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Erosion of National Sovereignty and the Role of International Financial Institutions in the Global South: The Case of Africa

In “Impoverishing a Continent: The World Bank and the IMF IN Africa, Asad Ismi explains the causes of intervention in African national affairs by financial institutions such as the World Bank and the IMF, and delineates the devastating effects this involvement has had on the economies and socio-political environments of three particular African countries (Zimbabwe, Ghana, and Cote d’Ivoire). Ismi, a writer specializing in U.S. policy and action toward the Global South, notes that the nature of global finance is playing an increasingly large role in neoliberal globalization as it progressively controls more of the world political interaction, exchanges, trade, behavior and and policies.

Ismi begins his argument by stating that the “two most powerful institutions in global trade and finance” are the World Bank and the International Monetary Fund (IMF). He accuses the United States of abusing these two institutions as a means to perpetuating their capitalist global dominance and “economically subjugate” the Third World. While developing nations are facing crippling economic and political strife, the rich developed nations, particularly the U.S., have reaped enormous profits. The region most severely impacted by the IMF and World Bank policies is Africa. In fact, 36 out of the 47 nations in sub-Saharan Africa have imposed SAPs since their creation in 1980.

Brief History of International Financial Institutions

Here, Ismi explains in detail the structure, regulations, and requirements of Structural Adjustment Programs (SAPs). Established under the premise that SAP measures would generate growth by increasing a country's exports and attracting foreign investment, the IMF upholds the belief that the reforms mandated by the adjustment programs can be used to decrease debt and poverty in needy nations.

Created in 1944 at the Bretton Woods Conference following the end of World War II, the two financial institutions were formed under the pretext of regulating the world market to prevent large-scale poverty and economic depressions; the World Bank was assigned the role of "financing long-term investment", while the IMF was responsible for granting loans to "overcome short-term balance of payments deficit." The end of the world war resulted in the establishment of the United States as the global leader; thus, the World Bank and the IMF's creation reflected the desires of the nation. The weighted voting structure guaranteed that American interests would supersede all others, and the U.S. was granted the perpetual privilege of appointing the World Bank's President. This American predominance practically "ensures that the World Bank and the IMF would become instruments of U.S. foreign policy." From its founding, the ultimate goal of both has been to "fully integrate the Third World into the U.S.-dominated global capitalist system in the subordinate position of raw material supplier and open market."

The hardening of IMF attitudes toward the Global South can be attributed to the rise and success of independence movements in the Third World in the 1960s, 1970s, and early 1980s. Events such as the U.S.'s humiliating defeat in Vietnam in 1975, the 1979 Iran hostage crisis and Nicaraguan revolution, and the Third World demand for the New International Economic Order led the Reagan administration to enact disciplinary measures on developing nations to curb their independence and sovereignty. By the end of the Reagan-Bush presidencies in 1993, the South's radical spirit had been squashed: liberating movements had been defeated and overthrown, government organizations were privatized, and limits on Western imports had been removed. These restrictions on Global South autonomy ensured that developing nations would remain "servants of the West."

Features and Effects of the Structural Adjustment Programs

General prevailing conditions that have necessitated loans from these international institutions have generally been economic crisis, political instability, and social pressure for improvement of services and human welfare. Beginning in 1980, developing nations faced increasing difficulties in paying back loans granted to them by Western banks. In a 'humanitarian' effort to relieve their struggles, the IMF and the World Bank imposed SAPs on nations who could not afford to pay their debts. The basic features of SAPs require national governments to: "cut public spending (including eliminating subsidies for food, medical care and education); raise interest rates, thus reducing access to credit; privatize state enterprises; increase exports; and reduce barriers to trade and foreign investment such as tariffs and import duties." Only with the agreement of the borrowing nation to implement SAPs will the IMF supply them with much-needed loans; borrowing nations knew that the prospects of finding a loan from other sources were slim without a seal of approval from the IMF. In this way, the IMF takes advantage of Third World poverty and essentially forces them to accept programs that mainly benefit large Western governments and corporations. Through the SAPs, the 2,500 staff of the IMF acquired the total power to "dictate the economic conditions of life to over 1.4 billion people in 75 developing countries."

From Peru and Ghana to Argentina and Indonesia, the IMF programs have had dire effects: prices of basic foods and services escalated and poverty rose, while employment plunged and life expectancies and health status sharply decreased. In a recent publication, the Structural Adjustment Participatory Review International Network (SAPRIN) clarified the four ways that the SAPs have contributed to the impoverishment and subjugation of peoples in the Third World: (1) trade reforms have erased the need for domestic manufacturing, resulting in widespread worker and producer unemployment; (2) agricultural and mining reforms have jeopardized food security, as well as diminished the incomes of farmers and rural communities; (3) privatizations of markets have led to decreases in wages, job security, and employment benefits; and (4) cuts to government subsidization of social welfare programs have exacerbated illness and disease and deepened poverty. Due to these tragic consequences, the 1980s was widely regarded as the "lost decade."

The World Bank and the International Monetary Fund in Africa

In an effort to "jump start economic growth", the government of Zimbabwe began implementing structural adjustment programs in 1991 in exchange for a $484 million loan. The SAP requirement to lower the minimum wage and deregulate financial markets led to widespread poverty and unemployment; the loosening of import controls and the removal of foreign currency controls plummeted the GDP, rose food and service prices, as well as decreased per capita spending. So tragic were the consequences of the adjustment programs that the Zimbabwean economy fell into recession less than one year after their implementation. The requirements under the SAPs called for a reduction in "non-interest expenditures", particularly in health care, education, and social services. Such fiscal demands from the IMF have resulted in a health care crisis in the nation, with a doubling of childbirth mortality rates and a sharp decline in life expectancy. The implementation of user fees for education and health care led to a "dramatic increase of dropout rates and 1000% rises in health service costs. Through these facts, it becomes evident that the IMF's claims that export-led growth will result in the reduction of debt is false; in fact, trade liberalization has actually increased Zimbabwe's debt burden, as trade deficits have multiplied significantly.

Implemented in 1983, SAPs in Ghana have had similar catastrophic consequences. In enacting program requirements, Ghana's government privatized a majority of its state enterprises (particularly the mining sector), terminated health and education subsidies, and minimized its environmental regulation. As a result of structural adjustment, three-quarters of Ghana's population does not have access to health services, and four out of ten Ghanaians live below the poverty line. The enforcement of user fees for health services has "priced the poor out of hospital care", while the privatization of the mining industry (Ghana's main source of revenue) has resulted in severe air and water pollution from mining operations and displaced thousands as multinational corporations buy more and more land. The rise of timber production has destroyed most of what little remained of Ghana's forest, and the privatization of water supplies have denied access to potable water for more than one third of Ghana's citizens. As the price of water rises, the probability for disease correspondingly increases, and those infected will have fewer opportunities to access quality and affordable healthcare. Ghana's shift to export-led growth increased their national debt from 1.4 billion in 1980 to 7 billion a decade later. Ismi concludes his explanation of Ghana's current economic condition by stating that SAPs are a "textbook example of how to ruin a country" and mold Ghana's people into "destitute spectators to the plunder of their nation by foreigners."

Following economic decline in the 1980s, Cote d'Ivoire authorized World Bank/IMF programs in 1989. Under the SAP, the nation reduces government spending by almost one-third, increased taxes, privatized public enterprises and enacted reforms in trade, labor, and financial sectors. As predicted, Cote d'Ivoire shared a similar fate with Zimbabwe and Ghana: mandated user fees on healthcare and education augmented urban poverty and deteriorated the health of its poorest citizens. The "incidence and intensity of poverty" doubled, with more than one-third of the current population living on less than U.S. $1 a day.   The use of child slavery has become widespread, as destitute families are increasingly pressured and forced to sell their children in order to purchase food to survive. Through its actions, the World Bank has "literally transformed debt into slavery ", as severe poverty and lack of education and healthcare are linked as the main factors leading to the trafficking of children. As previously seen in the examples of Zimbabwe and Ghana, structural adjustment only resulted in an increase of the national debt, with a rise of $3.7 billion in the two-year period following the introduction of the SAP.

Conclusion: Alternative Strategies and Hope for the Future

As detailed above, one can see that, contrary to "World Bank dogma", the adjustment programs have not been successful in decreasing debt and poverty; rather, they have caused nearly the opposite to occur. A study by the UN Development Program reported that 80% of nations dealing with economic crisis and poor health prospects are in Africa. Sub-Saharan countries have the lowest life expectancy in the world at 47 years, and almost one-half of its population suffers from malnutrition.

Here, Ismi outlines various alternative strategies meant to counter the growing Western dominance and subjugation of the Global South. He notes that the mounting foreign debt has served as a “well-organized tool of colonial re-conquest.” In order to combat this, the author calls for a “revolutionary, anti-imperialist African leadership” that can serve as a beacon of behavior through which other impoverished nations can emulate. Ismi believes that the only way to successfully reverse the economic status of the Global South is for African leaders to unite the continent in a “refusal to pay the debt”. This alternative development agenda will need to include participation (integration of citizens from all social classes and education levels into future policy discussion), redistribution (reallocation of wealth, including land, education, and healthcare reform), promotional agriculture (ban of cheap imports that hurt farmers), industrial strategy (encouragement of productive industrial and agricultural jobs to stimulate the economy), regional integration (creation of a unified African market to reduce external dependence), and South-South cooperation (increase of trade exchanges with the rest of the Third World).

To be sure, these benchmarks are lofty; the development strategy described above currently does not exist, but efforts are being made to achieve it. For example, the Dakar Conference in 2000 unified social and political Third World leaders in an endeavor to evaluate the devastating effects of the SAPs on the citizens of Africa. The ultimate consensus in the meeting called for a “radical change in politics” that included refusal to service their debts and a termination of SAPs. The Dakar Declaration acknowledged the degradation of Third World nations caused by these adjustment programs, and claimed that subjugation and debt to Western nations was “genocidal” and “immoral.”

The enactment of Structural Adjustment Programs in impoverished Third World nations has led to severe cuts in allocated resources for education, health care, and social welfare, increases of the prices of basic services and human rights, as well as the exploitation of the nations' economic and political structure. Governments in developing countries have consistently disregarded the well-being of its economy and people in order to service their growing debts. This pressure to pay off ludicrous interest rates has plunged the Global South into despair. The neocolonization of the Global South has reinforced the economic and financial imperial dominance of rich nations; so much so, in fact, that the New York Times dubbed the World Bank and the IMF as the "warlords of Africa."

From one instance to the next, one can see that no positive effects emerge from the establishment of adjustment programs. In order to terminate free themselves from the crippling stronghold of Western corporations and governments, the Global South, particularly Africa, needs to unite efforts to resist American-led dominance; only in this way can they truly regain their independence and fully implement policies to reflect their sovereignty.