The World Bank and IMF in Developing Countries: Helping or Hindering?

Muhumed Mohamed Muhumed 1* Sayid Aden Gaas 2
1. Department of Political Science and International Relations, Istanbul Aydin University. Istanbul, Turkey
2. Department of Economics, Marmara University. Istanbul, Turkey

Abstract
The presence of the World Bank and IMF in developing countries dates back as early as 1960s. Having similar structure and membership, both institutions attempt to provide more stability and certainty for the globalized world-economy by providing technical and financial assistance to developing countries, and to those nations struggling with economic and financial difficulties. However, their claims of assisting developing countries are often questioned and castigated. This study examines whether these institutions are contributing to the growth, development and well-being of developing countries or undermining their activities and achievements. Despite that developing countries are marginalized in power sharing, decision making and designing policies and projects in these institutions, they are imperialism tools used to exploit resources of the developing world and to protect interests of the west. They provide painful and destructive financial and technical support leading to retarded growth, expanded inequality, and occasionally global instability. We argue that it is time for the developing countries, to join and contribute the improvement of existing alternative financial and development institutions such as the New Development Bank established by BRICS countries.

Keywords: Developing countries, IMF, World Bank, development, international financial/economic institutions, west.


1. Introduction

“To those in the developing world,” Stiglitz (2007) says, “it seemed another example of the rich old boys club imposing their will.” Although he was specifically referring to the World Bank this time, the case of the IMF happens to be similar. Even though the World Bank and IMF always claimed they were assisting the developing world in terms of development, surviving in economic and financial crisis and in various other ways, their presence was often questioned. They were criticized by practicing bad governance, marginalizing the developing world, biased policies and hypocrisy, providing hurting and painful technical and financial assistance, protecting interests of the west (Griffith-Jones 2002; Moyo 2009; Elsayed 2016; Ismi 2004; Stiglitz 2006, Stiglitz and Tsuda 2007; Kakonen 1975; Gerber 2014; Woodward, 2007; Oberdabernig, 2001) so on and so forth. Critics are not only from economic and financial aspects but from far and wide areas. Huntington (1993) writes that “decisions made at the UN Security Council or in the International Monetary Fund that reflect the interests of the west are presented to the world as reflecting the desires of the world community”. Before going deeply into the debate, let’s elaborate the features and background of the essential concepts of our subject matter, the World Bank, IMF and developing countries.

The World Bank and IMF were created in a meeting held in Bretton Woods, New Hampshire in 1944, and thus they are famously known as “Bretton Woods Institutions”. Scholars and political figures from 44 countries including John Maynard Keynes and Harry Dexter White laid down the structure and objectives of these two Organizations. While the main objective of IMF was to maintain stability of the global financial markets, the World Bank focused on investing and channeling funds for reconstruction and development projects of devastated, post-Second World War Europe. Since their establishment, the functions and scope of the two organizations have been evolving.

For IMF, implementation of flexible exchange rate that most of the countries adapted during 1970s and 1980s and regional monetary arrangement like European Monetary System created in 1979 decreased its role in international macroeconomic policies, limiting its functions to poor countries in the developing world, mostly in Africa and Asia which were not creditworthy as Commercial Banks believed (Bird, 1994). On the other hand, scarcity of the private capital in 1950s and 1960s came to an end and Private sector financial flows overshadowed public development financial assistance (Zoellick, 2012). Moreover, since United States wanted to have direct control over the Europe’s reconstruction funds, the funds were moved to the Marshall Plan. The World Bank then focused on assisting development of the developing countries (Gerber 2014). The programs, loans and operations of both the World Bank and IMF then ended up in the developing countries, mostly in Asia, Africa and Latin America.

Developing countries, here and many other literature in economics, are those countries characterized by low levels of living standards and other development drawbacks. They are always found in Asia, Africa, Middle East, Latin America, Eastern Europe and the former Soviet Union (Todaro and Smith 2012).
The study employs qualitative research design. Books, journal articles, reports and policy documents have been analyzed throughout the study, whereby the burdens and benefits of the World Bank and IMF in developing countries have been investigated and compared. The study then attempts to reach a conclusion whether these institutions are helping or hindering developing countries.

Given the presence of the World Bank and IMF in developing countries for decades, this study examines whether these institutions are contributing to their growth, development and well-being or undermining their activities and achievements.

The rest of the paper is organized as follows. Section one introduces the study. Section two and section three examine the presence of the World Bank and IMF in developing countries respectively. These two sections deeply analyze the arguments in favor and against these two institutions in developing countries. Section four discusses the findings and concludes the study.

2. The World Bank and Developing Countries

Established in 1944, the original aim of the initially the International Bank of Reconstruction and Development (IBRD), and latter World Bank was to provide financial mechanism for rebuilding Europe after the Second World War. However, since United States wanted to have direct control over the reconstruction funds, the funds were moved to The Marshall Plan. The World Bank then focused on assisting development of the developing countries (Gerber 2014). In general, The World Bank provides both financial and technical assistance to developing countries. Financially, it provides low-interest loans, zero to low-interest credits and grants. Furthermore, it accelerates and to some extent offers trust-fund partnerships with donors. On the contrary, it provides research and analysis, policy advice and technical support (World Bank 2016a).


Being the major channel of funds from rich and industrialized nations to poor non-industrialized nations, the World Bank’s areas of interest, responsibility and activity evolved over time. In 1950s and 1960s it assisted the developing world for the infrastructure necessary for industrialization while in 1980s its main task was providing policy reform assistance for growth. Due to the rise of environmental degradation, income inequality and other global issues, the main tasks of the World Bank lied in the fields of environment, poverty reduction, private sector improvement, promoting the role of women in the development and governance (Miller-Adams 1999). Above all, the bank’s 2030 vision says more about its main current concerns. By 2030, it aims to (1) end extreme poverty by reducing the percentage of people living on less than $1.90 a day to three percent at maximum and (2) promote shared prosperity by fostering the income growth of the bottom 40 percent for all countries (World Bank 2016a).

The former president of the World Bank Robert B. Zoellick (2012) who served as president from 2007 to 2012 argues that the world still needs the World Bank to prepare for achieving a world beyond crisis and beyond aid. During his tenure, he claims that although there were numerous challenges, the bank made progress. The progress was made most of the bank’s activity areas including solving clients’ problems, intensifying its capital base and innovating financing tools; participating good governance and anticorruption efforts; democratizing development and updating its representation and actions. The president also mentions some specific examples of their achievements in this period. In 2012, the Global Food Crisis Response Program set up by the World Bank jointly with UN agencies helped 40 million vulnerable people – mainly farmers – in 47 countries. In addition, due to the recent global financial crises, when the food and fuel crisis were on the rise, the World Bank mobilized over $200 billion financial commitments to assist developing countries. The bank distributed much of those funds swiftly. On the other hand, two IDA replenishment efforts raised more than $90 billion in 2007 and 2010. Since many critics argue that corruption undermines the funds of the bank, the bank established the International Corruption Hunters Alliance comprising over 200 anticorruption officials from 134 countries (Zoellick 2012). Moreover, the bank was not only involved in the financial and food/fuel crisis but also participated handling health crisis. During the latest Ebola outbreak for instance, the bank arranged $400 million for the affected areas in West Africa to enhance health systems over there (Ravallion 2016).

Proceeding with the debate of whether the bank is still needed, a global institution – World Bank – is still needed and preferable from regional organizations and/or bilateral agencies for a number of reasons. A global institution tends to encourage wider participation of rich nations, serve as a coordination function for diverse programs originating from different areas and groups, and generate extensive economies of scale in knowledge and lending (Ravallion 2016).

Even though international economic institutions including the World Bank play a major role in the international arena and contribute to different areas, they face overwhelming criticisms from economists, professionals from other fields as well as leaders and citizens of various countries, particularly from developing countries. People always question the aim of existence of those institutions, whether they exist to assist the
developing world or protect the interests of the rich, decision making and transparency and the effectiveness and impartiality of their policies, financial and technical assistance as well.

The governance structure and power sharing is among the principle sources of the bank’s criticisms. The dominance of US and other members of the G7 in voting and administration and the marginalization of the developing countries reveals the level of injustice in the bank. Since the shares are distributed on the basis of the country’s relative size in the world economy, United States alone enjoys approximately 17 percent of the share of votes to be the only state which has a veto power over the major decisions. Moreover, the borrowing countries – mainly from developing countries – have 38 percent of the votes (clear minority). They also have clear minority of the chairs and the president of the bank never came from a borrowing country (Griffith-Jones 2002). Likewise, Stiglitz (2007) argues that who becomes the president of the bank depends on the will of the US president and whoever he picks is appointed. He also highlights that the good governance that the western countries advocate contradicts the bad governance they practice in the World Bank and describes this inconsistency as hypocrisy. On the contrary, the bank’s effort to address this problem is yet to satisfy the opponents as well as the critics. The former president of the World Bank Zoellick (2012) underlines that the representation of the developing countries in the board of executive directors increased from 44 percent to just below 50 percent. He adds that two-thirds of the bank’s staff members are from the developing countries and transitional economies.

Table 1: World Bank: Constituencies, Executive Directors, and Voting Status

<table>
<thead>
<tr>
<th>Country / countries represented</th>
<th>Executive Director</th>
<th>Vote, as % of total vote</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>United States</td>
<td>16.45</td>
</tr>
<tr>
<td>Japan</td>
<td>Japan</td>
<td>7.89</td>
</tr>
<tr>
<td>Germany</td>
<td>Germany</td>
<td>4.51</td>
</tr>
<tr>
<td>France</td>
<td>France</td>
<td>4.32</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>United Kingdom</td>
<td>4.32</td>
</tr>
<tr>
<td>Eritrea, Angola, Botswana, Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe</td>
<td>Eritrea</td>
<td>3.35</td>
</tr>
<tr>
<td>Mali, Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Cote D’Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo</td>
<td>Mali</td>
<td>2.00</td>
</tr>
</tbody>
</table>

Source: Griffith-Jones 2002. In his article, Griffith-Jones illustrates the Constituencies, Executive Directors, and Voting Status of all members of the World Bank, but we selected certain countries from both developed and developing countries to see the gap between them in the bank’s administration and decision making.

Even though we have selected countries here, the gap of the voting shares between the developed and developing countries is still obvious and tremendously large. The first five developed countries in the list namely US, Japan, Germany, France and UK possess approximately 38 percent of the total votes of the Word Bank while on the other hand 44 developing countries together have 5.35 percent of the total votes.

Others see the World Bank together with the other global economic institutions as an imperialism tools which protect the interests and ideas of the western rich countries and expands their dominance in the rest of the world. According to Kakonen (1975) in the post-war period, the bank served for the imperialist countries in different ways and reproduced the dominance-dependence system. It enabled the foreign capital to get access to
the investment fields of developing countries safely and easily. Likewise, it facilitated their private capital to move to the international field. Another plan was to establish a favorable investment environment for the imperialists, US in particular, to ensure access to necessary infrastructure and raw materials. Among the aims of the bank also include securing markets for the production of US and other imperialists. Above all, the bank’s financing preferred substituting foreign currency expenses which resulted projects favoring imports and in turn gave preference to exports of imperialists. Furthermore, certain operations of the bank clearly demonstrate how it serves for the west. Odious loans – loans specific for infrastructure building – have a condition that US companies have to run them (Elsayed 2016). This leads much of the funds to go back to US.

Washington Consensus is a sufficient evidence for many to observe the dominance and influence of US in the IMF and the World Bank. The term ‘Washington Consensus’ coined in 1989 by John Williamson, referred to policy instruments and reforms agreed by IMF, World Bank and US government (Williamson 2008). The three main ideas behind the Washington Consensus were: a market economy, openness to the world and macroeconomic discipline (Serra, Spiegel and Stiglitz 2008). Nonetheless Williamson (2008) lists the ten reforms as follows: (1) fiscal discipline, (2) reordering public expenditure priorities, (3) tax reform, (4) liberalizing interest rates, (5) a comparative exchange rate, (6) trade liberalization, (7) liberalization of inward direct foreign investment, (8) privatization, (9) deregulation, and (10) property rights. Obviously, all these reforms are only benefit for US and other rich countries and promote their interests as well as their dominance in the developing world. Stiglitz (2007) highlighting the dominance of the rich countries and their policies in these institutions writes “to those in the developing world, it seemed another example of the rich old boys club imposing their will.”

In general, the disbursement of IMF and World Bank loans are primarily affected by both the donor interest and the need of the recipient. Given the dominance of the donors in these institutions however, they decide who gets what in many cases on the basis of their interests. Thus, some countries are granted loans with the absence of economic need (Harrigan, Wang and El-Said 2006).

Transparency of the World Bank is another concept raised by the critics. Both the World Bank and IMF are obscure and have little to open to the world in terms of documents and information. However, Gartner (2013) maintains that recently, the World Bank became more open to external scrutiny and expanded its transparency compared to the IMF. He captures the recent development of the bank’s transparency as follows:

The World Bank’s new access to information policy, which took effect in 2010, declassified more than 15,500 documents within a year. It created a searchable database of 100,000 documents and provided for the simultaneous release of key board papers. It also created a new procedure that provided an appeals process for individuals seeking to secure documents that still remained confidential. World Bank expanded its presumption of disclosure to all documents while retaining a limited number of exceptions. It also adopted several core principles to guide its policy including maximizing access, ensuring clear disclosure procedures, and guaranteeing the right to appeal (Gartner 2013:131).

The World Bank and other global economic institutions also lack transparency in decision making (Gerber 2014). As we have mentioned before, developing countries have a clear minority in the highest management and decision making tables. The way that bank’s operations are conducted also faced various criticisms. Ravallion (2016) sustains that the evaluations of lending operations are weak and unbalanced before and after the implementation. He also argues that the bank does not conduct effective cost-benefit analysis; its spending on research is less relative to the other global institutions and that the bank’s development data reveals little about the national accounts of many developing countries. Returning to the first point of this argument, if the loans of the bank are not accompanied by effective monitoring and evaluation methods, the loans are prone to corruption or squandering. This notion supports those critics arguing that loans do not either reach those in need or solve the targeted problems. On top of that, Moyo (2009) underlines that a World Bank study found that around 85 percent of aid flows were spent unintended purposes and likely ended up in unproductive activities.

Structural Adjustment Programs (SAP) imposed by both IMF and the World Bank severely affected the developing countries since their inception. To join the World Bank, a country should initially join the IMF and accept its conditions – adjustment policies – on loans. Liberalization of prices; liberalization of trade and shift toward export, and privatization of the public sector are the three-main axis of the adjustment programs (Elsayed 2016). Ismi (2004) explained how and when the SAPs came to being, when the World Bank adopted them and their contents at the time as:

The debt crisis in the 1980s gave Washington the opportunity to “blast open” and fully subordinate Third World economies through World Bank-IMF structural adjustment programs (SAPs). Starting in 1980, developing countries were unable to pay back loans taken from Western commercial banks which had gone on a huge lending binge to Third World governments during the mid to late 1970s when rising oil prices had filled up their coffers with petro-dollars. The World Bank and the IMF imposed SAPs on developing countries who needed
to borrow money to service their debts. The World Bank’s SAPs, first instituted in 1980, enforced privatization of industries (including necessities such as healthcare and water), cuts in government spending and imposition of user fees, liberalizing of capital markets (which leads to unstable trading in currencies) market based pricing (which tends to raise the cost of basic goods) higher interest rates and trade liberalization. SAPs evolved to cover more and more areas of domestic policy, not only fiscal, monetary and trade policy but also labor laws, health care, environmental regulations, civil service requirements, energy policy and government procurement.

In Africa, the adjustment programs resulted slow growth, higher poverty, lower incomes, increased debt burdens, low human development indicators and deteriorating social services such as healthcare, water and education. For instance, between 1960 and 1980, GDP per capita of Sub Saharan Africa grew by 36 percent, and then fell by 15 percent between 1980 and 2000. Between 1994 and 2003, the number of people living under the poverty line ($1 a day) increased 75 percent (from 200 million to 350 million). Estimated per capita income in Africa was the same in 1960 and 1990, while it decreased 25 percent in most Sub Saharan countries during the 1980s (Ismi 2004:8).

As far as the financial assistance provided by the bank is concerned, many critics stress the ineffectiveness as well as the helplessness of the bank’s aid and grants in developing countries. Moyo (2009) in her book “Dead Aid” argues that aid is not only part of the potential solution to Africa’s economic drawbacks but also part of the problem if not the problem per se. The analyzes of the book lie under the systematic aid, defined as “aid payments made directly to governments either through government-to-government transfers (bilateral aid) or transferred via institutions such as World Bank (multilateral aid).” A substantial amount of aid poured to developing countries for decades has very little to show in return and might exacerbated existing conditions or caused further problems in certain situations. This is captured as:

More than US$2 trillion of foreign aid has been transferred from rich countries to poor over the past fifty years Africa the biggest recipient, by far. Yet regardless of the motivation for aid-giving economic, political or moral-aid has failed to deliver the promise of sustainable economic growth and poverty reduction. At every turn of the development tale of the last five decades, policymakers have chosen to maintain the status quo and furnish Africa with more aid (Moyo 2009:28).

As the argument continues, the newly independent African states for instance received hundreds of millions of dollars during 1960s aiming to invest infrastructure, but the infrastructure built by that aid is yet to be seen.

3. The International Monetary Fund (IMF) and Developing Countries

As demonstrated in the introduction section, IMF was one of the most important products of that meeting took place in June 1944 in Bretton Woods, New Hampshire, USA. The world was struggling with problems resulted by the Great Depression and two world wars that devastated many western economies. During those bad days, international monetary system which was based on gold also collapsed. For this reason, USA and some European countries recognized the need of international financial organization which can provide technical and financial assistance, oversee exchange rate and address global financial crisis. It was very these issues that were set as goals of the IMF.

As the crises and financial problems were affecting different countries in different times with variety of causes, for whatever purpose is, IMF also expanded its goals. Major changes took place in 1980s, when Ronald Reagan of USA and Margret Thatcher of UK took amplifiers with high volume to preach free market concepts they believed can serve their own interests only from that time (Stiglitz 2006). When we are saying “only from that time” we are reflecting what history had written when it comes to free market and how these two countries used all kinds of restrictions and protection tools before 1980s. In today’s IMF, goals cover “…the promotion of international monetary cooperation; the expansion and balanced growth of international trade; exchange rate stability; the elimination of restrictions on the international flow of capital; insuring confidence by making the general resources of the Fund temporarily available to members; and the orderly adjustment of balance of payment (BOP) imbalances” (Sanford & Weiss, 2004).

Together with this expansion IMF work skewed towards developing countries. Petrol crisis in 1970s and Asian Financial Crisis in 1980s made IMF more involved in developing countries. Right after those crises, critics and debates on IMF have skyrocketed and confidence of developing countries on this institution was diminishing.

Given the duties, responsibilities, and goals of IMF, several questions can arise. If IMF has those above-mentioned good intentions and endeavors helping countries in crisis, why is it facing these ever-increasing denunciations? Why is it losing trust in developing countries? Why it is castigated by the pens of many writers from both developing and developed countries? Where things went wrong? With the help of existing literature, we will address these questions and related arguments throughout this section.

Before we go into the main discussion, lets first see organizational structure of IMF in brief. IMF
governance structure comprises three parts: board of governors, an executive board and managing director. The figure below illustrates the structure.

Figure 1: Organizational structure of IMF

The Board of Governors is the highest policy-making authority of the IMF. All countries are represented in the Board of Governors, usually at the finance minister or central bank governor level. IMF Governors meet annually at the fall IMF meetings. A committee of the Governors, the International Monetary and Financial Committee (IMFC), meets twice annually to consider major policy issues affecting the international monetary system and makes recommendations to the full Board of Governors. Day-to-day authority over operational policy, lending, and other matters is vested in the Board of Executive Directors, a 24-member body that meets three or more times a week to oversee and supervise the activities of the IMF. The IMF Executive Board selects the Managing Director of the IMF, who serves as its chairman and chief executive officer. The Managing Director is elected for a five-year renewable term of office. Since its establishment, the European countries nominate the IMF Managing Director (Sanford and Weiss 2004). Every member has a quota (country’s contribution to the IMF) which stands its weight in the organization.

Quotas determine countries’ subscriptions – the amount of financial resources each member is required to contribute to the Fund; Access to financing – the amount of financing a member may receive from the Fund; and voting power – the ability to formally influence the IMF’s decisions. There is 238 billion IMF Special Drawing Rights (SDRs) which is about $368 billion contribution from all member country (Sanford and Weiss 2004).

IMF faced criticism from different scholars in different areas, including the impact of its programs on education (Marphatia 2010), economic growth (Tchereni, Sekhampu and Ndovi 2013), currency crisis (Dreher and Walter 2010) and poverty and income distribution (Oberdabernig 2001).

To start with, structure of the IMF and voting system draws growing criticism from developing countries, specifically from emerging economies in Asia, Latin America and Africa. An international institution like IMF, having equality of representation among all its members is not only creating highly cooperative conditions among its stakeholders and protecting its legitimacy in the long run, but also enhances its effectiveness. Since the establishment of the IMF in 1944, member-countries have been changing in terms of their economic weight, population and geographical coverage that they control.

Unfortunately, countries’ representation in terms of share and quota has not changed to reflect the real change of the world structure. This gives more power to few countries including US, Germany and some other European nations. As figure below shows, while China with GDP of $10.8 trillion have only 6.16% percent of
voting share, USA with GDP of $17.9 trillion enjoys 16.73 percent of the total voting share. This is based on nothing but willingness of the west dominating system. If we look factor of population, again it shows how injustice structure of the IMF is. For example, Ethiopia with the population of 70 million has half of the vote share that of Luxembourg which has only half a million population (Woodward 2007).

Figure 2: Voting shares of IMF members

Source: Center for Economic and Political Research (CEPR)

Reliability of IMF’s warning signals was under fire several times. IMF produces reports explaining economic conditions of the world and projecting future trends. It does this in country, regional and global level. The main purpose of this work is to measure economic and financial well-being of countries and to forecast their future directions. Both investors and lending countries often use IMF reports and policy documents as foundation of their decisions. Several times before crisis, IMF failed to predict problems or even worse, its predictions were misleading. In 1997, for instance, IMF praised the performance of Thailand economy, stating that Thailand has made significant move in terms of macroeconomic soundness (International Monetary Fund 1997). From that starting point up to the end of these crises any initiative in which IMF was involved in, had been criticized in one way or another.

IMF’s failure to give role in the designing of programs to countries in crisis is linked to be part of the ineffectiveness of many projects and source of developing countries’ skepticism on IMF programs. For any kind of project, say infrastructure or agriculture, the West alone designed with the help of western experts’ recommendations and contributions, and then financed by their institutions. The consequence is clear: failure of that project, exacerbating living conditions of those poor people, and merely the repayment of the debt in years. These so-called experts, tailor projects as if they will be implemented in North West Quadrant of Washington, where IMF headquarter is located. The puzzle is, since these poor people are always paying the cost, why are they excluded from designing those projects? IMF can simply be referred as the gate-keeper of these opportunist countries who want to make money from the crises. This is not just a claim but it can be easily seen from the positions that IMF stood in almost all negotiations on the loans and how they designed the so-called Structural Adjustment Programs (SAPs).

So, what are SAPs and how they are designed? To receive loan from IMF, countries must first accept certain macroeconomic conditions and/or adjustments. These macroeconomic adjustments include: reducing budget deficit, devaluing currency, increasing interest rate and reducing domestic credit expansion, and other structural adjustments like making prices free of any control, reducing trade restrictions and privatizing state enterprises. As we mentioned above, many are questioning impact as well as effectiveness of conditions and structural adjustments and whether they made situations better or even worse.

Structural Adjustment Programs(SAPs) that force countries to remove all kinds of trade and capital restrictions decreased employment “systematically”. It is not easy for companies from developing countries to compete with goods from Europe and America, produced with large government subsidies. That is why many companies which used to produce variety of goods including agricultural products become out of the market. This paved the way to large unemployment in these countries (Stiglitz 2006).
On the other hand, capital liberalization gave a significant chance for financial speculators who could profoundly affect financial systems due to the absence of any regulation and supervision. One example that can prove how this kind of immature liberalization can make things worse is the Asian financial crisis.

Asian financial crisis in 1990s was a great test that IMF faced. IMF did not only fail stepping in crisis immediately, but it also made things worse by using its capital liberalization tools. Liberalizing the capital market with the absence of strong financial institutions leads the economy as a whole to be subject to heavy negative impact if not collapse. That is what we saw in the Asian case. In that same crisis, Malaysia disproved IMF formula for crisis management. When other East Asian countries where struggling to match IMF’s conditions, Malaysia, the only country that did not request conditional loans, introduced capital control that put restrictions on movement of both currencies and capital (Sundaram 2015). This saved Malaysia from massive capital outflows that worsened other East Asian countries’ crises. The lessons learnt from Asian financial crisis could prevent repetition of these failed policies again and again. Nevertheless, IMF seems that it is not ready to capitalize this lesson as it avoids violating its hidden function which is ‘to protect lenders, not borrowers’.

Stiglitz, who analyzed and studied more about causes of Asian financial crisis believes that the factor which had strongest negative effect on this crisis was fast capital and financial liberalization, which these countries exercised as the result of IMF’s conditionality. Lessons from Asian crisis demonstrated that liberalization of capital plus increasing interest rate in those countries without strong financial institutions and regulations gave speculators significant opportunity to grab. The existed institutional and regulatory weaknesses at both local and global levels have exacerbated the situation because of massive and fast rising flows of private capital from both the supply and demand sides. Speculators then manipulated the markets aiming to take huge gains by letting capital in large amounts to move to the directions they see their interests are maximized. Strong regulations in the financial markets and capital movements, as can be argued, are likely to deter turmoil in financial markets. This is viable when governments in developing countries are free to exercise and impose their rules and regulations without external intervention.

Various studies underlined the negative effect of IMF programs on growth and inequality. For instance, Przeworski and Vreeland (2000) examining the effect of IMF programs on economic growth concluded that “program participation lowers growth rates for as long as country remain under a program. Once country leave a program, they grow faster than if they had remained. But not faster than they would have without participation” Barro and Lee (2003) reached similar conclusion saying that the larger loans country take from IMF, the more its economic growth declines. Not only that, but, IMF programs have strong effects on inequality and it increases the gap between economic classes (Gilbert & Unger 2009). Some may claim that inequality caused by IMF programs is the price paid to reach economic efficiency, but according to their study on these projects Gilbert and Unger (2009) insisted that there is no such “trade-off” between two variables – inequality and economic efficiency. In their words, they expressed that “IMF involvement not only reduce the size of the pie but also cause to be split it in more unequal ways”. Likewise, Eiras (2003) noted that “An examination of the record of IMF and World Bank performance in developing countries shows that, far from being the solution to global economic instability and poverty, these two international institutions are a major problem”.

Trade liberalization and privatization are also serving interests of the developed countries and increased poverty. In Somalia, where SAPs came into force in 1981, privatization of banana sector, for example, only gave market opportunity to Italian company “De Nadia” which, with the other foreign agencies, was gaining 75 percent of the income (Samatar 1993). Hence, liberalization programs in the banana sector in Somalia did not help the farmers, local business people or the country as a whole.

There is also a strong condemnation from developing countries who see IMF programs as threat to their economic and political sovereignty. The researches on economic expansion, development, and richness generally agree that the way to economic success is economic autonomy built on a well-built rule of law (Eiras 2003).

Almost all highly industrialized countries such as Japan and United states had developed their economies by intelligently and selectively shielding some of their industries up to the point they become tough enough to defend their market share against foreign companies (Stiglitz 2006). When it comes to developing countries, whether it is a difficult time that they are struggling with economic crisis, or in their normal conditions, experts from IMF and western countries read specific and selective pages of their history in economic development platforms, to convince them that the only way to improve economic conditions is through lifting all kinds of trade and capital barriers or opening their markets to the rest of the world.

As far as the economic freedom is concerned, conditionality – the conditions that global leading figures oblige to countries to reach standard that it can take loan from IMF – weaken national independence (Stiglitz 2006). This is because, economic freedom is basic for development in both individual and government level. Loosing economic sovereignty not only gives the West access to loot resources of that country, but it also undermines service delivery of those governments. In accordance with the world economic freedom report in 2003, countries with the least economic freedom have smallest income (O’Driscoll et. al. 2003).

So, double standard of the IMF experts and those who are managing behind the curtains are putting all
their energy and expertise to read specific lines of the history, while hiding other parts that might reveal how they did apply mixed policies of restrictions and subsidizing to climb the ladder and reach their current level. On the other hand, not only historical facts but the existing data and reports like this we have seen in the previous paragraphs (economic freedom reports) are supporting that economic freedom is one of the basic requirements for economic growth.

4. Discussion and Conclusion

The presence of the World Bank and IMF in developing countries dates back as early as 1960s, when many nations in the developing world, Africa in particular, became independent. The World Bank aims at assisting the development of developing countries by providing technical and financial assistance (World Bank 2016a). Likewise, IMF aims to enhance economic growth and stability by providing technical support and financing to member countries with economic difficulties (International Monetary Fund 2016). Having similar structure, and membership, they attempt to provide more stability and certainty for the globalized economy (Gerber 2014). Since globalization influences the developing economies through trade in goods, flows of capital and migration of people (Collier 2007), the World Bank and IMF are heavily involved in the second process.

Given the numerous strong arguments against their efforts elucidated in the previous sections, their positive contributions seem insignificant. Although they operated over half-a-century in developing countries, what the World Bank and IMF messed up is much, more enormous.

Apparently, the structures of these institutions, which are western designed and dominated, show that they were not intended to help the developing world, but serve for the west. The developing countries have clear minority in the administration and they are marginalized in power sharing, decision making, designing projects and policies, problem solving and even operating in the field (Griffith-Jones 2002; Woodward 2007; Stiglitz and Tsuda 2007; Gerber 2014).

Not only they protect the interests of the west, but they are also used as imperialism tools. Both the World Bank and IMF replicated the dominance-dependence system and enabled the foreign capital to get easy and safe access to the markets and investment fields of developing countries (Kakonen 1975; Sundaram 2015). The World Bank gave odious loans to developing countries. These loans have a condition that the projects invested by them should be run by US companies, and thus, most of the funds returned to USA (Elsayed 2016). We can say that the road map of these institutions is the Washington Consensus – policy instruments and reforms agreed by IMF, World Bank and US government. It is clear that the mission and vision of these institutions are predetermined, and developing countries have no chance either to alter or to improve. The west sounds like “this is for you, but we know you better than yourself, so don’t question our efforts”. The interest of the donor countries always outweighs the need of the recipient, as Harrigan, Wand and El-Said (2006) demonstrated their analysis on Middle East and North Africa.

The reliability of IMF’s reports, and its predictions on economic performances have been under fire. Both investors and lending-countries often use IMF reports and policy documents as foundation of their decisions. Several times before the Asian crisis, IMF failed to predict problems or even worse, its predictions were misleading. On the other hand, Ravallion (2016) argues that the World Bank’s development data is not yet comprehensive, and reveals little about the national accounts of many developing countries.

Structural Adjustment Programs (SAPs) imposed by both IMF and World Bank on loans are disaster to developing countries. Liberalization of prices; liberalization of trade and shift toward export, and privatization of the public sector are the three-main axis of the adjustment programs (Elsayed 2016). SAPs are simply a way of forcing countries to remove all kinds of trade and capital restrictions. In Africa, the adjustment policies resulted slow growth, higher poverty, lower incomes, increased debt burdens, low human development indicators and deteriorating social services such as healthcare, water and education (Samatar 1993; Ismi 2004). Moreover, the policies proposed by the IMF and World Bank for Egypt, to offer a loan, severely affected the poor and the middle classes, and led to higher poverty and income inequality. On the contrary, Turkish and Malaysian economies did very well after rejecting the IMF and World Bank policies (Elsayed 2016).

The IMF as well as World Bank loans retard the economic growth (Przeworski and Vreeland 2000; Barro and Lee 2003), and widen the gap between the rich and the poor (Gilbert & Unger 2009). These institutions also many times lead to global economic instability. IMF and World Bank conditioned loans also weaken the economic freedom and sovereignty of the recepient countries by imposing policies against their willingness (O’Driscoll et. al. 2003; Stiglitz 2006).

Transparency is another significant issue. Both the World Bank and IMF are obscure and have little to open to the world in terms of documents and information. However, Gartner (2013) maintains that recently, the World Bank became more open to external scrutiny and expanded its transparency compared to the IMF. The lack of transparency in decision-making, as noted by Gerber (2014), nonetheless draws more attention. Ineffective operations and corruption are other sources of criticisms. Ravallion (2016) underlined that the World Bank lending operations are characterized by weak cost-benefit analysis and monetary and evaluation procedures which likely
lead to corruption. Moyo (2009) supports this argument with an evidence drawn from a World Bank study showing that around 85 percent of aid flows were spent other than intended purposes and likely ended up in unproductive activities.

The systemic aid provided by the World Bank and other so-called western donors is not only ineffective but also part of the problems in developing countries. We can all agree at least that there is no country in this world, achieved economic development with the help of aid. According to Moyo (2009), in the past 50 years, over two trillion US Dollars have been poured to developing world, Africa in particular. Unfortunately, this has very little to show in terms of economic development and poverty alleviation. She believes that Africa can develop if and only if it terminates relying on foreign aid. Botswana, one of the few success stories of Africa, she maintains, managed to accomplish 6.8 percent of average real per capita economic growth between 1968 and 2001, by ending to depend on aid.

We have seen that the World Bank and IMF serve interests of the west, and their policies hurt the developing countries and hinder their development in general. We argue that it is the time for developing countries to consider more beneficial alternatives. They should develop and engage existing alternative international financial and development institutions to cease 80 years domination of the Bretton Woods Institutions. The New Development Bank established by BRICS countries in 2014 is one of the available alternatives. This planned to make available starting capital of US $50 billion (Rajiv Biswas 2015). Unlike the World Bank and IMF, which are based on “one dollar one vote” system, members of the New Development Bank have equal share in both daily activity management and its governance (World Economic Forum 2015). In addition to the already existing regional development banks, launching the Asian Infrastructure Investment Bank (AIIB) may also balance the western domination. These institutions will give developing countries the chance to handle their own issues, rather than depending on the west. The notion “West is not the best” is then likely to be proven.

Acknowledgement: Muhumed Mohamed Muhumed is grateful to the Scientific and Technological Research Council of Turkey (TUBITAK) for funding his current graduate program.

References


