

Were SAPs Designed to Keep Africa Economically Subservient to the West?

Written by Sophie Crockett

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SOPHIE CROCKETT, APR 21 2012

By the end of the 1990's, several demonstrations and protests against Structural Adjustment Programmes (SAP) had taken over the streets of dozens of African states. In Algeria, over 200 people were killed in the riots against high prices of food and unemployment (Whirled Bank: 2003: 1). Security forces in Nigeria massacred 20 students after they staged a protest against the introduction of the SAP (Ibid). The University of Khartoum in Sudan closed down after students occupied the buildings and streets around the area (Ibid). The blame was placed on the structural adjustment programmes that were intended to enhance the economy but instead devastated it. Further, International Finance Institutions (IFIs) were accused of economic exploitation and imperialism. This paper will show how this view was developed and argue that even though there is overwhelming evidence to prove that the SAPs were detrimental to Africa, there is no evidence to show that these programmes had the intention of making Africa's economic problem worse. To further compliment this hypothesis, Ghana will be used as a case study. The Ghanaian economy demonstrates how on the one hand the International Monetary Fund (IMF) sees it as being one of their remarkable success stories and a showcase for the benefits of structural adjustment policies, whilst critics on the other hand stress that it is simply another example of economic dependency.

To critics of the structural adjustment programmes, when the situation in West Africa deteriorated, international finance institutions (IFIs) became so fixated in their neo-liberal economic ideals that they did not look carefully enough at the factors causing the economic decline. This led to a disastrous ideologically driven 'rescue mission' for African states (Loxley: 1990: 11). The Washington Consensus developed the following conditionalities to be imposed on African countries adopting the structural adjustment programme: cutting disbursements (austerity); monetary devaluation; liberalization of trade; banning restrictions on imports and exports; increasing foreign direct investment (FDI); opening the national stock markets; controlling and monitoring government budgets; eradicating fixation of prices and state subsidies; private investment; heightening the rights of overseas investors through national laws; and improving governance by combating corruption and patronage (IMF: 2011: 1). Neo-liberalism holds that states must endure the negative effects of market liberalisation before they can experience the long-term benefits. To critics, however, this did not occur in Ghana, where even though there was a temporary increase in GDP and GDP per capita, Ghana is still extremely dependent on foreign aid and the IMF alone receives almost one third of the country's spending on foreign debt (Kimberly: 2005: 1). It was critical for international finance institutions to act quickly in order to retrieve Africa's economic prosperity. They bore the responsibility to restore economic stability and promote their economic ideologies of free trade whilst also maintaining control over Africa's resources.

To sceptics of international finance institutions, their reckless nature of the International Monetary Fund and the World Bank, coupled with their profit-driven character, ensured the failure of the structural adjustment programmes. This impression arises due to its strong neo-liberal rhetoric and the international bank workers not being subject to sufficient training in aid and development (Spratt: 2009: 283). These workers were former bankers who had been trained to generate profit and increase trade (Ibid). The uncontrolled borrowing and lending of capital made developing countries, especially in Africa, dependent on international finance institutions, promoting moral hazard and being counterproductive to the institutions' aims (Spratt: 2009: 283). The whole of the West African region experienced a very similar kind of economic decline, which coerced them into pleading for economic relief. Thus, to critics of IFIs, this meant an opportunity for Western states to exploit access to resources and raw materials in

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exchange for capital lending. To them, the banks knew economic redevelopment programmes were costly and thus, they had to seek a way of benefiting from them as well. This was packaged in a scheme, which subjected the African state to economic and trade liberalisations that mostly benefitted western states (Wallace in Onimode: 1989: 206). In Ghana, the Economic Recovery Programme (ERP) was promoted by Jerry Rawlings, head of the Provisional National Defence Council, as an incredible opportunity for economic redevelopment. Rawlings was initially very hostile towards finance institutions, but it seemed evident by the beginning of the 1980's that he would not be able to escape the pressure of the IFIs (Haynes in Parfitt and Riley: 1989: 112). Dr. Kwesi Botchwey, the PNDC Secretary for Finance and Economic Planning, stressed that the conditions the IMF stipulated on lending were not forced and were key to the recovery programme (Ibid: 113). Yet, after all the promotions in favour of structural adjustment, Ghana became more dependent than ever on foreign aid, having to surrender over 70% of its GDP to pay off its debt to the IMF (Kimberly: 2005: 1). The notion that economic growth would flourish after the adjustment programmes was to some extent accurate, but economic growth occurred within western economies instead, which profited from free market trades and debt payments.

Paul Mosely, Jane Harrigan and John Toye reported that the recovery programme was mismanaged and only favoured export growth and did not increase national income and financial investments from overseas (Mosely et al.: 2001: 308). Even Ghana, which managed to sustain economic transformation, also suffered from lack of overseas investment during the adjustment period. In fact, what actually occurred was a trend of disinvestment, creating a backwash effect, as foreign companies moved their business elsewhere, forcing local companies to close down as a consequence of increased competition and a lack of credit facilities (Abrahamsen: 2000: 39). The impression given by critics is that this was caused primarily because of irresponsible lending on behalf of the IMF and the World Bank. They believed that by allowing private investment to flourish in Africa, as in the West, everyone would benefit from economic prosperity and freer markets. Further illustrating the deficiency of the SAPs was Ghana, which achieved macro-economic stability at the expense of growth, investment and human welfare. A serious decline in the standards of living was observed after the implementation of the adjustment programmes, being described by many, such as Rita Abrahamsen, as a 'recipe for deepening poverty and widening social polarisation' (Ibid: 40). In order to create constant economic incentives for export producers, Ghana had to undergo a succession of severe devaluations (starting with 990% in 1983), creating a type of auction bid for foreign exchange (Kraus: 1991: 24). By constantly pushing for further devaluation, Ghana witnessed growth and development bearing the severe negative impacts of the SAPs. Thus, it seems that the negative impacts of structural adjustment programmes sparked a wide range of controversial critiques of the Bretton-Woods institutions, one of them being that they were inherently self-serving and that the SAPs were solely an excuse to get involved in the domestic affairs of African states. But this notion is also narrow as it disregards the fundamental foundations of International Finance Institutions and their goals to reduce poverty and assist in the reconstruction of world economies.

Structural adjustment programmes were accused of lack of careful planning and knowledge, on behalf of the donor institutions, on the countries that were going to implement the programme. Predictions of economic growth by neo-liberal economists of the World Bank were proved wrong and little research was done on the cause of the economic crisis in each of the countries. The world bodies presumed that the economies of all African nations were at the same level and were experiencing the same issues, and this generalisation greatly hindered the effectiveness of the structural adjustment programmes (Ogbimi: 1998: 1). SAPs and subsequent IMF/World Bank programmes were denounced for having several internal weaknesses and inconsistencies. They, for one, did not account for the changing economic climate and their pre-conditions for credit loans were detrimental to the country and themselves (Loxley: 1990: 26). One of the main criticisms by John Loxley in his article, *Structural Adjustment in Africa: Reflections on Ghana and Zambia*, is that the recovery programmes do not address the social impact of devaluation and unemployment (Ibid: 21). Nevertheless, finance institutions were never created to address the negative social effects of economic reform. The workers of finance institutions were trained to instill confidence in the banks and obtain profit from the loans and credits they gave to developing countries (Ferraro and Rosser: 1994: 333). These were the same people responsible for drafting a structural adjustment plan for economic recovery (Ibid), so naturally they were more concerned with making it worthwhile for Western nations. This led to the Bretton-Woods institutions only focusing on short-term solutions to Africa because the implementation of a long-term SAP would have been a lot more costly and at the expense of Western capital.

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The Bretton-Woods institutions countered all these claims by expressing that the mismanagement of resources and bad governance occurred from Africa, which was one of the reasons why it had suffered economically in the 70's and 80's. They asserted that reforming the system and emphasising good governance would bring prosperity and economic progress (Abrahamsen: 2000: 40). This notion also ties in with the response given by the World Bank and IMF's neo-liberal economists to those who questioned why structural adjustment programmes did not work. It seemed relatively straightforward to blame the failure on 'poor governance' and on the lack of African states' dedication to the adjustment programmes, as seen in Zambia (Loxley: 1990: 9). World Bank reports pointed the failure to political factors, and asserted it prevented right economic policies from being implemented. Thus, according to the World Bank, the reason the structural adjustment programmes failed was because of African governments (Abrahamsen: 2000: 41). This 'crisis of governance' failed the economies due to a lack of accountability, transparency, and predictability, which made it almost impossible for the right economic policies to work (Ibid). This detracts the responsibility of the collapse of the SAPs from the international finance institutions and looks into internal failures and structural problems within the African state (Onimode: 1989: 208). In the case of Ghana, it is important to understand the dichotomist challenge between implementing neoliberal structural adjustments and consolidating political democracy (Green in Villalón and Huxtable: 1998: 186). Ghana is especially significant in this case because it was a showcase of success for the IMF in terms of structural adjustment, as the country implemented all of the conditionalities (IMF: 2000: 1). The long-term economic failure of their success case, Ghana, shows that IFIs had significantly more responsibility over the continents subservience to the west than they alleged.

The above arguments are undeniably overwhelming and critical of the Bretton-Woods institutions, but they also lack a deeper analysis of the structural adjustment programmes. They hold onto the claim that their failure to develop Africa was intentional and that these institutions would be inherently an imperialistic force for subservience. However, is this notion that simplistic and incontrovertible? The following arguments will contest this and support the idea that structural adjustment programmes were not intently designed to keep Africa dependent on the West.

Structural adjustment programmes upheld the theoretical concepts of neo-liberal economics, with the underlying view that markets are inherently greater in the distribution of resources. Hence, their policies would solve the development problems as opposed to the physical controls and protective policies of the current governments (Abrahamsen: 2000: 38). The World Bank stated in 1994 that 'the state should not intervene where markets can work even moderately well' (World Bank: 1994: 183) and the result of the implementation of SAPs was a drastic liberalisation of the African economies, the complete eradication of import and export control and elimination of regulations on foreign exchange (Abrahamsen: 2000: 38). This created several negative effects of which the World Bank and the IMF struggled to justify and defend. In the case of Ghana, the Provisional National Defence Council (PNDC) released annual Budget Statements and Economic Policy reports at the request of the IMF, and its 1991 report revealed that the country's economy had significantly recovered from a decade of hyperinflation and deep recession; the country had had an average growth in GDP of 5.7% per annum between 1984-89 (PNDC: 1991: 4). Despite that, the idealised notion that opening the markets and allowing free trade and investment in the country would aid economic growth fell flat on its face. Several protests occurred during the period of implementation of these policies as result of the increase in prices of school fees, university, goods and services; additionally, the high competitive environment created by some private corporations led State and local businesses to liquidation (Kraus: 1991: 19). However, one cannot ignore that the forecast of economic growth convinced many people in the west as they had seen it before and they believed that these policies could improve Africa. Additionally, in the end of the 1980's, Ghana, and Africa as a whole, was already swamped in a critical economic crisis. It seemed obvious that the intention of the Bretton Woods institutions was solely to remedy the situation and to improve relations between countries, not to worsen it.

The concept that finance institutions, which have as their purpose to reduce poverty in developing countries, were reckless and inherently self-serving and profit driven, is a reductionist one. What many forget is that neo-liberal economics is not just another synonym for economic imperialism, but rather a fiscal practice that has reigned over all western economies over the last century (Kapur: 1998: 116). Despite their best intentions, Western experts will always be ill perceived in the eyes of those who suffer the consequences of severe economic crisis. Past experiences of adjustment programs showed that it significantly helped countries that had workable institutional infrastructures and were prepared to implement tough economic policies (as seen in India, Indonesia, South Korea and Thailand in the 1970s and 1980s) (Ibid: 117). Thus, for finance institutions, it would prove only natural to assume

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that because these policies worked so well before, that they would also have the same benefits if replicated in Africa. It is difficult to know whether they anticipated that Africa would crumble under the impact of foreign investment and free markets. Even when favoured export growths and external accounts did not increase national income and financial investments from overseas, the prevailing notion amongst the neo-liberal economists was that in future years these financial investments would prove invaluable for a developing economy. Thus, to date, there has not been any evidence to show intent on behalf of the IFIs to design a structural adjustment programme to keep Africa economically subservient.

For international finance institutions, structural adjustment programmes were not mismanaged, but intentionally designed to be short-term. The purpose of the IMF and World Bank involvement was to offer immediate economic relief for redevelopment. There is also the notion that immediate solutions to problems are inherent in the nature of Western economic practices and thus, they dealt with the issue of the African crisis the best way they knew how (Kapur: 1998: 117). Further, these short terms plans acknowledged the immediate effects of its aftermath. Thus, the Fund added poverty alleviation to its agenda and tackled several issues related to governance in response to the latter (Ibid: 119). One can easily make the case that structural adjustment programmes did not suffer from a lack of planning on behalf of the international finance institutions, but rather from the absence of a long-term programme. However, the responsibilities of implementing a long-term economic development programme did not fall under the framework of international finance institutions (IMF: 2011: 1). As aforementioned, the tough economic policies and conditionalities imposed by the IMF and World Bank had worked in the past, so it is not implausible to imagine that they believed its implementation in Africa would work (Haynes: 1989: 110). Even though the IMF and the World Bank did not implement long-standing, sustainable economic policies, it does not lead one to conclude that it purposefully designed structural adjustment programmes to keep Africa submissive to the West.

Good governance took over the structural adjustment agenda when international finance institutions learned that remaining politically impartial to rebuild the African economy did more harm than good. Thus, they acknowledged the intrinsic role the state played in development (Abrahamsen: 2000: 41). The formation of a good governance agenda developed as finance institutions deduced that if the state were to be reformed, then the economy would reform and develop with it. It is not, however, a complete break from the neo-liberal economic agenda as the institutions just sought to find a cheaper and more efficient way of carrying out economic reforms (Ibid: 42). Blaming the failure of structural adjustment solely on poor governance and the African state is minimalistic, as it does not account for the fact that the neo-liberal rhetoric also played a vital part in the deficiency of the SAPs. Rather than changing and adapting the programmes themselves, as they were evidently flawed, international finance institutions sought explanations in the direction of African states and their mismanagement of the programmes (Ibid: 43). It is, thus, clear from the point of the international finance institutions that a more democratic and humanitarian approach was needed to counter claims that the structural adjustment agenda was a smokescreen for developing an economically subservient continent. Even in Ghana, which was seen as a success story, the separation of power between the economic and political spheres damaged greatly the state in the long-term. This consequently shows that a conscious effort was made in order to remedy the problems created by the structural adjustment programmes, proving that the intent to make Africa economically subservient never existed.

In conclusion, Structural Adjustment Programmes were not designed to keep Africa economically compliant to the Bretton Woods system, but rather its subservience derived as a consequence of the implementation of the SAPs. They upheld the theoretical concepts of neo-liberal economics, tied with the underlying notion that markets are inherently greater in the distribution of resources and in solving development problems (Abrahamsen: 2000: 38). However, according to Stephen Spratt, the reckless nature of the International Monetary Fund and the World Bank, coupled with their profit-driven character, as a result of its strong neo-liberal ideology, ensured the failure of the structural adjustment programmes. He believed that the uncontrolled borrowing and lending of capital made developing countries, especially in Africa, dependent on international finance institutions, promoting moral hazard and being counterproductive to the institutions' aims (Spratt: 2009: 283). Nonetheless, the notion that the Bretton-Woods institutions are inherently self-serving and that the SAPs were solely an excuse to get involved in the domestic affairs of African states is also narrow. It disregards the fundamental foundations of International Finance Institutions and their goals to reduce poverty and assist in the reconstruction of world economies. It seems that critics of structural adjustment programmes go too far when claiming that they were designed to keep Africa economically

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subservient to the west. The development of the good governance agenda and the small success in economic reform in Ghana all show that the ideological intentions of the Bretton-Woods institutions were honourable, but made it economically dependent.

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