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A comparative study of IMF bailouts on African recipient country health systems

Larry Li *, Malick Sy, Adela McMurray

RMIT University Melbourne, 455 Swanston St., Melbourne, 3000 VIC, Australia

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Abstract

The International Monetary Fund (IMF) is heavily criticized for being one of the major contributors to the causes of the Ebola outbreak in Africa. This study examined whether public health spending in Ebola affected Sub-Saharan African countries (SSACs) were more likely to decrease compared to non-Ebola affected countries due to IMF bailout program participation. A regression model and its robustness were used to analyse SSACs data from 1994 to 2014. The empirical findings of this study show that IMF bailout can significantly increase the health expenditure of non-Ebola-affected SSACs. But we obtained a significantly negative relationship between health spending and IMF program participation for Ebola-affected SSACs. The study has implications for the methodological design of studies addressing this debatable issue and health spending policy in SSACs.

JEL classification: F33; F34

Keywords: IMF bailouts; Public health sector; Ebola

1. Introduction

The role of the International Monetary Fund (IMF) as a 'crisis manager' significantly influences the macroeconomic policies and structural reforms in developing countries (Lee & Shin, 2008; p. 816). This international organization provides short-term financial loans to its member countries

* Corresponding author.
E-mail address: larry.li@rmit.edu.au (L. Li).

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when they experience a financial crisis or a shortage of liquidity for engaging in international trading. However, the IMF loan facilities often come with conditional ties. In return, bailed-out countries are required to implement a series of economic reforms in line with IMF policy (Johnson, 2003; Looney & Frederiksen, 1983). Typical economic reforms include reducing expenditure on the public sector, devaluing currencies, lowering tariffs, encouraging foreign investment, and privatizing state-owned enterprises. The fundamental objective of loan conditions aims to assist bailed-out countries restore confidence, stability, solve balance of payment issues and return their budgets to surplus in a short period of time. However, IMF bailout policies typically have a short-term focus. In practise, these policy reforms often lead to inactive business investment, poorer government service, severe social instability and a higher country unemployment rate—all of which may damage the economic development of bailed-out countries in the long term (Li, Sy & McMurray, 2015). Additionally, these economic reforms may inevitably lead to reductions in social spending, such as public health and health care service outlays, which inevitably weaken the public health infrastructure in bailed out countries. Consequently, these countries are more vulnerable to critical disease epidemics, such as Ebola.

Debates about the effect of IMF bailouts on public health spending continue to thrive as the existing literature cannot provide conclusive evidence, nor consensus, on this issue. Repeatedly this topic attracts the media's attention as the IMF is criticized for being one of the major causes of the Ebola outbreak in Africa due to its policy of prioritizing debt repayment over domestic spending. The IMF bailout conditionalities have weakened the public health infrastructure in bailed out countries such as Sierra Leone, Guinea and Liberia who were hit hardest by the epidemic. Yet the empirical findings are inconclusive (Kentikelenis et al., 2015b) with some asserting positive (Gupta, Dicks-Mireaux, Khemani, McDonald & Verhoeven, 2000; IEO, 2003; Van der Gaag & Barham, 1998) and negative relationships (Thiesen, 1994; Van der Hoeven & Stewart, 1993) and even no relationship between the IMF bailouts and public health spending in IMF fund supported countries.

The inconsistency in the literature is attributable to the differences in research methodology, choice of variables and data selection. The objective of this study is to identify whether the IMF recipient Ebola affected Sub-Saharan African countries (SSACs) are more likely to reduce their public health care spending compared to the IMF fund receiving Non-Ebola affected SSACs. The motivation underpinning this study is the urgency to clarify whether the IMF is one of the major causes of Ebola outbreak in Africa. The IMF is criticized as one of the major causes of the Ebola outbreak because these Ebola-affected countries were all under the IMF program. The answer to this question is important as it is directly impacts on the future design and implementation of the IMF program and informs the rebuilding of the public health systems of Ebola-affected countries.

Employing multiple measures of public health spending and regression models, the empirical findings of this study show that IMF bailout can statistically significantly increase the health expenditure of non-Ebola-affected SSACs. However, we find a significantly negative relationship between the change of health spending per capita and IMF program in the long term and a positive relationship in the short term for Ebloa-affected countries. The overall empirical findings support the notion that one of the major causes of Ebola outbreak in Africa actually is IMF's policy of prioritizing debt repayment over domestic spending. Consequently, this policy had direct implications for the functions of health services across these countries, including a lack of proper equipment, well-trained staff as well as effective communication coordination and information management. Therefore, we suggest that the IMF needs to revisit its tough loan conditionality and repayment arrangement because the current loan policy could fundamentally damage a recipient country's public health system in the long term. In addition, recipient countries should actively