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 **The Impacts of IMF/World Bank as Global Institutions in Kenya**

**Abstract**

The purpose of this paper is to evaluate the impact of World Bank and International Monetary Fund (IMF) structural adjustment programs on third world countries and in particular Kenya, an East Africa nation. Since second world war II, globalization started to gain inroads around the world as developed nations envisioned a connected world to pave the way for better trade and expand their market structure for more profits. As a result, many developing nations realized a huge population of their subject move from poverty to middle class following more opportunities through connectivity and easier ways to do business. Accompanying the benefits of globalization was an undesirable increase of inequality levels in many developed nations, and inadvertently more human population found themselves entangled with absolute poverty and starvation[[1]](#footnote-1).

Various scholars have tried to give a reason behind the levels of poverty in developing nations despite huge aids that have continued to flow to the sub-Saharan nations. For example, over dependency theory has argued that IMF and World Bank policies have contributed to dependency by developing nations upon rich countries (Chazan). On the other hand, another school of thought suggests that IMF and World Bank programs have significantly aided in an increase in poverty and underdevelopment. The argument further states that policies spearheaded by the IMF/World Bank lack proper connectivity between the national government and social sectors in developing nations (Wangui Githua). Typical sectors affected hugely include health and educations as these programs help to channel less money in social projects (Githua).

**Background Information**

Globalization may be thought as the foundations on which the two major international banks-IMF and the World Bank were formed. Before one may understand the benefits, it is imperative to define the term itself. Globalization has been defined as an aspect of internationalization or the opening of boundaries in many respects that go past trade and economics. Scholars have debated and argued if at all globalization has been an instrument of opportunity for all or a catalyst for fear and insecurity whose agenda is to serve the metropolitan cities of the west. Since the 1970s, social changes have been seen around the world. Positive effects of globalization have been witnessed around the globe. It has brought more integrated world markets at the same time yielded greater growth patterns and has presented an unparalleled opportunity for developing nations by raising the living standards of their citizens[[2]](#footnote-2).

On the other side, there are also some downsides of globalization; for example -some developing countries have been marginalized. However, the positives of globalization outperform the negatives by a far margin. There has been rapid prosperity in most developing nations due to globalization effects. Opposing views also have cried foul that globalization has worked to serve the interests of the developed nations at the expense of developing countries (Wangui Githua).

 This paper will go deeper in examining the dependency theories and the formation of political economy and the integration between global economics movements plus the territory political units. To further understand some of the global units, and their global influence and more so in developing countries this report will take Kenya, an East African country for a critical study the effects of the IMF and the WB (Wangui Githua)

 Traditionally, Africa has a rich culture. The fifty-four states of Africa are the outcome of conquests, mergers, and continuity. The African countries are rich in natural resources, but unfortunately, the masses have not been able to derive benefits out of the wealth in their land. The continent of Africa has witnessed monarchies, civilian governments, and dictatorships[[3]](#footnote-3). From an economic perspective, the African countries have been in foreign debt, and as a result, many countries could not make progress. Kenya is a prominent African country which has a market-based economy. Principally, the market-based economy is administered by the theory of demand. In this respect, people tend to buy more when their income increases while they spend less in case it decreases[[4]](#footnote-4). Therefore, consumers are the important pillars of the market, and it's significant that they have money. However, when countries go for IMF and World Bank's programs, the consumer, directly and indirectly, gets affected, and it has been the case in many underdeveloped nations. Similarly, Kenya is impacted by the policies of IMF and World Bank as the country relies on these institutions for its financial targets.

The International Monetary Fund, the World Bank and the Multinational Enterprises (MNEs) are the main players in the international political economy (oxford Reviewing economic policy, 2004). The IMF, World Bank, and the World Trade Organizations are normally referred to as the three global financial institutions[[5]](#footnote-5). Parameters such as power, political interests, discourse, hegemony, and responsibilities have been widely used by various scholars to study these institutions in more depth. Scholars have argued that the IMF and the WB are US dominated and were initiated as a collective front for the United States international policy-arm while others believe that these institutions are a form of new world order, subtler effective imperialism[[6]](#footnote-6).

 This paper will critically examine the impacts of IMF and the World Banks programs in developing countries and their debt burden and in particular, Kenya an East African country. The study shows IMF, and The World Bank programs and policies have received a lot of criticism as they are unhelpful and their effectiveness sometimes is hard to account because encourage dependency by developing counties upon wealthier nations (Wits University Press, Zed Books; 2003 & Palgrave Macmillan;2010)

 In addition, IMF and the World Bank began their operations in the year 1944 in New Hampshire, Philadelphia, the USA at Bretton Woods. According to Richard Peet, this was the time when the world was going through World War II, and 44 nations had a meeting at the Bretton Woods, the USA from 1st to 22nd July 1944. Led by the USA, and the UK and they discussed post war economic policies and peace. The governments/states wanted to secure peace and prosperity through international economic cooperation. These global institutions were to regulate and enhance the operations of world markets, capital so that goods would move freely. Britton Woods institutions were envisaged to supervisor laid down principles for conducting issues agreed upon at the conference as stated in the Article 1, of the Agreement of the IMF’s missions and aiding in the overall development and progress of the global trade. Further, the IMF and the World Bank were supposed to help in balancing growth and maintain adequate employment opportunities and funds for utilization of resources for all member states (Palgrave Macmillan; 2010).

 Moreover, the loan facilities by the IMF have extensively been used since 1977 by third world countries. Usually, the IMF has been helping countries through lending money so that balance of payment issues can be tackled. In this context, the financial support is geared towards helping nations to achieve economic stability at the macro level and to rebuild their foreign reserves at the same time strengthening their currencies and making payments for all the imports to achieve growth and thereby reduce poverty. Additionally, these financial institutions provide loans to low-income countries to aid them to develop their economic situations and alleviate suffering for their subjects.

 World Bank on the other side, involved systematic borrowing for the countries, sector-based structural adjustments loans, and organized adjustments credits for low-income countries. These loans though came with a string attached to them. For instance: macro-economic terms and conditions, for example minimizing budget deficits, and lowering local credit expansion. Besides, other systematic terms and conditions like maneuvering controlled prices, interest rates, removing hurdles and allowing privatization of entities owned by the state. According to the basic terms of structural adjustments, countries were under obligation to depreciate their currencies in comparison with the dollar, ease export and import restrictions, make a balanced budget, and avoid overspending, and cancel subsidies given by the state. Moves such as depreciation resulted in lower commodity prices for overseas people in developing countries and at the same time made foreign inputs more expensive[[7]](#footnote-7). As a result, countries bought expensive foreign equipment because the IMF was actually disrupting the developments efforts of third world countries by further giving loans to countries with large foreign currencies (Ashgate Publishing, 2011 & London Macmillan 1973).

Furthermore, devaluations of currencies and removing price controls brings some undesirable effects of SAPS in generally hiking prices three or four times and hence increase poverty. IMF discourages the raising of taxes by these nations as a way to balance their national budgets rather IMF allows government cutting as a measure to rescue these scenarios. The aftermath of these SAPS was catastrophic in many aspects:

 The objective of substantial cuts in various programs was to bring reforms in the education sector, healthcare, social care, and also the cancellation of subsidies. In fact, subsidies are given by govt. to control the price of the products for everyday use such as milk, wheat, and other agricultural products. However, governments are bound to remove subsidies when they enter IMF programs; as a result, poor get adversely affected. Eventually, the SAPS have been unfavorable for the poor folks in Kenya because they were relying on the services and subsidies. Research has established the adverse effects of these IMF programs in Kenya a long time after they were implemented (Athens: Ohio University Press, 2008).

As such, globalization and its impact on the economy in developing countries have been a worrying trend for many scholars as far as third world countries are concerned. According to Stiglitz: “Globalization can be a force for good and has the potential to enrich everyone in the world and more so the poor." However, the manner in which globalization and its global financial institution have been managed in sub-Saharan countries is questionable, therefore, and for good tangible results to be realized, Africans nations need to rethink their approach as far as borrowing from these global institutions is concerned[[8]](#footnote-8). Nothing comes on a silver plate. Globalization, as mentioned earlier, came with its side effects:

 Globalization of the world economy through global financial institution has aided in bringing a massive increase in global inequalities and thereby forcing a vast population to absolute poverty in Kenya and most developing nations. East Africans countries and especially Kenya have not fully benefited from globalization in some areas such as trade, investments even though receiving financial assistance from both the IMF and the World Bank. Until recently, the activities of the IMF inside Kenya and its effects more has been discovered and mostly the problem of financial burden left behind by this institution without any tangible projects to show off.

 IMF and the World Bank are the key institutions that govern globalization (Githua). These two institutions were created after World War II to help build Europe and ensure global economic prosperity and peace. However, many scholars have criticized their effectiveness saying that they function to advance the interests of developed nations. Usually, nation-states hardly act of love but in a way to pursue their self-interests. African nations like Kenya has suffered a great deal under the IMF structural adjustments programs. UNICEF reports that in excess of half a million children below the age of five die every year in African and Latin American countries due to the debt crisis, which is administered by IMF SAPs. Harsh conditions placed by the IMF and World Bank have drastically undermined food security, deepened poverty and lead to unsustainable resource exploitation.

Even though the IMF is today one of the most dominant world financial non-state organizations, it’s devastating effects have been witnessed in many developing nations. For instances, its policies have continued to make it accumulate power and dominance across the globe affecting over 184 countries. Its policies have hugely been disastrously influence the lives of many people around the world. According to Shah, debt is a useful tool as it enables other people to access raw materials at the easiest possible terms. As a result, several underdeveloped nations are in debt and poverty to a larger extent due to terms and conditions imposed by the IMF and World Bank. These policies advance and encourage programs by removing government controls and promoting market competition as a form of neo-liberal agenda.

Contrary to their claim of reducing poverty, structural adjustments programs (SAPS) introduced by the IMF and the World Bank in developing since the 1980s they have resulted to destabilizing large masses of people by forcing them into abject poverty and suffering ((Wits University Press, Zed Books 2003). Policies spearheaded by the IMF/World Bank created no options for developing nations to choose. The International Monetary Fund and World bank involved themselves in Africa to support macro-economic policies and spur growth through loans with low interest and subsidies[[9]](#footnote-9). However, these loans came at a cost and with policies that hampered developments and the goals of those global financial institutions (Oxford: OUP,2008).

 In Kenya for example, the country had barely made any significant strides in economic growth in the 1980s when these global institutions began their activities in African continent (Githua). As a young nation that had barely liberated itself from colonial rule, it had no option but to accept those conditions fronted by the IMF and World Bank for it to secure loan facilities. Requirements for receiving these loans came in different forms. Some of the policies were good while others were detrimental and benefited the IMF and the World Bank. Some of these conditions required a country to reduce inflations, change the country's monetary policies such as how it set exchanges rates, wage suppression tariffs on imports and privatization of state owned parastatals (profit making government cooperation). Telkom Kenya, a giant government-owned telecommunication firm was privatized and later bought by foreigners as a result of this.

In essence developing nations surrendered their sovereignty economic rights and allowed the IMF and the World Bank to introduce a liberal regime of international payments. The IMF had disguised itself as a to stabilize the balance of payments of developing nations, on the contrary, though it applied "financial programming" for every country at its own benefit. The IMF imposed its economic system other than the countries different wish. The loans eventually became a point of tension and social struggles within a society and nation-state begun to conflict with the global institution like the IMF. IMF set repayment methods favored the donors at the expense of the poor working people (New York: monthly Review Press,1974).

 The IMF and the World Bank are like twin sisters. Both took birth from the Bretton Woods meeting in New Hampshire Philadelphia in 1944. Their agenda was to save the world from future economic devastation as seen in Europe after World War II (Penguin Press: Great Britain,2002). Lately, World Bank policies differ significantly from those of IMF as summed up by John F. Henning of global Labor Relations. Initially, the IMF had intended to enhance growth and to create maximum employment opportunities through the unconditional lending process during an economic crisis and establish a mechanism to balance exchange and currency rate[[10]](#footnote-10). However, a large part of this plan has not been realized; instead, pressure from the US to the IMF representatives resorted to offering loans with harsh conditions dictated by powerful members nations.

 World Bank Loans policies have faced criticism saying these institutions have helped to decimate social grids and deteriorated tax, worker and environmental standards in underdeveloped nations. Like the IMF, the World Bank was formed to fund and rebuild infrastructure torn by World War II. Its agenda has too changed. Scholars have cried foul on how the World Bank deals aggressively with developing countries. It believed that the World Bank has been ruled by the dictator’s regimes, and heavily oppressed underdeveloped nations’ severe debt crisis and thereby bringing devastation to indigenous communities. Arguably IMF and World Bank Policies remain a root of bitter debate around the globe today[[11]](#footnote-11). Though different in the way they further their strategies, IMF and the World Bank structural adjustment programs reinforce each other. Any government is required to get a green signal from the IMF if they are to qualify for an adjustment loan from the World Bank (University of California Berkeley).

 SAPS (Structural Adjustment Programs are policies applied by both institutions before getting a new loan with low-interest rates (Africa Action, April 2002). SAPS are used with the aim of reducing the borrowing countries fiscal imbalances. At the same time, SAPS were enforced to receive a guarantee regarding debt repayment and reforming the economies in different countries. Developing nations were pressurized to minimize spending on the health sector, education, and growth, whereas debt repayment strategies were prioritized.

 Governance and more so how these two institutions deal with East Africa nations like Kenya has been questioned. Kenya, for example, is given no chance to voice its concerns in decisions made against them. Joseph Stiglitz, a renowned economist who has been a chief economist at the World Bank, had to resign under pressure as he criticized the policies of IMF and the World Bank. Stiglitz stated that these global institutions conduct their business without trying to inquire much data about the countries they finance. In simpler terms, these institutions support democratic institutions in nations at the same time undermine and also degrade states sovereignty, autonomy, and nationhood.

 Such actions have given birth to adverse effects. Declining nation-statehood, exploitation of raw materials, poor educations standards, deteriorating health standards, slow growth agricultural development and multiplied corruption in developing governments. As if not enough, the debt burden has increased to some alarming levels. Stiglitz has pinpointed the grim picture caused by the debt burden due to the presence of IMF and World Bank in underdeveloped nations. The consequences of debt are total misery. Countries like Kenya struggle to avoid defaulting the loan payments, as a result, leave no money to spur economic growth (Moss). Kenyan public debt stood at Ksh. One million two hundred twenty-nine thousand four hundred six million a 51.0 percent of its GDP in June 2009/2010 to Ksh. One million four hundred eighty-seven thousand one hundred ten million which is a 53.9 percent of the GDP in June 2010/2011. External debt increased from 569,113 million or 23.6 percent of the GDP to Ksh. 722,888 million or 26.2 percent of GDP over a period under review[[12]](#footnote-12). The cause of the increase in debt, in Kenya, is as a result of the weakening of the Kenya shillings against other major currencies of the word. Such an increase has been ongoing despite programs implemented by the IMF and the World Bank

 The IMF and World Bank have persisted that SAPS were critical for the nations like Kenya to recover from the crisis and get economic growth and stability so that the poor could benefit from the national wealth and resources. Kenya had devalued its currency to increase export while lowering the value of domestically produced goods. Kenya was forced to liberalize trade and investment and high interest to attract foreign investments (Penguin Press: Great Britain, 2006). In the period between 1993-1994 fourteen banks in Kenya failed as a result of liberalizing their financial markets with a believe that competitions among banks would give lower interest rates. Inadequate bank legislations and supervision, saw indigenous banks grow rapidly with high-interest rates after following IMF advice were some of the problems that came up, leading to the sinking of economic trends[[13]](#footnote-13).

Further, these programs encouraged the government to abolish food and agricultural subsidies in order to lower its expenditure, while developed nations do play a vital role in subsidizing their agriculture. Meaning IMF and World Bank gave bad advice, or they preached water while they drank wine. Massive cuts in social programs in areas like health, education, and housing, followed by layoffs of civil servants. In addition, the agriculture sector saw a shift in farming food crops to cash crops such as tea, coffee, and cotton. Lastly, these SAPS programs called for privatization of government-held enterprises and at the same time sold to foreign investors.

 The IMF, and World Bank approach in Kenya or Africa has been a sad story of the affair. Its lending approach to most East African countries was similar to that practiced by the colonial masters (Oxford: Claredon press, 1987).

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