SWP 12/87 MANAGEMENT IN DEVELOPING COUNTRIES (SMD) SELECTED PAPERS

PROF MALCOLM HARPER
Cranfield School of Management
Cranfield Institute of Technology
Cranfield
Bedford MK43 OAL
United Kingdom

(Tel: 0234-751122)

(Fax: 0234 751806)

INTRODUCTION

The majority of the papers submitted for SMD were of a high quality, as were the presentations. It is invidious to pick out only five, but I felt that those which have been included in this sample, particularly deserved a wider circulation than just me. There are many others of similar quality, but some of those were too long, too specialised, confidential or plain illegible.

Many thanks nevertheless to all of you.

Malcolm Harper

BAND AID - HOW TO MAKE STARVATION SEXY

BY

JONATHAN FORREST

"What we've done is made starvation sexy."

"It's like a large part of the world's closet softies - people waiting to be pushed into giving - have woken up. We have to keep them awake."

Kevin Jenden, director of the Band Aid Trust.

"Band Aid's real importance.... is not the money, although it is certainly useful. What counts is the publicity and whether this can be translated into sustained political support for more aid and a better north-south economic relationship."

Caroline Moorehead, New Society.

PART 1 - INTRODUCTION AND BACKGROUND TO THE BAND AID BUSINESS.

The Band Aid bandwagon has attracted media attention the world over; attention focussed both on the Band Aid message to "feed the world" and on the remarkable success that the organisation has had in swelling the ranks of those who give. This paper seeks to review the awakening of the 'closet softies' and the beginnings of a worldwide **** Aid movement (insert your own noun; Bard Aid, Visual Aid, Live Aid and Sport Aid, of course, have been used already). It concludes with observations on the future for the movement and on whether it is likely to have any lasting effect.

Before discussing the movement though it is necessary to establish its relevance to the subject of aid/development.

The phenomenon has been one of a heightened national philanthropism toward a particular cause. What was it about the Band Aid message or events that triggered this response? As Band Aid has proven that 'starvation can be sexy' are there any lessons here for other charities to learn? Once the Band Aid organisation has come to an end, will the nation carry on giving at increased levels? Or was Band Aid a cause that found its time but that cannot be repeated? Finally, how was it that the idea, the message, the media and the success combined in such an effective manner?

BACKGROUND

"I simply had an idea, went for it and it worked." - Bob Geldof.

The Band Aid cause was inspired in one man by a television news report by Michael Buerk; a report now famed in history as a testament to the persuading power of that particular medium. The outcome was a Christmas record in 1984 that raised £8m. As a fund raising initiative a record had not been tried before, at least not on such a scale. To existing charities, such a promotional channel had never been open; it needed the contacts and hard work of an established, if jaded, 'pop' celebrity to make it possible.

Geldof was needed as 'champion' of the cause, a role he almost passively assumed as the movement gathered momentum around him. In the general public's eye though, it looked very much as if Geldof and Giving were becoming synonymous. Geldof's direct views were no doubt entirely natural for him, but the result of his blunt outbursts was always more money for the cause. Geldof became inextricably associated with the paradoxical 'glamour' of the plight of the starving. In June 1985 Geldof commented, "It's pathetic that the price of a life is a plastic record. But if that's the way it has to be , you have to use glamour."[1] The glamour of the pop world rubbed off on the cause; 'stars' sang and the pop promotion professionals marketed the image.

The press began to speak of Geldof in terms more appropriate to a missionary, even his critics talked of his "missionary zeal".[2] In his reported press comments Geldof frequently recounts how the cause would overtake him. Talking of an emotional outburst when receiving a pop award he says, "I didn't plan to spout off.... but when I began thinking about the starving millions that needed help, I felt such despairing rage."[1] ...and all this <u>before</u> the fevered emotion of the Live Aid concert in July '85.

Since then, of course, we have seen Sport Aid, Geldof announce his retirement from the aid business and most recently his honorary knighthood.

THE GIVERS

Question: were the public responding to a cult hero, or to the needs of a distant and drought stricken nation?

Despite the media attention paid to the Band Aid promotion, little comment is available that either analyses Band Aid donors or their reasons for giving. The issues underlying these reasons are complex, though no-where have I found any typology of what they might be. Newspaper commentators have made suggestions falling into the following categories;

*Guilt[3] -as a response to screened pictures of the starving while we have food to eat.

- as an citizen of a once imperial power that once 'exploited' the famine stricken region.

*Anger - with an economic and political system that is seemingly slow to act and can make the individual feel impotent when confronted with the famine pictures on the television. The mass giving became a personal statement made to a people suffering a personal tragedy (as the television has presented it) and in spite of a government that seems impersonal and unwilling to express humanitarian concern.

*Fashion- the 'lemming' syndrome, of following peer group behaviour.

*Altruism-newly stirred though previously latent selfless passion for the welfare of others.

The motives for giving may be thought of as immaterial, in that it is money, not motives, that buys food and trucks. From the point of view of the fund raiser, though, if the reasons why people give in such huge amounts could be fathomed there could be great rewards in designing future fund raising strategies.

It is likely that the reasons why the Band Aid events have led to so much giving are quite different from the reasons that people give at other times. It is also clear that the type of person giving is quite different in each case.

Established charities such as Oxfam have traditionally relied on the middle class, middle aged, middle income and politically middle of the road. Band Aid's donors can almost be defined as every-one not in these categories.The concert found a wide appeal; from schoolchildren through to millionaires with pennies and fortunes to give respectively.

For the most part though, the Band Aid donor was typically younger, possibly making a first contribution to charities outside of the fund raising events commonly found in schools. Clearly the 'pop' image of the various events found popular appeal among the audience that had always been loyal to that particular genre. The breakthrough was in being able to capitalise on those who had outgrown the pop music culture (but who were eager to sentimentalise) while at the same time satisfying the current pop consumers. With music generally dating back not more than fifteen years or so, the composition of the targetted donor market was defined,(ie. up to about 40 years).

There were fears at the time that such substantial giving would divert funds from other charities not connected with the African famine. These proved wrong, both because established donors remained loyal to their particular charities, and because to a large extent the Band Aid promotion was not targetted on them. Indeed for them, giving for Africa seemed to become 'extra' giving, in addition to other giving. After initial concern, the larger charities actually found that their receipts for the year were higher than expected.

PART 2 - THE BAND AID PLATFORM - HOW THE APPEAL WAS MADE.

"It is important to make a grand gesture...."[1] - Bob Geldof

THE MEDIA

Despite Geldof's antipathy toward the press, his refusal to be photographed holding starving children, it is true that it was the use of the media that made Band Aid possible. The Sunday Times, not alone amongst the newspapers, excitedly dubbed the concert the "... greatest rock extravaganza ever" [1]. In journalese it was to involve hundreds of thousands in stadia all over the world, to raise hundreds of millions and to be watched by thousands of millions. The event, according to the Sunday Times was to be staged for the most part at cost, and soon pop stars and record companies were vying with each other to give the most royalties and margins away on specially recorded or re-released records. Though cynics in the press pointed out the good P.R. that this brought for the music business, no-where can I find suggestion that this was the primary motivation of the performers.

Perhaps the most celebrated (at the time) critic of the event was Terry Coleman, writing in the Guardian on the Monday following.[2] The message he gives is essentially negative in questioning whether the money will do any more than be embezzled by local crooks in the field. The point of Live Aid, as seen by the charity is in overcoming this feeling of pointlessness in even trying to help. A worker is reported as saying, "Band Aid has to be seen to succeed, to spend the money well...or the young will be turned off again, and go back to their 'every-one's corrupt, so why bother?'".[4]

The message is that in order to encourage giving the charity must make the donor feel that he/she is being effective in overcoming deprivation. To achieve this the public needs to be sold a simple set of solutions; they become demotivated if they perceive that whatever they do the problem will persist. Thus the appeal concentrated largely on the message "feed the world", featuring film reports showing the relief camps. The message was almost,"by giving money you will be putting food into these mouths".

The problem of how this food was to be transported to the camps was not one that the public would understand. In consequence, they would be less likely to respond to appeals for money for lorries. A Christian Aid worker commented "Lorries are not very glamorous, people would rather give money to give food to starving children".[5] Moreover what is true of the general public is also true of the United Nations. A U.N. official is reported as saying "We could bury Africa five feet deep in food; no problem at all... but you try getting the money to shift it to the hungry people".[6]

THE ORGANISATION

In making disaster relief 'sexy' Band Aid also opened the press columns to journalists who found news in describing the distribution of aid. As the Band Aid appeal became more successful, fewer critics questioned the energy of the Band Aid staff, it was their ability and inexperience that was remarked upon. After all how could inexperienced workers be trusted to administer professionally the largest donor initiative in the history of famine relief?

For all their inexperience though the Band Aid workers made few rudimentary errors. Paul Vallely, one of Band Aid's principal allies in the press, has provided an argument to suggest how this crew of naive do-gooders proved so effective.

> First, Geldof created "an atmosphere of brutal naivety which enabled him to ask the questions no one else dared put to the Ethiopian socialists." The press even coined a new term for Geldof's style; punk diplomacy.
>
> Second, Band Aid developed a strategy of working through existing and experienced aid organisations such as Oxfam Save the Children and Unicef. And lest this should seem an obvious tactic, Vallely contrasts this common sense with the Maxwell's blunder when the 'Mirror Mercy Flight' deluged Korem camp with tons of chocolate Horlicks... something the Ethiopian peasants would not touch.
>
> Third, because Band Aid are not a bureaucracy they are able to act speedily. One such example is the purchase of a fleet of second hand lorries that were standing idle, but that were not being taken up by the other agencies for no reason other than their internal policies.
>
> Fourth, with the weight of substantial funds behind them, Band Aid chartered out space on a shipping shuttle that they ran to the Red Sea ports so that other agencies could ship supplies more rapidly, (ie.without having to give the long notice required by commercial shipping lines).
>
> Fifth, despite the need to court the press and return headline stealing pictures and stories to the West, Geldof avoided any display of what could have been interpreted as hypocrisy; he would not be photographed with the dying merely for the sake of the cameras but instead spoke continually of the need to restore dignity to the people. <u>He stuck to his message.</u> In apparently not caring whom he spoke it to, from Margaret Thatcher to the leaders of the African states, he won the respect of the giving public in the U.K. They were ready to

support his condemnation of bureaucracies that tend to find reasons for not saving lives, rather than ways of overcoming apparently insurmountable obstacles. There is evidence in this that Geldof's cause had happened upon its time, in as much as his reactions seemed spontaneous and he apparently only reflected a wider indignation held by the general public.

PART 3 - WHAT HAS BAND AID ACHIEVED?

There is no doubt that the primary reason that Band Aid started up was as a humanitarian response to the unacceptable face of suffering presented on the television screen. The success of the venture depended on the wider public being presented with the famine disaster in an almost brutal fashion, to offend any sense of uncaring that they might have had and to shame them into not tolerating starvation. The vehicle happened to be the music industry; an industry where commercial success is built on the ability to 'move' a public.

In the end though, despite the fact that Band Aid raised up to £100m for the famine relief, the movement was more about raising a political consciousness among the public for this issue. Though it will buy a lot of biscuits for the hungry, the problems of the famine region and indeed the Third World as a whole will not be met by the altruism of a general public in the West, expressed through an occasional charity kick.

A number of writers in the press have lain the responsibility for sorting out the economic problems of the poor world at the door of the Western leaders. In a painful article in the Sunday Times last July, various writers highlighted the true scale of the Ethiopian disaster by charting the failure of political will that prevented the use of satellite technology **already installed** to warn of the impending drought. It's message is that we possess the technology to bring environmental stability to hostile environments[5]. This is surely a start in that it provides some sort of security to peoples who otherwise can be catastrophically displaced by drought.

But is there the will on the part of the Western governments to see Ethiopia developed? Certainly the Band Aid movement brought into focus the Thatcher government's policy on aid to peoples in Marxist-Leninist controlled states. Despite the drought Thatcher held out for no more than emergency relief for the starving, ignoring the need for longer term aid despite the injunctions of Oxfam amongst others.

All the agencies have emphasised the need for investment in soil and water conservation, re-planting of forests and agriculture if further famines are to be avoided in subsequent years. The government, as it's answer for the longer term, is content to train a few Ethiopian agronomists (provided the Swedes pay!). As far as policy on development is concerned the Reagan-Thatcherite thinking is that in the world market the benefits of a healthy Western economy will 'trickle down' to the Third World. The problem is that where the core world economies are themselves in trouble, the peripheral weak economies of poor countries are bound to suffer. In the case of countries like Ethiopia that suffering is compounded by the political trade and development barriers that exist between the West and socialist countries.

Furthermore I have yet to see a convincing argument or example of where or how this 'trickle down' has actually occured, even for a pro-western LDC.

Aid is still not good political ammunition though. In true insular British character the ramifications of differing politico-economic philosophies are only the basis of intense debate where the home economy is being argued over. Party politicking has only recently been able to escalate nuclear disarmament to election issue status. The public are hardly likely to respond to political parties on the basis of their espoused policies toward aid.

This said, Band Aid have at least put the aid issue on the political agenda. It is interesting that the U.N. session on Africa recently felt a considerable pressure to come up with a substantial statement, and were not content to let the opportunity slip by them for want of a little political energy.

In one of the opening quotations Caroline Moorehead asks whether Band Aid has created the political will for improved North-South economic relations. The answer must be a qualified yes. The caveats are;

> that the issue is still only an agenda item, it is still playing second fiddle to military strategic diplomacy.
>
> that aid may not be **sustainable** as a world political issue and may in consequence drop off the agenda.
>
> that in the U.K., because no political party can easily find mileage in espousing the 'people come first' aid approach that Band Aid has typified, the issue will quietly die off. Without the continued haranging of the Band Aid Appeal, the public will not focus on the cause.

On the face of it this may seem a depressing prognosis. The energy of a unique movement being dissipated against a monolith of international economic and political diplomacy on the one hand and the apparently intractable problems of a famine struck region on the other. But it is exactly this tendency toward resigned despair that Band Aid so decisively sought to combat. Geldof's message was that something can be done to combat suffering and no doubt many owe their lives today to his vision. What is needed now is not a pop star with a maniacal mission but a politician, and a powerful one at that if the international political complexion of the aid business is to be changed.

REFERENCES

1 - Sunday Times 16-06-85 "Global Juke Box" Justine Picardie, Dorothy Wade and Mark Hosenball.

2 - Guardian 15-07-85 "Missionary Zeal in a World of Famine" Terry Coleman.

3 - See also Guardian 26-07-85 "More to show than agony of the hungry" Michael Simmons.

4 - New Society 18-10-85 "Geldof and the givers" Caroline Moorehead.

5 - Sunday Times 21-07-85 "Questions that won't go away" Chris Curtain and others.

6 - Observer 14-07-85 "Live Aid is not enough" Geoffrey Lean

See also,

- Times 24-07-85 "Bureaucrats, take note" Paul Vallely

- Times 22-10-85 "Bob rocks the boat in Africa" Paul Vallely

- Guardian 16-07-85 "Development as illusion" and "Trying to stop the famines of tomorrow" Walter Schwarz and Jonathan Steele.

- Times 25-10-85 "Famine: keep the basic balance" Paul Vallely

- Guardian 06-12-85 "Aid today but what tomorrow?" Farouk El-Baz.

- Guardian 15-07-85 "We are the first world, you are the third world" Mark Lewis.

SETTLEMENT PROJECTS AS A SOLUTION TO LANDLESSNESS AND URBAN DRIFT IN KENYA

BY

KEITH HOWELLS

CONTENTS

1. Introduction

The population of Kenya has been growing rapidly at about 4% per annum, with urban growth (8%) fast outstripping rural growth (2.8%). Growth has put pressure on the 20% of the land which is considered suitable for rain-fed agriculture, and has resulted in increasing landlessness.

With urban unemployment at 30% and agriculture providing 65% of Kenya's foreign exchange earnings, agricultural settlement projects would seem to offer a plausible solution to the problems of landlessness and urban drift. This paper uses the development of the Bura Irrigation and Settlement Project as an example to examine the feasibility of such solutions.

The objectives of the project were to relieve landlessness in the overpopulated agricultural zones, provide employment and increase output of cotton for export. The project was largely aid financed, with the predominant multilateral lenders being the IBRD, the IDA and the EDF. Bilateral finance in the form of grants and soft loans was provided by Britain, Finland, Holland and Japan.

The project has been described as the most expensive settlement scheme in the world, at a cost of about $40,000 per family settled. The project has failed to meet its objectives in full, and is likely to require operating subsidies for the forseeable future.

Section 2 of the paper gives a brief background to the Bura project and Section 3 outlines some of the particular problems which have caused the project to underperform. Section 4 discusses whether the project is replicable and whether this type of development presents a viable solution to landlessness and urban drift in Kenya. Section 5 looks at some of the alternative solutions and Section 6 draws some conclusions.

2. Background

The project is located on the West bank of the Tana River about 200 km from the coast. The area is semi-arid and sparsely populated, mainly supporting pastoral nomads. A few people practice subsistance agriculture on the river flood plains. Infrastructure is poorly developed and access is difficult.

About 80% of Kenya is arid or semi-arid and requires irrigation to produce viable crop returns. The population has been growing rapidly and placing increasing pressure on land in the traditionally rain-fed agricultural areas. Settlement of semi-arid areas through promotion of irrigation has been seen as a solution to the growing incidence of landlessness and the resulting tendency for people to drift to the towns.

The main objectives of the Bura project were thus seen as settling landless people, providing them with worthwhile employment and increasing agricultural output. Settlers were to be selected from each of Kenya's Provinces on a quota basis.

The aim was to settle 5200 families in 23 villages and the population was expected to reach 65,000 in time. Infrastructure in the form of roads, treated water supplies, sewerage, schools, clinics, etc. was to be provided to accomodate this population.

Each settler family was to be provided with a house, a vegetable plot and 1.25 ha. of land on which they were required to grow cotton and maize. Cotton was to be the major cash crop, with maize grown for subsistance and local resale. Services such as land preparation, crop protection, provision of water, seed and fertilizer, etc. were to be provided by the scheme authorities and charges deducted from the proceeds from the sale of cotton. Cotton was to be ginned on site and sold for export, despite Kenya being a net importer, since its superior quality was expected to attract a price premium (and was in any case too high for local spinners).

Irrigated fuelwood plantations were included in the project plan to provide fuel for the settled population and to protect the riverine forest strip, (which is considered to be biologically unique), from destruction.

The executing agency was the National Irrigation Board, a parastatal body. Construction started in 1979 and the first settlers moved in in 1981. However, about that time the project began to run into financial difficulties. Inflation, devaluation, underestimations and unforeseen expenditures led to rapidly rising costs. With a fixed aid package, Kenya's share of the costs rose from KSh.160m (20%) in 1977 to KSh.1000m (45%) by 1982 as the project cost soared from KSh.800m to KSh.2200m in the same period.

At the same time, Kenya's ability to pay for such projects was being undermined by declining world commodity prices in the face of recession, and the influence of the IMF on development expenditure policy. The Government was unable to meet its obligations on many contracts which led to substantial delays and costly claims for damages.

In 1983, a decision was made to curtail the scope of the project by about half, reducing the number of settler families to 2500 and the cost to KSh.1500m. This was despite the fact that irrigation and water treatment works had already been substantially completed for the full population, the main outstanding works being houses, schools and the fuelwood plantations. The aid agencies were asked and agreed to provide 100% financing for the remaining construction to ease the cash flow problems.

As well as the severe financial problems, the project suffered from conceptual, technical and institutional deficiencies which are described in the following Section.

3. Problems

3.1 Conceptual and Economic Problems

(a) Settlement Issues

The concept of settling people from all over Kenya on a quota basis is dubious. Settlers from the Kenya highlands, where the pressure on land is the greatest, are unused to the inhospitable climate and lack resistance to the endemic diseases such as malaria and bilharzia. Desertion and death rates amongst settlers have been high and many household heads have chosen to leave their families at home. The result has been that the settlement objectives and the relief of pressure on the land have not been met. In addition, the settler is unable to manage the holding singlehanded and production has consequently suffered. Many of the settlers see the project as providing temporary employment only, and intend to return home if they can save enough to buy land there.

In contrast, 'settlers' from the local Coast Province who are more used to the climate and have more resistance to the endemic diseases have adapted well to the Scheme, and are farming reasonably successfully.

Thus the project as a solution to landlessness and urban drift may have been misconceived from the outset.

(b) Incentives for Production

Ownership of land is an important issue in Kenya, yet settlers are given land on one year renewable leases. This leads to a sense of insecurity and destroys any incentive for the tenant to develop the land or settle permanently. The rational behind leasing is to ensure that the authorities retain control.

The provision of all inputs (seed, fertilizer, etc.) by the authorities and the authoritarian management style also lead the settlers to view themselves as labourers, rather than self sustaining farmers. The result is that the settlers come to expect to be "spoon-fed" and show few signs of initiative. The management position is that provision of these inputs, like the tenancy arrangements, is necessary to retain control and to ensure that the crop calendar is fulfilled. It is also argued that these inputs have to be provided since the settlers have no resources of their own. In practice, inputs have not been provided on time and yields have been depressed. Yet the tenants have no recourse, since charges are automatically deducted from the proceeds of the sale of their cotton, which is managed by the authorities. Co-operative arrangements might have provided a better approach to managing inputs and sales and would have encouraged the settlers to become more involved with the scheme.

One further major disincentive is the producer price of cotton, which is controlled by the Cotton Board and estimated to be about 60% of a "realistic" price which might exist in a free market. Low returns hardly provide much incentive for farmers to put effort into growing cotton, and the more enterprising farmers are able to make more money (and get a better cash flow) by selling tomatoes grown on their vegetable plots, to the detriment of cotton production.

Tenants thus have little incentive to tie themselves to the project and settle permanently. The changes needed to remove the disincentives are not great, but require political will in the face of many vested interests.

(c) Economies of Scale

Early studies advocated a minimum project of 15000 ha. to achieve economies of scale in the provision of infrastructure and abstraction of water from the river by gravity. However, the detailed soils surveys failed to find more than 4000 ha of suitable soils (despite a lowering of the criteria). Following World Bank appraisal, a decision was made to proceed with a project comprising 4000 ha. of suitable soils and 3000 ha. of marginal soils. This decision was taken in the expectation that marginal soils would prove successful and that additional areas of marginal soils could be developed later to give scale economies. In addition, the unsurveyed East bank of the river was thought to have great potential, and helped to sway the decision to proceed with the West bank development on the grounds of economies of scale in infrastructure. In practise, the East bank soils proved to be no better than the West bank soils, and the yields from the marginal soils were lower than anticipated. The project was thus propelled by a momentum derived from unproven expectations which later proved unfulfillable.

At the time of appraisal, returns on investment were projected at 13%. However, these were based on allocation of certain costs over a wider (future) project base. Realistically, returns were probably well below 10% before the project started, and the rapid cost escalations and static world price of cotton quickly led to the project becoming uneconomic. The possibility of abandonment was raised by the Bank in 1979, before major construction was underway, but was dismissed by the Government. By then, the loan and credit agreements had been signed.

3.2 Technical Problems

The project faced many technical problems, the most detrimental of which are discussed briefly below.

(a) Crop Yields

These proved to be well below expectations with cotton yielding 70% and maize below 50% of the lowest projections. Reasons include the poor soils, poor crop varieties, labour shortages, inexperienced farmers, poor reliability of water supplies and late inputs.

(b) Water Supplies

One concession to the economies of scale problem outlined in 3.1(c) above was that gravity abstraction of water was postponed and a diesel pump station built instead. The logistics of fuelling and maintaining the station have proved insurmountable, and pump availability has been below 50%. The remote location and poor road access have resulted in erratic fuel supplies. Procurement of spares from overseas is difficult and slow because of foreign exchange problems and the import licensing system. Given the location and the poor wages paid by the Government sector, it has not been possible to obtain the highly skilled mechanics needed to maintain the station. The station is the lynch-pin of the project and success depends crucially on its proper functioning, yet it has been inoperable for much of the time.

(c) Housing

Settler housing has proved a particular problem in that it is extremely difficult to find low cost housing solutions in an area devoid of most natural materials. The solution finally adopted, at a cost of KSh. 20,000 per house, was a mud and mangrove pole structure with rendered walls and a corrugated iron roof. In practice, the houses are flexible and the local mud expansive, with the result that the rendering falls off, exposing the walls to rain erosion. The walls disintegrate and many houses collapse within two to three years of construction. Tenants are expected to buy these houses over 20 years through deductions made from their cotton sales. Not surprisingly, this has created a great deal of resentment.

(d) Choice of Technology

In many cases, the choice of technology is oversophisticated in design and concept, and this results in subsequent operating problems. These include problems with:

- the sophisticated, expensive (KSh 120mn) and complex water treatment and distibution system (never operated).
- the river pump station.
- a dredger to remove silt from the main canal (never operated).
- an oversophisticated irrigation system with many controls (most of which are never used).

3.3 Institutional and Management Problems

(a) Co-ordination with other Organisations

One of the major problems has been obtaining support from other Goverment bodies, particularly in getting them to take over completed infrastructure. The Ministry of Water Development refused to accept the new treatment works on the grounds that it did not have a budget line or the staff to run it. This has increased the health risk to settlers. Only temporary supplies are available and thus most settlers use canal water for washing with the commensurate increase in the incidence of water-borne diseases. Similarly, the Ministry of Health were three years late in taking over a clinic. In the interim period, healthcare was provided by the Catholic Sisters but this proved inadequate, given the number and condition of the settlers.

Co-ordination with and amongst the aid agencies has also been poor. The main actor has been the World Bank, with the other agencies taking little part in active monitoring of the project.

(b) Staff Development

The World bank appraisal report recognised the weakness of the National Irrigation Board as an implementing agency and recommended that it should be strengthened. The report also recommended the appointment of a team of expatriate managers for the first five years of operation. These recommendations were included as covenants in the loan agreement, but were ignored until the project got out of hand. By that time the EDF, who were to have funded the team, decided to withdraw their support. The project staff are poorly trained, poorly motivated and deficient in numbers. Qualified and experienced staff are difficult to obtain, given the project's location and the salaries offered.

(c) Overcentralisation

Staff on site have had little authority, with all major decisions and procurements being made in Nairobi. Given the location and the poor communications, this has resulted in unneccessary delays and has lowered the morale of the site staff to the detriment of the project and the settlers.

In 1985, the World Bank conducted a review of the project which was highly critical of the way in which it was conceived, designed and implemented. As a result of this review, the project was taken from the Irrigation Board and set up as a separate parastatal under the Ministry of Agriculture, the intention being to decentralise decision making and give more autonomy to the site staff. (See Appendix B)

4. Settlement as a Solution to Landlessness and Urban Drift

The Bura project has proved to be costly and has failed to meet its major objectives. The settled population is about 15,000 compared to an original target of 65,000. The approximate cost per head has risen from KSh.12,500 to KSh.100,000 over the life of the project. Although crops are being produced where none grew before, the scheme currently requires an operating subsidy of KSh.20 million per year.

The average settler family earns about KSh.5,000 per year (excluding the value of subsistance crops). This compares with an average rural wage of KSh.3,500 and an average urban wage of KSh.5,000, but many families contain more than one wage earner, so it is difficult to make direct comparisons.

Conceptually, the project is unique in Kenya, and in many respects, represents a great feat of pioneering. However, the institutional framework has not been geared to foster a pioneer spirit amongst the settlers.

The project has faced and is continuing to face technical problems which have escalated costs, depressed returns and made operation difficult. These however, are probably of less importance to the project's performance than the managerial and institutional deficiencies.

Under pressure from the World Bank, the Goverment has attempted to dismantle some of the deficiencies, including making the scheme more autonomous and abolishing the Cotton Board (See Appendix B).

The World Bank has suggested that the project is not replicable, and the failure of the project to meet expectations has caused the Government to shy away from similar schemes. The Tana Delta rice scheme and the irrigation component of the Turkwell Gorge hydroelectric scheme were once both considered as settlement possibilities. These are now proceeding on the basis of commercial estates with a few outgrowers. This type of development is unlikely to have the same impact on unemployment and landlessness as settlement, although it is more likely to produce an economic return. Thers are also plans to run the semi-completed part of the Bura Scheme as an estate in an attempt to reduce the operating subsidy.

Many of the problems which have led Bura to underperform are unique to the project and it is perhaps an over-reaction to dismiss settlement schemes out of hand. However the feasibility of moving people en masse into inhospitable areas and expecting them to settle permanently and perform economically remains in doubt.

J.Maos in an article written in 1984 (Ref 1) has suggested that state initiated land settlement is the only viable settlement option, given the need for public investments in infrastructure and welfare. However, he does say that settlement must be matched by proper motivation of settlers.

He highlights the importance of "human capital formation" in conjunction with the development of physical facilities and suggests that the reason for poor returns on many rural ventures (which have produced negative attitudes amongst planners), are due to the lack of attention to human factors.

He also suggests that the evolution from subsistence to mixed farming and then to specialised farming is a lengthy process involving different physical elements and social organisation at each stage. Settlement projects often jump straight to specialised farming (as at Bura) without treading the evolutionary path. Inexperienced farmers are expected to carry out the complex husbandry practices associated with specialised farming from the beginning.

It thus seems likely that the performance expectations of such projects are too high in the early years. However, revising the early year expectations has a negative effect on cash flows and hence on project economics. It might be questioned whether discounted cash flow techniques represent the best criteria on which to judge the merit of such projects.

5. Alternatives to Settlement

There are several alternatives to settlement of the arid and semi-arid areas as a solution to the problems of landlessness.

(a) Increase Wage Earning Sector

The present Government policy is aimed at increasing the wage earning sector through promotion of industrialisation. The "district focus" has become the cornerstone of rural development with much emphasis placed on the growth of the small and intermediate towns as (agro-) industrial centres as a means of bridging the rural-urban "gap".

Urban growth has recently been at a rate of 8% per annum, compared to rural growth of 2.8%. 15% of Kenyans now live in urban areas and this is expected to double by the year 2000. Urban growth does appear, however, to be less polarised towards Nairobi and Mombasa and the secondary towns are growing at a faster rate than the major cities. Obudho (Ref 2) has commented that "the choice is not whether or not urbanisation should take place, but what form it should take".

The major problem is in attracting industry to the secondary towns, given the inclination of industrialists to choose the major urban centres where the infrastructure and services are well established.

This policy does little to attack the problem of landlessness and the need for increased agricultural production directly, but goes part way to providing a solution to unemployment.

The "estate" type developments described in Section 4. are one method of tackling the joint problems of unemployment and agricultural output, but do little to satisfy the Kenyans' "lust" for land.

(b) Taxation of "Idle" Land and/or Division of Estates

Taxation of "idle" land as a means of promoting sale (and hence use), has been suggested as a way of increasing production and employment and seems a reasonable approach. However, it is unclear exactly how much land is "idle", or how to judge what constitutes "idle" land. The idea may thus have practical limitations.

Subdividing some of the large (and efficient) estate farms has also been proposed, although this may have repercussions for export earnings if a move from cash crops to subsistence farming were to result. Rempel (Ref 3) has suggested that this need not be the case and cites evidence from Nyeri district that shows that crop intensification on small farms can be highly productive and provide substantial employment, provided ready access to markets and institutional support for inputs and new technologies (varieties, techniques, etc.) is available. He suggests that the weakness of present systems is the lack of production incentives due to internal producer and foreign exchange pricing policies. Provision of clear title to land is also seen as vital for boosting output by giving small farmers access to credit.

There is also increasing pressure to make land available by redrawing the boundaries of game reserves and national parks, although this is resisted by the conservation lobby and on the grounds that it may damage tourism if taken too far.

(c) Settlement of Less Inhospitable Areas

Settlement of less remote and inhospitable regions is also a possibility. Various plans for abstracting water for irrigation from Lake Victoria are being considered, although it is not known whether subsequent development would involve settlement.

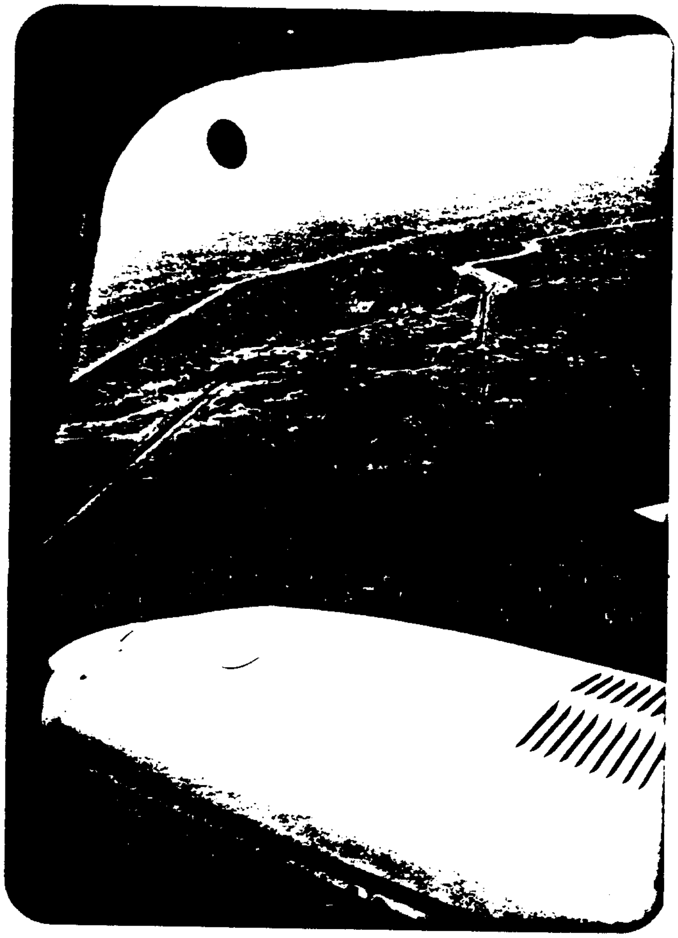
6. Conclusions

The World Bank have reported (Ref 4) that Kenya does not have enough land to support its population at subsistence level farming. While higher level inputs in denser areas mean that people can be supported at present, the rapid growth in population will place increasing pressure on the land if self sufficiency is to be maintained. Most Kenyans seem to have an inherant desire to own their own land and a direct solutuion, either through subdivision or settlement of undeveloped lands, seems to be required.

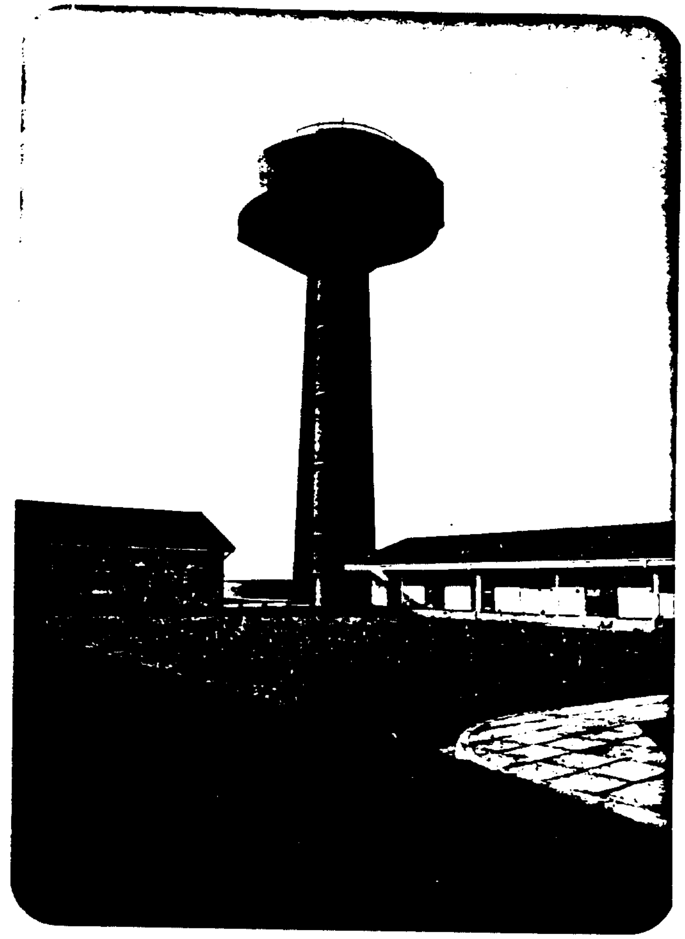
Settlement appears to be an expensive and ambitious solution to the problems of landlessness, urban drift and unemployment, and some of the alternatives seem to provide better answers. However, given the rapidly rising population, and the institutional problems which need to be overcome to make some of the alternatives viable, it may be that the attack needs to take place on all fronts, including more settlement projects.

The Bura project has provided a useful insight into the practical problems of settlement and it can only be hoped that the lessons learnt will be instrumental in determining a framework for any possible future developments. The project is still young and has not really been given the chance to perform. Early conditions have not been favourable and expectations were perhaps too high. Given time and some institutional changes, it is still possible that the project could make a useful contribution to the problems of landlessness and urban drift.

APPENDIX A

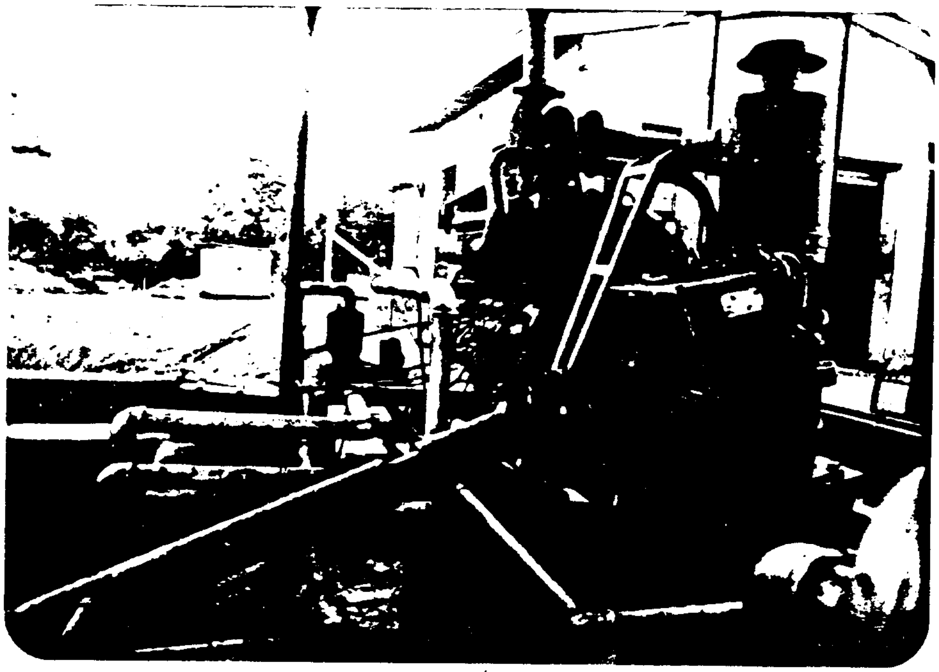


AERIAL VIEW OF PROJECT



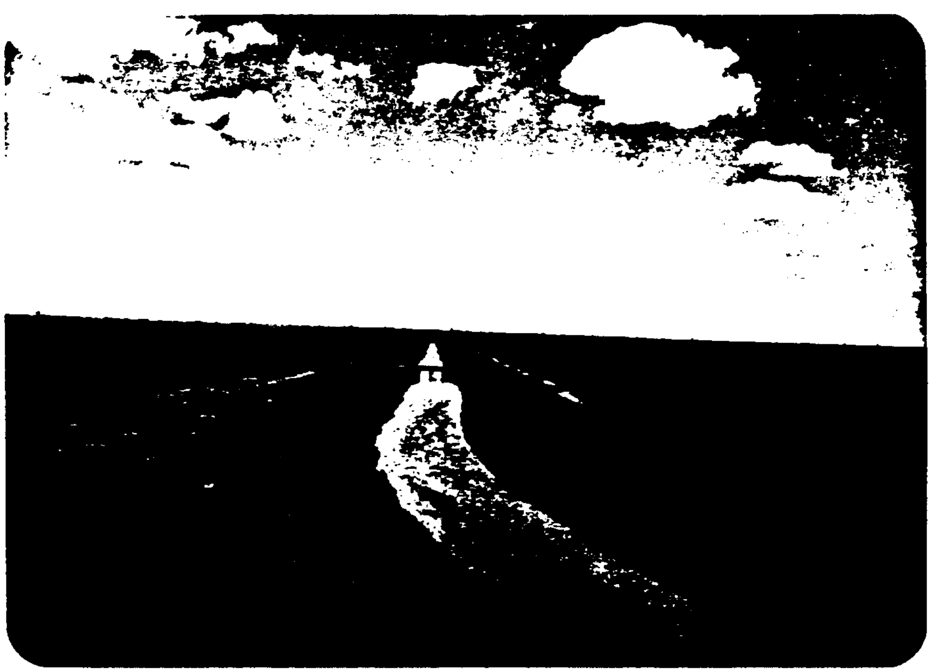
WATER TREATMENT WORKS

SETTLER HOUSING



PUMPING STATION

DREDGER



TYPICAL CANAL

APPENDIX B

EXTRACTS FROM "AFRICAN ECONOMIC DIGEST"

Bura management shaken up

Donors have decided against further expansion of the controversial Bura irrigation project, on which $ 70 million has been spent so far. They have, however, endorsed a restructuring plan and, on 30 June, management of the scheme was taken out of the hands of the state **National Irrigation Board** and placed under a new government authority established specifically for the project.

The authority — which has yet to be named — has been set up after prolonged discussions between government and donors, which had earlier pinpointed administration as a principal reason for Bura's financial problems. Donors, which include the World Bank, EEC, Netherlands and the UK, have now opted for limited financial commitments to consolidate the scheme.

It is hoped Bura will become viable if it concentrates on the existing irrigated area of 2,500 hectares. Limited concessionary support to increase the productivity of land already under cultivation is expected from some quarters. The Finnish International Development Agency (Finnida) is soon to sign an agreement to underwrite a fuelwood programme and management of a riverine forestry scheme. The UK Overseas Development Administration (ODA) is likely to finance a study of a long-term gravity offtake water supply and the Netherlands may also supply agricultural inputs for the 1985/86 cotton season.

The World Bank will continue to support Bura with the $ 13 million undisbursed balance of its $ 40 million loan (AED 14:12:84, page 3). The bank is now negotiating civil works contracts to house a pump station, link existing generators into a grid system and build schools.

6th July 1985

Bura scheme under review

A World Bank team began a two-week review of the management and financial aspects of the troubled Bura irrigation scheme on 2 December. Its findings will determine whether the bank extends disbursement of its $ 40 million funding commitment for a third time to cover the first half of 1986.

Efficient management is seen as crucial to solving the scheme's financial problems. The Agriculture Ministry took over management from the **National Irrigation Board** on 1 July in a bid to set it on its feet (AED 6:7:85). However, sources have told AED that the operational adjustments set out by the bank at the time of the transfer have not yet been made.

The cost of the scheme — which got under way in 1977 and is still in the pilot stage — has doubled to an estimated $ 93 million and is still rising. However, the World Bank's line of credit remains fixed, forcing Kenya to find alternative financing sources or bear a local cost component much larger than originally envisaged. The European Development Fund, the UK and the Netherlands are already providing finance of just over ECU 15 million ($ 13 million), £5 million $ 7.3 million) and Dfl 30.3 million $ 10.6 million) respectively.

So far only 2,000 hectares of the phase one target of 6,500 hectares under food and cash crops have been planted. The government is now considering halving the project's area and leasing the remainder for commercial exploitation. Bura is unlikely to be closed down as 2,000 families from all over the country have already been resettled.

7th December 1985

Bura rescue bid expected

Rescue measures for the ill-starred Bura irrigation scheme are to be taken soon, following discussions between a visiting World Bank team and Agriculture Ministry officials in the week ended 1 February.

The river-fed cotton scheme has been plagued by financial problems, with costs doubling to an estimated $ 93 million since its inception in 1977, making it the most expensive irrigation scheme in the world. Both donors and ministry officials are concerned by an inadequate cotton marketing system, mismanagement and under-utilisation of land. Although 6,000 hectares are available for planting only a third were put under cotton last season.

President Moi labelled Bura a "disgrace" when he visited the project at the end of January and called for corrections in its management. "For the first time the government has recognised that all is not well. People are expecting decisions to be taken and acted on," an agricultural economist told AED.

The Agriculture Ministry is expected to review several options to put Bura back onto a sound economic footing over the next few months. Sources close to the scheme say avenues being explored point to private-sector and development agency involvement on a commercial basis.

It has been suggested that the state-owned **Cotton Lint & Seed Marketing Board** be relieved of its monopoly to allow textile mills and private and co-operative ginneries to buy from Bura at market prices. Another proposal to boost output is to lease land to a development-oriented agency to establish a nucleus estate with outgrowers. The agency would probably then be asked to provide management and services for the entire scheme.

The UK's Overseas Development Administration (ODA) is funding a feasibility study on ways to expand the irrigable area from 2,300 hectares to 5,800 hectares. Sources say the scheme's temporary diesel pumps will be replaced by a gravity offtake system further up the Tana river at a cost of $ 4 million-5 million — heightening the need to find additional finance.

The scheme's backers to date are ODA, the European Development Fund, and the Netherlands, which have provided a total of just over $ 30 million. The World Bank has still to disburse about a quarter of its $ 37 million contribution to the project (AED 7:12:85).

8th February 1986

Loan agreement due in May

The first tranche of a $60 million World Bank agricultural sector loan will almost definitely be drawn down in the second half of 1986, sources in Nairobi have told AED. Final agreement is expected in May, they add (AED 12:4:86).

The policy-based loan is viewed as World Bank approval of measures instigated by the government to revitalise the agricultural sector through stimulating private market forces. A key factor is the recent government decision to allow farmers to bypass the troubled **National Cereals & Produce Board (NCPB)** and sell directly to millers. However, observers point out that the directive has not been legislated and may be withdrawn as soon as the current maize glut is absorbed.

The government's previous refusal to consider private-sector grain marketing was the chief factor leading to a World Bank veto on further structural adjustment loans linked to across-the-board policy changes. The last structural adjustment loan was granted in 1983.

The way for the loan has also been paved by the government's decision to abolish the state-run **Cotton Lint & Seed Marketing Board.** Low produce prices offered to farmers by the cash-strapped parastatal discouraged cotton production and threatened the economic viability of the controversial irrigated cotton-growing scheme at Bura, a costly aid project which has received substantial World Bank subsidies (AED 8:2:86).

26th April 1986

REFERENCES

1. The Physical Planning Component in Integrated Rural Development - Jacob O. Maos - Third World Planning Review - May 1984.

2. National Urban and Regional Planning Policy in Kenya- R.A.Obudho - Third World Planning Review - Nov.1984.

3. Rural-Urban Labor Migration and Urban Unemployment in Kenya - Henry Rempel.

4. World Bank Development Report 1984.

5. African Economic Digest - 5/12/85,6/7/85,7/12/85,8/2/86, 26/4/86

6. Financial Times - 19/9/84

7. Guardian - 12/12/83

INTERNATIONAL BANK LENDING TO DEVELOPING COUNTRIES - THE EXAMPLE OF COSTA RICA

BY

RAYMOND MOWLL

INTRODUCTION:THE LENDING BOOM

During the period 1975 to 1982, there occured an unprecedented expansion in the amount of credit extended by lending institutions in Japan, Europe and North America to countries throughout Latin America, Africa, Eastern Europe and Asia. The international bankers were all but trampled in the rush to board planes for loan signing ceremonies in New York, London, Paris, Frankfurt or wherever.The celebrations seemed never-ending, as new borrowers, and old borrowers with new financing needs were wined, dined and financed in extravagant surroundings. Hangovers following the binge were in the shape of debt reschedulings, which as they continue to take place one after another, cause bankers and borrowers to look back on the period with dismay.The banks have seen their capital adequacy put under severe strain,and their profits continue to suffer from the effects of loan write-offs.Many of the borrowers now have great difficulty raising any new money, except for those which are so highly indebted that their default would threaten the western banking and economic systems.These particular borrowers are able to obtain additional funds just to help them meet interest due on existing facilities.

Why did all this occur? Why did the mainly conservative, cautious financial institutions of the west lend several billions of dollars worth of other peoples money to Mexico, Argentina and Brazil ?, nations where banks often had neither experience or knowledge. What lay behind the dramatic scramble to lend and what results did this have on the borrowers?

This paper will focus on one of the countries affected by the explosion in lending and will suggest some of the possible reasons behind the bankers' actions. The country I will look at is Costa Rica, a small central American state which within three years between 1979 and 1982 acquired an external debt which exceeds four billion US dollars,roughly equal to the country's total GDP in 1984 (in these terms Costa Rica is in fact the world's most indebted nation). I will look at Costa Rica's economic and political positon prior to when the borrowing began, starting in 1979,the first year of the Carazo administration. I will then consider how the borrowing progressed and the impact this has had on the economic and political condition of the country. Finally, I will look at Costa Rica's current situation and how its position and that of other debtor nations has now altered with respect to its international bank creditors.

OPEC,SURPLUSES AND RECYCLING

The most often quoted reason for the expansion in banks' international lending during the 1970s is that they were involved in some enormous effort to keep the world economy moving by means of 'recycling' the surpluses built up by the oil producing nations. Without this recycling, oil importing nations would have been forced to cut purchases of crude or other imports, or reduce the level of consumption within their nations.If such restrictions had taken place in the economies of Africa ,Latin America and Asia, then lower levels of consumpton would have led to lower imports , which in turn would have deepened the recession in the 'developed ' economies as their export markets contracted. The banks then, were keeping the world economy afloat , by allowing OPEC surpluses to be spent by poor countries , and keeping the western economies functioning without too much disruption or recession.

Where the banks made loans available for 'general financing, balance of payments ' purposes the effect was to deter the oil importing nations from undertaking the extensive structural changes that the massive transfer of wealth to OPEC should have demanded.In fact, by avoiding these policies , the demand for oil and thereby it's price was allowed to remain artificially high.The surpluses continued to be earned by oil producers and the economies of oil importers continued to be unbalanced.If some lowering of aggregate demand in the developing countries had taken place in 1974 or 1979 ,reducing demand for oilat the time the price was increased , then the fall in prices for crude now being seen could have occurred several years earlier.

The type of loans that would have best helped the developing countries to meet the wealth draining effects of the oil price increase were those that would either reduce dependence on imported oil or help to generate real wealth. If the surpluses had been directly placed by OPEC members into projects in the developing nations then some return on these investments ,other than the rate of interest on bank loans, would have been required.However the surplus holders abrogated this duty and the banks, as will be seen later, chose in the most part not to pursue the 'project' type loan but to look for the more general purpose facility,where the end use by the borrower was not a major concern.It did not matter to the banks if the loan was to end up in the president's private bank account in Miami or if it was to be used for some wealth generating project.

WHY DID BANKS LEND TO COSTA RICA ?

As with most financial decisions the theory and practice differ quite considerably.The reasoning behind a bank's choice of policy towards a country and the level and type of loans it makes to it is not always the rational choice between alternatives that financial institutions might wish outsiders to believe.Within each bank there will exist a number of competing forces; some in favour of a policy or loan and others against it .At the operating levels, a facility may be extended to a borrower simply because the sponsors choose a particular day on which to present a proposal to the bank's credit committee, when possible opponents are known to be absent. The following list of factors that lie behind a bank's decision to lend are intended to provide some idea of the lack of concern for the effect of such loans on their recipient, be it Costa Rica or any other developing nation.

(i)'Pressure'.Placed on individuals, teams and divisions within the bank to meet performance goals that are normally set in terms of amounts of business done.Quality of loans (in terms of their liklihood to be repaid and therefore their effect on the borrowers wealth) if not entirely discounted, became more of an obstacle to be overcome rather than a principle to be adhered to.

(ii) 'Follow the leader'.Many banks lack the necessary human and technical facilities to undertake extensive credit investigtaion on borrowers. Major loans tended to be syndicated amongst banks in such a way that smaller,less experienced organisations become victims of what is described in the market as 'stuffing'.The larger banks will take a major position in a loan ,seeking to sell down much of their commitment.Smaller banks will be drawn to a facility because of the presence of their grander competitors.In extreme versions small banks will lend to unknown borrowers.

(iii) 'The guarantee'. Consider the example of a project that requires external finance. The prospective lending banks undertake their cash flow analyses ,forecasting etc, and determine that the project looks a little risky and may not create wealth(intheir terms ,produce enough income to meet costs and repay theloan facility).Instead of turning away from it altogether, they look for a guarantee, which will take the risk off the project and onto a guarantor.From the bank's point of view ,it is no longer reliant upon the success or failure of the project. If it fails then they simply look to the guarantor for repayment(who may have lacked the analytical tools to undertake a thorough review of the project , or the ability to track its progress).

(iv) ' Fear of being left out'.Another way of explaining this phenomenon would be 'greed'.For example the Crocker National Bank of California did not like to see other large U.S. banks creaming the market in Mexico.Their results were being compared unfavourably with those of banks making high returns from Latin America.Not surprisingly Crocker moved into the market.At such times banks are described as being 'agressive' ,meaning that thay were prepared to accept lower returns and higher risks that existing lenders.

(v) 'The Global Bank' Closely linked to (iv) above but having more of a 'strategic 'aspect to it . Some of the giant banks like Citicorp, and Bank of America began to believe that they had to become involved in every market in the world in order to merit the title of 'Global Bank'.The policy led these organisations in very odd places ,where profit could be achieved only from the crumbs left by indigenous baks or by drawing in the parent organisation from New York or California to offer large chunks of money, to what were often lower quality borrowers.

(vi) 'Countries do not go bust'.Banks derived comfort from the fact that whereas a corporation could be forced into liquidation, a country would not do so.Countries do default though and banks remained remarkably unaware of the impact of their excessive lending in making such situations possible.

(vii) 'The IMF as lender of last resort'. Undue consolation is obtained from the role of the IMF and its' provision of special facilities to assist debtor nations.By the time the IMF becomes involved, the situation has normally gone too far, and loans are likely to need rescheduling.Far better , one might argue , that the IMF become involved at an earlier stage ,where it can better regulate the borrowing activities of the debtor nation.However, IMF delegations with their prescriptions of consumption restrictions are not welcome in many countries and the organisation does not entirely perceive it's role as being proactive .

(viii) 'Credit Analysis'. This is actually what the banks consider to be the cornerstone of any lending proposal, an analysis of the creditworthiness of borrowers.The normal practice is to establish a number of criteria, to include certain 'key' ratios, that a lending proposal has to meet.In the case of a country, the criteria are set in terms of GDP growth, foreign debt levels,export and import trends, public spending ,budget defecits and the like.Unfortunately the data is normally up to two years out of date and therefore of limited value. With so many banks relying on the same information,their actions in the intervening two years may serve to totally alter the picture.The very fact that acountry turns in a set of impressive data one year will encourage bankers to increase lending .In doing so thay are of course destroying those very factors that made the credit risk look good in the first place; foreign debt ,debt service etc.

(ix) Helping with the economic ,political and social progress of borrowers. I have left this till last because in eight years of banking I never once saw this as a justification for lending. Nevertheless, I have included it in the expectation that some banks do consider this as important.

The factors mentioned above ,that provided much of the basis for decisions by banks to lend to developing countries , are to a great extent indications of their wish to justify lending ,in spite of the apparent unsuitability of the recipient of the funds.Driven by individual and corprate ambitions to increase lending to a particular nation, a bank could find all manner of spurious justificatons for its' activities.The concept of countries never going 'bust' , or of the IMF always standing by to help out did not make loans any better for the borrowing nations. As the banks believed in these ultimate saviours ,so their lending criteria were lessened and they began to pour money into countries with little or no concern whether their financing was creating wealth or not. Much of this was due to the reliance on 'general purpose, balance of payments support' type of facility, requiring minimal involvement in establishing the use to which money was put.

There are basically two types of facility offered to borrowers in countries ; the general purpose or balance of payments/ working capital facility or the project related loan.As mentioned above,the general purpose facility does not require the bank to undertake an analysis of the viability of any particular project or whether it will be of benefit to the borrowing nation. In the project lending situation, the bank becomes reliant on the welth creating capabilities of the particular project. The bank will therefore be lending on the strength of it's own forecasts , and relying on its' belief that the project will create suffiecient wealth so as to meet costs and make repayment possible. Such types of lending impose much greater discipine on the banks and the borrowers, but require more work, better qualified staff,and more continuous assessment and monitoring of the project.Far easier is the general purpse facility,where repayment is not down to specific performance ,but can be attributed to some vaguely expressed expectations of macro economic performance.

THE IMPACT OF FOREIGN DEBT ON COSTA RICA

Costa Rica acquired the title of 'Switzerland of Central America' in part due to its' natural beauty, but to a greater extent because of its' stability,financial conservatism and well managed economy.It is a small nation,with only 2.2 million people (95% of whom are literate) and a GDP per capita in 1980 of US$ 2,200.At that time ,inflation was beginning to rise from its average of 10% throughout the period 1970 to 1979. The country is politically very stable,relies on elections rather than coups for changes of government , and in fact disbanded the army back in 1948.

Although Costa Rica had run a current account defecit for twenty years up to 1977 it had managed to keep the level of foreign debt down to manageable levels.By 1977 total foreign debt was US$ 830 million, requiring around 15% of the country's export earnings to meet capital repayments and interest obligations, a relatively low level of debt service. By 1980 the picture was beginning to alter dramatically.The administration of President Carazo had begun to enter into large foreign loan agreements ,of a size that pushed the foreign debt up to US$ 1.6 billion by the end of 1981.By the time Carazo left office in 1982 , the foreign debt had reached US$ 3.7 billion, and required an unmanageable 60% of export earnings to service it.

Costa Rica was not too badly directly affected by the oil price increase but did suffer from the resultant world recession, as demand for commodities slumped . Foreign exchange was generated mainly from coffee and banana sales (43% of total exports in 1980), and prices for both of these fell in the late 1970s.The government of Carazo ,instead of devaluing the Costa Rican currency, sought to maintain its' value in order that import costs should not rise.Most of the countrys' imports were manufactured goods ,intended primarily for the consumption of the middle classes (they accounted for 80% of the total in 1980, as against just 11% for oil). Raising prices is not always politically wise and perhaps the Carazo administration, if not Carazo hiself (presidents can serve only one term in Costa Rica) had hopes of winning the 1982 election.

The results of the administrations' policies was to draw in foreign goods whilst exports were slumping.Instead of theexchange responding to the changing terms of trade it was held steady at 8.6 to the dollar.Inevitably the trade gap widened , and the country was able to finance the defecit and meet interest and capital obligations on existing debt , only by borrowing more.

Only when the IMF became involved in Costa Rica's economy, following the request for the maximum possible support facility, was the Carazo administration forced to alter it's policies . Until then it had been able to continue along a path that was leading to national bankruptcy. The western banks had made little effort to limit their loans to the country up until the time when the IMF was called in.The first actions of the IMF , as in most other Latin American nations that it became involved in around this period, was to link the provision of support facilities with the adoption of a demand restriction programme by the government . The IMF was in effect imposing the aggregate demand limitations that Costa Rica and other developing nations should have gone through in 1974/75 and 1979/80 and would have had to undergone had it not been for the recycling efforts of the banks.

For Costa Ricans this aggregate management was felt in a number of ways.The currency, previously supportd by foreign capital inflows in the form of loans and later through exchange control was allowed to float down to a level that more accurately reflected the country's trading position.Imports fell off as the Colon sank from 8.6 to the US $ to a rate of nearly 15. Public sector spending , previously buoyed up by foreign borrowing was cut and taxes were increased to both reduce demand and narrow the budget defecit.Certain prices were decontrolled and subsidies removed , with fuel increasing by 27%.

The intended effect of these measures was to reduce consumption by Costa Rica and allow a greater part of its' national wealth to be transferred to those foreign creditors that had allowed the country to avoid the painful process of wealth diversion some years earlier.

By the time the Carazo administration gave way to the government of Alberto Monge in 1982, Costa Rica was effectively bankrupt. The foreign debt of around US $3.5 billion, cotinued to increase as Costa Rica was forced to default on interest payments, and these were capitalised . The exchange rate fall had reduced imports but exports remained at much the same levels , allowing the country only a small improvement in the balance of payments, but still in defecit. Such was the extent of foreign debt ,and the level of US interest rates that Costa Rica was having to make great efforts just to keep the situation from getting even worse.GDP fell by 2% in 1982 and 4% in 1983 , inflation rose to 90% and the freed exchange rate continued to fall to around 22 to the dollar.It is probably impossible to estimate how much more difficult the adjustment was in 1982/3 than it would have been had it taken place in 1974/5 and 1979/80. What is clear though is that with the exception of some limited expansion of the capacity of the electrical generating industry of the country, Costa Rica had little to show for the massive debt that it had incurred.Borrowing had been mainly for the purpose of maintaining current levels of consumption and not for the investments that would have created the wealth to allow the transfer of wealth to oil producers and/or creditors. The banks had failed utterly to impose any such requirements on Costa Rica's use of loans , and in doing so , perhaps they should share blame with the Carazo administration for Costa Rica's current plight.

Such an argument does not find favour amongst the banking community who have now relegated Costa Rica to the status of 'basket case' and a subject for IMF handouts. Even rescheduling is handled half-heartedly, as individual bank's exposures do not represent large amounts when compared with the several billions they have outstanding in Mexico or Argentina. Indeed, such is the lack of concern for Costa Rica's eventual recovery that many facilities have already been written off.

Whether a bank should share blame with it's borrowers when loans cannot be repaid leads one into difficult areas regarding who is best qualified to decide what paths a developing country should go down. However, whatever one believes about the rights of developing countries to pursue certain strategies, no matter how ludicrous these may appear to the western observer, it is nevertheless difficult not to feel that many debtor nations are now suffering because of the international banks activities in the decade folowing the first oil shock of 1974.

SUMMARY

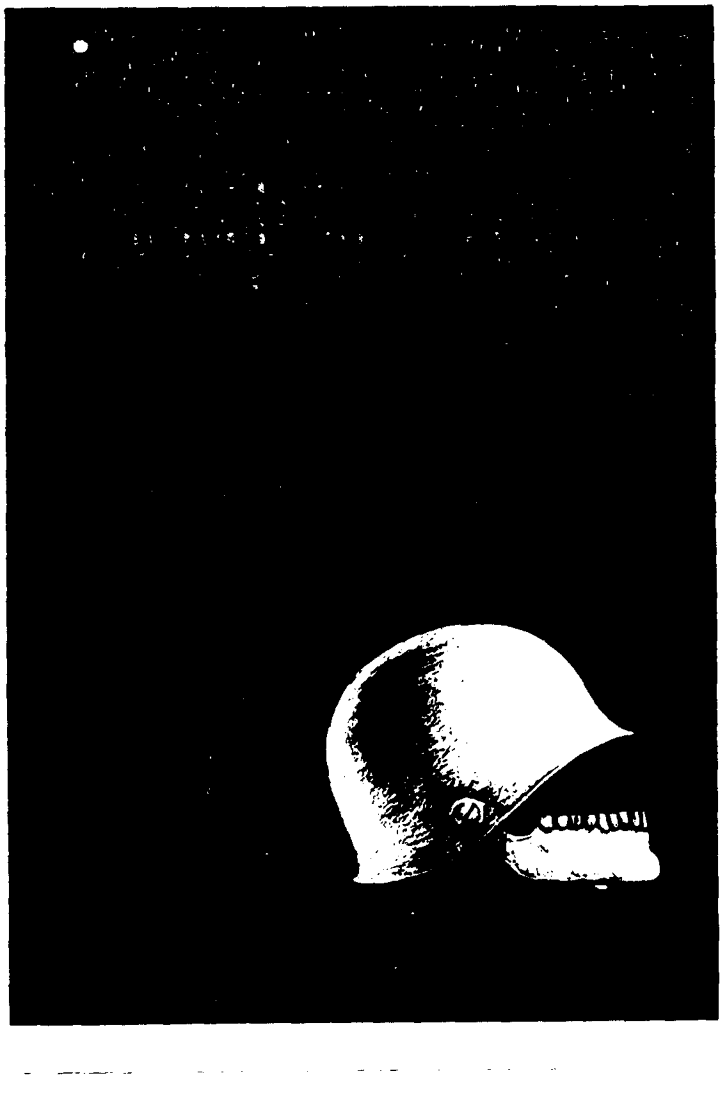
The experience of Costa Rica between 1974 and 1982 is similar to that experiencd by many other developing nations during the period. Faced with higher oil prices and recession these nations had the choice between taking immediate action to reduce consumption or to borrow funds to allow them to maintain current levels. Even if they had borrowed money to invest in projects that would create future wealth , this would not have solved the problem of reducing current consumption. In fact ,in most cases the easiest possible route (in the short term) was taken.Money borrowed was utilised to prop up the balance of payments of nations that should have adjusted exchange rates and thereby imports for consumption ,following the wealth draining effects of the oil price increases.

The choice of alternatives to be adopted by the developing nations was made easier by the readiness of international banks to provide funds for any purpose that the borrowers needed.The internal pressures and performance criteria of the banks was such that they rarely got involoved with questions regarding the use of the funds that they were providing.Their irresponsibility in this respect makes the current attitude towards overdue loans in developing countries more difficult to accept.From a positon of wooing the borrowers, the banks now barely manage to spare enough time for the rescheduling efforts. Perhaps the final irony is the ease with which supposedly profligate borrowers can in fact return to credibility in the eyes of the western bankers.During one of the few economic peaks enjoyed by Mexico since 1982, the incredible phenomenon of banks again looking to put money into the country was observable .All that is needed is a few monthes of favourable figures on economic performance and the outstanding foreign debt of around US $ 90 billion was beginning to drift into the background .None of the lessons on debt service , the need for consumption restriction and exchange adjustments seeemed to have been learnt. Costa Rica has yet to return to favour with the banks ,though some are already extending 'short term ,trade related 'facilities (which can be defaulted on as easily as medium term loans). It is a depressing thought that if Costa Rica ever does manage to shake of its burdensome debt ,then the smiling bankers would soon be tripping off the planes once more at San Jose airport.

ARMS AND THE THIRD WORLD

BY

IAN NIXEY



'Every gun that is made, every warship launched, every rocket fired, signifies, in a final sense, a theft from those who hunger and are not fed, from those who are cold and are not clothed.'

PRESIDENT EISENHOWER

'The increase of armaments that is intended in each nation to produce consciousness of strength and a sense of security, does not produce these effects. On the contrary, it produces a consciousness of the strengths of other nations and a sense of fear. Fear begets suspicion and distrust and evil imaginings of all sorts, till each government feels it would be criminal and a betrayal of its own country not to take every precaution, while every government regards every precaution of every other government as evidence of hostile intent.'

LORD GREY OF FALLODEN
after the First World War

'You bastards. I knew we shouldn't have trusted you.'

MBA STUDENT
after the disarmament game

INTRODUCTION

It seems to be a common assumption that there is a choice between giving food and medical aid to the third world, which must be 'good', and supplying weapons of destruction, which must be 'bad'.

Statistics on the relative costs of arms and aid appear to speak for themselves.

It may seem an irony that it was a former US Defence Secretary, Robert MacNamara, who as President of the World Bank in 1976, told his Governors:

> No statistics could illustrate the inhuman degradation to which the vast majority of the citizens of the Third World are condemned by poverty. Malnutrition saps their energy, stunts their bodies, and shortens their lives. Illiteracy darkens their minds, and forecloses their futures. Simple preventable diseases maim and kill their children. Squalor and ugliness pollute and poison their surroundings. The miraculous gift of life itself, and all its intrinsic potential-so promising and rewarding for us-is eroded and reduced for them to a desperate effort to survive.

It has been estimated that $200 million-the cost of two strategic bombers-would be sufficient to free the thousand million illiterates in the world from their handicap.

Five million child deaths each year in developing areas could be cured by a vaccination programme costing $600 million.

In the world as a whole, at least 1 in 4 of all the scientists and engineers working on research and development are working on weapons. World spending on military research and development is rising much faster than military spending as a whole.

To what extent are detractors of the arms trade correct? To what extent are arms and aid interchangeable?

I started by looking at the magnitude and nature of the arms trade: who sold arms, and who bought them?

Why were the arms bought?

Was there a positive side to this trade, and if so what was it?

ARMS BUYERS

Details of spending are at appendix A. The first table shows expenditure as a percentage of gnp and per capita, but is about ten years out of date. The second shows the most recent figures available for imports of major weapons by third world countries.(Stockholm International Peace Research Institute figures).

The third world received 65% of all arms traded in 1984. The combination of world economic recession and mounting foreign debt has reduced spending in recent years, although as a share of national income, arms expenditure has generally increased. As the graph at appendix A shows, imports rose dramatically in the ´70s, to decline slowly in the ´80s.

Spending in South America has declined since the Falklands conflict. A number of military regimes have been replaced by civilian governments, although little military reduction has ensued.

In Central America spending in Costa Rica, Honduras, Nicaragua, El Salvador and Guatamala grew by 60% (on top of inflation) between 1979 and 1983: the position is clouded by military aid from foreign sources.

In South Asia and the Far East growth has slowed after a peak in 1981/1982.

In the middle East expenditure has declined slightly. US aid has enabled some growth in expenditure in Egypt, and has lessened the cuts which inflation would have forced on Israel.

The decline in imports by the Third World is in part due to a substantial growth in domestic arms manufacture. Indeed, in 1984 2% of arms traded internationally were produced in developing countries.

A chart at appendix B shows production capability in these areas.

ARMS SUPPLIERS

The main suppliers are the USA (40% of world trade) and the Soviet Union (32%). However, the Soviet share is declining steadily. This may be a reluctance to part with high technology, and a recognition by buyers that previously supplied equipment has not performed well. The share of European exporters is growing, (See appendix C), in addition to the growth of domestic production.

Arms are often supplied purely to increase a countries overseas trade. In 1980, Mrs Thatcher, speaking at a dinner of the Defence Manufacturers Association said that Britain's current arms exports of £1200m. per annum were not enough, and called for an increased sales drive to earn money abroad and provide employment.

At other times, the supply (or witholding) of arms is used as an instrument of foreign policy.

Exports of relatively dated equipment can help major powers to offset the high costs of their own replacement programmes.

THE REASONS FOR BUYING ARMS

It is often hard to say what the purpose of an army is. It may be to fight a war, to prepare for a war which is never fought, national security, aid to the civil power at times of unrest; it may be the instrument by which the ruler maintains power, or merely a symbol of national sovereignty and independence.

The uncertainty or ambiguity of role makes it very difficult to apply normal economic criteria. The perceived need to cope with any eventuality can lead to a high level of defence spending, which is further compounded by any increase in a potential enemies spending, and by the rate of technical change of military hardware.

Weapons are not only used to deter attack, but also to wage war. It is often difficult to define a war, as the Falklands illustrated: nonetheless Kende lists 119 wars between 1945 and 1975, witha total duration of over 350 years. The bulk of these wars, 12 a day on average, are fought in the Third World, with weapons supplied mainly by the developed countries.

Armies are often thought to be in a unique position to obtain the resources they want if they are in power: yet as appendix A shows, military regimes do not spend more than civilian ones.

Nor do repressive, authoritarian regimes spend more than their neighbours. Haiti, Malawi, Swaziland, Paraguay, Nicaragua, Argentina and Uganda are comparitively low military spenders. In part, of course, this may reflect the fact that internal repression is relatively inexpensive.

This table also shows that while per capita spending can vary greatly, it is the exception rather than the rule for military spending to exceed 10% of GNP, with a median expenditure of 3 or 4%.

ARGUMENTS FOR AND AGAINST THE ARMS TRADE

The difficulties surrounding this issue begin to be seen in the report commissioned by the Parliamentary Human Rights Group in 1980, to inquire into questions relating to the sale of arms and technology and human rights violations. The issues do not begin and end with weapon systems. One chairman reported:

> It is not impossible that concrete mixers supplied by our company might be used to make concrete for gun emplacements somewhere in the world.

and as another emphasised:

> Unfortunately, since military and police are human based, everything has a military or police capability from a glass of water upwards.

The general view seems to be that the demand for arms exists: failure to supply will mean the customer going elsewhere. It would be unsound economically not to supply, unless there were overriding political considerations. Exports enabled longer production runs, and hence lower costs in the home market.

There are a number of reasons to suspect the moral argument that countries are buying guns rather than food, death rather than life.

One of the most comprehensive studies of the effects of arms spending was carried out by Benoit in 1973. Perhaps contrary to expectation, he found that the level of military spending was positively associated with non-military growth rates.

Why this should be seems to be explained in two very different ways.

The first is to see no direct causal relationship. It may be that the growth in military spending and high measured growth in non-military GNP are produced by other influences, such as the tendency of the major powers to pump economic development assistance as well as military aid into countries in which they have strategic interests. Equally, it is often argued that resources for armaments are diverted from social welfare spending rather than away from productive investment.

The second explanation is to see a causal relationship, with the existence of an army contributing positively to economic growth. Lucien Pye and Morris Janowitz are both supporters of this point of view. US military assistance policies were influenced considerably by Pye's article on 'Armies in the process of political modernisation. He argues that the army is the most likely institution to induce 'modernising' attitudes, and encourage foreign aid. In the colonial attempts to create modern institutions, military organisations were the most successful by far. He says:

> ..a military establishment comes as close as any human organisation can to the ideal type for an industrialised and secularised enterprise.

In other words, a developing country imports not simply arms, but the concept of a developed army. As a historical pattern, the link between military professionalism and the absorbtion of external technology is extremely powerful. The army provides a training in citizenship, and can contribute to:

> responsible nationalism. Indeed the recruit may be impressed that he must make sacrifices to achieve the goals of nationalism and that the process of nation building involves more than just the shouting of slogans.

Pye also believes that acculturation to modern life is more successful in the army than elsewhere. Partly this is because it is the most modern institution in the country, and also because army life is more secure than in the civilian sector.

He further argues that military leaders are emotionally more secure, and find it easier both to recognise that the West is strong and that their country is weak, and to accept foreign aid.

> Since these leaders seem to have less need to avoid realities, they are in fact easier people with whom to deal and to carry on straightforward relations.

Janowitz adds that since social recruitment to the army is middle or lower middle class,

> the military profession does not have strong allegiance to an integrated upper class which it accepts as political leader nor does it have a pervasive conservative outlook. ...(Military officers)...develop a sense of public service and national guardianship as a result of their military training and experience. Their politics is the politics of the 'suprapolitical' because they are suspicious of professional politicians and the bargaining process.

I believe that both explanations of the link between military and non-military GNP growth can contribute understanding to the situation. That is to say that within a country an army can act as a catalyst for positive industrial and social development, and that it can also give a developing country some links and some credibility in its dealings with the developed world.

The existence within a country of an army gives that country the means to ensure its own security internally, and to deter any external threat.

That abuses of military power are possible are undoubtably true, but human rights violations stem much more from the nature of the individuals than from the state of military technology available. The modernising of a countries infrastructure, and of its political social and legal systems,(often the concommitent of military expansion), seems to provide the best longterm safeguard.

That is not to say that there are no abuses of this process. In 'The Arms Bazaar' Anthony Sampson highlights many of the abuses which have occured.

CONCLUSION

It would be unjustifiably smug to draw any safe conclusion, as it is not a black and white issue in anything except the colour of the main actors. The problems of the third world cannot be ignored, but neither can they be solved by some magical transformation of spears into pruning hooks.

From an abstract moral standpoint it is regrettable that progress in developing countries is being brought about by a trade in weapons of destruction. As these countries expand their productive capacity then they too will manufacture arms of increasing sophistication in increasing quantities.

Regrettable, but at the present stage of human development probably inevitable. The quote from an MBA student at the start of this paper highlights the difficulty of establishing trust between two small groups of intelligent people who have grown up largely in the same culture and where very little of any consequence is at stake.

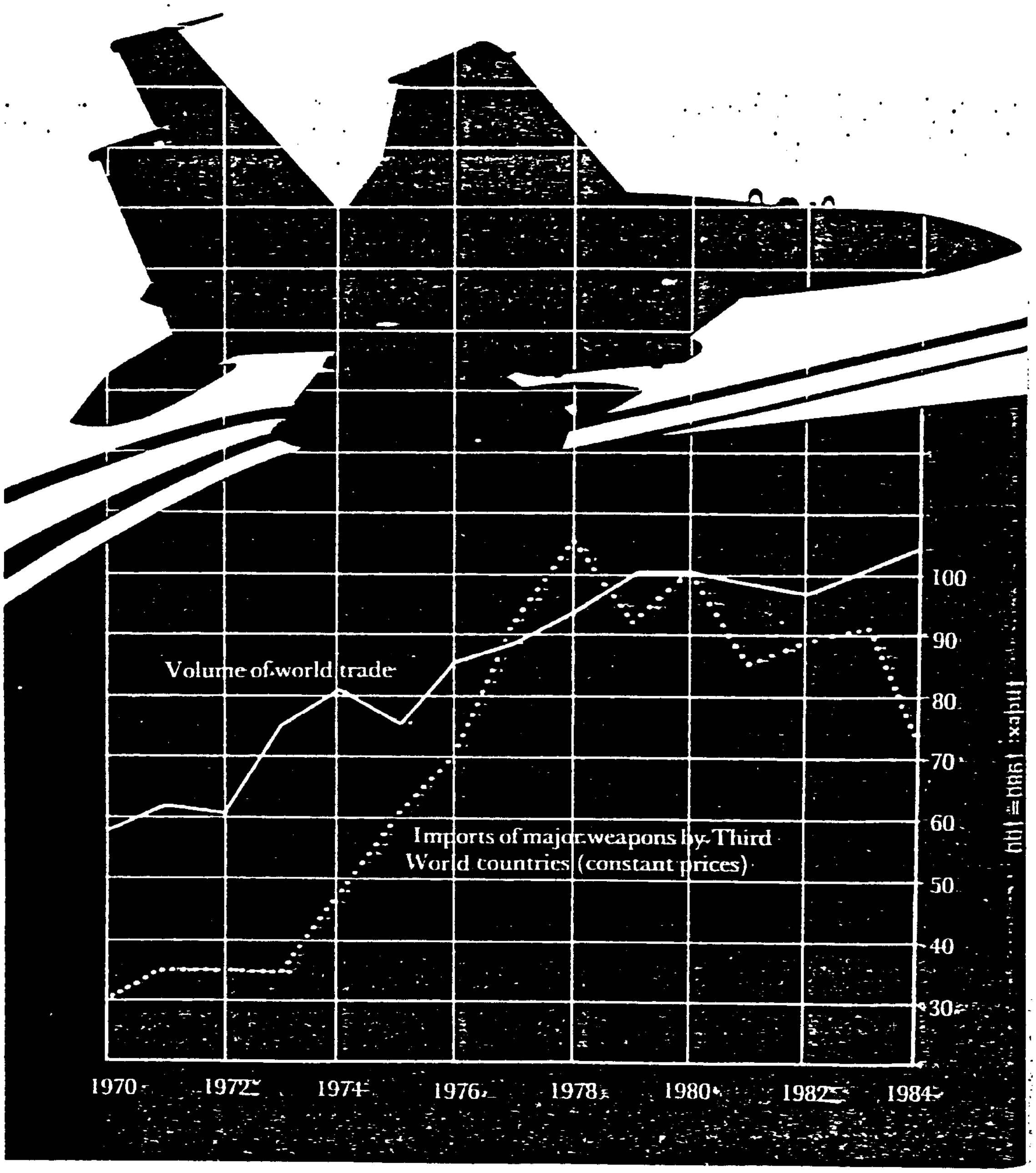
APPENDIX A (1)

TABLE 4.1
Relative Burden of Military Expenditures, 1973.

Per capita GNP	Military Expenditures (as percentage of GNP) More than 10%	5 to 10%	2 to 4.9%	1 to 1.9%	Less than 1%
Under $100	Cambodia Vietnam, N.	Chad Somalia Yemen (Sana)	Burma Burundi Ethiopia Mali	Afghanistan Rwanda Upper Volta	Bangladesh Nepal
$100-199	Vietnam, S. Aden Yemen	Pakistan	Central African Republic Guinea India Indonesia Laos Mauritania Sudan Tanzania Zaire	Dahomey Kenya Malagasy Rep. Togo Uganda	The Gambia Haiti Lesotho Malawi Niger Sierra Leone
$200-299	Egypt	China, People's Republic Nigeria	Bolivia Thailand	Cameroon Honduras Philippines Senegal	Liberia Sri Lanka
$300-499	Jordan Korea, N. Syria	Albania	Congo Ecuador Equatorial Guinea Korea, S. Morocco Rhodesia Zambia	Colombia El Salvador Guyana Paraguay Tunisia	Botswana Guatemala Mauritius Swaziland
$500-999	Iran Iraq Oman	Taiwan	Algeria Bahrain Brazil Chile Lebanon Malaysia Peru Turkey Uruguay	Dominican Rep. Ivory Coast Nicaragua	Costa Rica Jamaica Mexico Panama
$1000-1999	Saudi Arabia	Portugal	Cyprus Greece Romania South Africa Spain Venezuela Yugoslavia	Argentina Gabon	Malta Trinidad & Tobago
$2000-2999	Israel Soviet Union	Bulgaria Czechoslovakia Hungary Libya	Singapore	Ireland	
$3000 & up		German Democratic Republic Qatar United Kingdon United States	Australia Belgium Canada Denmark France Germany (FRG) Kuwait Netherlands Norway Sweden United Arab Emirates	Austria Finland New Zealand Switzerland	Iceland Japan Luxemburg

Source: US Arms Control and Disarmament Agency, World Military Expenditures and the Arms Trade, 1964-1974, Washington, D.C., USA, 1976.

APPENDIX A (2)



Volume of world trade
Imports of major weapons by Third World countries (constant prices)
100
90
80
70
60
50
40
30
Index: 1980 = 100
1970
1972
1974
1976
1978
1980
1982
1984

APPENDIX B

Production of Major Weapons and Components in the Third World, 1950-1975

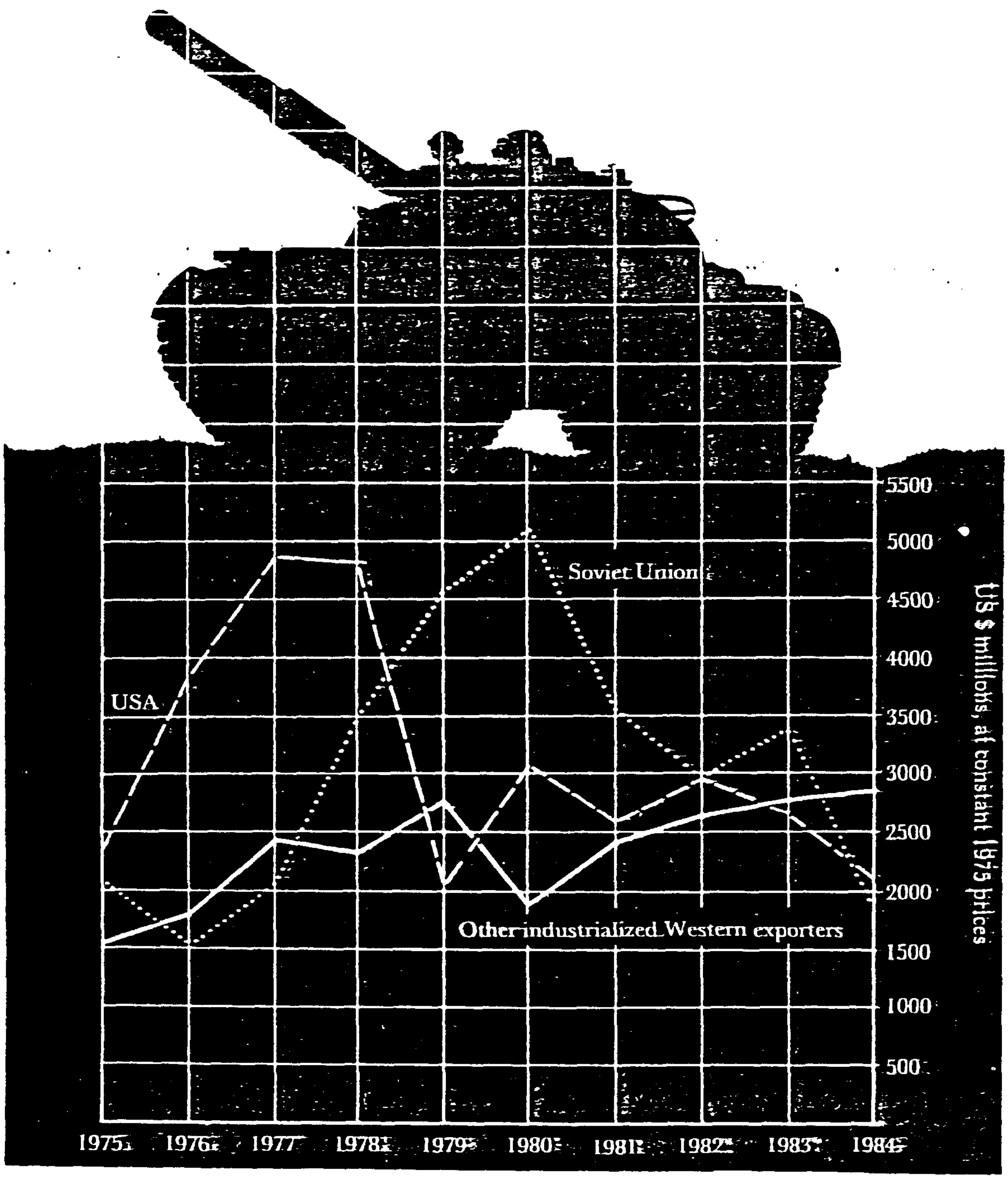
Country	Military aircraft	Guided missiles	Armoured fighting vehicles	War-ships	Military elect-ronics	Aero engines
Argentina	*	*	*	*		*
Brazil	*	*	*	*	*	*
Burma				*		
Chile	*			*		
China, People's Republic	*	*	*	*	*	*
Colombia				*		
Dominican Republic				*		
Egypt	*	*				*
Gabon				*		
India	*	*	*	*	*	*
Indonesia	*			*		
Iran	*					
Israel	*	*	*	*	*	*
Korea, North				*		
Korea, South	*			*		
Libya	*					
Mexico	*			*		
Pakistan	*	*	*			
Philippines	*	*	*	*	*	
Rhodesia				*		
South Africa	*	*	*	*	*	*
Syria				*		
Taiwan	*			*		
Thailand	*			*		
Vietnam, South	*					

Source: SIPRI data

APPENDIX C

Exports of major weapons to the Third World, 1975–84

The USA is now once again the biggest exporter of major weapons to the Third World. The share of the European exporters is growing.



THE ECONOMIC AND SOCIAL CONTRIBUTION OF TOBACCO LEAF CULTIVATION TO DEVELOPING COUNTRIES

BY

JACK PICTON

TOBACCO LEAF CULTIVATION AND DEVELOPMENT

A INTRODUCTION

This paper outlines the contribution that tobacco leaf cultivation makes to the economic and social development of the Third World.

Two particular examples, Malaysia and Zimbabwe, will be used to highlight the effects of purely domestic-oriented and largely export-oriented cultivation, respectively.

No attempt will be made to accommodate the fashionable anit-smoking trend in the world's "WASP" countries although regrettably the ill-informed emotionalism that this engenders has crowded out the acceptance of the beneficial effects of tobacco cultivation to the Third World that a rational approach would demonstrate.

B BACKGROUND

Tobacco has had firm friends and bitter enemies ever since North American colonists transplanted the crop from the Caribbean and South America thus launching its importance in international trade.

Tobacco is a commodity in which most developing countries can find immediate tangible social and economic benefits. Its growing generates employment for largely rural populations and it provides a ready source of cash for small-holders who would otherwise have to rely on subsistence farming or on less remunerative crops. Tobacco leaf is an important foreign exchange earner for developing countries as well as creating extensive employment opportunities, particularly in countries where manual methods of production are the most common.

In nearly every producing country, tobacco is one of the most valuable crops grown and its contribution to total agricultural income is almost invariably significant, reaching 25 per cent in Zimbabwe. Tobacco is also one of the most remunerative cash crops yielding net returns per unit of land which may be several times higher than those from other industrial crops or staple foodstuffs.

C THE GLOBAL PICTURE

1 Economic Aspects

A number of features of the world tobacco economy make it unique among markets for agricultural commodities.

Firstly, the smoking of tobacco is attended by a number of alleged health hazards, yet cigarette consumption continues to rise and the consumption of tobacco leaf has only recently begun to level off.

Secondly, the production, trade and consumption of tobacco are subject to government regulation in nearly all countries. The measures include control of planting, production quotas, guaranteed prices, incentive payments and subsidies, export and import duties, and state trading in tobacco.

Thirdly, the undoubted economic and social benefits accruing to those engaged in the cultivation of tobacco must be weighed against the social and economic costs

Figure I :

PERCENTAGE OF THE WORLD'S ARABLE LAND

UNDER DIFFERENT CROPS

	1976-78	1979-81
WHEAT	16.1	16.3
RICE	9.9	9.9
MAIZE	8.9	9.0
SOYABEANS	3.1	3.7
COTTON	2.2	2.3
COFFEE	0.6	0.7
TOBACCO	0.3	0.3

Source: FAO Production Yearbooks

deriving from the health risks in the form of additional health care facilities, increased social security payments and lower productivity among the working population; these are the chief concerns of the developed world.

i) Agriculture

Tobacco is probably the most widely grown among the non-food crops, being produced in about 120 countries, yet it only occupies 0.3 per cent of the world's arable land compared to 0.7 per cent for coffee and 2 per cent for cotton (see Figure I). Tobacco is frequently grown in rotation with crops such as wheat, maize, rice and groundnuts. Where tobacco is grown on the same land year after year as in Turkey, Malawi and Zimbabwe, the soil is generally unsuitable for most other crops.

ii) Employment

Tobacco is an important source of employment and cash income in all the countries where it is grown. In developing countries, production tends to be concentrated on very small holdings and the crop provides a livelihood not only for the growers but also for large numbers of family members and other workers.

In Malawi 100,000 families rely on the cash income from tobacco and in Tanzania tobacco leaf generates income for 370,000 people or 2 per cent of the population. In the Indian state of

Andhra Pradesh, tobacco provides a living for 75,000 farmers and 2-million other workers engaged in curing, packing and processing.

To protect the farmers and ancillary workers most developing countries operate price support systems, as well as quotas and technical assistance to maintain quality.

iii) Contribution to Agricultural Incomes

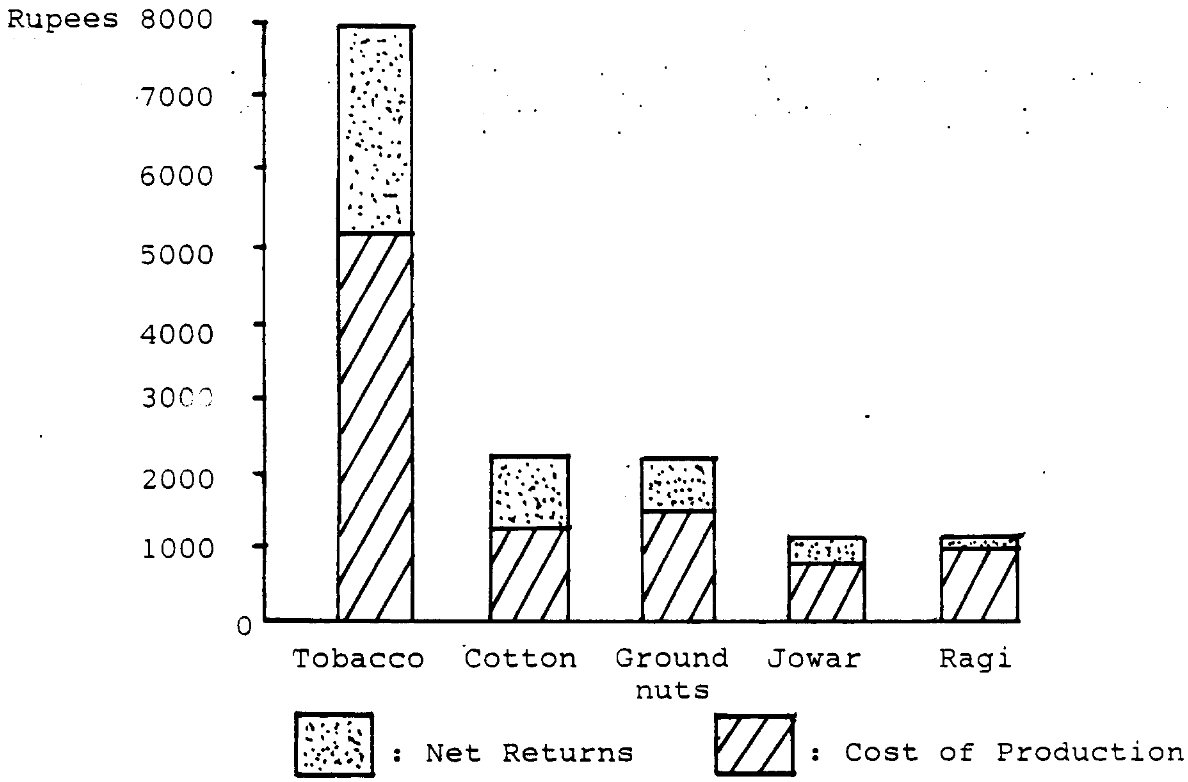
The government intervention policies affect the level of cash incomes received by tobacco growers inasmuch as they determine the volume produced and occasionally raise prices, but the varieties grown and the quality of leaf harvested also have considerable influence on aggregate cash receipts.

Even in countries where aggregate cash receipts from tobacco are relatively small, their contribution to total agricultural incomes can be considerable, For example, tobacco brings in almost a quarter of total agricultural income in Zimbabwe where it earns twice as much cash as sugar, five times as much as cotton and ten times as much as maize. In Malawi receipts from tobacco represent 8 per cent of the total cash income of farmers; they are three times higher than those from sugar, and ten times higher than those from groundnuts.

Traditional methods of production employing only human labour, and using few agricultural inputs

Figure II :

INDIA : RETURNS PER HECTARE FROM TOBACCO AND ALTERNATIVE CROPS.



beyond essential implements are the rule in most developing countries. This inevitably affects average yields which are much lower than USA, Canada and Japan for example where machinery use is widespread.

Nevertheless tobacco compares very favourably with other crops even in those countries where it yields a relatively low income per unit of land. Thus in Brazil, the only commodities providing gross cash receipts per hectare comparable with those from tobacco are fruits and broiler chickens for which markets are limited. In India gross returns from tobacco average 8,200 rupees per hectare compared with 2,500 for cotton and groundnuts; and 1,350 rupees for the staple food crops, jowar and ragi (see Figure II).

In Zimbabwe farmers receive US $2,000 per hectare for flue-cured tobacco but only US $130 for maize.

iv) Investment Costs

Whatever the technology used, the cultivation of tobacco requires the application of fertilizer and the installation of curing equipment. Consequently the costs of production tend to be much higher than in the case of food crops, particularly staple foodstuffs. Nevertheless net returns from tobacco frequently exceed gross receipts from other cash crops grown in the same area. In India and Zimbabwe net returns from tobacco exceed <u>gross</u> returns for all other crops.

The differentials in net returns per unit of land, which suggests that tobacco is invariably among the most profitable crops grown in a country are only partly due to restrictions on tobacco growing and price support mechanisms. The principal reason lies in the special combination of climatic and soil conditions required by the tobacco plant and as this occurs only in limited areas, it effectively prevents indiscriminate expansion of cultivation.

v) Export Earnings

The trend towards blended cigarettes in developed countries has created a growing import demand for oriental, burley and low-cost flue-cured leaf, mainly the preserve of the developing countries. This has stimulated their exports and their share of the international trade in leaf, by volume, has risen from 48 per cent in the late-Sixties to 53 per cent in the early-Eighties.

However, due to the predominance of low-cost, low quality tobacco in developing countries exports aggregate foreign exchange earnings averaged US $1,600M in the early-Eighties compared to US $2,400 for the developed countries. Nevertheless exports of tobacco play an important part in the agricultural economics of many developing countries which depend on them for a significant proportion of total foreign exchange earnings. Tobacco is the leading export commodity in Malawi and Zimbabwe where it accounts for one-third and one-quarter of agricultural export earnings respectively. For India the figure is 7 per cent, and Brazil 4 per cent.

The economic benefits of tobacco cultivation are wide-ranging and almost entirely beneficial. The picture with regard to the social development is not quite so clear.

2. Social Aspects

i) Social Status

For farmers, tobacco growing demands hard work, discipline and organisation to be successful. Competent farmers find it not only financially rewarding but they can also profitably apply their tobacco growing and management skills to other farm activities. Involvement with tobacco has invariably broadened farmers' horizons, enhancing awareness and self-respect and furthering social developments of the community (see section on Malaysia).

The most fundamental consequences of leaf tobacco growing stem from the evolving status of the farmer. Despite the often limited scale of his operations the tobacco farmer of the Third World is emerging as a small-scale entrepreneur and as a skilled agriculturalist. In many regions the tobacco grower ranks amongst the elite of his local community, with the more ambitious being persons of considerable social standing. A good tobacco farmer is a highly skilled cultivator with a knowledge and understanding of the characteristics and requirements of the soil, of the seeds and seedlings he is planting, of the purposes of the chemicals he is applying and of the need for correct practices. His yields and quality of other crops may well benefit from this discipline.

ii) Social Development

The degree of social development varies according to the level of income derived from tobacco and the length of time tobacco has been established. In the newer areas it is an income effect allowing families to buy goods from local traders or to employ and pay hired labour. In more developed areas, such as Santa Cruz in Brazil, ancillary industrial processes have been established, prompting the multiplier effect for further activities such as hotels, banks, legal and other professional services. An important development has been the emergence of engineering firms specialising in the design and fabrication of tobacco processing equipment. In this they have benefitted from the high cost of imported equipment that has forced the local companies to patronise local suppliers.

D POLEMICS

i) Food Crop Substitution

It is often claimed that tobacco leaf cultivation excludes the growth of staple food crops. There appears to be no evidence to support this claim in any of the world's tobacco growing areas. Widespread state intervention ensures that there is little uncontrolled growing of tobacco.

The extent to which tobacco competes with food crops for land, labour and capital depends upon the inter-relationships between environmental and agronomic conditions, possible rotation patterns and the relative competitiveness of alternative crops. However, the higher standards of farming in tobacco areas generally assure higher yields of food crops than national averages (see section on Zimbabwe).

ii) Ecological Questions

Most developing countries have faced a severe crisis, until recently, over energy costs. The problem of paying for oil imports with scarce foreign exchange plays a part in government policy towards tobacco, particularly the curing process. The deforestation which is occurring to provide wood fuel for curing barns produces a further anxiety, with serious ecological overtones unless a re-planting programme can be effectively implemented. The growing awareness of this problem has promted or required farmers to grow suitable fast-growing trees and to seek alternative, cost effective sources of fuel. Nevertheless in comparison to the ravages of "slash and burn" agriculture and domestic cooking requirements, the tobacco related deforestation is minor.

iii) Financial Burdens

Raising sufficient funds and security in order to provide the necessary self-financing portion, as well as to secure bank loans for the balance of the total financial requirements, is a major undertaking for farmers and represents the most burdensome aspect of tobacco farming. In particular, the financing of barn construction involves a major investment and commitment on the part of the farmer. Most banks' medium-term loans have a repayment period of five years but for small-holders with a normally short-term perspective based on cash in the pocket within the season, five years is a very long time horizon. The medium-term loan requires farmers to be more disciplined in their traditional attitudes to money.

E MALAYSIA - A CASE OF IMPORT SUBSTITUTION

Malaysia is a recent entrant to the international fraternity of tobacco growers, and her initial aim was to promote import substitution and for the manufacturers to by-pass increasingly severe import duties. The state of Kelantan accounts for over 70 per cent of Malaysian leaf cultivation. Just over 8,000 hectares are planted with individual plots ranging from 0.25 to 2 hectares. A key aspect of the overall agricultural situation in Kelantan is serious pressure on the land, particularly on the coastal belt, brought about by general population growth and by the fragmentation of holdings due to Islamic inheritance customs. One consequence of this pressure is that about 20 per cent of the land used for tobacco is either totally unsuitable, being saline or flood-prone, or of marginal value.

This has served to depress average tobacco yields and quality in Kelantan despite attempts by the authorities to control the pattern and growth of leaf production.

The prime reason for this undesirable increase in tobacco growing in unsuitable areas is that, even with low yields and poor quality, the financial returns from tobacco represent a guaranteed and substantial source of cash income for otherwise subsistence farmers. In comparison with the other main crops grown in the region, chiefly rice, tobacco is by far the most attractive to the individual farmer. Official studies indicate that returns from tobacco/rice cropping compared to rice/rice cropping are two and a half times greater. Yet even the more profitable rotation keeps the Kelantan farmer below the official poverty line: without tobacco the situation would be far worse for the main poverty groups - paddy farmers, fishermen, cocunut farmers and rubber small-holders - most of whom grow some tobacco.

Government policy however is that further expansion must be on the basis of production by small-holders and that they should undertake the curing of the leaf also so that the farmers will recognise the inter-relationship between the quality of green leaf, cured leaf and income. From this it is hoped that yield, quality and productivity will rise.

F ZIMBABWE: FOREIGN EXCHANGE EARNER

The tobacco industry of Zimbabwe is a sophisticated agro-industrial complex closely integrated in the country's diverse economy. Historically, tobacco was the only crop able to carry the cost of land clearance and initial cultivation. The industry directly supports 8 per cent of the national labour force and the infrastructure that has grown up to serve the industry forms the basis for agricultural commodity processing and marketing.

Zimbabwe is primarily an agricultural exporting country and there has been a close relationship between the growth in tobacco exports and in GDP. In 1985 tobacco represented 54 per cent of agricultural exports and was worth US $230M.

Agriculture employs 26 per cent of the national labour force and tobacco is the largest single employer in this group, providing a livelihood for 600,000 people. On the back of tobacco's success, the agricultural economy has diversified into cotton, wheat, soya beans and coffee, over and above basic foodstuffs. Zimbabwe is largely self-sufficient in food, unlike much of East and Central Africa, and has surpluses generating foreign exchange needed for development. The Zimbabwean tobacco farmers produce 35 per cent of the nation's maize, 30 per cent of the groundnuts, 21 per cent of the beef and 17 per cent of winter wheat. There is a particularly strong association between tobacco and the staple food, maize.

Tobacco exports contribute 15% of gross foreign exchange and up to 25% of gross national earnings. There is also a rapidly growing export trade in related items such as farm machinery, irrigation equipment and seeds. The associated support infrastructure of marketing, research, extension and supply have enabled the country to capitalise on its significant comparative advantage in export crop production, unlike many African nations which have taxed their agricultural sectors excessively to generate urban employment.

Zimbabwe has large tracts of shallow, fragile soils of low fertility which are very suitable for tobacco and not much else. Thus it does not compete with food crops for soil or other resources. It is the exports of tobacco that generate the foreign exchange necessary for imports of fuel, fertiliser and capital machinery. Without the export earnings of tobacco, Zimbabwe's ability to feed itself would be compromised as maize, the national staple, consumes 60 per cent of all fertilizers sold, most of which is imported. Since fertilizer imports can be expected to grow as agricultural production expands, the need to maintain export earnings from tobacco is self-evident. It is fair to say that Zimbabwe has evolved an efficient, labour-intensive tobacco industry well suited to the needs of a developing country.

G CONCLUSION

What would be lost if tobacco growing and export were entirely removed from the Third World economy? This question helps to concentrate one's view on the crop's contribution to the developing world.

For farmers who have mastered the disciplines of tobacco growing, the psychological and economic impact would be considerable. While cultivation demands long hours, hard work and considerable investment, tobacco is a profitable crop and one which provides a stable source of income in comparison with most other cash and food crops. The cash surplus generated enables the farmer to raise his standard of living by the purchase of additional land and essential and modest luxury items. Farmers also are able to alleviate their other debt burdens and to pay for their children's education.

The acquired tobacco growing skills can be applied to other crops. The necessity of undertaking loans to finance tobacco operations exposes the farmer to the disciplined requirements of money management. For all these reasons tobacco farmers tend to have a greater degree of awareness and self-respect and higher social status in the community than other farmers. Consequently there is a greater likelihood that such farmers will remain on the land and continue to contribute to rural and national societies and economics, as the example of Malaysia and Zimbabwe show. Not only has tobacco growing generally had a positive impact on food production, tobacco related incomes can stimulate, directly and indirectly, the establishment and development of other manufacturing activities and services. This multiple effect is an important contributor to both regional and overall economic and social development. Most of this would be lost in the unlikely event of tobacco growing being discontinued.

SOURCES

1 International Tobacco Information Centre, Brussels

2 Public Affairs Director, Rothmans International plc

3 "The Economic Significance of Tobacco" - FAO, 1983

4 "Leaf Tobacco: Its Contribution to the Economic and Social Development of the Third World" - Economist Intelligence Unit, 1980

5 "Tobacco: Generator of Wealth" - World Tobacco, London, 1983

6 Ceres: FAO Review on Agriculture and Development