The World Bank's Conditional Loans: A stranglehold on developing economies and societies

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THE DEVELOPMENT AGENDA

The development agenda is a central issue in relations between international lending organizations and governments of developing economies. Alongside the International Monetary Fund (IMF), the World Bank is the other main international principal lender to about 100 developing countries in Africa, Asia, and South America. The World Bank seeks to promote development, envisioning a world freed from poverty (Easterly, 2000, p.361). The World Bank has become a bigger lender than UN agencies and countries such as the U.S. and Germany, with projects encompassing varied goals such as infrastructural development, literacy, and civil service reforms among other objectives (Mallaby, 2005, pp.75-76).

However, some of the policies and interventions of the World Bank have elicited criticism and opposition owing to the argument that the Bank's structural adjustment strategies counteract development and hurt developing economies and their people. The restrictions attached to World Bank loans may translate to human rights violations. This paper first describes the conditionality attached to structural adjustment programs, then investigates the impacts of World Bank policies and interventions through a literature review and case studies. Various scholars have investigated and discussed the effects of the World Bank's structural adjustment programs on developing economies and their societies. Abouharb and Cingranelli (2007) explored the impact of structural adjustment programs and conditionalities instituted by the World Bank on the poor and on human rights in the recipient countries. The two scholars observed that structural adjustment agreements led to heightened hardship for the some of the poorest people in the world. In addition, they established that the programs and conditionalities resulted in greater civil strife and greater repression of human rights. For instance, higher exposure to structural adjustment driven by the World Bank led to increased occurrences of anti-government riots, protests, and rebellion, and reduced respect for economic and social rights, worker rights, and physical integrity rights. Altogether, impacts on to the poor, combined with civil conflicts and human rights violations, led to lower economic development rates even after receiving the loans. Odutayo (2016) explores the effects of conditional development in Ghana, tracing the implementation of structural adjustment programs in the country since the 1980s. Odutayo observes that the World Bank has lauded Ghana's efforts and rated the economy as the most successful in Africa in the implementation of structural adjustment programs. However, Odutayo argues that the structural adjustment programs and conditionalities attached have had a crippling effect on Ghana, rather than leading to the economic development levels claimed by the World Bank. The discussion demonstrates that the World Bank's programs have failed in their efforts to produce tangible poverty alleviation. The programs have not significantly improved living conditions in the country, and have failed to achieve any significant progress in relieving the economy's indebtedness. Furthermore, the plight of the poor did not improve, with poverty levels being higher in Ghana after implementation of structural adjustment programs than before their institution. At the same time, the structural adjustment programs mean that Ghana's primary commitments now lie in using its export revenue to pay debts rather than making long- term investments or spending on public amenities. Odutayo argues that the country has fallen into a debt trap, where implementation of structural adjustment programs helps maintain the interests and wishes of the global capitalist system. Such a scenario entails the developed world exploiting the resources of the global South. Odutayo concludes that policies promoted by the World Bank, such as liberalization and privatization, have led to human rights violations as the poorest Ghanaians are unable to survive in an economic atmosphere in which market forces drive access to resources and services.

In another discussion, Shah (2013) observes that structural adjustment programs are contributing to the maintenance of dependency and poverty in developing countries. Conditions associated with economic liberalization and opening up to international trade do not necessarily serve the interests of the economies receiving funding from the World Bank. The World Bank requires that the recipients remove protectionism, encouraging imports while also exporting their products. However, the differences in development levels means that exports from developing economies are mostly labor-intensive while those from their developed counterparts are capital-intensive. Capital-intensive products are mostly finished and highly processed and are more expensive, while labor-intensive ones are more likely to be raw materials or components and are therefore cheaper. In this context, international trade results in a widening of the gap between the rich global North and the poor global South, and restricts the latter in ways that make it primarily a resource for the developed world.

Ogbimi (2001) analyzes the implementation of structural adjustment plans in various sub-Saharan African economies, focusing on the conditionality associated with mandatory foreign exchange markets. In this case, the conditionality is informed by the view that mechanistic manipulations of the import-export equation should result in a positive balance of payments, which would then demonstrate economic growth and allow the economy to repay its debts. However, this conditionality has had inflationary effects resulting in incessant devaluation of the loan recipient's currency, while at the same time leading to a decline in commodity export prices from these economies. Ogbimi notes that the effects of the mandatory foreign exchange markets in structural adjustment programs have been witnessed in settings such as Nigeria, Tanzania, Ghana, and Zambia. With multinationals also taking advantage of the situation, structural adjustment programs have resulted in resource exploitation of the developing economies by the developed world.

Other scholars have arrived at the same conclusions about the implications of the conditionality of loans provided by the World Bank. The World Bank's policies have veered away from the Bank's initial high ideals, instead forcing governments in the developing world to cripple their own economies, oppress their people, and destroy their environments. The conditional approach to lending has translated to more difficulties in the lives of the poorest without contributing to any significant economic development in the funding recipients. Rothe and Friedrichs (2014, pp.35-36) find that the World Bank's financing policies have benefited the privileged in the global South, rather than helping the poor. They further note that whereas the elite have been the main beneficiaries, the burden of repayment of World Bank loans usually has negative effects on the lives of the poor. In addition, Rothe and Friedrichs note that funding policies have often caused the reverse of the intended effect, where more money is flowing out of the borrowing economies to the World Bank, rather than from the World Bank to these economies. Such outcomes indicate that the World Bank's lending approaches and conditions are crippling recipient economies, translating to never-ending indebtedness as well as more strain on the poor.

Explanations for the Implications

Social costs and strain on the poor

The noted implications of structural adjustment programs on the poor arise because of the social costs of implementing World Bank projects, associated with conditions attached to funding. According to Goldman (2006, pp.267-268), the World Bank frames the problem as developing countries being stuck in arrested development, with governance being inept and politicized. In such an interpretation, the state constitutes a hindrance to the country's economic development and integration into the global economy. The state's failure to deliver various services to its citizens reflects public sector capacity gaps and failures, which informs funding preconditions such as privatization and liberalization. However, this perspective of development and service provision fails to account for the current social and political contexts of the developing countries, where the poor and disadvantaged are often not in a position to secure resources and services when market forces dictate prices and proceedings. Such poor people depend on public sector provision of essential services, while privatization policies make resources and services inaccessible. As a result, the World Bank's interpretation of the problems facing developing countries and the necessary solutions inform conditionalities that exacerbate the plight of the poor.

Besides the effect of structural adjustment loans in reducing expenditure on social services, the poor also benefit less from the aid provided by the World Bank. Easterly (2000) provides a rationale for the implications of World Bank loans on the poor by exploring the impact of structural adjustment programs on consumption of goods and services among the poor in the developing world. He establishes that World Bank adjustment loans reduce the growth elasticity of poverty reduction, where such adjustment loans act in the same fashion as socioeconomic inequality in minimizing the stake of those living in poverty in aggregate growth. The outcome of such effects entails the poor benefiting less from output expansion in economies that receive many adjustment loans when compared to those that receive few adjustment loans.

Incompatibility with human rights

The strain on the poor occurs in tandem with human rights issues. A number of effects of the structural adjustment programs make them incompatible with the protection of human rights. Conditions such as deregulation and privatization erode the state's traditional role in contexts already characterized by weak governments (Odutayo, 2016). Such erosion creates legitimacy problems for developing country governments, leading them to resort to repressive measures that violate human rights. In addition, politically difficult conditionalities cultivate an atmosphere that threatens citizens' right to physical safety (Ibhawoh, 1999, p.160).

For instance, local property rights may be at odds with the foreign investment ambitions of structural adjustment programs championed by the World Bank. The vulnerable and indebted governments pursue conditionality terms at the expense of the rights of their citizens, leading to human rights violations associated with vertical imposition of structural adjustment programs. As a result, World Bank projects have resulted in the displacement of poor peasant communities in developing countries (Thomas, 2002, pp. 339-349). According to Ünlü (2013, pp.189-203), these human rights violations can also be explained by the legal implications of structural adjustment programs and conditionality. In this case, administrative international agreements, such as those entered into with the World Bank, are usually implemented without ratification from national parliaments. Although such parliamentary ratification is not a requirement, the exclusion of parliaments counteracts democracy and representation of the people, explaining why their rights and interests are not considered in some World Bank projects.

Inattention to national and local issues

The aforementioned human rights issues accompanying structural adjustment programs and associated World Bank developmental programs can also be explained by the failure to consider national and local factors, wishes, concerns, and interests (Eurodad, 2006, p.3). Here, conditionality in the loans translates to top-down mandatory considerations from the Bank to recipient economies which pay little attention to national and local considerations. The World Bank provides solutions without considering national and local contexts and factors, which is imprudent considering that standardized developmental templates may not work everywhere. Friedrichs and Friedrichs (2014, pp.13-36) provide a case study examining how structural adjustment programs lead to World Bank- supported programs that ignore local considerations, with detrimental effects on populations. In Thailand in the 1990s, one World Bank project entailed construction of the Pak Mun dam. The vertical decision-making inclinations of the World Bank translated to the planning, construction, and operation of the dam ignoring the input and concerns of villagers and fishermen living by the river. The dam then led to detrimental impacts on the environment and the indigenous communities dependent on the river. The project flooded adjacent forests, led to the loss of edible plants, poisoned the water, and resulted in severe loss of fish stocks. The project also resulted in the disintegration of the centuries- old way of life of the indigenous community, destroying their food sources and their livelihood. In addition, resettlement and compensation efforts were not only insufficient, but also disruptive to local cultures.

Suitability Questions

Whereas the relevance of aid is not in dispute, the aforementioned deleterious impacts of conditionality clauses lead to questions about the appropriateness of structural adjustment agreements. The structural adjustment approach of providing funding may not be suitable for the recipient economies, as national governments should always have a sovereign right to determine and decide their own national economic policies (Eurodad, 2006, pp.11-12) such as whether to liberalize trade barriers or privatize essential services. The earlier mentioned negative implications of structural adjustment loans arise when economic policy decisions are influenced by the organizations such as the World Bank through leveraging increased external funding. The policies resulting from conditionalities fail to work when they are inappropriate or unsuitable for the developing world contexts in which they are implemented. The unsuitability of structural adjustment programs then leads to questions concerning why governments of developing countries have to accept such undesirable terms. Most of these countries are already heavily indebted and highly vulnerable, forcing them to accept such conditions in order to access the much-needed funds (Ibhawoh, 1999, p.160). In addition, corruption and dishonesty among the leadership may also play a role, where personal gain from such loans influences officials and administrations to ignore obvious implications such as national economic ruin from conditional loans. Further, ignorance and a lack of consultation among a majority of the citizens in the recipient nations ensures that they do not take their governments' decisions to task in relation to acceptance of structural adjustment programs (Ogbimi, 2001).

Conclusion and recommendations

The World Bank approach to providing loans to the developing world entails the use of structural adjustment programs, which incorporate financial, economic, social, and environmental conditionalities. These conditionalities have resulted in detrimental impacts on the recipient economies, including added strain on the poorest, violation of human rights, and degradation of the environment, as well as causing civil strife, inflation, resource drain, and heightened indebtedness. The explanations for such negative outcomes include the social costs of policies such as privatization and liberalization, incompatibility with human rights, and lack of attention to national and local issues, while the top-down nature of the policies makes them unsuitable for the recipient economies. The following recommendations may help address the consequences of structural adjustment programs, making the role of the World Bank more positive in developing countries.

- The World Bank should radically minimize binding and non-binding conditionalities to prevent it from micromanaging reform in poor countries.
- In particular, the Bank should stop imposing unsuitable and controversial economic policies that push for privatization and liberalization, leaving such economic policy decisions to the recipient countries.
- Conditions in the programs should be targeted at maximizing accountability of recipient governments to their citizens, rather than to the World Bank.
- Rather than pursue shock therapy approaches, the World Bank should help establish safety nets and social welfare institutions that account for local differences, needs, and capabilities, allowing integration into the global economy to unfold gradually.

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