

Appraising the Impact of International Monetary Fund and World Bank on African Economic Development: Issues, Challenges and Solutions.

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Abstract

The International Monetary Fund (IMF) and the World Bank (WB) were offshoots of the Bretton Woods Conference held in 1944, where a total of 44 world leaders under the United States of America agreed to control the global economy through finance, trade and investment. According to the US and her allies, the primary role of the IMF and the WB is to grant loans to most especially the third world countries that had suffered a chain of economic catastrophe, ranging from the era of the Atlantic slave trade, Imperialism and Colonialism to the present Neocolonial era, to enable them tackle balance of payment deficits and achieve economic development. Therefore, the IMF and the WB introduced the Structural Adjustment Programs (SAP) as means of regulating and exploiting the Third World Economies, with Africa at the forefront. SAPs were based on arbitrary policies such as retrenchment of workers, salary cuts, withdrawal of subsidies, depreciation of currencies, hike in the prices of goods and services, increment of taxes, commercialization and privatization of public enterprises as pre-conditions for granting loans to the African countries. SAPs were introduced in the 1980s and continued to impact negatively on the African continent up to the present day, thereby making it difficult or impossible for Africa to achieve sustainable economic development. This paper examines the roles of the IMF and the WB in the economic underdevelopment of Africa, and proffers possible solutions to the main issues and challenges posed by the two giant Bretton Woods Institutions.

Keywords: Examine, Role, IMF, WB, Development, Underdevelopment, Africa

Introduction

The IMF and the WB are presently the most powerful institutions in global trade, finance and investment. Since 1980, the United States government which dominates both has been using them to subjugate the less developed countries and exercise economic influence on other countries in different parts of the world. For example, the two financial institutions have forced the Third World countries to open their economies to western penetration and increase export of primary goods to the wealthy nations. These steps, among others, have multiplied profits for western national corporations while subjugating third world countries to horrendous levels of poverty, unemployment, malnutrition, illiteracy and economic decline. The region worst affected has been Africa. For four decades the IMF and WB have forced Africa to create conditions that benefit western corporations and governments.

These conditions are known as SAPs, which required governments in Africa to cut public spending including eliminating subsidies for food, medical care and education; and raising interest rates, and thus reducing access to credit; privatizing state enterprises, increasing export and reducing barriers to trade, and foreign investment such as tariffs and import duties. These measures were supposed to generate export led growth that would attract foreign direct investment and can be used to reduce debt and poverty.⁴⁶⁸ However, none of the above was properly implemented, let alone to bring about meaningful development to Africa, rather they were being used to perpetuate the syndrome of underdevelopment and economic stagnation in Africa.

⁴⁶⁸ N. Rober & W. A. Neil (1999). *Survey of the SAP in Africa: Growth, Social Spending and Debt Relief*, Centre for Economic and Policy Research. USA, P. 94.

Conceptual Clarification on Development and Underdevelopment in Historical Perspectives

In his book *How Europe Underdeveloped Africa*, Walter Rodney analytically saw development as a concept. According to him, development is a universal concept since each human society seeks to improve (develop) itself, and this instinct and capacity to make progress is not exclusive to any one society.⁴⁶⁹ Furthermore, Rodney defined development as the expansion of economic capacity of a country and of a state or society and its institutions as a whole.⁴⁷⁰ However, development from an economic perspective can be defined as a concept that has positive connotations, it involves the application of certain economic and technical measures to utilize available resources to propel economic growth and improve people's quality of life.

Underdevelopment is therefore the opposite of development. Rodney opined that over four and a half centuries Africa helped to develop Western Europe in the same proportion as Western Europe helped to underdeveloped Africa. On the other side of the coin, Rodney saw underdevelopment as progressive loss by a society over the control of its own destiny, emergence and strengthening of structures of external dependency, in the economy, health, education, cultures and state organs. Rodney therefore, attributed the underdevelopment of Africa to the age old existing unequal and exploitative relationship between Africa and Europe.

Rodney's assertion is right to a great extent, looking at the adverse effects of such Euro-African unequal ties. Critically looking, internal factors and

⁴⁶⁹. W. Rodney (1972). *How Europe Underdeveloped Africa*, Dar Essalam, Penguin Publishers, P. 19.

⁴⁷⁰. W. Rodney (1972). *How Europe Underdeveloped Africa*..... Op Cit. P. 20

impediments such as corruption, poor leadership, political insecurity and instability, high illiteracy and infant mortality rate, infrastructural decay and lack of patriotism among Africans may appear more instrumental than the external factors in thwarting African development. This could be buttressed when one realizes the key role being played by unscrupulous African leaders and other influential figures as agents of Neocolonialism and Globalization, in collaboration with the IMF, WB, and other Transnational Corporations in Africa.

The Falsity of IMF Assistance to the African Countries

It is disheartening to note that all the IMF and WB oriented policies only compound rather than solve the economic problems facing Africa due to lack of proper implementation and the fact that they were not intended in any way to develop the continent. According to a Three-Year Multi-Country study released in April 2002, by the Structural Adjustment Participatory Review International Network, which was prepared in collaboration with the WB, national governments and civil societies; SAPs have been expanding poverty, inequality and insecurity around the world. They had torn the hearts of the economic and social fabrics of Africa, increasing tensions among different social strata, fueling extremist movements and delegitimizing democratic political systems. Their effects particularly in Africa were so compounded and pervasive that no amount of targeted social investments can address the social crisis that they had endangered.⁴⁷¹

⁴⁷¹. H. Therasa & W. Catherine. (1985). *Rhetoric and Reality*, London: Pluto Press. P66.

SAPRIN explains the above damning indictment by identifying four ways in which reforms under SAPs have impoverished people and increased economic inequality: Firstly, trade and financial sector reforms have destroyed domestic manufacturing leading to massive unemployment of workers and small producers. Secondly, agricultural, trade and mining reforms have reduced the incomes of small farmers and poor rural communities, as well as their food security. Thirdly, labour market flexibility measures and privatization have caused mass lay-off of workers and resulted in lower wages, less secure employment, less benefits and erosion of workers' rights and bargaining power. Privatization of major national assets and essential services has also allowed Multinational Corporations to exploit resources and gigantic profit from African countries, as well as increase rate for water and electricity, which had hit the poor the hardest. Fourthly, the cutting of health and education expenditure under SAPs and the introduction of user fees for these services, when combined with high utility rates has resulted in a severe increase in the number of less privileged people as well as deepening of poverty in Africa.⁴⁷²

Activities of IMF and WB in Africa

The US predominance in the world ensures that whatever their theoretical mandate might be, the IMF and the WB would remain instrumental of the US foreign policy. The role of both has been to fully integrate the third world into the US dominated global capitalist system in the subordinate position of raw material supplier and market outlet. As such these

⁴⁷²H. Theresa and W. Catherine, (1985). *Rhetoric and Reality*..... Op Cit. P. 67.

institutions complement the US use of the Pentagon and the CIA to crush third world governments aspiring to achieve independent development. The debt crisis in the 1980s Africa, gave the US the opportunity to blast open and fully subordinate the economy of the continent through WB and IMF.⁴⁷³

Starting in 1980, less developed countries were unable to pay back loans taken from western commercial banks, which were collected in the 1970s.⁴⁷⁴ The IMF and the WB imposed SAPs on developing countries who wanted to borrow money to service their debts. The SAPs first introduced in 1980, enforced privatization of industries (including necessities such as health care, and water), cuts in government spending, and imposition of user fees, liberalizing of capital markets, which led to unstable trading in currencies, market based pricing (which tends to review the cost of basic goods), higher interest rates, and trade liberalization. SAP evolved to cover more and more areas of domestic policy, not only fiscal monetary and trade policy, but also labour laws, health and environmental regulation, civil service, energy policy and government procurement.⁴⁷⁵

With the imposition of its own SAP in 1980s, the IMF and the WB became the most influential institutions in the world. For instance, the IMF's two thousand five hundred staff directed the economic conditions of life to over Fourteen Billion people in Seventy Five developing countries. Until the 1980s, IMF involvement in the third world countries was short and its impact, minimal, but after the debt crisis it took on an expanded role of

⁴⁷³. Jubilee 2000, Progress Report on Debt Relief for the Poorest Countries. 29/02/2001. Retrieved from www.jubil.2000uk.org/databank/briefings

⁴⁷⁴. Jubilee 2000.....

⁴⁷⁵. M. John. (2019). *The Economic Consequences of the Peace*, London: Palgrave, Macmillan. P. 58.

imposing austerity conditions on countries in difficulties especially in Sub-Saharan Africa.⁴⁷⁶ The Fund and the WB became the gendarmes for western commercial banks, ensuring that they would get repaid, and helping them consolidate their power over poor countries. Borrowing countries knew that they would not get further loans from other sources without the IMF and the WB seal approval.

Classic IMF and WB stabilization programs involved, a standard set of policies aimed at reducing current account deficits. This inevitably included a contraction of the money supply and fiscal austerity aimed at reducing excessive demand in the domestic economy. There were IMF and WB demands for implementation of strict anti-inflationary policy, privatization of public enterprises, trade liberalization and dismantling of foreign exchange controls, more flexible labour markets (a recovery of labour standards) and reducing the size of the public sector. These, meant cutbacks to education, healthcare and the social sector, and the elimination of subsidies and marketing boards for agricultural production, as well as the privatization of such basic services, portable water, healthcare and education.⁴⁷⁷

Between 1980 and 1993, seventy developing countries mostly in Africa were subjected to Five hundred and sixty six (566) stabilization and structural adjustment programs, with disastrous consequences. The 1980s therefore became known as the last decade, between 1980 and 1990, third world countries under SAPs, transferred seven billion eight hundred

⁴⁷⁶. M. John. The Economic.....

⁴⁷⁷. IMF World Economic Outlook Update: Inflation Peaking and Low Growth (IMF January,2023). Retrieved from <https://www.imf.org>.....30/10/24.

thousand dollar (\$17,800,000) to western commercial banks, so enormous was the capital drained from Africa, by severely restricting government spending in favour of debt repayment, the IMF and the WB loan terms eviscerated the African continent, leaving in its wake, spiraling poverty and hunger, fueled by slashed food subsidies and decimated health and education sectors. Growth stagnated and debt doubled to over one trillion five hundred billion dollar by the end of the 1980s, doubling again to three trillion dollar by the end of the 1990s.⁴⁷⁸ This is a pointer to the origin of African debilitating debt crisis.

Devastating Impacts of SAP on Africa

After relatively a considerable economic and social progress during 1960-1980, the following twenty (20) years of SAP devastated the African continent as follows:

Slower Economic Growth

During 1960-1980 Sub-Saharan Africa GDP per capita grew by 36%, from 1980 - 2000 period, it actually declined/shrieked to Fifteen Percent (15%). These are enormous differences by any standard and comparison and represent a loss to an entire generation of hundreds of millions of people and deprive them of any chance to improve their living standard.⁴⁷⁹ Economic growth in Sub-Saharan Africa was projected to accelerate from

⁴⁷⁸. R. Reghuram (2010). *Fault Lines: How Hidden Fracture Still Threaten the World Economy*, New Jersey: Princeton University Press. P. 99

⁴⁷⁹. Life or Debt: The Stronghold of Neo-colonialism and African Search for Alternatives. Tri-continental Institute for Social Research. Retrieved from <https://tricontinental.org/dossier-63-african-debt/crisis.27/10/24>.

two point six percent (2.6%) in 2023 to three point four percent (3.4%) in 2024. However, economic recovery remained fragile due to uncertain global economic conditions, growing debt service payments, frequent climate related disasters and escalating conflict and violence. Based on the above, Africa that was once known as the continent of affluence and prosperity, eventually fell a prey to the US/West and other advanced nations.

Africa is currently facing numerous economic challenges. According to the region's most recent economic update, growth in Sub-Saharan Africa was projected to two point five percent (2.5%) in 2023, from three point six percent (3.6%) in 2022. Rising conflict and violence across the continent exerted dampening effects on economic activities, with climate shocks poised to exacerbate this fragility. About four hundred and sixty three million (463m) people in the region were still leaving in extreme poverty in 2023.⁴⁸⁰

Increased Poverty

According to the WB, in 2003, over three hundred and fifty million (350m) people more than half of Africa's population of six hundred and eighty two million (682m) people lived below the poverty line of one (1) US Dollar per head, a seventy five percent (75%) increase over the two hundred million (200m) figure in 1994.⁴⁸¹ This was partly due to the harsh and draconian policies imposed by SAPs on Africa, and partly due to corruption and bad governance which bedeviled the continent, thereby

⁴⁸⁰. Africa Overview Development News, BBC World Service. September 2024.

⁴⁸¹. Life or Debt.....

making a vast majority of Africans to become poorer and an insignificant percentage of the African population to become richer.

Lower Incomes

Africa's per capita income in 1990 was at the same level it had been in 1960. Per capita income for most of the Sub-saharan countries fell by twenty five percent (25%) during the 1980s, and for eighteen (18) countries, these incomes were lower in 1999 than in 1975. In 1960 Sub-saharan Africa's per capita income was about one ninth (1/9) of that in high income countries. By 1998 it had deteriorated drastically to about one eighteenth (1/18).⁴⁸² Unfortunately for Africa, the level of deterioration keeps increasing to the present day due to the continued presence and activities of the IMF and the WB, their counterpart institutions and intensification of our internal contradiction and crises; revolving around corruption, bad governance, political insecurity and instability, high illiteracy and infant mortality rate, gross policy inconsistencies and misplacement of priorities, infrastructural decay and lack of patriotism among Africans.

Lower Human Development Indicators

According to the United Nations Development Program, eighty percent (80%) of low human development countries, the ones with low incomes, low literacy, low life expectancy and high population growth rates are in Africa.⁴⁸³ Average life expectancy for Sub-saharan Africa alone, was only forty seven (47) years (the lowest in the world) a drop of fifteen (15) years

⁴⁸² S. Barnard (1998). "The IMF is Hurting You" Z Magazine, P. 29.

⁴⁸³ IMF World Economic Outlook Update: Inflation Peaking and Low Growth. (IMF Jan. 2023). Retrieved from <https://www.imf.org>.... 30/10/23.

since 1980. Forty Percent (40%) of the population suffered from malnutrition which caused low birth weight among infants and stunt growth in children.⁴⁸⁴

Increased Debt Burdens

Under SAPs Africa's external debt had increased by more than Five Hundred Percent (500%) since 1980 to three hundred and thirty three billion (333b) dollars in 2004. SAPs had transferred two hundred and twenty nine billion (229b) dollars in debts payments from Sub-saharan Africa to the west between 1980 and 2004. This was four times the region's 1980 debt. Between 1994 and 2004 alone, African countries, had paid their debts three times, over yet, they were three times as indebted as ten years ago. Of the Sub-saharan Africa forty four (44) countries, thirty three (33) were designated heavily indebted poor countries by the WB. Africa, the world's poorest region paid the richest countries fifteen billion dollar (\$15,000,000) every year in debt servicing. This was more than what the continent got in aid. New loans or investment Jubilee 2000 warned that foreign investment then posed a fatal impediment to Africa's development.⁴⁸⁵

Neither the IMF nor the WB has any credible path way out of Africa's economic/debt crisis. Indeed the IMF report surrendered to reality, as it told Central Banks across the globe to avoid an-de-anchoring of inflation expectations and to ensure that the tightening of financial conditions needs to be calibrated carefully, to aim at avoiding disorderly market conditions

⁴⁸⁴. Ibid

⁴⁸⁵. Jubilee 2000.....

that could put financial stability at risk.⁴⁸⁶ The focus here is to put the market happy, while there is remarkably no care for the downward spiral conditions of living for the vast majority of people in Africa. In its October, 2024 Fiscal Monitor Report, Sub-titled helping people to bounce back, the IMF opined that while governments' top priorities must be to ensure everyone has access to affordable food and to protect low income households from rising inflation, they must not attempt to limit price increase through price control, subsidies or tax cuts, which would be costly to national budgets and detrimental to the affected countries.⁴⁸⁷ However, a cursory look at this would mean that the IMF and the WB have never come up with good policies for the betterment of mass majority of Africans let alone to promote the African developmental stride.

In January 2023, the IMF World Economic Outlook, predicted a slightly better forecast, but warned of continued worries of debt distress in the poorer nations, maintaining that the combination of high debt levels from the Pandemic, Lower Growth and Higher Borrowing Costs, exacerbated the vulnerability of those economies.⁴⁸⁸

The IMF and the WB Foreign Aid Politics

One of the dubious policies of the IMF and the WB is the foreign aid issue. It refers to the international movement of money, services or goods from governments or international institutions for the benefit of the receiving nations or their citizens. The transactions are mostly from the developing countries to the less developed economies, especially in the Sub-Saharan

⁴⁸⁶ M. B. James (2000). "The IMF and the Silent Revolution Global Finance and Development in the 1980s". Retrieved from <https://www.imf.org>.....01/11/24

⁴⁸⁷ S. Barnard. *The IMF is Hurting You* (1998). Z Magazine, July/August P94.

⁴⁸⁸ J. A. Susa (1988). *Fate More than Debt*, London: Penguins. Page 46.

Africa. For example, the US in collaboration with the IMF and the WB spent, forty billion dollar (\$40,000,000) in overseas development assistance, and total aid from the rich countries to the poor countries, was about one sixty eight billion dollar (\$168,000,000) per year.⁴⁸⁹

The two giant institutions participate more in the distribution of multilateral aid to Africa and other third world countries in the name of helping them to solve certain problems, but in reality the foreign assistance compounds, rather than solves the problems because it is often accompanied by conditions that were difficult to be accepted/met, where accepted, they ended up tying the receiving nations to the apron strings of the donor nations or institutions such as the IMF and the WB. Furthermore, the so called assistance is based on the love theory of give and take; with the IMF, WB and their collaborators taking more than what they give the African countries, in the form of relief/development assistance or loan with high interest rate or implementation of SAPs that were detrimental to Africa.

Therefore, it's disheartening to note that foreign aid in Africa leads to:

- Dependency on donor nations for development
- Corruption and mismanagement in both the public and private sectors.
- Inefficient use of resources and misplacement of priorities.
- Lack of accountability and transparency.
- Incessant foreign intervention, economic domination and stagnation.

⁴⁸⁹. Foreign Aid Overview, Purpose, Types and Examples. (2024), Retrieved from <https://corporatefinanceinstitute.com>

- Inadequate coordination among donor nations.⁴⁹⁰

Way Forward

For Africa to be emancipated from the bondage of subordination and exploitation under the IMF, WB and their Bretton Woods Allies, African leaders ought to take a bold step towards turning the African economy around by fighting corruption to the barest minimum, imbibing and inculcating the spirit of patriotism, reducing the incessant foreign intervention through sweeping reforms towards exploring, harnessing and exploiting Africa's abundant human, mineral and material resource for the betterment and economic prosperity of Africans. This means that the external factors were only supplanting the internal factors in derailing the African economies.

The IMF/WB SAPs imposed policies and other programs aimed at perfecting the integration of African economies into the global capitalist system should be discarded. Africa, should strive to pay the huge amount of loans collected from the IMF/WB devoid of unjustified accrued interest, develop its own independent financial institutions as done in other continents, or even repudiate the loans, for the funds were initially obtained by the US and her allies from Africa and other Third World countries through dubious means. Fascinatingly, Mali, Niger and Burkina Faso have started making giant strides in resisting the IMF, WB/western globalization and embarking on sweeping reforms that would hopefully bring them back on the right track of development. Such bold steps being taken by these

⁴⁹⁰. D. Rodrick (2023). *The New Global Economy and Developing Countries: Making Openness Work*. Washington DC: Overseas Development Council, P. 84

three countries should inspire the other African countries so that they could work collectively to salvage the situation.

In the same vein, Sub-saharan Africa may wish to adopt some of the development strategies being adopted by countries like India, Pakistan, Indonesia, Malaysia, Iran, Saudi Arabia, Brazil, Argentina etc. which were apparently making it possible for them to compete to a great extent with the developed countries in various aspects of human endeavours. One typical example, showcasing the difference in the level of development between the countries in Sub-saharan Africa and their counterparts in Asia, Latin America and the Middle East was the case of Malaysia and Nigeria in which the former received palm seeds from the latter in 1976. Amazingly, but fascinatingly Malaysia is now a leading world producer of Palm Oil and Palm Kernel, leaving Nigeria far behind. India and Pakistan are nuclear powers, Iran, Iraq and Saudi Arabia have been using their oil revenue for meaningful economic development, Indonesia has been flourishing in Textiles trade internationally. Brazil and Argentina have been recording progress in manufacturing industries, etc. While most of African countries have been wallowing in abject poverty, economic stagnation and political insecurity and instability.

Conclusion

Conclusively, the role of IMF in thwarting the development of African continent cannot be overemphasized as manifested in the retrogressive policies and programs introduced, such as SAPs and austerity measures which aimed at perfecting the integration of African economies into the world capitalist bloc for continued exploitation of the human and material

resources of the continent. The IMF in collaboration with the WB, have not only succeeded in controlling the African financial transactions, but they have also succeeded and are still succeeding in regulating global trade and investment in different parts of the world especially in the Third World countries, with Africa at the receiving end, thereby making it difficult or impossible for the continent to achieve sustainable development. However, it is important to note that African economic underdevelopment is tied to both the internal and external factors, with the former arguably outweighing the latter when one looks at the prevalence of corruption, bad governance, socio-cultural, religious and political unrest, moral decadence and lack of patriotism among the Africans. Hence the need for all Africa's outcry for good and purposeful leaderships to be based on patriotism and sweeping socio-economic and political reforms that would turn around the African economy and possibly make Africa a continent to be reckoned with.