Adjusting Structural Adjustment: The Role of the Structural Adjustment Program in Africa's Development

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April 1, 2013

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Major Writing Requirement

Structural Adjustment Programs in Africa

Introduction

In 1980, the President of the World Bank, Robert McNamara sought and received approval from the World Bank Board to launch a new instrument: the structural adjustment loan.[1] In his mind, the World Bank would use its loans to provide finance to borrower-countries over a limited amount of years. In return for the finance program, the borrower-country would implement specified trade reforms and price incentives for resource allocation—all in an effort to achieve the goals of the World Bank and IMF.[2] The specific objectives of the program were to "reduce [a developing country's] current account deficit to more manageable proportions by supporting programs of adjustment . . . to strengthen their balance payments while maintaining growth and development momentum."[3]

This paper seeks to address two key areas of analysis—the impact of trade liberalization as an effective fiscal policy, and the effect of the structural adjustment loan on government expenditures for public services. The paper argues that structural adjustment loans have detrimentally affected the African people because trade liberalization does not comport with an efficient African economic system. The paper also argues that adherence to strict program standards has siphoned funds from public sector services. Due to lack of infrastructure, abundance in corruption, and inadequate democratic institutions; attempted program compliance did not create an African middle class, but rather exacerbated many of Africa's problems.

[1] For the purposes of this paper, structural adjustment loan and structural adjustment program will be used interchangeably.
[2] William Easterly, *What Did Structural Adjustment Adjust: The Association of Policies and Growth with Repeated IMF and World Bank adjustment* loans, N.Y.U J. DEV. ECON. 1 (2005) [hereinafter *Easterly*](citing Devesh Kapur, John P. Lewis, Richard Web, *The World Bank: Its First Half Century, Volume I: The History*, The Brookings Institution, Washington, DC (1997).
[3] *Id.* at 1.

Part I: Structural Adjustment Programs—The Purpose, Structure, and Effect

The IMF and World Bank

History

Even though considerable factors stood in the way of Africa's economic success, key players such as the United Nations ("UN"), the International Monetary Fund ("IMF") and the World Bank, concentrated on alleviating African poverty. Policy was geared towards achieving economic stability and the creation of an African middle class.

As a result, the structural adjustment program found its birth in international forums and not in African legislatures. "Structural adjustment [loans] . . . entail the implementation of a set of macroeconomic and microeconomic policy reform measures to create an environment . . . conducive to growth and development." [4] Countries utilizing a structural adjustment loans and grants must implement policy changes based on macroeconomic reforms, deregulation of markets and prices, and trade liberalization.[5]

While in practice, structural adjustment programs appear to apply the western notions of economic success, one expert articulates that, "a renewed interest in development of [compliant] African countries has been prompted by less-than-satisfactory economic performance . . . over the past two decades."[6] In addition, renewed interest in Africa's development tactic reflects efforts to assess the adjustment strategy espoused by the IMF and the World Bank.[7] Ultimately, years after structural adjustment programs has been placed within the economic framework of

[4] Technoserve, Inc., *Comparative Analysis of Structural Adjustment Programs in Africa with emphasis on Agriculture and Trade*, Regional Trade Agenda Series, 1995 *available at* http://www.afrsd.org/publications/23souafr.pdf. (comparing the implications of structural adjustment programs in a cross-border sample).
[5] *Id.*
[6] Michael T. Hadjimichael, Dhaneshwar Shura, Martin Muleisen, Roger Nord, and E. Murat Ucer, *Sub-Sahran Africa Growth, Savings and Investment, 1986-1993*, International Monetary Fund, Washington D.C., Jan. 1995, P.1.
[7] *Id.*

the world's poorest continent, it is time to reassess and examine the program—highlighting it's weaknesses, its strengths, and evaluating possible fiscal alternatives.

Loan Program Description

The World Trade Organization ("WTO") describes structured adjustment programs as "policies [which] reflect the neo-liberal ideology that drives globalization."[8] Even though programs wish sought "long-term or accelerated economic growth in poorer countries by restructuring the economy and reducing government intervention," implementation resulted in "currency devaluation, managed balance of payments, reduction of government services through public spending cuts, reducing tax on high earners, reducing inflation, privatization, lower tariffs on imports and tighter monetary policy, increased free trade, cuts in social spending, and business deregulation."[9] Consequently, structural adjustment programs demand African countries liberalize their trade, level of development, and industrial base, in order to increase exports to foreign consumers and to allow for economic gain.[10] This resulted in governments surrendering their ability to influence their own economic and political agendas.

The Beginning: Obtaining a Structural Adjustment Loan

The structural adjustment program is essentially a conditional loan. The country in need (the borrower) approaches the IMF and World Bank (the lenders) for a loan. The lender services the loan based on the assumption that certain fiscal policies will take place within the borrow-country. The lender then requires that as a contingency,[11] national policies geared towards trade

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[8] The World Trade Organization Website *available at* http://www.who.int/trade/glossary/story084/en/index.html.
[9] *Id.; see also* Finn Tarp, *Stabilization and Structural Adjustment: Macroeconomic Frameworks for Analysing the Crisis in Sub-Saharan Africa*, 2 (Taylor and Francis e-library, 3rd ed. 2001).
[10] Elizabeth Justice, *The African Union: Building a Dream to Facilitate Trade, Development and Debt Relief*, 12-SUM CURRENTS: INT'L TRADE L.J. 127 (2003) (explaining role of structural adjustment programs play in the regional organization development).
[11] "When a country borrows from the IMF, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial aid from the international community. These loan conditions also serve to ensure that the country will be able to repay the Fund so that the resources can be made available to other members

liberalization set the tone of the fiscal policies to be implemented by the borrower-country. A borrower-country's compliance also meant possible decreases to already existing interest rates on IMF and World Bank loans. VG

In practice, structural adjustment loans can be implemented in numerous ways. This can be seen in the case of Cote d'Ivoire and China. A country may be a repetitive borrower, a selective borrow or a non-borrower. One of the first countries to participate in the program was Cote d'Ivoire. The country also became a repetitive structural adjustment user (repetitive borrower)—with 26 structural adjustment loans.[12] Cote d'Ivoire represents the traditional transaction for structural adjustment loan users. The World Bank describes the Cote d'Ivoire Loan stating that,

> "The loan would be in support of the Government's program of structural adjustment. The reforms envisaged by the program are designed to improve the level of public savings and the efficiency in the use of public resources; restructure the agricultural, planning system and associated development institutions so that an expanded, well designed investment program yielding high returns can be mounted in the sector; reflect the costs of providing public services to the sector; assure that rational prices and world market conditions would guide decisions to invest and produce; restructure public enterprise, management, financing and accountability to ensure efficient market oriented operations; and restructure incentives, to promote efficient export-oriented industrial investments."[13]

The language of the loan contingencies[14] highlight the numerous market system policies the IMF pushed and promoted on borrowers. As mentioned before—these policies include western style trade liberalization.

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in need. In recent years, the IMF has streamlined conditionality in order to promote national ownership of strong and effective policies." International Monetary Fund Website *available at http://www.imf.org/external/np/exr/facts/conditio.htm* [hereinafter *IMF Website*](last updated Sept. 26, 2012).

[12] William Easterly, *IMF and World Bank Structural Adjustment Programs and Poverty*, National Bureau of Economic Research, Jan. 2001, 3 (citing the World Bank 8(a)).

[13] *Id.*

[14] *See IMF Website, supra* note 14.

Another type of borrower was seen to be more successful. The selective borrowers[15] did not borrow with the same frequency as repetitive borrowers. In China, the structural adjustment program formed part of the reason the country established itself as a world player. In 2012, it is almost unimaginable that one of the most important world actors relied on the structural adjustment program. China has seen remarkable development and growth, so much so that it is now one of the largest owners of U.S. treasury bonds.[16] In September of 2012 China owned approximately $1.1 trillion in American debt.[17]

China is now also one of the largest international players in the African economy. In July of this year, China announced it would invest $20 billion in loans to Africa,[18] and African exports to China have increased from $5 billion ten years ago to $93 billion.[19] What makes China a success and Cote d'Ivoire reliant on external funding?

The structural adjustment loans normally force the borrowing government to make adjustments in a few highly visible macroeconomic indicators, which primarily affect the formal sector of the economy. On the other hand, a homegrown reform program such as China's over the last 20 years as seen significant success. With only three adjustment loans in the 1980s and none in the 1990s, Chinese reforms generally include a more sweeping transformation of incentives that affect both the formal and informal[20] sectors alike.[21] Therefore, because China

[15] The author assigns the term "selective borrowers" to countries who participated in the structural adjustment loan program three times or less.
[16] The U.S. Treasury indicates that China is the largest sovereign holder of U.S. Treasury bonds *available at* http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt.
[17] *Id.*
[18] Shannon van Sant, *China Announces $20 Billion in Africa's Loans*, VOICE OF AMERICA (July 29, 2012) (discussing China's role in African development and its reliance on African resources).
[19] *Id.*
[20] The formal sector includes "reported payroll items, income taxes, employee taxes and any other official economic factors" and the informal sector refers to "parts of the economy that are not taxed, regulated, monitored or included in the gross national product." Often times called "under the table," jobs in the informal sector are not reported to the government. Definition *available at http://www.reference.com/motif/business/difference-between-formal-and-informal-sector* (distinguishing the difference between formal and informal sector of the economy).

was a selective borrower and only utilized the program three times, it was able to incorporate a more narrowly tailored fiscal reform program.

In conclusion, when looking to the history and purpose of the structural adjustment program, it is important to remember that it focused not only on fiscal policy, but also specified social and political policy.VG The key component of the program is that in exchange for the loan, the IMF asks borrower-countries to comply with certain fiscal policies. These fiscal policies focus on trade liberalization and a market centered economic system. The rest of the paper will be dedicated to analyzing the effects of the attention to market system policies by examining the successes and failures of the program.

Structural Adjustment and Fiscal Policy—The Aftermath of Structural Adjustment in Africa's Economy

What Does Trade Liberalization Really Mean?

Trade liberalization consists of the fiscal policies of the IMF encompassing the notions of the free market system and the argument is that this type of economy ensures economic productivity and growth for the developing country. The IMF Source Book pronounces that macroeconomic stability is defined in terms of "current-account and fiscal balances consistent with low and declining debt levels, inflation in the low single digits and rising per capita GDP."[22] Instability, on the other hand, is understood to imply "large current-account deficits financed by short-term borrowing, high and rising levels of public debt, double-digit inflation rates and stagnant or declining GDP"[23] Consequently African countries are macro economically described

[21] William Easterly, *IMF and World Bank Structural Adjustment Programs and Poverty*, National Bureau of Economic Research, Jan. 2001.
[22] U.N. CONFERENCE ON TRADE AND DEV, FROM ADJUSTMENT TO POVERTY REDUCTION, WHAT'S NEW? ECONOMIC DEVELOPMENT IN AFRICA, at 20, U.N. Sales No. E. 02-II-D.18 (2002).
[23] U.N. CONFERENCE ON TRADE AND DEV, FROM ADJUSTMENT TO POVERTY REDUCTION, WHAT'S NEW? ECONOMIC DEVELOPMENT IN AFRICA, at 20, U.N. Sales No. E. 02-II-D.18 (2002).

as unstable. If the IMF is dedicated to poverty reduction through macroeconomic policy, then advocating a stance based on trade liberalization is one avenue for change.

But is trade liberalization the best route given the negative implications of implementation? Is trade liberalization relevant to the African context? Like all economic schemes there are positives and negatives to emphasizing trade liberalization as the focal point of a policy instrument. Theorists contend that trade liberalization ideas lead to, "openness that stimulates technological exchange by increasing domestic rivalry and competition [which] leads to an increase in innovation."[24] Furthermore, proponents of trade liberalization promulgate that increased interaction with external actors increases the free flow of ideas.[25]

Opponents generally testify that trade liberalization does not necessarily achieve its intended goals. In many ways—especially in the developing world—trade liberalization can be detrimental to growth and development.[26] In fact, at a certain stage of development, trade liberalization models promote systems where infant industries become dependent on "tariff and non-tariff barriers to trade with others."[27] African countries in particular proceed with caution—especially considering their lower production capacities.

Has Trade Liberalization lead to significant growth of Africa's Economy?

<u>Figure 1</u>

[24] Andrew Mwaba, *Trade Liberalization and Growth: Policy for African Countries in a Global Economy* (The African Dev. Bank, Economic Research Paper No. 60, 2000).
[25] *Id.*
[26] *See Id.*
[27] Mwaba, *supra* note 24.

Table 1
Successes and failures of repeated adjustment lending (all data refer to averages for period from first adjustment loan to 1999 for top 20 countries in adjustment loans)

	Adjustment loans 1980–99	Fraction of time under IMF program, 1980–99 (%)	Per capita growth rate (%)	Current account balance/GDP	Government balance/GDP	Black market premium (%)	Inflation rate (%)	Real overvaluation (+)/ undervaluation (−) (%)	Real interest rate (%)
Africa (ranked from worst to best growth rates)									
Niger	14	61.7	−2.30	−7.6		2	2	19	15
Zambia	18	45.4	−2.10	−12.3	−13.4	77	58	135	−10
Madagascar	17	68.8	−1.80	−7.3	−3.5	21	17	−25	9
Togo	15	82.9	−1.60	−6.3	−3	2	5	5	10
Cote d'Ivoire	26	75.4	−1.40	−6.7	−1.3	2	6	62	13
Malawi	18	83.3	−0.20	−11.1	−7.8	38	23	1	3
Mali	15	70.8	−0.10	−9.9	−6.5	3	4		11
Mauritania	16	73.8	0.10	−9.4		85	7	94	3
Senegal	21	83.8	0.10	−8.5	−4.5	2	5	20	9
Kenya	19	72.9	0.10	−3.5	−4.5	15	14	9	8
Ghana	26	61.3	1.20	−4.2	−1	36	32	−48	−16
Uganda	20	80.8	2.30	−7.4	−3.1	96	50	−47	−18
Other developing countries (from worst to best growth rates)									
Bolivia	17	68.8	−0.40	−6.8	−1.6	31	91	36	−20
Philippines	19	77.5	0.00	−2.8	−2	6	11	−21	6
Jamaica	18	72.9	0.40	−5.4	−12.6	20	20	−2	7
Mex	20	54.2	0.40	−1.9	−3.9	10	41	−36	3
Argentina	30	69.2	1.00	−2.4	−1.8	23	164	11	−5
Morocco	22	48.8	1.10	−3.3	−5.7	4	6	−4	2
Bangladesh	18	48.3	2.40	−2.8	0	93	6	−41	7
Pakistan	20	61.3	2.70	−3.4	−6.9	12	8	−48	1
min top 20	14	45.4	−2.30	−12.3	−13.4	2	2	−48	−20
max top 20	30	83.8	2.70	−1.9	0	96	164	135	15
average top 20	19	68.1	0.10	−6.1	−4.6	26	24	−3	1
AVERAGE (all developing countries)	7	29.2	0.30	−6.0	−4.6	32	32	1	0

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An important consideration is whether trade liberalization—as a result of the structural adjustment programs has increased growth in Africa ***or*** whether Africa would have seen similar rates of growth without the use or decreased use of structural adjustment loans.

Figure 1 illustrates the macroeconomic experience of the top 20 recipients of adjustment loans as measured by the total amount of adjustment loans over the period starting in 1980 and ending in 1999.[28] One researcher articulates "one might expect it would take more than one loan to accomplish adjustment but it is hard to see why it would take such a large number," such is the

[28] The information compiled is available until the 1990s. *Easterly*, *supra* note at 6.

case in Ghana and Cote d'Ivoire (26 each).[29] Ranking among some of the highest growth rates are Uganda and Ghana with a per capita growth rate of 2.3% and 1.2% during this time. Some of the lowest growth rates are Niger and Zambia with -2.1% and -1.4%.

Figure 1 also illustrates developing countries outside of Sub-Saharan Africa and their equivalent growth rates. A summary of the statistics indicate that severely "intensive recipients of adjustment lending had about the same macroeconomic outcomes as the general developing country sample" all of whom relied significantly less on structural adjustment loans.[30] This is when one compares intensive recipients and other developing countries. Statistics indicate that during the same time period, both had "similar account deficit, the same black market premium and similar inflation rate." [31] There was a great degree of variance among the analyzed countries, but most surprisingly there were positive economic indicators for countries below intensive conditionality for an average of 19 adjustment loans.[32]

But while there are some positive features of trade liberalization and the structural adjustment process, one has to scrutinize what the statistics *actually* indicate. *Figure 1* illustrates that while countries like Uganda and Pakistan experienced high degrees of growth, the same degree of success is not seen across the board. For example, Uganda had the highest growth rate of the "intensive users" in Africa, but there were still varying degrees of success. The information speaks to the economic situation in the late 1980s and early 1990s, but during this time Uganda was also experiencing "erratic and high inflation [even after] receiving 14 loans."[33]

[29] *Easterly*, *supra* note at 6.
[30] Compare the first half of the table and the second half of the table. *Id.*
[31] *Id.*
[32] *Id.*
[33] The same can be said of Ghana who had a reoccurring problem of inflation after 26 loans from the IMF. *Easterly*, *supra* note at 6.

Ultimately, *Figure 1* reconsiders the structural adjustment process from the analysis of an economic quantitative method. If the principal purpose of the structural adjustment program is growth, development, and an expanding middle class, then *Figure 1* shows that most times the intended result of the program does not occur. *Figure 1* also illustrates that in numerous cases, countries would achieve similar amounts of economic growth without the financial instrument because the economic growth seen as a result of implementation is almost insignificant.

A second figure worth mentioning is a more current depiction of growth rates in Africa. *Figure 2*, below, analyzes the economic success of structural adjustment programs in five countries in Southern Africa. A comparative analysis of Malawi, Mozambique, South Africa, Zambia and Zimbabwe explain how the program has insignificantly affected the growth rates of the sub-region.

Figure 2

Table 1.1 Study Countries: Basic Indicators (1992)

	Malawi	Mozambique	South Africa	Zambia	Zimbabwe
Population	9.1	16.5	39.8	8.3	10.4
Population Growth Rate (%), 1980-1992	3.2	2.6	2.5	3.2	3.3
GNP Per Capita (US$)	210.0	60.0	2670.0	670.0	570.0
GNP Per Capita Growth Rate (1980-1992)	-.01	-3.6	0.1	NA	-.09
Average Annual Rate of Inflation (%)					
1970-1980	8.8	NA	13.0	7.6	9.4
1980-1992	15.1	38.0	14.3	48.4	14.4

Figure 2 depicts five Sub-Saharan countries based on the indicators of a healthy economy—population, population growth rate, GNP per capita, GNP per capita growth rate, and

average annual rate of inflation.[34] With the exception of South Africa, these countries are ranked some of the poorest in the world and the chart provides an "easy to understand" analysis of the current economic situation.

For example, Zambia's average rate of inflation in 1970 to 1980 was 7.6% and in the following 12 years the average annual rate of inflation was 48.8%.[35] To truly understand the significance of the statistic, one must compare this information to other countries in the international community. In October 2012, the United States' inflation rate was 2.2%. Between 1914 to 2012, the United States' inflation rate has averaged 3.4% a year. [36] At it's highest the United States' inflation rate was 23%.[37] In Zambia, the average annual inflation rate in the years between 1980 and 1992 was almost seven times more than the preceding ten years. As related to the United States, even at its lowest ebb (7.6%), the Zambian average annual rate of inflation is double that of the United States on an annual average basis (3.4%). Additionally, Zambia's average annual inflation rate in the 1980s (48.8%) is more than double that of the United States at its highest recorded point (23%).

One might argue it is unfair to compare Zambia's annual inflation rate to the United States of America. Maybe a better comparison would be the Philippines—a developing country, which previously relied on structural adjustment programs in. *Figure 1* indicates the Philippines received 19 adjustment loans from 1980 to 1999,[38] and simultaneously experienced 0% rate of growth and an 11% rate of inflation.[39] Even though the Philippines received one more loan than

[34] George Abalu et al., *Comparative Analysis of Structural Adjustment Programs in Southern Africa with an Emphasis on Agriculture and Trade* (Office of Sustainable Dev. Bureau for Africa, Technical Paper No. 23, June 1996).
[35] *Id.*
[36] U.S. Bureau of Labor Statistics *available at http://www.tradingeconomics.com/united-states/inflation-cpi.*
[37] *Id.*
[38] *Easterly*, *supra* note, at 6.
[39] *Id.*

Zambia[40], the Filipino rate of growth is non-existent and the inflation rate is slightly more than Zambia's in the 1980's resulting in two similarly situated nations and two entirely different outcomes. The Filipino-Zambia example not only highlights the variance of inflation rate outcome among nations receiving structural adjustment loans from the IMF, but also that countries within the international community relying on structural adjustment programs do not face the same negative implications. This might provide a potential argument for the program's existence, but the variance in outcome should be stressed when assessing the effectiveness of the policy instrument.

The most accurate analysis would be to compare Zambia to an equal by looking to Malawi's average growth rate and annual inflation rate. Malawi's inflation rate in the 1970s was 8.8% and in the following twelve years it averaged 15.1%. Both Zambia and Malawi started in a similar situation—both averaging annual inflation rates between 7.5% and 9%. [41] But Zambia's inflation in the following years was more than three times that of Malawi's. What led to this difference in outcomes? Both Malawi and Zambia had the same population growth rate at 3.2% and when one looks to *Figure 1*, both received 18 structural adjustment program loans in the same amount of time.[42] Zambia, however, saw a negative growth rate of -2.1% and Malawi a negative growth rate of only -0.2%.

This information is pertinent to the analysis because it further emphasizes the point made when Zambia was compared to the Philippines. In the Malawi-Zambia case, the discrepancy in outcome is even more evident. There is great variance of the structural adjustment program in providing for macroeconomic stability. Ineffectiveness of a program is likely when two countries can start in the same position, receive the same amount of loans and still end up in markedly

[40] The Philippines received 19 loans and Zambia received 18 loans. *Id.*
[41] *Id.*
[42] Both received 18 loans from years 1980 and 1999. *Id.*

different places. The author concedes that there are internal variables that play a role, but ultimately the relevance of trade liberalization (measured by economic growth and inflation) suggests that the economic regime is likely irrelevant to achieving economic success through macroeconomic stability in the African context.

The Post Millennium African Economy

Next it is important to assess the state of the African economy today. When the global community thinks of poverty, it tends to think of the "Global South"—Africa, Asia, and South America. In many respects this is still the case, but there have been significant gains in certain countries like Ghana, but the current situation also highlights significant losses exacerbating poverty in other areas of Sub-Saharan Africa.

Figure 1 illustrates that Ghana was a consistent repetitive borrowers in the structural adjustment loan program. Ghana is now seen as one of the more stable African economies and is one of the less regulatory burdensome nations to start a business.[43] Over the past five years, the country has seen an annual growth rate of 8% and the population is 24.3 million people. [44] Furthermore, the Heritage Foundation proclaims that "enhanced economic growth is due to more efficient and effective institutions," and a new president who is committed to continued reform to improving Ghana's economic health and freedom.[45]

Although Ghana's economy is growing at a remarkable rate, there are still significant obstacles standing in the way of development and reform. This includes poorly protected property rights and high levels of corruption "due to overall weakness in the rule of law."[46]

[43] THE HERITAGE FOUNDATION *available at* http://www.heritage.org/index/country/ghana#regulatory-efficiency (last visited Mar. 29, 2013).
[44] *Id.*
[45] *Id.*
[46] *Id.* ; *see also* Jacey Fortin, *In Poverty-Stricken Kenya, Corrupt Government Spends Over $1 Million on Chairs*, Int'l Bus. Times, *available at* http://www.ibtimes.com/poverty-stricken-kenya-corrupt-government-spends-over-1m-chairs-746511# (discussing the extent of Kenya and in Africa).

On the other end of the spectrum lies Zimbabwe. Zimbabwe's overall GDP is $5.5 billion and its economy is ranked 43rd of all the Sub-Saharan countries.[47] Additionally, Zimbabwe's overall growth rate is -2.4%.[48] All in all, the current state of the Zimbabwean economy—while better than that of the 1970's and 1980's—is still under severe stress. Furthermore, the unemployment situation in the country yields a nightmarish environment for those who are eager to find work. The African Development Bank Groups indicate that, "While there is no recent official data on unemployment, it is believed to have increased over the years. Young people aged 15 to 24 years old make up the bulk of the unemployed, and accounts for almost 60% of all those out of work in 2004."[49] Unfortunately, more countries in Africa lie closer to Zimbabwe on the economic spectrum than they do Ghana. .

Even if a country is at 18 or 26 structural adjustment loans[50], the economic situation is still in dire need of help from the international community. If Ghana is in the upper echelon of economic success, then other African nations are doing much worse. Africa's lack of infrastructure combined with its abundance of corruption, make the continent a hotbed of economic failure. It is important now more than ever that the international community finds policies that will be the most effective, and implement structural adjustment programs which will result in long-term stability.

Alternatives to Structural Adjustment Programs: The Role of the Regional Trade Agreements and Preferential Treatment Agreements

[47] THE HERITAGE FOUNDATION *available at* http://www.heritage.org/index/country/zimbabwe (last visited Dec. 19, 2012).
[48] *Id.*
[49] AFRICAN DEV. BANK GROUP, *available at* http://www.afdb.org/en/countries/southern-africa/zimbabwe/zimbabwe-economic-outlook/ (last visited Dec. 19, 2012).
[50] In reference to the structural adjustment programs of Zambia and Cote d'Ivoire. *Easterly*, *supra* note, at 6.

To analyze the impact of structural adjustment loans on development, one needs to look at exacerbating variables and alternatives which provide Africans a chance at economic growth and development. The impact of structural adjustment is necessarily exacerbated if no other effective economic alternatives exist *or* the impact is necessarily minimized if African nations have effective economic alternatives. A meaningful analysis of the role of the New Partnership for Africa's Development ("NEPAD"), Regional Trade Agreements ("RTAs"), and preferential trade agreements are necessary to the structural adjustment discussion. The paper argues that these alternative avenues for economic growth do not minimize the negative effects of structural adjustment loans.

The market-centered/trade liberalization vision is a concept that has been interwoven into the fabric of the African economic system for a number of years. NEPAD adopts a market-centered vision of development through high exports to foreign countries.[51] Unfortunately, rather than a story of success, the market-centered vision is associated with attempting to "strengthen the balance of payments and export performances, failing to consistently stabilize African economies as reflected by rising inflation rates, and failing to achieve higher economic rates."[52]

NEPAD's program is important because the market-centered system reflects the cornerstone policies of the IMF's structural adjustment program—both emphasize providing the "private sector maximum freedom as the engine of growth . . . through trade liberalization policies, deregulating the economy, and measuring success through foreign trade ."[53] In assessing

[51] James Gathii, *A Critical Appraisal of the NEPAD Agenda*, 13 TRANSNAT'L L. & CONTEMP. PROBS. 179, 188 (2003) (explaining the reason why NEPAD's approach to economic growth and development is inadequate). *Compare*, Justice, *The African Union*, 12-SUM CURRENTS: INT'L TRADE L.J. at 131 (articulating the African Union and its economic plan will solve the problems of Africa by learning from the Organization of African States).
[52] *Id*.
[53] Gathii*, supra* note 51, at 181, 187.

NEPAD's market-centered vision and structural adjustment programs, it is important to look at alternatives.

Such alternatives include RTA. A RTA is a pact between countries to reduce tariffs and barriers. RTA's have substantially increased in the international community. Between 1948 and 1994 there were only 124 RTA notifications to the World Trade Organization ("WTO"), and between 1995 and 2008 an additional 300 notifications were received. [54] There are eight officially recognized RTAs and include the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), Community of Sahel-Saharan States (CEN-SAD), the Arab Maghreb Union (AMU), and the Inter-Governmental Authority on Development (IGAD).[55]

The effectiveness of the African RTA varies between regions and also depends on the structure of the RTA. For example, some argue that if an RTA is more trade-creating, then it will likely be more successful. Alternatively, if an RTA is more trade-diverting it will not see the same degrees of success.[56] In the African context, the success of the RTA depends on intra-regional integration and trading. The extent among, COMESA members, for example, have been relatively static over the past two decades.[57] In contrast the share of intra-area trade has increased substantially for ECOWAS since the early 1980s and for SADC since the late 1980s.[58] In light of the examination of structural adjustment programs, some might argue that RTA success

[54] Chiza Charles M. Chiumya, *Regional Trade Agreements: An African Perspective of Challenges for Customs Policies and Future Strategies*, World Customs J. 85, 85-91 (2008) (discussing the role of RTAs and their varying degrees of effectiveness).
[55] *Id.*
[56] *Id.* at 86.
[57] *Regional Trade Agreements: Affects on Trade*, GLOBAL ECON. PERSPECTIVES, *available at* http://siteresources.worldbank.org/INTGEP2005/Resources/GEP107053_Ch03.pdf.
[58] *Id.*

minimizes the detrimental effects of the structural adjustment program but because the value of the RTA does not necessarily force participants to comply with overarching macroeconomic standards. Rather, they deal with overarching trade relationships between the two countries. Therefore, RTA success does not necessarily offset the economic situation of African countries relying on structural adjustment loans.

Next, it is important to briefly mention the role of trade preference agreements. Some argue that the Lagos Plan of Action of 1980—which identified external economic dependence as a major factor accounting for Africa's poor economic performance, and recommends a reduction in sub-Saharan Africa's external dependence on Western countries—should be adopted.[59] While in an ideal world, African self-sustainment would be the goal, there are extremely generous trade preferential agreements between Africa and members of the Western world. For example, the American Growth and Opportunity Act ("AGOA") is an agreement between the United States and Africa.[60] The objectives of the policy include encouraging increased trade and investment, strengthening and expanding the African private sector, and encouraging political and economic reform. [61]

Though this is a generous concession, the program highlights the fact that without acts of this nature, it is unreasonable for Africa to compete at the same level and to the same standard of international trade competitors. Therefore, pursuing a market-centered vision will unlikely result in real benefits to Africa unless there are huge preferences given to African products by Western nations. As a result, it is important to realize that while Africans do have opportunities for economic growth through NEPAD policy, RTAs, and trade preferential treatment—it is not

[59] Regional Perspectives, *supra* note 57. at 182. The Lagos Plan was prepared by Africa's governments and emphasizes self sustaining development strategy based on a maximum internal use of the continent's resources.
[60] Elizabeth Justice, *The African Union*, 12-SUM CURRENTS: INT'L TRADE L.J. at 132 (explaining that trade preference agreements highlight the inequality between Africa and the West).
[61] *Id.* at 132,133 (explaining the pointed objectives of the trade preference act).

certain that these programs will provide the economic success necessary to off set the detrimental effects of the structural adjustment programs. In fact, since NEPAD and trade preferential agreements include the elements of trade liberalization, it is arguable that they will emphasize the negative implications of structural adjustment programs by increasing the burden on African infrastructure development.

Ultimately, an African nation will be unable to make a failing economy into a success by relying on external actors in it's respective RTAs, trade preferential agreement, or foreign direct investment.[62] The alternative avenues for growth, in the African context, therefore do not correct or minimize the negative implications of the structural adjustment programs of the IMF.

Part II: Structural Adjustment and Development

Introduction

The second part of the paper will focus on the structural adjustment loans and their effect on public services and the non-economic sector. This section includes an analysis on health services, public education and political development in Africa. The paper argues that the implementation of structural adjustment loans comes at the expense of decreased government spending on public services and a decrease in African political development and political autonomy.

The African Problem

In the United States, the debate over the constitutionality of legislation like the Affordable Healthcare Act and No Child Left Behind Act seem trivial relative to the lack of adequate healthcare and education programs in Africa. This is particularly true in the realm of

[62] For Example, in Zimbabwe FDI only account for 0.012% of its total GDP (with an FDI inflow of $105.4 million and a total GDP of $5.5 billion). HERITAGE FOUNDATION *available at* http://www.heritage.org/index/country/zimbabwe; even a country like South Africa cannot rely on foreign investment with an FDI inflow of approximately 2%. HERITAGE FOUNDATION *available at* http://www.heritage.org/index/country/southafrica.

public health where the problem is multi-dimensional, far-reaching and broad ranging. Basic public health measures, such as sanitation, clean water and basic food are the tip of the iceberg. In addition, countries are plagued by poverty and disease and HIV/AIDS has left many African states with a missing generation.[63] Ten African countries have a life expectancy rate below 41 years, [64] and nine of the ten have a life expectancy rate under 40 years,[65] with the lowest country's rate a mere 31 years of age.[66]

The continent suffers from the ultimate public health crisis and the World Health Organization ("WHO") states that, "staffing and resourcing remain serious problems in all aspects of health care, including essential public health [services]."[67] Additionally, across the continent, there are millions of "children who survive on less than one euro a day."[68] Even though, there has been a significant increase in public services by non-profits and international organizations,[69] the problem persists.

Africa's education system does not make up for what the continent lacks in public health regime. While there are varying degrees of educational programming on the continent, primary education is far from universal. One in three African children will never attend school,[70] and only six girls for every ten boys will receive an education.[71] Some explain the importance of education through the lens of public health. Per Engebak, the former regional director of

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[63] A missing generation also means that a large part of a country's population is not contributing to the economy. Consequently, there are children of the dead and the parents of the dead.
[64] Countries with the lowest life expectancy. MAPS OF THE WORLD *available* at http://www.mapsofworld.com/africa/thematic/countries-with-lowest-life-expectancy-at-birth.html.
[65] *Id.*
[66] *Id.*
[67] C.B. Iljsselmuiden, T.C Nchinda, S. Dule, N.M. Tumwesigyea, and D. Serwadda. The World Health Organization, Mapping Africa's Advanced Health Education Capacity: the AfriHealth Project, The World Health Organization (2007).
[68] SCHOOLS FOR AFRICA, UNICEF *available at* http://www.schoolsforafrica.com/aboutsfa/11_whyeducation.htm (explaining the role of the non-profit and why education is important in the African context).
[69] *Id.*
[70] *Id.*
[71] *Why Don't More Girls Go to School*. BBC NEWS (July, 2003), http://news.bbc.co.uk/2/hi/africa/3045818.stm.

UNICEF in Eastern and Southern Africa explains that, "no other investment has such a lasting effect as the education of children. Children who go to school are healthier, more self-assured, can more easily assume a profession, and education is the only effective "vaccine" against HIV/AIDS."[72]

Finally, democratic regimes in Africa are still failing the African people. Years after the end of colonialism—political uncertainty, corruption and weak institutions has led many to lose faith in Africans governing Africa, and without external actors, the African political system would run a riot of over-centralized authoritarian administrations.

Structural Adjustment and the African Health System

The African Health Scheme

The direct and indirect impacts of structural adjustment programs on the public health system are harmful to the public interest. The sufficiency of the argument lies in linking the structural adjustment program to a decrease in government expenditure. More specifically providing a link between government expenditures on public health and fund diversion to industrialization to encourage international trade.

The Nigerian state of affairs highlights the potential results when macroeconomic principles associated with structural adjustment loans start to directly and indirectly affect other sectors of government services—directly as measured by foreign exchange and indirectly through government expenditure and diversion. Scholars explain that in Nigeria, "the quality of health services . . . has deteriorated as foreign exchange to purchase drugs and other imported

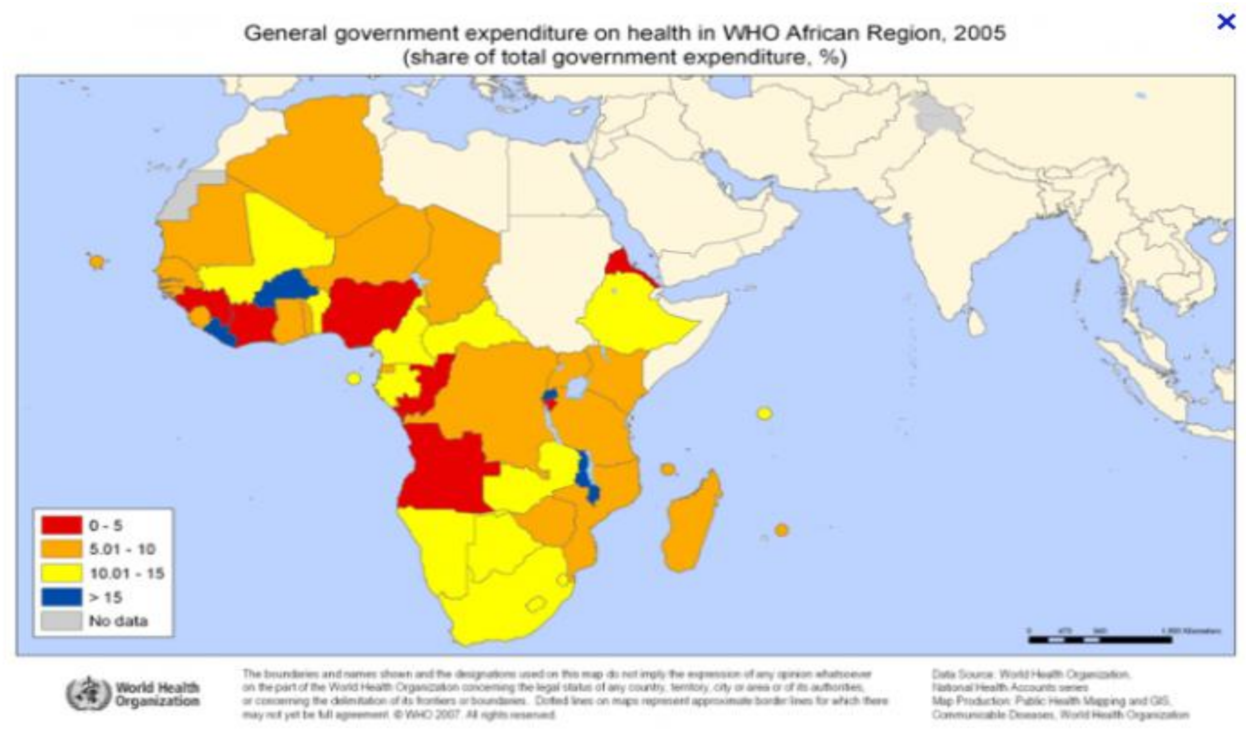
[72] SCHOOLS FOR AFRICA *available at* http://www.schoolsforafrica.com/aboutsfa/11_whyeducation.htm (explaining why education is vital in the fight against HIV/AIDS).

medical supplies have become increasingly scarce."[73] Additionally, in 1990, African countries' budgetary allocations to health was "below ten percent in most states [relative] to their 1982 allocations. There [were also] . . . examples of suspended health projects and abandoned construction sites for health centers and hospitals."[74] Even after the 1990s, most African governments still spend up to three times more on debt repayments than on health care and education combined.[75] The dire situation represents the negative ramifications associated with the program. Ultimately, when African governments cannot afford to adhere to the policies necessary for the loans, they must redirect government services funds. Unfortunately, the general trend of government priorities is not the public health system, but adherence to the IMF programs and debt repayment.

Structural Adjustment and Healthcare

Figure 3

[73] Bianca Brunelli, *Structural Adjustment Programs and the Delivery of Health Care in the Third World*, Salve Regina University Pell Scholars,10 (2007) (citing Structural adjustment and Health in Africa, *The Lancet, 335,* 885-886 (1990)).
[74] *Id.* (citing G. T. Emeagwali, *Women Pay the Price: Structural adjustment in Africa and the Caribbean,* (1995)).
[75] Gathii, *supra* note 51, at 179, 190.



The Nigerian situation is not unique and the model is widespread across the continent. *Figure 3* indicates that Angola, Congo, Niger, Cote d’Ivoire, Guinea and Burundi—all spent less than five percent on public health programs in 2005.[76] Cote d'Ivoire, is a 26 time repeated borrower of the program.[77] WHO also provides that in Cote d’Ivoire, the average life expectancy is 49 years for men and 52 years for women.[78] Additionally, in 2008, 40% of children under the age of five died from either Malaria or Pneumonia, and 70% of deaths occurred from communicable diseases.[79] Therefore, Cote d’Ivoire has a devastating need for public health funding. While their structural adjustment loans have not caused their health problems, there is an exacerbation effect between Cote d’Ivoire’s participation in the program and its public health

[76] World Health Organization, 2005; cf The United States which spends approximately 17% on healthcare *available at* http://www.pbs.org/newshour/rundown/2012/10/health-costs-how-the-us-compares-with-other-countries.html.
[77] *Easterly*, *supra* note, at 6.
[78] *Id.*
[79] WORLD HEALTH ORGANIZATION *available at* http://www.who.int/gho/countries/civ.pdf (providing statistics concerning the public health situation in the Cote d’Ivoire).

expenditures. Structural adjustment has therefore forced many countries to divert funds from public health initiatives and to the increased trade capability. Money is needed to increase a country's infrastructure and its trading capabilities—especially if a country is to compete on the national stage.

For one to truly understand how much is taken away from public services, one also needs a baseline as to how much it costs to industrialize and provide minimum processing infrastructure. There is a large price tag for countries to compete on the international stage. For example, in 1964, Nigerian industrialization was said to cost £676.8 million.[80] The expenditure would be used for roads and transportation, as well as the building of dams and electricity. While, this statistic might not be truly indicative of what a developing country would have to pay today to institute adequate infrastructure, one can certainly think of £676.8 million (its value equivalent in 2012) as a minimum baseline.[81] Essential to a country's competitiveness would be a consistent electricity and internet supply, and reliable roads. Therefore, a bare minimum in today's age would be its equivalent. As a result, if countries do not meet fiscal targets provided by the structural adjustment loan, they redirect public spending on health initiatives to promulgate industrial development to meet the required baseline.

There are also indirect effects of structural adjustment programs indirectly contributing to poverty. Experts in the field suggest that, "poverty has the potential to decrease health care delivery [through] decreased incomes, limited employment opportunities, elimination of food subsidies. The lack of infrastructure not only makes it difficult to locate and afford treatment, but

[80] Phyllis H. Williams, *The Industrialization of Nigeria*, UNIV.OF OKLA. (1962) (explaining industrialization and the implication of social and economic changes that occur).
[81] Taking into consideration the decreased value of money, already existing infrastructure and increased technological expenses.

also puts individuals at a higher risk for contracting disease."[82] Poverty and healthcare go hand in hand. If poverty increases, healthcare services are likely more needed. The less healthcare provided to individuals, the more likely it is they will be unable to work resulting in poverty. Ultimately, because the implementation of structural adjustment programs have generally resulted in a decrease in public health resources, poverty has seen a marked increase—conflicting with any government's efforts to protect the public interest.

The Role of Structural Adjustment in African Education Expenditure.

The State of African Education

Public health and education go hand in hand and decreased expenditures on education programs has also taken a toll on the African state. While there has been substantial achievements in the education in the last decade, problems still exist as to accessibility and education quality. UNESCO reports that "at 32 million, the total number of out-of-school children represents one-quarter of the region's primary school age children and nearly 45% of the global out-of school population." [83] Additionally, in 2007, the high school enrollment rate region was the worlds lowest at 34% and levels ranged from 11% in Niger and 97% in South Africa.[84]

Even though there have been achievements, it is also important to measure education not through the lens of formal education, but through literacy rates. Here, Africa still ranks the lowest in the international community. Approximately 40% of the adult population in the region

[82] Brunelli, *supra* note 73.
[83] Primary school education is also defined as the equivalent of elementary and middle school. UNESCO, *Education for All Global Monitoring Report*, 2010. Cf. Sub-Saharan Africa has registered remarkable progress since 1999 in reducing the number of children out of school by nearly 13 million by 2007. *Id.* at 1 (describing UNESCO's education goals for the future years and the progress from 2000 to 2010).
[84] High School is the equivalent of secondary school. *Id* (describing why there is more work to be done in the African education context).

(which is 150 million adults), lack the necessary literacy skills needed to participate in society.[85] This is also true for numerical skills[86] necessary in extremely practical situations such as rural bargaining. Consequently, the sub-Saharan African education system is fraught with many problems. Potential considerations include unqualified and overwhelmed teachers[87], the problem of brain drain, and increasing accessibility for universal primary school education.

Education and Structural Adjustment

Problems with education were exacerbated with the structural adjustment loans. "The packages of changes that go with loans often means fundamental changes in the education programs for the country. This includes education budget cuts, increased user fees, and structural changes in educational institutions." [88] One author argues, that depending on how you frame the issue, structural adjustment programs and the byproduct of an exchange of information with international participants actually means that education quality and information has increased.[89] Most scholars, however, agree that more harm than good has occurred. In the 1980's, Africa's economic crisis was at it's peak, and structural adjustment programs were heavily relied on. In an analysis surveying adjusting and non-adjusting countries at this time, results indicate that adjusting countries reduced potential contributions of households to education, reduced public education expenditures, and finance ministers disproportionately cut their funds relative to other

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[85] *Id.*
[86] *Id.*
[87] "Many sub-Saharan African countries have more than doubled the teacher workforce, but twenty-two of those with data had pupil/teacher ratios above the international ceiling of 40:1 in 2007. A total of 1.2 million new teachers are needed in the region to reach universal primary education by 2015." UNESCO Report, *Education for All Global Monitoring Report*, 2010 (describing the goals of UNESCO education reform by the year 2015).
[88] Lynn Ilon, *Structural Adjustment and Education: Adapting to a Global Market*, INT'L J. OF EDUC. DEV. 95, 96 (1994) (arguing beneficial impact of structural adjustment on global education programs).
[89] *Id.*

areas of government.[90] Ultimately, the IMF and World Bank fail to take into consideration the costs associated with an uneducated population.

Structural Adjustment and Africa's Democratic Development

Introduction

The structural adjustment loan program has stunted political democratic development in Africa. This is true because foreign entities play a major part in the shaping of macroeconomic legislation and money that would otherwise be used for institution building is used to create processing systems to meet trade goals. In many cases, the problem is exacerbated by the corrupt political scheme and political instability.

The African Political Scheme and Corruption

Corruption has single handedly destroyed the African political landscape. Whether it is nepotism, party cronyism, bribes or extortion, Africa's corruption problem is considered the worst in the world. Corruption has stunted development and impoverished many African states.[91] Of the ten countries considered to be the most corrupt in the international community, six were sub-Saharan African countries.[92] Corruption cost the continent approximately $150 billion in a single year.[93] This becomes significantly more meaningful if one compares it the $ 22.5 billion developed countries gave[94] in aid to sub-Saharan Africa in 2008. This is also approximately 28% of South Africa's GDP.[95] Therefore, because corruption runs rampant, there is a lack of democratic institution building with or without structural adjustment programs. Consequently,

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[90] Fernando Reimers, *Education and Structural Adjustment in Latin America and Sub-Saharan Africa,* INT'L J. OF EDUC. DEV, 119, 119-129 (1994) (arguing that structural adjustment programs significantly effected education funding in the 1980s).
[91] Stephanie Hanson, *Corruption in Sub-Saharan Africa*, COUNCIL ON FOREIGN RELATIONS (Aug. 6, 2009) , http://www.cfr.org/democracy-and-human-rights/corruption-sub-saharan-africa/p19984.
[92] *Id.*
[93] *Id.*
[94] *Id.*
[95] *Id.*

because limited resources exist, corruption proliferates, and democratic institution building takes a back seat, the author argues that structural adjustment programs do not cause corruption but merely exacerbate an already depressing situation.

Corruption and anti-corruption techniques are seen in the Nigerian state. In one author's analysis, he describes corruption as "the illegal profiteering (i.e. the mismanagement of public funds) of a government official using his position as a representative of the government."[96] The irony of the Nigerian situation is that Nigeria is the world's "eight largest exporter of crude oil, and is a country endowed with many resources" but still has more than 70% of its population living below the poverty line as a result of corruption and economic mismanagement.[97] With self-aggrandizement at the center of Nigerian politics, siphoning of public funds—including that received from structural adjustment programs—seems a reasonable assertion. Most importantly, the authoritarian and centralized form of government associated with many African governments feed into a despotic state of affairs.

Some African scholars argue that the link between the poverty situation and the authoritarian system is reflective of the fact that Africans choose the lesser of two evils.[98] As a result, priority is given to short-term political stability rather than enduring time-consuming democracy building. Democracy, is therefore seen as a conflict management system rather than a an effective political system.[99] Unfortunately, Africa lacks the capital necessary to translate enormous wealth into realizable benefits, to its people, and it has failed to attract foreign

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[96] Ishmael Ogboro, *Corruption in Nigeria: A Great Challenge to Economic Development*, University of Jos. (undated).
[97] Michael M. Ogbeidi, *Political Leadership and Corruption in Nigeria Since 1960: A Socio-economic Analysis*, J. of Nigerian Studies, 1, 1-25 (2012) (discussing the corruption of the 1960's and its implication on the socio-economic development of the Nigerian State).
[98] The two evils are stability under the reign of an tyrant or instability during constitution building and transition.
[99]Ogbeidi*, supra* at note 97, at 366; *see* Justice, *supra* note 10, at 132 (explaining that corruption seems to be an integral component of the independent post-colonial state).

investment sufficient to fill the gap.[100] Consequently, forty years of entrenched corruption has resulted in, "highly centralized systems of governance, excessive state control coupled with limited capacity, arbitrary policymaking and abuse of executive power, erosion of the boundaries between the state and civil service, weak institutions of both state and civil society with executive branch authority, unaccountable bureaucracies, widespread corruption, unenforced or unjust legal systems, widespread violation of human rights, limited participation in governance by the general citizens, and preferential access to power and resources often determined or geographical [or ancestral] considerations."[101]

While it is important to eradicate poverty, empirical data suggests that depleting corruption is the starting point of rebuilding the African economy.[102] The effect of corruption on any attempts to grow the African economy is extremely significant and an example of this is seen in one scholar's work. The scholar suggests that across the board, the single number one determinant when it comes to Foreign Direct Investment ("FDI") is corruption. While admittedly, FDI is not the same as a structural adjustment loan, FDI research highlights the direct implications of corruption on the African economy and corruption's relationship to potential investors and traders (especially those abroad).[103] Most importantly, quantitative measures speak to the extent to which corruption has inhibited Africa's growth—within the region and internationally.[104] This speaks to corruption as a likely factor decreasing funding to democratic reform rather than compliance of structural adjustment programs. Consequently, if the trade

[100] *Id.*
[101] *Id.*
[102] Elizabeth Asiedu, *Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Governance policy, Institutions and Political Instability*, U.N UNIV. (2006) (discussing quantitative variables and their role on foreign direct investment in Africa).
[103] The author believes that trading partners and investors should be seen as similar rather than not because they both are looking to profit from their relationship with the African state.
[104] *Id.*

liberalization centers itself on foreign trade and investment, then corruption and political instability will likely be a detrimental factor in attaining foreign trade partners.

Structural Adjustment and Democratic Governance Scheme and Industrial Democracy

Compliance with structural adjustment programs detracts from democratic growth and development in three ways. First, the structural adjustment program compliance detracts from democratic institution building. Second, structural adjustment programs negatively effect traditional political growth and development by debilitating African legislatures from effecting macroeconomic trade policies. Second, structural adjustment programs detrimentally effect the growth of labor unions in industrial democracies (i.e. the work place) because of an increase in private enterprise and a decrease in public enterprise.

One author explains that, "rapid expansion of exports requires the development of supply capacity and diversification of manufactured goods for export, which in turn requires increased investment."[105] Furthermore, because Africa is lacking in the industrial base needed to produce at this capacity, "production is based on simple processing and traditional industries."[106] This results in many cash strapped economies and governments who are not able to "fund various government institutions."[107] An example of this is seen in the case of Zambia. Oxfam observed that Zambia experienced a catastrophic decline in overall levels of funding of the social sector . . . exacerbated by the austerity measures demanded by the World Bank.[108] As related to the

[105] James Ndulo, *The Democratization Process*, 10 IND. J. GLOBAL LEGAL STUD. 315, 365 (2003) (explaining the rapid expansion necessary to service international trade).
[106] *Id.*
[107] *Id.*
[108] *See* OXFAM, Globalization and Human Rights in Africa in Africa, undated.

democratic process, Zambia did not have the resources to complete its 2001 elections and ultimately needed support of the European Union.[109]

Legislatures and trade unions have also suffered and responses to structural adjustment loans have been negative. This is most notably seen in the example of Sudan. Sudan initially adopted a structural adjustment loan program in the 1990s.[110] Even though the program was said to be "homegrown," the Sudan Structural Adjustment Program Act ("SSAP") ultimately reflected the traditional structural adjustment loan program of macroeconomic trade liberalization.[111] Thus, price controls were eliminated and "supply and demand were unleashed to determine the price levels of all sectors" including public utility services and commodities such as electricity and sugar.[112] Figure 4 illustrates the increased inflation Sudan experienced after the SSAP was implemented.

<u>Figure 4</u>

[109] Presumably the 2001 election is an example of democratic process. Therefore, when Zambia did not have the resources to complete the election, the author argues it was because funds directed for the election were used for other purposes. Ndulo, supra at 365.
[110] El Khidar Ali Musu, *Amjan University of Science and Technology*, *available at* http://unpan1.un.org/intradoc/groups/public/documents/CAFRAD/UNPAN017581.pdf.
[111] This included "price liberalization, privatization, the removal of government subsides, significant devaluation, cuts in public expenditures with deep public sector retrenchments,
relaxation of foreign exchange controls, an increase of interest rates to real levels, the withdrawal of protectionism measures, the introduction of user fees, tight control of credit, and an increase in agricultural producer prices." *Id.* at 2.
[112] *Id.* at 3.

Table 2: Inflation rates in the State of Khartoum

Year	Per income level (%)			Consolidated inflation rate (%)
	High	Medium	Low	
1990	66.8	67.4	70.9	**67.6**
1991	120.2	123.7	121.8	**122.5**
1992	125.4	117.6	113.4	**119.2**
1993	100.8	101.3	101.4	**101.2**
1994	116.7	115.4	116.9	**115.9**
1995	70.5	68.4	68.4	**69.0**
1996	123.3	132.7	135.3	**130.4**

Source: Department of Statistics, Ministry of Finance and Economy, Khartoum, Sudan.

One author criticizes the SSAP program because it eroded at industrial democracy by diminishing the power of trade unions in Sudan. [113] Before, the privatization of public entities, trade union representatives represented a significant portion of governing boards. Once, these boards were privatized, not only did local trade unions lose their seats on the board, but many times they were replaced with non-locals.[114] This also decreased the value of having trade union representatives in government and legislative affairs, and therefore a decreased local control on the Sudanese economic agenda.

In conclusion, burdensome compliance measures necessary for trade liberalization has made democratic institution building a non-priority and countries have been unable to achieve the necessary steps as a result of insufficient resources. Africa's corruption problem, will continue to affect it and its citizens in any type of international policy, and corruption exacerbates the negative side effects of the structural adjustment program. Finally, in the example of Somalia, the structural adjustment program has decreased political development through forced trade liberalization policies and a decrease in local involvement in economic legislation.

[113] Musu, at 1.
[114] *Id.*

Potential Avenues for Reform and Restructuring Structural Adjustment

Moving forward, it is important to discuss the potential avenues for reform. While, there is overwhelming support that structural adjustment programs has negatively impacted African development, and trade trade liberalization is potentially an incompatible scheme with the African economy—there is potential for reform. Conditional lending is not necessarily an evil, if it is tied to the right incentive structure and contains achievable goals. Therefore, the following analysis will look to reforms from the perspective of two actors—the borrower-country and the lender.

The Borrower's Perspective

For conditional programs to be effective, work should be done on the side of the borrower. Scholars articulate that conditional spending works if countries decide on their own to reform current fiscal structures.[115] In a study comparing 220 structural adjustment programs, researchers found that the most important determinative of structural program success was the borrow-country's political-economy factors.[116] Factors include ethnic fractionalization, whether leaders were democratically elected, and their length of tenure.[117] Like similar policy implementations, the borrow-lender must have the conditions conducive to reform.

The researchers conclude that the situation in Zambia was highly predictable.[118] In the 1980s, the country had a total of four structural adjustment loans, three of which was subsequently deemed failures by the IMF. Additionally, other international agencies which provided the same type of policy-based support to the country resulted in similar

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[115] David Dollar and Jakob Svensson, *What Explains the Success or Failure of Structural Adjustment Programs*, The Econ. J. 894, 894-896 (2000) (discussing the importance of domestic political-economic forces are the most important determination of structural adjustment success).
[116] *Id.*
[117] *Id.*
[118] Zambia's structural adjustment loans at the time amounted to approximately $212 million. *Id.* at 911.

dissatisfaction.[119] The researchers conclude the results were predictable because Zambia did not have the conditions for conducive to reform—the government had not been democratically elected, there was instability during the transition, and the country was highly ethnically fragmented.[120]

Therefore, from the borrower's perspective there needs to be a certain degree of democratic reform and stability. Transitioning fiscal policies to "reduce inflation, suppress wages, privatize industry, increase free trade and deregulate business"[121] could result in a high degree of economic volatility if the government is unstable. Additionally, it will be difficult for international organizations to work with political leaders if there is a high degree of instability in government. Many of the policies associated with trade liberalization are long term and take time to implement.

The Lender's Perspective

As mentioned before, there are some benefits to trade liberalization policy and therefore it is important that lenders keep the good and minimize the bad. With that in mind, it is important that reform focus on a narrowly tailored solution rather than general broad ranging economic schemes like trade liberation. Some scholars argue that structural adjustment programs should aim for sustainability and not for economic growth,[122] and policies which are not generally associated with trade liberalization should be implemented if they do not conflict with the general scheme of macro-stability.[123] Ultimately, there needs to be a balance of private investment and public investment in economic growth.

[119] *Id.*
[120] *Id.*
[121] WORLD TRADE ORGANIZATION, *supra,* Note 8.
[122] Doni Rodrick, *How Should Structural Adjustment Programs be Designed,* World Dev. 933, 933-947 (1990) (discussing the importance of economic sustainability rather than economic growth is countries with structural adjustment programs).
[123] *Id.*

The importance of sustainability cannot be understated and it is generally described as including components of "stable macro policies, a credible and predictable set of microeconomic incentives, widely expected to be sustained into the indefinite future, and the absence of sharp distributional changes that would create incentives to reverse a financial course down the line."[124] Sustainability is important because it derives from the fundamental link between stability and private investment and, therefore, it is important for IMF programming to recognize that an economy cannot be expected to function smoothly in an environment of high variability.[125]

Reform should focus on maintaining a degree of economic stability. One of the first places to start is the devaluation and exchange rate policy. While trade liberalization entails a floating currency, an "unsustainable exchange rate is one on the main reasons for capital flight" [126]and the volatility experienced by developing countries. In the 1980s, four out of nine African countries which have a floating rate switched to a more controlled fiscal regime.[127] Realistic but controlled exchange rates, while not liberal fiscal policy, should be at the center of structural adjustment reform.

Trade reform is also essential to program reform. One scholar believes that policy should focus on exports directly by combining trade liberalization with currency depreciation. [128] Exporters, like those found in Korea have demonstrated the success of instituting this type of policy.[129] Additionally, the reduction of high import or export taxes will be vital in increasing

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[124] *Id.* at 935.
[125] *Id.*
[126] Rodrick*, supra* note 122, at 940.
[127] *Id.*
[128] *Id.* at 941.
[129] Korea is now one of the top ten exporters in the world. THE WORLD BANK, *Export Generation: Republic of Korea*, *available at* http://siteresources.worldbank.org/ECAEXT/Resources/258598-1284061150155/7383639-1323888814015/8319788-1324485944855/06_korea.pdf (explaining Korea's exporting policies through benchmarks).

government revenue. Ultimately, program change will only occur if there is a change in policy perspective. Economic growth, while valued, should not be more prioritized than economic stability.

Conclusion

While there are some benefits to the IMF program, the costs associated with the structural adjustment loan do not offset the decreased quality in public services. The IMF's structural adjustment loan is detrimental to African economies and to African development. The program overemphasizes economic growth instead of maintaining economic sustainability. The investment and growth consequences, therefore, cannot be ignored. Stunted growth in democratic development, healthcare spending and education programs, means that Africans bare the brunt of policy infused conditional loans. Therefore, international institutions must take into consideration what Africa is actually capable of achieving. The author advocates that the top economic priority is one based on economic sustainability.

This research is important because Africa is in need of effective and pragmatic solutions. "Responsibility is the most powerful internal motivator for problem solving. When you remove it, all that remains is the lesser drive of self-preservation. If necessity is the mother of invention then responsibility is its father."[130] Africa and the international community must now become responsible. The IMF, in particular, must use its responsibility for the detrimental effects of the structural adjustment program as motivation, and implement better policy—policies centered on providing long-term solutions to one of the most worrying world problems. Without a detailed understanding of the nature of the impact, there will unlikely be reliable information about areas of investment and additional reforms. Through continued and meaningful research, it is the

[130] Mark A. Crouch, *Bouncing Off the Walls: 10 Simple Wisdoms to Becoming a Black Belt Problem Solver*, 1 (DelMac Publ'g, 2002).

hopes of the author, that international organizations take into account the institutional constraints of the African system before implementing wide-sweeping policy initiatives.

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