Why Do IMF Conditionality Policies Fail to Sustainably Reduce Debt in Lics (Low-Income Countries)?

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Abstract

This article examines the reasons why International Monetary Fund (IMF) conditionality policies fail to sustainably reduce debt in Low-Income Countries (LICs). The expansion of IMF conditionality policies to cover governance and anti-corruption issues has raised concerns among scholars. While the IMF claims that conditionality policies help countries repay their loans and improve governance, there is no consensus on their level of success in LICs. This study argues that the implementation of structural conditionality policies endangers state capacity in borrowing countries, leading to the accumulation of additional debt. The lack of a thorough assessment of how IMF conditionality impacts economic growth in poor countries necessitates a comprehensive evaluation of its components' impact on continual over-indebtedness. The literature review explores the IMF's promotion of good governance, the effects of deregulation, liberalization, and privatization, and the relationship between governance, state capacity, and economic development. The findings suggest that IMF conditionality policies undermine state capacity, increase corruption risks, and hinder sustainable economic growth in LICs. This research contributes to understanding the limitations of IMF conditionality and highlights the need for alternative approaches to debt reduction in LICs.

Keywords: Structural Conditionality Policies, Liberalization, Deregulation, Privatization, State Capacity, Corruption