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An evaluation of the IMF lending policies in developing countries Why aren't they working?

By: Emma Guillen Fuentes
Supervised by Carolina Punset Bannel

Abstract.

This thesis analyses the effectiveness of the International Monetary Fund's (IMF) lending policies in developing countries. It aims to determine whether its conditionalities truthfully contribute to economic recovery and sustainable development. Through a literature review, case studies, and analysis of macroeconomic and social indicators, the thesis concludes that while IMF loans may achieve short-term stabilization, they produce negative outcomes in terms of employment, poverty, and inequality. Locating the austerity measures, privatization of public services, and cuts in social spending as the main causes for the failure of the IMF programs. Showing that the programs achieve the objectives in the macroeconomic indicators through harming the most vulnerable populations. The study also explores the IMF's influence on governance, national autonomy, and democratization processes. The work concludes with proposals to enhance the future effectiveness of IMF interventions in the Global South.

Resumen:

Esta tesis analiza la eficacia de las políticas de préstamo del Fondo Monetario Internacional (FMI) en los países endesarrollo. Su objetivo es determinar si sus condiciones contribuyen realmente a la recuperación económica y aldesarrollo sostenible. A través de una revisión de la literatura, estudios de casos y análisis de indicadoresmacroeconómicos y sociales, la tesis concluye que, aunque los préstamos del FMI pueden lograr una estabilización acorto plazo, producen resultados negativos en términos de empleo, pobreza e inequidad. Identificar las medidas deausteridad, la privatización de los servicios públicos y los recortes en el gasto social como las principales causas delfracaso de los programas del FMI. Mostrar que los programas alcanzan los objetivos en los indicadores macroeconómicosperjudicando a las poblaciones más vulnerables. El estudio también explora la influencia del FMI en la gobernanza, laautonomía nacional y los procesos de democratización. El trabajo concluye con propuestas para mejorar la eficacia futurade las intervenciones del FMI en el Sur Global.

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1. Introduction

Where do countries go where there is no one to lend them money or to help them get out of bankruptcy? That is the role of the International Monetary Fund (IMF) and has been since the end of the Second World War. Since then, it has had a very active role in the global economy, it started lending money to economically developed countries that were facing certain short-term difficulties, and its activity has expanded to helping countries from all types of income and for short- or long-term periods of time. It has also played an important part during times of crisis mainly economical, but also when countries suffered natural disasters, or even during the health crisis covid 19. Even though on the appearance this international institution searches for positive goals, it has faced heavy criticism against it

After the Second World War, the nations had the opportunity to shape the new world order. They all had to remake the economic system, in that window of opportunity many of them decided to create a multilateral financial system. This multilateral system was presented during the Bretton Woods conference. Under the belief that free trade promoted international prosperity as well as international peace (US Department of State, 2019) the 44 delegations agreed to the creation of both the International Monetary Fund (IMF) and the formerly called International Bank for Reconstruction and development, which now is identified as the World Bank. Both organisations started to work in March 1947.

At the time the IMF was conceived to oversee a system of fixed exchange rates that revolved around the US dollar, as well as being a forum for consultation and cooperation. All that while serving as aid to those countries that experience temporary economic imbalances or deficits. The purpose of the institution has evolved during the years, being now dedicated to achieving sustainable growth and prosperity for all its 191 member countries (International Monetary Fund, 2024) through providing policy advice, financial assistance and capacity development (trainings and other educational tools). However, the one they are most known for is the economical one, which will be the main focus of this paper.

When it comes to economic aid the IMF can grant different types of loans to the countries that demanded it and qualified in the standing criteria. To be precise the institution has a variety of loans, each tailored to the necessity of the country requesting the loan; the options are the following:

The IMF fastest options are **the Rapid financing instrument (RFI) with the Rapid Credit Facility (RCF), and the Stand-by Arrangements,** whose purpose is to help and solve a short-term problem of balance of payments[1]. For those that are not imbalances of payments but may see themselves in one sooner rather than later, there is **the Flexible Credit Line**, whose purpose is to provide aid, so those countries avoid the imbalance situations. To avoid such situations there is also **the Precautionary and Liquidity Line**, used not only to give money but also to give countries the right instruments, with some fundamental economic base and policies.

And for the countries that find themselves in economic difficulties, we have **the extended fund facility,** it provides long term assistance to support structural reforms along with the balance of payments.

The fund has developed along the years specific programs targeted for developing countries, The **Standby Credit Facility and the extended credit facility.** Both were conceived with the purpose of helping low-income countries, achieve and maintain a stable, sustainable position on the global market, either on a short term or a long term. (International Monetary Fund, 2019)

All these types of loans are subjected to conditionality, meaning that in order to receive the money the countries that have requested the loan have to undergo and put in motion specific measures that address corruption, ensuring the strength of the governmental institutions, and other measures that ensure the soundness of the financial system. Those required measures have changed through the years, from macroeconomic policies to more country-based policies; and have been tailored through time, to each country and global situation, but are compulsory for every country (International Monetary Fund, 2023).

[1] Both previous types of loans are classified as the IMF Stabilization programs (Connors, 1979).

The International Monetary Fund has gained the reputation of being the bank of last resort due to its extensive financial aid. That vision started to develop during the third world debt crisis; this crisis was born due to the great amounts of private debt the developing countries were acquiring to maintain the growth rate during the 1970s. But it was not until the 1980's that the world came to acknowledge the debt crisis that all countries were suffering. Even if it was private debt what they were asking for, in the end they all had to turn to the IMF (Mcloughlin, 1989). It was in 1980 during the aftermath of the third world debt crisis, the Fund itself "became heavily involved with lending to developing countries, and then countries in transition (CITs)." (Vines & Gilbert, 2004) countries extending from Latin American countries, Asian economies, as well as to those in Africa. Essentially what we understand as the Global South. This extended and heavy involvement in the regions ended up providing the IMF with the reputation of being the bank of last resort and consequently expanding the influence of the institution to the total environment of developing and low-income countries.

However, and regardless of the good will behind the actions of the institution. The IMF has been criticized for many reasons, amongst them reducing the value of the currency, reducing imports, imposing high taxes, for imposing ineffective conditionalities, or not considering the social effects the conditions have in the countries once they are implemented. The criticism has fluctuated during the years, but it has always remained the same. The Melzer commission [2] was very critical of the role when it came to the developing countries, they stated that the conditionality of the loans was ineffective and accused the institution of having too much power over the economic policies of the countries they lend the money to, and to be an institution used by the G7 (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) governments to achieve their own political ends (Vines et al., 2004).

[2] The Melzer commission or THE INTERNATIONAL FINANCIAL INSTITUTION ADVISORY COMMISSION. Was established by the USA congress to give an assessment on the different international organisations. They crafted a report focusing on the international financial institutions (Meltzer, n.d.).

Nowadays the IMF remains active and has helped all countries in need during a crisis. Since 2005, the IMF has given 5.7 billion dollars just last year, to more than 100 countries from all over the world, from developing countries to European ones.
During the COVID-19 pandemic the fund put in motion the possibility of building on existing lending arrangements, so the countries that were already participating in the IMF’s programs could cover their budgetary necessities during the health crisis. Along this, the debt service relief targeted to help countries that have suffered a natural disaster.

And as it is an extremely active international organization and with such a key role, the objectives of this paper are, firstly, to determine if the organization strategies to economic recovery are in fact having the desired effect or the opposite. Secondly, to determine if the criticism is well founded, and the effects this conditionality has in the lending countries.
To achieve these objectives, we will carry out a literature review of international relations, and finance journals, as well as health and education publications.
This thesis is structured in the following way: In the first section we will set the basic concepts in order to establish a basic understanding of the International Monetary Fund and its programs as well as the central concepts.
In the second section, we will show the results of the literature review and present cases to better understand the impact the IMF programs have on the different countries' populations and its direct and indirect effects. This section is meant to show a complete view of the IMF results in the borrowing countries.
In the third section we will present two study cases, one a success and one a failure of the IMF in order to bring light to the causes of what makes a program effectively work. And finally, we will present our analysis and final remarks.

2. Methodology.

During the entirety of this thesis, we will be analysing closely the causes and effects the lending programs of the IMF have on the population, in general and in specific cases of the Global South. Striving to answer the following questions.

- Do the lending policies implemented by the IMF really help the developing countries?
- What is the effect over the general population of the countries?
- How could they be more effective?

This approach was chosen as a side effect of the loan conditionalities provided by the IMF is on most occasions left outside of the analysis, as the international relations community base its conclusions only on the numbers like the GDP, the measurement of growth by the GNI index, and more.

This will be achieved by performing a literature review, we will be consulting a series of first-hand sources, such as the agreements and letter of intents. As well as the review of second-hand sources, such as articles published by experts, books, data sets, reports published by the International Monetary fund and the World bank as well as other international organisations like the United Nations. This thesis is not only focused on the economic side; therefore, we have carried out research outside of the economic, political and International Relations journals and have as well included health and education related journals.

Unfortunately, we were unable to carry out interviews of the governments and population that participated in the lending programs and the access as that would mean the ability to visit most of the countries of the Global South. At the same time the access to the IMF experts is extremely inclusive, therefore we considered that the best option to consult then was through their publications.

The literature review limitations can be the lack of specific data to measure certain things and consequences, such as the access to basic services or the real effects the trade and liberalisation has over the population, does it rise or lower their wages and purchasing power. Other limitation is that until recent years the IMF has only been used in cases of great crisis, therefore limitation the differentiation between the effects of the IMF or the Crisis.

2.1 The relations to the SDG

According to the sustainable development goals, this research intends to evaluate and show the importance that international financial institutions have on developing countries. And the importance they have into achieving the main objective of the 2030 agenda, ending poverty, protecting the planet and improve the lives and prospects of everyone, everywhere.
The IMF purposes, as mentioned in the introduction, are achieving sustainable growth, but sustainable growth cannot be archived if the right measures are not implemented. This article relates directly and evaluates the IMF impact on SDG 1 (poverty reduction) SDG 3 (Ensure healthy lifestyles) SDG 4 quality education, SDG 10 (Reduce inequality and SDG 16 (peace, justice, and strong institutions)
As well as SDG 17 (Partnership for the Goals) as the IMF never works alone, they collaborate with other banks, private institutions and public government to achieve their goals.

3. Theoretical Framework

As mentioned in the introduction the objectives of this work are to determine whether the conditionalities that are imposed are effective on the country or not, and to evaluate the impact on the social effects inside those. In order to make such evaluation possible we will be focussing on developing countries.
Unfortunately, there is no global definition of developing countries. No international organisation has adopted a specific definition; and the same happens to the criteria to classify a country as developed. Each international organisation has developed specific ways to determine to which economic threshold each country belongs to, and if they are indeed a developing country.

The IMF criteria to classify countries between Advanced economies and emerging and developing countries has changed over the years, however we have never been able to pinpoint the specific reasons for the change of classification. The most recent change that was justified by the World Economic Outlook (a report that the IMF produces), was in 1997 when Israel, South Korea and Singapore advanced to the “Advance economy” category. Its advancement was justified as follows:

“Rapid economic development and the fact that they now all share a number of important characteristics with the industrial countries, including relatively high-income levels (comfortably within the range of those in the industrial country group), well-developed financial markets and high degrees of financial intermediation and diversified economic structures with rapidly growing service sectors” (World Economic Forum, 1997)

Nowadays the criteria the IMF uses to change the classification is still unknown but there is still a majority of countries that are allocated in the developing countries section is the countries located in Latin America, Middle East and Africa (The World Bank, 2023). We can see in the annex the specific countries that are considered to be developing countries.

The partner organisation of the IMF, the World Bank, classifies countries by income level and geographic region, for that they measure the gross national income or GNI in relation to the size of its population. Placing them in one of the four income categories, low, lower-middle, upper-middle and high (The World Bank, 2023).

The low-income threshold is based on the operational civil works preference, and the lower- middle income are based on the International Bank for Reconstruction and Development[3] long standing criteria, which states that the lower middle-

[3] The International Bank of reconstruction and development is a global development cooperative owned by 189 member countries that belongs to the World Bank group. It is the largest development bank in the world. World Bank. (2016). *International Bank for Reconstruction and Development*. World Bank. https://www.worldbank.org/en/who-we-are/ibrd

income countries are those whose Gross National Income or GNI per capita is between 1.136 and 4.465 us dollars (The World Bank, 2024).

However, the United Nations uses another type of classification, under the United Nations department of economic and social affairs, the committee of development policy or CDP developed a criterion that determined the least developed countries.
They use three indicators, the income of the country, its human assets and the economic and environmental vulnerability (United Nations, Department of Economic and Social Affairs, 2010). The income of the country is measured by the GNI index; the human assets is measured by an index that combines the mortality rate and the education index (the combination of adult literacy rate and the secondary school rate); and The economic and Environmental Vulnerability Index, which is a combination of the accessibility to service, the percentage the sector represents on the GDP, and the victims of disasters (United Nations, Department of Economic and Social Affairs, 2010).
This criterion is followed by all the organisations and committees that belong to the United Nations system.

Even the most “impartial” international organisation working to advance development, the Organisation for Economic Co-operation and Development or OCDE, bases its qualification exclusively on the Gross National Income data provided by the world bank.

In general, we are able to see that the main indicator to determine if a country is developed or not is if they rank between 1.136 and 4.465 us dollars on the GNI index. And therefore, it is the responsibility of the world bank to provide such data and criteria.
In this thesis we will comply with the list the world bank provides, to have a criterion, seeing that it also is almost the same to the list provided by the IMF (both lists can be found in the annex).

3.1 Concepts of economic growth, human development and governance

The International Monetary Fund lends money to the countries with the objective of restoring economic stability and economic growth. As well as to prevent future crises. But to further understand to which length the conditionalities of the IMF affect the different loaned countries we need to understand what the concepts of growth, human development and governance stand for, as they are the base of such conditionalities.

Growth

Growth is understanded by the IMF as "the total increase in the value of all the goods and services that society produces" (International Monetary Fund, 2021)

Economic growth can be positive or negative, it fluctuates depending on the economy of the country.

It is important because positive economic growth usually means more job opportunities, higher income, and a reduction of poverty to the general citizens. For the private and public business, it can mean bigger investments inside and outside the country they are based, stronger social protections and more financial security.

To increase economic growth governments may increase the public spending, implement lower taxes and adjust or lower the interest rates. While ensuring a consistent delivery of education, health and infrastructure services.

This economic growth is measured by the Gross Domestic Product. Even if the GDP measures wealth, it does not measure the accumulated wealth, meaning is just how much value the economy has gained over the last year or period of time that we chose. And even if an economy has grown, and it is reflected in the GDP, it does not tell us how it has been distributed or other realities that the country may be facing, such as the effects of climate change.

Human development:

Human development is a term that is widely used in the context of developing countries, it appeared in the second half of the 20th century global discussions.

As it was during the 70's and 80's that global experts started considering an alternative to the GDP as a measure of growth. They wanted to go beyond the

numbers and put greater emphasis in employment, the redistribution of growth and ensure that the people had their needs met.
It was that idea of going beyond the numbers that allow discussions to have a more human approach focusing on people and the opportunities they have.
They started to understand that economic growth, and the economic benefits that came with it was rather a means than an end.
At the same time this approach focuses on giving people more freedom and opportunities, to live the lives they want. It is under that idea that they first coined the concept of human development in 1990, with the first human development report. That report defined human development as: “a process of enlarging choices (for all humans)” (United Nations Development Program, 1990)
The concept of human development has three foundations, three essential pillars. The first one being to live a healthy and creative life; the second to have access to knowledge therefore to have access to education and information; and thirdly to have access to the resources needed for a decent standard of living.
Is due to those three pillars that human development is not only about creating opportunities but rather develop the abilities they need and giving them the chance to use them.

Governance (Bevir, 2012, pp. 1–37)
The concept of governance is not new; however, it required a shift in the general point of view to be developed and to reappear in the global discussions, as it is at first a very abstract concept that for a long time has been mixed with the concept of government. We needed the same shift that created the concept to bring it up once more.
Its appearance occurred when social scientists started to challenge the concept of the state as a unified sovereign entity that consisted of people with the same culture and a common good. The challenge that it faced the concept of government at the time led social scientists to focus on the processes and to give up the historical narratives. They developed a concept that allowed them to focus on the general issues of social coordination, regardless of the institution or the role the government played. That theoretical framework was elaborated under the concept of governance.

The concept of governance refers to: “all the processes of governing, whether undertaken by a government, market or network; over a family or a tribe; formal or informal organization; or territory”. The way the concept of governance differs from government, is in the focus they have governance focuses on the social practices and activities, and less on the state and its institutions.
When thinking of governance, we need to think of it as the process that leads to the decisions taken by any business, organisation or state.

Now these processes are not unique to the already existing administrative arrangements; institutions and governments must take in account the market and that translate to the policies they make. Such is the importance that there are existing practices that are combining the administrative systems, with the market and the non-profits organisations and is from such combinations that new forms of mixed public-private forms of regulations are developing.

The process of governing in most cases concerns more than just the national government, governing is multijurisdictional and often transnational. As it not only includes one specific government, but it can also lead to the participation of the local, regional, national and international authorities. Such as the three powers of the state, the European Union and others.

However, governing nowadays is more complex than saying yes or no, at the moment it has an increasing range and plurality of stakeholders. Brought by the explosion of advocacy groups, that are usually being taken in account through all the processes of decision making.

3.2 Main IMF policies: conditionalities and structural reforms.

Once we have understood the objectives of the IMF and how the classifications are made, we need to understand the conditionalities that come with the loans provided by the IMF, these conditionalities are imposed regardless of the type of loan the parties have agreed to. Most of the countries that require a loan from the IMF are those that are found between 1.136 and 4.465 US dollars on the GNI index, which are classified as developing countries. It is to those countries that are found between these values on the GNI index, are the ones that are at the moment most using the financing possibilities of the IMF and therefore facing the conditionalities. But why are those conditionalities important and who makes them?

When a country applies to any of the different landing programs the IMF provides, they are agreeing to a set of conditions, and reforms. These conditions and reforms come from the experts of the IMF and are designed with the objective of improving the economic condition and bringing the country out of its imbalances. But they also serve to safeguard the IMF resources, so other countries can have access to the same resources if they need it.

The conditionalities vary as they are tailored to every country, but overall, they consist in political, economic and structural reforms. They are agreed by the institution and the respective country, and they are described in the letter of intent, which is accompanied by the contract.

The conditionalities during the entire duration of the loan, are separated into 4 categories: prior actions, quantitative performance, indicative targets, and structural benchmarks.

The prior actions are some steps the loaning country agrees to put in motion before the institution approves financing, they are considered the necessary foundation so the coming changes can succeed. Some of these policies can be related to Fiscal revenue measures, either make arrangements to increase the revenue of taxes, fees and others; essentially the way the government has to finance the activities of the public sector. The clearance of external debts.

Regarding governance in some cases, they focus on ensuring transparency through publishing information, or through implementing several measures to comply with the anti-corruption international standards, such measures may include law modifications, modify the sanctions regime on such issues, and a restructuring plan of the banking sector.

Once the country has complied with the prior actions, we move on to the signing of the letter of intent. The letter of intent is the document in which "*the program is described, typically it includes a memorandum of economic and financial policies for more detailed description of the policies. The program's objectives and policies depend on a country's circumstances"* (International Monetary Fund, 2023)

It is in the letter of intent where we can find the next steps, the quantitative performance criteria, the indicative targets and the structural benchmarks.
The quantitative performance criteria are very specific, and it relates to specific and measurable conditions, they always relate to macroeconomic variables that the country can control, it may include external borrowing and the national reserve. The main measure in these cases is either to reduce or put in motion a ceiling. Some examples may be a ceiling on new public guarantees, a ceiling on external debt and a ceiling on other public sector debts. This can affect the creation of new infrastructures or the paralysation of social subsidies.
The indicative targets are mainly numeral trackers that help monitor the progress of the program, and once the instability and uncertainty of the economic situation of the country lowers they are supposed to become quantitative performance criteria, that is why they are limits to the government wage bill, limits on the domestic debts and a limit on the amount of money the government can borrow from the central bank.
The structural benchmarks are those reforms that are essential to the program implementation but that are unable to fit in the other categories, those can include strengthen the tax administration, improve fiscal transparency through publications of data, improve the rule of law and anti-corruption measures by reforming the laws of the country and the reform of state owned business or the privatisation of it and their respective processes, as well the institution may require the elimination of public vacancies, and implement agreed programs to ensure the payment of overdue debts.

In some cases, the agreed measures and target may not arrive in the time they were expected, is in those occasions that the IMF executive board may be able to grant wavers or bailouts, in the case they are satisfied with the progress or because the government process may be too slow but are doing what they are required. In the case of delays on the structural benchmarks there is no need of waver, but they are monitored closely and assessed on the context of the overall program performance.

The IMF conditionalities are based on the Washington consensus, a set of neoliberal measures designed in 1989. Even though the IMF has done modifications to their policies many experts argue that they still promote such policies. Nowadays the conditionalities consist of budget reduction and relocation of funds, the elimination of subsidies, an increase on taxes, the lowering of trade tariffs, measures to achieve a more liberal economic system, and the privatization of state-owned enterprises.

4. Results: Analysis of the Effectiveness of IMF Lending

4.1 Objectives of IMF loans: macroeconomic stability and growth. (International Monetary Fund, 2019).

As mentioned at the beginning of this thesis, the objective of the IMF loans is to achieve macroeconomic stability and consistent growth. In order to achieve that they are providing loans and policy advice. However, when and in the case of economic imbalances the IMF if requested provides loans with the objective of returning the economic stability to the country. They do so by providing some breathing room and requiring modifications. Those loans can be different depending on the needs of the country in question, there are 10 types of loans they can choose from, each is tailored to the necessity of the country requesting the loan; they are classified in different ways, the stabilization programs, and the structural adjustment programs (International Monetary Fund, 2019).

The Rapid financing instrument or RFI, is targeted to those countries that needs rapid financial assistance due to an imbalance of payments, it is usually used for urgent needs, that have been caused by natural disasters conflicts or price shocks, and that are supposed to be fixed between 3 months to 5 years.
The Rapid credit Facility or RCF is as well targeted to those countries that need rapid financial crisis, but in this case this loan is designed to help low-income countries, therefor their funds come from the poverty reduction and growth trust. And unlike the RFI it carries a grace period of five years and final maturity of 10. Both previous agreements do not need a previous set of conditionalities, but they do need a letter of intent.

The standby Arrangements_are the most used type of loan, as it intended to address short- term or potential balance of payments. It usually last 12-24 months however it can be extended to no more than 36 months. And the repayments are to be made in three to five years.

The Flexible Credit Line is designed for the countries who the IMF considers the need for structural modification, but the country wishes to avoid the stigma and the market reaction to the conditionalities of the other loans. As the FCL functions as a one to two years renewable credit line, the repayments are required to occur maximum in five years. To this moment there are only five countries that have used this line, Chile, Colombia, Mexico, Peru and Poland.

Similarly to the FCL the Precautionary and Liquidity Line (PCL), it is used to provide the liquidity the country needs but has remaining problems refraining them from using the FCL. So far it has only been used by the republic of north Macedonia and Morocco.

The following types of loans are mainly targeted to emerging economies and low-income countries. The extended fund facility (EFF) is designed as mentioned for emerging economies and low-income countries, but this one can also be used by advanced economies that face long term balance of payments and where the problems of achieving stable growth are considered structural. They are usually approved for three years but it may be extended. The country's time limit to pay back is ten years. At the same time, it provides assistance to support structural reforms along with the balance of payments, to achieve a regular balance of payments and a stable growth.

The Standby Credit Facility (SCF) has the same conditions as the stand-by arrangement, but they have a grace period for repayment up to eight years.

The extended credit facility is the equivalent of the EFF; it is designed to tackle medium to long structural issues; it is usually provided for three years but it can be extended to five. The loan has a grace period for repayment of five years ten if needed.

The Compensatory Financing Facility (CFF) is a special IMF financing facility (window) that is meant to cover shortfalls in export earnings and services receipts, as well as excesses in cereal import costs, that are temporary and arise from events beyond the members' control.

It is worth mentioning that the IMF has other two types of "loans" the first one being the Catastrophe Containment and Relief Trust, which allows the IMF to provide grants to the poorest countries in the form of debt relief. It was designed to help during natural disasters or health emergencies like the Ebola outbreak and the COVID-19.

And the last one is the policy support instrument; this one involves no financing but enables the developing countries to secure IMF advice and provides that seal of approval that provides confidence to donors and creditors. It usually lasts between 1 to 5 years.

The conditionalities in all of them are standard to an extent, as we saw before (section 1.2) the conditionalities usually endorse privatization of state-owned enterprises, reductions on the public budget and a bigger trade liberalization and measure to improve the transparency.

4.2 Impact on the economy: evaluation of indicators such as GDP, inflation, and fiscal deficit.

The loans provided by the IMF have often been accused of having affected macroeconomic indicators in the negative way, however the literature is very conflicted and mixed. At first Patrick Conway in 1994 determined that the participation in the IMF programs had a positive impact on growth (Conway, 1994). However, at the beginning of the 80's Thomas A. Connors, in his study of economic aid programs that were granted during the period of 1973-1977, concluded that the average macroeconomic indicators in the 1977 were worse than at the beginning of the programs in 1973, and that the conditionalities of the IMF were not near as effective as the experts wanted to(Connors, 1979).

On the other side, Adam Przeworski and James Raymond Vreeland have concluded after examining 97 different countries that those countries under the IMF programs was lower than those who had the same conditions but were not subjected to the IMF. But for those countries that entered the program before the state of economic crisis, the numbers conclude that they grew faster than if they had never seeked the aid of the IMF (Przeworski & Vreeland, 2000). Other experts like Axel Dreher (2004) have concluded that the IMF loans had little to no impact statistically speaking. However, a more recent study has provided light within the most recent period of 2000-2014, the authors of the study by isolating the numbers, and focusing on the five main policies common to 93 borrowing countries, concluded that when the measures are completed the countries have indeed experienced a GDP growth the following year. (Hackler et al., 2019) that is the case of Zimbabwe, when it started the program in 2013 the GDP was 3.2 and in 2017 a year after the program ended the GDP was 4.1 percent (World Bank Group, 2010).

In the case of fiscal deficit, the literature is clear the IMF those help reduce it with its austerity policies and structural reforms, policies such as the ceilings and others (Cho, 2009), have led countries like Pakistan to decrease their fiscal deficit from 7.1 in 2020 to 6.1 in 2021 (Khan et al., 2022).

4.3 Impact on the population's standard of living: poverty reduction, employment and inequality

Inside its main pillars the conditionality per excellence is to reduce the public expenditure or to put a ceiling to the debt, that unfortunately has tremendous effects on the populations of those who have been under the IMF programs. Those reductions affected poverty, employment and inequality in the borrowing countries, in all cases increasing the amount of extreme poverty, unemployment and inequality.

Extreme poverty is understood as people who live on less than 2.15 dollars per person per day (DECER, 2025). The UN development program estimates that 1.1 billion people live in poverty, and that most of them belong to countries which are experiencing conflict, fragilities and low peacefulness. And to measure it the UN uses the multidimensional poverty index (MIP) (UNDP, 2024). By looking at the date and comparing it with the list of countries that the IMF classifies as developing countries most of them can be found. Those are the same that are already included in IMF programs, and according to the IMF 40 percent of the 59 low income developing countries will be facing debt related challenges (International Monetary Fund, 2018). Regardless of all the notoriety prise and pride the IMF has as the bank of last resort and the one that helps the developing countries get out of poverty, several studies determine that those affirmations are not translated into reality (e.g. Oberdabernig, 2013) The conclusion of most studies are that participation in an IMF program result in poverty increases. But those same studies state that there is a difference in the degree they are affecting the population. The literature shows that the countries whose conditionalities are more structural, meaning the reforms are targeted to the government expenditure, require an increased taxation and the systems the country has already in motion, have a bigger probability of experiencing poverty (Biglaiser & McGauvran, 2022). As they may cause a reduction in government employment, and a reduction of salary, and the privatization of many governmental enterprises. Leading to an increase in unemployment.

Regarding employment there has been only one study to analyse in depth the real effects and correlations with the IMF lending programs and the rates of unemployment. Through analysing the cases of Ukraine, Honduras, Croatia, Moldova, Morocco and the Ivory Coast, were able to see that in fact there is a correlation with the lending programs. The study made by Chletsos and Sintos concludes that participating in an IMF program increases the unemployment rates (Chletsos & Sintos, 2022). The authors attribute this result to the many binding conditionalities requiring a big amount of privatization and the reduction of public employment. It was through the case of Ukraine that we are able to see specific requirements on privatisation that after had a direct effect on employment. the IMF required 44 privatization conditionalities as prior actions to accessing the loan (International Monetary Fund, 1998), that caused an exponential effect in the unemployment ratios as in many new privatised businesses the employees were laid off. It is in the following graph that we are able to see more clearly the relation (Chletsos & Sintos, 2022).

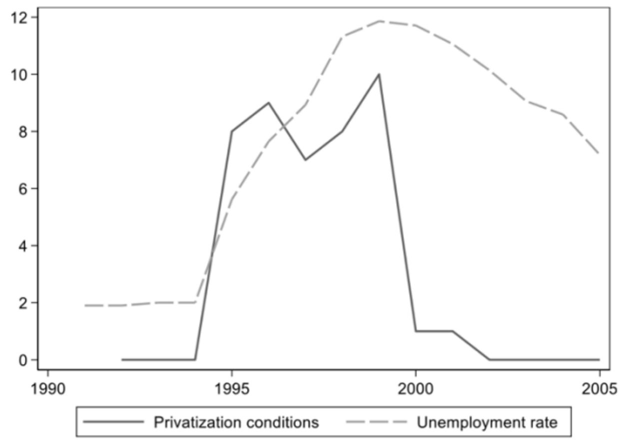


Fig. 1. The link between privatization conditions and the unemployment rate in Ukraine
Notes: The figure shows the trend of unemployment and privatization conditions for the case of Ukraine, which faced 44 privatization conditions between 1995 and 2005.

Figure 1: extracted from (Chletsos & Sintos, 2022).

In the case of Moldova, the IMF requires the reduction of public employment by 3000 public jobs (International Monetary Fund, 2007). At the same time, those same policies that have impacted unemployment have also impacted the inequality of the different countries. In borrower countries of the IMF many households depended on government transfers, it is logical that when per requirements of the IMF, a government cuts public spending they are also cutting those subsidies the families need.

As that is basic logic there are several studies that in fact conclude the same, even though the IMF prides itself on helping countries reduce poverty, the study published at the social science research journal in 2019 found that there is a direct link between structural adjustments and the increase on income inequality (Forster et al., 2019). This is supported by other study who had revised all programs between 1982 and 2009 who found the direct increase measuring the people in poverty and the effects it had on working people (Oberdabernig, 2013) If we want to be more specific and technical, other studies show that the countries with more strict structural adjustments show between a 10 and a 20 per cent decline in the Gini Index. (Garuda, 2000) A specific case is Brazil, the first borrowed money in 1999 and had a 49.8 grade in the Gini index, two years later the grade increased to a 58.4 (World Bank, 2017).

The special rapporteur on extreme poverty and human rights made in 2018 an analysis of the IMF and its most recent reforms regarding social protection, he states that the IMF has modify its activities and policies regarding the protection of the vulnerable and determined that even the goodwill of the institution implementing social subsidies, but that those are measures that are non-binding and in many cases are not put in motion, therefore not effective to the societal needs (Alston, 2018).

5. Effects on the Economy of Developing Countries

5.1 Economic stabilization vs. long-term growth

As mentioned before, growth is understood by the IMF as “the total increase in the value of all the goods and services that society produces” (International Monetary Fund, 2021) However there are many experts that are wondering if there is a compatibility between economic stabilization and economic growth.
The experts understand economic stabilization as maintaining the monetary, taxation and revenues policies without a negative effect on the market economy and its operations. In such a situation all the macro-economic indicators would be in harmony with each other (Yılmaz & Ataer, 2017). Maintaining economic stability according to the IMF is essential to maintain the countries outside of an economic crisis, high inflation and volatility. (International Monetary Fund, 2014). When it comes to the impact of the IMF policies to the macroeconomic stabilization in developing countries, again the literature is very clear, under the standards of the institution the macroeconomic indicators (GDP, inflation and Debt) are always kept in check as it is the main focus of the loans

However, when it comes to growth, the literature is mixed, experts state that the benefits come in the long run (Zahonogo, 2016). Others state that the growth would have been higher if they had not joined the programs. And renowned intellectuals like Dreher, conclude that the IMF fails to provide long term growth.

The studies attribute these results to measures like the devaluation of the domestic currency, the high fiscal and monetary policies. In fact, there is evidence that on average economic growth percentage is 7.84% lower when an IMF program is involved during a five-year period (Dreher, 2004).

5.2 IMF conditionalities and their impact on the local economy

5.2.1 Reform of public expenditure and subsidies

In the late 90's there was an increase in public expenditure in developing countries. The Global South countries are dedicating a significant part of their GDP in social spending, particularly on public health care, and pensions; the percentage now represents around 30% of the GDP in emerging markets and a 25% in low-income countries (International Monetary Fund, 2014b).

These increases are made to achieve three different objectives, a sustainable social spending, public wage, while achieving efficiency and equity. For the fund that is achieved through: with the reduction of spending if necessary, adjusting the numbers of public employees, scrutinising public social expenses and redistributing the resources (International Monetary Fund, 2014b). In the cases of Ethiopia, the Gambia, Ghana, Kenya, Malawi, Nigeria, Rwanda, Tanzania, Uganda, and Zambia, the measures implemented by the IMF proved successful (to an extent), meeting the benchmark conditionalities they implemented budgeting systems, and measures of fiscal transparency. (Diamond et al., 2006), however the cuts made an effect on the population that will be explored in the following sections.

On the other hand, when they cut the national budget, they also made cuts to subsidies, the IMF targeted fuel and energy sectors, but the ones which affected the population the most were the cut on food essentials, and agricultural inputs. These cuts in subsidies were applied in more than 100 IMF loans and were made under the justifications that those subsidies were poorly targeted, distortionary and fiscally unsustainable (Ortiz & Cummins, 2013). The removal of the subsidies caused an immediate reaction on the market, prices rose; the prices rose in the areas where the subsidies were put in motion, transport, food, and energy. That rise led to riots in Mozambique (2010) and mass protests in Egypt (2012-2013) (Ortiz & Cummins, 2013).

5.2.2 Trade and financial liberalisation

Trade and financial liberalisation are according to the IMF a key aspect to achieve stable growth (International Monetary Fund, 2024). It is for such a reason that policies encouraging trade and financial liberalisation are almost always present in their programs. The IMF feels that free trade benefits the poor, and that with freer trade developing countries will be able to increase their incomes, create new jobs, and reduce inequalities. Specifically, they would gain from agricultural liberalization (International Monetary Fund, 2011). IMF staff also state that the reasons why there are developing countries in risk of marginalization is due to deep structural problems, weak policy frameworks and institutions and the protection at home and abroad (IMF Staff & World Bank Staff, 2001).

Such is the importance the institutions give to international free trade, that in many cases they included in the letter of agreement, measures were beneficial to the loaned countries, according to the experts. A study evaluating the loans provided during the 1993 to the 2009, finds that the fund achieved reduction on the trade tariffs by 2% or 3.8% depending on the country (Busse & Vogel, 2023). The cases of Brazil, Indonesia and Thailand are the ones the fund monitored closely, as they made specific demands. They required the three countries to eliminate or reduce import quotas and licensing, as well as remove export taxes and subsidies (U.S Government Accountability Office, 2022).

In the case of Indonesia, the reduction of import tariffs was focused on the chemical, steel and fishery industries. And the effects it had was rather a reduction of the exports, however it also happened during a time of deindustrialization, so it is not possible to determine the results of the required measures. There are other studies determining that the policies of the IMF did not affect at all to trade of the countries in question. The ones carried out in developing countries, determine that trade is not something linear, and that complete openness to trade may benefit the countries in the short run. But in the end, there is a need to create and apply complementary policies that adjust to the new reality. Examples may be the relocation of resources or educating the population on new skills (Zahonogo, 2016).

5.2.3 Privatisation of public enterprises

The IMF is a great advocate of privatising state-owned enterprises (SOEs). The conditionalities of most programs include privatization measures, as their data collection shows that the fiscal situation of a country benefits from privatization. According to the IMF the privatisation of SOEs shows positive effects on growth and employment as it is the example of Ghana. During the 1990's participation of Ghana in the funds programs received in revenue resulted from the privatization of 21.6% of the 1985 GDP. And it reduced the obligations with the IMF to 4% of the GDP.

Studies have shown that governments in economic problems face credibility problems and even good firms are unable to bring investors to the countries, therefore for many the best option to regain their position is to opt for a privatization of the SOE's. However not all developing countries have benefited from it, a study carried out by Brune, Garrett and Kogut shows that countries' privatization programs are more successful when the country in question is in an IMF program; and that often these IMF programs show their effect on the long term.

Based on the previous study, the result shows that it is impossible to deny the effect the IMF has when it comes to attracting investors to developing countries. As the IMF enhances the credibility, and raises the foreign capital invested in the country participating, showing large numbers of capital flows towards the developing and indebted countries (Brune et al., 2004).

The privatization measures of the IMF are usually focused on energy, automobiles, cement, chemicals, engineering, fertilizers, banking, and telecommunications (Brune et al., 2004). Essentially the main sectors of the state operations, hence the ones that hold more employees. According to IMF data, employment is affected but not drastically, as the private buyers often maintain the people employed and the unemployment tends to be reduced. Although there might be the occasional group of workers that are affected. (Davis et al., 2000)

Such privatization measures have an effect on the working conditions, wages, unemployment rates, etc. this effect will be analysed in the following section, specifically in section 6.1.3.

5.3 Evaluation of success and failure cases

After compelling the data on the reform on public expenditure, privatization, trade and financial liberalization, we can state that economically speaking and towards the reduction of deficits and growth the IMF is successfully designing its programs, however they are providing those with a great cost.

There is growth due to the cuts on public expenditure, that difference is at the cost of basic services and subsidies. Subsidies that in most cases affect the ability of the population to make ends meet, as when they were lifted a new wave of inflation arose affecting the purchasing power. It is true that in developing countries these measures had other benefits, the countries were able to meet the benchmark conditionalities, implemented budgeting systems, and measures of fiscal transparency. (Diamond et al., 2006), systems and measures that were difficult to put in motion before due to the extreme decentralization and on many occasions the special conditions of the developing countries (Diamond et al., 2006).

Regarding trade we saw that the case of Indonesia proves to be inconclusive, the IMF did have an effect on the reduction of trade tariffs, but the country faced a deindustrialization era, and the amount of trade was reduced. But that the literature is extremely mixed as other studies carried out in developing countries show that trade is not a continuous line, but that openness does aid the country in the short term. This is due to the short-term benefits of expert advice on creation and application of complementary policies that help the country prolong that result in the long term (Zahonogo, 2016).

The privatization of state-owned business does show an increase in revenues for the state, but once again that result is in the short term. Fortunately, those private buyers and investors usually tend to maintain the employees, and the unemployment Is reduced,

6. Effects on the Population

6.1 Social consequences of austerity policies

Even though economically speaking austerity policies can lead to improved economies, the social side of the IMF austerity policies is not as glamorous as it may appear to be. Even though there is certification of growth, and growth is supposed to create new opportunities for the population of the developing countries, the reality is not the same as the theory.

According to human rights watch the IMF policies risk the guarantee of human rights. The IMF programs contain measures of reducing public expenditure, reducing public wages through freezes or lowering salaries. Their measures for increasing revenue despite the intention of bringing investors, goes through increasing taxes regardless of the income (Stauffer, 2023). The programs as commented before also eliminate subsidies, in all aspects and sectors, making it more difficult for the population to carry out their normal activity.

And even though the programs put in motion social spending floors (a minimum of social spending) to protect the basic services of the country like health, education and social protection they are not a mandatory conditionality inside the loans and the criteria is not consistent (Stauffer, 2023).
In this section we will be focusing on the effect the programs have on basic services, employment and social inequality.

6.1.1 Access to basic services (health, education, etc.)

All countries of the world understood that health and education are basic needs and decided to make it human rights, according to the declaration everyone has the right to an education and a standard adequate for the health and well-being of oneself (United Nations, 1948).

However, as the IMF policies affect the budget of a national government both basic necessities do not go unharmed, even If the IMF does support policies that maintain and may increase the spending in health and education systems.
In all IMF Programs in West Africa the letters of agreement included a rise in priority areas amongst them, health and education. Unfortunately, studies show that the targets are not being met by the countries and that in many cases the IMF requires measures that impact directly the budget allocated for the health system, those can include a limit on the debt the country can have, therefore impacting on the health spending (Stubbs et al., 2017). Those limits were more visible in the case of Mali. In 2005 the IMF advised the government to reduce the consistent expenditure increase on the wages of teachers and health care workers in case it was unsustainable. The same case happened in Benin; they had to cut poverty reduction spending, which included health; the same issues were found in the cases of Guinea and Sierra Leone (Stubbs et al., 2017).
The most illustrative case can be found in Ghana, during the 2005 loan, the IMF required the government to reduce the public sector wages by 0.6% of the GDP in the span of three years. The government of the time defended the need of maintaining that percentage of wages as it will affect the social needs, to the point of not being able to cover them (Stubbs et al., 2017). It got to the point that the finance minister wrote a letter to the IMF stating the following: "*at the current level of remuneration, the civil service is losing highly productive employees, particularly in the health sector*" (International Monetary Fund, 2006)
Regardless of the several warnings the wage ceilings were implemented and maintained until the end of the program in 2006, these ceilings lead to the country having 0.68 nurses per 1000 people and 0.07 physicians per 1000 people. These reductions considerably affected the quality of service (International Monetary Fund, 2006).

When it comes to education, the IMF has direct and indirect consequences on the population. Indirectly they are affected by the tight reductions on the public budget; directly there are several cases where the IMF required direct measures reducing the spending on education, either in wages or in the spending of public educational institutions.

Cases of direct consequences of taking part in an IMF program are Tajikistan and Bolivia. In Tajikistan during their participation in 2000, the IMF and the Government agreed to reduce the percentage of employees by five percent in order to increase by 28% the public budget. Following that measure, the government agreed to a new method of determining the teachers' salaries, instead of being the same for everyone they decided to set the wage according to the merits of the teachers (Daoud, 2021).

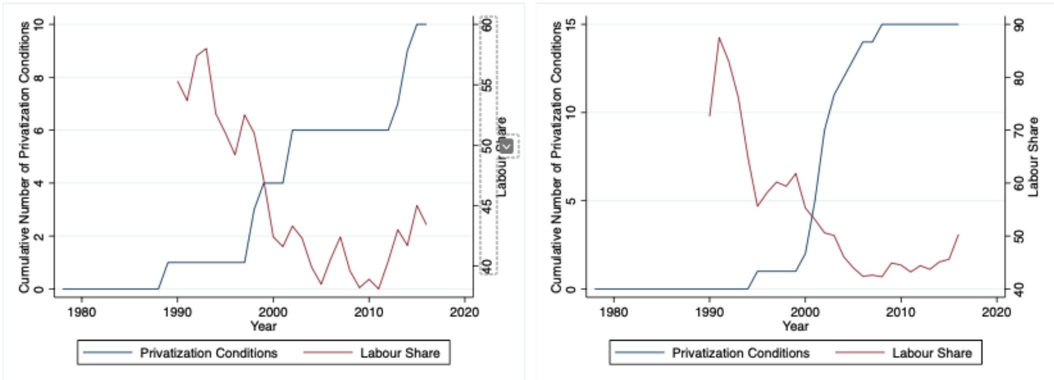
Both measures in the end led to an entire reform of the educational system, they agreed to reduce the number of employees by 30 percent in a period of three to five years, such a measure was considered a structural benchmarks policy. They also ended up reforming the educational budget, giving the schools more autonomy to manage themselves as they introduced of a fee schedule; expanded the teaching assignments; curriculum reform; and started to involve the private sector (Daoud, 2021).

In Bolivia what happened was more or less the same, but instead of targeting general education, the IMF required the government to directly reform the higher education system so they could reduce the public spending on universities. They justified this cut, stating that they needed the money to relocate it to rural programs. This measure made it more difficult for middle income countries to access higher education. Therefore, affecting young adults directly and increasing youth unemployment (Daoud, 2021).

6.1.2 Effects on the level of employment and working conditions (Angin & Naqvi, 2024)

As has been mentioned before the privatisation measures do have an effect on employment and the conditions of it. The best way to show these consequences is with the study cases of Pakistan and Turkey, even though these countries are different in most aspects both of them followed a similar route when it comes to the privatization conditions of the IMF.

A common result in both countries is that while the IMF privatization conditions grew, the labour share[4] in both countries decreased, hence reducing the income of the state. The correlation can be seen in the following graph:



(a) Pakistan (b) Turkey

Data Source: IMF MONA Database and Conference Board

In the case of Pakistan, the measures of the IMF made the government participate in the privatization of the state-owned enterprises, and as a result of such privatization the employees in those companies were cut in half, and salaries were reduced. In some cases, the labour force was cut in half before the privatisation, to encourage the buy of such SOE's.

The privatization also led to the shutting down of units leaving jobs permanently lost, as the owner's main purpose was to divide the company and sell it piece by piece, the machinery or the real estate to make fast profits. In the process, labour unions were also weakened as many were closed or shut down by the new owners, as a result of the massive firing.

In Turkey the privatization focused on sectors such as communications, oil refineries and steel. Despite the hopes that those industries led to an increase in profitability, the effects on employment sales and profit were all negative.

[4] Labour share of Gross Domestic Product (GDP) is the total compensation of employees given as a percent of GDP,

Employment after privatisation became less secure and less formal. Workers were being hired from company to company with worse working conditions. Wages had a decrease too, the cement workers lost 61% of their salary, and benefits like subsidized lunch, transportation, heating, fuel and child support subsidies were also eliminated from the new contracts. As well due to the reductions in the labour market many found employment in subcontracted labour or as informal workers.

To Pakistan the labour unions were extremely weakened, the Turkish ministry of labour, showed that 44.6 percent of the workers were no longer unionised by 1988.

6.1.3 Economic and social inequality as a side effect

As previously mentioned, we see that the IMF policies socially speaking have a great impact on the population, not only by reducing the access to education and healthcare but also by reducing the wages. The literature is clear, participation in an IMF program results in poverty increases, and higher inequality. We have seen specific cases that show that in most cases due to privatization people tend to lose their jobs and wages are lower affecting the day-to-day life of the country's population.

As the reforms involve the rising of unemployment, massive firings, the increase of income inequality is at the same time worsened, the fiscal policy reforms, the liberalization of State-owned business, etc.

All those lead the population to face higher unemployment, the removal of the subsidies caused an immediate reaction on the market, prices rose; the prices rose in the areas where the subsidies were put in motion, transport, food, and energy. That rise led to riots in Mozambique (2010) and mass protests in Egypt (2012-2013) (Ortiz & Cummins, 2013).

Unfortunately, there is no concrete data that shows us the specifics side effects of the policies, but there is an agreement in the literature, as participation in an IMF program leads to higher levels of economic and social inequality,

7. Impact on Governance.

7.1 Promoting transparency and accountability

As we have mentioned before we must think of governance as the process that leads to the decision making. In this case the institution we are evaluating prides itself on promoting good governance. This is a term commonly used in the development context, it still remains focused on the processes in which decisions are made, but it goes a step further as it narrows down the concept of governance to how public institutions conduct public affairs, manage public resources and guarantee human rights (United Nations, 2023). Good governance is based on 8 principles: transparency, responsibility, accountability, democratic participation, consensus oriented, responsive, efficient, equitable, inclusive and follows the rule of Law (UNESCAP, 2009). To the IMF it translates to: "*the transparency of government accounts, the effectiveness of public resource management, and the stability and transparency of the economic and regulatory environment for private sector activity.*" (International Monetary Fund, 1997). As they believe that corruption undermines the public trust in the government, the market integrity, distorts the competition and endangers economic development (International Monetary Fund, 2023).

The IMF has ensured to promote such transparency and anti-corruption, by publishing extensive research on it, through its the policy advice, and more strongly through the conditionalities of its different programs, requiring reports from the countries so the citizens have the information available, enhancing bank supervision, and full transparency on the managing of natural and national resources. As well as providing technical assistance to help build effective economic institutions and assessing members legal and regulatory frameworks to also avoid money laundering and financing of terrorism (International Monetary Fund, 2023)

7.2 Implications for national autonomy and decision-making.

Regardless of how good those policies are, Catherine H. Lee warns that the decisions and conditionalities of the IMF interferes in the sovereignty of the countries, by analysing the cases of Thailand, Malaysia and Indonesia during the Asian crisis we are able to see that the IMF acted as a single party and required of them to abide by the one size fits all policies. Policies that imposed budget cuts, tax hikes and high interest rates, when in reality the countries did not need such austerity policies, leaving the power of decision that the national government had out of the game because the IMF considered they knew best (Lee, 2014). Regardless of the changes in conditionalities the IMF still imposes its conditions on all countries, without considering their point of view, reproducing what happened to Thailand, Malaysia and Indonesia endlessly. Nowadays, the countries that borrow from the IMF must abide by the policies required in the letter of agreement, if they fail to do so they not only lose IMF funding but also access to other multilateral and international agencies like the World Bank, other regional development banks, and also from those private investors that see the IMF logo as a seal of approval and creditworthiness.

It is in the Argentinian public opinion during the crisis between 2001 and 2002 that we are able to see more of the effects this type of pressure has on its government. From the public view we are able to see that in time of crisis the Argentinian citizens started to develop more dramatic views and certain fear about the government's ability to maintain the IMF at bay, with newspapers journal headlines stating that the IMF only will help those who help the institution, and that either they archive zero deficit or the economic aid will no longer be granted. The opposition at the time made claims stating that "Argentina had handed its sovereignty to the US and the IMF" (Krishock, 2001), as if that was not enough the Argentinian people organised mass mobilisations against the IMF based on the same conception that the government was sealing the sovereignty of the country.

At the same time, one of the only solutions the IMF thought of as to how to inject confidence into the economy was to instate the US dollar as the official currency. The public perceived this measure with concerns regarding the sovereignty and ability of their governments to maintain the Argentinian best interest, as they perceived such change as an attack on their state.

All these measures that the government of President De la Rúa had to approve in order to comply with the IMF led to its resignation as the country was facing national riots. (Obermeier, 2016).

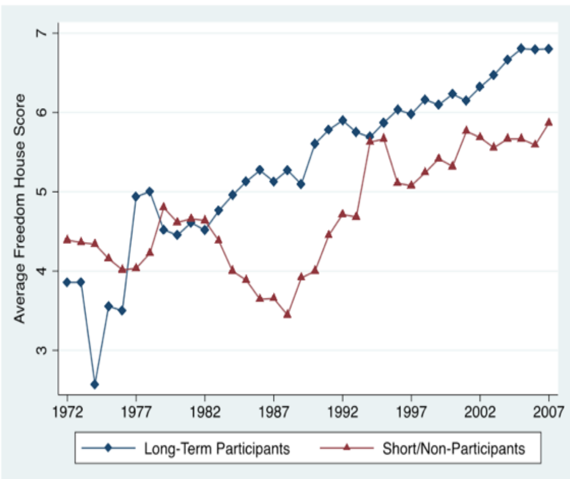
The same case supports the theory that in developing countries that the policies required by the IMF may face more opposition depending on the type of government they have, if the country at the time has a left-wing party, they will face opposition as such policies go against their moral compass. However, as they are promoting more liberal measures the right-wing parties find no opposition to such policies facilitating the approval of such. Unfortunately, the left-wing parties (who advocate for social reforms) face more pressure to comply with the promises made to their voters (Ablam Estel Apeti & Kwamivi Mawuli Gomado, 2024).

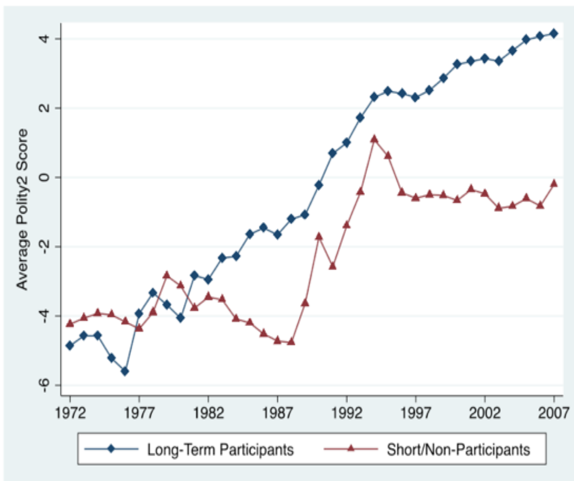
The cases of Thailand, Malaysia and Indonesia show that the IMF does affect the power of the government to make financial decisions, as the institution imposed the policies they considered best, even when the countries did not need certain policies. At the same time the IMF has the power to force countries to abide by their agreement as they will not only remove their funding but also make them lose private investors and loans from other development banks. By studying the Argentinian case, we can see that the levels the IMF intervention in the economic policy of the country creates in the citizens certain fear of becoming a puppet of the organisation and the perception that the government does not uphold their interest, as they start seeing the government give up some power to the institution, and carry out policies that do not benefit the country or that may threaten its identity, the perfect example is the change of currency.

7.3 The IMF's Role in Building Democratic and Governance Institutions.

There are many articles evaluating and affirming that the IMF aid not only undermines democracy but that it also favours dictator regimes, as it does not discriminate between the countries' form of government. As the case is on many occasions the IMF loans decrease political instability therefore reducing its general instability. As countries with higher economic growth rates are less unstable and immunizes governments against a political overthrow and political violence. Because when there is economic growth poverty is sometimes reduced, therefore eliminating the main trigger for a political overthrow (Alesina et al., 1996).

However all those studies in a way have been proven wrong, by evaluating the data of Freedom House (the main impartial institution evaluating the level of freedoms, and their democratic level of all countries), the Oslo Peace Research Institute, Polity2 (a platform rating the grade of authority governments have in developing countries) and the Correlates of war as well as data collected from 120 countries between 1971 and 2007. The study has shown that the IMF in developing countries has a positive effect on their democratization process. Over the past four decades we can find a correlation between the increase in democratic indexes and the countries that participated in long term lending programs. We can see in the two graphs below that such correlation is not casual as we can see the data collected by Polity2 and the one from Freedom House.





Average polity2 scores in extensive and non-extensive IMF program participant countries

In this sense, the graphs show the impact the IMF programs had on average in the developing countries over their democratisation process over 36 years, the red line showing those countries who had not participated in the IMF programs and the blue showing those who had.

Not only they pointed out the modest relation between the conditionalities and democracy, that they came to the conclusions that autocracies that find themselves under IMF arrangements shift their resources away from military expenditure in favour of social programs, as the strict conditionalities weaken the apparatus in charge of repression, as in most occasions they require a ceiling on public expenditure and in some cases welcome private investments to social causes.

At the same time the conditionalities of the IMF are well known for requiring a more transparent government, encouraging the publication of financial records and others. As those conditions come accompanied by a tightening to the national budgets, they have had a greater impact on managing corruption and transparency. Studies have shown that the policies of the IMF have a direct relation to the efforts towards zero corruption in governments of developing countries (Manders, 2024). They show that in the short term the amount of corruption cases increases exponentially as they come to light but that in the following years the number of cases open diminish each year, in principle that is the case of countries like Djibouti and Liberia who started collaborating with the IMF in 2004 and 2007, respectively. While there is no extreme case that that exemplifies the implications of the modest changes the IMF has created on democracy, the positive change is undeniable.

8. Critical Evaluation of the IMF's Effectiveness in Developing Countries

8.1 Analysis of long-term economic and social performance

When it comes to the success of the IMF programs the literature is extremely mixed. The sources coming from the institution present the cases as complete success. They highlight mainly the success of European countries like Portugal, Cyprus, Iceland, Ireland and Portugal. Regarding developing countries even though they had provided loans to most countries of the global south (International Monetary Fund, n.d.), they only mention Jamaica, Portugal and Serbia.

As we previously spoke about growth, we saw on many occasions, the programs are successful in the achievement of growth, economic stabilization and reduction of inflation. But they have done so at a very high social price. Socially speaking we have seen that the most vulnerable to the austerity measures are the citizens and that it is one of the main reasons the programs have resistance on the lending countries.

The population of the developing countries that participate in IMF programs face higher unemployment, worst conditions and wages. And the jobs that are official are not stable. At the same time, they face a worsening of their health care systems, as their programs implement reductions on the budgets, preventing the hiring of physician’s nurses and other essential health personnel.

As well their educational systems worsen due to the conditionalities as on many occasions middle class youth is unable to attend higher education, due to the budget cuts. Thus, increasing unemployment rates as instead of pursuing education they go into the labour market.

However, one thing that the IMF and the literature agree on is that what makes or breaks a loan is whether or not the country feels the reforms as their own, the commitment to the policies and that the government takes reasonable responsibility for them: the ownership of the programs. As many programs’ failures are attributed to the strong and special interest groups (the government, the parliament or the private sector), they may have the enough strength to pose challenges and block reforms. That is represented in the case of Zimbabwe, between the late 80’s and the early 90’s was motivated to pursue economic policy reforms; however and regardless of the initial good results, pressure groups like the business community, the government and the universities started to oppose the reforms sinking the country again in a deep crisis (Boughton & Mourmouras, 2004).

8.2 Criticism of IMF policies by economists and international organizations

During the 80 years that the IMF has existed, it has not been free of critics. As soon as they started to work many economists and scholars started to see the flaws in the institution, generally speaking we could say that mostly everything revolves around the idea that the IMF is an institution that defends the interest of the global north countries, but specifically the interests of the United States. Since the IMF policies advocate for a more neoliberal approach.

There are many other scholars defending that the IMF is just a way of maintaining certain dominance over the post-colonial countries. Scholars defend that the imposition of the conditionalities and the way they are designed do not take into account the special needs of those countries and they often disregard the colonial past. They state that the IMF along with the other Bretton Woods institutions, have an unfair treatment, that they were never created to stimulate growth beyond the global north (Ryder, 2024).

It is on those same lines scholars argue that the conditionalities of the IMF are condemning the global south to a perpetuated dependency. As it is in most cases that we have seen the conditionalities consist of austerity policies such as privatization, limit of the debt and more. The case of Argentina would be a perfect example of the dependency claims, as the country has requested loans since 1958 with a maximum of six years apart. (International Monetary Fund, 2025).

In the same line, and directly into the core of developing programs, scholars state that the IMF does not assess realistically the cost of achieving short term macroeconomic adjustments (Gentimir & Ivan, 2012)

They are also criticising imposing a neoliberal approach and of undermining the sovereignty of the countries who have requested help from them. Scholars mention that the IMF has a one policy fits all way of thinking, meaning that regardless of the needs of the countries the institution forces them to apply neoliberal policies that are supposed to foster growth (Mahlangu, 2025). Preventing them from achieving other targets, maintaining or increasing the purchasing power of the population, or even achieving the sustainable development goals.
And directly speaking of developing programs, the same scholars state that the IMF does not assess realistically the cost of achieving short term macroeconomic adjustments, therefore not considering the special needs of the country in question (Gentimir & Ivan, 2012).
Specifically, the conditionalities, are criticised for being too rigid, as they are not only conservative in what they understand as macroeconomic stability. As their focus is to achieve a low inflation rate and lower fiscal deficits. Their rigidity often leads to a direct impact on the society and population, and specially to the financial aid.

On a more structural level inside the institution, the IMF has received plenty of criticism on the way it is organised. As most of the decision-making power still remains in the hands of the United States and the rest of the countries of western Europe. Therefore, giving little decision-making power to the emerging countries, and causing that the decisions are made under the power dynamics that have persisted since the origin of the institution (Ryder, 2024).

The defenders of the institution state that all these “consequences” are a mainly a result of the free market and its economy, they also argue that the fiscal strictness, the privatization and liberalisation are the basis of the IMF programs , and that they are necessary to protect the funds, but that those objectives have become a targets for a sound economic structure and that they are no means for sustainable growth (Vines et al., 2004).

8.3 The Case for the IMF: Stability and Structural Reforms. Expert advice.

The IMF despite its good intentions we have seen it has many critics and with reason. But the same critics do not advocate for ceasing the activity of the fund, they see the institution as necessary and provide advice on how to improve its performance.

The advice is very mixed and addresses the fund core issues and its structure. When speaking about the developing countries, experts believe that there should be more representation so they could have a more active role in improving the mechanism for financing development (Overseas Development Institute, 1993). There are also other experts that advocate for the developing countries to reach out to other private and public institutions.

Others (Nowzad, 1981; Boughton & Mourmouras, 200; (Meltzer, n.d.)) advocate for the International Monetary Fund to leave aside the short-term mentality, and aid the countries to achieve real growth, through a closer design of policies

For the policy design it was very clear through all the literature reviewed, experts agree that policies should be designed taking in account the impute of the respective governments, and that it has to be less rigid in order to address the poverty issues. At the same time, when speaking about less rigidity and the design of policies the issue of ownership is highlighted, it is extremely important that the countries feel like the program is their own, if not the program is doomed. Experts also advocate for a more transparent institution, as on many occasions the decisions are taken one-sidedly (Meltzer, n.d.).

Human Rights Watch specifically request the following also in the topic of transparency and development: a systematic conduct and publishing human rights impact assessments of the proposed policies before approval

A floor that ensures adequate compensation for any unavoidable negative impact on rights resulting from the programs, demonstrating how the mitigation measure, such as increased social security spending or coverage, avoids, at a minimum, any retrogression in the level of enjoyment of rights.

Consider replacing “floors,” which are revised ad hoc in each review, with “goals” to be achieved by the end of the program, and a plan developed from the outset to achieve specific benchmarks in each review.
And a firm commitment to promoting universal social protection systems.

9. Conclusions

9.1 Synthesis of the IMF's Impact on Developing Countries.

The IMF impact in developing countries is not as good as the found presents it, through all the literature we saw that during several periods of time the IMF was present in the developing countries, their objectives being to help the countries regulate their economic imbalances.
Through the paper we can see the effect on the economy, here even if the literature is very mixed. Thomas A. Connors shows that the macroeconomic indicators had worsen once the IMF put in motion their conditionalities. And Przeworski and Vreeland show that in comparison to the countries who not participated in the programs had Higer indicators than the ones involved in lending programs.
And through the case of Zimbabwe, we are able to see the increase of the GDP a year after finalising the program. After reviewing everything we are able to see that the IMF do increase GDP. And through the case of Pakistan, we are able to conclude that the IMF does help reducing the fiscal deficits.
Determining that on macroeconomic terms the IMF programs are effective; they do increase GDP and lower fiscal deficits.

That would ensure successfulness of the programs. However, the reality is not that one. If we look into the societal impact that the IMF has in different countries not necessarily developing ones. We can see that such growth and regulation of deficits has an extremely high price. Those numbers are acquired through a cut of public spending, which means that there is less spending on health care, the education system. This means that they are no longer guaranteeing a quality education and as we saw in Daoud, 2021 they are harming the access of middle-

income families to a better quality of living, as the budget cuts that the that the IMF implemented are preventing the youth from accessing university. MF implemented are preventing the youth from accessing university.
With the case of Tajikistan, alongside the budget cuts, and the lowering in salaries they also putted in motion ceilings to the public wages, the teachers started to have wages according to their merits, and the education system was also reduced by a 30%. While at the same time they started to change the entire academic system, expanding curriculums and involving the private sector (Daoud, 2021).

In the health sector we see the direct effects of the budget reduction in Ghana.
In this case the cut in public spending affects the health care system directly, they caused that the country had 0.68 nurses per 1000 people and 0.07 physicians per 1000 people.

Whit the measures of privatization the countries faced unemployment, and a worsening of their labour conditions.
Is through the cases of Ukraine and Moldova that we see the direct correlation with the IMF policies and the increases in unemployment. But is through the cases of Pakistan and turkey that we see that the direct consequences of privatization lead to a decrease on wages, employee benefits and the exponential decrease of labour unions. As well as how the people started to look for other ways of employment.

It is clear in all the literature that the participation on an IMF program is a direct increase in the Inequality, as the conditionalities require an increase taxation regardless of the income the population has. As well the elimination of subsidies makes it more difficult for families to purchase basic necessity, as with their elimination there is an increase in prices of energy and food essentials.

However, they programs do have a positive side, the literature is clear on these issues, the IMF does increase the transparency of the governments and lowers corruption. And as it makes no distinction on who they loan to they contribute slightly to the creation of new democratic systems.

9.2 Reflecting on the Effectiveness of IMF Policies and Loans

After all the data reviewed, we can conclude that the IMF loans are not entirely effective, they do target corruption and increase transparency, but they fail at reducing poverty, increase growth and improve the overall situation of the population.
We saw that growth is produce by making cuts to public spending and privatising state-owned enterprises. These cuts and privatization give more revenue to the state because they are taking the money away from their citizens and employees. Therefore, they are giving the feeling that they are increasing the GDP but in reality, they area leaving the population with less economical resources. Because if it was real growth the GDP should rise from the creation of new business, more productivity, increase foreign investment in the country.

As mentioned, several times one of the goals of the programs is to reduce inequality. The programs as we saw are not achieving that, with the budget cuts, the privatization, the elimination of subsidies, the lowering of trade tariffs the Fund is increasing inequality, the society of developing countries are gaining less, and it is making it more difficult to make ends meet. At the same time the measures of the IMF are reducing the opportunities to get a better future with the cuts and reforms to the education systems, the same is happening with health care, the developing countries who participate in IMF programs are no longer able to provide a quality health care.

At the same time, they are decreasing the trust in government institutions, as is in more cases that they are imposing policies that are facing reluctancy, as they do not create the policies alongside governments and make countries feel as a tool to a means.

9.3 Prospects and Recommendations for Improving the Effectiveness of IMF Interventions in the Future

The prospects that we see is that either the IMF starts paying attention to its critics or the developing countries will remain as they are and may start considering other options.

My recommendations are in agreement with the Critics of the IMF, if the institutions really want to aid developing countries, they must listen to the developing countries. First of all, they need to reevaluate the conditionality measures and make sure they put in motion policies that lead to a real growth, one that is not based on reducing the benefits of the population.
At is core the international Monetary Fund must allow the developing countries in the decision-making system. And make their decisions more transparent so everyone knows the reasons behind.

Regarding the social aspect, the IMF must implement required policies that do not harm the population but help it. The first step to that is to actually design the conditionalities of the programs alongside with the different governments, give them a voice and a say. As there will be no one better that knows the real necessities or the situation the country finds itself in. There must be real implementation of compensatory policies for the population that is affected by the new reforms.

If the conditionalities are made in consultation with the governments they will not face as much reluctancy as they are facing now, therefor becoming more effective and efficient. That way they make sure countries assume the ownership of the programs, and as a consequence the population will be more cooperative and willing to accept the reforms, topping the occasional mass mobilizations, and the doubting of the institutions.
As well if the conditionalities are agree by both parties we can expect a real growth but a guarantee that the human rights such as quality education and a quality health care system.

In conclusion the IMF programs do more harm than good, through the policies they implement, they are not providing the countries with real growth. In reality they are only worsening the state of the population to achieve the objectives they set in the letters of intent. The effect is greater inequality economic and socially speaking, higher unemployment, inability to access quality education and health. This is why we determine that the IMF programs do not work due to a lack of transparency, collaboration with government and transparency.

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11.Annex

Table of Countries that are considered developing countries according to the IMF

Emerging and Developing Economies		
Afghanistan	Georgia	Paraguay
Albania	Ghana	Peru
Algeria	Grenada	Philippines
Angola	Guatemala	Poland
Antigua and	Guinea	Qatar
Barbuda	Guinea-Bissau	Romania
Argentina	Guyana	Russia
Armenia	Haiti	Rwanda
Aruba	Honduras	Samoa
Azerbaijan	Hungary	São Tomé and
The Bahamas	India	Príncipe
Bahrain	Indonesia	Saudi Arabia
Bangladesh	Iran	Senegal
Barbados	Iraq	Serbia
Belarus	Jamaica	Seychelles
Belize	Jordan	Sierra Leone
Benin	Kazakhstan	Solomon Islands
Bhutan	Kenya	Somalia
Bolivia	Kiribati	South Africa
Bosnia and	Kosovo	South Sudan
Herzegovina	Kuwait	Sri Lanka
Botswana	Kyrgyz Republic	St. Kitts and Nevis
Brazil	Lao P.D.R.	St. Lucia
Brunei Darussalam	Lebanon	St. Vincent and the
Bulgaria	Lesotho	Grenadines
Burkina Faso	Liberia	Sudan
Burundi	Libya	Suriname
Cabo Verde	Madagascar	Syria
Cambodia	Malawi	Tajikistan
Cameroon	Malaysia	Tanzania
Central African	Maldives	Thailand
Republic	Mali	Timor-Leste
Chad	Marshall Islands	Togo
Chile	Mauritania	Tonga
China	Mauritius	Trinidad and Tobago
Colombia	Mexico	Tunisia
Comoros	Micronesia	Türkiye
Democratic Republic	Moldova	Turkmenistan
of the Congo	Mongolia	Tuvalu
Republic of Congo	Montenegro	Uganda
Costa Rica	Morocco	Ukraine
Côte d'Ivoire	Mozambique	United Arab
Djibouti	Myanmar	Emirates
Dominica	Namibia	Uruguay
Dominican Republic	Nauru	Uzbekistan
Ecuador	Nepal	Vanuatu
Egypt	Nicaragua	Venezuela
El Salvador	Niger	Vietnam
Equatorial Guinea	Nigeria	West Bank and
Eritrea	North Macedonia	Gaza
Eswatini	Oman	Yemen
Ethiopia	Pakistan	Zambia
Fiji	Palau	Zimbabwe
Gabon	Panama	
The Gambia	Papua New Guinea	

Figure 1: International Monetary Fund. (n.d.). World Economic Outlook Database - Groups and Aggregates. IMF. https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates#oem

List of countries classified as developing countries by the world bank.

Low-Income Economies

Afghanistan	Guinea-Bissau	Somalia
Burkina Faso	Korea, Dem. People's Rep	South Sudan
Burundi	Liberia	Sudan
Central African Republic	Madagascar	Syrian Arab Republic
Chad	Malawi	Togo
Congo, Dem. Rep	Mali	Uganda
Eritrea	Mozambique	Yemen, Rep.
Ethiopia	Niger	Zambia
Gambia, The	Rwanda	
Guinea	Sierra Leone	

Lower-Middle Income Economies

Angola	Honduras	Papua New Guinea
Algeria	India	Philippines
Bangladesh	Indonesia	Samoa
Belize	Iran, Islamic Rep	São Tomé and Principe
Benin	Kenya	Senegal
Bhutan	Kiribati	Solomon Islands
Bolivia	Kyrgyz Republic	Sri Lanka
Cabo Verde	Lao PDR	Tanzania
Cambodia	Lebanon	Tajikistan
Cameroon	Lesotho	Timor-Leste
Comoros	Mauritania	Tunisia
Congo, Rep.	Micronesia, Fed. Sts.	Ukraine
Côte d'Ivoire	Mongolia	Uzbekistan
Djibouti	Morocco	Vanuatu
Egypt, Arab Rep.	Myanmar	Vietnam
El Salvador	Nepal	West Bank and Gaza
Eswatini	Nicaragua	Zimbabwe
Ghana	Nigeria	
Haiti	Pakistan	

Figure 1.2World Bank. "World Bank Developing Countries - ASLO." ASLO, 24 Oct. 2022, www.aslo.org/palma-2023/world-bank-developing-countries/.