

**THE IMPACT OF INTERNATIONAL MONETARY FUND (IMF) AND THE WORLD
BANK STRUCTURAL ADJUSTMENT PROGRAMMES IN DEVELOPING
COUNTRIES. CASE STUDY OF KENYA**

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R52/70308/2011

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS OF THE DEGREE OF MASTER OF ARTS IN INTERNATIONAL
CONFLICT MANAGEMENT, INSTITUTE OF DIPLOMACY AND INTERNATIONAL
STUDIES (IDIS), UNIVERSITY OF NAIROBI**

NOVEMBER, 2013

DECLARATION

This project is my original work and has not been submitted for a degree to any other University.

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DEDICATION

This project is dedicated to my dear parents, Mr.Silvester Githua Karanja and Mrs. Serah Wanini Karanja for inculcating in me Christian values, ethic and desire to excel. They taught me the value of hard work, strength of character and the need to confront every problem head-on.

MAY GOD BLESS THEM MIGHTILY

ACKNOWLEDGMENTS

First and foremost, I would like to thank the Almighty God who gave me the energy and good health without which I would not have been able to undertake this study.

My sincere thanks also go out my Dad and Mum, Mr. & Mrs S.G Karanja, and my sister Eva Wanjuhi for all your love and support. In addition, the invaluable support of my brother and sister-in law Mr & Mrs Leonard Kungu, my brother Lawrence Karanja, my niece Wannini Kungu and nephew Leon Githua cannot be overlooked. To the rest of the extended Githua family, thanks for your support.

I express my sincere appreciation to my supervisor Dr. Anita Kiamba for the continuous support of my Masters Study and research, for her patience, motivation, enthusiasm and immense knowledge.

Special thanks go to my Mum Serah Karanja and my sister Eva Wanjuhi who stood in the gap and ensured all domestic and kitchen work was well done when I was busy pursuing my master's program.

I extend my sincere thanks to John Karu, Chief Economist Office of the Attorney General and Department of Justice for his advice and materials used in the accomplishment of this work.

Last but not the least, I would like to thank my friends Christine Njagi, Doreen Wairimu, Paul Kimotho, and Fred Michire, colleagues at the Office of the Attorney General and everyone that was in me along this journey for supporting me spiritually throughout my life and for being there for me even when things seemed tough and unbearable.

ABSTRACT

The main purpose of the study was to examine impact of IMF/ World Bank Structural Adjustment Programs on developing countries with their application in Kenya. The Globalization of the world economy especially since the Second World War has given rise to large global inequalities which has been responsible for an increase in the number and proportion of human population suffering from absolute poverty and starvation. Dependency theory, argues that the IMF and the World Bank policies and programs have indeed been heavily criticized for many years and have been seen as unhelpful and sometimes difficult to account, as they have led to increased dependency by developing countries upon wealthier nations. Data was mainly be derived from secondary and primary sources. The data collection tools for the secondary data that were in-depth information gathering, and document analysis. The study concludes that IMF/World Bank Structural Adjustment Policies increase poverty and cause underdevelopment. The study concludes that social sectors such as health and education are most affected by these policies as less money is put in social projects by governments' hence the underdevelopment.

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LIST OF ABBREVIATIONS

ECA	Economic Commission for Africa
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
HIPC	Highly-Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
ITO	International Trade Organization
LDCs	Least Developing Countries
MNCs	Multinational Corporations
MNEs	Multinational Enterprises
SALs	Structural Adjustment Loans
SAPs	Structural Adjustment Programs
UK	United Kingdom
UNCLA	United Nations Commission for Latin America
US	United States of America
WB	World Bank
WTO.	World Trade Organization

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

The challenge is to make globalization an instrument of opportunity and inclusion-not of fear and insecurity. Globalization must work for all.¹ Since the 1990s in an attempt to understand the nature and effects of the socio-economic changes that the world had long been undergoing since the 1970s, the phenomenon of globalization has been widely discussed in the social science and outside intellectual circles. Acceptably, there is no conclusive definition given to the term globalization. In certain aspects it may be seen as internationalization or the diminishing of importance of boundaries in many respects that go beyond trade and economic s or even the increase in the nature of connection between states whereby internal issues in one state may be affected by the happenings of affairs in other states. However, Globalization could be defined as, “a process as a result of which the world becomes more connected and more dependent on all its subjects.”² Globalization refers to the multiplicity of linkages and interconnections that transcend the nation-state (and by implication the societies) which make up the modern world system.³ Globalization is the removal of barriers to free trade and the closer integration of national economies.⁴

Globalization is often associated with “intensification of the worldwide social relations”, global economic integration, de-territorialization and time-space compression.⁵ The definition of

¹ Wolfensohn James, President ,World Bank, Los Angeles Times, July 18, 2001

² Grinin E.L. *Transformation of Sovereignty and Globalization* in Wolf M. *Globalization and Global Economic Governance*, (Oxford Review of Economic Policy,2004).

³ McGrew .A., *The Logics of Economic Globalization* in Ravenhill, J. (ed.) *Global Political Economy*(Oxford: OUP, 2005), p.276

⁴ Stiglitz J., *Globalization and its Discontents*, (Great Britain Penguin Press, 2002) p. ix

⁵ McGrew .A., *The Logics of Economic Globalization* in Ravenhill, J. (ed.) *Global Political Economy*. (Oxford:OUP,2008) p.27

globalization is vast and complex, and it is beyond the scope of this project to attempt to revise and criticize it. It is clear that the trend towards a more integrated world markets has opened a wide potential for greater growth, and presents an unparalleled opportunity for developing countries to raise their living standards. However, there has been the downside risks of this trend and concerns have arisen about the risks of marginalization of countries especially those in developing countries⁶. There are two contending opinions on the issue of globalization. There are those observers who believe that globalization has brought rapid prosperity to the underdeveloped countries while others argue that globalization serves the needs of metropolitan countries at the expense of peripheral countries. This project will critically look at these arguments supported by the dependency theory. This forms International Political Economy and of great importance is the interactions and tensions between global Economic Movements and territorially based political units (states). This will be explained further by looking at two global institutions, the World Bank and the International Monetary Fund whose activities we will critically analyze in this project.

Global Institutions such as the IMF and World Bank and Multinational Enterprises (MNEs) are main actors in International Political Economy⁷. The IMF, the World Bank (WB) and World Trade Organization (WTO) are commonly referred to as the three global institutions. Scholars have used the ideas of power, political interests, discourse, hegemony, responsibility and the power of practicability to examine critically the three institutions. Scholars have argued that the IMF and World Bank, were set up as US dominated institutes, as collective fronts for US International economy policy-arms, some might say, of a new world order characterized by the more subtle, effective imperialism.

⁶ Grinin E.L. *Transformation of Sovereignty and Globalization* in Wolf M. *Globalization and Global Economic Governance*, (Oxford Review of Economic Policy, 2004).

⁷ Moschella, M. *Governing Risk: The IMF and Global Financial Crises* (Palgrave Macmillan; 2010).

This research critically examines the impact of IMF and the World Bank programs in developing countries as regards structural adjustment programs and the debt burden. It concerns developing countries, and especially Kenya in East Africa's participation by it in the world economy hurts its prospects of sustained national economic growth. It argues that the IMF and the World Bank policies and programs have indeed been heavily criticized for many years and have been seen as unhelpful and sometimes difficult to account, as they have led to increased dependency by developing countries upon wealthier nations⁸.

According to Richard Peet, while the world was still engaged in the Second World War, 44 Nations, led by the USA and UK, met at Bretton Woods, New Hampshire, on 1st to 22nd July 1944 to discuss economic plans for post-war peace. Peet has argued that governing the international economy was an idea that was made possible by the anarchy of the inter-war period. In reaction governments/states sought to secure world peace and prosperity through international economic cooperation. This would be based on world market, in which capital and goods might move freely, regulated by global institutions operating on general predictability.⁹ Three regulatory institutions were envisaged: the IMF, the International Bank for Reconstruction and Development (IBRD), later known as the World Bank, and the International Trade Organization (ITO) which came into being only as the General Agreement on Tariffs and Trade (GATT), but much later became WTO.¹⁰ The Bretton Woods Institutions were supposed to govern agreed upon principles for conduct of economic affairs decided at the conference as stated in Article 1 of the Agreement, the IMF's purpose was to facilitate the expansion and balanced growth of International Trade and to contribute thereby to the promotion and

⁸ Moschella, M. *Governing Risk: The IMF and Global Financial Crises* (Palgrave Macmillan; 2010).

⁹ Peet R. *Unholy Trinity*, the IMF, World Bank and WTO. (Wits University Press, Zed Books 2003) p. 26

¹⁰ Ibid

maintenance of high levels of employment and real income and to the development of productive resources of all members as primary objective of economic policies.¹¹

The IMF loan facilities since 1977 have been extensively used by Third World and Post-Communist Countries. IMF and World Bank lend to countries with balance of payments difficulties. This financial assistance is designed to help countries restore macroeconomic stability by rebuilding their international reserves, stabilizing their currencies and paying for imports, all necessary conditions for growth. Further, it provides concessional loans to low income countries to help them develop their economies and reduce poverty. This are in form of stand-byes, extended arrangements, structural adjustment facilities and enhanced structural adjustment facilities (recently renamed Poverty Reduction and Growth Facilities)¹².

World Bank adjustment lending includes structural adjustment loans, sectoral structural adjustment loans and structural adjustment credits (the latter is concessional for low income countries).Associated with these loans are macro-economic conditions like reducing budget deficits, devaluation, and reducing domestic credit expansion. Other structural conditions include freeing controlled prices and interest rates, reducing trade barriers, and privatization of state enterprises. Structural Adjustment Programs (SAPs) generally require countries to devalue their currencies against the dollar, lift import and export restrictions; balance their budgets and not overspend; and remove price controls and state subsidies. Devaluation makes their goods cheaper for foreigners to buy and theoretically makes foreign inputs more expensive. In principle it should make the country wary of buying expensive foreign equipment. In practice, however, the IMF actually disrupts this by rewarding the country with large foreign currency loan that

¹¹ Scammell W.M., *International Monetary Policy: Bretton Woods and After*,(London: Macmillan 1973)p.119

¹² Joicey, N. and Pickford, S. "The International Monetary Fund and Global Economic Cooperation" in Nicholas Bayne and Stephen Woolcock, *The New Economic Diplomacy: Decision-Making and Negotiation in International Relations*, (Ashgate Publishing, 2011).

encourages it to purchase imports. By devaluing the currency and simultaneously removing price controls, the immediate effect of SAPs is generally to hike prices up three or four times, increasing poverty¹³.

Further, balancing national budgets can be done by raising taxes, which IMF frowns upon, or by cutting Government spending, which it recommends. As a result SAPs resulted in deep cuts in programs like education, health and social care, and the removal of subsidies designed to control the prices of basics such as food and milk. So SAPs hurt the poor most, because they depend heavily on these services and subsidies. This is a historical research which attempts to analyze on the impact these programs had generally in the countries they were implemented and more so in East Africa specifically in Kenya.

Bearing in mind that economy is just one dimension of a complex phenomenon called globalization, the objective of this project is to evaluate the following statement by Stiglitz: “Globalization can be a force for good and has the potential to enrich everyone in the world and more so the poor. However, the way globalization has been managed, including the international trade agreements that have played a large role in removing those barriers and the policies that have been imposed on developing countries in the process of Globalization needs to be radically rethought.”¹⁴

Others base their arguments on the fact that after the end of the cold war, Africa and more so East Africa lost its strategic significance which coupled with the liberal ideology and globalization process has exposed the continent and the sub region to all forms of conflicts.¹⁵

¹³ Scammell W.M., *International Monetary Policy: Bretton Woods and After*, (London: Macmillan 1973)p.119

¹⁴ Stiglitz J, *Globalization and its Discontents*, op.cit p.ix

¹⁵ A. A.Mazrui; Conflicts in Africa: An Overview, in Nhema & Zeleza (ed) *The Roots of African Conflicts, The Causes and Costs*, (Athens:Ohio University Press,2008),pp 36-51:41

Once a country or region has been engulfed by conflicts, it takes time before things return to normal because the country finds itself in a cycle of violence that takes time to break.¹⁶

The Globalization of the world economy especially since the Second World War has given rise to large global inequalities which has been responsible for an increase in the number and proportion of human population suffering from absolute poverty and starvation.¹⁷ East Africa has not fully benefited from globalization as it has existed at the margins of global development. East Africa has lagged behind in global development especially in areas of trade and investment despite financing from the IMF. The activities of IMF and its effect in developing countries specifically in Kenya is what the project seeks to explore as East Africa seeks to re-engineer its development process. This research study seeks to analyze the impact of IMF Structural Adjustment Policies in Kenya and the problem of the debt burden. Lastly are conclusions on the findings of the study, recommendations and the suggested possible directions for further research.

1.1 Statement of the Research Problem

Institutions that govern Globalization such as the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO) are main actors in the International Political Economy and more so Globalization. Other actors include Multinational Enterprises/Corporations (MNE/MNCs) and Regional Arrangements. These serve as important frameworks within which national governments, private firms and non-governmental actors seek to influence the operations of the international economy. The IMF and the World Bank were

¹⁶ Sambani, N. Breaking the Conflict Trap: War and Development Policy (Washington D.C: World Bank , 2003.) pp.53-91:53.

¹⁷ Shapcott R, International Ethics, in Baylis J, et al, *The Globalization of World Politics: An introduction to International Relations*, 5th ed(Oxford:OUP, 2011) p.207

created after World War II to assist in the reconstruction of Europe and provide mechanisms for international cooperation in managing the global financial system. However, their functions have been critiqued as some have argued that they act to advance the interests of developed countries. After all, nation states hardly act out of love but in pursuit of self-interests. Developed countries have advanced their national interests at the expense of developing countries including those in Africa and specifically those in East Africa and more so for Kenya, thus making them poorer than they had been by imposing conditions before these developing countries can even benefit from the financial loans given by these global financial institutions. Policies such as Structural Adjustments Programs (SAPs) that were imposed on these countries by the IMF have had negative impact on the region's economy and that of state entities which are in the verge of extinction with regard to global development. This is more so, in areas of trade, investment finance and production.¹⁸

SAPs advanced the globalization agenda of the IMF and World Bank. Associated with these loans are macro-economic conditions like reducing budget deficits, devaluation, and reducing domestic credit expansion. Other structural conditions include freeing controlled prices and interest rates, reducing trade barriers, and privatization of state enterprises. State-owned resources are to be sold whether they generate a fiscal profit or not.¹⁹ SAPs generally require countries to devalue their currencies against the dollar, lift import and export restrictions; balance their budgets and not overspend; and remove price controls and state subsidies. Devaluation makes their goods cheaper for foreigners to buy and theoretically makes foreign inputs more

¹⁸Said Adejumobi, *Globalization and Africa's Development Agenda: From WTO to NEPAD*, Occasional Paper, No. 12 (Addis Ababa; Development Policy Management Forum-DPMF,2003)p.2

¹⁹ Cardoso and Helwege, *Latin America's economy*(Cambridge, MA:MIT Press, 1992)

expensive²⁰. In principle it should make the country wary of buying expensive foreign equipment. In practice, however, the IMF actually disrupts this by rewarding the country with large foreign currency loan that encourages it to purchase imports. By devaluing the currency and simultaneously removing price controls, the immediate effect of SAPs is generally to hike prices up three or four times, increasing poverty.

Further, balancing national budgets can be done by raising taxes, which IMF frowns upon, or by cutting Government spending, which it recommends. Pettifor and Hanlon, have noted that, top-down “conditionality had undermined democracy by making elected governments accountable to Washington based institutions instead of their own people.” The potential for unaccountability and corruption therefore increases as well.²¹As a result SAPs resulted in deep cuts in programs like education, health and social care, and the removal of subsidies designed to control the prices of basics such as food and milk. So SAPs hurt the poor most, because they depend heavily on these services and subsidies. This threatened and continues to threaten state sovereignty, autonomy and nationhood when these international organizations impose authority over states.

Globalization has changed the way people think by ideas of democracy and emergence of civil society groups. Globalization has led many people to attain a high standard of living in ways economist never thought of some time ago. By encouraging foreign investments countries have benefit by finding new markets for their exports. However, for millions of people especially, those in East Africa globalization has not worked.²² It is hurting the same people it was meant to help. Many have seen their jobs destroyed and have become insecure. Democracies

²⁰ Shapcott R, International Ethics, in Baylis J, et al, *The Globalization of World Politics: An introduction to International Relations*, 5th ed(Oxford:OUP, 2011) p.207

²¹ Smith A., *Wealth of Nations*, Books IV; Chapter VIII,(Everyman’s Library, Sixth Printing,1991)p.577

²² Stiglitz J., *Globalization and its Discontents*, op. cit p. 2

have been undermined and cultures eroded. Those who have been left out of this global village have continued to be a threat to state security as they have felt powerless against forces above them.

This study identifies and examines the role played by IMF/World Bank Structural Adjustment Programmes (later known as Poverty Reduction and Growth Facilities and now known as Extended Credit Facility) in socio-economic development. Child mortality and malnutrition worsened in these East African countries, and more so Kenya. According to UNICEF, over 500,000 children under the age of five died each year in Africa and Latin America in the late 1980s as a direct result of the debt crisis and its management under IMF's SAPs. Extrapolating from the UNICEF data, as many as 5,000,000 children and vulnerable adults may have lost their lives in the blighted continent as a result of the debt crunch.²³ These harsh economic measures have deepened poverty, undermined food security and self-reliance and lead to unsustainable resource exploitation, environmental destruction, and population dislocation and displacement. These according to Mwagiru²⁴ are non-military security threats to human security. These factors point out that societies in all conflict phases are fragile and in danger of igniting, sustaining or regressing to open armed conflict.²⁵ It can be inferred that it is no wonder that Africa including the Horn of Africa experience many conflicts from around the same time these SAPs were introduced. Peace and Security are necessary for sustainable social-economic growth and development which the IMF and World Bank wanted developing Countries to achieve.

²³ Ross P. Buckley, *the Rich Borrow and the Poor Repay*; The Fatal Flow in in International Finance World Policy Journal, Volume XIX, No. 4 Winter 2002/03

²⁴ Mwagiru M., *Human Security Setting the Agenda for the Horn of Africa*, (Nairobi: Africa Peace Forum,2008)p.18

²⁵ Ibid

1.2 Objectives of the Study

The overall objective of the study is to critically analyze the impact of IMF-World Bank Structural Adjustment Policies as Challenges of Globalization in Kenya. More specifically the study aims at:

1. Analyze the impact of IMF-World Bank Structural Adjustment Policies in Kenya
2. Explore the linkage between dependency and underdevelopment in Kenya

1.3 Literature Review

The literature review revolves around the following issues which also form the sub-titles: Globalization, The World Bank and the IMF have made their loans contingent upon debtor nations deploying sweeping structural adjustment programs. Enforcement of structural adjustment as a condition for receiving IMF and World Bank loans serves to integrate debtor nations into the world-system in ways that advantage transnational corporate and financial interests in the First World at the expense of the economic and social interests of citizens in the Global South. Although external conditions such as virtual monopoly status of transnational corporations, global commodity price variations, aggressive exporting, and protectionism practiced by industrial nations can destabilize a nation's recovery from economic crisis, these nations are held solely responsible for repayment of IMF and World Bank debt. This fact tends to reinforce their dependence on external loans to address economic problems that may be less national than global, Structural Adjustment Programmes (SAPs) are economic policies for developing countries that have been promoted by the World Bank and International Monetary Fund (IMF) since the early 1980s by the provision of loans conditional on the adoption of such policies. Structural adjustment loans are loans made by the World Bank. They are designed to

encourage the structural adjustment of an economy by, for example, removing “excess” government controls and promoting market competition as part of the neo-liberal agenda followed by the Bank, and their impact in Kenya.

1.3.1 Globalization

Globalization is not a new phenomenon. The history of globalization is long, and has taken many different forms. However, the history of modern capitalist globalization started in the 19th Century with British imperialism²⁶. Trading activities, the mechanism of exchange between two parties is as old as history, but the history of capitalism not only as a simple system of trade rather, as a distinctive mode of production can be traced back to the 19th century. As Colas has argued,

“It was with the globalization of capital under nineteenth-century British hegemony that the world market emerged as a distinctive social domain governed by a specific form of exchange-what the influential social theorist Karl Polanyi called ‘the price-making market’²⁷.”

According to Polanyi ‘the price-making market’ differed from previous forms of exchange based on reciprocity, under the former rents could be extracted from land, the production of food became dependent on a competitive market, and ‘labor turned into a commodity free to be purchased in the market’.²⁸ This kind of market is driven by profit and constant capital accumulation that need to be reinvested.

It can be said that the ‘price-making market’ process started in England in the sixteenth century with the ‘enclosures’ of the fields and it was consolidated under the British hegemony in 19th century. For that reason, it is impossible to write about capitalism and the development of

²⁶ Shapcott R, International Ethics, in Baylis J, et al, *The Globalization of World Politics: An introduction to International Relations*, 5th ed(Oxford:OUP, 2011) p.207

²⁷ Colas, A. *Empire* (Cambridge: Polity Press, 2007) p.72

²⁸ Shapcott R, International Ethics, in Baylis J, et al, *The Globalization of World Politics: An introduction to International Relations*, 5th ed(Oxford:OUP, 2011) p.207

the international market without mentioning the industrialization of England and its national and international implications.

The era of the advent of the industrial revolution saw an unprecedented increase in world trade and growing international economic integration into an open and multilateral economy system reinforced by British hegemony and facilitated by the adoption of the gold standard. However, it can be argued that 19th century international economy was more integrated into a more multilateral and open system compared with the current phase.

Globalization began with global expansion of products, but today services are also globalized. Issues of politics, business, and culture come into play. So does technology, security, environment and other aspects of human relations. It separates barriers including those of national states creating a global village. Within the political economy debates, globalization is used to refer to the process of integration and interdependence of national economies under a single world economy. Globalization is also perceived as a political project of the United States following the collapse of the Soviet Union for the expansion of free market, liberal democracy, and internationalization of neoliberal policies.²⁹ At the heart of globalization is the question of the state. According to the Realism theory the state is the main actor, if not the only actor in international relations. However, with globalization the state has been weakened and statehood threatened.

Opening up to international trade has helped many countries grow far more quickly than they would have done. By bringing out the drivers of globalization, Multinational Corporations (MNCs) activities, Global Institutions such as the World Bank, International Monetary Fund(IMF) and World Trade Organization(WTO), Regional Entities interact with States to

²⁹Kiely, R., *The Clash of Globalizations: Neo-liberalism, the Third way and Anti-Globalization*, (Brill:2005)

produce International Political Economy. Of interest to this project on the three institutions is the role of IMF/World Bank as drivers of globalization in East Africa³⁰.

The polarized debate over the effects of economic globalization which is, the international integration of markets for goods, services and capital. Supporters not only claim that globalization is good for international business; they also consider it the best way to enrich and empower poor people and poor countries. But for critics, globalization only lines the pockets of a small global elite at the expense of labor, developing countries and the planet, and there is little eviscerated national governments can do about it³¹.

The age old push and pull of distributive and partisan politics over the spoils of the market is at least partially responsible. But the scholarly community has not helped—and not because of lack of effort. Studying the effects of globalization on the economy and on politics is a growth industry across the social sciences. The problem is that no consensus has yet emerged from all this research, for two reasons. Measuring globalization is notoriously difficult and contested.

From the standpoint of mainstream economic theory, the answers to these questions are clear. Since Adam Smith at least, it has been an article of faith that openness to the international economy is good for national economic growth. This has been the liberalist's point of view that private powers should have more freedom to operate at the expense of government powers. They argue that rules or regulations are not good for free trade. Ricardian theory of “comparative advantage” still provides the basic rationale: openness (to both trade and international capital) allows countries to specialize in (and then to export) their comparative advantage while importing products in which they are disadvantaged. Other arguments, such as the importance of

³⁰ Woods, N. *The Globalizers: The IMF, the World Bank, and Their Borrowers*, Ithaca, 2006

³¹ Shapcott R, International Ethics, in Baylis J, et al, *The Globalization of World Politics: An introduction to International Relations*, 5th ed(Oxford:OUP, 2011) p.207

openness to realizing economies of scale, have been added to the equation over time. But these only reinforce the mantra that openness is good.

Globalization should be particularly beneficial in developing countries. Poorer countries should always be “catching up” up to richer ones—because it is easier to borrow technology than to invent it and because labor tends to be more productive with lower costs per unit.

The radical position shares with the Dependency School the idea that the world economy has always been characterized by global inequalities, with core-periphery dichotomies, now understood as a “deepening North-South divide”³².³³The transformationalist analysis suggests we need to explore the evermore complex and dynamic patterns of global hierarchy, given that old core-periphery or North-South divides are giving way to a qualitatively different global division of labour in which hierarchies are no longer geographical but social.³⁴ Within this perspective, there is a growing acknowledgement that globalization processes are strongly associated with an intensification of global inequalities, both between and within countries.³⁵

Globalization is devastating the lives of millions of people. Even the World Bank admits that in the case of the ex-Soviet bloc 'transition has relegated an entire generation to economic idleness.' Output in Russia fell by 40 per cent between 1990 -1995 and between 16 and 30 per cent in the other countries. Growth has been falling over the last 15 years in about 100 countries, with almost a third of the world's people, dramatically reducing the incomes of 1.6bn people. The declines are unprecedented, exceeding in duration and sometimes in depth the Great Depression of the 1930s. One billion people, 30 per cent of the world's workforce, are either

³² Basil, D., *The Black Man's Burden: Africa and the Curse of the Nation State*, (New York, Times Books, 1992)pp . 31-49

³³ *ibid*

³⁴ Hoogevelt, A, *Globalization and the Postcolonial World: The New Political Economy of Development*, (Macmillan:London,1997).

³⁵ Bhalla, AS and FLapeyre , , “Global integration and social exclusion with special reference to Poland and Hungary”, *European Journal of Development Research* Vol 11,1999 , No 1, pp 101-124

jobless or unemployed. Even in the imperialist countries 100m people live below the poverty line, 30m are unemployed and more than 5million are homeless.³⁶

It is important to distinguish between the politics of globalization (the political drivers of the process of globalization) and the globalization of politics (the displacement of political responsibilities and capacities from the level of the nation state through the emergence of institutions and processes of global governance). Globalization has politics whether or not politics has become globalized

1.3.2 Drivers of Globalization/Aspects of Globalization

With improvements in transport and communication, international business grew rapidly. International business arrangements have led to the formation of multinational enterprises or corporations.

Multinational Corporations

The increased emergence of MNCs in the post-1960 era, and subsequently in 1971-3 the collapse of the Bretton Woods system semi-fixed exchange rate regime , saw an increased reorganization of production and the expansion of foreign direct investments (FDI) overseas. Both trends are often thought as heralding a dramatically integrated and interconnected world economy.³⁷ Foreign Direct Investments is a practice conducted by Multinational Corporations; the latter is any company with clear national base that possess productive capacities abroad. The reorganization of production on an international scale is an evidence of interdependence in the world economy, although contrary to what is commonly thought the majority of MNCs are very

³⁶ Figures from *The World Development Report* OUP 1996 and *The Human Development Report* OUP 1996.

³⁷ Hirst, P & Thompson, G. *Globalization in question*, (Cambridge: Polity Press, 1999)

well rooted to a national base. MNCs influence host governments with their terms and policies. Lilienthal was the first to use the term MNC to such companies back in the 1960, after that the concept became widely used.³⁸

Capital flows is another trend that shows to what extent the economy is integrated, they contribute to the growth of trade and real income in the world economy. Nowadays they can take the form of FDI under the agency of MNC. In the 19th century Britain acted as the major source of supply of capital followed by France, and later Germany. From 1830 to 1870, 27 per cent of foreign investments went to Europe, 24% to North America, 19% to Latin America, 16% to Asia, 9% to Africa, and 5% to Oceania.³⁹

Since the 1990s there has been an increase in the amount of FDI, which in 1995 contributed to only 5.2% of world investments, and its inward flows amounted to 10.1% of world GDP. Still the majority of capital to invest has come from national sources.⁴⁰ In spite of the increase of FDI in the recent period, the direction of the flows has been highly concentrated. As Kiely states,

Figures for the year 1999-2000 show that FDI inflows to the developed world constituted 80 per cent of total FDI and the proportion going to developing countries constituted only 17.9 per cent.⁴¹

The activities of the Multinational Corporations and Foreign Direct Investments are often said to be the vectors of globalization. The former is said to have heralded the globalization of production contributing to a phase of increased interdependence, and is often seen as a novelty.

³⁸ Fieldhouse, D.K. *The multinational, a critique or a concept* in Alice Teichova *et al* (eds.) *Multinational Enterprise in historical perspective*, (Cambridge: Cambridge University Press, 1986)

³⁹ Kenwood, A. G & Lougheed, A.L., *The growth of the international economy 1820-2000* (London: Routledge, 1996)

⁴⁰ Hirst, P & Thompson, G. *Globalization in question*, op.cit

⁴¹ *UNCTAD Report 2002b*, p.5 and cited at Kiely, 2007, p.132

There is also the idea that these companies are ‘footloose’ and that they can relocate to any country that offers great advantages to them. It will be argued that internationalization of business activities is not something peculiar to the contemporary phase of economic globalization, and it is an illusion to think of them as ‘footloose’ as the Multinational Corporations maintain a clear home base.

It is well known that capital flows is a pattern that contributes to integration in the international economy. Foreign Direct Investments, one of the practices conducted by MNCs has been increasing since the last three decades but its direction has been highly concentrated, and it is often used to finance mergers and acquisition of local companies in the recipient countries by the MNCs.⁴²

Secondly, concerning labour migration and the creation of an international labour market it can be argued that, if an open international market for labour existed it was in the 19th century. Labour migration is another pattern used to measure integration; in comparison with 19th century perspectives, currently integration of labour market is more limited and less integrated as labour migration is restricted and even rejected.

Thirdly, one peculiar and interesting pattern of today’s economic globalization, namely regionalism contributes for the argument that trade activity is more concentrated and segmented than it used to be in the open multilateral system of the 19th century. It will also be argued that the trend of regionalization of trade activity is an obstacle to a more liberalized and multilateral system of trade. Again when this trend is compared against 19th century perspectives it can be concluded that contemporary economic globalization is more limited than some may think.

The current period of liberalization and reductions of barriers applies for trade, services, goods, capital among others but does not apply for the movement of labour across borders. Concerning

⁴² *Ibid*

the movement of labour, what we see today is the opposite. There has been a growing imposition of policy restriction by recipient countries, namely the developed states of the North, to the movement of labour, dramatically increased after the events of 11th September.

The middle of the 19th century “marks the beginning of the greatest migration of people in history”,⁴³ it can be said that in that period of history an integrated and open market for labour existed, the same cannot be said about current globalization. In the current economic globalization, we have not yet seen the rise of an international market in labour migration.

The great movement of labour was due to the socio-economic transformation brought about by industrialization, men were uprooted from their traditional socio-economic relations of production. The majority of people to emigrate did it for overwhelmingly economic reasons; they constituted rural population and artisans that saw their economic and social life transformed by industrialization and the imperatives of the market. The concentration of labour generated by these events soon became a matter of policy of state, for that reason immigration in the 19th century was accepted, encouraged, and financed by states with a number of unemployed population and by recipient states in need of labour.

Nowadays the migration of labour has become a problem of national security of some of developed states of the North, restrictions and surveillance is implemented to contain the movement. In comparison with the 19th century the integration of the labour market is restricted and even rejected, it cannot be said that there is an open international market for labour.

1.3.3 The International Monetary Fund

The IMF was to be a supra-National body essentially with two functions. it was to regulate the rates at which currencies were exchanged among member countries; it would help

⁴³ Hobsbawm, E. *The Age of Capital 1848-1875*, (Abacus, 1997).

ensure international stability by making loans at times of crises in member countries' balance of payments.⁴⁴ Peet has argued that although its mission statement has remains essentially the same, the IMF has undergone changes, that have resulted in an overall accumulation of power and influence. Today the IMF is probably the single most powerful non-state (governance) institution in the world whose policies affect the economies of 184 countries.⁴⁵These policies sometimes drastically and often disastrously influence the lives of vast majority of the world's people. According to Shah, he argues that debt is an efficient tool .It ensures access to other peoples 'raw materials and infrastructure on the cheapest possible term. Many developing nations are in debt and poverty partly due to the policies of IMF and the World Bank. Their programs have been heavily criticized for many years for resulting in poverty. This has seen developing countries increased dependency on the richer nations. This is despite these two institutions claim that they will reduce poverty.⁴⁶ Structural Adjustment Programs (SAPs) are economic policies for developing countries that have been promoted by the World Bank and International Monetary Fund (IMF) since the early 1980s by the provision of loans conditional on the adoption of such policies.⁴⁷They are designed to encourage the structural adjustment of an economy by, for example, removing "excess" government controls and promoting market competition as part of the neo-liberal agenda of Globalization followed by the Bank. They were developed in the early 1980s as a means of gaining stronger influence over the economies of debt strapped governments in the South. Macro-economic crises spread across Africa and Latin America during this time,

⁴⁴ Peet R. *Unholy Trinity*, the IMF, World Bank and WTO. (Wits University Press, Zed Books 2003) p.56

⁴⁵ Ibid

⁴⁶ Shah A. 'Structural Adjustment-a major cause of poverty; Global Issues <http://www.globalissues.org>. Accessed on 13/07/2013.

⁴⁷ Collier P. et al, 'The IMF's role in Structural Adjustment', *The Economic Journal* Vol.109 No.459 (November, 1999) pp. F634-F651:p F634

the IMF became involved in low-income countries.⁴⁸ To ensure continued flow of funds, East African Countries already devastated by debt obligations especially due to colonization had little choice but to adhere to the conditions mandated by the IMF and World Bank.

The Enhanced Structural Adjustment Facility is an IMF financing mechanism to support of macro-economic policies and SAPs in low-income countries through loans or low interest subsidies.⁴⁹SAPs policies reflect the neo-liberal ideology that drives globalization. They aim to achieve long-term or accelerated economic growth in poorer countries by restructuring the economy and reducing government intervention. SAPs policies include currency devaluation, managed balance of payments, reduction of government services through public spending cuts/budget deficit cuts, reducing tax on high earners, reducing inflation, wage suppression, privatization, lower tariffs on imports and tighter monetary policy, increased free trade, cuts in social spending, and business deregulation.⁵⁰ Governments are also encouraged or forced to reduce their role in the economy by privatizing state-owned industries, including the health sector, and opening up their economies to foreign competition.⁵¹.According to Hanhel, some of the structural adjustment programs include monetary austerity, fiscal austerity, privatization and fiscal liberalization.⁵²The IMF imposes its own economic beliefs on countries that might wish to develop differently. IMF loans then become a point of tension at which social struggles within a society articulate with tensions between the society and the global system, with two main institutes-the national State and the IMF at the center of controversy. The IMF then extracts

⁴⁸ *Ibid*

⁴⁹ Collier P. et al, 'The IMF's role in Structural Adjustment', *The Economic Journal* Vol.109 No.459 (November, 1999) pp. F634-F651:p F634

⁵⁰ Collier P. et al, 'The IMF's role in Structural Adjustment', *The Economic Journal* Vol.109 No.459 (November, 1999) pp. F634-F651:p F634

⁵¹ <http://www.who.int/trade/glossary/story084/en/> accessed on 22/06/2013

⁵² Hanhel R., *Panic Rules!*(Sound End Press, 1999)p.52

conditions that favour repayment at the expenses of poor and working people.⁵³By joining the IMF developing countries surrendered their some of their sovereign economic rights especially over how to set their exchange rates, in return for collective conditions of exchange stability, orderly exchange arrangements, the avoidance of competitive exchange depreciation, and a liberal regime of international payments.⁵⁴According to Payer Third World Countries joined the IMF in the 1960s .In the late 1960s and 1970s,the IMF insisted in the adoption of ‘stabilization programs’ as a prerequisites for standby and other financial arrangements. These included programs such as abolition or liberalization of foreign exchange and import controls, exchange rates devaluation and greater hospitality for foreign private investments.⁵⁵

Under the guise of stabilizing the balance of payments situation in a country, the IMF engaged in the ‘financial programming’ of an applicant country’s monetary, fiscal and other economic policies under the general term ‘conditionality’ and employing its powers of Article iv surveillance. In return to using the IMF’s general resources and standby arrangements, members were encouraged to adopt corrective measures in accordance with funds Policies. The IMF thus introduced adjustment programs with members, including corrective measures that would enable the fund to approve a standby agreement. According to Peet, in the late 1970s, the IMF assumed greater powers of control over longer term economic policies through structural adjustment programs.⁵⁶

⁵³ Collier P. et al, ‘The IMF’s role in Structural Adjustment’, *The Economic Journal* Vol.109 No.459 (November, 1999) pp. F634-F651:p F634

⁵⁴ De Vries, M.F.,*The IMF in a Changing World 1945-85.*(Washington:DC IMF,1986)p.15

⁵⁵ Payer C. *The Debt Trap: The International Monetary Fund and the World Bank*, (New York: Monthly Review Press,1974)p.33

⁵⁶ Collier P. et al, ‘The IMF’s role in Structural Adjustment’, *The Economic Journal* Vol.109 No.459 (November, 1999) pp. F634-F651:p F634

1.3.4 The World Bank

IMF and World Bank both originated after World War II as a result of a UN Monetary and Financial Conference at Breton Woods, New Hampshire in 1944. The negotiations culminated into their existence in 1945.⁵⁷ They were to save the world from future economic depressions following Europe's devastation after World War II. The difficult task though was assigned to the IMF of ensuring global economic stability while the World Bank was to give loans to developing countries for long term development.⁵⁸ The Bretton Woods agreement called for a third international economic organization a World Trade Organization (WTO) to govern international trade relations, a job similar to IMF governing of financial relations.⁵⁹

According to Peet, at Bretton Woods discussion about the formation of international organizations dwelt exclusively on the IMF. The IBRD, which later became known as the World Bank was a mere afterthought.⁶⁰ The purposes of the World Bank as stated in Article (I) of the original Bretton Woods Articles of Agreement include, assisting in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, arranging loans made or guaranteed by it in relation to international loans among others.⁶¹

The World Bank and IMF policies are very different now from their original intent as summarized by John F. Henning Centre for International Labour Relations. Originally the IMF was envisioned to promote steady growth and full employment by offering unconditional loans to economies in crises and establishing mechanisms to stabilize exchange rates and facilitate currency exchange. Much of this vision was never born. However, instead pressured by the US

⁵⁷ Stiglitz J., *Globalization and its Discontents*, (Penguin Press: Great Britain, 2002) p.15

⁵⁸ *Ibid*

⁵⁹ *Ibid*

⁶⁰ Peet R. *op.cit* p.111

⁶¹ Collier P. et al, 'The IMF's role in Structural Adjustment', *The Economic Journal* Vol.109 No.459 (November, 1999) pp. F634-F651:p F634

representatives the IMF took to offering loans based on strict conditions, later they became known as structural adjustment or austerity measures, dictated largely by the most powerful member nations.

Critiques charge these policies have decimated social safety nets and worsened tax labour and environmental standards in developing countries. The World Bank was created to fund rebuilding of infrastructure in Nations ravaged by World War II. Its vision too, however, soon changed. Many Activists and Scholars contend that the World Bank aggressive dealings with developing countries, which was often ruled by dictatorial regimes, exacerbated the developing world's growing debt crisis and devastated local ecologies and indigenous communities. Both IMF and World Bank Policies remain a source of heated debate.⁶²

It is important to note that although their goals are slightly different, the IMF and World Bank Policies complement each other. Despite these differences, the World Bank and IMF structural adjustment programs reinforce each other. One way is called “Cross-conditionality” which means a government must first be approved by the IMF before qualifying for an adjustment loan from the World Bank. Their agendas overlap in the financial sector in particular. Both work to impose fiscal austerity and to eliminate subsidies for workers, for example.⁶³

1.3.5. Impact of IMF Structural Adjustment Programs and the Debt Burden in developing countries

According to Greenberg, SAPs are policies or conditions for getting new loans from the two institutions, or for obtaining lower interest rates on existing loans. Conditionality's are

⁶² Henning J.F. Centre for International Labour Relation, Institute for Industrial Relations(University of California, Berkley)

⁶³ Colgan, A.L, *Hazardous to Health*, The World Bank and IMF in Africa,(Africa Action, April 18, 2002)

implemented to ensure that the money lent will be spent in accordance with the overall goals of the loan. SAPs are created with a goal of reducing the borrowing countries fiscal imbalances.⁶⁴

SAPs have been imposed to ensure debt repayment and economic restructuring which has forced developing countries to reduce spending in health, education and development, while debt repayment policies have been made the priority.⁶⁵

The problem affecting these two financial institutions IMF and World Bank is that of governance with developing countries of the South including those in East Africa having no voice in decisions made against them. Joseph Stiglitz one of the most cited economist in the world, and a former chief economist at the World Bank, who 'resigned' under pressure from criticisms he made of the IMF and World Bank noted that the two institutions go about its business without asking too many questions. In theory, the fund supports democratic institutions in nations it assists .In practice, it undermines the democratic process by imposing policies.⁶⁶ This threatens state sovereignty, autonomy and nation hood when international organizations such as these impose authority over states.

The following are some of the pronounced effects or impacts of IMF and World Bank Programs in developing countries including Kenya, as a result of SAPs. They include impact on National sovereignty, Agriculture, Exportation of Raw materials, Education, Environment, Health, Corruption and Involuntary Resettlement .Above all the debt burden has continued to increase. Stiglitz has aptly captured the grim picture caused by the burden of debt as a result of IMF and World Bank Programs in developing countries. He noted that around the world, from Argentina to Moldava from Africa to Indonesia, debt poses a burdensome problem for

⁶⁴ Greenburg J., A Political Ecology of Structural Adjustment Policies: The case of the Dominican Republic (Culture and Agriculture,1997) pp.85-93

⁶⁵ Shah A.,*Structural Adjustment* –a major cause of poverty, Global issues <http://globalissues.org>(accessed on 13/7/2013)

⁶⁶ Stiglitz J., *What I learnt at the World Economic crisis*, The insider, the New Republic, April 17, 2000 of SAPs

developing countries. Occasionally, the consequences of debt are dramatic, as with debt crisis, but more commonly the debt burden show its face as countries struggle to avoid default. Money should flow from rich countries to poor ones, but partly because debt repayments have become so large in some years the flow of funds have been moving in opposite direction.⁶⁷

Kenyan public and publicly guaranteed debt increased from Kshs 1,229,406 million or 51.0 percent of GDP in June 2009/ 2010 to Kshs 1,487,110 million which or 53.9 percent of GDP in June 2010/2011. External debt rose from Kshs 569,113 million or 23.6 percent of GDP to Kshs 722,888 million or 26.2 percent of GDP over the period under review.⁶⁸ Similarly, external debt increased from Kshs 569, 1138 million in 2010 to Kshs 722,888million in 2011. As a percentage of GDP, external debt increased from 23percent to 26.2 percent.⁶⁹ The increase in the external debt was due to the weakening of the Kenya shilling against other major currencies of the world .Government domestic debt consists of stock of Government securities which comprise Treasury Bills and Treasury Bonds, Long term Stocks, Government Overdraft at Central Bank of Kenya and Pre-1997 Government Debt.⁷⁰ The increase of debt has been in the increase despite such programs having been put in place.

The IMF and World Bank argued that SAP's were necessary to bring developing countries including those in East Africa from a crisis to economic recovery as the national wealth of nations would trickle down to the poor.

Developing Countries undertook currency devaluation measures which increase export while they reduce the value of domestically produced goods. They were to liberalize trade and investment and high interest to attract foreign investment, IMF had insisted on Kenya for

⁶⁷ Stiglitz J., *Making Globalization Work*,(Penguin Press;Great Briatain, 2006)p.212

⁶⁸ Republic of Kenya Ministry of Finance, Annual Public Debt Management Report July 2010- June 2011 p.2

⁶⁹ Ibid

⁷⁰ Ibid p.7

example, and other East African countries liberalizing its financial markets; believing that competition among banks would give lower interest rates.⁷¹ As a result of this there were fourteen banking failures in Kenya between 1993 and 1994.⁷² There were inadequate bank legislation and supervision as local and indigenous banks grew rapidly. High interest rates which had resulted from following IMF's advice, among other problems led the countries' economies to sink downwards. Further, these programs involved abolishing food and agricultural subsidies to reduce government expenditure even though the Developed countries subsidize their Agriculture. Deep cuts in social programs usually in areas of health, education, and housing including massive layoffs in the civil service. Further, a shift from growing diverse food crops for domestic consumption to specializing in the production of cash crops or other commodities like cotton, coffee, tea, copper for export. Lastly, the programs advocated for privatization of government held enterprises. The IMF/World Bank approach on lending to East African Countries was that of a colonial ruler. It was not interested in hearing the thoughts of its client countries on topics such as development strategies.

SAPs have thus increased the gap between the poor and the rich nationally, regionally and globally. From the start SAP's and the IMF/ World Bank involvement in them has been criticized that they would hurt the poor, mainly through reductions in public expenditures on the social sector such as health, education and other social services from which the poor benefitted.⁷³ Child mortality and malnutrition worsened in these East African countries. These harsh economic measures have deepened poverty, undermined food security and self-reliance and lead to unsustainable resource exploitation, environmental destruction, and population

⁷¹ Stiglitz J, *Globalization and its Discontents*, op.cit p.32

⁷² *Ibid*

⁷³ Cornia *et al*, *Adjustment with a Human Face. Protecting the Vulnerable and Promoting Growth*, (Oxford:Clarendon Press,1987).

dislocation and displacement. These according to Mwangiri⁷⁴ are non-military security threats to human security. These factors point out that societies in all conflict phases are fragile and in danger of igniting, sustaining or regressing to open armed conflict.⁷⁵It can be inferred that it is no wonder that Africa including the Horn of Africa experience many conflicts from around the same time these SAPs were introduced. Peace and Security are necessary for sustainable social-economic growth and development which the IMF and World Bank wanted developing Countries to achieve.

The impact of these preconditions on poorer countries can be devastating. Factors such as the following lead to further misery for the developing nations and keep them dependent on developed nations: Poor countries must export more in order to raise enough money to pay off their debts in a timely manner. Because there are so many nations being asked or forced into the global market place before they are economic ally and socially stable and ready—and told to concentrate on similar cash crops and commodities as others, the situation resembles a large-scale price war. Then, the resources from the poorer regions become even cheaper, which favors consumers in the West. Governments then need to increase exports just to keep their currencies stable (which may not be sustainable, either) and earn foreign exchange with which to help pay off debts.

Governments therefore must spend less, reduce consumption, remove or decrease financial regulations. Over time then, the value of labour decreases, capital flows become more volatile a spiraling race to the bottom then begins, which generates social unrest, which in turn leads to IMF riots and protests around the world. These nations are then told to peg their currencies to the dollar. But keeping the exchange rate stable is costly due to measures such as

⁷⁴ Mwangiri M., *Human Security.Setting the Agenda for the Horn of Africa*, op.cit p.18

⁷⁵ Ibid

increased interest rates. Investors obviously concerned about their assets and interests can then pull out very easily if things get tough .In the worst cases, capital flight can lead to economic collapse, such as we saw in the Asian/global financial crises of 1997/98/99, or in Mexico, Brazil, and many other places. During and after a crisis, the mainstream media and free trade economists lay the blame on emerging markets and their governments' restrictive or inefficient policies, crony capitalism. When IMF donors keep the exchange rates in their favor, it often means that the poor nations remain poor, or get even poorer. Even the 1997/98/99 global financial crisis can be partly blamed on structural adjustment and early, overly aggressive deregulation for emerging economies⁷⁶.

1.4 Justification of the Study

This study will help in analyzing literature on the impact of international monetary fund (IMF) and the World Bank structural adjustment programs in developing countries. Kenya have not been beneficiaries of globalization as it they have existed at the margins of global development. Kenya has lagged behind in global development especially in areas of trade and investment despite financing from the IMF and World Bank. The activities of IMF/World Bank and their effects in the Kenya is what the paper seeks to explore as East Africa seeks to re-engineer its development process. This study will attempt to show how Africa, being unique, can be able to put aside their differences and push forward for such a union.

IMF-World Bank Structural Adjustment Policies as Challenges of Globalization provides more revenue to the government in terms of taxes and the growth of the country's Gross Domestic Product. The government will also benefit from the growth of its Gross National Product with its citizens making money across the region and even returning some of that money

⁷⁶ Said Adejumbi, Globalization and Africa's Development Agenda: From WTO to NEPAD, Occasional Paper, No. 12 (Addis Ababa; Development Policy Management Forum-DPMF,2003)p.2

to the country. Governments embrace policies that they think are mutually beneficial to their citizens. However, these Structural Adjustment Programs that were imposed by the IMF and World Bank in the 1980s and 1990s have caused underdevelopment to developing countries generally and especially to those like Kenya. An analysis of these policies is what the project seeks to do. This is important as developing countries especially those in East Africa are now abandoning the Western developed countries as trade partners especially the United States of America and Europe that dominate the West and embracing the East especially China. Noninterference in State Sovereignty and freedom from domination is what informs Chinese Foreign Policy.⁷⁷ This is a historical research which attempts to analyze on the impact that these Structural Adjustments programs had generally in the countries they were implemented with Kenya being the case study.

1.5 Theoretical Framework

Dependency theory originates from Hans Singer and by Raul Prebisch who published two papers in 1949. The authors observe that the terms of trade for underdeveloped countries such as those in East Africa relative to the developed countries had deteriorated over time. The underdeveloped countries were able to purchase fewer and fewer manufactured goods from the developed countries in exchange for a given quantity of their raw materials exports. This idea is known as the Singer- Prebisch thesis. Prebisch, an Argentine economist at the United Nations Commission for Latin America (UNCLA), went on to conclude that the underdeveloped nations

⁷⁷ Sergeiv T., *China's Changing Oil Strategy and its Foreign Policy Implications* CNAPS Working Paper,(Washington DC:Brookings Institute,1999),p.23

must employ some degree of protectionism in trade if they were to enter a self-sustaining development path.⁷⁸

Dependency theory argues that resources flow from a "periphery" of poor and underdeveloped states to a "core" of wealthy states, enriching the latter at the expense of the former. It is a central contention of dependency theory that poor states are impoverished and rich ones enriched by the way poor states are integrated into the "world system."⁷⁹The poor nations including those in East Africa provide natural resources, cheap labor destination for obsolete technology and markets to the wealthy nations without which the latter would not have the high standard of living. This would further lead to exploitation of raw materials exported to the developed countries, hence leading to underdevelopment of developing economies. First world nations actively, but not necessarily, consciously, perpetuate a state of dependency through various policies and initiatives.⁸⁰ The state of dependency is multifaceted, involving economies, media control, politics, banking and finance, education, sport and all aspects of Human Resource Development.

The theory arose as a reaction to modernization theory, an earlier theory of development which held that all societies progress through similar stages of development, that today's underdeveloped areas are thus in a similar situation to that of today's developed areas at some time in the past, and that therefore the task in helping the underdeveloped areas out of poverty is to accelerate them along this supposed common path of development, by various means such as

⁷⁸ Cardoso, F. H. and Faletto, E. *'Dependency and development in Latin América'*. (University of California Press, 1979), pp 115-117

⁷⁹ Tausch A., with Fred Prager as co-author), *'Towards a Socio - Liberal Theory of World Development'* (Basingstoke and New York: Macmillan/St. Martin's Press1993,) pp 77-83

⁸⁰ Robert A. Isaak, *Managing World Economic Change*. International Political Economy, 3rd edition. (Upper saddle River, New Jersey: Prentice Hall, 2000). pp 27-37

investment, technology transfers, and closer integration into the world market.⁸¹ Dependency theories rejected this view, arguing that underdeveloped countries are not merely primitive versions of developed countries, but have unique features and structures of their own; and, importantly, are in the situation of being the weaker members in a world market economy⁸².

1.6 Hypotheses

1. IMF and World Bank Structural Adjustment Policies have played a key role in enhancing globalization
2. Understanding the impact of IMF Structural Adjustment Policies in East Africa will help in analyzing the problem of underdevelopment in East Africa
3. IMF and World Bank are not the only source of government financing in East Africa

1.7 Research Methodology

The research is investigative and exploratory in nature based on both secondary and primary data. The secondary data will be sourced from academic journals, and reference books, government policy documents and papers. Document analysis such IMF and World Bank, UN Agencies, Government Embassy's reports among other organizations resource centers basically on issues of conflict and conflict management, finance and economic s whose reports are credible.

⁸¹ Bornschie V. and Chase - Dunn C., *'Transnational Corporations and Underdevelopment'* (N.Y., N.Y.: Praeger , 1985) pp 101-103

⁸² Amin S. *'Unequal Development: An Essay on the Social Formations of Peripheral Capitalism'* (New York: Monthly Review Press, 1976),

The primary data will be obtained through direct interview from Government Officials such as those in the Ministry of Finance, Office of the Attorney General, civil society personnel including those in IMF and World Bank, faith based organizations and Kenyan Nationals.

1.9 Chapter Outline

The study comprises of five chapters. It commences with the introduction to the study. The introduction is generally on the background of globalization and its effect in East Africa , the statement of the research problem, objectives of the study, literature review, the hypotheses to be tested, the theoretical framework and the methodology to be applied and the chapter outline of the study.

Chapter two provides a discussion of the issues presented in chapter one. It critically discusses issues of Globalization and the impact of IMF and World Bank Structural Adjustment Policies generally and the debates surrounding the developed and developing countries.

Chapters three discusses impact of international monetary fund and the World Bank structural adjustment programs in developing countries. . The chapter looks at the impact of IMF/World Bank Structural Adjustment Policies in developing countries. Of interest to look at will be the education, health and agricultural sectors.

Chapter four is a critical analysis of the emerging issues on international monetary fund (IMF) and the world bank structural adjustment programmes in Kenya

Chapter five is the conclusion that summarizes the study, the findings, recommendations and suggested direction for further research.

CHAPTER TWO

GLOBALIZATION AND THE IMPACT OF IMF AND WORLD BANK STRUCTURAL ADJUSTMENT POLICIES

2.1 Introduction

The chapter discusses theories in line with globalization and the impact of IMF and World Bank structural adjustment policies and review on globalization and the impact of IMF and World Bank Structural Adjustment Policies. Different theories have offered different diagnosis for the problem of Globalization and the impact of IMF and World Bank Structural Adjustment Policies. Globalization, regional trade agreements, and SAPs are all having devastating effects on not only the economies of LDCs but their environments as well, causing repeated secondary crisis. Chapter two is an in-depth discussion of the dependency theory, its dimensions, and perspectives. The salient features of the theory and its applicability in explaining IMF and World Bank structural adjustment programs in LDCs is introduced, the contribution of various scholars, researchers and policy makers, the limitations of the theory and ends with the concluding remarks on the dependency theory.

The process by which a country can become bankrupt due to destructive economic policies in her book, *The Web of Debt*. First a country is encouraged to open its economy to “free trade”, so that the country’s currency can be freely convertible into other currencies. Soon thereafter the currency is devalued allowing the country’s natural assets such as oil and labor to be exploited, forcing the country into bankruptcy⁸³. At this time the country is forced to borrow from international monetary lending institutions such as the IMF. Intergovernmental organizations such as the IMF and the World Bank, then imposes conditions of this debt relief

⁸³ Ellen Brown. *Institutional Analysis of Globalization: A Case of Pakistan*. Asian Social Science, 7(8), 145-153, 2011).

that which have disasters effects on the country's economy. If the government attempts to protect its economy by nationalizing its banks, they are demonized, and accused of being communist, socialist or worst of all terrorist. This then gives the United States reason to replace the government, through military coups, or otherwise with a government that will abide by IMF and World Bank policies (Brown)⁸⁴. Not only do globalization and IMF and World Bank policies negatively impact LDC societies, but they also create an atmosphere of exploitation. Bushra Hamid author of, *Institutional Analysis of Globalization: A Case of Pakistan*, writes, "The rapid growth of globalization in recent years has led to greater activity on part of the vested interests, rent-seekers and organizations to pursue their respective selfish agendas. The process of globalization resulted in emergence of institutions and professions that are more detrimental to global peace and prosperity"⁸⁵. The recent globalization was accelerated by the United States after World War II for international and national security purposes however the effects of globalization have not helped those it was intended to help, and international organizations along with some economic treaties have ruined the lives of working class, and poor people around the world.

2.2 Theoretical Underpinnings World Bank Structural Adjustment Policies

Structural adjustment programmes focused mainly on economic liberalization, and not on the sustainability of their reform package, implemented through high conditionality mechanisms. Therefore, not only do structural adjustment programmes have to be implemented most of the time in very difficult conditions of macroeconomic and political instability, but they tend to aggravate the situation. The key issue according to Rodrik is that, "illiberal

⁸⁴ Rifkin, Jeremy. *The End of Work: the decline of the global labor force and the dawn of the post-market era*. New York : G. P. Putnam's Sons, 1994

⁸⁵ Hutchings, K. (1996). Globalization– An Examination of the Effects if its Economic Emphasis on Individual Livelihood. *Social Alternatives*, 15(1), 34-37.

policies which do not damage the overall stability of the economic system are preferable to liberal policies which are inherently unsustainable or engender instability". This means that structural adjustment should be designed in such a way as to strengthen a sustainable policy environment, rather than threaten policy stability. From this perspective, any progress in liberalization may be conditional to that meta-constraint of sustainability⁸⁶.

Since the early 1980s the majority of countries in sub-Saharan Africa embarked on the implementation of IMF/World Bank designed 'structural adjustment programmes' (SAPs). The theoretical underpinnings of the SAPs⁸⁷. It shows that IMF policies are based on a theoretical framework that goes back to J.J. Polak's analysis of 1957 which adopted a number of assumptions far removed from economic conditions on the African continent. Focusing on the demand side of the economy, the IMF has neglected another important cause of the financial imbalances in African economies, namely the loss of import capacity and the related reduction in output resulting from external shocks. The reforms that the IMF started to implement, now known as structural adjustment policies or programs (SAPs), first appeared in the 1980s as a result of the debt crisis in Latin America. These policies include, but are not limited to: increasing exports, reducing domestic demand, placing constraints on government spending, and encouraging privatization⁸⁸. Another broad view of SAPs explains the policies as involving "a combination of short-run measures, aimed at stabilization, and long-run, structural reforms, aimed at transforming heavily controlled economies into market economies"

⁸⁶ Parayil, Govindan. 1996. "The 'Kerala model' of development: development and sustainability in the Third World." *Third World Quarterly – Journal of Emerging Areas* 17(5) pp. 941- 958.

⁸⁷ Brown, L. R. Could Food Shortages Bring Down Civilization? *Scientific American*, 300(5), 50-57 (2009).. Retrieved from EBSCOhost.

⁸⁸ Kymlicka, Will, 1999, "Citizenship in an Era of Globalization: A Response to Held," in Ian Shapiro and Casiano Hacker-Cordon (eds.), *Democracy's Edges*, Cambridge: Cambridge University Press.

Structural adjustment policies, although similar in most cases, do vary based on the country. For Mexico, in the 1980s, the reforms included reducing budget deficiencies, increasing foreign investment, and privatizing state-owned industries. In many African countries, the conditions were: privatizing industries and credit control, raising real interest rates, decreasing or ending subsidizing, lowering tariffs, and increasing imports. Although these conditions seem distantly related to education there has been much debate around the impact of SAPs on social services in developing countries. In fact as evidence that SAPs were having a negative impact on the delivery of education in developing countries became more known, the World Bank reacted by offering more loans to the education sector with sector investment loans and sector adjustment loans⁸⁹.

Some studies have looked at the impact of SAPs on the social services of countries that abide by the policies. Most of the studies performed focus on Latin America, because it was the first region of the world that negotiated adjustment policies with the IMF to keep from defaulting on debt interest payments. Those countries are best for case studies as they are relatively stable nations, although some have studied Africa despite the instability and lack of sovereignty that many of those countries face.

2.3 Globalization of IMF and World Bank Structural Adjustment Policies in Theory

Globalization refers to global alliance and reliance in the matters of trade, culture and economy. It heavily banks upon worldwide expansion and integration. In most basic terms, the globalization of the world economy is the integration of economies throughout the world through trade, financial flows, the exchange of technology and information, and the movement of

⁸⁹ Garuda, G. (2000): The Distributional Effects of IMF Programs: A Cross-Country Analysis. *World Development* Vol. 28, No 6 , pp. 1021-1051.

people⁹⁰. The extent of the trend toward integration is clearly reflected in the rising importance of world trade and capital flows in the world economy. An increasingly large share of world GDP is generated in activities linked directly or indirectly to international trade. And there has been a phenomenal growth in cross-border financial flows, particularly in the form of private equity and portfolio investment, compared with the past. In addition, the revolution in communication and transportation technology and the much improved availability of information have allowed individuals and firms to base their economic choices more on the quality of the economic environment in different countries. As a result, economic success in today's world is less a question of relative resource endowments or geographical location than it used to be in the past. Now, it is more a question of the market perception of the orientation and predictability of economic policy⁹¹.

Lester Brown author of the periodical, could food shortages bring down civilization, writes, "Water shortages, soil losses and rising temperatures from global warming are placing severe limits on food production"⁹². A lack of food causes secondary issues, especially in high poverty areas⁹³. These issues include a rise in terrorism, the sale and consumption of illegal drugs, and weapons, which are all detrimental to national and international security. People were also forced to migrate under harsh and unsanitary conditions, and they inadvertently spread disease in other nations. At times citizens in LDCs have had to take matters into their own hands

⁹⁰ Rifkin, Jeremy. *The End of Work: the decline of the global labor force and the dawn of the post-market era*. New York : G. P. Putnam's Sons, 1994

⁹¹ Bordo, M. D. "The Bretton Woods International Monetary System: A Historical Overview", in *A Retrospective on the Bretton Woods System*, edited by M. D. Bordo and B. Eichengreen. London:1993;

⁹² Brown, L. R. Could Food Shortages Bring Down Civilization? *Scientific American*, 300(5), 50-57 2009).. Retrieved from EBSCOhost.

⁹³ Colgan, A.L, *Hazardous to Health*, The World Bank and IMF in Africa, (Africa Action, April 18, 2002)

in order to survive the detestation caused by policies implemented by the IMF and the World Bank⁹⁴.

Due to amazing innovation and rapid advancement in the field of information technology, the world has literally shrunk into a village today. Globalization has virtually swept away the political boundaries. The IMF's quota system was created to raise funds for loans. Each IMF member country is assigned a quota, or contribution, that reflects the country's relative size in the global economy. Each member's quota also determines its relative voting power. Thus, financial contributions from member governments are linked to voting power in the organization.

This system follows the logic of a shareholder-controlled organization: wealthy countries have more say in the making and revision of rules. Since decision making at the IMF reflects each member's relative economic position in the world, wealthier countries that provide more money to the fund have more influence in the IMF than poorer members that contribute less; nonetheless, the IMF focuses on redistribution⁹⁵.

The IMF's membership is divided along income lines: certain countries provide the financial resources while others use these resources. Both developed country "creditors" and developing country "borrowers" are members of the IMF. The developed countries provide the financial resources but rarely enter into IMF loan agreements; they are the creditors. Conversely, the developing countries use the lending services but contribute little to the pool of money available to lend because their quotas are smaller; they are the borrowers⁹⁶. Thus, tension is created around governance issues because these two groups, creditors and borrowers, have fundamentally different interests in terms of the conditions of these loans.

⁹⁴ Mohan, Giles et al.. *Structural Adjustment Theory, Practice and Impacts*. New York, New York: Routledge. 2000

⁹⁵ Diamond, Jared. *Third Chimpanzee: the evolution and future of the human animal*. New York: HarperCollins, 1992. human evolution, social evolution, Man in nature.

⁹⁶ Mukherjee, Bumba (2008). "International Economic Organizations and Economic Development". *SAIS Review of International Affairs* **28** (2): 123–137.

The criticism is that the system of voting power distribution through a quota system institutionalizes borrower subordination and creditor dominance. The resulting division of the Fund's membership into borrowers and non-borrowers has increased the controversy around conditionality because the borrowing members are interested in making loan access easier while the creditor members want to maintain reassurance that the loans will be repaid⁹⁷.

Globalization encompasses three institutions: global financial markets and transnational companies, national governments linked to each other in economic and military alliances led by the US, and rising “global governments” such as World Trade Organization (WTO), IMF, and World Bank⁹⁸. Charles Derber argues in his book *People Before Profit*, "These interacting institutions create a new global power system where sovereignty is globalized, taking power and constitutional authority away from nations and giving it to global markets and international bodies." ⁹⁹Titus Alexander argues that this system institutionalises global inequality between western countries and the Majority World in a form of global apartheid, in which the IMF is a key pillar.

The establishment of globalized economic institutions has been both a symptom of and a stimulus for globalization. The development of the World Bank, the IMF regional development banks such as the European Bank for Reconstruction and Development (EBRD), and, more recently, multilateral trade institutions such as the WTO indicates the trend away from the dominance of the state as the exclusive unit of analysis in international affairs. Globalization has thus been transformative in terms of a reconceptualizing of state sovereignty

⁹⁷ Burrows, William E., and Windram, Robert. *Critical Mass: The Dangerous Race for Superweapons in a Fragmenting World*. New York: Simon&Schuster, 1994.

⁹⁸ Mukherjee, Bumba (2008). "International Economic Organizations and Economic Development". *SAIS Review of International Affairs* **28** (2): 123–137.

⁹⁹ Derber, Charles (2002). *People Before Profit*. New York: Picador.

Globalization has become a major topic of discussion and concern in economic circles since the mid-1990s. It is clear that the trend toward more integrated world markets has opened a wide potential for greater growth, and presents an unparalleled opportunity for developing countries to raise their living standards. At the same time, however, the Mexican crisis has focussed attention on the downside risks of this trend, and concerns have arisen about the risks of marginalization of countries. All of this has given rise to a sense of misgiving, particularly among developing countries¹⁰⁰.

Globalization is first and foremost a result of the expansion, diversification and deepening of trade and financial links between countries, especially over the last ten years. This reflects above all the success of multilateral tariff reduction and trade liberalization efforts¹⁰¹. The Fund has played a key role in encouraging current account convertibility as a basis for the expansion of world trade, and more than two-thirds of the Fund's member countries have committed themselves to this principle by accepting the obligations¹⁰². Also, economic thought itself has evolved over time, toward the general acceptance of the fact that outward-oriented and open economies are more successful than closed, inward-looking ones. Consequently, more than at any time previously, individual countries in all parts of the world are liberalizing their exchange and trade regimes in the conviction that this is indeed the best approach for growth and development¹⁰³. Moreover, there is a deeper commitment of national authorities throughout the world to sound macroeconomic policies, and to creating a more stable environment for investment and the expansion of economic activity. Finally, with the increasing liberalization of

¹⁰⁰ Mukherjee, Bumba (2008). "International Economic Organizations and Economic Development". *SAIS Review of International Affairs* 28 (2): 123–137.

¹⁰¹ Alexander, Titus (1996). *Unravelling Global Apartheid: an overview of world politics*. Polity press. pp. 127–133.

¹⁰² Burrows, William E., and Windram, Robert. *Critical Mass: The Dangerous Race for Superweapons in a Fragmenting World*. New York: Simon&Schuster, 1994.

¹⁰³ Held, David, McGrew, Anthony, Goldblatt, David, and Perraton, Jonathan, 1999, *Global Transformations: Politics, Economics and Culture*, Stanford: Stanford University Press.

financial markets, and their growing sophistication, capital markets have become integrated, and capital flows are now largely driven primarily by considerations of risk and return¹⁰⁴.

The benefits of these developments are easily recognizable--increasing trade has given consumers and producers a wider choice of low-cost goods, often incorporating more advanced technologies, and facilitated a more efficient use of global resources. Greater access to world markets has allowed countries to exploit their comparative advantages more intensively, while opening their economies to the benefits of increased international competition. The rapid increase in capital and private investment flows has raised the resources available to countries able to attract them, and accelerated the pace of their development beyond what they could otherwise have achieved¹⁰⁵.

Moreover, greater openness and participation in competitive international trade have increased employment, primarily of skilled labor, in tradable goods sectors. With the expansion of these sectors, unskilled labor has found increased employment opportunities in the nontradable sectors, such as construction and transportation. The expansion of merchandise trade may also have lessened migratory pressures¹⁰⁶. On the other hand, the movement of labor across national boundaries has in many cases lessened production bottlenecks, raising the supply response of recipient economies, and increasing income in the supplying countries through worker remittances. Openness to foreign expertise and management techniques has also greatly improved production efficiency in many developing countries.

¹⁰⁴ Kymlicka, Will, 1999, "Citizenship in an Era of Globalization: A Response to Held," in Ian Shapiro and Casiano Hacker-Cordon (eds.), *Democracy's Edges*, Cambridge: Cambridge University Press.

¹⁰⁵ Scholte, Jan Aart, 1996, "Beyond the Buzzword: Towards a Critical Theory of Globalization," in Eleonore Kofman and Gillians Young (eds.), *Globalization: Theory and Practice*, London: Pinter.

¹⁰⁶ Pogge, Thomas, 2002, *World Poverty and Human Rights: Cosmopolitan Responsibilities and Reforms*, Cambridge: Polity Press.

But there are also risks to globalization. The ability of investment capital to seek out the most efficient markets, and for producers and consumers to access the most competitive source, exposes and intensifies existing structural weaknesses in individual economies. Also, with the speedy flow of information, the margin of maneuver for domestic policy is much reduced, and policy mistakes are quickly punished¹⁰⁷. Indeed, increased capital mobility carries the risk of destabilizing flows and heightened exchange rate volatility, in cases where domestic macroeconomic policies are inappropriate. And finally, it is clear that countries that fail to participate in this trend toward integration run the risk of being left behind¹⁰⁸.

Success in open markets, and in attracting new investment and advanced technology, also means that the structure of economies is changing more rapidly than ever before. As with any structural change, there will be some segments of society that are at a disadvantage in the short term, even while other segments, and the economy as a whole, are benefiting. This does not mean, however, that countries should seek to isolate themselves from globalization. Rather, governments must fully embrace globalization in awareness of its potential risks, and seek to provide adequate protection for the vulnerable segments of society during the process of change. While globalization raises the rewards of good policy, it also accentuates the costs of poor policy. Credibility of economic policy, once lost, has become more difficult to regain. What is now critical is the perception of markets that economic policy formulation and implementation is consistent and predictable¹⁰⁹. This underscores the importance of flexible and well-informed policy-making, of solid, well-governed institutions, and of transparency in governance. Countries with a poor or inconsistent policy record will inevitably find themselves passed by, both from

¹⁰⁷ Held, David, McGrew, Anthony, Goldblatt, David, and Perraton, Jonathan, 1999, *Global Transformations: Politics, Economics and Culture*, Stanford: Stanford University Press.

¹⁰⁸ Pogge, Thomas, 2002, *World Poverty and Human Rights: Cosmopolitan Responsibilities and Reforms*, Cambridge: Polity Press.

¹⁰⁹ Zolo, Danilo, 1997, *Cosmopolis: Prospects for World Government*, Cambridge: Polity Press.

expanding trade and from private capital flows for development. These are the countries that run the risk of marginalization.

2.3.1 Challenges of Globalization

Globalization will continue to reinforce the interdependencies between different countries and regions. It can also deepen the partnership between the advanced countries and the rest of the world. And to support this partnership in a mutually beneficial way, the advanced countries could help to further open their markets to the products and services in which the developing world has a comparative advantage. In addition, the reform efforts of the African countries will need to continue to be supported by adequate financing on concessional terms¹¹⁰.

The challenge facing the developing world, and African countries in particular, is to design public policies so as to maximize the potential benefits from globalization, and to minimize the downside risks of destabilization and/or marginalization. None of these policies is new, and most African countries have been implementing them for some time¹¹¹. In particular, sub-Saharan Africa has made substantial progress toward macroeconomic stability:

There has been continued improvement in overall growth performance. Average real growth has increased from less than 1 percent in 1992 to over 5 1/2 percent in 1996, and this positive trend is expected to continue; There has been some success in bringing down inflation--many countries have already achieved single digit inflation rates, and for the region as a whole, average inflation is expected to fall from the peak of 60 percent in 1994 to 17 percent in 1997; Countries have also reduced their internal and external imbalances. The external current account deficit has fallen from an average of 15 1/2 percent of GDP in 1992 to about 9 percent projected

¹¹⁰ Moschella, M. *Governing Risk: The IMF and Global Financial Crises* (Palgrave Macmillan; 2010).

¹¹¹ Held, David, McGrew, Anthony, Goldblatt, David, and Perraton, Jonathan, 1999, *Global Transformations: Politics, Economics and Culture*, Stanford: Stanford University Press.

for this year, while the overall fiscal deficit has been cut from almost 12 percent of GDP to 6 percent over the same period.

African governments have also made considerable strides in opening their economies to world trade. A good indicator of this is the fact that 31 Sub-Saharan African countries have accepted the obligations of Article VIII of the Fund's Articles of Agreement, almost all of them since 1993. Most countries have moved ahead with trade and exchange liberalization, eliminating multiple exchange rates and nontariff barriers, and also lowering the degree of tariff protection. A recent qualitative study by the African Department of the Fund indicates that the number of countries in Sub-Saharan Africa with a "restrictive" exchange regime declined from 26 in 1990 to only 2 in 1995, while the number of countries with a "substantially liberal" trade regime rose from 26 to 38 over the same period¹¹².

Finally, the restructuring of many African economies is gaining momentum. Throughout the continent, government intervention in economic activity is on the wane. Administrative price controls are being reduced and agricultural marketing has been widely liberalized¹¹³. The process of restructuring and privatizing state enterprises has been underway for some time in most countries, though with varying speed and degrees of success. And finally, fiscal reform is gaining ground African countries are taking firm steps to rationalize their tax systems, to reduce exemptions, and to enhance administrative efficiency¹¹⁴. At the same time, they are also

¹¹² Colgan, A.L, *Hazardous to Health*, The World Bank and IMF in Africa,(Africa Action, April 18, 2002)

¹¹³ Fieldhouse, D.K. *The multinational, a critique or a concept* in Alice Teichova et Al (eds.) *Multinational Enterprise in historical perspective*, (Cambridge: Cambridge University Press, 1986)

¹¹⁴ Fieldhouse, D.K. *The multinational, a critique or a concept* in Alice Teichova et Al (eds.) *Multinational Enterprise in historical perspective*, (Cambridge: Cambridge University Press, 1986)

reorienting expenditures away from wasteful outlays towards improved public investment and spending on key social services, particularly health and basic education¹¹⁵.

2.3.2 Globalization and Regional Integration

Closer economic integration, each country has an interest in ensuring that appropriate policies are followed in its partner countries. This could be achieved by coordination the relevant national policies within a regional context. Throughout the continent, African governments are coming together to coordinate components of their policies, and virtually all countries are now members of regional organizations. Efficient regional cooperation allows the economies of Africa to overcome the disadvantages of their relatively small size and, by opening access to larger markets, to realize economies of scale. The obligations of membership in some of these organizations also make it easier for each individual country to achieve further progress in regulatory and judicial reform (as is the case in the CFA franc zone); to rationalize payments facilities and to relax restrictions on capital transactions and investment flows (as in the Cross-Border Initiative); and to develop the mutual economic infrastructure (as in the SADC). Enhancing the trade links among themselves naturally also strengthens their ability to participate in trade on a global scale, and could lead toward further progress in the direction of nondiscriminatory multilateral trade liberalization¹¹⁶.

The challenge for the future will be to ensure that these regional organizations are perceived as effective vehicles for the integration of African countries into the world economy, providing mutual support to their members in their reform efforts. They should not be considered as defensive mechanisms, intended to ward off the "negative" aspects of globalization. Common

¹¹⁵ Held, David, McGrew, Anthony, Goldblatt, David, and Perraton, Jonathan, 1999, *Global Transformations: Politics, Economics and Culture*, Stanford: Stanford University Press.

¹¹⁶ Fieldhouse, D.K. *The multinational, a critique or a concept* in Alice Teichova et Al (eds.) *Multinational Enterprise in historical perspective*, (Cambridge: Cambridge University Press, 1986)

regional objectives should be set in terms of international best practices. And the regional organizations should seek to push through reforms in the areas of the legal and regulatory frameworks, financial sector restructuring, labor and investment code reform, and exchange and trade liberalization that seek to reach international standards as quickly as possible. The pace of progress should be what is feasible, not what is comfortable for the slowest member.

2.3.3 International Financial Institutions

The World Bank and the International Monetary Fund (IMF) are two international financial institutions that provide funds to countries globally. The World Bank was initially created after World War II as an international institution that would help countries finance rebuilding projects¹¹⁷. However, as their focus moved beyond western, industrialized nations, the World Bank quickly recognized that developing countries did not have the infrastructure in place to rebuild like most western countries and began focusing on education policy to develop the human capital of developing countries. Now the World Bank continues to work on reconstruction projects but has also taken on the responsibilities of poverty reduction and sustainable growth in the poorest regions of the world¹¹⁸.

The IMF, founded in 1945, was initially an institution that was responsible for helping maintain the stability of the fixed exchange rate system. According to the Articles of Agreement, under which the IMF was created, the Fund serves six purposes: "to promote international monetary cooperation," to facilitate the expansion and balanced growth of international trade," "to promote exchange stability," to assist in the establishment of multilateral system of payments," to give confidence to members by making the general resources of the Fund temporarily available to

¹¹⁷ Zolo, Danilo, 1997, *Cosmopolis: Prospects for World Government*, Cambridge: Polity Press.

¹¹⁸ Fieldhouse, D.K. *The multinational, a critique or a concept* in Alice Teichova et Al (eds.) *Multinational Enterprise in historical perspective*, (Cambridge: Cambridge University Press, 1986)

them under adequate safeguards," and to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members". The purposes, as described above, have remained the same over time but the way to achieve these purposes changed when the fixed exchange rate system collapsed in 1971.

Both the World Bank and IMF began operating in more extensive ways than originally intended only a few decades after their creation. Once the concept of infrastructure changed for the World Bank the focus of the Bank's efforts turned to promoting education with the development of an education department¹¹⁹. The goal of the assistance from the education department was to help increase the analytical aspects of curriculum. The IMF was not as directly involved in determining the policies of specific social services but it did negotiate reforms for developing countries that were struggling to repay their debt as conditions of restructuring their loan to be affordable¹²⁰. As the IMF and World Bank ventured into the world of policy-making the countries that relied on receiving monetary assistance at low interest rates were forced to accept the conditions and reforms that the institutions had attached to the loans.

2.3.4 IMF and World Bank

The International Monetary Fund (IMF) and the World Bank were founded in 1944 just after the Second World War during the United Nations Monetary and Financial Conference held in Bretton Woods, the area in Washington that gave rise to the name "the Bretton Woods Institutions". These institutions were created as a response to the economic instability following the Second World War, and their first focus was to facilitate the reconstruction of Europe. Since

¹¹⁹ Scheuerman, William E., 2010, "The (classical) Realist Vision of Global Reform," *International Theory*, 2 (2): 246–82.

¹²⁰ Cardoso and Helwege, *Latin America's economy* (Cambridge, MA:MIT Press, 1992)

the 1970s the focus has been on the developing world as the debt-crises and other economic events have forced these nations to request aid with their situation¹²¹.

The stated purpose of the IMF and World Bank, as of recent decades, is to achieve poverty alleviation and to stabilize the economic situation of countries in the developing world. This should be achieved by arranging for capital inflows into labor-intensive market, and thereby spur growth with the help of open-market reforms¹²².

The role of the IMF, an organization with 186 member countries, is to foster global monetary cooperation, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty. The IMF is financed through the quotas paid by their member nations, which also determines their voting weight when taking decisions and appointing senior officials. The most important decisions require a supermajority of 85% of votes, which has led the US to always be the only country with veto right.

The World Bank has undertaken the task of achieving the “Millennium Development Goals” stated by the UN concerning poverty and the living conditions in the developing world. They work by providing loans, mostly to middle-income countries at beneficial interest rates and by promoting an environment for investment, jobs and sustainable growth. Traditionally, the Bank President has always been a US citizen nominated by the United States, the largest shareholder in the bank. The nominee is subject to confirmation by the Board of Governors, to serve for a five-year, renewable term.

¹²¹ Pogge, Thomas, 2002, *World Poverty and Human Rights: Cosmopolitan Responsibilities and Reforms*, Cambridge: Polity Press.

¹²² Kymlicka, Will, 1999, “Citizenship in an Era of Globalization: A Response to Held,” in Ian Shapiro and Casiano Hacker-Cordon (eds.), *Democracy's Edges*, Cambridge: Cambridge University Press.

2.4 Criticism of World Bank and International Monetary Fund

Criticism of the World Bank and the IMF encompasses a whole range of issues but they generally centred on the concern of the approaches adopted by the World Bank and the IMF in formulating their policies. This includes the social and economic impact these policies have on the population of countries who avail themselves of financial assistance from these two institutions. World Bank and the IMF are concerned about the conditionalities imposed on borrower countries¹²³. The World Bank and the IMF often attach loan conditionalities based on what is termed the 'Washington Consensus', focusing on liberalisation of trade, investment and the financial sector, deregulation and privatisation of nationalised industries¹²⁴.

The IMF and World Bank have been criticized for furthering economic interests at the expense of human life as it hurts women, disabled people and vulnerable in society far more than other social actors. Bond elaborates how the IMF and World Bank funded the Apartheid regime in SA in the 1960s on the wake of the 1960 Sharpsville massacre when the sanctions movement gathered steam the bank granted loans worth US 45million to Pretoria as it ignored international condemnations of apartheid. Imposition of these conditionalities to financial flows has resulted in the third world countries especially Africa to turn droughts into famine as the financial debts of these countries increase to an extent not repayable. State collapse has been massively linked to the activities of these monetary institutions¹²⁵.

Bond further postulates that the monetary institutions impose Eurocentric notion of development and modernity downgrades democracy by propping up friendly authoritarian

¹²³ Graaf and Venter,D (2001). "Understanding the world Systems' in Coetzee, J et al (eds) Development; Theory,Policy and Practice ,Oxford Univesity Press;Oxford pp77-95
Griffiths M; 2005 Encyclopedia of international Relation and Global Politics Routledge New York

¹²⁴ Graaf and Venter,D (2001). "Understanding the world Systems' in Coetzee, J et al (eds) Development; Theory,Policy and Practice ,Oxford Univesity Press;Oxford pp77-95

¹²⁵ Bond, P (2001). "The IMF and Bank Reconsidered" in Coetzee, J et al (eds) Development; Theory,Policy and Practice ,Oxford Univesity Press;Oxford pp231-249

regimes; serves transnational corporate and banking interests. Eurocentric models of economic development do not work in Africa as they are not familiar with historical and society backgrounds. Bond elaborates that the widespread of the failure of IMF/World Bank structural adjustment programmes across South Africa and indeed across the world is not disputed. IMF and World Bank interventions usually leave a country worse off than before.¹²⁶

Several projects have been undertaken in the third world countries from Kariba dam construction in Zimbabwe to Lake Volta in Ghana the effects of the projects have been disastrous to the environment, human life and wildlife. Within the World Bank, there are concerns about the types of development projects funded by the IBRD and the IDA¹²⁷. Many infrastructural projects financed by the World Bank Group have social and environmental implications for the populations in the affected areas and criticism has centred on the ethical issues of funding such projects. For example, World Bank-funded constructions of hydroelectric dams in various countries have resulted in the displacement of indigenous peoples of the area. World Bank and IMF governance structures which are dominated by industrialised countries¹²⁸. According to Bond decisions are made and policies implemented by leading industrialised countries the G7 because they represent the largest donors without much consultation with poor and developing countries. The interests of the poor countries are not represented enough they become subjects to imposed economic policies by IMF and World Bank.

However it must be considered that the IMF and World Bank have opened up the economic markets for the developing countries and help them to engage with global economy

¹²⁶ Bond, P (2001). "The IMF and Bank Reconsidered" in Coetzee, J et al (eds) *Development; Theory, Policy and Practice*, Oxford University Press; Oxford pp231-249

¹²⁷ Graaf and Venter, D (2001). "Understanding the world Systems" in Coetzee, J et al (eds) *Development; Theory, Policy and Practice*, Oxford University Press; Oxford pp77-95

¹²⁸ Bond, P (2001). "The IMF and Bank Reconsidered" in Coetzee, J et al (eds) *Development; Theory, Policy and Practice*, Oxford University Press; Oxford pp231-249

according to Bond they have promoted sensible investment and involved in policies to alleviate poverty, to enhance the role of women development and to promote development and environmental sustainability.¹²⁹

2.5 Theoretical impacts of Globalization on IMF and World Bank Structural Adjustment Policies

Globalization has accelerated in recent years, a development that has significant implications for the regulation and governance of international business, trade and investment. International business implies no fundamental shift in the underlying principles of trading or business functions but simply more cross-border transactions. In simpler terms it includes all commercial transactions private and governmental between two or more countries. Private companies undertake such transaction for profit; governments may or may not do the same in their transactions¹³⁰¹³¹.

The world has seen a tremendous increase in the global transactions and foreign trade in recent years. The main reason behind this is that now more and more countries are getting engaged in trading with each other in order to increase their profit or sales or protecting them from being eroded by competition¹³². Structural Adjustment Programs typically include a lot of different policies which interact with each other. It is most likely that the countries in which SAPs are implemented differ in terms of their economies and pre-program conditions from non-program countries but also from each other. Therefore, it is not easy to isolate the impacts of SAPs on poverty, which are in general complex and not clear-cut.

¹²⁹ Bond, P (2001). "The IMF and Bank Reconsidered" in Coetzee, J et al (eds) *Development; Theory, Policy and Practice*, Oxford University Press; Oxford pp231-249

¹³⁰ Boughton, J. M. *Silent Revolution: The International Monetary Fund 1979–1989*, Washington D.C., 2001.

¹³¹ Alan M Rugman and Thomas L. Brewer, 2001: *Oxford Handbook of International -Business*.

¹³² George, Ritzer.2007. *The Blackwell Encyclopedia of sociology*. Volume II C. Blackwell Publishing Ltd.

Policies and variables which might influence poverty and income distribution include currency devaluation, reductions in the budget deficit and changes in growth rates, inflation rates and interest rates. Some argue that economic growth of a country has a direct influence on poverty as gains achieved via growth would trickle down and benefit the poor leading to a reduction in poverty. Today however most agree that neither macroeconomic stability nor economic growth is enough for alleviating poverty¹³³. Although higher growth rates are on average accompanied by greater progress in poverty alleviation - as certain financial means are needed to combat poverty which can only be achieved via growth - this does not prove that trickle down strategies are the best methods for fighting poverty. It is important to take distributional effects into account as well. Therefore, the right politico-economic programs are needed¹³⁴. The following section should give a general overview of theoretical expectations of these reforms on poverty.

A major goal of Structural Adjustment Programs is a reduction of inflation. It is broadly agreed that high levels of inflation have negative consequences on growth and poverty. Some studies however find that countries which achieve and maintain macroeconomic stability might not necessarily gain significant pay-offs in growth and poverty reduction¹³⁵. Lower inflation is likely to improve the real incomes of the poor if the adjustment of incomes to a rise in expenditures due to inflation is slow. The impact of lower inflation rates on income distribution depends on the rigidities of income to prices of each group of individuals. That means that if poorer individuals face longer adjustment lags than wealthier people, lower inflation will reduce inequality in income distribution. Easterly and Fisher report that inflation increases

¹³³ Gunter, B. G., Cohen, M. J., Lofgren, H. (2005): Analysing Macro- Poverty Linkages: An Overview. *Development Policy Review*, pp. 243-265.

¹³⁴ Stiglitz, J. (2002): Globalization and Its Discontents. *New York: W.W.Norton & Company*.

¹³⁵ Gunter, B. G., Cohen, M. J., Lofgren, H. (2005): Analysing Macro- Poverty Linkages: An Overview. *Development Policy Review*, pp. 243-265.

poverty as the more wealthy have a better access to inflation-protected assets or other financial instruments that hedge in some way against inflation¹³⁶.

Adjustment lending is generally associated with currency devaluation. In developing countries there are negative associations with currency devaluation however. This is because of fears of setting off a devaluation-inflation spiral, low exports and import elasticities, increased domestic costs of servicing foreign debt, increased costs of financing subsidies for imported inputs, fear of a loss of confidence on the part of foreign investors and many other political reasons. Until now there is no clear cut conclusion about the relationship between devaluation and poverty¹³⁷. In theory however, the effect of currency devaluation is a decrease in the price ratio of non-tradable to tradable goods. This might be good for alleviating poverty and improve income distribution within a country if the poor are rural farmers producing goods for export as their incomes are increased but it might worsen income distribution if the poor are urban consumers who are facing higher food prices or rural farmers producing for domestic consumption. Devaluation might worsen income distribution as well if elite groups engage in capital flight prior to the devaluation¹³⁸.

Fiscal Policy is an essential component of IMF programs, which aim to decrease the budget deficit. This can be achieved through higher levels of taxation and/or reductions of public expenditure. Of course the re-distributional effects of such a policy depend on the composition of the budget cuts of the government, but are also influenced by producer mobility and the adaptability of consumer patterns. Real expenditure reduction is generally achieved

¹³⁶ Easterly, W. (1999): The Effect of International Monetary Fund and World Bank Programs on Poverty. *World Bank Policy Research Working Paper No. 2517*.

¹³⁷ Gunter, B. G., Cohen, M. J., Lofgren, H. (2005): Analysing Macro- Poverty Linkages: An Overview. *Development Policy Review*, pp. 243-265.

¹³⁸ Pastor, M. (1987): The International Monetary Fund and Latin America: Economic stabilization and Class Conflict. *London: Boulder: Westview Press*.

through contraction in social expenditure, public sector contraction and privatization¹³⁹. A study conducted by Johnson and Salop states that a downward adjustment of government expenditure to GDP is very likely to be borne out by public sector employees engaged in capital-intensive projects which come to be postponed¹⁴⁰. Expenditure cuts in public sector employment which lead to an at least temporary increase in unemployment and lower wages and salaries of people working in the public sector, will tend to increase poverty and worsen income distribution, particularly when those reductions hit low-level government employees. How these policies affect prices of consumption goods is ambiguous¹⁴¹. Changes in prices might affect real incomes of the poor in either direction, independent of their nominal incomes and therefore reduce or increase poverty. Access to domestic credit affects poverty and income distribution as well. Increased interest rates or bank reserve requirements as well as imposed credit ceilings will reduce access to domestic credit and will make it easier for large companies to get credits in contrast to small and medium-sized firms¹⁴². Generally the urban sector is favored over the rural sector. Budgetary cuts or higher levels of taxation, as well as reductions in real wages and credit restraints, are very likely to reduce domestic demand. This leads to a decrease of overall spending. Heller states that such a contraction of spending is almost certain to lower the well-being of both labor and the poorest members of an economy. If demand restraint in countries which participate in Fund programs is higher than it would have been otherwise, it is most likely for poverty levels to rise. If the participation in IMF programs however tend to increase the overall growth, poverty rates would get lower due to job creation. To evaluate the effects of job

¹³⁹ Gunter, B. G., Cohen, M. J., Lofgren, H. Analysing Macro- Poverty Linkages: An Overview. *Development Policy Review*, pp. 243-265. (2005):

¹⁴⁰ Johnson, O., & Salop, J. (1980): Distributional aspects of stabilization programs in developing countries. *IMF Staff Papers*, 27.

¹⁴¹ Gunter, B. G., Cohen, M. J., Lofgren, H. (2005): Analysing Macro- Poverty Linkages: An Overview. *Development Policy Review*, pp. 243-265.

¹⁴² Garuda, G. (2000): The Distributional Effects of IMF Programs: A Cross-Country Analysis. *World Development* Vol. 28, No 6, pp. 1021-1051.

growth, it is important to know the composition of growth and the sectors of the economy in which poverty is predominant. Therefore, agricultural growth may lead to reductions in poverty if rural poverty is widespread¹⁴³. Gunter, Cohen and Lofgren state that in general poor people suffer more from policy changes and shocks than the wealthy and therefore need to be protected from the effects of contractionary fiscal policies¹⁴⁴.

IMF programs imply trade liberalization most of the times. Trade liberalization is likely to have two contrary effects on poverty. First, sectors which were protected before the liberalization will contract and lead to lower incomes in these areas. Apart from that however, trade liberalization might benefit labor-intensive sectors and finally result in higher wages or lower unemployment¹⁴⁵. Gunter, Cohen and Lofgren survey the recent empirical literature about the effects of trade liberalization on poverty¹⁴⁶. According to them, most of the studies show that trade liberalization has had - or could have had - a positive impact on poverty reduction but led to a higher inequality. They also mention that, depending on production, trade and consumption patterns, some poor people are positively and some negatively affected by trade liberalization. It depends on the type of agreement if trade liberalization benefits developing countries or not.

The effects of labor market reform are ambiguous as well. Restrictions tend improve the situation of the employed to the detriment of the unemployed¹⁴⁷. Financial liberalization is a common tool used by the IMF to force changes in the domestic capital markets of developing countries. It can be shown that there is a strong connection between financial liberalization,

¹⁴³ Garuda, G. (2000): The Distributional Effects of IMF Programs: A Cross-Country Analysis. *World Development* Vol. 28, No 6, pp. 1021-1051.

¹⁴⁴ Gunter, B. G., Cohen, M. J., Lofgren, H. (2005): Analysing Macro- Poverty Linkages: An Overview. *Development Policy Review*, pp. 243-265.

¹⁴⁵ Handa, S., King, D. (1997): Structural adjustment policies, income distribution and poverty: A review of the jamaican experience. *World Development* Volume 25, pp. 915-930.

¹⁴⁶ Garuda, G. (2000): The Distributional Effects of IMF Programs: A Cross-Country Analysis. *World Development* Vol. 28, No 6, pp. 1021-1051.

¹⁴⁷ Handa, S., King, D. (1997): Structural adjustment policies, income distribution and poverty: A review of the jamaican experience. *World Development* Volume 25, pp. 915-930.

weaknesses in the domestic banking sector and currency crisis¹⁴⁸. It is commonly agreed that financial liberalization needs to be accompanied by sound economic policies and legal and regulatory underpinnings to improve economic performance, because they would have strongly negative effects on some poor groups otherwise¹⁴⁹.

Structural Adjustment Programs can be completed successfully in many different ways which imply different consequences on poverty and income distribution. Political power plays an important role in determining the way of achieving a program. Therefore, it is most likely that IMF programs are implemented in such a way that hurts politically powerful groups least, frequently at the expense of the poor¹⁵⁰.

2.5.1 Modernization theory

Modernization theory identifies the conditions that have given rise to development in the first world, and specify where and why these were lacking in the third world¹⁵¹. Inglehart defined modernization as "a process that increases the economic and political capabilities of a society: it increases economic capabilities through industrialization, and political capabilities through bureaucratization"

Modernization theorists argued that changes must take place in poor countries in order to break the vicious cycle of poverty and low productivity¹⁵². Clearly, modernization theorists believed that development required Westernizing elites, or some kind of education in capitalist values. Therefore, like the West could help speed up the process of development in the third world,

¹⁴⁸ Bird, G., Rajan, R. S.: Banks, Financial Liberalisation and Financial Crises in Emerging Markets *The World Economy*, pp. 889-910 (2001)

¹⁴⁹ Kenwood, A. G & Lougheed, A.L., *The growth of the international economy 1820-2000* (London: Routledge, 1996)

¹⁵⁰ Vreeland, J. R. The Effect of IMF Programs on Labor. *World Development* Vol. 30, pp. 121-139. (2002):

¹⁵¹ Kenwood, A. G & Lougheed, A.L., *The growth of the international economy 1820-2000* (London: Routledge, 1996)

¹⁵² Wallerstein, Immanuel. *The Essential Wallerstein*. New York: The New York Press. (2000).

for instance by sharing its capital and know-how, to bring these countries into the modern age of capitalism and liberal democracy". From this perspective, poor African countries could only catch up with the developed countries by integrating into the global capitalist system¹⁵³.

Nevertheless, modernization theory assumed that development is a universal process, which will bear the same results of prosperity across all states and societies. Such assumptions are highly Eurocentric as the goal of the theory is to mimic the development in Europe and North America, dubbing them as models for success. Upon these criticisms, world-systems theory was proposed by Immanuel Wallerstein as an alternative explanation to modernization theory¹⁵⁴. In his own words, Wallerstein stated that he aimed at achieving "a clear conceptual break with theories of modernization and thus provide a new theoretical paradigm to guide our investigations of the emergence and development of capitalism, industrialism, and national states¹⁵⁵

Wallerstein argued that the expansion of capitalism in the world have been econstructed under neoliberalism which continues to reproduce under new circumstances, and in new forms, the new inequalities built in its structuring of the world. In line with Wallerstein's description of the global capitalist system, this paper will ask questions such as: does the current neoliberal global economic and political system really ensure equality among poor African countries and the developed nations.

2.5.3 Dependency theory

A second perspective on debt and development centers on world systems and

¹⁵³ Watlerstein, Immanuel. (1974). *The Modem Working-System: Capitalist Agriculture and the Origins of the European World-Economy in the sixteenth Century*. New York: Academic Press.

¹⁵⁴ Wallerstein, Immanuel. (2000). *The Essential Wallerstein*. New York: The New York Press.

¹⁵⁵ Wallerstein, Immanuel. (2000). *The Essential Wallerstein*. New York: The New York Press.

dependency theory. According to this approach, poverty can't be fully understood without taking into account the interactions between dominant "core" or "center" industrialized countries and the subordinate "peripheral" developing countries. The term 'dependence' refers to one economy being sensitive and subject to the policies of another. For example, in an article entitled "The Structure of Dependence," Theotonio Dos Santos writes: "we can understand what is happening in the underdeveloped countries only when we see that they develop within the framework of a process of dependent production¹⁵⁶." People who approach adjustment with this perspective would see a need for changing the relations between countries, rather than focusing on adjusting the economic policies within a debtor nation.

Criticisms of World Bank and IMF SAPs are based in a variety of conceptual approaches, ranging from world systems and development theory to political ecology and social equity. The World Bank's claims of the successes of adjustment have been subjected to fierce scrutiny by the United Nations Economic Commission for Africa (ECA) and the United Nations Children's Fund (UNICEF), among others¹⁵⁷. In particular, ECA's critique of SAPs "cast doubt on the wisdom of several of the major SAP policy components". The ECA claims that the "selectivity and inconsistency" of World Bank studies lead to misleading conclusions¹⁵⁸. Another critique comes from a study examining the results of ESAF programs in sub-Saharan Africa. The authors found that developing countries participating in ESAF not only experienced lower economic growth than those not participating, but that neither IMF-mandated macroeconomic policies nor the Highly Indebted Poor Countries (HIPC) Initiative

¹⁵⁶ Dos Santos, Theotonio. 1970. "The Structure of Dependence." *American Economic Review* 60(231).

¹⁵⁷ David Brown (eds.). 1998. *The Struggle for Accountability: The World Bank, NGOs, and Grassroots Movements*. Cambridge, Massachusetts: MIT Press.

¹⁵⁸ Reed, David (ed). 1996. *Structural Adjustment, the Environment, and Sustainable Development*. London: Earthscan Publications.

have “sufficiently reduced these countries’ debt burdens”¹⁵⁹

Dependency theory is the theory that will be used throughout this research to explain underdevelopment caused by the IMF/ World Bank structural adjustment policies.

2.6 Conclusion

Dependency theory propounded by Frank Grunder, Griffiths states that it is the body of social science theories which suggests that the wealthy nations of the world need a peripheral group of poorer states in order to remain wealthy. Dependency theory states that the poverty of the countries in the periphery is not because they are not integrated into the world system, but because of how they are integrated into the world system. Underdevelopment is seen as the result of unequal relationships between rich developed capitalist countries and poor developing ones. In the past colonialism embodied the inequality between the colonial powers and their colonies. As the colonies became independent the inequalities did not disappear. Powerful developed countries such as the US, Europe and Japan dominate dependent powerless LDCs via the capitalist system that continues to perpetuate power and resources inequalities¹⁶⁰.

According to Griffiths it challenged the dominance of the modernization strategies in the mid 20th century as the integration of the peripheral countries into the world system led to neo-colonialism not liberalization, underdevelopment not development due to continued dependency and unequal exchange. Whilst the modernization theory implies that development occurs when separate modern sector is established with a particular society and gradually integrates the traditional sector itself the dependency theory is against this initiative as it leads to exploitation and dependency. Dominant MDCs have such a technological and industrial advantage that they

¹⁵⁹ Naiman, Robert and Neil Watkins. April 1999. *A Survey of the Impacts of IMF Structural Adjustment in Africa: Growth, Social Spending, and Debt Relief*. Center for Economic and Policy Research.

¹⁶⁰ Goldfrank, W. L (2000). Paradigm Regained? The Rules of Wallerstein's World-System Method. *Journal of WorldSystems Research*. Vol. 6. N. 2 pp. 150-195

can ensure the global economic system works in their own self-interest. Organisations such as the World Bank, the IMF and the WTO have agendas that benefits the firms, and consumers of primarily the MDCs¹⁶¹. Freeing up world trade, one of the main aims of the WTO, benefits the wealthy nations that are most involved in world trade. Creating a level playing field for all countries assumes that all countries have the necessary equipment to be able to play. For the world's poor this is often not the case. Indeed, increasing impoverishment and deprivation raised serious doubts about the effectiveness of neo-liberal policies in promoting broad-based growth. The 1990s responded with a mixture of backlash, adjustment and public relations. Some efforts were made to rein in the extremes of policy prescriptions of the 1980s and to strike a balance with the concerns and approaches that had dominated development policy in the preceding decades¹⁶².

Over the years, the World Bank and IMF have gone astray on crucial issues as most recently in the case of its market fundamentalism ideology of structural adjustment programmes that led to an excessive pressure on external liberalization and freeing capital markets. These mistakes have not occurred for lack of expertise or technical excellency. Rather, they reflect the way in which the interests and positions of the richer developed countries, mediated through various voting structures, have biased and blinkered much of the work of the Bretton Woods institutions. The WTO, though having a more democratic voting system, will suffer somewhat from the same weakness, because of the overwhelming bargaining power of the industrial countries¹⁶³.

Since the main objective of the Bretton Woods institutions is to promote growth and

¹⁶¹ Bienefeld, M. 1995. "Capitalism and the Nation State in the dog days of the twentieth century", in R. Millband and L. Panitch, eds., *The Socialist Register – 1994*, Merlin Press, p. 103.

¹⁶² Bienefeld, M. 1995. "Capitalism and the Nation State in the dog days of the twentieth century", in R. Millband and L. Panitch, eds., *The Socialist Register – 1994*, Merlin Press, p. 103.

¹⁶³ *ibid*

macroeconomic stability, they should revise their policy priorities and give priority to policy sustainability and gradualism in policy implementation. Promoting sustainable human development in the age of globalization will require a very different set of priorities, objectives and policies from those implied by market fundamentalism. In the late 1990s, efforts were made to evolve more balanced approaches, which emphasize a stronger role for the State, as well as more vigorous policies to tackle unemployment and poverty.

CHAPTER THREE

IMPACT OF INTERNATIONAL MONETARY FUND (IMF) AND THE WORLD BANK STRUCTURAL ADJUSTMENT PROGRAMMES IN DEVELOPING COUNTRIES

3.1 Introduction

The chapter specifically looks at the impact of IMF/World Bank Structural Adjustment Policies in Developing especially with regard to the social development. Of interest to look at will be the education, health and agricultural sectors¹⁶⁴.

When SAPs were first introduced in the early 1980s, no measures to protect the poor and vulnerable groups in developing societies were explicitly incorporated in their design with the assumption that any negative social impact would be of a short-term nature.⁸ The social effects of policy reforms, however, have since then become a rallying point for the critics of SAPs, and the extent of these effects is gaining recognition even among the international financial institutions and adjusting developing countries. Many critics have claimed that the IMF has placed most of the burdens of market-based adjustment on vulnerable groups in member countries. During the widespread structural adjustment programs of the 1980s, the IMF frequently required member countries to reduce government spending. Governments responded by cutting back on programs that the poor, women, children, and other vulnerable groups heavily relied on e.g., food subsidies, health care, and education¹⁶⁵.

In Africa, the restructuring process, coupled with the implementation of SAPs, has had a devastating effect on the provision of social services such as healthcare and education. Cutbacks in government expenditure have created constraints in the provision of these services, leading to

¹⁶⁴ Reed, David (ed). 1996. *Structural Adjustment, the Environment, and Sustainable Development*. London: Earthscan Publications.

¹⁶⁵ Werner, D., 1994, 'The Economic Crisis: Structural Adjustment and Healthcare in Africa', *Third World Resurgence*, No. 42/43, pp. 10-17.

a decline in social welfare. Since SAPs touched on every facet of life in the relevant countries, it affected governance in a way no other policy package had done before. The impact of SAPs on women's health in Kenya. It argues that the reforms brought upon by SAPs led to a decline in the health of most women in Kenya. It further argues that SAPs, an imposition on developing countries by the Bretton Woods institutions, violated the rights of Third World societies through the denial of access to healthcare, which is a basic human right.¹⁶⁶

3.2 Impact of IMF/World Bank Structural Adjustment Policies

The World Bank, the International Monetary Fund (IMF) and other major lenders have played a very significant role in shaping the development of Third World countries. Their structural adjustment loans (SALs), begun in the 1970s and 1980s as a way of restructuring the economies and political institutions of borrowing countries, have been the subject of much debate. While sound economic policies are necessary to achieve economic stability and progress, critics have not only questioned the effectiveness of SALs, but have also examined the associated social and environmental impacts. Negative social impacts of structural adjustment (SA) have been identified and are being addressed. Due to the pervasive use of SA in the Third World, environmental impacts must be examined in order to either mitigate the negative impacts or encourage the positive ones. Acknowledging the links between economic, social, and environmental factors in society is necessary in moving towards sustainable development¹⁶⁷.

¹⁶⁶ World Bank, 1994a, *Adjustment in Africa: Reforms, Results and the Road Ahead*, Washington DC, World Bank.

¹⁶⁷ Mosley, P., F. Noorbakhsh and A. Paloni (2003), 'Compliance with World Bank conditionality: Implications for the selectivity approach to policy-based lending and the design of conditionality', paper presented at the *United Nations University/WIDER conference on 'Sharing Global Prosperity'*, 6-7 September 2003, Helsinki, Finland

3.3 Effects of IMF/SAPs on Education

Macroeconomic adjustment and education are closely related through the budgetary mechanism. The level of resources available for education may be linked in principle to the success of the macroeconomic reforms, and lack of success may lead to further deterioration in spending on education. Economic adjustment and budget restructuring reduce public spending on education; and declining budgets for education may affect the quantity and quality of the graduates of the education system, which will have a negative impact on macroeconomic growth and adjustment. Not only the macroeconomic choices, but also the meso and micro choices, were significantly influenced by adjustment policies, and the influence has been, on the whole, negative.¹⁶⁸

To predict the effect of adjustment policies on education is difficult. However, given the international experience, the prospects for education in India appear to be bleak, if not dismal. In general, early evidence of success of structural adjustment policies was confined to middle-income countries, and countries whose own capacities for negotiation and policy analysis were adequate, but this was not so in the poorer and weaker countries, notably the sub-Saharan African countries. The adjustment policies that do not explicitly take into account the education sector tend to treat education not as an investment activity in human capital that raises productivity, but as a sector of public spending, and public spending has to be reduced in all sectors, including education. In fact, the adverse impact is found to be 'heavier' on education than on other sectors.¹⁶⁹

The isolation and measurement of the effects of adjustment are difficult and problematic, not to speak of differentiation between the effects of World Bank structural adjustment policies

¹⁶⁸ World Bank, 1994a, *Adjustment in Africa: Reforms, Results and the Road Ahead*, Washington DC, World Bank.

¹⁶⁹ Reed, David (ed). 1996. *Structural Adjustment, the Environment, and Sustainable Development*. London: Earthscan Publications.

and those of IMF stabilization policies, as they are most often presented as a package of reforms. Some of the research reviewed here, however, adopted sophisticated methodologies and attempted to isolate the effects of adjustment on education. It has been found that the adverse effects of adjustment policies on education are likely to be very severe. Decline in public investment, in gross enrolment ratios and in quality of education, particularly at primary level, have been found to be strongly associated with adjustment policies. Adjustment leads to squeezes on public budgets in most sectors, including education. The effect on education may indeed be heavier than on others¹⁷⁰.

Total public expenditure on education in current and, more specifically, in real prices is found to have declined in some countries during adjustment. The declines are more pronounced in terms of per student expenditures. The relative priority given to education in the development framework - expenditure on education as a percentage of GNP, and as a percentage of total government expenditure - has been found to decline in a large number of countries.

Within education, it may be easier during the adjustment process to reduce public spending on primary education than to reduce that on higher education, for familiar reasons. Hence basic education and mass education programmes such as literacy programmes may be more severely affected than higher education. Higher education may receive 'protection' from the governments, the bureaucracy and politicians¹⁷¹.

Further, within education, the capital budgets may be sacrificed in favour of recurrent budgets. Buildings, furniture, equipment and so forth may be traded off in favour of additional teachers. Within the recurrent budgets, because of the pressures of teachers' unions, etc., teachers' wage bills tend to be less affected. Even when fiscal retrenchment is effected, the

¹⁷⁰ Reed, David (ed). 1996. *Structural Adjustment, the Environment, and Sustainable Development*. London: Earthscan Publications.

¹⁷¹ World Bank, 1994a, *Adjustment in Africa: Reforms, Results and the Road Ahead*, Washington DC, World Bank.

salaries of teachers and other staff cannot be cut for various reasons - in fact, they may even increase (in current market prices at a rate less than inflation), and schools and colleges may even be opened without the necessary buildings and equipment.

The most serious casualty may be quality of education, and investment in those inputs that have a stronger relationship with quality, such as textbooks and other teaching-learning materials. The axe falls on the petty amounts being invested in teaching-learning materials, including classroom materials in primary schools, books and journals in libraries, consumable material in laboratories and other quality-improvement programmes in secondary schools, colleges and universities¹⁷². There is reason to believe that the provision of materials and supplies will drop more than overall budgets, and this will cause more damage to educational development. As Fuller and Habte confirm, efforts to increase recurrent spending on textbooks are 'stymied at times by overall spending ceilings negotiated with IMF or World Bank economists'. Quality of education may deteriorate with an increased number of students per teacher, reduced numbers of books, etc. Dropout and repetition rates may increase. During the process of adjustment, short-duration education and crash courses may be preferred to long-duration education programmes, short-term training programmes to long-term training, untrained teachers to trained teachers, etc. The proportion of young, inexperienced, temporary and untrained teachers may increase. All this will have serious negative effects on the quality of education in the long run.¹⁷³

An equally important concern should be equity in education. Given the tendencies of increased cost recovery, equity will also be affected. An important outcome of the adjustment policies is introduction of more measures for cost recovery. Measures such as students' fees have

¹⁷² King, K. (2005b) 'Re-Targeting Schools, Skills and Jobs in Kenya: Quantity, Quality and Outcomes', *International Journal of Educational Development*, 25: 423-435.

¹⁷³ *ibid*

been introduced even at the primary level (for example in Malawi, and recently in Tanzania), although recent discussions on cost recovery are confined to post-primary levels of education. Student fees and student loans are the two most favoured measures of cost recovery. Some even suggest full cost recovery, particularly at the tertiary level of education. As such measures are introduced, and direct and indirect subsidies in education are subject to cuts, access to education may be seriously restricted, and inequities may increase in terms of lower enrolment rates for women and other weaker sections of the population.¹⁷⁴

Adjustment policies directly and indirectly contribute to restoration of the market mechanism in general and privatization of education in particular directly, as adjustment policies specifically include privatization and marketization, and indirectly, through a reduction in government subsidies. As public budgets for education shrink, privatization will increase, with all its ill effects. Private enrolment and private investment will increase, but the increase will not balance the decrease in public investment, and as a result social investment in education will be less than optimal.¹⁷⁵ Governments and private enterprise feel that this is the best time to sell any argument in favour of privatization. As a result, even ethically and constitutionally illegal institutions - for example, the capitation-fee colleges in India - may find support. There may be forces with vested interests that try to exploit the situation characterized by adjustment policies, and the growth in capitation-fee colleges may be attributed to these forces. Secondly, similar forces also help in the growth of private education institutions that rely mostly not on private finances, but on those from the public exchequer: this can be described as 'pseudo-privatization'.

¹⁷⁴ Cerutti, Furio, *Global Challenges for Leviathan: A Political Philosophy of Nuclear Weapons and Global Warming*, Lanham, MD: Lexington Books. 2007,

¹⁷⁵ Manda, D. K. *and the Labour Market in Kenya*, Discussion Paper 6, Nairobi: Kenya Institute for Public Policy Research and Analysis (KIPPRA). 2010. *Globalisation*

Voluntary or non-governmental organizations that rely heavily on government funds also belong to this category.¹⁷⁶

Under restructuring, enrolment rates, school quality and priority for educational investment suffer, and there are obstacles to an increase in internal efficiency. At the same time there is a need for purposeful effort to preserve allocation to education, for the reallocation of resources - including the targeting of public subsidies - and for cost recovery. The role of the private sector will increase¹⁷⁷.

It is not only the human and financial inputs into education and the learning process that are sacrificed: the output of the education system may also be affected, given the high levels of educated unemployment. This may result in a greater 'brain drain' - an outflow of an educated workforce, and an escalation in the qualifications demanded for jobs. In all, short-run expediency seems to dominate public policy-making during the adjustment process, and the long-term socio-economic benefits of public investment do not seem to carry any weight¹⁷⁸.

All these effects may be only in the short term. In the long term, economic growth may help education, improving, among other things, efficiency in education. But education is a long-term activity, and perhaps cannot be brought back onto the rails in a short period of time when funds are available, once it has gone off the tracks owing to paucity of funds. Furthermore, the world's experience of these matters is very limited, and the 'long-term results [of adjustment policies] are yet to be observed'. Some of the adverse consequences may be due to the fact that policy changes under adjustment are guided by political rather than efficiency considerations.

¹⁷⁶ King, K. (2005b) 'Re-Targeting Schools, Skills and Jobs in Kenya: Quantity, Quality and Outcomes', *International Journal of Educational Development*, 25: 423-435.

¹⁷⁷ *ibid*

¹⁷⁸ Cerutti, Furio, *Global Challenges for Leviathan: A Political Philosophy of Nuclear Weapons and Global Warming*, Lanham, MD: Lexington Books. 2007,

However, it may be that the cuts inflicted on education budgets would be more severe but for the adjustment policies, as these policies are resorted to because of severe economic problems. In other words, one may argue that the severe economic difficulties may have forced the government to cut its spending on education drastically, that the adjustment policies helped in reducing the cuts and that, 'without some form of adjustment, the situation would have been worse'.

3.4 Effects of IMF/SAP on Trade liberalization

Free trade between countries is intended to enable specialization into the field where most efficiency can be achieved and thereby increase aggregate output. The total welfare for all participants would be increased as the goods can be redistributed using trade, allowing each country to reach a higher consumption level than what would have been possible in autarky. This assumes that the terms of trade are set based on the relative production cost of different goods and services.

Several different authors have defined structural adjustment (SA) as a conscious change in the fundamental nature of economic relationships within a society¹⁷⁹. Woodward adds that these changes should “ensure sustained growth,”¹⁸⁰ while Mohan points out that SA reshapes the economies of the Third World to be more market-oriented. Killick elaborates that the ‘conscious’ aspect means that it is “a result of the manipulation of policy, not a change that occurs automatically through the market as a response to changing demands and opportunities” Furthermore, he defines adjustment policies as “instruments deployed to achieve the desired adaptation and to enhance the economy’s flexibility”¹⁸¹. Finally, the World Bank defines

¹⁷⁹ Reed, David (ed). 1992. *Structural Adjustment and the Environment*. Boulder, CO: Westview Press.

¹⁸⁰ Mohan, Giles et al. 2000. *Structural Adjustment Theory, Practice and Impacts*. New York, New York: Routledge.

¹⁸¹ Killick, Tony. 1993. *The Adaptive Economy – Adjustment Policies in Small, Low-Income Countries*.

adjustment simply as government policy and institutional reforms¹⁸² The term structure refers to how a society employs resources, produces goods, and distributes goods and income¹⁸³. The political system, legal framework, enforcement agencies, established patterns of social organization, public administration, and even demographics of a country all form a country's institutional base, which, combined with its productive system and physical infrastructure, are all parts of the country's structure

Many developing countries use export tariffs in order to retain goods that are important for the population or to protect certain industries and their employees. Tariffs on exports are said to have the negative effect of discouraging the natural development of the export sector, leading to a misallocation of resources. By removing the tariffs, resources will be relocated to the sector where they earn the highest return¹⁸⁴.

Import tariffs are kept to discourage the population from purchasing imported goods and thereby protect domestic production. Elimination of import quotas and protective barriers are expected to make the domestic market more competitive and run more efficiently. "The neo-liberal paradigm suggests that a system of taxation and subsidy is inefficient, and as such the approach preferred in a structural adjustment package is that of lowering taxes to increase individual incentive and to eliminate subsidies to raise efficiency through greater competition."

As tariffs and quotas on imports are abolished, this will also result in a reduction of customs' revenues, enlarging the budget deficit. The tightened competitiveness achieved by the lower price on imports forces domestic industries to become more efficient in order to be able to

Washington, D.C.: World Bank.

¹⁸² World Bank. 2013. World Bank website, accessed on March 30, 2013.

¹⁸³ Killick, Tony. 1997. *The Adaptive Economy – Adjustment Policies in Small, Low-Income Countries*. Washington, D.C.: World Bank.

¹⁸⁴ Killick, Tony. 1993. *The Adaptive Economy – Adjustment Policies in Small, Low-Income Countries*. Washington, D.C.: World Bank.

keep up with the new competition. Not all firms are able to cope with the new conditions and as a result many of them are forced out of business. There will be a subsequent adverse effect on employment as firms find themselves unable to compete within the new conditions and with subsidised agricultural goods from abroad. Finished goods, no longer produced within the country will have to be imported, reallocating resources that could be used for debt-servicing.

Currency devaluation is usually required prior to aid negotiations. The exchange rate is seen as the most important instrument for macro-economic reform, affecting fundamental supply and demand relations within an economy. By devaluating its currency the country hopes to attract more investment by reducing the real costs of production and labour.

Basically there is a broad consensus that aiming for higher economic growth in programme countries is good though there are some concerns on the ability of some countries in translating a higher rate of growth to higher standards of living¹⁸⁵. A recent report on chronic poverty, with reference to urban poverty in Ethiopia, states that improved macroeconomic management in the mid-1990s did not result in a reduction in poverty, on the contrary the urban household welfare declined during this period¹⁸⁶. Other studies go further by pointing out the inconsistency between components of SAPs and the longer term development policies of the programme countries. For example the public sector management component advocates cuts in public expenditure and often this takes place in terms of cuts in education, health and other poor social expenditures¹⁸⁷. It is therefore suggested that as the main aim of aid and development loans is improvements in standards of living in the recipient countries, the conditions attached to

¹⁸⁵ Bijlmakers, L., 2003, *Structural Adjustment: Source of Structural Adversity*, Leiden, African Studies Centre.

¹⁸⁶ Stewart, F. (1994), 'Are adjustment policies in Africa consistent with long-run development needs?' in van der Geest, W. (ed) *Negotiating structural adjustment in Africa*, London: James Currey and Heinemann.

¹⁸⁷ KING, K. (2005b) 'Re-Targeting Schools, Skills and Jobs in Kenya: Quantity, Quality and Outcomes', *International Journal of Educational Development*, 25: 423-435.

aid and loans should take these objectives into account and indeed the effectiveness of the related programmes should be evaluated in terms of improvements in standards of living ¹⁸⁸.

One important criticism of SAPs, which emerged shortly after they were first adopted and has continued since, concerns their impact on the social sector. In health, SAPs affect both the supply of health services (by insisting on cuts in health spending) and the demand for health services (by reducing household income, thus leaving people with less money for health). Studies have shown that SAPs policies have slowed down improvements in, or worsened, the health status of people in countries implementing them. The results reported include worse nutritional status of children, increased incidence of infectious diseases, and higher infant and maternal mortality rates¹⁸⁹.

The instant result of currency devaluation is a price increase in domestic prices of food, drugs and most inputs for production as the market adjusts to the new conditions. The inflationary tendency associated with price increases is inhibited using tight restrictions on money supply. “The idea is basically that of the so called ‘monetarists’, whereby reductions in the rate of growth of the money supply results in reductions in the rate of growth of the price level. This theory was adopted by many developed economies in the late 1970s and early 1980s, but was quickly abandoned as a major economic strategy due to the effects of reductions in aggregate demand and the subsequent appearance of mass unemployment. However, it has remained as an important policy instrument of structural adjustment programs.”¹⁹⁰

As money creation is restrained while the relative value of money is reduced, the value of the total money supply within an economy will be reduced, as will the value of everything within

¹⁸⁸ Stewart, F. (1994), ‘Are adjustment policies in Africa consistent with long-run development needs?’ in van der Geest, W. (ed) *Negotiating structural adjustment in Africa*, London: James Currey and Heinemann.

¹⁸⁹ Noorbakhsh, F. (2003) ‘Spatial Inequality and Polarisation in India’, University of Nottingham, *CREDIT Research Papers*, No. 03/16.

¹⁹⁰ *ibid*

that economy in terms of foreign exchange. The aim of attracting investment is achieved by the prospect of lower costs of production and labour for those investing. The change in the cost structure of certain industries, consequential to currency devaluation, leaves businesses.

3.5 Effects of IMF/SAP on Health

Many adjusting countries reduced public spending for the social sector as a ratio of central government expenditure or as a ratio of GDP or even in absolute monetary terms. For instance, the World Bank's (1994) study showed that Tanzania reduced health expenditure as a percentage of GDP from 1.3% in 1981-1986 to 0.6% in 1987-1990. Similarly, health expenditure as a percentage of GDP in the Gambia fell from 2.3% in 1981-1986 to 1.5% in 1987-1990, while education expenditure as a share of GDP fell from 4.6% in 1981-1986 to 3.3% in 1987-1990. In Burkina Faso, health expenditure as a share of GDP fell from 0.7% to 0.6% between the same periods¹⁹¹. Moreover, the mean for health spending for all African countries with large improvement in macroeconomic policies fell from 1.5% to 1.4% during the period between 1981-1986 and 1987-1990¹⁹². This clearly contradicts the argument that SAPs did not affect social spending. New investments in human resource development in adjusting, developing countries have also been affected by the reduction in capital and development expenditures because of the immense political and social sensitivities of reducing current expenditures. During periods of fiscal austerity, governments find it easier to cut capital spending than to reduce current expenditures (especially, salaries and wages). Deferring or cancelling a capital-intensive public project is a much softer option than laying off government workers. Therefore, a sharp cut in capital spending as a percentage of GDP has been noticed in most of the adjusting countries. The overall impact of reduction in social sector spending has been the deterioration in health services,

¹⁹¹Mincer, J. (1958) 'Investment in Human Capital and Personal Income Distribution', *Journal of Political Economy*, 66: 281-302.

¹⁹² World Bank (1997) Adjustment Lending in Sub-Saharan Africa: An update Report No.16594.

particularly community-based primary care and preventive services. Standards of education declined as a result of the deterioration in the physical infrastructure of schools, shortage of education materials and books, and the decline in the real wage of teachers which forced many of them to quit the job or to migrate¹⁹³.

A 1992 World Bank Report shows that the implementation of SAPs had a negative impact on a variety of groups. These groups include women who form the majority of the poor in society, but who are paradoxically the critical providers of health at home. This is particularly the case among female-headed households. The Impact of Structural Adjustment Programmes (SAPs) in both rural and urban areas. It is evident that the poor have suffered disproportionately from the effects of economic decline and the structural adjustment measures¹⁹⁴. Economic decline and SAPs hit women harder than men. Being responsible for the well being of their families, women found it difficult to cope with increased burdens of disease and hunger. The retrenchment policies resulting from implementation of the SAPs also affected women more than men as women dominate the less skilled work force. As a group, women are less educated and their participation in formal employment is low. With SAPs came the rationalisation of formal sector employment, leading to the retrenchment of the less skilled cadres, mainly women. Cost-sharing policies in education and the healthcare sectors also affected women adversely. The removal of subsidies in the agricultural sector, and the resultant high cost of inputs as well as low returns on farm products, also adversely affected the living standards of women and children¹⁹⁵.

These efforts to mitigate the negative social consequences of structural adjustment programs, particularly on the poor, are mainly comprised of retaining “social safety nets and

¹⁹³ Mosley, P., F. Noorbakhsh and A. Paloni (2003), ‘Compliance with World Bank conditionality: Implications for the selectivity approach to policy-based lending and the design of conditionality’, paper presented at the *United Nations University/WIDER conference on ‘Sharing Global Prosperity’*, 6-7 September 2003, Helsinki, Finland

¹⁹⁴ Wallace, H. and Kanti, G., 1990, *Healthcare of Women and Children in Developing Countries*, Oakland.

¹⁹⁵ Aina, T., 1996, *Globalization and Social Policy in Africa: Issues and Research Directions*, Dakar, CODESRIA

crucial public spending, such as education and health”¹⁹⁶ and include “activities that sought to foster income-generation through small-scale enterprises”¹⁹⁷. Another way that the World Bank has sought to minimize the adverse social impacts of adjustment is by evening the distribution of the burden among the economic classes. For example, lower subsidies on fertilizer and seeds could be offset by higher producer prices¹⁹⁸. World Bank funding of social safety nets and the protection of public spending on basic social services increased dramatically from 5% of the adjustment loan in FY 1984-86 to 50% in FY 1990-92¹⁹⁹.

3.6 Effects of IMF/SAP on Agriculture

The production of goods plays a central role in an economy’s structure. All goods are either tradable or nontradable goods. Tradable goods are “all goods that do or can enter into trade as exports or imports,” and include primarily the agriculture, mining, manufacturing sectors, and certain service industries such as tourism and shopping²⁰⁰. Nontradables include everything else; the most important nontradable goods include the construction sector, utilities, and government and other services such as health, education, and defense²⁰¹.

During the 1980s, stabilisation and adjustment packages were introduced in many developing countries in an attempt to stop further deterioration in standards of living²⁰². The term ‘adjustment’ refers to a range of macro-economic and structural measures that were promoted in the first instance by the Bretton Woods institutions - the World Bank and the

¹⁹⁶ World Bank. 2002g. World Bank website, accessed on March 21, 2002. www.worldbank.org/cdf/cdf-faq.pdf.

¹⁹⁷ Reed, David (ed). 1992. *Structural Adjustment and the Environment*. Boulder, CO: Westview Press.

¹⁹⁸ World Bank. 1998. *Global Development Finance*. Washington, D.C.: World Bank.

¹⁹⁹ World Bank. 2002h. World Bank website, accessed on March 30, 2002.

www.worldbank.org/html/extdr/pb/pbadjustlending.htm.

²⁰⁰ Cornia, G.A. and G, Helleiner (1994) (eds), ‘*From adjustment to development in Africa: Conflict controversy, convergence, consensus?*’, New York: St Martin’s

²⁰¹ Killick, Tony. (2011). *The Adaptive Economy – Adjustment Policies in Small, Low-Income Countries*. Washington, D.C.: World Bank

²⁰² Denmark, 1995, ‘Structural Adjustment in Africa: A Survey of the Experiences’, Report prepared by the Centre for Development Research, Copenhagen, for the Danish Ministry of Foreign Affairs

International Monetary Fund (IMF) - to restore internal balances and increase the role of market force in the economy. Adjustment policies therefore denote the various mechanisms designed to reduce imbalances in Third World economies, both on external accounts and in domestic resource use. Adjustment frequently involved cutbacks in government expenditure. Consequently, real government expenditure per capita fell in over half the countries of the developing world in the period 1980-1984²⁰³. The impact of adjustment measures on local economic conditions varied widely as did the degree and consistency of their implementation. In sub-Saharan Africa, SAPs were implemented in only a handful of countries during the late 1970s, but by the end of the 1980s, most countries were formally involved²⁰⁴. In Africa, economic restructuring was a major component of the process of globalisation.

3.7 Conclusion

The degree to which attention to social impacts of adjustment has really improved the lot of the poor is uncertain, however.²⁰⁵ argues that further loans to mitigate the social impacts of adjustment for the most poor and vulnerable groups only adds to a country's debt burden and furthermore, "probably served more of a political purpose in giving adjustment the appearance of a human face" rather than really making a difference²⁰⁶.

The change of attitude in the World Bank from regarding debt reduction as strictly a matter of economic growth to a more holistic view of long-term development and sustainability has been a gradual one. This is evidenced by the change in terminology and indicators that are

²⁰³ Cornia, G., et al., eds., 1987, *Adjustment with a Human Face*, Vol. 1: *Protecting the Vulnerable and Promoting Growth*, New York, Oxford University Press

²⁰⁴ Streefland, P., et al., 1998, *Implications of Economic Crisis and Structural Adjustment Policies for PHC in the Periphery*.

²⁰⁵ Rich, Bruce. 1994. *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development*. Boston: Beacon Press.

²⁰⁶ Rich, Bruce. 1994. *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development*. Boston: Beacon Press

measured over the years. In the 1995 *World Development Report* (WDR), “the main criterion used to classify economies and broadly distinguish different stages of economic development is GNP per capita”²⁰⁷. The following year’s WDR, however, stated that “indicators have been redesigned to provide a core set of standard indicators covering the same three development themes: people, the environment, and the economy”²⁰⁸. Last year’s WDR announced the division of World Development Indicators into five main sections: human capital development, environmental sustainability, macroeconomic performance, private sector development, and global links.²⁰⁹ This is important because, since macroeconomic indicators are no longer the only things on the radar screen, it may signify a change in the neoliberal framework of the World Bank.

The joint IMF-World Bank Highly-Indebted Poor Countries (HIPC) Initiative is partly in response to the Jubilee 2000 movement, and other organizations that have called for the reduction or forgiveness of developing countries’ external debts. HIPC allows eligible country members to qualify for “exceptional assistance with the objective of achieving debt sustainability over the medium term”. Eligible countries include those that are pursuing IMF/World Bank-supported programs of adjustment and reform with a good track record as of the year 2000.²¹⁰

²⁰⁷ World Bank. 1995. *World Development Report 1995: Workers in an Integrating World*. Washington, D.C.: World Bank.

²⁰⁸ World Bank. 1996. *World Development Report 1996: From Plan to Market*. Washington, D.C.: World Bank.

²⁰⁹ World Bank report, (2000/2001).

²¹⁰ World Bank. 2000/2001. *World Development Report 2000/2001: Attacking Poverty*. Washington, D.C.: World Bank.

CHAPTER FOUR
INTERNATIONAL MONETARY FUND (IMF) AND THE WORLD BANK
STRUCTURAL ADJUSTMENT PROGRAMMES IN KENYA

4.1 Introduction

Since independence in 1963, Kenya's economic development was based on the state control of the economy. The government pursued the so called African socialism which involved the nationalization of key sectors of the economy; the regulation of trade, prices, and finance, and the social provision of housing (to public servants), education and health. Since the early 1980s the Kenyan economy has been subjected to a number of external shocks - oil prices increases 1972-75 and 1980 and subsequent years in the 1990s, recession in the world economy, reduction in export earnings, high foreign interest rates - along with a rapid expansion of government expenditure which has forced it to undertake some kind of economic adjustment²¹¹.

Since the middle of the 1980s Kenya has been engaged in a structural adjustment process along IMF-WB lines. This is because it is faced with unsuitable fiscal and BOP deficits and a rapid growth in external debt. Although severe structural distortions were building throughout the 1970s, the critical trigger point was the financial imbalances created by the terms of trade shocks and by fiscal indiscipline. Despite the fact that reform under the first structural adjustment loan was proceeding more slowly than planned, the second structural adjustment loan was ambitious picking up the largely unfinished agenda on trade reform and addressing reforms in grain marketing, interest rates, energy, and even family planning²¹².

The economic liberalization of the Kenyan economy has involved the design of a

²¹¹ World Bank (1997) Adjustment Lending in Sub-Saharan Africa: An update Report No.16594.

²¹² Reforms, Results and the Road ahead'. Review of African Political Economy No. 62:559-568.

reform program aimed at stimulating private sector investment. This, it is assumed will consequently foster economic growth and strengthen the government's financial position. The reform program has involved the liberalization of import licensing, reduction in the protection given to the industrial sector, tariff reform whereby tariffs were lowered significantly; comprehensive tax reform program which sought primarily to simplify the tax structure, lower high tax rates that may encourage evasion and discourage investment, and strengthen tax administration; and control of government expenditure via retrenchment, removal of subsidies to public enterprises and divestment of state corporations²¹³.

It is argued that privatization will encourage the efficient allocation and use of resources. Other adjustment measures have involved elimination of price controls on a number of commodities and the introduction of user charges in the social sectors of education and health; and programs have been designed to increase the foreign exchange earning capacity via private sector development e.g. the Export processing Zone (EPZ) in Athi river.

In general, the program of economic liberalization of the Kenyan economy has met with moderate success to date. However, inflation and interest rates and unemployment still have remained considerably high²¹⁴. The export agricultural sector has responded positively to the economic measures undertaken in the recent years. However, the balance of payment position still remains a concern for the Kenya Government²¹⁵.

4.2 Structural Adjustment Programmes (SAPs)

Structural Adjustment Programmes (SAPs) are economic policies for developing countries that have been promoted by the World Bank and International Monetary Fund (IMF)

²¹³ James W. Macharia Cabinet Secretary for Health, personal interview on the impact of international monetary fund and the world bank structural adjustment programmes in developing countries, Nairobi, August 2, 2013.

²¹⁴ Republic of Kenya Ministry of Finance, Annual Public Debt Management Report July 2010- June 2011 p.2

²¹⁵ World Bank (1997) Adjustment Lending in Sub-Saharan Africa: An update Report No.16594.

since the early 1980s by the provision of loans conditional on the adoption of such policies. Structural adjustment loans are loans made by the World Bank²¹⁶. They are designed to encourage the structural adjustment of an economy by, for example, removing “excess” government controls and promoting market competition as part of the neo-liberal agenda followed by the Bank. The Enhanced Structural Adjustment Facility is an IMF financing mechanism to support of macroeconomic policies and SAPs in low-income countries through loans or low interest subsidies.

One important criticism of SAPs, which emerged shortly after they were first adopted and has continued since, concerns their impact on the social sector. In health, SAPs affect both the supply of health services (by insisting on cuts in health spending) and the demand for health services (by reducing household income, thus leaving people with less money for health). Studies have shown that SAPs policies have slowed down improvements in, or worsened, the health status of people in countries implementing them. The results reported include worse nutritional status of children, increased incidence of infectious diseases, and higher infant and maternal mortality rates.

An acceptance of the problems associated with SAPs is reflected in the post-Washington consensus and similar thinking that promotes economic reform while protecting and possibly increasing social expenditure. Stabilization measures are closely related to SAPs policies and are taken to reduce the national rate of inflation. They usually include cutting the budget deficit and improving the balance of payments²¹⁷. Such measures are often made a condition for HIPC countries to obtain fresh loans or further assistance and are therefore a part of the conditionality clause.

²¹⁶ Structural Adjustment Participatory Review International Network (2004) Structural Adjustment: The SAPRI Report: The Policy Roots of Economic Crisis, Poverty and Inequality. Zed Books.

²¹⁷ World Bank (1997) Adjustment Lending in Sub-Saharan Africa: An update Report No.16594.

4.3 International Monetary Fund and Bank Structural Adjustment Programmes and Education Sector In Kenya

Since Independence Kenya has made tremendous progress in the area of education as measured in the number of educational institutions and enrolments in primary and secondary schools, tertiary institutions and universities, as well as in the general improvement in literacy rates. At Independence education in the new nation was seen as a prerequisite necessary for the overall development of the country. The government emphasized the need for all citizens to team up to build schools and educate the children. Education was therefore integrated in the five-year government development plans and was also taken seriously by both the government and the people of Kenya²¹⁸.

A feature of Kenya's formal education and training systems since the attainment of Independence has been the rapid growth in enrolment at all levels of educational institutions, resulting in corresponding increase in educational expenditure. For instance, the share of recurrent expenditure on education in Kenya more than doubled from about 15 per cent in 1960 to 30 per cent in 1980 to 35 and 40 per cent in 1987 and 1995 respectively, becoming a major burden on the taxpayer²¹⁹. In spite of the impressive progress the government of Kenya has made in the field of education, however, significant educational issues, which have not been adequately addressed, remain and new ones have emerged that warrant immediate attention. Perhaps one of the most crucial barriers to both educational access and success is the issue of inequality in the provision of education²²⁰.

²¹⁸ Republic of Kenya Ministry of Finance, Annual Public Debt Management Report July 2010- June 2011 p.2

²¹⁹ "Better Globalization", given by the Managing Director of the IMF at the United States Conference of Catholic Bishops in Washington D.C. on January 28, 2012

²²⁰ Woods, N. *The Globalizers: The IMF, the World Bank, and Their Borrowers*, Ithaca, 2006

At Independence in 1963, the entire primary school enrolment was just under 900,000 while secondary education was only 30,000. In contrast, by 1980, the corresponding numbers were 3.9 million and 400,000, respectively, representing average growth rates of 9 per cent and 16.5 per cent. In order to cope with these enrolments, the government rapidly expanded university education. Thus, from a single university in 1970 with a total student population of 5,000, the corresponding population rose to 41,000 by 1995 (Central Bureau of Statistics 1999). This tremendous increase in enrolment rates at all levels of learning created interrelated problems, especially with respect to the cost and quality of education and employment opportunities. The increasing cost of education has witnessed increasing rates of gender bias, non-enrolment, grade repetition and dropout rates that have begun to increase at all levels of education, particularly among children from poor families whose parents cannot afford to raise the required funds for their education²²¹.

Under Bank supported structural reform programs, new extractive industry investments were initiated in all of the study countries, with Kenya experiencing exceptional growth in the agriculture sector.²²² Furthermore, in some cases the structural reforms appeared to exacerbate macroeconomic imbalances, including: vulnerability to external shocks²²³; declining government revenue ratios²²⁴; increased economic dependency on primary commodities²²⁵; and significant negative pressure on balance of payments from increased energy imports associated with the mining sector boom²²⁶.

²²¹ Republic of Kenya Ministry of Education, Annual Public Debt Management Report July 2011- June 2011 p.11

²²² Woods, N. *The Globalizers: The IMF, the World Bank, and Their Borrowers*, Ithaca, 2006

²²³ Ibid

²²⁴ World Bank (2008) *Adjustment in Africa : reforms, results, and the road ahead*, Volume 1: Oxford University Press.

²²⁵ Republic of Kenya Ministry of Education, Annual Public Debt Management Report July 2011- June 2011 p.15

²²⁶ Ibid

The Bank generally recognized that the extractive industries in these three countries were associated with negative environmental and social impacts. To address these anticipated outcomes, the Bank designed complementary program measures to help improve the social and environmental performance of these sectors. However, despite these efforts by the Bank, the complementary projects tended to fall short of significant and long-lasting improvements. As a result, growth of the economic sectors considerably outpaced any progress on social and environmental governance²²⁷. Overall, the limited impact of the Bank's complementary projects coupled with expansionary measures of structural reforms, resulted in unnecessarily high social and environmental costs.

Through the policy of cost-sharing, structural adjustment programmes are linked to increasing rates of non-enrolment, grade repetition and dropout in educational institutions, especially at the primary level. Further, the marginalization of the poor in terms of education and the decline in quality of education in Kenya is also associated with these programmes. Those who failed to enroll, complete or dropout of school find it difficult to secure employment, generally become frustrated and often end up as social misfits. All these factors lead Eventually to children from well-to-do families taking up educational opportunities at higher levels at the expense of those from poor families. In the long run this promotes social inequality and underdevelopment²²⁸.

Information available in government publications shows that Kenya's education indicators are some of the best in Africa. Some of these indicators are; a 90 per cent primary school enrollment rate, an enrollment rate of 48 per cent among females and an adult literacy rate of 60 per cent for males and 40 per cent for females. Public expenditures on

²²⁷ Better Globalization", given by the Managing Director of the IMF at the United States Conference of Catholic Bishops in Washington D.C. on January 28, 2012

²²⁸ Economic surveys 2012, various issues and National Development Plans in Kenya

education are also among the highest in Africa - at 6 per cent GDP²²⁹.

Table 2: National School Fees Guidelines: A comparison (amount in Kshs) per year.²³⁰

Tuition	3,500	3,800
Boarding	9,000	15,000
Repairs, Maintenance & Improvement	1,200	1,500
Electricity, Water & Conservancy	1,200	2,000
Local travel & Transport	900	1,200
Contingencies	700	1,300
Activity	1,000	1,000

Source: Ministry of Education Strategic Plan 2010-2015

Economists have long recognized the role which education plays in the economic development process. Recent research on the relationship between education (i.e. human capital investment and development has found a strong link between the level of educational achievement in different countries and productivity growth²³¹. Countries with a high level of educational achievement tend to absorb new technology more quickly and hence grow more rapidly. The quality of a country's education is also important in determining the pace of innovation²³².

The drive to provide universal primary education, to meet the rising demand for skilled man-power and the importance of the political capital to be gained from meeting the social demand for education has made educational spending a high priority in the budget of the Kenya government. Between 1985/86 and 1995/96, Kenya government spend between

²²⁹ Republic of Kenya Ministry of Education, Annual Public Debt Management Report July 2011- June 2011 p.11

²³⁰ Ministry of Education Strategic Plan 2010-2015

²³¹ National School Fees Guidelines, Ministry of Education Strategic Plan 2010-2015

²³² Economic surveys 2012, various issues and National Development Plans in Kenya

35.9% and 37.6% of her total recurrent budget in the education sector²³³.

The provision of resources for the education sector could come via the state and/or private sector. However, in Kenya the state has been the main provider of financing for education since 1963 the year of independence. Given the limited resources available to the Kenya government, it has had to borrow funds from international financial institutions in order to expand the educational system. For example, a major source of funds for educational projects has been the World Bank. Particularly funding of the construction of more teacher training colleges and also funds to public universities.

The adverse macroeconomic environment and the attendant policies adopted to overcome the economic problems facing the country have put pressure on the ability of the tax payer to foot the bill for education and other social services. Education budget has been unable to keep the pace with rising educational costs and student numbers. There is, therefore, a need to rationalize the public resources devoted to education.

Structural adjustment policies adopted by the Kenya Government have both a direct and an indirect effect on the educational system. The effects of the policies also raise issues of efficiency, equity and flexibility in the provision of education²³⁴. Adjustment policy measures affect the education sector via changes in the macro economy. (e.g. via reduction in government expenditure, cost recovery systems) and also through changes in the micro economy (increased prices and taxes and reduced disposable incomes).

In a review of the impact of structural adjustment policies on the education system across countries²³⁵:Public education expenditures and gross primary enrollment rates are

²³³ Republic of Kenya Ministry of Education, Annual Public Debt Management Report July 2011- June 2011 p.11

²³⁴ National School Fees Guidelines, Ministry of Education Strategic Plan 2010-2015

²³⁵ Republic of Kenya Ministry of Education, Annual Public Debt Management Report July 2011- June 2011

negatively associated with WB adjustment lending²³⁶ Using the female to male primary enrollment rate as an indicator of equity, adjustment policies did not affect equity. Female enrollment rates continued to approach male rates during the adjustment period; Reliable evidence on the effects of adjustment policies (vis-à-vis external shocks, poor policies, etc) on the educational system is limited and There is a causal link between adjustment and education but the nature of the link varies and in most cases is poorly understood. There is a greater need to understand the dynamics of the process rather than the comparative statistics.

4.4 The impact of International Monetary fund and Structural Adjustment programs on Health

At Independence the area of health was one of three priority sectors, the other two being education and poverty, that needed urgent attention in order to address the inequalities created by the colonial administration and development. Health was targeted because good health constitutes one of the basic human needs and contributes significantly towards enhancing and maintaining the productive potential of a people. Improved health has a positive impact on longevity, adult productivity, earnings, the quality of life and socioeconomic development²³⁷.

The government's commitment towards the improvement of health was demonstrated by the "free" health services introduced soon after Independence. Members of the public were encouraged to participate in constructing health centers', clinics and hospitals and government

²³⁶ World Bank (2008) Adjustment in Africa : reforms, results, and the road ahead, Volume 1: Oxford University Press.

²³⁷ James W. Macharia Cabinet Secretary for Health, personal interview on the impact of international monetary fund and the world bank structural adjustment programmes in developing countries, Nairobi, August 2, 2013..

trained nurses, medical officers and doctors. In this way, health structures and personnel increased.

As a result of significant increases in medical personnel, facilities and improvements from Independence to 1993, the crude death rate dropped from 20 to 9 per 1000 per birth while that of infant mortality declined from 120 to 60 per 1000 live births and life expectancy increased from 40 to 60 years²³⁸.

Although the medical facilities and personnel have shown an impressive expansion since Independence, the oil crisis of 1973, the high rate of population growth and, recently, the economic crisis associated with the structural adjustment programmes have placed heavy pressure on a budget that is already in deficit. The government's response has been further cuts in its expenditure on social services, especially in health and education. Consequently, the quantity and quality of medical and other services has deteriorated substantially, negatively affecting the Kenyan people in general and particularly the poor and other vulnerable groups. In 1988 the government was forced to promote the idea of cost-sharing to the health sector so that the beneficiaries would have to pay part of the cost of health, especially of medication and the government the other part, mainly the costs of personnel. While one of the main requirements for the Kenya government in the SAPs was to rationalize and reduce expenditure, government has found it difficult to do so without worsening socioeconomic, health and political problems²³⁹.

The impact of structural adjustment on politics in Kenya The adjustment programmes in Kenya have ushered in political pluralism, greater democracy, accountability and respect for human rights. But the programmes have heightened ethnic tensions, polarized communities and

²³⁸ World Development Movement (2005) One size for all: A study of IMF and World Bank Poverty Reduction Strategies.

²³⁹ James W. Macharia Cabinet Secretary for Health, personal interview on the impact of international monetary fund and the world bank structural adjustment programmes in developing countries, Nairobi, August 2, 2013..

increased violent ethnic clashes that resulted in hundreds of people dead and thousands displaced. Furthermore, the programs have also attenuated national leaders into a kind of tribal chief²⁴⁰. Today, tribalism has permeated all sectors of development and is now one of the greatest obstacles to economic growth and expansion. The impact of structural adjustment on poverty It is estimated that the prevalence of absolute poverty in the country has been rising. The total population below the absolute poverty line in 1994 is estimated at 11.5 million of which 10.3 million are in rural areas²⁴¹. In rural areas the number of people living below the absolute poverty line was estimated to have increased from 40.2 per cent in 1982 to 46.4 per cent in 1992. Within urban areas the incidence of absolute poverty was estimated at around 29.3 per cent in 1992. By 1992 an estimated 1 million Kenyans, or about 43 per cent of the entire population, were living below the absolute poverty line²⁴²

The impact of this economic decline has been increased inflation, poverty, unemployment, underemployment, retrenchment and forced retirements. Although the government was committed to the reduction and eventual eradication of poverty in Kenya immediately after Independence, it has experienced difficulties in implementing its plans. Consequently, poverty has not only persisted, it has also increased negatively affecting all sectors of development and the family unit in particular.

4.4.1 IMF Policies and their Effects on Health In Kenya

In the inflation-focused monetary policy, other important goals such as rapid economic growth and employment creation are de-prioritised²⁴³. This focus on stabilisation rather than

²⁴⁰ James W. Macharia Cabinet Secretary for Health, personal interview on the impact of international monetary fund and the world bank structural adjustment programmes in developing countries, Nairobi, August 2, 2013.

²⁴¹ Central Bureau of Statistics 2009

²⁴² World Development Movement (2005) One size for all: A study of IMF and World Bank Poverty Reduction Strategies.

²⁴³ *ibid*

growth/development has been promoted at the expense of achieving economic growth, employment creation and poverty reduction.

Wage ceilings led to a recruitment freeze for several years in both the health and education sectors. There was no commensurate increase in key personnel in these two sectors despite the fact that there was increased population and hence increased demand. Secondly, the policy did factor the HIV and AIDS scourge that had led to many deaths of employees in the two sectors. At the same time the demand for greater health care for people living with HIV and AIDS required an increase in health workers. All these changes in the society were ignored while the policy makers adhered to the constrictive IMF policies²⁴⁴.

Currency reserve policy requires the country to hold reserves of foreign currency equal to the cost of two to three months of imports. In cases where the reserves are low, aid has been used to increase reserves instead of being used productively in human development in the social sectors. Reduction of government spending in social sectors led to the introduction of user fees also referred to as cost sharing. This cost-sharing policy in the health sector was introduced in December 1989²⁴⁵. This was part of a comprehensive health financing strategy. However, the introduction of the policy did not guarantee improved quality of health services by the Government nor did the supply of drugs become more reliable. For the poor, user fees limited access to health care. The poor suffer from higher morbidity and mortality rates but are less likely to report illness or seek medical care due to high cost of health care and the distance to health care facilities.

²⁴⁴ BIS Quarterly Review, IMF and International Telecommunications Union data. Bank for International Settlements (December 2006), p. 29.

²⁴⁵ Madam Diarietou Gay, World Bank Country Director, personal interview on the impact of international monetary fund and the world bank structural adjustment programmes in developing countries, Nairobi, August 2, 2013.

In the education sector, the Kamunge Report of 1988 recommended the adoption of a cost-sharing policy for financing education in Kenya²⁴⁶. It provided that the Government was to meet salaries of teachers and education administration as well as fund some limited school facilities while parents were to provide tuition, textbooks, activity and examination fees. The communities on the other hand were to be responsible for putting up physical structures and ensuring their maintenance. This led to a significant drop in primary school enrolment and dropout rates as the majority of the poor could not afford these charges. In the initial stages, reduction of government spending and cost sharing were promoted by the IMF twin institution, the World Bank²⁴⁷.

4.4.2 Effects of IMF Structural Adjustment policies on Kenyan Health Sector

The major effects of SAPs on the Kenya health sector; Significant shortfall of Health Personnel, Brain drain or capital flight and Poor access and quality of health care

The wage caps led to a situation where the government could not employ additional health personnel or even increase the salaries of those who were in employment. This led to a great shortage due to the employment freeze and high attrition rate due to poor pay.

Poor remuneration is another result of wage ceilings and has led to many health personnel moving to the developed countries where the pay is more competitive. the effects of brain drain in the health sector in Kenya can be summarized as follows: decline in quality of health care; increased workloads for health workers left behind; adverse effects on leadership and morale; public sector costs for educating and training the emigrating workers; less effective and efficient

²⁴⁶ Kamunge Report of 1988 on educations in kenya

²⁴⁷ Madam Diaritou Gay, World Bank Country Director, personal interview on the impact of international monetary fund and the world bank structural adjustment programmes in developing countries, Nairobi, August 2, 2013.

use of other health infrastructure resources; and Shortage of trained medical personnel is complicating the fight against HIV and AIDS and other diseases.

It is estimated that the economic loss incurred by Kenya as a result of emigration of one doctor is about US\$ 517,931 and one nurse is US\$ 338,868. However, this amount does not include the greater socio-economic loss.

The poor suffer the most. Government clinics, district and provincial hospitals provide poor medical treatment. Further, the reintroduction of cost sharing policy has made it difficult for the poor to access medical treatment. Generally, patients are not admitted in Government facilities unless a sizeable sum is deposited. Seriously injured people often go from hospital to hospital pleading for treatment. Many die in the process. The high level of poverty in Kenya is the main problem for the majority of the population²⁴⁸. IMF policies and their impacts on the Kenyan health sector have made it difficult for the poor to access quality health services.

4.5 Effects of IMF/SAP on Agriculture and Economy in Kenya

The first aim of the independent government was to improve the standards of living of the people of Kenya through education and health, increasing the GDP and real incomes and creating employment opportunities. These goals have dominated all five-year plans and the different economic phases²⁴⁹. In the first 10 years Kenya pursued a mixed economy policy; a pro-capitalist development path aimed at maximizing economic growth. The strategy was contained in a Session Paper entitled African Socialism and its Application to Planning in Kenya. Published in 1965²⁵⁰. A World Bank report acknowledged the progress that Kenya had

²⁴⁸ Angnes Wangi. Government official at Ministry of Agriculture, personal interview on the impact of international monetary fund and the world bank structural adjustment programmes in developing countries, Nairobi, August 2, 2013.

²⁴⁹ World Development Movement (2005) One size for all: A study of IMF and World Bank Poverty Reduction Strategies.

²⁵⁰ BIS Quarterly Review, IMF and International Telecommunications Union data. Bank for International Settlements (December 2006), p. 29.

made since Independence but also identified unemployment, poverty and income distribution as the disappointing: The need for a poverty eradication plan arises from the persistence of poverty, mainly as a result of failures in implementation rather than the design of plans and aims. According to the National Poverty Eradication Plan. 1999-2015 the objectives of the National Development Plans and the National Policy Frameworks have been:

In spite of the impressive economic achievement in the first two decades of Independence, the last two decades have witnessed a general decline in the economy, which has impacted negatively in nearly all areas of development²⁵¹. This is mainly attributable to the introduction of the SAPs in 1980s and particularly in the 1990s. First, statistical result shows that adjustment lending appears to dampen the effect of growth (expansion or contraction) on poverty without, in my view, establishing a convincing story or mechanism that might produce this effect. He acknowledges that doing so is crucial to his analysis, but the issue is not fully resolved by his paper. He finds that adjustment lending alters the cycle for some policy variables, but also finds no evidence that these alterations affect poverty. Without a convincing mechanism, one worries about correlation without causation. Too lofty and macro in their focus to be able to address how the macro structural and socially contextualized problems translate into micro problems of equity, and access to economic opportunities and social services for the poor and vice versa²⁵²

As opposed to the previous National Development Plans and other attempts to address poverty and disadvantage, the National Poverty Eradication Plan 1999-2015 bridges the gap to address the needs of the poor. In addition, it analyses the context of past efforts to combat poverty and recognizes the need to overcome multiple constraints placed by sectors and

²⁵¹ World Development Movement (2005) One size for all: A study of IMF and World Bank Poverty Reduction Strategies.

²⁵² National Poverty Eradication Plan. 1999-2015

institutional settings. Furthermore, it focuses on policies and sets operational priorities, seeking to achieve pro-poor economic growth and services that were absent in previous attempts²⁵³.

The plan signals government's determination to address poverty, not only as a political necessity and moral obligation, but also on the grounds of sound economic principles that recognize the critical role and potential contribution of the poor to national development. But while government is committed to eradicating poverty at the structural level in the long run, the most vulnerable groups, families and individuals in the meantime are facing the negative impact of economic and social stress and particularly that of the chronic scarcity of material resources in the family.

One of the key points raised in the foregoing conclusions is that the environmental impacts of the external adjustments are determined largely by the farmers' status in the adjusting countries. Commercial producers are able to respond to new price incentives from international markets by diversifying crops, intensifying production, and continuing to introduce new technological improvements²⁵⁴. They are also able to absorb the rising costs of agricultural inputs without major difficulty. In short, the changing ratio of inputs to producer prices has either remained favourable to commercial farmers or their expanded production has overridden the negative effects of relative price changes."

Small farmers and rural workers with little or no land cannot absorb the increased costs of agricultural inputs, such as seed and fertilizer, as easily; nor have they been able to respond as effectively to the new price incentives offered by trade liberalization. Given their precarious situation, the small farmers' priority is to ensure their families' food security, often by intensifying food production, with all the attendant environmental problems. There are

²⁵³ Central Bureau of Statistics in Kenya, 2009

²⁵⁴ Kenya National Poverty Eradication Plan. 1999-2015

indications that the small farmers' situation has opened opportunities for commercial farmers to expand their commercial land holdings, thereby increasing their benefits from the emerging economic system²⁵⁵. The full impact of the emerging economic changes on small farmers and rural populations will become more evident when the impacts of internal adjustment, including fiscal policy reform, are taken into account."

The extractive sectors, including forestry and mining, have responded quickly to the new economic incentives. Expansion in these sectors created environmental problems, and although some are already visible, the studies suggest that the long-term impacts may be more serious. This point also applies to the tourist sector. Local employment may increase as new hotels and facilities are built, but environmental problems are already in evidence and are expected to intensify. Expanded industrial production, coupled with expanded transport systems relying on poorly maintained used equipment, will lower the quality of urban environments through rising air pollution levels. These environmental costs are not immutable features of the adjustment programs implemented in the nine countries. They often result from disregard for the effects of price changes on the environment and from the lack of complementary policy reforms prior to or during the economic restructuring process²⁵⁶.

As regards reductions in agricultural extension activities and social services, the impacts fall decisively on the poor, and most directly on the rural poor and women"...Loss of credit for agricultural inputs, such as hybrid seeds and fertilizer, the reduction of agricultural extension services to encourage intensification of production, and the disruption of marketing systems caused by privatization are among the most direct effects of internal economic adjustments on

²⁵⁵ BIS Quarterly Review, IMF and International Telecommunications Union data. Bank for International Settlements (December 2006), p. 29.

²⁵⁶ Kenya National Poverty Eradication Plan. 1999-2015

rural populations. These changes generated downward pressure on the living standards of the poor and, in the process, accelerated the most intractable environmental problem facing many countries -that is, poverty-induced environmental degradation."

4.6 Conclusion

The concluding remarks on the issue of a mechanism focus on the informal sector and suggest that adjustment lending is irrelevant to poverty alleviation because the poor are largely found in the informal sector. This is a rather narrow view of both poverty and adjustment lending. It is one thing to think that adjustment in an economy, no matter how defined or supported, has a minimal direct and immediate impact on the informal sector and, therefore, on poverty, but that is not the same as irrelevant. In the longer run, the overall efficiency of the economy does matter because we expect that as a consequence of growth the poorest will move from the informal sector to the formal sector²⁵⁷.

In addition, social benefits associated with the expansion of large-scale economic operations were generally in the form of improved infrastructure, including water supply, schools, and hospitals in specific localities near extraction sites. Employment effects have been mixed. Privatization in the petroleum sector reduced employment. Mining sector data for Peru indicated a modest increase in employment²⁵⁸. However, small-scale and artisanal mining, which provides the majority of employment opportunities for the poor in the sector, experienced both positive and negative employment effects as a result of reforms. Overall, the economic sectors in these countries did not constitute a significant percentage of employment. Moreover, data are insufficient to determine the net effect of reforms on employment, e.g., how economic growth affects employment in other sectors such as fishing and agriculture.

²⁵⁷ BIS Quarterly Review, IMF and International Telecommunications Union data. Bank for International Settlements (December 2006), p. 29.

²⁵⁸ National Poverty Eradication Plan. 1999-2015

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The most notable change in the management of the Kenyan economy was the implementation of the structural adjustment programmes (SAPs) that began to be introduced during the 1980/81 fiscal years. However, SAPs did not become an important part of economic management until after the publication of the Session Paper No. 1 of 1986. Since then 82 journal of social development in Africa vol 17 no 1 January 2002 structural adjustment programmes in Kenya SAPS have been integrated as policy tools for economic management. The adoption of SAPs was aimed at restoring efficiency in all sectors of the economy and consequently raising the rate of economic growth.²⁵⁹ According to Stanley Fischer there are two types of adjustment policies, the short run or microeconomic adjustment, which means basically adjusting to living within your means; and structural adjustment, which means changing the structure of our economy to enable your means to grow more rapidly. Thus structural adjustment programmes consist of a set of economic policies designed to generate rapid and sustainable economic growth with macroeconomic stability. SAPs that evolved over the past decade initially focused on eliminating fiscal and external imbalances and reviving growth²⁶⁰.

The implementation of SAPs has involved the following main subject areas: the liberalization of prices and marketing systems; financial sector policy reforms; international trade regulation reforms; government budget rationalization; divestiture and privatization of parastatals and civil service reforms. These elements have so far been implemented in various degrees. Because the market is expected to play a critical role in the growth and adjustment

²⁵⁹ Central Bureau of Statistics 1997

²⁶⁰ BIS Quarterly Review, IMF and International Telecommunications Union data. Bank for International Settlements (December 2006), p. 29.

process, structural adjustment programmes also emphasize market liberalization, market competition and the development of the private sector. The key ingredients of structural adjustment programmes are based on an economic model of private ownership, competitive markets and an outward-oriented development strategy. Developing free and competitive markets and liberalizing the price systems are necessary for allocation efficiencies. A stable macroeconomic environment is also essential to allow markets to operate efficiently and investors to make correct decisions based on market signals. In spite of the impressive economic achievement in the first two decades of Independence, the last two decades have witnessed a general decline in the economy, which has impacted negatively in nearly all areas of development. This is mainly attributable to the introduction of the SAPs in 1980s and particularly in the 1990s. These have affected the economy through declining government expenditure, especially on public servants' salaries, administration, economic and social services and increased government lending and expenditures to service debts. Families and the vulnerable have been exposed to severe socioeconomic risks such as inflation and unemployment, which have worsened poverty and increased regional differentiation as well as the gap between the rich and the poor.

The SAPs have been linked to the stagnation in real per capital income growth, which is mainly associated with increasing poverty and unemployment and is related to the upsurge of the "culture of violence" and the deviance and crime rates in Kenya, particularly of violent crimes. Furthermore, the declining economy has been associated with increasing rates of non-enrolment, grade repetition and dropout in educational institutions, especially at the primary level. Moreover, marginalization of the poor in terms of education and the decline in quality of education in Kenya is also linked to the SAPs. With the vigorous implementation of the SAPs in

1990s, the quantity and quality of medical and other services have deteriorated substantially. While one of the main aims of the SAPs was to rationalize and reduce government's expenditure, government has found it difficult to do so without worsening human misery. The SAPs have reduced the once respected national leaders to the status of tribal chiefs and heightened ethnic tensions, regrouping and violent clashes that resulted in hundreds of people dead and thousands displaced.

5.2 Recommendations

The SAPs recommended that the Government reduces its budgetary allocation in the social sectors which included the education sector. The effects of this included but are not limited to: Reduction in the enrolment rates and increased dropout rates; Freezing on the employment of more teachers; Poor quality of education; Rationalized expenditure on education by spending less on teachers' salaries resulting in poor pay for teachers; Commercialization of education: dual track, private sponsored students. In light of the conclusions drawn from the three case studies, the following six recommendations are offered to the World Bank to improve the outcomes of structural adjustment and other policy lending associated with the extractive industries:

The World Bank's updated operational policy on structural adjustment should require upstream social and environmental analysis of policy lending²⁶¹ for countries where ECONOMIC development is likely to or is intended to occur as a result of structural reform programs. The main objective is to ensure that socially and environmentally appropriate

²⁶¹ Structural Adjustment Loan (SAL), Sectoral Adjustment Loan (SECAL), Technical Assistance (TA), and Analytical and Advisory Activities (AAA).

incentives and disincentives for the private economic sector are built into structural adjustment.²⁶²

The World Bank should establish mechanisms and standards for economic investment approval processes, sector codes, and private sector contract models that ensure local community benefits & rights, and environmental protection.²⁶³ Furthermore, Bank assistance for investment liberalization and privatization should include specific activities to enhance domestic private sector opportunities, such as access to finance and markets and formalization of small-scale and artisanal mining. Fourth, in structural adjustment programs, appropriately defined, attention to details is even more important. It should not be difficult to improve the efficiency of existing programs ostensibly intended to assist the poorest while reducing their overall cost because too many of such programs are not really directed at reducing poverty but rather at subsidizing the middle class if not the upper class. The challenge to do better is not always easy to meet, in particular at a time of crisis where the design phase of structural programs is compressed.

In countries anticipating development of the extractive sectors, the World Bank should place priority on building government capacity to ensure that economic development benefits the poor and improves environmental protection. This will require assessing and strengthening revenue distribution policies and mechanisms, improving the capacity of EI-independent regulatory agencies, and establishing mechanisms for informed stakeholder participation. Furthermore, the Bank should ensure that central and local government agencies have clear social development and environmental protection mandates associated with economic development.

²⁶² Republic of Kenya Ministry of Education, Annual Public Debt Management Report July 2011- June 2011 p.11

²⁶³ Ibid

When economic development is promoted, World Bank lending should support policy and institutional reforms that ensure economic resource rents are used to stimulate more value-added and labor intensive sectors. Conventional wisdom asserts that drawing down natural resource assets is appropriate to the degree that they are converted into other forms of capital, be it productive, human, or financial, which can increase a country's productivity over time. The Bank should provide guidance and assistance on how a country can utilize economic to stimulate other sectors of the economy and, thereby, move beyond mainly using economic to increase exports.²⁶⁴

The World Bank should enhance social and environmental accountability and collaboration between World Bank and IMF lending operations especially in countries with significant extractive industries. To begin with, the Bank should institute a monitoring mechanism of governance, social/poverty, and environmental management indicators to complement the IMF's macroeconomic monitoring.

The World Bank should establish clear guidelines and mechanisms that ensure substantive and sustained interaction among national government agencies, civil society organizations (CSO), and the World Bank. Bank guidelines should provide social and environmental performance criteria by which CSOs can monitor the impacts of structural reform. Furthermore, the guidelines should identify the specific stages in the reform program cycle and the mechanisms whereby the Bank receives feedback from civil society. Lastly, the World Bank should revise program activities in response to the CSO monitoring feedback.

As a means of controlling inflation, the IMF requires that the Central Bank should not be under the jurisdiction of the government. Monetary creation will inevitably have an inflationary effect on a currency, and to prevent its usage for debt servicing as well as stabilizing the economy

²⁶⁴ Republic of Kenya Ministry of Education, Annual Public Debt Management Report July 2011- June 2011 p.11

as a whole, it should remain independent from political power.

The IMF requires the Central Bank to be independent from political power, as a remedy against the inflationary bias of governments.” The policy of market determined interest rates combined with an independent Central Bank leads to the government losing control over monetary policy and to significant hikes in both real and nominal interest rates.

These countries recognise that borrowing from the domestic economy is a vital tool for governments to smooth expenditure from year-to-year, rather than being limited to spending only what is received through taxation. Denying governments the ability to borrow domestically seriously hinders their ability to manage the economy.”

Maintaining macroeconomic stability and accelerating structural reform as the continent enters the "second phase of adjustment", the emphasis must be to maintain economic stability and to reinforce the implementation of structural policies that will make the economies more flexible, encourage diversification, and reduce their vulnerability to exogenous shocks. These include further reforms in the areas of public enterprise activity, the labor markets, and the trade regime. Governments must also ensure that public services--including transportation networks, electricity, water, and telecommunications, but also health services and education--are provided in a reliable and cost-efficient fashion.

Ensuring economic security establishing the right framework for economic activity addresses the second requirement of policy removing the sense of uncertainty that still plagues economic decision-making in most of Africa. The direction and orientation of future policy must be beyond question. This requires the creation of a strong national capacity for policy formulation, implementation and monitoring. Moreover, the transparency, predictability and impartiality of the regulatory and legal systems must be guaranteed. This goes well beyond the

respect of private property rights and the enforcement of commercial contracts. It also involves the elimination of arbitrariness, special privileges, and ad-hoc exemptions, even where these are intended to encourage investment.

Achieving good governance national authorities should spare no efforts to tackle corruption and inefficiency, and to enhance accountability in government. This means reducing the scope of distortionary rent-seeking activities; eliminating wasteful or unproductive uses of public funds; and providing the necessary domestic security. Many African countries will also have to undertake a comprehensive reform of the civil service, aimed at reducing its size while enhancing its efficiency. In short, governments must create confidence in their role as a valued and trusted partner of private economic agents.

Finally, African governments will need to actively encourage the participation of civil society in the debate on economic policy, and to seek the broad support of the population for the adjustment efforts. To this end, governments will need to pursue a more active information policy, explaining the objectives of policies and soliciting the input of those whom the policies are intended to benefit.

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