Structural Adjustments And Their Effects: Is There A Way Out For Africa?

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12 September 2009

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ABSTRACT
The IMF and World Bank have over the years gained a stronghold in African economic policies. This is mainly due to the borrowing and lending relationship between the continent and these sister organizations. This paper seeks to address the negative effects that the IMF imposed Structural Adjustment policies have on the struggling economies of African countries and propose a solution to this problem. The paper also seeks to explore possible alternatives to taking IMF, World Bank loans and gives examples of countries who have explored such options successfully.

Key words: International Monetary Fund (IMF); the World Bank(WB); Structural Adjustment Programs; loans.

JEL: F34, F35, H81

Introduction

Ever since their establishment in Bretton Woods in 1944, the IMF and its sister organization, the World Bank have had their main objective in helping poor countries get out of debt by proposing certain policies aimed at lowering inflation, reducing trade barriers and reducing government expenditures. In the last few decades their influence has been growing stronger and stronger in Africa as many if her highly indebted nations desperately seek ways to pay off their debts and feed their populations. In these desperate times, these two organizations readily step in to "save" these drowning economies, but at a price- they must adhere to the conditions of the IMF's Structural Adjustment Programs (SAP's). These programs or policies are a set of conditions and terms that poor countries must first adhere to before qualifying to get an IMF or World Bank loan. Being the drowning nations they are and desperate for help, these poor countries comply and by doing so sign the death certificate of their economies. In this article, I would: 1) talk about what these SAP's are and their effects on an economy. 2) name a few victims and also take it further by asking if there are alternatives to IMF, World Bank loan-related policies: is there a way around this snare? 3) give two examples of other countries in recent history that have explored these alternatives successfully. 4) point out what lessons African countries can learn from these modern day development heroes and how we can apply them in order to be the authors of our own destinies.

Structural Adjustment Programs: what are they? What do they do?

The IMF/World Bank structural adjustment is a four-step outline that they "propose" to all borrowing countries. This one-size-fits-all outline does not take into consideration the socio-cultural and economic peculiarities among countries. As economist Robin Hanhel puts it:

> "The IMF has prescribed the same medicine for troubled third world economies for over two decades:
>
> - *Monetary austerity.* Tighten up the money supply to increase internal interest rates to whatever heights needed to stabilize the value of the local currency.
> - *Fiscal austerity.* Increase tax collections and reduce government spending dramatically.
> - *Privatization.* Sell off public enterprises to the private sector.
> - *Financial Liberalization.* Remove restrictions on the inflow and outflow of international capital as well as restrictions on what foreign businesses and banks are allowed to buy, own, and operate.
>
> Only when governments sign this "structural adjustment agreement" does the IMF agree to:
>
> - Lend money to prevent default on international loans that are about to come due and otherwise would be unpayable.
> - Arrange a restructuring of the country's debt among private international lenders that includes a pledge of new loans." (*Robin Hanhel, Panic Rules!, (South End Press, 1999) p. 52*)"

The effects of these conditions can be disastrous to the local economy and plunge it further into economic misery. When the internal interest rates increase, local people cannot pay off existing debts and the price of borrowing from banks increases. As a result, local businesses default on their debts and cannot borrow to buy more capital in order to expand and increase production. The government also increases taxes on its already strained population while reducing government spending on education, agriculture, health and welfare. As a result, national output slows down, people's quality of life and earning capacity drops. When this happens, countries are encouraged to remove trade barriers in order to allow foreign (usually Western) companies to dump their excess goods into the local markets. It's usually not called "dumping", its called "promoting free trade" or better still "encouraging competition within the local market." It is thus almost impossible for local firms and products to effectively compete as the foreign goods are cheaper (because they are heavily subsidized in their home countries) and more abundant (i.e. they flood the local market). Thus local industries become marginalized and cannot compete in the local not to mention the international market. "Poor countries must export more in order to raise enough money to pay off their debts in a timely manner.

- Because there are so many nations being asked or forced into the global market place—before they are economically and socially stable and ready—and told to concentrate on similar cash crops and commodities as others, the situation resembles a large-scale price war.
- Then, the resources from the poorer regions become even cheaper**,** which favors consumers in the West.
- Governments then need to increase exports just to keep their currencies stable (which may not be sustainable, either) and earn foreign exchange with which to help pay off debts. "(*Anup Shah, Structural Adjustment—a Major Cause of Poverty.(*Global Issues

Social, Political, Economic and Environmental Issues That Affect Us All))

Structural Adjustments gone bad

In order to show real life impacts of the IMF's control, Ann Pettifor*,* head of debt campaign organization gave the case of Malawi and its encounter with the organization before the food crisis hit. Malawi was encouraged to sell off its excess grain to Kenya for foreign currency because it owed money and its debtors wanted foreign exchange not Malawian Kwachas**.** One of Malawi's key commercial creditors needed to have their debt repaid, according to Malawi's president, who in a BBC interview said the government "had been forced (to sell maize) in order to repay commercial loans taken out to buy surplus maize in previous years". President Muluzi said the IMF and the World Bank "insisted that, since Malawi had a surplus and the (government's) National Food Reserve Agency had this huge loan, they had to sell the maize to repay the commercial banks." So Malawi duly sold 28,000 tonnes of maize to Kenya. Under pressure from her creditors, led by the World Bank and the IMF, Malawi exchanged maize - her people's staple diet - for dollars. Three months later Malawi had a major food crisis and according to Action Aid, 7 million of the total population of 11 million "were severely short of food".(*Ann Pettifor***,** *Debt is still the lynchpin: the case of Malawi* ***.****Jubilee.4th July 2002***).**

In 1983 Ghana sought to put a stop to the economic deterioration that plagued it during the 1970's and early 80's. It implemented the Economic Recovery Program in two stages: ERP (I) 1983-86 and ERP (II) which was further broken down into the Structural Adjustment Programmes I and II from 1987-1990. Its main objectives were to increase total production, increase national saving and investment, make "proper" use of government resources and devalue the national currency. The achievement of these objectives came at a high price because interest rates were increased, government spending was dramatically reduced, the Civil Service had to reduce its staff by 45,000 between 1987 and 1989 and the Educational Service also had to reduce its staff by 20,000 during the same period. Due to the currency devaluation, prices of imported commodities shot up and thus could not be afforded by the most vulnerable of society. Also due to the reduction of government spending, the agricultural sector suffered severely as production prices especially for cocoa (the main cash crop) increased. As a result, the nation saw a decrease in its cocoa production which also meant that enough foreign exchange could not be earned.(*Rebecca J. Cook. Human Rights of Women. 1994. Pages 423-424*).

Modern day heroes

There are many more examples littered across the continent of supposedly well-meaning policies gone bad. However instead of stating the obvious -that SAP's don't work, I will give two examples of countries who sought to sidestep the IMF and World Bank in seeking loans and aid. There are a rising number of middle income countries who have started accumulating enough reserves so as not to borrow anymore from these institutions. Such an example is Venezuela who has started offering alternative sources of credit and aid to its neighbors including Bolivia and Ecuador. (*Mark Weisbrot. The Nation. June 11 2007).*There no terms and conditions for this aid and receiving countries are free to use the money as they see fit. Seven countries in South America led by Hugo Chavez: Venezuela, Argentina, Brazil, Uruguay, Paraguay, Bolivia and Ecuador have announced their intention to form their own bank, The Bank of the South. The aim of such an institution is to sidestep the IMF and World Bank in granting loans and aid to countries in South America. It has been agreed that each of the member states would give 10% of their international reserves to the bank making a total of $7billion as startup capital. Each member state would have equal voting power, with no country having priority over the others. Venezuela has finished paying off its IMF loans and Ecuador is following suit. The IMF and World Bank are steadily losing their influence in Latin America. In 2005 up to 80% of the IMF's loan portfolio went to South America now its only 1%. (*Stephen Lendman*. *An Alternative to IMF and World Bank Dominance -The Bank of the South.29th October 2007)*

So, what needs to be done?

Considering the fact that Africa to a large extent needs the West for its product market, capital and technology, what comes as a first priority is to negotiate favorable trade terms for both parties. Botswana renegotiated its diamond deal with the South African diamond cartel, De Beers against the advice of the cartel and its ally, the World Bank. It ensured that it got a greater share of the profits and more favorable trade terms from the new deal. Many of the terms of trade between African States and the West mostly favor the West: "free trade" is encouraged, but it is only free to the West as they dump their products in our markets whiles raising trade barriers against African agricultural and mineral products. African politicians should not be in a hurry to sign a quick deal with short term benefits, especially when these "benefits" are commissions that only benefit them. As Joseph Stiglitz, former chief economist at the World Bank put it "rather than objecting to the sell-offs of state industries, some politicians - using the World Bank's demands to silence local critics - happily flogged their electricity and water companies. You could see their eyes widen at the possibility of commissions for shaving a few billion off the sale price" (Joseph Stiglitz. *IMF's Four steps to Damnation*. The Observer. 2001). The Botswanan government since the time of independence had developed a consensus-based approach to policy implementation, where the people were informed and had a say in the decisions their government made on their behalf. When the financial crises hit the cattle and diamond sectors, the government carefully with the help of independent financial advisors, weighed the implications of the IMF's structural adjustment proposals. It refused to adhere to them, sent the IMF packing, tightened its belt by devising its own strategies and weathered the storm. This decision did not cause any social upheavals, as the people trusted the transparency of their government knowing that the government acted in their best interest. Today the country is labeled as having one of the fastest growing economies in the continent. Its no wonder that Joseph Stiglitz calls Botswana an "A development success".

Since much of the IMF and World Bank's stronghold on countries is due to debt, an obvious suggestion is to pay off most if not all of foreign debts on favorable terms. I applaud the Nigerian government under the leadership of Olusegun Obasanjo in paying off Nigeria's debt to the Paris Club. Nigeria negotiated its debt payment by agreeing to pay $12.4bn in cash in order to have the rest of its $30bn debt canceled. It made its last deposit of $4.6bn to the Paris Club, making it the first African nation to settle its score with foreign debtors. Despite this great achievement, the country still owes $5bn to the World Bank and other creditors. (*Nigeria settles its Paris Club deb*t. BBC news, 21st April 2006). The HIPC initiative caused a huge buzz in the international political scene because many poor countries saw the cancellation of their debts as a great opportunity to start afresh. Ghana along with many other African countries saw all or part of their foreign debt canceled. This meant that they could now channel their resources into development projects and not debt payment.

With the founding of the African Union (AU), emphasis was made on enhancing intra-African trade and promoting solidarity among member states. It's about time African countries consider their fellow nations as potential trade partners and use the laws of comparative advantage to foster the specialization of goods and services to enhance effective free trade. The AU should also focus on finding means of networking the whole continent by means of transportation (roads, railways, ports, and harbors), telecommunications and set up banking and financial systems to facilitate free trade. With all due respect, instead of AU heads of states arguing over irrelevant matters, they need to focus on getting the continent out of the death grip of the Bretton Woods organizations. Decisions need to be made, conclusions reached and followed through, debt paid, infrastructure built and corruption minimized. The statistics don't look good: nearly one third of children in Sub-Saharan Africa are underweight, more than one billion people do not have access to clean water, a child dies every three seconds from HIV AIDS and extreme poverty, more than 10% of Africans are unemployed and four out of ten adults in sub-Saharan Africa cannot read or write. (Sources: UNESCO, International Labor Organization and UNICEF). These facts should act as guidelines to influence the kind of decisions African politicians make.

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