



**UNIVERSITY OF  
KWAZULU-NATAL**

**International Financial Institutions (IFIs) and  
Economic Development in Africa: The case study of  
Zimbabwe and Ghana.**

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## **Declaration**

Submitted in partial fulfillment of the requirements for the degree of Masters of Social Sciences in International Relations, to the College of Humanities; School of Social Sciences; Cluster of International and Public Affairs at the University of KwaZulu-Natal, Howard College, South Africa.

I, Kudzai Lovejoy Mamvura, declare that:

1. This dissertation, except where otherwise indicated; is my original work.
2. This dissertation has not been submitted for any degree or examination at any other University.
3. This dissertation does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
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## **Dedication**

This dissertation is dedicated to my beloved late parents, Sylvester Mamvura and Selina Kandemiiri. Their belief in me has been inspirational and will continue as such. I love you both.

## **Abstract**

International Financial Institutions (IFIs) are all financial institutions operating on an international level, by giving loans to governments for large-scale projects, restructuring and balance of payments in the hope of economic growth and development. Examples of these institutions are the World Bank, the International Monetary Fund (IMF), the African Development Bank (AfDB), and the World Trade Organization (WTO). There has been huge interest and high contention among many researchers and scholars on the subject of the relationship between IFIs and African economic development. There is no doubt that African economic development is lacking considering the social, political and economic troubles that African countries and its people continue to endure even over half a century since the first independent African state. This dissertation seeks to understand the correlation between these financial institutions and African economic development. This involves analyzing the different financial institutions, distinguishing whether their role has been significantly positive or not, as well as outlining the consequences of their influence in the affairs of African countries. This dissertation starts from the involvement of the Bretton Woods institutions in the development of the African continent, up to the involvement in development of the African oriented institutions, discussing their progress, together with the challenges they face. Using the Participatory Social Learning Theory, economic development will be defined as a solution to create faith and dialogue between experts, authorities and the people for the purpose of growth, individually and communally to establish rational and functional systems and bureaucracies for social and economic progress; in other words for the common growth and good of the people. Zimbabwe and Ghana will be used as case studies to fully understand the relationship between IFIs and the economic development of the continent. This will be a desktop research but qualitative in nature. It will use purposive sampling for a better understanding of the relationship between IFIs and African economic development. The dissertation concludes by giving recommendations, for the full realization of real economic development as suggested by the Participatory Social Learning Theory as well as providing the outcomes of the study which shows that some financial institutions have the potential of economically developing the continent if genuine people are put into power and implementation is carried out efficiently. Lastly this dissertation will show that some financial institutions have had a positive impact on economic development in Africa, at the same time others have had a marginal role or impact on economic development in Africa, particularly in Zimbabwe and Ghana.

## Acronyms and Abbreviations

- AfDB: African Development Bank
- AGOA: African Growth and Opportunity Act
- AU: African Union
- CGIAR: Consultative Group on International Agricultural Research
- DRC: Democratic Republic of Congo
- ERP: Economic Recovery Programme
- ESAP: Economic Structural Adjustment Program
- FDI: Foreign Direct Investment
- GATT: General Agreement on Tariffs and Trade
- GDP: Gross Domestic Product
- GNP: Gross National Product
- GPA: Global Political Agreement
- HIPC: Heavily Indebted Poor Countries
- HIPC: Highly Indebted Poor Countries
- IFIs: International Financial Institutions
- IMF: International Monetary Fund
- MAP: Millennium Partnership for the African Recovery Programme
- MDGs: Millennium Development Goals
- NEPAD: New Partnership for Africa's Development
- NLC: National Liberation Council
- NPP: New Patriotic Party
- NRC: National Redemption Council
- OFI: Operation Feed Your Industries
- OFY: Operation Feed Yourself
- PNDC: Provisional National Defense Council
- PP: Progress Party
- SADC: Southern Africa Development Community
- SAPs: Structural Adjustment Programs
- SME: Small and Medium-Sized Enterprises
- SSA: Sub-Saharan Africa

- UNCTAD: United Nations Conference on Trade and Development
- USD: United States Dollar
- WTO: World Trade Organization
- WW II: World War II
- ZIMRA: Zimbabwe Revenue Authority

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# Chapter One

## 1. Research Introduction

### 1.1 Introduction

The issue of African economic development has been an issue of enormous concentration and great controversy among many scholars and researchers. The development/growth of the African continent is no doubt lacking taking into account the social, political and economic difficulties that African states and people continue to bear to this date almost/or over half a century of the first independent African country. With the attainment of independence African states and people assumed a time of social, economic and political stability had begun only to be slapped with a rude awakening shown by the economic development troubles within the continent. The main area of controversy in African development is what the nature and aim of development is or should be and who should take the lead role in it.

Huge amounts of money and resources are often put into developmental projects but these sometimes fail due to the different orientations on views and prospects on what development is. For example, the huge developmental projects which were carried out in the Lesotho Highlands Water Project whereby the general feeling of the ordinary people was that the government must and should be responsible for the development and improvement of the lives of people (Zewde, 2010). This feeling often matures from the prognosis of the government as being the 'know all and do all' entity in the lives of people. Resentment then develops due to the disappointment in government when the elite gain control of growth processes and assets, which go on to become the center of African economic developmental framework which has existed up to the present day. Despite African governments having a role to play in development, in essence International Financial Institutions (IFIs) have played a dominant role in the ownership of development and as a result this study will focus on the role these IFIs have played in African development which has been controversial and time and again contradictory. IFIs have impacted differently to Africa's development, as will be brought out in this dissertation.

## **1.2 Outline of Research Problem**

IFIs are established financial institutions which function on the international scene with the purpose of providing financial assistance and advice for the objective of development. This is done by providing loans to governments in need, to finance projects and restructuring as mentioned above, for the purpose of economic growth and development. This study aims at looking at the principal issues concerning IFIs such as their operational principles and limitations, as well as addressing the grievances on development projects associated with corruption and incompetence. There has been a lot of debate on how well IFIs have impacted on the development of Africa and its people. The World Bank and the International Monetary Fund (IMF) are two of the most powerful institutions in global trade and finance, which have substantially led to many African countries to suffer from increased poverty, inequality and insecurity, for example, through conditions known as Structural Adjustment Programs (SAPs). As a result, this study intends to investigate why IFIs have a huge hold on African countries and especially how Africans have fared since the attainment of independence. With this in mind, it is important to note that different financial institutions have had different impacts on African development, as institutions such as the African Development Bank (AfDB) have been established to challenge the superiority of traditional institutions of the World Bank and the IMF, with the interests of Africa at heart. The problem with the new established African financial institutions is that they too face difficult challenges which are not easy to solve hence overshadowed by high inefficiency as will be outlined below.

Leipzig (2014 as cited in Zewde 2010) strongly points out that developmental thinking has progressed, shifting from just capital accumulation and technical progress to human capital investment and social inclusion. For this reason, this dissertation looks at economic development as sustained, concerted actions of actors in international relations that promote a better standard of living and economic health. For the purpose of this dissertation, the main actors which will be looked at are governments and financial institutions. Economic development thus, will involve multiple areas such as human capital investment and social inclusion, critical infrastructure, health, literacy, regional competitiveness and economic growth which is an aspect of economic development, aiming at the economic and social well-being of people. There cannot be any talk of financial institutions without including the World Bank and the IMF. These two institutions have monumentally influenced developmental thinking and practice in the recent decades. IFIs in general have exerted direct

influence on development through their financial transfers as well as indirectly through their sway on donors the private sector as their ideas have dominated aspects of development strategy and ideology.

Therefore, to understand the correlation between IFIs and Africa's economic development, different IFIs have had different dealings with African economic development, hence to have a full cultured insight of the extent these institutions have played on economic development in Africa, a closer inspection is required on some of the institutions (separately), exploring the results and effects they have had on the continent. This dissertation will begin from the involvement of the Bretton Woods institutions in African economic development, up to the formation of African oriented financial institutions; examining their progress together with the challenges they have faced as well as any recommendations for them to be more efficient and influential in African economic development.

### **1.3 Preliminary literature study and reasons for choosing topic**

Several debates have erupted on how well IFIs serve the African continent's interests on economic development and in turn, its people. Due to this, this paper aims at investigating why IFIs have had a firm grip on African countries, more importantly how Africans have fared since the attainment of independence. For instance, Green (1993) notes that the study of Zimbabwe strongly suggests that the IMF's reasons for handing out large amounts of loans were misguided as it sent a highly promising economy into free-fall. With this in mind, it is essential to note that different financial institutions have had different effects on the continent's development as institutions such as the AfDB have been established to challenge the influence and superiority of the traditional institutions of the IMF and the World Bank, thus to serve the interests of Africans. However, the newly established African financial institutions face difficulties which are not easy to solve, often overshadowed by inefficiency as mentioned above. Calice (2013) stipulates that African development institutions have to a greater extent adhered to a large number of global best practices. However improvement is still needed if the continent is to fully develop especially in the area of implementation. If there is proper implementation, these institutions can lead to the economic growth of a lot of African countries, as loans will be provided on genuine basis (without conditionality), and in due course growth and development.

There has been a lot of research over the correlation of IFIs and the African continent's economic development. Therefore the reason for choosing this topic is to examine what economic development is, as well as who should be taking the lead role to achieve it and to try to find a solution to the widespread problems of African economic development, in turn adding to the advancement of knowledge. Emphasis will be given to the level of development in Africa. Additionally, the reason for choosing this topic is to have a closer look at how this development has improved the quality of life and the standard of living of the African people, as development in itself is supposed to increase the income of people, in turn improve their wellbeing. In the end, this paper ultimately intends to draw a final conclusion on how IFIs have impacted on economic development in Africa and also suggest recommendations to achieve greater economic development in Africa. Particular focus will be placed on Zimbabwe and Ghana because these countries were developing steadily after independence but this all changed when IFIs began to have a hand in the countries' development, resulting in low rates of growth afterwards (Ismi, 2004).

#### **1.4 Research Problems and Objectives: Key questions to be asked**

The objective of this paper is to examine the correlation of IFIs and economic development in Africa, explicitly in Zimbabwe and Ghana. The paper is to find answers to economic development questions involving IFIs, therefore to find out the truth which is not clear. This in turn allows us to gain familiarity with the topic at hand to achieve new insights into it for the advancement of knowledge and to help aid in solving unanswered questions. In this study economic development will be seen as a determination to create trust and dialogue between experts, authorities and the people, for the purpose of growth, individually and communally to establish rational and functional systems and bureaucracies for social and economic progress, in other words for the common growth and good of the people as brought out by the Participatory Social Learning Theory.

##### Key questions to be addressed include:

This study intends to examine the following:

- 1) What are IFIs and what is their role in African economic development?
- 2) What are the main reasons militating against economic development in Africa?

- 3) Have economic policies adopted by African countries been able to address the issues on economic development?
- 4) Have IFIs substantially aided in the economic development of the African continent?

### **1.5 Research Problems and Objectives: Broader issues to be discussed**

The broader issue is to establish what economic development is and what level of economic development African countries should aim at achieving with the available resources at their disposal. After addressing the above issue, this paper intends to make recommendations on possible solutions to achieve greater economic development.

Broader issues include:

- 1) To examine further what economic development is.
- 2) To analyze what level of economic development African countries have reached.
- 3) To make recommendations on ways of improving economic development.

### **1.6 Limitations of Study**

One of the most difficult limitations to this study is the inclination towards an ‘interpretivist’ as opposed to ‘positivist’ position regarding what development fundamentally is and how it is construed. This will be discussed further in the research paper.

### **1.7 Overview of Research**

This research comprises of six interlinked chapters as shown below.

#### ***Chapter 1: Research Introduction***

Chapter one is the introduction of the study. It presents the general background of the research to be studied, the research problem and the preliminary literature review. The purpose of this chapter is to simply lay out what the research will be looking at.

## ***Chapter 2: Literature Review***

This chapter will look at some of the literature already available on the role IFIs have played in Africa. Chapter two will mostly be descriptive, showing how the traditional as well as the new IFIs have fared in Africa.

## ***Chapter 3: Conceptual and Theoretical Framework***

Chapter three will be explaining developmental concepts as well as outlining and explaining the theories which are relevant to this study. These concepts and theories are important in unpacking and understanding the relationship between IFIs and economic development in the African continent.

## ***Chapter 4: Research Methodology and Study Design***

Chapter four will be looking at the research design as well as the research tools and instruments used. It will also look at the ethical issues considered in preparing this paper.

## ***Chapter 5: Case Study and Data Analysis***

This chapter aims at critically analyzing the data presented in chapter two through the concepts and theories in chapter three. Chapter five will look at answering the research questions. Lastly this chapter will give possible recommendations on how the continent should develop its relationship with IFIs.

## ***Chapter 6: Conclusion and Recommendations for Further Research***

This chapter will look at the consequences of Africa's current predicament and give recommendations for further study. Chapter six ultimately aims at giving a summary of the study, recommendations and conclusions.

## **1.8 Conclusion**

This chapter has given an introduction that explains what is expected in this research paper. Most importantly this chapter has outlined the objective and research questions which will be answered in the later chapters. Lastly it has provided a framework which will guide the study to understand the correlation between IFIs and economic development in Africa. The next

chapter will give a literature review of the correlation between IFIs and African economic development.

## Chapter Two

### 2. Literature Review

#### 2.1 Introduction

Chapter one has introduced this paper stating the problem questions as well as the scope and objectives of this research. A number of scholars have addressed some of the aspects of the correlation between IFIs and economic development, hence a lot of literature has been written on IFIs and economic development in the continent, specifically in Zimbabwe and Ghana. This chapter will look at some of this literature, outlining the policies of the traditional financial institutions and the problems they have encountered. Later in the chapter, the new African finance institutions which are challenging the power of the traditional finance institutions will be outlined showing how they have progressed despite the several difficulties they continue to face. This chapter mainly seeks to simply outline how IFIs have fared in their involvement in African economic development.

#### 2.2 What are IFIs?

IFIs are institutions created to offer financial assistance and professional advice for the purpose of economic and social development programs in developing countries, in the process promoting international economic cooperation and stability (Bhargava, 2006; Woods, 2008). The term *international financial institution* usually refers to the IMF and the World Bank as well as the AfDB, the Asian Development Bank, the Inter-American Development Bank and the European Bank for Reconstruction and Development. The IMF and the World Bank operate on a global level; hence the other mentioned institutions above are naturally referred to as regional development banks, nonetheless still IFIs. Individual countries can be members of any IFIs as regional membership is not usually limited to countries within a specific region. In broad terms, all IFIs are participants of global programs in addition to their role of financing and providing technical assistance to programs at a country or regional level (Bhargava, 2006; Globalization 101, n.d.; Woods, 2008). Multilateral financial institutions, sub regional banks and other international institutions work closely with IFIs and

perform crucial roles in the global financial system though these institutions do not lend money (Woods, 2008). For the purpose of this paper, particular attention is going to be given to the IMF, the World Bank, the AfDB, the World Trade Organization and other African Finance institutions as the main objective of this research is to look at the relationship of IFIs and economic development in Africa. The reason these institutions will be given attention is that they have played a crucial role in any form of economic development which has occurred on the continent in the past few decades.

## **2.3 Traditional Financial Institutions**

### **2.3.1 The International Monetary Fund**

The IMF was created through an international treaty in 1945 as the main body of the international monetary system for currency trading and exchange rate, to enable business amongst countries with different currencies (Bhargava, 2006). The institution is controlled by its member-countries who appoint representatives to the IMF's Board of Governors. These appointed representatives are usually the finance ministers or the heads of the central bank of each respective country, though not always the case (Bhargava, 2006; Globalization 101, n.d.). The world's largest economies usually have permanent seats within the IMF, for example, the United States, Britain, Japan, Germany and France. In all of the IMF's operations, voting power is dependent on the size of the economy, thus quota allocation of each country. Regardless of that, decisions are made by consensus, though the United States has the most influence in the institution's policies as it is the major shareholder (Bhargava, 2006; Globalization 101, n.d.).

Some of the goals of the IMF include:

1. To enable the cooperation of countries on monetary policy through establishing institutions for consultation and the minimization of the effects of international financial crises (Globalization 101, n.d.).
2. To assist in the expansion and stable growth of international trade through liberalization (Globalization 101, n.d.).
3. To facilitate and maintain exchange arrangements among member countries as well as to avoid competitive exchange depreciation, thus to stabilize exchange rates (Globalization 101, n.d.).

4. To maintain a multilateral system of payments, in turn avoiding interest rates and currency depreciation (Globalization 101, n.d.).
5. To safeguard member countries from balance of payments crises such as devaluation of one's currency against that of a member country (Globalization 101, n.d.).
6. To facilitate the continuation of steady global trade and financial relationships (Globalization 101, n.d.).

IMF tries to anticipate and prevent crises by encouraging countries to implement sound economic policies. The IMF aims to achieve its goals through various measures. Firstly, it does so through the surveillance of the economic policies of those countries that are instrumental to the continuation of the global economic system, due to their size or resources. Through consultations, the IMF believes that appropriate policies are adopted thus reducing domestic imbalances that may threaten the global economy (Bhargave, 2006; Globalization 101, n.d.). IMF surveillance spreads to multilateral agreements, with emphasis on more-incisive analysis of targeted weakness to avoid distortion in the financial system. By so doing, the IMF hopes to establish and encourage international dialogue within the international community on multi-lateral agreements necessary for global financial stability (Bhargave, 2006; Globalization 101, n.d.).

Secondly, the IMF provides financial support to member countries facing protracted balance of payments difficulties. Lending thus helps to stabilize the affected economy while safeguarding against a global financial crisis (Bhargave, 2006; Globalization 101, n.d.). Thirdly, technical assistance is also offered by the IMF in trying to achieve its goals. This is done on fiscal and monetary policies, regulatory procedures and tax policies, among other issues. The institution sends its own experts and private consultants to help educate and assist government officials on their (IMF) policies for the borrowing countries to follow (Bhargave, 2006; Globalization 101, n.d.).

The IMF has found it extremely difficult to kick-start and keep up economic development and growth as well as policy reform in Africa. This is some-how surprising given how powerful the institution is, with vast amounts of resources, knowledge and expertise at its disposal. In the past few decades, those African countries which have borrowed from the institution have been left deeply affected negatively and no closer to the promise of economic growth and development (Woods, 2008). Such countries include Ghana and Zimbabwe.

Firstly economic development has failed in Africa due to how the institution is constructed and operates. At the Board level, developing countries and most importantly, Sub-Saharan African countries have insufficient voting power to challenge the inappropriate incentives and policies given to them to achieve any meaningful development in the African context (Bhargava, 2006; Globalization 101, n.d.; Woods, 2008). By lacking the ability to voice concerns, programs initiated by the institution lack support hence effectiveness as the concept of economic development in Africa is different to that of the United States and Europe. As a result, programs are initiated without responsiveness, leading to critics stating that these policies intrude on the sovereignty of the borrowing countries (Bhargava, 2006; Globalization 101, n.d.; Woods, 2008). Furthermore critics state that in the past the IMF was not open to criticism thus leading to arrogance and a lack of connection to the reality of failing programs in the affected African countries. For example, Stiglitz, a former Chief Economist of the World Bank states that some agreements between the IMF and borrower countries are kept from the general public, thus creating a lack of trust, in turn creating legitimacy issues on the part of the IMF when the public eventually finds out (Globalization 101, n.d.). Lastly though the IMF may arguably have good intentions, its controversial nature comes from the fact that its policies have failed in African countries consequent from poor planning, thus leading to radical critics calling for the institution's dismantlement, for the benefit of the poor which the institutions is supposed to be serving (Bhargava, 2006; Globalization 101, n.d.; Woods, 2008).

### **2.3.2 The World Bank**

The World Bank was founded in 1945, together with the IMF. The main purpose of the bank was to be involved in the reconstruction of countries devastated by the Second World War. However, its attention soon spread to economic development of the world's non-industrialized countries to kick-start development, hence fighting against poverty (Bhargava, 2006). The World Bank is organized much the same as the IMF with shareholders being members represented by a Board of Governors, which is the Bank's crucial policy making body. Just like the IMF, the United States is the main contributor of the World Bank hence has great influence on its policy making and voting accorded to each member country (Bhargava, 2006; Globalization 101, n.d.).

In trying to address global issues, the World Bank often devotes its time in analysis and advocacy of policies of developing countries on aid, debt relief and trade as these countries play a fundamental role in poverty reduction (Bhargava, 2006; Globalization 101, n.d.). For this reason the Consultative Group on International Agricultural Research (CGIAR) was established to act as a convener and donor as well as a lender to developing countries for developmental projects in agriculture. One of the main achievements of CGIAR has been creating global public high-yielding variety of crops that were instrumental in the Green Revolution. This further led to the Bank increasing its support for global programs, thus moving towards global partnerships and associated program support activities. As a result globalization spread, leading to the Bank to focus on economic development involving issues such as public health, financial stability, trade and protection of global commons (Bhargava, 2006).

However, IFIs in aiding development have often been confronted by several challenges and as a result the IFIs created at Bretton Woods have done little for the continent's development. Due to this, the World Bank has often been criticized for promoting the 'Washington Consensus' which promotes the interest of the United States, in the past few decades (Globalization 101, n.d.). The bank has been controversial for its part in austerity plans which suffocate the poor through corporate exploitation which will be shown further on in the research. The Bank has been criticized for ignoring environmental and social impacts of the projects it supports, for example, the Lesotho Highway Water Project. Thabane (2000) has noted that the project resulted in residents in some communities losing their homes, grazing lands and agricultural lands. This has led to crises of drought as the quantity and quality of natural resources in the vicinity shrunk as communities had to be moved. In Lesotho, less than 10% of the total land area is suitable for farming, hence the project led to the destruction of about 8 400 hectares of that land; leaving lasting and devastating hunger crises on about 2 345 households which were displaced (Thabane, 2000). Though in the long-run the project is to help reduce water shortages, the immediate consequences of the implementation were disastrous, as it destroyed the livelihood of many communities; thus ignoring the environmental and social impacts the project is supposed to support.

Furthermore, the World Bank which is one of the largest and the most powerful institution was hit by internal problems of corruption when the president of the bank Paul Wolfowitz was involved in the corruption saga. One of the scandals involved his partner, Shaha Riza's pay rise and reassignment into the United States Department (Bond and Patel, n.d.). The

bank's integrity and good governance was further questioned by accusations of nepotism which spread throughout the institution. More accusations and acts of lobbying, rewards, patronage and favouritism followed leading to the bank becoming corrupt which in turn spread and shadowed into Africa under the assistance of the bank, whereby corruption and nepotism went unnoticed and in some cases no disciplinary measures imposed. When Wolfowitz stepped down his successor was no better as he faced numerous challenges, putting the bank's reputation into question once again. Under the leadership of Wolfensohn, there was a high profile case of severe corruption in the Lesotho Highlands Water Projects in Lesotho (Bond and Patel, n.d.; International Rivers, 2004). Accusations of high bribery, murder, mismanagement, mass damage to the environment and the displacement of the local people were some of the allegations. Bond and Patel (n.d.) state that:

The Bank was tardy in following up on Lesotho's own prosecution of a "dirty dozen" construction firms which bribed a dam official (who was subsequently jailed). Only through US Senate pressure did the Bank finally debar a couple of the companies, and under Wolfowitz there was little further progress in investigating corporations fingered by the Maseru government.

The World Bank cited a lack of strong evidence in delaying to act against the offenders. Even though the World Bank had guaranteed to fight corruption, it often relaxed on prosecuting major multinational corporations involved in corruption on its projects. Bond and Patel (n.d.) and International Rivers (2004) stipulate that up to twelve companies were found guilty of bribing officials of the Lesotho Highlands Water Projects. As a result of this there have been high outcries and major calls for reforms at the bank with the view that the bank should and must learn from the Lesotho corruption story and should not falter on disbarring transnational companies which took part in corruption. According to Susan Hawley (cited in International Rivers, 2004), in spite of the public and international outcries, the World Bank did not change its habits but continued to give transnationals' which had been disbarred contracts. The situation was only worsened by Wolfowitz's appointment as it showed that the World Bank was not forthcoming on its pledge to fight corruption. Therefore the World Bank has had detrimental impacts on the development of the African continent as shown by its role in the Lesotho Highlands Water Projects. The most devastating impacts of the World Bank in the Lesotho Highway Water Projects were that it left round about tens of thousands of poor families much poorer due to displacement. The policies taken by the Lesotho authorities, as a result of influence of the World Bank, led to the country selling its precious water to the

highest bidder, leaving Lesotho vulnerable to drought and famine. Consequently, droughts have ravaged Lesotho leading to the intervention by the United Nations Food and Agriculture Programme (Bond and Patel, n.d.; International Rivers, 2004). Therefore, the World Bank failed to live to its promises of developing and improving the ecosystem of Lesotho, thereby having a fundamentally negative impact and militating against the development of the African continent.

## **2.4 Beginning of African Development Aided by the Traditional IFIs**

The World Bank and the IMF were created as a result of the Bretton Woods conference (Spero and Hart, 2010; Zewde, 2010). The core objective of these institutions was to aid in the rebuilding of the war-ravaged European region and the economies of European nations which were members to the World Bank. Member states began to provide funds to other associate states, through loans to those in need of financial assistance as mentioned above. Nonetheless, the less-developed countries (including many African countries) also wanted access to the World Bank and aid, with the view that reconstruction and development is one and the same thing, hence should be similarly prioritised. As a result of this, the 1950s saw a change in policies by the developed countries, leading to huge sums of aid being relocated to the developing nations, thus aid emerging as a form of international economic interaction. Growth output and exports in Sub Saharan Africa (SSA) started to rise over population growth in the early 1960s (Gordon, 1993; Green 1993; Spero and Hart, 2010). By the 1970s African countries were borrowing on a large scale founded on the principal assumption that low-income countries must invest in industry with the state taking the lead role. There was however, a sharp turn in the late 1960s, which saw production of food fall behind population growth but this was defended as being a consequence of growth which was false as will be shown below. The situation had become worse in the 1970s as there were drought crises, fiscal imbalances and threats to the public sector on its maintenance. This affected only some Sub-Saharan countries as the World Bank and IMF funding increased with little conditionality, leading to the drought being overturned, trade terms improving and good maintenance of the public sector (Green, 1993). By the late 1970s a sense of 'all is well' was created as output growth improved by over 5% and ambitious new markets were established, leading to African countries believing that more borrowing made sense (Gordon, 1993;

Green, 1993). This ultimately led to the debt crisis which had unembellished negative impacts on the development of Africa.

In the 1980s the international field started to change as terms of trade fell rapidly, credit dried up and the effects of low food production below population growth began to have stark consequences as African countries could not keep up with the false successful period of the 1974-75 (Green, 1993). African policies mainly became concerned with managing crises, thus showing a deviation from addressing development. Gordon (1993) and Green (1993) are in agreement that the debt crisis was a result of the effects after the first oil crisis. The oil crisis resulted in the escalating of oil prices, which caused African countries to be the ones deeply affected as they kept on borrowing, leading to Africa's debt increasing to \$27 billion in 1977 from \$9 billion in 1973 (Gordon, 1993; Green, 1993). The export boom on commodities had led to Africa's credit worth being boosted as there was now a demand for industrialisation. This saw the pouring of aid and resources to the African continent; however aid and resources were not used efficiently because they did not endorse productive investments due to poor policies implemented by African leaders. The resources were not used for development; rather they created unrealistic expectations as countries failed to make proper and efficient budgets which was clearly seen when the prices of commodities fell in the 1970s due to the oil crisis. The foundation for productive investment was not laid because when investment declined African economies were heavily affected that economic development dropped, only to realise that the figures collected in the boom years were incorrect, thus leading to the debt crisis and the unproductive use of aid. The false illusion which was created in the boom years now came back to haunt African countries as noted by Gordon (1993) and Green (1993) in the Accelerated Development report on Africa; who stipulate that development and growth had not been increasing, rather it was low at 2% throughout the 1970s as a consequence of low agricultural harvest, low exports and use of wrong data. For that reason in the 1970s and 1980s, IFIs specifically through bilateral agreements, the IMF and the World Bank had a negative impact on Africa's development due to the mismanagement of resources, in essence the adoption of misguided economic policies. IFIs especially the IMF defended continued borrowing as mention by Gordon (1993: 93) who state that:

The question of whether a country should seek further credit should not be answered by reference to statistical measures...Higher foreign indebtedness is sound policy for both lender and borrower because the higher level of investment

financed by foreign borrowing will eventually be reflected in additional net export capacity.

As a result of this, the seeds for sustained growth were not planted, and saw the rise in debt from aid and resources which came into Africa. Also, IFIs played an essential role in encouraging reforms which were militating against African development, hence the negative impact these institutions of the IMF and the World Bank have had on development in Africa with regards to aid, funds and resources brought to the continent.

## **2.5 Structural Adjustment and Adjusting Africa**

The 1980s saw widespread debates on what kind of economic reform was best for the African continent. Up until the late 1970s, a statist approach to development through the use of economic planning, price controls, state-owned enterprises, import-substitution-industrialization, credit rationing and government control of agricultural marketing was favourable in most developing countries (Van de Walle, 2001; Lofchie, 1994; Killick, 1989; Waterbury, 1999 as cited in Woods, 2008). Many African leaders wanted to adopt this kind of development, in turn to shift Africa from its dependency on export of raw materials to self-reliance, promoting industrialization and building up regional and sub-regional cooperation and integration. This approach to development was rejected by the IMF as it required large amounts of resources and also developing countries were starting to be sceptical of this kind of development as a result of the oil crisis. The oil crisis saw developed and industrialized countries hit by inflation hence could not pour donor money into African development. This global crisis quickly led to the belief that the development policies of the 1970s had failed which led to hostility towards government spending and state owned institutions in favour of a free-market rhetoric as advocated at the time by the then United States President Reagan and the then Prime Minister Thatcher (Woods, 2008). Across the African continent this was seen as disastrous which led to the beginning of excessive borrowing by African countries.

IFIs, largely the World Bank and the IMF played a negative role on development in Africa centred on their policies of conditionality. Conditionality was undertaken by the IMF due to misplaced assumptions. One of the assumptions was that the IMF took the major cause of the 1980s crisis in sub-Saharan Africa as internal rather than external. It failed to recognize that external factors in the global economy played a role thus chose to divert from state-centred

industrialization to reducing its influence to enhance the role of the private sector (Ismi, 2004; Woods, 2008). In an attempt to solve the crisis, the IMF required governments to initiate stabilization policies to reduce budget deficit and inflation by attaching conditions to loans. Conditionality proved to be ineffective in the long run. For example, even though Zambia met its core program conditions to reduce inflation, its debt rose alarmingly and by the 1980s it could not repay the IMF, which led to Structural Adjustment which is discussed below (Woods, 2008).

In the 1980s, as the IMF failed to reverse Africa's underdevelopment to sustainable growth the result was that African countries could not pay back debt leading to SAPs. SAPs came about when a country had to undergo reforms, for example, reduced government spending to receive more funds from the IMF. These reforms are principally carried out for the reason of debt repayment as they are a way to monitor economic policies of countries (Ismi, 2004; Gordon, 1993; Spero and Hart, 2010). As the IMF monitors the economic policies it becomes extremely persuasive on how a country's economy should be set out; as a result allowing African countries to continue borrowing for debt repayment. The impact of SAPs has progressed into the African economy being more integrated into the world economy. This is the case in that SAPs promote export led growth which has led to the improvement of trade in African countries. This steered trade improving between the period of 1989 and 1999 from 78.1% to 95.6% (Gordon, 1993). There was also an improvement in foreign direct investment as it went from \$923 million to \$7.9 billion in 1999 (Ismi, 2004; Gordon, 1993). However improved trade, rising exports and higher foreign direct investment as a result of adopting SAPs did not improve growth and development in Africa therefore not increasing the standard of life for the ordinary people. SAPs did not even reduce the amount of debt African countries had but rather led to poverty increasing. Most African countries exported raw material such as oil, hence costing more to import manufactured goods and therefore increased trade had little effect on African development for the ordinary people.

Foreign direct investment (FDI) likewise had little impact on development due to incentives given to the companies, for example, profit repatriation, which meant the companies investing in a country enjoyed a larger share of profits. Due to this, little development resulted from the conditionality and SAPs placed on African countries hence the negative impact of IFIs. Fundamentally SAPs had numerous negative impacts for development in Africa. As result of debt, SAPs have led to African governments spending more money on debt repayment, leading to less money being spent on health care and other important areas

which benefit Africans. This is so in that money spent on health care dropped by 50% in the 1980s, which saw many clinics and hospitals being closed down resulting in more than 200 million people having no access to health care services, thus vulnerable to diseases (Bond and Patel, n.d.; Green, 1993; Ismi, 2004). The consequence of this is that pandemics such as HIV/AIDS have ravaged the people and the continent as a whole. Just like health care, ten African countries spend more money on debt repayment than on education. This is alarming because in Sub-Saharan Africa the literacy rate for adults is 60%, lower than the developing country average of 73% and this number continues to increase, as more than 140 million children are illiterate in Africa (Ismi, 2004). This has contributed to low human growth resulting in slow development in Africa which is directly attributed to IFIs and the policies adopted by the African countries, therefore one of the reasons militating against development on the continent.

## **2.6 Traditional IFIs in Zimbabwe (1980-2000)**

Today, Zimbabwe is faced with political and economic crises as a result of the multifaceted chain of events ignited in the early 1990s through structural adjustment programmes forced on the country by the IMF and the World Bank. It would be misplaced to say that the IMF and the World Bank are solely responsible for the severe crises in Zimbabwe; however their role is highly undeniable as they have played a huge role in triggering the problems the country is facing as will be outlined below.

Development in Zimbabwe was rising reasonably in the 1980s, in the period after independence. The debt of the country was being paid regularly whilst it was improving its exports and most importantly the economy was growing at almost 4% per annum (Ismi, 2004). Generally the country was developing steadily as food security was high, education services were improving, health care was commendable and improving as well (Ismi, 2004; Machedze, n.d.). As all countries generally want vast improvements in their economies, Zimbabwe in an attempt to boost its economy struck a deal with the IMF worth around \$484 million in 1991. By signing the deal, the implications on the country were those of modernization and neo-liberalism. This was the starting point in the change of policies and the downward fall of the country's economy as the Gross Domestic Product (GDP) fell by 8% in 1992. By implementing the Economic Structural Adjustment Program (ESAP), many sectors in the economy were affected, leading to local people suffering the consequences

(Ismi, 2004; Machededze, n.d.). The ESAP which the government implemented followed the 'Washington Consensus' principles which had a reverse effect on the then steady development of the economy the country was experiencing. According to Machededze (n.d.), the principles included:

1. Cost recovery for social services
2. Minimal role for the state
3. Financial liberalization
4. Competitive exchange rates
5. Trade liberalization
6. Openness to foreign direct investments
7. Privatization
8. Deregulation

According to the United Nations Development Program Human Development Report for Zimbabwe (1999) cited in Machededze (n.d.), the key targets or goals of the ESAP were to:

1. Realize a GDP growth of 5% during 1991-95
2. Increase savings to 25% of GDP
3. Raise investment to 25% of GDP
4. Attain export growth of 95 per annum
5. Decrease the budget deficit from over 10% of GDP to 5% BY 1995
6. Moderate inflation from 17.7% to 10% by 1995

The Zimbabwean government encountered serious and multiple problems whilst in the midst of implementing some of the above mentioned 'Washington Consensus' principles. The problems came from different facades including its own people and labor unions as well as the private sector, the civil society from multilateral and bilateral donors including the IMF and World Bank (Ismi, 2004; Machededze, n.d.). As result of donor pressure for the country to make further changes to the economy, Zimbabwe entered into an agreement with the World Bank to implement a home-grown five year phased program towards a freer market. This involved the country lifting many restrictions on imports, in the first year thus allowing a reduction on tariffs for goods coming into the country. In order for Zimbabwe to fulfill this by first year phase, it was promised US\$690 million by the World Bank. However donors and the World Bank backtracked from their promise with the nerve of even demanding more rapid changes to the agreed terms of the home-grown five year program. As donors and the

World Bank held the funds for the success of this program they threatened not to invest in Zimbabwe until its government negotiated for a much freer market deal with the IMF and the Bank. Eventually the home-grown five year program fell through with its effects crippling the economic development of the country (Machemedze, n.d.).

A string of blunders by the Zimbabwean government also led to tensions with the IMF and World Bank. These decisions were highly influenced by the government's declining political support, hence to appease a powerful dissatisfied group it transferred economic resources setting in motion a rollercoaster of events leading to economic development collapse in the country. Firstly, the government gave payout which amounted to about three percent of GDP in then ZWD 50 000 (USD3 000) each to 60 000 war veterans (IMF, 1999; Kairiza, n.d.). This had a direct impact on the budget deficit as it resulted in inflation. As a result the World Bank withdrew USD62.5 million balance of payment support to the government as the money given out to war veterans could not be recovered thus showing the weak character of the government in making a rush decision to regain support from this group of people. The World Bank's confidence in the Zimbabwean leadership was destroyed by this as barely two months later the IMF sent a delegation to the country to redraft new lending programs which were to monitor/surveil the leadership's economic welfare (Kairiza, n.d.).

Secondly, a populist decision by the leadership to compulsorily acquire white-owned commercial farms without appropriate implementation or giving any financial thought led to a spontaneous run against the currency and capital markets in the country. The clatter of the Zimbabwean dollar in foreign exchange was simultaneously paralleled by the loss of value on domestic markets. This led to an upsurge in consumer prices by 25% (IMF, 1999; Kairiza, n.d.). The immediate result of sky rocketing prices was widespread shortages of basic commodities in official markets and the genesis of the informalization of the country's economy. Thirdly, in 1998 the Zimbabwean President agreed to send troops to the Democratic Republic of Congo (DRC) under the Southern African Development Community (SADC) protocol to back Kabila who was under attack from Rwandan and Ugandan rebels. Though the war was victorious in that Kabila managed to repel the rebels, the Zimbabwean economy was left to suffer as cost of the war became a burden of the local people (IMF, 1999; Kairiza, n.d.). In a bid to balance the loss, the Zimbabwean central bank introduced import controls and banned foreign currency accounts. All these blunders by the Zimbabwean leadership only increased tensions with the IMF and World Bank which latter proved to be detrimental to the citizens of the country as well as its economic development.

Thus by 1999 many people had lost their jobs as unemployment rose by about 50% (Ismi, 2004). As the economy took a nose dive, the greater number of the population began to live under \$2 a day suggesting that the majority of people were now living under the poverty datum line (Ismi, 2004). This clearly shows that the economy was sprawling downwards as the average incomes of ordinary people decreased significantly. Ismi (2004: 14) stipulates that this was a result of, 'reducing trade tariffs and import duties, eliminating foreign currency controls, removing protections for the manufacturing sector, deregulating the labor market, lowering the minimum wage...and deregulating financial markets.' These economic policies were all part of the structural adjustment programs which the African country had agreed to in signing for a loan from the IMF. There was a monumental drop in the manufacturing industry of over 20% between 1991 and 2000 due to high interest rates as well as the cost of foreign currency (Ismi, 2004). Many companies thus closed down as they could no longer cope with the changing environment (Ismi, 2004). Through the agreement Zimbabwe had signed with the IMF, many poorly implemented policies led to many people dropping out of school due to an introduction of user fees. In the absence of knowledge and education, a health crisis began as the population did not have the knowledge on how to handle a situation in case of a disease break out (Ismi, 2004). On the economic side, Zimbabwe used to be seen as the bread basket of the SADC region but this began to change as well, as farmers were hurt by high interest rates and the removal of subsidies resulting in low output production, in turn, hunger in the African country as food crises rose severely. The effects of structural adjustment saw a lack of bustle in the economy of Zimbabwe which had been improving prior 1991 (Ismi, 2004).

These adjustments did not only affect the economy but had undesirable effects on the country as a whole due to deteriorating healthcare and education standards thus destroying the people of Zimbabwe in their productive capacity; which meant that they could no longer develop themselves. The case study of Zimbabwe strongly suggests that the IMF's reasons for handing out large amounts of loans were ill-guided as it sent a highly promising economy into free-fall (Green, 1993; Ismi, 2004; Machedze, n.d.). Modernization based on Euro-centrism, together with neo-liberalism shows that this type of development is not ideal for Africa, thus the role played by the IMF shows the negative impact IFIs had on development in Africa and the challenges they bring.

## **2.7 Traditional IFIs in Ghana 1966-1972 and 1983-2006**

The IMF and the World Bank have had a long relationship with Ghana going beyond different regimes since Ghana attained its independence in 1957 (Hayford and Bopkin, n.d.). Ghana had been enjoying a relatively high growth rate, considerable foreign exchange reserve and a strong civil service for economic growth and development. The government had instituted policies of free education, healthcare and mass industrialization to promote socio-economic development (Addo, Korboe, Mensah and Williams, 2010). Due to many global shocks and crises, the economic situation in Ghana began to deteriorate leading to Dr Kwame Nkrumah, the then President of Ghana to approach the IMF for a bailout/loan to maintain and improve economic development. The IMF stipulated tough conditions for the bailout/loan to be given, thus leading to Dr Kwame Nkrumah rejecting the bailout/loan hence distancing himself from the institution. The Fund had proposed conditions which included reducing government spending to extreme levels that could be covered by government revenues to fight inflation. Implementing these policies meant an extreme thwarting of the expansionist development programs such as diversification of the country's economy through import substitution industrialization and capital spending in building infrastructure (Addo, Korboe, Mensah and Williams, 2010). Also adopting and implementing these policies would have negatively affected the speed of Dr Nkrumah's economic development strategy.

In 1966 there was a turn in Ghana's policies and its relationship with the IMF, mainly due to Dr Nkrumah's government being overthrown. Dr Nkrumah was overthrown because Ghanaians felt that the economic future of the country was gloomy and headed for doom due to levels of debt standing at USD\$ 500 million in 1965 from a negligible amount in 1960. Also the external reserve spot had gone down considerably between 1957 where it stood at US\$269 million and 1966 when it had a negative of US\$391 million (Addo, Korboe, Mensah and Williams, 2010). This situation had resulted in deteriorated balance of payments position and poor credit rating of the country as inflation ballooned from 0.98% in 1964 to 26.4% in 1965 (Addo, Korboe, Mensah and Williams, 2010).

Thus, due to the deteriorating economy, coupled with poor standards of living the new administration, the National Liberation Council (NLC) approached the IMF for financial support. In just three months of coming to power, the NLC met the Fund's conditions which included:

1. Reduction in the government's overall expenditure (Addo, Korboe, Mensah and Williams, 2010).
2. Reduction in bank credits to the public and private sector, meaning implementing wage and salary controls (Addo, Korboe, Mensah and Williams, 2010).
3. Large-scale retrenchments in both the public and private sector totalling over 10% of the total wage labour (Addo, Korboe, Mensah and Williams, 2010).
4. Devaluation of the country's currency and short-term rescheduling of the external debt and restrictions on fresh short and medium term borrowing (Addo, Korboe, Mensah and Williams, 2010).

The objectives of Ghana and the Fund were achieved as there was stabilization and the GDP grew from a negative of 4.28% in 1966 to 6% in 1969 (Addo, Korboe, Mensah and Williams, 2010; Hayford and Bopkin, n.d.). The economy was recovering steadily as the balance of payments moved into surplus and the budget deficit as well as the current account deficit reduced. Inflation also went down from 13.24% in 1966 to 6.5% in 1969 (Addo, Korboe, Mensah and Williams, 2010; Hayford and Bopkin, n.d.). Even after the 1969, the victorious Progress Party (PP) led by DR Busia continued with the IMF's prescriptions. The PP implemented the market oriented policies which were in line with liberalization. By 1970 as the GDP grew by 7% and inflation fell by 3% (Addo, Korboe, Mensah and Williams, 2010).

Regardless of the country's economic achievements, the structure of the economy never changed, remaining dependant on cocoa, thus making it highly susceptible to cocoa price unpredictability. Nonetheless, improving growth did not lead to rapid economic development. It is arguable that economic growth may have resulted in further inequality than poverty reduction. This is so in that the GDP growth between 1965 and 1970 was at about 5.3% per annum. In the same period the formal sector recorded a negligible improvement of employment from 396 000 to 398 000, an increase of 2000 over a five year period, about 0.1% per annum. Against the population growth of 2.05% at the time, an increase in 0.1% per annum in the formal sector can hardly be considered to have contributed to poverty reduction (Addo, Korboe, Mensah and Williams, 2010; Hayford and Bopkin, n.d.). Since the economy was highly dependent on cocoa, economic difficulties partly due to a fall in income from cocoa export as a result of price volatilities, foreign competition, smuggling and unrealistic producer price among others hit the country. In 1972 Ghana found itself in a familiar position as it was in 1965; a position of reduced growth and increasing fiscal and current account deficits (Addo, Korboe, Mensah and Williams, 2010; Hayford and Bopkin,

n.d.). On consultation with the IMF, the Ghanaian government responded by extreme devaluation of the cedi by 48.6%, wage freezes and tax increase among other austerity measures. As a result of widespread socio-economic hardships, a coup d'état was carried out in January 1972, overthrowing the government (Addo, Korboe, Mensah and Williams, 2010).

When Gen. Acheampong came to power under the National Redemption Council (NRC), Ghana rejected the involvement of the IMF in its economy. The NRC wanted to legitimize their coming to power, thus started reversing devaluation which had been prescribed by the Fund. Unilateral repudiation of all external debt which amounted to \$94.4 million then followed (Addo, Korboe, Mensah and Williams, 2010). This frustrated many donors who then withdrew their support to the country, leading to severe implications for capital flows.

To try remedying this situation, the government launched the twin programs of Operation Feed Yourself (OFY) and Operation Feed Your Industries (OFI) (Addo, Korboe, Mensah and Williams, 2010). These were good programs, however due to the oil crises, together with political corruption and fiscal indiscipline, the programs failed. The government's tax base shrivelled disproportionately. The government revenues, which were 21% of the GDP dropped to 9% from 1972-1976, leading to inflation and public insurrection against the regime, eventually a coup in 1978 (Addo, Korboe, Mensah and Williams, 2010).

Due to economic hardships, Ghana returned to the Fund in 1983. Several factors led to the country's return to the IMF, including a severe drought which caused serious bush fires leading to hunger and the expulsion of more than one million Ghanaians from Nigeria. In the absence of an alternative to solve the crises in the country, the Rawlings-led Provisional National Defence Council (PNDC) regime turned to the IMF. As similar to all IMF dealings, prescriptions were recommended in the form of stabilization programmes called the Economic Recovery Programme (ERP) from 1983-1986, followed by SAPs (Addo, Korboe, Mensah and Williams, 2010). The ERP was intended to address the sinking economy, whilst the SAPs targeted to correct structural imbalance for sustainable healthy economic growth and development. Thus much focus was given onto trade liberalization, public sector retrenchment and removal of subsidies on food, petrol and social services such as health and education. The results of the new economic reform were viewed as a success by the IMF and the World Bank. This was so because growth rate increased by about 5% between 1983 and 1989, unlike from the 1970s and early 1980s (Addo, Korboe, Mensah and Williams, 2010).

Also due to a period of political stability between 1992 and 1995, positive growth led to an average increase of 4.5% per annum (Addo, Korboe, Mensah and Williams, 2010).

However in the late 1990s, because of the external economic environment, Ghana faced a lot of economic hardships. Macroeconomic instability led to external debt increasing from USD\$3487 million to USD\$5001, 59% to 95% of GDP respectively (Addo, Korboe, Mensah and Williams, 2010). Thus the new government, the New Patriotic Party (NPP) which came into power in 2001, facing a severe economic crisis entered into the IMF/World Bank's Heavily Indebted Poor Countries Initiative (HIPC). In the HIPC, monetary policy was firmly limited to macroeconomic stabilization. Though the country obtained reasonable economic growth, little was achieved on economic development because as of 2006, around 86% of the total population of the country was living in rural areas, under the poverty line. Those who were lucky to be employed also faced serious challenges as about 26% of the people in households had an income below the poverty line, thus stark inequality (Addo, Korboe, Mensah and Williams, 2010; Hayford and Bopkin, n.d.).

## **2.8 The World Trade Organization**

One of the most fundamental factors which lead to growth and development is trade. Trade has been instrumental in African development for several years, as the African continent enjoys some of the most valuable minerals on the globe (Trade Mark, 2014). Despite several problems, the continent's economic growth which leads to development has been on the rise over the last couple of years. Its growth has been credited to economic reforms and efforts at regional integration (Trade Mark, 2014). This has resulted in suggestions that trade influences and helps the continent to grow and develop, in turn helping the people enjoy the prosperity of their land. Economic development is strongly connected to economic growth, thus for economic development to be achievable, economic growth has to be realized, signifying that the population has to live free from poverty as well as have a high quality of life, meaning that the people must be given a chance to develop themselves in turn economic development. IFIs such as the WTO have a significant role to play to aid the growth and development of Africa.

The WTO was formed in 1995. It was formed as a successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of World War 2 (World Trade

Organization, 2014). Though the institution itself is fairly young, the multilateral trading system it uses was set under GATT about 50 years ago. In brief, the WTO is the only international financial institution which deals with the global rules of trade between nations. Its main purpose is to try to ensure 'that trade flows as smoothly, predictably and freely as possible' through consultation and compromise (World Trade Organization, 2014). The WTO functions using a multilateral system, as mentioned above, which are the WTO's agreements, negotiated and signed by a greater proportion of the world's trading nations and ratified by their parliaments. The agreements act as legal ground-rules for international commerce, to guarantee important trade rights to member countries of the organization, as well as to bind governments to stick to their trade policies limited to the benefit of everybody (World Trade Organization, 2014). In so doing the welfare of the people of member countries is put at heart by helping producers of goods and services, exporters and importers conduct their business.

One of the most significant contributions the WTO has had on the African continent has been the Doha Round negotiations which started in 2001. These trade negotiations, carried out by the WTO aim at reducing trade barriers in the world to try to enable increased and improved international trade (Trade Mark, 2014). The main disagreements have been mainly between the developed nations such as Japan and the United States, and the vastly improving countries such as South Korea and South Africa (Trade Mark, 2014). The most conflicting issues have been industrial tariffs and non-tariff barriers, trade remedies and agriculture to state a few (Trade Mark, 2014). If a compromise had been reached, The Doha Development Agenda talks would have had a fundamental positive impact on the economic growth and development of Africa as markets would have been opened for African products enabling competition hence increased productivity (Trade Mark, 2014). The failure to reach a consensus on the issues mentioned above resulted in little progress being made on trade for the African continent.

Another significant contribution the WTO has made towards Africa has been its involvement in the Bali Package agreement. Despite the deadlock at the Doha Round, the Bali Package was decided on in December 2013 in Bali, Indonesia (Donnan, 2013). The Bali Package is a trade agreement which has the objective of reducing international trade barriers, together with preferential treatment and market access to the least developed countries as well as developing ones. The agreement, as a consequence, makes it relaxed for developing countries to trade with the developed countries in the international markets through the lowering of import tariffs. The terms agreed on may however have no instantaneous influence on

international trade but the Bali Package is seen as an achievement coming from the statement by Helble and Ganeshan (2014) who state that:

Whatever the future brings, the Bali Package will help restore the systemic importance for the WTO as the key pillar of multilateral trade relations. Before the Bali ministerial meeting there was a substance risk that the WTO as an institution and as rulebook for international trade would slide slowly into irrelevance, as trade liberalization has been progressing through other means and channels. But the success at Bali shows that the WTO is where deals and rulemaking can be done- Bali has thus voided the decoupling: The WTO train is back on track, but much work remains to transform it into a locomotive of multilateral trade liberalization.

By so doing, it indicates that at least the interests of African countries were thought of, particularly the least developed countries.

## **2.9 The African Development Bank (AfDB)**

The AfDB is a financial institution that was created by African countries for the purpose of providing aid for Africa's development. This institution was created to move away from the Bretton Woods institutions and have development for Africans, which is meaning to them. This institution offers finance to countries in Africa as well as to offer private companies, with the objective of investing in the African continent. In 2012 AfDB loaned out and provided grants totaling US 464 million dollars, which is 12.8% of its total loans to Southern Africa (African Development Bank Group, 2014). The loans and grants were for the purpose of multinational building and projects which aimed at advancing the socio-economic growth and development of the African countries. For example, in Liberia, the bank started the 'Program of Assistance to Trade Support Institutions in Liberia,' as cited by the African Development Bank Group (2014). The objective of the program aims at pushing for sustainable growth and regional integration through trade. However, for these programs to be successful in the long run, effective and efficient coordination and implementation is fundamental, therefore the bank has to strictly make sure that this is the case and if not there will be little results of development to gain from the work of the bank and its developmental programs.

## **2.10 African Development Finance Institutions**

The last IFI to be looked at in this study are the African development finance institutions, though little is known about them. These are financial institutions set to play an instrumental role in addressing market failures for African growth and development (Calice, 2013). African development finance institutions can and will be very important in finding solutions for development, a role almost similar to that of the AfDB, by assisting with long-term loans for building infrastructure such as houses as well as assisting in agriculture and small and medium-sized enterprises (SME) segment. The main problem which these institutions often face is ineffective running which ultimately leads to inefficiency. To address this problem, these institutions need to fight for strong governmental structures and procedures for review of performance and to adhere to best practices. Calice (2013) stipulates that African development institutions have to a greater extent adhered to a large number of global best practices; however improvement is still needed if the continent is to fully develop. With this in mind, there is a need for the population to learn about these African development institutions which can, in the long-run, have positive impacts of African development as the people will learn how to develop themselves.

## **2.11 Conclusion**

This chapter has looked at some of the literature which is available on the relationship between IFIs and economic development in Africa. Some policies of the traditional financial institutions as well as how these institutions have fared has been discussed. In addition, the new African finance institutions, which seek to invest in African development for the benefit of Africans, have been put forward, showing how they have progressed with time, given the many challenges they continuously face. The main purpose of this chapter was to outline how IFIs have fared given their involvement in African economic development. The next chapter is going to discuss the conceptual and theoretical framework used in conducting this research.

## Chapter Three

### 3. Conceptual and Theoretical Framework

#### 3.1 Introduction

Chapter one and two have highlighted the scope of this research and given a literature review, respectively. This part of the dissertation intends to provide an in-depth analysis of concepts relevant to IFIs and economic development, and the major theories to be utilized in this paper. Since the purpose of this research paper is to investigate the impact IFIs have had on economic development in Africa, several concepts and theories will be used to explain why Africa has suffered in economic development, thus its current predicament.

For precise descriptive and explanatory analyses of the major concepts and theories in this research, the sections of this chapter will be divided as follows.

1. The first section will briefly look into what economic development entails.
2. The second section offers crucial definitions and characteristics of the neo-liberal paradigm unique to this research.
3. The third section sheds light on what the modernization theory is and how it applies to this research.
4. The fourth section looks into the dependency theory, outlining how it is associated with the questions, aims and objectives of this research.
5. The fifth section will state what the world systems theory says and how it applies to this research.
6. The sixth section of this chapter will provide a close examination of the participatory social learning development theory, to outline how the African continent can escape its current quandary.

The particularized theories, from which this research is built, will be used interchangeably to answer the key questions and attain its aims and objectives. Though there are many theories relevant to this research, it is important to note that the Neo-Liberal Paradigm and the Participatory Social Learning Theory will be the main theories utilized for a better understanding of this particular research.

## **3.2 Economic Development**

Economic development is a determination to create trust and dialogue between experts, authorities and the people, for the purpose of growth, individually and communally to establish rational and functional systems and bureaucracies for social and economic progress. In other words, this is for the common growth and good of the people (Zewde, 2010). It incorporates the promotion of economic, political and social well-being of people. Defining economic development is a simple task, the problem however lies with what economic development involves as it incorporates many aspects. The problems of economic development are complex and multidimensional, thus making it difficult to fully explain what it entails as different theories, explanations, assertions and arguments have emerged in trying to explain what it is. For the purpose of this research, Zewde's definition of economic development will be used. With this in mind, to explain what economic development is, its goal and objective will be discussed briefly below.

Countries have different objectives, for example, to merely increase national wealth or may have a more honorable goal such as improving the well-being of the majority of the population. To explain and measure economic development four indicators which are; gross national product, quality of life, sustainable development and millennium development goals will be outlined below. These indicators will be used to further explain what economic development is and what it entails.

### **3.2.1 Growth of Gross National Product**

One of the goals of economic development is to generate the wealth of a nation (Dang and Sui Pheng, 2015). In the period before the 1970s, hasty economic growth was seen as a good representation of economic development. A yearly increase in gross national product (GNP) or alternatively gross domestic product (GDP) is used to measure economic performance. Usually the US dollar is used for the purpose of comparability, reported in per-capita terms to consider the size of the nation's population (Jaffee, 1998). This measure in GDP is an indicator of well-being and development strictly in terms of material wealth, thus cannot be used to solely define economic development as improvements in welfare such as education, housing for the poor and health care are not included. The 1950s and 1960s clearly showed that GNP growth does not necessarily lead to better life for the population of a nation (Dang

and Sui Pheng, 2015). Income growth is just one dimension of development, hence to fully comprehend economic development, the standard of living, living inequalities between classes, regions and genders, and poverty has to be incorporated in fully defining economic development.

### **3.2.2 Quality of Life**

Due to many countries in the 1970s experiencing high growth rates of per-capita income but millions of people living in poverty, development economists began to question whether the goal of development, which ultimately led to new development objectives (Seers, 1969). Thus economic development became concerned with reducing poverty, inequality and unemployment (Seers, 1969). The quality of life quickly became comparable with whether people came from developing or underdeveloped countries; as disease, malnutrition and death being experienced by everyday people changed the view of development goals dramatically. This coincidentally was reflected in the World Bank's report in 1991 which recognized improvements in income distribution, environment, health and education as part of, and measures of economic development (Dang and Sui Pheng, 2015). It followed that economic development became associated to human development which incorporates life expectancy, levels of education, average income for freedom of choice, health care and adult literacy. Essentially the notion of human development binds together all aspects of individuals' well-being. For this reason, the final goal of development is to improve human capabilities which Sen (1985) defines as "the freedom that a person has in terms of the choice of functionings, given his personal features (conversion of characteristics into functionings) and his command over commodities..." Thus in explaining and measuring economic development the above factors have to be considered.

### **3.2.3 Sustainable Development**

Recently environmental economists have become increasingly concerned with the continuing neglect of the environmental asserts likely to disrupt the permanence of economic development. From this concern, sustainable development has materialized which involves capitalizing on the benefits of economic development, subject to the maintenance of services and quality of natural resources over time (Pearce and Turner, 1990 as cited in Dang and Sui

Pheng, 2015). The United Nations World Commission on Environment and Development in 1987 stated that there is sustainable development if the needs of the present do not compromise the ability of the future generations to meet their own needs. Thus, to fully achieve this type of development roughly three conditions must be met which involve economic objectives of growth and efficiency in line with environmental objectives of a healthy, rational and conservative environment as well as social objectives of equality, social cohesion and participation. Ignoring one aspect can threaten economic growth and the whole process of development. Today, sustainable development aims at improving the quality of life, economic prosperity, environmental protection and social equity which all are incorporated in economic development.

### **3.2.4 The Millennium Development Goals**

In September 2000, member states to the United Nations adopted Eight Millennium Development Goals (MDGs) to try and address the most pressing issues of the developing and underdeveloped countries such as poverty and hunger, gender inequality, HIV/AIDS, child health, primary universal education, environmental sustainability and access to improved sources of water. These goals were set in with the hope of achieving them by the year 2015. However, it has been problematic to achieve these goals as it is already 2015 and these conditions are still prevalent especially on the African continent with legal and human rights being abused and rise in global warming (Dang and Sui Pheng, 2015). Though these goals are still realistically achievable in the near future fundamental improvements will need to be done for the objective of economic development.

### **3.3 The Neo-liberal Paradigm**

The theory of neo-liberalism has in the past twenty years or so, developed in many political and academic debates. Several authors and scholars have come to the conclusion that neo-liberalism is the dominant ideology which shapes our contemporary world and that we exist in a world of neo-liberalism (Saad-Filho and Johnson 2005). This however, has been argued by other authors and scholars, as the precise definition of neo-liberalism is often changing and is interpreted differently by different people. Despite this, the theory has become useful

as an analytical device to explain some recent economic, political and developmental trends as will be outlined below.

According to David Harvey in *A Brief History of Neoliberalism* (2005), neo-liberalism is firstly a theory of political and economic practices that suggests that human well-being can be progressive by liberating distinct entrepreneurial freedoms and skills contained by institutional framework distinguished by strong private property rights, free markets and free trade. The state still play a role of creating and preserving an institutional framework appropriate to such practices and more importantly secure functioning markets by setting up defenses and legal structures as well as not interfering in these markets, for advancement in human-wellbeing. Susan Soederberg, Geog Menz and Philip Cerny (2005) view neoliberalism as an, “assertion that the market is the core institution of modern capitalist societies and international politics and policy makers are primarily concerned with making markets work.” MacEwan (2005) also refers to neoliberalism as a doctrine where economic growth is advocated and where the movement of services, goods and capital, and labor are not regulated by the government. As mentioned earlier there are many more definitions of neoliberalism. However Stein (2012) disputes some of the definitions stating that referencing neoliberalism as a doctrine or assertion is quite extraordinary as they all have different inferences. An assertion, for example, is regarded as a statement or declaration often without reason or support. Despite all the deferent definitions there is a common consensus that assumes growth and development arises from the macro-stabilization, liberalization and privatization of economies (Stein, 2012). Macro-stabilization deals with the reduction of trade deficits, cutting government spending and budgets, and constraining monetary growth. Liberalization focuses on minimizing state intervention in markets, thereby “freeing up” prices by removing government controls. Privatization looks at selling state assets to the private sector in the hope that private property ownership will lead to higher efficiency, investment and growth. The three policy positions arise from neo-classical economic theories (Stein, 2012).

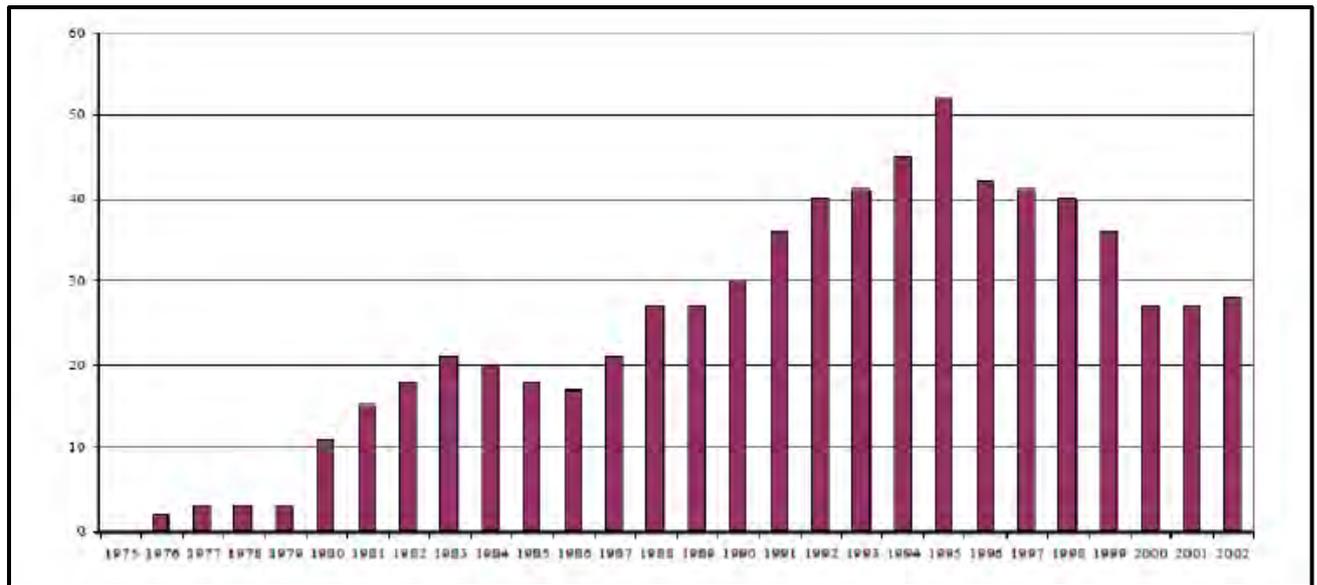
For the purpose of this research Zewde’s definition and views on neoliberalism will be used to show how IFIs have impacted on economic development in Africa as he states that neoliberalism has been advocated and practiced by some of the most powerful IFIs led by the World Bank and the IMF (Zewde, 2010). The term neoliberalism is typically used to describe policies of economic liberalization, privatization, free trade, open markets, deregulation and reductions in government spending with the goal of enhancing the role of the private sector in

the growth and development of the economy. This model of development rests on the basis that development will occur due to a 'trickle-down' of benefits to the ordinary people from the economic investments made by people and institutions with knowledge and resources (Zewde, 2010). As a result, FDI is encouraged as the chief means for development in Africa. This was supported at the United Nations Conference on Trade and Development (UNCTAD) where it was noted that, 'From this perspective, the pursuit of responsible macroeconomic policies combined with an accelerating pace of liberalization, deregulation, and above all, privatization were expected to attract FDI...' (UNCTAD 2005 as cited in Zewde, 2010). This was the policy often followed by the European countries as well as the United States of America, hence the advocacy and support the policy has with the IFIs of the World Bank and the IMF.

Neoliberalism and deregulation have been widely recognized as the main players in the unprecedented economic instability, stagnation and growing inequality which have rocked the world in the past thirty years (Stein, 2012). According to the United Nations Conference on Trade and Development (UNCTAD) (2011), global growth had gradually declined averaging 3.3% in the 1980s, 3.1% in the 1990s and most recently in 2000-10 only 2.8%. In sub-Saharan Africa, where countries were severely influenced by decades of neoliberalism through policies such as structural adjustment, data collected from a sample of 19 countries shows that the gini-coefficient had declined from 43.6 to 48.9% over the adjustment period (Stein, 2011). Instability and financial crises followed in the post 1980 due to financial liberalization.

Figure 3.1 from Gerard Caprio and Daniela Klingebiel (2003) shows precipitous growth in financial crises which followed widespread imposition of neoliberalism in the post-1980 period.

**Figure 3.1: Precipitous growth in financial crises.**



**Source: Caprio and Klingebiel (2003)**

According to Figure 3.1, financial crises rose from an average of less than five in the late 1970s to more than 50 in 1995 which was a period of heavy neoliberalism, in which African countries suffered the most as seen by the earlier example of the sub-Saharan gini-coefficient.

Therefore in this research, the neo-liberal paradigm will be used to show how it is one of the characteristics of IFIs of the World Bank and the IMF. It will be analyzed how ideas of neoliberalism were used by the World Bank and IMF to try kick-start development in Africa through the implementation of programs such as structural adjustment, deregulation and reduced government spending. Though these institutions arguably had good intentions, it will be shown how the pursuit of neoliberalism and FDI in Africa became counterproductive to development as the Participatory Social Learning Development Theory points out that development starts from within or it does not come at all. By this it means that the structure of neoliberalism had damaging effects on Africa as development became stagnant and in most cases moved backwards due to the marginalization of ordinary people and the de-development caused by financial institutions of the World Bank and the IMF.

### **3.4 The Modernization Theory**

Modernization theory is a theory which explains the method to modernization within states. The modernization model refers to a progressive shift from a 'pre-modern' to a 'modern'

society. This means that there is a transition and transformation which a traditional society undergoes in order to become modern (Lenin, 1964). Thus for the African continent to undergo modernization it follows in the developmental stages which Europe underwent (Matunhu, 2011). It follows that policies intended to improve the standard of living must become more efficient for production. For example, in modernity, the agricultural modernization process will involve encouraging farmers not only to try new crops and production methods but also to find and use better machinery and new markets (Ellis and Biggs, 2001 as cited in Matunhu, 2011). This is further advocated by Coetzee et al. (2007 as cited in Matunhu, 2011) who characterizes modernization as:

- 1) The readiness to accept transformation coming from changes.
- 2) The continued broadening of life experiences and acceptance of new knowledge.
- 3) Continuous planning, calculability and readiness towards new experiences.
- 4) Using technical skills and understanding the principles of production.
- 5) The change in attitude and family roles and religion.
- 6) Changing consumer behavior and the acceptance of social stratification.

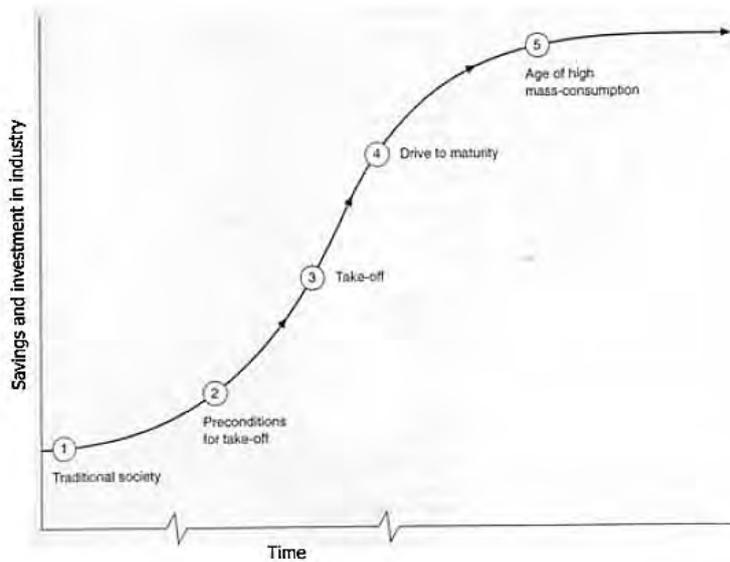
It is important to note that modernization strategies and policies are common to both pre and post-colonial Africa. However, European tasked themselves to modernize Africa on their arrival as they viewed that Africa's modernization stage was not up to the level of that of Europe, leading them to label Africa as the "dark continent." Therefore, the word modernization in relation to development means to upgrade the economic systems of poor countries to look like those in the developed world.

Modernization, arguably, is related to globalization, which can be defined as the combination of economic, political and social cultures across borders. However there has been no general consensus amongst authors and scholars on how this relationship can be defined as Gow (2005) states that modernization cannot deal with questions of globalization. This correlation between modernization and globalization is two sided. On the one side, globalization, it is argued, leads to the spreading of modernization across borders, thereby advancing modernization across the world. On the other side, there are also negatives in globalization as it often increases disparities between a society's rich and its poor as will be shown later. Nonetheless, modernization remains an important theory in this research.

The modernization paradigm became very popular in the global world as means of addressing development in the Third World. Economics play a major role in this theory in the context of development. In support of this Walter Rostow (1960) argued that steps to modernization can be identified over time. These stages are linear and towards an evolutionary advanced development which occurs over time. Rostow (1960) identifies growth stages:

- 1) The Traditional Society: In this system the economy is dominated by agricultural, traditional cultivating forms. This stage is characterized by a hierarchical structure where productivity is low.
- 2) The Preconditions for Take-off: An industrial revolution initiates dynamic development brought by improved rates of investment, development of more productive commercial agriculture, increase in technology and development of shared economic interests.
- 3) Take off: This stage is characterized by vigorous economic growth which is self-sustained requiring no external inputs.
- 4) The Drive to Maturity: at this stage, investments become very important. Economic and technical progresses are the main features of this stage. New forms of industry are created hence economic prosperity is created and increases.
- 5) The Age of high Mass Consumption: this is the last stage in Rostow's five-stage model of development. At this stage the greater number of the population lives in prosperity and abundance with a multiplicity of choices. According to Rostow (1960), countries of the West and the 'North' are at this stage, hence their high levels of development.

**Figure 3.2: Rostow's stages of development.**



**Source: Potter, Binns, Elliott and Smith (1999) as cited in Gow (2005).**

In the developed countries, economic development was viewed on the basis of this rationality and acknowledgement of economic actors. Zedwe (2010: 33) stipulates that:

The main modernist assumptions are embedded in the neoclassical mindset which cleanses the social and economic world of all real life events and existential complexities and simply views economic growth as a linear production function. In spite of its extremely reductionist nature that hinders grasp of the complex interrelationships of the economy to other dimensions of society, it enjoyed ascendancy over the cogent arguments for broader, and more holistic economic formulations from within economics itself.

This means that in this theory much emphasis is put on economics and the economy thereby ignoring the interconnectedness of the economy to other factors, such as the law and socio-cultural political foundations. According to Zewde (2010), the modernization theory simplifies all factors of development to suit economic growth, hence for this reason; this theory has been challenged and developed further by other theories such as the world-systems theory and dependency theory.

The main problem of the modernization theory is that it does not offer answers pertaining to participation and accountability. Thus in this research the modernization theory will be used to show that development does not only occur from economic factors but involves other

several complex dynamics which cannot just be simplified into economics. In addition, this study will outline the different dynamics such as equal participation of the “North” and “South” needed for sustainable development to occur as in the contemporary world, looking at the psychological, sociological and historical contexts of economic institutions.

### **3.5 Dependency Theory**

The dependency theory is not an integrated theory but nonetheless all features of it highlight the link between economic relationships of the first and third world countries. This theory is based on the concept that resources flow from the ‘periphery’ underdeveloped countries to the ‘core’ developed and wealthy countries, enriching themselves at the expense of the underdeveloped countries. Africa as a chief raw material supplier continues on the road of expanding underdevelopment whilst enriching the wealthier countries.

The dependency theory came from dissatisfaction with the modernization theory in the 1950s (Matunhu, 2011). One of the most influential dependency theorists Andre Gunder Frank (1967) maintains that capitalism spread effectively and entirely even to the most remote parts of the underdeveloped world. This means that the political, social and cultural institutions and relations we observe are a result of historical developments of the capitalist system, similar to the metropolises of those underdeveloped countries, hence dependency was formed.

Frank (1967) contends that the development theories such as modernity fail to fully capture the true relationship between the developed world and the poor regions of the world. Thus modernity misleads the true motives of the developed countries on their former colonies. Critics of the modernization theory and modernity argue that economic growth (modernization) in the developing region has not been fulfilled as it has not been beneficial to the broad masses of the poor, but rather its efforts have condemned the poor to starvation and despair (Matunhu, 2011). From this view the dependency theory was gained and implemented as an incentive.

Friedman and Wayne (1977) are of the view that Frank and other theorists who have influence in the dependency theory view its appeal from the fact that it signifies an advance over earlier development theories in four major ways which are:

- 1) Disparate from the other models and theories, the dependency theory does not assume a self-contained unit but rather recognizes political and economic relationships which have different consequences for each part of the relationship.
- 2) The dependency theory recognizes that there is integration in growth and development.
- 3) Dependency theory looks at the material bases of organized social life and mainly the growth and extension of the world capital system.
- 4) The dependency theory has replaced the earlier evolutionary stages, despite not being experienced by some societies, with concrete analyses of historical material.

The above shows Frank's view of "development of underdevelopment" outside of Western Europe, North America and Japan as a consequence of new and emerging relationships among political-economic formations which form as capitalism expands (Friedman and Wayne, 1977).

And so to understand the problems which the African continent has been facing it is important to consider the wider socio-historical context of Western European expansion, which is colonialism. According to Rodney (1972) colonialism did not only exploit but also repatriated profits made from the African continent to Western Europe. Thus, from a dependency theory perspective, the sending home of profits shows an organized expatriation of surplus values that was produced in Africa, by African labor, using the continent's resources. Hence the continued development of Europe came at the expense of Africa (Rodney, 1972). In the last five centuries, Europe has exploited every encounter it has had with the African continent, as it has further underdeveloped Africa but steadfastly increased its national wealth and the riches of its people. To this date Africa continues to be dominated politically and economically which has resulted in it being economically, culturally and politically dependent on America and Europe. This relationship has become engrained in our society as urban areas have turned to exploit rural areas leading to dependency becoming linear and multi-staged thus slowing down economic development.

Furthermore, Galtung (1980) stipulates that the African continent has become a source of raw materials, cheap labor and educates people through brain drain. The continued repatriation of profits has increased poverty, with rural communities suffering the most. It is for this reason that Matunhu (2011) states that, 'the basic message of dependency school is that the development of the metropolis was a result of the active underdevelopment of the non-

metropolis communities'. Here the metropolis is Europe and America and non-metropolis is the African continent. Thus the metropolis (core) is dependent on the non-metropolis (periphery) for its development and underdevelopment, respectively. For example, human capital has continued to move away from Africa to the developed world. Frank (1967) argues that underdevelopment is not a start point but is a consequence of economic seizure and control of backward regions by advanced metropolitan capitalism. Imperialism and colonialism created a system of absolute dependency on the developed by the underdeveloped.

The above clearly shows that Africa's problems are not inborn but arguably come from an engineered position. Thus for economic development or any form of development to occur on the African continent its ties to the developed world have to be weakened and reduced. For example, Latin America experienced independent industrialization during the short isolation it had during the First World War and during the depression in the world metropolis in the 1930s (Frank, 1967).

Therefore, in this study the dependency theory will be used to show how IFIs have impacted on economic development in Africa, as the continent still holds plenty of the economic resources needed for vast development but it is languishing in poverty as seen by high prevalence of famine, disease, ignorance and dependency on the developed countries in the "North".

### **3.6 World Systems Theory**

The world systems theory involves many schools of thought taken from the dependency theory. The difference with this theory however, is that it takes these schools of thought and transforms them into a class nexus within the first and third world countries. According to Wallerstein (1974), who is the leading theorist in this theory, the modern nation state exists within a broad economic, political and legal framework which is called a "world-system." For one to understand individual human behavior one cannot ignore the sociocultural system in which the individual is part of, which also applies to the understanding of societies or nation-states, where one has to understand the world-system in which the nation-state is embedded in. For example, the upper class in the first and third world countries collude to exploit the poor by the extraction of resources from the poor by the elite of the third world to

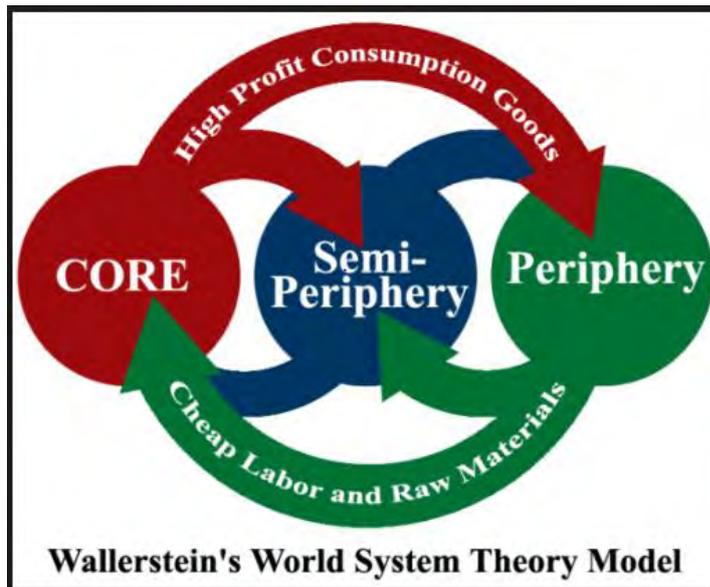
benefit the elite of the third world. In other words, the elite in both settings benefit from the exploitation of the poor in both the poor and rich countries. For this reason Wallerstein (1974) points out that capitalism play a fundamental role in modern nation states which are part of the world-system. According to Wallerstein (1974: 376)

A world-system is a social system, one that has boundaries, structures, member groups, rules of legitimation, and coherence. Its life is made up of the conflicting forces which hold it together by tension and tear it apart as each group seeks eternally to remold it its advantage. It has the characteristics of an organism, in that it has a life-span over which its characteristics change in some respects and remain stable in others...Life within it is largely self-contained, and the dynamics of its development are largely internal.

This world system is what Wallerstein also calls a “world-economy”, united through the market rather than a political force, in which two or more regions are mutually dependent with respect to necessities such as food, fuel and protection and two or more policies compete for dominance without the advent of a single center forever (Goldfrank, 2000).

The current world-system is characterized by a power pyramid between core and periphery, whereby the powerful and wealthy (core) societies dominate and exploit the weak and poor (periphery) societies. Countries in the periphery are structurally constrained to experience any kind of substantial development that reproduces their subordinate status. The difference in strength of the different countries keeps the status quo as the core countries continue to strengthen by repatriating surplus from the periphery countries to the core countries. Wallerstein called this unequal exchange which leads to capital accumulation on a global scale (Goldfrank, 2000). Figure 3.3 illustrates the World Systems Theory.

**Figure 3.3: The World System Theory Model**



**Source: The World System Theory Model (n.d.).**

As mentioned above, the existing world-economy is branded by systematic cyclical rhythms, which offer the basis of Wallerstein's periodization of modern history (Goldfrank, 2000). After this current stage Wallerstein sees the rise of a socialist world-government capable of maintaining a high level of productivity, changing the distribution pattern by incorporating the levels of political and economic decision-making. Therefore, the world systems theory will be used to show how IFIs have impacted on economic development in Africa through the control of resources which is development by the elite. The theory has aided in the analysis of how the elite have used their power to accumulate resources as well as whether this has been for purposes of development.

### **3.7 Participatory Social Learning Development Theory**

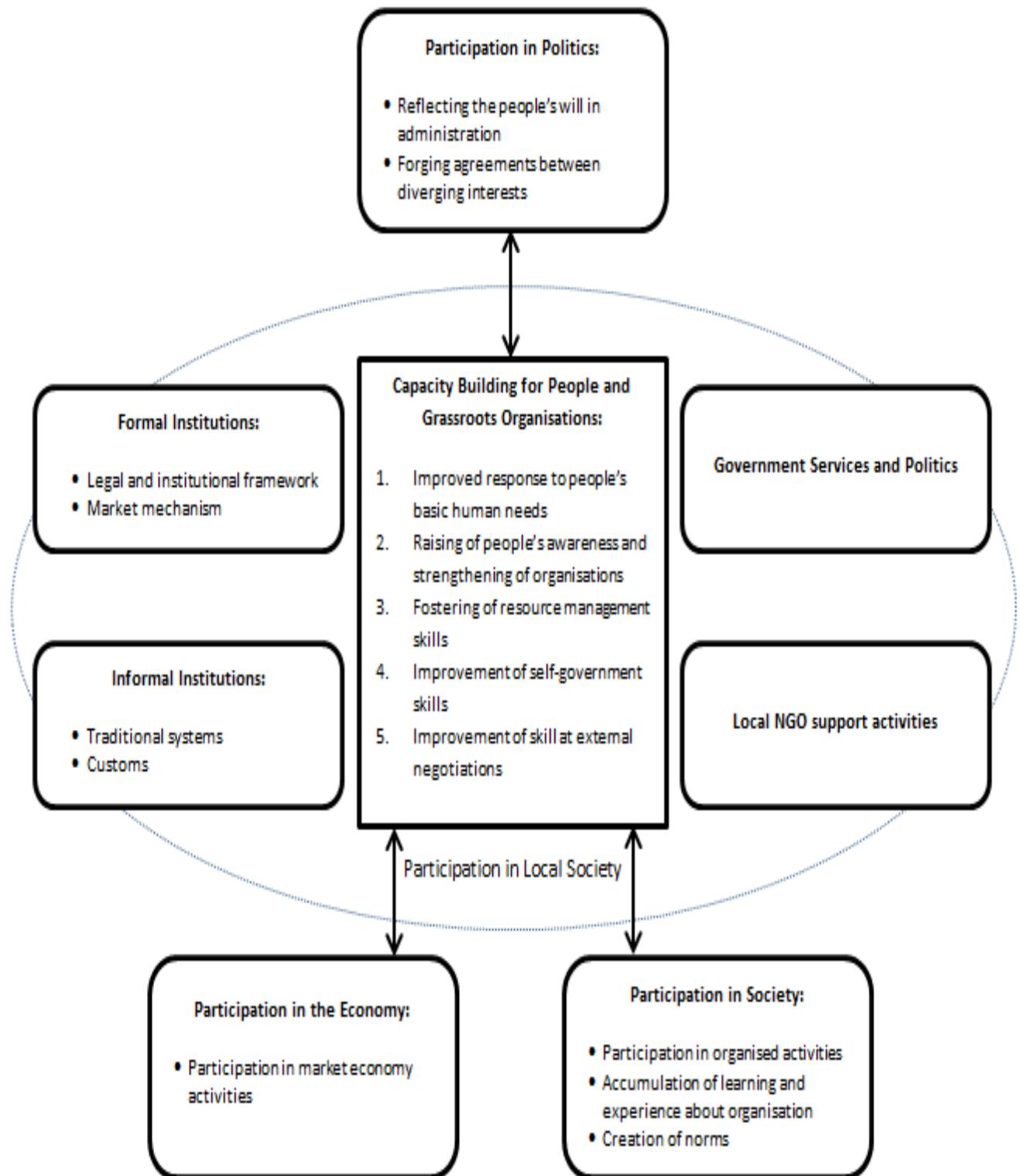
Development participants around the world stipulate that participatory development is the best model of development strategy in achieving sustainable, self-reliant development (Mofokeng, 2013). Democratic governments also share this view as they are practicing this development model. In participatory development, the people decide on their own development, which leads to person-centered development, in turn a high possibility of successful and sustainable development within communities. It follows that the participatory social learning theory of development is a theory that integrates ideas from education,

psychology, sociology, economics and social-psychology for the purpose of continuous learning individually, by the community and collectively. By continuous learning people acquire knowledge and skills for personal transformation in turn aiding and giving value to the needs of the community. By supporting social developmental aspirations, Dunn (as cited in Zedwe, 2010) notes that individual members in such communities will in the long run be able to support continued growth for sustainable development. The participatory social learning theory, which will be used interchangeably with the participatory development theory, seeks to incorporate the population in developmental projects. It is one of the most essential approaches to self-reliance, sustainable development and social justice thus the most essential theory of this research.

The participatory social learning development theory, together with participatory development has gained much momentum in the last several years. Academics, development practitioners, the civil society as well as non-profit organizations have advocated for it as it promotes democracy, good governance and accountability. Despite its recent popularity, participatory development is an old theory which emerged in the 1970s. According to James (2010 as cited in Mofokeng, 2013), participatory development had for a long time been discussed in developmental debates but gained rapid momentum when IFIs started promoting the “basic needs” approach to development. Since these finance institutions were very influential, it follows that participatory development spread and became a radical alternative to old practices of growth and development.

Mofokeng (2013) notes that participatory development empowers the people with a voice to engage, decide and implement developmental projects based on their society’s socio-political aspects. For this reason there is no straight definition of participatory development but rather the practices of participatory development form its definition. In participatory development, the people are the masters of their own development thus it has to be self-reliant and sustainable as demonstrated by Figure 3.4.

**Figure 3.4: The process and values of Participatory Development**



**Source: Japan International Cooperation Agency Research Institute (n.d.).**

This is the developmental model the African continent needs to pursue for the objective of progressive and sustainable development. Public participation is the, “active process whereby beneficiaries influence the direction and execution of development projects rather than merely receiving a share of projects benefits,” (Naido and Mathabatha, 2004). This promotes the rights and livelihood of the people as participatory development is person-centered hence making the people beneficiaries of their own power and development. The ideas of the people are considered before any decision is made as this model of development holds that no one knows what people need more than themselves.

As mentioned above, participatory development is the model which the African continent needs to adopt for sustainable growth, development and self-reliance. For this model to be a success, the implementation process is very fundamental. Some of the core values when implementing this development model are respect and humility for cooperation from community members. Knowing and recognizing the leaders of the community is essential as these are the people the community looks up to, thus developers must know the approach when putting down an issue before the community (Thamae, 2013 as cited in Mofokeng, 2013).

Grayling (2006 as cited in Mofokeng, 2013) clearly outlines the reasons for undertaking participatory development as well as the best ways in carrying it out, which are:

- 1) To create public understanding for the need to have a proposed policy, plan or project and the making of more substantial and reasonable decisions.
- 2) To build trust in the processes of participatory development and the decision-makers to achieve stable policies and long lasting decisions.
- 3) To provide recognition to issues that need to be dealt with.
- 4) To build public ownership and personal responsibility from participants throughout the implementation stage as to not fail co-participants.
- 5) To identify local traditions and institutions that could hinder participation and address them during implementation.
- 6) To encourage stakeholders to discuss their objectives or differences directly for implementation to be quick and successful.
- 7) To encourage interactive processes to discuss broad issues for a balance on perspectives and values.

- 8) To encourage diversity of opinion as people do not always view things in the same way.
- 9) To build legitimacy for decisions that allows them to be long-standing and withstand changes in government or policies and leadership.

The above is done to encourage and embrace open contact with communities for the facilitation and involvement of both the affected people and those who would want to help (Geyling, 2006 as cited in Mofokeng, 2013). In so doing there will be reasonable participation, transparency, accountability, effectiveness, responsiveness and compliance to rule of law for the realization of set goals and objectives.

Regardless of the above remarks and explanations, this theory has often been criticized for being costly and taking too long for benefits to be realized. Though this might be the case, it is reasonable to only assume that since it incorporates all in the community it will definitely take longer to reap the rewards of this type of development. Thus, this study will ultimately show that this is the most suitable type of development Africa needs as a device for the realization of sustainable development of the continent together with its people for the future generations.

### **3.8 Conclusion**

This chapter has provided an in-depth analysis of concepts relevant to IFIs and economic development, as well as the major theories to be used in this paper. Since the purpose of this paper is to investigate the correlation of IFIs and economic development in Africa, these concepts and theories are of great importance. It is however fundamental to note that the Neo-Liberal Paradigm and the Participatory Social Learning Theory will be the main theories to be exhausted in this research paper. The next chapter will show the research methodology and study design used in carrying out this research.

## **Chapter Four**

### **4. Research Methodology and Study Design**

#### **4.1 Introduction**

This chapter will give an insight to the research methodology used in carrying out this research. This means it will critically discuss the process of data collection employed in this research by stating how qualitative, types of research techniques used and how data was analyzed. Lastly the chapter will state some of the ethical issues encountered whilst doing the research and the limitations which were faced.

#### **4.2 Research Design**

According to Kuada (2012), research methodology entails the set of procedures and techniques one will use to collect and create the project's research information and evidence. Pathak (2008) also supports this view by stating that methodology is a tool of research used to assess techniques in the procedure of researching a specific objective, as well as a specific study. Research methodology concentrations on techniques used in addressing the topic at hand and to offer reasons and solutions for the discussion as will be shown below.

In defining the dimensions of a research project, it usually requires thinking about data sources, data collection and data analysis (Blaikie, 2000). Data sources are defined as the element which information relevant to research is obtained and collected. Blaikie (2000) has a way of broadly classifying different types of data sources potentially available to researchers. Though not everyone might agree with his classification; it does help to show that there are different types of sources for any given research. For the purpose of this study, using Blaikie's method, the data sources used was 'items', which essentially are things that can be held or stored such as research reports and books. For the purposes of data collection, the techniques used to gather information about 'items' involved techniques such as previous research literature and research statistics. It follows that data analysis was important as it is the process of drawing meaning from the information collected for a project.

The methodology which was used in this research was the qualitative paradigm, which is holistic and inductive in approach, giving a detailed investigation rather than just explanations and predictions (Babbie & Mouton, 2001). Using this approach, the paper set to investigate and understand all theories and approaches which involve IFIs in the economic development of Africa. The paper's methodology and methods were based on a desktop research, meaning fieldwork was not conducted, and thus the research was drawn from existing documentation. Existing documentation includes books, reports, journal articles, theses and dissertations and so forth. The use of these different sources helped to understand the research questions as well to address them sufficiently.

The qualitative methodology was used to explore data research in terms of gaining more understanding of opinions and reasons for the relationship between IFIs and economic development in Africa. Qualitative analysis is fundamentally any form of analysis which is concerned with the qualitative phenomenon, such as phenomena with regards to or involving quality and in this case identifying recurring themes and ideas in the data collected to interpret what it might mean to understand the relationship between IFIs and the continent's economic development. This is supported by Neuman (2011: 26) who notes that basic research is "A research designed to advance fundamental knowledge about how the world works and build/test theoretical explanations by focusing on the why question." This means that researchers use simple research to support or refute theoretical ideas in attempting to explain questions such as how, what and why the events are the way they are. Also the data collected was analyzed in accordance with the research objectives and the broad key questions mentioned in chapter one, and also by drawing inferences from the literature reviewed as integrated in this study. In other words data was analyzed in reference to each key question, to achieve the purpose of this study which was to understand the relationship between IFIs and economic development in Africa.

In addition, the sampling technique which was used was the purposive sampling of data. According to Maree and Pietersen (2007: 10), 'Purposive sampling is used in special situations where the sampling is done with a specific purpose in mind.' In this case data was sampled with the purpose of examining the correlation between IFIs and economic development in Africa. The selection of material was based on this purpose.

Lastly, case-study analysis was used for analytical purposes. Neuman (2011: 42), states that, a case-study research is 'An in-depth examination of extensive amount of information about

very few units or cases for one period or across multiple periods of time.’ Thus according to him case-studies do not only explain abstract ideas but also provide these ideas with a picture of real lived experiences. Therefore to understand the correlation between IFIs and economic development, Africa as one of the most impoverished and underdeveloped continent served as a case study, in particular Zimbabwe and Ghana. The reason why particular focus was placed on these countries is because these countries were developing steadily after independence but tables turned around when IFIs began to have a hand in the countries’ development, resulting in low rates of growth afterwards (Ismi, 2004). Examples of other African countries were nonetheless used to add substance to the study. African countries are largely characterized by several different social, political and economic problems such as high unemployment, homelessness and alarming growing rates of HIV and AIDS. Therefore to have an informed understanding on how IFIs have impacted on development in Africa, the qualitative analysis method was used through secondary data which is readily available from books and internet sources, to give depth to the study by looking in detail how development is conceptualized and understood by different people.

#### **4.3 Ethical Considerations**

As this paper is a desktop research, it used scholarly articles and research, theories, and developmental concepts in economic development to have a holistic and inductive understanding of occurrences in the natural environment. This means it relied on primary and secondary data which is readily available from books, articles, journals and internet sources, to give depth to the study by looking in detail how economic development is conceptualized and understood by different people. An ethical clearance was sought from the faculty’s ethical committee for the authorization and approval of the research.

#### **4.4 Limitations to Study**

Bearing in mind the history of Africa, particularly the period soon after independence, it might be difficult to fully interrogate how IFIs have impacted on development in Africa with regards to the policies and systems of governance each country took. One of the most important limitations to this study was the inclination towards an ‘interpretivist’ as opposed to ‘positivist’ position regarding what development fundamentally is and how it is construed.

'Interpretivist' researchers often follow rather different principles and assumptions about the nature of phenomena, for example, the complexities and contradictions typical in studying human social life making it difficult to posit general and universal findings on all people. The position taken within these two paradigms in this regard plays an important role in shaping the area and scope of study involving research objectives and questions. It was fundamental that an open mind was kept, hence accepting that conclusions drawn might have been subjective, due to how data is analyzed and deduced, as well as to caution that the conclusions drawn do not generalize all IFIs but rather an objective view. Another possible limitation of the study will be the limited time associated with the completion of the study as some data is difficult to access therefore requiring more time for the completion of the study.

#### **4.5 Conclusion**

This chapter has outlined the research methodology utilized in this research. The research is qualitative, using purposive sampling and lastly a case study for a better understanding of the relationship between IFIs and African economic development. The next chapter will give case study and data analysis.

## **Chapter Five**

### **5. Case Study and Data Analysis**

#### **5.1 Introduction**

This chapter aims at understanding and critically analyzing the data presented in chapter two through the concepts and theories in chapter three. Chapter five will look at answering the key questions and the broader issues in this research. The chapter is structured in seven parts, with each part analyzing and addressing a specific problem. Lastly this chapter will give possible recommendations on how the continent should develop its relationship with IFIs for better economic development.

#### **5.2 Economic Development**

As mentioned earlier in chapter three, economic development is a determination to create trust and dialogue between experts, authorities and the people, for the purpose of growth, individually and communally to establish rational and functional systems and bureaucracies for social and economic progress, in other words for the common growth and good of the people (Zewde, 2010). Thus it becomes a process whereby economic growth leads to economic development, leading to a country's national income as well as per capita income increasing over a certain period of time (Meier and Baldwin, n.d.). This implies that the impact of economic growth over a long period of time encourages changes in self-motivated elements hence economic development. These changes are in elements such as resource supply, capital formulation, technological innovations, skills and efficiency, demographic composition, and institutional and organizational setup (Meier and Baldwin, n.d.). The whole meaning of economic development implies and involves making wholesome changes in the socio-economic as well as the institutional setup of a country. Thus a change in the structure of demand for goods is needed and most importantly the level and pattern of income distribution improves. With a change in income distribution, it follows that consumption habits and the standard of living changes and in so doing the social pattern inevitably changes as well. In essence economic development is therefore a process where a long chain of

interconnected changes in fundamental elements of supply and demand lead to the rise of the net national product of a country in the long run.

From the above meaning of economic development, Meier and Baldwin (2: n.d.) note that, 'Economic development is a process whereby an economy's real national income increases over a long period of time.' From this definition similarities can be seen from the definition which Zewde adheres to. The changes which are seen in Meier and Baldwin's definition of economic development will be in the increase of the GNP; improvement in the quality of life, which is enabled by increases in income; encouraging sustainable development and making changes to try and achieve the MGDs (indicators of economic development mentioned in chapter three) as economic development cannot solely be defined in economic measures such as GDP.

For this reason, Stiglitz and Squire came up with what they call mechanics of development. These involve growth, inequality, poverty and other dimensions of well-being. Though economic development should lead to improved income and better living standards, Stiglitz and Squire support the Kuznets Hypothesis which states that; in the early stages of economic development, increases in income are usually associated with increases in inequality (Stiglitz and Squire, 1998). This view came through the observations of three industrialized countries of West Germany, Great Britain and the United States. From this hypothesis there are fears that increases in GDP may further impoverish the poor as often seen in many African countries such as Zimbabwe and Ghana. As time goes on, the gap between the rich and the poor will steadily be reduced; where honest and proper economic development changes are implemented.

Other mechanics of economic development further involve improvements in non-income measures of wellbeing such as literacy and life expectancy. According to the World Bank's classification of countries, low income is usually identified in countries where the life expectancy of 63 years and adult literacy rate of 66% is recorded. Middle income countries usually have a life expectancy of 68 years and a literacy rate of 82%. High income countries have a life expectancy of 77% and literacy rate of over 95% (Stiglitz and Squire, 1998). This suggests that with increases in economic development, human investment kindles growth which in turn offers the resources for people-focused investment and development as put forward by the participatory social learning theory. Though the above does not show an automatic link between income and other measures of development, it would be naïve to

ignore the strong association as the two are complementary and mutually reinforcing, and this will be brought out further in the chapter.

Keeping in mind how economic development has been defined and explained in chapter 3 and above, the question most researchers ask is whether economic development is possible in Africa. The answer to this question is a resounding yes. Yes, economic development is possible in Africa. Regardless of the economic development struggles that the African continent has been facing, the developing world has had dramatic advancement which should be encouraging for the continent, particularly the rise of the Asian Tigers. The success story of the Asian Tigers shows that indeed economic growth and development is possible, though not simply occurring with the passage of time. The African continent has endured and still is facing many economic developmental hardships but there is hope for the future as we presently know more about the mechanics of development and their close association to economic variables, thus being in an encouraging position to identify and implement broad strategies and policies for economic development.

Evidence that economic development is possible is seen in some African countries before they implemented IMF's programmes of structural adjustment. For example, in Zimbabwe in the 1980s, the industrial sector was continuously improving such that exports gradually became manufactured goods. Due to this food security was attained, with debts being regularly paid. As a result the average growth rate of Zimbabwe was at 4% (Ismi, 2004). In turn education and health services became priority, leading to increased government spending. Consequently, the infant mortality went down to 50 from 100 per 1000 births between 1980 and 1988. Not only this, but life expectancy increased from 56 to 64 years with primary school enrolment doubling (Ismi, 2004).

The same can be said of Ghana. When Ghana gained independence in 1957, it had achieved a literacy rate of 60%, which was very remarkable for an underdeveloped country (Uche, 1994). Not only did Ghana produce 10% of the world's gold, but its income per capita was equal to that of Spain and also had US \$ 1000 million in external reserve (Jensen, 1991 as cited in Uche, 1994). Over and above that, Ghana was a leading exporter of cocoa resulting in the country being ranked as one of Africa's most advanced nations. The examples cited above are to show that economic growth and development, essentially in reference to this research is possible in Africa. With competence, appropriate institutional arrangements and a

change in social attitudes that influence development, the process of economic development is indeed achievable.

### **5.3 The Level of African Economic Development**

It is not an easy task stating the level which Africa is at with regards to economic development. This will be because the continent continues to undergo what could be regarded as increasing poverty, inequality and insecurity; within its member states and in relation and comparison to the world at large. The challenge contemporary Africa is faced with is bravely addressing the hegemonic structure and control the world economy has on the Third World. The history of the continent itself does not highly favor high levels of economic development considering the period of colonialism and the new reality of neo-colonialism. In the 1960s, most Sub-Saharan countries became independent. Many people were optimistic that a time of great prosperity would begin but this was not the case, as colonialism left Africa underdeveloped. Uche (1994) states that the African continent went under a triple jeopardy of being victims of the slave trade, participating in the Second World War and being devastated and disadvantaged as a result of colonialism which was exploitative of African raw materials for the industrialization of Europe. In no way from independence was the continent given enough and genuine support for development like the support the European continent was given under the Marshall Plan after the Second World War. To all degrees and purposes, the Marshall Plan was one of the reasons which has allowed Europe to achieve and maintain political stability which in turn leads to economic development.

To understand how Europe managed to free itself from the devastating impact of the Second World War, which had almost similar impacts colonialism had on Africa, the Marshall Plan will be briefly explained. Soon after the Second World War, reconstruction and rehabilitation of Europe was needed to overcome the damage the war had caused. The United States implemented the Marshall Plan for such reconstruction and rehabilitation which resulted in the technological and economical heights Europe has attained (Uche, 1994). Some authors such as J. Bradford De Long and Barry Eichengreen stipulate that the Marshall Plan is history's most successful structural adjustment program (De Long and Eichengreen, 1991). One of the greatest achievements of post-World War II (WW II) was the creation of representative institutions and mixed economies, which are characterized by features of both capitalism in privatization and socialism in the form of government intervention. This was all

enabled by the Marshall Plan which transferred an estimated US \$13 billion in the form of aid from the United States to Western Europe between 1948 and 1951 (De Long and Eichengreen, 1991). The funds in aid were used competently and effectively in creating prosperity and political stability which is still enjoyed in Europe to this day. The Marshall Plan managed to alleviate resource shortages and stimulate growth in Europe, unlike in Africa where structural adjustment was a massive failure as the continent was denied its own similar idea like the Marshall Plan for development. Therefore Africa remained handicapped, short-changed and cheated. In this regard it is only logical to assume that had the African continent undergone economic rehabilitation similar to that of Europe soon after independence, it would be enjoying widespread economic development. As it was not the case; Africa's debt crisis and its political environment demonstrate how far the continent is from being a developed one.

The above thus suggest that the African continent is underdeveloped, a claim which is also supported by Walter Rodney in *How Europe Underdeveloped Africa* (1982). This means the continent has yet to reach a point of modernization/modernity whereby there will be more effectiveness and efficiency of resources and skills, a theory discussed in chapter three. For one to understand the level of Africa's economic development and how underdeveloped it is, one has to understand the characteristics of a developed economy which is directly related to economic development. According to Economic Development and Growth (n.d.: 5),

A developed economy is characterized by increase in capital resources, improvement in efficiency labor, better organization of production in all spheres, development of means of transport and communication, growth of banks and other financial institutions, urbanization and a rise in the level of living, improvement in the standards of education and expectation of life, greater leisure and more recreation facilities and the widening of the mental horizon of the people, and so on.

This essentially means that where there is economic development, poverty must be broken down to kick start a self-generating economy where economic growth becomes self-sustaining. The major characteristics of a developed economy are listed as follows:

1. Significance of the Industrial Sector (Economic Development and Growth, n.d.)
2. High rate of Capital Creation (Economic Development and Growth, n.d.)

3. Use of High Production Techniques and Skills (Economic Development and Growth, n.d.)
4. Low Growth of Population (Economic Development and Growth, n.d.)

All of these are briefly discussed below.

1. Significance of the Industrial Sector:

In most developed economies, the industrial sector is given much importance. All resources are utilized to full capacity, in turn maximizing the national income and to create employment for the jobless (Economic Development and Growth, n.d.). Most of the percentage of the national income comes from non-agricultural sectors, such as, industry, trade transport and communication. For example, in England, the industrial sector often produces 50% of the national income, whilst transport and communication produce 21% and other sectors producing 25%. In the whole equation however, agriculture is only seen to be producing 4% (Economic Development and Growth, n.d.). This goes to show that the level of Africa's development has not reached that of a developed economy as of this date. The continent is still dependent on the agricultural sector, with some countries still practicing subsistence farming.

2. High Rate of Capital Creation:

Developed economies and countries are usually very wealthy due to the fact that they maintain a high level of savings and investment. The result of this is huge capital stocks, Use of High Production Techniques and Skills. Consequently the level of investment constitutes 20 to 25% of the total national income (Economic Development and Growth, n.d.). The high growth of capital formation in these economies and countries is a consequence of a well-developed capital market, high level of savings and broader business prospects creating entrepreneurship. In the Sub-Saharan continent this is far from reality as the continent is still struggling with debt, making having savings an insurmountable task. .

3. Use of High Production Techniques and Skills:

To have a well-functioning economy, high use of production techniques and skills have to be utilized. These new techniques are used in the exploitation of the physical human resources. Scientific research then becomes a priority, aiming at maximizing techniques already in use and discovering new techniques (Economic Development and Growth, n.d.). In so doing, goods and services are easier to produce at a lesser cost. It is due to this fact that countries such as Japan and Germany have managed to develop their economies

despite them lacking vast natural resources. In Africa, this level of developed is present but not predominant as the continent does not have the resources to invest in the use of high techniques of production. Though there are people with skills present in Africa, it is only a handful of the population possessing them, therefore creating a notable variance between skills present and ability to undertake initiatives using these tools. .

#### 4. Low Growth of Population:

There are several factors which contribute to a low growth of population. These include, good health, a high degree of education and low levels of birth and death rates (Economic Development and Growth, n.d.). This ultimately makes life expectancy very high. Per capita income is very high due to the factors mentioned above. As a result people in developed economies and countries enjoy high standards of living and work together for economic development hence economic growth (Economic Development and Growth, n.d.). The African continent has not yet reached this level with the exception of a few phases after independence. However, this went downhill with the implementation of SAPs which further impoverished the continent making its level of development hard to count for.

Furthermore, besides these four factors, the characteristic of a developed economy show that the structure and values in the society aim at achieving rapid growth and industrial development. The class fabric therefore becomes based on merit, with the motive being to live a better social life which can only be achieved by improving competently economic development.

By understanding the above, it becomes easier to distinguish a developed economy and one which is not developed. The major way of differentiating a developed economy from an underdeveloped one is on the basis of per capita income. Underdeveloped economies are regarded as those that have real per capita income less than a quarter of the per capita income of the United States, approximately less than US\$5000 per year (Economic Development and Growth, n.d.). In an underdeveloped economy resources are usually underemployed or not fully utilized (for example, too many natural resources in Zimbabwe and Ghana which do not serve the nationals of those respective countries) unlike that of a developed economy. The growth of population becomes higher than the growth of employment or investment in an underdeveloped economy (Economic Development and Growth, n.d.). Due to underutilization of resources and high increases in population, mass poverty becomes a

consequence, followed by shortage and scarcity of basic needs (Economic Development and Growth, n.d.). Mass poverty ultimately leads to undernourishment. Thus Rostow (1960) notes that the economies of poor countries are similar to those of a traditional society; where technology and modern science are not regularly or fully and systematically applied. This is very different to developed economies where the people can afford consumption of nourishing food, decent shelter and clothing.

Therefore as mentioned earlier, the level of the continent's economic development is not one you can place a finger on and state. With the exception of a few countries, the Sub Saharan continent is still in transition to resemble a developed continent. Ghana as the first African country to attain independence should have reached a stage of a developed economy but due to several factors including mismanagement of the country, it found itself back in Rostow's traditional society. The same can be said of Zimbabwe, where soon after independence it showed signs of progression but due to SAPs and government blunders, it went through the same vicious cycle Ghana had gone through and is still enduring. Thus to answer the question of the level reached by the continent's economic development, it is only safe to suggest that the continent has gone backwards from the short lived signs of progress of the period soon after independence. More statistical evidence of the backward progression the continent, particularly Ghana and Zimbabwe have gone through will be provided later in the research.

#### **5.4 The Role of IFIs in African Economic Development**

As mentioned in chapter two IFIs are institutions created to assist with financial support and professional advice for the determination of economic and social development and in the process promoting international economic cooperation, stability and fight against poverty (Bhargava, 2006). These are multilateral development banks and other international development agencies which aim at ensuring growth opportunities especially to the world's poorest people. Though the IFIs have several functions, for the purpose of this research, three major roles will be discussed. Discussing these roles does not however mean that IFIs have been successful in their goals and objective. The major roles which will be discussed will only show the role IFIs should be playing and what they should achieve.

##### **1. Transforming the Global Scenario:**

Since the first establishment of the first IFIs over five decades ago, the global economy has had many changes and transformations in many different but important ways. Firstly, through globalization, which is when economies and other organizations start operating on an international scale becoming more integrated and intertwined, foreign trade and private capital became increasingly important in economic development (Buitter and Lankes, 2001). Secondly, due to the ever increasing costs of living, the role of the state as a provider of its people was re-examined, resulting in a strong shift towards private, market-based approaches (Buitter and Lankes, 2001). The consequences of this was that the private sector and private international finance have become instrumental and synonymous with economic development, meaning one cannot talk about economic development without involving the private sector. Thus one of the roles of IFIs is to create conducive conditions for market-oriented growth and to form beneficial partnerships with the private sector for the purpose of economic development. Though this is the ultimate goal, the private sector and IFIs have been viewed with suspicion within the African continent, mainly because of the failure of SAPs and the heavy debt burden it left in Africa. Therefore the only way of achieving the above mentioned goal is for reform within IFIs and for African leader to become more competent and accountable for their actions, which can only be brought about using the Participatory Social Learning Development Theory.

2. Directing capital flows into Africa to change to market-place:

The world financial markets have in the past decades seen more private capital flows going to developing countries rather than less developed countries. In 1999 net long-term private flows were at US\$239 billion (82.6%) from US\$48 billion (58%) in 1980 (Buitter and Lankes, 2001). Private capital flows contribute towards the filling of the savings-investment gap in developing countries as well as reducing dependency by diversifying funding sources. Thus private flows have played an important role in transferring technologies, market-oriented behavior, management skills and distribution channels. Taking all this into account, it would mean that if IFIs want to achieve its goals in ensuring economic cooperation and fight for poverty reduction, the movement of private capital flows has to be reconsidered. From the above, it is clear that the African continent has not been receiving the benefits which come from receiving capital flows, given that the private capital flows play an important role in transferring technologies which are lacking in Africa, assisting with market-oriented behavior, management skills and distribution channels; which prove to be fundamental for successful business and

competitiveness for trade within the continent itself and internationally. A lack of capital flows going into Africa has resulted in the continent remaining dependent on the developed countries. As the continent continues to export raw materials, its underdevelopment and dependency continues to expand whilst enriching the wealthier countries. This is in line with Frank's view that capitalism spread effectively even to the most remote areas of Africa leaving its disastrous effects to be felt for many decades to follow (Frank, 1967). It follows also that there will not be significant economic development as there is no capital to kick-start it, as all profits will be repatriated back to the developed countries. However, with greater capital flows into Africa, a dawn of a new age might just begin as the continent does not have the capital it needs to kick-start economic development, regardless of it having vast natural resources. By so doing, IFIs will be changing the market-place by helping governments create conditions necessary for market-oriented growth and becoming participant investors, working with the private sector to expand private capital flows.

3. IFIs should assist in the development process of the private sector:

In order for IFIs to help assist the development of the private sector especially in Africa, IFIs themselves have to act and think like the private sector taking into consideration the shifting opportunities and the constraints of the market (Buiters and Lankes, 2001). There are a number of factors which would be beneficial in the partnership of IFIs and the private sector. IFIs are most endowed with a capital structure that helps them absorb many risks which come with taking a lead role in high risk environments. The other advantage the partnership might have is that IFIs usually have a good relationship with governments in the developing or developed world, which enables them to reduce political risks for a project which commercial banks cannot. This means that governments of developing countries often have confidence in projects which have an IFI protecting its interest as most IFIs are Euro and American centric (Buiters and Lankes, 2001). Most importantly, without the support of IFIs many projects would never have got off the ground, hence making the role of IFIs in kick-starting and developing the private sector very important. As mentioned above, the private sector has become important in the global economy and in economic development hence IFIs as agencies of economic cooperation, stability and poverty eradication have an important role to play in the building and strengthening the private sectors of Sub-Saharan countries. It follows that a strong private sector run by individuals or groups as a means of enterprise for profit creates the need to earn money, hence competitiveness, in turn economic development.

However there should be a balance between the private and public sector as the two should work hand in hand to achieve economic prosperity. This is how it should be but the experience of Ghana and Zimbabwe have told a different story.

Though the private sector and IFIs are often viewed with suspicion and skepticism with the African continent, the new market-oriented economic development is here to stay, thus private capital flows. In an ideal world, IFIs must facilitate market based economic development and further expand the frontiers of the private sector development. The only way this would be possible would be for governments to work together with IFIs using the Participatory Social Learning Development Theory to create trust and dialogue. This is the role IFIs should be playing in African economic development but as Ghana and Zimbabwe show, this has been far from it.

## **5.5 IFIs and African Economic Development**

As mentioned above, IFIs have a crucial role to play in Africa's economic development. IFIs are still very important if the continent's economic development is to be fully recognized. However the track record of IFIs in the past decades has proved to be an undesirable one, particularly due to the failure of the programs they have implemented. The poor results which IFIs, mainly the IMF and the World Bank, have yielded will be brought out through a thorough inspection of how Ghana and Zimbabwe have done in terms of economic development. Taking the evidence and statistics mentioned in chapter 2, this section will give a review of that, and analyze it to be able to show whether IFIs have aided in African economic development, particularly in Ghana and Zimbabwe.

### **5.5.1 IFIs in Zimbabwe**

Zimbabwean economic development was rising realistically in the 1980s, in the period after independence. The debt of the country was being paid frequently, its exports were steadily improving and most significantly the economy was developing at almost 4% per annum (Ismi, 2004). By and large the country was developing progressively as food security was high, education services were improving and health care was high and improving as well (Ismi, 2004). As all countries are responsible for their people and aim to improve economic growth and development, Zimbabwe in an effort to boost its economy struck a major deal

with the IMF of worth around \$484 million in 1991. By signing by deal, the implications on the country were those of modernization and neo-liberalism. Modernization in that the country wanted to move and resemble a society that was modern. By following the policies of neo-liberalism, Zimbabwe wanted to move towards a market-based economy, by establishing a strong private sector which would work hand in hand with the public sector, thus keeping the institutional framework intact.

As these changes were made, it was the starting point in the downward fall of the country's economy as the GDP spiraled down by 8% in 1992. By 1997 the large number of the employed population had lost their jobs as job loss rose by about 50% (Ismi, 2004). With the economy taking a nose dive, many people began to live under \$2 a day indicative of increased poverty (Ismi, 2004). The average incomes of ordinary people decreased significantly. Ismi (2004) stipulates that this was a result of dropping trade tariffs as well as import duties, rejecting foreign currency controls, eradicating protections for the manufacturing sector, freeing the labor market, reducing the minimum wage and liberalizing financial markets. The country had to undergo these changes as part of the packet deal it had made with the IMF. As a result, there was a colossal drop in the manufacturing industry of over 20% between 1991 and 2000 due to high interest rates as well as the cost of foreign currency (Ismi, 2004). Many companies consequently closed down as they failed to compete with the changing environment (Ismi, 2004).

The changing environment led to the economy going into turmoil leading to many poorly implemented policies. An introduction of user fees led to a lot of learners dropping out of school as the economic chaos proved disastrous on many people. A lack of knowledge and education resulted in a health crisis due to the population not knowing how to handle disease crises (Ismi, 2004). Zimbabwe's economy had enjoyed the honor of being seen as the bread basket of the Southern African Development Community (SADC) region but this quickly changed as the agricultural sector which contributed most to the GDP, was hit hard by high interest rates and the elimination of subsidies causing lesser and lesser harvests, thus low output production, in turn, hunger in the country as food crises rose cruelly. As a result the economy and economic development became stagnant a feature never seen prior 1991 (Ismi, 2004). These adjustments did not only affect the economy but had undesirable effects on the country as a whole due to deteriorating healthcare and education standards thus destroying the people of Zimbabwe in their productive capacity which meant that they could no longer develop themselves. The example of Zimbabwe intensely suggests that the IMF's

reasons for handing out large amounts of loans were for selfish purposes as it sent a highly promising economy into a plummet (Green, 1993). As mentioned in chapter two modernization based on Euro-centrism, coupled with neo-liberalism was not ideal for Africa, showing that IFIs did not aid in African development as their involvement only had negative impacts.

In addition, Zimbabwe just like any other less developed country had accumulated debt in the 1970s and 1980s (Globalization 101, n.d.). Continued borrowing in a desperate attempt to save the economy led to the country owing more in debt the traditional IFIs (Globalization 101, n.d.). The debt relief initiative for Heavily Indebted Poor Countries (HIPC) created in 1996 by the World Bank did little justice for Zimbabwe. Again there were some conditions which had to be met if a country's debt was to be cancelled. These conditions only resulted in putting a further strain on African countries.

Through globalization IFIs have taken a major duty of ensuring economic integration of the world's economies, from the advanced to the least developed countries (Globalization 101, n.d.). By providing loans and giving advice on financial matters, including assisting in policy-making, these institutions have become intrusive in the domestic economic and political affairs of African countries as they tend to serve the interest of the developed countries, thus failing to aid in African economic development. Instead of strengthening the private sectors of countries to work with the public sector, they have managed to disrupt and turn the sectors against themselves. For example, in Zimbabwe the private sector is often viewed with suspicion, seen as only interested in making profits for personal gain rather than for the good of the country as a whole. Due to this suspicion, the private sector is now skeptical in investing in the country as the risks have now become fundamentally higher than the return. This suggests that IFIs have done more harm than good in Zimbabwe and in turn have failed to aid in Zimbabwe's economic development.

However it has to be mentioned that not all IFIs have done more damage than good in Zimbabwe's economic development. AfDB and other African finance institutions which are Afro-centric in nature have been trying their best to aid in Zimbabwean economic development. The AfDB can argue to have seen a positive rise in economic development between 2009 and 2011. According to the African Development Bank (2011), the bank has supported Zimbabwe's economic recovery, particularly in technical assistance and institutional capacity building. The bank has also been supporting economic governance and

enhancing the effectiveness of public service delivery. After the signing of the Global Political Agreement (GPA) between the reigning President Robert Mugabe and Morgan Tsvangirai, a political opponent at the time, a new political path was formed. The economic results of this political path were very positive. The real GDP of the country grew by approximately 6% in 2009 and by 2010 grew by another 9% (African Development Bank, 2011). With key reforms aimed at addressing external indebtedness and improving the investment climate in areas of property rights, indigenization and land reform, Zimbabwe's economy and in turn economic development was on the rise again. The adoption of multi-currency, together with the tightening of fiscal policy through the implementation of case-based budget system brought the inflation in the country down to 3% by the end of April 2011 (African Development Bank, 2011). The above demonstrate positive moves in the right direction at that period in time, thus showing how and what some IFIs are doing to aid development as a whole and economic development in particular.

Zimbabwe up today still requires the assistance of AfDB in rebuilding the public sector capacity of the country. The Zimbabwean government approached the Bank to receive assistance in capacity building programs especially in areas of Public Financial Management and Debt Management, which were fundamentally lacking (African Development Bank, 2011). Through this initiative, the Zimbabwe Revenue Authority (ZIMRA) was helped in developing capabilities for assessing diamond and mineral value chains as well as to help the government build a substantial Mining Act. In addition, the Zimbabwean government requested the Bank to support an incentive arrangement meant at retention and motivation for civil servants directly involved in the planning and implementation of economic and financial reforms (African Development Bank, 2011).

The rise in GDP between 2009 and 2011 saw positive results for economic development. The real per capita income per household increased, with many households now affording to live a decent life. With the decrease in inflation, and the rise in income, healthcare, education and life expectancy temporarily increased. This shows that AfDB invested a recognizable effort to aid and assist in the economic development of Zimbabwe. However due to the political environment, internal and external factors, this little success story was short lived. The debt crisis was never solved, hence in February 2011, the external debt of the country was estimated at US\$8.8 billion, round about 118% of GDP (African Development Bank, 2011). Arrears to AfDB amounted to US\$532.9 million (African Development Bank, 2011).

### 5.5.2 IFIs in Ghana

Similar to the Zimbabwean situation, traditional IFIs also had the similar impact in Ghana. Structural adjustment was first implemented in Ghana under the military government in 1983. Just before structural adjustment implementation, Ghana was seen as one of the most progressive economies, having great potential to develop into a first world country. Through the advice and supervision of the IMF and the World Bank, Ghana privatized more than 130 state enterprises, removed tariff barriers and exchange regulations whilst eliminating health and education subsidies (Ismi, 2004). One of the state enterprises which was privatized was the mining sector which was the main source of the country's revenue. As a consequence, 20% of the local people became jobless, worsened by the rising cost of food and services, going beyond the reach of the ordinary citizens (Ismi, 2004). The GDP fell drastically from US\$411 in 1977 to US\$390 in 1998. The vast majority of the people amounting to 78.4% of the population started living on US\$1 per day, with 40% living below the poverty line. It became apparent that 75% of Ghanaians had no access to health services, with 68% having no access to sanitation at all (Ismi, 2004). The World Bank's policy on export expansion was disastrous in Ghana, just as it was in Zimbabwe. The Bank advocated for export expansion hoping there would be a boom in trade to reduce debt but the opposite happened as Ghana's internal debt, which increased from US\$1.4 billion in 1980 to US\$7 billion in 1999 (Ismi, 2004). This eventually led to Ghana be part of the World Bank's Highly Indebted Poor Countries (HIPC) initiative.

Some sectors were heavily affected by the changing environment, such as the agricultural sector which used to be self-sufficient. By removing subsidies most productive agricultural lands became fallow. In healthcare, the introduction of user fees, coupled with the falling wages and increase in poverty, reduced the out-patient attendance especially in rural areas by at least a third (Ismi, 2004). The situation was devastating at hospitals that those who were in desperate need of medical assistance would be detained in the institution until their fee was paid. In education, the same pain was felt as user fees resulted in a dropout rate of 40%. In secondary school, fees even went up that one in four hundred Ghanaians received post-secondary education (Ismi, 2004). According to SAPRIN, as quoted in Ismi (2004: 16), 'User fees have led to increasing inequalities both between and within communities as the poor are left behind.' As a result, the Ghanaian society became unjust thus economic development became stagnant just like in Zimbabwe.

As mentioned above, the mining sector in Ghana was the most important, meaning with the sector which was hit the hardest when privatized under the failed SAPs. Gold mining in particular was the most important source of revenue and foreign exchange for Ghana. In 1998, gold exports were at US\$793 million which was 46% of the gross foreign exchange earnings. Under structural adjustment, fundamentally in 1986, there was massive privatization of the mining sector and huge incentives of repatriation into foreign accounts were offered to foreign companies (Ismi, 2004). As a result of this, about 70 – 85% of large-scale mining is foreign owned. Although Ghana is Africa's second largest exporter of gold, the people of the country have not benefited. Neo-liberal policies, deregulation and privatization of the mining sector enabled transnational companies to remove resources and profit from poor countries whilst failing to sustain economic growth and development that is of the net benefit to the local economy and its people. The country's foreign exchange contribution grew smaller as the mining sector now only contributed 14.4% in 1995 (Ismi, 2004). The failures of SAPs in Ghana sent the economy into free-fall as unemployment was the order of the day. Privatization and the decline in commodity prices meant that layoffs were inevitable. The dislocation caused by structural adjustment failure was left in every aspect of the 'social fabric'. Unemployment caused poverty, which led to prostitution, resulting in HIV/AIDS and family disorganization and ultimately an increase in the mortality rate.

Profit repatriation meant that Ghana was denied its most lucrative resource and right to livelihood. More unreasonable policies of neo-liberalism followed in Ghana as water became privatized. The World Bank claimed that the purpose for this was to increase cost recovery, the same with health care and education (Ismi, 2004). The Bank argued that the heavily indebted government should not subsidize water and sanitation, with consumers having to start paying for costs of operating, maintenance and expanding water services (Ismi, 2004). With the population already made poor from poorly implemented policies, 35% more Ghanaians struggled to have access to clean water, especially in poor and very poor households (Ismi, 2004). In the capital city, over 50% of Accra had no water pipes laid to their residential areas, hence with the privatization of water their only option was to buy water which was untreated. As Rudolf Amega-Etego of the Intergrated Social Development Centre in Ghana noted, as cited in Ismi (2004: 18):

Most people in Accra do not earn the minimum wage [5,000 cedis a day] and a significant number have no regular employment. An average price for a bucket of

water which used to be 400 cedis rose to 800 cedis following an over 100% increase in water and electricity tariffs announced on April 20, 2001. Privatization is expected to increase water tariffs even further. The current water tariff rates that the government of Ghana and the World Bank think are below the market rate are already beyond the means of most of the population. So how will the population possibly be able to absorb a so-called 'open market' price in the context of privatization?...As water becomes less affordable, it is highly likely that there will be a corresponding increase in diseases stemming from reduced access to clean water.

It followed that water privatization was met and marred by scandal and accusations of corruption. In 2000, the government of Ghana awarded a contract to Enron/Azurix, a consortium of British and American companies. Enron as it turns out became a byword for fraud and corruption as it became the biggest bankruptcy in U.S history (Ismi, 2004). The lessons learnt from Ghana clearly show that structural adjustment failed, thus becoming a 'textbook example' of how to ruin a country. The pitiless denial of mineral resources, food, health-care, education and even water made the population of Ghana destitute spectators to the loot of the country by foreigners.

Just as in Zimbabwe, the AfDB and other African finance institutions have been trying to correct the damage which was done by the IMF and the World Bank. AfDB has been working closely with African countries and Ghana was one of the countries to get approval of the recent US\$428 million in energy and infrastructure, transport and water projects (African Development Bank, 2015). Ghana's electricity distribution network was reinforced and extended through the support of the AfDB. All these projects were done to try and revive the economy of Ghana, especially the mining sector. If these projects are fully implemented and turns out to be a success, Ghana's economic development might get back on track. With the help of the AfDB, the government of Ghana has been able to improve the standards of living for its people through employment creation and an increase in income, thus giving its people a decent livelihood. Naturally Ghana as one of the first independent African countries, it is expected to be enjoying some form of economic prosperity and substantive economic development.

The above examples of Ghana and Zimbabwe, to a greater extent, clearly show that IFIs, especially traditional institutions of the IMF and the World Bank did very little to aid economic development in the African continent. By following neo-liberal policies, the

continent became dependent of the developed world to dictate their term on the African people. The road to modernity became stagnant as economic development went backwards rather moving forward. Through IFIs involvement in African economic development, the impacts of adjustment lead to slower growth, increased poverty, lower incomes, low human development indicators, increased debt burdens, decrease in health care and increase in disease, lack of drinking water, and a decrease in education. This clearly shows that traditional IFIs did little to aid economic development despite recent efforts by African-centric financial institutions to kick-start economic development.

## **5.6 African Economic Policies and Economic Development**

Since the attainment of political independence from the 1960s, most African governments have made efforts to exploit all avenues of trade which might lead to economic development. With intra-African trade being the most significant way economic development can be achieved, African leaders gave political commitment at the African Union summit in January 2012 to boost trade and to establish a continental free trade area (Osakwe, Nkurunziza and Bolaky, 2013). Intra-African trade has huge potential to create employment, catalyze investment and aid in growth for Africa, hence economic development. However, this has not been a success story as significant progress is still yet to be realized. In the period between 2007 and 2011, the average share of intra-African exports in Africa was 11% compared to other regions such as Asia which had 50% and Latin America which had 21% (Osakwe, Nkurunziza and Bolaky, 2013). This goes to show that the rate and level of trade in Africa has been below potential given its level of development and factor endowments.

There are multiple reasons why trade has been so low and weak within the continent. One of the reasons for weak trade within and even outside the continent has been the failure to commit and agree to the Doha Development Round as mentioned in chapter 2. The impact of the Bali Package is still to be seen as no instantaneous results have been yet, thus the jury still out on the impact of the Bali Package. Another main reason has been the focus on the elimination of trade barriers before establishing a productive capacity necessary for trade (Osakwe, Nkurunziza and Bolaky, 2013). Though the elimination of trade barriers is very important, radical elimination is disastrous without policy measures from governments to boost supply capacities. This is where the private sector which was discussed earlier comes to play, to boost the trade performance within the continent. This means governments

incorporating the public sector, and the private sector need to work together to achieve high levels of intra-African trade. This is so as governments are the ones who sign trade agreements but it is the private sector which understands the constraints facing enterprises, thus in a position to create opportunities for regional trade initiatives (Osakwe, Nkurunziza and Bolaky, 2013). Therefore government policies are instrumental in driving regional integration to boost intra-African trade for the purpose of growth and economic development.

It follows that the only way this can be done is to build productive capacities through domestic entrepreneurship made possible through policy agenda. African governments thus have to strengthen these capacities, create competitiveness and build innovative capacities of domestic enterprises as they integrate into the core of development policy.

### **5.6.1 Government policies in Zimbabwe**

Within the African continent, Zimbabwe had one of the most diversified economic structures. In the period after independence, Zimbabwe enjoyed a good reputation of its economic structure, but developments in the past several years have undermined that reputation (Hess, 2001).

The most important sector within the Zimbabwean economy over the past decades was agriculture. This sector brought the largest revenue for the country. Despite agriculture encompassing no more than 15% of GDP, it was responsible for 40% of the total exports earnings (Hess, 2001). Since the agricultural sector brought the most revenue, it only follows that it was the largest employment sector with a 74% labor force of the total population. In the period between 1980 and early 2000, the southern African country enjoyed a status of being the bread basket of the region as its agricultural export were very high and trade was reasonably high for the country. However, the land redistribution exercise which was poorly executed put the whole economy in jeopardy. Due to the fast tracked land reform program, departure from relatively disciplined fiscal policies to rushed measures of transferring economic and financial resources proved very detrimental to the Zimbabwean economy as will be explained.

The manufacturing sector of Zimbabwe contributed about a quarter of the country's GDP. This sector was made up of many small companies which had high productive levels, as efficiency and competitiveness was very high from independence to the period before 2001.

Due to government blunders, this sector declined significantly from 2001 to this date (Hess, 2001). The macroeconomic and land reform policies adopted by the government led to a down turn in the sector as many companies closed down, with those still operating facing the problem of wage increases as well as price freezes and foreign currency shortage (Hess, 2001).

The mining sector was also a major foreign exchange wage earner in Zimbabwe as over 90% of production was exported. Zimbabwe has relatively rich mineral deposits, especially with the recent discovery of diamonds. Mining used to account for about 45% of foreign earnings accounting for 9% of the GDP (Hess, 2001). Zimbabwe was one of the largest gold producers in Africa, with other minerals such as asbestos, coal and copper bringing in foreign currency. Due to the lowering of mineral prices in world markets, coupled with the problem within the Zimbabwean economy, the sector was heavily affected. However the discovery of diamonds brought hope as companies in this sector began to restructure, attempting to keep up with the changes in the world economy. The Zimbabwean government even made bilateral agreements with China for diamond mining concessions but these have yielded slow results as the people of Zimbabwe are still to benefit from their diamonds.

The financial sector was also doing very well pre 2001. Commercial banks were very strong in market share with 43.3%, building societies with 21.5% and finance houses with a market share of 6.2% (Hess, 2001). However due to government reform (SAPs) in the financial sector, market competition rapidly went up as different institutions could now enter markets which were previously barred to them. From 1998, many merchant banks started closing down, directly attributed to uncertainty over the land reform program (Hess, 2001).

Most of the economic hardships which the southern African country faced stemmed from the poor government policies which came as a result of the SAPs implemented throughout the 1990s. Despite substantial reforms occurring, the programs were not a success, resulting in the government making further errors such as continued borrowing from the banking sector leading to inflation and high interest rates. With this, persistent budget deficits became the order of the day leading to reduced investment, as domestic markets were destroyed in turn adding misery to the already debt burden. The government has failed to adequately reduce its deficit hence stagnant or even backward economic development all owing to poor decision and actions of the government. Efforts in intra-African trade to boost economic development were thus hampered by poor policies and poor implementation. For example, the Millennium

Economy Recovery Plan entrusted to solve the problem of high inflation, low export growth, high government expenditure and the land reform issue failed to kick in time for significant and reasonable change in the slide of the Zimbabwean economy (Hess, 2001) as shown in Table 5.1.

**Table 5.1: Selected development indicators for Zimbabwe, together with equivalent values for Africa as a whole and globally.**

Indicator	Units	Frame	Zimbabwe	Africa	World
Population size	millions of people	1999	12	642	5,975
Population density	people per km <sup>2</sup>	1999	31	27	46
Average annual population growth rate	%	1980-90	3.3	2.9	1.7
		1990-99	2.2	2.6	1.0
Urban population	% of total	1980	22	23	40
		1999	35	34	46
Gross National Product	10 <sup>9</sup> US\$	1999	6.1	320.6	29,232.1
GNP per capita	US\$	1999	520	500	4,890
GNP per capita (measured at PPP)	US\$	1999	2,470	1,450	6,490
Gross Domestic Product	10 <sup>6</sup> US\$	1990	8,784	297,397	21,390,644
Average annual growth in GDP	%	1980-90	3.6	1.7	3.2
Average annual growth in gross domestic investment	%	1990-99	-0.7	3.6	2.9
Net private capital flows	10 <sup>6</sup> US\$	1990	85	1,283	-
		1998	-217	3,452	-
Foreign direct investment	10 <sup>6</sup> US\$	1990	-12	834	193,382
		1998	76	44,364	619,258
External debt	10 <sup>6</sup> US\$	1990	3,247	176,873	-
		1998	4,716	230,132	-
Official development assistance	US\$ per capita	1990	35	36	13
		1998	24	21	9
National poverty line (1990-91)	% population below national poverty line	Rural	31.0	-	-
		Urban	10.0	-	-
		Total	25.5	-	-
Population below US\$1 per day	% population	1990-91	36.0	-	-
Poverty gap at US\$1 per day	shortfall as % of US\$1	1990-91	9.6	-	-
Population below US\$2 per day	% population	1990-91	64.2	-	-
Poverty gap at US\$2 per day	shortfall as % of US\$2	1990-91	29.4	-	-
Gini coefficient of consumption expenditure	-	1990-91	56.8	-	-
Prevalence of child malnutrition	% children under 5 yr	1992-98	16	33	30
Infant mortality rate	per 1000 live births	1980	80	115	80
		1998	73	92	54
Under-5 mortality rate	per 1000	1980	108	188	123
		1998	125	151	75
Life expectancy at birth (1998)	yr	Male	50	49	65
		Female	52	52	69
Public expenditure on health	% of GDP	1990-98	3.1	1.5	2.5
Adult illiteracy rate (1998)	% of people 15 yr or above	Male	8	32	18
		Female	17	49	32
Public expenditure on education	% of GNP	1980	5.3	3.8	3.9
		1995	8.5	5.2	5.0
Food production index (1989-91 = 100)	-	1979-81	81.9	78.8	75.7
		1996-98	101.9	124.3	130.3
Arable land	hectares per capita	1979-81	0.36	0.32	0.24
		1996-98	0.27	0.25	0.24

Source: World Development Report 2000/2001 (World Bank, 2000), supplemented by World Resources 1998-99 as cited in Hess, 2001.

With a decline in intra-African trade and strong government policies the 2001 budget came with proposed significant reforms, including more strict controls on expenditure and higher revenue collection (Hess, 2001). The reforms hoped to reduce the 2000 budget deficit of 23% of GDP to 15.5% of GDP but this proved unsuccessful as by November 2000 the exchange rate appreciated by 15%, nullifying the 10% export incentive included in the budget with domestic debt expected to escalate to US\$220 billion at the end of 2001 or 41% of GDP (Hess, 2001). Kairiza (n.d.) notes that the economic and financial breakdown in the country was very explosive and socially harmful as shown by the table below, illustrating the series of change of some relevant macroeconomic indicators from 1998 to 2007.

**Table 5.2: Macroeconomic trends 1998- 2007**

Year	GDP growth rate (%)	Annual Inflation (%)	M1 change (%)
1998	-0.8	47	26
1999	-2.1	57	39
2000	-7	55	53
2001	-3	112	144
2002	-4	199	171
2003	-10	599	491
2004	-2	133	234
2005	-4	586	547
2006	-3	1281	1315
2007	-6	7982	66659

**Source: RBZ (2009) as cited in Kairiza (n.d.).**

High inflation meant that government policies had failed, leading to low intra-African trade hence no economic development. The government policy of fast-tracked land reform was very significant in the destruction of the Zimbabwean economy, hence economic development. The credibility and whole social fabric of the country was damaged hence failure of government policies to address economic development in the country.

### **5.6.2 Government Policies in Ghana**

The economy of Ghana was diversified just like that of Zimbabwe. In early 2012, the economy of Ghana was suffering distresses with a huge current account and fiscal deficits, high inflation, and slow economic growth and development (Hayford and Bopkin, n.d.). Due to this, the government made a decision of going to the IMF for a bailout. This was met by a

mixed reaction from the population as some viewed it as a necessary evil with benefits and others as a policy which would lead to further hardships. The government, with IMF funding introduced policy alternatives which aimed at policy recommendations focusing on fiscal stabilization/consolidation (Hayford and Bopkin, n.d.). Some of these recommendations have already been discussed earlier under the relationship of the IMF and the World Bank with Ghana. Revenue mobilization measures were introduced by the government to address growing deficit. Spending measures aiming at reducing the wage bill were set as well as home grown policy measures to address the economic hardships the country was facing. Since the relationship between African countries and the Bretton Woods institutions has been sketchy from the beginning, the return of the Ghanaian government to the IMF was no different. The policies recommended needed political commitment and broader institutional reforms to ensure their success (Hayford and Bopkin, n.d.). This was the main problem area for Ghana as it did not have strong domestic institutions to support these policies hence only fated to fail. The policies chosen by the government were not suited to reflect the political realities of the country as this determines political will and commitment. Thus the policy alternatives should have been chosen on the value of government commitment in view of the escalating politicization of all policies and programs (Hayford and Bopkin n.d.). With this in mind it is also important that policies adopted do not hide the necessary tough economic choices needed to turn the economy for economic development. Failure to be forthright with the population would deem the government unpopular hence failure of the government and its policies. The above therefore shows how government were rushing into implementing policies without thorough due diligence, which led to failure and a decline in intra-African trade which was meant to help solve the problem of African economic development.

As previously mentioned African governments have been trying to find new ways to achieve economic development. Thus, the New Partnership for Africa's Development (NEPAD) gave African leaders hope as it is an economic development program of the African Union, although not fully integrated within it. NEPAD was adopted in 2001 and intends to provide an all-encompassing vision and policy structure for economic cooperation and integration among the countries of Africa (Kanbur, 2001). NEPAD came as a merger of the Millennium Partnership for the African Recovery Programme (MAP) and the OMEGA Plan for Africa (Kanbur, 2001). The main goals for NEPAD are for poverty eradication, the promotion of sustainable growth and development, the integration of Africa in the world economy and the

acceleration of the empowerment of women. All these goals follow in the bid for economic development.

However the current situation has seen some tension over the dominant role South Africa plays (Kanbur, 2001). There has also been a call to have fuller integration of NEPAD into the AU framework. NEPAD has also come with its critics who argue that it plays into the 'Washington Consensus' model of economic development (Kanbur, 2001). This has thus caused a problem of it implementing developmental project as it needs full backing and support from governments and civil society groups.

Despite this, the supporters of NEPAD remain optimistic that NEPAD would bring economic development. This is due to its potential to attract aid and investment, propelled by good governance and regional integration, unlike past approaches implemented within the continent (Kanbur, 2001). However, there is no certainty on whether NEPAD can achieve its goals as limitations of support rob it of a genuine chance for Africa's long-term economic development. There it remains to be seen if the policies of African government will turn to fully the NEPAD initiative which might see improved economic development.

### **5.7 Reasons Militating Against Economic Development**

There are several reasons militating against African economic development as some factors have been discussed already. This section will further reiterate and explain some of the factors working against the continent's development. As mentioned earlier, to understand why Africa is underdeveloped, and the reasons militating against its development, colonialism needs to be understood thoroughly. Colonialism was the chief architect that derailed African development. Uche (1994) argues that the administration of African countries under colonialism as well as the manner in which this administration was handed over to the nationalists at independence set in motion the wheels for neo-liberal policies, dependency and policies of the World Systems Theory. Many leaders who came to power after independence turned out to be military and economic development saboteurs who managed to worsen the burden of African underdevelopment. Under colonialism, there was a high-handedness administration complemented by an economic structure which had many small-scale and medium-level market-oriented firms which had some form of autonomy from the government (Uche, 1994). This is not to say that colonial administration developed the

continent, but to point out that European power handed over highly centrally planned, state-managed and command economies. The manner of attainment of independence and the handing over of the socio, political and economic structure to the nationalist leaders made African development, industrialization, political stability and social equity problematic. Thus the national leaders inherited an unjust system which was highly inadequate as brought out by Calvocoressi (1995) who argues that:

The essence of the charge against colonial economics is that the colonizer was attracted to the colony by its resources and his business was the removal of these resources. Specifically chosen areas were developed and stripped – annually if they were agricultural, until exhausted if they were mineral. Markets in neighboring African territories were not developed and the colony became increasingly riveted to the economy of the metropole, as a flourishing but dependent modern economy was inserted into the colony alongside the stagnant traditional economy. The profits of the former were garnered by the foreigner and by a small elite of African farmers, traders and chiefs while the wider economy benefited not at all because taxation of profits was light or evadable or non-existent.

To this date, African dependency is still seen, with the West and very few African elites benefiting from the system which is corrupt and unfair as, ‘any attempt to transform the economy from colonial exploitation to a more autonomous and profitable development requires extensive help from the outside world...Development in the first decades of independence was industrialization...alien to Africans in general,’ (Ibid, p.33 as cited in Uche, 1994). African underdevelopment began as a consequence of rushing into large-scale commercial activities without building a foundation for a developed industry leading to African countries only becoming buyers and sellers as seen by Ghana and Zimbabwe through their export of raw minerals and import of finished goods at high prices. The African economy soon became filled by high consumption of Western products instead of being producers of their own outputs for export and foreign exchange earnings. Momoh (1992) argues that the colonial and post –colonial periods completed the demolition of African oriented industrialization as from the period of slave trade through to colonialism and post-colonial era the continent was never encouraged nor assisted in processing primary commodities it could locally produce. This in the long run has developed a system stipulated by the World Systems Theory where international capital flows fundamentally go the

developed world. Momoh (1992) further points out that, ‘the importing of capital through loans, aides and grants, and machinery and technologies...is a clever neo-colonist device of perpetuating our dependence and subservience.’ It is therefore logical to agree with Momoh’s views and claims, considering how the neo-liberal policies adopted by African countries (Ghana and Zimbabwe) have led to their economic development to be a joke.

Despite Ghana and Zimbabwe having put in place models thought to carefully construct a social economic system which was democratic and market oriented for economic development and growth, obstacles such as incompetence, inappropriate institutional arrangements and a lack of participation from the public felt these countries to suffer the penalties of underdevelopment caused by colonialism and the unplanned handover of the economy. The above therefore suggest that the roots for development were never put in place within the continent as Uche (1994) argues that the attempt by the Bretton Woods institutions at African development is nothing but an elusive fire-brigade approach at solving a serious problem of underdevelopment. The high de-development of the African continent due to colonialism is one of the chief factors militating against development in Africa.

Another chief obstacle to African economic development has been the failure of structural adjustment. From the 1980s, developing countries were unable to pay back loans borrowed from the Western commercial banks during the oil crisis. This gave an opportunity for the Bretton Woods institutions of the IMF and the World Bank to ‘blast open’ and sabotage Third World economies through SAPs (Ismi, 2004). The first SAPs launched in the early 1980s called for privatization of industry, cuts in government spending, liberalizing of capital markets and the introduction of user’s fees. However with time, SAPs began to have influence on domestic policies. SAPs were launched for the purpose of addressing the perceived key problems of African economic development (Heidhues and Obare, 2011). These among others were weak management of the public sector that resulted in loss emanating from public enterprises and in poor investment choices and costly and unreliable infrastructure (Heidhues and Obare, 2011).

The purpose of SAPs has generated a lot of heated debates amongst scholars especially within African countries and development circles. Supporters of structural adjustment argue that the reforms which will be brought by SAPs were significant for economic development. Critics on the other hand argue that Washington Consensus structural adjustment gave little effort, if any to address the social aspects of economic development and the institutional

weaknesses of developing countries (Heidhues and Obare, 2011). For example, in 1994, the World Bank claimed that ‘adjustment is working’ in the countries that followed and stuck to the proposals made, in agriculture as well as industry (World Bank, 1994). In many African countries and Ghana to be more specific, the conclusion on adjustment was that SAPs had a negligible effect on growth (Mosley et al., 1995; Easterly, 2000 and the literature cited therein; Klasen, 2003).

Structural adjustment was believed to ultimately reduce poverty by fostering economic growth, in turn economic development. The fact that structural adjustment failed to promote either economic growth or economic development means there was no success in reducing poverty as it can only be fostered from growth effects (Heidhues and Obare, 2011). In trying to achieve low budget deficits for promoting macroeconomic stability, expenditure cuts, and public support for infrastructure, education and social services diminished as unsuccessful adjustment resulted in the large number of the population suffering (Heidhues and Obare, 2011).

The overall disappointing performance of structural adjustment in Africa was due to several factors, most importantly incomplete and half-hearted implementation, inappropriate policy recommendations and adverse external factors (Heidhues and Obare, 2011). Evidence available from studies show that there was incomplete ‘stop-and-go’ implementation of SAPs, together with insufficiencies in the sequencing of measures as well as lack of coordination of policies and inappropriate policy design (World Bank, 2001). The impact of SAPs failure was felt in economic development as there was a lack of ownership to lead in development and as well as the political will to implement policies. Thus adjustment was only doomed to fail in Africa, thus one of the main factors which worked against African economic development.

Furthermore, Sub-Saharan Africa has been the most affected region in the global recession of late 2008 and early 2009 which did not help the continent’s case for economic development. What began as a burst in U.S housing market blew up into a global financial and economic crisis leading the most severe global recession since the Great Depression of the 1930s (Arieff, Jones and Weiss, 2010). From September 2008, credit flows froze, lender confidence dropped and the economies around the world dipped towards recession. Since this crisis begun in developed countries, it was only a matter of time before its effect spread to

developing and less developed countries. By the IMF's estimation, the world economy was to contract by 1.1% in 2009 (Arieff, Jones and Weiss, 2010).

Developing countries might not have had a role to play in the beginning of this crisis but they were the ones hit most by the effect of the global economic crisis. Most developed countries, since they are dependent on themselves were able to quickly finance their own rescue packages by their ability to borrow domestically and internationally which is not the case with many African countries. Developing countries could not do the same thing as they do not have the same sources of capital to rescue themselves out the crisis; hence the only alternative is to turn to regional development banks, the IMF and the World Bank. As the crisis worsened, African economies experienced severe negative effects as a result of contraction in global trade, only made worse by reduced demand for African commodity exports, a drop in foreign direct investment and other forms of capital flows. Hence, the IMF estimated that the average economic growth in Africa would drop from 6.5% per year in 2002-2007 to about 1% in 2009 before it could recover (Arieff, Jones and Weiss, 2010). Reduced economic growth only meant reduced economic development and reduced prospects of reducing poverty as the IMF estimates that at least 7% of annual growth is considered enough to outpace population growth, hence making significant progress in alleviating hunger, unemployment and diseases.

Since the African continent's economy has always been slower to grow compared to that of the developed continents, the global recession affected the continent in very different mechanisms such as reduced trade, reduction in investment and cuts in foreign aid among others, which will be outlined below.

### **5.7.1 International Trade**

By 2009, world trade was estimated to drop 11%. African countries were the ones expected to be greatly affected with exports which they highly depend on to fall by 6%. As world markets decline, the region felt the blow as oil and other mineral fuels which represented 68% of African exports fell drastically leading to African countries exporting at a lower average of prices as compared to pre-2008. Trade with the United States, European Union and China together amounts for 70% of African trade hence African countries were to suffer severely in the crisis and they did suffer. For example, trade with 41 countries which were

eligible to trade within the African Growth and Opportunity Act (AGOA) at the time fell by at least 63% in the early part of 2009 (Arieff, Jones and Weiss, 2010). Generally, according to the IMF, 'on average, a 1-percent-point decline in world growth (trade-weighted) is associated with a roughly 0.5-percent-point drop in GDP growth in Africa,' (IMF, 2009). The global economic crisis led to some analysts and scholars fearing that it might affect some efforts of improved trade with the continent, efforts such as the Doha Development Round of the World Trade Organization.

### **5.7.2 Capital Flows**

Capital flows include FDIs, portfolio investment flows, worker remittances and foreign aid. Capital flows are very fundamental to fuel economic growth, in turn economic development. In Africa, between 2000 and 2007, these were generally the most important source of external finance increasing from about USD\$ 8.9 billion in 2000 to USD\$ 54.8 billion in 2007. The global economic crisis greatly affected capital flows as FDI dropped sharply to roughly 26.7% in 2009, thus directly affecting economic development in the region (Arieff, Jones and Weiss, 2010).

### **5.7.3 Migrant Remittances**

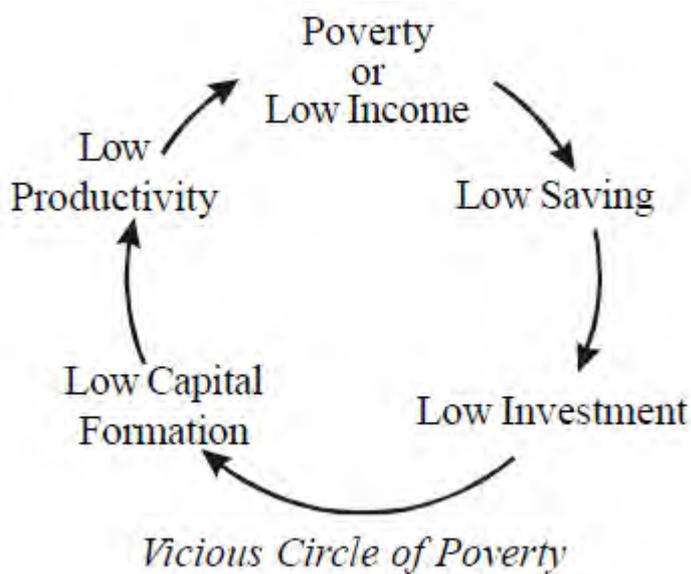
Migrant remittances are thought to be the most stable of all international capital flows, reacting least to international politics or events. Despite this, the economic crisis destabilized migrant remittances, thus showing how severe it was. Regardless of Africa receiving the least amount of remittances than other regions, their influence is relatively large due to the fact that the continent's 'extractive industries often provide little economic trickle down into the local economy,' (Arieff, Jones and Weiss, 2010). In 2007, remittances to Africa amounted to USD\$ 18.59 billion, in turn 3.7% of GDP. With a projection of a decrease of 4.4% in Africa by 2009, economic troubles meant immigration restrictions hence the long-term effects would be disastrous for economic development (Ariff, Jones and Weiss, 2010; IMF, 2009).

### 5.7.4 Foreign Aid

A downturn in foreign would prove to be disastrous to many African countries, especially those which do not export natural resources and rely on donors for budget support, for example, Lesotho. The African region receives the most amount of overseas development assistance (including international debt relief), reaching nearly USD\$27.19 billion in 2006/2007, far greater than the second largest recipient (Arieff, Jones and Weiss, 2010). A drop in foreign aid means a drop in economic development in the long-run.

From the above, broadly speaking, all features of underdevelopment lead to obstacles in economic development. These features are a result of economic, social, political, religious and institutional failures which often leads the most vicious circles of poverty where there is no economic development as shown by the figure below.

**Figure 5.1: Vicious circles of poverty 1.**

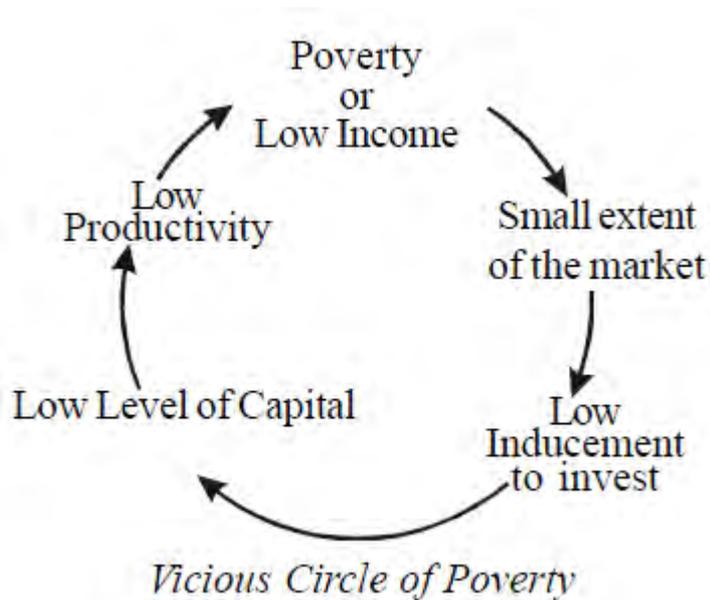


**Source: Meier and Baldwin (n.d.)**

Hence, poverty is the cause of low income which in turn leads to low savings. Deficiency of capital and low productivity is a consequence of low levels of income (Meier and Baldwin, n.d.). It therefore follows that this vicious circle of poverty will lead to less demand. With

low levels of income, purchasing power becomes diminished, hence low demand in the market, leading to low investment and ultimately low capital formation and productivity (Meier and Baldwin, n.d.). This is a worrying phenomenon for African economic development as illustrated by Figure 5.2.

**Figure 5.2: Vicious circles of poverty 2.**



**Source: Meier and Baldwin (n.d.)**

Ragnar Nurkse (as cited in Meier and Baldwin, n.d.) has explained this phenomenon stating that:

The inducement to invest may be low because of the small purchasing power of the people, which is due to their small real income which again is due to low productivity. The low level of productivity is however, the result of the small amount of capital used in production, which in turn may be caused, at least partly, by small inducement to invest.

Thus this circle keeps going round and round until it is properly tackled to kick-start economic development.

This section has given further in depth analysis of the reasons previously described militating against African economic development. The African continent is not de-developing only due to one reason, but all the factors discussed above working together to under-develop Africa. Therefore, for the continent to properly tackle the problem of economic development, commitment to solving each problem has to be established, with all actors in the international system working together for a common good.

## **5.8 Recommendations to Improve Economic Development in Africa**

The effects of the World Bank and IMF domination have de-developed Africa as a continent leaving it in a state of economic and social downfall. The severe damage done by these two institutions cannot be over-emphasized hence to redevelop Africa an end to the World Bank and IMF, including its policies of conditionality and SAPs have to be done away with or some form of reform by these institutions. Despite this, these institutions are not the only problem in African development as shown by the problems faced by other forums of development such as the policies and incompetence of African leaders, implementation and inefficiency within the AfDB and African Finance Institutions.

New forums to address the issue of economic development have been created such as the AfDB and African Finance Institutions, but these are not enough to fully address development. Economic development needs to start on the individual level, in that a person has to be given an opportunity to improve their lives through innovation thereby moving society forward and end on the international level through the aid of IFIs to offer support for development. To bring effective change to the situation in Africa, a revolutionary and anti-imperialist leadership has to develop and implement alternative development strategies at national level which are unique to Africa thereby abandoning the Euro-centric method of development which does not apply for Africa's development (Zewde, 2010). Devoid of the creation of viable and accountable state systems, development will remain marginal and non-transformational leading to de-development. These leaders would have to be united on a continental basis for alternative development which unites the local, national, regional and international dynamics for the economic, social, political, institutional and cultural development of the continent for self-sufficiency and competitiveness for Africa's development to be a success. This was supported by the Dakar Manifesto which stated that development evolves from a historical basis as there is no 'universal model' for everyone,

everywhere, all the time (Ismi, 2004). Development depends on the history, culture and experience of a people hence, the manifesto stipulated that African development should be inspired by the values of African political, social, cultural and economic resurgence promoted by the people's consensus

To help explain this developmental strategy, The Participatory Social Learning Theory of development will be used. This is a theory which views socio-economic growth and development as a learning process by people, as individuals and collectively. Through learning, new ideas and knowledge will be gained for participation in nation building hence development as the people will also be improving themselves. Being involved and participating fully is a learning process for self-improvement for personal and social fulfillment. The inclusion of African people from learning and participating in any development, including decision-making, planning and implementation will allow African people to show their capabilities on development which is meaningful to them. This will involve:

1. **Participation:** It is important for governments to have the views of their people, to find out their needs, for the best developmental programs to be implemented. Through forums of debate and participation, new ideas arise hence a wide range of solutions are suggested in addressing the entire population regardless of social standing (Ismi, 2004). Such forums will be fundamental for successful development.
2. **Redistribution:** In order to eradicate poverty and kick start development, redistribution should be on the agenda. As most African countries are fundamentally agrarian, it means redistribution will be in the form of land reform which is fair and just for the creation of a domestic market (Ismi, 2004). Land reform should improve production to kick start industrialization with policies which protect farmers and the local market through strategies such as subsidies. Redistribution also takes into account the effective usage of services such as education, water and electricity as well as health care.
3. **Industrialization:** As mentioned above, most African countries are agrarian; hence industrial strategies should be linked to agriculture for the creation of jobs, generation of income and to improve the standard of living. Productivity in agriculture will aid in starting other industries as there will be capital to inject into the economy.
4. **Regional Integration:** This will aid in creating an African market thereby increasing competition hence lessening the dependency the continent has on the North and first

world countries and end marginalization. This will be important for self-reliance which is essential for development as Ismi (2004) notes that without integration, Africa has no chance at development.

5. South- South Cooperation: for there to be progress in African development, political cooperation with other Third World countries will enable trade, hence lessening dependency (Ismi, 2004). Political cooperation will help to challenge institutions such as the World Bank and IMF which in the long run might bring change for development in Africa.

The above are guidelines which should be used within the continent to achieve economic development. However, it is important to note that economic development does not come overnight; hence financial institutions play an important role in its quest. There is no doubt that IFIs have made enormous contributions towards comparative advantage and globalization, hence this can be used by all stakeholder who want to aid in development; stakeholders such as countries, academics, civil societies and business leaders. For IFIs to play a positive role in the economic development mission, reform is imperative to regain the trust they have lost fundamentally in Sub-Saharan Africa.

Firstly IFIs need to solve the issue of legitimacy. This involves the extent to which IFIs are seen as impartial advisers, giving that their policies often favors rich nations (Bhargava, 2006). This comes from the undue influence developed countries such as the United States and European countries have on the policies and allocation of funds IFIs take. Therefore the advice which IFIs give is not fully trusted, considered to be biased and following the political and ideological views of the developed countries (Bhargava, 2006). Many critics of financial institutions criticize how the heads of IFIs are chosen, for example, the head of the IMF has always been a European and the head of the World Bank an American. Critics are of the view that selections should be based on merit not on the basis of national origin (Bhargava, 2006). It follows that the bias IFIs are considered to have, have a limiting influence on the programs it implements as there will not be commitment from stakeholders, fundamentally in Africa given how the World Bank and IMF have failed on its policy implementation.

According to Bhargava (2006) effectiveness deals with the adequacy of the results produced by financial institutions' development programs and the soundness of their recommendations. This takes into account the relevance of each country's problems and the appropriate measures to prevent the loss of development assistance to corruption (as often is the case) and to protect the environment as well as the rights of people affected in each case. For example,

on the privatization and liberalization of financial market where relevant. Though IFIs have had programs to ensure more effectiveness, such as the Managing for Development Results Initiative, which led to the Paris Declaration on Aid Effectiveness, they had dismally failed in ensuring effectiveness in the African continent (Bhargava, 2006). There has been a high level of misuse of funds through fraud and corruption which has led to inappropriate policies being adopted causing an even bigger problem than at first. Reform is needed to curb fraud and corruption so that there can be improved effectiveness, which can lead to reasonable economic development.

Conditionality is also another area of reform where IFIs need to look at if they are going to succeed in their pursuit for African economic development. As mentioned before, conditionality is a standard characteristic of loans provided by IFIs. Conditionality involve certain agreements a borrower has to make in order to receive funding form IFIs, where failure to comply in the agreements results in suspension or cancellation of the loan (Bhargava, 2006). IFIs use conditionality to ensure that borrowers take necessary actions; in terms of policy change, implementation and safeguard measures to produce reasonable results. For development projects to be implemented effectively, conditionality in procurement, auditing, bookkeeping, environmental issues, resettlement and organizational change is needs (Bhargava, 2006).

The problem however comes from the controversial conditionality related to policy and institutional reforms which include privatization, trade and capital liberalization as well as the elimination of subsidies and limited public expenditure. Credible evidence brought forward by critics shows that this type of conditionality has failed in the African continent and in most cases doing more harm than good (Bhargava, 2006). Most importantly they argue that conditionality is merely a front to impose Western free-market ideology on African countries which is neither appropriate nor desired (Bhargava, 2006). Bhargava (2006) notes that policy and institutional conditionality works effectively when it supports reforms which the country is already taking, for example, shown by the success of the Martial Plan. On the other hand they are doomed to fail if there is little or no political will to undertake reforms, as seen by the failure in Africa. Without such reform where conditionality meets the realities of a respective country development projects supported by lending cannot be achieved. In the past few years, IFIs have begun to take a more flexible approach to conditionality by looking closely at borrowers' commitment to reforms, which is a positive move as it reduces the average number of unreasonable conditions placed on the borrowers' (Bhargava, 2006). This

is critical for achieving results and encouraging public debate, hence participation from the people. In the long-term this initiative is bound to bring positive results if commitment from borrowers' and transparency and trustworthiness on IFIs is maintained.

Financial capacity and sustainability is also a major area of concern for reform within IFIs, especially the World Bank and the IMF. This is due to the fact that the resources available for the then MDGs are far outweighed by the problems at hand (Bhargava, 2006). Thus to avoid unbalanced growth and global financial crises, reform in the system of prioritizing need to be put in place. The undersupply of financing to the poorest countries has to be the priority thereby shifting the large amount of capital flows and profit repatriation from developing countries and injecting it more in the underdeveloped world. The problem with the diminishing viability of substantial funding comes from the fact that IFIs' income base is getting narrower due to reduced demands for loans and the high cost of doing business with IFIs. Bhargava (2006: 407) notes that, 'the resulting constraints on the incomes of IFIs undermine their ability to devote more resources to global and regional issues.' To solve this problem IFIs are looking into ways of reducing the costs of doing business with them, increasing their range of financial products and services they offer as well as better leveraging their financial strengths to boost market borrowing (Bhargava, 2006). If this can be achieved, coupled with commitment and competent implementation of developmental projects, a new dawn might begin for African economic development. If reforms are made and IFIs begin to provide sophisticated analysis and effective financing, IFIs will definitely play an important role in African economic development as they hold comparative advantage in mobilizing resources and channeling them into projects (Bhargava, 2006). Thus reform is needed in areas of legitimacy, effectiveness, conditionality and financial capacity. Some finance institutions are already in the processing of reform, for example, the AfDB. This will go a long way towards addressing African economic development.

For the continent to solve the problem of economic development, initiatives for growth and development need to be established. This involves:

1. Economic growth and development imperative.

This involves pillars such as economic growth, strategic deregulation, regional economic integration, infrastructure rehabilitation and development as well as rural and urban transformation with the government taking the lead role (Uzodike, 1999). The continents' poor economic performance is due to several factors including,

colonialism, mismanagement of the economy through poor policies and the dismal failure of SAPs as previously discussed. This makes the transformative process for growth and development difficult, though it is possible, taking many years to reap benefits. For sustained growth and development, African government will need to focus on creating a friendly environment for the private sector to support the public sector and domestic markets to initiate intra-African trade. This will mean the role of the government being restricted to human physical development as well as removing overabundant bureaucratic bottlenecks which causes extort and bribes, hence corruption (Uzodike, 1999). It follows that good and visionary leadership will be needed to be able to resist the bad practices of management. The government will have to create adequate, educated and professional manpower through well financial funneled institutional as well as fighting against brain-drain which has been a major problem in Africa (Uzodike, 1999). Brain drain is whereby there is a high emigration of highly trained and qualified people from a particular country to another country as largely seen in Zimbabwe and Ghana where a large number of educated people move overseas in search of greener pastures due to the poor economic performance and hardships in their home countries. In addition, transformative change has to be triggered through efficient mobilization of resources through the pillar mentioned above.

## 2. Good governance imperative.

This involves pillars such as decentralization of power, accountability, transparency and the rule of law (Uzodike, 1999). Economic development cannot be achieved without these pillars. There is little doubt that the pillar mentioned impose huge burdens on African states and people. Without them stagnation and decline in development will be the consequence as clearly epitomized by Zimbabwe. These pillar often lack as a result of old breed African leaders who came to power after independence, implementing policies which are similar to the Western world as most of them had received their education abroad. By doing this they failed to realize that African economic development can only be achieved through policies which recognize the history and culture of their people. Notions of culture evoke mental constructs which associate art, music, literature, festivals and dance (Uzodike, 1999). History and culture shape societal development, though it is important to realize that culture is not static. Meaningful development must incorporate mass participation, as brought out by the Participatory Social Learning Theory. The failure of the leaders of

came after independence was that they did not incorporate the mass and when they became unpopular they failed to recognize the pillar mentioned above. Hence for Africa to experience a rebirth in economic development, the continent needs to rediscover and reaffirm the relevance of the liberation struggle as well as their history and cultural place. Therefore the nature of leadership has to be solved, in essence to liberate themselves from the 'repressive shackles and inefficacious control of their internal ruling elite' (Uzodike, 1999).

3. Population and ecological balance imperative.

Here the pillars include disease control, natural resource conservation, sustainable development and population growth control. Since Africa is one of the fastest growing regions, with an estimated population increase to 1.18 billion in the next two decades, the continents' only chance at economic development is by effectively manage the above mentioned pillars (Uzodike, 1999). Economic development will only be possible through the utilization of resources available on the continent, to meet the increase in population and disease control, in the progress creating mechanisms for sustainable development. Therefore Uzodike (1999) notes that the only way the continent can overcome the problem of economic development is by how its governments' and people effectively manage the challenges posed by the region's rapid population growth, together with solving sustainable development and the low life expectancy rate.

4. Technical education and information technology imperative.

Here there are several fundamental pillars, including technical education, information and communications revolution as well as scientific culture through science education and research (Uzodike, 1999). To have competitive economic growth, significant technical innovations are important. Hence for economic development to be achieved all apparatuses need to be fully used involving the willingness of leaders, policy makers and decision makers to create infrastructure which stimulates innovation. Thus structural changes are essential to show commitment to information policy frameworks for competitiveness, in turn economic development (Uzodike, 1999). Africa will need to reform its educational system to produce more scientists, technologists, engineers, computer programmers, and communications and technical experts to use the new technologies available in the global world for greater efficiency to stimulate growth and development. It follows that African people and their leaders

would have to embrace change, with information being used as a resource rather than a means to hoard power.

Since the world is ever-changing in the new age of globalization, Africans need to rethink and establish a proper region within the global interstate system, with the interests of Africans at heart. Economic development is difficult to achieve, nonetheless, a need now exists for the retooling of the African agenda which strengthens the ideas and interests of the continent for prosperity.

It also follows that since the world is changing in economic structure, patterns of trade and global governance, African countries also need to change their approach to regional trade and integration. Through intra-African trade, mechanisms for economic development can be established which will then be put into effect through the Participatory Social Learning Theory. Thus the continent need to foster entrepreneurship and build a supply capacity as well as creating a credible mechanism for the relationship between the state and business and regional trade agreements together with the maintain of peace and security. This can be the only way to create and establish strong indicators for economic development through the creation of employment, stimulation of investment and the fostering of economic growth.

## **5.9 Conclusion**

This chapter has analyzed the data which was represented in chapter two, as well as answering the key questions and the broader issues of the research paper. The chapter was set in a way which explains the relationship between IFIs and economic development in Africa, using Zimbabwe and Ghana as case studies. The chapter has explained what economic development is, and how IFIs play an important role in it, outlining the history of the continent and explaining the level of economic development the continent has achieved. Most importantly the chapter has outlined and explained essential recommendations which all stakeholders such as IFIs, governments, civil societies and the general population need to understand and implement for the country to achieve a substantial level of economic development with the help of IFIs. The next chapter will give a general summary and conclusion of the research.

## **Chapter Six**

### **6. Summary and Conclusion**

#### **6.1 Introduction**

This chapter gives the overall summary on the correlation between IFIs and economic development in Africa. It further gives the findings of the relationship between IFIs and African economic development discussed in the literature of the research by drawing attention to the aims and objectives of the research. Most importantly, this chapter seeks to provide a summary which simplifies and gives a clear picture, by linking the data gathered to the entire research; to understand the connection between IFIs and economic development in Africa.

This research has responded to all the key questions and broader issues outlined in chapter one. These are questions and issues which guided the research to the end as will be shown below.

#### **6.2 IFIs and their Role in African Economic Development**

IFIs play a very important role in African economic development as it is their mandate to provide financial support and professional advice for the purpose of economic and social development (Bhargava, 2006). IFIs also look at promoting international economic cooperation for peace and stability, in turn fighting for poverty reduction (Bhargava, 2006). IFIs are multilateral development banks and agencies which aim at assisting in growth and development. IFIs aim at transforming the global scenario through globalization by creating conducive conditions for market-oriented growth to benefit for the private and public sectors of African countries for economic development. IFIs also play the role of directing capital flows into the continent to change the market-place as capital is instrumental to kick-start economic development. With capital, together IFIs and African governments can stimulate mechanisms for economic development.

### **6.3 The Reasons Militating Against African Economic Development**

It has been clearly stated in the research paper that there are several reasons militating against African economic development. One of the reasons is the history of colonialism in Africa. Through imperialism and colonization, the continent never recovered from the harsh underdevelopment it was left in at independence. The nationalist leaders inherited an economy and environment which was chaotic. In trying to rebuild the continent, a second reason militating against development is outlined in the form of policies governments' implemented which were futile. Blunder after blunder by African statesmen made the recovery of economies difficult which led to another reason which made economic development hard to achieve; the failure of structural adjustment. SAPs were an utter failure in Africa as they did not incorporate all stakeholders of development, from the locals to the government and elite as well as civil society groups and genuine IFIs which assist in economic development. Structural adjustment de-developed the continent, as to this date most African countries are suffering from SAPs failure. A bid for economic development was made worse by the global recession of 2008 which was another reason which held back the fight for economic development. These are some of the reasons which have been working against economic development as explained in chapter five.

### **6.4 African Economic Policies and Economic Development**

As mentioned earlier, the policies adopted by a country contribute fundamentally to how the country is going to perform economically. Since independence, most African governments have made efforts to boost economic development in their respective countries. However due to poor policies implemented or lack of commitment these policies have resulted in the failure of reasonable economic development. However, it would be an overstatement to say that all policies have failed in the fight for economic development as it is not the case. Nonetheless it is important to note that most policies have not brought substantial economic development to help the greater number of the population hence to a greater extent the failure of governments to its people as brought out in chapter five.

## **6.5 The Significance of IFIs Assistance in African Economic Development**

As already discussed IFIs play an important role in African economic development. However, judging from the beginning of their assistance in African, it leaves a lot to be desired mainly due to the failures and poor results of their policies. Most importantly critics of IFIs have often argued at how dodgy Bretton Woods institutions have been when it comes to how well they have assisted African economic development. Despite new institutions such as the AfDB and African finance institutions coming in to assist the continent in a genuine way, these institutions still need to be wary of how they implement their developmental projects as this has been a main area of failure due to the rampant practice of corruption in Africa. Thus, the jury is still out on how well Afro-centric IFIs have assisted in African economic development as there is no argument that traditional IFIs have had a negative impact on the continent.

## **6.6 Economic Development**

Economic development looks at fighting for growth, individually and communally for social development and growth (Zewde, 2010). Thus there needs to be growth and improvements in the economic development indicators such as growth of GDP, quality of life, sustainable development and the attainment of the millennium development goals. It follows that mechanics of development such as growth, inequality, poverty and well-being are incorporated in economic development. Thus the research has explained in great detail what economic development is and how it can be achieved.

## **6.7 The Level of African Economic Development**

As discussed in chapter five, it is difficult to pinpoint exactly the level of African economic development due to the prevailing difficulties the continent face economically, politically and socially. Though Rostow's stages of development (1960) assist in showing the level of development within a society, it is not objective to rely on those stages alone as the continent has had some stages of breakthrough, and later on stagnant due to internal and external forces as explained in chapter five.

## **6.8 Recommendations to Improve African Economic Development**

Key recommendations have been made for the way forward for the continent to shift its political, economic and developmental position from the neo-liberal economic discourse to a much more people centered developmental framework in a much more sophisticated, historical, structural and humanist manner as brought out by the Participatory Social Learning Theory. IFIs and governments, together with the help of the population need to work as one to support productive sectors. This will involve the government assisting in the development of their own people, to the restructuring of the domestic market to create competitiveness within a country, in turn the country being able to compete on the global scene hence economic growth and development. Civil societies should play a crucial role to ensure that policies of government and IFIs are to the benefit of all the population, thus decisions should be a national consensus to shape the future of the continent to achieve economic development. Therefore for economic development to be achieved in the long-run, the recommendations explained in chapter five have to be competently implemented with all stakeholders striving for genuine economic development.

## **6.9 Summary**

This research has looked at what economic development is and what it entails as well as the beginning of African economic development assisted by IFIs. Though the two largest and powerful financial institutions, the World Bank and the IMF, arguably had good intentions in assisting African economic development, their effects left the continent underdeveloped with poor human growth and devastating poverty as has been outlined in the research. The policies of these institutions (World Bank and IMF) of conditionality and structural adjustment in all cases left the continent impoverished as Ismi (2004) states that these institutions and policies have torn into the foundation of African economies and their social fabric, resulting in high tensions among different social strata in their effects, primarily on the poor, leaving no amount of targeted social investments that can begin to address the socio-economic (developmental) crises they have engendered. This has been backed up by the case study of Zimbabwe and Ghana to show the negative impacts IFIs, particularly the World Bank and the IMF, have had on economic development in Africa.

Economic development in the modern day has also been reviewed in this research through the case study of Zimbabwe and Ghana. In the case study, economic development was rising reasonably in the period after both countries had won independence, but this changed when the countries struck deals with the IMF. Conditionality and structural adjustment affected the promising developing countries and diverted their economies into free fall. The WTO was also discussed to outline the role it has had on economic development on the African continent. At first the determinations of the organization are difficult to appreciate but most recent results, especially the efforts of the Doha Round are most welcome for African economic development. Though there are no immediate results, the future of Africa through the Doha Round is somewhat optimistic hence showing a positive role of the WTO.

Lastly the AfDB and African Development Finance Institutions were looked at. These international institutions are different but at times their purposes and functions overlap. The purpose of these institutions are to move away from the authority of the World Bank and the IMF to have economic development for Africa aided by African people thereby aiming at economic development which emphasizes the needs of African people rather than economic development which is foreign to the Africans. Though there are no quick fixes to African economic development, the creation of these institutions show a change in the right direction as Africans themselves will be taking a leading role, hence economic development will be more meaningful to the African people allowing all to participate. Issues of corruption and inefficient running are some of the major challenges which these institutions face but at least shows that Africans are independent enough to follow their own economic developmental programs.

## **6.10 Conclusion**

This chapter has given a summary of the research outlining the key questions and broader issues which were discussed. The chapter has outlined how the conceptual and theoretical framework as well as the research methodology and study design which was used to analyze the data as shown in the research. This research has analysed and discussed the correlation between IFIs and economic development within the African continent. It has shown that some financial institutions have the potential of economically developing the continent if genuine people are put into power and implementation is carried out efficiently. It would be unfair to say that IFIs have negatively impacted on economic development in Africa, as it

was shown in this research that not all financial institutions have failed, as some IFIs have considerable success or are genuinely trying to develop the continent. In the final analysis, one has to distinguish among many different financial institutions and evaluate them individually to be able to come up with a more conclusive opinion on the role they have had on African development. It can therefore be concluded that some financial institutions have had a positive impact on economic development in Africa at the same time others have had a marginal role or impact on its economic development, thereby showing the relationship between IFIs and African economic development as was discussed in this research paper.

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