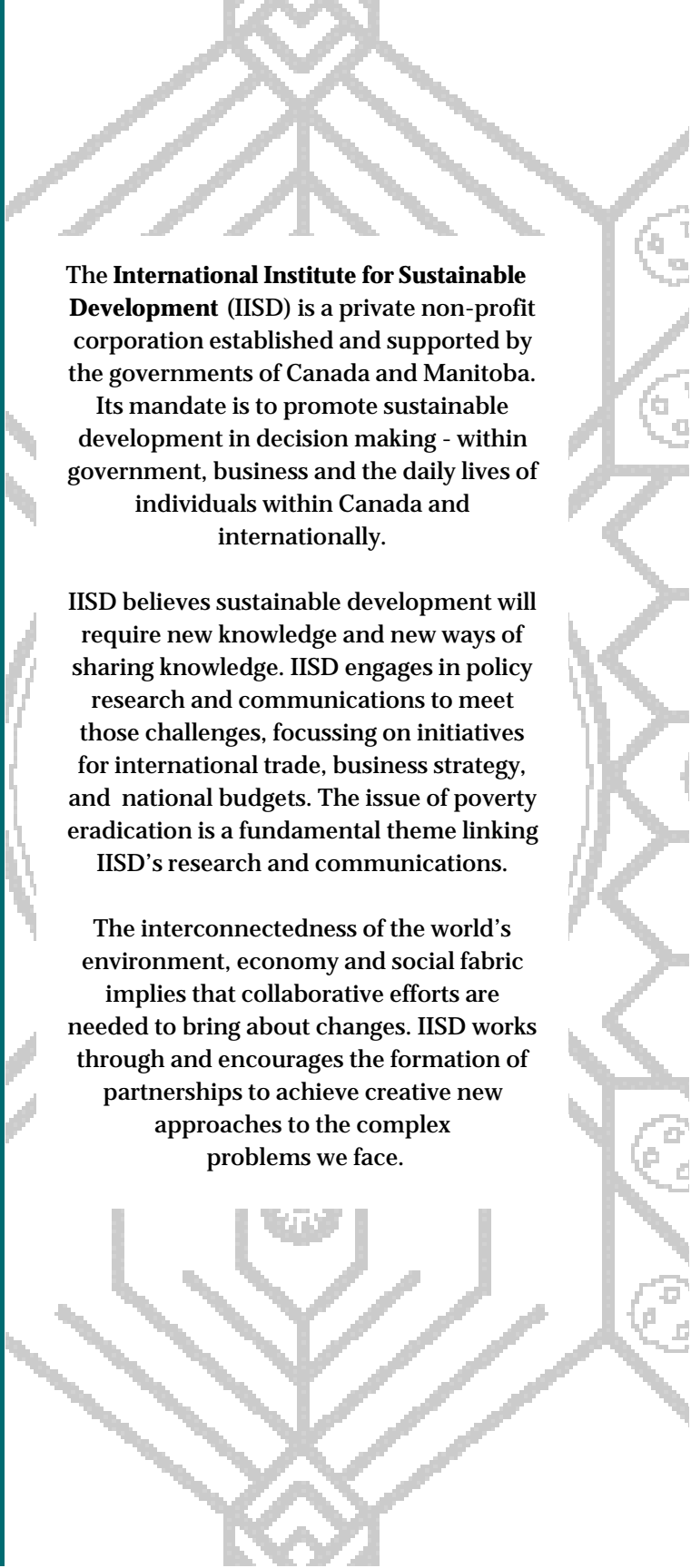

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