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International Momentary Fund /World Bank: A Progressive or Retrogressive Economic Vehicle for the Third World Countries?

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Abstract:
It was Ted Turner, the founder of the Cable News Network (CNN), who once stated that the world is a global village. The reality about this statement is found in the activities of the International Monetary Fund (IMF)/World Bank whose operations know no boundaries. This paper, therefore, is aimed at investigating the modus operandi of IMF/World Bank and how it has impacted the developing nations. The paper adopts the underdevelopment theory, an off-short of the Marist school of thought as a tool for analysis. The findings reveal that the presence of IMF/World Bankhas been an instrument of exploitation and a vehicle for neo-imperialism and retrogression as the conditionality attached to credit facilities to Less Developed Countries (LDC)by these institutions have left them very impoverished with most of them servicing unending debts. Finally, it recommends among others, that developing nations should assemble resources together in a special financial institution establish by them for the purpose of addressing the economic and developmental challenges confronting them.

Keywords: *International momentary fund, World Bank, third world*

1. Introduction

The Britton Woods Conference of 1944 gave birth to the International Monetary Fund and the World Bankin New Hampshire soon after the Second World War(Gerber, 2014). The main objective was there construction of the European nations which were devastated by the war. On establishment, the body was saddled with the responsibilities to regulate the volume of international liquidity in the world economy and to also guarantee the stability of exchange rates in promoting freedom of trade and capital transactions. More so, to coordinate economic policies of member-states, in order to assist them with the balance of payments (BoP) problem. In attendance were Scholars and notable leaders from about 44 countries including John Maynard Keynes and Harry Dexter Whites (Muhumed and Sayid, 2016;World Bank, 2016a and Moyo, 2009). With the enormous financial capability at the disposal of the two organisations, the newly independent states of the Third World countries sought to take advantage of the opportunities available in lending facilities to commence developmental projects in their respective nations (Jhingan, 2009). However, the outcome of these credit facilities granted to LDC has been economic setback and further, impoverishment because of the stringent conditionality attached to them. To some Third World scholars, the conditionality are deliberately designed to ensure Third World nations are economically dependent on capitalist nations due to the interest and their inability to repay which nearly sparked international crisis. For example, in 1973 LDC debt was $ 18 Billion and by 1990 the debt has increased to $ 140 billion (Jhingan, 2009).

According to World Bank Annual Report (2018), the World Bank Group is one of the largest sources of funding and knowledge based for developing countries. The organisation is made-up of five special financial institutions with a common goal of reducing poverty through sustainable development projects at world level. These include: The International Bank for Reconstruction and Development (IBRD), which is to lend to governments of middle-income and creditworthy low-income countries; The International Development Association (IDA), which provides interest-free loans andgrants to governments of the poorest countries of the world; The International Finance Corporation (IFC), which handles the provision of loans, equity, and advisory services to stimulate private sector investment in developing nations; The Multilateral Investment Guarantee Agency (MIGA),a body that provides political riskinsurance and credit enhancement to investors and lenders in order to facilitate foreign direct investment in emerging economies; and the International Centre for the Settlement of Investment Disputes (ICSID)responsible for providing international facilities for conciliation and arbitration of investment disputes among member nations. (World Bank Annual Report, 2018)

It is obvious that the shared responsibilities of these institutions from the point of view of their commitment are less manifested in the lives of the LDC while their political agenda is more paramount in their operations. This position finds relevance in Wallenstein's world system theory which stipulates that the world economy is structured into core center, semi periphery and periphery. In his studies, the core center is consistently working to sustain its hegemony by suppressing the interests of the various groups through the systematic operations of World Bank/IMF.

There is no doubt that the IMF/World Bank represents a viable solution for the development of the LDC interest. However, since the inception of IMF/World Bank their economic policies towards the less-developed economies have hindered economic growths and defied all economic tools for development. As a result, some scholars view the operations of IMF/World Bank as an instrument of neo-imperialism and retrogression.

In view of this, the paper intends to bring to the fore, the economic burdens such as exploitation and repatriation of resources originating from IMF/World Bank conditionality attached to loans and aids granted to emerging nations and other shoddy deals that have retarded developments in the Third World countries.

2. Theoretical Framework

Theories in the field of social science are sets of principles which seek to explain social phenomenon. According to Charles and Shannon (2012)a theory isa relation between two or more factors that exist.To this end, Deming, cited in Charles and Shannon (2012) stresses the importance of a theory by noting thus: 'Without theory, experience has no meaning. Without theory, one has no questions to ask. Hence without theory, there is no learning'. Interestingly several theories exist in political science. These include: System theory; The Marxist theory; Decision Making Theory; Theory of realism; Integration theory; Linkage theory among others. Nonetheless, this paper will adopt Dependency Theory which is widely referred to as the Under-development Theory. According to some scholars of political economy and international relations- Johari (1986)Nikitin (1983), Onimode (1985), Ake (1981) and Sodaro (2001) - dependency theory is an off-shoot of the Marxist theory of political economy which was published in his popular work *Dialectical Materialism*in1844.

The fundamental argument in Karl Marx analysis is the ill of economic alienation, exploitation, and monopoly through the process of accumulation of material wealth of the bourgeoisie's economic theory of capitalism. He argues that there will always be a class conflict between two opposing groups for the facts that economic factor constitutes the primary material sources of all human actions. Thus, the principal motives of capitalism are the virtue of political and socio-economic exploitations of the weak by the strong hence, the continuous class struggle between the proletariats and the bourgeois ,be it local or international borders. The economic determination of the concept of the dependence proponents resonant in the work of Marxist and Leninism presentation of the bourgeoisies economy which according to them, conditioned the underdevelopment of the Third World nations for their economic and technology advancement to the detriment of the Less Developed Nation. For Thomas(2010) the focus of the dependency theory hingeson the facts that economic resources flows from the periphery poor underdeveloped nations to the core capitalist industrialized economies.

The proponents of dependency theory include, but not limited to Andrew Gunder Frank, Paul A. Baran, Fernando Henrique Cardoso, Santos and Emmanuel Wallenstein. Thus, Johari (1989),Chikendu (2004), Ake (1979) , Ake (1981), Thomas (2010), Ezeibe (2015), and Todaro and Smith (2011),believe that dependency is a state of affairs in the LDC in which the economics of the Third Worldis perpetually condition by the development of the western capitalist economy. Similarly, Cardoso, analysis of underdevelopment rest onhis view of double exploitation of LDC through the operations of Multinational Corporation as a result of the direct changesin the international capitalist organisation that is, division of labourin which the economic policies of the multinational corporation ultimately become the integral determinant of the dependency relationship between host and MNC. Therefore, the internal dynamics of the host countries rest entirely, on the decision making bodiesof MNC dictated by their home government.

Furthermore, A.G. Frank, development and underdevelopment is the same face of one coin. That is to say, factors which are responsible for the development of the global north economies; let's say, the residential material wealth exploited from LDC are yet again, the primary causes of poverty in the global south nations. For example,human and materialscarted away could have made colossal impacts, in the internal growth and development of LDC.However, the sophisticated technology of the capitalist economics dating back to Trans-Atlantic Slaves Tradein addition to, colonial rule and present-day neo-imperialism did not afford the developing nations the capacity to emerge. In furtherance of the above position, is Emmanuel Wallenstein concept of world economy system which is based on capitalist structure. The world economy according to Wallenstein is structured into three tiered, the Core centers the semi periphery and the periphery. He posits underdevelopment and dependency is the byproduct of the functional principle of western nations whose accumulation of resources is exemplify in their advance manufacturing, sector banking and processing of primary products. While, the semi periphery are those pre-capitalist and underdeveloped European economies, who similarly conduct businesses withdevelop andpoor periphery economies; besides, they are regardedas keyplayer in the world economy. Finally, there are those poor periphery countries whose economic living standardis said to be less than a dollar per-day.In addition to poor national income, high maternal and infantmotility rate as well as the absent of basic industrial and technology incentives. based on the foregoing submission one can safely conclude that the various schoolsof thoughtalign with the subject matter that World Bank and IMF as an agent of the capitalist economies have not by any means address the economic problems and challenges confronting the development of the Third Worldcountries.Rather, their economic conditionality attached to loans and grants from this supranational organisation have further widened the underdevelopment and total dependence of LDC on the capitalist nations.

3. The Developed and the Developing/Third World Nations

The developing nations as posits by Sodaro(2001: 340) are states geographically located in Latin America, Africa, East Asia and Middle East respectively. The term 'Third World' was first coined and used in the early 1950's by a French economist. These nations numbering over 150 nations also constitute 85 percents of the world population. Similarly, accounting for almost all the raw materials possess by the capitalist economies whose population make-up barely 15 percent of the global populace. These groups also controlled the means of production thereby impoverishing the majority. Among them are America, Britain, France and Germany to mention but a few.

Furthermore, these nations were the finding members of World Bank/IMF. Soon after the Second World War (WWII), their aims and objectives were to ameliorate and enhance the economies of the battered nations as a result of the WWII, in addition to furthering economic interdependence of member nations in area of regional integration as prescribed by Chapter 52 of the United Nations. It is significant to stress here that, irrespective of nation states financial capacities it is mandatory for countries to align with this body in view of their financial capacity and capability as a lender to nation states(Griffith-Jones, 2002). The governing structure and power sharing formula of the bank principle rest on the G7 members who are the sole decision makers and as such, determines who get what, when and how on the basis of country's relative size in the world economy. For example, the United States of America alone enjoys approximately 17 percent of the share of Votes and at same time, the only state that has a veto power over every other major decision taken by IMF/World Bank. Whereas, the borrowing countries essentially from developing countries put together have 38 percent of the votes which is a clear case of minority votes(Woodward, 2007;Griffith-Jones,2002 and Stiglitz, 2007).Similarly, the Chairperson and the President of the bank could never come from a borrowing country arguing that, whosoever becomes the President of the World Bank depends on the will of the U.S President. In addition, to the challenges stresses that the representation within the developing countries in the board of executive directors had barely increased from 44 to below 50 percent and that two-thirds of the its staff members are from the developing countries and transitional economies(Woodward, 2007)

The structure of the organisation is n such a way that the Board of Governors committee is the highest policy-making body of IMF. All countries are represented in the Board of Governors, at the finance minister or central bank governor level. IMF Governors meet annually. More so, the committee of the Governors, the International Monetary and Financial Committee (IMFC), meets twice annually to consider major policy issues affecting international monetary system and makes recommendations to the full Board of Governors. That is, day-to-day authority over operational policy, lending, and other issues vested in the Board of Executive Directors. A 24-member committee that meets three or more times a week to oversee the activities of the IMF. It is this body that selects who serves as its chairman and chief executive officer. The Managing Director is elected for a five-year renewable term of office. And only European countries could nominate IMF Managing Director this is because every member country hasa quota contribution that influences it position in the organisation.

4. IMF/World Bank in Developing Economies

According to Muhumed, and Sayid (2016) the World Bank/IMF established its presence in developing countries in the early 1950s.Its aims were to provide financial instrument for rebuilding Europe nations after the Second World War. However, United States wanted to have a direct control over the reconstruction funds. The funds were then moved in to the Marshall Plan. As a result, World Bank shifted attention to the newly independent economies, through it instrument of lending power which has over the years, resulted in economic woes in LDC. Martijnetal (2011) emphasize that the overwhelming controversies surrounding the negative impacts of IMF/Work Bank in developing nations, is a serious concern. These controversies as expressed by Routledge (2006)are some extensive policy conditionality primarily designed for less developed economies; Short term and long term economic conditionality in which the recipient country as a matter of urgency must locally agree to a programme of economic reform in exchange for grants and concessionary finance. Eurodad (2006) argues that the IMF / World Bank Poverty Reduction Strategy Credit loans is more or less economic debt trap for developing nations, after conducting a policy survey on some member countries that have been granted loans by IMF/World Bank. The study reveals that IMF imposes two types of policy conditions to its lenders in poor economies: quantitative conditions and structural condition. Quantitative conditions impose a set of macroeconomic policy on poor country governments. For example, the level of fiscal deficit a government is allowed to go into or the level of domestic credit allowed. While Structural conditions, push for institutional and legislative policy reforms within countries. They include, for example, trade reform, price liberalization and privatization of companies.

5. IMF/World Bank Repressive Conditionality to LDC

IMF/World Bank loans to developing countries have been designed to hurt the developing countries as most of the developing countries find it impossible to get out of the burden of the conditionality. For example, most developing countries who took the facilities are still groaning under the heavy repayment policies and have never recovered. In the words of Williamson (2008),the Third World situation became more complicated and disheartened by the Washington Consensus of 1989 as a part of IMF/World Bank and U.S. joint agreement to officially leach a policy reform instrument as part of the agenda for strategic decision to further the western globalization goals. The idea behind the Washington Consensus was nothing more than, the opening up of the world economy as highlighted by Williamson (2008); Harrigan etal (2006), Serra etal (2008)and Sheriff (2013) to include:

- Fiscal discipline;
- Reordering public expenditure priorities;

- Tax reform;
- Liberalizing interest rates;
- A comparative exchange rate;
- Trade liberalization;
- Liberalization of inward direct foreign investment;
- Privatization;
- Devaluation of national currency; and
- Deregulation and property rights.

Evidently, all these reforms are only beneficial to western capitalist interest as earlier depicted in this paper that IMF/World Bank is an instrument of neo-imperialism and retrogression. For instance, the cruel economic experience Nigeria internal political and economic structure undergone through the policy implement of the Structural Adjustment Programs SAP imposed by IMF and World Bank are still evident in the distorted, redundant and economic instability of Nigeria economy. For instance, the devaluation of her currency, privatization and deregulation policies are all designed to trap her economic development wrapped up in debt repayment. The story is similar in other developing nations. To join the World Bank, Ismi(2004) notes, a country is required to first be a member of IMF and accept its conditions adjustment policies on loans that is, the liberalization of prices and liberalization of trade and a shift toward export, privatization of its public sector which is the cardinal principles of the adjustment programmes. Thus, John and Mander(2003)state that at their inception there was indisputable expression of interest by IMF/World Bank to revamped the battered as a result of the war. However, there was dramatic turn around that Low Income Economies must cut government spending on education, health care, and price subsidies for basic necessities such as food grains and cooking oil and other consumables.

It has been observed too that the highhandedness of the World Bank/IMF could have been a reaction to 1970s oil boom when the OPEC countries enjoyed huge foreign reserved while the west experienced high energy cost. The first victim of this economic downturn was Mexico in 1982. Ismi (2004) stresses that this development has not only affected the economic sphere in LDC but also hurt human capital development and increase environmental crisis as well. For example, in 1980, the total external debt of all developing countries was $609 billion 20 years later due to the negative impacts of the structural adjustment on LDC; the debt has increased to the tone of $2.4 trillion in 2001. The Sub-Saharan Africa alone paid $3.6 billion in service debt than the actual loan received. Moyo (2009) lamenting that Africa spends four times more on debt-servicing than it did in the health care sector.

6. Analysis of Some Countries

It is on good authority (see Eurodad, 2006) that an average poor country faces as much as 67 conditions to qualify for IMF/World Bank loan, despite the heavy burden attached to the loan faculties. In fact, some other countries may even face a far higher number and astringent one as the case may be. No doubt, World Bank/IMF at their early stage of economic operations have sanctioned some good economic policies that attracted huge inflows of foreign direct investment to emerging market of Asia and Latin America in the form of loans and speculative investment before the financial meltdown of Mexico in 1994 (Michael and Kremer, 2015). Eurodad (2006) exposes some damaging impacts of IMF polices on some 20 developing countries that are under the bondage of IMF debt servicing profile for example, the diagram below reveals the vivid picture of how the conditions were.

Countries	World Bank Loan Document	Year of Loan	Number Of Conditions
Uganda	Fifth Poverty reduction support credit	2005	197
Nicaragua	First Poverty reduction support credit	2005	107
Rwanda	Second poverty reduction support grant	2005	103
Senegal	First Poverty reduction support credit	2005	77
Tanzania	Third poverty reduction support credit	2005	72
Honduras	Poverty reduction support credit	2005	72
Ethiopia	Second poverty reduction support credit	2005	67
Benin	Second poverty reduction credit	2005	80
Mozambique	Second poverty reduction support credit	2005	57
Madagascar	Second Poverty reduction support operation	2005	54
Niger	Public expenditure reform credit	2005	54
Burkina Faso	Fifth poverty reduction support operation	2005	53
Bangladesh	Development support credit III	2005	52
Ghana	Third poverty reduction support credit	2005	50
Mali	Public finance management credit	2005	46
Zambia	Economic management and growth credit	2005	42
Georgia	First poverty reduction support operation	2005	39
Armenia	Second poverty reduction support credit	2005	38
Bolivia	Social sector programmatic development policy credit 2	2005	33

Table 1: Number of Conditions Contained in the World Bank Loans to Poor Countries in 2005
(Source: Eurodad, 2006)

The above table shows the number of conditions for World Bank loans for year 2005. Its Uganda has the highest conditions of 197 to fulfill for the loans. This is followed by Nicaragua, 107; Rwanda, 103; Senegal, 77; Tanzania, 72; Honduras down to Bolivia with 33 conditions. There is an explanation by the bank to justify the high number of conditions for Uganda on the basis that whole PRSP monitoring matrix was attached to the loan document and says that the Bank will not be monitoring all benchmarks. This in fact results in less transparency as the Bank has not clarified which benchmarks it will be monitoring and which ones it will not.

7. Concluding Remarks

The world system theory of Wallenstein captures the economic realities of the less developed nations in his centre core, semi periphery and the periphery disposition. However, Perkins seems to have a clearer view when he informs that international organisations such as IMF/World Bank is a network of imperial conglomerate whose major interest is to further neo-imperialism around the world. Thus, to buttress this, Perkins in *The Confession of an Economic Hit Man*states:

We are paid-well paid- to cheat countries around the globe out of billions of dollars. A large part of our job is to encourage world leaders to become part of a vast network that promotes U.S. commercial interest. In the end, those leaders become ensnared in a web of debt that ensures their loyalty. We can draw on them whenever we desire- to satisfy our political, economic, or military needs (Perkins, 2004:20)

This assertion stresses the principal motives utilize by IMF/World Bank in their quest to determine what percentage of credit facilities goes to the economies planning of global south, and how such instrument should be used to ensnare and tie their underdevelopment to western economies progress. All these are clear demonstrations that both institutions are retrogressive vehicle rather than progressive for Third World nations of the south. Consequently, to stem the tide, the World Bank/IMF should introduce some major financial reforms/policies that will write off the debt servicing portfolio which has hampered development in LDC. The governments Third World countries should, in view of the harsh conditionality, decide and establish a financial system that can enable them garner funds for their developmental needs rather than relying almost entirely on lending from IMF/World Bank. Finally, only loans that have low interest rate and which are geared towards developmental products should be sought by the developing countries in order to avoid the challenge of debt trap.

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