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# Successes and Failures of International Financial Institutions (IFIs) in Exporting Neoliberalism in Africa: The Case of Ethiopia

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**After adjusted their policies based on the conditionality, Africans were funded by International Financial Institutions (IFIs). The conditionality was highly connected with neoliberalism and its relevance for African remained controversial. Western hegemony in the global political economy offered no opportunity for Africans except accepted the inaugurated neoliberalism ideology. However, the rise of new global power in the 21st century resulted in a wide spread interest about the prospect for the emergence of viable developmental states to many African states, including Ethiopia (Mesgna, 2015). In developmental state, the economy policy is neither free market nor command rather it is in between (Fritz & Menocal, 2007). Therefore, this study aimed on exploring the successes and failures of IFIs in exporting neoliberalism in Africa particularly from the current context of Ethiopia. The method what I have employed to do so was by collecting and analyzing curable secondary sources including books, journal articles, research papers and other relevant official documents. The results revealed that successes were replacement of command economy over free market, since 1991; the Establishment of the Ethiopian Privatization Agency (EPA); Privatizing financial institutions; Open the economy for Foreign Direct Investment, only on the selected areas; Devaluation of currency; Privatizing broadcasting services; and Privatizing road and water transport. In contrary, the failures were Restrictions of foreign banks entry; Provision of investment incentives; Reserved some Investment areas for domestic investors; Government monopoly in telecommunication, electricity, transportation (air and rail), and land (constitutionally declared as its government property); Lack of deregulation commitment; and Recent shifting from free market to developmental state. In short, currently Ethiopia encouraged the involvement of private sectors to advance the country's economic development, however, the government also actively involved on the economy. Therefore, it is possible to argue that the existing economic policy of Ethiopia has "heterodox" contents.**

**Key words:** International Financial Institutions, Neoliberalism, Ethiopia

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## INTRODUCTION

International Financial Institutions (IFIs) are institutions which provide finance to the national governments for the purpose of poverty reduction and economic prosperity. Africans were the "beneficiary" of loan and aid provided by IFIs, but they are compelled to reform their national government policies according to the expected “conditionality”. The conditionality highly interrelated with the notion of neoliberalism. It focused on reforming domestic policy, including opening to trade and international finance, privatizing natural resources and state-owned enterprises, deregulating economic activities, and reforming the provision of social services (Stiglitz 2002; Summers and Pritchett 1993; & Toye 1994). Is conditionality to help Africans or retard its economy is really controversial. Here, the proponents of neoliberalism like IFIs have argued that African economic achievement and poverty reduction can’t be imagined, unless they don’t realize the conditionality. However, critiques argued that the IFIs through conditionality extend misery and poverty in poor countries (Harrison, 2010).

The western hegemony in the global political economy offered no opportunity for Africans except accepting the inaugurated neoliberalism from IFIs. It makes African a hapless up to the beginning of the 21st century, or the rise of new global powers. The raised new global power resulted to a wide spread interest about the prospect for the emergence of viable developmental states to many African states, including Ethiopia (Mesgna, 2015). In developmental state, the economy policy is neither free market nor command rather it is in between (Verena Fritz &Alina Rocha Menocal, 2007).

Therefore, the objective of this study is exploring the successes and failures of IFIs in exporting neoliberalism in Africa, particularly from the experience of Ethiopia. Its delimitation is revealing successes and failures or the current practice of neoliberalism in Ethiopia. The method what I have employed to do so is that collecting and analyzing curable secondary sources including books, journal articles, research papers and other relevant official documents.

The study is organized into five sections. The first section provides a brief account of the genesis and mission of the IFIs. The second section deals about the IFIs and African development. The third section discusses Ethiopia’s paradigm shift from free market to developmental state. The next section is about the successes and failures of IFIs in exporting neoliberalism to Ethiopia. Finally, successes and failures have drawn in concluding remark.

## The Genesis and Mission of the International Financial Institutions (IFIs)

The International Financial Institutions (IFIs) which are the International Monetary Fund (IMF) and the World Bank (WB), (Babb & Kentikelenis, 2017) were established at the end of World War II by the U.S. and British governments to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s and the world war that followed. The ways these IFIs boost world economy is through providing finance and enforcing countries to adjust their policies according to the IFIs conditionality. Thus, both IMF and WB have been providing loan for a different purpose. The mission of IMF is establishing stable exchange rates and also provision of loans to countries facing short-term deficits in their balance of payments, whereas the WB had the task of providing loans for major infrastructural investments.

In the early 1980s, a policy framework known as the structural adjustment programs (SAPs) was launched by IFIs to create the necessary institutional and policy conditions for economic growth and to boost development in poor countries, including Africans. IFIs provide loan and aid, if states can reform their national government policies as a form of “conditionality”. The conditionality highly interrelated with the notions of neoliberalism. In plain language the conditionality focused on domestic policy reforms, including opening to trade and international finance, privatizing natural resources and state-owned enterprises, deregulating economic activities, reforming the provision of social services, and a range of market-oriented institutional reforms (Stiglitz 2002; Summers and Pritchett 1993; & Toye 1994).

The IFIs and its proponent believed that provision of loan aid towards poor countries by considering conditionality is crucial to poverty reduction and achieving economic prosperity. In the SAPs loan recipient countries must change their economic policies, generally to encourage greater economic deregulation (“liberalization”) of trade, investment, and finances, the IFIs can be criticized as it implicitly through opening market free across the world the aim is to create conducive environment for US and British companies to maximize their interests by exploiting the resources of developing countries. The IFIs can be criticized as it implicitly opens free market across the world. The aim is to create conducive environment for US and British companies to maximize their interests by exploiting the resources of developing countries like Africans. In short, about the IFIs conditionality to afford loan by arising the question like “is it to help poor countries or exploit their resources’ was greatly debatable issues among IFIs supporters and its opponents. The next session covers African development with the IFIs provision of finances.

## The IFIs and African Development

The IFIs offered finance to the national governments for the purpose of poverty reduction and economic prosperity. In the 1980s the most prominent IFIs by far, are the International Monetary Fund (IMF) and the World

Bank (WB) together adjusted Structural adjustment programs (SAPs) to install countries experienced economic crises. Africans were the “beneficiary” of loan and aid provided by IFIs, but they can reform their national governments’ policies according to the expected “conditionality”.

The conditionality is highly interrelated with the notion of neoliberalism, but does not mean that Africans adopt neoliberalism. Some major elements of the conditionality on reforming domestic policy, including opening to trade and international finance, privatizing natural resources and state-owned enterprises, deregulating economic activities, and reforming the provision of social services (Stiglitz 2002; Summers and Pritchett 1993; Toye 1994). The proponents of neoliberalism like IFIs have argued the economic achievement and poverty reduction of Africa can’t come in to effect, unless they don’t realize the conditionality. However, critiques argued that the IFIs through conditionality extend misery and poverty in poor countries (Harrison, 2010). Unlike colonial administrations, at the time Africans were under indirect control of the IFIs. To get loan and aid, IFIs were enforcing states to reform their national governments’ policies as a form of “conditionality”. It is possible to argue that African hadn’t had any opportunity than accepting the inaugurated ideology (neoliberalism) in IFIs. As a result, within a short periods of time i.e. between the mid-1980s and early 1990s, many African state had adopted one or other form of SAPs, but it exacerbated the crisis of Africa and Africans economy had become declined, stagnant, or grown slowly from its prior growth rate (Economic Report on Africa, 2011; & Harrison, 2010). There is no doubt that the IMF and the World Bank violate human rights, destroy the physical and social environment, and extend misery and poverty in poor countries (Donlagic and Kozaric, 2010). Thus, up to 2000s, since the world was under unipolar structure, Africans had denied to use any opportunity. For African economy between the 1980s and 2000 can be represented with “Dark Age”. Then with neoliberal ideological content i.e. free market economy, African wee exploited by westerns.

In the beginning of the twenty-first century the emergence of new global powers come with new opportunity for Africans. It resulted to a wide spread skepticism about the prospect for the emergence of viable developmental states on Africa (Mesgna, 2015). For example, some of these African countries such as: Botswana, Ghana, Mauritius, Rwanda, South Africa, Tanzania, Uganda and Ethiopian adopted developmental state (Ayee, 2013). On the view of the IFIs African states lack the capacity to pursue policies similar to the developmental states of East Asia, whilst being too far vulnerable to conferred interests in the political realm known as the “impossibility thesis”, and they had to be reined in by SAPs (Mkandawire, 2001; and Taylor, 2003). In the twentieth century, Ethiopia has adopted different models of development. Even the current government, starting from 1991 adopted two different paradigms. The following section deals about Ethiopia’s paradigm shift from neoliberalism “free market” to developmental state.

## Ethiopia’s Paradigm shift from Free Market to Developmental State

The IFIs in the 1980s adjusted and imposed the Structural Adjustment Programs (SAP) upon developing countries as a solution to poverty reduction. SAPs are supposed to allow the economies of the developing countries to become more market oriented. In Ethiopia, the predecessor regime to the current Ethiopian People Revolutionary Democratic Front (EPRDF) from 1974 to 1991 declared socialist command economy. The situation challenged Ethiopia to install neoliberalism contents ideology as forms of conditionality.

The EPRDF believed that the adopted command economic system was one of the factors which adversely affect Ethiopian economic growth. Immediately, the TPLF/ EPRDF government put in place, without wavered declared a free market economic system to the country (Tsehai, 2009). Thus, in 1991 the EPRDF government has been with new economic policy which *‘neo-liberal* reform measure. Instantly, the Ethiopian currency was devalued, privatization and liberalization were authorized within selected areas. Other sectors like, land was constitutionally declared a state property; telecommunications, water and electricity supply as stated in proclamation were under the monopoly of the government (Henze, 2003). The ‘Five Year Development Program’ was announced in 1994 (Vestal, 1999). It visualizes the improvement of infrastructure and climate for investments with assistance from the IFIs. In comparison with other African countries, Ethiopia has a short link with IFIs. This is because of starting from 1980s to 1991; the country under the control of *Derg had* poor relation with states have neoliberalism ideology.

Hence, in terms of time Ethiopia was a *‘late adjuster*’ of SAP. From the beginning there was no developmentalism, but partial market liberalization and very limited economic opening. Until 2001, which means for 10 years, the ‘neo-liberalism ideology was considered as a radical system transformation’, involving a transition from state socialism to capitalist state formation. However, in 2001 the government shifted its economic policy from free market to democratic developmental state (Tsehai, 2009). Using developmental state many states achieved the real economic developments. The current government of Ethiopia considering such countries as a role model adopted this economic policy in order to enhance the economic growth of the country through promoting foreign direct investment in manufacturing sectors. Although the features of developmental state are not identical among countries, their commonality is that the economy policy is neither free market nor command rather it is in between (Verena Fritz &Alina Rocha Menocal, 2007).

## Successes and Failures of IFIs in Exporting Neoliberalism in Ethiopia

This section is revealing successes and failures of IFIs in exporting neoliberalism in Ethiopia using conditionality to provide loan and aid. In other words, what looks like the practice of neoliberalism in Ethiopia is discussed under.

From 1974- 1991 Ethiopia was under the control of *Derge* regime that was actively practiced socialist ideology *with* command economy. However, with the advocacy of the IFIs the current government comes into power adopting free market economy. Hence, it is true that privatization in Ethiopia is a recent phenomenon. The concept of privatization was acclaimed in the country after the downfall of the *Derge* regime with its successor EPRDF. Since 1991 under the transitional government, the Ethiopian economy policy explicitly shifted from centrally command to a market economy (Hishe, 2005:28). The EPRDF government tried to convince its people and students about how command economy retard the development of the country and preach about the importance of the new economic system and soon declared free market. With the hope that privatization contributed to the economic growth of the country, the EPRDF government decided to reduce the role of state involvement on the economy.

The idea of reducing of state involvement on the economy was emanated from IFIs. To enhance this government has enacted certain proclamations and the government has been receiving financial and technique assistance from the IFIs. Thus, IFIs became the main partner of the government. The downfall of Derge was a good opportunity for IFIs in exporting neoliberalism in Ethiopia. In Proclamation No. 87/1994, the government established the Ethiopian Privatization Agency. According to this proclamation privatization agency is responsible to carry out the process of privatizing public enterprises in an orderly and efficient manner. To enhance a more speedy and efficient program of privatization in Ethiopia, World Bank has been donating financial and technical assistances to the agency (Getachew, 2003). The next session is about what looks like the current practice of neoliberal thinking in Ethiopia.

### Privatizing Public Enterprise

When Ethiopia was guided by the ideology of socialist command economy in 1974, privatization had no placed on the economy. The *Derge* in proclamation No.5/1974 clearly declared the areas of public enterprises. These were for example, “National Textile, Ethiopian Printing, Ethiopian Food, National Metal, Ethiopian Liqueurs, Leather and Shoe, Fiber Works, Ethiopian Salts, National Soap, Ethiopian Building Materials, Rift Valley Agricultural Development, Harerge Agricultural Development, National Transport etc” (Aweke, 2011:18).

However, after overthrowing the Derge, the current regime comes with dramatic change in relation to public enterprise. The Ethiopian Privatization Agency was established by proclamation No. 87/1994. One year later, with the Ethiopian Privatization Agency the process of privatization started in 1995 in the country (Alemayehu, 2015; and Aweke, 2011). The objective of privatization were to generate better revenue for government expense, to promote the country’s economic growth thought encouraging the expansion of the private sector, and to change the role and minimize government participation on the economy. Then after, within 15 years i.e. from the 1995-2010, total of 287 enterprises together with their branches have been privatized and the government total revenue from this counted 4.7 billion birr (Aweke, 2011). But still land stated in the constitution; the Ethiopian Telecommunications Corporation and the Ethiopian Electric Power Corporation which established by Council of Ministers Regulation No. 10/1996 and No 18/1997, respectively are monopolized by the government. Similarly, although road and water transportations are privatized for domestic investors, in transportation particularly air and rail way transport are under the monopoly of the government. The others services like educational services, health services, housing corporations are providing by governments and also open for domestic private investors.

### Private Financial Institutions

A stable and well-functioning banking system is critical for economic growth and development .This makes the relationship between bank performance and development crucial. In Ethiopia, during the predecessor regime of EPRDF, the only two specialized banks were the Agricultural & Industrial Bank, and Housing & Saving Bank , which currently renamed as the Development Bank of Ethiopia (DBE) and the Construction and Business Bank (CBB)[1], respectively, were operated (Abreham, 2009). However, the declaration in proclamation No. 83/1994 and the Licensing and Supervision of Banking Business No.

[1]In last year merged with Commercial Bank of Ethiopia.

84/1994, the current government allowed the operation of private financial institutions. Instantly with the approval of the proclamations, one private bank which is Awash International Bank has been operated. Amazingly, the numbers of private financial institutions operation increased year after year and presently total of 16 private banks with their different branches throughout the country has been operated. Similarly, 16 private insurance companies in parallel with one government insurance company (Ethiopian Insurance Corporation) have also been operated. Throughout Ethiopia, many small credit and saving institutions which providing services at national, mostly at regional and local level were also launched. It showed the commitment of the EPRDF to support economic growth of the country by privatizing financial institutions participation. However, the government in the Council of Ministers regulations No. 84/2003 restricted the entry of foreign banks and other financial institutions. In other words, private financial institutions such as Banks, insurance, credit and saving institution are reserved for domestic investors or Ethiopians only. The implication to this seems that domestic banks cannot compete with foreign banks and also by considering some other relevant factors, Ethiopia has a restriction policy towards liberalizing financial sectors.

## Currency Devaluation

Currency devaluation has been used as a tool for boosting economic growth in the world. As available conducted studies revealed developed countries have shown that it has significant positive impact with their trade balance in the long run. Currency devaluation as a solution for economic growth was proposed by IMF as a strategy for growth, especially in developing countries. The implementation of currency devaluation improved the problem of trade defect of various countries such as Serbia, Russia, Pakistan, China, Turkey, Malaysia, Indonesia, Thailand, Albania, Nigeria, and other countries, except in Chile (Umer, 2015). Ethiopia is one of the developing countries that have followed this growth strategy since 1991. This is because the country was highly experienced with trade deficit. Thus, in 1992 to reduce the imports of the country and to increase the exports or maintain trade balance, the current government devaluated the currency (birr) by 241% (Haile, 2008, & Tirsit, 2011).

## Foreign Direct Investment (FDI)

One other ma-In Ethiopia, foreign investment is also regulated by legislation. This investment legislation has been amended to incorporate changes at the international arena and to tune the laws in line with the concept of liberal economy. The Proclamation No. 280/2002 which is currently amended by Proclamation No. 375/2003 is intended to regulate investment and accelerate economic growth of the country through domestic and foreign investors. To implement this proclamation, the Council of Ministers Regulations No. 84/2003, regulate investment incentives and investment areas reserved for domestic investors. The schedule attached with regulations No. 84/2003 list 20 areas of investment reserved for domestic investors only. For example, in wholesale trade and retail trade (except fuel and the domestic sale for locally produced goods from foreign direct investment); construction companies (except grade 1); car here, taxi, road and inland water transport services; bakery products and pastries for the domestic market; the financial sector (banking, insurance and microcredit and saving services); Printing industries; exporting raw coffee, oil seeds, ‘chat’, pulses, hides and skins, live sheep, goats, and cattle (not fattened); etc.

## Deregulation

Deregulation is also essential in market oriented economy. It refers to the removal or substantial reduction of government regulations of entire investment. Proponents of privatization argue that it brings competition and lowers prices. They further claim that it stimulates innovation and stops government abuses. However, it may result in high price, proper service, and lower productivity. Here, as we have cover on the above topic under the Ethiopian law, there is proclamation which excludes foreigners to the involvement of some selected investment areas. In addition, in order to encourage the country export potential, there is a provision of adequate incentives, strengthening and enhancing institutional support for the export sector. For example, elimination of export taxes except for coffee. For more detail read proclamation No. 375/2003 and the Council of Ministers Regulations No. 84/2003 which regulate investment incentives and investment areas reserved for domestic investors.

## CONCLUSION

Since 1991 Ethiopia adopted neoliberalism “free market economy” and after 10 years which means from 2002 to present free market economy replaced the developmental state. Scholars claimed that developmental state economic policy is neither command nor free market. Its policy content is in between. In this between economic system, the successes and failures of the IFIs in exporting neoliberalism in Africa by selecting Ethiopia as a case has been summarized as fellow. The successes are: the replacement of command to a market economy, since 1991; Establishment the Ethiopian Privatization Agency (EPA); Privatizing financial institutions; Open the economy for Foreign Direct Investment, but on the selected areas; Devaluation of currency; Privatizing broadcasting services; and Privatizing road and water transport. In contrary, the failures are Restrictions of foreign banks entry; Provision of investment incentives; Reserved some Investment areas for domestic investors; Government monopoly in telecommunication, electricity, transportation (air and rail), and land (constitutionally declared as its government property); Lack of deregulation commitment; and Recent shifting from free market to developmental state. In short, currently Ethiopia is highly encouraged the involvement of private sectors to advance the economic development of the country; however, the government also actively involved on the economy. Therefore, it is possible to argue that the existing economic policy of Ethiopia has “heterodox” contents.

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