

**The International Political Economy of Structural
Adjustment Programmes and Poverty Reduction Strategy
Papers in Africa: A Comparative Analysis**

By

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Abstract

This study focuses on the debtor-creditor relationship between African states and the International Financial Institutions (IFIs). More specifically, it makes use of ‘post-positivist’ approaches as analytical tools and it compares the controversial Structural Adjustment Programmes (SAPs) with so-called ‘post-SAPs’ in order to establish whether the latter debt relief strategies are an improvement on the former. Post-SAPs include, amongst others, the Enhanced Heavily Indebted Poor Countries Initiative (HIPC II) and Poverty Reduction Strategy Papers (PRSPs).

Jointly, the post-SAPs initiatives aim to make debt more sustainable, boost social spending and reduce poverty. The PRSP initiative in particular was full of promise (at least initially), as it entailed that debtors would rightfully be given the scope to create their own developmental strategies and that a blanket approach to development would be abandoned. Upon closer inspection the PRSP initiative is disappointing. The process itself is predetermined and there are additional IFI mechanisms (with traditional SAPs conditionalities) that should be read alongside this initiative.

As the Great Recession starting in 2007 unfolded, the IFIs tended to stress the success and ‘resilience’ of HIPC II and PRSP countries. However, this study argues that supposed achievements are somewhat artificial and one needs to remain cautious about its long-term impacts. African economies experienced high economic growth rates in recent years, not because of World Bank and IMF endorsed policies, but because of debt relief and a commodity boom in the 2000s. The IFIs have not done anything to forge the developmental state in Africa. Several HIPC II and PRSP graduates are already starting to show signs of debt distress. Thus, there is a need to seriously rethink the roles of the World Bank and IMF in Africa. This study recommends that true adherence to the PRSP approach could be a first step to empower African states, and it calls for the establishment of an independent mechanism that will hold debtors and the IFIs accountable for unsustainable debt.

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Acronyms

AU	African Union
BWIs	Bretton Woods Institutions
CPIA	Country Policy and Institutions Assessment
CAS	Country Assistance Strategy
CSOs	Civil Society Organisations
EBD	Executive Board of Directors
ECA	Economic Commission for Africa
ECF	Extended Credit Facility
EU	European Union
GWP	Gross World Product
HIPC	Highly Indebted Poor Country
IFC	International Financial Cooperation
IFIs	International Financial Institutions
I-PRSP	Interim Poverty Reduction Strategy Paper
IDA	International Development Association
IEG	Independent Evaluation Group
IEO	Independent Evaluations Office
IRAI	IDA Resource Allocation Index
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HIPC II	Enhanced HIPC Initiative
IMF	International Monetary Fund
IPE	International Political Economy
JSA	Joint Staff Assessment
JSAN	Joint Staff Advisory Notes
LIC	Low Income Country
LDC	Least Developed Countries
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
NGO	Non Governmental Organisation
OAU	Organisation of African Unity

OECD	Organisation for Economic Co-operation and Development
OSAA	United Nations Office of the Special Advisor on Africa
PBA	Performance Based Assessment
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PSIA	Poverty and Social Impact Analysis
PSI	Policy Support Instrument
SAP	Structural Adjustment Programme
SSA	Sub-Saharan Africa
TATA	There are Thousands of Alternatives
TINA	There is No Alternative
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Economic and Social Council
UNSC	United Nations Security Council
UK	United Kingdom
US	United States
WTO	World Trade Organisation

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Chapter 1

Africa and the IFIs: An Introduction

It's a recession when your neighbour loses his job; it's a depression when you lose yours.

- Harry S. Truman (*cited in Sibun 2009*)

1. Introduction

The “Great Recession”¹(2007 to 2011) represents an opportune moment to transform the primary international financial and economic governance structures, something that African states have been longing for many decades. This is nonetheless said with considerable caution, as the global economic crisis tended to focus on the rich nations experiencing mounting debts while concerns about Africa have largely been pushed to the margins of the agenda. Even so, the economic crisis has demonstrated that there are fundamental problems with the neoliberal discourse which has previously been regarded as sacrosanct by its followers. Its chief advocates, the World Bank and International Monetary Fund (IMF), have also been examined under a microscope. What does this entail for African debtor states? The global economic crisis has awakened attacks against the international financial institutions (IFIs)² and their knowledge structures. Critics have shown that it is indeed possible to challenge existing Western discourses that have dominated development politics for the past four decades. Views have suddenly emanated from just about every corner of the globe, questioning the neoliberal narrative with even the Economist and Financial Times, which generally write within a conservative framework, criticising Adam Smith’s free hand. Grabel (2010:2) therefore argues, “[t]he current financial crisis raises important questions for scholars of international political economy. Among the most important of these is how it is influencing various dimensions of financial governance vis-à-vis developing and transitional economies.”

¹ See Rampell’s (2009) discussion on the etymology of The Great Recession. No-one can take credit for coining the term.

² Although there are many IFIs, this study only focuses on the World Bank and IMF.

It is in the context of the Great Recession that this research aims to contribute towards existing debates on the world's primary international financial and economic governance structures. However, the chief focus of this research is on the relations between African debtor states and IFIs, not the global economic crisis. More specifically, it is hoped that this research will contribute to ongoing debates about the long bumpy journey that African debtors have taken with the World Bank and IMF. The reality is that the Great Recession is most likely only a temporary setback for the rich nations of the world. Some will experience only short-term hardships. However, these momentary conditions of destitution that many Western nations are currently experiencing stand in stark contrast to the permanent state of a depression that many African debtors are in, which is what this study will highlight. This research will therefore focus on the relationship (and the implications) of IFIs with African debtor states over the past three decades (up to 2010), from Structural Adjustment Programmes (SAPs) to Poverty Reduction Strategy Papers (PRSPs).

2. Identification of Research Theme

In the opening lines of the Communist Manifesto, Karl Marx and Friedrich Engels (1848/1992:1) wrote;

The history of all hitherto existing society is the history of class struggles ... The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

More than 160 years later this maxim continues to typify modern day society. Capitalism and the free-market doctrine have penetrated most corners of the globe. Yet, despite all the benefits of global capitalism, the world has never before experienced such large scale inequalities. The gap between the global rich and poor has increased dramatically over the past century. A new groundbreaking study by Milanovic (2009:1) concluded;

The recalculation of international and global inequalities, using the new [purchasing power parity], shows that inequalities are substantially higher than previously thought. Inequality between global citizens is estimated at 70 Gini points rather than 65 as before. The richest decile receives 57 percent of global income rather than 50 percent.

According to the World Bank's (2010a:4) own statistics, approximately 839,615,000 people (or 12 per cent) of the world's population of 6,775,236,000 comes from Sub-Saharan Africa

(SSA). This is however not reflected in their share of the world’s wealth. In 2009, the Gross World Product (GWP) was \$ 58.23 trillion; while SSA’s combined Gross Domestic Product (GDP) was only US\$ 926,544 billion (see Table 1). Thus, SSA’s GDP amount to roughly 1.5 per cent of the GWP. SSA’s share of the cake is even smaller considering that South Africa’s GDP (at current price) alone amounted to \$286.357 billion. It is therefore important for this study to focus on the people most marginalized in the world: Africans.

Table 1: GDP by Region for 2009

Region	GDP (billions of US \$)
East Asia & Pacific	6,345,309
Europe & Central Asia	2,585,329
Latin America & Caribbean	3,976,530
Middle East & North Africa	1,059,429
South Asia	1,634,623
Sub-Saharan Africa	926,544
High income	41,718,726
Euro area	12,455,979
World	58,228,178

World Bank (2010b:1,4)

Table 2: HDI 2010

	HDI value	Life Expectancy at Birth	Mean Years of Schooling	Expected Years of Schooling	GNI Per Capita	Non-income HDI value
Developed						
OECD	0.879	80.3	11.4	15.9	37,077	0.904
Non-OECD	0.844	80.0	10.0	13.9	42,370	0.845
Developing						
Arab States	0.588	69.1	5.7	10.8	7,861	0.610
East Asia and the Pacific	0.643	72.6	7.2	11.5	6,402	0.692
Europe and Central Asia	0.702	69.5	9.2	13.6	11,462	0.740
Latin America and the Caribbean	0.704	74.0	7.9	13.7	10,642	0.746
South Asia	0.516	65.1	4.6	10.0	3,417	0.551
SSA	0.389	52.7	4.5	9.0	2,050	0.436
World	0.624	69.3	7.4	12.3	10,631	0.663

UN (2010a:146)

A brief look at the Human Development Index (HDI) reveals that Africa is host to the poorest of the poor – 35 of the bottom 42 states classified as “low human development” states are African (see UN 2010a:145,146). On average, SSA lags far behind the rest of the world on

all indicators (*see* Table 2). A child growing up in one of the member states to the Organisation for Economic Co-operation and Development (OECD) could expect to live 80.3 years, while an African’s life would most likely be cut short approximately 28 years earlier. On average, the OECD citizen will typically complete 15.9 years of formal education, while the African will only be exposed to 9 years. Furthermore, the OECD’s Gross National Income (GNI) per capita is US\$ 37,077, while it is only US\$ 2,050 in SSA, thus SSA citizens are almost 18 times poorer than their OECD counterparts.

According to the World Bank (2010c:15), “[w]ith the pre-crisis surge of growth in [SSA], the proportion of Africans living on less than \$1.25 a day fell from 58 percent in 1990 to 51 percent in 2005, but the absolute number of poor people rose from 296 million to 388 million.” Some estimate that the recent crises (that is energy, food and financial) pushed another 20 million Africans into poverty while millions more linger slightly above the international poverty line (IFAD 2010:30). Furthermore, Africa is off-track on meeting all eight of the Millennium Development Goals (MDGs) (*see* UNDP 2010).

Table 3: SSA’s Debt Burden: 1980-2010

Year	Debt indicators		
	External debt (total) In US\$ billion	Ratio of debt to GDP (per cent)	Ratio of debt to export of goods and services (per cent)
1980	66.496	24.971	78.012
1982	89.695	35.630	156.009
1984	101.453	50.452	178.388
1986	125.055	60.864	235.179
1988	144.684	58.119	227.320
1990	167.365	57.893	212.337
1992	175.493	58.620	230.309
1994	196.093	73.877	257.555
1996	212.460	63.778	213.455
1998	206.070	66.118	231.074
2000	209.280	65.049	183.771
2002	205.670	62.956	184.371
2004	237.644	45.067	131.429
2006	184.496	25.851	68.648
2008	204.756	22.000	53.178
2010	223.835	21.861	64.954

IMF (2010a)

Table 3 summarises statistics on the debt crisis for SSA from 1980 to 2010. It is evident that development in Africa has been jeopardised by the debt crisis – especially when looking at

the ratio of debt to GDP over the last three decades. Vast sums of money have been spent on servicing debt that could have been utilised more productively (Mutasa 2005). At times, “[t]he average debt-service ratio has reached over 40 [percent] per annum with many of [the African states] having debt-service ratios exceeding 100 [percent]” (OAU 1987:221).

A number of comments need to be made about the African debt burden as illustrated in *Table 3*. The Paris Club has since the 1980s restructured *bilateral* debt of the heavily indebted countries, most of them African (Oatley 2006:353-354). Also, in 2005, under the Multilateral Debt Relief Initiative (MDRI), the Group of Eight unprecedentedly committed 100 percent debt cancellation by the IMF, the World Bank’s International Development Association (IDA), and the African Development Fund to several African states that have reached “completion point” under the Enhanced Heavily Indebted Poor Country (HIPC II) Initiative (see Carrillo 2006, World Bank 2006a). Thus far there have been 36 HIPC countries that received US\$72 billion, of which 32 are African (IMF 2011a). This had a positive effect on all three debt indicators from 2005 onwards.

Regardless of an increase of debt relief to Africa, empirical evidence suggests (as *Table 3* indicates) that the debt burden can fluctuate – for better or for worse. Many African states are now entering a post-debt cancellation phase and some of them have already been forced to take out huge loans as a result of the Great Recession and other crises (*see Chapter 6*). Exogenous factors may for example have critical effects on the debt burden. These include oil shocks, the HIV/AIDS epidemic, worsening terms of trade, capital flight, brain drain, intra and inter state conflict, natural disasters, etcetera (*see Fourie 2006:2, Hussain & Gunter 2005:462, Makube 2007, Oatley 2006:351, OAU 1987:221, OPEC 2007*). Furthermore, despite the (relatively speaking) high levels of debt forgiveness over the past six years, the ratio of debt to GDP in 2010 is not that much better than in 1980 (*see Table 3*), which after all marked the start of the debt crisis in Africa. One therefore has to be careful to say (in the language of the IMF and World Bank) that African debtors are experiencing ‘debt sustainability’.³ *Chapter 6* of this study also warns against this optimism.

Finally, and most importantly, this study argues that not only is the amount of Africa’s external debt important to the debt crisis, but also the implications of this. When a person is

³ See Berensmann (2004:1,2) for discussion on “debt sustainability”

indebted to another person or a bank, he or she inevitably becomes part of a power relationship with the creditor(s) - the creditor has the power to make demands on the debtor – and the same is true for debtor states. In other words, as long as African states are indebted, irrespective of how much they owe (which forms part of the ‘material structure’) to other governments or financial institutions, they are inescapably engaged in such a power relationship with the creditor. As a result, these African debtor states are forced into adopting certain structural adjustment programmes (which forms part of the ‘ideational structures’) in return for loans, which inevitably defines and affects their futures.

The purpose of this study is therefore to compare, contrast and analyse two of the most significant ‘packages’ of debt relief strategies that have been pursued under the auspices of the World Bank and IMF, the world’s supreme IFIs. This is important, given that these packages define African debtors’ relations with the external environment, which in turn means that it could create major opportunities or threats for these countries. Even the World Bank (2005a) has recognised in recent years that “[t]he most imminent threat to human security is not necessarily military threats, but rather threats that stem from the global economy.” An underlying question for this study is thus whether the IFIs have forged a stronger African state in the midst of turmoil.

The first package of debt relief strategies is commonly known as Structural Adjustment Programmes (SAPs) that were prominent in the 1980s and 1990s. In brief, countries with balance of payment deficits had to adopt certain macroeconomic policies in order to receive loans from the IFIs. Such macroeconomic policies generally required states to adopt currency devaluations, maintain price stability, cut government spending and forgo state subsidies, raise taxes, privatise public enterprises, and liberalise trade (Buirea 2004:45, Hoogvelt 1997:168). The effects of SAPs remain controversial, but there is a general consensus in the developing world that they have failed to “build the capacity to recover” from economic recession and did not “promote long-term development” (Colgan 2002). Many developing states experienced slower growth, high inflation levels, widened trade deficits, and lower incomes. Taken together, SAPs led to higher poverty levels, lower living standards, increased income inequalities, and higher unemployment, while social services – especially education and health care – declined or ceased to exist (Colgan 2002, Ismi 2004, Mlambo 1997, Situmeko et al 2004).

After SAPs had been introduced in the developing world, growth stagnated and their debt burden “doubled to over \$1.5 trillion by the end of the 1980s, doubling again to \$3 trillion by the end of the 1990s” (Ismi 2004:9). At the end of the SAPs period, Adedeji (1999: 526) remarked;

So severe has been the burden of debt on ordinary people in the debt-distressed countries, that its destructive impact is comparable to that of war. The only difference is that children and pregnant women are dying, rather than soldiers and instead of millions of wounded, there are millions of unemployed. The war-like impact of debt is tearing down schools, hospitals and fabric of societies.

The second package of debt relief strategies originated in the mid-1990s and it is broadly known as the HIPC Initiative. The HIPC Initiative worked as follows: In order to qualify for debt relief and aid, HIPCs had to “demonstrate sound economic management through satisfactory compliance with and implementation of policy reforms for three years under the IMF and World Bank programmes” (Morrissey 2002:9). Three years into the HIPC Initiative, the Bretton Woods Institutions (BWIs) acknowledged that the Initiative was not a sufficient solution to make debt sustainable (Gunter 2002:6,7; Bretton Woods Project 2003). Accordingly, the IMF and World Bank developed the Enhanced HIPC (HIPC II) Initiative. Under the HIPC II Initiative, debtors are required to produce a Poverty Reduction Strategic Paper (PRSP) - in consultation with civil society, donors, and BWIs – in order to receive debt relief (Booth 2003:131,132).

PRSPs must include a comprehensive analysis of poverty, clear priorities and targets for national spending, and a system to monitor and evaluate progress in the implementation of strategies to produce the intended results. Furthermore, a Poverty Reduction Strategy (PRS) is in theory based on a country-led approach; it should be outcome-oriented; it should be based on a partnership between the state, civil society and donors (and the BWIs); and it should be multidimensional in terms of policy responses to poverty reduction (Booth 2003:136; Gould 2005:2).

Although debt is essentially an “*economic* problem it quickly translates into a *political* problem, since it usually falls to the state and its political leadership to propose and implement the frequently harsh policies that may be necessary to bring international payments back into balance” (Balaam & Veseth 1996:154). The African debt crisis is

therefore a field of study that can be located within International Political Economy (IPE), which analyses “the connection between politics and economics in international relations” (Hettne 1995:2). More importantly, an IPE perspective can identify political and social dimensions that are often ignored by pure economic reasoning. One such dimension that is neglected by economists is that of *the role of power* in the global economy (*see* Strange 1997:34-39). Whether the PRSP process is an improvement of previous structural adjustment, is therefore not exclusively a question of economics, but of IPE.

3. Literature Review

There exists an abundance of research on the effects of the SAPs of the 1980s and 1990s. Literature on SAPs range from views that condemns it and argue that SAPs failed or at least failed in certain countries or economic sectors (Chikulo 1997, Frimpong 1997, Hoogvelt 1997:162-181, Jaluwa 1997, Moshi 1997, Simukonda 1997); mixed views on SAPs (Colgan 2002, Mensah 1997, Miapose 1997, Mlambo 1997; Ismi 2004, Situmeko et al 2004); and those that argue that SAPs did not fail (for various reasons) or at least that SAPs were the only alternative for Africa’s economic crisis (Hope and Kayira 1997, Kayira and Hope 1997). Although it would be pointless to duplicate the work of such research, it is important to review it in order to find commonalities between the different explanations (specifically reasons for the failure of SAP), especially those relating to Africa. Furthermore, it will also be important to review such research a decade after it has been written. For example, although the World Bank and the IMF praised Ghana as the most successful country under the SAPs (Mkandawire & Soludo 1999:58,82,83), one should ask: what has happened to Ghana (and other IFI star pupils) in terms of economic performance in the long term? Did SAPs have long-term positive effects for Ghana and other countries that were also praised for their alleged success? Shortly after SAPs came to an end, Ghana still suffered from high levels of inflation – 14.8 per cent for 2003 - and a high level of foreign debt as percentage of its goods and services – 291 per cent between 2000 to 2002 (The Economist 2005:38,40). What is the state of play with regards to similar countries with a long history with the BWIs?

Ever since its inception, the HIPC and PRSP initiatives received a lot of publicity. The HIPC II initiative in particular has been hailed as a success by the IFIs (IMF 2010b, IMF 2010c). Still, it could be argued that accomplishments of HIPC II is largely measured, not by the

content of the initiative and associated programmes, but by the amount of debt relief that some countries have received.

Nonetheless, at the centre of the HIPC II approach, as claimed by the IFIs, is the PRS. An early assessment by Booth (2003) argues that although some difficulties have been identified with PRSPs, there were also a number of opportunities created by these strategies. Most notably, Booth (2003:140-150) argues that PRSPs have mainstreamed and widened state-led poverty reduction efforts and have created new channels for debate on domestic policies on poverty. For Dante *et al* (2003:217-234) PRSPs have created the opportunity to improve aid coordination; and it seems that donors have welcomed this approach.

A number of scholars and organizations have also identified early problems with the PRSPs approach. For example, Farrington & Lomax (2001:541) argue that the early phases of PRSPs lacked debate surrounding its implementation. Action Aid *et al* (2003) published a report that focuses on the impact of PRSPs on HIV/AIDS. It is argued that the fight against HIV/AIDS is undermined due to the budgetary constraints imposed by PRSPs. There have also been some concerns that inputs into the development policies of the PRSPs have been very elitist (even to key government individuals such as parliamentarians) and lacked participation from civil society (Booth 2003:155-157; Gould & Ojanen 2005:24-29; Lister & Nyamugasira 2003:93-106). The implication is therefore that this raises serious questions about the supposed ‘ownership’ of PRSPs as advocated by the BWIs. Cooke (2003:47-61) goes even further than mere criticism concerning who was involved in the PRSP process and condemns PRSPs as a form of “indirect rule”.

The bulk of literature available on PRSPs (with some exceptions) focuses primarily on the technocratic challenges and political issues of PRSPs (Booth 2003, Bierschenk *et al* 2003, Dijkstra 2005, Driscoll & Evans 2005). For example, there is a focus on aid effectiveness, reforms in public management, policy dialogues between different partners, and so forth. Moreover, literature that links SAPs and PRSPs only state that these strategies are different or similar (Bretton Woods Project 2003; Panos Media 2005). Yet, such claims tend to be more descriptive than analytical. In other words, there is a lack of comparative studies between SAPs and PRSPs that this study aims to fill.

This study makes use of comparison in order to analyse SAPs, HIPC II and the PRSP initiative. The bulk of literature available on the comparative method and comparative politics focus on ‘popular’ issues and units of analysis (for example states, state institutions, societies, ideologies et cetera) as comparables (*see* Almond & Powell 1996; Chilcote 1981; Kamrava 1996; Kesselman et al 1996; Kopstein & Lichbach 2000). Even those aiming to promote the comparative method (Green 2002; Keman 1993; Lane 1996) assume that scholars are going to compare popular issues and units of analysis. Literature specifically related to comparing debt relief strategies is therefore almost nonexistent. Consequently, and as a challenge, this study has to develop its own comparative parts. In other words, ‘what is to be compared and contrasted when comparing SAPs with PRSPs?’ is a question that needs to be answered by this study. More importantly, this study will use the comparative method as a form of ‘deconstruction’ (*see* Chapter 2).

4. Identification and Demarcation of the Research Problem

The general focus of this study is on the international financial structure, which is “the set of relationships, institutions, and practices that binds together creditors and debtors, borrowers and lenders” (Balaam & Veseth 1996:148). The international financial structure (or system) forms part of one of the key sources of power in the global economy and it is therefore also an important focus for scholars of IPE (Oatley 2006:307-357; Strange 1994:90-118). From all the power structures that have been identified by Strange (1994:30), she argues that the role of the international financial structure “to determine outcomes – in security, in production and in research – is enormous” and that this structure has gained “importance in the last quarter century more rapidly than any other [structure] ... in international economic relations.”⁴ An underlying theme throughout this study is therefore the role of power in the international financial structure. This study aims to identify power relationships embedded in IFI lending and how this affects African debtors. “It is impossible to study ... international political economy without giving close attention to the role of power in economic life” (Strange 1994:23).

⁴ The aim of Strange’s (1994:90-118) analysis is to explain change in the international financial structure and therefore she did not explicitly focus on the debt crisis. However, she argued that the management of international debt constitutes one of four main problems that may jeopardise the global economy.

More specifically, this study focuses on SAPs and post-SAPs mechanisms. To be clear, in view of this analysis, there is no fundamental difference between SAPs and post-SAPs initiatives. Rather, this study makes use of the term ‘post-SAPs’ to describe the proclaimed (and not the actual) break with the past. Such post-SAPs initiatives and mechanisms amongst others include HIPC I, HIPC II, PRSPs, the Extended Credit Facility (ECF), Poverty Reduction and Growth Facility (PRGF), Country Policy and Institutions Assessment (CPIA) and the Policy Support Instrument (PSI). The outcomes of these programmes will have a determining role in terms of increasing or decreasing poverty since many low-income countries (LICs) are party to these programmes and mechanisms. For example, by 2010 close to 100 PRSPs and 50 Interim-PRSPs (I-PRSP) have been circulated to the IMF’s Board and 32 African countries have reached Completion Point under HIPC II (*see* Chapter 5). Policy prescriptions of these initiatives – together with other mechanisms such as the ECF, PRGF, CPIA, PSI - are of such a nature that the political and economic structure of countries adopting these initiatives may be radically altered. If this is the case, then these initiatives may create major opportunities or threats for African countries in the global economy.

According to the United Nations (2005), “7 million children die each year as a result of the debt crisis.” A statistic such as this coupled with the fact that the debt crisis has had deteriorating effects on Africans and African economies over several decades might render Strange’s famous question of *cui bono?* – who benefits? – useful for this study (Verdun 2000:84). In addition, this study concedes that the African debt crisis should also be approached from a normative perspective. “By not taking a political perspective on financial issues one fails to take responsibilities for the outcome of ‘technocratic’ [or economic] decisions” (Verdun 2000:84). It is therefore of utmost importance to critically analyse post-SAPs initiatives and ask whether it is beneficial to African countries, whether these initiatives will lead to ‘poverty reduction’ instead of poverty augmentation, and whether these strategies are genuine improvement on SAPs.

Although many of the post-SAP initiatives are relatively new, a number of scholars and organisations have done case studies on countries under these processes. Yet, there is a ‘silence’ (or at least a lack of analysis) in research regarding comparative studies of SAPs and post-SAPs initiatives. In view of the IFIs, new initiatives are different from the SAPs of the 1980s and 1990s. The IFIs for example claims that unlike the past ‘one-size-fits-all’ macroeconomic policy prescriptions the PRS is more country specific and development

orientated (IMF 2010c). Indeed, the PRSP is promoted by the BWIs as *the* most important post-SAPs initiative.

The IFIs argue that PRSPs and other post-SAPs initiatives are paying off. In October 2010 the IMF launched the *Regional Economic Outlook: Sub-Saharan Africa*. In reference to the report's main findings, the IMF's Director for Africa, Antoinette Monsio Sayeh, seemed optimistic regarding Africa's recovery from the Great Recession when she said (IMF 2010d);

Growth of 5 percent is projected in 2010 and 5.5 percent in 2011. Should this prevail, economic growth in most countries in the region would have effectively bounced back to close to the high levels registered in the mid-2000s ... The region's resilience owes much to sound economic policy implementation before and during the 2007–09 global financial crisis.

What Sayen is implying is that Africa's so-called 'resilience' during the Great Recession could largely be attributed to the IFIs as many of these countries are currently under post-SAPs initiatives.

Some scholars have nonetheless described PRSPs as "structural adjustment in the name of the poor" or "neo-liberalism reconstituted in a populist mode" to indicate the differences and similarities of these strategies (Gould 2005:7). A comparative study of SAPs and PRSPs is therefore of vital importance to determine whether these approaches (and accompanying initiatives) are in fact different and an improvement on SAPs. To paraphrase Kipling (cited in Keman 1993:31), "what know they of [PRSPs] who only [PRSPs] know!" In other words, by examining SAPs and comparing it with present strategies allows this study to identify 'improvements' – if that is the case – in BWIs structural adjustment. If the conclusion is that these initiatives are not different, then this will raise obvious concerns about the future and resultant effects of post-SAPs packages. Nevertheless, whatever the findings of this study, the fact remains that post-SAPs initiatives will play an imperative role in the development or 'underdevelopment' of African states; the question is in what way? In other words, in what way will HIPC II or PRSPs have an impact on African debtors? Further sub-questions can also be asked for the purpose of this study, such as: What initial problems and success have HIPC II and PRSPs revealed? Are PRSPs pro-poor? Are post-SAPs initiatives merely a way of consolidating debtor interests in the developing world?

5. Methodology

This study uses a qualitative approach and is therefore analytically descriptive and interpretive. Firstly, SAPs are used as a case study (as opposed to a country based comparative approach) in order to demonstrate how these debt relief strategies have failed, especially with reference to Africa. Secondly, HIPC II, PRSPs and other post-SAPs initiatives are used as a case study in order to identify differences and similarities between various African countries. Thirdly, and most importantly, this study uses the comparative method (and will be deductive by nature) to compare SAPs with post-SAPs. This is essentially done to answer the core question of this study – are post-SAPs different from and an improvement on SAPs? The comparative method will therefore serve as a form of “deconstruction” which is “a general mode of radically unsettling what are taken to be stable concepts and conceptual oppositions” (Devetak 2001:188).⁵

This study uses an eclectic theoretical framework in order to analyse SAPs and post-SAPs in Africa. It will therefore construct a theoretical framework that incorporates specific ideas from three schools of thought – critical theory, post-modernism, and constructivism. In addition, a number of ideas of Susan Strange that specifically relates to power and power relations will also be integrated into the theoretical framework.

Like constructivists, this study takes the view that “to the extent that structures can be said to shape the behaviour of social and political actors ... normative or ideational structures are just as important as material structures” (Reus-Smit 2001:216). In other words, the question of how the ideational structure (which is largely based on neo-liberalism) of the IMF/World Bank will influence development in Africa is just as imperative as the question of how much debt relief (material structure) has been allocated to the region. Also, it is not only the competence or incompetence of technical personnel or government administrations (material structures) to implement post-SAPs that should be important, but also the way in which the ideational structure (in this context HIPC II documents, PRSPs, ECFs, PRGFs etcetera) is defined, as implementation of such policies will have a major impact on Africa’s development. In short, the power relationship of the IFIs’ ideational structures and the debtor countries (reflected to a large extent in post-SAPs initiatives) is what defines interest, and in

⁵ Chapter 2 explains in more detail ‘how’ and ‘why’ the comparative method will be used a form of deconstruction.

turn also action, which in the end will lead to development or underdevelopment of African debtors. For example, during the 1980s African states had to adopt SAPs because they struggled with balance of payment deficits. The ideational structure of the SAPs defined and prescribed what African states struggling with the debt problem ought to do in order to receive debt relief. As a result, these ideational structures (in this case, SAPs) led to actions (privatisation of certain industries, liberalisation of trade, devaluation of currencies etcetera), which in the end had material effects (a decline in GDP, increased poverty, increased unemployment and so forth). Ideational structures (such as PRSPs) could therefore have major implications for African countries.

From a critical theory and postmodern perspective (*see* Devetak 2001:163, 179-207), this study challenges and ‘problematizes’ the various discourses of the IFIs with the aim of giving ‘altered interpretations’ of the African debt crisis. The rationale for this is that the IFIs fail to critically challenge prevailing ideas and norms within their own ranks (*see* Broad 2006:387-419). As a result, the IFIs legitimise their own policies instead of promoting systemic change.⁶ Change is nonetheless possible, and the only way to create it would be to identify and challenge existing narratives within the IFIs. As argued by Matthews & Solomon (2003:163);

discourses may act to perpetuate certain situations or limit the development of alternative situations ... discourses as such should be seen as part of the relations of power which allow western dominance, rather than as merely a reflections of such relations ... to challenge western dominance... involves confronting such discourses with alternative discourses presenting different interpretations of Africa’s situation and alternative solutions to Africa’s problems.

To conclude this section, it has been emphasised that the role of power in international political economy is a central theme for this study. The role of power (whether material or ideational) is an issue that is also pivotal to all three schools of thought that have been mentioned. Yet, this study would be incomplete without incorporating the works of Susan Strange on power and power relations in international political economics.⁷ This study

⁶ Broad (2006:387-419) accuse the World Bank of “paradigm maintenance” where all countervailing ideas to economic neoliberal narratives are dealt with by hiring biases, promotion incentives, selective enforcement of rules, discouraging of dissonant discourses, manipulation of data, and supporting ‘external’ research that are in conjunction with the Bank’s knowledge. To supplement this argument can be added that the IMF and World Bank present numerous seminars and workshops for Africa and the rest of the developing world “where [they] propagate [their] theories” (Ofuately-Kodjoe 1991:174).

⁷ *See States and Markets* by Strange (1994) and *Strange Power* edited by Lawton et al (2000).

therefore borrows some of Strange's ideas that specifically relates to power structures in order to analyse SAPs and post-SAPs in Africa.

6. Structure of the Research

The subsequent chapters will be structured as follows:

Chapter 2: A Methodological Framework for Analysing the African Debt Crisis

This Chapter aims to develop a theoretical framework for this study. It specifically focuses on the importance of power in the international financial structure and how this power transcends and influences other structures in the international political economy. Furthermore, this Chapter focuses on critical theory, post-modernism and constructivism as theoretical tools to analyse discourses and meta-narratives in the context of SAPs and PRSPs. Finally, and related to these theoretical approaches, this Chapter explains the value of utilising the comparative method in order to evaluate the debt structure.

Chapter 3: The African Debt Crisis: Whodunit?

The underlying theme – *whodunit?* – for this Chapter is to identify possible reasons for the African debt crisis. More specifically, Chapter 3 aims to contextualise the relationship between African debtors and the IFIs. It will also evaluate SAPs in accordance with its most basic aims; which includes stability, growth and distribution. This Chapter concludes by deconstructing what the IFIs identified as the chief culprits – namely lack of implementation and bad governance – that led to the failure of SAPs.

Chapter 4: Implementation of a Flawed Idea: Howcatchem?

Whereas the previous Chapter focused on reasons for the debt crisis and identifying complicity, this one deals with the “10 commandments” or the ten general conditionalities states had to adopt as required by the BWIs, which are:

- “You shall attain price stability” (meaning lower inflation), but in order to do so

- “You should maintain fiscal discipline” and “avoid fiscal deficits”; with three consequences:
- “You should forgo subsidies”;
- “You should privatise public enterprises”;
- “You should broaden the tax base”;
- “You should also raise “interest rates and ... attain total financial liberalisation in a broad sense, including capital account liberalisation”;
- You should devalue the exchange rate;
- You should “eliminate protection”;
- You should “liberalise foreign direct investment”;
- You should “deregulate the economy”; and finally
- You should “protect property rights” (Buirra 2004:45).

Two questions are important in evaluating the '10 commandments': Firstly, what are the theoretical implications of such policies? And secondly, what were the practical implications of these policies? Also, this chapter focuses on more general issues with respect to SAPs. These include criticisms that SAPs were not country specific ('one-size-fits-all'), negotiated behind closed doors, not transparent and so forth. More broadly, this chapter reviews the consequences of SAPs and the reasons for their failure. The argument is that the resultant effects of SAP should serve as a lesson for post-SAPs in order to avoid the same mistakes. A lot can be learned from the policy prescriptions of SAPs, which is what this study will draw attention to. Furthermore, although the long-term effects of post-SAPs initiatives are not yet set in stone, it is argued that the impacts of SAPs might give some predictability with regards to the future of these initiatives.

Chapter 5: TATA to TINA? The Triviality of the Poverty Reduction Strategy Paper

This Chapter provides a comparative analysis of SAPs and post-SAPs. It subsequently also contextualises the emergence and nature of HIPC and PRSPs. One of the themes that are highlighted throughout this Chapter is the contrasts (at face value) between PRSPs and SAPs. More specifically, this Chapter focuses on defining aspects of PRSPs, which includes claims that it is a country-driven approach, results-orientated, comprehensive, and partnership-orientated. From a constructivist and post-modern perspective, this Chapter questions (and

‘deconstructs’) these narratives by identifying the similarities between SAPs and post-SAPs initiatives.

In addition to HIPC II and PRSPs, there is a host of IFI packages that strongly influence the direction of debtors’ economies. Such initiatives include the ECF, PRGF, CPIA and PSI. These programmes are therefore also discussed in relation to PRSPs. This is important given that PRSPs are said to be the basis of creditor-debtor relations, which is actually not the case.

This Chapter is predominantly deductive, which “is the process of determining that if a universal generalisation is true, then lesser generalisation can be true” (Chilcote 1981:18). In other words, based on the previous chapters, if this study concludes that there are major correlations between the controversial policies prescribed by SAPs and post-SAPs initiatives, the likelihood of the latter packages to forge a stronger economy within African debtor state is questionable.

Chapter 6: Downplaying the African Debt Crisis and Taking Credit for Recent Developments

It is argued in this Chapter that the BWIs had a lot to gain and to lose from the Great Recession, which is why they focused on a huge public relations campaign to make known that they are the experts on economic crises management. Not only are the IFIs ‘crisologists’⁸, but they are also the champions on issues of development. Recent positive indicators – which predominantly include comparatively high economic growth rates and low debt levels - in SSA have been exaggerated by the IFIs while other issues have been downplayed. These discourses about Africa’s supposed ‘resilience’ helps the IFIs to carry on doing what they are doing. This Chapter challenges and contextualises these recent developments. It specifically highlights some of these false assumptions by making reference to the BWIs’ star pupils, many of whom have ‘benefitted’ from debt relief and have gone through three decades of IFI endorsed programmes. This Chapter further cautions that African debtors are still in a precarious position and that recent gains can easily be reversed. It therefore ventures into the day-after debt relief and the commodity boom and asks a few

⁸ Stiglitz (2010:xiv) use the term “crisologist” to describe experts of crises.

hard questions regarding IFI programmes that have largely been neglected by the World Bank and IMF.

Chapter 7: From SAPs to Post-SAPs

If certain limitations or problems are found with post-SAPs initiatives, it is hoped that this study can contribute to a better understanding of these issues with the rationale being that in order to address an issue it first needs to be criticised. Drawing from emancipatory theory and critical theory, Devetak (2001:163) argues that theories are “not only concerned with understanding and explaining the existing realities of world politics, it also intends to criticise in order to transform them.” The final Chapter therefore aims to contribute to the current debate on post-SAPs initiatives and (based on the analysis) to make some recommendations on issues related to debt.

Chapter 2

A Methodological Framework for Analysing the African Debt Crisis

Until Lions have their own historians, tales about hunting will glorify the hunter.

- African proverb (cited in Diescho 2006:7)

Balance of payments policies and international monetary relations involve highly technical economic decisions that carry with them extremely important domestic and foreign political decisions.

- Walters & Blake (1992:64)

7. Introduction

According to Cox (1995:33) there is “no absolute distinction between actors and structures ... Structures are formed by collective human activity over time. Structures, in turn, mould the thoughts and actions of individuals.” But structures also give “a picture of reality”, in the sense that they reflect the “power relations” between states, institutions and individuals (Cox 1995:33). The same could be said about the international financial structure, which is a “set of relationships, institutions, and practices that binds together creditors and debtors, borrowers and lenders” (Balaam & Veseth 1996:148). The aim of this Chapter is to conceptualise the relationships between the Bretton Woods Institutions (BWIs) and African debtor states. Power (together with discourses) is often a central characteristic of these relationships and requires appropriate theories that will analyse it.

This Chapter outlines the methodology that will be utilised throughout this study. Section 8 briefly focuses on development and the knowledge structure of the BWIs. To a large extent this involves an assessment of the power relationship between the BWIs and African debtor states. Section 9 provides an overview of the theories and methods that will be used to analyse Structural Adjustment Programmes (SAPs) and post-SAPs initiatives, such as Poverty Reduction Strategy Papers (PRSPs). This includes three ‘post-positivist’ theories that will be drawn on electively, namely: critical theory, postmodernism, and constructivism. At the same time this also involves a critique of the methodology that is employed by the

BWIs in their analysis of debt relief strategies. The final section identifies which aspects will be analysed in the following chapters and how this will be done.

8. The BWIs, Power and the Knowledge Structure

In many political economies, those who exercise authority, who decide how big a role shall be given to markets, and the rules under which the markets work will derive power ... from force, from wealth, and from ideas.

- Susan Strange (1994:23)

This section is concerned with the nature of BWIs and their relations with African debtor states. Because of the complexity of these relations, this section will attempt to focus only on three interrelated aspects of it: the first two aspects provide one with an idea of where power is located, which is derived from the power to enforce knowledge and the power to produce knowledge. The third aspect – the type of knowledge – is equally important as it defines the futures of African debtor states.

8.1 Background

The Bretton Woods System was established in 1944, one year before the United Nations (UN) came into existence and at the tail end of World War II.⁹ With the establishment of the UN, the World Bank and the International Monetary Fund (IMF) became its specialised agencies with legal status equal to other agencies (Singer 1995:348). The aims of these two International Financial Institutions (IFIs) broadly included a desire to promote economic stability, development and peace. These institutions, like all structures, have experienced major changes over the past few decades. The size of the World Bank and IMF increased rapidly from 44 members in 1944 to 187 members today (IMF 2011b, World Bank 2011a). Also, the roles (many self-proclaimed ones) of the BWIs have been redefined and a host of other functions are also attributed to them:

According to *Article I of the Articles of Agreement*, the primary responsibilities of the IMF include: promoting international monetary cooperation, facilitating international trade,

⁹ The Bretton Woods System refers to the IMF, the IBRD which is today part of the World Bank Group, and the International Trade Organisation (ITO), later known as the General Agreement on Tariffs and Trade and then the World Trade Organisation (WTO). Take note that the focus of this study is primarily the IMF and the World Bank.

promoting exchange stability, assisting a multilateral system of payments, and making resources available to member states that are experiencing balance of payment deficits (IMF 2008a).

Since 1944 the World Bank has also broadened its functions and now the institution comprises of five development institutions. According to the World Bank (2008a), the “mission evolved from the International Bank for Reconstruction and Development (IBRD) as facilitator of post-war reconstruction and development to the present day mandate of worldwide poverty alleviation in conjunction with our affiliate, the International Development Association (IDA).” The World Bank alleges that its primary focus is poverty elimination as is evident from its mission statement: “Working for a World Free of Poverty” (World Bank 2008b).

Over the past two decades in particular the BWIs have even penetrated very controversial private sector areas such as fossil fuel lending (Berger 2010) and established itself as experts on climate change (Bretton Woods Project 2008), agriculture development or what critics call “land grabbing” (Gimenez 2010). In fact, almost all areas under the broad banner of development have some form of link to the IFI. The BWIs are also active in unconventional areas such as human rights development and peace building (Bretton Woods Project 2010a:1 and Rais 2010). In a word, there are very few areas that are not outside the sphere of the IFIs. Critics refer to these evolutionary roles as “mission creep” (Chang 2008:32-35).

It is in this context that some, such as Singer (1995:348), would argue that although the BWIs are seen as part of the UN, these institutions are “*de facto* independent” and aside from the UN Security Council (UNSC) these institutions are “actually dominant and immensely more powerful than the UN System.” The power of these institutions in the global political economy is the subject matter for the rest of this study, especially its relation to African debtors. Nonetheless, it is also worth noting that the World Bank and IMF’s salaries for its top people are somewhat indicative of the importance of these institutions (*see* Table 4).¹⁰ In 2007, the IMF released some information on the terms of the appointment of its Managing Director (MD). It was stated that he would earn a tax-free salary of \$420.930 per annum and

¹⁰ The IFIs have historically been good employers. High tax-free salaries (comparable to the corporate sector) for regular employees are accompanied with a host of other benefits often stand in stark contrast to the advice they give to the countries that they ought to serve (see Irwin 1990, World Bank 2006b).

another \$75,350 as an expenses allowance (Bretton Woods Project 2007a). There are also other top-ups such as a pension plan but details about this scheme are not known. The IMF’s MD’s total income is slightly more than the World Bank (\$493,940, which is also tax-free), the United States (US) President (\$450,000, which not tax-free), and the Secretary General of the UN (\$403,958, tax-free).

Table 4: Top Salaries in 2007

Position	Income	Tax Free?
IMF MD	\$496,280	Yes
World Bank President	\$493,940	Yes
US President	\$450,000	No
UN Secretary General	\$403,958	Yes

Compiled from Bretton Woods Project (2007a)

Evidently the roles of the BWIs have expanded since it came into being, which gives these institutions legality over more issues of social concern. Subsequently, they have become more powerful by virtue of an increase in their roles, functions and aims. Furthermore, the World Bank and the IMF have both become powerful knowledge institutions. The nexus between power and knowledge, and the relationship between the developing world and the BWIs are of great importance to this study. These relationships will be examined more closely before answering what type of knowledge is produced within these institutions.

8.2 The Power to Enforce Knowledge

There are broadly two ways through which the BWIs can enforce knowledge¹¹: the first relates to the *decision-making power of the developed world* within the BWIs and the second deals with the *power relationship that is established between debtors and creditors*.

The voting structure of the IFIs compared to the UN General Assembly (UNGA) is rather telling. The UNGA works on the “one-country-one-vote” principle while the IMF and the World Bank have for most of its existence *roughly* operated on a “one-dollar-one-vote” principle (Singer 1995:349). Added to this is the fact that the US has the sole blocking power over the most critical decisions affecting the World Bank and IMF. In effect, African countries have a more powerful voice in the UNGA than in the IFIs’ top structures. Even

¹¹ For now, the term ‘knowledge’ will be used to refer to dominant ideas and interests of a group of people, countries, or institutions at a particular point in time.

though the decision-making (or institutional) structures of the BWIs have been under constant review, the power balance still favours the Western world. What has changed?

An informal agreement between America and Europe allows the US to have the prerogative to appoint the President of the World Bank, while the European Union (EU) appoints the MD of the IMF. Boorman (2007:19), former Counsellor and Special Advisor to the IMF's Managing Director and former Director of the Policy Development and Review Department, states that, "the [EU] and the [US] seem intent on holding onto the anachronistic practice of determining by themselves who becomes the [MD] of the Fund and who becomes the President of the World Bank." Indeed, the IFIs have been very slow to create (or even reflect) change in the global economy. Shortly after the US nominated the current World Bank President, Robert Zoellick, the EU followed in their footsteps and selected Dominique Strauss-Kahn as their man for the IMF's top job. Many outsiders were angered because in 2001 the IFIs approved a report dealing with the selection of these positions. "It called for an open, merit-based process driven not by national nomination but by an external advisory group of eminent persons" (Bretton Woods Project 2007b). Yet, upon closer inspection, the US and EU decisions were not completely unanticipated. Traditionally both Western men (they have all been Western and men with the single exception of the IMF's new MD) are chosen behind closed doors, and there is no prerequisite that these heads have to have experience in the developing world, where they predominantly operate (Stiglitz 2002:19). A quick look at positions or associations that World Bank presidents and IMF MDs have occupied prior and after their postings is very indicative of this (*see* Table 5).

Therefore, one cannot help but wonder whether Robert McNamara - who was once President of Ford Motor Company and US Secretary of Defence before becoming President of the World Bank - thought that what is good for Mobutu is good for America/the World Bank/big businesses (or perhaps all three); or whether he truly had Zaire's interests at heart when he approved billion of dollars of illegitimate loans that further exacerbated people's already precarious circumstances. Similarly, in reaction to the World Bank's most recent appointment, the Global AIDS Alliance said, "Zoellick has no significant experience in economic development in poor countries ... He has been a close friend to the brand-name pharmaceutical industry, and the bilateral trade agreements he has negotiated effectively block access to generic medication for millions of people" (cited in BBC 2007).

Furthermore, the US the EU also have the right to appoint various other prominent positions within the Bretton Woods system (*see* Boorman 2007:19, N’guiamba 2007:9,10).

The IFIs have been under tremendous pressure to reform their selection procedures for its top positions. Calls for transformation intensified particularly in the wake of the Great Recession. Echoing what was said in 2001, the IMF stated in 2009 that it would “adopt an open, merit-based and transparent process for the selection of IMF management” (ActionAid *et al* 2011). Since then the IMF appointed former French Finance Minister, Christine Lagarde as the new MD (Marlière 2011), and two new deputies to the MD, which means that the MD and all three deputies are from developed nations, including the US, UK and Japan (ActionAid *et al* 2011). Although it is welcomed that Lagarde is the first woman to lead the IMF, it is a real blow to those who hoped that the selection process will become more transparent. Lagarde’s appointment came as a disappointment as it was based on a “European Consensus” (Molina 2011), less than four months after the EU’s Chairman of the Council of Economic and Finance Ministers again reiterated what the IMF has been saying since 2001. This reinforced scepticism about the IFIs’ real intentions to reform its top decision-making structures (*see* Table 5).

Reform issues also relate to the IMF and World Bank’s Executive Boards and voting power. As noted earlier, since World War II the IFIs have more or less operated on the basis of ‘one-dollar-one-vote’ which broadly determines voting power. It is worth noting that the IFIs have adopted different formulas to determine each country’s voting power. For example, the IMF looks at a country’s GDP and trade openness; while the World Bank focuses on GDP, contribution to ODA and development. The differences in terms of weighted voting are supposed to reflect the different roles of the IFIs (*see* Vestergaard 2011). Nonetheless, a few slight changes have taken place over the past few years which are supposed to reflect new power dynamics in the global economy. The point of this section is that SSA has a *low level* of representation in the IFIs’ top decision making structures. This is not the same as arguing that SSA is underrepresented as such a discussion has to take into consideration a whole range of additional issues.

Table 5: The World Bank and IMF's Chiefs since the 1980s to Present

World Bank Presidents	Term	Citizenship	Noteworthy Positions/Associations with Government or Business Before and/or After IFI Post
Robert Zoellick	2007 to Present	US	<i>Before:</i> <u>Goldman Sachs</u> , US <u>Deputy Secretary of State</u> , <u>US Trade Representative</u> , <u>Under Secretary of State for Economic and Agricultural Affairs</u>
Paul Wolfowitz	2005 to 2007	US	<i>Before:</i> <u>United States Ambassador to Indonesia</u> , <u>US Deputy Secretary of Defence</u> . <i>After:</i> US-Taiwan Business Council,
James Wolfensohn	1995 to 2005	Australia, US	<i>Before:</i> Schrodgers, Salomon Brothers, James D. Wolfensohn, Inc. <i>After:</i> <u>Wolfensohn & Company, LLC</u> , Citigroup, <u>China Investment Corporation</u>
Lewis Preston	1991 to 1995	US	<i>Before:</i> JP Morgan, Morgan Guaranty Trust Company
Barber Conable	1986 to 1991	US	<i>Before:</i> US Congressmen
Alden Clausen	1981 to 1986	US	<i>Before:</i> BankAmerica. <i>After:</i> Bank of America
Robert McNamara	1968 to 1981	US	<i>Before:</i> Ford Motor Company, US Secretary of Defence
IMF MDs	Term	Citizenship	Noteworthy Positions/Associations with Government or Business
Christine Lagarde	2011 to Present	French	<i>Before:</i> Baker & McKenzie, Former Minister of Economy, Industry and Finance, Minister of Agriculture and Fishing, and Minister of Foreign Trade.
Dominique Strauss-Kahn	2007 to 2011	French	<i>Before:</i> French Minister of Economics, Finances and Industry, Junior Minister for Industry and International Trade, Member of the French National Assembly, personal advisor to the Secretary General of the OECD, Cercle de l'industrie
Rodrigo de Rato	2004 to 2007	Spain	<i>Before:</i> French Vice President, Minister of Economy and Finance, Member of Spain's Parliament
Horst Köhler	2000 to 2004	Germany	<i>Before:</i> <u>European Bank for Reconstruction and Development</u> , <u>Federal Ministry of Finance</u> . <i>After:</i> President of Germany
Michel Camdessus	1987 to 2000	France	<i>Before:</i> Governor of the Banque de France, Treasury in the Ministry of Finance and Economic Policies, European Economic Community
Jacques de Larosière	1978 to 1987	France	<i>Before:</i> Under Secretary for Monetary Affairs, French Treasury. <i>After:</i> <u>BNP Paribas</u> , French Treasury, President of the <u>European Bank for Reconstruction and Development</u> , France Telecom

See AEI 2011, Archontology 2011, BBC 2011, Binder 1995, Bloomberg Businessweek 2011, Citigroup 2011, Connect.In.Com 2011, Encyclopedia.com 2008, European Commission 2011, Huffington Post 2011, Jackson 2003, London Speaker Bureau 2011, Marlière 2011, The Economist 2010, and Weiner 2009.

The World Bank and IMF's day to day decisions are executed by their Executive Boards. The IMF's Board comprise of 24 Executive Board of Directors (EBD) while the World Bank recently (November 2010) allocated an additional chair to Africa (Huck 2010), which brought the total number of EBDs to 25. These Directors are either appointed or elected. The US, Japan, Germany, France, the United Kingdom (UK), China, Russia and Saudi Arabia each have their own seats on both Boards, which mean that the rest of the members have to share 16 EBDs at the IMF or 17 EBDs on the World Bank's Board. Rich nations therefore have a high level of representation while the same cannot be said for SSA. For example, the EU's 27 members are represented by 10 different EBDs. However, two of the largest constituencies (of 41 countries in total) on the IMF's Board are African¹² but they are only represented by two EBDs (*see* IMF 2011c, World Bank 2011b).

If the EBDs are “wearing two hats” - one represents a constituency and the other the IFI - as described by Boorman (2007:15), could it be argued that the voting power gives an indication of whose interests are privileged during decision making time? According to Garrett & Pettifor (2000), the “IMF staff act as agents for the most powerful international creditors represented on their Board.” Thus, their argument like that of many other critics (i.africa 2008), is that the BWIs are representing Western interests while at the same time neglecting that of developing states. A more compelling argument is made by Woods & Lombardi (2006:480-515) who analyse the IMF's Board. The essence of their argument is that constituencies with large memberships (such as the two African constituencies on the IMF's Board) are both formally and informally disadvantaged. It is worth highlighting some of their arguments:

Firstly, they argue that when more than one country is represented by a constituency (which automatically also entails that they are represented by only one Director) such as the two African constituencies, the greater the chances that such a Director has to represent the IMF (as opposed to the members of the constituency). The opposite it also true; when a Director represents only one country (such as the US), he or she has the ability to represent the national interest of his or her country. This is reflected in the formal rules of the IMF, which

¹² Note that these SSA countries are represented by two “constituencies” because members have the option of choosing to which constituency they belong. However, some constituencies are dominated by one particular regional grouping. For example; many of the constituencies are dominated by Western and Northern European states. Europe is also over represented as this region always has at least three permanent Directors – Germany, France and UK plus a number of additional constituencies that are overwhelmingly Western European.

disadvantage elected Directors. Gianviti (as quoted by Woods & Lombardi 2006:492) states that,

the fact that [elected Directors] have been selected by certain member states does not create an obligation for him to defer to their views or to cast his votes in accordance with their instructions. His votes are valid even if they are inconsistent with any instructions he may have received from his constituencies. In contrast, appointed Directors (such as those serving the US, Japan, Germany, France and the UK) are accountable only to 'national actors'.

Secondly, constituencies with multiple members may not terminate the service of elected Directors, while appointed Directors “may be dismissed and replaced at will” (Woods & Lombardi 2006:292). Finally, because the chair is rotated amongst large (more or less) equal groups of countries (such as the two African constituencies on the IMF’s Board), the Director of such a chair does not have a chance to gain institutional advantages that are ascribed to the Director of constituencies with smaller membership. For example, it is extremely difficult for EBDs representing constituencies with large memberships to coordinate, prepare and represent the interest of such a group. The fact that the two African constituencies are composed of the poorest of the poor makes it more difficult for them to mobilise resources to coordinate these activities (Woods & Lombardi 2006:492-497). Needless to say, the most (economically) powerful members of the IMF are not subjected to these difficulties. Woods & Lombardi (2006:510) conclude by stating, “[o]ur evidence suggests reasons why elected Directors could be more likely to be entrenched in the [IMF’s] technocratic aims and culture than those who are appointed.” Thus, it could be argued that decision-making within the BWIs is highly skewed in favour of Western interests while at the same time neglecting that of the poorest countries in the world.

Despite numerous reforms over the past few decades, a small group of Western powers together with Japan continue to monopolise the voting power on both Executive Boards.¹³ Amendments to the Article of Agreement for both IFIs require (amongst others) 85 per cent of the vote. Thus, the US (with over 16 per cent voting power in all Boards except for the IDA) has *de facto* veto power over this matter. As can be seen from Table 6, the US, Japan, Germany, France and the UK, have combined voting powers of 37.54 per cent on the IMF’s Board. This differs slightly from the World Bank Group (WBG), which is split into three Boards: the IBRD, IDA and the International Finance Corporation (IFC). This does not entail that there are three different representatives on each Board, but simply that the

¹³ See Vestergaard 2011 regarding recent changes at the IFIs.

percentage of voting powers changes in accordance with the issue at hand. Nonetheless, the US, Japan, Germany, France and the UK also lead voting power at the WBG - with 37.35 per cent (IBRD), 34.84 per cent (IDA), and 44.85 per cent (IFC). In contrast, African countries have very low representation on both Boards. For example, the two IMF African constituencies (totalling 43 states) only have a combined vote of 4.78 per cent. For the three African constituencies represented on the World Bank's Board, the combined votes are as follows: 5.22 per cent (IBRD), 10.54 per cent (IDA), and 3.36 per cent (IFC).

Table 6: Voting Power at the IFIs

State or Constituency	Percentage of Voting Power			
	IMF ¹⁴	IBRD	IDA	IFC
United States	16.82	16.40	11.03	23.60
Japan	6.26	7.84	8.77	5.86
Germany	5.84	4.49	5.70	5.35
France	4.31	4.31	3.87	5.02
United Kingdom	4.31	4.31	5.47	5.02
Total for above states:	37.54	37.35	34.84	44.85
African constituencies	4.78¹⁵	5.22¹⁶	10.54¹⁷	3.36¹⁸

See IMF 2011c, World Bank 2011b

The importance for SSA countries to gain more power on the Boards is largely ascribed to the fact that it “is not simply an oversight body as are most corporate boards; it is the main player in most of the specific decisions taken in the Fund” (Boorman 2009:15). As noted, African constituencies have a reasonable amount of voting power on the IDA (at least compared to the other Boards) and one would assume that it is significant given that the IDA is one of the most important WBG branches dealing with SSA debtors. However, as pointed out by Vestergaard (2011:14), the IBRD is much more powerful than the IDA and IFC, as “it is IBRD shareholding that legally determines the structure of all three Boards.” It also needs to be kept in mind that the WBG's different branches have impacts across the spectrum and World Bank and IMF influence one another. For example, the IFC has significantly increased its investment portfolio over recent years. Who says that African debtors should not have a say in where it should be invested? Furthermore, as will be seen in Chapter 3 to 6,

¹⁴ Following the entry into effect of the 2008 Amendment on Voice and Participation on 3 March 2011, quota and voting shares will change slightly as eligible members pay their quota increases. Nonetheless, the argument that Africa's total voting power is very low will still hold.

¹⁵ This figure represents a total of 43 African countries divided into 2 constituencies.

¹⁶ 44 African countries represented by 3 constituencies.

¹⁷ 42 African countries represented by 3 constituencies.

¹⁸ 44 African countries represented by 3 constituencies.

the IFIs make use of cross-conditionality. Thus, Africa's voting power in one Board of the WBG is simply not enough to empower it to enforce structural change.

The power of Western interests and the knowledge embedded in the IFIs is far more extensive than the top decision-making structure. It is often argued that when a person is indebted to another person or a bank, he or she inevitably becomes part of a power relationship with the creditor(s) - the creditor has the power to make demands on the debtor – and the same is true for debtor states. “By insisting on conditionality, [the creditor may demand] borrowers to adopt austerity programmes to shore up their economies and put their muddled finances in order” (Crabaugh 2000:550). Similarly, Stiglitz (2002:44) describes conditionality as “forceful conditions, ones that often turn the loan into a policy tool.”

Some have tried to defend conditionality by arguing that at the individual level a banker would also attach certain conditions to loans. However, in the case of the African debt crisis, the banker goes far beyond making an agreement as to when the money should be paid back, since the BWIs also stipulated how these debtors should run their businesses. In the context of African states (and in many other parts of the developing world), these conditionalities became known as SAPs or the ‘Washington Consensus’.¹⁹ In this way, creditors have the opportunity to extend their power (in terms of controlling the knowledge structure) at times when many states face debt problems at the same time. For example, due to the oil crises in 1973-1975 and 1979-1980 and the global recession that followed in the 1980s (Crabaugh 2000:550), this period was one in which the Western-led BWIs became more powerful and able to dictate their knowledge in the form of the Washington Consensus to all those states experiencing balance of payment problems. Indeed, SSA's debt for 1982 stood at 98.1 billion dollars, the ratio to Gross Domestic Product (GDP) at 35.1 per cent, and the ratio of debt to goods and services was 163.9 per cent (IMF 2006). Many African states continue to experience debt problems to this day which effectively allows the IFI to make demands on them (*see* Chapter 5 and 6). However, irrespective of the amount of debt that African states owe to the BWIs, the point is that they are inescapably engaged in a power relationship with the creditor. In short, the creditor diagnoses the economic problem and is given a policy “straightjacket” which he or she can force upon its patient, the debtor (Imade 2003).

¹⁹ The term SAPs or the ‘Washington Consensus’ refers to the set of neoliberal policies that are commonly promoted by the BWIs (*see* McLean & McMillan 2003:368).

8.3 The Power to Produce and Distribute Knowledge

The Bank is the institution which we address when we need some kind of information or advice. [Do not] underestimate this fact. If you really need an expert on a certain issue related to development, the [World Bank] is where you go.

– a Brazilian government official (cited in Bretton Woods Project 2004)

Given the relationship of the BWIs with African debtor states, they have the ability to transform knowledge into conditionalities (such as the SAPs). In order to supplement the enforcement of knowledge, the BWIs also need power to produce and distribute knowledge, which is the focus of this section.

As argued, the aims and functions of the World Bank and the IMF have increased dramatically. Apart from the traditional financial services (such as lending), the World Bank also offers a number of “knowledge services” to member states and the public at large (IBRD 2008). By 1996, the then President of the World Bank, James Wolfensohn, at one of the annual IFI joint meetings declared (World Bank 1996);

Development knowledge is part of the "global commons": it belongs to everyone, and everyone should benefit from it. But a global partnership is required to cultivate and disseminate it. The Bank Group's relationships with governments and institutions all over the world, and our unique reservoir of development experience across sectors and countries, position us to play a leading role in this new global knowledge partnership.

We have been in the business of researching and disseminating the lessons of development for a long time. But the revolution in information technology increases the potential value of these efforts by vastly extending their reach. To capture this potential, we need to invest in the necessary systems, in Washington and worldwide, that will enhance our ability to gather development information and experience, and share it with our clients. We need to become, in effect, the Knowledge Bank.

The World Bank has therefore recognised its niche that it created over many years within the field of development thinking. Shortly after Wolfensohn’s speech, the World Bank explicitly stated that it would create a “knowledge management system which will aim at improving quality on the ground through being demand-driven, accessible, timely, authoritative, efficient, inclusive, user-friendly, sustainable, consistent, scaleable, flexible, and iterative” (Bretton Woods Project 2004). This knowledge role is also embedded in the “research” functions of the IMF (*see* IMF 2008b). The IMF for example provides “technical assistance” to countries “in several areas, including fiscal policy, monetary and exchange rate

policies, banking and financial system supervision and regulation, and statistics” (IMF 2008c). Both institutions therefore openly acknowledge their knowledge roles.

There are a number of ways through which the BWIs produce and reproduce knowledge; these include: publishing information (literally thousands of documents, such as project documents, analytical and advisory work, evaluations, formal and informal research papers, country and regional surveys) on their websites and in journals, hosting conferences, and publishing annual reports and books.

The vast sum of IMF and World Bank’s knowledge can be obtained freely from their websites in written, oral and visual format (for example videos, podcasts, online libraries, blogs, catalogs, and slideshows). Taking into consideration that the World Bank’s website alone reaches an estimated 700 000 users a month, and that it “has 50 e-mail newsletters with 90, 000 subscribers”, the power of the BWIs to distribute knowledge is indeed extensive (Bretton Woods Project 2004). The World Bank’s journals are said to “enjoy the largest circulation of any economics journal” (World Bank 2010d). The *Research Observer* is distributed free of charge to almost 10 800 subscribers around the World (World Bank 2010).

Additionally, the World Bank, in its drive to become a Knowledge Bank, has established a number of ideational networks. For example, in 2001 the World Bank set up the Development Gateway (DG), an internet portal designed for knowledge sharing (DG 2010). The idea behind DG was to create an independent organisation that would aim to promote poverty reduction and sustainable development via knowledge exchanges. However, critics argue that the operationalisation of the DG has been characterised by a strong Northern bias. In particular, it has been “disseminating the World Bank’s vision of development at the expense of more diverse and pluralistic views” (Jha et al 2004:3). Other think tanks and research institutions that have been developed and/or supported by the World Bank in recent years includes the Global Development Learning Network (Assié-Lumumba 2008, GDLN 2011, and World Bank 2011c), Global Development Network (GDN 2011), Global Knowledge Partnership (GKP 2011), the World Bank Institute (WBI 2011) and African Virtual University (World Bank 2011d).

Sources that are more than familiar to mainstream media, policymakers and academics are the IMF’s *World Economic Outlook Report*, *Global Financial Stability Report*, and the

Annual Report; and the World Bank's *World Development Report* and *World Development Indicators* (see IMF 2008d, World Bank 2008c). These reports are often cited and reproduced in mainstream media such as *The Economist* and *the Financial Times*. Knowledge produced by BWIs is also extensively utilised by academia. For example, at least two studies found that one-sixth of prescribed sources for (mostly postgraduate) university courses that deal with economic development were "Bank authored studies" (Broad 2006:397).

Due to the general secretive nature of the internal dynamics of the BWIs regarding financing, it is difficult to obtain statistics on how much money is spent on knowledge creation and distribution. However, the Bretton Woods Project (2004) and Broad's (2006) estimates might give some insight into this inquest. The former source estimates that 283 million dollars were spent between 1997 and 2002 in an attempt to transform the World Bank into a "Knowledge Bank" (Bretton Woods Project 2004). As for the latter source (Broad 2006:395), it is argued that the "program costs" for the World Bank's research department, which is located under the Development Economics Vice-Presidency (DEC), "over the last five years seems to have been in the upper \$30 million or lower \$40 million, trending upwards to reach ... \$50 million for 2005". Hence, the DEC is said to be the "*largest development research institution in the world*" (Squire, quoted in Broad 2006:395). More recently, the IMF's Independent Evaluation Office (IEO) claimed that the knowledge structure produced an average of 650 publications annually between the period of 1998 and 2008. This consumes about 10 per cent of the IMF's annual budget (IEO 2011:6). If these estimates are any indication of the resources that the IFIs have for knowledge creation purposes, it can safely be concluded that they are indeed powerful in influencing development theory and practice.

It is worth noting that due to the Great Recession the Group of 20 (G20) decided in April 2009, to raise *one trillion dollars* for the IMF and World Bank in order to equip these institutions to respond to the global economic crisis (AFP 2009). Given that the IFIs went through a bit of a crisis of legitimacy over the past ten years (see Chapter 6), one wonders how much money has been used to try to situate the IFIs as champions of crises and development.

8.4 What Type of Knowledge?

When the evidence changes I change my mind; what do you do?

– John Maynard Keynes (cited in Science and Technology Committee 2006:45)

It has been argued that the BWIs are largely controlled by the Western world; that the World Bank and IMF have great human and financial resources at their disposal to produce and distribute knowledge, and that (due to the power relationship that is established between a creditor and debtor) these institutions have the power to enforce ‘Western’ ideas. But what exactly is meant by ‘Western knowledge’? The concept is simply too broad, which is bound to lead to confusion. This section therefore focuses on explaining the typology of knowledge produced by the IFIs.

One way of answering what type of knowledge is produced by the IFIs is to look at their policy statements on research. The BWIs claim that they produce research that is “rigorous” and “objective” (Broad 2006:398). It follows then that policy decisions should be *evidence-based-policy-making* and not bias a certain disposition. However, the BWIs have often been accused of what could be termed “policy-based, evidence-making”²⁰, which is an idea that evidence is generated and selected in order to suit and advocate predetermined policy positions. For example, “the Bank is reluctant to consider alternatives to the models and solutions that it outlines in policy advice and documentation” (Bretton Woods Project 2004). A group of independent researchers evaluated World Bank research produced by the DEC between 1998 and 2005. They found that “[m]any Bank researchers try to prove causality by tinkering with economic models” (Bretton Woods Project 2007c). The World Bank’s famous *World Development Reports* are cited as “prime example[s] of research where the conclusions are either predetermined or negotiated in advance” (Bretton Woods Project 2007c). This view is also held by Kiely (2004:3) who argues that the BWIs have made certain claims that “are based on selective and very questionable evidence.” Similarly, a recent study on the relevance of the IMF’s research by the IEO confirmed what critics have been pointing out for a long time. It revealed that the majority (62 per cent of respondents) of its staff claimed that “their research and conclusions had to be aligned with the IMF views ‘very frequently’ or ‘somewhat frequently’,” while more than half said that “they themselves

²⁰ Term cited in Science and Technology Committee (2006:45).

experienced, or knew of instances in which research findings were adjusted to what was perceived as the institutional view on a subject” (IEO 2011:17). This is not much different from accusations levelled against the World Bank.

A second question then should follow regarding ‘what type of policies are predetermined and advocated by the IFIs’? Thus far, the term ‘knowledge’ was used to refer to dominant ideas and interests of a group of people, countries, or institutions at a certain point in time. Due to the nature of the BWIs it was assumed that such knowledge broadly takes the form of ‘Western knowledge’. Yet, Western knowledge has advocated different perspectives over time, so it would be unintelligible to talk about Western ideas and interests. In the context of this study Western knowledge will therefore specifically refer to the IFIs’ version of ‘neoliberalism’, which since the 1980s became conditional for developing countries upon receiving debt relief. Although the task of the next chapters is to elaborate on the specific policies that are advocated by this disposition, it is worth mentioning them. Neoliberalism prescribed a set of policies that called for economic development based on free trade and minimal state intervention. States were therefore generally required to devalue currency; maintain price stability, cut government spending and forgo state subsidies; raise taxes; privatise public enterprises; and liberalise trade (Buirra 2004:45).

Scant literature exists on the politics of research departments located within the BWIs. One example of an exception to this is a study by Broad (2006:387-419) which analyses the World Bank’s DEC. In his study he accuses the World Bank’s DEC of “paradigm management”, a term coined by Robert Wade. Drawing from multiple World Bank internal and external sources and interviews with World Bank employees, he argues that there are several ways through which the DEC ensures that the neoliberal paradigm is not challenged and promoted within World Bank research. What follows are the means of paradigm management as identified by Broad:

Firstly, Broad (2006:400,401) argues that the World Bank’s staff are predominantly PhD economists from the US and UK. Broad’s finding is nonetheless based on a study conducted in 1991 that concluded that 60 per cent of the World Bank’s DEC (and the World Bank in general) are American and 16 per cent British, while only 6 per cent of staff were African, Latin American, and Asian (Broad 2006:401). The World Bank has admittedly in recent years diversified its pool of employees. It currently claims that SSA and Caribbean nationals

represent 17 of its workforce, but only 11 percent are found in management and senior technical positions (Walden & Edwards 2009:7). Numerous employees complain of racial discrimination within the organisation which makes one also wonder how the IFIs deal with many of their clients in SSA (*see* Walden & Edwards 2009). A Polish representative similarly noted, “[T]he Bank often ignores potentially useful solutions from other parts of the world which were not sponsored or supported by the Bank” (Bretton Woods Project 2004). It is also of concern that there is “remarkably little work co-authored by non-Bank researchers from developing countries” (Bretton Woods Project 2007c). Beyond the diversity issues that relates to nationality and race, there are also other limits with regards to World Bank’s typical employee. As pointed out by Broad (2006:400,401), most of the IFIs’ employees are economists. This first problem with this is that economics has its limits. Given that the roles of the BWIs have expanded dramatically, the result is that they deal with issues – such as human rights, good governance, environmental problems - that are way beyond the scope of those trained in pure economics. Rao & Woolcock (2007:2), both World Bank representatives, point out that only five per cent of the Development Research Group – the division that deals with “research and knowledge creation” – are educated and have training in “non economic social sciences.” They further state that “[c]ompeting perspectives from other disciplines are simply not available to refute (or endorse) the economists’ viewpoint or to provide other key insights that are simply absent from the tool kit of economists” (Rao & Woolcock 2007:2).

Secondly, if researchers at the DEC want to rise to the top of the hierarchy, they need to maintain the neoliberal paradigm. Promotion and incentives are based on who “invariably buy into and feed the prevailing paradigm” (Broad 2006:404). Other than promotion, the World Bank’s External Affairs office, whose programme cost is estimated at between 33 and 34 million dollars per annum, rewards researchers that produce research in line with World Bank discourse (Broad 2006:411). To illustrate, on one occasion the World Bank’s DEC and External Affairs flew fifteen representatives who espouse the neoliberal doctrine to five “large meetings” around the world. The result was that the World Bank “guaranteed five large audiences with reporters for a DEC economist whose work had the neoliberal ‘resonance’ needed to catalyse action by DEC and External Affairs” (Broad 2006:412).

Thirdly, individuals that are known to challenge the neoliberal discourse are often discriminated against. They have to follow more review processes than researchers whose

views are uniform with the World Bank's paradigm and it is therefore much harder for them to get their articles published. As is the case in most research institutions, publishing is critical when researchers are up for promotion and other incentives (Broad 2006:404-7). In effect, challenging the neoliberal discourse means contesting your future prospects for promotion.

Fourthly, Broad (2006:40) argues that "people who do not project the Bank's paradigm are diminished or ostracised or deemed a 'misfit'." He cites examples of individuals who have lost their jobs because they challenged the World Bank's view (Broad 2006:409). Another study concluded that "researchers are under pressure from the Bank presidency ... not to say things that go directly against the broad policy line that the Bank is espousing. In short, the World Bank is looking for researchers that are 'known for not rocking the boat'" (Bretton Woods Project 2007c).

Finally, although it has already been cited that the research produced by the BWIs is often 'based on selective and very questionable evidence', it is worth looking at the same claim from Broad's perspective. He argues that findings are often manipulated in order to arrive at conclusions that buttress the neoliberal paradigm. For example, David Dollar - who is one of the World Bank's 'big men' - comes to the conclusion that India and China have successful economies because they followed neoliberal policies. His research gives no timeframe of when they opened up their economies, yet he draws universal conclusions (Broad 2006:408). As objective as statistics might seem to be, Kiely's (2004:3-20) study documents how the World Bank is able to make claims that globalisation (which they link to neoliberal policies) has led to a decrease in poverty around the world. Related to the issue of data manipulation and misleading conclusions by the World Bank is Broad's (2006:410,411) concern that executive summaries of reports do not always correspond to the evidence that was presented during their studies. He points out that mainstream media often only look at the main findings in conclusions and summaries of large reports and therefore presents incorrect information to the public and key policy makers. In fact, Broad (2006:412) argues that the World Bank seems to capitalise on the idea that "most people, including most journalists, will read only the press release and summary."

It should be noted that the neoliberal discourse has not always been manifested within the BWIs, as is evident from the literature that advocated a state-centric approach to development

(such as Keynesianism). Rather, neoliberalism became especially important in the 1980s and 1990s (Broad 2006:388,391). This can be explained by a number of factors: Neoliberalism as an academic approach gained currency in disciplines of economics and international political economy in the 1980s. At the same time Ronald Reagan and Margaret Thatcher - the Western world's most powerful leaders during that period – attacked 'big' government and the 'nanny state' and became ardent defenders of neoliberalism in the form of 'Reaganomics' and 'Thatcherism' (Jackson & Sørensen 2007:205, Heywood 2003:54-57). Given that practice often transcends to academia and vice-versa, the US and UK are dominant players in the decision-making structures, most researchers at the IFIs traditionally came from these states and are trained in economics, and conscious decisions have been made to adopt a policy-based, evidence-making approach, it should not be unanticipated that neoliberalism has become almost second-nature within the BWIs.

9. The Nexus between Power, Knowledge, the BWIs and the Developing World

The previous section focused on how the Western-led BWIs 'derive power ... from force, from wealth, and from ideas' over African states in the international financial structure. It is with regards to this that an international political economy perspective was chosen to analyse the power structures embedded in the IFIs to analyse the African debt situation. The following section elaborates on the nexus between power and knowledge from a more theoretical perspective. These approaches are carefully synthesised with the underlying international political economy approach and the comparative method in order to analyse the African debt situation.

9.1 Positivism: A Social Construct with Political Implications

Once established as common sense, theories become incredibly powerful since they delineate not simply what can be known but also what it is sensible to talk about or suggest ... Defining common sense is therefore the ultimate act of political power.

- Smith (1999:13)

The Age of Enlightenment was characterised by the idea that knowledge is a means to achieve human and social progress. However, the direction that the Enlightenmenters took in terms of conceptualising knowledge became very specific. "True knowledge, they asserted, can only rest on the solid ground of fact and scientific method" (Seidman 2004:11). In a

word, questions of a philosophical and moral nature became discarded and knowledge became 'scientised'. The twentieth century became especially important in term of solidifying the rules of what can be termed "scientific" or "positivist" knowledge (Smith 1999:14,15). Most importantly, it was argued that analysts could be "objective" or "politically neutral" and that knowledge could only be "scientific" if it could be "verified or falsified by experience" - that is by "empirical observation" (Smith 1999:14,15). As a result, analysts (or in this case scientists) can identify "laws" and "regularities" in the social world which would enable them to make universal claims the same way it is done in the natural sciences. (Smith 1999:14,15). It is with regard to this that Tooze (2001:177) remarks that,

Concepts such as 'knowledge' and ideology' do not have meaning outside society and, as such, come to us as part of the historically constituted social reality that we have to deal with. Their past formulations and theorisations contribute to constructing their meaning today, particularly by the reproduction of specific meaning through the actual social and political practice of everyday life.

The ideas of objectivity and political neutrality also have the implication that all knowledge claims become common sense. This is also one of the reasons why the IFIs, armed with the Washington Consensus, have gained intellectual superiority. By the World Bank's (1998a) own account;

The success of the Washington Consensus as an intellectual doctrine rests on its simplicity. Its policy recommendations could be administered by economists using little more than simple accounting frameworks. A few economic indicators— inflation, money supply growth, interest rates, and budget and trade deficits—could serve as the basis for creating a set of policy recommendations. Indeed, in some cases economists would visit a country, look at and attempt to verify these data, and make macroeconomic recommendations for policy reforms all within a couple of weeks.

Today's dominant theories of Economics and International Political Economy – mercantilism/nationalism, liberalism/neoliberalism, Marxism and to a certain extent neo-Marxism – also lean towards positivist tendencies of trying to develop general explanations of the social world (Gilpin 1987:26-54, Jackson & Sørensen 2007:181-189, Tooze 2001:176). In practice, as demonstrated above in relation to the IFIs, claims of objectivity and the scientific method also resurface. This comes as no surprise, given that most researchers at the BWIs are trained in economics. And, "[e]conomics, or rather the economics taught in most American universities ... is assumed to be empirical science of maximising behaviour.

Behaviour is believed to be governed by a set of economic ‘laws’ that are impersonal and politically neutral ...” (Gilpin 1987:28,29).

In accordance with critical theory, the implication of rationalist theories is that they take the world (and structures) as a given and little scope is left for normative questions. More will be said in the following sections about the positivist approach found within the knowledge structure of the BWIs. For now, it is important to note that rather than abandoning structural adjustment programmes altogether, the IFIs have ‘reformed’ them and claimed that it only needs fixing within (what critical theorists would call) “the accepted system of values” (Verbeek 2001:142). What is therefore needed is to turn to theoretical approaches that are able to deal with normative questions relating to the BWIs and the African debt crisis. In this quest, this study borrows selectively from three different perspectives in the post-positivist debate: critical theory, postmodernism, and constructivism. Each perspective represents certain elements that are useful for analysing SAPs and post-SAPs initiatives.

9.1.1 Critical theory

Critical theory as a theoretical approach was inspired by a variety of writings ranging from Kant, Hegel, and Marx. The twentieth century also produced a group of scholars known as the Frankfurt School whose work continued to build on and reinvent some of the ideas of their predecessors. Most famous amongst this group were Herbert Marcuse and Jürgen Habermas (Devetak 2001:156). A number of questions were raised by the critical approach regarding epistemology, ontology and the value of normativism.

Critical theory claims that there are links between knowledge and politics. In other words, critical theorists concede the political nature embedded in all knowledge claims (Devetak 2001:157). Knowledge, they argue, cannot be completely ‘objective’ and ‘value free’ as traditional conceptions of knowledge claim to be. As argued by Cox²¹ (1995:32), “[t]here is no clear separation between objectivity .. and subjectivity”. Rather, there is always a guiding

²¹ There are remarkable differences between some of the scholars that are grouped together under the banner of critical theory. Leysens (2008:71-114) for example points out that although there are commonalities between Coxian Critical Theory and the Frankfurt School, it is incorrect to claim that the former approach is entirely indebted to the latter. Furthermore, he argues that Cox’s work can serve as a bridge between positivist and post-positivist approaches (Leysens 2008:136-144).

interest that serves a political purpose (Devetak 2001:157). Theorists are themselves part of the world they analyse and by implication cannot be ‘neutral observers’. For example, political judgement could influence various “stages of research”, which includes problem selection, concept formation, data selection and interpretation, theory construction and certification (Chilcote 1981:5). Still, positivists hold that they separate themselves from the object which they analyse. Given this, they claim to identify regularities and reoccurrences in the social sciences in the same way that natural sciences identify ‘laws of nature’. This is most clearly seen in Economics and neoliberal theories of International Political Economy. Such theorists claim that politics and economics could be separated which enables them to identify ‘economic laws’. For example, neoliberals argue that “[t]he rationale for a market system is that it increases economic efficiency, maximises economic growth, and thereby improves human welfare” (Gilpin 1987:28). A critical perspective on the ‘rationale for the market system’ can be summarised as follow (Cutler 2001:169):

Belief in markets as impersonal entities neglects the crucial fact that markets are composed of people and business associations that are ultimately constituted by human beings. This tends to remove the human element from market relations: markets simply exist as powerful, depersonalised entities, whose links to structures of production, power and influence remain obscure.

Contrary to traditional conceptions of knowledge, critical theorists openly recognise the value-bias embedded in their analysis. It is in this context that Cox argues that theorists need to declare the intention of their research. “Theory is always *for* someone and *for* some purpose. We need to know the context in which theory is produced and used; and we need to know whether the aim of the user is to maintain the existing social order or to change it” (Cox 1995:31). Accordingly, there are two types of theories: Firstly, there is what Cox (1995:31) identifies as “problem solving theory”, which “takes the world as a given.” Such theories are positivist and “tend to work in favour of stabilising prevailing structures of world order and their accompanying inequalities of power and wealth” (Devetak 2001:160). Secondly, Cox (1995:31,32) identifies “critical theory” which asks “how the world system came into being?” and it explores “the potential for structural change and the construction of strategies for change.” Contrary to problem solving theory, critical theory recognises, identifies, and exposes the power relations embedded in structures – such as institutions, ideas, and systems. This is done by questioning the origins of structures and also by asking “how and whether they are in the process of changing?” (Cox cited in Cutler 2001:162).

Other than looking at the origins of structures, they could also be evaluated and problematised by employing the method of ‘immanent critique’. Accordingly, societies or institutions should be judged by the ‘ideals’ which they claim to represent (Seidman 2004:123). For example, neoliberalists argue that “markets constitute the most effective means for organising economic relations, and the price mechanisms operate to ensure that mutual gain and hence aggregate social benefits tend to result from economic exchange” (Gilpin 1987:43,44). In this instance, the question for critical theorists is therefore: Is the market the most effective means for organising economic relations? And, does the market ensure ‘mutual gain’ and lead to ‘social benefits’?

Critical theory also has certain normative implications (Cutler 2001:162). Dominant structures should not only be exposed, but alternatives should be identified in order to promote emancipation. To a certain extent, it could therefore be argued that critical theory is inspired by Enlightenment’s ideal that knowledge can be used to promote freedom. Taken from his thesis on Feuerbach, the gravestone of Karl Marx reads: “philosophers have only interpreted the world in various ways; the point is to change it” (cited in Devetak 156). A clear link therefore exists between critical theory and emancipatory theory (Devetak 159-163).

9.1.2 Postmodernism

In this section not too much detail will be given about postmodernism because it shares many common theoretical assumptions with critical theory. Rather, a brief sketch of postmodernism should suffice to bring attention to the terminology employed by its supporters. This is important because these terms are used throughout this study.

One of the central features of postmodernism is discourse analysis. A discourse “forms part of reality” and is not value-neutral (Matthews & Solomon 2003:152). Rather, discourses emanate “from a particular social structure and contributes to the maintenance or disruption of a particular social structure” (Matthews & Solomon 2003:152). In conjunction with the Foucauldian tradition, postmodernists bring attention to the relationship between knowledge and power. All knowledge, they argue, is inevitably biased and constitutes some form of power. Discourses are therefore a mere reflection of “regimes of truth” in that some ideas are

more acceptable than others rather than being “true” or “false” (Devetak 2001:185). Again, this is in stark contrast with positivist theories.

According to postmodernists, “[t]he present is never quite at one with itself” (Devetak 2001:187). Discourses could be challenged and the postmodernist project therefore involves exploiting those weaknesses by exposing them. One way through which this can be done is through deconstruction, which “challenges the institutions and public authorities that sustain linguistic, social, and political hierarchies” (Seidman 2004:169). For example, by using “double reading”, Richard Ashley has problematised or denaturalised rationalist interpretations of anarchy (Devetak 2001:191). He has demonstrated that “[a]narchy takes on meaning only as the antithesis of sovereignty” (Devetak 2001:191). Ashley’s first reading demonstrated how consistent rationalist interpretations of anarchy are, that anarchy is dangerous and will lead to self-help. The second reading, however, challenged these assumptions and Ashley’s analysis showed that anarchy need not necessarily lead to a situation of all against all.

Postmodernism represents a theory that draws attention to the relationship between power and knowledge in the sense that they are mutually constitutive. It also gives theorists a way of thinking about the social world, which is characterised by regimes of truth. Furthermore, they argue that such discourses should not only be identified, but they should be denaturalised in order to open space for alternative interpretations. The result is that ideas – similar to Marx’s conception of dialectics – are always to be improved upon. In brief, change is indeed possible.

9.1.3 Constructivism

Like critical theory, the constructivist approach was inspired by a number of theorists. The result is that there is no consistency within this school of thought (*see* Ba & Hoffmann 2003:15-33, Dunne et al 2007:167-183, Hopf 1998:171-202, Jackson & Sørensen 2007:162-177, Reus-Smit 2001:209-299, Smith 1997:252-269). Different theoretical dimensions are therefore deemed more important for certain scholars while others are completely discarded. Still, constructivists share a number of common views; some of these will be highlighted for the purpose of this study.

The methodology of constructivism is very old and could be traced as far back as the writings of Giambattista Vico, Immanuel Kant, and Max Weber (Jackson & Sørensen 2007:164). But, it was only in the 1980s and 1990s that constructivism developed into a full-blown theory of International Relations. This was due to the inability of the two dominant approaches of the discipline – neorealism and neoliberalism – to account for changes in the international system. Both theories, armed with the logic of rationalist economic theory and a commitment to individualism and materialism, did not explain the end of the Cold War (Reus-Smit 2001:209, Smith 1997:256). Amongst others, constructivists argued that rationalist theories did not give enough attention to what they identify as the “normative” or “ideational” structure, which broadly includes norms, ideas, culture and identity (Smith 1997:267).

For rational theorists, the behaviour of actors is set in stone. More importantly, it is the material structure (such as weapons and economic power for neorealists) that determines the behaviour of states. Ontologically, this means that rationalists project an “image of social actors as atomistic egoists, whose interests are formed prior to social interaction, and who enter social relations solely for strategic purposes” (Reus-Smit 2001:214). Constructivists however, argue that “[h]istory is not some kind of unfolding or evolving process that is external to human affairs. Men and women make their own history” (Jackson & Sørensen 2007:164). In other words, due to human involvement in terms of shaping global structures, change is indeed possible. The “power of ideas” is what can create (and explain) change in world politics (Ba & Hoffmann 2003:29).²²

One example regularly cited in support of constructivist theory is anarchy. For neorealists and neoliberals anarchy is dangerous and states are destined to be suspicious of one another. The result, they argue, is that states are self-interested and in a constant search for power. Accordingly, “power and interests are seen as ‘material factors’; they are objective entities in the sense that because of anarchy states are compelled to be preoccupied with power and interests” (Jackson & Sørensen 2007:165). In short, ideas are not important in terms of how states behave, rather, “they can be used to rationalise actions dictated by material interests” (Jackson & Sørensen 2007:165). However, constructivists argue that a situation of “self-help” is not a “*priori*” or “*pre-social*” (Jackson & Sørensen 2007:168, Reus-

²² See for example the constructivist explanation of how Europe developed from a continent of rivalry into the European Union; or how chemical weapons were employed during World War I while today most states regard the use of it inhuman and improbable (Ba and Hoffmann 2003:15-33).

Smit 2001:213). This is what Wendt meant by “anarchy is what states make of it” (Ba & Hoffmann 2003:23). States can ‘learn’ to cooperate (which is the case for many former enemies in the European Union), or they can ‘act’ as enemies. The ideational structure is therefore formed by “social interaction” amongst individuals, groups, institutions, states and so forth (Reus-Smit 2001:219).

The following examples should suffice in order to emphasise the importance of ideas. It does not matter how many nuclear weapons a state possesses, but rather what the purpose of those weapons are: will they be employed to destroy another country? Will they be used as a bargaining chip in order to get a security assurance, as is arguably the case for the Democratic Peoples Republic of Korea? Will the weapons be used to keep the peace? Hence, although the material structure (in this case one or thousands of nuclear weapons) might give states certain choices, it is the decision (or ideational structure) that determines the outcome, which in the above example could be nuclear war, a security assurance, or a stalemate. Furthermore, ideas could also lead to changes in the material structure. Take for example Marx’s idea of communism. This idea has been used by various individuals (for example Lenin, Stalin, Castro and Zedong) around the world to justify their policies. At the beginning of the twentieth century in Russia and subsequently the Soviet Union, Lenin and Stalin’s versions of communism (as ideas) informed how the government should manage the economy (that is, how property and capital should be used and by whom). As a result, communism had very real material effects, and Soviet Union emerged as one of the world’s superpowers after the Second World War. Given that it was considered to be economically “at least fifty years behind” the rest of the European powers when entering the First World War, the material effects that the ideational structure had on the country are indeed immense (Wolff 2002:82).

It has been established that the ideational structure is important for understanding change in the international system. Still, not all ideas are equally important. Constructivists argue that for ideas to have a great impact on political systems, they should be “widely shared amongst people” (Jackson & Sørensen 2007:166). Thus, when ideas become ‘common’ currency - discourses and narratives - they have some form of power. The task therefore is to identify ideational structures. It could therefore be argued that constructivists and critical theorists share the idea that dominant structures could be identified over certain time periods. This is what Cox referred to as ‘partial truths’ and what constructivists sometimes term “social facts”

(Dunne et al 2007:171). “They are social facts, rather than purely material ones, that exist because of the meaning and value attributed to them” (Dunne et al 2007:171).

Beyond this, critical constructivists share with critical theory the epistemological and methodological view that not all knowledge could be scientific. Just because some ideas are deemed more important than others does not mean that they are scientific. According to Dunne et al (2007:168), “the idea of social construction suggests difference across context rather than a single objective reality.” Similarly, Jackson & Sørensen (2007:167) state, “[t]ruth and power cannot be separated ... [Therefore] ... the main task for critical constructivism is to unmask that core relationship between truth and power.”

9.2 Postpositivist Perspectives in the Context of this Study

Although the post-positivist theories traditionally have an affiliation closer to that of International Relations rather than International Political Economy, they are of great value for the purpose of this study. This section will eclectically borrow some of the theoretical dimensions that have been discussed. Thus, critical theory, postmodernism, and constructivism will be fashioned to analyse the SAPs and post-SAPs initiatives. Due to the overlapping nature of all three theories, only those aspects that are most reminiscent of each will be highlighted in order to avoid duplication.

9.2.1 Critical theory

Following Coxian advice to declare the purpose of one’s study, this analysis recognises that it is value-biased in that it aims to give an alternative perspective to the Bretton Woods account of the African debt situation. Furthermore, critical theory wants to find out ‘how’ structures came into being and ‘what’ the potential is for structural change. This is also in line with an international political economics perspective (Strange 1994:18,19):

Consequences today – for states, for corporations, for individuals – imply causes yesterday. There is no way that contemporary international political economy can be understood without making some effort to dig back to its roots, to peer behind the curtain of passing time into what went before. ... What the political economist must ask, are the options that will be open in the future to states, to enterprises, to individuals? Can the world be made wealthier? Safer and more stable and orderly?

The first section of this Chapter already gives some insight into both the ‘how’ and ‘what’ questions related to the Bretton Woods structure. Although the BWIs deal with economic problems, they are essentially political institutions. And like all structures, they are human creations and have been conditioned by history. Their particular roles and responsibilities have been formed by states in response to particular conditions (*see* Jackson & Sørensen 2007:197-200). However, as argued, the BWIs are also led by the Western world and they are inherently biased. These IFIs predominantly represent Western interests and contrary to their claims, they promote the neoliberal doctrine. Due to the inherent Western interest that BWIs represent, they subsequently neglect alternative perspectives that are able to deal with the African debt crisis. Furthermore, by promoting the neoliberal doctrine, the BWIs do not only neglect alternative perspectives, but they also completely discard it. This is because neoliberalism (as a problem solving theory) rejects knowledge claims that are not deemed as scientific, rigorous and objective.

Although structures reflect the power relations between states, institutions and individuals – or in this case between the BWIs and African debtor states – they are apt to change. Whether the BWIs have moved beyond the Washington Consensus and post-conditionality as they claim is therefore another focus for this study. The aim of this research is therefore related to emancipatory theory, the idea that theory (or in this case analysis) should “not only be concerned with understanding and explaining the existing realities of world politics, it also intends to criticise in order to transform them” (Devetak 2001:163). It is important to analyse the ideational structure of the World Bank and IMF, or more specifically, SAPs and post-SAPs initiatives, in order to come up with alternatives to free the developing world under these processes from the constraints that hamper their development.

One way through which SAPs and post-SAPs initiatives could be judged is by using critical theory’s ‘immanent critique’. What this means is that societies or institutions should be judged by the ‘ideals’ which they claim to represent (Seidman 2004:123). For example, the BWIs claimed that SAPs were intended to promote growth, stabilise economies, and enable countries to earn foreign exchange that is needed to service its foreign debt (Hoogvelt 2001:181). As a result, the claim that SAPs will promote growth legitimates its implementation. The question therefore becomes: Have SAPs led to higher growth rates in the countries where they were imposed? If not, then the analysis questions the *raison d’être* of SAPs. One aspect that is of particular interest is ‘poverty reduction’. Since 1973, under

the then president of the World Bank, Robert McNamara, the institution has claimed that absolute poverty should be eradicated before the turn of the century. Needless to say, the BWIs have failed. Still, the eradication of poverty debate resurfaced in the 1990s, especially with the introduction of PRSPs as part of debt relief strategies. One of the central intentions of the PRSP strategy is “poverty reduction” (Hermele 2005:1). From this theoretical perspective, one should ask: to what extent are PRSPs suited to eradicate poverty? If it is found that PRSPs do not serve this purpose – of eradicating poverty – then it would challenge the very existence of the initiative. Social criticism is therefore used in the hope that it could become a force for change.

The emancipatory approach for the purpose of analysing debt relief strategies is appealing for several reasons. Firstly, inequality in the world is far more extensive today compared to any other period in history. Jackson & Sørensen (2007:214,215) points out that, “[w]hen industrialisation began in earnest in Western Europe in the nineteenth century, the gap between the richest and the poorest fifth in the world was not very large; it stood at [three] to [one] in 1920.” In 1997 this gap has increased to 74 to one. SSA is the poorest region in the world, with accompanying social problems far more severe than anywhere else (*see* World Bank 2005b, UNDP 2008). Africa should thus be a priority for developmental research. Morally, it makes sense to focus on the most marginalised region in the world.

A second reason for appealing to the emancipatory approach is because neoliberalism has become the ‘gold standard’ for measuring and judging economic policies. In fact, neoliberalism has taken almost complete dominance in development debates to the extent that it leaves little room for alternative policy frameworks. This is most vividly expressed in Thatcher’s idea of TINA or ‘there is no alternative’ (FNTG 2008). Thus far nothing has been said about the effects of SAPs on African debtor states (which is the focus of Chapter 3 and 4). There is, however, broad agreement that SAPs have, amongst others, led to increasing inequality between the Western world and Africa. This makes Cox’s statement that problem solving theory legitimises prevailing structures (and in effect accompanying inequalities of power and wealth) all the more relevant. Nevertheless, the following chapters will revisit the SAPs of the 1980s and 1990s and the new post-SAPs initiatives in order to answer whether there have been fundamental changes in terms of dealing with the debt problem.

9.2.2 Postmodernism

Matthews & Solomon's (2003) study makes use of deconstruction to demonstrate how Africa is caught up in a power relationship with the Western world. By reviewing current newspaper articles and journals they demonstrate how Africa (and Africans) is depicted as a 'patient' with some sort of disease. At the same time, the Western world is projected as a doctor – Dr West – that knows exactly what is wrong with patient Africa. Dr West is very knowledgeable and the only authority with the diagnosis for the African continent's ills. Moreover, Matthews & Solomon (2003:157) argue;

assumptions that Western intervention is desirable and necessary to rehabilitate the 'diseased continent' informs Western discourses which argue that the West should use Official Development Assistance (ODA) in order to exert influence in Africa. [Indeed] the decision of many Western donors to tie ODA to certain political and economic conditions has received much support in Western academic and journalistic discourses.

They conclude their analysis by arguing that the “patient-doctor metaphor” (or discourse) perpetuates the unequal relationship between the West and Africa, “[t]he doctor has something that the patient needs, which places the doctor in a powerful position in relation to the patient” (Matthews & Solomon 2003:159). In short, whatever the West prescribes to Africa's social and economic problems becomes authoritative.

The idea that Western knowledge is superior to that of Africa is not new. This relationship can arguably be traced back to the Slave Trades in the fifteenth century (when Africans were sold like commodities and treated like subhuman beings) and the colonisation of Africa at the end of the nineteenth century (*see* Rodney 1982). Nevertheless, what is important from Matthews & Solomon's (2003) analysis of the depiction of 'patient Africa' and 'Dr West' is that it correlates with the knowledge structure of the IFIs as described in section 8. However, the difference is that the IFIs do not only reject African forms of knowledge, but almost all knowledge that challenges the neoliberal discourse. Rather than submitting to the TINA discourse, which legitimises the prevailing Dr West-patient Africa relationship, this study agrees with Susan George by saying “TATA!” (there are thousands of alternatives) to the neoliberal paradigm (FNTG 2008). As discussed earlier, African countries are both *de facto* (because of the nature of the power relations) and *de jure* (because of the nature of the formal rules) disadvantaged within the IFIs. Discursive ideas and practices by the BWIs have led to

a situation where their ideas have been empowered and given privilege over knowledge that challenges or originates outside these institutions. One of the features of the PRSP initiative that supposedly distinguishes it from the SAPs approach is that it is “country specific” and “participatory” (World Bank 2008c). Whether a multitude of ideas are allowed to bloom within post-SAPs initiatives is therefore the focus of this study.

The PRSP approach in particular has been mainstreamed and said to be linked to most development projects. The World Bank (2008e) for example notes, “almost all external development partners have expressed their strong support for the objectives and principles of the PRSP approach.” This is alike the Dr West, patient Africa analogy where Western discourses are supported to cure the continent’s ills, because without its endorsement, SSA would fail. Nonetheless, a classic international political economy question - derived from Strange - that should be asked throughout this analysis is ‘*cui bono?*’ or who benefits?

As demonstrated, deconstruction “challenges the institutions and public authorities that sustain linguistic, social, and political hierarchies” (Seidman 2004:169). Section 10 of this Chapter will demonstrate how deconstruction will be used by way of comparison in order to problematise the accounts of SAPs and post-SAPs initiatives that have been produced by the IFIs.

9.2.3 Constructivism

The IFIs sometimes ascribe recent improvements on the development front in Africa to the fact that new initiatives often have lower interest rates than previous SAPs. They also emphasise that 100 per cent debt relief will be given and has been provided to countries upon completing the Heavily Indebted Poor Country Initiative II initiative (see IMF 2008e). Although these are important benchmarks for assessing structural adjustment, an analysis of the African debt problem would be incomplete without looking at the ideational structure.

Like constructivists, this study takes the view that “to the extent that structures can be said to shape the behaviour of social and political actors ... normative or ideational structures are just as important as material structures” (Reus-Smit 2001:216). In other words, the question of how the ideational structure (which has been identified as neoliberalism) of the IMF/World Bank will influence development in Africa is as important as the question of how much debt

relief (material structure) will be allocated to the region. Also, it is not only the competence/incompetence of technical personal or government administrations to implement post-SAPs initiatives that are essential for pushing Africa onto the development path, but also the way in which the ideational structures are defined. As the next chapter demonstrates, many African states in the 1980s had to adopt SAPs because they struggled with balance of payment deficits (note origin of the African debt crisis predominantly involves the material structure). The ideational structure of the SAPs defined and prescribed what African states struggling with the debt problem ought to do in order to receive debt relief. As a result, these ideational structures (or SAPs) led to actions (privatisation of certain industries, liberalisation of trade, devaluation of currencies *etcetera*), which eventually had dramatic material effects (a decline in GDP, increased poverty, increased unemployment and so forth). Ideational structures (such as neoliberalism) could therefore have major implications for African countries.

Constructivism therefore demonstrates why it is important to focus on both material and ideation structure as they constitute one another. In effect, constructivists would most likely argue, in conjunction with this analysis, that post-SAPs initiatives could be fundamental in defining Africa's future. The power relationship of the ideational structures of the World Bank/IMF and the debtors is what defines interest, and in turn also action, which in the end will lead to development or underdevelopment of African debtors.

10. The Comparative Method in the Context of this Study

Without comparisons to make, the mind does not know how to proceed.

- Alex de Tocqueville (cited in Almond & Powell 1996:26)

This Chapter already focused on the merits of using postpositivist approaches to analyse Africa's debt problems. The first part of this section focuses on the value of using the comparative method in order to analyse IMF/World Bank structural adjustment. Secondly, this section identifies the 'comparable parts' of structural adjustment packages.

In *Comparative Politics: A Theoretical Framework*, Almond and Powell (1996:3) state: "we compare in the study of comparative politics." The essence of this study is no different, but where most comparative studies (such as Almond & Powell 1996; Kamrava 1996; Kesselman

et al 1996; Kopstein & Lichbach 2000) focus on comparing states, regimes, state institutions, societies and so forth; this study will compare two (broadly speaking) debt relief strategies: SAPs and post-SAPs initiatives. In this study, the concept of ‘comparative politics’ will therefore have the same meaning as Chilcote’s (1981:4) definition; which he describes as “the study of everything political.” The value of this is that “lesser conception of comparative politics would obscure criteria for the selection and exclusion of what the field might study” (Chilicote 1981:4).

What is the value of the comparative method in the context of this study? To paraphrase Kipling (cited in Keman 1993:31), “what know they of [PRSPs] who only [PRSPs] know!” Comparing past SAPs with present post-SAPs initiatives will therefore deepen knowledge and understanding of these debt relief strategies. This will also allow one to identify ‘improvements’ – if that is the case – with regards to debt relief strategies. For example, did structural adjustment move into a ‘post-conditionality’ phase? Related to this reasoning for using the comparative approach is to “verify or falsify” (Sartori 1991:244) claims made by the BWIs that the post-SAPs initiatives are an improvement of SAPs (see Chapter 5 and 6). However, this is done with acknowledging the value bias of this analysis. Nevertheless, if this study finds strong correlations between SAPs and post-SAPs, the historical failure of the former (as discussed in the next two chapters) should serve as a warning regarding the future of current initiatives. As Kopsten and Lichbach (2000:26) argue, “the laboratory of political experiences may be transferable.” This is the essence of the comparative method - to develop explanations and to make predictions. However, it should be added that rather than making universal assumptions about structural adjustment, this analysis will identify ‘a picture of reality.’

This study will also be inherently normative. Comparativists often “compare and contrast” (Kesselman et al 1996:4) and arrive at normative conclusions. For example Aristotle compared the different forms of political rule in Athenian polities. He concluded that certain political systems are good while others are corrupt. Accordingly, Aristotle claimed that “philosopher kings” should rule the state. What is important to note is that Aristotle’s comparative study had normative implications. In other words, he was able to answer ‘what ought to be the best form of political rule?’ Likewise, this comparative analysis will also have emancipatory goals that will inform future possibilities in Africa’s relations with the BWIs (see Chapter 7).

In contrast to many positivist notions of the comparative method being ‘value-free’, this study acknowledges that the outcome of this will be politicised.²³ The point however of this study is to give a different account (or altered interpretation) of the narrative that post-SAP initiatives – and particularly the PRSP approach - are an improvement of SAPs. The comparative method will therefore serve as a form of “deconstruction” (*see* Chapter 6), which is “a general mode of radically unsettling what are taken to be stable concepts and conceptual oppositions” (Devetak 2001:188). Consequently, this study hopes to also contribute to postmodernism in terms of showing how the comparative method could be utilised in order to challenge IFI-sponsored narratives.

Table 7: Differences of SAPs and PRSPs

	Debt relief strategy	
Proclaimed improvements by the IFIs	SAPs	PRSPs
Assumption behind the attainment of development	One-size fits-all	Country specific
Decision-making	Elite and IFIs – behind closed doors	Country driven and participatory (involvement by government, civil society and IFIs)
Supposed Goal	Stabilisation, long-term growth	Poverty reduction
Means	Neoliberal strategies	Comprehensive/integrated/multi-dimensional
Timeframe	2 to 10 years (there was a shift in thinking)	Long-term (how many years?)

The focal comparable parts of the two debt relief strategies that will be compared are summarised in *Table 7*. These comparables derive from issues that are identified in Chapter 3 to 5. In essence, the defining features of SAPs are compared with what the BWIs claim is different with post-SAPs initiatives. Questions originating from this ask whether there are in fact differences, and more importantly, improvements, in terms of the SAPs and PRSP strategy, decision-making, goals, and means.

²³ For example, Lane (1997:4) states; “[a] comparative politics that aspires to be a science is concerned with understanding [people, states, institutions, and policies], but those feelings are not a proper part of comparative politics. Complete neutrality may be beyond the strength of most human beings, but the study of comparative politics at least asks us to make the effort to be objective.”

At face value, SAPs and PRSPs are worlds apart and the latter debt relief strategies are clearly an improvement of the former. However, from a praxis perspective, are these structural adjustment packages really different? Following from the above comparable parts, this study will ask several interrelated questions:

- Are PRSPs more country specific compared to SAPs?
- Are decision-making processes of PRSPs open for greater participation by governments and civil society than SAPs? Or are these strategies merely a way of legitimising structural adjustment?
- The goals of SAPs were to create stabilisation for countries experiencing debt and to build long-term growth, while PRSPs are said to focus primarily on poverty reduction. Are these policies in alignment with poverty reduction? Will the poor benefit from these neoliberal strategies?
- Did the BWIs change the central presumptions behind of their policy prescriptions for African debtors? The SAPs package predominantly focused on neoliberal macroeconomic policy prescriptions as a means to create stabilisation and economic growth, while PRSPs are said to be comprehensive.
- From a praxis perspective, is the PRS the most important post-SAPs initiative? Are there additional post-SAPs initiatives that override the strategies identified by PRSPs? If so, what do these programmes look like?

11. Conclusion

This chapter focused broadly on the international financial structure. Section 8 described the development of the BWIs. It was argued that because of their growing mandates, these institutions are more powerful today compared to 1944. This gives the IFIs a lot of clout in developmental debates in their relations with African debtors. The two African constituencies in the IMF and the three constituencies represented in the World Bank are *de facto* and *de jure* excluded from having meaningful impacts about their own futures. Rather, the BWIs are dominated by Western states, each with an interest to preserve the power imbalances that exist within the IFIs. To challenge the BWIs would make their interests more vulnerable in the global economy.

With regard to the knowledge structure of the IFIs, it is argued that the BWIs are able to derive power from ‘force, from wealth, and from ideas.’ Firstly, the BWIs are able to exercise control over African debtors by virtue of the power relationship that is established between debtors and creditors. Secondly, the IFIs have made conscious decisions to rather successfully transform into knowledge powerhouses. Finally, the Bretton Woods metanarrative, which has been identified as neoliberalism, prevails over all other ideas to the extent that alternative perspectives have difficulty challenging the IFIs practices.

Due to the nature of the knowledge structure, it was argued that three postpostivist approaches should be utilised for the purpose of analysing Africa’s debt relations with the BWIs: critical theory, postmodernism, and constructivism. The first two approaches focus on the relationship between power, politics and knowledge, while constructivism gives insight into the power of ideas.

Section 10 focused on how the comparative method can be used and the comparables of SAPs and post-SAPs initiatives. It is hoped that the above methodological, ontological, epistemological and normative dispositions will be useful to analyse the African debt crisis. Central to this task is the development of an alternative perspective that challenges IFI narratives on SAPs and post-SAPs.

Chapter 3

The African Debt Crisis: Whodunit?

This third World Development Report is published at a time of difficulty and uncertainty for the world economy – particularly for the developing countries. They must adjust to external payments imbalances, higher energy prices and slower growth in world trade. That adjustment will slow their growth for at least the next few years.

- Robert S. McNamara, former president of the World Bank from 1968 to 1981
(cited in World Bank 1980:iii)

Must we starve our children to pay our debts?

- Julius Nyerere, former president of Tanzania, to the Queen of England in 1985
(cited in Black 2002)

12. Introduction

This Chapter is concerned with a number of dimensions related to the African debt crisis as it emerged in the 1970s, escalated into the 1980s, and continued into the 1990s. The underlying theme – *whodunit?* – is to identify possible reasons for Africa's debt crisis.

Section 13 of this Chapter focuses on the theoretical dimensions of the international debt structure with the aim of highlighting the interplay between politics and economics. Section 14 turns to the emergence of the African debt crisis and aims to contextualise the relationship that fomented between the International Financial Institutions (IFIs) and African borrowers. In section 15, it will be demonstrated when and how the two multilateral institutions solidified control over African debtor states. It will be shown that Structural Adjustment Programmes (SAPs) became currency during this period.

Regardless of the overwhelming consensus in the developing world, especially in Africa and Latin America, there are still views within the two multilateral agencies that the SAPs package never failed, but rather the implementation thereof. That said, section 16 will analyse SAPs according to its basic aims; stability, growth and distribution. The final section

of this Chapter deconstructs what the IFIs identified as the chief culprits – namely lack of implementation and bad governance – that led to the failure of SAPs.

The bulk of statistics (where available) throughout this analysis are used for the period from late 1970 to 2000 in order to assess SAPs. The starting date has been chosen because that is when the African debt crisis escalated, thereby reflecting the immediate events that built up to the crisis. As for the cut off period of 2000, this might seem inappropriate as the Heavily Indebted Poor Countries (HIPC) I initiative was already introduced in 1996, followed by HIPC II in 1999 and Poverty Reduction Strategy Papers (PRSPs) taking effect in 2001. However, as the policy objectives of the IFIs were aimed at restructuring the economies of African countries a simple before-after approach would be too simplistic. Rather, it is expected that structural adjustment would have long-term effects on countries adopting it.

Furthermore, the IFIs did not claim that HIPC I was different in terms of policies prescriptions. Rather than abandoning the SAPs approach lock stock and barrel, HIPC I came into being in order to make debt more ‘sustainable’ for the most heavily indebted poor countries. Hence, the cut of date in most policy circles is considered to be 1999/2001 when a so called ‘post-Washington Consensus’ came into being. Whether this claim (amongst others) is justifiable is in fact crucial to this analysis. In order to differentiate the SAPs package from the PRSP initiative (and other post-SAPs initiatives), it is vital to identify the general flaws of the former approach. This will therefore form the crux of this chapter together with Chapter 4.

13. The Political Economy of the International Debt Structure

The international debt structure, which forms part of the international financial system, is immensely complex. At the two extremes, it brings together both creditors and borrowing states, and debt is also a problem involving both economics and politics. This section will briefly focus on three theoretical aspects of international debt: reasons why states experience balance of payment deficits; the importance of debt in the international financial system; and options available for states that are facing balance of payment deficits.

13.1 Why Do States Experience Balance of Payment Deficits?

Theoretically there are a number of reasons why states struggle with balance of payments, but these are some of the primary ones:

Firstly, it is often argued that leaders pursue ‘bad’ or reckless macroeconomic policies that results into large balance of payment deficits (Carbaugh 2000:549). This is probably the number one reason cited by the IMF and World Bank as to why their policy prescriptions during the SAPs period for African debtors failed. The following sections (and Chapter 4) will aim to deconstruct this perspective.

Secondly, some states are said to borrow irresponsibly which leads to a situation where they are unable to repay their debt. They then reschedule their debt and have to acquire more loans to service previous loans. For example, debt of the developing world increased six fold from 100 billion in 1973 to 600 billion in 1979 (Balaam & Veseth 2008:141). This, as will be explained in the following section, contributed to the developing world’s ‘debt crisis’. However, the question of irresponsible borrowing cannot be separated from the issue of illegitimate debt, as will be explained.

Thirdly, after acquiring debt, states generally have to turn to creditors for loans. The result is that the creditors often require debtors to adopt certain measure to rectify the balance of payment deficits which could exacerbate the debt problems further. Thus, large balance of payment deficits can often be directly attributed to the Bretton Woods Institutions (BWIs). Neoliberal economists, who flourish within the IFI structures (see Chapter 2), argue that in order to rectify balance of payment deficits, rich and poor nations alike should adhere to market principles, as these are universal. Such an approach, as will be argued, takes no consideration of history, morality and responsibility, and rhetoric. In particular, such an approach does not take cognisance of its effects on the poor, and it is questionable whether the Western world adheres to the same principles during times of economic crisis. Nevertheless, for the developing world, the result is a one-size-fits-all approach to rectify all debt-related issues. Linked to this is that debtors sometimes borrow money on unfavourable terms. Many African states for example have had to pay more interests on their debt than they can spend on things – such as development programmes and education - that will

generally contribute to development (Carbaugh 2000:549). As a result, states are caught in a debt cycle that they find hard to escape from.

Fourthly, many states, some more than others, have been affected by natural disasters or events that they are unable to control. Such exogenous factors could for example include an economic or oil crisis, natural disasters (such as floods and droughts), and even investment speculation. Such externalities could force states to make huge loans in order to offset some of the damages occurred during the period of crisis (*see* Balaam & Veseth 2008:151-170, UN 1984).

Fifthly, some states have experienced prolonged periods of intrastate and interstate war that sometimes almost completely destroyed their infrastructures – for example roads, ports, railways and telecommunication systems - and institutions – such as banks - needed for economic growth and trade. However, a major balance of payment deficit together with unpopular austerity programmes could often contribute to the manifestation of conflict, as will be demonstrated in the following sections.

Finally, reasons for balance of payment deficits may be structural. For example, in 1984, the United Nations (UN) acknowledged the legacies of colonialism as part of Africa's economic crisis (UN 1984:208). This reason, as will be shown, is often neglected in Western discourses about Africa's debt crisis.

As demonstrated, there are countless reasons why a state could experience a balance of payment deficit. However, the IFIs have argued on numerous occasions that the chief reason for Africa's debt crisis is related to governments and their economic policies. This argument requires special attention in the following sections where the African debt crisis will be contextualised. The point is however, that by claiming that the debt crisis is primarily caused by governments - and then prescribing a specific set of 'rational' economic policies to be implemented - the IFIs dismiss all historical, structural and exogenous factors. In fact, the IFIs pardon all other alternative perspectives on Africa's debt crisis, while at the same time escaping blame for the failure of their policy prescriptions to rectify the crisis.

13.2 What is the Importance of a Healthy Current Account Balance?

A balance of payment deficit or crisis is generally accompanied by a crisis in the state's banking system, which usually takes the form of higher interest rates and "capital flight". The most basic effect of this is that the state experiences "an extreme shortage of funds" (Balaam & Veseth 1996:154). In poor countries, government spending on health care, infrastructure and the like is almost immediately affected, as money has to be utilised for servicing debt. As a result, the poor are generally worst affected, as they often depend most on service delivery. The trade sector of a state experiencing a balance of payment deficit is also affected because in a worst case scenario such states will be unable to import goods (and pay for services) if they cannot borrow money or sells some of its assets to pay for it.

Critics claim that the IFIs are often more concerned about the affects of a debt crisis on the external environment (such as international trade and investments) rather than the domestic context of debtor states. Stiglitz (2002:206) for example notes;

The IMF is pursuing not just the objectives set out in its original mandate, of enhancing global stability and ensuring that there are funds of countries facing a threat of recession to pursue expansionary policies. It is also pursuing the interests of the financial community.

Similarly, Gilpin (2001:305) argues, the BWIs "and regimes governing the world economy were established primarily to serve the interests of the dominant powers." This is analysis will therefore attempt to explore two aspects: How have domestic environments in African debtor states affected the poor? And, what have the IFIs done to prevent the negative consequences within the domestic environments of African states experiencing a debt crisis?

Due to the globalisation of trade and financial markets, conventional wisdom has it that the problems of a debtor state are not only found within the domestic environment, but it could also threaten the international economic system. For example, international trade could be disrupted as was the case during the Great Depression in the 1930s (Balaam & Veseth 1996:154). In short, if national debt becomes a crisis in a number of states it will most likely lead to major international economic crisis that can negatively affect all states.

In the context of this analysis, it would be appropriate to ask whether the same assumptions would hold true for Africa's debt crisis. Africa's combined economy is but a fraction of the

world economy, and therefore there needs to be a reconsideration of the above assumption. The primary reason is that the assumption implies that there is an incentive to address the African debt crisis. Whether this is the case is questionable. Most economic crises – such as the Great Depression (1930s), the Mexico crisis (1994/5), East Asian crises (1997), and Argentina crisis (2001) can be classified into a specific time period which is comparatively short, one to ten years (see Balaam & Veseth 2008:151-170). One will have to wait and see when the current Great Recession (which started in 2008) will end, but based on previous crises, one could expect that recovery will be *comparatively* shorter than the African debt crisis. The Africa's debt crisis has been an issue (and peripheral at that) on the international agenda for almost three to four decades. In other words, African debt is not disruptive to the entire global economy. This issue needs to be addressed further by contextualising the relations between creditors (the IFIs) and debtor states. One way of doing so is by asking 'Who benefits'? In other words, is there a possibility that Africa's debt crisis might be in the interest of Western states? The following sections aim to answer such questions by specifically paying attention to how the African debt crisis impact (negatively and positively) on international actors.

13.3 What Options do Debtor States and Creditors Have?

A debtor state struggling to service its debt has limited options available: Firstly, states can "try to service its debt at all costs" by for example cutting military, education, health and other budgets (Carbaugh 2000:549). A state could also sell some its assets to foreign buyers to pay its outstanding debt to other states or financial institution (Balaam & Veseth 1996:153). Secondly, states could "cease repayments on its debt" but this would come at a great cost (Carbaugh 2000:549). This is likely to cause other major problems as such a state will most probably be unable to make future loans, or the state "might be declared in default" which means that many of its assets might be seized (such as ships or aircrafts) and "sold to discharge the debt" (Carbaugh 2000:549). Thirdly, states can request the government or financial institution for which it owes money to reschedule its debt. The problem in such a situation is that debtors must continue to pay interests on outstanding debt until it is eventually (if ever) repaid. Consequently, debt, as Balaam & Veseth (2008:152) would have it, is viewed by many developing nations as a "double edged sword". In the short-term, it is necessary to acquire loans from the IFIs in order to service debt, but at the same time, leaders

of these nations are well aware of the possible long-term impacts that this may have on their economies.

From the above it is clear that debt is an issue that involves both debtors and creditors. However, conventional wisdom has it that there exists a power relationship between debtors and creditors, “[w]hen a man owes a bank \$1000, the banks owns him; but when a man owes the bank \$1 million, he owns the bank” (Carbaugh 2000:550). It is therefore assumed that it is in the interest of the creditor to help resuscitate the debtor state’s economy. However, as argued in the previous section, the debt crises of many African states are not necessarily pivotal to international economic stability. Tanzania’s balance of payment’s deficit was for example only \$481 million in 1980, compared to states such as Brazil and Mexico with a deficit of \$12.807 billion and \$10.434 billion for that same year. Yet, Tanzania’s balance of payment deficit represented 7.691 per cent of the country’s GDP, slightly lower than Brazil’s deficit, but higher than that of Mexico (*see* Table 8). Furthermore, if Africa’s debt crisis is beneficial to the Western world (as will be demonstrated in the following section and in Chapter 4), there is less of a motive to help resuscitate these economies.

Table 8: Debt in Comparative Perspective

Balance of Payment (billion)								
Year	1980	1981	1982	1983	1984	1985	1986	1987
Brazil	-12.807	-11.735	-16.311	-6.837	0.04	-0.228	-5.651	-1.435
Mexico	-10.434	-16.241	-5.89	5.86	4.183	0.8	-1.374	4.239
Tanzania	-0.481	-0.456	-0.439	-0.409	-0.312	-0.345	-0.259	-0.089
Balance of Payment (percentage of GDP)								
Year	1980	1981	1982	1983	1984	1985	1986	1987
Brazil	-7.876	-6.279	-8.164	-4.268	0.025	-0.09	-1.925	-0.449
Mexico	-5.073	-6.148	-3.073	3.749	2.27	0.409	-1.014	2.855
Tanzania	-7.691	-6.1	-5.105	-4.646	-3.896	-4.774	-2.833	-1.979

IMF (2008f)

Nevertheless, at face value the IFIs have adopted certain debt relief measures. The whole idea behind debt relief is that creditors ease or reduce the debt burden for the debtor. There are generally three ways through which this can be done: Firstly, the creditor can reduce the loan’s interest rates. Secondly, creditors can reschedule the debt by postponing the deadline

for debt repayments – known as debt rescheduling. Thirdly, creditors can cancel part or all of the debt (Balaam & Veseth 1996:163; Carbaugh 2000:550-552). These measures are usually used in combination and accompanied by a number of conditional requirements. Such measures will be further explored in Chapter 5 and 6, as some of these initiatives relate to the supposed transition from SAPs to post-SAPs.

Debates about debt relief (and debt repayment) are also one of the most contentious issues of the African debt crisis. One way of looking at this dilemma is to acknowledge that Africa's debt crisis is somewhat different from all others, not only because Africa's share of international debt is non-threatening to the global economy, but also because many African states (and their people) are amongst the poorest in the world. Clearly then, a pure economics perspective would exclude political alternatives to such a crisis, as normative questions have to be taken into consideration. In other words, when people die because of the impacts of a debt crisis, should the IFIs treat these states differently? Similar questions were posed to the IFIs in the 1990s and the 2000s and some of these will be explored in the following sections. Again, it should be emphasised that a pure rational economics perspective is inadequate to capture the effects that SAPs have on the political economy of debtor states.

From the above discussions concerning the debt structure, one could argue that although debt is essentially an “*economic* problem it quickly translates into a *political* problem, since it usually falls to the state and its political leadership [together with the BWIs in Africa's case] to propose and implement the frequently harsh policies that may be necessary to bring international payments back into balance” (Balaam & Veseth 1996:154). Accordingly, a political economy analysis is fundamental to the study of the African debt crisis.

The following sections aim to explain and deconstruct some of the basic narratives regarding the international debt structure, especially in relation to Africa's debt crisis. Sometimes, as will be argued, conventional assumptions are not relevant to the African debt crisis. Moreover, the IFIs, as will be demonstrated, are very selective in identifying the causes for Africa's debt crisis. This chapter together with Chapter 4, 5 and 6 will contrast, compare and evaluate debt relief strategies that have been (and are) relevant to the developing world and Africa.

14. Background to the African Debt Crisis and the Emergence of Powerful Creditors

In the previous section it was noted that theoretically there are a variety of factors that can cause a states to experience high balance of payment deficits. Yet, the African debt crisis (from late 1970s to present) has a very particular history that is often misrepresented by the IFIs. This section introduces the emergence of the African debt crisis and highlights factors that are often neglected or downplayed by the IFIs. The aim of this section is to explore some possibilities in order to arrive at the main theme of this chapter – the question of ‘*whodunit*’? At the same time, this section will also demonstrate how the BWIs have become more powerful when the debt crisis escalated.

Recall from Chapter 2 that the BWIs were established at the tail end of World War II and the beginning of the Cold War. The IMF was set up to provide loans for countries experiencing balance of payment deficits, to ensure exchange rate stability, and encourage member state to open up trade. As for the World Bank, it was responsible to provide war-torn Europe with reconstruction via the Marshall Plan. Thus, the BWIs had its origins during a time of political turmoil, and thereby charged with a political mandate. One could also add that these institutions were the brainchild of the Western world, led by United States (US) and United Kingdom (UK). Beyond helping Europe to recover, it was also used to serve Western economic interests, most notably that of the US and her allies. Some would even claim that the role of the IFIs “has been to fully integrate the Third World into the US dominated global capitalist system in the subordinate position of raw material supplier and open market” (Ismi 2004:8). To claim the IFIs are politically neutral institutions is therefore unintelligible.

Like all knowledge structures, these institutions changed in many ways. Most notably, with the collapse of the gold standard in the 1970s, the IMF ‘lost’ one of its key roles. The mandate of the IMF therefore shifted its focus from monitoring exchange rates to managing balance of payment. This latter role intensified especially during the 1980s when debt became more pronounced in the developing world and in effect, the IMF became in effect a “lender of last resort” (Balaam & Veseth 2008:156). According to Vreeland (2003:3), “sixty-seven out of seventy-nine countries participated in IMF programmes during 465 of a possible 1,024 country-years from 1970 to 1990”.

At the same time, the World Bank also underwent radical changes. As Europe recovered, the World Bank naturally shifted its attention to the developing world. Whereas before the World Bank believed in the virtues of the state in helping to induce development, the late 1970s saw it rejected in favour of an unconditional believe in economic neoliberalism (Freund 1998:254). Until the 1980s, the World Bank focused primarily on project based lending – for example specific projects targeting infrastructure development. However, the malfunctions of the economy, the staff at the World Bank believed, could be rectified by introducing targeted policy measure. This is important, shift from “project based lending” to “policy based lending” also meant that professional engineers (who during the early years dominated the institution) were soon to be replaced by economists (Edigheji & Amuwo: 2008:8-10). Evidently, the two financial institutions underwent fundamental changes at a time when African economies became more susceptible to its influence.

What led to the African debt crisis? Who or what is to blame for the crisis? The previous section focused on conventional reasons why states experience balance of payment deficits. This section will contextualise the African debt crisis as it is generally understood. However, the following sections will argue that the debt crisis has deeper roots than what the IFIs would admit.

The origin of the African debt crisis could be blamed on a number of exogenous factors: Following from noticeable drops in annual rainfall from the 1950s, many parts of Africa experienced massive droughts in the 1970s, 1980s and 1990s (Shillington 1994:424,425). The 1970s further experienced two oil shocks, first in 1973 and then again in 1979/80. Although economic growth stagnated from the 1960s to the 1980s, the demand for commodities in the industrialised world increased dramatically during this period. The Organisation of Petroleum Exporting Countries (OPEC) increased the price of oil by more than 400 per cent during the first crisis (1972-1974), and again it tripled in 1979-1980 (see Edigheji & Amukwo 2008:11). At the same time, the developed world’s demand for the developing world’s goods declined significantly, as they began to tighten “their economic belts in order to pay for oil and as they initiated tariffs and quotas to reduce their balance of payments deficits” (Ferraro & Rosser 1994). Declining prices for commodities had a major effect on African economies, as will be demonstrated in Chapter 4.

Due to the high returns on their exports, oil producing states flooded commercial banks in the Western world with petrodollars. In turn, these banks were eager to borrow money to the developing world, as they wanted “to put their windfall capital to productive use” (Ferraro & Rosser 1994). The risk however was considered low, as these banks assumed that sovereign debt rarely defaulted. As a result, the developing world borrowed heavily as the private sector provided them with very low interest rates. In fact, “[t]his borrowing was cheap in real terms in the 1970s because real interest rates were negative, so borrowers were being paid to borrow rather than having to pay for borrowing”, or at least temporarily (Edigheji & Amuwo: 2008:12). In 1979, the US radically increased interest rates and appreciated the dollar – known as the ‘Volcker shock’ – in order to curb inflation rates while disciplining labour (*see* Table 9). In 1980/81 interest rates soared and governments were unable to repay their loans. “Very rapidly, by 1982, this new monetary policy drove the Third World inexorably into debt crisis, austerity, decline and conflict” (Bond 2006:14).

Table 9: Rises in US interest rates that had an impact on debt repayment

Year	Nominal rate (per cent)	Actual rate after deduction of inflation (per cent)
1970	7.9	2.0
1975	7.9	-1.3
1979	12.7	1.4
1980	15.3	1.8
1981	18.9	8.6

Millet & Tousaint (2009:2)

What is known today as the “Third World debt crisis” officially erupted in the 1980s and by 1982 Mexico and Brazil threatened bankruptcy when they could no longer pay its debts to Western creditors (Theunissen 2004:2). Private lenders stopped issuing loans to the developing world as it became clear, contrary to previous calculation, that they faced a major risk. In order to avoid panic, the US together with the BWIs stepped in to assure the payment of money lent by the developing world. Consequently, [f]ixing the economic problems of the Third World was no longer viewed as merely a question of stabilisation. Rather, the fundamental structure and management of the economy was now seen to be at fault” (Vreeland 2003:2-3). Structural adjustment was therefore, according to the IFIs, the only way to rectify the debt crisis in the developing world. As Buira (2004:44) argues, “principles were to be adopted by developing countries – preferably by persuasion but when persuasion failed, through external pressures and IFI conditionality.” Thus, the IFIs immediately

identified governments in the developing world as the chief culprits responsible for the crisis. This despite evidence that suggests that “external factors were significantly more important than the internal causes of inefficiency and corruption” (Ferraro & Rosser 1994). Nevertheless, this issue will be dealt with in further detail in the next chapter. At this point, it is more important to underline that the BWIs became important policy makers in the developing world.²⁴

How powerful are the IFIs in terms of making demands on African debtor states? One way of answering this question is by looking at the debt structure in terms of the percentage of debt owed to these institutions (as opposed to private banks) by African debtors. This is of fundamental importance, as a power relationship exists between debtors and creditors. As Strange (1994:90) would argue;

The power to create credit implies the power to allow or to deny other people the possibility of spending today and paying back tomorrow, the power to let them exercise purchasing power and thus influence markets for production, and also the power to manage or mismanage the currency in which credit is denominated, the affecting rates of exchange with credit denominated in other currencies.

One of the consequences of the 1980s was that Africa’s creditworthiness with private creditors has deteriorated. The IFIs therefore became increasingly important lenders and by 1989, the World Bank already ‘negotiated’ 89 loans with SSA countries (Harrison 2005:1308). By the mid-1990s, the World Bank and IMF “accounted for over 70 [per cent] of SSA’s multilateral debt” (Mistry 1996:37). In 1994, the proportion of debt owed to private creditors by SSA states amounted to 31.3 per cent (or 26.8 per cent excluding South Africa) compared to 67.3 per cent (or 72.5 per cent excluding South Africa) in 1980. At the same time, the arrears to the IMF alone amounted to 60 per cent of SSA’s multilateral debt (Mistry 1996:20,21). The result was that the IFIs gained firmer control over policy making. As Mistry (1996:28) argues, the “dominance as a creditor has permitted the [BWIs] to become a virtually unchallenged monopoly in driving the adjustment and development agenda in SSA.”

²⁴ Although the World Bank and the IMF are independent from one another, their operations are most of the time mainstreamed. One example of such “cross-conditionality”, typically the IMF’s Policy Framework Papers which are also reviewed by the World Bank, and then presented to debtor states as a framework for policy prescriptions (Edigheji & Amuwo 2008:18). It therefore makes sense to refer to IFI conditionality as the prescriptions and assessments of the two financial institutions often overlap.

15. The Ideational Structure of SAPs: A ‘Panopoly’ on Development Policy²⁵

In order for debtor states to borrow money from the IFIs, they were subjected to a series of agreements – commonly known as IFI conditionality – which, if violated, would entail that loans would be withheld. In the 1980s, these conditionalities solidified and became known as SAPs, which were by and large considered to be controversial as they reflected the knowledge structure embedded in neoliberal thinking.

Were the SAPs packages negotiable? According to Joseph Stiglitz, former Chief Economist at the World Bank, the answer is no. He notes that the IMF is always adamant that it “never dictates the terms of any loan agreement ... but these are one-sided negotiations in which all the power is in the hands of the IMF” (Stiglitz 2002:42). In fact, most African debtor states were subjected to SAPs. Until the mid-1990s, there were only a handful of examples - which include Botswana, Ethiopia, Somalia, Namibia and South Africa - of a “two-way discourse” between the IFIs and African home-grown initiatives (Green 1998:218).

Early on in the SAPs experience, African governments and academics became incredibly disillusioned with the austerity measures. They felt that this one-size-fits-all strategy was prescribed and pushed on developing countries while ignoring the negative impacts of these measures. African governments therefore became the scapegoats while the IFIs tried to walk away from the damage done Scot-free. At the same time, officials at the BWIs became resented by some members in the developing world because they did not consider nor understand the local contexts in which they worked. Indeed, Stiglitz (2002) goes into great detail about how IMF officials take a hit and run approach to gain an understanding of its clients. Typically, they would stay in a 5 star hotel for two to three weeks to make an assessment of the debtor state’s economy. Such visits hardly ever entailed going to rural areas outside the capital (regardless of the impact that these policies had on the poor). Stiglitz (2002:47) recalls;

The standard IMF procedure before visiting a client country is to write a draft report first. The visit is only intended to fine-tune the report and its recommendations ... In practice, the draft report is often what is known as boilerplate, with whole paragraphs being borrowed from the report of one country and inserted into another. Word processors make this easy.

²⁵ Edigheji & Amuwo (2008:28) use the term “panopoly” to describe the extent that the IFIs influenced policy making in Africa.

It is with the above in mind that Abrokwa (1999:664) notes, “[t]he notion of development has now become more rhetoric than reality for millions of Africans because they are designed by elites and foreigners far removed from the real experience of the poverty conditions of the African masses.” Critics often complained that “the Bank has found it difficult to accept that anyone could disagree with any of the fundamentals of [SAPs] or seek more than marginal alterations to its prescriptions” (Green 1998:216). Put differently, the IFIs monopolised the ideational structure of Africa’s development debates. In other words, they determined what ought (or not) African debtor states to do in order to achieve development.

Neoliberal economists, who at the time of the debt crisis began to flourish within the IFI structures, often argue that “there is only *one* economics, and that economics is a universal science equally applicable to all societies” (Gilpin 2001:311). The IFIs, armed with neoliberalism, prescribed a set of policies that called for economic development based on free trade and minimal state intervention. States were therefore generally forced to devalue currency; attain price stability, cut government spending and forgo state subsidies; raise taxes; privatise public enterprises; and liberalise trade (Buiru 2004:45).

There seems to be a consensus – at least outside the BWIs – that SAPs have failed and needs to be altered. During the 1990s many analysts specifically attacked the failure of neoliberalism policy prescriptions to address the African debt crisis (Adedeji 1999, Maramba 1996, Mosley *et al* 1995, Schatz 1996). The SAPs package itself will be further unpacked in the next Chapter. However, it is worth assessing the austerity measures according to the institution’s own criteria (*see* previous Chapter on ‘immanent critique’). In line with this, one could ask, what was the main aim of the SAPs package? In 1990, Michel Camdessus (cited in Vreeland 2003:2), the then Managing Director of the IMF, stated:

Our primary objective is growth. In my view, there is no longer any ambiguity about this. It is toward growth that our programmes and their conditionality are aimed. It is with a view toward growth that we carry out our special responsibility of helping to correct balance of payments disequilibria and, more generally, to eliminate obstructive macroeconomic imbalances. When I refer to growth, I mean high-quality growth, not ... growth for the privileged few, leaving the poor with nothing but empty promises.

In other words, at its most *basic level*, it was assumed that SAPs would rectify balance of payment deficits, growth will be enhanced, and that it will trickle down – based on

trickledown economics - which will lead to more equitable distribution of income and wealth. The same logic behind SAPs is also proclaimed by a number of World Bank reports. For example, the *World Bank's Agenda for Action* (1981), *Sustainable Growth* plan (1989), and the *World Development Report* (1990) – highlight several interrelated goals: stabilisation or fiscal to restore fiscal balance, economic growth, better resources allocation in terms of basic services, and poverty reduction (Green 1998:208; Abrokwa 1999:657). The next section will therefore assess SAPs according to its most basic aims.

16. The Material Structure of the African Debt Crisis: 1980 to 2000

This section attempts to follow-up from the previous one. Three questions will be answered regarding the SAPs package: Did it stabilise the African debt crisis? Did African debtor states experience high quality economic growth? And, did growth trickle down?

16.1 'Debt Peonage'²⁶

In 1980, the (then) Organisation of African Unity (OAU) brought the *Lagos Plan of Action* into being, which amongst others acknowledged that “[t]he effect of unfulfilled promises of global development strategies has been more sharply felt in Africa than in the other continents of the world” (OAU 1980:37). It also called for a “regional approach” based on “collective self-reliance” to deal with the economic crisis (OAU 1980:37).

The *Lagos Plan of Action* is also an expression of African leaders’ recognition that they had never really achieved economic independence. The OAU (1980:38) noted, “Africa was directly exploited during the colonial period and for the past two decades; this exploitation has been carried out through neo-colonialist external forces which seek to influence the economic policies and directions of African states.” Furthermore, the Member States of the OAU (1980:39,48) hoped that the period which marked 1980 to 1990 would be known as the “Industrial Development Decade in Africa” and stated that “Africa’s almost total reliance on the export of raw materials must change.”

²⁶ Term cited in Bond (2006:31)

The Industrial Development Decade for Africa never materialised as envisioned, and soon Africa found it even more dependent on outside influence. Table 10 shows how severe the debt crisis became for Sub-Saharan Africa (SSA) states. When the OAU met in Lagos in 1980, debt represented 25.1 per cent of SSA’s Gross Domestic Product (or 82.4 per cent of the ratio to goods and services), but the crisis soon escalated.

By 1984, the United Nations *Declaration on the Critical Economic Situation* in Africa stated; “Africa is experiencing a very serious debt problem, repayment and servicing of which is taking a very high percentage of already reduced export earnings” (UN 1984:160). At the time, debt ratio to export of goods and services reached 188.4 per cent or represented 49.3 per cent of debt to GDP (see Table 10). Unlike the IFIs, the UN General Assembly blamed the critical economic situation on a multitude of things; including debt, drought, desertification, and other natural disasters, deteriorating terms of trade together with the reality that African economies were still dependent on limited exports (UN 1984:157-162).

Table 10: Sub-Saharan Africa’s Debt Burden: 1980 to 2000

Year	Debt indicators		
	External debt (billion)	Ratio of debt to GDP (per cent)	Ratio of debt to export of goods and services (per cent)
1980	72.4	25.1	82.4
1981	84.9	28.8	120.0
1982	98.1	35.1	163.9
1983	107.6	41.6	185.9
1984	111.5	49.3	188.4
1985	119.3	57.3	203.3
1986	137.1	61.6	248.1
1987	153.6	61.2	237.5
1988	159.3	59.1	242.2
1989	160.4	56.9	227.1
1990	184.9	57.5	230.9
1991	196.5	59.6	260.2
1992	193.9	62.3	251.3
1993	202.0	68.2	268.8
1994	215.0	76.3	279.0
1995	228.6	69.1	252.5
1996	225.5	64.4	224.0
1997	223.0	63.6	217.3
1998	220.4	67.2	244.0
1999	221.8	67.2	231.9
2000	216.8	63.9	187.0

IMF (2006)

The following year, the OAU (1985:163) through *Africa's Priority Position on Economic Recovery* (or APPER) described Africa's situation as "near to economic collapse". APPER read, "26 of African Member States are categorised as Least Developed Countries (LDCs) ... thus *the external debt of many individual African countries is now beyond their capacity*" (emphasis added, OAU 1985:165). In the same report, the OAU complained about the "heavy debt service burden" and the "severe terms and conditions for loans" (OAU 1985:165).

The OAU (1987:220) meeting on African Common Position on Africa's External Debt Crisis stated, "[t]he magnitude of the debt of developing countries \$1000 billion and the burden of the debt-servicing \$250 billion are glaring manifestation of the imbalances currently existing in the international monetary and financial relations which, if not corrected, will continue to jeopardize future development prospects." Evidently, the debt-servicing ration for developing countries amounted to approximately one quarter of the total debt, which was not uncommon.

From 1980 to 2000, SSA's debt increased from \$72.4 to \$216.8 billion, almost threefold. At the same time, over the period of twenty years, the debt ratio to GDP increased from 25.1 per cent to 63.9 per cent which clearly became unsustainable (*see* Table 10). According to Bond (2006:39), although SSA paid lower interests on loans than other regions of the world, it "retired \$225 billion of foreign credit during the 1980s [to] 1990s, *a factor of 4.2 times the original 1980 debt.*" Looking at the debt situation in this way, it is the creditor that benefits from the situation. Moreover, Bond (2006:39) notes that the financial structure has changed dramatically; "[i]n 1980, loan inflows of \$9.6 billion were comfortably higher than the debt repayment outflow of \$3.2 billion ... by 2000 only \$3.2 billion flowed in, and \$9.8 billion was repaid, leaving a net financial flows deficit of \$6.2 billion." In short, creditors became 'as rich as Croesus.'²⁷

16.2 Low Inferior Growth and Unequal Growth

The "growth critique", in the words of Manual Pastor (cited in Vreeland 2003:2), of the SAPs package is nothing new. For many years the BWIs have claimed that SAPs, amongst others,

²⁷ Strange (1994:94) points out that Croesus (the king of Lydia from 560-546 BCE) increased his wealth by charging interests on loans.

will lead to quality growth. Critics generally retort that they have not witnessed the type of growth to which the IFIs allude to. Nevertheless, growth in itself is not significant. African countries have experienced economic growth in the past. It is worth pointing out that ten African countries had consistent growth rates of 6 per cent or more from 1967 to 1980 (Mkandawire 2001:303). What needs to be asserted is therefore not whether African countries experienced growth during the SAPs period, but how it compares to previous periods of growth; or alternatively, how it compares to countries that did not adopt these programmes.

A study by James Vreeland (2003), *The IMF and Economic Development*, had interesting findings regarding IMF structural adjustment programmes. His study includes an analysis of data over the period of 1951 to 1990. The study however lacks data for the 1950s and 1960s as well as data on former communist countries. However, he also acknowledges that this could be appropriate as the hard core SAPs package only became manifested in the late 1970s. Nevertheless, he concluded his study by arguing that “[t]here is no evidence that IMF programmes help growth or even have benign effects. IMF programmes hurt economic growth” (Vreeland 2003:129). On limited data for the 1990s Vreeland (2003:30) also states;

The sample with no missing observation includes 318 country-year observations with mean output growth of 3.5 per cent per year. There are 191 observations of countries participating in IMF programmes with mean growth of 2.8 per cent per year, and 127 observations of countries not participating in IMF programmes with mean growth of 4.7 per cent per year. The observed difference is 1.9 per cent. Controlling for selection in the manner described ... the inherent effect of IMF programmes appears to be -1.4 per cent per year in this sample. The negative finding on growth holds.

It is worth noting that the low growth rates that are attributed largely to SAPs are well below the years when African countries were chastised for intervening in their economies in order to promote development. The above conclusions correlate with findings from a study carried out in 1989 by the United Nations Economic Commission for Africa (UNECA). According to UNECA, on average, the GDP growth rate for non-adjusters are growing at a faster pace compared to strong adjusters (*see* Table 11).

Table 11: Strong versus Non-Adjusters

Country	1981	1982	1983	1984	1985	1986	1987	Average
Strong Adjusters	-3.01	3.33	-3.85	-4.31	6.33	2.82	-1.97	-0.53
Weak Adjusters	5.44	3.46	0.66	-1.29	0.13	4.01	1.88	2.00
Non-Adjusters	3.92	3.35	3.53	3.68	6.40	3.62	-2.51	3.50

Cited in Mlambo (1997:4)

Even a quick look at the IMF's own data will reinforce the above perspective (*see* Table 12). The economic data for Botswana, Ghana, Kenya, South Africa, Uganda, and Zimbabwe is quite telling. Of these five countries, South African and Botswana were not subjected to the conventional one-size-fits-all austerity measures. Botswana started off with a GDP per capita of \$100 in 1960 and exerted an impressive average GDP growth rate of 7.5 per cent between 1961 and 1997 (Stiglitz 2002:36-39). At the same time, during the period under discussion, South African was for the most part still under the Apartheid regime (and by implication economic development was constrained by sanctions) until 1994.

As for Ghana, Kenya, Uganda and Zimbabwe, these were (at different points in time) classified as star pupils by the two multilateral agencies (Abrokwa 1999:658; Ayers 2006:326-327; Mkandawire 1994:168-169). Kenya's experience with SAPs dates back to the 1980/1 fiscal year, which continued into the 1990s (Rono 2002:2). Similarly, although Ghana adopted limited SAPs packages in earlier years, its SAPs experience became entrenched shortly after John Rawlings came into power via a coup d'état in 1981 (Boafo-Arthur 1999). In Uganda, Idi Amin destroyed the Ugandan economy before he was overthrown in a military coup. When Milton Obote assumed power for the second time in 1980, Uganda adopted SAPs measures. Due to the economic crisis, which was escalated by IFI austerity measures, Obote was also ousted in 1984. The IFI programme was practically suspended before it reintroduced in 1987 by Yoweri Museveni. However, it must be noted that the SAPs package under Museveni was a lot more favourable than that of his predecessors (*see* Baffoe 2000). As for Zimbabwe, although Robert Mugabe flirted with the BWIs in the 1980s, a full scale SAP was only adopted in 1991 (Mlambo 1997:xi-xii).

Table 12 provides a good overview of the effects of SAPs in the above mentioned countries. Note that Botswana's GDP per capita almost increased threefold from 1980 to 2000. Of course, it is easier for smaller economies to grow (comparatively speaking). Nevertheless,

South Africa with a large economy, despite the economic sanctions against the Apartheid regime, still experienced minimal growth as measured by GDP per capita. However, the star pupils under the IFI programmes - Ghana, Kenya, Uganda and Zimbabwe - were poorer in terms of GDP per capita in 2000 compared to 1980.²⁸ Note that Ghana had an average GDP per capita of \$1,227.784 in 1980, compared to only \$270.481 in 2000. The IMF's statistics for Zimbabwe also reveals how during the height of the country's SAP (from 1991 to 1995), the average GDP per capita declined drastically.

Table 12: GDP per capita, current prices (US dollars)

Country	1980	1985	1990	1995	2000
Botswana	1,227.784	917.622	2,971.180	3,227.978	3,440.893
Ghana	1,570.421	527.402	462.541	398.092	270.481
Kenya	607.232	440.139	517.139	443.678	409.175
South Africa	2,764.137	1,735.623	3,039.444	3,684.838	2,986.447
Uganda	366.727	282.447	258.578	267.056	254.882
Zimbabwe	657.263	672.470	896.251	620.515	518.553

IMF (2009a)

From the above it is obvious that the IFI packages failed to provide stability and quality growth. What was the effect of SAPs on income distribution? Did trickledown economics do its magic? Vreeland's (2003) study is quite insightful and extensive. He argues that, contrary to what the IFIs set out to achieve, the SAPs package had a negative effect on the distribution of resources. Thus, not only do the reform programmes have an adverse effect on the overall growth of borrowing countries, but inequality also increases.

Although Vreeland's study analysed data only for the manufacturing sectors, he was able to include 2,095 observations for 110 countries over the period of 1961 to 1993. Thus, the data are significant in country years as well as time. Nevertheless, consider the following observation: Vreeland (2003:149) notes that in the Republic of Congo, the labour share of manufacturing was 48.8 per cent in 1985. When the government adopted the IMF's structural adjustment package the following year, the labour share of manufacturing dropped to 40.3 per cent. Vreeland (2003:150) further notes;

²⁸ Initially SAPs were short-term stabilization programmes, between three to five years, by the mid 1980s seven to ten years, but by 1990 the extension time frame was increased to 15 years (Green 1998:219; Adedeji 1999:522). According to the IFIs, a long-term strategy was required to achieve the goals of SAPs.

Although the country as a whole experienced growth of -2.99 per cent that year, the income of the owners of capital grew. Earnings from manufacturing were 5,227 million in 1985, of which 2,676 million went to the owners of capital. Earnings from manufacturing dropped to 5,059 million in 1986, of which the owners of capital received 3,020 million. The income of capital increased 9.5 per cent despite the overall economic contraction.

In other words, not only do SAPs have negative consequences for a debtor's overall economic growth, but it also exacerbates inequality. Thus, elites could benefit from a situation where there is low (or no) growth, but the poor are generally more susceptible to SAPs. In fact, according to Millet & Tousaint (2009:2), the number of people living on less than one US dollar a day in SSA has increased from 214 million in 1981, to 299 million in 1990, to 391 in 2004. Thus, the number of poor in Africa has almost doubled during the height of the SAPs experience.

17. Who or What is to Blame for the Failure of SAPs?

In a report published by the World Bank (1994:131) it asked the following question: “[i]s adjustment paying off in Sub-Saharan Africa?”, and in answer it was stated: “a qualified yes.” The report further argued;

Adjustment programmes may not have raised all countries' GDP growth, exports, savings, and investment rates to those of adjustment countries in other regions. But the stronger reformers in Africa have turned around the decline in economic performance and are growing for the first time in many years.

The World Bank report claimed that GDP per capita growth for strong adjusters was 0.4 per cent between 1987 to 1991, to which Mkandawire & Soludo (1999:78) notes in response, “it would take more than 100 years to double the per capita income of the success stories.” The IFIs completely missed the point. Countries will grow at some point, especially after the economy has been on its knees for many years. For example, the Zimbabwe economy grew by 3.7 per cent in 2009 while the rest of the world experienced economic recessions (see CIA World Factbook 2010). This is arguably not only because of dollarisation of the Zimbabwean economy, but also because it experienced several years of economic recession. Furthermore, other than the fact that it is not necessarily true that adjusters grow faster than those outside the process (*see* previous section), it should be pointed out that growth in itself is not significant. In order for growth to have a major impact on development, it has to be sustainable and profits have to be strategically channelled. Nonetheless, and despite the

evidence to the contrary, the IFI continued to dismiss reports by the OAU and independent researchers. Rather, the BWIs flooded the public with ‘empirical evidence’ and statistics to link orthodox policies with growth and development. Many of these reports are guilty of what has been identified as ‘policy-based, evidence making’ in the previous Chapter.

Two things are clear; first the BWIs gave misleading evidence to reinforce justification for enforcing their prescriptions on African debtor states. For example, Mosley *et al* (1995:1470) concluded their study stating, the indications are clear, “[SAPs] have not stimulated recovery in Africa. The attempt in *Adjustment in Africa* to demonstrate the contrary is technically flawed beyond salvaging and rests upon unsustainable theoretical argument.” This accusation, of manipulating statistics to reinforce its theoretical framework, is neither the first nor the last one.²⁹ Secondly, by implying that their research is empirical, the BWIs are claiming fact and do not leave room for opposing perspectives. Thus, the IFIs would have us believe that the standard SAPs package do not have to be changed if it is doing what it is suppose to do. In short, the continuation of structural adjustment was justified, barely leaving room for any alternative perspectives on the African debt crisis.

As evidence mounted proving the IFIs incorrect, the two multilateral institutions blamed African debtors, thereby trying to escape responsibility in exacerbating the debt crisis. As argued by Theunissen (2004:2);

The rich countries and the western banks tended to downplay or even dismiss their responsibility. Instead, they shifted (most of) the blame onto the developing countries, accusing them of having borrowed too much, adjusted too little, and pursued bad economic policies.

17.1 Adherence to SAPs

Did the IFIs learn from their previous experiences with SAPs? Regrettably, the indications are not very promising. The IFIs, as argued, often blame African governments themselves for not following through on conditionality. As mentioned in section 13.2, conditionality

²⁹ According to Stiglitz (2002:132), although the IMF is in charge of collecting “valuable economic statistics ... the data it reports are compromised by its operating responsibilities; to make its programmes *seem* to work, to make the numbers ‘add up’, economic forecasts have to be adjusted. Many users of these numbers do not realise that they are not like ordinary forecasts; in these instances, GDP forecasts are not based on a sophisticated statistical model, or even on the best estimates of those who know the economy well, but are merely the numbers that have been *negotiated* as part of an IMF programme. Such conflicts of interests invariably arise when the operating agency is also responsible for statistics ...”.

for poor countries is a double-edged sword, as debtors have no other choice but to engage into power relations with the IFIs. However, why would borrowing states actually adhere to IFI conditionalities knowing that these reforms are destructive?

The primary reason seems to be that “the carrot of future loans ensures that Bank conditionalities are implemented, a phenomenon which serves to curtail the policy options open to borrowing countries” (Edigheji & Amuwo 2008:19). If policy prescriptions are rejected or not implemented, this could “not only limits the credit that the IMF will extend to the country [but] also sends negative signals to creditors and investors” (Vreeland 2003:14).

Similarly, Stiglitz recalls that he was perplexed at why South Korea (with much more economic clout than any African country) did not object to IMF austerity measures in 1997 during the East Asia crisis. Two years later he enquired about this (Stiglitz 2002:42,43);

Korean officials reluctantly explained that they had been scared to disagree openly. The IMF could not only cut off its own funds, but could use its bully pulpit to discourage investments from private market funds by telling private sector financial institutions of the doubts the IMF had about Korea’s economy. So Korea had no choice ... A public announcement by the IMF that negotiations had broken off, or even been postponed, would send a highly negative signal to the markets. This signal would at best lead to higher interest rates and at worst a total cut off from private funds.

Stiglitz added that for poor African countries the situation is even worse, as other multilateral creditors and donors follow IFI advice. Similarly, a study which investigated fifty-nine IMF agreements from 1988 to 1992 concluded “that the IMF restricted access to the agreement loan thirty-five times” because of noncompliance (Vreeland (2003:64). For example, when Tanzania failed to follow through on IMF policy conditions in 1981, the IMF suspended loans to the debtor and investment dropped from 11.8 per cent of GDP to 8.9 per cent (Vreeland 2003:28-29). Such “rejection costs” could also be applied to bilateral and multilateral donors (Vreeland 2003:87). The Paris Club, an informal group of the world’s richest financial officials that reschedule debt, are adamant that debtor nations “be in good standing” with the two multilateral agencies IFIs (Vreeland 2003:14). Therefore, debtor states have limited scope for non-implementation of structural adjustment as prescribed by

donors.³⁰ In short, evidence suggests that African debtor states had strong disincentives not to challenge the multilateral institutions and to implement its policy prescriptions.

17.2 Dictators, Development, and Democratisation

In its *Articles of Agreement*, the institution's founding document, the IMF implies that it is a neutral organisation for the benefit of its members. Specifically, the IMF claims that in executing its role that "principles shall respect the domestic social and political policies of members" (IMF 1990:8).

Similarly, section 5(b) of the World Bank's *Articles of Agreement* states (IBRD 1989),

The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

In section 10 of the Articles, the World Bank (IBRD 1989) further emphasise that political activity shall be prohibited,

The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I.

The reality of course, is far from this. Politics and economics cannot be separated. Rather, they implicate one another as what happens in the economy can have direct political repercussion and vis-à-vis. For example, while it is undeniable that conflict situations are destructive, cognisance needs to be taken of the interrelationship between development and stability. As argued by the UNDP (1994:2),

³⁰ According to Vreeland (2003:20-81) there are some states (such as Uruguay) that are determined to implement the policies associated with the SAPs package regardless of whether they need a loan. This happens typically in a situation where a country is ruled by a neoliberal reformer who prefers the IMF package. However, in this situation, the reformer could face opposition within his/her party or government and therefore brings in the IMF to act as a buffer to opposition groups. The opposition groups, aware of the rejection costs, have to submit to IMF conditionality when the reformer signed an agreement with the IMF.

Several nation-states are beginning to disintegrate. While the threats to national survival may emerge from several sources - ethnic, religious, political - the underlying causes are often the lack of socio-economic progress and the limited participation of people in any such progress.

Regardless of this, the IFIs claimed to remain neutral about political matters. There is something additionally misleading about this claim. In line with critical theory (*see* Chapter 2), it has to be acknowledged that the BWIs are human creations, and subsequently conditioned by history. Not only were the BWIs created in the aftermaths of World War II, but the timing of its emergence also coincided with the Cold War and African colonies increasingly demanded independence. Thus, the Western world initially took the opportunity to use the BWIs to reconstruct its allies, and when the time came for newly found independent Africa to choose the ideology of the day, it became very easy to push them to the ‘right’ side of the spectrum. As argued, the BWIs transformed into incredibly powerful policy makers in Africa during the emergence of the debt crisis. Truthfully, it would have been irrational for the decision makers at the IFIs not make use of this calculated opportunity. The evidence speaks for itself as this section will outline some of the key features between economics and politics.

As argued, the IFIs have claimed that they took an apolitical and positivist approach to Africa’s debt crisis and by implication they tend to escape blame for any political crisis that followed the introduction of SAPs. Structural adjustment, they would have one believe, are not only neutral, but also beneficial. In fact, the IFIs would maintain that the SAPs aimed to liberate the African economies from state intervention by allowing ‘rational’ markets to do its magic. The World Bank (1998a) for example notes,

The Washington Consensus policies were based on a rejection of the state’s activist role and the promotion of a minimalist, noninterventionist state. The unspoken premise is that governments are worse than markets. Therefore, the smaller the state the better the state.

The 1990s witnessed a major phenomenon not only in Africa, but around the world leading some to proclaim the ‘end of history’. In the mid 1990s, Zakaria (1997:23) noted, “118 of the world’s 193 countries are democratic, encompassing a majority of its people (54.8 per cent, to be exact), a vast increase from even a decade ago.” What is the significance of this? How does it relate to the policies that are dictated by the IFIs?

A first reading of the democratisation process views it as unquestionably good. Some of the pressures that have led to major transformations took place domestically (such large scale demonstrations in Mali and Togo), while others (for example Ghana and Uganda) have been induced or aided from the outside. The democratisation process in Africa is generally interpreted by the IFIs as supporting their claims that the bad economic policies of African leaders have resulted in demands for change. Indeed, the majority of demonstrations and large scale riots demanded democracy. This raises another question; is there a relationship between democracy and development? At times the World Bank and IMF have hinted that the relationship is ambiguous, but since at least 1989/90, the IFIs have tied loans to “political conditionalities” albeit in the form of “good governance” which they define vaguely (Ayers 2006:327, Mkandawire 1994).

For the IFIs, democracy is often associated with elections, while good governance is connected with the “the minimal, ‘neutral’ and accountable state”, that is the neoliberal project (Ayers 2006:327). Despite accepting the ambiguity between the relations of development and democracy, there have been instances where they have played an active role to promote the latter. According to the IMF, “most African countries are only at the start of the arduous process of developing a tradition of democracy, and establishing the institutions that safeguard it”, gradually they “will become an accepted part of the social fabric of Africa, *but we are still at the stage of building them up*” (emphasis added, cited in Ayers 2006:324).

In fact, during the 1990s, the IFIs together with other bilateral and multilateral donors, have paid a lot of lip service to the idea that there is a causal relationship between undemocratic behaviour and Africa’s economic deficiencies. The result was that they pressed for democracy in exchange for loans and aid. What is the logic behind their assumptions? For one, they argue that development would follow democracy as corrupt leaders would be judged by the ballot box. Recall that in view of the IFIs, it is because of corrupt leaders - together with their rent seeking behaviour – that Africa is in an economic crisis. In 1991 the World Bank (cited in Mkandawire 1994:168) declared;

Democracies ... could make reform more feasible in several ways. Political checks and balances, a free press, and open debate on the costs and benefits of government policy could give a wider public a stake in reform. The need to produce good results in order to be re-elected could help, rather than hinder, economic change: it increases government’s incentives to perform well and keeps predatory behaviour in check.

The irony is that the World Bank and IMF's SAPs were more readily accepted by authoritarian governments, because democratic governments feared that the negative impacts of SAPs would leave them powerless at the ballot box. Some of the 'best performers' - according to the IFIs - under SAPs were authoritarian regimes. The most notorious example in the developing world is Augusto Pinochet and his 'Chicago boys' in Chile, while in Africa the authoritarian regimes in Ghana, Nigeria, Malawi, Zimbabwe and Uganda were considered to be the World Bank and IMF's star pupils at different points in time (Ayers 2006:326-327, Mkandawire 1994:168-169). The IFIs' defining principle was that 'they might be bastards but at least they're our bastards.'

Ghana under John Rawlings was a major IFI darling. In 1987 alone, the World Bank sent more than forty missions to the country. As argued by Boafo-Arthur 1999;

Apart from the undemocratic tactics of the [Rawlings' administration], the IFIs also gave maximum support to the regime. Rawlings's style of governance, his tough-mindedness, human rights abuses, clamp down on the basic freedoms of Ghanaians, were in consonance with the prevailing IMF/World Bank thinking on how best a leader could implement adjustment policies. In certain instances, the Fund bent its rigid rules on programme application just to ensure the political survival of Rawlings ... The initial success might have also strengthened the resolve of the donors to make a success out of Rawlings. This was to demonstrate the efficacy of their new thinking on how best to develop a tottering economy through structural adjustment.

A 1962 report by the UN Secretary-General exposed Mobutu Sese Seko, who ruled Zaire from 1965 to 1997, as a looter *before* he came into power. Again, in 1982, a senior IMF official, Erwin Blumenthal, warned that "lenders should not expect repayment as long as Mobutu remained in power" (Toussaint 2004:7). Still, the IFIs kept on issuing loans to one of the world's worst kleptocratic regimes. More specifically, World Bank and IMF payments to Mobutu's Zaire increased after the Blumenthal report. Thus, notwithstanding the forewarning, America's key ally in Africa was not blocked from enriching himself at the expense of his own country.

Bandow (cited in Vreeland 2003:89) notes that "the IMF rarely met a dictatorship that it didn't like." Hence, the IFIs are often criticised for making deals with authoritarian regimes and that such debt should not be repaid, as the loans were issued by a financial institution and accepted by dictators, both with no accountability to the citizens of such countries (*see* Table 13). Bond (2006:40) therefore argues, "a very strong case could be made that the inherited

debt from dictators is legally ‘odious’, since the citizenry were victimised both in the debt’s original accumulation (and use against them), and in demands that it be repaid.” In 1994, the United Nations Development Report (UNDP 1994:8) stated, “the major suppliers of arms must adopt a new ethic of peace, since 86 [per cent] of the current arms supply originate from the five permanent members of the Security Council.” Three of these members are also the same members leading the IFIs. The point is, the IFIs and its allies helped to empower many of Africa’s dictators, knowing that they will never be able to pay back what they have borrowed. In the end, debt was nationalised and the burden was left to future generations to pay back these loans.

Table 13: Debt Incurred by African Dictators

Country	Regime	Timeframe	Debt incurred (dollars)
Nigeria	Buhari and Abacha	1984 to 1989	30 billion
South Africa	Apartheid	1948 to 1993	22 billion
Zaire	Mobutu	1965 to 1997	13 billion
Sudan	Numeiri	1969 to 1985	9 billion
Ethiopia	Megistu	1974 to 1991	8 billion
Kenya	Moi	1978 to 2002	5.8 billion
Congo	Sassou	1979 to 2005	4.5 billion
Zimbabwe	Mugabe	1980 to present	4.5 billion
Mali	Traore	1968 to 1991	2.4 billion
Somalia	Said Barre	1969 to 1991	2.3 billion
Malawi	Banda	1966 to 1994	2.2 billion
Togo	Eyadema	1967 to 2005	1.4 billion
Liberia	Doe	1980 to 1990	1.2 billion
Rwanda	Habyarimana	1973 to 1994	1.0 billion
Uganda	Idi Amin Dada	1971 to 1979	0.6 billion
Central African Republic	Bokassa	1966 to 1970	0.2 billion

Adapted from Bond (2006:40)

This brings the analysis to a second reading of the democratisation process in Africa. As argued by Beckman (cited in Mkandawire 1994:167), “it is resistance to SAP, not SAP itself, that breeds democratic forces. SAP can be credited with having contributed to this development, not because of liberalism but because of its authoritarianism.” In many cases, SAPs provided the *raison d’etre* for political violence and anti-IFI riots – such as in Kenya, Nigeria, Zaire, Zambia, and Zimbabwe, to name but a few (Rono 2002:84). Several of these countries experienced coup d’états in the immediate aftermaths of SAPs. In 1972, the Busia regime in Ghana was overthrown by the military seventeen days after it signed an agreement with the IMF. According to Bofo-Arthur (1999) the above IMF package instantaneously led

to dramatic increases of basic items like sugar, rice, and milk. Thus, from this perspective, it is almost as if it became an incentive for African debtor states (tied to IFI conditionality) to become more authoritarian. In other words, political violence and anti-government demonstrations that often occurred were actually directed towards the policy prescriptions of the IFIs. Of course this did not stop the IFIs from co-opting with post election elites. Nonetheless, the democratisation process in Africa should not be viewed without scepticism.

Following Zakaria (1997), it is imperative to differentiate between a democracy and a liberal democracy. The former is largely characterised by political liberties and celebrated by the Western world whenever an election has taken place (such as in Africa). The latter concept however, denotes a more complex system that goes beyond elections. Liberal democracy is characterised by constitutionalism, based on “the rule of law, a separation of powers, and the protection of basic liberties of speech, assembly, religion, and property” (Zakaria 1997:22). Accordingly, governments that come to power via elections can be democratic, but not necessarily constitutional. Zakaria’s (1997:24) foremost concern is that throughout Western history constitutionalism preceded democracy and “to date few illiberal democracies have matured into liberal democracies.” What the world has witnessed in the 1990s is *The Rise of Illiberal Democracy* (Zakaria 1997:22).

Furthermore, Zakaria’s (1997:35) unease about this particular democratisation process is that illiberal democracies are dangerous, as “the introduction of democracy in divided societies has actually fomented nationalism, ethnic conflict, and even war.” Leaders, who came to power by elections, could therefore be corrupt and even dangerous, but it does not make them undemocratic. To celebrate democracy and constitutional liberalism are therefore two different things. Zakaria’s argument that constitutionalism preceded democracy is even more significant when adding a further dimension, that of economic development.

Throughout history, democracy has followed economic development and only very rarely the other way around (Zakaria 1997:26-27). Some scholars may point to certain examples where democracy flourished before economic development. States such as Japan (to a certain extent), India and Botswana comes to mind. However, these states were for many years dominated by a single party, therefore effectively suppressing difference. Why do demands for democracy usually increase as development takes place? The primary reasons seem to be that as the middle classes grow (together with education distribution), the demand for

democracy also follows. However, in Africa, this has not happened. In light of what was argued in earlier sections, why would the masses vote for African leaders that continue to cut social spending in line with IFI conditionality? Why would the masses vote for leaders who (via endorsement of SAPs) drive their economies into disrepute?

A related dilemma is that the democratisation process in Africa has taken place at the same time that state sovereignty has been rolled back. After major criticism of SAPs was launched by African governments and academics in the developing world, the IFIs in the mid-1990s introduced “compensatory measures” in an attempt to revive what they had destroyed (see Geo-Jaja & Mangum 2001:39). Such measures often included aid and soft loans for the construction of road building or reintroduction of universal primary education programmes. However, the introduction of such programmes was also accompanied with conditions – as prescribed by SAPs - and therefore the IMF and World Bank’s star pupils (for example Ghana, Mozambique, Tanzania and Uganda) were the main beneficiaries (Harrison 2005:1309-1310; Mkandawire and Soludo 1999:79,80). Thus, the compensatory measures should be viewed with scepticism; states exchanged a part of their sovereignty for these projects. In this context, it is noteworthy that “before 1989 (the tail-end of the ‘austere’ structural adjustment period) NGOs were involved in about 6 [per cent] of [World Bank] projects; during the period from 1994 to 1997 this average rose to 40 to 50 [per cent] (Harrison 2005:1312). Aristotle once said that “the state exists, not merely to make life possible, but to make life good” (cited in Botes *et al* 1992:3). Thus, the age-old function of the state has - during the SAPs period - slowly disintegrated. Put differently, state sovereignty and government’s responsibility to service its citizens have been directly challenged by the IFIs. In fact, Mkandawire (1994:163) argues that “[k]ey ministries have been literally hijacked by [the IFIs], placed out of reach of domestic politics.”

According to Freund (1998:264), “the fundamental nature of the SAPs, in limiting the effective capacity of the state, makes one wonder how stable a basis for democracy has in fact been established when the state is able to deliver so little.” In the long run democracy, like economic development, requires measures – such as delivery of basic services and effective developmental programmes – that would fulfil the needs of strong interest groups (Mkandawire 1994:170). Chapter 4 will shed more light on how SAPs destroyed debtors’ healthcare and education systems for African masses. The democratisation process in Africa will therefore be short-lived if IFIs fail to address these key issues. ‘Can we eat democracy?’

is a position increasingly reiterated by many Africans. The head of Nigeria's Investment Promotion Commissions once remarked that, "[t]he US will talk to you about governance, about efficiency, about security about the environment. The Chinese just ask: "How do we procure this license?" (cited in Alden & Davies 2006:9).

The point is not to discredit democracy. Quite the contrary, the fact is that democracy has often only been successful when it is accompanied by development or when it follows economic development. Therefore, if Western states truly believe in the virtues of democracy, they should help African states to achieve development. As the previous sections have shown, the BWIs have undermined development, rather than enhancing it. In the worst case scenario, ordinary Africans could reject the idea of the state completely, resulting in state collapse. If there is one thing that we can learn from Somalia, it is that a 'state of nature' is genuinely a 'state of war'.

18. Conclusion

The first part of this Chapter demonstrated the different theoretical underpinnings of the international debt structure. At its core, it was argued that a large credit deficit inevitably creates a power relationship between debtors and creditors. Several conventional assumptions were challenged, including the idea that debt is always a concern for the international community. It was argued that Africa's debt in relations to the world economy is low and insignificant, and therefore non-threatening. This could partly explain why African debt has a long-term trend despite the negative impacts it exhibited on the continent's people. Nonetheless, it was seen in the final section that credit is indeed powerful, and has played a tremendous role in restructuring African economies to serve Western interests.

Section 13 also provided numerous theoretical assumptions as to why states can get caught up in a debt crisis. The sections that followed contextualised Africa's debt crisis and it was argued that it largely emerged in the 1970s when US interest rates and OECD oil prices skyrocketed. This also decreased the demand for African commodities. Yet, as argued in section 15, IFIs ignored the historical manifestation of African debt and rather took issue with the way governments run their economies. The result was a one-size-fits-all package for the majority of African debtor states.

Moreover, section 16 provided an overview of how SAPs exacerbated the debt crisis. Following critical theory's 'immanent critique', SAPs were measured against the multilateral institutions' own basic criteria. It was asked whether the adoptions of SAPs by African debtors lead to economic stability, and quality and distributive growth. In answer to these questions it was evident that SAPs principally produced negative results. Conversely, the IFIs tried to escape responsibility for African's economic ills and blamed the whole nine yards on bad governance and lack of implementation. The scientific – neoliberal – and neutral positions proclaimed by the BWIs of course also helped these institutions to circumvent blame for the effects that austerity measures had on the poor.

The final section picked up on these issues and it was argued that it was difficult to evade adjustment as this would entail punishment by the IFIs and the investment community. Furthermore, it was argued that although many African dictators should rightfully be blamed for the continent's debt crisis, the IFIs must also take responsibility for predatory lending, especially when these institutions lend money to those they knew had no incentive to repay the loans. In addition, the IFIs indirectly provoked certain governments to adopt authoritarian measures to deal with dissent. Violence was often used to try to curb anti-government protests and coup d'états, which is how some populations responded to the negative impacts of SAPs. This has led to a Catch 22 situation: lack of implementation would lead to punishment by creditors, while implementation would cause dissent. African people around the continent demanded democracy due to the negative effects of SAPs, but development more often than not preceded democratisation. Consequently, development will have to be prioritised by the BWIs if they do not want democratisation processes to be reversed. Chapters 5 and 6 will therefore assess post-SAPs initiatives in accordance with whether it contributes towards economic development.

This Chapter set out to contribute towards an alternative understanding of the African debt crisis as it emerged during the 1970s and deepened into the 1980s and 1990s. Central to this analysis was the question of 'whodunit?' The next Chapter will therefore specifically deconstruct the SAPs package in order to get a better idea of how these policy prescriptions were detrimental to African debtors. It will also focus on how Western states, creditors and businesses benefitted from the African debt crisis.

Chapter 4:

The Implementation of a Flawed Idea: Howcatchem?

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.

- John Maynard Keynes (cited in Balaam & Veseth 2008:xv).

The [International Monetary Fund] does not care whether you are suffering from economic malaria, bilharzias or broken legs. They will always give you quinine.

- Kenneth Kaunda, former Zambian President (cited in Samasuwo 2006:14).

19. Introduction

This Chapter aims to focus more intensively on the ideational structure of the World Bank and the International Monetary Fund (IMF) as it was reflected in Structural Adjustment Programmes (SAPs). The previous Chapter was concerned with the African debt crisis and it was argued that the Bretton Woods Institutions (BWIs) played a significant role in exacerbating the debt situation. SAPs did not produce the results – namely, rectify balance of payment deficits and promote high quality growth which would trickle down – that the International Financial Institutions (IFIs) claimed it would foster. This Chapter will specifically focus on the flawed assumptions behind the ideational structure of SAPs of the 1980s and 1990s. Thus, it is concerned with ‘howcatchem?’ rather than ‘whodunit?’ More specifically, this Chapter will bring attention to the general conditionalities states had to adopt as required by the BWIs and why these are considered to be controversial in the first place.

Section 20 of this Chapter broadly evaluates specific conditionalities that defined SAPs. It is argued that within these conditionalities one has to differentiate between two aspects: Firstly, what are the theoretical implications of such policies? And secondly, what were the practical

implications of these policies? Section 21 provides an overview of Chapter 3 and 4 with regards to issues related to SAPs, which will help to develop a framework for comparables in relation to Poverty Reduction Strategy Papers (PRSPs) and other post-SAPs initiatives.

20. Unpacking the Washington Consensus

As argued in Chapter 2, it is essential to distinguish between the ideational and the material structure. The former structure reveals certain aspects about ideas, and specifically the interplay between knowledge and power. The material structure, which triumphs the ideational structure according to positivists (who flourish within the IFIs), predominantly focus on the importance of the material world. According to this view, material power can be quantified while the power imbedded in ideas is said to be insignificant or even irrelevant. However, positivist theorists tend to ignore that the power of the ideational and material structure cannot always be separated as there is constant interaction between these structures. By ignoring this relationship, the IFIs also deny the interaction between politics, economics and power. Consider the following example: according to the IMF, a quota of 25 per cent of the balance of trade deficit distinguishes problems caused by “normal trading” (such as trade deficits) and a debt crisis due to “bad policy” (Vreeland 2003:10). Consequently, the IMF demands changes in government policy as a prerequisite for the loan. In the language of constructivism, the idea that government is solely responsible for the debt crisis is a ‘social fact’ in that it is not necessarily true. Yet, the IFIs have attributed this meaning to the 25 per cent quota. It could be argued that such a claim is misleading, as the IMF takes no consideration of the particular historical and structural context prior to acquiring the debt. It also does not reflect on any exogenous issues such as unequal trade relations and other factors that have fed into or intensified the debt crisis. In short, the IMF’s identification of the debt problem is a story only half told.

The following sections will demonstrate that there are deeper problems related to the 25 per cent quota and the mere ‘bad policy’ stance taken by the IFIs. Rather, a more holistic approach should be considered when judging Africa’s debt crisis. The previous chapter has shown that there is a lot more to the debt crisis that could be ascribed to the IFIs as oppose to exclusively blaming African debtor state. Following from Chapter 3, this one will continue to demonstrate the impacts of the ideational structure (as prescribed by SAPs) on African debtors. More importantly, it will be revealed how central SAPs were with regards to

defining the developmental agenda (or lack thereof) for African debtor states. Finally, given that the SAPs package was also a product of the IFIs' ideational structure, one has to acknowledge that power forms an integral part of it. Was it therefore prescribed to the advantage of African debtors? The previous Chapter has shown that basic assumptions – with regards to stabilisation, growth and distribution - behind the SAPs package were flawed. Thus, one needs to ask, who genuinely benefitted from these policies?

The analyst, Noam Chomsky (1997) cautions that we should always distinguish between “doctrine” and “reality”. The following sections, informed by postmodernism, would therefore aim to identify ‘regimes of truth’ underlying the SAPs package. Each policy prescription was loaded with a number of assumptions – or doctrines – that justified why it should be adopted. However, the sections that follow will unpack these assumptions in order to demonstrate that it is unfounded. Moreover, it was argued in Chapter 2, following critical theory, that institutions and ideas could be assessed by employing the method of ‘immanent critique’. Therefore, ideas and institutions should be judged by the ideals which they claim to represent. Accordingly, failure of SAPs should not only be assessed by the BWIs’ own standards but also the ideas that informed SAPs.

20.1 Enter SAPs

Already in 1973 and 1974 certain African debtor states – such as Zambia, Kenya, and Tanzania - had to adhere to the World Bank’s preconditions to obtain loans (Edigheji & Amuwo 2008:14). However, it was the Berg Report (written by Elliot Berg) from 1981 that hardened the neoliberal approach to the economy. In the 1980s, such conditionalities became currency for most IFI loans. Initially SAPs lasted three to four years, but this was soon to be replaced in the second half of the 1980s with seven to ten year time frames and by 1995 some speculated that it would become a permanent feature of African debtor states (Adedeji 1999:522).

China and the Newly Industrialising Economies (NIEs) in East Asia experienced rapid economic success within comparatively short periods. For example, South Korea managed to make tremendous material progress in a short period of time. In 1961 the country’s GDP per capita was only \$82, which South Korea has subsequently grown by approximately 14 times. “It took the UK over two centuries (between the late 18th century and today) and the US

around one and a half centuries (the 1860s to the present day) to achieve the same result” (Chang 2008:4). Broadly speaking there is a consensus that the accomplishments relating to development in these states are largely due to the fact that the state played an active role (see Gilpin 2001:305-340). However, the BWIs were reluctant to draw upon these success stories. In fact, Japan, which is one of the main contributors to the fund, was angered by the World Bank’s World Development Report in 1991 for not acknowledging the success of its model. Subsequently, the Japanese put pressure on the IFIs to carry out a few studies in order to establish why East Asia developed at such a rapid pace. The result became known as the East Asian Miracle Project. In 1993, the World Bank published *The East Asian Miracle: Economic Growth and Public Policy*. Some critics were outraged because instead of presenting a balanced view of the East Asian experience, the World Bank’s report was criticised for being “blatantly ideological, representative of the laissez-fair position of the US and the interests of private capital, and as an effort to assuage growing Western fears of competition from the rapidly industrialising countries of the East Asia” (Gilpin 2001:325). Thus, instead of acknowledging the centrality of the role of the developmental state, the BWIs tried to prove causality between the neoliberal economic strategy and development (Chang 2008:14).

Aside from disregarding the developmental state model, the BWIs did not consult African history to analyse the postcolonial legacies that haunted developing countries in their search for development. The IFIs also did not blame the practices (centred on protectionist policies) of developed states in the world, nor the exogenous factors negatively affecting African states that have built up to the debt crisis. Rather, African governments were to blame for their conducts that were believed to be detrimental to economic growth. Ineffective state interventionism was contrasted with the divinity of the free market, which formed the basis for IFI policy prescriptions (Mkandawire 2001:292). As a result, “[the SAPs package], like the tablets given to Moses on Mount Sinai, were presented as a final product – not as the particular result of trial and error and deliberation” (Buirra 2004:44). Similarly, Edigheji & Amuwo (2008:31) claims that the IFIs “presented [the Washington Consensus] as sacrosanct and non-negotiable.”

As mentioned in Chapter 1, the SAPs package generally included the “10 commandments” or the ten general conditionalities states had to adopt as required by the BWIs (Buirra 2004:45): you shall attain price stability (lower inflation) by maintaining fiscal discipline and avoiding

fiscal deficits; forgo subsidies; broaden the tax base; raise interest rates and attain total financial liberalisation; devalue exchange rates; eliminate protection, liberalise foreign direct investment (FDI); deregulate the economy; and protect private property.

The extent to which the SAPs package had to be adopted largely depended on the IFIs, but little was known to the publics of African debtor states. Austerity programmes were notoriously ‘negotiated’ behind closed doors. For example, in reference to the IMF’s dealings with Ethiopia in the 1990s, Stiglitz (2002:33), first hand observed how the one-size-fits-all package was not up for discussion.

Such organisations are opaque rather than transparent, and not only does far too little information radiate from inside to the outside world, perhaps even less information from outside is able to penetrate the organisation. The opaqueness also means that it is hard for information from the bottom of the organisation to percolate to the top.

With SAPs package, the BWIs undoubtedly established a “panopoly” on development policy (Edigheji & Amuwo 2008:28). What these policy prescriptions boil down to is an attack on government intervention. In the post-independence period in Africa, governments and academics alike followed Latin American thinking which can be summarised as follow: “The idea that human populations could evolve and progress was a very old one – that states should intervene to shape such a process much less so” (Cooper 2002:91). Influenced by the Dependency School, Africa’s postcolonial leaders were adamant that development is not only a matter of political independence, but that economic independence should also be prioritised. The dominant thinking in Africa was therefore that governments should intervene in order for development to take place. It was in this context that Mkandawire (2001:295,296) notes that most African leaders were “developmentalist” and “deeply committed” to what they identified as “eradication of poverty, ignorance and disease.”

The fact is that upon gaining independence, Africa’s population was still largely poor, they lacked education and healthcare systems, and African economies were structured in favour of the Western world as they were exporters of raw materials and a recipient of manufactured goods - therefore undermining the circulation of money. Many post-independence governments also inherited debt that had been incurred by colonial regimes (UNESCO 2010a:1). According to Shillington (1995:409), “little or no attempt” was made by European

colonial powers “to develop African economic self-sufficiency for that would have defeated the purpose of Europe’s possessing colonies.” Shillington (1995:409) further notes;

[even] the ‘terms of trade’ were determined by Europe at the expense of African interests. Prices for Africa’s export commodities were controlled in the so-called ‘developed economies’ of Europe and north America. Thus in times of European depression Africa was paid less for her exports, and in times of European inflation Africans had to pay more for their imports.

As a result, African producers had to export an increasing amount of raw materials in return for the same amount of manufactured goods from Europe. “Even a glance at a railway map of Europe and Africa ... suggests the enormity of the gap between a densely networked region and a zone (with the single exception of South Africa) of limited connections, mostly directed toward evacuation of products rather than regional interaction (Cooper 2002:101). Similarly, telecommunication networks were also inadequate for communication between African countries as “it was easier to telephone from Africa to Europe than it was to telephone from one African capital to another” (Shillington 1995:411). In other words, African states were left with a narrow range of export commodities that they were able to trade with one another, and they possessed next to nothing infrastructure needed to expand it. In this context, African elites believed that development could only be achieved through mass education, diversification of markets via import substitution and protection of national industries from more powerful international competitors (Cooper 2002:91,92).

Contrary to what African governments pursued, several IFI reports increasingly (from the 1980s onwards) implied that government is the cause of poor economic performance in Africa. Firstly, IFIs hold that government intervention in Africa (as with the rest of the developing world) is too extensive. Thus, it is argued that “intervention causes economic dysfunction and dead-weight losses” (Schatz 1996:241). Secondly, and related to the above argument, governments are said to be corrupt. Many researchers refer to such states as “predatory states”, “rent-seekers”, “patrimonial states” and implicitly imply that these states are economically inefficient because they are corrupt (Allen 1995:301-320, Cooper 2002:116, Hyden 2006:96; Mkandawire 2001:298). The problem with this approach is that it assumes that development is not possible in Africa, despite being prominent in many of the high performing East Asian countries. African patrimonialism is therefore “contrasted” with “the Asian variant of patrimonialism [which] does not constrain rational bureaucratic decision making” (Mkandawire 2001:299). East Asia’s corruption is thus viewed as neutral (if not

positive) while African patrimonialism is seen as the key reason for economic failure, thereby simplifying complex processes. Quite frankly, a focus on corruption alone does not tell one enough about economic policy choices and its effects. Nevertheless, all the criticism and policy prescriptions suggest that if the market is “liberated” from government intervention, development would follow (Schatz 1996:241). Moreover, it is argued that deregulation of the economy would also improve governance and by implication, decrease corruption, therefore contributing to development.

What are the economic, social and political implications of SAPs? Is it really as simple as reducing government’s role in the economy in order to promote development? The following sections will analyse the most relevant policy prescriptions as advocated by the IFIs. Three things in particular will be highlighted: What are the theoretical assumptions behind the policies? Did the same policies apply to economically successful states? And, what has been the impact of SAPs on Africa’s development?

20.2 Privatisation of Public Enterprises

As mentioned, according to the World Bank and IMF, one of the central causes for economic stagnation in Africa was that governments had too much control over the economy. Amongst others, the BWIs demanded that African governments should deregulate the economy and privatise state-owned enterprises (SOEs). However, “[i]n many cases, there simply have been no stakers and no private investors willing to buy and manage state enterprises” (Mkandawire & Soludo 1999:59). Still, the IFIs were adamant that foreign investors could step in to fill the vacuum. Capital account liberalisation, which essentially removes restrictions on both inflows and outflows of capital, should therefore be pursued with speed (Kose & Prasad 2004:50,51). Consequently, the IFIs argued that it would lead to even more competition and therefore even greater efficiency and cost-effectiveness of goods and services.

The most basic assumption behind the privatisation hypothesis is “private good, public bad” (Chang 2008:104). There are basically three interrelated reasons as to why privatisation is considered to be superior to public enterprises: Firstly, it is assumed that the private sector is more efficient than the public sector, because when companies are opened to competition this would not only drive the price down but also produce better quality goods and services.

Secondly, SOEs are allegedly ruled by corrupt government officials, adding to the inefficiency of the enterprise. Thus, it is argued that in the private sector this will not be tolerated because stakeholders have a greater incentive to keep an eye on their stock. Thirdly, neoliberals hold that SOEs are fairly expensive to run (Chang 2008:104-106). Thus, in order to ‘maintain fiscal discipline’ and ‘avoid fiscal deficits’, governments should privatise SOEs. Can these theoretical assumptions be justified?

Although SOEs are sometimes more inefficient than the private sector, this is not always the case. Long after the damage has been done, managing directors of large private companies have very often been found guilty of mismanagement, which is another way of saying that they are corrupt. More importantly, governments have time and again bailed out private enterprises. They obviously went bankrupt because they were inefficient. No one finds it more ironic than Chomsky (1997) who sarcastically notes;

All understand very well that [in the developed world] free enterprise means that the public pays the cost and bears the risks if things go wrong; for example bank and corporate bailouts that have cost the public hundreds of billions of dollars in recent years. Profit is to be privatised, but cost and risk socialised, in really existing market systems.

What Chomsky, like many others, is pointing to is that contrary to the ‘regime of truth’ that is maintained by neoliberals, private enterprises in the developed world have often been aided by governments when they became inefficient. This may be the reason also why in the 1970s and 1980s several private enterprises were bailed out by avowedly neoliberal governments, including the shipbuilding industry in Sweden and Chrysler in the US (by none other than the Reagan Administration), and the entire banking sector in Chile (Chang 2008:108). As stated by Chompsky (1997);

To illustrate [the] ‘really existing free market theory’ with a different measure, the most extensive study of transnational corporations (TNCs) found that ‘[v]irtually all of the world’s largest core firms have experienced a decisive influence from government policies and/or trade barriers on their strategy and competitive position’ and ‘at least twenty companies in the 1993 Fortune 100 would not have survived at all as independent companies, if they had not been saved by their respective governments’, by socialising losses or simple state takeover when they were in trouble.

During the Great Recession the Western world has shown once more that it would do almost anything to make sure that certain businesses stays open and that the rich should not lose their assets. The US government alone has committed 11 trillion US dollars (of taxpayers’ money)

and it spent over 3 trillion dollars on loans, asset purchases, guarantees, and other stimulus measures (Goldman 2009). It therefore seems fitting to argue that American decision makers advocate “socialism for the rich and capitalism for the poor” during times of economic crisis (Blackwell 2008). In short, the private sector is no less insulated from inefficiency and corruption than the public sphere.

There are several examples of SOEs that have outperformed their private sector competitors. Singapore Airlines, which is one of the world’s top airlines, is virtually directed by Singapore’s Ministry of Finance. According to *Fortune*, in 2007 Singapore Airlines ranked 17th on the world’s most admired companies (CNN Money 2009). Similarly, 85 per cent of housing in Singapore is controlled by the country’s Housing and Development Board. In South Korea, the Pohang Iron and Steel Company (POSCO) use to be a SOE and is currently the third largest steel producer in the world. Chang (2008:109) notes that POSCO would not have been able to achieve this had government not established the company. In China, under Maoist communism, all industrial enterprises were SOEs, while today 40 per cent of these are still state owned. In France, several very successful multinational corporations (MNCs) were once state owned and became privatised between 1986 and 2000. These include Renault, Alcatel, St Gobain, Usinor, Thomson, Thales, Elf Aquitaine, and Rhone-Poulenc. In Brazil, Petrobras (oil and technologies) and Empresa Brasileira de Aeronáutica (or EMBRAER, the jet manufacturer) are also good performers on the global market (*see* Chang 2008:108-112). The list is endless, but the point is that many SOEs have become world class competitors before they were privatised. The reasoning seems to be that although the operational costs associated with SOEs could be expensive in the short-term, they are critical to national development in the long-run.

According to Cooper (2002:100), Africa’s “[i]ndustrialisation ... had its moment: between 1965 and 1973, industry expanded twice as fast as [Gross Domestic Product] (GDP).” In fact, industry - that is manufacturing and mining - expanded at nearly 7 per cent between 1960 and 1980. However, the oil shocks of the 1970s had a major negative impact on development, and by 1980 “Africa slowly deindustrialised” (Cooper 2002:100). Despite the historical evidence, the BWIs insisted on privatisation. It is noteworthy that approximately 400 SOEs in Africa were liquidated or privatised in the 1980s. Another 600 SOEs were privatised between 1990 and 1995, of which the transition costs could be described as “modest” – or US\$2.7 billion or 1 per cent of the region’s GDP (Goldsmith

1999:535). How did this impact on the development in Africa? To start with, it is argued that privatisation in Africa did not take place naturally in the way it did in the developed world. As stated by Mkandawire & Soludo (1999:60), governments did not have a chance to “fatten the calves before selling them.” The result was that SOEs could not produce the optimal results that they could have had they been sold under normal situations. In such a situation, SOEs are developed into competitive industries geared towards long-term goals and sold at competitive prices (at market value), not because they are forced to privatise. Consider the following analogy: Would it be rational for the individual to sell a house in the middle of a house market crash given that the price he or she will receive for it will be next to nothing? The answer is no. In contrast, from the buyer’s perspective, buying a house at a low price makes sense. The crux of the matter is that there are winners and losers during an economic crisis; the rich often benefits most while the poor are worst affected by the event.

The lesson learned is that government intervention is often essential in creating competitive industries that could promote economic development in the long-run. This is not the same as saying that industries should never be ‘freed’ from government intervention. Rather, the point is that without government intervention certain industries cannot be created for the reason listed above. This is even more crucial in a global market where infant industries in Africa are simply not able to compete against giant firms.

20.3 Capital Account Liberalisation

Africa’s lack of local capital gave the IFIs all the more ammunition to push for the liberalisation of FDI. One of the dilemmas is that the IFIs are players in the privatisation game while also being the referee. For example, the World Bank’s International Finance Corporations (IFC) actively “promotes private sector development, and assists TNCs that invest in developing economies” (Edigheji & Amuwo 2008:7). Similarly, the World Bank, through international competitive bidding (ICB), provides prospective bidder the “opportunity to bid for ... goods and works” in borrowing countries (World Bank 2009a). According to Edigheji & Amuwo 2008:18), “[a]bout 80 per cent of [the World Bank’s] funds are allocated through ICB, and ... [m]ost of these bids are won by corporations in creditor countries.” As a result, the IFIs not only open up national economies to “market forces”, but also prioritise Western capital over local suppliers (Edigheji & Amuwo 2008:18). It is therefore very difficult to establish whether IFI officials are focusing on doing their jobs in

the interest of African debtors or Western capital. For example, participants at Uganda's Structural Adjustment Participatory Review (SARPIN) complained heavily about the fact that public divestiture of enterprises was not conducted transparently, which led to mass demonstrations (SARPIN 1998a). Ugandans, as with many other Africans, had a lot to be concerned about. In the tourism sector for example, "12 of the 17 lease agreements signed between Uganda National Parks and private tourist/hotel companies went to foreign corporations" (Ayers 2006:328).

According to Stiglitz (2002:58), privatisation became tantamount to "bribe-isation ... By selling a government enterprise at below market price, [corrupt officials] could get a significant chunk of the asset value for themselves rather than leaving it for subsequent officeholders." During Uganda's SARPIN, members of civil society remarked that privatisation "benefitted the government and corporate interests" rather than the people at large. They further complained that privatisation was (SARPIN 1998a);

expected to increase the level of efficiency, but there is no evidence, nor agreement, that this has been achieved. With a growing danger of monopoly and bankruptcy, privatisation is seen by many in Uganda as 'legalized robbery' that runs the risk of precipitating major problems down the road.

The BWIs often defend their policies by arguing that it is exactly this corruption that privatisation wants to fight. However, it was in fact World Bank and IMF's policy advice to deregulate debtor economies that enabled many of Africa's Mobutus and Abachas to send billions of dollars to the developed world's bank accounts. Furthermore, "[t]he IMF and World Bank did not instruct such leaders to bring their stolen loot back into the country but rather to sack thousands of public employees" (Hoogvelt 1997:169). More importantly, the IFIs did not care to put in place regulatory frameworks on competition before moving ahead with the privatisation process. Instead, the BWIs wanted it to be fast-tracked at all costs. For example, in Cote d'Ivoire a telephone company was forced to privatise by the IMF, with the result being that the French firm that obtained the state company ended up charging more for its services. "Whether privatised monopolies were more efficient in production than government, they were often more efficient in exploiting their monopoly position; consumers suffered as a result" (Stiglitz 2002:56).

Moreover, the IFIs' demand for privatisation and liberalisation of FDI lead to a real race to the bottom in a variety of areas. Labour and environmental laws had to be minimised while major tax breaks and incentives were handed on a golden platter to transnational corporations (TNCs). Such low standards would not be tolerated in the home countries of these TNCs. Nonetheless, the IFIs want us to believe that it is essential in order to attract investment. Moreover, contrary to arguments that favour the private sector as an engine for employment, the world's largest TNCs are not always the best vehicles for employment creation as they are more capital intensive. For example, Anderson & Cavanagh (2000:ii) argues that although

the sales of the Top 200 [global companies] are the equivalent of 27.5 percent of world economic activity, they employ only 0.78 per cent of the world's workforce ... Between 1983 and 1999, the profits of the Top 200 firms grew 362.4 per cent, while the number of people they employ grew by only 14.4 per cent.

One of the problems is that the private sector is intent on employing less people in order to increase profits. Thus, unlike Greenfield investments, privatisation could increase unemployment rather than creating jobs (Stiglitz 2002:57,58).

Ghana's gold industry – the second largest in Africa – represents a particularly worrying example of how labour and the environment becomes secondary to the objectives of privatisation and FDI. It is perturbing because it was considered as one of the BWIs' star pupils. Due to tax breaks only a scant fraction of mining revenues found its way to government budgets while TNCs were allowed to siphon off money to offshore bank accounts. TNCs also laid off hundreds of mine workers in order to cut operational costs. Consequently, mining has caused large scale unemployment and environmental degradation in areas where it operated. For example, approximately two thirds of the land was sold to TNCs in the district of Tarkwa. As a result, almost 30 000 people were displaced from 1990 to 1998 by mining houses in the Tarkwa district alone, while forest areas and farming land were ruined, causing more unemployment for the people dependent on the land (Akabzaa & Darimani 2001:44). According to Akabzaa & Darimani (2001:29), Tarkwa “contains a significant proportion of the last vestiges of the country's tropical rain forest, which declined from 8.2 million hectares in 1992 to 750,000 hectares by 1997.” The BWIs allowed this to happen due to its ‘race to the bottom’ approach with regards to foreign investment. The

result is that little compensation is paid for damaged occurred along the way and TNCs contributed only a drop in a bucket to state coffers.

The lack of innovation and acquisition of technology during the SAPs period can also be attributed to a mere miscalculation by the BWIs in that these institutions expected that FDI would do the trick. The assumption was made that if FDI can freely flow into SSA, it will create new opportunities for investors and host countries. However, most of the FDI that came into Africa was not geared towards Greenfield investments but the bulk of it went straight into extractive industries. As the Ghana's example above has shown, the IFIs would readily sell off a debtor's gold for next to nothing. The SAPs policy prescriptions (see also the following sections) have created an unstable macro-economic environment. This meant, to a large extent, that capital account liberalisation would not necessarily bring in thousands of foreign investors ready to do business with Africa (see Ndikumana 2003).

How did FDI fare during the height of the SAPs period? According to Ndikumana (2003:4), yearly FDI flows to the continent (excluding South Africa) increased on average from "\$1.2 billion in the 1981 to 1985 period to \$2.9 billion in 1986 to 1991, and \$5.3 billion in the 1992 to 1998 period. This seems momentous, but one needs to keep in mind that Africa started from a very low base and these flows are relatively small and declining compared to FDI that is channelled to the rest of the developing world. "Among developing countries, Africa's share of FDI in 1976 was about 28 per cent; [but by 2005 it was] less than 9 per cent" (Ajayi 2006:1). Capital account liberalisation has therefore not benefitted Africa the way IFIs said it would. At the same time, SAPs in combination with capital account liberalisation made it easier for capital to leave the continent.

Ndikumana & Boyce's (2008:8) study of 40 African countries have demonstrated that proportionally speaking, capital flight is higher than any other place in the world; "in 1990 about 40 per cent of African private capital was held abroad." According to the sample, which includes the period from 1970 to 2004, Africa is a "net creditor" to Western financial institutions; "[r]eal capital flight ... amounted to about \$420 billion (in 2004 dollars) for the 40 countries as a whole. Including imputed interest earnings, the accumulated stock of capital flight was about \$607 billion as of end 2004" (Ndikumana & Boyce 2008:6). Furthermore, it is also significant to note that SSA's per capita GDP could have been 16 per cent higher "if the continent had been able to retain its private wealth at home" (Ndikumana

& Boyce 2008:2). One can easily see why Africa could have been wealthier had this capital stayed in SSA. If this capital was pumped into domestic economies, it could have been invested into local ventures, which in turn could have created more jobs, people would have had more spending power, more capital could have been spent on domestic goods rather than importing foreign goods etcetera, thus having a burgeoning effect. In contrast, the study found that the sample's foreign assets are 2.9 times the stock of debt that these SSA countries owe to the world (Ndikumana & Boyce 2008:7).

Why did IFIs not focus on creating legal structures that would ensure that the majority of Africa's capital is reinvested not necessarily domestically, but at least within the continent? *Cui bono?* Not only the individuals who have foreign assets, but also the creditors (banks) where this money ends up as well as the creditors (together with the interests they represent) who make more demands in other areas on how SSA should structure their economies.

One of the chief conclusions of the above study is that there is a causal relationship between debt and capital flight. It is argued that "for every dollar of external borrowing roughly 60 cents leave the country as capital flight during the same year, while one-dollar increase in the stock of debt resulted in 3 to 4 cents of capital flight in subsequent years" (Ndikumana & Boyce 2008:36). The authors also noted that the causal relationship between debt and capital flight is a two-way-street, as large flows of capital flight leads to more borrowing, which in turn, causes more capital flight. Reflecting on the SAPs experience in Kenya, an IMF study (Ariyoshi et al 2000:67) concluded;

The main lesson from Kenya's experience seems to be that rapid and wide-ranging liberalisation in the context of continued major macroeconomic imbalances may have increased the country's vulnerability to capital flows by providing legal channels for capital flight (the latter reflecting both a deterioration in private sector confidence and corruption).

Debt-induced capital flight often takes place because (potential) investors understand the implications of an unstable macro-economic environment (something which was exacerbated by SAPs in SSA). They want to get their money out of the country as fast as possible. An unstable economy could lead to a host of measures that would have detrimental effects on their investments. Furthermore, those with political connections are able to channel money out of the country even before BWIs' loans leaves the banks. In terms of capital flight, this group with political connections is large, as only 10 per cent of capital flight between the

period of 1970 and 2004 represents (legally) recorded bank deposits (Ndikumana & Boyce 2008:22). No regulation was put in place by IFIs in order to make sure the money would go for its intended purposes (*see* also Chapter 3 on odious debt). This also happened during the transition period in Russia and many other eastern European countries in the 1990s (see Stiglitz 2002:133-165). As argued by Stiglitz (2002:148);

The West knew that much of those billions would be diverted from their intended purposes to the families and associates of corrupt officials and their oligarch friends. While the Bank and the IMF had seemingly taken a strong stance against lending to corrupt governments, it appeared that there were two standards.

Thus, the IFIs provide debtor countries with loans, knowing exactly where it would end up. Authoritarian leaders and oligarchs could send money to foreign bank accounts while the debt incurred in the process would become sovereign and by implication paid by the poor over many years to come. This suited the interests of the IFIs because, as argued, debt creates a power relationship which brings with it many benefits for the creditors (together with the dominant interests which they represent).

The SAPs package also demanded that African debtors should raise interest rates. It was alleged that higher interest rates would be an incentive to save money. This strategy was also allegedly intended to prevent capital flight. However, as argued, investors respond strongly to macro-economic stability. Furthermore, it was also strange to encourage (potential) investors to save money, as savings does not encourage investing in new businesses. Furthermore, Mlambo (1997:10) argues that many indigenous companies collapsed “[a]s the cost of borrowing becomes prohibitive at the very time that local companies are expected to improve their productive capacity in order to compete in a free-market environment.”

FDI, as was argued, should not be readily embraced, as foreign companies could escalate existing socio-economic problems. In coordination with other SAPs policy prescriptions, capital account liberalisation could be perilous, as it benefitted everyone except for the poor African people on which it was imposed.

20.4 Trade Liberalisation

The concept of free trade can be defined as “the absence of barriers to international trade” (McLean & McMillan 2003:210). Trade liberalisation is thus based on the idea of free trade and may involve the elimination of subsidies, tariffs and other forms of economic deregulation. The ‘free hand’ principles of capitalism together with that of free trade have in recent years increasingly been linked to economic growth and development. Indeed, one of the cornerstones of SAPs as prescribed by the BWIs has been trade liberalisation. However, the previous Chapter has established that not much has changed in terms of Africa’s economic growth and development at large. Accordingly, it would therefore be appropriate to ask a number of follow-up questions: Who benefits from the liberalisation of trade? Has free trade equally been adopted by the developed nations of the world when their industries were still underdeveloped? Or are free trade advocates simply suffering from what Chang (2008:62) alludes to as “historical amnesia”?

The guiding principles of the free market concept and the liberalist school can be traced back to the writings of Francois Quesnay, Adam Smith and David Ricardo (Balaam & Veseth 1996:40-42). Liberals have used the term “free trade” as a means of explaining the theory of comparative advantage that denotes that all countries could gain from trade in *absolute terms* if they trade with the things that they can produce at the lowest cost. Therefore, liberalists argue, it should be rational for countries to engage in free trade because the country as a whole will benefit from it. In other words, free trade is a “positive sum game” (Balaam & Veseth 1996:42). Liberalists also argued that trade should be encouraged with none or little state interference – embedded in the concept of “laissez-faire” meaning “let be, let pass” - because the market naturally operates on its own and if governments do interfere - such as trade restrictions - then the principle of free trade would not be beneficial to all (Balaam & Veseth 1996: 43). Supporters of neoclassic economics – many of whom are found within the IFIs - further claim that free trade increases economic efficiency, maximizes growth and as a result it also contributes to welfare (Gilpin 1987:28). For liberals, the idea of a free market is additionally justified on the grounds that it expands choices on the market, because many products cannot be produced in countries that do not enjoy the resources to do so.

Why has trade become so important? More importantly, why did the World Bank and IMF - especially from the 1980s onward - particularly focus on free trade as one of the main driving

forces behind development? World exports increased rapidly from \$61 billion in 1950 to \$3447 billion in 1990 (Gupta 1997:15). Clearly international trade has created a world of interdependency which affects every person on the continent, what we eat, what we pay for products, our choices and many other reasons. In other words, the role of trade has become salient in the international production structure – as trade has indeed become global.

The “official history” of free trade is that Britain adopted this strategy during the 18th century. Soon after other nations followed suit who wanted to emulate the British success during the mid 19th century (Chang 2008:21). Free trade in the developed world was only briefly interrupted during the 1930s, but this was soon rectified after World War II when free trade was reintroduced. What followed was great prosperity for all who adhered to free market principles. However, such theorists ignore the “real history” of free trade in the developed world as well as the strategies adopted by the Asian Tigers (Chang 2008:24).

Most economically successful nations have adopted mercantilist/protectionist policies before they opened their markets for competition. According to Chang (2008:40,41), England’s monarchs since the 15th century made use of

protectionism, subsidies, distribution of monopoly rights, government-sponsored industrial espionage and other means of government intervention to develop England’s woollen manufacturing industry” – which formed the basis for the industrial revolution.

Such mercantilist policies continued to flourish until the 1860s (as opposed to the early 18th century) when they were abolished. However, it must be noted that mercantilism only became a major constraint to Britain’s success after it established superior exports and local industries that were able to compete with external actors (Chang 2008:40-48, Chomsky 1997). At the same time, Britain (together with other imperial powers) continued to subject her colonies and forced them to adopt different rules of exchange. For example, many African countries were forced to produce raw materials (as opposed to manufactured goods) for Britain.

In 1791, Alexander Hamilton introduced to the US Congress the *Report on the Subject of Manufacturers*. The Report argued that “infant industries” should be protected until they are able to compete with foreign industries, and that industrial development could be achieved by adopting a series of measures, which includes (Chang 2008:50);

tariffs and import bans; subsidies; export ban on key raw materials; import liberalisation of and tariff rebates on industrial inputs; prizes and patents for inventions; regulation of product standards; and development of financial and transportation infrastructure.

At the outset, Hamilton's ideas were rejected, but these were soon adopted quite aggressively after the War broke out in 1812. Tariffs increased steadily from 12.5 per cent (1791) to 25 per cent (1812) to 30 per cent (1816) to 40 per cent (1820). According to Chang (2008:51), "Hamilton provided the blueprint for US economic policy until the end of the Second World War. His infant industry programme created the condition for a rapid industrial development." For example, the steel industry in the US was heavily protected from cheaper British imports, allowing the US to effectively develop domestic steel production (Chomsky 1997). So, contrary to the popular discourse of the success of free trade, the US, was "the most protectionist country in the world" from the 19th century to the 1920s (Chang 2008:55). Similarly, Chomsky (1997) notes,

After 150 years of protectionism and violence, the US had become by far the richest and most powerful country in the world, and like England before it, came to perceive the merits of a 'level playing field' on which it could expect to crush any competitor. But like England, with crucial reservations.

Thus, both Britain and the US only promoted trade liberalisation after they had achieved superiority in certain industries. With regards to economic sectors that are still weak, they do - contrary to what they preach - still apply several measures to protect it from international competitors.

One could add that the developed countries have over the years flooded their defence industrial sectors with subsidies which have had positive spin-offs. For example the defence budget in the US has always been heavily protected and promoted by the state (and public money). Although this was important given the US role in the international environment, the defence industrial base also offered dual-use technology to other sectors in the economy, which helped beneficiaries "to dominate commercial markets and enrich themselves at public expense" (Chomsky 1997). Today, Boeing is known as "the world's leading aerospace company and the largest manufacturer of commercial jetliners and military aircraft combined", as well as the largest exporter in the US (Boeing 2009a). However, neoliberals often neglect to acknowledge the lucrative relationship between the company and public

money, especially during periods of war (*see* Boeing 2009b, Defense News 2008). The fact is that had the US government not invested large amounts of public money into Boeing, it would not have been one of the world's leading companies.

Like Britain and the US, other developed nations together with the Asian Tigers also relied on a number of strategies to protect and promote local companies before opening up to competition abroad (Chang 2008:56-65). Toyota Automatic Loom, today known as Toyota used to be a manufacturer of textile machinery until it transformed into a car manufacturer in 1933. However, the company would not have survived had the Japanese government not banned General Motors together with Ford in 1939 as well as “bailed out” Toyota in 1949 (Chang 2008:20). In 2007, Toyota was ranked second on *Fortune's* world's favourite companies and second as America's most admired company (CNN Money 2009). Section 20.2 also gave numerous examples of SOEs that were beefed-up before they were privatised and exposed to foreign competition.

The World Bank, IMF, World Trade Organisation (WTO) and various other proponents of free-marketism often argue that there is a causal relationship between open markets and economic growth. This claim can however be questioned. Advocates of free-marketism regularly cite examples such as the NIEs of East Asia as evidence for this assumption. Why then, did free trade not have such a great impact on growth for Latin America and Africa economies? Analysts however, tend to “ignore that the vaunted phenomenal economic development of the East Asian Tigers was attained by strong and capable states – not by states that were solely at the mercy of uncontrollable external phenomena, often manipulated by the West to suit their developmental needs” (Boafo-Arthur 2003:48). Even China's success in recent years is exactly because of the state (combined with cheap labour). The Chinese government has a number of its own large corporations and is also well known for giving huge loans to companies at very low interest rates in order to provide it with a competitive advantage in the global market. On the contrary, and as we have seen, African states were forced by SAPs to privatise, deregulate, liberalise and so forth.

Proponents of free trade usually also fail to acknowledge that many NIEs already experienced incredible growth before they opened up their markets (Kiely 2004:9). Furthermore, increased trade does not necessarily mean more *openness* to trade; “it is quite possible to have a high ratio of exports to GDP but still have various degrees of import restrictions”

(Kiely 2004:9). In fact, many African and Latin American states had and still have more open-market policies due to the SAPs. This was also somewhat at odds with trends around the world which seemed to prefer regional blocs, such as the European Union (EU), North American Free Trade Agreement, Mercado Comun del Cono Sur, Association of Southeast Asian Nations, and the South Asian Association for Regional Cooperation. Critics argue that regional blocs are by nature protectionist (Mlambo 1997:7).

Trade liberalisation has opened up African economies to a whole range of goods, but this only expanded choices to a small group of importers, it did not stimulate domestic innovation (Mkandawire & Soludu 1999:61). In South Korea, even foreign produced cigarettes were banned for a long period, which forced local producers to be pioneering and create their own industries. Of Zimbabwe's trade liberalisation process, Mlambo (1997:6) therefore acknowledges that although a handful of people were suddenly able to buy just about any foreign goods on the shelves, "the cost the nation has to pay for being able to buy imported items may be unacceptably high."

One of the major consequences of trade liberalisation is that many African states have changed the production structure from a strategy that emphasised import substitution, to one where tradable goods became more prominent. Since independence, African countries have been highly dependent on one or two export commodities. The SAPs approach has neglected the importance of the "an explicit export-investment nexus to diversify export away from mono-cultural structures" (Mkandawire 2001:306). This often meant that IFIs encouraged a move away from food crops for domestic consumption to a focus on cash crops (like cotton and coffee) for exports. By and large, African debtors are still highly dependent on a handful of exports (see Table 14), whether cash crops or natural resources, which represent large chunks of its national income. Thus, in time of high demand for Africa's primary commodities, these economies could grow, but the adverse is also true, which is the case for most of the time. It is thus very difficult for governments to regulate their markets in terms of trade when prices are fluctuating. In other words, governments, while constrained by IFIs, struggle to adjust their national economies to fluctuating prices. High price volatility has in recent years been one of the major problems for African states dependent on their major exports – coffee, cocoa, gold, tea and cotton. Many states in Africa "experienced roughly twice as much price volatility in terms of trade as East Asia's exports did between the 1970s and the 1990s" (Sindzingre 2005:295).

SAPs therefore placed a lot of emphasis on export-led growth. The rationale was, according to the IFIs, that it would generate much needed foreign currency in order to pay off debts. However, for many African debtors the current account deficit only grew because imports grew faster than exports. In other words, many became more dependent on importing developed goods. Zimbabwe’s manufacturing industry for example contracted 20 per cent between 1991 and 2000 (Ismi 2004:14). By 2000, Benin was still dependent on cotton, Uganda on coffee, Malawi on tobacco and Zambia on copper (*see* Table 14). According to the logic of the World Bank and the IMF, these countries should continue to exports these commodities because that is what they can produce best. Thus, Africa should remain an exporter of agricultural and extractive commodities, and an importer of finished goods and services from developed countries.

Table 14: Commodity Export Dependence

Country	Main export Commodity	Portion of this commodity in export revenues by the end of the SAPs period, in 2000 (per cent)
Benin	Cotton	84
Burkina Faso	cotton	39
Ethiopia	coffee	40
Guinea	Bauxite	37
Malawi	tobacco	61
Mali	cotton	47
Mauritania	fishing	54
Niger	uranium	51
Rwanda	coffee	43
Sao Tomé and Príncipe	cocoa	78
Senegal	fishing	25
Uganda	coffee	56
Zambia	copper	48

Millet and Tousaint (2009:6)

President Museveni (2004) of Uganda argued that one of Africa’s biggest problems is that it is still exporting raw materials. For him, Africa is a “donor” of money and of jobs, which he illustrated as follows: cotton has six phases that it goes through until it is processed into a finished product. If cotton is exported after the first phase, it is worth only \$1.20 per kilogram. But if it is exported after phase six, it is worth \$12.00 per kilogram. In many developing countries, most products are exported before it is even processed or sometimes even before it is semi-processed. The same is unfortunately true for many African cotton

exporting countries. Thus, countries are losing a lot of money because labour adds value to products. Secondly, Museveni (2004) argued that developing countries are exporting labour. Countries export jobs - such as spinning, weaving, finishing and tailoring – for every production phase they do not complete before it is shipped off to another country. Why? Because those jobs could have been done by people of the exporting country itself. Nonetheless, many African countries are not exporting unprocessed commodities by choice, as will be argued below.

The 2003 Human Development reported (UNDP 2003:155),

Most rich countries apply higher tariffs to agricultural goods and simple manufactures - the very goods that developing countries produce and can export. In agriculture, the tariffs of [Organisation for Economic Co-operation and Development] (OECD) countries are heavily biased against low-priced farm products produced by developing countries.

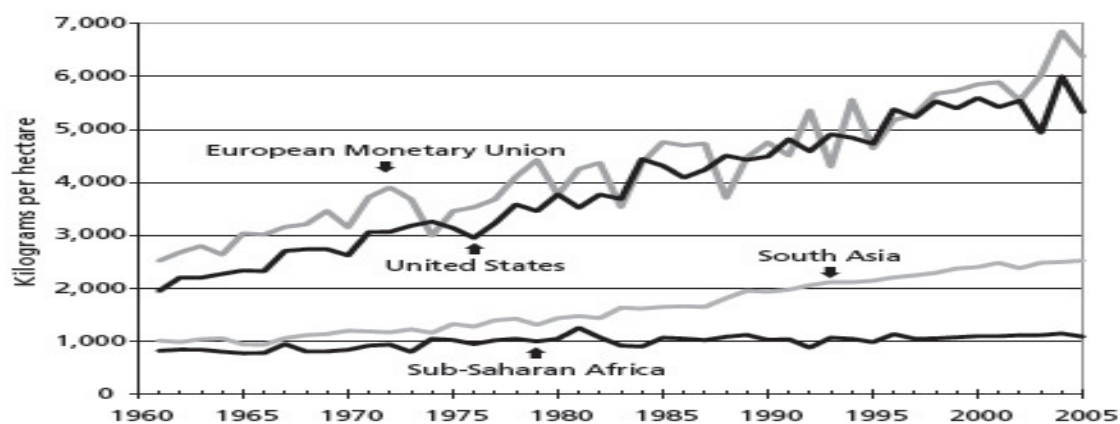
The report also noted that developing countries are victims of “tariff escalation”; for example; “[i]n New Zealand this ‘development tax’ imposes a 5 [per cent] tariff on coffee beans and a 15 [per cent] tariff on ground coffee and in Japan a 0.1 per cent] tariff on unprocessed textiles and an 8.6 [per cent] tariff on fully processed textiles” (UNDP 2003:155). Similarly, 90 per cent of the world’s cocoa bean growers (of which Ivory Coast and Ghana are the largest) manufacture only 5 per cent of the world’s chocolates. Every time Ivory Coast and Ghana try to turn their cocoa into chocolate, they get “taxed out of the market” (Shah 2004). The developed world also regularly imposes quotas on commodities and goods in areas in which developing countries have a competitive advantage (UNDP 2003:155).

African countries were nonetheless expected to cut down on tariffs so that imports could become more competitive in (already weak) domestic markets. After the IFIs forced Ivory Coast to reduce tariffs in 1986, “the chemical, textile, shoe and automobile industries virtually collapsed” (Chang 2008:68). One wonders why tariff and subsidisation cuts are this important for IFIs - African businesses are most of the time already at a disadvantage given that they are relatively new players lacking capital and experience. Many TNCs on the other hand, are powerful beyond comparison. Several of these TNCs are some of the world’s largest economic entities. Anderson & Cavanagh’s (2000:ii) study has shown that “[o]f the 100 largest economies in the world, 51 are corporations; only 49 are countries (based on a

comparison of corporate sales and country GDPs).” Furthermore, a major proportion of government revenue (sometimes up to 50 per cent) in Africa is gained from these taxes. Therefore, when tariffs are cut, so is government revenue (Chang 2008:69). This is thus also contrary to the goal of increasing tax revenue as prescribed by the IFIs. The result is that governments also have to cut down on development programmes in areas such as health care, education, and infrastructure development.

Although the IFIs have forced African countries to adopt free trade measures, these same principles do not always seem to apply to the developed world. In 2000, on average the EU spent \$913 on subsidising one cow annually and only \$8 on aid per Sub Saharan African; while Japan spent \$2,700 per cow and only \$1.47 per Sub Saharan African. This could be compared to the average income in SSA which is only \$490 per capita (UNDP 2003:155). To put this into a broader perspective, it is worth noting that in 2001, the OECD’s domestic agriculture subsidies totalled \$311 billion, slightly more than SSA’s combined GDP for that year, which was only \$301 billion.³¹ Aid to Africa for that same period totalled only \$52 billion (UNDP 2003:156). Section 20.2 on privatisation has argued that there are major advantages to funding certain industries in order to make them more competitive before exposing them to the world market. The same could be said about subsidisation in the agriculture sector. In contrast to Africa, subsidisation has allowed farmers in the developed world to increase their crop yields significantly (*see* Chart 1). This largely relates to investments in new technology, seeds, fertilisers etcetera.

Chart 1: African cereal yields in comparison with other regions



Cited in Bryceson (2009)

³¹ South Africa’s GDP (at current price) alone for 2001 amounted to \$118.563 billion, which is more than a third of SSA’s combined GDP (World Bank 2009b).

According to one Oxfam (2003) report, Western subsidies on agriculture are “cultivating poverty.” Oxfam’s overall conclusion was that US cotton subsidies encourage overproduction and underconsumption, which causes major price depression for world cotton prices. The result is that poor people producing the same commodity in the developing world suffers. For example, in Central and West Africa there are over 10 million people that are directly dependent for their livelihoods on cotton production, while millions more are indirectly affected. Many of these African countries – especially Burkina Faso, Mali, and Benin – rely on cotton exports as a large percentage of their government revenue and foreign exchange. The US government supports only a small group of farmers – approximately 25 000 – with large subsidies. From 1995 to 2009, the US spent \$30.3 billion on its cotton farmers (see Environmental Working Group 2010a). According to Oxfam (2003:2), the US spent 3.9 billion on cotton farmers for the 2001/2 season. In fact, the US government paid more on subsidies than the market value of the crop itself. It costs the US on average 73 cents to produce one pound of cotton, while it only costs 21 cents per pound in Burkina Faso. Thus, although the African farmer is more cost productive, he/she loses his/her competitive advantage because the American farmer is subsidised and thereby also more competitive. According to the International Cotton Advisory Committee, US cotton subsidies affect the price of cotton heavily as its withdrawal “raise cotton prices by 11 cents per pound, or by 26 per cent” (Oxfam 2003:13).

The IFIs blatantly ignore the fact that there is no level playing field in international free trade. In rugby, as in most sports, individuals would compete in accordance with their age, ability, skills, or even weight. An eight year old boy of 30 kilograms that plays really badly (even amongst his peers) would not be expected to compete against a 26 year old professional rugby player weighing 115 kilograms. That would be considered unfair. According to the World Bank and IMF’s logic, these distinctions should not be made. Free trade should not be contrasted with fair trade. Rather, ‘free’ becomes synonymous with ‘let’s pretend we are all equals.’ Moreover, this section has demonstrated that markets do not operate freely. Rather, they are social constructs as they are made by humans. The IFIs demanded an end to protectionism for farming and industry in Africa, yet Western economies are highly subsidised, giving them an added advantage. How can poor Africans be expected to compete against the developed world?

This section has demonstrated that the IMF and World Bank's trade liberalisation prescriptions are inconsistent with the history of trade development in the developed world. It was also argued that it is virtually suicide for Africans to compete in a discriminatory global market. Instead, trade liberalisation exacerbated African debtor states' dependence on the global market. The next section focuses on currency devaluation, which had to go hand in hand with trade liberalisation.

20.5 Currency Devaluation

SAPs required African debtors to devalue national currencies. Theoretically this had to lead to greater self-sufficiency by making imports more expensive. It was therefore assumed that trade deficits could be balanced by suppressing demand. Furthermore, it was argued that African exports would become more competitive on the world market as devaluation would make exports cheaper (Mlambo 1997:9).

In contrast to what the IFIs claimed would happen, devaluation of currencies actually perpetuated the dependence relationship between Africa and the developed world. The reason being, that borrowing countries have to use foreign currency in order to service debt and this they can only do by relying on export earnings, foreign aid, or by acquiring new loans (Poku 2002:539). African debtor countries are therefore at the mercy of high prices for primary commodities (because of lack of diversification as seen from the previous section), the generosity of donor countries to provide aid or forgive debt, or alternatively face mounting debts. Also, loans are denominated in dollars, which meant that when local currencies were devaluated, it became more expensive to service loans. Devaluation could also be a push factor for capital flight, as argued earlier.

Cooper (2002:95) points out that although Africa's coffee and cocoa farmers produced triple the amount of commodities in 1998 compared to 1958, "their share of the world market remained about the same." Similarly, Mlambo (1997:9) notes, Cote d'Ivoire's coffee exports increased in volume by 21 per cent between 1988 and 1990, but its value dropped by 21 per cent. Why is this the case? Raul Prebisch argued the one of the problems with exporting raw materials is that more and more primary commodities have to be exported over time in exchange for processed goods. This trend seems to persist (Boafo-Arthur 2003:35). According to Shillington (1995:422), one of the fundamental issues that is fuelling the debt

crisis is the abating adverse terms of trade; “[s]ince 1960 Africa’s raw material exports have dropped in price ten or twenty times in relation to manufactured imports.” Similarly, Sindzingre (2005:295) notes that the value of many African commodities decreased by 30 per cent between 1980 to 2001. Thus, despite opening up to world trade, as prescribed by the IFIs, Africa’s share of world trade declined “from over 3 per cent in 1950s to less than 2 per cent in the 1990s, 1.2 per cent if one excludes South Africa” (Cooper 2002:105).

Furthermore, the previous sections have demonstrated that African economies are by and large dependent on processed and manufactured goods. At the same time, the BWIs would also not allow governments to pick and/or create the necessary industries to develop these necessities. Thus, there was no other alternative but to continue importing goods and services at higher prices than what it was before devaluation. Thus, the price for inputs needed to expand local production – ranging from spare parts, fuel and other inputs - therefore also increased, which in turn raised the cost of doing business. For example, Tanzania could import a seven-tonne tractor for about 100 bales of cotton in 1980 but three years later its terms of trade had deteriorated to the point where it cost 130 bales of cotton (Mlambo 1997:10). The cost of doing business was particularly adverse when the producer – like farmers – produced for domestic consumption; the reason being that the producer would not receive any foreign currency because he/she is not exporting anything. The result is that the cost for imported inputs increases which negatively affects the cost of production, consequently also adding costs to the consumer (Vreeland 2003:135). The crux of this argument is that the World Bank and IMF’s assumptions behind free trade and devaluation do not cater for situations where goods and services are not equally of value. The distribution of wealth would thus inevitably be skewed in favour of developed states.

In an attempt to become more competitive at home and abroad, businesses in the developed world explore a host of options, but their first option is not to run to their governments requesting them to devalue the national currency. As argued, that would be considered foolish because devaluation would make all imports more expensive while increase the value of one’s debt. In the developed world the private sector has benefitted tremendously from public funding for research and development (R&D). In fact, US public funding for R&D averaged 50 to 70 per cent of the total funding between the 1950s and mid-1990s without which it would not have been able to be one of the world’s leaders in strategic industries (Chang 2008:55). This was often done under the guise of defence budgets. Even under

Reagan, one of the key proponents of neoliberalism, state-funded R&D was actively promoted. As Chomsky (1997) notes;

The public was terrified with foreign threats ... but the Reaganite message to the business world was again much more honest. Without such extreme measures of market interference, it is doubtful that the US automotive, steel, machine tool, semiconductor industries, and others, would have survived Japanese competition or been able to forge ahead in emerging technologies, with broad effects through the economy.

What type of initiatives could have worked for African debtors in order to make them more competitive? For a start, during the SAPs period the IFIs could have helped African governments to put more capital into basic infrastructure, including water, electricity, transport, education and health care.

According to a Human Development Report which was published shortly after the period under discussion, women in Africa often spend four hours per day on collecting water. Thus, in SSA, African women spend approximately 40 billion hours per annum on collecting water (UNDP 2006:47). In short, a lot of time is wasted on collecting water instead of doing more productive activities that would enhance development. One could also factor in the time wasted on days lost at school or work for not having access to clean water.

The developmental benefits associated with electricity are similarly inconceivable. Still, fewer than one out of five Africans - excluding South Africa and Egypt - have access to electricity (Madamombe 2005). Even those that have access experience major power blackouts. For the individuals it boils down to less working or study hours as lots of time is spent on collecting wood. There are also major health risks associated with burning wood, which again burns through time and money. For businesses, it would entail that they cannot operate any machinery or technology that requires electricity, or shortened business hours. Again, this all adds up to more costs for doing business.

According to a United Nations Conference on Trade and Development (UNCTAD) study, international transportation costs are double that of the world's average. Imagine how that affects the individual in terms of his/her spending on transport instead of on other things – such as education - that could contribute significantly to development. Billions of hours are lost on a yearly basis due to walking and hitchhiking long distances in order to get to work or

school. The costs that all this add to inter and intra state trade are tremendous. “Rail freight in Africa is on average about 200 per cent higher than in Southeast Asia, and Africa has fewer roads than a country such as Poland” (Naudé & Matthee 2007:2)

The IFIs avoided all the basic ingredients to forge competitive advantages for African economies. Instead, it prescribed a whole range of policies that would ultimately make debtors more vulnerable to a hostile exogenous environment. Given the lack of infrastructure in terms of roads, telecommunication and investment in people (including education and health, which is the focus of the next section), the IFIs should have promoted an active role for the state to fashion these developments.

20.6 Slashing Government Expenditure

According to the IFIs, African governments were spending too much money which added to the mounting debt burden. For the multilateral agencies, the rationale was therefore that budgets could be balanced by amongst others cutting government spending. It is in this context that Poku (2002:531) notes, “[u]nder intense structural adjustment pressure, African governments have capitulated to the will of the [BWIs] in formulating the continent’s health and social policy.” Overall, the IFIs argued that SAPs would produce long-term growth and development, which will naturally benefit everyone. Thus, instead of developing a concerted effort to distributing social benefits, which was deemed critical by postcolonial elites - through education, healthcare and other social policies – it was inherently assumed by the World Bank and IMF that growth will naturally trickle down to the poor. But the reality of course was far removed from these assumptions. The previous Chapter has shown that wealth did not trickle down to the poor.

The previous Chapter also demonstrated that SSA’s debt servicing ratio in relation to the continent’s GDP was exceptionally high, which at some points amounted to one-quarter of the continent’s combined GDP. It was also argued that the BWIs often profited from SSA’s debt crisis, as four times the original debt has been retired in debt repayments by the end of the 1990s. The result, as will be demonstrated, is that every dollar spent on debt servicing amounts to one dollar less allocated to projects that are crucial for long term development. For example, from 1992 to 1997, Cameroon spent 35 per cent of its government budget on the servicing of its debt. This is almost nine times more than what it spent on social services

over the same period (*see* Table 15). This section will demonstrate that the results were devastating. By cutting government budgets, the IFIs also undermined a number of (of very successful) programmes that are deemed important for long-term development. As with the other policy prescriptions discussed in the above sections, it is striking again that the IFIs seemed to have suffered from historical amnesia (Geo-Jaja & Mangum 2001:35);

One wonders why the World Bank would request nations to cut back government expenditures to social services, the very same provisions that have facilitated their development in the past. The Marshal Plan, the American New Deal, and Europe’s welfare states are good examples.

Broadly speaking, the downsizing of government budgets affected employment amongst civil servants and important socio-economic programmes. The remainder of this section focuses on the reasons for cutting down government bureaucracies; and the effects of SAPs on African debtors’ social policies.

Table 15: Portion of the budget dedicated to basic social services and to the servicing of debt in 1992-1997

Country	Social services (per cent)	Debt servicing (per cent)
Cameroon	4.0	35.0
Ivory Coast	11.4	35.0
Kenya	12.6	40.0
Zambia	6.7	40.0
Niger	20.4	33.0
Tanzania	15.0	46.0

Millet and Tousaint (2009:1,2)

20.6.1 Downsizing the Bureaucracy

Partly linked to the IFIs’ complaints that African governments were spending excessively was that the two multilateral agencies assumed that the African civil service is overstaffed. African borrowing countries were diagnosed by Dr West with “bureaucratic elephantiasis syndrome” (Goldsmith 1999:527). It was wrongly assumed by the IFIs that by cutting down the size of the bureaucracy, government wages can be made more competitive. However, real wages were also negatively affected as constraints were imposed on government’s overall spending. In Zimbabwe for example, 25 per cent of public workers were laid off in 1997 while teachers took pay cuts of at least 26 per cent between 1990 and 1993 (Ismi 2004:14,15). This situation could be contrasted with Asian governments which pay gross

remuneration that can compete with the private sector (Adedeji 1999:527). Whatever sense of *esprit de corps* that existed amongst civil servants after independence was utterly lost. Some of the most highly skilled civil servants left the public service, while moonlighting and corruption often increased amongst those who stayed as it became more and more difficult to meet their own demands (Mkandawire & Soludo 1999:76,77). In order to fill the vacuum, the two multilateral agencies started to focus more on capacity building amongst public service. This often entailed that key positions were allocated to foreign staff, some of them directly making their way from the corners of 18th and 19th streets and Pennsylvania Avenue in Washington DC to SSA.³² Africans were thus sometimes pushed out of local jobs in order to be replaced by foreign World Bank or IMF consultants, which in many cases ended up being more expensive than the local employees. It is in this context that Mkandawire (2001:309) notes that the BWIs have been accused of “hijacking key state functions.”

A crucial way, according to the IFIs, to downsize government spending was wage and hiring freezes, followed by mass scale “redeployment” (the multilateral agencies’ euphemism for retrenchment), which amongst others increased unemployment (Green 1998:217). In Zimbabwe, one out of four public employees was retrenched after adopting its SAP in 1992. (Ismi 2004:14). Unemployment in Africa increased between 1978 to 1990 from 7.7 per cent to 22 per cent (Geo-Jaja & Mangum 2001:39). The irony of the situation is that the World Bank itself admitted in the mid-1990s, that “among developing countries, [SSA] had the lowest government employment compared as percentage of the population” (Mkandawire 2001:307). In fact, as can be seen from Table 16, the only exceptions to the rule out of a group of twenty SSA countries, were Botswana and Mauritius with large bureaucracies – representing 5.8 and 5.5 per cent of the total population compared to 1.5 per cent for SSA – almost four times that of the average SSA country. Botswana and Mauritius are generally viewed as successful states in Africa.

Without even venturing into Latin American or Asian examples, Goldsmith (1999:520) rightfully argues that Botswana and Mauritius, both with comparatively large bureaucracies, have outperformed their bureaucratically slim ones (see Table 17). Hence, cutting down overbureaucratized governments will not necessarily bring forth development. Nonetheless, he concludes by arguing that “honesty and responsiveness” remains key ingredients to the

³² These are the addresses for the IFIs’ headquarters in Washington DC.

success of bureaucracies (Goldsmith 1999:521). Thus, in line with critical theory, one could argue that the BWIs have paid too much attention to quantitative bureaucratic issues rather than focusing on the ideational structures of African bureaucracies. One therefore also needs to understand the ideational structure that informs bureaucracies – such as the level of professionalism – in order to determine the different behavioural traits of bureaucratic units. Goldsmith (1999:521) therefore notes, “[s]tate bureaucracies are a problem in Africa, mostly because they underperform, not because they are overexpanded.” Paradoxically, the BWIs overturned many of the successes made by Africa’s postcolonial leaders, who tried hard to address these issues by rolling out education and other social services that fed into performance.

Table 16: General Civilian Public Sector Employment: Developing Country Regions

Region/country	Per Cent of Population Mid-1990s
Asia (11 countries)	2.6
Latin America and Caribbean (9 countries)	3.0
Middle East and North Africa (8 countries)	3.9
SSA (20 countries)	1.5
Botswana	5.8
Mauritius	5.5

Cited in Goldsmith (1999:528)

Table 17: Botswana and Mauritius Basic Statistics

Country	Population (millions)	Per Capita GNP in US dollar (1995)	Per Capita GNP Average Per Cent Growth (1985-95)	HDI (1995)
Botswana	1.5	3,020	6.1	0.678
Mauritius	1.1	3,380	5.4	0.833
All SSA	583	490	-1.1	0.378

Cited in Goldsmith (1999:522)

20.6.2 Cutting Back on Education and Healthcare

Cuts in education and health budgets have been disastrous for Africa’s long-term development. As stated by Schatz (1996:246);

Since social benefits frequently exceed money receipts and social costs frequently fall short of money costs, ventures that would be privately unprofitable but socially beneficial abound in a free market. The point to emphasise is that development would be hastened if such orphan investments could become a reality.

In the immediate period following independence, African leaders were determined to provide their citizens with education. During the colonial period, very few Africans had this opportunity, as the primary purpose of education was to benefit European companies in the hope that it might lead to greater economic outputs. In short, the nature of education was often focused on producing low skilled people with some knowledge of agriculture and industry in order to increase the surplus value of the European capitalism. Generally education did not extend to areas where companies had no economic interests and colonial education lacked both in quality and quantity. Shortly after gaining independence the United Nations Economic and Social Council (UNESCO) reported (cited in Rodney 1982:245);

Of this [Africa] population (of around 170 million), a little more than 25 million are of school age and of these nearly 13 million have no opportunity of going to school – and of the ‘privileged’ 12 million less than half complete their primary education. Only three out of every 100 children see the inside of a secondary school while not even two of every thousand have a chance of receiving some sort of higher education in Africa itself. The overall estimated illiteracy rate of 80 to 85 per cent is nearly twice that of the average world figure.

For post-independence African leaders, education therefore presented a way of breaking with the past vestiges of colonialism. At the same time, leaders closely followed theories that established a link between education and development. During the 1950s and 1970s, education at all levels expanded quite dramatically. Abrokwa (1999:653) notes that primary level enrolment increased by 218 per cent and at secondary level by 218 per cent. Education expenditure in the postcolonial period were “in most African countries” often “as high as 20 per cent” of government budgets (Cooper 2002:111). However, due to SAPs, the period between 1986 and 1996 witnessed a cut in per capita education spending which averaged 0.7 per cent annually (Ismi 2004:13). The immediate effects of cuts in education spending resulted into decreases in teacher salaries, education subsidies and total expenditure (Geo-Jaja & Mangum 2001:46).

Note from *Table 18* that the education output from 1960s to the 1980s is remarkably significant. From 1960 to 1980 primary school enrolment almost doubled. Secondary school enrolment increased almost fivefold during this same period. The most dramatic change in enrolment was at tertiary level, where 8.5 times more students had access to education in 1980 compared to 1960. However, the periods that followed the oil crisis and the subsequent reductions in government spending as advocated by the IFIs were trivial to say the least.

Primary enrolment in 1997 was actually lower than the 1980 level. For secondary enrolment, this is also problematic, as there was only a marginal improvement (a 7.9 per cent increase to be exact) in the enrolment rate. As for tertiary enrolment, there seems to be greater gains as more than double the amount of students had access to education than in 1980. However, one must be very careful about this latter statistic, as it should be kept in mind that universities, college and other higher education institutions are a lot more complicated to establish than schools. The reason being that these institutions require specialised people dedicated to certain subjects. If however there are no educators with such specialised knowledge, then there can be no higher education institution (regardless of whether there are buildings available). There also needs to be students who have already completed secondary education. Thus, the gains made between 1980 and 1997 under SAPs could merely be attributed to the fact that there was a larger pool of students with secondary education and more professionals to fill the vacuum in tertiary education during the following two decades. Overall then, postcolonial leaders from 1960 to 1980 had a lot more to show compared to those governments that had to scale down on education budgets.

Table 18: Education: Gross enrolment rates in Sub-Saharan Africa, 1960 to 1997

Year	Primary (per cent)	Secondary (per cent)	Tertiary (per cent)
1960	43.2	3.1	0.2
1970	52.5	7.1	0.8
1980	79.5	14.5	1.7
1990	74.8	22.4	3.0
1997	76.8	26.2	3.9

Modified from Cooper (2002:111)

Geo-Jaja & Mangum (2001:37) notes that “education systems are increasingly defined as institutional vehicles to provide a literate workforce that can contribute to national economic productivity and technological progress.” If quality education is the key during the age of technology, information and globalisation, then the above outcomes are indeed worrisome. It was argued above that processed goods and services are essential to Africa’s economic development. However, this increasingly requires skills and knowledge to feed into the knowledge economy. This is especially important as natural resources are finite. Although technology could become redundant, skilled individuals can always be retrained to perform in other sectors whereas the same will be more challenging for low skilled people.

Healthcare also became a major priority for African leader during the immediate period following independence. In the early years of the colonial period, African states had negative population growth rates. This was largely due to epidemic diseases (as well as non epidemic diseases, most notably malaria), but this changed “as rates of population growth moved from about 1 per cent at war’s end to 3 per cent in the 1960s” (Cooper 2002:107). The population growth rate is significant in that it points to the fact that Africans were exposed to better healthcare due to the tremendous efforts that were made by postcolonial leaders. This is especially evident if one compares the statistics for the 1950s onwards for life expectancy and infant mortality in Africa (*see* Table 19 and 20).

Table 19: Infant Mortality Rate, 1950 to 2000 (per 1000 births)

Year	Male	Female	Total
1950-1955	192.8	167.9	180.4
1955-1960	179.9	156.7	168.3
1960-1965	166.8	145.1	166.0
1965-1970	154.9	134.9	144.9
1970-1975	142.1	123.9	133.0
1975-1980	130.7	113.9	122.3
1980-1985	121.1	105.5	133.3
1985-1990	113.7	99.2	106.5
1990-1995	109.8	96.4	103.1
1995-2000	105.2	92.4	98.8

Modified from UN Data (2007)

Table 20: Life Expectancy at birth for Africa, 1950 to 2000 (years)

Year	Male	Female	Total
1950-1955	37.3	39.7	38.5
1955-1960	39.4	41.9	40.6
1960-1965	41.5	44.1	42.8
1965-1970	43.4	46.2	44.8
1970-1975	45.4	48.2	46.8
1975-1980	47.2	50.2	48.7
1980-1985	48.8	51.9	50.3
1985-1990	50.3	53.5	51.8
1990-1995	50.2	53.6	51.9
1995-2000	50.1	53.4	51.7

Modified from UN Data (2007)

Infant mortality rates have dramatically improved from 1950 to 1980, as deaths per 1000 births decreased from 180.4 to 122.3. After the oil crisis and the imposed SAPs on African debtor states, infant mortality took an initial dive to 133.3 deaths per 1000 births but decreased again to 98.8. This could partly be explained by better healthcare structures that

were developed during the initial period following independence but also to better medicines. Furthermore, whereas Africans born in 1950 could only expect to live for 38.5 years, those born in 1980 had an added 10.2 years to live (see Table 20). This makes a huge difference in terms of development as knowledge and skills are retained and transferred for longer periods. Note that life expectancy from the 1980 onwards did not dramatically improve (only 3 years have been added to life expectancy). Some of this is related to HIV/AIDS, but this cannot be generalised as there are countries such as Niger and Rwanda with very low life expectancies but with very few infections. Therefore, HIV/AIDS “cannot solely account for low life expectancy in Africa; social and political upheaval, poverty, and the high risk of death due to other infectious (and parasitic) diseases cannot be discounted in the African case” (Encyclopaedia of Death and Dying 2007).

According to the Encyclopaedia of Death and Dying (2007);

In the developed countries, the fragmentary data that are available suggest that life expectancy at birth was around 35 to 40 years in the mid-1700s, that it rose to about 45 to 50 by the mid-1800s, and that rapid improvements began at the end of the nineteenth century, so that by the middle of the twentieth century it was approximately 66 to 67 years. Since 1950 gains in life expectancy have been smaller, approximately eight more years have been added, [thus equalling approximately 75 years].

In other words, life expectancy in Africa in the 1950s was the same as that of Europe during the mid 1700s, whereas it reached Europe’s mid 1800s levels only in 1980. Evidently there are still major inequalities between Africa and Europe, as an African at the turn of the millennium had a life expectancy of only 51.7 years compared to the average European which can expect to live up to the age of 75 years. Thus, there is a 23.3 year age variation, which makes a major difference in terms of skills and knowledge acquisition and retention that ultimately feeds into development. More importantly, the fact is that Europeans dominated Africa for almost a century but they did not provide their colonial subjects with the same healthcare as their own citizens. Rather, the improvements were gradually made during the period that followed independence. However, SAPs had a major impact on underdevelopment in Africa. The IFIs together with the developed states of the world continue to impose measures that withhold adequate medical care for Africans. There are too many people dying in Africa from preventable diseases and poverty related causes. Poku (2002:539) points out that in 2000 (at the beginning of the post-SAPs period), South Africa was the *only* African country that spent more on her citizen’s healthcare than on debt

repayments! The fact that “there are fewer physicians per capita [at the turn of the century] than in the 1970s” is a major concern for African countries (Cooper 2002:108). Similarly, Ismi (2004:12) points out, that in the 1980s and 1990s, Africa spent four times more on servicing debt than on health care. By 2000, 3.8 per cent of SSA’s GDP was spent on debt servicing, while only 2.4 per cent of the GDP on healthcare (Ndikumana & Boyce 2008:3).

As economic conditions deteriorated and government spending on employees also decreases, the public (as well as the private) sector finds it more and more difficult to retain key personnel – due to lower salaries and increasing unemployment - that are essential for economic development. Thus, skilled people find it increasingly attractive to migrate to other regions of the world where they could sustain themselves. In 2001, when the economic and conflict situation in Zimbabwe was not as severe as later into the 2000s, it was reported that Zimbabwe lost an estimated 20 per cent of its healthcare professionals annually. Reasons for emigration of Zimbabwean healthcare professionals were predominantly related to economic factors (Chikanda 2007:48). On a yearly basis it is estimated that 23, 000 university graduates and 50,000 executives immigrate to other regions of the world, “adding to the [already] 40, 000 African PhD graduates living abroad” (UN-INSTRAW & SAIIA 2007:23,24). A participant at the International Council of Nurses conference in Taiwan in 2005 remarked, “[SSA] has a huge disease burden. It has [only] 1.3 per cent of the global health workforce but 25 per cent of global disease” (cited in Duffin and Parish 2005:9). A micro study on the migration of healthcare professional in Zimbabwe found that the poor were most affected by the trend. According to the study, many people turned to traditional healers, some who even claim to have the ability to cure HIV/AIDS (Chikanda 2007:58,59).

Furthermore, the migration of medical professionals places greater burdens on already strained systems, which in turn perpetuates migration mobility. The same waning conditions are found within the education system. According to Cooper (2002:112), after the 1980s, education spending per pupil decreased a staggering 20 per cent. As for teachers, “plummeting salaries force them to do other work; sometimes they go unpaid. Class sizes have increased – to 75 in Dakar for instance – and facilities have become degraded” (Cooper 2002:112-115). One government official in 2000 complained that the teacher-pupil ratio is 1 to 300 in Nigeria, teachers’ strikes have increased, and the general quality of education has deteriorated after the introduction of SAPs (Geo-Jaja & Mangum 2001:46). African debtors under IFIs’ auspices were supposed to focus on “cost recovery” or its euphemism “cost

sharing” for basic social services (SARPIN 1998b). Hospitals in poor areas closed down and those who could not afford to pay for medical care “simply died”, while the poor were priced out of the formal education system (SARPIN 1998a).

21. Conclusion

This Chapter, together with Chapter 3, focused on SAPs and how it contributed significantly to the African debt crisis. The debt crisis, as argued, soon turned into a political problem. SAPs resulted in the BWIs dictating the SAPs package as a *conditio sine qua non* to reach development, which in reality stripped away the gains made during the post-colonial era. By insisting on conditionality and claiming that these prescriptions are value neutral, the IFIs implied that SAPs will have both positive results and that their policies are based on scientific evidence. However, as demonstrated, the World Bank and IMF’s policies were far from neutral. Rather, these were shaped by a particular value bias. Consequently, the IFIs are guilty of policy-based evidence-making. Policies were also tailored to the needs of the developed world, rather than focusing on the issues that could have had a positive impact on debtor countries. The multilateral lenders were also not amenable to any policy alternatives - whether informed by the history of the developed world, the fast tract experience of the East Asian Tigers, or African success stories following independence which produced positive developmental results. No, IFIs positioned themselves as Africa’s *patres familias*.

To be clear, this chapter did not reject neoliberalism as such but rather the way in which it was promoted by the IFIs which is highly problematic. Privatisation, liberalisation and deregulation could have many benefits to debtor countries, but the “timing” and “sequencing” are equally important (Stiglitz 2002:57). For example, it was argued that the state could play an important role to create winners before opening up to competition. Similarly, legislation could be put in place that would mitigate the effects of capital flight before capital account liberalisation should be encouraged. Nonetheless, in essence, the BWIs constructed the idea that the market is value neutral, while the state is inefficient as it is run by neo-patrimonialists. The IFIs were adamant that in order for development to flourish, the rich and poor nations of the world should adhere to market-based principles, as these are universal. Such an approach, as argued, took neither responsibility nor consideration of Africa’s colonial history and the way that the economy was structured in favour of the West. Rather, a one-size-fits-all approach was prescribed as it was argued that it would rectify all debt

related issues (while contributing also to development). To contest such rational approaches is extremely difficult, as positivists tend to establish regimes of truth which leaves very little room for alternative perspectives.

In effect, the IFIs effectively discarded the developmental state in Africa into Leon Trotsky's 'dustbin of history'. There is also a lot of rhetoric (or what critical theorists would call a 'guiding interest') found with regards to how the BWIs read and interpret the history of developed nations. The previous chapters have underscored certain flaws in these misinterpretations. Nevertheless, it was argued in this Chapter that markets both nationally and internationally are social constructs. The positivist assumptions that were made by the IFIs were in fact flawed as it is evident that markets do not operate freely. In short, African development has been damned by diktats forced upon debtors by the IFIs.

SAPs did not equip African debtors with the necessary developmental tools. Instead, in many ways, the developed world benefitted from Africa's debt crisis. Thomas Sankara, the late president of Burkina Faso, understood very well how debt can be a powerful political tool. In 1987, Sankara was assassinated and overthrown in a *coup d'etat* backed by the French. Shortly before he was removed from power, Sankara made a case in front of the Organisation of African Unity that the continent's odious debt should be forgiven (cited in Ismi:2004:21):

Debt ... is linked to the machinery of neo-colonialism; the colonisers became technical assistants; I would call them technical assassins; and they recommended to us the financiers; they told us about the financial advantages. That is why we indebted ourselves for decades and renounced the satisfaction of our people's needs. In today's shape, controlled and dominated by imperialism, the foreign Debt is a well-organised tool of colonial re-conquest: in order to make the African economy a slave of those who were so clever as to give us capital with the obligation of reimbursing them. We are asked to reimburse our Debt. But if we do not pay, the capital lenders will not die; if we pay, we will die. We cannot pay; and we don't want to pay.

Chapter 2, 3 and 4 have demonstrated that the World Bank and IMF were shaped by history, which itself was tainted right from the very beginning. From the outset these multilateral institutions were established to promote and represent Western interests. The 1980s debt crisis therefore came at an opportune moment. Countries around the globe became heavily indebted over night. For the BWIs this was perfect timing, because when debtors were unable to pay their loans, they could send in their 'economic hit men'³³ around the globe to

³³ The term 'economic hit men' is borrowed from John Perkins' (2005) book entitled, *Confessions of An Economic Hit Man*.

make huge demands on developing countries, shaping both their politics and economies. Overall, Africans did not benefit from SAPs. In fact, African debtor states experienced slower growth, increasing dependence on the manufactured goods, mounting debts burdens, growing inequality and impoverishment, unemployment, worsening terms of trade, deteriorating incomes, capital flight risks, decreases in healthcare and education levels, and they became more vulnerable to external shocks. On the other hand, the Western world was able to enter African markets on increasingly favourable terms while buying up SOEs at rock bottom prices. The Jubilee USA Network (2007) likened debt to a new form of slavery;

International debt slavery means that countries are caught in a debt trap that they can't escape. The debt trap is composed of economic conditions that take away a country's sovereignty and freedom. When countries are enslaved by debt they can't improve the lives of their citizens nor gain control over their own futures.

Of course there were a few African dictators that made a killing from World Bank and IMF loans, but the IFIs did not care because it helped to promote their guiding interests. It meant that present and future African governments would have to implement decisions made in Washington DC by virtue of being in a creditor-debtor relationship.

The following chapters on post-SAPs initiatives will therefore use the criticisms against SAPs in order to determine whether the new debt relief packages are an improvement on the former.

Chapter 5

TATA to TINA? The Triviality of the Poverty Reduction Strategy Paper

We should strive to eradicate absolute poverty by the end of this century. That means in practice the elimination of malnutrition and illiteracy, the reduction of infant mortality, and the raising of life-expectancy standards to those of the developed nations.

- Robert McNamara, President of the World Bank (1973:14)

The inability of the international financial institutions to undertake fundamental reform of conditionality is rooted in their underlying belief that they – the World Bank and [International Monetary Fund] – really do know best.

- Alan Whaites (2004:5)

22. Introduction

At the turn of the century the Bretton Woods Institutions (BWIs) supplanted its missed goal of poverty eradication with a more diluted objective, poverty reduction. In 1996, the International Financial Institutions (IFIs) introduced the Heavily Indebted Poor Countries (HIPC) Initiative, which was followed three years later by the Enhanced HIPC Initiative (HIPC II) and the Poverty Reduction Strategy (PRS) approach. These new strategies were intended to support low income countries (LICs) and formed the basis of debt relief and concessional lending under the World Bank and International Monetary Fund's (IMF) auspices. Many spectators to the African debt crisis were optimistic that this was a turning point in debtor-creditor relationships.

This Chapter together with Chapter 6 broadly focuses on the so called post-Structural Adjustment Programmes (SAPs) era. The IFIs have in many ways asserted that this period is characterised by a post-Washington Consensus. It also hinted that African debtors will be responsible for their own futures in defining their individual developmental frameworks. However, there are many indications that old school IFI conditionality persist to flourish, rather than perish.

This Chapter aims to contextualise the HIPC and PRS initiatives by focusing on its origin and its results (or rather lack thereof). Section 23 describes and analyses the transition from HIPC I to PRSPs. Section 24 provides an overview of the HIPC and PRSP packages.

Section 25 focuses exclusively on unbundling the PRSP package while section 26 highlights additional layers of IFI conditionalities.

23. From SAPs to the HIPC Initiative

In September 1996, the IFIs introduced the HIPC initiative, which emerged broadly because of two factors. Firstly, the IFIs were under mounting pressure to reduce the debt burden for African countries. Secondly, it appeared as though there was some form of recognition that SAPs were immensely destructive to the developmental aspirations of most African debtors. In a word, things had to change. This section briefly focuses on the pressure that led to the transition from SAPs to the HIPC initiative.

The IFIs have for many years downplayed the severeness of the debt crisis. In fact, they have gone to great lengths to attest to “major shareholding countries that there was no widespread multilateral debt problem” (Mistry 1996:13). For example, in 1995, the IFIs argued that there were “only eight heavily indebted poor countries [which] had a multilateral debt overhang” and that “remedial action was already being taken by the IFIs”, therefore “no further action was necessary” (Mistry 1996:13). This was despite the fact that at “at least 24” heavily indebted poor countries were suffering from debt overhangs (Mistry 1996:14). This led many critics to conclude that creditors have “consciously delayed debt reduction measures” in order to give “the banks sufficient time to build up reserves for the eventual debt reduction that would have to come.” (Theunissen 2004:3).

The late 1980s and 1990s saw a wave of complaints by non-governmental organisations (NGOs) who argued that Africa’s debt should be reduced. Human suffering that resulted from SAPs were also well documented by international governmental organisations (IGOs) such as the United Nations Economic Commission for Africa’s (UNECA 1989) report on *African Alternative Framework to Structural Adjustment Programmes for Socioeconomic Recovery and Transformation* and the United Nations Children’s Fund’s report on *Adjustment With a Human Face* (see Jolly 1991). Such calls for more humane conditions for Africans could not be completely ignored.

As a result of the above objections against SAPs and calls for adjustment with a human face, the IFIs were under tremendous pressure to develop “compensatory programmes” for African

debtor states in order to try to mitigate the impacts of SAPs (Geo-Jaja & Mangum 2001:39).³⁴ At the same time, the idea of “debt sustainability” gained currency in the mid 1990s, by which is meant, “being able to meet debt service obligations *without* recourse to extraordinary financing” such as foreign aid (Mistry 1996:13). However, at some level a consensus developed (or at least that is the impression at the time) that it was not only high interest rates that brought many African debtors to their knees, but that SAPs policy prescriptions were part of the problem. It is noteworthy that by the turn of the century, even the World Bank (1998a) was talking about a “post-Washington Consensus”;

Whatever the new consensus is, it cannot be based on Washington. If policies are to be sustainable, developing (and transition) countries must claim ownership of them. A second principle of the emerging consensus is that a greater degree of humility is called for, acknowledgement of the fact that we do not have all the answers. Continued research and discussion, not just between the [BWIs] but throughout the world, is essential if we are to better understand how to achieve our many goals.

After increased demands - from debtor states, IGOs and NGOs, to change their programmes - the IFIs in 1996 developed *A Framework for Action to Resolve the Debt Problem of the Heavily Indebted Poor Countries*, which essentially became the HIPC initiative (see Mistry 1996:14). According to the IFIs, “[t]he HIPC Initiative was launched in 1996 by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage” (IMF 2010e). Debt sustainability, according to HIPC I, was defined as a debtor’s ratio of debt-to-exports exceeding 200 to 250 per cent or when the ratio of debt-to-government revenues exceeded 280 per cent, which was too restrictive as very few countries benefitted from debt relief by 1999. Yet, HIPC was also met with a lot of pessimism because of its policy prescriptions, which were not fundamentally different from SAPs. For example, Green (1998:207) noted, “the predominance of structural adjustment, unless linked to a new transformation strategy, promises to continue the process by which [SSA] has fallen behind the rest of the underdeveloped world.” Strikingly, only three years into the existence of the HIPC Initiative, the IFIs implicitly acknowledged its failure as the programme was unable to make debt sustainable. Consequently, the HIPC Initiative was replaced by HIPC II in 1999.

³⁴ For example, Cameroon’s Social Action Programme, Togo’s Grassroots Development Initiatives Project, Chad’s Social Development Project, Ghana’s Programme of Action to Mitigate the Social Consequences of Adjustment, and Nigeria’s National Directorate for Employment Project were all examples of compensatory programmes (Geo-Jaja & Mangum 2001:39). By implication, it seemed as if the IFIs implicitly admitted the destructiveness behind the SAPs policy prescriptions.

HIPC II aimed “to provide faster, deeper, and broader debt relief and strengthen the links between debt relief, poverty reduction, and social policies” (IMF 2010e). At the same time, the IMF renamed its Enhanced Structural Adjustment Facility (ESAF) the Poverty Reduction and Growth Facility (PRGF), which in 2009 was again changed to the Extended Credit Facility (ECF). The World Bank, under its concessional lending arm, the International Development Association (IDA), also replaced the Structural Adjustment Credits (SACs) with the Poverty Reduction Strategy Credit (PRSC), which was a lending instrument intended to support PRSPs (Gunter *et al* 2005:243). Table 21 summarises a number of changes related to the IFIs’ structures and initiatives since 1990. These will be referred to throughout the Chapter.

Table 21: Recent Changes Related to IFIs’ Structures and Initiatives

Changes	Time period	Objective
World Bank introduced the Country Assistance Strategy (CAS)	1990	To link development priorities with World Bank programmes
Heavily Indebted Poor Countries (HIPC) Initiative coined by the IFIs	1996	To make debt more sustainable
HIPC II Initiative launched by IFIs	1999	HIPC enhanced
Poverty Reduction Strategy Paper (PRSP) came into being	1999	By and large replaced SAPs. PRSPs should be approved by the IMF and World Bank’s Executive Boards as the basis for concessional lending and debt relief (including HIPC II). Approval is done by the Joint Staff Assessments (JSAs).
The IMF renamed its Enhanced Structural Adjustment Facility (ESAF) the Poverty Reduction and Growth Facility (PRGF)	1999	PRGF supports HIPC II and the PRSPs
The World Bank’s Poverty Reduction Support Credits (PRSC) came into being, replacing Structural Adjustment Credits (SACs)	2001	The PRSC is a lending instrument to support PRSPs
Poverty and Social Impact Analysis (PSIA)	2002	To assess the impact of policies before it is implemented.
IMF creates the Policy Support Instrument (PSI)	2005	To ‘signal’ support for a country’s development strategy
Multilateral Debt Relief Initiative (MDRI) came into being	2005	HIPC II supplemented
JSAs replaced by Joint Staff Advisory Notes (JSANs)	2005	
PRGF renamed and became the Extended Credit Facility (ECF) by the IMF.	2009	To broaden its scope.

24. What Constitutes the HIPC II Package?

In essence, the HIPC II initiative is a debt relief package. However, debtors have to adhere to a number of conditions in order to qualify for debt relief, which will be briefly described below.

The first stage, also known as the decision point, involves four criteria that determine whether a debtor can be considered for the HIPC II initiative (IMF 2010e):

- 1) It has to be eligible for borrowing from the World Bank's International Development Agency (IDA) and the IMF's ECF³⁵;
- 2) It has to face unsustainable debt. Debt is considered to be unsustainable if the net present value (NPV) of debt-to-export ratio is approximately 150 per cent and the ratio of NPV to fiscal revenue 250 per cent;
- 3) It must have a good track record in terms of implementation of IFI supported policies; and
- 4) The debtor must develop a PRSP.

When a country meets all of the above conditions, the IMF and World Bank's Executive Boards approve a debtor's eligibility for debt relief under HIPC II. This is generally followed by a commitment by the international community to ease a debtor's debt. Should a debtor qualify for the decision point, it is eligible for interim relief on its outstanding debt service (IMF 2010e).

The second stage, also known as the completion point, determines whether a country will receive full debt relief under HIPC II. Accordingly, a debtor should adhere to the following conditions in order to reach completion point (IMF 2010e):

- 5) Continue to demonstrate good performance in relations to implementation of IFI supported programmes;
- 6) Implement the reforms it agreed during the decision point; and

³⁵ The IDA and the ECF offers concessional loans to LICs. Concessionalism is generally achieved by providing interest rates to debtors that are substantially lower than market loans, by providing debtors with generous grace periods, or by combining these tools.

7) Adopt and implement a PRSP for at least one year.

In an attempt to supplement HIPC II, the Group of 8 (G8) proposed in 2005 at Gleneagles that the IMF, IDA and African Development Fund (AfDF) should cancel 100 per cent of LICs' debt, which would help them to achieve the Millennium Development Goals (MDGs). This commitment became known as the Multilateral Debt Relief Initiative (MDRI), which was also tied to completion point under HIPC II as well as the PRSP (World Bank 2010e). In fact, this also highlights the shift in thinking amongst donors that have moved from project support to direct macro-level programme aid (or budget support).³⁶ As can be seen from Table 22 below, 36 debt reduction packages have been approved for HIPC II countries, 32 of which are African.

Table 22: List of Countries That Have Qualified for, are Eligible or Potentially Eligible and May Wish to Receive HIPC II Initiative Assistance (as of December 2010)

Post-Completion-Point Countries (32)		
Afghanistan	Ghana	Nicaragua
Benin	Guinea Bissau	Niger
Bolivia	Guyana	Rwanda
Burkina Faso	Haiti	São Tomé and Príncipe
Burundi	Honduras	Senegal
Cameroon	Liberia	Sierra Leone
Central African Republic	Madagascar	Tanzania
Republic of Congo	Malawi	Togo
Democratic Republic of Congo	Mali	Uganda
Ethiopia	Mauritania	Zambia
The Gambia	Mozambique	
Interim Countries (Between Decision and Completion Point) (4)		
Chad	Côte d'Ivoire	
Comoros	Guinea	
Pre-Decision-Point Countries (4)		
Eritrea	Kyrgyz Republic	
Somalia	Sudan	

IMF (2010e)

³⁶ This is generally the idea behind aid "harmonisation" and "alignment", which was propagated by the Paris Declaration on Aid Effectiveness in 2005, of which the World Bank is also a signatory (IEG 2010a:8).

As argued in previous chapters, any debt relationship is characterised by a power relationship in which the creditor can make huge demands on the debtor. What are the defining features underpinning this relationship under HIPC II? For a start, one has to focus on the issues underlying the ideational structure of the HIPC II process. At its core, the HIPC II package has four elements that need to be highlighted: Firstly, debtors are said to benefit from debt relief. Secondly, in order to be considered for debt relief, debtors have to be in good standing with the IFIs, which means that it has to successfully implement IFI-endorsed policies. Thirdly, the PRSP is marketed by the BWIs as being central to HIPC (and development cooperation in general), as it should form the basis for pro-poor spending. Finally, the HIPC II package, as with other IFI instruments, focus strongly on policy implementation, not only policy commitments. Following from these core themes, it is imperative to focus on the (in)significance of the PRSP and to identify other IFI endorsed programmes and its implementation.

25. PRSPs: What's in a Name?

At the end of the twentieth century, the BWIs hesitantly admitted that they will have to change the way they do business. Under tremendous pressure, the World Bank (1998a) asserted;

The Washington Consensus advocated the use of a small set of instruments (including macroeconomic stability, liberalised trade, and privatisation) to achieve a relatively narrow goal: economic growth. The post-Washington Consensus recognises that a broader set of instruments is necessary and that our goals are also much broader. We seek increases in living standards—including improved health and education—not just increases in measured GDP. We seek sustainable development, which includes preserving natural resources and maintaining a healthy environment. We seek equitable development, which ensures that all groups in society, not just those at the top, enjoy the fruits of development. And we seek democratic development, in which citizens participate in a variety of ways in making the decisions that affect their lives.

It was therefore expected that a post-Washington Consensus would be complex, comprehensive, tailor made to the context, and it would be characterised by a much bolder set of development goals. As noted in Chapter 1, a number of observers were initially optimistic that the PRSP would become the inevitable representative embodiment of the post-Washington Consensus. However, based on the IFIs' relationships with African debtors during the 1980s and 1990s, one has ample reason to be sceptical. Psychology also warns

that there is a human phenomenon called “escalating commitment”, which means that “[o]nce one takes a position, one feels compelled to defend it.” (Stiglitz 2010:47). As the IFIs are human creations, one therefore needs to question whether they have changed course.

According to the BWIs, a PRSP in its most basic form “sets out a country’s macroeconomic, structural, and social policies and programmes to promote growth and reduce poverty, as well as associated external financing needs” (World Bank 2011e). Over the past decade, the PRSP package has been said to be the primary means through which creditors engage with LICs. As of 31 July 2010, “98 full PRSPs have been circulated to the [IMF’s] Executive Board, as well as more than 50 preliminary, or ‘interim’ PRSPs” (IMF 2010f). The BWIs are also supposedly actively encouraging all creditors and donors to align loans, aid, and debt relief to PRSPs. In fact, the IMF (2010f) is bold enough to claim that the attainment of the MDGs is also dependent on PRSPs. In short, the PRSP package has been marketed as being at the centre of development cooperation. This raises two broad and interrelated questions: Firstly, what do PRSPs look like? Secondly, how important are these PRSPs in reality?

PRSPs should be based on the following five core principles (IMF 2010f):

- 1) It should be “country-driven”, which is intended to promote “national ownership of strategies through broad-based participation of civil society”;
- 2) It should be “result-oriented” and specifically “focused on outcomes that will benefit the poor”;
- 3) It should be “comprehensive” in terms of acknowledging “the multidimensional nature of poverty”;
- 4) It should be “partnership-oriented” and include the “coordinated participation of development partners” which consists of the government, domestic stakeholders, and external donors; and
- 5) It should be based on a “long-term perspective” with regards to poverty reduction.

Clearly, the PRSP initiative is promising, it speaks of strategies that are “country-driven” and based on “national ownership” and “participation”. These strategies are also focused on “poverty reduction”, it is “result-oriented”, “comprehensive” and “coordinated”. In a word, the language used to promote PRSPs is attractive to anyone working in development cooperation, whether creditor or debtor. The terminology embedded in the PRSP principles

are “buzzwords”, argue Brock & Cornwall (2006:1044), “[carry] the allure of optimism and purpose, as well as considerable normative power ... [and] their presence in the language of the most influential development agencies appears, at first sight, to represent a considerable shift in approach.”

Thus, PRSPs are in theory, almost the opposite of SAPs (*see* Chapters 3 and 4). Instead of assuming there is a one-size-fits-all strategy for every nation striving to become developed, the PRSPs approach prescribes that it should be country specific. Whereas SAPs were created behind closed doors, PRSPs are supposed to be nationally owned and participatory. The SAPs goals of stabilisation and long-term growth have also purportedly been supplanted by a more specific focus on poverty reduction. The means for SAPs - that is the neoliberal strategy - has been scrapped in favour of a comprehensive, integrated and multi-dimensional approach. As for the timeframe, SAPs use to be two years but in the 1990s it became almost a permanent feature for most debtors, while PRSPs are said to be long-term. Table 23 provides a summary of the theoretical differences between SAPs and PRSPs.

Table 23: Proclaimed Differences between SAPs and PRSPs

Proclaimed improvements by the IFIs	Debt relief strategy	
	SAPs	PRSPs
Assumption behind the attainment of development	One-size fits-all	Country specific
Decision-making	Elite and IFIs – behind closed doors	Country driven and participatory (involvement by government, civil society and IFIs)
Supposed Goal	Stabilisation, long-term growth	Poverty reduction
Means	Neoliberal strategies	Comprehensive/integrated/multi-dimensional
Timeframe	2 to 10 years (there was a shift in thinking)	Long-term (it is currently unclear how long)

At face value, SAPs and PRSPs are worlds apart and the latter debt relief strategies are clearly an improvement of the former. However, from a praxis perspective, do these structural adjustment packages genuinely differ from one another? One has ample reason to be doubtful given the dismal track record of SAPs. As argued in Chapter 2, the comparative method could serve as a form of “deconstruction”, which is “a general mode of radically unsettling what are taken to be stable concepts and conceptual oppositions” (Devetak 2001:188). One can therefore only assert whether PRSPs are better or worse than

SAPs by comparing it with one another. Following from the above comparable parts, and in relation to critical theory's argument that ideas should be assessed by what it claims to represent (*see* Chapter 2 on 'immanent critique'), this study will ask the following interrelated questions: Are PRSPs based on participation, partnerships and national ownership? Furthermore, are PRSP comprehensive and results-orientated?

There have been multiple evaluations of the PRSPs package since its inception, which amongst others include a host of independent studies; the IFIs' periodic reports; and two in-debt studies by the IFIs, which includes one study by the World Bank's Independent Evaluations Group (IEG 2004) and another by the IMF's the Independent Evaluations Office (IEO 2004). This chapter predominantly focuses on reviews and analysis of first and second generation of PRSPs (those developed predominantly during the period of 1999 to 2007). This allows for a praxis approach, which essentially combines theory (PRSPs on paper) with practice (for example, what are the processes involved with PRSPs?). The advantage of this approach is that one could attempt to get a more complete picture of the processes that are suppose to run in sync with the writing of a PRSP. This would include background information that preceded the writing of a PRSP, the politicisation of PRSPs, the aftermaths of writing the PRSP, tracking of PRSPs etcetera.

PRSPs that were developed between 2008 and 2011 are largely excluded. The reason is simply that there has been a silence regarding new PRSPs. Although some PRSPs are available on the World Bank and IMF's websites, these have not been thoroughly analysed by independent actors (let alone the IFIs). It is surprising how quickly interest in the PRS has faded, especially given the initial hype. One could speculate as to why this is the case. For example, the Great Recession could have stolen the already scant attention paid to African debtors. Another reason could be that the initial euphoria about a *new* approach has died down. Accordingly, PRSPs together with other debt relief programmes and concessional lending are deemed a continuation of SAPs, which is what this study would argue. Nonetheless, it is hoped this study could contribute to the PRSP debate by identifying trends that are characteristic of a large number of PRSPs by reviewing first and second generation analysis. Most studies of PRSPs focus on technocratic issues rather than macro-economic policy analysis or how it differs from SAPs. The following sections attempt to deconstruct the PRSP approach (as discussed in Chapter 2) by evaluating it against its stated goals and comparing it with SAPs.

25.1 Are PRSPs Based On Participation?

In the previous two chapters we have seen that SAPs utterly failed, despite being presented as if ‘there is no alternative’ (TINA). It did not lead to (comparatively) high long-term economic growth rates, it did not mitigate inequality, and it did not rectify balance of payment deficits. SAPs further exacerbated poverty, it destroyed the potential that many African debtors had to promote development; and it made African economies more dependent and vulnerable to the external environment. Furthermore, these failures created space for the TINA discourse to be challenged, and instead it was argued that ‘there are thousands of alternatives’ (TATA). Particularly important are renewed discussions regarding the role of the state in promoting development. Some of these arguments were put forward in Chapter 4. Theoretically, the PRSP package also represents the quintessence of the TATA approach. Thus, one would assume that comparing tailor made PRSPs - which are supposed to have been developed primarily by governments and civil society - would somehow prove to be difficult as one would expect it to be as different as chalk and cheese. One would also infer that a custom-made approach, as argued by UNCTAD (2010:97), “should allow greater recognition of the specific structural weaknesses and vulnerabilities of the LDCs.” Participation is arguably the first step towards national ownership and recognition of TATA. Thus, it is appropriate to ask, who participates? Equally important is to determine who sets the agenda. Is it CSOs, parliaments or the IFIs? More importantly, whose views are reflected in the final product?

The results in terms of the degree of participation have thus far been very mixed. Some governments have done extensive consultations with their populace while others have hosted a few meetings merely for window dressing purposes (AFRODAD 2007a, AFRODAD 2007b, Molenaers 2010). The participatory processes involved in the development of PRSPs have also been criticised for being very technical, documents are not always available in local languages, invitations to participate arrive rather late, and the participatory processes often avoid discussions of policies that relate to macroeconomic issues and trade (Panos Media 2005:4). Overall, these issues define what has been included or excluded from the process. Beyond this, the IFIs have allocated a very central role for itself at the table, largely but not exclusively because of their acclaimed expertise in matters regarding development. In its own words, the IMF acknowledges that, its “support [in the PRSP process] should be focused on policy advice and technical support in the design of appropriate macroeconomic

frameworks and macroeconomically critical structural reforms” (IMF 2010f). The PRSP process has demonstrated how difficult it is to argue with the experts. The following sections will also question the participatory process in accordance with other IFI endorsed programmes, as these run parallel to PRSPs.

The idea that governments and people would be responsible for their own futures is very appealing. Whether broad based participation would lead to development is another issue. Nonetheless, according to the IMF & World Bank (2005), “relative to their starting points, the PRS approach has opened space for stakeholders to engage in a national dialogue on economic policy and poverty reduction.” This IFI supposition is however misleading, as it assumes that the views represented during the participatory processes would be reflected in the final product. The next section demonstrates that the BWIs had a misperception of what ownership entails. Given that participation and ownership reinforce one another, it is important to look at what is meant by the latter concept.

25.2 Are PRSPs Based On National Ownership?

According to many members of civil society and governments, ownership is understood as a way to take charge of one’s own development process. ActionAid (2006:8) defines it as policies that are “home grown, developed by countries themselves, with strong systems of participation by, and accountability to, citizens.” Similarly, Cheru (2006:364) argues that African debtors were led to believe that

Countrywide participation in PRSPs presents a paradigm shift from ineffective donor-led, conditionality-driven partnership to a system that puts the recipient country in the driving seat [and it] implies that the emphasis on participation and ownership will improve policy design and the implementation of policies and programmes.

A PRS in accordance with these definitions is thus very attractive, as countries and civil society take charge of formulating development policy. Conversely, the IFIs interpret ownership to mean “that there should be government acceptance of the need for reform and willingness to carry it out” (Wood 2004:34). It is thus understood as a means to engage governments and civil society in order to promote understanding of their policy prescriptions. To be clear, it is thus not a process to find out what debtor states and their people need and propose, but rather a public relations exercise by the BWIs to promote the neoliberal

discourse. The problem therefore is that the IFIs have a skewed perception of the meaning of ownership. According to the World Bank (cited in Anders 2008:1);

conditionality links the Bank's financial support to implementation of a programme of reforms critical for the country's economic and social development ... conditions usually reinforce the level of country ownership needed to ensure the implementation of reforms.

If conditionality reinforces ownership, the latter concept (arguably) means taking responsibility for implementing a preconceived package of policy prescriptions rather than defining it. In other words, there seems to be a conflict with regards to the definition of the idea of 'ownership'. The result has been that the BWIs continue to make use of conditionality, especially in the form of "p priori actions" which is a "device for exerting the maximum available leverage on a borrowing government to undertake an action which there must be a presumption they would not otherwise implement" (Wood 2004:24). In other words, these are tools for conditionality, as aid or new loans are withheld until debtors implement specific reforms that are deemed central to the IFIs' agendas. Similarly, van Waeyenberge (2009:794) has identified an important change in the World Bank's assessment criteria. She argues that the World Bank has adopted a "selectivity discourse", where "[i]nstead of imposing conditions to be achieved in response to the receipt of loans, these were to become conditional on what had been achieved beforehand." The World Bank (2009c:1) for example argues that one of its assessment tools, the Country Policy and Institutional Assessment (CPIA), predominantly focus on the "practice of rating *implemented* rather than *intended* policy actions."

The selectivity discourse has its roots in a 1998 World Bank report entitled *Assessing Aid*. The primary question that the report wanted to answer is how to ensure that development assistance will have the greatest impact on poverty reduction (World Bank 1998b:2). One of the World Bank's key authors of the report – David Dollar – has been accused by independent analysts as a policy-based, evidence-maker (see Chapter 2). In *Assessing Aid*, Dollar essentially argues that aid can only be effective if it is used in combination with the right ideas and a good policy environment. The World Bank (1998b:117) report concludes that

donor agencies need to create internal mechanisms and incentives that foster selectivity and that focus large-scale finance on developing countries with good policies. In countries with

poor policies, donors need to be more patient and accept that the best assistance may involve activities that do not result in much disbursement.

Moreover, the report discriminatorily draws on examples that establish causality between development and neoliberalism. For example, one of the countries listed throughout the report as a prime model of a country adopting sound economic policies is South Korea (World Bank 1998b:1-137). The problem with the report is that it uses selective examples of why South Korea has become tremendously successful. It lists aid in combination with trade and privatisation as key ingredients to success but it does not spell out timing and sequencing of these policies nor does it locate the specific developmental role of the state in fomenting development (see Chapter 4).

Dollar subsequently co-authored a handful of other World Bank reports which also stresses that aid can only be effective if it is used in combination of a specific set of policies and institutions. Furthermore, these succeeding reports have recommended that the IFIs should allocate aid only to countries that have already adopted policies that have been identified as sound. Several reviews of these World Bank authored reports suggested that “it is based on a biased research effort and poor theoretical and econometric practice, and is not representative of the broader findings of the aid impact literature” (van Waeynberge 2009:795). These perspectives on what is considered good policies and institutions explain partly why the IFIs continue to promote the Washington Consensus rather than accepting that countries develop differently.

25.3 Are PRSPs Comprehensive?

In the previous two sections it was argued that although there has been some form of participation in the PRS processes, the IFIs have stripped the idea of ownership of its true meaning. This raises serious questions about what is reflected in the PRSPs. Is it possible for the IFIs to claim (see IMF 2010f), that PRSPs are genuinely “comprehensive” in terms of acknowledging the “multidimensional nature of poverty”? Can it be argued that PRSPs are country specific?

Although the PRSP approach gives the impression that countries should develop their own strategies, the IFIs deemed it necessary to publish a very lengthy *PRSP Sourcebook* which is

intended to serve as a development framework for debtor states (*see* World Bank 2011f). Levinsohn's (2002:8) review reveals "[t]he broad prescription seems to be one in which macroeconomic reform should be planned out according to the mostly-standard [IFI] prescriptions, but with concern to how the policies will impact the poor." The same could be said in terms of how the IFIs have dealt with the issue of trade in the *Sourcebook*. Rather than challenging the issue of trade liberalisation, the IFIs made sure to utilise data that feeds into its traditional trade bias, thereby promoting paradigm management. For example, Levinsohn's (2002:8) analysis reveals that the

PRSP Sourcebook makes explicit reference to the well-publicised findings of [policy-based-evidence-makers such as] Dollar and Kraay and their contention that open trade regimes promote growth which alleviates poverty. No mention is made of the careful and fairly devastating critique of that work.

Although the BWIs are adamant that the *Sourcebook* is intended to be a guidebook rather than a set of policy prescriptions, it serves to feed into its own narrative about what it deems good economic policy. Why have alternative perspectives not been considered? It is because the IFIs were never serious about a post-Washington Consensus, as this could challenge the interests of those leading the institutions.

From the debtor's perspective, it would be risky to develop a PRSP that would sing a different tune from that which is prescribed via the *Sourcebook*. The reason being that initially the PRSP or Interim-PRSP (I-PRSP) had to be approved by a joint staff assessment (JSA) from the World Bank and the IMF. In 2005, the JSA had been replaced by joint staff advisory notes (JSANs). Similar to the JSAs, JSANs are "documents prepared by the staffs of the Bank and the Fund containing an analysis of the strengths and weaknesses of the [PRS] of the member concerned and identifying priority areas for strengthening the [PRS] during implementation" (IMF 2010g). In the end the IFIs – through the JSAN and other mechanisms that will be discussed below - determine whether a PRSP should be approved or not, thereby allowing the institutions to act as a debtor state's *éminence grises*. As argued by UNCTAD (2010:97), debtors legitimately "fear that the adoption of policies deemed inappropriate by donors could adversely affect their access to external finance." More will be said about the importance of IFI signalling in the following sections.

In practice, PRSPs have also looked very similar (*see* Fukuda-Parr 2010; Gottschalk 2005; Kalinda 2008). Gottschalk's (2005:420) study of 15 PRSPs (mostly African) noted that "the macroeconomic policies the PRSPs have been formulating have basically resulted in a continuation of the policies adopted by the majority of the PRSP countries under the [SAPs]." This is not unforeseen, considering that the PRSP process has been value laden from the very start. The reason is not simply related to the *Sourcebook* agenda, but rather a multitude of factors. For example, earlier it was mentioned that participatory processes by and large avoided credible discussions about macroeconomic issues and trade. These are areas in which the IFIs claim to be experts, which does not allow for much alteration and it does not leave room for country ownership. This last critique in particular is significant because it contributed to the fact that in practice PRSPs do not differ markedly from SAPs (Panos Media 2005:6,7). Furthermore, the IFIs continue to make use of conditionality³⁷, which throws the idea of a country specific strategy out the door. As noted by UNCTAD (2010:97),

although there have been major changes in the practice of policy conditionality, with an increasing tendency to encourage recipient-country Governments to draw up their own policies, macroeconomic stabilisation, privatisation and liberalisation were still important types of policy conditionalities in LDCs even in the late 2000s.

As was the case with SAPs, there continues to be a strong emphasis on economic growth. Thus, it is argued that high growth would eradicate poverty and cultivate development (Fukuda-Parr 2010:30,33). However, this argument would depend on several factors: Firstly, debtors would have to experience high growth rates over extensive periods of time. Many PRSP countries have achieved high growth rates from 2000 onwards, as will be seen in the next Chapter. However, the PRSPs have often been accused of projecting overly optimistic growth rates. In fact, Leo (2009:5,6) has demonstrated that the IFIs consistently overprotects economic growth rates for HIPC countries (who have to adopt PRSPs) while underprojecting it for non-HIPC countries. Thus, HIPC countries are pitted against non-HIPC countries (as was the case during the SAPs era between adopters and non-adopters of IFI programmes), where the former are anticipated to outperform the latter countries. The result is thus research written for the purpose of feeding into the IFI version of the neoliberal discourse, instead of evidence-based-policy-making. Secondly, a country could have high growth, but if it is not accompanied by certain policies (and its implementation), it will not lead to poverty eradication. In practice, growth rates are not clearly linked to comprehensive

³⁷ The following sections focus on a variety of instruments that are used by the IFIs to reinforce conditionality.

poverty reduction strategies (Cheru 2006:359; Fukuda-Parr 2010:30). For example, some PRSPs have identified investment in several productive areas that would help to mitigate poverty. However, following through on these commitments has been disappointing. Kalinda's (2008) study on Tanzania, Uganda, and Zambia's PRSPs found that although the agriculture sector in each of these countries has been branded as a priority sector, in practice public investment in these areas has been lacking.

There is, though, one or two aspect of the PRSPs that are said to be slightly different from SAPs. Some would argue that PRSPs are comparatively speaking more comprehensive and multi-sectoral in its diagnosis of poverty (Driscoll & Evans 2005:7). Nonetheless, some PRSP reviews have revealed that PRSPs are not realistically costed. Thus, they are almost presented as wish lists of what countries need, rather than what resources they have at their disposal to fight poverty. Uganda's Poverty Status Report revealed that "the gap between current and required spending" for its PRSP implementation is approximately 37 per cent (Cheru 2006:362). The significance of this is that Uganda is considered to be one of the star pupils of the PRSP process.

Furthermore, many PRSPs have acknowledged the importance of social sector spending – particularly health and education – in an attempt to reduce poverty and boost development. This is a positive development, given that social sector spending in many areas had been eroded during the SAPs era. One would therefore expect that PRSPs would be synchronised with national budgets of debtor states. However, national budgets (whether medium-term or annual budgets) are not always reflective of PRSPs. A PRSP could therefore state one thing, while the national budget indicates something completely different (Cheru 2006:361-364).

Despite the setbacks with regards to costing and a failure to link PRSPs with national budgets, some would argue that there seems to be indications of an *increase* in government spending particularly in health and education sectors (Driscoll & Evans 2005:7). The IMF (2010e) for example states that;

Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health and education combined. Now, they have increased markedly their expenditures on health, education, and other social services. On average, such spending is about five times the amount of debt-service payments.

This should be welcomed. Though, one should question how significant this increase is given that spending during the SAPs era virtually collapsed. Thus, the starting point for social spending was extraordinarily low. The next Chapter focuses on the significance of social spending in PRSP countries.

25.5 Are PRSPs Results-Orientated?

In 1973, Robert McNamara (1973:8) declared that “[t]he first step [to address a problem] is to set a goal. A goal is necessary both so that we can better estimate the amount of financial resources required, and so that we can have a firm basis for measuring progress”. Yet, it seems that the IFIs are still battling to follow through on this commitment. The PRSPs, were suppose to be “result orientated” and focused on “outcomes” that specifically “will benefit the poor” (IMF 2010f). Conversely, the BWIs tend to emphasise policy conditionality as opposed to outcome conditionality.

In its report on *Adjustment Lending Retrospective*, the World Bank (2001) admitted that it has difficulty to measure the long-term impacts of its policy prescriptions. The consequence is that there tends to be a strong bias to measure success in terms of the process instead of the outcome. The World Bank (2001:88) stated,

Monitoring of results in adjustment operations has in practice focused on supervising progress toward meeting agreed conditionality on policy actions that are within the control of the government. Adjustment programmes implicitly involve assumptions about the expected effects of a particular set of actions on economic performance and incentives, social conditions, poverty reduction, and the environment. In practice, however, it is difficult to define and apply performance indicators that compare actual to expected outcomes and allow corrections of the programme.

Thus, whether countries are implementing reforms that are deemed necessary (according to the IFIs) is more important than actually measuring its success or failure because it is certainly easier to measure policy implementation rather than outcomes. The result is that policy reforms are often used as conditionalities for the release of funds. Both organisations have over the past few years also claimed that it wants to improve monitoring and evaluation (M&E) in relation to outcomes. In fact, that World Bank claims that it is “results-focused”, which according to critics often obscures the fact that policy reforms are classified as outcomes, rather than inputs or actions (Wood 2004:28). Outcomes and results are however

different than inputs, as it should indicate the impact of certain policy actions. Thus, one should be able to measure causality between certain policy inputs and policy outcomes.

Despite aiming to be results-orientated, data specifically relating to the PRSPs outcomes are very hard to obtain, especially when one attempts to evaluate the successes/failures from a group perspective. For example, Marshall & Walters (2010:11) argues, “[t]he initial objective was to include all 63 PRSP adopting countries within the panel, yet astonishingly, only 29 had undertaken two or more high quality poverty surveys.” Similarly, the UN (2010b:7) expressed its disappointment with continued lack of SSA M&E frameworks “where more than half of countries lack sufficient data to make comparisons over the full range of the MDGs.” Consequently, “PRSPs remain overly centred on compliance with government rules and regulations and tracking inputs and processes, rather than the end results of policy, programmes and project efforts” (Cheru 2006:369). It is thus startling that although the World Bank and IMF’s key objective with the PRSPs package is poverty reduction, scant attention is paid to M&E of the outcomes of this strategy. Failure to monitor the results of these policies would be the same as to repeatedly mixing blue with yellow paint and hoping that the end product would be red. Only those who observe the process would know that the result will be green paint.

After tremendous pressure from civil society, the World Bank introduced the Poverty and Social Impact Analysis (PSIA) in 2002. The purpose of PSIA is to evaluate the potential impacts that policy implementation could have on the poor. It was also expected that PSIA would subsequently influence policy advice and design of development programmes (Gunter et al 2005, Honkaniemi 2010a). However, a recent publication by the World Bank’s IEG (2010b) revealed that PSIA have largely failed to bridge this gap. The IEG (2010b:XIV) concluded that PSIA made a “negligible contribution to country analytical capacity, on average, with a few positive examples.” PSIA were “negligible” by which is meant that they were often “devoid of policy recommendations and did not feed into a policy debate or decision in the country” (IEG 2010b:18).

4.5 Are PRSPs Partnership-Orientated?

According to the BWIs, the PRSP partnership includes contributions from a host of development partners which theoretically consists of the government, domestic stakeholders,

and external donors. However, above it was argued that some partners are clearly more influential than others, which leads some critics to proclaim that PRSPs are “almost uniformly” based on “donorship” (Oxfam International 2004:8). Similarly, UNCTAD (2010:XIII) states, “the evidence shows that the way in which PRSPs are designed and implemented is still strongly influenced by donors’ policy conditionality, monitoring benchmarks and financing choices.” Thus, views presented by African governments and members of civil society during the participation phase of PRSP processes do not clearly translate into policy implementation. This is because the IFIs are able to do paradigm management by making use of policy-based, evidence-making research; they reinforce the neoliberal discourse through various mechanism to make clear what they judge to be good economic policy (for example via the JSAN or the Country Assistance Strategy³⁸); and the BWIs still make use of conditionality. Thus, the direction of the development strategy described in a PRSP is a *fait accompli*, long before the participation process even begins.

There is another more fundamental problem related to this particular idea of partnership that the IFIs envision. As noted earlier, the BWIs have effectively convinced donors that it is more cost effective for everyone involved to tie their aid programmes to IFI endorsed programmes. Many creditors have followed suit and are linking their budget support to HIPC and PRSP initiatives. From the IMF and World Bank’s perspective, it is argued that creditors and debtors would save a lot of money by virtue of cutting transaction cost, even though there is little evidence to support this (see Killick 2004:20,21). As pointed out by Killick (2004:21), this is a misassumption as donors presume that the policy conditionalities behind IFI supported programmes are unequivocally beneficial, which is arguably not the case. Thus, the long-term impacts of IFI endorsed policies are neither challenged nor taken into consideration when calculating the benefits or drawbacks of programme aid.

26. No PRSP is An Island

PRSPs are often said to be frameworks, which sometimes makes it weak on details. In order to get a clearer picture of IFI-debtor relationships, one has to ask, what is not found inside the PRSPs? Sadly, the PRSP approach does not stand on its own and it is not the most important document informing the way forward for debtor states. There is a multitude of other

³⁸ The Country Assistance Strategy (CAS) spells out the World Bank’s country-level support over a four year period (see Bretton Woods Project 2010b).

mechanisms at the World Bank and IMF's disposal that reinforces neoliberal policy prescriptions. What do these programmes look like? What do they prescribe? Some, but *not all*, of these mechanisms will be discussed below.

26.1 Layers of Old School Conditionality

In the mid-1990s the IFIs came under mounting pressure to do away with conditionality, especially as it related to the Washington Consensus. According to some of its critics, the IFIs had too many conditionalities attached to its programmes. This meant that states were unable to fulfil all of its obligations and it became confusing which ones had to be prioritised. Between 1988 and 1992, the average World Bank programme had 58 conditions attached to it. This decreased to 36 per programme from 1998 to 2000. The IMF's conditions per programme incrementally increased from 2 in 1987 to 4 in 1994, and again to 14 between 1997 and 1999 (Killick 2004:14).

In response, both the World Bank and IMF said it would “streamline” its conditions, by which the organisations committed to reduce the number of total conditions. The BWIs also reacted by reclassifying conditionalities, with the aim of indicating to debtors which ones are deemed more important than others. For example, the IFIs use a series of euphemism for conditionality, including terms such as “benchmarks” , “triggers”, “waivers”, “milestones”, etcetera to describe what debtors ought to do (IEG 2010a:XXVII).

Beyond the rhetoric of streamlining, the IFIs also claimed that countries should take ownership of their developmental strategies, which is the crux behind the PRSP. Below it will be argued that the BWIs continue to use a multitude of other mechanism (and their subsequent conditionalities) in order to buttress the neoliberal narrative. Such instruments include the HIPC II Documents, ECF (or PRGF), PRSC, CPIA, PSI and so forth. The point is that PRSPs cannot be read in isolation, as it strongly relates to other loan instruments and policy mechanism below. The result is that debtors are exposed to multiple layers of conditionality, each reinforcing the neoliberal discourse. The problem with conditionality is that it does not provide enough scope for countries to develop their own economic policies. In other words, the ‘country-ownership’ under the PRSP process remains an illusion.

26.2 HIPC II Documents

Aside from the basic conditions that have been discussed earlier, the HIPC II initiative also demands more specific actions to be taken by debtor governments. Such conditions appear in a multiplicity of debtor-creditor agreements or policy analysis documents, which generally includes the following: the preliminary HIPC document, the decision point document, the completion point document, and a debt sustainability analysis. These documents are jointly prepared by the IMF and the World Bank, not the debtor (IMF 2011d). Most of the conditions are found in the decision point document, which generally stipulates what a debtor has to do in order to reach completion point (Jubilee Debt Campaign 2011). For example, Tanzania reported that it had “no less than 13 conditions” attached to its HIPC programme (Killick 2004:15).

Even though the HIPC conditionalities are said to focus on poverty reduction, the macroeconomic policies that also forms part of it effectively mitigates such efforts. Although it should be welcomed that governments are able to allot more resources to health and education (by virtue of spending less money on servicing debt), there is a lack of focus on other areas that could have major impacts on long-term development (Jubilee USA Network 2008:2). In summarising the HIPC II approach, the Jubilee Debt Campaign (2011) argues that debtors have been forced to;

cut public spending, meaning fewer teachers or doctors; they are told to privatise basic services like water or electricity, meaning worse service and higher prices for the poor; or they are made to liberalise trade, leaving poor farmers and producers unable to compete with imports from the rich world.

Similarly, members of civil society representing Ghana, Mozambique, Sierra Leone, Uganda, and the African Forum and Network on Debt and Development stated (Commonwealth Civil Society 2004:2);

The economic policy conditions attached to the HIPC process mirrors the prescriptions imposed on these countries during the era of structural adjustment. The HIPC conditions on privatisation, lowering tariffs and trade liberalisation have led to increased poverty, asset stripping and job losses that cause social unrest. There is need to de-link debt relief and poverty reduction.

In short, the policy prescriptions under HIPC II mirror that of SAPs.

26.3 The Real Deal: Additional Concessional Lending Instruments

The IFIs have a host of other lending initiatives at its disposal, which, it should be added, they do not hesitate to use in combination. They are also not scared to bypass national parliaments in order to get what they want (*see* the *Zambian example* in *Box 1*). As mentioned above, in reality, the IMF's ECF³⁹ (known as the PRGF from 1999 to 2009) which runs over a period of three to five years and the World Bank's annual PRSC⁴⁰ agreements set the basis for macro-economic policy rather than a country's PRSP. For example, the IEO (2007:28) did a survey amongst IMF staff where almost 80 per cent acknowledged that the "PRGF provided the operational framework for the PRSP" rather than the "PRSP provided the basis for PRGF analysis and design." Furthermore, while 100 per cent of the mission chief respondents from the same survey acknowledged that the PRGF programme design focused on and influenced government policy on macro-economic issues, only 45 per cent agreed that the PRGFs have focused on poverty reduction and 20 per cent agreed that it focused on MDGs (IEO 2007:28). Similarly, the World Bank's Development Support Credit or Economic Management and Growth Credit, which are annual loans, are also important expressions of the IFIs' wishes with regards to policy direction of its debtors (Eurodad 2006:6). It is thus important to ask, what do these loan documents prescribe?

Box 1: Bypassing the *Zambian Government*

In 2002, Zambia was forced by the IFIs to privatise (or what the IFIs these days euphemistically call 'commercialise') the Zambia State Electricity Company (ZESCO) and the state bank, the Zambia National Commercial Bank (ZNCB). This resulted in a huge public uproar against privatisation. Even the *Zambian Parliament* voted against privatisation of ZESCO and ZNCB. As soon as it became clear that Zambia was backtracking, the IFIs threatened that the country "risked forfeiting US\$1 billion in debt relief if it did not go ahead with privatisation" (Situmbeko & Zulu 2004:43). At the time, Zambia was also close to reaching completion point under HIPC, which meant that the country risked losing another

³⁹ The ECF also calls for an IMF-approved PRSP. In addition, the IFIs have a number of other loan instruments at its disposal that specifically target LICs. For example, in 2010 the IMF introduced the Standby Credit Facility (SCF) which replaced the Exogenous Shocks Facility; and the Rapid Credit Facility (RCF) which replaced the Emergency Natural Disaster Assistance (Bretton Woods Project 2010c).

⁴⁰ By September 2009, the World Bank approved a total of 99 PRSC operations in LDCs (IEG 2010a:6).

US\$3 billion in debt relief. In other words, it had no choice but to sell off these state owned enterprises (SOEs).

However, there was another layer of conditionality, which gave the IMF yet another card to play. In 2003, a local NGO estimated that the cost of basic needs for an average family in Lusaka would approximate to \$60 per month. This estimate nonetheless excludes non-food items (for example soap and fuel) and other essentials (such as housing, education, water and healthcare). Workers (including nurses, the police and teachers) generally earn as little as \$60 per month, the equivalent of the basic needs basket.

As can be expected, workers put pressure on the Zambian government to provide them with higher wages and more benefits. At first the government agreed, but it was forced to withdraw from its decision when the IMF announced that it would withhold another \$100 million under the PRGF should the government follow through on its commitment. This pronouncement caused a snowball effect, which led other donors (including the EU) to withhold donor funding until the Zambian government backtracks from its commitment (Situmbeko & Zulu 2004:45,46). Thus, as with SAPs, the IFIs, who are accountable to no one, have no shame in bypassing elected officials.

From the World Bank's perspective, policy conditionalities have declined over the past decade or so. However, it is only able to claim that these have declined by broadly differentiating between "prior actions" and "benchmarks" (IEG 2010a:19). The former, it is argued, are binding, while the latter are only progress markers. One could also add "triggers", which can be defined as "indicative prior actions for future operations" (IEG 2010a:21).

According to the IEG (2010:19), the World Bank was involved with approximately 900 lending operations from 1980 to 2008, which also includes 88 PRSCs. It further states that non-PRSC loans had higher legally binding conditions, totalling 24.7 on average, compared to PRSC loans, with 12.1 conditional attachments. Additionally, the average PRSC had 29.3 benchmarks attached to it during the period 2001 to 2008. From a legal perspective, it can claim that conditionalities have declined. The World Bank is therefore implying that prior actions are more important than benchmarks. However, debtor states take benchmarks very seriously. In practice, debtors argue that it is difficult to distinguish between these

conditionalities (*see* Eurodad 2006:9). How can anyone blame them? The IEG (2010:21,22) states that the World Bank is flexible because “PRSCs would adapt to reality through adjustments to triggers by modifying their content or timing or dropping them if they proved unrealistic.” In other words, conditionalities will at some point find its way into PRSCs one way or another.

Eurodad (2006) did an extensive analysis of twenty countries (13 of which were African) engaged in IMF and World Bank loans. The report contends that LICs are subjected to a rising number of conditionalities in exchange for development finance. Overall, countries faced an average of 67 conditions per PRSC, but for African countries the average is 73 conditions.⁴¹ For some countries, this was even higher - Uganda had 197 conditions attached to its Fifth PRSC in 2005 (*see* Table 24).

Table 24: The Number of Conditions Contained within 2005 World Bank Loans to African Countries

Country	World Bank Loan Document	Number of Conditions
Uganda	5 th PRSC	197
Rwanda	2 nd PRSC	103
Senegal	1 st PRSC	77
Tanzania	3 rd PRSC	72
Ethiopia	2 nd PRSC	67
Benin	2 nd PRSC	60
Mozambique	2 nd PRSC	59
Madagascar	2 nd PRSC	57
Niger	Public Expenditure Reform Credit	54
Burkina Faso	5 th Poverty Reduction Support Operation	54
Ghana	3 rd PRSC	52
Mali	Public Finance Management Credit	50
Zambia	Economic Management and Growth Credit	46
Average Conditions Per African Loan		73

Adapted from Eurodad (2006:8)

More importantly, the Eurodad (2006) report asserts that the World Bank persists to impose SAPs-like conditions. It is argued that 20 per cent of all conditions were of economic nature and a high number of conditions included privatisation and trade liberalisation requirements. The largest number of World Bank conditions – 43 per cent - relates to governance matters, which will be discussed in the next section. In addition, the report reveals that the World

⁴¹ Eurodad (2006:7) included both “prior actions” and “benchmarks” as conditions.

Bank has a high tendency to micro-manage. For example, Mali's had to "move one of its government offices" as a condition (Eurodad 2006:11).

Honkaniemi (2010b:1) notes that the World Bank used 57 conditions for three World Bank loans to Ghana as late as 2009. A large number of these conditions relates to privatisation, fiscal policy, public sector reform and the like. More significantly, Honkaniemi (2010b:2) found that many of the conditionalities (12 out of 57) were "not made clearly explicit in loan agreements, but they refer to the Letter of Development Policy." Thus, the World Bank is able to avoid the issue of transparency by being ambiguous about its conditionalities.

Eurodad's (2006:19) report, which only analysed the IMF's structural conditions (which means that it excluded quantitative conditions)⁴² also found that the lender imposes a large amount of conditionalities on debtor states, which averaged 11 per loan from 2002 to 2006. Thus, a country with a World Bank and IMF programme is subject to conditions from both institutions. Critics argue that the use of cross conditionality shows that the institutions lack an understanding of their roles (Eurodad 2006:23,24). This is despite the fact that the IMF (2002:3,10) makes clear in its *Guidelines on Conditionality* that "there will be no cross-conditionality" and that the principle of "lead agency" should be adhered between it and the World Bank, which also entails that it should stay clear of areas outside of its core responsibilities. Moreover, Eurodad (2006:24) claims that of the total sample, a large number of conditions – 43 per cent – are related to economic policy reforms, and 50 per cent of these relate to privatisation (which included banking, telecommunications, energy and agriculture).

Following the World Bank, and in response to the Great Recession which resulted in heated debates about the role and relevance of the IFIs, the IMF (2009b) declared that it would scale down in its use of structural conditions:

In the past, IMF loans often had too many conditions that were insufficiently focused on core objectives ... the IMF will rely more on pre-set qualification criteria (ex-ante conditionality) where appropriate rather than on traditional (ex post) conditionality as the basis for providing countries access to Fund resources [and] implementation of structural policies in IMF-supported programmes will from now on be monitored in the context of programme reviews, rather than through the use of structural performance criteria, which will be discontinued in all

⁴² According to Eurodad (2006:7), "quantitative conditions impose a set of macroeconomic targets on poor country governments determining", for example, budget outcome, the level of fiscal deficit a government is allowed to reach etcetera, while "structural conditions ... push for institutional and legislative policy reforms within countries" for example privatisation, deregulation, trade reform and so forth."

Fund arrangements, including those with [LICs]. While structural reforms will continue to be integral to Fund-supported programmes where needed, their monitoring will be done in a way that reduces stigma, as countries will no longer need formal waivers if they fail to meet a structural reform by a particular date.

Even if one accepts that the conditions are declining (in terms of quantity), as the IFIs would argue, this misses the point. The substance of conditionalities is what continues unabated. A recent study of 2010 IMF programmes – which included ECFs and Stand by Arrangements (SBAs) – noted that 29 of 48 programmes restricted wage bills and it contained other SAPs-like measures consist of subsidy cuts, regressive taxation and privatisation (Jubilee USA Network 2010:5). Furthermore, the residue of the Washington Consensus remains intact. Some countries have been subjected to three or more decades of IFI conditionalities. Thus, at some point one would expect that the conditionalities related to economic policies would decline as some of the priori actions are almost certainly irreversible. For example, once SOEs have been privatised, it will be nearly impossible to legally bring them back under state control. Furthermore, being more lenient on structural conditions does not entail that it would be completely abolished. The World Bank can pick up where the IMF left off given that they reinforce one another's roles. Finally, it should be made clear that *ex-ante* conditionality ensures that structural conditions (which in the past would have appeared in loan documents) are undertaken up front as countries are expected to implement policies that are in line with the IMF's thinking.

26.4 The CPIA

This section will focus on priori actions and performance based assessments (PBAs), which are intrinsically linked to PRSPs. As mentioned earlier, the World Bank makes use of a list of criteria known as the CPIA in order to evaluate a country's policy environment. The CPIA is important in as much as it is fast becoming one of the core PBA tools governing the relations between creditors and debtors. It is not only used to guide the World Bank's IDA loans, but the CPIA is also utilised by several large creditors to allocate development assistance, including the Asian Development Bank, African Development Bank, European Commission, the United Kingdom, France, Norway, Switzerland, and the Strategic Partnership with Africa (Alexander 2010:7). The CPIA criteria add another layer of conditionalities upon the debtor state as financial assistance is limited or withheld should it deviate from prescriptions related to the assessment (Wood 2004:32).

The origin of the CPIA is in the late 1970s, when the World Bank (2009c:1) wanted to develop criteria that would “guide the allocation of IDA lending resources.” However, not much was known about the CPIA and its history – which explains the lack of analysis on the subject - until very recently when the World Bank became under tremendous pressure to disclose information related to its criteria and how the assessments are used in the allocation of its resources (Bretton Woods Project 2006). In 1977 the World Bank began using country performance ratings in order to serve as a resource allocation device, which originally focused on policy inputs and economic performance indicators. This meant that the World Bank’s IDA resource allocation took account of a country’s poverty situation, creditworthiness, economic performance and project readiness. However, the World Bank’s PBAs have hardened over the past three decades. By the early 1990s it became more and more evident that the World Bank was almost entirely concerned with policy inputs (van Waeyenberge 2009:796). In fact, as pointed out earlier, in its 2001 *Adjustment Lending Retrospective*, the World Bank claimed it is difficult to measure the long-term impacts of its policy prescriptions. Thus, the World Bank finds it easier to focus on compliance of loan conditionality rather than monitoring and evaluating its results.

From the above discussions, three observations can be made: the World Bank is increasingly focusing more on evaluating inputs as opposed to outcomes; the World Bank requires debtors to implement policy inputs (thus translating it into outputs) which in turn guide the institution’s resources allocation process; and the CPIA is one of the primary instruments to evaluate policy outputs. What does the knowledge structure of the CPIA look like?

Over the past few years the World Bank’s CPIA index – which has been renamed IDA Resource Allocation Index (IRAI) - has been transformed into a set of 16 criteria which are used to rate a country’s performance. These are grouped into four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions (see Table 25).

The World Bank (2010f) describes the CPIA criteria as “key factors that foster growth and poverty reduction, with the need to avoid undue burden on the assessment process.” More specifically, the latest version of the CPIA questionnaire (World Bank 2009c:4) – which is intended for assessors – notes;

criteria focus on policies and institutional arrangements, the key elements that are within the country's control, rather than on actual outcomes (for example, growth rates) that are influenced by elements outside the country's control. Good policies and institutions are expected to lead, over time, to favourable growth and poverty reduction outcomes, notwithstanding possible yearly fluctuations due to external factors.

Thus, it is assumed that policies implemented (that is outputs) should be measured as opposed to outcomes or impacts (with few exceptions). More importantly, it also supposes that, just like the SAPs conditionalities, there is a once-size-fits-all approach to development. The CPIA questionnaire is presented as a scientific framework as the criteria are “development neutral” (World Bank 2009c:4) as if knowledge could be separated from power. The assessors are requested by the questionnaire to take “country contexts” into account, but heterogeneity of countries is only acknowledged in as much as states are said to be in different “stages of development” (World Bank 2009c:4).

Table 25: CPIA Components

a) Economic Management
1. Macroeconomic Management
2. Fiscal Policy
3. Debt Policy
b) Structural Policies
4. Trade
5. Financial Sector
6. Business Regulatory Environment
c) Policies for Social Inclusion
7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labour
11. Policies and Institutions for Environmental Sustainability
d) Public Sector Management and Institutions
12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilisation
15. Quality of Public Administration
16. Transparency, Accountability and Corruption in the Public Sector

World Bank (2009c:3)

The World Bank's IEG recently published an assessment of the CPIA. The IEG (2010c:15) states;

The review of economic literature (theoretical/conceptual as well as empirical) indicates that, by and large, the CPIA criteria pertain to policies and institutions that are found to be

important for sustained growth and poverty reduction ... [but] evidence is more mixed as to the criteria's importance for aid effectiveness.

This is a perturbing finding, given that the CPIA's main purpose is to guide the allocation of World Bank resources. Furthermore, the evaluation admittedly remarks that "it is difficult to establish an empirical link between the CPIA and growth outcomes" due to lack of data (IEG 2010c:xiii). This is yet another damning finding, given that the CPIA's justification rests on the assumption that these are, in the World Bank's own words, the 'key factors that foster growth and poverty reduction.' As will be argued below, the CPIA largely excludes the idea of the developmental state. Thus, what the IEG is actually implying is that although the criteria's indicators are more or less in line with neoliberal literature (as opposed to a host of alternative perspectives) on economic development, it does not really have evidence to support an empirical link between the CPIA criteria and actual outcomes.

A close inspection of the CPIA questionnaire reveals that the criteria against which countries are being measured are very similar to the neoliberal policies prescribed under SAPs. The questionnaire stresses factors such as fiscal discipline, trade openness, deregulation of the economy, capital account liberalisation, and liberalisation of foreign direct investment (World Bank 2009c:6-18). Some of the indicators are explicit in its scientisation of the debtor's problems. For example, under trade, it is spelled out that countries will receive a score of 1 (the lowest while 6 is the highest score) should it have tariff rates averaging 25 per cent and several rates above 50 per cent (World Bank 2009c:11). Most of the criteria simply use terms such as "high" or "low" with reference to indicators such as ratio of public debt to GDP, interest rates, inflation, import tariffs etcetera (World Bank 2009c:6-40).

Experts suggest that the latest CPIA policy prescriptions have become more subtle compared to earlier versions, as "a particular change occurred in the questionnaire between the 2003 and 2004 CPIA exercises. This refers to the disappearance of the explicit discussion in the CPIA's narrative guidelines" (van Waeyenberge 2009:802). This could be related to the fact that it was only since the 2000s that the World Bank has been forced to become more transparent with regards to the CPIA and processes related to it (Bretton Woods Project 2006). However, the World Bank has been able to work around this. Although it has toned down on explicit policy prescriptions (comparatively speaking), it makes use of "guideposts", which refers the user to a whole range of additional "suggested indicators" (World Bank

2009c:5). As van Waeyenberge (2009) notes, the guideposts often refers users to overlapping diagnostic reports; including the World Bank's Administrative Barrier Reports (dealing with trade liberalisation), the World Bank's Investment Climate Assessments (which promotes generally deregulation of the economy), diagnostic trade regulation studies (that are multiagency programmes that recommends a host of deregulation measures), Financial Sector Assessments (World Bank-IMF authored efforts that focuses on financial sector deregulation), and business environment surveys such as the Heritage Foundation Index's section on economic freedom. In short, the guideposts force assessors to evaluate a country's performance through these lenses even though the CPIA has been toned down in terms of overt support for neoliberal policy prescriptions.

Defenders of the CPIA might point out that although some of the criteria focus on macroeconomic issues, the bulk of it relates to good governance issues and there is also the addition of social policies that aims to promote a pro-poor agenda. This issue will be teased out in the next Chapter. Nonetheless, as was the case with PRSCs and ECFs, the World Bank and IMF use different IFI authored *ex ante* conditionality in order to reinforce their version of the neoliberal discourse.

In short, the idea of priori actions and the CPIA criteria pours cold water over claims that the IFIs have moved beyond conditionality, that they want debtors to own development programmes, and that they recognise that there are different paths along which countries will develop. It is noteworthy that PRSPs are only mentioned once in the entire CPIA framework. Under *Equity of Public Resource Use* criteria, the World Bank recommends to the evaluator that he/she should make use of the country's JSA (not the PRSP itself) and this only appears as a guidepost (World Bank 2009c:21).

26.5 The PSI

In 2005, the IMF introduced the PSI, which is intended for LICs that do not need IFI funding but “*seek to consolidate their economic performance with IMF monitoring and support*” (IMF 2010h).⁴³ *The total programme runs for a period of one to four years. More*

⁴³ For countries that are coming out of conflict situations, the IMF makes use of a similar non-financial facility called the Staff Monitored Programme (SMP). The SMP operates on the same basis as the PSI, in the sense that

importantly, the PSI “signals” to other donors, multilateral banks and investors that countries display “economic health”, which is monitored via a “regular annual checkups ... [also known as] surveillance” (IMF 2010h). Thus, even though the debtor-creditor relationship has theoretically stagnated due to fewer debt obligations, the IMF continues to play an important role as a strong advisor to its client. This demonstrates the importance of the power relations between the IFIs and debtor states. It is also interesting to note that the IMF uses the language of a doctor that is ready to diagnose and cure a patient, which implies that these countries cannot achieve a state of development by themselves (see Dr West-patient Africa analogy in Chapter 2). The term “surveillance” is also an interesting choice of word, given that it is often associated with the monitoring of behaviour of people of surreptitious manners. The BWIs therefore have to monitor its subjects - criminal and corrupt African governments - in order to make sure they do not engage in risky behaviour. Thus, despite not receiving major financial assistance (comparatively speaking), the LICs continue to be tied up with the IFIs.

Seven countries, all of them African, have thus far signed up to the PSI, including Nigeria, Uganda, Cape Verde, Tanzania, Mozambique, Senegal and Rwanda (IMF 2010h). Bangladesh also almost signed on to the process but it was forced by civil society to withdraw after it was dubbed a “Policy Slavery Instrument” (see ActionAid 2007:9). One study on the PSI found that even though the LICs that are party to this programme are considered “mature stabilisers”, they continue to prescribe a set of policies that overlaps with the IMF’s PRGF (ActionAid 2007:3,4).

Why would countries sign up for the PSI knowing that it allows the IFIs to make major demands on them that are in line with SAPs? The primary reason, it seems, is that countries want to remain in good faith with the IFIs. In Chapter 3, it was argued that debtors faced “rejection costs” should they fail to implement SAPs, which is why the Washington Consensus policies fed into Africa’s underdevelopment. However, the IFIs denied this as they blamed bad governance and African debtor states for non-implementation of SAPs. Despite this, the IFIs have since changed their tune, as a recent IMF paper finally acknowledged the importance of its role in signalling. According to the IMF (2004:24), creditors (whether donors or investors) anxiously awaits its “sign of approval.” It further

it also aims to establish a good track record that would serve as the basis for future engagement with creditors (Bretton Woods Project 2010b).

elaborates that ominous signals could have “serious negative consequences for the member” which could “in a country with access to capital ... trigger the very crisis the [IMF] would be seeking to avert; and in an aid-recipient country, they could lead to a sharp reduction in foreign financing” (IMF 2004:35). Nonetheless, as noted, it is said that the PSI is not intended for those seeking funding directly from the BWIs, it is used for signalling. Nigeria, for example, signed on to the PSI in the hope that the IFIs would provide it with good signals shortly before it was about to receive \$30 billion in debt relief from the Paris Club. Ultimately, Nigeria could not benefit from debt relief or rescheduling, as the Paris Club required the debtor to have an operational programme with the IMF. “So it was not ideas or expertise that the Nigerian government wanted, but a programme that would sell its policies to an external audience ... a reflection of the IMF’s signalling power” (ActionAid 2007:8). More recently, the Dutch government decided to withhold \$4.5 million in budget support to Uganda because the IMF refused to approve its PSI (Bretton Woods Project 2011:6).

Given that these countries are considered to be ‘mature stabilisers’, one would expect the policies to at least look a bit different from the traditional austerity programmes that the IFIs have prescribed during the 1980s and 1990s. Unfortunately, this is not the case as there is a strong emphasis on “belt-tightening” policies (ActionAid 2007). Such policies have an obsession with inflation targeting, price stability and balancing the budget, while neglecting strategic, long-term strategies that would foster development. This would require aggressive investment in areas such as public infrastructure, health, education and poverty reduction (*see* Chapter 4). Instead, as argued by ActionAid’s (2007:21), the IMF’s PSI prescribes that “successful ‘college’ graduates should now, in effect, go back to primary school and repeat the same syllabus that has failed time and time again to end poverty and inequality.”

The IMF is therefore well aware of its powerful role to signal (which is the very philosophy underpinning the PSI). In essence, the IFIs have established themselves as knowledge institutions (*see* Chapter 2). With this in mind, it is no surprise that the IFIs continue to exert political clout over ‘their’ clients, even though one would expect that this group would be given more leeway.

27. Conclusion

The IFIs were inevitably forced to face the wrath of criticism that piled up in the 1980s and 1990s. As argued, this eventually led to the creation of HIPC, which was soon deemed ineffective, abolished and replaced by HIPC II. The HIPC II initiative was initially full of promise as it set out to address a multitude of problems in the developing world. Key to this initiative was not only debt relief, but also the PRSP initiative, which stood (at face value) in stark contrast to SAPs. This Chapter evaluated PRSPs in accordance with the BWIs' own criteria.

Following critical theory's suggestion of investigating the origins of structures, this Chapter employed the method of 'immanent critique' (see section 9.1.1) in order to evaluate post-SAPs according to its most basic aims. As mentioned in section 23, HIPC II came into being in order to 'provide faster, deeper, and broader debt relief and strengthen the links between debt relief, poverty reduction, and social policies.' The PRSP initiative also promised to be 'country-driven' and based on 'national ownership' and 'participation'. Additionally, the IFIs claimed that PRSPs will be focused on 'poverty reduction', it should be 'result-oriented', 'comprehensive' and 'coordinated' (see section 25).

PRSPs are not entirely based on participation. Critical issues – such as macroeconomic policy and trade – are not always open for discussion, even when CSOs and governments are able to participate during the PRSP process. This relates to the second issue, that PRSPs are not based on ownership. Rather, the IFIs have obscured the concept of ownership, which they loosely define as acceptance by states that they need to reform. Furthermore, this reform process is also pre-defined and in accordance with the IFIs' own version of neoliberalism. The idea that PRSPs should be comprehensive therefore also loses its value as the BWIs continue to impose a one-size-fits-all solution on African debtors.

Similar policy prescriptions are also found in other IFI mechanisms – including the ECF, PRSC, CPIA, PSI etcetera. This is convenient as the BWIs can utilise a multitude of outlets to impose their will on developing states. In essence, governments have to make sure that PRSPs reflect what the IFIs reckon are good economic policies. Thus, instead of presenting a policy *menu à la carte*, the IFIs put forth a *table d'hôte*. Even if one wants to presume that a PRSP process was based on participation, ownership, and partnerships, and that the PRS is

somehow comprehensive and results-orientated, the PRSP remains trivial in relation to some of these other IFI mechanism.

PRSPs are also not results-orientated as claimed by the IFIs, as these institutions focus more on policy implementation rather than policy outcomes. The PSIA, which is intended to measure the potential impact of policies, is blatantly ignored by officials at the BWIs.

Finally, the PRSP initiative promised to be based on a partnership between creditors and debtors. The idea of participation was to give voice to the voiceless (which remains an ideal) but it was also intended to bring development budgets together, which (according to the IFIs) would be cost saving. Indeed, many donors have mainstreamed their aid budgets and debt relief to programmes endorsed by the BWIs. This is problematic as the cost saving assumption cannot be proven unless one presumes that the IFIs conditionalities are beneficial to African debtors.

This study set out to compare, contrast and analyse SAPs and so called post-SAPs initiatives (see Chapter 1). It was also recognised in Chapter 2 that the IMF and World Bank's policy prescriptions play a significant role in shaping the economies of debtor states, as was demonstrated in Chapter 3 and 4. Given that post-SAPs initiatives are not fundamentally different from SAPs, this Chapter would conclude that African debtors are not in a better position today compared to the 1980s and 1990s. Chapter 4 demonstrated that neoliberalism, as advocated by the IFIs, does not do enough to forge the developmental state. The next Chapter focuses on initial results for African debtors.

Chapter 6

Downplaying the African Debt Crisis and Taking Credit for Recent Developments

Sub-Saharan Africa's slowdown was short lived, thanks to the region's relative economic health before the global crisis and its sound policies when the crisis hit.

- International Monetary Fund (2010i)

The region's resilience through the global financial crisis owes much to sound economic policy implementation. Before the 2007–09 global shocks, most of the region's economies were in good shape: steady growth, low inflation, sustainable fiscal balances, rising foreign exchange reserves, and declining government debt. When the shocks hit, countries were able to use fiscal and monetary policies nimbly to dampen the adverse effects of the sudden shifts in world trade, prices, and financial flows.

- International Monetary Fund (2010j:1)

Have the global crises made us think differently about development?

- Hossain *et al* (2010:1)

28. Introduction

For three decades, the Bretton Woods Institutions (BWIs) assumed the role of Africa's *patres familias*. The idea that African debtors would take charge of their own development has been sidelined. Instead, the International Financial Institutions (IFIs) managed to hold on to the practice of conditionality and they continue to prescribe the same set of ineffective policies that are not much different from the Structural Adjustment Programmes (SAPs) of the 1980s and 1990s. How it is possible for the BWIs to prescribe the same set of policies that not too long ago have been discredited and vigorously opposed?

This Chapter will take stock of the debt situation in order to contextualise the initial impact of these supposed post-SAPs initiatives. It will be argued that the IFIs have been able to appease some of their critics (at least some of those focusing on the African debt crisis) by virtue of three factors: Firstly, debt relief has helped to silence many of the World Bank and International Monetary Fund's (IMF) former opponents. This is especially true for those that took a typical band-aid approach to the African debt crisis. Such an approach often neglects factors beyond the debt stock. Secondly, high growth rates in Africa gave the illusion that debtors are doing relatively well. The IFIs also try to take credit for high growth rates, which

they largely attribute to their own policy prescriptions. Thirdly, the Heavily Indebted Poor Countries (HIPC) and Poverty Reduction Strategy Paper (PRSP) initiatives gave the impression that more money would be spent on the poor. Yet, there is no compelling evidence that shows that the poor are much better off in 2011 compared to 1995. In this context, this Chapter will evaluate the current state of play regarding the African debt crisis. In other words, can we talk about a post-African debt crisis?

29. The Great Recession: Too Much to Gain, Too Much to Lose

Throughout the Great Recession, the BWIs orchestrated a huge public relations campaign by engaging CSOs under the banner of a “theme of change” (van Waeyenberge et al 2010:35). The key message was that African economies are in the process of recovering quicker than the rest of the world and that these countries were in a better position to deal with the Great Recession compared to preceding economic crises. The chief reason, according to the IFIs, is because of “the improved macroeconomic position of LICs at the advent of the crisis... [which] is then related to the adoption of IFIs’ policy prescriptions by the governments of these countries.” (van Waeyenberge *et al* 2010:35). The World Bank and IMF’s conclusions are however somewhat distorted.

Firstly, this analysis of recent IFI policy prescriptions has demonstrated that post-SAPs initiatives⁴⁴ are not fundamentally different from SAPs, which means that African debtor states continue to be vulnerable. The IFIs’ version of neoliberalism is not going to transform African debtors into developmental states. There are a number of other factors that contributed positively towards African economies that had nothing to do with the World Bank and IMF’s policies. The Great Recession was somewhat offset by debt relief and high economic growth in Africa, which can largely be attributed to soaring prices for primary commodities (Leo 2009:6; UNCTAD 2010:VII). Secondly, the nature of the Great Recession was financial which meant that it had less direct impacts on African economies compared to other parts of the world where financial markets were more integrated (van Waeyenberge et al 2010:35).

⁴⁴ Post-SAPs initiatives include a host of mechanisms that are used in combination to reinforce the World Bank and IMF’s neoliberal discourse (see previous Chapter).

Why did the IFIs engage in the public relations campaign? This analysis has shown that the IFIs have a history of trying to establish ‘regimes of truth’; it is in their interests to do so (see Chapter 2, 3 and 4). Amongst others, the BWIs claim to be crisologists and to possess superior knowledge of development processes and institutions. This knowledge is nonetheless biased as are the IFIs, which forms part of the social world. The particular type of knowledge that the IFIs espouse is neoliberalism, which came under tremendous scrutiny during the Great Recession from almost all parts of the globe.

In the midst of the Great Recession, the World Bank’s President, Robert Zoellick somewhat apologetically reiterated what many of his former colleagues have said (cited in Elliott 2010),

This is no longer about the Washington Consensus. One cannot have a consensus about political economy from one city applying to all. This is about experience regarding what is working.

Zoellick’s statement is interesting in that it reaffirms the position of critics (together with this research) that although there has been a lot of noise - well before the Great Recession – about a post-Washington Consensus, this is clearly not the case. One could also add that before and during the Great Recession the IMF and World Bank’s critics aimed to established alternatives to these institutions, including the Asian Monetary Fund, the Chiang Mai Initiative, the Bank of the South in Latin America, the Andean Reserve Fund, and the Bolivarian integration initiative (Halifax Initiative Coalition 2010:18,19). These responses, some of which materialised, reflect large scale discontent with regards to the BWIs.

The Great Recession has once again demonstrated that unfettered markets are dangerous. It also exposed the rhetoric of the neoliberalism preached by the IFIs and practiced by the developed world. Initially it looked like there was some form of “productive incoherence” with regards to how the IFIs dealt with the crisis (Grabel 2010:35). However, there is also evidence that those were only temporary measures (*see* Jubilee USA Network 2010; Kyrili & Martin 2010). More often than not, developing nations were told to cut back and continue to maintain its hands off position (Halifax Initiative Coalition 2010:21-31); while many of the most powerful nations attempted to spend their way out of the crisis - especially to protect “too big to fail institutions” (Stiglitz 2010:37) - and some even reverted to further protectionist measures (UN 2009:6).

The Great Recession, more importantly, brought discussion about the IFIs and their roles to the centre of the global agenda. A vote of no confidence would have meant that both institutions stood to lose from the crisis, while an affirmative yes would necessitate more powerful roles for both institutions (at the very least it would have sanctified the business as usual approach). In April 2009, the Group of Twenty (G20) aimed to raise a massive one trillion dollars for the IMF and World Bank in order to equip these institutions to respond to the crisis (AFP 2009), thereby also showing substantial confidence in the institutions. In fact, Jubilee USA Network (2010:2) points out that “[b]y 2014, the IMF’s concessional lending capacity to LICs will be ten times higher than it was before the crisis.” Things were going so well for the BWIs that World Bank and IMF officials felt that they deserved a substantial pay increase (above the rate of inflation) at a time when millions of people across the globe lost their jobs and moved into deeper poverty (Schneider 2010). The irony of advising governments to cut back on public expenditure and institute hiring freezes is also not lost.

Clearly, the stakes were very high for both BWIs as they stood much to lose (and to gain) from the Great Recession. They needed all the support they could get and the IFIs had to pacify its critics. It was imperative for the IFIs to demonstrate to the world that things had changed and that they were *the* champions on issues pertaining to development and economics. This therefore raises the question, how successful have World Bank and IMF sponsored programmes been in Africa over the past decade?

30. Evaluating the ‘Post-SAPs’ Era

In Chapter 2, it was argued that one should question how the ideational structure of the IFIs has influenced development in Africa. Chapters 3 and 4 demonstrated that SAPs were by and large unsuccessful in creating development in African debtor states. Furthermore, Chapter 5 compared the SAPs package with PRSPs and additional so-called post-SAPs initiatives. It was argued that SAPs and post-SAPs initiatives are not fundamentally different. This means that post-SAPs initiatives could have major negative impacts on African states that have adopted these programmes. In contrast, the IFI (as mention above), are adamant that many African economies have displayed ‘resilience’ during the Great Recession because of ‘sound economic policy implementation’ (sponsored by the BWIs) that preceded the crisis. However, following postmodernism and critical theory, Chapter 2 argued that one has to be cautious of objective claims, as there is a link between knowledge and power. The previous

section has also argued that the IFIs had a ‘guiding interest’ to demonstrate its relevance to the world. Consequently, the following sections will reveal that the supposed ‘objective’ criteria of debt indicators are only read as positive because of the specific meaning that the World Bank and IMF assigned to it. However, this calls for an alternative interpretation of the debt crisis. One way to measure the success or failure of the post-SAPs era is by questioning and reinterpreting the state of play regarding debt and development for Sub-Saharan Africa (SSA). As will be demonstrated below, the IFIs tend to downplay the African debt crisis and it overemphasises its own policy prescriptions in contributing towards high growth rates in the region.

30.1 The Significance of Debt Relief

What are the advantages of HIPC debt relief? Most obvious is the fact that the stock of debt and debt servicing has been considerably reduced. On average, debt service has been noticeably reduced from 27 per cent in 2000 to 12 per cent in 2008 when measured as percentage of exports (UN Office of the Special Advisor on Africa *et al* 2010:3). According to the World Bank (2010g:3), the debt stock for the 36 post-decision point HIPCs has been reduced since 1999 to 2009 from \$142 billion to \$21 billion. This is noteworthy in that debt relief could help countries to allocate capital to programmes that would benefit the poor. In Chapter 3 and 4 it was argued that a lot of money was spent under SAPs on debt servicing in relation to health care, education and other social spending programmes. HIPC II has therefore *theoretically* boosted social spending as a result of freeing up resources that would otherwise have gone to debt servicing. The PRSP is also central to this process as money is supposed to be channelled to the poor in accordance with this strategy.

A recent report by the United Nations Economic and Social Council (UNESCO) and the Economic Commission for Africa (ECA) found that total debt relief for 30 African countries that have reached decision point averaged 46.4 per cent of their 2009 GDP (UNESCO & ECA (2011:7). Indeed, debt cancellation under HIPC II had a positive effect on African debtors. An independent evaluation of HIPC II concluded that African countries that have reached the decision point (as opposed to completion point) witnessed momentous growth increases that averaged 2.9 per cent on an annual basis and a further poverty reduction average of 2.2 per cent per annum. Additionally, it noted that 100 per cent debt relief could have major positive effects on development, as economic growth could be boosted by up to 5

per cent annually while poverty reduction could be reduced by an average of 5.3 per cent per annum (Hussain & Gunter 2005:461). Similarly, the IMF (2011a) recently stated that, “[f]or the 36 countries receiving debt relief, debt service paid, on average, has declined by about two percentage points of GDP between 2001 and 2009. Their debt burden is expected to be reduced by about 80 percent after the full delivery of debt relief” under HIPC II and the MDRI. Subsequently, one could argue that debt relief is fairly significant in its growth effect and with regards to freeing up resources for development. These statistics are also more than enough to satisfy many of the World Bank and IMF’s band-aid critics. Nevertheless, the ultimate question is what will happen to these countries in the coming years? Many African countries are starting to enter the day after debt cancellation.

The BWIs have been accused of being overoptimistic regarding the African debt crisis. Historically speaking, HIPC II is not the first attempt at debt relief and one should therefore be cautious about its results. For example, Leo (2009:3) warns that;

In the two years immediately following MDRI (2006 and 2007), the World Bank, AfDB, and IMF disbursed \$7.8 billion in new loans to HIPCs – the very same countries that received debt relief during that same period. This compares to \$8.1 billion in new loans immediately preceding MDRI (2004-2005).

In Chapter 1, it was briefly mentioned that debt can escalate very quickly, as it did from 1980 onwards. In this context it is therefore noteworthy that in 2010 the ratio of debt to GDP (which is 21.86 per cent) after large scale debt cancellation does not look much better than what it did in 1980 (24.97 per cent), which is around the time when the African debt crisis spiralled out of control (*see* Table 26). Similarly, the ratio of debt to export of goods and services is only slightly better in 2010 (64.95 per cent) compared to 1980 (78.01 per cent). Chapter 3 also focused on the importance of exogenous factors that initially had major impacts on the African debt crisis. Thus, although one could argue that many SSA countries are less susceptible to the debt crisis (compared to the 1980s) in the sense that some benefitted from concessional loans at lower interest rates, there remains a big question mark regarding the structure of the average African debtor state’s economy. The World Bank itself has admonished that in recent years African states have become more exposed to shocks emanating from the external environment rather than internal conditions (IBRD 2010:51). Yet, the IFIs continue to avoid their own responsibility for contributing to the African debt crisis. In the previous Chapter it was argued that they persist with the same neoliberal policies

that are akin to the SAPs of the 1980s and 1990s. They also imposed a host of conditionalities on the debt relief process itself, thereby avoiding accountability, as will be explained below.

Table 26: SSA's Debt Burden: 1980-2010

Year	Debt indicators		
	External debt (total) In US\$ billion	Ratio of debt to GDP (per cent)	Ratio of debt to export of goods and services (per cent)
1980	66.496	24.971	78.012
1990	167.365	57.893	212.337
2000	209.280	65.049	183.771
2010	223.835	21.861	64.954

Adapted from Table 7 in Chapter 1

By the same token, many exogenous factors that have positively contributed towards African debtors' economic achievements – measured solely in terms of economic growth - over the past decade have been somewhat downplayed. One cannot therefore attribute recent economic successes almost entirely to World Bank and IMF endorsed policies, as a recent IMF Working Paper tries to do (Salinas *et al* 2010:3). African countries experienced real GDP growth rates averaging 5.05 from 2000 to 2010 (Africa Economic Outlook 2011a). Many of these were African HIPC and PRSP countries, recording impressive high growth rates during the 2000s (see Table 27). Yet, one has to contextualise these developments. Why did these HIPC economies do relatively well?

Table 27: GDP Growth Rates from 2000 to 2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Non-HIPC II Countries											
Botswana	5.9	3.6	8.8	6.3	6.0	1.6	5.1	4.4	2.9	-4.0	3.4
South Africa	4.2	2.7	3.7	2.9	4.6	5.3	5.6	5.5	3.7	-1.8	2.4
HIPC II Countries											
Ghana	3.7	4.2	4.5	5.2	5.6	5.9	6.4	6.3	7.0	4.7	6.4
Tanzania	4.9	6.0	7.2	6.9	7.6	7.4	6.9	6.8	7.5	5.5	5.7
Uganda	2.3	8.8	7.1	6.2	5.8	10.0	7.0	8.1	9.2	7.0	7.4
Zambia	3.6	4.9	3.3	5.1	5.4	5.3	6.2	6.2	5.7	6.1	5.8
Africa	3.7	4.3	5.7	5.2	5.6	5.9	6.2	6.4	5.6	2.5	4.5

Africa Economic Outlook (2011a)

Firstly, as argued above, debt cancellation itself had a major growth effect (some would argue up to 5 per cent). Given that the bulk of debt relief under HIPC II has already been delivered and many African countries acquired new debts in the midst of the Great Recession, this growth effect could become somewhat diminished over the next few years. Related to debt

relief, in July 2009 the IFIs provided “interest relief” for many LICs that were hit hard by the Great Recession (Jubilee US Network 2010:6). This will however only last for two years and will therefore come to an end for many LICs in 2011. Servicing new debts could impede negatively on these African economies.

Secondly, many African countries emerged from almost two decades or more of extremely low growth (which was sometimes even negative) and their starting points have been comparatively low as most of these economies are relatively small. A small positive economic factor (for example, the discovery of new resources, debt relief, or a commodity boom) could have large impacts on the economy. For example, many African countries experienced very favourable prices for their principle export commodities in recent years (Africa Economic Outlook 2011b). One study of 40 African commodities concluded that only cotton did not experience favourable terms of trade during the commodity boom (Page 2008:11). For example, oil reached an all time high during this period. In 2008 it was \$145 per barrel compared to \$20 in 2002. Some of the largest African oil exporters includes Nigeria, Algeria, Libya, Angola, Egypt, Sudan, Equatorial Guinea, Chad, Congo (Brazzaville) and Gabon. In addition, there are new oil discoveries in countries such as Ethiopia, Sierra Leone, Uganda and Ghana, which will soon stand to benefit from oil exports. Oil importing countries were also able to offset their losses due to a commodity boom of their own exports, including cocoa, gold, aluminium, copper, nickel, and so forth, which experienced very favourable terms of trade.

A third externality (which relates to the commodity boom) that contributed positively to Africa’s growth is China’s high demand – spurred on by growth in its infrastructure and manufacturing sectors – for the region’s natural resources (Farooki 2009). Thus, China’s business with Africa helped to offset a decline in Western demands for the region’s goods (which dipped during the global recession). The risk of depending on China’s hunger for commodities is twofold: some experts suggest that China’s growth will slow down over the next few years (from double digit growth to 7 per cent) which could also cause the price of some commodities to collapse in the process (Akyüz 2011:5).

30.2 Contextualising Improvements

Many African countries experienced high economic growth rates, despite and not because of policies imposed on them by the IFIs. Whether these growth rates will be sustained over the next few decades is also another question. On the whole, African economies have still not truly diversified their primary exports. Thus, growth has not been accompanied by transformation of these economies. It is noteworthy that in 2008 a mere 25 goods accounted for 75 per cent of Africa's exports. Petroleum oils and oils obtained from bituminous minerals account for 51, 6 per cent of the continent's exports (Africa Economic Outlook 2011c). Thus, if the market swings the wrong way, many of these countries could be hit hard. Furthermore, as pointed out by UNESCO & ECA (2011:3), "[m]ost FDI flows to Africa remains largely concentrated in the extractive industries." Thus, FDI is still not linked to other sectors of the economy while Greenfield investment remains scarce (see also next section).

For growth to have a considerable impact it has to be persistent over prolonged periods and governments have to specifically develop strategies that are geared towards the developmental project. That is exactly what UN Secretary General, Ban Ki-moon, meant when he said; "[w]e have learned that while economic growth is very important, what ultimately matters is using national income to give all people a chance at a longer, healthier and more productive life" (AllAfrica.com 2010). Furthermore, although growth rates were steady throughout most of the 2000s (averaging 5.05 per cent), some analysts – including Joseph Stiglitz – argue that it is still lower than the 7 per cent required to meet many of its MDGs (Seria 2011).

Thus, although economic growth has been noteworthy for many African countries over the past decade, its significance is relative. As mentioned in Chapter 1, approximately 12 per cent of the world's population comes from SSA, while the region's share of the Gross World Product is *only* 1.5 per cent. The continent is still host to the poorest countries in the world; 35 of the bottom 42 states that are classified by the *Human Development Index* as places experiencing 'low human development' are located in Africa (*see* Chapter 1). Thus, most SSA countries require even higher growth rates to catch-up with the rest of the world. Take for example the same group of HIPC II countries that displayed good growth rates in the 2000s compared to non-HIPC countries. Table 28 shows that these countries still lag far

behind non-HIPC countries in terms of GDP per capita. Ghana, the IMF and World Bank's star pupil for many years, has a lower GDP per capita today compared to 1980, while the same indicator for Tanzania, Uganda and Zambia continues to be remarkably low.

Table 28: GDP per capita, current price (US Dollar)

Country	1980	2000	2002	2004	2006	2008	2010
Non-HIPC Countries							
Botswana	1,295.295	3,440.893	3,639.908	5,860.702	6,473.253	7,550.951	6,795.931
South Africa	2,764.137	2,986.447	2,445.215	4,722.815	5,511.062	5,684.680	7,100.809
HIPC Countries							
Ghana	1,411.714	270.627	318.413	436.040	594.510	732.164	761.978
Tanzania	336.694	303.148	306.977	349.477	375.163	519.645	542.555
Uganda	364.481	253.586	238.706	285.417	335.786	456.152	503.890
Zambia	694.751	322.485	354.140	499.669	946.502	1,251.995	1,286.130

IMF 2010k

Moreover, despite all the hype about the benefits of the HIPC II initiative and the PRSPs, the results have been disappointing. It was said by the IFIs that more money would be spent on the poor, especially in the social sector. According to the IMF (2011a);

Before the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health and education combined. Now, they have increased markedly their expenditures on health, education, and other social services.

Such a statement is nonetheless misleading. One would assume that a lot of money would be channelled into these social sectors given that these are the world's poorest countries. One would suppose that their expenditure would be drastically increased proportionally and in terms of monetary values. Maybe the IFIs should have been clear that social sector budgets will most likely only increase compared to the low (insignificant) budgets of the 1980s and 1990s. This may be the reason why the IFIs decided to opt for the less ambitious goal of poverty *reduction* rather than poverty *eradication*.

How did the IFI star pupils⁴⁵ (not those viewed as the basket cases) perform? In terms of health budgets as percentage of GDP (see Table 29), South Africa and Botswana's budgets

⁴⁵ These countries have been selected based on a number of criteria. Firstly, many of these states have been discussed and used as examples in the previous Chapters. Secondly, these HIPC countries have all had relatively long-standing relationships with the BWIs. Thus, the IFIs have had considerable impacts on their economies, given the debtor-creditor relationship. Thirdly, the HIPC countries have been hailed as the BWIs' star students. Thus, they are not considered to be the basket case examples of the SAP-HIPC programmes, but rather the best representatives thereof. Fourthly, South Africa and Botswana are both examples of non-SAPs and non-HIPC African states, which will allow one to compare and contrast these states with those that have adopted SAPs and HIPC programmes. One could compare and contrast the performance of SAPs-HIPC

(8.6 and 5.7) are higher than the average HIPC country (which averaged 5.3). Botswana's budget is slightly smaller in terms of percentage than traditional World Bank and IMF star pupils (not all HIPC countries) but it remains notably larger per capita. Health expenditure in Botswana was \$372 per capita in 2007 but only \$57 in Zambia. With regards to under five mortality rates and physicians per 1000 people, Botswana and South Africa outperforms the HIPC II countries. The only health indicator where non-HIPC countries perform better than South Africa and Botswana relates to HIV/AIDS prevalence, and there are multiple reasons for this, which is beyond the scope of this analysis.

Table 29: Health Indicators

	Health Expenditure Per Capita (US \$) for 2007	Health Expenditure, total (% of GDP) for 2007	Mortality Rate, Under 5 (per 1000) for 2009	Physicians per 1000 people (latest estimate)	Prevalence of HIV, Total (% of population ages 15 to 49)
Botswana	372.043	5.7	57	0.400 (2004)	23.9
South Africa	497.119	8.6	62	0.770 (2004)	18.1
Ghana	54.139	8.3	69	0.110 (2009)	1.9
Tanzania	21.706	5.3	108	0.008 (2009)	6.2
Uganda	27.770	6.3	128	0.117 (2005)	5.4
Zambia	57.097	6.2	141	0.055 (2006)	15.2
HIPC	29.277	5.3	134	0.142 (2004)	3.2
SSA	69.272	6.3	130	0.191 (2008)	5.0

World Bank 2010h

Table 30: Education Indicators

	Highest Expenditure per student, primary (% of GDP) from 2005 to 2010	Highest Expenditure per student, secondary (% of GDP) from 2005 to 2009	Pupil-Teacher Ratio, Primary School	Pupil-Teacher Ratio, Secondary School
Non-HIPC Countries				
Botswana	16.14 (2005)	41.17 (2005)	25.393 (2006)	14.0 (2006)
South Africa	15.57 (2006)	17.61 (2005)	30.980 (2007)	29.0 (2008)
HIPC Countries				
Ghana	17.92 (2006)	34.14 (2005)	32.240 (2008)	17.4 (2008)
Tanzania	22.90 (2007)	-	52.237 (2008)	-
Uganda	8.48 (2007)	27.05 (2008)	49.926 (2008)	18.83 (2008)
Zambia	5.51 (2005)	5.76 (2005)	60.519 (2008)	22.17 (2008)
HIPC	-	-	47.530 (2008)	
SSA	-	-	44.945 (2007)	25.3

World Bank 2010h

countries with Asian Tigers in order to show even more significant differences between developmental and non-developmental approaches, but it was decided to keep the examples for this Chapter confined to Africa.

South Africa and Botswana also continues to outperform HIPC II countries in terms of spending in the education sector. According to Table 30, HIPC II countries have insignificant education budgets. Chapter 4 noted that education expenditure in many African countries in the immediate period following independence was as high as 20 per cent. In terms of primary education, only Tanzania can compete with that figure today (see Table 30). Despite this, actual spending is what really matters. The World Bank did not have group statistics on this indicator, but based on the notably higher GDP per capita figures in Table 28 for South Africa (\$7,101) and Botswana (\$6,796) compared to Ghana (\$762), Tanzania (\$543), Uganda (\$504) and Zambia (\$1,286), one can safely assume that the non-HIPC countries are better performers with regards to expenditure per students in primary education. The same is also likely to hold true for South Africa and Botswana with regards to expenditure per student in secondary education. It should be pointed out that South Africa still lags behind with regards to teacher-pupil ratios, which inevitably affects the quality of education. However, to be fair, the majority of South Africans only gained true independence in 1994, which is relatively recent compared to Ghana (1957), Uganda (1962), Tanzania (1964), Zambia (1964), and Botswana (1966).

The above figures are indeed shocking, as they provide an indication for the pre-crisis level of spending. According to UNESCO (2010b:1), SSA faced a shortfall of \$4.6 billion annually in 2009 and 2010, or the equivalent of a 10 per cent spending cut per primary-school pupil. Thus, following the Great Recession, there is a strong likelihood that there will be a “lost generation of children in the world’s poorest countries” (UNESCO 2010b:3).

These spending issues are noteworthy in as much as they reflect statistics of the best World Bank and IMF performers, not the worst ones. It is therefore troubling that spending on key social sectors is still largely insignificant. What about spending in other sectors? Kalinda’s (2008) study on Tanzania, Uganda and Zambia’s PRSPs notes that even when governments have spent more in education and health sectors, other areas that have been pointed out by the PRS as critical for poverty reduction – such as the agriculture sector – remains neglected.

Similarly, one IFI study of 13 HIPC debtors found that 65 per cent of resources that were released via the HIPC II initiative was spent on social services while only 7 per cent was allocated to infrastructure development (Killick 2004:8). Chapter 4 has demonstrated how imperative it is to also boost infrastructure related to water, transport and telecommunication.

These are basic ingredients for development which most African countries continue to lack. Contrary to spending on these important sectors, the IMF and World Bank have told LDCs to save money. An IEO study on 29 IMF loan agreements with SSA countries between 1999 and 2005 found that on average “\$7 out of every \$10 in new aid was channelled into currency reserve accounts and or used for debt repayment” (Jubilee USA Network 2010:5). Although it is important to balance the books and save for a rainy day, countries also need to invest in the future. The belt-tightening policies probably helped to shield a few countries from the Great Recession, but it has done nothing to make them more competitive in the long-run.

This section has demonstrated that it is misleading to argue (like the IMF) that HIPC countries have ‘increased markedly their expenditure on health, education, and other social services.’ What do the IFIs base these figures on? Are they talking about percentages or actual spending? Are they claiming that these countries are spending more in 2011 compared to the colonial era? Or are they referring to increases of budgets compared to the SAPs era when social services collapsed?

30.3 Is Africa Coping with the Crises?

The previous Chapter noted that it is extremely difficult to obtain quality data on poverty. This is despite the fact that PRSPs are intended to focus on poverty reduction and explicitly aims to be results-orientated. Nonetheless, according to the World Bank (IBRD 2010:15), “[w]ith the pre-crisis surge of growth in [SSA], the proportion of Africans living on less than \$1.25 a day fell from 58 percent in 1990 to 51 percent in 2005, but the absolute number of poor people rose from 296 million to 388 million.” Thus, to put it crudely, even though there was a drop in percentage of the poor, it is highly likely that there are numerically more hungry people out there. This statistic is nonetheless outdated, as it reflects poverty data prior to a series of recent crises. It excludes those who were pushed into deeper poverty during the food crisis (2006 to 2008), oil crisis (2007 to 2008), and economic crisis (2007 onwards). Some organisations, like the International Fund for Agriculture Development (IFAD 2010:30), would argue that there were signs of another food crisis looming in mid-2010.

Currently, there seems to be no update on African poverty statistics. The IMF initially estimated that the Great Recession would push another 10 million Africans below the US

1.25 per day poverty line in 2009 and 2010 (Arieff *et al* 2010:21). IFAD (2010:30) argues that the economic “crisis would leave an additional 20 million people living in extreme poverty.” The point is that the downturns at the end of the 2000s had negative impacts on African debtor states and their populations. Even if one would argue that the 7 per cent decrease in poverty in Africa between 1990 and 2005 is momentous, one cannot help but to remain pessimistic about the slow progress. As argued by Arieff *et al* (2010:21), many Africans hover above the poverty line and a small negative impact on incomes could drive many more into poverty. For example, 60 per cent of SSA’s rural population live on less than \$1.25 a day, but approximately 90 per cent live on less than \$2 per day (IFAD 2010:47). It is thus likely that a large group of people joined the ranks of the poor in SSA after the series of crises.

Table 31: Africa’s Trade in Merchandise and Commercial Services (Annual Percentage Change)

Year	Exports			Imports		
	2007	2008	2009	2007	2008	2009
Merchandise Trade	17	28	-31	23	28	-15
Commercial Services Trade	18	16	-9	27	27	-16

UNESCO & ECA (2011:5)

Some African states experienced huge downturns in trade and investment, affecting millions of people and wiping out a lot of the gains that were made in the 2000s. As was the case during the SAPs era, although FDI is important, it remains focused on extractive industries in SSA. Nonetheless, net FDI declined from \$72 billion in 2008 to \$58 billion in 2009, thereby contracting 18.9 per cent (UNESCO & ECA 2011:3). Africa’s trade structure also remains weak for two main reasons. Firstly, African economies are still largely undiversified and their goods are subject to high price volatility (see previous sections). Secondly, Africa’s exports are highly concentrated. Approximately 70 per cent of the African trade takes place with the US, EU and China (Arieff *et al* 2010:8). Thus, any contraction in those economies also affects SSA. Africa’s trade performance took significant blows during the Great Recession (*see* Table 31). The aftershocks of the Great Recession could also result in additional protectionist measures in these countries, leading to further declines in SSA trade. Moreover, several experts suggest that the likelihood of another economic crisis is real rather than being a mere risk. Khor (2011:2) warns of a “double-dip recession”, Soludo (2011:10) argues that the developing world should “prepare for the next crisis”, while Akyüz (2011:6)

warns that “It is increasingly recognised that the world economy is unlikely to make a smooth transition to a stable, sustained and broad-based growth – hence the repeated talk of the ‘next crisis’.”

According to UNESCO & ECA (2011:5,6), official development aid (ODA) to the region is still fairly uncertain. Global commitments in 2009 amounted to only 0.31 per cent of donor gross national income (GNI), which is below the UN’s recommended threshold of 0.7 per cent. Moreover, the report argues that “the continent is expected to receive only about \$45 billion [in 2010] leaving a gap relative to the Gleneagles commitments” (UNESCO & ECA 2011:5,6). Several traditional donors – including Italy, France and Iceland - almost immediately cut their aid budgets at the first signs of the Great Recession in order to finance their own fiscal deficits. Furthermore, it is possible that ODA’s effects might only be felt from 2011 onwards, as development commitments often run over two to four years. For some countries, a reduction of ODA is inevitable, as aid is tied to their countries’ GDPs. Thus, if the GDP shrinks, ODA declines with it. One could add that developed countries are under tremendous pressure from their own populations, who are first and foremost concerned with their national interests. Thus, the way they see it, balancing the books in their own countries is more important than ODA for poor Africans (Arieff *et al* 2010:14). In addition, several developed countries – including Japan and Australia – experienced huge natural disasters over the past few months. A number of countries in the Middle East and North Africa are also in the process of going through the fourth wave of democracy. Thus, one has to wait and see what the impacts of these developments would be on SSA’s ODA.

Remittances, often considered to be more stable than ODA, also took a huge knock. According to some analysts it declined by 4.4 per cent in 2009. This is considerable given that remittances constitute 3.7 per cent of the average African country’s GDP (Arief *et al* 2010:14,15). Remittances in 2010 declined even further, from \$38 billion in 2009 to 21.5 billion in 2010 (UNESCO & ECA 2011:4).

Many African debtors that have already benefitted from debt relief under HIPC II are showing signs of a “huge budget revenue hole” following the Great Recession, amounting to \$65 billion for LICs in 2008 and 2009 (Kyrili & Martin 2010:1,2). The result has been that these LICs, many of them African, had to finance this budget gap by cutting on MDG spending, delving into savings, borrowing from domestic markets that are more expensive

than IFI concessional loans, and increasing taxes, all of which had (and will continue to have) major impacts on the poor. This is unsettling, as it would mitigate, if not eliminate, many of the positive spinoffs from debt relief under HIPC II. For example, it is estimated by Kyrili & Martin (2010:26) that for LICs; “[the average] use of domestic borrowing rose by 1.7 per cent of GDP in 2009 and 0.5 per cent in 2010 ... this far exceeded external loans and even exceeded grants in 2008, and in 2009 far exceeded grants and almost matched external loans.” In effect, money that should be allocated to development programmes will soon be spent on servicing debt.

Ghana, a country which has endured several decades of IFI conditions and ‘benefitted’ from debt relief under HIPC, made three World Bank loans in 2009 alone because it fell short of almost \$3,500 million in 2008, or roughly the equivalent of 20 per cent of its GDP (Honkaniemi 2010b:2). In order to make sure that Ghana balances its books, the World Bank forced the country to privatise more SOEs and cut back on public spending, including public wage freezes and electricity subsidies. Following in the footsteps of the World Bank and IMF, China also wanted a piece of the cake and two of its state banks – China Development Bank and the China Exim Bank – signed a \$13 billion loan deal with Ghana (Reuters 2010). In some instances, the developed world stepped in to fill the gap. Three of the BWIs’ star pupils – Ghana, Tanzania and Zambia – together with Liberia received \$255.6 million in assistance from the US Congress in 2009 (Arieff *et al* 2010:14). It is therefore difficult to comprehend what the IFIs are talking about when they refer to the “resilience” (*see* IMF 2010j) of African economies.

One can thus cautiously acknowledge that HIPC II has made progress in reducing the short-term *external* multilateral debt burden for African countries. However, so-called post-SAPs initiatives and debt relief has not made the African debtor less vulnerable to the economic crisis. As with the exogenous crises of the late 1970s and 1980s, many African countries incurred debt, but this time it was largely shifted internally. Furthermore, over the past decade, the Chinese have also made some inroads into African economies (*see* Bräutigam 2010). It is worth pointing out that in 2009 and 2010, China Development Bank and China Export-Import Bank negotiated loans worth \$110 billion with companies and governments in the developing world. This is more than World Bank’s loans of \$100.3 billion from mid-2008 to mid-2010, which is also said to be a new record in terms of its lending (Dyer & Anderlini 2011). Although these figures only reflect that of the International Bank of

Reconstruction and Development and the International Financial Cooperation (IFC), as opposed to the International Development Association, it gives an indication of China's willingness to step in to fill the void. Due to the secretive nature of Chinese development cooperation it is unclear exactly how much Chinese debt African governments have accumulated over the past decade. Nonetheless, to argue, as the IFIs have, that African countries are in a stronger macroeconomic positions today compared to three decades ago, has to be carefully qualified. As argued earlier, one also need to look beyond the World Bank and IMF's interpretation of Africa's debt values (as it is expressed in numerical and percentage terms) in assessing the debtor-creditor relationship.

31. Unpacking the Good Governance Agenda

One would expect that conditionality would decrease over time, especially as it relates to the Washington Consensus. This is not because the IFIs have had a change of heart. Rather, it would be because many of the World Bank and IMF's reform demands (including ones that are almost irreversible) have already been implemented by African debtor states – the state and its assets have been stripped for the past three decades. Unlike the developed world which was able to pick the winners or fashion new industries, African countries will soon not have that opportunity. Barriers, which could have protected local industries while encouraging innovation, are also in the process of evaporating. Yet, conditionality increased in many ways, instead of decreasing. One reason is because of the proliferation of good governance conditionalities. The previous Chapter also mentioned that the Country Policy and Institutions Assessment (CPIA), Poverty Reduction Support Credit (PRSC), Poverty Reduction and Growth Facility (PRGF), and the PRSP initiatives all have good governance conditionalities attached to it (*see* Eurodad 2006, World Bank 2009c, World Bank 2011f).⁴⁶ Thus, this is largely a continuation of the good governance agenda that was introduced by the IFIs in the 1990s (*see* Chapter 3). The IFIs are still adamant to create a minimalist and noninterventionist state while promoting a larger role for the market. However, its good governance agenda has become a lot more sophisticated. The post-SAPs years can therefore be defined, not by a change in macroeconomic policy (as was argued in the previous Chapter), but by an increase in good governance conditionalities.

⁴⁶ The PRSP *Sourcebook* has a whole chapter dedicated to good governance (*see* World Bank 2011f).

The abundance of good governance demands makes it confusing and unrealistic to implement. As argued by Grindle (2004:526);

there is little guidance about what's essential and what's not, what should come first and what should follow, what can be achieved in the short-term and what can only be achieved over the long-term, what is feasible and what not.

To Grindle's argument could be added that there is a lack of justification as to what the causal relationship is between these supposed good governance indicators and poverty reduction and development. Some of the governance reforms are undeniably indispensable, but even these will have to be justified within a specific context, not assumed.

The proliferation of good governance conditionalities therefore generally adds to debtors' burdens in several ways. Most problematic is the fact that debt relief could be suspended (or aid could be withheld) should debtors fail to implement good governance reforms. Chapter 3 briefly dealt with good governance as it was introduced during the tail end of the SAPs. It was argued that when it became clear that SAPs had negative impacts on African debtors, the IFIs blamed it on non-implementation of SAPs and bad governance. The 2000s have seen the good governance agenda taken to new extremes by the IFIs. This is very convenient, as failure of current macroeconomic policies (which are not markedly different from SAPs) could (again) be blamed on non-implementation of good governance reforms. Viewed in this way, one could argue that good governance conditionalities could actually lead to more harm than good.

The state, according to the IFIs' idea of good governance, should be lean, neutral and accountable (see Chapter 3). Certainly not all good governance conditionalities are problematic, but many of the reforms that are classified under its umbrella are similar to neoliberal policy prescriptions, thereby indirectly demanding macroeconomic changes. It therefore becomes difficult to distinguish between good governance and neoliberal economic policies. "This particularly concerns budget management policies, taxation policies, and the Bank's anti-corruption agenda which supports private enterprise, privatisation and public-private partnerships" (Wood 2005:23).

Consistent with the 1980s and 1990s, there is a persistent discourse found within both BWIs that the private sector is inherently good. The strategic focus for BWIs is therefore the public

sector's relationship with the private sector, but not the other way around. For example, one of the CPIA components classified as a good governance indicator is *Property Rights and Rule Based Governance* (World Bank 2009c:3). This places the responsibility on governments to act appropriately, while the private sector is allowed to act freely.

The implication is that it makes it almost impossible for governments to renegotiate its relationship with the private sector, even when certain elements within it behave like thugs. A strong emphasis on private property guarantees the irreversibility of past structural adjustments, thereby consenting to the current (imbalanced) status quo. If debtors hypothetically tried to work outside agreements with the BWIs or private sector, it would be considered bad faith on the part of the debtor state, thereby risking current and future development cooperation and foreign investments. Of course there are not many states in today's world that would follow the Zimbabwean example of expropriation (that would be foolish), but why is there no attention paid to corporate governance or governance that relates to international capital? The IFI approach to governance assumes that (bad) government should be constrained and the private sector is inherently good, which is not always the case. Consider the Zambian example below.

Under the auspices of the IFIs, Zambia had to privatise 137 SOEs from 1992 to 2001 and continued with this process throughout the 2000s (Situmbeko & Zulu 2004:25). In 1999, the IFIs withheld \$530 million because the Zambian government attempted to hold on to the Zambia Consolidated Copper Mines (ZCCM). Furthermore, according to the then Minister of Finance (ACTSA *et al* 2007:6);

We were told by ... [the BWIs] that not in my lifetime would the price of copper change. They put production models on the table and told us that there was no copper in Nchanga mine, Mufulira was supposed to have five years' life left and all the production models that could be employed were showing that, for the next 20 years, Zambian copper would not make a profit. [Conversely], if we privatised we would be able to access debt relief, and this was a huge carrot in front of us – like waving medicine in front of a dying woman. We had no option [but to go ahead].

This was followed by the commercialisation of ZCCM. Subsequently, a number of MNCs have stepped in to fill the vacuum and several multi-billion investments have been made in Zambia's copper mines (Walters 2010). Despite the price of copper that has skyrocketed in recent years, Zambians are being squeezed dry. ACTSA *et al* (2007) published a damning

report which documented how one of the new private investors, Konkola Copper Mines (KCM), exploits Zambia's vulnerability. For example, KCM made more net profit in 2006 than the entire government expenditure on national health and social protection combined. Yet, KCM only paid 4 per cent in revenue to the Zambian government. KCM also repeatedly avoided paying taxes, which is largely a result of IFI sponsored tax concessions for mining companies. Compare this with Botswana, where the largest company pays almost 70 per cent of its revenue to the government (ACTSA 2007:6). The example also demonstrates another point. While some of the IFIs' star pupils (like Zambia) were able to temporarily balance their books (via privatisation) in advance of the Great Recession, they were also stripped of their national treasures.

Similarly, in the middle of the Great Recession, completely aware that Ghana needed extra finance and that the country was on the brink of opening its oil taps, the World Bank's IFC facilitated the entry of a multinational company with links to a Cayman Island company (Honkaniemi 2010b:3). Critics are therefore rightly concerned that Ghana's new oil profits will be going to big accounts in tax havens instead of going into the construction of a developmental state. The IFIs have consistently proven that it will put investors' interest above that of African debtors (*see* Bretton Woods Project 2010d Bretton Woods Project 2010e).

If there is one lesson to be learned from the Great Recession it is this: the private sector is not unquestionably good and therefore it needs to be regulated. At the end of the day, their primary goal (as argued in Chapter 4), is to make a profit. As pointed out by Stiglitz (2010:1); "[t]he only surprise about the Economic Crisis of 2008 was that it came as a surprise to so many. For a few observers, it was a textbook case that was not only predictable but also predicted." The greedy bankers who contributed tremendously to the Great Recession did exactly what they were supposed to do – they set out to make a huge profit. Big businesses will act no different in poor countries. They will continue to unconditionally exploit SSA's resources if they are given the scope to do so. Earlier it was seen that FDI is still highly concentrated in the extractive industry. Thus, we could ask, where will many countries be in 40 years from now if better deals are not negotiated with the private sector and if some of today's profits are not reinvested into other sectors of the economy?

There is also ample evidence to suggest that the practice of good governance has resulted from many years of economic development instead of being its ultimate cause (Grindle 2004:531). A government and its institutions are more often than not a reflection of its population. Thus, good governance will most likely follow development, rather than the other way. A highly educated population with a well developed economy will demand good governance. However, an IFI good governance agenda induced from the outside, combined with a hollowed out state and a weak economy is a disaster. What would that entail in the long-run? As mentioned in Chapter 3, the democratisation process that was also emulated in many African countries over the past two decades is in danger of being lost. Historically, development followed democracy, and only very rarely the other way around. When the IFIs talked about participation under PRSPs, it created scores of expectations. In Chapter 4 it was argued that the negative *impacts* of SAPs by and large resulted in the democratisation process in many African countries. However, under the PRSP initiative, civil society's participation in development debates has created hope that their views will be represented and reflected at a national level, just like what one could expect also from voting in a democracy. If these expectations are not fulfilled (which is currently the case) it could generate a lot of resentment, once again leading to political instability ranging from large scale demonstrations to violent coup d'états. Worse still, the idea of democracy will become hated and lost because this type of participation that Africans are currently exposed to is not very encouraging

32. Avoiding Odious Debt, Illegitimate Debt and Other Losers

Debt hangs around poor countries' necks like a noose. Much of this money was lent during the Cold War to prop up gangsters and criminals

- Mike Moore (cited in Hanlon 2006:212)

Debt relief under HIPC was not what those who campaigned for the cancelation of odious debt had in mind, unless they took a band-aid approach to the issue. The primary reason is that debt relief under HIPC I and II came with many strings attached. It thus avoided the hard questions regarding responsibility of the IFIs in contributing towards the debt crisis. Culpability is therefore placed entirely on the shoulders of the lender (or more specifically the generations after the irresponsible borrower is long gone), not on the creditor.

Aside from taking control of the debtor's economy, the creditors set the terms of the debt cancelation. HIPC II requires debtors to have unsustainable debt before it can be considered

for debt relief (*see* previous Chapter). It is in this context that debt cancellation under HIPC II could have been a lot deeper. Out of five of SSA's largest economies – which includes South Africa, Nigeria, Angola, Ethiopia, and Kenya – only one (Ethiopia) benefitted from debt relief under HIPC II.⁴⁷ This is largely due to the limited definition of HIPC II with regards to debt sustainability. Nonetheless, this is significant as these countries account for two-thirds of the region's output and almost half of its population (IMF 2010:8). In Chapter 3 it was argued that large amounts of debt was incurred by dictators of these countries, including \$30 billion in Nigeria (under Buhari and Abacha), \$22 billion in South Africa (under Apartheid), and \$5.8 billion in Kenya (under Moi). That the HIPC II debt cancellation overlooked these countries was a big mistake, as there is a strong case for odious debt to be made in most of these cases.

HIPC II therefore overlooked many of the international community's worst cases of irresponsible lending practices. As argued by Hanlon (2006:219);

There is a clear case of moral hazard here. When Nelson Mandela walked out of prison in South Africa in 1990, the international banks handed him a bill [of \$22 billion] – effectively demanding that he pay the cost of keeping himself in jail. If the banks can demand that a prisoner and victim pay the cost of a crime against humanity, then it means there are no limits on lending.

As pointed out in previous Chapters, South Africa cannot be considered to be a traditional SAP case. However, the merits of the debt being odious still hold (Christian Aid 2007:15-24). Furthermore, due to the size of the South Africa's economy, its growth and stability enhances that of the region. In 1995, shortly before HIPC I came into being, 21.4 per cent of South Africans were still living on less than \$1 (purchasing power parity) per day and the country as a whole experienced large-scale unemployment (UNDP 2011).

Some might also point out, as the previous Chapter did, that although Nigeria did not benefit from HIPC debt cancellation, the Paris Club forgave some of the country's debt. As mentioned in Chapter 5, Nigeria had to adopt the IMF's Policy Support Instrument before the Paris Club would write off some of its debt. It was therefore also subjected to a series of conditions. What was not mentioned is the fact that the country had to also pay off a large share of its debt. One estimate has it that by 2004, Nigeria already paid back \$17 billion of its original loan of \$18 billion. However, interests on these loans were very high and

⁴⁷ Nigeria was initially included in HIPC I but not in HIPC II.

continued to accumulate over the years. By 2005, Nigeria threatened to stop all payments to its creditors. The Paris Club responded by offering the country a deal; it would cancel 60 per cent of Nigeria's bilateral debt (\$18 billion) if Nigeria paid the outstanding 40 per cent (or \$12 billion) within six months. Nigeria accepted it and paid \$12 billion to its creditors, money that was originally set aside for poverty reduction. It is worth pointing out the Nigeria has a large population – 131.5 million in 2005 – and 70 per cent of the population lives on less than \$1 per day. The payback was therefore one of the greatest scandals in creditor-debtor history (Jubilee Debt Campaign 2007).

Angola is also in a very precarious position regarding its debt situation. Like many of the other countries, it acquired a lot of debt during the Cold War era. However, what makes its debt different is that Angola owes most of it to former members of the Soviet Union. Furthermore, Angola is considered to be a lower middle-income country by the IFIs and it did not qualify for HIPC or the MDRI. This is despite the fact that many Angolans live in hardship. In 2005, only 67.4 per cent of the country's 18 million people could read and write, the average life expectancy was 41.5 years, total health spending was only 1.5 per cent of the country's GDP while the total debt service payments amounted to 6.8 per cent of the GDP (Jubilee Debt Campaign 2008).

Kenya's debt should also have been scrapped completely and unconditionally. In Chapter 4 it was argued that the country had a long drawn out history with the BWIs and its experience with SAPs-like conditionalities dates back to the early 1970s. Today, the average life expectancy is only 49 years while government spent twice as much on debt servicing from 1995 to 2005 than on health care. Kenya did not benefit from HIPC II debt relief "because it has a good record of repaying debts on time" (Christian Aid 2007:22).

The cancellation of debt for the above countries could have forced the IFIs and other creditors to issue loans more responsibly. Moreover, the cancellation of odious debt – with no HIPC and other IFI conditionalities attached – should also have been the norm. It would have obliged the BWIs to reflect on how they as creditors can make sure that future borrowers would service their debts instead of forcing them into deeper poverty. In other words, a message would be sent to creditors; that they cannot issue loans to those who are irresponsible and that lending should be future orientated. Such a message would also ensure

that new lenders and development cooperation partners - such as China - would also be careful not to lend money to reckless governments.

Related to the issue of odious debt is that of illegitimate debt. The difference between the two concepts is that the latter one is much broader, as it “consists of loans which were improperly granted and are thus the liability of the lender and are not to be repaid” (Hanlon 2006:220). The Jubilee Campaign around the turn of the century used the term loosely to argue that all illegitimate debt should be cancelled. For example, the World Bank is a key player during the planning of development projects for which it makes loans, yet there are hundreds of projects that never really saw the light of day. “Tanzania owes the World Bank more than \$575 million for 26 failed agricultural projects. In Nigeria, at least 61 development projects financed by more than \$5 billion in foreign loans have either failed or never opened” (Hanlon 2006:219). Thus, one could argue that illegitimate debt is not only debt incurred by authoritarian regimes, but there should be a reassessment of all loans that were granted by the IFIs to corrupt regimes and governments that did not use the loans for what it set out to achieve. More so, the IFIs should be held accountable for playing their part in making these loans possible.

The recognition of illegitimate debt is a very important issue, as it could entail that current and future loans should be assessed in accordance with whether it benefits the country as a whole. Chapter 3 focused on the Washington Consensus, the cornerstone of SAPs. It was argued that a debtor’s success was measured in as much as it adopted these conditionalities, irrespective of its impacts. Thus, the IFIs assumed that neoliberal policy prescriptions are inherently good and therefore adoption of it will set African debtors on the right course. Chapter 5 argued that the IFIs have largely persisted with this tradition of assessing a country’s progress based on its acceptance and implementation of IFI-endorsed policies, which are not fundamentally different from the Washington Consensus. Consequently, the substance of these policies and their outcomes are in practice still deemed irrelevant. Thus, as mentioned, acknowledgment of illegitimate debt could therefore help to promote responsible lending. Risks would ultimately be borne by debtors and creditors alike. It would also shift the focus of conditionality to outputs and outcomes rather than simply looking at policy inputs, and it would force the IFIs (including new lenders like China) to be more transparent about their loan agreements with debtors.

33. SSA Can Do Much Better

When the music changes, so does the dance.

– African Proverb

The World Bank and IMF changed the music, but not the dance. Instead of taking the opportunity to say TATA to TINA, the IFIs continued during the post-SAPs era to prescribe how African debtors should run their economies. The principles underpinning these conditionalities are not much different from the SAPs period. Chapter 4 has demonstrated that the version of neoliberalism prescribed by the IFIs is dangerous and does little to promote the developmental state. Some African countries have experienced higher growth rates than usual. However, as argued earlier, there is a certain artificialness to it. Debt relief under HIPC II and a commodity boom largely contributed to it. At the same time, many African countries accumulated large amounts of new (IFIs, domestic and Chinese) debts. The supposed sustainability these countries' debt is therefore questionable. What is going to happen the day after debt relief, the commodity boom, servicing of new debt and so forth? The point of this Chapter is not to spell out a doomsday scenario for Africa. The concern is rather that one should not present a rosy picture of the state of the economy in SSA based on a few limited developments. There is a long contentious history between SSA and the IFIs that cannot be ignored. It is in this context that SSA economies could do much better.

It is disappointing to see that IFIs have not openly recognised their own contribution to the African debt crisis. To date, no attempt has been made to rectify what SAPs have destroyed. The state has been hollowed out even further during the post-SAPs era as it continues to be stripped of many of its roles and responsibilities. What have the IFIs done to promote the revival of the state? What have the BWIs done to forge a developmental state? What have these institutions done to bring back the billions of dollars in foreign bank accounts back to debtor states? Why have the IFIs not unconditionally cancelled odious and illegitimate debt? Why have we not seen comprehensive World Bank and IMF reports criticising the Western world for their role in impoverishing the continent? Instead, as argued earlier, the World Bank and IMF continue to assume that the main problem constraining development is a lack of understanding of the importance of neoliberal macroeconomic policies and failure to implement these. The addition of a whole range of good governance policies could also be conveniently used by the IFIs to blame African debtors for underachieving.

For many African countries, especially for those who have discovered new resources, the deal can be much sweeter. In the end, an answer to the question of ‘who benefits?’ will be determined by how these countries manage their own resources and whether they are able to negotiate deals that will contribute towards forging a developmental state. However, given the continued hold⁴⁸ that the IFIs have over many of its clients it will also depend on how much scope the IFIs will permit to these countries to define their own futures. Initial indications are not very optimistic. It is unfortunate that the World Bank and IMF persist on putting big business interests ahead of the people that they claim to serve. The IFIs are not effectively promoting reinvestment of some of the recent gains into new initiatives. For example, what will happen when some of the newly discovered oil wells dry up? What if the commodity boom collapses? What will transpire once new sources of energy are discovered and these countries did not focus on developing other sectors of the economy? What is going to ensue after multinationals have destroyed large parts of the environment as they have done in the Niger Delta?

Chapter 3 and 4 demonstrated that exogenous factors could have major impacts (positive or negative) on African economies. Similarly, IFI policy prescriptions could also be part of the problem. Has this situation changed during the HIPC II-PRSP era? Current optimism about SSA’s future has taken the attention away from many outstanding issues and hangovers from the 1980s and 1990s. The apparent newness of current World Bank and IMF approaches still impose limits about what can and should be debated. For example, the crux of the PRSP is to identify a national strategy that would help to foster development. By implication, external factors contributing to a debtor’s troubles are often excluded from the problem identification phase which should contribute towards policy formulation. This is not only because each PRSP is supposed to be nationally owned (which implicitly assumes that states are responsible for their own development), but also because the IFIs chose to ignore other factors that impacts on African debtors’ economies.

Furthermore, due to the continued practice of conditionalities in post-SAPs initiatives, the IFIs were able to avoid a debate about its own role in fomenting the African debt crisis. To many, the carrot of debt relief looked fantastic. In addition, the BWIs gave us the impression

⁴⁸ This could be because for many African states the debt crisis is arguably not over. Furthermore, Chapter 5 has also demonstrated that even states that have reached ‘sustainable’ levels of debt have been held hostage by the IMF and World Bank’s signalling roles.

that states are responsible for their own futures and that the PRSP should be nationally owned. The IFIs also continue to treat the market as neutral and business as avowedly beneficial. However, the global market is a social construct, as it is shaped by individuals and states. For more than three decades the IFIs have forced African debtors to adopt neoliberal policies. In effect, African economies are more vulnerable to the external environment. Yet, the IFIs fail to recognise how their policy prescriptions contribute to the weakening between debtors' economies and the external environment. The IFIs could have helped to empower the African state by positioning it more strategically in the global environment. Instead, the World Bank and IMF chose to cut down the role of the African state to a bare minimum. To take one practical example, unlike the most powerful states in the world, African debtor states have no meaningful say in how its trade regimes should operate. In fact, as the IFIs practically write trade policies for African economies, it would be cost saving for many African debtors to advise their representatives to simply stay at home during times of World Trade Organisation (WTO) rounds as they have no leverage at their disposal that they can use as a bargaining chip during the negotiation process.

Moreover, in the previous Chapter it was argued that subsidies and trade barriers had many harmful consequences for African economies in the 1980s and 1990s. What has changed during the post-SAPs era? The WTO came into being around the same time as HIPC I. By and large, developed countries persist to impose tariffs and continue to subsidise sectors that directly compete with African goods - such as cotton, sugar, groundnuts, dairy products and the fishing industry (*see* Gallagher & Wise 2008:1-4; IRIN 2011; Vickers 2008:7). For example, during the supposed height of free-marketism, the US Federal Government alone has spent \$246.7 *billion* in subsidies on its top twenty agricultural programmes from 1995-2009 (Environmental Working Group 2010b). If the IFIs were serious about promoting development in LDCs, especially in Africa, they would be vocal on these issues and recognise the limits that they impose on these economies. The BWIs should also acknowledge that each economy is unique, thereby calling for normative principles of fairness to be included in their analysis. The ongoing WTO Doha Development Round is yet another opportunity to test how the IFIs and developed nations will deal with these outstanding issues. Initial indications are not very optimistic.

34. Conclusion

Post-SAPs initiatives performed poorly in terms of delivering on its most basic aims: to make debt more sustainable, boost social spending and reduce poverty. From the above sections it is clear that IFIs attempted to silence many of its former critics by pretending that its good policies are finally (after more than three decades) starting to bear fruits on the African continent. For the BWIs, a large-scale public relations campaign to justify its success was vital, because they had a lot to lose and to win from the Great Recession. However, the BWIs have only been able to claim success by exaggerating certain developments and downplaying others. Consequently, one could argue that the IFIs circumvented many of the rigorous debates that took place during the 1990s about the detriments of its policies. This analysis would contend that debt cancellation (together with low interest rates) alone is not sustainable. The World Bank and the IMF have to acknowledge that there are alternatives to the neoliberal discourse.

As argued throughout this Chapter, debt cancellation came with its own strings attached. Theoretically it has been important to free up resources to be spend in the social sector instead of going towards debt servicing and repayment, but this is not enough. The real spending increases in social sectors have nonetheless been questioned. Although there is evidence to support the fact that debt cancellation has had some positive impacts in relation to growth in HIPC II countries, this remains inadequate. What is going to happen in the post-debt cancellation period? What would be the impact of recent (expensive) domestic loans or Chinese loans on poor countries? Have African debtors been transformed into economic players that are more competitive in the global market? Chapter 3 and 4 deconstructed the IFIs' version of the neoliberal discourse and demonstrated that it has contributed to Africa debtors' economic malaises. As the discourse itself has not been changed dramatically during the so-called post-Washington Consensus period, the future for many African debtors still looks bleak. The weak structures of African economies remain intact.

Chapter 7

From SAPs to Post-SAPs: An Evaluation

Massive poverty and obscene inequality are such terrible scourges of our times - times in which the world boasts breathtaking advances in science, technology, industry and wealth accumulation - that they have to rank alongside slavery and apartheid as social evils ... Overcoming poverty is not a gesture of charity; it is an act of justice.

- Nelson Mandela (2005)

35. Introduction

This study set out to focus on the African debt crisis, which broadly forms part of the international financial structure. In essence, any debt structure is characterised by a power relationship between the debtor and the creditor. African states are therefore in weaker positions relative to the world's principle International Financial Institutions (IFIs) - the World Bank and the International Monetary Fund (IMF). The Great Recession represents an opportune moment in history to reassess the roles of these powerful structures. Nonetheless, Africans (like many others in the developing world) have been calling for change of the Bretton Woods Institutions (BWIs) for more than three decades. This research therefore focused on the *relationship (and its implications) between the IFIs with African debtor states as it developed from Structural Adjustment Programmes (SAPs) to Poverty Reduction Strategy Papers (PRSPs)*.

From the outset it was argued that if certain limitations or problems are found with post-SAPs initiatives, it is hoped that this study could contribute to a better understanding of these issues by exposing it. The rationale being that in order to address an issue it first needs to be criticised. Drawing from emancipatory theory and critical theory, Devetak (2001:163) argues that theories are “not only concerned with understanding and explaining the existing realities of world politics, it also intends to criticise in order to transform them.” The final Chapter therefore aims to contribute to the current debate on post-SAPs initiatives and (based on the analysis) to make some recommendations on issues related to the African debt crisis and the IFIs.

This Chapter provides an overview and evaluation of the African debt crisis and the defining relationship between the BWIs and African debtors. It is divided into two parts: the first

section of this Chapter summarises some of the key findings of this study while section 37 makes a number of recommendations regarding the issues that have been identified and analysed throughout this study.

36. Summary of Research Findings

Chapter 1 defined the purpose of this study: to analyse two (broadly speaking) debt relief strategies in order to ask whether (and how) the relationship between African debtors and the IFIs has changed in recent years. The first debt relief package – SAPs - hardened into a recognisable discourse in the 1980s and 1990s and it preached a particular version of neoliberalism. The SAPs package generally exacerbated the debt situation for most Sub-Saharan-Africa (SSA) states, necessitating a new approach. The second package, emerged as the Heavily Indebted Poor Countries (HIPC) Initiative which came into being in the mid-1990s, followed by the Enhanced HIPC Initiative (HIPC II) and PRSPs. According to the IFIs, these so-called post-SAPs initiatives can be differentiated from SAPs. Given that SAPs were damaging to African debtors, this study set out to question whether the supposed transition from SAPs to post-SAPs is real or imagined.

Chapter 2 contextualised the development of the BWIs and aimed to identify theoretical approaches that can be utilised in order to analyse the African debt crisis. It was argued that the World Bank and IMF are more powerful today compared to its inception in 1944. The roles and purpose of these IFIs have also changed dramatically over the past few decades. Indeed, the Cold War played a major role in shaping these structures, thereby making it impossible to claim that the IFIs operate apolitically. Like all structures, the BWIs were conditioned by history. The BWIs were conceptualised by the Western world and continue to be dominated by it. However, African people and debtors are *de facto* and *de jure* excluded from the IFIs' top decision-making structures, which often translate into a lack of decisions about their own futures. For example, the President of the World Bank and the Managing Director of the IMF have always been Americans and Europeans. Africa's low level of representation is also reflected in other top decision-making structures including the voting power and the number of Governors on the two African constituencies in the IMF and the three constituencies represented in the World Bank.

The type of knowledge espoused by the IFIs is also deeply influenced by the Western world. For many years the IFIs predominantly employed Western officials to do its work. This situation has somewhat changed at the World Bank Group as it claims to have diversified its pool of employees, but very few Africans are found in top positions. Nonetheless, the IFIs also have a bias for employing researchers trained in Economics, regardless of the fact that their work is ever expanding into areas (such as human rights, good governance and environmental issues) that are outside the scope of this field. There is also evidence that the IFIs favour and promote the work of employees whose work feeds into the neoliberal discourse, while at the same time punishing those who challenge it. The result is ‘policy-based, evidence making’, which contributes to ‘paradigm management’ within the BWIs. This leaves very little room for any alternative ideas that might benefit African debtors. The neoliberal discourse itself is also tainted with a specific value bias, yet those who promote it fail (or choose not) to recognise the political nature of the idea itself. The type of neoliberalism presented by the IFIs has by and large benefitted the interests of the Western world, not African debtors (*see* Chapter 4).

The rationale for this study was therefore to identify power relationships embedded in the international debt structure, which is a fundamental issue in the study of International Political Economy. The question of ‘who benefits?’ has been central to this evaluation of the African debt crisis. In addition, certain elements of critical theory, postmodernism, and constructivism were also identified and utilised throughout this research. These post-positivist approaches are appealing in that it strongly recognises the political nature of knowledge. More importantly, it challenges the current status quo, which continues to be characterised by large scale inequality. Critical theory and postmodernism as theories instruct the researcher to make use of immanent critique and identify ‘regimes of truth’ in order to challenge existing power structures; while constructivism helps one to understand the dynamism between material and ideational structures. Furthermore, the comparative method was justified for this study on the grounds that it would help to contextualise the African debt structure. It was argued that PRSPs and other post-SAPs initiatives cannot be said to be improvements or failure) without comparing it to past IFI endorsed programmes.

Chapter 3 aimed to contribute towards an alternative understanding of the African debt crisis as it emerged during the 1970s and deepened into the 1980s and 1990s. Central to this analysis was the question of ‘whodunit?’ In other words, who is responsible for the African

debt crisis? It identified a number of factors that needs to be taken into consideration. This included a whole range of exogenous issues (such as the oil crises in the 1970s and sudden rises in US interest rates). In addition, it was argued that the World Bank and IMF's own responsibility in helping to escalate the debt crisis cannot be ignored. In many cases, the BWIs actively approved loans for states misgoverned by authoritarian regimes, knowing that they did not have any responsibility towards their own people and that loans would not be used productively. As creditors, these institutions were also able to make heavy demands – via SAPs - on its debtors, even long after loans had been issued, which dictated how African debtors ought to restructure their economies.

The IFIs claimed that SAPs will lead to economic stability, and quality and distributive growth. The BWIs failed on all their proclaimed goals. Instead of changing their one-size-fits-all approach, they blamed the failure of SAPs on a lack of implementation and bad African governance. Upon closer inspection, it is evident that it was difficult for African debtors to disobey the World Bank and the IMF's instructions. Non-implementation was often accompanied with punishment by the IFIs together with the donor and investment community.

As mentioned, dictators were often some of the World Bank and IMF's favourite clients. In addition, the IFIs indirectly provoked certain governments to adopt authoritarian measures to deal with dissent. Violence was often used to try to curb anti-government protests and coup d'états, which were sometimes responses to the negative impacts of SAPs. This resulted in a double bind situation: failure to employ SAPs led to retribution by the IFIs, while actual implementation led to other negative results that were met with strong anti-government responses. Moreover, African people around the continent demanded democracy due to the negative effects of SAPs, but this could be dangerous as development more often than not preceded democratisation. One should also be careful not to be too optimistic, as these democratisation processes did not always entail the creation of liberal democracies.

Chapter 4 focused on howcatchem? It specifically deconstructed the SAPs package in order to get a better idea of how these policy conditionalities were detrimental to African debtors. By and large, the SAPs package consisted of a set of neoliberal policy prescriptions. Debtors were expected to attain price stability by maintaining fiscal discipline and avoiding fiscal deficits; forgoing subsidies; broadening the tax base; raising interest rates and attain total

financial liberalisation; devalue exchange rates; eliminate protection of the economy, liberalise foreign direct investment, deregulate the economy; and protect private property. Like a doctor diagnosing a sick patient, ‘Dr West’ prescribed medicine to its recipients of medical treatment, African debtors: the SAPs package was presented as a *conditio sine qua non* to reach development, but in reality it stripped away many of the gains that were made during the early post-colonial era.

Chapter 4 also focused on how Western states, creditors and businesses benefitted from the African debt crisis. It was argued that the World Bank and IMF officials have a hit and run approach to evaluating their subjects, and SAPs were presented as if ‘there is no alternative’ (TINA). No cognisance was taken of Africa’s history and the structure of the region’s economies and institutions. Instead, the SAPs package was prescribed as Africa’s silver bullet. The results, as argued, were disastrous. Short-term stabilisation was never realised while long-term development remained a dream. SAPs failed to open up the TINA narrative to a whole range of perspectives that are claiming ‘there are thousands of alternatives’ (TATA). Amongst those perspectives are strategies that stress the importance of the state vis-à-vis development. This Chapter (together with the previous one) points out that although the BWIs have advanced arguments against state intervention, there are legitimate reasons as to why the African state had to maintain some form of policy space and entrepreneurial role in some state owned enterprises and sectors such as trade, and public investment in education, health and infrastructure. A stronger focus in these areas might not have been African debtors’ panacea to all its problems, but it could have been a start.

Chapter 5 focused on the transition from SAPs to a supposedly post-SAPs era. When it became clear that SAPs had detrimental effects on African debtor states, the IFIs came under pressure to change the way they do things. The result was HIPC I in 1996 which was soon after deemed inadequate to address African debtors’ problems and replaced by HIPC II and PRSPs. These initiatives form the basis for debt relief and concessional lending under the auspices of the World Bank and IMF. Jointly, these programmes aim to make debt more sustainable, boost social spending and reduce poverty.

The PRSP initiative in particular was full of promise (at least initially), as it entailed that debtors would rightfully be given the scope to create their own developmental strategies and that a blanket approach to development would be abandoned. According to the IFIs, the

PRSP package is based on a country-driven approach, results-orientated, comprehensive, and partnership-orientated. Yet, all that glitters is not gold. Upon closer inspection, the PRSP initiative is not much different from SAPs and the Washington Consensus. This is not only because the process itself is predetermined, but also because there are additional World Bank and IMF mechanisms that should be read alongside this initiative. Such mechanisms are informed by old school SAPs conditionalities and these are generally found in HIPC II documents, the Extended Credit Facility, Poverty Reduction and Growth Facility, Country Policy and Institutions Assessment and the Policy Support Instrument.

In answer to the primary research question posed at the beginning of this study, this Chapter argued that post-SAPs initiatives run the same risks as that of SAPs, given that these policy prescriptions are not much different from one another.

Chapter 6 focused on the impacts of so-called post-SAPs initiatives. As the Great Recession unfolded, the IFIs tended to stress the success and ‘resilience’ of HIPC II and PRSP countries. The World Bank and the IMF generally make reference to recent high economic growth rates and lower debt levels in the region, but one swallow does not make a summer. These proclaimed achievements are somewhat artificial and one needs to remain cautious about its long-term impacts. High growth rates are strongly related to debt relief itself and a commodity boom for many of Africa’s principle exports. Some debtors that have gone through the HIPC II process are already starting to show signs of debt distress. The day after debt relief and the commodity booms is therefore what is worrying. More importantly, this study argues that IFIs have not done anything to forge the developmental state in Africa. Thus, there is a need to seriously rethink the roles of the World Bank and IMF in Africa.

It was also argued that the good governance agenda, which emerged in the 1990s and hardened during the 2000s, could be used as an excuse by the IFIs should things go wrong. In other words, if African economies experience a downturn in growth and debt distress re-escalates, the World Bank and IMF could once again blame these governments for lack of implementation of its policy prescriptions.

37. Recommendations and Conclusion

It is disappointing that the IFIs have not openly recognised their own contribution to the African debt crisis. To date, no attempt has been made to rectify what SAPs and so-called post-SAPs have destroyed. The African state has been hollowed out even further during the post-SAPs era as it continues to be stripped of many of its core responsibilities. The World Bank and IMF thus need to answer how they are going to promote the revival of the African state which they have helped to tear down. This would require recognition by the IFIs that they played a role in Africa's economic underdevelopment and that there is a need to empower the developmental state. It would also necessitate large scale investment in a multitude of sectors, especially infrastructure development. Current levels of spending in certain social sectors have to be significantly boosted, above all, in healthcare and education. The IFIs have thus far hailed spending in these areas as a great success but it remains in actual fact mediocre. What is needed is a normative approach that views the fighting of inequality and eradicating of poverty as acts of justice.

The BWIs should rightfully empower African debtor to make their own decisions with regards to economic development. True adherence to the PRSP approach could be a first step to empower African states. The ideas behind the PRSP approach – especially that of ownership and that it would be country specific - were tremendously appealing, but the practice of it has been futile. If PRSPs were truly developed with the intention of empowering debtor states, it could have worked. However, PRSPs were never taken seriously by debtors and creditors because it did not stand alone. The World Bank and IMF found other mechanisms to enforce World Bank and IMF endorsed conditionalities.

Where conditionalities continue to be used, the IFIs should focus more on outcome-orientated conditionality in relation to development (Whaites 2004:7). Thus, failure and success should be measurable according to a wide range of indicators that measures both impacts and implementation of development strategies.

To empower African debtors does not entail that blanket loans should be issued to any country henceforth, as loans have to be justified in accordance with responsible lending practices. Adherence to Eurodad's (2008:1-8) *Charter on Responsible Financing* would be a good start.

Any agreements or documentations and decisions relating to loans should be transparent. The terms of the loan, which includes the purpose of the loan, the payment procedures, conditionalities etcetera should be made clear in the loan document. As argued in Chapter 5 and 6, some conditionalities continue to be left out of actual loan agreements. This clearly violates the principle of transparency.

Transparency should also extend to the general day to day operations of the IFIs. These are supposedly international public institutions, yet they continue to conduct many discussions behind closed doors (despite recent efforts to open up). All decisions, including appointment of Presidents of the World Bank or Managing Directors of the IMF, should be made public. Decisions to endorse or disapprove of certain initiatives should also be disclosed. Most importantly, the public should have the right to access any information it requests.

The IFIs should also be assessed and held accountable for their own actions. It is worth noting that this concept is not completely foreign to domestic law and there have been international instances where debt has been written off exactly because it was considered to be illegitimate (*see* Hanlon 2006). “Courts are unlikely to enforce the repayment of loans which involve fraud or which are funding illegal activities [and] Borrowers are unable to bind their children to repay debts” (Hanlon 2006:214). Debt relief under HIPC II came at a huge price: scores of conditionalities. In addition, it was argued (in Chapter 3) that by the 1990s, SSA already retired a factor of 4.2 times the original illegitimate debts from the 1980s. It is thus worth noting that the United Kingdom’s Consumer Credit Act of 1974 (Section 138) uses the concept of “extortionate debt” which stresses the lender’s responsibility and liability (*see* Hanlon 2006:215). What is needed urgently is an accountability mechanism that operates independently from the BWIs.

An attractive proposal recently put forward by several civil society organisations is the Defuse the Debt Campaign (2011). It proposes the establishment of an independent mechanism – the International Debt Court (IDC) - that would rule over the sustainability and legitimacy of debt. Thus, lenders and borrowers could be held accountable for illegitimate conduct in relation to the loan. The IDC could send a strong message to the IFIs (together with other creditors and debtors) that its activities should be executed responsibly and that failure to do so shall be met with punishment.

A debt court should be able to rule on issues of ‘mission creep’. As argued in this study, the BWIs have ventured into many areas that are not traditionally under its mandates (unless their mandates are broadly interpreted). A debt court should have the power to order the IFIs to step back when it is felt that the World Bank and IMF are going astray with regards to what they set out to do. This could be done by utilising an immanent critique approach (see Chapter 2). For example, is the World Bank’s International Finance Cooperation (IFC) representing the interests of the people of the country in which it makes investments (which is what it would argue)? Or are its activities simply reinforcing the dominance of international big business?

Related to the above issue, there is scope for the IFIs to balance its army of economists with experts in other fields. Both organisations have over the past three decades taken on too many leading roles in a multitude of issue areas. These should also be cut down to the bare minimum. One could also question whether some of the roles of the IFIs are not conflicting with one another. For example, both organisations play major roles in terms of gathering information and publishing statistics of the countries in which they operate. Yet, a bad evaluation of their programmes would warrant a stop to it, while a good rating could legitimate its involvement in whatever the issue might be. As we have seen throughout this study, these statistics are often meddled with. Should the IFIs, who are forcing countries into a certain direction, also be the judges of how these same debtors perform?

A debt court could also (in line with Eurodad’s Charter) develop a legal framework that should be utilised in combination with fundamental human rights treaties (including labour law) and environmental frameworks. If the creditor or debtor violates basic human rights (or environmental standards) as a direct consequence of the loan, they should be held accountable. Issues of fairness should also be left for a debt court to be interpreted and it should be used to litigate on conflicting issues related to international loans. For example, creditors and debtors therefore have to justify to the debt court why certain people in mining areas are being displaced (without proper compensation) in the name of development.

Given that debt cancellation for some (but not all) African debtors together with high growth rates have helped the BWIs to avoid a proper discussion about their own roles in fuelling the debt crisis (*see* Chapter 6), a debt court could ask the World Bank and IMF some of the

questions that have been proposed by this study: What have these institutions done to bring back the billions of dollars that they issued as loans to its favourite authoritarian leaders but ended up in foreign bank accounts? Why have the IFIs not unconditionally cancelled odious and illegitimate debt? It could also order the IFIs to disclose all information about past and future loans to the public. In short, a debt audit would be welcomed. Such a debt audit should also question whether debt relief under HIPC II has gone far enough to address past injustices by the IFIs and it could determine additional measures that should aim to rectify the situation. A debt audit could also be issued for developing countries that have not received debt relief under HIPC II (*see* Chapter 6).

A debt court should also be used to serve the interest of employees of the World Bank and IMF. Should they feel that internal justice mechanisms are inadequate to address their grievances – whether this relates to racism or when they feel their research is compromised due to a strong emphasis of paradigm management (*see* Chapter 2) – they can approach the debt court as a last resort. The court can then rule on whether the World Bank or IMF’s own mechanism have been successful or unsuccessful in dealing with the issue at hand. Such an arrangement should promote accountability of both IFIs.

The IFIs, who are self-proclaimed champions of issues on development and poverty eradication, should also answer as to why they have not issued comprehensive reports damning the Western world for its role in impoverishing the continent. Instead, as argued earlier, the World Bank and IMF continue to assume that the main problem constraining development is a lack of understanding of the importance of neoliberal macroeconomic policies and failure to implement these. Such double standards by the IFIs should be questioned. For example, why do they force the developing world to deregulate while staying silent about protectionist practices in the developed world? As argued in Chapter 5, the PRSP approach shifted all the responsibility of development on the African state itself, while avoiding exogenous factors (such as trade practices in the developed world) that impact on debtors.

The limitation of this study is that it focused on general issues pertaining to SAPs and post-SAPs initiatives. Future research can therefore add value to this framework of analysis by focusing on particular case studies. There remains to be a lack of in-depth studies comparing SAPs and post-SAPs initiatives. Thus new research could assess World Bank and IMF

claims of improvement of debt relief strategies at an individual country level. For example, how is Ghana's SAPs (especially from 1981 onwards) different from other post-SAPs initiatives that it had to adopt in later years? Each of the initiatives can be broken down into an analysis of specific documents. For example, HIPC II alone consists of the preliminary HIPC document, the decision point document, the completion point document, and a debt sustainability analysis. Thus, one could carefully consider how conditionalities found inside these documents are different from others or how it impacts on the debtor state.

Furthermore, there is also a silence in research regarding PRSPs that came into being from 2007 onwards (*see* Chapter 5). This analysis speculated about some of the reasons as to why there is a lack of independent analysis available about post-2007 PRSPs. Nonetheless, the fact remains that the IFIs still promote the PRSP as the most important post-SAPs initiative. The reason being that the ideas behind the PRSP are very attractive; it gives the illusion that debtors are in charge of their own futures and that policies are tailor-made to the situation at hand. Thus, there is plenty of scope for researchers to assess new PRSPs.

Independent researchers should also prioritise a focus on poverty eradication and development in Africa. As mentioned in Chapters 1 and 6, Africa is still host to 35 of the bottom 42 states that are classified by the *Human Development Index* as places experiencing 'low human development'. Most African countries are thus still in some sort of a crisis situation. It is worrying to see that the BWIs were entrusted with a host of new responsibilities and resources as a result of the Great Recession. Yet, there is a lot of uncertainty as to whether they promote the well being of African countries. As argued throughout this study, the IFIs uphold a rosy picture of its poverty reduction and development efforts on the continent. The most recent World Bank figures suggest a decrease in the percentage of poverty (if measured as the proportion of Africans living on less than \$1.25 per day), but it also acknowledge that the number of poor increased from 296 million to 388 million from 1990 to 2005 (*see* Chapter 6). These poverty figures are clearly outdated and limited as it dates back to a time before a series of crises (food, energy, financial) while development indicators are manipulated to fit into the World Bank and IMF self-proclaimed track records of success. Alternative interpretations of the state of play regarding developments in Africa are essential in order to promote changes within the BWIs and their programmes.

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