PREORC

Preorcjah Vol. 3(2), 2018
https://ezenwaohaetorc.org

The international monetary fund and Senegal relations from 1979-2004

Abuoma C. Agajelu & Idara C. Aniefiok-Hanson

Abstract

In the study of the activities of the International Monetary Fund (IMF) in Africa, Senegal plays a prominent role because it is the country which first adopted IMF's conditionality for a loan on the continent. The Fund has since then been a major source of economic assistance to the West African country. With the ambition of becoming an 'emerging country' through an accelerated growth strategy that is primarily underpinned by public and private investment, Senegal easily cemented a sustained relationship with the IMF. The IMF, on its part, promulgates austerity measures as conditionality for its loans. Being an agency for providing liquidity to check balance of payments deficits in the international trade, the Senegalese government saw in the IMF an opportunity to save its citizenry from economic quagmire that severely hit the third world countries in the late 1970s and 1980s. With the economic recession the activities of the Bretton Woods Institutions have been in the annals of the Senegalese and other Less Developed Countries (LDCs). This paper aims at giving an account of the history, role and impact of the activities of IMF in Senegal. A thematic approach is used in the discussions, while the analysis is generally qualitative.

Introduction

The International Monetary Fund (IMF) effectively found its way into the African economy, in a period when market-based solutions to economic reforms were gaining international credibility and the opportunity to test their structural adjustment policy on the continent was provided by the economic crisis of the 1980s, which made most African countries to be aid-dependent. The activities of the IMF in Africa and other developing regions have stimulated intensive debate over the years. While the pro-modernist school of thought often eulogize the role of the IMF in the third world economies, the Marxist and dependency theorists vehemently kick against the International Financial Institutions as being an instrument of international capitalism. However, the IMF was not actually created to integrate the Third World economies into the global capitalist system, rather it was established, alongside, the International Bank for Reconstruction and Development (IBRD) to reconstruct the war-battered economy of the world (especially that of Europe).

As mentioned earlier, the 1980s turned out to be an economically gloomy decade for Africa. So steep was Africa's economic decline that the period became known as 'the lost decade'. By the mid-1980s most Africans were as poor as or poorer than they had been at the time of independence.[1] One of the African countries badly hit by this economic recession was Senegal. Being a monoculture economy that relies on the international price regime for primary products, the "external shock" of late 1970s led to the country's economic downturn. The country's external debt reached unsustainable levels, prompting the government of the day to turn to the International Monetary Fund (IMF) and the World Bank. From the late 1970s,

until the present day, the Bretton Woods Institutions have dominated economic policy in Senegal and in other Sub-Saharan African countries through what are known as 'Stabilisation Programmes' and 'Structural Adjustment Programmes' (SAPs).[2] It is the aim of this paper to give a historical account of the role and impacts of the IMF activities in Senegal.

Theoretical framework

It is an established fact that the third world economies are being integrated into the global capitalism championed by the West or Centre countries. The question to be asked now is: what is the motive for this integration? The motive submitted by many African scholars provides the theoretical framework for this study. The paper shall, therefore, adopt the Dependency Theory as its framework of analysis.

Dependency Theory, which developed from Marxism, rejects the assumption that capitalism is the best means of economic development for impoverished states and instead argues that participation in international capitalism by poorer countries traps them in relationships of dependency and subordination to wealthier states.[3] In his popular book, *How Europe Underdeveloped Africa*, Walter Rodney was very explicit in his submission that the developed countries of the West are further impoverishing African countries and massively developing themselves in their unequal relationship under the international capitalism. It was in this book that Rodney boldly declared that "African development is possible only on the basis of a radical break with the international capitalist system, which has been the principal agency of underdevelopment of Africa over the last five centuries."[4]

It is the belief of many exponents of dependency theory that the International Monetary Fund (IMF) and the World Bank are instruments of neo-colonialism, whose policies and programmes are only meant to underdevelop the periphery countries. Asad Ismi claimed that the Bretton Woods Institutions' policies are only complimenting the United States' foreign policy. In one of his articles he, rather bitterly, stated inter alia:

> Washington's predominance ensured that whatever their theoretical mandates might be, the World Bank and the IMF would become instruments of U.S foreign policy. The role of both has been to fully integrate the Third World into the U.S.-dominated global capitalist system in the subordinate position of raw material supplier and open market.[5]

Considering the evidence of social hardship experienced in the countries where the IMF conditionality was adopted, the dependency theory of international economic relations seems adequate as a framework of analysis. Though an analyst may choose to adopt a different theoretical framework considering the basis of his analysis. At this point one may want to understand what the International Monetary Fund (IMF) is, and the reasons for its establishment.

A brief history of the IMF

The International Monetary Fund (IMF) is a product of the World War II. When it was clear that the Allied Powers were winning the war, member nations realized the need for immediate reconstruction and regulation of the war-battered global economy

(especially that of Europe). In july 1944, representatives from 45 countries convened in Bretton Woods, New Hempshire, to plan the terms of postwar international economic cooperation.[6] Todaro and Smith gave an explicit presentation of the reason for the Bretton Woods Conference when they stated thus:

> The economic devastation of the Great Depression in the 1930s, followed by the ravages of the Second World War, had led to the collapse of international financial markets and precipitous decline in the volume of international trade. The International Monetary Fund (IMF, or simply the Fund) and the World Bank were created to rebuild international goods and capital markets and to restore the war-torn economies of Europe. [7]

The *Encyclopaedia Britannica Student and Home Edition*, describes the IMF as a United Nations (UN) specialized agency, founded at the Bretton Woods Conference in 1944 to secure international monetary cooperation, to stabilize currency exchange rates, and to expand international liquidity (access to hard currencies).[8] What the foregoing explanations entails, in essence is that the IMF is an agent of economic integration and stability.

Though 45 countries were present at the Bretton Woods Conference in 1944, the IMF commenced operations in 1946 with a membership of thirty-eight countries. The Fund's original Articles of Agreement were drafted in the Western allies-dominated Bretton Woods Conference two years earlier. The Articles require the Fund to:

- Ensure that its members observe a code of international behavior with respect to payment restrictions and exchange rate, and
- Act as an international institution providing financial assistance to members experiencing balance of payments difficulties[9]

Its ability to perform the first function depends on the financing it can make available in its second role. The founding fathers were guided and influenced by the desire to avoid a repetition of the monetary disruptions that occurred during and after the depression of the 1930s. Thus the agreements focused on, and attacked the issue of competitive currency depreciations and dislocations to multilateral trade and payments. Many of the policy conditions attached to the Fund's credit derive from its set objectives.[10]

The IMF's supreme decision-making body is Board of Governors comprising Ministers of Finance and Central Bank Governors, but this meets only annually. A smaller Committee of Governors meets about three times a year. There is an Executive Board which is responsible for routine control; this meets almost continuously in Washington and is responsible for decisions on members, request for financial assistance and various aspects of the Fund's policies.[11]

Considering the profile and functions of the IMF, some people, rather sarcastically regard it as "International Ministry of Finance". This is because of the interfering nature of its officials in a nation's public bureaucracy; and to the dependency theorists, this hurts the sovereignty of a nation.[12]

As mentioned earlier, Senegal is one of the African countries which established a functional relationship with the IMF as a result of the debt crisis of the 1980s. Till date, the IMF still plays

important role in the Senegalese economy. In the next section, the paper shall attempt an account of the history of the IMF in Senegal.

The history of the IMF in Senegal

Just like in most sub-Saharan African countries, an effective relationship between the IMF and Senegal commenced as a result of loan application and the adoption or rejection of the Fund's policy mechanism and development blue-print embodied in the Structural Adjustment Programme (SAP). Martin Meredith expressed the situation in Africa that led to the intervention of the Bretton Woods Institutions with their SAPs when he stated thus:

> Unable to raise funds locally, shunned by commercial banks abroad, African states opted for rescue by the International Monetary Fund and the World Bank. In effect, Western donor institutions took over as Africa's bankers. Senegal in 1979 became the first African state to obtain a 'structural adjustment' loan from the World Bank. One by one, others followed.[13]

As indicated above, Senegal was the first country in Africa to take the initiative of approaching Bretton Woods Institutions for loan. This decision may have been informed by the loss of GDP in the turbulent period especially to smugglers and drought. Meredith further noted that in 1980 two-thirds of Senegal's groundnut harvest was sold illegally in Gambia,[14] and this coupled with drought adversely affects balance of payments position of the Sub-Saharan African country.

The nature of the Senegalese economy did not help matters either. Predominantly rural and with limited natural resources, the economy of Senegal gains most of its foreign exchange from fish, phosphates, groundnut, tourism, and services. The agriculture sector of Senegal is highly vulnerable to variations in rainfall and changes in world commodity prices. The fall in world commodity prices in the 1980s, therefore, caused a drastic decline in the national income and massive debt crisis. Though the country's economy still expanded 43 per cent in the turbulent decade, however, this proved unsustainable and the economy consequently shrank by 40 per cent in the 1990s.[15] These inconsistencies perpetrates the activities of the IMF in the Francophone West African country.

During the first two decades of its independence, Senegal made some progress, both in economic and social terms. Between 1971 and 1977, real economic growth averaged more than 3.5 per cent a year, while per capita income rose steadily, by an average of more than 1.0 per cent.[16]

However, by the mid-1970s, Senegal began to face both internal and external shocks. A series of droughts severely affected the agricultural sector, especially groundnut and food production. This, in turn, impacted upon the performance of state-owned enterprises, which began to accumulate deficits.[17] This marked the beginning of IMF and World Bank intervention in Senegal.

The 'Berg Report,' published by the World Bank in 1981 marked a key moment in a gradual shift that took place in the bank's policy thinking.[18] The shift was from a more interventionist approach where government was broadly seen as a key player in the development process to a free market approach based on open markets, deregulation, small government and a

faith in the private sector. This report on Africa laid down the basic framework of what became known as Structural Adjustment Programmes (SAPs) and later the 'Washington Consensus'.

It is within this context, and after the deterioration in the country's external position that the IMF and World Bank began to intervene, first with a stabilization programme and followed later by a series of SAPs. Senegal implemented a short-term stabilization programme between 1979 and 1980. Its primary aim was to curtail domestic demand with the view to reducing fiscal and current account deficits, which were blamed for the rise of Senegal's external debt. To achieve this, two measures were required: increasing fiscal revenues and curtailing public spending.

However, the stabilization programme achieved none of the above objectives during the year of its implementation. This opened the way for the first SAP in 1980. Ever since, Senegal has been under a permanent adjustment process under the supervision of the IMF and the Word Bank.[19] The Structural Adjustment Programme in Senegal was implemented in phases. The first phase was 1980 – 1985. This phase was tagged the Economic and Financial Recovery Plan. The Plan inaugurated the first Structural Adjustment Loan (SAL) to Senegal.

The second phase was 1985 – 1992. The SAL was procured under the New Agricultural Policy. The thrust of this policy was to drastically reduce or even eliminate State intervention and give more responsibility to farmers by reducing the intervention of parastatals involved in the agricultural sector.

Another economic policy made in the second phase of SAP in Senegal was the New Industrial Policy (NIP). The stated objective of this policy was to 'revive the ailing industrial sector'. Also in the second phase was another major policy initiative. This

was the public sector restructuring. In the early 1980s, the public sector in Senegal was composed of 180 units, divided into six independent state-owned enterprises (sociétés nationales) and 25 public enterprises and semi-public companies (sociétés d'economie mixte). The sector employed more than 30,000 people, accounting for 30 per cent of the workforce in the 'modern' sector.[20] Some of the leading companies in the agricultural, industrial, banking and transport sectors, as well as water and electricity utilites belonged to the public sector, making it the engine of the country's economic and social development. Up till the mid-1980s, Senegal tried several formulae to reform the public sector, avoiding outright liquidation or large-scale privatization. The formulae tried did not live up to expectations, since several state-owned enterprises continued to accumulate deficits. Intense pressure from the IMF and the World Bank, led to a change of strategy. This change took place in earnest in 1987, when the state was forced to adopt a three-pronged policy: restructuring, privatization and dissolution.

The third stage of Structural Adjustment Programme in Senegal was 1994 – 2000. Structural adjustment in the mid 1990s prompted further trade liberalization in Senegalese agriculture and manufacturing. The thriving tomato industry, chicken industry, and others were privatized.[21] The trade liberalization and privatization, among other conditionality for IMF loan, as inherent in SAP had impact of great magnitude to the economic and social life in Senegal. These impacts will be discussed later in this paper. But first the paper will account for the role of the IMF in Senegal.

The role of the IMF in Senegal

The role of the IMF in a country comes in different ways. The designated roles of the IMF and the World Bank were quite different, though to some extent they were intended to complement each other. This accounts for the often interchangeable usage by writers while explaining the roles of these Bretton Woods Institutions. It was the prevailing wisdom at the time of the Bretton Woods Conference that the stabilization of international capital markets was essential to the resumption of lively international trade and investment. This concern led to the establishment of the IMF, which became responsible for monitoring and stabilizing the international financial system through the short-term financing of balance of payments deficits. The World Bank's complementary role originally evolved considerably over time.[22]

The roles of the IMF in Senegal include:

- Provision of loans; Senegal got its first loan from the IMF in 1984. Between then and the end of August 2002, it completed 19 transactions with the Fund. Senegal has received loans from the IMF under the Structural Adjustment Facility (SAF), as well as from the Enhanced Structural Adjustment Facility (ESAF) and its successor, the Poverty Reduction and Growth Facility (PRGF).[23]
- Debt relief; the activities of the IMF in Senegal is clearly shown in the Fund's assistance to the country in the area of debt relief. A report indicated the enormity of Senegalese debt burden when it stated:

> The country's debt burden is a major obstacle to poverty reduction efforts. The debt represented 86.2 per cent of GDP in 1994, 80.1 per cent in 1996 and 71.3 per

> cent in 2000. After rescheduling, debt service for its part represented 4.5 per cent of receipts from exports of goods and services and 11 per cent of tax revenues in 1994. These percentages were 14.6 per cent and 27.6 per cent in 1996, 12.0 per cent and 21.3 per cent in 1999 and 12.7 per cent and 22.6 per cent in 2000.[24]

The structure of Senegal's debt indicates that more than 60 per cent is owed to multilateral creditors. Since the early 1980s, due to the accumulation of current accounts deficits, Senegal has not been able to meet all its debt obligations each year. Those arrears are added to the debt outstanding, which tends to increase the level of Senegal's debt. The high level of arrears is an indication of Senegal's inability to service its debt and the unsustainable burden of that debt. Senegal has been to the Paris Club (the group of rich country bilateral creditors) 13 times between 1981 and 2000, but to no avail.

For the above reasons, Senegal was admitted to the Heavily Indebted Poor Country (HIPC) Initiative in June 2000, after the approval of its interim – Poverty Reduction Strategy Paper (PRSP) by the Boards of the IMF and the World Bank. Under the agreement, Senegal will receive US$800million, or US$450million in Net Present Value (NPV), in debt relief over a 10-year period. The IMF contributed US$45million over a 9-year period. Relief from the IMF accounted for 20 per cent of the country's debt obligation to the Fund.[25]

- The Structural Adjustment Programme (SAP). The influence of the IMF on Senegal was felt in the implementation of the

conditionality stipulated in the Structural Adjustment Programme (SAP). As mentioned earlier, the implementation of SAPs in Senegal was in phases. Each phase came with a major economic policy aimed at sustainable economic growth and development. The policy thrust of SAP include: trade liberalization, deregulation, export-led growth policy, financial liberalization, liberal investment code designed to 'attract' Foreign Direct Investment (FDI), public sector restructuring, labour market deregulation, civil service reform, [26] among others.

- Partner in Poverty Alleviation. Closely related to debt relief role of the IMF is its role in an effort to eradicate poverty in Senegal. The progress made as depicted in the *Poverty Reduction Strategy Paper Annual Progress Report.* The PRSPs are prepared by member countries in broad consultation with stake-holders and development partners, including the staff of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction; as well as associated external financing needs and major sources of financing.[27] The PRSP reportedly provided a common frame of reference for pro-growth economic and social policy as well as for poverty reduction in the broader context of continued efforts to achieve the Millennium Development Goals (MDGs).[28] Over the years the PRSP has evaluated the efforts and progress made by Senegal to reduce poverty. They also provide research assistance and strategies for the country to cut down the poverty rate.
- Funding Development Projects. When President Abdou Diouf (1981 – 2000), initiated the move away from state

intervention in the economy and to encourage the reintroduction of private initiatives, the IMF encouraged, supported and funded the programme. The privatization was pursued in agriculture marketing, industries, and some public utilities, including telecommunications (Sonatel), textile (Sotexka), electric utilities (Senelec), and peanut processing (Sonacos).[29] Since the January 1994 CFA franc devaluation, the IMF, the World Bank, and other multilateral creditors have been supporting the government of Senegal's structural and sectoral adjustment programmes.

- Economic Surveillance. Another important role of the IMF was surveillance of macroeconomic policy of each member country – but in practice with special emphasis on developing countries – leading to increasing IMF involvement in the development process. The Fund also expanded its role in the provision of information services to the public and technical assistance to developing-country governments.[30]

Through the human development index, the IMF has been able to keep tabs on the progress of the micro and macroeconomic policies of Senegal and their contributions towards the economic development of the country. For example, the human development index indicated that the percentage of the Senegalese population that was undernourished increased from 23 per cent in 1990/92 to 25 per cent in 1998/00.[31]

Also, through the Poverty Reduction Strategy Papers (PSRPs) the IMF and World Bank provide information and services to the public in Senegal. In essence, the role of the IMF in the economic growth of Senegal is not limited only to the provision of loans but also in monitoring and regulation of economic policies of the country. This is one of the reasons

why their activities are vehemently opposed as they at times serve to undermine the sovereignty of the country and other Less Developed Countries (LDCs).

The impact of the IMF activities in Senegal

In the previous section, the paper dwelt on the role the IMF played (and is still playing) in the economy of Senegal. These roles impacted both positively and negatively on the Senegalese. Most African scholars criticize the activities of the Bretton Woods Institutions in Africa for many reasons. Basically, they argue that their activities brought more hardship to the citizenry than gains. Below are some of the impacts of the IMF activities in Senegal.

- Highly Undervalued CFA franc. One of the conditionality inherent in the SAP for IMF loan is the devaluation of the recipient country's currency. This issue of devaluation initially strained the Senegal-IMF relationship. In the early 1990s, Senegal suspended the Structural Adjustment Programme for two years as a result of a disagreement over the devaluation of the CFA franc (the government was opposed to the devaluation).[32] However, in January 1994, Senegal undertook a bold step to renew its relationship with the International Financial Institutions. This began with a 50 per cent devaluation of Senegal's currency which was linked at a fixed rate to the French franc. Unfortunately, this devaluation had severe social consequences, because most of the essential goods were imported. Overnight, the price of goods such as milk, rice, fertilizer and machinery doubled.[33]
- The Centre-Periphery Economic Relations. The activities of the IMF in Africa and other Third World states receive stiff criticisms because of its neo-colonial tendencies. According

to Anthony Nwabughuogu, the International Monetary Fund (IMF), the World Bank and its affiliate institutions, the International Finance Corporation and International Finance Association all have United States of America capital as their major backing.[34] Asad Ismi concur with this assertion when he stated that the Bretton Woods Institutions are instruments of the United States' foreign policy.[35] Considering the gains accruable to the Western economies from the integration of African economies into the international capitalist system and the hardship suffered by the African people as a result of this unequal relationship, the assertion that the giant International Financial Institutions are mere instrument of the Western foreign policies holds water.

- Adverse Effects of Privatization and Trade Liberalization. In the 1960s and 1970s, major parastatals were run and regulated by the state in Senegal. This was due to the dearth of an indigenous private sector and the necessity to meet some of the most pressing needs of the population. According to a Report, during this period, Senegal achieved some significant results, thanks to the performance of the agricultural sector and the strength of its exports.[36] However, far from rescuing Senegal from its debt problems, the implementation of the IMF's privatization policy led to the collapse of both agricultural and industrial sectors. The agricultural sector, which employs more than 70 per cent of the population, has been severely affected by liberalization and the dissolution of many state controlled enterprises (known as parastatals). As a result, peasants and small-scale farmers have seen their livelihood deteriorate in the face of the invasion of the domestic market by cheap and subsidized imports from developed countries. Forced liberalization of the

> groundnut (peanut) sector – which is the backbone of the Senegalese economy – with the dissolution of SONAGRIANES (a parastatal) in 2002, provoked a near state of famine in rural areas. As s result of the 'reform', less than 30 per cent of the groundnut crop was collected, farmers lost millions of dollars in income, the government had to step in with a bail-out package worth some US$23million and economic growth was reportedly cut in half. Despite this failure, the IMF and World Bank seem intent on pushing further as the liberalization of the rest of the groundnut sector is one of the conditions for Senegal to receive debt relief.[37]

The above pitfalls of the IMF adventure in Senegal notwithstanding, the country did record some positive impacts of the Fund's activities. It was recorded that Senegal achieved growth in GDP averaging over 5 per cent annually during 1995-2004 when the country revitalized its relationship with the IMF. It was also in the records that annual inflation was pushed down to the low single digits. Also, under the IMF's Highly Indebted Poor Countries (HIPC) debt relief programme Senegal was proposed to benefit from eradication of two-thirds of its bilateral, multilateral, and private sector debt, contingent on the completion of privatization proposed by the government and approved by the IMF.[38] Then through the Debt Sustainability Analysis (DSA),[39] the IMF keeps close tabs with the debt situation of Senegal and offer financial and advisory assistance where necessary.

Conclusion

From the account presented in this paper it is very clear that the International Monetary Fund (IMF) has been very busy in Senegal. The country's economic activities are closely linked

with the Fund's policy blue-prints. Whether the giant financial institution's presence in Senegal has been detrimental or fruitful is left for an analyst to judge provided he interprets the evidence from his research objectively.

Nonetheless, it is a fact that the Western economies adopted many means to integrate the African economies into the global capitalist system. Many notable scholars have opposed this integration because it is based on unequal terms. Claude Ake inferred that African states were integrated into the Western-modeled system when the continent still maintains feudal relations.[40] This unequal terms in relationship is what many African scholars claim the IMF and other multilateral financial institutions were established to perpetrate. Considering the achievements of the state in the parastatals prior to the advent of the IMF and their conditionality in Senegal, this accusation may not be far from truth. What is obvious is that the IMF may not have considered the social effects of their policy blue-prints and austerity measures they propose for the recipient states. It looks as if they are only interested in making sure that the loans they give will be paid back. It is unfortunate that in Senegal, as in many other African countries, the state has been weakened (through the efforts of the Bretton Woods Institutions) to the point that its ability to perform some of its basic duties has been impaired.

What then is the way forward? A study of the traditional African economic patterns and models shows that many of the African countries may have taken up economic systems that appeared to have served the purposes of the time. If allowed to develop in accordance with the changing world, these economies may have evolved into gainful economic systems that may compete favourably with the outside world in a free trade

situation. For example, outside western interference and neo-colonial overtures, productions in Senegal would be done according to the domestic needs of the country and the demands of the international market and not based on the will of some gigantic imperialistic financial institution or the interest of a former colonizer.

Therefore, the paper recommends that Senegal, and indeed most sub-Saharan African countries, should go back to the drawing board and strive to adopt economic models and patterns which would best serve their national interests and which would strengthen their bargaining power in the global political economy. By so doing, some of the African countries would free themselves from neo-colonialism, which come in form of dependency and also possibly achieve favourable terms of trade without depending on the IMF and other donor agencies for loans that normally come with draconian conditionality.

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Abuoma C. Agajelu is a lecturer in the Department of History and International Relations, Paul University, Awka.

Idara C. Aniefiok-Hanson is a lecturer in the Department of History and International Studiess, Nnamdi Azikiwe University, Awka.